

**The Wharton School  
University of Pennsylvania**

**MKTG 777: Marketing Strategy  
Fall 2010**

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## **Course objectives**

The purpose of this course is to deepen the understanding of *how marketing relates to the key issues in business strategy: choosing customers, defining and creating value, delivering and appropriating value, and sustaining value in against competitors*. The course does so by:

- Reinforcing fundamentals like segmentation, targeting, and positioning, and providing additional opportunities to apply commonly used analysis tools like perceptual mapping and Porter-type structural analysis of markets and industries.
- Providing a deeper treatment of some topics covered only briefly in MKTG 621/622. An example is the use of market response modeling to improve customer targeting and marketing mix resource allocation.
- Illustrating how marketing and business strategy interrelate. Examples include how marketing can be used to build barriers to entry, how marketing actions can affect the pattern of competition in an industry, and how marketing actions can slow or accelerate value migration dynamics.
- Discussing some topics at the intersection between marketing, business strategy, and organization design. An example is the functional unbundling of go-to-market systems.

The premise of this course is that second year MBA students have already been exposed to the key ideas of marketing strategy in the core courses in marketing (MKTG 621/622) and competitive strategy (MGMT 654). These include the benefits of being market oriented; the principles of segmentation, targeting, and positioning; product life cycle dynamics; the structural analysis of industries and markets; and the basis of a sustainable competitive advantage.

## **Learning methods**

Case discussions account for about half of the sessions.

There will be two problem sets and a short simulation exercise to help you gain more familiarity with and mastery of some quantitative tools.

You will also work in small teams on a topic of interest to you. You will present your insights in class at the end of the term, and also submit a written report about a week after that session. That delay will allow you to capitalize on the feedback from your fellow students in your final report.

## Target audience and prerequisites

“It is our duty not to start an engagement with clients that aren’t ready to be served”  
Marvin Bower, McKinsey & Co

This course is designed for second-year MBA students. MKTG 621, MKTG 622 and MGMT 654 are prerequisites. First-year MBA students who have obtained a waiver or substitution for MKTG 621, MKTG 622 and MGMT 654 are welcome to take the course.

## Grading

The final grade is based on the performance on various components:

Class participation	30%
Modeling assignments	25%
MarketSpace exercise	5%
Project presentation	15%
Project final report	25%

## Class participation

Class discussion should be a sizable part of the learning experience and I will grade you on constructive in-class participation. By constructive participation I do not mean “air time,” but comments and questions that help advance the understanding of the issue at hand. Specifically, the elements I will consider in grading class participation are:

Do you make insightful comments or ask thoughtful questions?

Do your comments and questions show evidence of assimilating and integrating the issue at hand with other concepts or your work experience?

Do you actually answer the question or help reframe/extend it in a useful way?

Posting questions and materials to webCafe can also contribute to everyone’s learning.

Feel free to stop by my office or send me email with questions. These can be questions for clarifications about discussion questions posted for a case, about readings, about assignments, etc. But if the question is likely to be of wider interest, please post it on webCafe. An example from several years ago is the following question raised by a student after we discussed a case on Dell and just before we discussed changes in retail brokerage: “Doesn’t Schwab in 1998 run the risk of making the same mistake that Dell made in 1992?”

Attending class is not the same as participating. So, you may come to each and every class (as you are expected to) and still end up with a low score for participation.

I cold-call, and may decide who to call on before class. Students have told me I have a low tolerance for BS comments. So, if you do not feel adequately prepared to participate in the discussion and do not want to be called upon, let me know before the beginning of class.

## Modeling assignments

As we go through the module on marketing mix modeling, you will receive two problem sets. These hands-on exercises give you the opportunity to apply the tools covered in class. You may complete these assignments in groups of up to 4 people. I recommend that you do work in groups, especially for the second assignment.

Unless I am informed otherwise, I will assume the workload was shared equally by the members of the group.

## Project

In the project, you can pursue in depth a marketing strategy topic that is of particular interest to you. Ideally, it combines desk research, interviews with executives or other primary research, and value-adding reflection or analysis. It can take several forms, including:

