



B7601: MARKETING STRATEGY Summer 2004

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COURSE DESCRIPTION

Marketing activity is the core of operating a business. It provides the managerial focus for interfacing with customers and the source of intelligence about customers, competitors, and the general environment.

The first half of the course focuses on marketing strategy. In order to make effective strategic decisions, managers must identify and measure consumers' needs and wants, assess the competitive environment, select the most appropriate customer targets and then develop marketing programs that satisfy consumers' needs better than the competition. Further, marketing focuses on the long-run relationship of a company to its customers as well as short-run sales and profits.

The second part of the course focuses on the *decisions* that managers make and the *tools* that they use to support an effective marketing strategy. The attraction and retention of profitable customers must involve consideration of the product or service being offered, the way in which the product is sold and distributed, how pricing is set and structured, and how the value of the offering is communicated.

Through class projects, hands-on group exercises, case studies, and class discussions we will explore marketing strategy and its implementation in marketing programs through what is traditionally called the "marketing mix" or the "4 P's: Product, Price, Place, and Promotion." As we progress, it will become apparent that each of these decisions affects the others and that they must all be framed as part of an integrated marketing strategy.

Course Objectives

B7601 is the core marketing course in the EMBA program at Columbia Business School. This course emphasizes the role of marketing in creating value for customers, which in turn leads to value for other

stakeholders in a firm (e.g., owners, shareholders, employees). The main objectives of the course are to *improve your ability to*:

1. Assess market opportunities by analyzing customers, competitors and the strengths and weaknesses of a company.
2. Design effective marketing strategies to maximize a company's chance of winning in these markets.
3. Communicate and defend your own marketing recommendations and critically examine and build upon the recommendations of others.
4. Learn the tools necessary to implement marketing strategy and improve performance.
5. Understand the interdependence of marketing decisions and their effects on the firm's customers and its competition.

COURSE MATERIAL

Required Reading

In general, you will find it *very helpful* to read about each session in the *syllabus* before beginning to prepare for that session. This should provide you with a framework that focuses on the key concepts for each class's reading or case preparation. The key resources for the course are:

1. B7601 Readings and Case Packets
2. Lecture notes will be distributed in the class and will be available on the Web site in **BOLD**.

Optional Reading

A selection of required readings from a number of sources will be provided. While there is no text for this course, interested students may consider consulting the following texts for additional background as well as further inquiry into topics covered in the course.

Marketing Management, 11th Edition by Philip Kotler, Prentice Hall Publishers

Product Management, 2nd Edition by Donald R. Lehman and Rusell S. Winer, Irwin Publishers

Marketing Management in the 21st Century, 1st Edition, by Noel Capon and James Hulbert, Prentice Hall Publishers.

STUDENT EVALUATION

Class Participation	15%	(individual)
Exercise 1: Economic Value to the Customer	10%	(individual)

Exercise 2: Lifetime Value of the Customer	10%	(individual)
Exercise 3: Product Design	15%	(group)
Final Examination	50%	(individual)

(1) Class Participation

A large portion of the class time will be devoted to analyzing assigned cases, group discussion, and in-class exercises. You will work with your group in a number of in- and out-of-class exercises. We ask that you sit in your assigned seat in class (study groups sit together) and always use your name tent. Sitting with your study group will enable quick break-out discussion for in-class exercises.

Several criteria are considered when evaluating your class participation.

- Most important is the quality of the class participation. Sheer quantity is neither sufficient nor necessarily desirable.
- High quality class participation includes comments that add to our understanding of a situation. They go beyond mere repetition of case facts.
- High quality class participation can be supported with qualitative and/or quantitative analysis based on marketing theory and concepts.
- Your comments should take into account the comments and analyses of your classmates. Participation should move our discussion forward.
- Finally, you need to *be present in class and be on time* in order to receive a strong class participation score. Attendance is mandatory in accordance with EMBA program policy.

