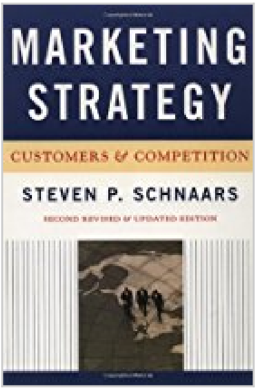

Marketing Strategy

By Steven P. Schnaars

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Marketing Strategy has become a classic centrist marketing text. Now, Steven Schnaars has updated and revised this clearly written, classroom-tested, and essential text to accommodate rapid changes in the business world. Combining his centrist approach to basic theory with practical real-world examples, this updated edition includes new and expanded chapters on price as a competitive weapon (with a discussion on "everyday low pricing" versus hi-low promotional pricing"), speed as a strategy (including the strategic uses of computers), globalization (including the customization-standardization debate), and customer satisfaction. Throughout, Schnaars focuses on the three Cs: customers, competition, and changing market trends.

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Editorial Review

Review
Gary S. Lynn Associate Professor, Wesley J. Howe School of Technology Management, Stevens Institute of Technology An invaluable text for teaching marketing strategy. This second edition is packed with real cases and current information on topics including learning organizations, order entry strategies, and speed as a competitive weapon.

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Chapter 1

MARKETING'S INFLUENCE ON STRATEGIC THINKING

Business strategy has always relied heavily on marketing ideas, but in recent years the influence of marketing on strategy has grown greatly. Today, more than ever, strategy is dominated by ideas that sink their roots deeply into the discipline of marketing. Customer satisfaction, the idea of getting close to customers, creating a customer-driven company, the profit impact of new product introductions, and an explosion of product variety are among the ideas that now dominate strategic thinking. They supplement market share, market growth, and myriad other ideas that have previously been mainstays in strategy.

The reasons for this newfound interest are many. Competition is more intense and global in scope while product quality and customer expectations have risen steadily in the past decade. Firms must do more to compete. They must run faster merely to keep up.

But the most important reason for the ascendancy of marketing ideas in strategy is the realization that the most elegantly drawn strategic plans are worthless if the firm is unable to create satisfied customers willing to pay for the firm's products and services. Without that foundation the firm has virtually no chance of long-term success.

Marketing bywords such as "customer," "product," and "market" reverberate loudly throughout the study of strategy. Knowing your business, your customers, your markets, and your products are the essential ingredients for strategic success. Gone are the days when strategists thought they could manage diversified businesses like portfolios of stocks. With the benefit of hindsight it seems ridiculous to think that it did not matter what products the firm sold as long as the firm's position in that business was dominant. Today, customers are widely viewed as the cornerstone of a firm's very existence. It is for those reasons that firms scramble to create a customer orientation.

CONSUMER ORIENTATION

In recent years, there has been a virtual stampede to become customer oriented. Firms now strive to place customers at the center of all the firm's actions. They seek to form lasting relationships with customers, track customer expectations and satisfaction with products and services, and become more cognizant and responsive to changes in the marketplace. Such actions are a recognition that it is customers who will ultimately determine whether the firm's strategy was brilliantly conceived or blindly concocted.

THE MARKETING CONCEPT

Marketing has a long history of placing customers at the center of all marketing actions. Typical of that orientation is the series of imbedded boxes shown in Exhibit 1.1. As the exhibit illustrates, the customer-oriented firm centers its actions on serving consumer needs, wants, and desires. At the heart of this orientation is the marketing concept.

The marketing concept is the most fundamental precept in the discipline of marketing. It holds that firms should try to discover what consumers want and make products to satisfy those wants. It is based on the "market-pull" model of marketing, a commonsensical notion that consumers will demand products that meet their needs and pull them through the channel of distribution. When implemented correctly, a firm that employs the marketing concept will not have to rely on hard-sell campaigns to persuade consumers to buy the goods it produces. At the extreme, the marketing concept can be defined as that condition where selling is unnecessary.

