

# SOLUTIONS MANUAL

2011 UPDATE

Boone & Kurtz

## Contemporary Marketing



## CHAPTER 2

# STRATEGIC PLANNING IN CONTEMPORARY MARKETING

### CHAPTER OVERVIEW

Today's marketers face strategic questions every day. Planning strategy is a critical part of their jobs. The marketplace changes continually in response to changes in consumer tastes and expectations, technological developments, competitors' actions, economic trends, and political and legal events, as well as product innovations and pressures from suppliers and distributors.

Although the causes of these changes often lie outside a marketer's control, effective planning can anticipate many of them. For example when the price of gas and jet fuel soared recently, travelers opted to stay close to home instead of enjoying vacations to exotic, faraway places. This represented an opportunity for places like Ocean City, Maryland, and Branson, Missouri. Any destinations that promoted itself to potential vacationers within a short drive could find itself adding up the profits.

This chapter talks about why marketers plan, what steps they take in developing strategies, and how these plans clarify direction in the entire marketing process. It lays a foundation for analyzing all aspects of marketing by demonstrating the importance of gathering reliable information to create an effective plan. These activities provide a structure for a firm to use its unique strengths. Marketing planning identifies the markets a company can best serve as well as the most appropriate mix of approaches to satisfy the customers in those markets. While this chapter focuses on planning, in later chapters the task of marketing research and decision making will be explored.

### Changes in the Updated Edition

The chapter has been updated and revised, with new features in several areas:

- **The Opening Vignette and Evolution of a Brand** discuss how Target evolved in 1962 as a brand, grew to 1500 stores in 47 states surviving competition from giants like Wal-Mart, world's largest retailer, which was started in the same year. Target's crisp red and white target logo being recognized by 97 percent of U.S. consumers explains the success of Target's strategic plan to be the store where consumers "expect more, [but] pay less." How Target is able to stick to its strategy, while at the same time emphasizing and implementing eco-friendly practices is discussed in "Target's Strategy: Low Prices, High Design, Green Practices."
- **Solving an Ethical Controversy** analyzes the case of mobile advertising as an invasion of privacy. Mobile advertising, known for high personalization, has high potential of acquiring a share of the consumers' mind. However, if marketers are not careful, it could backfire and negatively influence the consumer. Should there be tighter restrictions on advertising messages sent to individuals' phones? The pros and cons of this issue are discussed in "Ads on Smart Phones: Personalized Information or Privacy Invasion?"
- **Marketing Success** "Wrigley and Mars Concoct a Sweet Connection" describes the acquisition of chewing gum icon Wrigley by candymaker Mars. It illustrates how buy-outs or mergers can help companies to maintain their competitive edge, while enabling them to broaden their offerings and retain their core competencies. It discusses how the executives effectively handled the cultural issues post this transaction and also how the combined company became the second largest in the industry.

- **Etiquette Tips for Marketing Professionals** provides some simple guidelines to ensure the success of a conference over the phone or Internet. For details, refer to “Planning Virtual Meetings.”
- **Chapter Case 2.1 “Chrysler Retools for a Rebound”** features Chrysler’s plans to reboot itself by experimenting with new marketing media and strategies when majority of automakers are trying short-term tactics to attract buyers even as they refocus their long-term marketing strategies.
- **Collaborative Learning Exercises** are provided in several areas related to strategic planning and the marketing process—Planning Throughout the Organization, Defining the Organization’s Mission and Objectives, Strategic Planning, Formulating a Marketing Strategy, Promotion Strategy and Pricing Strategy, The Marketing Environment, and BCG Matrix.
- **Video Case 2.2 Synopsis** includes an overview of strategic planning and the marketing process at Recycline, the Massachusetts-based consumer products company.

### LECTURE OUTLINE

Opening Vignette and Evolution of a Brand— Target’s Strategy: Low Prices, High Design, Green Practices <i>provides details of Target’s strategic plan to be the store where consumers “expect more, [but] pay less.”</i>	
<b>Chapter Objective 1: Distinguish between strategic planning and tactical planning.</b>	
<b>Key Terms:</b> planning, marketing planning, strategic planning, tactical planning	
<b>PowerPoint Basic:</b> 2	
<b>PowerPoint Expanded:</b> 2, 3	
Etiquette Tips for Marketing Professionals— Planning Virtual Meetings. <i>Ask students to provide a few other suggestions to ensure that participants stay focused during virtual meetings.</i>	<ol style="list-style-type: none"> <li>1. Marketing planning: the basis for strategy and tactics                     <ol style="list-style-type: none"> <li>a. Definition of <u>planning</u>: the process of anticipating future events and conditions and then determining the best way to achieve organizational objectives</li> <li>b. Marketing planning                             <ol style="list-style-type: none"> <li>i. <u>Marketing planning</u> refers to implementing planning activities devoted to achieving marketing objectives</li> <li>ii. An important trend in marketing planning centers on relationship marketing</li> </ol> </li> <li>c. Good relationships with customers can arm a firm with vital strategic weapons</li> <li>d. Many companies now include relationship-building goals and strategies in their marketing plans, maintaining databases to track customer preferences</li> </ol> </li> <li>2. Strategic planning versus tactical planning                     <ol style="list-style-type: none"> <li>a. <u>Strategic planning</u> is defined as the process of determining an organization’s primary objectives and adopting courses of action that will achieve these objectives</li> <li>b. Strategic planning includes allocation of resources, and provides long-term directions for the decision makers</li> <li>c. <u>Tactical planning, a complementary approach to strategic planning</u>, guides the implementation of activities specified in the strategic plan</li> <li>d. It addresses shorter-term actions, focusing on activities that need to be completed so that larger strategies can be implemented</li> </ol> </li> </ol>

