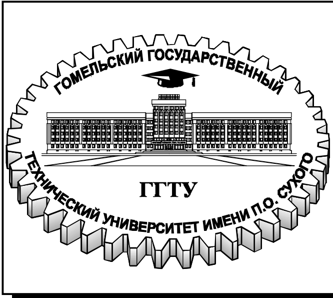

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MARKETING

WORKSHOP
for the same course for students of the specialty 1-25 01 07
“Economics and management at the enterprise”
full-time education

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Compiled by *T. G. Filchuk*, senior lecturer

Reviewer: associate professor of the department "Economics" of the Educational Institution "Sukhoi State Technical University of Gomel"
Ph.D.. associate professer *M. N. Andriyanchikova*

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INTRODUCTION

Marketing is a prerequisite for the successful operation of an enterprise in the market; it can be both an enterprise philosophy and some practical elements of the marketing mix. In any case, the use of marketing in the enterprise is a prerequisite for the effective operation of the enterprise.

The course of marketing involves a complete study by students of both its theoretical aspects and the methods and tools of practical marketing. One of these methods is case-stady.

The purpose of the case method is to teach students to analyze a problem situation (a case) that arose in a specific state of affairs, and develop a solution; to teach to work with information sources, to process it from one form to another. Case tasks are a form of organization of independent work of students and development of their cognitive activity.

The case tasks presented in this workshop are based on the problem situations described in the following literary sources: Kotler, Philip. Marketing management / Philip Kotler, Kevin Lane Keller. - 14th ed.; Kotler, Philip. Principles of marketing / Philip Kotler, Gary Armstrong. - 14th ed.

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CASE TASK 1. Marketing Excellence

Nike was founded in 1962. Originally known as Blue Ribbon Sports, the company focused on providing high-quality running shoes designed for athletes by athletes. Founder Philip Knight believed high-tech shoes for runners could be manufactured at competitive prices if imported from abroad. Nike's commitment to designing innovative footwear for serious athletes helped it build a cult following among U.S. consumers.

Nike believed in a "pyramid of influence" in which the preferences of a small percentage of top athletes influenced the product and brand choices of others. From the start its marketing campaigns featured accomplished athletes.

In 1985, Nike signed up then-rookie guard Michael Jordan as a spokesperson. Jordan was still an up-andcomer, but he personified superior performance. Nike's bet paid off – the Air Jordan line of basketball shoes flew off the shelves and revenues hit over $100 million in the first year alone.

In 1988, Nike aired the first ads in its $20 million "Just Do It" ad campaign. The advertising campaign included 12 TV spots. It was a natural manifestation of Nike's attitude of self-empowerment through sports.

As Nike began expanding overseas to Europe, it found that its U.S.-style ads were seen as too aggressive. Nike realized it had to "authenticate" its brand in Europe, so it focused on soccer (known as football outside the United States) and became active as a sponsor of youth leagues, local clubs, and national teams. However, for Nike to build authenticity among the soccer audience, consumers had to see professional athletes using its product, especially athletes who won. Nike's big break came in 1994 when the Brazilian team won the World Cup. That victory transformed Nike's image in Europe from a sneaker company into a brand that represented emotion, allegiance, and identification. It also helped launch Nike into other international markets over the next decade, and by 2003, overseas revenues surpassed U.S. revenues for the first time.

In 2007, Nike acquired Umbro, a British maker of soccer-related footwear, apparel, and equipment. The acquisition helped boost Nike's presence in soccer as the company became the sole supplier of uniforms to over 100 professional soccer teams around the world.

Nike focused its efforts on international markets, especially China, during the 2008 Summer Olympics in Beijing. Although Nike's rival, Adidas, was the official sponsor of the Olympic Games, Nike received

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special permission from the International Olympic Committee to run Nike ads featuring Olympic athletes during the games. Besides, Nike sponsored several teams and athletes, including most of the Chinese teams and 11 of the 12 high-profile members on the United States men's basketball teams. That year, sales in the Asian region grew 15 percent to $3.3 billion and Nike's international divisions grew to 53 percent of the company's revenue. Some believed Nike's marketing strategy during the Olympics was more effective than Adidas's Olympic sponsorship.

In tennis, Nike has aligned with Maria Sharapova, Roger Federer, and Rafael Nadal to push its line of tennis clothing and gear. Some called the famous 2008 Wimbledon match between Roger Federer and Rafael Nadal – both dressed in swooshes from head to toe – a five-hour Nike commercial valued at $10.6 million.

