

**The Wharton School  
University of Pennsylvania**

**MKTG 777/277: Marketing Strategy  
Spring 2014**

**Syllabus**

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**Course objectives**

The *first* purpose of this course is to better understand *how marketing relates to the key issues in business strategy*: choosing customers, defining and creating value, delivering and appropriating value, and sustaining value against competitors and over time. 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 analysis of markets and industries.
- Illustrating how marketing and business strategy interrelate. Examples include how marketing can be used to build barriers to entry and how marketing actions can affect the pattern of competition in an industry.
- Discussing some topics at the intersection between marketing, business strategy, and organization design. E.g., franchising and other hybrid go-to-market approaches.

The *second* purpose is to deepen your *practical skills in quantitative marketing and customer analytics*:

- Using marketing mix analytics to improve marketing mix ROI. You will learn how to build and use simple market response models to improve marketing mix allocation.
- Using quantitative customer analytics to improve targeting decisions. You will learn how to build and use simple choice models to identify who is more/less likely to buy a new product or switch to a competitor, and so make better targeting decisions.

**Target audience and prerequisites**

The course assumes you are already familiar with the basic ideas of marketing strategy. 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.

This course is designed for dual audience: second-year MBA students and upper class undergraduates.

1. *Second-year Wharton MBA students.* I will assume you are familiar with the materials covered in the core marketing and strategy courses: MKTG 611, MKTG 612 or 613, and MGMT 611 or 612. First-year MBA students who have obtained a waiver or substitution for those courses are welcome to take the course.

The course uses the Markstrat computer simulation, on which the Sabre simulation in MKTG 613 is based. So, whether you took MKTG 612 or 613 may affect whether you want to take this course or not.

The 9:00 AM section is MBA-only. Half the seats in the 10:30 AM – 12:00 PM section are reserved for undergraduates.

2. *Undergraduate students.* The section of MKTG 277 is actually mixed with its equivalent MBA course, MKTG 777, and half the seats available are reserved for MBAs. Some undergraduate students like that, others do not.

The course uses the Markstrat computer simulation, on which the Sabre simulation in MKTG 101 is based. You may like that, or you may not. In my experience, undergraduate students tend to be better at handling large volumes of information and making group decisions the second time around.

MKTG 101 is the only prerequisite for MKTG 277.

## **Learning methods**

The course uses (a) lectures and readings, (b) case discussions, (c) problem sets, and (d) an extensive computer simulation, complemented with (e) one small computer simulation exercise. You will accomplish the large simulation in teams.

Cases will allow you to identify and discuss key issues in value creation, appropriation, and sustenance, while at the same time gaining exposure to a variety of situations and industry contexts.

Several problem sets will allow you to sharpen your skills in marketing analytics. You may complete these assignments in groups of up to 3 people, unless the assignment states it must be completed individually.

A comprehensive strategic marketing simulation, Markstrat, will allow you and your fellow group members to develop marketing strategies, including targeting, positioning, and resource allocation decisions. This realistic computer simulation allows you *to learn by doing* (well, virtually) and to appreciate more deeply (a) the need for understanding customer needs, (b) the importance of managing market dynamics, and (c) the inherent ambiguities when developing strategies in dynamic competitive environments. Markstrat is completed in groups of 3 to 4 people, and is very similar to Sabre used in MKTG 613 and 101.

Note that, unlike MKTG 613, the course is not designed around the simulation. Markstrat is just another way for you to hone your analysis and decision making skills.

## **Class participation**

I expect class discussion to be a sizable part of the learning experience and I will grade you on constructive in-class participation. By that I mean comments and questions that 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 integrate 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?

Do you avoid distracting your fellow students by coming in late, leaving in the middle of class, or inappropriately using technology in class?

Posting questions and materials to Canvas 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 Canvas. My favorite 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: "Didn'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 rather 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.

## Grading

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

Class participation	15%
Problem sets	35%
MarketSpace exercise	5%
Markstrat post-mortem	10%
Markstrat performance	35%

Unless I am informed otherwise, I will assume the workload in the Markstrat and other team efforts was shared equally by the members of the group.

The Wharton undergraduate program does not use a curve. I will not use a common benchmark for undergraduates and MBAs.

## Required materials

There is no textbook. A coursepack of readings and case studies is available through Study.Net. You can decide to purchase only the electronic (softcopy) version, or to add an order for Wharton Reprographics to produce a hard copy as well. You can do so by (i) going to the course's Canvas website, (ii) selecting the left tab titled "Study. Net Materials", and (iii) selecting the "Click here to purchase a printed TEXTPAK" link at the bottom of the page.

