CHAPTER 2

LITERATURE REVIEW

Successfully competing in today's ever-changing business environment requires market-driven strategies that respond to customer's needs and wants. Luck (1989) suggests that achievement depend on how well two activities are conducted: planning and implement. Planning obviously occurs first: a firm operates efficiently and yields the desired results through planning. Implementation comes later but that makes it no less important. In this chapter discusses the general concepts which relate to the fundamental ideas on designing marketing strategies including marketing concept, situation analysis (internal and external analysis), marketing strategy, marketing programs, the marketing plan, execution and evaluation.

2.1 Marketing

Marketing is a process that takes place before products and services are produced and continue even after the sale. Marketing is so basic that it can't be considered a separate function. It is the whole business seen from the point of view of its final result, that is, from the customer's point of view. We understand marketing as follows:

"*Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating, offering, and exchanging products of value with others.*" (Kotler, 1999)

"*Marketing is a total system of business activities designed to plan, price, promote and distribute want-satisfying products to target markets to achieve organizational objectives.*" (Stanton, 1991)

2.2 The Marketing Concept

The marketing concept puts companies and managers on notice that neither production, neither sales, nor customers exist in a vacuum. All exist in a competitive place that is becoming more competitive and it is this competitiveness that really drives the marketing concept. According to Stanton (1991), the marketing concept is based on three beliefs, which are as follows:

- All planning and operations should be customer-oriented.
- All marketing activities in an organization should be coordinated.
- Customer-oriented, coordinated marketing is essential to achieve the organization's performance objectives.

2.3 Concept of Marketing Strategy

Marketing strategy is defined in terms of three constituents as an endeavor by corporation to differentiate themselves positively from their competitors, using their corporate strengths to better satisfy customer needs, in given a environmental setting (Jain, 2000).

Thus, within a given environment, marketing strategy deals with the interplay of three forces, known as the 3 C's: customer, competitor, and corporation. Marketing strategy focuses on the way in which the corporation can differentiate itself effectively from its competitors, capitalizing on its distinctive strength to deliver value to its customers. Based on 3 C's, formulation of marketing strategy requires three following decisions as follows:

- Where to Compete
- How to Compete
- When to Compete

Most successful companies improve but do not change their strategy very often. They gain advantage from new insights into competition and from constant clarification of their ability to implement an overall strategy through its details are continually evolving and improving. The problem is therefore not to select good strategies, but to create a flexible organization that learns and is able to constantly change its strategy. The choice of a strategy is ever changing. But why should the company be that flexible?

To provide a useful sense of direction, a corporate **mission** statement should clearly define the organisation'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. The **vision** of company is what the company is trying to achieve over the medium to long term as formally declared in its mission statement. **The critical success factor** is an effective way to identify the requirements of a firm's executive and the enterprise as a whole

2.4 Important of Marketing Strategy

"The experience of companies well versed in strategic planning indicates that failure of marketing strategy can block the way to the goals established by strategic planning" Jain (2000). This statement shows that if the companies cannot appreciate the essence of marketing, automatically they cannot determine the strategy fir to customers, face the competition, and institutionalize an organizational structure of marketing.

2.5 Situation Analysis

The situation refers to the conditions or environment in which the strategy will take place. Situation analysis is an examination of each of the several environments that have basic effects. There are two phases of analysis: internal and external. For internal analysis, "SWOT Analysis" and "Past Performance Analysis" considered as helping tools. For external analysis, there are some analysis of customers, competitors, and market situation.

2.5.1 Internal Analysis

Internal analysis concerned with measuring the strategic capability of the company, the resources that company have and the resources that it can obtain. It also helps identify whether or not the existing resources can be used more efficiently and effectively.

2.5.1.1 SWOT Analysis

Traditional SWOT (*S*trengths, *W*eaknesses, *O*pportunities, *T*hreats) analysis is presented because it remains an approach that manager creates quick overview of a company's strategic situation. According to Pearce (2000), "*SWOT is an acronym for the internal strengths and weaknesses of a company and the environmental opportunities and threats facing that company*".