The origin of the marketing concept lies with three prominent authors in the 1950s: (1) Peter Drucker in his landmark book *The Practice of Management,* (2) John B. McKitterick of General Electric (a firm that also pioneered many strategic planning techniques), and (3) Ted Levitt, the noted Harvard professor and author of the seminal article "Marketing Myopia." All three agree that the very purpose of business is to create satisfied customers. Most important, the marketing concept was conceived as, and remains, a long-term business orientation rather than a short-term, quarter-to-quarter, financial fix.

The marketing concept held sway throughout most of the 1950s and 1960s, a time when American business dominated world markets. By the 1970s, however, times had changed. Many of the newer strategic formulations ignored consumers and focused, instead, almost solely on the task of outfoxing competitors. With the orientation toward competitors during that decade, the importance of consumers was lost.

But a switchback in trend started to occur in the mid-1980s when Fredrick Webster, the noted marketing scholar, observed that many firms started "coming back to the basic marketing concept articulated in the mid-1950s." He foresaw a marketing renaissance. Firms began to recognize that the fundamental purpose of business is customer satisfaction and the reward is profit. That was the essence of Peter Drucker's original statement about the marketing concept. He believed that financial goals were merely the results and rewards of customer satisfaction, not the primary purpose of business. The move toward creating a customer-oriented firm almost perfectly mirrors the disillusionment of corporate America with formal strategic planning tools based on financial analogies.

Fredrick Gluck, an expert on strategic planning, agrees with Webster's assessment. He concludes that newer strategic planning techniques are aimed at better understanding customers. The shift is long overdue. He notes: "The same kind of diligent information gathering some managers reserve for their competition should be focused on getting 'closer' to their customers." Once again, strategy is reaffirming the marketing concept after a bout of philandering in the 1970s.

CRITICISMS OF THE MARKETING CONCEPT

The marketing concept is not without its critics. Some argue that the concept hurts rather than helps the competitive performance of firms that embrace it. Roger Bennett and Robert Cooper, for example, in two strongly worded articles, argue that the marketing concept has diverted attention away from a long-term emphasis on product development and quality manufacturing to a short-term emphasis on superfluous advertising, selling, and promotion. As a result, product value has suffered. As evidence they point to the automobile and television industries, where American firms once dominated, but which are now dominated by imports. They blame the marketing concept for those industries' problems. While American firms stressed short-term promotions, these authors argue, foreign firms offered superior product value.

The marketing concept is flawed, they contend, because of its overreliance on the "market-pull" model, where marketing research is used to discover what consumers want. According to the "market-pull" model of innovation, marketing asks customers what kinds of new products and services they want, listens intently, then tells R&D which products to develop. Since consumers can only speak in terms of the familiar, they cannot express a need for radically different innovations with which they have no experience. Imagine consumers trying to tell a market researcher about their need for a compact disc player or a microwave oven before those products were introduced. It would be very unlikely. As a result, firms that rely on the "market-pull" model miss truly innovative products and instead focus on products billed as "new and improved" but that are really nothing more than minor product modifications and incidental line extensions. Those firms are then forced to rely on heavy promotion to catch up with firms that introduced truly innovative products. This is the tragedy of the marketing concept according to Bennett and Cooper.

Another influential article, published at about the same time by Robert Hayes and William Abernathy, voiced similar criticisms. It argues that three trends have conspired to decimate the competitiveness of American business: (1) an overreliance on financial controls (management by the numbers), (2) portfolio management (managing a business like a portfolio of stocks), and (3) the marketing concept. They too belittle the "market-pull" model. The essence of their argument is that it has given us newfangled potato chips, deodorants, and pet rocks, but missed the truly creative innovations of our time, such as lasers, instant photography, xerography, and the transistor. In short, with the marketing concept, we are managing our way to economic decline.

SHOULD YOU IGNORE YOUR CUSTOMERS?