To promote its line of basketball shoes and apparel, Nike continues to feature basketball superstars such as Kobe Bryant and LeBron James. In addition, it formed a partnership with Foot Locker to create a new chain of stores, House of Hoops by Foot Locker, which offers only basketball products by Nike brands such as Converse and Jordan.

Recently, Nike's lead in the running category has grown to 60 percent market share thanks to its exclusive partnership with Apple. Nike (Plus) technology includes a sensor that runners put into their running shoes and a receiver, which fits into an iPod, iTouch, or iPhone. When the athlete goes for a run or hits the gym, the receiver captures his or her mileage, calories burned, and pace and stores it until the information is downloaded. Nike is now considered the world's largest running club.

Like many companies, Nike is trying to make its company and products more eco-friendly. However, unlike many companies, Nike does not promote its efforts. Promoting an eco-friendly message would distract from its high-tech image, so efforts like recycling old shoes into new shoes are kept quiet.

Today, Nike dominates the athletic footwear market with a 31 percent market share globally and a 50 percent market share in the United States. Swooshes abound on everything from wristwatches to skateboards to swimming caps. The firm's long-term strategy focuses on basketball, running, football, women's fitness, men's training, and sports culture. As a result of its successful expansion across geographic markets and product categories, Nike is the top athletic apparel and footwear manufacturer in the world, with corporate fiscal revenues exceeding $19 billion in year.

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Questions:

1. What key customer market (-s) does the Nike company belong to?
2. What types of needs does Nike satisfy?
3. Describe the marketing mix (product, price, distribution and promotion) of the Nike company, identify the target consumer group (target markets).
4. What are the pros (+), cons (–), and risks associated with Nike's core marketing strategy?
5. If you were Adidas, how would you compete with Nike?

CASE TASK 2. Xerox: Adapting to the Turbulent Marketing Environment

Xerox introduced the first plain-paper office copier 50 years ago. In the decades the company dominated the industry it had created. The name Xerox became almost generic for copying (as in "I'll Xerox this for you"). In 1998, Xerox's profits were growing at 20 percent a year, and its stock price was increasing.

Then things went terribly wrong for Xerox. The legendary company's stock fell in price. In only 18 months, Xerox lost some $ 38 billion in market value. By mid-2001, its stock price had plunged from almost $ 70 in 1999 to under $ 5. The once-dominant market leader found itself on the brink of bankruptcy. What happened? Blame it on change or – rather – on Xerox's failure to adapt to its rapidly changing marketing environment. The world was quickly going digital, but Xerox hadn't kept up.

In the new digital environment, Xerox customers no longer relied on the company's flagship products – stand-alone copiers – to share information and documents. Rather than pumping out and distributing stacks of black-and-white copies, they created digital documents and shared them electronically. Or they popped out copies on their nearby networked printer. On a broader level, while Xerox was busy perfecting copy machines, customers were looking for more sophisticated "document management solutions." They wanted systems that would let them scan documents in Frankfurt, weave them into colorful, customized showpieces in San Francisco, and print them on demand in London.

As digital technology changed, so did Xerox's customers and competitors. Instead of selling copiers to equipment purchasing managers,

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Xerox found itself developing and selling document management systems to high-level information technology managers. Instead of competing head-on with copy machine competitors like Sharp, Canon, and Ricoh, Xerox was now squaring off against information technology companies like HP and IBM.

Xerox's large and long-respected sales force (department) – made up of people trained to sell and repair copy machines – simply wasn't equipped to deal effectively in the brave new world of digital document solutions. Xerox, the iconic "copier company," just wasn't cutting it in the new digital environment.

Since those dark days, however, Xerox has rethought, redefined, and reinvented itself. The company has undergone a remarkable transformation. Xerox no longer defines itself as a "copier company." In fact, it doesn't even make stand-alone copiers anymore. Instead, Xerox bills itself as a leading global document-management and business-process technology and services enterprise. It wants to help companies and people "be smarter about their documents."

Documenting any communication used to mean committing it to paper, getting it down in black and white. Now communication is generally scanned, sent, searched, archived, merged, and personalized – often in color. It can move back and forth, many times, from physical to digital. So when we say our mission is to help people be smarter about their documents, it really means giving them a range of tools and techniques to capture, organize, facilitate, and enhance how they communicate. In any form. To an audience of one or many millions.

The Xerox transformation started with a new focus on the customer. The new Xerox believes that understanding customers is just as important as understanding technology.