Strengths: Strength is a resource advantage relative to competitors and the needs of the markets a company serves or expects to serve. It is a distinctive competence when it gives the company a comparative advantage in the marketplace. Strengths arise from the resources and competencies available to the firm.

Weaknesses: Weakness is a limitation or deficiency in one or more resources or competencies relative to competitors that impede a company effective performance.

Opportunities: Opportunity is a major favorable situation in a company's environment. Key trends are one source of opportunities. Identification of a previously overlooked market segment, changes in competitive or regulatory circumstances, technology changes, and so on.

Threats: Threat is a major unfavorable situation in a company's environment. Threats are key impediments to the company's current or desired position.

SWOT analysis forces managers to better understand and respond to those factors that have the greatest importance for the firm's performance. We call these factors strategic issues. A strategic issue is an environmental factor, either inside or outside the organization that is likely to have an impact on the ability of the enterprise to meet its objectives.

It should be emphasised that strategic issues rarely arrive on a top manager's desk neatly labelled. Instead, data from SWOT analysis of the environment identify new technologies, market trends, new competitors, and employee morale trends. They require interpretation and translation before they are labelled *strategies*. Often, managers draw upon their experience to categorise issues as controllable or uncontrollable, as threats or opportunities. These categories then determine how an issue appears to an individual manager, how well it can be sold to other managers, and what action the firm subsequently takes.

All but the smallest organisations require cross-functional co-operation to gather data about present and future environments (sometimes termed scanning and forecasting, respectively) and to try to make sense of it all. This is a direct result of the complexity and constant change in the environments in which organisations operated, environments that one executive could never fully understand and manage. SWOT analysis becomes a team effort performed jointly by functional specialists from marketing, production, finance, etc. These experts review the environments closest to their specialities, and bring issues they see as critical to the attention of their peers from other functions, as well as general managers who have responsibilities for overall or integrated SWOT analysis. At this stage in the SWOT analysis, the team debates issues, brings conflicts between functions to the surface, prioritises issues, and plans actions.

Managers can modify this basic data gathering method to tap other sources of information, such as customers or consultants. For example, many firms routinely conduct extensive interviews with follow-up questionnaires through their marketing departments to get feedback on customer satisfaction or dissatisfaction. This research can be viewed as assessing the customer component of the firms' environments. Likewise, a firm with an active international business might survey a small group of outside consultants. By analysing the consultants' responses, the firm could develop a better understanding of the political risks involved in expanding operations in a particular country. These two data gathering efforts have very different focuses, but both can be seen as forms of environmental scanning. Information that gathered from key employees could also help managers better understand the *internal* environment of the organisation. In this situation, the questions focus on the primary components of the internal environment: the organisational component, marketing component, financial component, personnel component, and production component.

2.5.1.2 Performance Analysis

According to Aaker (1998), performance analysis provides an indicator of the success of past strategies and thus can often help in evaluating whether strategic changes are needed. In addition, sales and profitability at least appear to be specific and easily measured. As a result, it is not surprising that they are so widely used as performance evaluation tools.

Sales and Market Share

A sensitive measure of how customers regard a product or service can be sales or market share. After all, if the relative value to a customer changes, sales and share should be affected, although there may be an occasional delay caused by market and customer inertia. Sales levels can be strategically important. Increased sales can mean that the customer base has grown. An enlarged customer base, if we assume that new customers will develop loyalty, will mean future sales and profits.

Profitability

Profit is important indicators of business performance. They provide the basis for the internally or externally generated capital needed to pursue growth strategies, to replace obsolete plants and equipment, and to absorb market risk. One basic profitability measure is return on assets (ROA), which is calculated by dividing the profits by the assets involved. Return on assets can be considered as having two causal factors. The first is the profit margin, which depends on the selling price and cost structure. The second is the asset turnover, which depend on inventory control and asset utilization.

Manager/ Employee Capability and Performance

Also keys to a company's long-term prospects are the people who must implement strategies. Are the human resources in place to support current and future strategies? Do those who are added to the organization match its needs in terms of types and quality or are their gaps that are not being filled?

2.5.2 External Analysis

External analysis involves scanning and evaluating various sectors outside the company to identify positive and negative trends that may affect its performance.