In more recent years, there has been an increasing call to ignore your customers! Consumers are said to be unimaginative, anchored to past practices, and the ultimate conformists. They are unwilling and unable to consider radically new ideas. Asking them what kinds of new products and services they want not only can't help but it can actually lead firms in the wrong direction. When Chrysler first tested its minivan, for instance, which turned out to be one of the most successful new cars introduced in a generation, consumers were troubled by its odd design and the fact that it was neither a passenger car nor a station wagon. They expressed little interest in the product. Had the firm listened to those customers it might have canceled the whole project. But Chrysler desperately needed a new product hit and decided to introduce the radical new van anyway. It turned out to be one of the best moves the company ever made. Market research might have argued for slight variations on existing models, but such a choice would surely have been far less successful than the bold move the company actually made.

Critics also argue that consumers often say one thing, then do another. Surveys show, for example, more interest in new low-fat foods than actual sales once those products are introduced. McDonald's McLean sandwich debuted to great fanfare but consumers stuck with the fatladen burgers, which tasted better. Such results suggest that you cannot trust what consumers say about their own future behavior.

TECHNOLOGY-DRIVEN COMPANIES

Many companies gain competitive advantage and roar past rivals by creating breakthrough innovations. They do not listen to customers and are distrustful of marketing research and the marketing concept. These companies are technology driven rather than customer oriented. They understand that breakthrough innovations are not the result of marketing research or the market-pull model of innovation. Such innovations almost always come, instead, from the creativity and insight of scientists and engineers, who make technological discoveries and then work them into radically new products. Those new products are then put onto the market where they are either adopted or rejected by consumers. This "technology-push" model of innovation pushes the product toward consumers rather than allowing consumers to pull new products through the distribution pipeline. It is in this way, proponents argue, that truly new products such as fax machines, personal computers, and even mountain bikes work their way to market.

Technology-driven companies embrace an orientation toward markets akin to what is called the "product concept" in introductory marketing textbooks. It holds that consumers will demand products of the highest quality. Most of the stunning innovations of our time, including the videocassette recorder, the microwave oven, the cellular phone and the compact disc player, have been the result of the product concept, not the marketing concept.

FAITH, INSTINCT, AND DETERMINATION

The competitive strategy of technologically driven firms begins with the ingenuity and inventiveness of scientists rather than the needs and wants of consumers. Listening to customers plays only a limited role in the process. Technology-driven strategies eschew focus groups and endless rounds of consumer surveys and opt, instead, for bold moves based on faith, instinct, and determination. Technology-driven companies create change, shake people up, and sometimes cause excitement. They are usually led by a charismatic champion who is more concerned with convincing customers that they need what the company has developed, or wowing them with the wonder of new product development, than listening to customers and then making products to satisfy their current needs. Terms like vision, commitment, and conviction are typically used in descriptions of such individuals and the companies they run. Marketing research is not.

ACTION VERSUS ANALYSIS PARALYSIS

Critics contend that some firms are so intent on listening to their customers that they are unable to make any decisions without first conducting consumer surveys and focus groups. They argue that this has two negative effects. First, it slows down the rate of reaction to opportunities and threats that present themselves. In the most severe cases, such firms become paralyzed by consumer analysis and are unable to act in a timely fashion. Second, endless rounds of consumer studies dull the instinctive senses. They replace the spirit of entrepreneurs with the oftentimes mistaken view of consumers. Firms, as a result, miss breakthrough innovations and bold strategic moves and instead focus on the bland and the ordinary.

PLANNING VERSUS DOING

A variation on this theme occurred in the 1970s when overly formal strategic planning practices led to lots of study and very little action. During that decade, armies of professional planners produced ever-thicker plans to guide firms into the future. These plans worshiped calculation and abhorred action. Vision was replaced with a false sense of precision.

The result was that plans and planners became more and more removed from the real world. Firms became paralyzed by the process of planning. They cautiously avoided risk but in the process avoided opportunities as well.