A note on case discussions: The case method is one of the most effective means of sharpening your decision-making abilities. A case discussion requires that you be an active participant in resolving a marketing problem. The assigned cases are intended to give you practice in assembling data to support a decision. The discussion format provides you with an opportunity to argue your position and to learn from others by listening to their comments, analysis, and criticism. You will learn the most from the cases if you and your classmates prepare and participate fully. *Make sure to do all the quantitative analysis for the case and come prepared with numbers to support your position wherever possible.* You all have different experiences, insights and opinions, and a great deal of what you will learn from the cases will be from each other. It is therefore essential that you be fully prepared for all the cases. In each session, students will be randomly selected to start the case discussion. Thereafter, the discussion will be open to the entire class.

(2) Exercises

You are required to submit the following three exercises:

<u>Exercise</u>	<u>Grade</u>	<u>Due Date (class meeting)</u>
1. Economic Value to Customers	10%	June 11
2. Lifetime Value of Customers	10%	July 9

3. Product design exercise (group) 15% August 6

The first two exercises are in your case book. Other exercises will be given out in class and all will be available on **BOLD**. Individual exercises are to be analyzed and written individually (without consultation). The group exercise should be completed with your study group. All assignments should be handed in on the due date at the **beginning** of the class. Assignments submitted by email or handed in late will not be accepted under any circumstances.

(3) Final Examination

The final examination will be designed to test your understanding of the topics covered in the lectures, readings, and exercises. The exam will held in class on August 28th.

The final examination will be held during the official final examination period set by the administration and it is the only time the exam will be administered. No requests will be granted for alternative scheduling.

The construction of reliable, discriminating and valid exams is a very difficult endeavor, and returning exams precludes the use of those test questions for many years. Since the primary goal of the final exam in this course is to evaluate students' knowledge, returning exams would make it more difficult for that goal to be achieved. Therefore, final exams will be available in my office for all of next semester. I will provide appropriate feedback and learning when you come in to see your exam (by appointment).

LAPTOP POLICY

You can bring your laptop computers to class to use when required to do so (e.g., in-class exercises; case analysis); they should be kept closed at all other times. There will be no network connectivity.

HONOR CODE

At no time should you use lecture or case notes from previous sections of the course. Nor should you violate the Columbia Business School Integrity Code (printed at the beginning of the readings packet) in any other way.

B7601: MARKETING STRATEGY
Summer 2004

A. Analyzing Markets and Identifying Opportunities

Session Date	Topic	Case/Reading	Assignment
1 & 2 May 17	Introduction & Overview Case	Read: "Basic Quantitative Analysis for Marketing" Read: "Note on Marketing Strategy" Case: Federal Express (B)	Complete quiz at www.cebiz.org/7601 by end of day Thursday, May 13th
3 & 4 May 18	Customer Analysis I: Economic Value Concepts and Case	Read: "Value-Based Strategies for Industrial Products" Read: "Economic Benefits and Value Creation" Case: Optical Distortion	
5 & 6 May 20	Customer Analysis II: Functional and Psychological Value Concepts Customer Segmentation Case	Read: "To Understand Your Customers, You Have to Know How they Think" Read: "The Case for Brands" Read: "What is Brand Equity?" Case: Jones Blair	
7 & 8 May 21	Customer Segmentation, Targeting, and Positioning Concepts Competitive Analysis Case	Read: "A Segmentation You Can Act On" Case: American Airlines (A)	Complete survey at http://www.sric-bi.com/VALS/presurvey.shtml before class

B. Developing Marketing Strategy

Session Date	Topic	Case/Reading	Assignment
9 & 10 June 11	Objectives, Strategy & Metrics Guest speaker	Read: "Marketing Strategy: An Overview"	<i>Assignment 1 Due</i>
11 & 12 June 12	Acquisition & Retention	Read: "Customers As Assets" Read: "Web Shoppers' Loyalty Isn't So Crazy After All" Read: "Zero Defections: Quality Comes to Services" Case: Citibank: Launching the Credit Card in Asia Pacific (A)	