As a result of this new thinking, Xerox now offers a broad portfolio of customer-focused products, software, and services that help its customers manage documents and information. Xerox has introduced more than 130 innovative new products in the past four years. It now offers digital products and systems ranging from network printers and multifunction devices to color printing and publishing systems, digital presses, and "book factories."

Thus, Xerox isn't an old copier company anymore. Xerox's former chairman summed things up this way: "We have transformed Xerox into a business that connects closely with customers in a content-rich digital marketplace. We have expanded into new markets, created new businesses,

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acquired new capabilities, developed technologies that launched new industries – to ensure we make it easier, faster, and less costly for our customers to share information."

However, just as Xerox's turnaround seemed complete, yet another challenging environmental force arose – the Great Recession. The recession severely depressed Xerox's core printing and copying equipment and services business, and the company's sales and stock price fell once again. So Xerox recently acquired Affiliated Computer Services (ACS), a $6.4 billion IT services company. With the ACS acquisition, Xerox can now help clients manage not only their document-related processes but also their even-faster growing IT processes.

Xerox knows that change and renewal are ongoing and never ending. "The one thing that's predictable about business is that it's fundamentally unpredictable," says the company's most recent annual report. The message is clear. Even the most dominant companies can be vulnerable to the often turbulent and changing marketing environment. Companies that understand and adapt well to their environments can thrive.

Questions:

1. How did the company's position change in the early years of the 21st century?
2. What was the main reason for the company's difficulties?
3. What factors of the microenvironment affected the state (position) of the company?
4. How did these factors change?
5. What forces of the macro environment had the greatest impact on the company?
6. How did these factors work (act)?
7. What did the company do to remain the market leader?

CASE TASK 3. IDEO

IDEO is the largest design consultancy firm in the United States. The company has created some of the most recognizable design icons of the technology age, including the first laptop computer, the first mouse (for Apple), the Palm V PDA, and the TiVo digital video recorder. Beyond its high-tech wizardry, the company has designed household items such as the Swiffer Sweeper and the Crest Neat Squeeze toothpaste tube, both for

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Procter & Gamble. IDEO's diverse roster of clients includes AT&T, Bank of America, Ford Motor Company, PepsiCo, Nike, Marriott, Caterpillar, Eli Lilly, Lufthansa, Prada, and the Mayo Clinic.

IDEO's success is predicated on an approach called "design thinking". The company strives to design products that consumers actively want because they offer a superior experience and solve a problem. In order to achieve these consumer-friendly solutions, IDEO tries to uncover deep insights through a variety of human-centered research methods. These studies help the firm better understand how consumers purchase, interact with, use, and even dispose of products.

IDEO employs a number of observational methods to conduct "deep dives" into consumer behavior. The company's "human factors" takes pictures or videos of them during product purchase or use occasions, and conducts in-depth interviews with them to further evaluate their experiences. Another method is called "behavioral mapping," which creates a photographic log of people within a certain area like an airline departure lounge, a hospital waiting room, or a food court at a shopping mall over a period of days to gauge how the experience can be improved. A third method relies on "camera journals" that participants keep, in which they record their visual impressions of a given product or category. IDEO also invites consumers to use "storytelling" techniques to share personal narratives, videos, skits, or even animations about their experiences with a product or service.

Prototyping has also contributed to IDEO's success. It takes place throughout the design process so individuals can test out, experience, and improve upon each level of development. IDEO helped apparel-maker Warnaco improve sales by having its designers shadow eight women as they shopped for lingerie. The "shop-alongs" revealed that most consumers had a negative buying experience. They had difficulty locating the lingerie section in the department store and finding the right size in the overcrowded display, and they felt the fitting rooms were too small. IDEO developed a new six-stage merchandising environment that included larger fitting rooms, "concierges" to give shoppers information, and improved displays. Warnaco implemented this plan with the help of the department stores.

In another example, Marriott hired IDEO to help make its Courtyard by Marriott hotels more appealing to younger guests. IDEO conducted interviews and observed guests in the hotel's lounges, lobbies, and restaurants. Its research revealed that younger guests were turned off by the

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lack of activity in the hotel's public places, the lack of technology offered, and the poor food options. As a result, Courtyard by Marriott changed its furniture and decor to be more warm, comfortable, and inviting. The hotel added advanced technology options throughout its lobbies and lounges, such as flat-screen TVs and free Wi-Fi. Marriott converted the breakfast buffets to 24/7 coffee-shop-style cafés, where guests can quickly grab a gourmet coffee drink and healthy bite to eat any time. And Courtyard created new outdoor hangout spots with sound speakers and fire pits. After the renovations, Courtyard by Marriott changed its tagline to "Courtyard. It's a New Stay."