2.5.2.1 Customer Analysis

In most strategic market-planning contexts, the first logical step is to analyze the customers. Customer analysis can be usefully partitioned into an understanding of how the market segments an analysis of customer motivations, and an exploration of unmet needs.

Segmentation means the identification of customer groups that can support different competitive strategies. Segmentation approaches include benefits sought, the price/quality dimension, customer loyalty, and application. A business can focus on a single segment or attempt to serve multiple segments, perhaps obtaining across-segment synergies.

Knowledge of motivation can provide insights into what assets and competencies are needed to compete. Motivation can be identified though marketing research approaches such as asking attribute importance or trade-off questions.

An unmet need, a customer need that is not being met by the existing product offerings, can be strategically important because it may represent opportunities for those attempting to gain position and may pose threats to those attempting to maintain position. Customers can be used to identify unmet needs. Lead users, users who face needs that will become more prevalent in the future and are thus positioned to benefit significantly, are particularly good sources of unmet needs and new product concept.

2.5.2.2 Competitor Analysis

Competition relates to rivalry and attempts to gain advantage in the marketplace. It denotes two or more sellers vying for buyers in the exchange of a product, in the sense relevant here. This is a key factor in strategic success. Marketing managers naturally watch competitors' actions and their outcome, while also trying to divine their strategies. In healthy competition, rivals struggle to win buyers' preference and to upset each other's strategies. A firm usually has limited control over market structure. Therefore an effective marketing strategy must cope with competitors' strengths, capitalize on their weaknesses, and anticipate or react to their moves.

Competitor analysis starts with the identification of groups of competitors. One approach considers customer choice, identifying the set of competitors from which the customer selects, or product-use associations, identifying the set of competitors whose products are used in the same use situation. A second approach is to identify strategic groups, groups of competitive firms that pursue similar assets, competencies, and other characteristics. Mobility barriers between strategic groups are strategically important because they can protect a profitable strategy. It is also important to identify potential competitor - firm with the motivation and ability to enter an industry.

To gain an understanding of competitors, it is useful to analyze them on the basis of several dimensions. Their size, growth, and profitability provide a gross measure of their relative importance. Their image and positioning strategy provide strategic insights.

Information on competitors can be obtained from market research and from a variety of other sources, such as trade magazines, trade shows, customers, and suppliers.

2.5.2.3 Market Analysis

Market analysis builds on customer and competitor analyses to make some strategic judgements about a market and its dynamics. One of the primary objectives of a market analysis is to determine the attractiveness of a market to current and potential participants. A second objective is to understand the dynamics of the market. The need is to identify emerging key success factors, trends, threats, opportunities, and strategic uncertainties that can guide information gathering and analysis.

According to Aaker (1998), a market analysis is often conducted along the following seven dimensions.

1. Actual and potential market size. The potential market includes the usage gap, which can be penetrated by creating increased frequency of use, a greater variety of uses, new users, and new uses.

2. Market growth. To forecast growth patterns, it can be helpful to consider the forces driving sales, leading indicators, analogous industries, pressure on prices, and the existence of substitute products.

3. Market profitability. The competitive intensity of a market or any sub-market will depend on five factors – existing competitors, supplier power, customer power, substitute products, ad potential entrants. Barriers to entry include capital investment, economies of scale, access to distribution channels, and product differentiation.

4. Cost structure. One way to detect key success factors is to analyze the value added by the production stage and observe how it is changing. Another consideration is whether the market setting makes an experience curve strategy appropriate or even feasible.

5. Distribution systems. The need is to identify alternative channels and trends in their relative importance and to analyze the power relationships in each channel and how they might be changing.

6. Market trends. What trends in the market will affect future profitability of participant firms and key success factors?

7. Key success factors. What skills and competencies are needed to compete in a strategic group now and in the future?

2.6 Marketing Strategy

Marketing strategy is guided by the decisions top management makes about how, when, and where to compete. Because of this close relationship it is important to examine the major aspects of designing and implementing business strategy. According to Cravens (1983), marketing strategy is defined as

"*The analysis, strategy development, and implementation activities in selecting market target strategies for the product-markets in each business unit, setting marketing objectives, and developing, implementing, and managing the marketing program position strategies designed to meet the needs of the customers in each market segment.*"

Marketing's strategic planning is composed of two stages, which are strategic objective, and strategic idea (stratagem). These two may be recalled with that two prepositions in the key question each answer: *What* are we trying to achieve? And *How* do we intend to do that?