C. Managing Marketing Programs

Dates	Topic	Readings	Assignments for class
13 & 14 June 25	Product Decisions I Guest speaker	Read: "Product Development: A Customer Driven Approach" Read: "Researching and Monitoring Consumer Markets"	Bring a new product to class
15 & 16 June 26	Product Decisions II Pricing Decisions	Read: "Product By Design" Read: "Conjoint Analysis" Read: "Evaluating EZPass65" Read: "Effective Contemporary Pricing" Read: "Ethical Issues in Pricing"	
17 & 18 July 9	Promotion (Communication) Decisions I	Read: "Communications Policy" Prepare: Mountain Dew CD-Rom Case for Discussion	<i>Assignment 2 Due</i>
19 & 20 July 24	Promotion (Communication) Decisions II	Read: "Integrated Marketing Communications" Read: "Getting the Most out of Advertising and Promotion" Prepare Intel Inside Interactive CD-Rom Case for discussion	
21 & 22 August 6	Place (Distribution) Decisions Course Wrap Up	Read: "Managing Marketing Channels" Prepare: Rohm & Haas case for discussion	<i>Assignment 3 Due</i>

A. Analyzing Markets and Identifying Opportunities

Sessions 1 & 2—Introduction to Marketing Management and Overview Case Monday, May 17

In this session, we introduce you to the topic of marketing management. We use the Federal Express (B) case to introduce you to a framework for approaching marketing problems and to convey the importance of both conceptual and quantitative analyses in the development of a marketing strategy. In the next sessions we will introduce three fundamental ways in which a firm can provide value to a customer - EVC (economic value to customers), psychological value, and functional value.

Case: Federal Express (B)

At the time of the case, Federal Express management is evaluating the various services provided by the firm and wondering what to do about Courier Pak, an overnight document delivery service with presently limited sales. The case provides a context for discussing the entire range of issues surrounding the management of a brand at a large corporation.

Discussion Questions:

1. Who uses the Courier Pak? How large is the potential market for Courier Pak?
What are the appropriate target markets for Courier Pak?
2. What is the competition for Courier Pak?
3. Is Courier Pak consistent with Federal Express Corp's objectives and abilities?
4. Is Courier Pak an economically viable product?
5. How should Federal Express Corporation support and market the Courier Pak?

Readings: "Basic Quantitative Analysis for Marketing". This note reviews some of the key quantitative tools that we will use in case analysis. Please make sure that you understand and are comfortable with break-even analysis - it comes up in almost every case analysis.

"Note on Marketing Strategy." This note provides a good overview of Marketing Strategy.

Sessions 3 & 4—Customer Analysis I: Economic Value (EVC): Concepts and Case Tuesday, May 18

In this session we will introduce the concept of EVC – economic value to customers, and discuss its role in formulating marketing strategy. In the second half of the session, we will discuss the Optical Distortion case.

Case: Optical Distortion Inc.

Optical Distortion, Inc. (ODI) is a small company with limited resources but a very innovative product -- contact lenses for chickens. The company needs to evaluate the viability of this new product and formulate the marketing strategy for launching it.

Discussion Questions:

1. Evaluate the feasibility of ODI lenses.
2. Assuming ODI decides to introduce this product, formulate a complete marketing strategy for its launch.

In developing your recommendations, you may wish to consider:

- (i) Is the ODI lens an economically viable product?
- (ii) Why would the farmers buy or resist buying this product?
- (iii) How should ODI segment its market? In which markets should ODI concentrate its efforts?
- (iv) Given the financial constraints faced by the company, what kind of budget is feasible? What implications does it have on the short and the long run strategy of the company?

Readings: "Value-Based Strategies for Industrial Products". In this article, two McKinsey consultants argue for using Economic Value to Customer (EVC) as the basis for strategy formulation and pricing.

Best, Roger J., "Economic Benefits and Value Creation," *Market-Based Management - Strategies for Growing Customer Value and Profitability*, (3rd Edition), Prentice Hall, in Chapter 4.

