

2.3: Developing Organizational Objectives and Formulating Strategies

Learning Objectives

1. Explain how companies develop the objectives driving their strategies.
2. Describe the different types of product strategies and market entry strategies that companies pursue.

Developing Objectives

Objectives are what organizations want to accomplish—the end results they want to achieve—in a given time frame. In addition to being accomplished within a certain time frame, objectives should be realistic (achievable) and be measurable, if possible. “To increase sales by 2 percent by the end of the year” is an example of an objective an organization might develop. You have probably set objectives for yourself that you want to achieve in a given time frame. For example, your objectives might be to maintain a certain grade point average and get work experience or an internship before you graduate.

Objectives help guide and motivate a company’s employees and give its managers reference points for evaluating the firm’s marketing actions. Although many organizations publish their mission statements, most for-profit companies do not publish their objectives. Accomplishments at each level of the organization have helped PepsiCo meet its corporate objectives over the course of the past few years. PepsiCo’s business units (divisions) have increased the number of their facilities to grow their brands and enter new markets. PepsiCo’s beverage and snack units have gained market share by developing healthier products and products that are more convenient to use.

A firm’s marketing objectives should be consistent with the company’s objectives at other levels, such as the corporate level and business level. An example of a marketing objective for PepsiCo might be “to increase by 4 percent the market share of Gatorade by the end of the year.” The way firms analyze their different divisions or businesses will be discussed later in the chapter.

Formulating Strategies

Strategies are the means to the ends, the game plan, or what a firm is going to do to achieve its objectives. Successful strategies help organizations establish and maintain a competitive advantage that competitors cannot imitate easily. Tactics include specific actions, such as coupons, television commercials, banner ads, and so on, taken to execute the strategy. PepsiCo attempts to sustain its competitive advantage by constantly developing new products and innovations, including “mega brands,” which include nineteen individual brands that generate over \$1 billion in sales each. The tactics may consist of specific actions (commercials during the Super Bowl; coupons; buy one, get one free, etc.) to advertise each brand.

Firms often use multiple strategies to accomplish their objectives and capitalize on marketing opportunities. For example, in addition to pursuing a low cost strategy (selling products inexpensively), Walmart has simultaneously pursued a strategy of opening new stores rapidly around the world. Many companies develop marketing strategies as part of their general, overall business plans. Other companies prepare separate marketing plans. We’ll look at marketing plans here and discuss them more completely in Chapter 16.

A marketing plan is a strategic plan at the functional level that provides a firm’s marketing group with direction. It is a road map that improves the firm’s understanding of its competitive situation. The marketing plan also helps the firm allocate resources and divvy up the tasks that employees need to do for the company to meet its objectives. The different components of marketing plans will be discussed throughout the book and then discussed together at the end of the book. Next, let’s take a look at the different types of basic market strategies firms pursue before they develop their marketing plans.

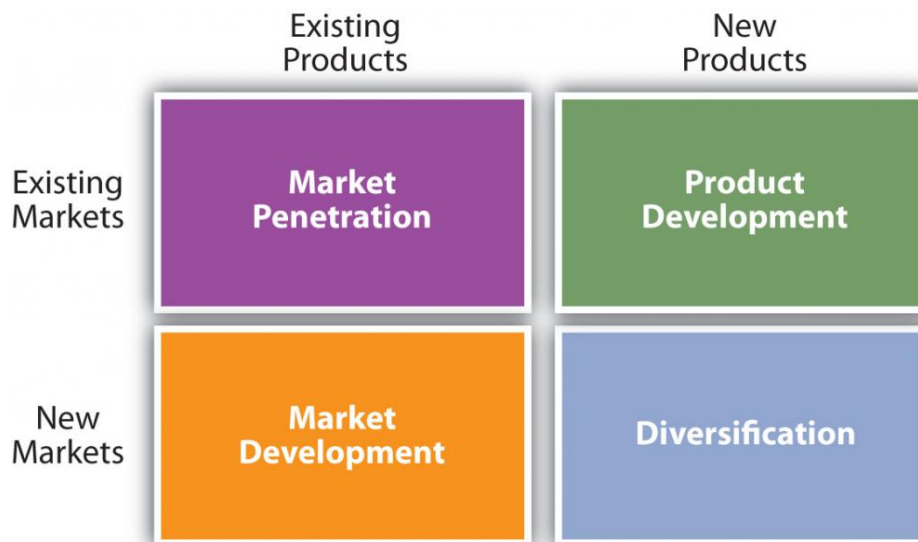


Figure 2.10 Product and Market Entry Strategies

The different types of product and market entry strategies a firm can pursue in order to meet their objectives.

Market penetration strategies focus on increasing a firm's sales of its existing products to its existing customers. Companies often offer consumers special promotions or low prices to increase their usage and encourage them to buy products. When Frito-Lay distributes money-saving coupons to customers or offers them discounts to buy multiple packages of snacks, the company is utilizing a penetration strategy. The Campbell Soup Company gets consumers to buy more soup by providing easy recipes using their soup as an ingredient for cooking quick meals.

Product development strategies involve creating new products for existing customers. A new product can be a totally new innovation, an improved product, or a product with enhanced value, such as one with a new feature. Cell phones that allow consumers to charge purchases with the phone or take pictures are examples of a product with enhanced value. A new product can also be one that comes in different variations, such as new flavors, colors, and sizes. Mountain Dew Voltage, introduced by PepsiCo Americas Beverages in 2009, is an example. Keep in mind, however, that what works for one company might not work for another. For example, just after Starbucks announced it was cutting back on the number of its lunch offerings, Dunkin' Donuts announced it was adding items to its lunch menu.