Operational personnel, those involved in the day-to-day running of the firm, came to view planning as an arcane art of little practical value. Many elegant plans ended up relegated to file cabinets, read by no one but those who drew them up. Disillusionment with the entire process led directly to drastic cutbacks and outright disbanding of strategic planning departments in the early 1980s. Planning seemed dead.

Recognizing these changes, a *Business Week* cover story called for an expanded role for marketing in the planning process. It noted that firms no longer want "bean counters" who will foster further study and promote analysis paralysis, but look for hands-on managers who will not only develop, but also implement product strategies.

The debate between acting versus planning continues to this day. Some consultants argue that firms should forget about formal planning and simply move quickly to take advantage of a fast-changing world. Tom Peters is a central proponent of that position. He argues that markets are so disorganized that any attempt to plan for the long term is doomed to failure. He opts, instead, for the "Pete Rose" strategy, where a firm hustles to meet opportunities, trying to get on base rather than always swinging for the deep outfield.

Bureaucracy is the enemy of a hustle strategy. Its sole function is to slow things down. It should be cut ruthlessly and the resulting "lean-and-mean" firm should strive to move more quickly. Planning, according to this view, has three fatal flaws: (1) it is designed for an age of stability that no longer exists, (2) it serves only to slow things down, and (3) it make obvious to competitors what you intend to do. It is better to respond randomly than to respond with a detailed plan.

STRATEGY'S RESPONSE

Proponents of strategy contend that responding randomly to an everchanging environment confuses not only a firm's competitors but its customers, employees, and suppliers as well. It creates an army without a general. While some companies succeed by moving quickly to attack opportunities as they present themselves, other very successful firms excel while relentlessly pursuing the same strategic path year after year. Wal-Mart, for example, stresses low-cost retailing. It is known for that skill and inculcates that competitive advantage among all its employees and suppliers. Likewise, sellers of prestige luxury goods would be mistaken to race willy-nilly toward any business opportunity. They should carefully restrict the markets and products they pursue so as to protect the value of their brand. In the 1980s many sellers of prestige brands diluted the value of their brand equity by carelessly pursuing short-term opportunities. It would have been better for those firms to focus on one aspect of their business and try to excel at it.

IN DEFENSE OF THE MARKETING CONCEPT

Proponents argue that much of the criticism against the marketing concept is misplaced. They argue that seemingly alternative approaches, such as the product concept and acting rather than strategy, must ultimately be subservient to the marketing concept if they are to be successful. Scientists and engineers, rather than consumers, may well be the source of new product ideas in technology-driven companies, but the products that arise from those ideas must satisfy customer needs or they will end up serving no market at all. It is important to remember that the technology-push model of innovation often leads to product failure. It produced the Nimslo three-dimensional camera, AT&T's picturephone, tilt-rotor aircraft, and numerous other high-quality products that no one wanted. As McGee and Spiro put it: the product concept is really just "synonymous with customer satisfaction as described by the marketing philosophy.

PRODUCTION-ORIENTED FIRMS

Some firms focus on low-cost, efficient manufacturing. They emphasize low costs and low prices in an attempt to reach large numbers of massmarket consumers. Such producers seem unconcerned with studying consumers' needs and wants and strive, instead, to fulfill a widespread need with very low prices. In virtually every sector of the economy there are firms that succeed by following an efficient-producer model. Wal-Mart in retailing, Goldstar and Samsung in consumer electronics, and discounters of every ilk excel in this way.

Production-based strategies seem to follow a variant of the production concept found in most introductory marketing texts. The concept hypothesizes that consumers will desire products that are priced low. Throughout past decades, many strategy formulations have embraced variations of the production concept as viable ways to compete. Experience curve analysis, for example, which holds that firms should keep costs falling by continually expanding cumulative production, was popular during the 1970s.