	<p><b>Assessment check questions</b></p> <p>1. Define planning. <i>Planning is the process of anticipating future events and conditions and of determining the best way to achieve organizational objectives.</i></p> <p>2. Give an example of strategic planning and tactical planning. <i>To survive in a challenging environment that includes soaring fuel costs, several airlines have decided to merge as part of their strategic planning. Tactical plans include cutting the number of flights and charging passengers extra for checked baggage.</i></p>
<p><b>Chapter Objective 2: Explain how marketing plans differ at various levels in an organization.</b></p> <p><b>Key Terms:</b> organizational levels</p> <p><b>PowerPoint Basic:</b> 3</p> <p><b>PowerPoint Expanded:</b> 4</p>	
<p>Table 2.1 Planning at Different Managerial Levels. <i>Which managers focus most on broad goals and long-term planning? Which managers focus most on planning for day-to-day tasks?</i></p> <p><i>Note: Discuss how two companies approached a similar problem differently, with different results. How Target and Kmart approached competing against Wal-Mart is one good example.</i></p>	<ol style="list-style-type: none"> <li>1. Planning at different organizational levels             <ol style="list-style-type: none"> <li>a. Managers at all <u>organizational levels</u> devote some of their attention to planning activities</li> <li>b. The amount of time spent on planning activities and the types of planning vary by organizational level</li> </ol> </li> <li>2. Top managers (CEO and functional vice-presidents)             <ol style="list-style-type: none"> <li>a. Spend more of their time on planning than do lower-level managers</li> <li>b. Usually focus more on strategic planning</li> </ol> </li> <li>3. Middle managers             <ol style="list-style-type: none"> <li>a. Tend to focus on operational planning, which includes creating and implementing tactical plans for their own departments</li> <li>b. Supervisors often develop specific programs to meet goals in their areas of responsibility</li> <li>c. To be most effective, the planning process includes input from a wide range of sources, including employees, suppliers and customers</li> </ol> </li> </ol> <p><b>Assessment check questions</b></p> <p>1. How do marketing plans vary at different levels of the organization? <i>Top managers usually focus their planning activities on long-range strategic issues. In contrast, middle-level managers focus on operational planning, which includes creating and implementing tactical plans for their own units. Supervisors develop specific programs to meet goals in their areas of responsibility.</i></p> <p>2. Why is it important to get input from others when planning? <i>Input from a variety of sources—other employees, suppliers, or customers—helps ensure that many ideas are considered. Involving those people in planning can also turn them into advocates for the plan.</i></p>
<p><b>Chapter Objective 3: Identify the steps in the marketing planning process.</b></p> <p><b>Key Terms:</b> mission, mission statement, objectives, marketing strategy</p> <p><b>PowerPoint Basic:</b> 4, 5</p> <p><b>PowerPoint Expanded:</b> 5, 6</p>	
<p>Figure 2.1 The</p>	<p>1. Steps in the marketing planning process</p>

<p>Marketing Planning Process. <i>Which step might be more difficult than it seems? Which step do you think can be easily overlooked?</i></p> <p><i>Note: Choose a couple of local organizations and use their mission statements as class examples</i></p> <p>Solving an Ethical Controversy: Ads on Smart Phones: Personalized Information or Privacy Invasion? <i>Do advertisements viewed as personalized by marketers invade privacy? Do you think the potential of mobile advertising will provide a competitive edge?</i></p>	<ol style="list-style-type: none"> <li>a. Define the mission</li> <li>b. Determine objectives</li> <li>c. Assess resources</li> <li>d. Evaluate environmental risks and opportunities</li> <li>e. Formulate a marketing strategy</li> <li>f. Implement the strategy through operating plans</li> <li>g. Gather feedback to monitor and adapt strategies when necessary</li> </ol> <p>2. Defining the organization's mission and objectives</p> <ol style="list-style-type: none"> <li>a. The organizational mission       <ol style="list-style-type: none"> <li>i. The <u>mission</u> is the essential purpose that differentiates the organization from others</li> <li>ii. The <u>mission statement</u> specifies the organization's overall goals and operational scope and provides general guidelines for future management actions</li> <li>iii. Adjustments made to mission statement reflects changing business environments and management philosophies</li> </ol> </li> <li>b. The organizational objectives       <ol style="list-style-type: none"> <li>i. The basic <u>objectives, or goals</u>, in a firm's mission statement guide the development of supporting marketing goals and plans</li> <li>ii. Objectives should state specific intentions and specify a time period for specific achievements</li> </ol> </li> </ol> <p>3. Assessing organizational resources and evaluating environmental risks and opportunities</p> <ol style="list-style-type: none"> <li>a. This consists of an assessment of an organization's strengths, weaknesses, and available opportunities</li> <li>b. Organizational resources include capabilities of the firm's production, marketing, finance, technology, and employees</li> <li>c. The environmental factors that affect marketing opportunities are discussed in chapter 3</li> </ol> <p>4. Formulating, implementing and monitoring a marketing strategy</p> <ol style="list-style-type: none"> <li>a. A <u>marketing strategy</u> is an overall, companywide program for selecting a target market and satisfying customers in that market through the elements in the marketing mix—product, distribution, promotion, and price</li> <li>b. The strategy must be monitored to ensure that objectives are being met</li> </ol> <p><b>Assessment check questions</b></p> <p>1. Distinguish between an organization's mission and its objectives. <i>The firm's mission is the essential purpose that differentiates the company from others. Its objectives guide development of supporting marketing objectives and plans. Avon's mission is to be "the company for women." One of its objectives might be convert all its packaging to recycled materials.</i></p> <p>2. What is the importance of the final step in the marketing planning process? <i>In the final step of the marketing planning process, managers monitor performance to ensure that objectives are achieved.</i></p>
<p><b>Chapter Objective 4: Describe successful planning tools and techniques, including Porter's Five Forces model, first and second mover strategies, SWOT analysis, and the strategic window.</b></p>	

**Key Terms:** sustainable competitive advantage, Porter's Five Forces, first mover strategy, second mover strategy, SWOT analysis, core competencies, strategic window

**PowerPoint Basic:** 6-8

**PowerPoint Expanded:** 7-11

Figure 2.2 Porter's Five Forces Model. Choose one of the forces and think of the ways it relates to a real-world marketing situation.