Market development strategies focus on entering new markets with existing products. For example, during the recent economic downturn, manufacturers of high-end coffee makers began targeting customers who go to coffee shops. The manufacturers are hoping to develop the market for their products by making sure consumers know they can brew a great cup of coffee at home for a fraction of what they spend at Starbucks.

New markets can include any new groups of customers such as different age groups, new geographic areas, or international markets. Many companies, including PepsiCo and Hyundai, have entered—and been successful in—rapidly emerging markets such as Russia, China, and India. Decisions to enter foreign markets are based on a company's resources as well as the complexity of factors such as the political environment, economic conditions, competition, customer knowledge, and probability of success in the desired market. As Figure 2.10 shows, there are different ways, or strategies, by which firms can enter international markets. The strategies vary in the amount of risk, control, and investment that firms face. Firms can simply export, or sell their products to buyers abroad, which is the least risky and least expensive method but also offers the least amount of control. Many small firms export their products to foreign markets.

Firms can also license, or sell the right to use some aspect of their production processes, trademarks, or patents to individuals or firms in foreign markets. Licensing is a popular strategy, but firms must figure out how to protect their interests if the licensee decides to open its own business and void the license agreement. The French luggage and handbag maker Louis Vuitton faced this problem when it entered China. Competitors started illegally putting the Louis Vuitton logo on different products, which cut into Louis Vuitton's profits.



Figure 2.11: The front of a KFC franchise in Asia may be much larger than KFC stores in the United States. Selling franchises is a popular way for firms to enter foreign markets. Christopher – Vietnamese KFC – CC BY-SA 2.0.

Franchising is a longer-term (and thus riskier) form of licensing that is extremely popular with service firms, such as restaurants like McDonald's and Subway, hotels like Holiday Inn Express, and cleaning companies like Stanley Steamer. Franchisees pay a fee for the franchise and must adhere to certain standards; however, they benefit from the advertising and brand recognition the franchising company provides.

Contract manufacturing allows companies to hire manufacturers to produce their products in another country. The manufacturers are provided specifications for the products, which are then manufactured and sold on behalf of the company that contracted the manufacturing. Contract manufacturing may provide tax incentives and may be more profitable than manufacturing the products in the home country. Examples of products in which contract manufacturing is often used include cell phones, computers, and printers.

Joint ventures combine the expertise and investments of two companies and help companies enter foreign markets. The firms in each country share the risks as well as the investments. Some countries such as China often require companies to form a joint venture with a domestic firm in order to enter the market. After entering the market in a partnership with a domestic firm and becoming established in the market, some firms may decide to separate from their partner and become their own business. Fuji Xerox Co., Ltd. is an example of a joint venture between the Japanese Fuji Photo Film Co. and the American document management company Xerox. Another example of a joint venture is Sony Ericsson. The venture combined the Japanese company Sony's electronic expertise with the Swedish company Ericsson's telecommunication expertise. With investment by both companies, joint ventures are riskier than exporting, licensing, franchising, and contract manufacturing but also provide more control to each partner.

Direct investment (owning a company or facility overseas) is another way to enter a foreign market, providing the most control but also having the most risk. For example, In Bev, the Dutch maker of Beck's beer, was able to capture market share in the United States by purchasing St. Louis-based Anheuser-Busch. A direct investment strategy involves the most risk and investment but offers the most control. Other companies such as advertising agencies may want to invest and develop their own businesses directly in international markets rather than trying to do so via other companies.

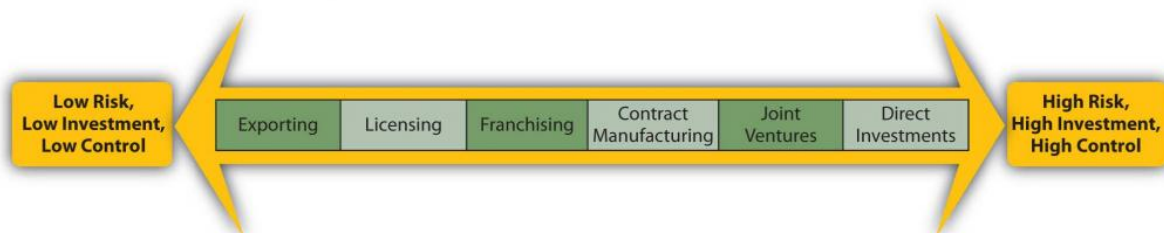


Figure 2.12 Market Entry Methods

Diversification strategies involve entering new markets with new products or doing something outside a firm's current businesses. Firms that have little experience with different markets or different products often diversify their product lines by acquiring other companies. Diversification can be profitable, but it can also be risky if a company does not have the expertise or resources it needs

to successfully implement the strategy. Warner Music Group's purchase of the concert promoter Bulldog Entertainment is an example of a diversification attempt that failed.

Key Takeaway

The strategic planning process includes a company's mission (purpose), objectives (end results desired), and strategies (means). Sometimes the different SBUs of a firm have different mission statements. A firm's objectives should be realistic (achievable) and measurable. The different product market strategies firms pursue include market penetration, product development, market development, and diversification.

Review Questions

1. How do product development strategies differ from market development strategies?
2. Explain why some strategies work for some companies but not others.
3. What factors do firms entering foreign markets need to consider?
4. How do franchising and licensing strategies differ?

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