- Research briefing: What does the evidence say about a particular mantra or practice? Examples are:
  - Can firms really target influentials or “Is the Tipping Point Toast”? (<http://www.fastcompany.com/magazine/122/is-the-tipping-point-toast.html> )
  - Is the Net Promoter Score really related to business profits? Is it useful even if it does not? ([http://en.wikipedia.org/wiki/Net\\_Promoter](http://en.wikipedia.org/wiki/Net_Promoter) )
- Thought exercise: What are the implications of particular trends or recent finding? For example:
  - How can and should marketers capitalize on 2 or 3 of the tech-enabled business trends identified by McKinsey in August 2010? (<https://www.mckinseyquarterly.com/PDFDownload.aspx?ar=2647> )
  - Recent research in psychology and behavioral economics shows that, when it comes to choice, more is not always better. There are also differences between Americans vs. Europeans and Asians. (e.g., [http://www.ted.com/talks/sheena\\_ayengar\\_on\\_the\\_art\\_of\\_choosing.html](http://www.ted.com/talks/sheena_ayengar_on_the_art_of_choosing.html) ). What does these new findings mean for marketers? For instance, can they help explain why ALDI’s stores are different in the USA than in Europe? What do they imply for web-site morphing?
- Marketing challenges specific to a firm or industry you have good access to. Examples are:
  - How have marketers responded to the call for greater marketing accountability? It could be quite interesting to analyze how and why effective responses vary across firms or industries.
  - Pick an innovative business model and assess its growth and profit prospects. Consider whether it is offering a superior value proposition, how it captures the value, and how long the advantage can be sustained.
  - Design a strategy for responding to the entry of one or more low cost rivals into a market.

You will complete the assignments in groups of 3 to 4 people. You will present your work to the class at the end of the semester, and also submit a written report during the exam period (TBD). That delay will allow you to improve your work after the feedback from your fellow students on your presentation. The final report should be between 10 and 12 double-spaced pages, excluding any charts, graphs and figures.

Unless I am informed otherwise, I will assume the workload was shared equally by the members of the group

## Required materials

There is no textbook. A course packet of readings and case studies is available through Study.Net. Other materials will be distributed in class or through WebCafé. Wharton Repro may bill you for in-class handouts at the end of the semester.

## Office hours

I do not keep office hours at pre-determined, fixed times. Rather, since I come to the office almost every day, feel free to stop by at your convenience. However, it is more efficient for both of us if you first send me an email providing me with a few timeslots you could meet, so I can pick one and confirm the appointment. That way, you can be sure that sure I am not on an errand when you stop by.

## Topical Overview

1.	Sep.	9	Introduction: Marketing and business strategy
<b>A. Choosing customers and Creating value</b>			
2.	Sep.	14	Segmentation and targeting fundamentals: <i>Ford Ka</i>
3.	Sep.	16	Targeting the switchable customer using marketing analytics: <i>ABB Electric</i>
4.	Sep.	21	Positioning and branding within a brand architecture: <i>Diesel Jeans</i>
5.	Sep.	23	Positioning and branding—the anti-branding view: <i>Red Bull</i> and <i>Snapple</i>
6.	Sep.	28	Integration case: <i>L'Oréal Plénitude</i>
<b>B. Delivering and Capturing value</b>			
7.	Sep.	30	Marketing a systems product through partners: <i>Keurig at Home</i>
8.	Oct.	5	Hybrid channels & Franchising
9.	Oct.	7	Channel coordination: <i>Siebel</i>
<b>C. Marketing mix modeling to boost the Marketing ROI</b>			
10.	Oct.	14	Discussion of a promotion plan
11.	Oct.	19	Marketing mix modeling: Model specification and estimation
12.	Oct.	21	Marketing mix modeling: Optimization
<b>E. Social Networks and social media</b>			
13.	Oct.	26	Social networks and word-of-mouth marketing: What does the research say?
14.	Oct.	28	Social media and word-of-mouth marketing: <i>SheSpeaks</i>
15.	Nov.	2	Targeting B2B customers to accelerate product diffusion: <i>Documentum</i>
<b>D. Sustaining value against the competition</b>			
16.	Nov.	4	Introduction: <i>Kodak Funtime</i>
17.	Nov.	9	Proactive defense and barriers to entry: <i>Xerox</i>
18.	Nov.	11	Reactive defense: Debrief of <i>MarketSpace</i> exercise
19.	Nov.	16	Winning as a late entrant: Guest lecture by Mr. Ravi Chaturvedi
20.	Nov.	18	Managing competition: <i>RTE cereals industry</i>
21.	Nov.	23	Value migration dynamics
<b>F. Project Presentations</b>			
22.	Nov.	30	Presentations
23.	Dec..	2	Presentations
24.	Dec.	7	Presentations
25.	Dec.	9	Presentations

## Course Overview

### 1. Introduction: Marketing and the business strategy

This session provides an overview of the course content, learning methods, and administrative matters. It also provides a lecture on how marketing relates to the key issues in business strategy: choosing customers, defining and creating value, delivering and appropriating value, and sustaining value in against competitors

### 2. Segmentation and targeting fundamentals – *Ford Ka*

**Prepare** Ford Ka  
**Skim** Forsyth et al., “A segmentation you can act on”

In response to the changes in the European small car market, Ford decided to launch a second small car, the Ford Ka. The car has already been developed, the production capacity determined, and the launch set for October 1996 in France. Before Gilles Moynier can get to the specifics of the marketing strategy, he must decide who the target customer for the Ford Ka should be. This case focuses on the fundamental issues of market segmentation and target selection.