1. Successful strategies: tools and techniques
  - a. Four tools for marketing planning include Porter's Five Forces model, first and second mover strategies, SWOT analysis, and the strategic window
  - b. All of these planning strategies have the goal of creating a sustainable competitive advantage for a firm, meaning that other companies cannot provide the same value
2. Porter's Five Forces
  - a. Porter's Five Forces is a model which identifies five competitive forces that influence planning strategies
  - b. They are:
    - i. The threat of new entrants—is influenced by the cost and difficulty of entering a market
    - ii. Bargaining power of buyers—can influence the firm's strategy as customers can easily find alternate suppliers and do price comparisons and switch to a better supplier
    - iii. Bargaining power of suppliers—is influenced by the number and size of suppliers
    - iv. The threat of substitute products—can be either products from a competing firm or industry
    - v. Rivalry among competitors—all the above four factors influence rivalry
  - c. Issues such as cost and differentiation or lack of differentiation products influence strategies companies use to stand out from their competitors
3. First mover and second mover strategies
  - a. A first mover strategy advocates that a company that is first to offer a product will be the long-term market winner
  - b. A second mover strategy advocates close observation of the innovations of first movers and then improving on them to gain market advantage
4. SWOT analysis
  - a. SWOT analysis helps planners compare internal organizational strengths and weaknesses with external opportunities and threats
  - b. "SWOT" stands for strengths, weaknesses, opportunities, and threats
  - c. This is an important strategic planning tool
  - d. SWOT – strengths
    - i. A set of core competencies—what the organization does well
    - ii. Often consist of capabilities that customers value and competitors find difficult to duplicate
    - iii. Matching an internal strength with an external opportunity produces a situation known as leverage
  - e. SWOT – weaknesses
    - i. Environmental threats can attack an organization's weaknesses

Figure 2.3 SWOT Analysis. Think of a well-known product and its possible weaknesses and threats. Then consider its strengths and opportunities.

Marketing Success—Wrigley and Mars Concoct a Sweet Connection. Explain how mergers or acquisitions can enable firms to

<p><i>enhance their competitive edge while retaining their core competencies.</i></p> <p><i>Note: An example of a strategic window: During the extended period when HP and Compaq struggled to complete their merger, Dell Computer aggressively courted Compaq's large corporate customers trying to leverage Dell's strengths and take advantage of the confusion caused by the pending HP/Compaq merger.</i></p>	<ul style="list-style-type: none"> <li>ii. Planners must anticipate constraints when internal weaknesses or limitations prevent their organization from taking advantage of opportunities</li> </ul> <p>5. Strategic window</p> <ul style="list-style-type: none"> <li>a. The <u>strategic window</u> refers to the limited periods when key requirements of a market and the particular competencies of a firm best fit together</li> <li>b. The view through a strategic window shows planners a way to relate potential opportunities to a firm's capabilities</li> <li>c. It requires a thorough analysis of three elements:             <ul style="list-style-type: none"> <li>i. Current and projected external environmental conditions</li> <li>ii. Current and projected internal company capabilities</li> <li>iii. How, whether, and when the firm can reconcile conditions and capabilities in order to implement one of the strategies</li> </ul> </li> </ul> <p><b>Assessment check questions</b></p> <p>1. Briefly explain each of Porter's Five Forces. <i>Porter's Five Forces are the threats of potential new entrants, which increases competition in a market; bargaining power of buyers, which can depress prices; bargaining power of suppliers, which can increase cost or reduce selection; threat of substitute products, which can lure customers to other products; and rivalry among competitors, which can bring about price wars or divert companies from their main goals.</i></p> <p>2. What are the benefits and drawbacks of a first mover strategy? <i>The benefits of a first mover strategy include capturing the greatest market share and developing long-term relationships with customers. Disadvantages include the possibility that companies that follow can learn from mistakes by first movers. Apple has been a first mover with its iPod products.</i></p> <p>3. What are the four components of the SWOT analysis? What is a strategic window? <i>SWOT analysis helps planners compare internal organizational strengths and weaknesses with external opportunities and threats. SWOT is an acronym for strengths, weaknesses, opportunities, and threats. A strategic window defines the limited periods when the key requirements of a market and a firm's particular competencies best fit together.</i></p>
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**Chapter Objective 5: Identify the basic elements of a marketing strategy.**

**Key Terms:** target market, marketing mix, marketing mix variables, product, product strategy, distribution strategy, promotion strategy, integrated marketing communications, pricing strategy