Marketers have historically ridiculed the production concept as old-fashioned and obsolete. To them, it describes how business was conducted in the late 1800s and shows how times have changed over the past century. In short, marketers abhorred what many strategists embraced.

In reality, however, low-cost producer strategies are neither old-fashioned nor uncompetitive. Many consumers favor products that are widely available at the lowest possible prices. But, once again, efficient product must be subservient to the needs and wants of large numbers of consumers. The efficient production of 8mm movie projectors in the age of VCRs, for example, would be folly. The emphasis still must be placed on consumers before production, even if low-cost producers wait for others to discern those needs and wants. Only then can companies gain from efficient production.

A COMPETITOR FOCUS

Most of the popular strategic planning formulations of the past two decades have focused on competitors rather than customers. The premise of almost all formulations has been that firms can succeed by gaining competitive advantage with strong brand names, distribution strongholds, promotional muscle, cost efficiencies, and countless other advantages that allow some firms to prevail over less well endowed rivals.

What all competitor-oriented formulations share in common is their attempt to avoid (or change) markets characterized by the economists' model of perfect competition. Competitive strategy seeks to destroy the assumption that all products are the same, all competitors are equal, there are no barriers to entry, and no one firm dominates. Competitive advantage is often a codeword for a way in which to create imperfect competition.

Interest in a competitor orientation moved even farther to the forefront of strategic thinking with the publication of Michael Porter's landmark book, *Competitive Strategy,* in 1980. It became increasingly clear that the purpose of strategy is coping with competition.

Competitive strategy also implies a sense of warfare. You fight your competitors, whereas you serve your customers. Military analogies are commonly applied in business marketing strategy. In their book *Marketing Warfare,* for example, Ries and Trout argue that the strategies of famous military generals can be directly applied to marketing. They contend that marketing is no different than warfare. Their analogy is controversial, but it points up the importance and ferocity of competition in today's markets.

The motivation for military strategy lies with the results of competitors' actions. Many companies have created innovative new products only to have them copied by lower-cost or higher-quality competitors with advantages in manufacturing or distribution. In many instances, American marketers have won the battle of discovering consumer needs only to lose the competitive war to keep the markets they pioneered. It is important to understand what consumers want but it is equally important to protect your discoveries from competitive response.

The power of competitive reaction has caused many marketing scholars to argue that a marketing concept needs to be empowered with a sense of competition, maybe even warfare, that is missing from an orientation that focuses solely on consumer needs. That orientation contrasts greatly with what has actually happened in past decades, when marketers focused mostly on consumers and ignored the effects of competition.

The marketing concept, by itself, provides an incomplete view of business. By ignoring competition, it has painted only part of the picture. While marketers have sought to satisfy consumers' needs, competitors have outmaneuvered them in the marketplace. As Jack Trout noted in *Business Week:* "Knowing what the customer wants isn't too helpful if a dozen other companies are already serving the customer's wants."

Some marketing experts have argued forcefully that marketers should switch from a traditional customer-oriented approach to a stance that stresses competition. Such a focus allows firms to exploit competitors' vulnerabilities and defend their own flanks against attack. George Day and Robin Wensley have gone even further. They contend that a "paradigm shift" is underway in marketing, Marketing has moved away from its traditional focus on consumer decision making. In the authors' own words: "another set of priorities has emerged, with the emphasis on the development of sustainable competitive positions in product-markets." It is clear that paying attention to competitors is at least as important as paying attention to customers.

DUAL CONSUMER AND COMPETITOR ORIENTATIONS TOWARD MARKETS

The essence of marketing strategy is to attract and keep customers while keeping competitors at bay. One element of strategy without the other is simply incomplete. History is replete with examples of firms that attracted customers with stunning innovations only to lose their early lead in the ensuing competitive battle. Many other companies have concocted elegant strategic plans designed to outfox the competition but forgot that their ultimate mission was to provide value to paying customers. In each instance, the result was failure.