### 3. Targeting the switchable customer using marketing analytics

**Read** Slywotzky and Shapiro, “Leveraging to Beat the Odds: The New Marketing Mind-Set”  
**Optional** Gensch, Aversa, and Moore, “A Choice-Modeling Market Information System That Enabled ABB Electric to Expand Its Market Share” (pages 6-16 only)

Slywotzky and Shapiro propose to better map the segmentation and targeting decisions to the product life cycle. That idea will be illustrated in this class, and later on when we discuss word-of-mouth marketing. In the present class, we delve deeper into the turnaround story of ABB Electric. The lecture has two objectives: (1) Conveying the idea that focusing one’s resources on switchable customers is more efficient than focusing on loyals and (2) Introducing the multinomial logit model used very often in marketing analytics to understand what drives customer choice.

### 4. Positioning and branding within a brand architecture – *Diesel*

**Prepare** Diesel for Successful Living  
**Read** Aaker and Joachimsthaler, “The Brand Relationship Spectrum”

Diesel, the innovative Italian casual wear company, is pondering how to brand its new upscale line of clothing: StyleLab. The case focuses on the selection of the branding strategy for StyleLab: should it be an independent brand with no link to Diesel, a sub-brand of Diesel, or an independent brand endorsed by Diesel? The case also raises some critical issues in the marketing of fashion and luxury brands. In particular, it illustrates how Diesel has managed to grow without losing its core identity.

### 5. Positioning and branding—the anti-branding view – *Red Bull and Snapple*

**Prepare** Red Bull  
**Read** Deighton, “How Snapple Got Its Juice Back”

Red Bull and Snapple are two brands with a history of non-traditional marketing and an anti-establishment status. This has proven quite successful in the past but raises issues on whether the brands can successfully scale up. Do such brands need to transition to a more traditional marketing approach to grow further? And if so, can they do this without fundamentally destroying their anti-brand mystique? Can Red Bull learn from Snapple’s (mis-)adventures?

## 6. Integration case – *L'Oréal of Paris: Bringing "Class to Mass" with Plénitude*

**Prepare** L'Oréal Plénitude

L'Oréal's strategy is to "trickle down" technology over time from high-end outlets like department stores to mass markets, such as drugstores. The mass market skin care brand Plénitude has become the market leader in France but sales in the United States have been such that even eight years after introduction the product continues to lose money. The case presents rich market research data to enabling one to diagnose the problem and develop an action plan.

## 7. Marketing a systems product through partners – *Keurig at Home*

**Prepare** Keurig

The case describes the pricing and distribution challenges of launching a new product into an emerging market. Keurig is a small, privately held firm that relies on a network of partners to bring its product to market. It has established itself in the US as a pioneer and market leader in single-cup brewing systems for the office coffee segment. With success in the commercial market, Keurig is now poised to launch the brewing system in the consumer market. However, penetrating this new market poses several challenges. Not the least of them is how to market the system. Retail distribution is not feasible due to the current cost structure. The company has developed a direct marketing strategy with its partners, but will it work?

## 8. Hybrid channels & Franchising

**Read** Moriarty and Moran, "Managing Hybrid Marketing Systems." (focus on pp. 1-6)

**Read** Rubin, "The Theory of the Firm and the Structure of the Franchise Contract"

This lecture first refreshes your memory that channel functions can purposively be unbundled and assigned to separate media and players in the distribution network. Next, it dives into business format franchising, a hybrid go-to-market approach that has evolved over several decades from marketers' need to manage two fundamental issues in go-to-market strategy: finding out which marketing functions to "outsource" to downstream partners and findings ways to deal with the resulting coordination and incentive problems.

## 9. Channel coordination – *Siebel*

**Prepare** Siebel (A)

This case describes the early evolution of Siebel Systems, a sales force automation software company that later evolved into a CRM and e-business tools/solution provider and was acquired by Oracle for \$5.8 billion in late 2005. The case raises several issues surrounding the use of systems integrators as implementation partners and the relationship between systems implementation and the selling function. The case also presents a very tough trade-off between speed of growth and customer orientation.

## 10. Discussion of a promotion plan

**Read** Abraham and Lodish, "Getting the Most Out of Advertising and Promotion"

As marketers are increasingly under pressure to justify their budgets, they turn increasingly to analytical tools to understand how pricing and marketing communications decisions affect sales and ultimately profits. This session is the first of three devoted to marketing mix modeling. We start with a mini-case where you have to make a decision to approve a promotion plan or not.