There is a \$60 license fee for Markstrat. Details will follow.

Other materials will be distributed in class or through Canvas. Wharton Repro may bill you for the print cost of in-class handouts at the end of the semester.

## Office hours

I do not keep office hours at pre-determined, fixed times. I have found it is more convenient and efficient for students to work by appointment. Just send me an email providing me with a few timeslots you could meet, so I can pick one and confirm the appointment.

## For non-Wharton students only: Obtaining a Wharton email account

Slide decks, problem sets and other materials will be distributed through Canvas. You need a Wharton email account for access. The first link below provides some information, and the second sends you directly to the application page.

<http://supportcenteronline.com/ics/support/default.asp?deptID=658&task=knowledge&questionID=82>

<https://apps.wharton.upenn.edu/accounts/>

## Topical Overview

1.	Jan.	15	Introduction: Marketing and business strategy	
<b>A. Choosing customers</b>				
2.	Jan.	22	Targeting fast-adopters, influentials and influenceables	
3.	Jan.	27	Leveraging customer networks to drive sales -- with(out) peer influence	
4.	Jan.	29	Analytics for new product adoption	
5.	Feb.	3	Introduction to Markstrat	
6.	Feb.	5	Market research in Markstrat	
7.	Feb.	10	"Usual" segmentation and targeting: <i>Ford Ka</i>	1*
8.	Feb.	12	Guest lecture: P&G in China	
9.	Feb.	17	Targeting the switchable customer: <i>ABB Electric</i>	2
<b>B. Sustaining value I: Competition</b>				
10.	Feb.	19	Proactive defense and barriers to entry: <i>Xerox</i>	
11.	Feb.	24	Reactive defense: Debrief of MarketSpace exercise	3
12.	Feb.	26	Guest lecture: Winning as a late entrant—P&G vs. Kao in Japan	
13.	Mar.	3	Managing competition: <i>RTE cereals industry</i>	4
<b>C. Marketing mix analytics</b>				
14.	Mar.	5	Building and estimating a marketing mix model	
15.	Mar.	17	Using a marketing mix model to help make decisions	5
16.	Mar.	19	Guest lecture: Marketing mix models in practice	
17.	Mar.	24	Marketing and pricing a new product: <i>Keurig at Home</i>	6
18.	Mar.	26	Applications and exercises: <i>Star Digital</i> and other	
<b>D. Sustaining value II: Changing/Extending value propositions</b>				
19.	Mar.	31	Branding within a brand architecture: <i>Diesel Jeans</i>	7
20.	Apr.	2	Fighting brands: <i>Altius</i>	
21.	Apr.	7	Value migration	8
22.	Apr.	9	Integration case: <i>L'Oréal Plénitude</i>	
<b>E. Delivering and communicating value</b>				
23.	Apr.	14	Hybrid systems and Franchising	9
24.	Apr.	16	Channel partner coordination: <i>Siebel</i>	
25.	Apr.	21	Social media intelligence (possible guest lecture)	10
26.	Apr.	23	Brand communities and customer engagement (guest lecture or <i>SheSpeaks</i> )	
27.	Apr.	28	Social media marketing: <i>1920 Evil Returns</i>	
<b>F. Course Wrap-up</b>				
28.	Apr.	30	Discussion of Markstrat and course wrap-up	

\* Markstrat decision #

## Course Overview

### 1. Introduction: Marketing and business strategy

This session provides an overview of the course content, learning methods, and administrative matters. It also includes 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. Targeting fast-adopters, influentials and influenceables

**Read** “Leveraging to Beat the Odds: The New Marketing Mind-Set” (Coursepack)

**Read** “Leveraging Customer Networks” (Coursepack)

Slywotzky and Shapiro propose that your segmentation and targeting decisions should depend on where you are in the product life cycle. In this class we focus on the earlier phases. Targeting fast-adopters makes sense when you have a high cash burn rate and want to gain market traction quickly. Targeting influentials makes sense if you want to leverage them to convert influenceables into buying a new product. But how do you identify early adopters, influentials and influenceables? This lecture discusses some classic and recent research findings.