MINI-CASE: GATORADE

Some companies have successfully managed the balance between customers and competition. Consider the case of Gatorade, an immensely successful product that single-handedly created the entire new product category of sports drinks. It all started in the early 1960s when researchers at the University of Florida were searching for a liquid to rapidly replace fluids lost to the hot tropical sun. In 1965, the fruits of their labor were tested on ten members of the University of Florida's Gator football team. As a result, the test drink acquired the name Gatorade. The Gators had a winning season that year. More important, they acquired a reputation as a team that excelled during the second half of play. Observers attributed the superior performance to Gatorade. Its coveted reputation spread solely through word-of-mouth advertising and unpaid publicity. The crowning plug came when the Gators beat Georgia Tech in the Orange Bowl on January 1, 1967. After the 27-to-ll loss the Georgia coach was quoted in Sports Illustrated: "We didn't have Gatorade. That made the difference." From that point on, coaches all over the country clamored for the new product in order to negate the Gators' competitive advantage.

In 1967, Stokely-Van Camp, the canned fruit and vegetable company, bought the exclusive rights to make and market Gatorade in the United States. It contracted with the National Football League to become the league's official sports drink. The picture of professional athletes swilling Gatorade on the sidelines created a national market for sports drinks among ordinary consumers. Sales soared as Gatorade acquired the cult status of a magical elixir. Armchair athletes felt empowered by the image of superior athletic performance. Gatorade seemed good for you, while soda was not.

Stokely-Van Camp was acquired by Quaker Oats in 1983. At the time sports drink sales were a substantial business of $85 million per year. But Quaker Oats had the money to create an even larger market. With heavy spending for popular promotional figures such as basketball's Michael Jordan and the savvy to become the official sports drink of the National Football League, Gatorade sales soared to $1 billion a year by 1993, representing an astonishing 22 percent of Quaker Oats profits. Quaker Oats reaped the rewards of its successful implementation of a consumer orientation. It had figured out the first half of the equation.

But competitors sought to gain a share of what by the early 1990s was the fasting growing segment of the soft drink industry. By 1992, there were at least twenty-seven separate competitors in the U.S. market alone. Coke and Pepsi, due to their sheer market power, seemed most threatening. Coke introduced Powerade in four markets in 1992. Following Gatorade's lead, Powerade became the official sports drink of both the 1992 and 1996 Olympic games and World Cup Soccer. Deion Sanders, the prominent football player, was signed to appear in ads. Coke used its overwhelming advantage in distribution to muscle market share from the market leader.

Pepsi followed a similar tack. Its All Sport debuted in test market in 1992 then quickly went national. Pepsi hired basketball's Shaquille O'Neal as spokesperson and allied its entry with college basketball. Published reports claimed that Pepsi offered some retailers twenty free cases for every twenty cases purchased, meaning All Sport sold for 25 percent less than Gatorade in some retail outlets.

But Gatorade managed the competitor half of the equation superbly. Even with the onslaught of the soft drink giants, by 1995 it still held over 80 percent of the sports drink market while Coke's Powerade and Pepsi's All Sport limped along with less than 4 percent each. Quaker Oats had figured out how to use its potent brand name to attract customers and keep them to itself, even in the face of intense competition from powerful rivals with a history of successfully dominating product categories pioneered by others. Gatorade, in short, figured out both halves of the strategic equation.

MINI-CASE: DIET RITE COLA VERSUS COKE AND DIET PEPSI

Over the past three decades, Royal Crown has been responsible for most of the major innovations in the soft drink industry. Royal Crown did not invent diet soft drinks. Smaller, regional rivals, such as Brooklyn-based Kirsch, sold sugar-free soft drinks long before Royal Crown. But Royal Crown created the first truly successful brand once the trend toward calorie consciousness caught hold in the early 1960s.