IDEO's novel consumer-led approach to design has led to countless success stories and awards for its clients and for the firm itself. The most important result for IDEO's designs is that they solve a usability problem for clients. The company goes "broad and deep" to achieve this goal. Since its founding, it has been issued over 1,000 patents, and in 2014 the company generated $ 120 million in revenues.

Questions

1. Why has IDEO been so successful?
2. What is the most difficult challenge it faces in conducting its research and designing its products?
3. What elements from each group of solutions for collecting primary data (on *research approaches*, *contact methods*, the *sampling plan*, and *research instruments*) did the company use?
4. What are the results of marketing research?

CASE TASK 4. Porsche: Guarding the Old. While Bringing in the New

Porsche (pronounced *Porsh*-uh) is a unique company. It has always been a niche brand that makes cars for a small and distinctive segment of automobile buyers. In 2009, Porsche sold only 27717 cars in the five models it sells in the United States. Honda sold about 10 times more. But Porsche owners are as rare as their cars. For that reason, top managers at Porsche spend a great deal of time thinking about customers. They want to know who their customers are, what they think, and how they feel. They want to know why they buy a Porsche rather then a Jaguar, a Ferrari, or a big Mercedes coupe. These are challenging questions to answer; even

Porsche owners themselves don't know exactly what motivates their buying. But given Porsche's low volume and the increasingly fragmented auto market, it is imperative that management understands its customers and what gets their motors running.

THE PROFILE OF A PORSCHE OWNER

Porsche was founded in 1931 by Ferdinand Porsche, the man credited for designing the original Volkswagen Beetle (one of the most successful car designs of all time). For most of its first two decades, the company built Volkswagen Beetles for German citizens and tanks and Beetles for the military. As Porsche AG began to sell cars under its own nameplate in the 1950s and 1960s, a few constants developed. The company sold very few models, creating an image of exclusivity. Those models had a rounded, bubble shape that had its roots in the original Beetle but evolved into something more Porsche-like with the world famous 356 and 911 models. Finally, Porsche's automobiles featured air-cooled four- and six-cylinder motors in the rear of the car. This gave the cars a unique and often dangerous characteristic – a tendency for the rear end to swing out when cornering hard. That's one of the reasons that Porsche owners were drawn to them. They were challenging to drive, which kept most people away.

Since its early days, Porsche has appealed to a very narrow segment of financially successful people. These are achievers who see themselves as entrepreneurial, even if they work for a corporation. They expect no less from the clothes they wear, the restaurants they go to, or the cars they drive. These individuals see themselves not as a part of the regular world but as exceptions to it. They buy Porsches because the car mirrors their self-image; it stands for the things owners like to see in themselves and their lives.

Most of us buy what Porsche executives call utility vehicles. That is, we buy cars primarily to go to work, transport children, and run errands. Because we use our cars to accomplish these daily tasks, we base buying decisions on features such as price, size, fuel economy, and other practical considerations. But Porsche is more than a utility car. Its owners see it as a car to be enjoyed, not just used. Most Porsche buyers are not moved by information but by feelings. A Porsche is like a piece of clothing – something the owner "wears" and is seen in. They develop a personal relationship with their cars, one that has more to do with the way the car sounds, vibrates, and feels, rather than the how many cup holders it has or how much cargo it can hold in the trunk.

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People buy Porsches because they enjoy driving. If all they needed was something to get them from point A to point B, they could find something much less expensive. And while many Porsche owners are car enthusiasts, some of them are not.

FROM NICHE TO NUMEROUS

For its first few decades, Porsche AG lived by the philosophy of Ferry Porsche, Ferdinand's son. Ferry created the Porsche 356 because no one else made a car like he wanted. "We did no market research, we had no sales forecasts, no return-on-investment calculations. I very simply built my dream car and figured that there would be other people who share that dream." So, really, Porsche AG from the beginning was very much like its customers: an achiever that set out to make the very best. But as the years rolled on, Porsche management became concerned with a significant issue: Were there enough Porsche buyers to keep the company afloat? In the early 1970s, Porsche introduced the 914, a square-ish, mid-engine, two-seater that was much cheaper than the 911. This meant that a different class of people could afford a Porsche. It was no surprise that the 914 became Porsche's top selling model. At less than $20,000, more than $10,000 less than the 911, the 924 and later 944 models were once again Porsche's pitch to affordability. At one point, Porsche increased its sales goal by nearly 50 percent to 60,000 cars a year."