### 3. Leveraging customer network to drive sales – with(out) peer influence

**Read after class** “Why Customer Referrals Can Drive Stunning Profits” (Coursepack)

“How Social Networks and Opinion Leaders Affect the Adoption of New Products” (Free)

This session challenges the popular notion of “contagion” among customers. Specifically, (i) what looks like evidence of contagion or peer influence may actually be an artifact, and that (ii) people and markets may differ greatly in how susceptible they are to contagion. However, there is also good news: (iii) Marketers can leverage the “birds of a feather flock together” phenomenon (aka homophily). The Coursepack includes two non-technical write-ups targeted towards managers. I’ll post some actual research reports on Canvas for those who want to know more about “how the sausage was made”.

### 4. Analytics for new product adoption

This section introduces two quantitative models that analysts use to use understand and predict new product dynamics: (i) market-level diffusion models and (ii) individual-level adoption models. It also shows how to use Excel to estimate these models and provide analytic insights to put the ideas of sessions #2 and #3 into action.

### 5. Introduction to Markstrat

**Read** “Markstrat Participant Handbook” (pages 1-17 and 37-51 only) (Free)

### 6. Market research in Markstrat

**Read** “Markstrat Participant Handbook” (pages 18-36 and 52-61 only) (Free)

## 7. “Usual” segmentation and targeting – *Ford Ka*

**Prepare** Ford Ka (Coursepack)  
**Read** “Rediscovering Market Segmentation” (Coursepack)  
**Skim** “A segmentation you can act on” (Coursepack)

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. His main challenge is that the traditional way of segmenting the car market may not work anymore.

## 8. P&G in China

Companies increasingly look for growth in emergent markets. In this guest lecture, Mr. Ravi Chaturvedi, former President Northeast Asia at Procter & Gamble and former CEO of Jet Airways in India, discusses P&G’s marketing strategy in China—focusing on the basic questions of “Who?” (choosing customers) and “What?” (choosing value propositions that resonate with the target customers).

## 9. Targeting the switchable customer using marketing analytics

**Optional** “A Choice-Modeling Market Information System That Enabled ABB Electric to Expand Its Market Share” (pages 6-16 only) (Coursepack)

This lecture illustrates a segmentation and targeting approach recommended by Slywotzky and Shapiro (see session #2) for markets that are mature and congested. To do so, we delve deeper into the marketing analytics underlying the turnaround 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.

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

**Prepare** Xerox in 1973 (Coursepack)  
**Read** “Gateways to Entry” (Coursepack)

In 1973, Xerox was in position quite similar to Microsoft a few years ago and Google today: quasi-monopolist, extremely profitable, and with (the threat of) 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.

## 11. Reactive defense: MarketSpace exercise debrief

**Read after class** “Theory and Application of Defensive Strategy” (Coursepack)

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.

## 12. Winning as a late entrant: P&G vs. Kao in Japan

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

## 13. Managing competition – RTE cereals industry in 1994

**Prepare** Ready-to-Eat Breakfast Cereal Industry in 1994 (Coursepack)

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 take-away is that marketing strategy can impact industry structure (like barriers to entry) and competitive intensity, rather than only the other way round.

## 14. Building and estimating a marketing mix model

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

This session shows how you 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 more sophisticated statistical packages).

## 15. Using a marketing mix model to help make decisions

This session shows how you can take marketing mix models, build a profit function around them, and then find the “optimal” marketing mix allocation. We will again use Excel Solver.

## 16. Marketing mix models in practice

**Read after class** “Advertising Analytics 2.0” (Coursepack)

Mark Garratt, Partner and C-founder of in4mationinsights, shares his experience and insights on using marketing mix models to better understand markets and make better decisions.

## 17. Marketing and pricing a new product – Keurig at Home

**Prepare** Keurig at Home (Coursepack)

**Read** “The monopolist’s optimal markup rule” (Free)

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 its brewing system in the consumer market. However, penetrating this new market poses several challenges. Traditional retail distribution may not be feasible due to the current cost structure. The company has developed a direct marketing strategy with its partners, but will it work? Also, what price should it charge for the cups and for the brewer?

## 18. More marketing mix analytics applications and exercises

**Prepare** Star Digital (Coursepack)

**Read** “Sales-Force Decision Models: Insights from 25 Years of Implementation” (Free)

Star Digital is a multichannel video service provider. It has conducted an online display advertising experiment. What can you conclude from the data (provided as an Excel sheet)? Is online advertising effective for Star Digital? Does increasing the frequency of advertising increase the probability of purchase? Which sites should the company advertise on?

In the reading, the founders of ZS Associates, a major marketing strategy consulting firm that is the world leader in sales force optimization, reflect on their experiences with using models to improve marketing decisions.