**PowerPoint Basic:** 9

**PowerPoint Expanded:** 12-15

<p>Figure 2.4 Elements of a Marketing Strategy and Its Environmental Framework. <i>Discuss how each strategy reaches, persuades, and develops a relationship with buyers.</i></p>	<ul style="list-style-type: none"> <li>1. Elements of a marketing strategy             <ul style="list-style-type: none"> <li>a. An effective marketing strategy does several things:                 <ul style="list-style-type: none"> <li>i. It reaches the right buyers at the right time</li> <li>ii. It persuades them to buy the product</li> <li>iii. It develops a strong relationship with them over time</li> </ul> </li> <li>b. The basic elements of a marketing strategy consist of two concepts:                 <ul style="list-style-type: none"> <li>i. the target market</li> <li>ii. the marketing mix variables that combine to satisfy the needs of the target market</li> </ul> </li> </ul> </li> <li>2. The target market             <ul style="list-style-type: none"> <li>a. The <u>target market</u> is a group of consumers toward whom the firm</li> </ul> </li> </ul>
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<p><i>Note: Ask students to compare products of a company aimed at different target markets, in terms of the marketing mix variables. You could consider automobiles, computers, and mobiles as examples. For instance, laptops for students and laptops for business could be compared.</i></p>	<p>aims its marketing efforts, and ultimately its goods and services</p> <ol style="list-style-type: none"> <li>b. Diversity plays an ever-increasing role in targeting markets             <ol style="list-style-type: none"> <li>i. The Hispanic population in the United States has surpassed African Americans as the largest minority group</li> <li>ii. Many firms have begun to target Hispanic consumers</li> </ol> </li> </ol> <p>3. Marketing mix variables</p> <ol style="list-style-type: none"> <li>a. Marketing decisions can be divided into several variables or strategies which form the total package, called the <u>marketing mix</u></li> <li>b. The four <u>marketing mix variables</u> are product, distribution, promotion, and pricing strategies</li> <li>c. The marketing mix consists of a blend of these four variables to fit the needs and preferences of a specific target market</li> </ol> <p>4. Product strategy</p> <ol style="list-style-type: none"> <li>a. The term <u>product</u> means more than a good, service, or idea—it refers to a broad concept that also encompasses the satisfaction of all consumer needs in relation to a good, service, or idea</li> <li>b. So <u>product strategy</u> involves more than just deciding what goods or services the firm should offer</li> <li>c. It also includes decisions concerning customer service, package design, brand names, trademarks, patents, warranties, the life cycle of a product, product positioning, and new-product development</li> </ol>
<p><i>Note: Ask students for examples of companies that formed alliances as a distribution strategy.</i></p>	<p>5. Distribution strategy</p> <ol style="list-style-type: none"> <li>a. The concept of <u>distribution strategy</u> refers to the ways marketers ensure that consumers find products in the proper quantities at the right times and places</li> <li>b. Distribution decisions involve:             <ol style="list-style-type: none"> <li>i. Transportation modes</li> <li>ii. Warehousing</li> <li>iii. Inventory control</li> <li>iv. Order processing</li> <li>v. Selection of marketing channels including intermediaries</li> </ol> </li> <li>c. Technology has opened up new channels of distribution in many industries (an example is online selling)</li> </ol> <p>6. Promotion strategy</p> <ol style="list-style-type: none"> <li>a. <u>Promotion strategy</u> refers to the communications link between sellers and buyers</li> <li>b. In developing a promotion strategy, marketers blend the various elements of promotion to communicate most effectively with their target markets</li> <li>c. <u>Integrated marketing communication</u> coordinates all promotional activities so that the consumer receives a unified and consistent message</li> </ol> <p>7. Pricing strategy</p> <ol style="list-style-type: none"> <li>a. <u>Pricing strategy</u> deals with the methods of setting profitable and justifiable prices</li> <li>b. It is closely regulated and subject to considerable public scrutiny</li> <li>c. One factor that influences a marketer's pricing strategy is competition</li> </ol>



	<p><b>Assessment check questions</b></p> <p>1. What are the two components of every marketing strategy? <i>The basic elements of a marketing strategy are (1) the target market and (2) the marketing mix variables.</i></p> <p>2. Identify the four strategic elements of the marketing mix. <i>The marketing mix consists of product, distribution, promotion, and price strategies.</i></p>
<p><b>Chapter Objective 6: Describe the environmental characteristics that influence strategic decisions.</b></p> <p><b>Key Term:</b> rule of three</p> <p><b>PowerPoint Basic:</b> 10</p> <p><b>PowerPoint Expanded:</b> 16</p>	
	<ol style="list-style-type: none"> <li>1. The marketing environment             <ol style="list-style-type: none"> <li>a. Marketing decisions are not made in a vacuum</li> </ol> </li> <li>2. Marketers make decisions about target markets and marketing mix variables by taking into account the dynamic nature of these five dimensions of the marketing environment:             <ol style="list-style-type: none"> <li>a. Competitive</li> <li>b. Political-legal</li> <li>c. Economic</li> <li>d. Technological</li> <li>e. Social-cultural factors</li> </ol> </li> <li>3. Some recent trends in the marketing environment:             <ol style="list-style-type: none"> <li>a. Expanding into foreign markets</li> <li>b. Technology—especially the Internet</li> <li>c. The <u>rule of three</u> means that in any industry, the three strongest, most efficient companies dominate between 70 and 90 percent of the market</li> <li>d. The importance of understanding prevailing cultural norms—bidding for auction is an example</li> </ol> </li> </ol> <p><b>Assessment check questions</b></p> <p>1. What are the five dimensions of the marketing environment? <i>The five dimensions of the marketing environment are competitive, political-legal, economic, technological, and social-cultural factors.</i></p> <p>2. How does technology influence the marketing environment? <i>The Internet and other technological developments continuously alter how firms do business. And as technology forces these changes, other aspects of the environment must respond.</i></p>
<p><b>Chapter Objective 7: Describe the methods for marketing planning, including business portfolio analysis and the BCG matrix.</b></p> <p><b>Key Terms:</b> portfolio analysis, strategic business unit (SBU), category, market share, market share/market growth matrix (BCG matrix), stars, cash cows, question marks, dogs</p> <p><b>PowerPoint Basic:</b> 11, 12</p> <p><b>PowerPoint Expanded:</b> 17, 18</p>	
	<ol style="list-style-type: none"> <li>1. Methods for marketing planning             <ol style="list-style-type: none"> <li>a. Many firms have developed planning methods to help with marketing decisions</li> </ol> </li> </ol>