Royal Crown introduced Diet Rite Cola in early 1962. Basically, Royal Crown's innovation was to sell diet soft drinks as a mass market alternative to regular soft drinks. It brought the product category into the mainstream by (1) reducing the price to match that of regular soft drinks, (2) putting it in returnable bottles like regular soft drinks, (3) placing it on the same supermarket shelves as regular soft drinks, and (4) heavily promoting it to calorie-conscious consumers with an aggressive advertising campaign. All of those actions gave Diet Rite Cola the imprimatur of a regular soft drink and removed the stigma attached to consuming a product designed for the chronically ill.

Sales and market share skyrocketed. In 1962, sales of diet soft drinks doubled to fifty million cases and their share of all soft drinks soared to 4 percent. By 1963, 7 percent of all soft drinks sold were dietetic. Royal Crown Cola dominated the fast-growing market for diet soft drinks through the mid-1960s. Like Gatorade, it owned a seemingly immutable 50 percent share of the market. Also like Gatorade, Royal Crown was the first to figure out the consumer part of the equation.

But Royal Crown did less well when it came to the competitor side of the equation. Its product was aimed straight at the heart of Coke and Pepsi drinkers. Diet Rite tried to switch regular cola drinkers to diet cola. Since Royal Crown held only a minuscule share of the regular cola business it had little to lose if consumers switched. Coke and Pepsi would lose plenty since most of their sales came from regular colas. Both had to follow Royal Crown to market.

Within a year, by 1963, both Coke and Pepsi had diet brands in limited test market. Both firms were reluctant to put their flagship brand names on the new unproved products. Coke entered with "Tab" while Pepsi entered with "Patio Diet Cola." Sales of Patio Diet Cola were disappointing, so it was replaced with Diet Pepsi, a risky decision that entailed using the company's coveted flagship brand name. All three firms targeted calorie-conscious women.

Royal Crown's dominance started to erode once Coke and Pepsi entered. It was not a question of clear product superiority. Diet Rite Cola was as tasty as Tab or Diet Pepsi. Basically, Coke and Pepsi entered with parity products that had no overwhelming sensory advantages. Their success was due to two other key advantages. First, Coke and Pepsi dominated soft drink distribution channels, and as an expert quoted in Forbes remarked years later: "This is a distribution business. The bottler decides what goes on the shelf, and all the rest is just conversation." In 1964, Coca-Cola had 1,120 franchised bottlers, Pepsi was a distant second with only 530 bottlers, and Royal Crown had a pitiful 370. Second, both Coke and Pepsi had the money to fund massive promotional programs that Royal Crown could not match. Throughout the second half of the 1960s, while Royal Crown held double the market share of Coke or Pepsi, the two soft drink giants spent three to four times as much as Royal Crown on advertising.

In 1982, twenty years after Royal Crown's entry, Coke introduced Diet Coke, which initially appealed to a growing market for men wishing to limit caloric intake. By the 1990s, Coke and Pepsi's victory was complete. Both brands dominated the top ten soft drinks overall, while Royal Crown hung near the bottom of the rating. Many experts are amazed that Royal Crown is still in business. It may have figured out the consumer part of the equation but it clearly failed the competitor part. Coke and Pepsi, in contrast, misread the initial promise of the diet soft drink market, but excelled at the competitor part of the equation.

Why, in your opinion, did Coke and Pepsi miss the diet soft drink market? Is there anything they could have done to recognize its true potential earlier than they did?

Is there anything that Royal Crown could have done to better manage the competitor part of the equation?

THE POWER OF EXTERNAL EVENTS

Most observers agree that it is essential to "worship" the external environment. That is because it is usually events outside the company's gates that affect the firm's products and markets. Exhibit 1.2 illustrates this component of marketing strategy along with the others.

External events stem from many sources. Changes in consumer tastes, demographic shifts, competitive challenges, legal and regulatory changes, economic factors, and technological developments can all conspire to create powerful market changes.

The external environment changes constantly. Furthermore, most changes are beyond the control of individual firms. Firms must react to, or anticipate, market changes. Overall, changing market conditions create opportunities for some firms and pose threats to others.