Sessions 5 & 6—Customer Analysis II: Psychological Value Concepts & Segmentation Case Thursday, May 20

The economic perspective implicitly assumes consumer choice process to be based on tangible attributes of product and service. However, in many cases intangibles, such as brands, may have the greatest impact on consumers' choice. In the first half of this session we will discuss the role of brands in consumers' evaluation of products. In the second half we will discuss segmentation, a simple idea that arises from the fact that consumers have different preferences. We will use the Jones Blair case to illustrate the importance of careful segmentation and targeting of customer markets.

Case: Jones Blair Company

Jones Blair Company (JBC) markets paints and related products. The company is facing flat demand and increasing competition, making it very vulnerable in the future. Company executives are debating where and how to deploy resources among the various trade paint segments served by JBC.

Discussion Questions:

1. Given the characteristics of the paint industry, how would you segment JBC's market area.
2. Which segments represent opportunities for JBC and why?
3. What strategy should JBC adopt to reach the segment(s) sought?

Readings: "The case for brands," *The Economist*, September 8, 2001, page 11. The author argues that brands are valuable to a company while they give power to consumers in the marketplace.

Aaker, David, "What is Brand Equity?" *Building Strong Brands*, New York: Free Press, 1996, Chapter 1. This chapter from a book highlights the role of brands in creating value for the firm. It also briefly describes various components of brand equity and how to manage them.

"A Segmentation You Can Act On." A good way to segment customers is based on their differences in needs or preferences (e.g., price sensitive or price insensitive customers). However, it is not always easy to identify these segments. This article discusses this dilemma and presents some methods to resolve it.

Sessions 7 & 8—Customer Analysis III: Functional Value Concepts and Competitive Analysis Case

Friday, May 21

A product is a bundle of attributes. In many cases, when customers buy a product (e.g., a computer)

they evaluate it on its attributes (e.g., hard disk, memory etc.). In this session we will discuss multi-attribute models of customer value and discuss possible deviations from the use of such models. In the second half of class, we will discuss competitive analysis including the creation of perceptual maps and illustrate competitive games using the American Airlines case.

Case: American Airlines' Value Pricing (A)

In April 1992 American Airlines (AA) launched "Value Pricing" in an attempt to simplify the pricing structure of the airline industry. AA expected that this plan will benefit not only the customers but AA and the entire airline industry. However, there were uncertainties about how competitors will react to AA decision and whether or not this pricing policy will become the mainstay of the airline industry.

Discussion Questions:

1. What is "Value Pricing" and why did AA introduce it?
2. What results did AA expect from this plan? What are the implicit assumptions in these estimates?
3. What is the likely reaction of each of the competitors? In the face of the likely competitive reaction, what should AA do?

Readings: Belksy, Gary, "To Understand Your Customers, You Have to Know How They Think," *America's Community Banker*, October 1999, 23-26. In this excerpt from a popular book, Belksy enumerates many ways that peoples' behavior differ from that you might expect. While he focuses on banking, the lessons apply to most contexts. As you read the article, you might ask yourself how they apply in industries that interest you.

B. Developing Marketing Strategy

Sessions 9 & 10—Objectives, Strategy and Metrics Friday, June 11

The analysis of the industry, customers, competitors, and company's own strengths and weaknesses provide a good basis for a company to set its objectives and choose among various strategic options available to it. In this session, we will discuss and illustrate some of these issues as well as the role of marketing metrics in assessing the effectiveness of one's strategy. We will hear an industry perspective on marketing from a guest speaker in the second half of this session

Readings: "Marketing Strategy – An Overview". This article provides an excellent overview of the process of formulating marketing strategy.

Sessions 11 & 12—Customer Acquisition and Retention Strategies Saturday, June 12

In this session we will discuss customer acquisition and retention strategies with special emphasis on the concept of lifetime value of customers. We will discuss why firms should focus on lifetime value of customers, how it affects firm profits and long-term value. In the second half of the session, we will discuss a case that incorporates several marketing decisions that we have discussed so far.