<p>Figure 2.5 BCG Market Share/Market Growth Matrix. <i>Think of a past or present product or service, a well-known business, or even a broad industry that might fit into each quadrant.</i></p>	<ul style="list-style-type: none"> <li>b. Two of these types of methods: the strategic business unit concept, and the market share/market growth matrix</li> </ul> <p>2. Business portfolio analysis</p> <ul style="list-style-type: none"> <li>a. Managers at large firms need a method for spotting product lines that deserve greater investment as well as lines that aren't living up to expectations</li> <li>b. <u>Portfolio analysis</u> attempts to evaluate products and determine the strongest and weakest</li> <li>c. Strategic business units <ul style="list-style-type: none"> <li>i. A <u>strategic business unit</u> (SBU) is a key business element within a diversified firm</li> <li>ii. Each SBU has its own managers, resources, objectives, and competitors</li> <li>iii. Divisions, products lines, or even a single product may constitute a strategic business unit</li> <li>iv. An SBU, also called a <u>category</u>, focus attention of company managers so that they can respond effectively to changes within limited markets</li> </ul> </li> </ul> <p>3. Market share/market growth matrix (BCG matrix)</p> <ul style="list-style-type: none"> <li>a. The <u>market share/market growth matrix</u> (or <u>BCG matrix</u>) places SBUs in a four-quadrant chart that plots market share—the percentage of a market that a firm controls—against market growth potential</li> <li>b. The quadrants are labeled <i>stars</i>, <i>cash cows</i>, <i>question marks</i>, and <i>dogs</i></li> <li>c. Each of the four quadrants requires a unique marketing strategy</li> <li>d. Stars: <ul style="list-style-type: none"> <li>i. <u>Stars</u> represent units with high market shares in high-growth markets</li> <li>ii. They generate considerable income, but require even more cash to finance further growth</li> </ul> </li> <li>e. Cash cows: <ul style="list-style-type: none"> <li>i. <u>Cash cows</u> have high market shares in low-growth markets</li> <li>ii. Focus is to maintain this status for as long as possible</li> <li>iii. The business produces strong cash flows, which could be used to finance growth of other SBUs with high potential</li> </ul> </li> <li>f. Question marks: <ul style="list-style-type: none"> <li>i. <u>Question marks</u> achieve low market shares in high-growth markets</li> <li>ii. Marketers must decide whether to continue supporting these products or businesses</li> <li>iii. They require more investment than they generate in cash</li> </ul> </li> <li>g. Dogs: <ul style="list-style-type: none"> <li>i. <u>Dogs</u> manage low market shares in low-growth markets</li> <li>ii. Since they promise poor future, marketers should consider withdrawing from these markets as quickly as possible</li> </ul> </li> </ul> <p>4. Strategic Implications of Marketing in the 21st Century</p> <ul style="list-style-type: none"> <li>a. Planning is vital to sustain to gain a competitive advantage in today's global marketplace</li> <li>b. Marketers need to plan when to enter a market, differentiate between a star and a dog, and take suitable actions</li> </ul>
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**Assessment check questions**

1. What are SBUs? *Strategic business units (SBUs) are key business units within diversified firms. Each SBU has its own managers, resources, objectives, and competitors.*
2. Identify the four quadrants in the BCG matrix. *The BCG matrix labels SBUs stars, cash cows, question marks, and dogs. Stars are the products with high market shares in high-growth markets; cash cows command high market shares in low-growth markets; question marks achieve low market shares in high-growth markets; and dogs manage only low market shares in low-growth markets.*

**ANSWERS AND TEACHING NOTES TO CHAPTER EXERCISES****Chapter 2 Assurance of Learning Review**

1. State whether each of the following illustrates strategic or tactical planning:
  - a. China decides to enter the U.S. auto market.—*strategic planning*
  - b. A local take-out restaurant decides to add more tables for eat-in dining.—*tactical planning.*

2. Imagine that you had a chance to interview the CEO and COO of Apple. What types of questions might you ask about their planning? Now imagine that these two executives introduce you to a middle-level manager. In what kind of planning might you expect this manager to be involved?

*Student answers will vary. Questions will be focused on strategic planning. The senior executive may be quizzed about organization-wide objectives, fundamental strategies, long-term plans for existing and new products, new business lines, possible plans for inorganic growth, total budget etc.*

*Middle managers deal with short-term operational planning that addresses action and focuses on current and upcoming activities in support of the overall strategic planning laid out by company executives. They set these plans in motion by developing quarterly and semi-annual plans, policies and procedures, and divisional budgets. (Example: middle managers of the same large department store chain review the budget and develop plans for ordering inventory, hiring new staff, and opening various departments at new locations.)*

3. What is the difference between a firm's mission and its objectives?

*A firm's mission is the essential purpose and philosophy that differentiates it from other companies. A firm's objectives are its organizational goals, including specific intentions that guide development of marketing objectives and plans, often stated in the company's mission statement.*

4. Define marketing strategy. Give an example of a marketing strategy practiced by a company whose products you know well.

*Marketing strategy is a firm's broad program for selecting a particular target market and then satisfying consumers in that market. This is done through a careful blending of elements of the marketing mix—product, distribution, promotion, and price—each of which is a subset of the overall marketing strategy. Students should provide an example of a marketing strategy practiced by a company whose products they are closely familiar with.*

5. Over which of Porter's Five Forces do consumers have the greatest influence?

*The greatest influence comes from the bargaining power of buyers and the threat of substitutes.*

6. What are the advantages of the first-mover strategy? The second-mover strategy? What are the drawbacks of each?

*First mover strategy attempts to capture the greatest market share and develop long-term relationships by being the first to enter the market with a good or service. It has its own set of risks. The first mover often has the responsibility of developing the new market, something that later entrants can leverage. Second-movers, or companies that follow, can learn from mistakes by first movers. They can closely observe the innovations of first movers and improve on them to gain advantage in the marketplace. However, second movers may find themselves facing a firmly-entrenched player with a formidable market share, forcing them to be “also-rans” in the race for consumer attention.*

7. When using the strategic window, what three factors must marketers analyze?

*They need to look at the current and projected external environment; the current and projected internal company capabilities; also how, whether, and when the firm can feasibility reconcile environmental conditions and company capabilities.*

8. Why is identifying a target market so important to a company?

*The target market is the group of people toward whom the firm decides to direct its marketing effort and ultimately its merchandise. It is important because the target market ultimately defines exactly where, and to whom, the firm will direct its goods and services. Though the idea of dividing markets into segments is also critical to success, the overall target market must be understood in order to have a clear idea of who the broad base of potential customers are, what they want, and what a company can do to provide it.*

9. Give an example of each of the four strategies in the marketing mix.

*The marketing mix is a blend of multiple variables that can be categorized into four strategies: product, price, distribution, and promotion. One example: Dell Computer is a direct seller (distribution) of personal computers (product) which follows a competitive pricing strategy (price) and communicates its message (promotion) using a mix of advertising media through television, radio, print, and online ads.*

10. What is the rule of three? How might marketers at a small firm actually use that rule to gain competitive ground in their industry?