## 11. Marketing mix modeling: Model specification and estimation

**Read** Lilien and Rangaswamy, “Tools for Marketing Engineering: Market Response Models.” (pp. 29-45 and 52-57 only)

This lecture shows how one can use simple models to quantify the impact of marketing decision variables on marketing outcomes. Model parameters are estimated using Excel Solver (though you can of course also use statistical packages).

## 12. Marketing mix modeling: Optimization

**Read** Sinha and Zoltners, “Sales-Force Decision Models: Insights from 25 Years of Implementation.”

**Read** Court, Gordon and Perrey, “Boosting returns on marketing investment”

This lecture shows how one can use estimated market response models to build profitability models, and how one can subsequently find the “optimal” marketing mix allocation (we’ll use Excel Solver). In the first reading, the founders of ZS Associates, a major marketing strategy consulting firm specializing in the pharmaceutical industry, reflect on their experiences with such models in the area of sales force management.

## 13. Social networks and word-of-mouth marketing: What does the research say?

Managers often make four key assumptions to justify their word-of-mouth marketing campaigns. This lecture reviews not only the theory but also some very recent research on word-of-mouth, and so provides guidance on deciding whether those assumptions actually hold in any specific situation.

## 14. Social media and word-of-mouth marketing – *SheSpeaks*

**Prepare** Word-of-Mouth Marketing SheSpeaks

SheSpeaks is a word-of-mouth marketing community launched in 2007. What business model would help them to compete in the world of Facebook and Twitter? And by what means should they (and their clients) measure the success of their marketing campaigns?

## 15. Targeting B2B customers to accelerate product diffusion – *Documentum, Inc.*

**Prepare** Documentum

**Skim** Moore, “How High-Tech Markets Develop”

The case describes a new CEO’s attempt to implement Geoffrey Moore’s ideas about high-tech marketing popularized through his books *Crossing the Chasm* and *Inside the Tornado*. Apart from serving as a platform for us to discuss Moore’s ideas, the case also presents us with marketing strategy tradeoffs and a market selection process. (Documentum was later acquired by EMC for \$1.7 billion in 2003)

## 16. Introduction – *Kodak Funtime*

**Prepare** Kodak Funtime

**Read** Kumar, “Strategies to Fight Low-Cost Rivals”

Eastman Kodak has suffered significant declines in film market share at the hands of lower priced branded producers and private label products. Should they accept this erosion in leadership, counter-attack aggressively, or use a more “surgical” approach and launch a new economy brand of film to combat these rivals?

## 17. Proactive defense and barriers to entry – *Xerox in 1973*

**Prepare** Xerox in 1973  
**Also read** Yip, “Gateways to Entry.”

In 1973, Xerox was in position quite similar to Microsoft a few years ago: quasi-monopolist, extremely profitable, and with an anti-trust suit on its hands. The case describes in detail the marketing practices that Xerox used to build and sustain their dominant position. The lessons from this classic episode still greatly influence modern strategic thinking.

## 18. Reactive defense: MarketSpace exercise debrief

**After-class reading:** Hauser, “Theory and Application of Defensive Strategy” in *The Economics of Strategic Planning*.

We discuss the MarketSpace exercise which you completed before coming to class, learn about the marketing analytics behind the exercise that are used in practice, and draw some conclusions on defensive marketing strategy.

## 19. Winning as a late entrant: Guest lecture by Mr. Ravi Chaturvedi

Mr. Ravi Chaturvedi, former CEO of Jet Airways (India) and former President of P&G (Northeast Asia), shares his insights on how to profitably attack as a late entrant (P&G vs. Kao in Japan) and profitably defend oneself against such entrants (P&G in China).

## 20. Managing competition – *RTE cereals industry in 1994*

**Prepare** Ready-to-Eat Breakfast Cereal Industry in 1994

This case illustrates how competitors in an industry have for years cultivated a *modus vivendi* with each other, and how this profitable state of affairs was put in jeopardy by changes in the market environment. The big-picture point is that marketing strategy can impact industry structure, rather than only the other way round.

## 21. Value migration dynamics

**Read** DeBruicker and Summe, “Make Sure Your Customers Keep Coming Back”  
**Read** Evans and Wurster, “Strategy and the New Economics of Information”

This session provides a framework linking commoditization and value migration (Sustaining value) to market segmentation (Choosing customers) and go-to-market approach (Delivering value). We’ll use the framework to understand different companies’ changing fortunes within the computer industry and the securities retail brokerage industry.

## 22. Presentations

## 23. Presentations

## 24. Presentations

## 25. Presentations