2.6.1 Strategic Objective

Strategic objectives are *what* a strategist is trying to achieve, as distinguished from stratagems, which are how a firm intends to achieve the objectives. There are chains of ends-means decisions that start with general objectives and keep focusing more specifically toward implementation of strategy. These decision chains start at the top of the organization and move level-by-level into marketing.

Another determination is when an objective is to be attained-its timing. Some objectives are period ones, to be accomplished usually within a year. Program objectives extend over longer ranges until a program is completed. These need to be coordinated. Performance objectives always should have been set for strategy, and often market position objectives too. The later should include a statement of the markets in which to participate and of the business of that unit. Another constraint would be word from the corporation on the funds available.

The process of deciding objectives included (besides the constraints) the use of the situation analysis and market targeting. There is no exact formula for setting objectives; it should be tailored to each case.

2.6.2 The Strategic Idea

With objectives having been determined, the marketing planner seeks to find the means of fulfilling or surpassing them. The planing process will lead to those means being detailed in a marketing plan. That plan is determined only after the vital and basic determination of how to reach the objective. We prefer to finding and defining the key idea, which we may call the *stratagem* or *strategic idea.*

Strategic objectives and stratagems must coexist (neither is any good without the other), and a marketer needs to acquire a repertoire of optional stratagems and insights on when to choose them. Those options have to be arranged systematically, according to some classification method.

The broadest categorization is according to purposes. We proposed a three-way breakdown by what a stratagem would apply to markets, competitors, and product positions.

Market stratagems were then given four options: market aggregation, market segmentation, multi-segmentation, and market concentration. The important point is to define the unique wants and the needs of targeted markets.

For competition, there are three types of combat stratagems: differentiation. Overall cost leadership, and market segmentation (which has two uses). Position stratagems can be described as market leader, market nicher, market challenger, and market follower. These three sets of categories can be integrated into composite stratagems.

2.7 Marketing Programs

Marketing programs are the choices of appropriate marketing actions and their blending into marketing mix. Actions are discussed for each of the conventional seven functions.

2.7.1 Product

Product is a very significant variable in management's decisions – indeed, usually the most important one. Product plays a role in marketing (and corporate) decisions, as both a controllable and an uncontrollable variable.

We outlined the significance of the marketing mix and product line in examining and creating strategic business units and product markets. Product as a strategic variable received most of the focus.

Two of the most important reasons for some product success profitable live while others are expensive failures are competitive differential advantage and product symbolism.

- *Competitive Differential Advantage*: in marketing strategy, competitive differential advantage derives from the characteristics of a product that make it superior to competitive products. We believe that competitive differential advantage is a most important reason for product success and should be considered in any product strategy analysis. At the brand level, it is often difficult to maintain a competitive differential advantage based on superior technology because competitors promptly copy new or improved technology. Thus, although competitive differential advantage is a critical element of profitable marketing strategies, for such an advantage to be sustained, it often must derive form something other than technology or product modifications. One important source of sustainable competitive differential advantage is product symbolism.

- *Product Symbolism*: product symbolism is what the product means to consumers and what consumer's experience in purchasing and using it. At the brand level. It refers to the image that particular item evokes in the minds of consumers. Product symbolism and appropriate brand images can actually be more important than technological superiority.

2.7.2 Price

Three important influences on pricing strategy are consumer characteristics, organization characteristics, and competitive characteristics.

- *Consumer Characteristics*: the nature of the target market and its expected reactions to a given price or price change are major considerations in pricing strategy. For some products, consumers may use price as an indicator of quality, so a low price does not stimulate demand. For many products, price is used to segment consumers into prestige, mass, and economy markets. Price is also used for creating product and brand.