Although these cars were in many respects sales successes, the Porsche faithful cried foul. They considered these entry-level models to be cheap and underperforming. Most loyalists never really accepted these models as "real" Porsches. In fact, they were not at all happy that they had to share their brand with a customer who didn't fit the Porsche owner profile. They were turned off by what they saw as a corporate strategy that had focused on *mass* over *class* marketing. This tarnished image was compounded by the fact that Nissan, Toyota, BMW, and other car manufacturers had ramped up high-end sports car offerings, creating some fierce competition. By 1990, Porsche sales had plummeted, and the company flirted with bankruptcy.

RETURN TO ITS ROOTS?

But Porsche wasn't going down without a fight. It quickly recognized the error of its ways and halted production of the entry-level models. It rebuilt its damaged image by revamping its higher-end model lines with more race-bred technology. In an effort to regain rapport with customers, Porsche once again targeted the high end of the market in both price and performance. It set modest sales goals and decided that moderate

growth with higher margins would be more profitable in the long term. Thus, the company set out to make one less Porsche than the public demanded. According to one executive, "We're not looking for volume; we're searching for exclusivity."

Porsche's efforts had the desired effect. By the late 1990s, the brand was once again favored by the same type of achiever who had so deeply loved the car for decades. The cars were once again exclusive. And the company was once again profitable. But by the early 2000s, Porsche management was again asking itself a familiar question: To have a sustainable future, could Porsche rely on only the Porsche faithful? According to then CEO Wendelin Wiedeking, "For Porsche to remain independent, it can't be dependent on the most fickle segment in the market. We have to make sure we're profitable enough to pay for future development ourselves."

So in 2002, Porsche did the unthinkable. It became one of the last car companies to jump into the insatiable sport utility vehicle (SUV) market. At roughly 5,000 pounds, the new Porsche Cayenne was heavier than anything that Porsche had ever made, with the exception of some prototype tanks it made during WWII And it was the first Porsche to ever be equipped with seatbelts for five. As news spread about the car's development, howls could be heard from Porsche's customer base.

But this time, Porsche did not seem too concerned that the loyalists would be put off. Could it be that the company had already forgotten what happened the last time it deviated from the mold? After driving one of the first Cayenne's off the assembly line, one journalist stated, "A day at the wheel of the 444 horsepower Cayenne Turbo leaves two overwhelming impressions. First, the Cayenne doesn't behave or feel like an SUV, and second, it drives like a Porsche." This was no entry-level car. Porsche had created a two-and-a-half ton beast that could accelerate to 60 miles per hour in just over five seconds, corner like it was on rails, and hit 165 miles per hour, all while coddling five adults in sumptuous leather seats with almost no wind noise from the outside world. On top of that, it could keep up with a Land Rover when the pavement ended. Indeed, Porsche had created the Porsche of SUVs.

Although some Porsche traditionalists would never be caught dead driving a front engine Porsche that has more than two doors, Porsche insists that two trends will sustain these new models. First, a category of Porsche buyers has moved into life stages that have them facing inescapable needs; they need to haul more people and stuff. This not only

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applies to certain regular Porsche buyers, but Porsche is again seeing buyers enter its dealerships that otherwise wouldn't have. Only this time, the price points of the new vehicles are drawing only the well heeled, allowing Porsche to maintain its exclusivity. These buyers also seem to fit the achiever profile of regular Porsche buyers.

The second trend is the growth of emerging economies. Whereas the United States has long been the world's biggest consumer of Porsches, the company expects China to become its biggest customer before too long. Twenty years ago, the United States accounted for about 50 percent of Porsche's worldwide sales. Now, it accounts for only about 26 percent. In China, many people who can afford to buy a car as expensive as a Porsche also hire a chauffeur. The Cayenne is perfect for those who want to be driven around in style but who may also want to make a quick getaway if necessary.

The most recent economic downturn has brought down the sales of just about every maker of premium automobiles. When times are tough, buying a car like a Porsche is the ultimate deferrable purchase. But as this downturn turns back up, Porsche is better poised than it has ever been to meet the needs of its customer base. It is also in better shape than ever to maintain its brand image with the Porsche faithful and with others as well. Sure, understanding Porsche buyers is still a difficult task. But a former CEO of Porsche summed it up this way: "If you really want to understand our customers, you have to understand the phrase 'If I were going to be a car, I'd be a Porsche."