*The rule of three rule means that in any industry, the three strongest, most efficient companies dominate between 70 and 90 percent of the market. Trying to enter that kind of market is difficult, especially for a small company with limited resources. Some strategies include lower prices (greater value) or new features; or higher levels of customer service.*

11. What is a portfolio analysis? What purpose does it serve for marketers?

*The business portfolio analysis evaluates a company's products and divisions, including strategic business units (SBUs) in order to determine which are strongest and which are weakest.*

12. Describe the characteristics of each of the four quadrants in the BCG matrix.

*The market share/market growth matrix places the firm's market share on one axis and the market's growth potential on the other axis. The resulting four quadrants are labeled: stars (high market share,*

*high-growth market), cash cows (high market share, low-growth market), question marks (low market share, high-growth market), and dogs (low market share, low-growth market).*

### **Projects and Teamwork Exercises**

- 1. When students choose a company whose goods and services are familiar to them and create a mission statement, they might start with companies they particularly admire and check their Web sites for mission statement ideas. When formulating a mission statement, they should make sure that the company's overall broad objectives are spelled out, its philosophy is stated, and its intentions are listed in a clear-cut and straightforward way.*
- 2. Students may want to begin by viewing the Web sites of the business they selected. They should identify how technology affects its marketing strategy—how the firm uses technology and how technology might affect its marketing environment. They should try to predict how technology will affect the firm's marketing strategy over the next five years.*
- 3. "SWOT" stands for strengths, weaknesses, opportunities, and threat—so a SWOT analysis looks at internal strengths and weaknesses and compares them with external opportunities and threats. To create their own SWOT analysis, students should begin by brainstorming the four categories and coming up with four lists. Then they can review the traits they've listed. They might start with the "bad news" first by looking at their weaknesses and the threats out there that might take advantage of these. Point out that they can limit their weak tendencies by anticipating what might hit them—thereby protecting themselves and reducing the chance of outside forces hurting them. Next they can turn to the "good news" and look at the positive side. What are their core competencies (what are they good at)? What opportunities do they see out there? Remind them that they can match one of their internal strengths to an opportunity, creating some leverage for themselves. What have they learned about their own qualities and shortcomings in planning for their future through SWOT?*
- 4. In creating marketing strategies, a firm decides to direct its efforts toward a particular group of consumers called a target market. Students will need to narrow their marketing strategy to fit certain specific groups of people, keeping in mind demographics, geographical location, lifestyle, etc. Remind them that their proposed marketing strategy should have three elements—it should reach the right buyers at the right time, persuade them to buy the product, and lead to strong customer relationships over time.*
- 5. Have students share the two ads created for a chosen company's products or product lines. Remind them that one ad should highlight the product itself—in some way stressing its features, packaging, or brand name. How can they get the word out about the unique traits of this product? What is unusual or eye-catching about the product that can be played up in an ad? The second ad should focus on pricing. How can price, value, quality, or other features be presented in a way that will encourage potential buyers to notice the product and consider purchasing it? After the demonstrations, start a class discussion on which ads were most effective in informing and persuading.*

### **Critical-Thinking Exercises**

- 1. Suppose you are a marketer for a U.S. toy manufacturer. Two top executives have proposed getting into an entirely different field—pet supplies. What are the potential benefits and drawbacks if your firm strays from its core competencies? How would you advise your company to proceed?*

*A company's strengths reflect its core competencies—what it does well. They are capabilities that customers value and competitors find difficult to duplicate. Straying from core competencies may have potential rewards, such as expanding into more attractive markets, but is also risky.*

2. Netflix has made thousands of streaming videos available to its unlimited subscribers. How does this strategy demonstrate a strategic window for the company?

*The view through a strategic window shows planners a way to relate potential opportunities to company capabilities. Netflix is in a unique position because unlike previous leaders in the movie rental business, it delivers movies and TV series directly to PCs via the Internet. A new system, introduced by the company will allow them to sidestep computers and deliver movies directly to television sets.*

3. Describe a consumer product that you think is particularly vulnerable to substitution. If you were a marketer for that product, what steps might you take to defend your product's position?

*This exercise asks students for an opinion but suggest that students think about products they use. Defending a product from competition might include adding features, improving product quality, or lowering prices.*

4. Research a company such as L.L. Bean or General Mills that has a number of different successful SBUs. What factors do you think make these units—and this company—successful from a marketing standpoint?

*Student answers may vary. To evaluate each of their organization's strategic business units, students could use the market share/market growth matrix developed by the Boston Consulting Group. Discussion could also focus on how the selected company manages its SBUs.*

5. Suppose you were a marketer for a small, regional airline. Taking into consideration both the rule of three and rapidly rising fuel costs, what type of marketing strategy would you select, and why?

*The "rule of three" posits that in any industry, the three strongest, most efficient companies dominate between 70 and 90 percent of the market. Trying to enter that kind of market is difficult, especially for a small company with limited resources. Some strategies include lower prices (greater value); hedging fuel purchases; or new features. In addition to the airline industry, described in the text, have students think about the banking industry.*

### **Ethics Exercises**

Suppose you are hired as a marketer for a firm that sells bottled water. The firm's mission is "to provide the water that everyone drinks." One of its stated objectives is to reduce the amount of plastic used in its bottles. This is also part of the firm's tactical planning. But the information given to you by the design and engineering department clearly shows that they have not yet found a cost-effective way to achieve this. Still, you are being pressured to advertise the bottles as being eco-friendly.

1. Would you show the design information to your manager, then proceed as instructed?

2. Would you alert any outside sources about the situation? Why or why not?

*The exercise raises some important issues and students may come up with contradicting opinions. Many will feel as though an employee should never hesitate to discuss concerns about perceived firm weaknesses with his or her management. If it's done in the right way, many companies value this kind of input. The exercise also opens a discussion on the practice of whistle-blowing.*

### **Internet Exercises**

1. **BCG matrix.** Visit the Web site of Procter & Gamble (<http://www.pg.com>). Select five product lines and classify each in the BCG matrix. Justify your classifications.

Use the products link on [pg.com](http://pg.com) home page to identify the product lines. While identifying product lines is relatively easy, classifying the divisions in terms of market attractiveness and business strengths is much more difficult—and subjective. Additional insight (beyond the company Web site) will likely be necessary.

**2. Strategic versus tactical planning.** Review the chapter material on the differences between strategic and tactical planning. Visit the Web site of a large retailer such as Home Depot, Target, or Costco. Review the company's expansion plans, both domestic and international. Were decisions regarding expansion a result of strategic planning, tactical planning, or a combination of the two? Be prepared to defend your conclusions.