Case: Citibank: Launching the Credit Card in Asia Pacific (A)

Rana Talwar, head of Citibank's Asia Pacific Consumer Bank, was considering the launch of a credit card in several Asia Pacific markets. If the credit cards were to be launched, Talwar had to decide which countries to enter first, which target segments to focus and what positioning strategy to adopt.

Discussion Questions:

1. Should Citibank launch the credit card? Why or why not?
2. If Citibank decides to launch the credit card, which countries should it enter first? Which countries it should avoid?
3. Which target market should it focus on? How should the card be positioned?
4. If you chose not to introduce the card, what would you do to achieve the \$100 million earning target by 1990?

Readings: Gupta, Sunil and Donald R. Lehmann, "Customers as Assets," *Journal of Interactive Marketing*, Winter 2002, 9-24. The authors introduce the concepts of customer acquisition and retention and they explain how to measure and use lifetime value for managerial decision-making.

Fry, Jason, "Web Shoppers' Loyalty Isn't So Crazy After All," *Wall Street Journal*, August 13, 2001. Is the competition only a click away? This article describes how the web does and does not affect competition.

Reichheld, Frederick F. and W. Earl Sasser, Jr., "Zero Defection: Quality Comes to Service," *Harvard Business Review*, September-October 1990, pages 2-8. This article emphasizes the importance of retaining customers and its impact on customers' lifetime value and firm profits.

C. Managing Marketing Programs

Sessions 13 & 14-- Product Decisions I Friday, June 25

How do you develop new products and test them prior to launch? It is unfortunate that most new product introductions end in failure. Developing new products involves a synthesis of creativity and customer insight. But just how is this done? In this session we will consider how firms make product decisions through analysis of current new products. We will also consider tools used to assess the value that consumers place on the particular product attributes. Finally we will look at a simulated test market method used to assess market share prior to a product's launch. The second half of this session will be a presentation by a guest speaker on developing a marketing program.

Readings: "Product Development: A Customer Driven Approach." This note addresses the issues involved in product development and suggests how to improve the probability of a product's success.

"Researching and Monitoring Consumer Markets." This note focuses on research tools that can be used to support a go/no go decision on a full market introduction.

**Sessions 15 & 16---Product Decisions II and Pricing (including Ethics)
Saturday, June 26**

How do you decide what attributes to include in a new product and how might these decisions affect market share? A common technique commonly used for new product concept testing is conjoint analysis. This technique involves both methods of data collection and analysis. It has extensive use in industry in areas such as new product design and pricing. However it is also used with mature products to assess threats by potential competitors. We will explore this technique with real world examples as well as with data collected from the class.

The second half of the class will be a discussion of pricing including ethical issues in pricing. Pricing is one of the most critical decisions for a company. We will discuss both the strategic and tactical aspects of pricing and describe factors that affect pricing decisions. We will also discuss *ethical issues* in pricing.

Readings: Lipke, David J. "Product by Design," *American Demographics*, February 2001, 38-41. This article provides an overview of conjoint analysis and discusses how it has been used by several companies in new product design.

Vavra, Terry G., Paul E. Green, and Abba M. Krieger, "Evaluating EZ Pass," *Marketing Research*, Summer 1999, 5-13. The authors use conjoint analysis to illustrate how consumers accept the electronic toll collection system.

"Conjoint Analysis." This book chapter provides a detailed discussion of how to use conjoint analysis.

"Effective Contemporary Pricing Practices." This chapter provides a good overview of the complexities of pricing decisions. The authors highlight how businesses have made major pricing errors in trying to cope with these complexities.

"Ethical Issues in Pricing." This chapter discusses two classes of ethical issues in pricing – anticompetitive pricing and fairness in consumer pricing.

**Sessions 17 & 18—Communication Decisions I
Friday, July 9**

In this session we will discuss how to set communication objectives; how to select message strategy and execution tactics; and how to judge communication effectiveness. In the second half of this session, we will discuss the Mountain Dew Case. Come to class prepared to select three of the ads shown to Pepsi by BBDO and to justify your choices.