## 19. Branding within a brand architecture – *Diesel Jeans*

**Prepare** Diesel for Successful Living (Coursepack)

**Read** Aaker and Joachimsthaler, “The Brand Relationship Spectrum” (Free)

Diesel, the innovative Italian casual wear company, is pondering how to brand its new upscale line of clothing: StyleLab. The case focuses on the brand architecture 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 issues that are especially challenging in the marketing of fashion and luxury brands. In particular, it illustrates how Diesel has managed to grow without losing its core identity.

## 20. Fighting brands – *Altius*

**Prepare** Altius Golf and the Fighter Brand (Coursepack)

**Read** “Should You Launch a Fighter Brand?” (Coursepack)

Altius Golf is the clear leader in the golf ball market. The firm has so far maintained its position by introducing generations of advanced, super-premium golf balls that allow their customers to emulate professional golfers. The company has been losing market share to lower-priced competitors and the CEO wants to introduce a new program called Elevate to foster the next generation of golfers. With Elevate, the firm will introduce a ball that is more forgiving and easier to drive for distance and offer it at a price 40% below the company's flagship brand. Elevate will be available through "off-course" channels such as golf specialty stores and big box retailers instead of "on-course" pro shops where the firm typically sells its products. The board of directors is divided on whether to support the decision.

## 21. Value migration dynamics

**Read** “Make Sure Your Customers Keep Coming Back” (Coursepack)

**Skim** “Strategies to Fight Low-Cost Rivals” (Coursepack)

This session provides a framework linking commoditization and value migration (Sustaining value) to market segmentation and targeting (Choosing customers) and go-to-market approach (Delivering value). We'll use the framework to better understand different companies' changing fortunes, specifically Dell in the computer industry and Schwab in the securities retail brokerage industry.

## 22. Integration case – *L’Oréal of Paris: Bringing “Class to Mass” with Plénitude*

**Prepare** L’Oréal Plénitude (Coursepack)

L’Oréal's strategy is to "trickle down" technology over time from high-end markets catered to by boutiques and department stores to mass markets served by drugstores. The mass market skin care brand Plénitude has become the market leader in France but sales in the United States have been quite disappointing. Even eight years after introduction the brand continues to lose money in the US. The case presents rich market research data to enabling you to diagnose the problem and develop an action plan.

## 23. Hybrid channels & Franchising

**Read** “Managing Hybrid Marketing Systems.” (focus on pp. 1-6) (Coursepack)

**Read** “The Theory of the Firm and the Structure of the Franchise Contract” (Coursepack)

This lecture first discusses how distribution channels can purposively be unbundled or deconstructed, so that different activities are assigned to separate media and partners in the distribution network. Next, it discusses business format franchising. This is a hybrid go-to-market approach where (i) some but not all activities are performed by downstream partners and (ii) companies manage the resulting coordination and incentive problems effectively.

## 24. Channel partner coordination – *Siebel*

**Prepare** Siebel Systems (A) (Coursepack)

The disastrous roll-out of the HealthCare.gov, the “Obamacare website,” is a recent reminder that complex enterprise IT solutions are very hard to pull off, in part because of the challenge to coordinate multiple parties involved. The Siebel case raises several issues surrounding the use of systems integrators as implementation partners and the relationship among customers/user, systems implementation, and the selling function. The case also presents a very tough trade-off between speed of growth and customer orientation.

## 25. Social media intelligence

How can companies use various types of social media data to better understand their customers and markets?

## 26. Brand communities and customer engagement

This will be either be a guest lecture by Richard Margetic (currently Director of Global Social Media at Dell), or a discussion of SheSpeaks, a company that has to decide between designing and delivering viral-for-hire campaigns( like BzzAgent does) vs. creating and managing brand communities.

## 27. Social media marketing – *1920 Evil Returns*

**Prepare** 1920 Evil Returns – Bollywood and social media marketing (Coursepack)

In 2012, Ami Shah designed the social media marketing campaign for the Bollywood movie “1920 Evil Returns”, which was a sequel to the first movie 1920 released in 2008. The next movie in the 1920 franchise is expected to be released in 2014. The social media campaign for 1920 evil returns was very successful, but Shah is wondering whether she could have done it differently. Was the spending-mix effective? What strategy should she adopt for the next movie in the franchisee tentatively titled, “1920 London”?

## 28. Discussion of Markstrat and course wrap-up