- *Organization Characteristics*: several organization characteristics influence pricing strategies. First, the variable cost for a product usually sets the lower limit on its price. Second, the objectives of the organization influence pricing strategy. A common pricing objective is to achieve a target return on investment consistent with the organization's objectives. Third, the nature of the product influences pricing strategy, distinctive products often has higher prices, for example, and perishable products must often be priced lower to promote faster sales. Finally, the stage of the product life cycle that a product has reached may influence pricing strategy. A skimming pricing strategy involves setting a relatively low price early in the product life cycle and then gradually decreasing the price when competitors enter the market. A penetration pricing strategy involves setting a relatively low price early in the product life cycle in anticipation of raising it at a later stage. Penetration is used when the firm expects competition to move in rapidly and when demand is strongly influenced by price. Penetration is also used to obtain large economies of scale and to create a large market rapidly.

- *Competitive Characteristics*: competitors – their number, size, cost structures, and past reactions to price changes – influence-pricing strategy. An organization can price at, below, or above the competition, depending on such factors as its own cost structure, competitive differential advantage, and financial and marketing abilities.

2.7.3 Place or Distribution

Distribution as a controllable variable involves strategic decisions about marketing channels and physical distribution. These two areas of decisions should be based on structured by market opportunities. All distribution decisions should be based on the wants and behavior of the end user or consumer.

Channel strategy consists of decisions regarding channel organization, definition of channel structures, development of criteria for evaluating channel structures and the selection of an appropriate structure. Distribution is one of the more inflexible strategic variables, owing to customary procedures and structure. Furthermore, the investments required and the coordination of independent middlemen makes channels slow to change. Other aspects of the environment, such as technology, competition, and social trends, can also affect the structure of distribution.

2.7.4 Promotion

Designing promotion strategies involves selecting the appropriate mix of promotion tools to accomplish specific objectives. Four types of promotion tools can be used to inform, persuade, and remind consumers or industrial buyers:

1. Advertising is any paid form of non-personal presentation and promotion of ideas, or service.
2. Sale promotion is a short-term incentive to encourage the purchase or sale of a product or service.
3. Publicity is any unpaid from of non-personal presentation of ideas, goods, or services.
4. Personal selling is direct, face-to-face communication between sellers and potential buyers for the purpose of making an exchange.

Some general objectives of promotion strategies:

- Increase brand awareness
- Increase consumer knowledge of product and brand
- Change consumer attitude about company
- Change consumer attitude about brand
- Increase short-term sales
- Increase long-term sales
- Build corporate image
- Build brand image and positioning
- and so on...

The task at this stage is to determine to what degree and I what situations each of these tools will be used. In addition, appropriate promotion messages, media choices, and schedules are formulated on the basis of the firm's promotion objectives for the product, the nature of the product, and the purchasing habits and media preferences of target consumers.

2.7.5 People

Relationship marketing obviously involves the efforts and skills of more individuals than just those in the sales or marketing departments. The need for service and support implies that employees in service delivery must also be intimately acquainted with the needs of the customer and be prepared to deal with individuals from the customer and be prepared to deal with individuals from the customer firm.

According to Rust (1996), hiring should also consider certain personal characteristics of employee who will have high interactions with customer personnel. Many services require personal interactions between customers and employees, and these interactions strongly influence the customer's perception of service quality. These employees must believe in what they are doing and enjoy their work before they can provide good service to customers. For this reason, human resources management policies and practices are considered to be of particular strategic importance for in delivering high-quality service.

Training in related disciplines such as service management areas that may be of value to customers can help the employee to become truly valuable problem solvers for customers. Employees must also be trained to calculate the value of customer relationships, so that they can allocate their efforts appropriately. Not every customer is worth the cost of establishing a long-term relationship.

2.7.6 Process

The company should analyze their service processes. Service process can be thought as having several parts that each of which has different management requirements to maintain quality. Procedures and systems are the operating routines and the ways of doing business that the company uses and expects its customers to follow in delivering its services. Overall quality service in the organization requires that the support functions must think of the frontline personnel as internal customers, know their needs, and deliver the highest quality of internal service possible.

2.7.7 Physical Facility

This element of the expanded marketing mix addresses the "tangible" components of the service experience and company's image referred to earlier. Service Company should design these items with extreme care, sine they will play a major role in influencing a customer's impression of the company.