Case: Mountain Dew: Selecting New Creative

The case describes a creative meeting between senior managers at PepsiCo and BBDO during which new creative for Mountain Dew's 2000 advertising must be selected. A central goal of the new advertising was to keep the "Do the Dew" campaign fresh; to figure out a way to extend the campaign yet another year by evolving its communication elements. The brand team also had to worry about new entrants to the category, changes in the popular culture that appealed to its target, and the fact that the extreme sports that Mountain Dew had relied on had lost its edge in youth culture.

Discussion Questions:

- 1) Put yourself in the shoes of Scott Moffit and pick three ads to air the following year. Make sure you can justify your decision.
- 2) How should Moffit adjust his decision knowing that two of his ads will play on the Super Bowl?

Readings: "Communications Policy." This note describes how to design a consistent approach to communicate with customers .

Sessions 19 & 20—Communication Decisions II (including Ethics)
Saturday, July 24

In this session, we will discuss how to set an advertising budget including rules of thumb as well as more “scientific” methods. We will also introduce media terminology such as reach, frequency, and GRP’s and discuss how to develop an effective and efficient media plan. Finally, we will discuss *ethical issues* such as the use of subliminal advertising and deceptive advertising. In the second half of the session, we will discuss the Intel Inside CD-ROM case.

Case: Intel: A Multimedia Exercise in Advertising Management
This CD-ROM simulation focuses on Intel’s television advertising copy selection and budgeting decisions in the United Kingdom just before the introduction of the Pentium microprocessor. The key decision to be made is the choice of Intel’s advertising strategy for the first quarter of 1993. You will work on this case in your groups using the CD, which will be provided to you prior to this class session.

Discussion Questions :

1. What are Intel’s advertising objectives with respect to their market segment(s)?
2. What criteria should be used in evaluating the advertising (content and execution)? How do you interpret the advertising research results?
3. Which advertising copy should be used? Why? Should the Pentium be included in the TV advertising?

Readings: “Integrated Marketing Communications.” This note describes all major communication vehicles, including personal selling, media advertising, direct response advertising, consumer promotions and trade promotions.

Abraham, Magid M. and Leonard M. Lodish, “Getting the Most out of Advertising and Promotion,” *Harvard Business Review*, May-June 1990. Abraham and Lodish present a summary of their marketplace findings from split-cable experiments.

**Sessions 21 & 22—Distribution Decisions and Course Review
Friday, August 6**

Case: Rohm and Haas (A): New Product Marketing Strategy

In May 1984, Joan Macey, marketing manager of Rohm and Haas, was reviewing the performance of a recently launched biocide, Kathon MWX. Biocides are chemicals that kill microorganisms (such as bacteria) in metalworking fluids. This fluid is used by the metalworking industry in operations such as grinding and drilling. The fluid is directed onto the surface of the metal being machined to lubricate and cool the work piece and the machine tool, and to remove metal chips. A tray built into the workstation catches the chips, and the used fluid is filtered and returned to the tank for reuse. Kathon MWX was sold to customers in plastic packets. The packet was designed to hang into the metalworking fluid tank by a plastic hook. Despite the technical superiority of this new product, the market acceptance appeared poor.

Rohm and Haas also sold a more powerful biocide, Kathon 886 MW. While Kathon 886 MW was designed for large tanks with capacity over 1,000 gallons, the new product Kathon MWX was designed for tanks with a capacity of less than 1,000 gallons.

Discussion Questions:

Should Rohm and Haas support Kathon MWX, or should it withdraw this product from the market and concentrate its effort on the more successful product Kathon 886 MW ?

Regardless of your answer to question 1, if Rohm and Haas decides to support Kathon MWX, what marketing strategy should it adopt? (The case uses many technical terms. Don't worry about them too much. The product concept is very simple. It is a packet of chemical which is placed in a tank filled with fluid, in order to clean the tank.)

Readings: “Managing Marketing Channels.” This chapter addresses company decisions in designing, managing, and evaluating their channels.