TECHNOLOGICAL CHANGE

The development of new technologies creates opportunities for some firms and destroys opportunities for others. Consider the development of videocassette recorders in the mid-1970s. Before that time home videos were made almost exclusively with 8mm home movie cameras and projectors. But the future of companies that sold that technology was forever changed by the development of the inexpensive VCR. No matter what the price, or how persuasive the salespeople, the makers of 8mm movie cameras were doomed. Change came quickly and from the outside. What had once been a viable product was made obsolete by a technological development outside the industry.

Likewise, consider the case of Keuffel & Esser, the leading seller of slide rules. Its premium-priced product was highly valued by engineering students of the 1960s. But when the electronic calculator hit the market in the early 1970s it took only a few short years for the firm's key product to be transformed from an industry mainstay to an obsolete curiosity.

DEMOGRAPHIC SHIFTS

Demographic shifts also change the need for products and services. An aging population, for example, creates a growing market for health care services while a bulge in the birth rate is usually followed by an increasing need for housing. More households bodes well for appliance sales while a surge in the number of young men aged eighteen to thirty-four often creates growth for sellers of motorcycles, but can also signal a surge in crime statistics. Few of these changes are controllable, but many are predictable, since they evolve more slowly than other aspects of the external environment.

SOCIAL CHANGES

Social changes can enhance or decimate the prospects for a product category as witnessed by the decline in sales of cigarettes and distilled spirits in the U.S. market. Scotch whiskey, for example, has been following a clear, long-term downward trend. Throughout the 1980s, distilleries in Scotland closed down in record numbers as demand dwindled. Creative marketers stemmed the decline in dollar sales if not overall volume by selling premium brands at premium prices.

GOVERNMENT DEREGULATION

The deregulatory trend that started in the United States in the 1980s created promising opportunities for new entrants and competitive challenges for industry incumbents. AT&T faced newfound competition from MCI and Sprint while the full-service brokerage firms found themselves competing with a horde of discounters led by Charles Schwab. The airline industry, long a bastion of protectionism, was deregulated and incumbents encumbered with high costs were forced to compete with low-cost airlines selling very similar products.

SPECIAL RESOURCES

Many firms possess something special that provides an edge against the competition. It may be an inimitable asset or unique skill. It might be a coveted brand name or a lockhold on distribution channels. Coke and Pepsi, for example, dominate "fountain" sales of soft drinks with exclusive distribution contracts.

McDonald's sells Coke exclusively. Pepsi, which owns Taco Bell and Pizza Hut, sells its soft drinks through those captive establishments. Second-tier soft drink sellers have little chance of penetrating those outlets.

Some competitive advantages are sustainable while others are transitory. A leading brand name, for example, can dominate its product category for decades. In fact, one study found that twenty-three of the twenty-five top brands in 1923 still dominated their product categories in 1992.

Over the past few decades strategy scholars have focused on inward-looking concerns such as "core capabilities" and "competing on capabilities." A more recent variation argues for a "resource-based view of the firm." It holds that companies should be viewed as a collection of tangible and intangible assets and capabilities. These might include assets such as a popular brand name, special skills and experiences which are built up over time, and unique organizational cultures. Key to the resource-based view of the firm is that finns should focus on resources that are hard for competitors to copy (like Disney's brand name), durable (retain a competive advantage for a long time), and produce profits that cannot be appropriated or substituted by other members of the channel of distribution, such as when a powerful retailer bargains away a manufacturer's margins.

MARKETING AS A BOUNDARY-SPANNING FUNCTION

Overall, marketing is in a unique position among company functions to deal with customers, competition, and other external events because it is a boundary-spanning function. Most of the other business functions such as management, finance, accounting, research and development, and data processing face inward toward events that occur within the firm. That is probably why the influence of marketing on strategic thinking has grown greatly in recent years.

Users Review

From reader reviews:

Sherrie Shannon:

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