2.8 Marketing Plan

After the strategic program has been determined, the marketing plan is prepared. The term "*plan*" must first be defined. According to Hopkins (1996), two definitions of the word *plan* are found as

"*An orderly arrangement of parts of an overall design or objective.*"
"*A detailed formulation of a program of action.*"

Those quotations came from a monograph that reported on a survey of marketing executives in 267 manufacturing and service corporations. The monograph also contains the following comment:

"*...the marketing plan is seen by many executives in the survey as the very symbol and essence of purposeful marketing management. They regard a formally prepared, written marketing plan as the means of linking the marketing function with the principle of management by objectives...Unless all the key elements of a plan are written down, there will always be loopholes for ambiguity or misunderstanding of strategies and objectives, or assigned responsibilities for taking action.*"

The plan is formally prepared and written and is a detailed formulation of the action program necessary to carry out the strategic program. A diagram that indicates what precedes and what follows the marketing plan can classify this:

Strategic Planning
* Objective
* Definition of business area
* Strategic program
* Resource requirements

The Marketing Plan and its approval

Implementation

Figure 2.1: The Marketing plan diagram

The core strategy and the key elements of the marketing program should have been put in writing, in specific terms, during the strategic planning process. Five purposes of the plan were stated:

- Explaining the situation
- Specifying the results that are expected
- Identifying the resources that will be needed
- Describing the actions that are to take place
- Permitting the monitoring of the plan's implementation.

Organization aspects dealt with

- Who should purpose the marketing plan
- Who should approve it

There are complications in having both short-term and long-term plans to be purposed and coordinated.

2.9 Executions and Evaluation

Planner's responsibilities for strategic plans do not end with their completion and final approval. There are at least three reasons why they would want to continue being in close touch with implementation:

- To seek prompt tactical changes in the program during its execution, when needed and feasible.
- To determine whether disappointing results were due to faults in the plan itself
- To profit by what can be learned from this experience, in order to plan better next time.

2.9.1 Execution

Let us keep in mind that execution is under the authority of the line managers. The strategic planners do not have that responsibility, but they do have deep concern about the execution. The responsibilities of strategic plans miscarrying are always threatening. Another concern is that the relationship between strategy and implementation does not work in just one direction. Execution affects strategy, and this cumulates over time. Bonoma (1984) suggested these possibilities:

1. When strategy is appropriate, poor execution can conceal its merit.
2. When strategy is inappropriate and execution is poor, there probably will be failure. Management may not perceive, through the mask of obvious execution errors, that the strategy was wrong. Thus nothing may be done to correct the strategy.

Implementation work lies beyond the scope of the planner's own responsibility or authority. Nevertheless, it importantly affects what the marketing planner does. One way in which the planner can promote good implementation is to make the plan's intentions and methods clear and to follow through by making sure that the people who will direct implementation receive and understand the plans. Compliance with a marketing plan can also be achieved by inviting functional mangers to participate by offering advice on the plan, so that they will have favorable attitudes when the time of execution arrives.

2.9.2 Evaluation

The measurement and reward system over time influences behavior and thus strategy implementation. It is important to ensure that it fosters behavior that will lead to the strategy objective. According to Stonich (1977), a key aspect of the strategy of a large consulting firm with over 20 companies was to obtain firm wide synergy, efficiency, and consistency. Profitability Analysis and Customer Satisfaction Analysis are approaches to examine whether the marketing strategy results are being achieved. Efficiency of employee, advertising, and sales promotion are another important point to be evaluated.

- Profitability Analysis: companies clearly need to measure the profitability in order to help management determine marketing strategy should be expanded, reduced, or eliminated.

- Customer Satisfaction Tracking: the company can use several methods of tracking and measuring customer satisfaction such as

    - Complaint and Suggestion System
    - Customer Satisfaction Surveys
    - Etc.

- Sales Promotion Efficiency Analysis: to improve sales promotion efficiency, management should record the costs and sales impact of each sales promotion. If sales promotion manager is appointed, that manager can analyze the results of different sales promotions and advise product managers on the most cost-effective promotion to use.