*Review the chapter material on the differences between strategic and tactical planning. Some plans can be argued as being strategic plans. However, they could also be considered tactical plans because they support the overall strategic plans being pursued by these organizations.*

**3. Divestitures.** Occasionally companies sell individual products, or even entire product lines, to other companies. Two recent examples are Pfizer selling its consumer health products to Johnson & Johnson, and Cadbury Schweppes divesting its soft-drinks business. Using Google or another Internet search engine, find another recent product sale. Using business portfolio analysis or the BCG matrix, prepare a brief report discussing why the seller sold the product and why the buyer purchased it.

*News sites and the Web sites of the companies involved may yield information necessary to answer this question. Students should have no trouble identifying examples. Recent examples include ING Group divesting its insurance arm, AIG divesting its Personal Auto Insurance Business division, and Circuit City selling its online assets.*

### Case 2.1 Chrysler Retools for a Rebound— Questions for Critical Thinking

1. Describe the difference between Chrysler's strategic plans and its tactics. Should both have the same objective? Why or why not?

*Automakers like Chrysler are trying short-term tactics to attract buyers even as they refocus their long-term marketing strategies. Strategic planning is complemented by tactical planning, which guides the implementation of activities specified in the strategic plan. Unlike strategic plans, tactical plans typically address shorter-term actions that focus on current and near-future activities that a firm must complete to implement its larger strategies.*

2. Chrysler's motto is, "If you Dream It, We Can Build It." In what ways can the firm use strategic planning to reflect this mission?

*Student answers may vary. It could use strategic planning to build environment friendly hybrid cars that do not compromise performance, develop energy efficient vehicles, use innovative marketing programs like the \$2.99 per gallon plan to build customer loyalty, and use technology to precisely reach its target markets.*

## COLLABORATIVE LEARNING EXERCISES

### Planning Throughout the Organization

**Purpose:**

To highlight a key challenge in gathering information for strategic planning

**Background:**

Research clearly states that when your entire organization gathers and shares information, the planning process is more effective and better integrated into the organizational culture. But the best way to achieve full employee participation is much less clear. This exercise is designed to help students explore potential approaches to achieve more widespread information sharing.

**Relationship to Text:**

Planning at Different Organizational Levels

**Estimated Class Time:**

About 10 to 15 minutes

**Preparation/Materials**

None needed

**Exercise:**

Ask your class why they think it is so difficult to achieve a free flow of information and ideas in most companies. As they share their thoughts, you may want to point out that money isn't always the answer; in fact, offering money in exchange for ideas can spawn a counterproductive, competitive dynamic among employees at all levels. Ironically, technology doesn't always help either. Joseph Priestley, a pioneer of modern science, summed up a common issue by observing, "The more elaborate our means of communication, the less we communicate."

After a brief discussion, break your class into small teams and give about five minutes to brainstorm possible solutions. When you reconvene as a class, ask each group to share their best idea (possibilities usually range from hosting weekly planning lunches with all employees, to engaging Intranet approaches, to raising overall pay). This often leads to a helpful and spontaneous discussion about which method works best in which situation, and why.

**Questions for Reflection:**

- How does planning connect to corporate culture?
- Is employee participation likely to become more or less important as our economy evolves? Why?

### Defining the Organization's Mission and Objectives

**Purpose:**

To give students a personal perspective on mission statements

**Background:**

This exercise is designed to explore and articulate their personal "mission statements." Typically it is both interesting and inspiring, and helps students understand how organizations use their mission statements to differentiate themselves and to guide their decision-making at a more visceral level.



**Relationship to Text:**

Defining the Organization's Mission and Objectives

**Estimated Class Time:**

About 10 minutes

**Preparation/Materials:**

Each student will need paper and a pencil or pen.

**Exercise:**

Ask each student to spend a few moments writing a personal mission statement for his or her life. For the discussion to be effective, avoid providing many cues. You can let the discussion progress on its own and intervene to provide a direction when students get stuck. After about five minutes, ask for volunteers to share their statements. If no one volunteers, start by calling on a few people who tend to be articulate in class. The results can be staggering. And the discussion is typically spontaneous and lively—but if not, ask students to identify similarities and differences in their statements, possibly across gender, age, hometown, college major, or other demographic traits and lifestyle characteristics. What do their statements say about ethics, values, and locus of control? How do their personal missions influence their actions and decisions on a day-to-day basis? You may want to close by calling their attention to the obvious parallels between personal and organizational missions.

**Questions for Reflection:**

- What are the characteristics of a strong mission statement? (You might want to precede this question with some examples of corporate mission statements. Some possibilities: Merck—to preserve and improve human life; Mary Kay—to give unlimited opportunities for women.)
- Extend the exercise by asking each student to do a personal SWOT analysis, the logical next step in strategic planning.

**Strategic Planning****Purpose:**

To give your students hands-on experience with basic strategic planning for a very familiar entity—themselves!

**Background:**

Attempting to implement strategic planning, students often struggle to find the balance between an approach that's too narrow and an approach that's too broad. This exercise is designed to help students achieve the right balance by examining their personal strategic plans and zeroing in on both wide-range and detailed issues (while receiving some unexpected guidance from their peers about their careers).

**Relationship to Text:**

Strategic Planning

**Estimated Class Time:**

About 15 minutes

**Preparation/Materials:**

Each student will need paper and a pencil or pen

**Exercise:**

Ask students to write down a brief strategic mission statement for their careers, looking at the five-year horizon. From a professional standpoint, what do they aspire to be? Collect the papers, shuffle them, and redistribute them to the class. Ask each student to write a five-point strategic plan for the person whose paper he or she received. Each point in the plan should be no more than a sentence or two. Remind the class to be sure that all of their points are specific and measurable, and most importantly, will bring the student closer to the overall strategic goal. After about ten minutes, call on a handful of students and ask them to share their classmate's goal and the five-step plan that they created.

Questions for Reflection:

- Was it easy or hard to write the plan? Why? Where did they have problems?
- How could a strategic plan help develop your career? Why?
- How does developing a personal strategic plan compare to developing a business strategic plan?

### Formulating a Marketing Strategy

Purpose:

To help students explore strategic solutions for a contemporary marketing issue

Background:

Not surprisingly, fast-food restaurants are feeling under siege. Recent studies are highlighting health hazards across the U.S. and citing rampant obesity, child obesity, the dangers of trans fats, and more. As low-carb diets became popular, retail sales of french fries—a staple of fast-food restaurants—plummeted, dropping 2.9% in 2001, 3.3% in 2002, and 10% in 2003 ([www.whybiotech.com](http://www.whybiotech.com)). From a PR perspective, the documentary *Super Size Me* fanned the flames. This exercise is designed to help students explore potential solutions—and ethical implications—for this strategic challenge from the fast-food industry perspective.

Relationship to Text:

Formulating, Implementing, and Monitoring a Marketing Strategy

Estimated Class Time:

About 20 to 25 minutes

Preparation/Materials:

You may want to copy the background and the case situation for each student.

Exercise:

Divide your class into small groups and share with them the following case. Situation: You and your teammates are partners in the ownership of a medium-sized fast-food chain in the Midwest. You own 41 outlets, most of them in small towns. The mainstay of your menu is hamburgers and french fries, although you also offer a couple of sandwiches, chips, soft-serve ice cream, and sodas. Your most important customers are men aged 18-34 (they account for about 20 percent of your customers and about 55 percent of your sales), but since restaurant options are limited in most of the towns where you operate, you serve customers across a wide demographic range. Sales in the past two years have been dropping at an accelerating rate. You have to meet with your partners to discuss potential solutions. Give your class about 10 minutes to brainstorm options. Encourage them to consider all the possibilities including doing nothing (“This will all blow over ...”). Then, direct each group to choose their best option, and to identify the potential risks and benefits (e.g., if they made changes to attract new customers, will they alienate their current

customers?). Reconvene as a class, and ask each group to report briefly to their peers. Which solution does the class like best? Why?

Questions for Reflection:

- What additional information do you need to formulate the best solution?
- What are the ethical implications of each choice?
- Should your personal perspective play a role in your strategic decision making? Why or why not? (You may want to preface this question by asking how many of your students eat fast food more than once a week.)

## **Promotion Strategy and Pricing Strategy**

Purpose:

To explore the relationship between the promotional and pricing strategies

Background:

Clearly, all elements of the marketing mix are interrelated, so this exercise is designed to highlight the links between promotion and pricing.

Relationship to Text:

Promotion Strategy and Pricing Strategy

Estimated Class Time:

About 15 minutes

Preparation/Materials:

Each student needs to have unlined paper and a pencil or pen

Exercise\*:

Break your class into small groups. Ask each group to choose a good or a service that they all know and like, and to create two ads for that product: one that focuses on price, the other on the features and benefits of the product itself. (They can do print, radio, TV, or Internet ads, as long as both ads are designed for the same media.) Let them know upfront that they'll need to present their ads to the class. When the teams present their ads, conduct a quick vote to see which ad the class liked better for each product. Keep a tally on the board showing each of the products and the winning type of ad. Results will vary significantly based on the product categories (and, of course, the creativity of the students). Follow-up discussion can be interesting, surprising, and fun. What type of ads worked best, and why? How did the product category and price affect the promotional strategy? Does the broader market reflect the findings of the class? Why or why not?

Questions for Reflection:

- What factors should a company consider when developing their pricing strategies?
- What about their promotional strategies? Why?

\*This exercise was adapted from the text.

## **The Marketing Environment**

Purpose:

To highlight the importance of the marketing environment

**Background:**

This quick, discussion-based exercise is designed to help students better understand the impact of the external environment on marketing decisions

**Relationship to Text:**

The Marketing Environment

**Estimated Class Time:**

About 10 minutes

**Materials/Preparation:**

None needed

**Exercise:**

Choose a branded product that your students seem to all know and enjoy. Higher-end products, such as an Apple iPod or a Burton snowboard seem to work especially well for this exercise. Guide your students in a discussion of how each element of the external environment—competitive, political-legal, economic, technological, and social-cultural—could influence the success of their product over the next five years. Encourage them to consider factors beyond the obvious (e.g., the emerging development of year-round snow-makers, or virtual reality snowboarding games). As you develop your list, you may want to also remind them that a marketer cannot control the external environment, but he or she must respond to it effectively.

**Questions for Reflection:**

- Which element of the marketing environment is most important? Why? Would the answer be different for different product categories?
- Which elements have the most impact on a marketer's day-to-day decision-making? Which elements are likely to generate surprises? (You may want to point out how many companies were surprised by the bursting of the "dot-com" bubble in the 1990s.)
- What are effective ways to monitor the marketing environment on an ongoing basis?

**BCG Matrix****Purpose:**

To help students gain a fuller understanding of the BCG matrix as a planning tool

**Background:**

While the concept of the BCG matrix is straightforward, many students have trouble understanding how it applies to actual situations as an investment tool. This exercise is designed to foster a deeper understanding through a hands-on case study approach.

**Relationship to Text:**

BCG Matrix

**Estimated Class Time:**

About 25 minutes

**Materials/Preparation:**

None needed

**Exercise:**

Announce to your class that they will do a case study on the talent agency business (which most of them find more glamorous and exciting than it really is). Begin by brainstorming a list of movie stars, celebrities, and entertainers. Encourage the class to include a wide variety, from current box office draws, to over-the-hill talents, to emerging stars. Then, divide your students into small groups and tell them that each group represents a small talent agency. Their list includes the stars that you listed on the board. Give them each a hypothetical \$10 million to invest in marketing the personalities in their stable of stars, and direct them to use the BCG Matrix to make their investment choices. Ask each group to present their allocation and rationale in terms of the matrix. You will probably find that they were tempted to invest big dollars in their “cash cows,” which makes for an interesting discussion.

Questions for Reflection:

- What are the strengths and weaknesses of the BCG Matrix as a strategic planning tool?
- What kind of information do you need in order to use this tool most effectively?