Questions:

1. Analyze the buyer decision process of a traditional Porsche customer.

The buyer decision process consists of five stages: 1) *need recognition,* 2) *information search,* 3) *evaluation of alternatives,* 4) *purchase decision,* 5) *postpurchase behavior.*

2. Contrast the traditional Porsche customer decision process to the decision process for a Cayenne customer.

3. Why did Porsche sale so many lower-priced models in the 1970s and 1980s?

4. Explain how both positive and negative attitudes toward a brand like Porsche develop. How might Porsche change consumer attitudes toward the brand?

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5. What role does the Porsche brand play in the self-concept of its buyers?

CASE TASK 5. Starbucks: Just Who Is the Starbucks Customer?

Starbucks story: After a trip to Italy in the early 1980s, Howard Schultz was inspired to transform Starbucks – then just a handful of coffee shops in Seattle – into a chain of European-style coffeehouses. He wanted to provide customers with what he called a "third place" – a place away from home and work. As CEO (Chief Executive Officer) of Starbucks, Schultz developed what became known as the Starbucks Experience, built around great coffee, personal service, and an inviting ambiance.

WHAT GOES UP . . .

In 20 years time, Schultz grew the company to almost 17,000 stores in dozens of countries. From 1995 to 2005, Starbucks added U.S. stores at an annual rate of 27 percent, far faster than the 17 percent annual growth of McDonald's in its heyday. At one point, Starbucks opened over 3,300 locations in a single year – an average of 9 per day.

For many years, new store growth was what kept Starbucks percolating. As it grew, company sales and profits rose. Growth routinely averaged 20 percent or more each year. And Starbucks made investors happy with a 25 percent annual increase in the value of its stock for more than a decade.

But by the end of 2008, the 20 percent annual growth had dropped to 10 percent, with existing-store sales decreasingby 3 percent. Total company profits dropped by a scalding 53 percent for the year. And for a second year in a row, Starbucks' stock value dropped by 50 percent to around $10 a share.

THE EVOLUTION OF THE STARBUCKS CUSTOMER

What had gone wrong? One issue often mentioned was that Starbucks had developed an identity crisis with respect to its target customer. In its early years, the Starbucks customer profile was clearly defined. The typical customer was wealthier, better educated, and more professional than the average American. The customer was far more likely to be female than male, predominately white, and between the ages of 24 and 44. It was this customer who fell in love with the Starbucks Experience. She was very loyal, often visiting a store every day or even

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more than once a day. She loved the fact that the barista greeted her by name when she came in and chatted with her while making her custom coffee drink, not caring if it took awhile. She lounged on the comfy furniture, enjoying the perfect mix of music that always seemed to fit her mood. She met friends or just hung out by herself reading a good book.

But the more Starbucks grew, the more the Starbucks Experience began to change. With more stores, the place wasn't quite so special. As each location filled with more customers, baristas had more names to put with faces. As the menu expanded with more options, the number of combinations for coffee drinks grew into the hundreds, leaving baristas less time to chat with customers. As the atmosphere in each store turned to "hustle and bustle," it became a less attractive place to hang out.

With all these changes, Starbucks progressively appealed less to the traditional customer and more to a new customer. This customer shift was inevitable; there simply were not enough traditional customers around to fuel the kind of growth. The new breed of customer was less affluent, less educated, and less professional. Not only was Starbucks drawing in different customers in places where stores already existed, but it was also putting stores in different neighborhoods, cities, and countries.

As the customer profile evolved, the Starbucks Experience grew to mean something different. To the new breed of customer, it meant good coffee on the run. It was a place to meet and then move on. The more accessible Starbucks was, the better. Speed of service was more important than a barista who wanted to talk current events. This new customer came in much less frequently than the traditional customer, as seldom as once a month. As a sign of just how much this shift in customer was affecting its business, by 2007, 80 percent of all Starbucks coffee purchased was consumed outside the store.

SOUL SEARCHING

When Starbucks' growth first started tapering off, the executives took notice. Stores no longer have the soul of the past and reflect a chain of stores versus the warm feeling of a neighborhood store.

Starbucks management believed that efforts to recapture that soul would get the company back on track. At first, however, Starbucks was caught between the conflicting goals of reestablishing its image as the provider of a holistic experience and offering better value to the cash-strapped consumer. It focused on the quality of its coffee with a Coffee Master training program for its baristas and a new line of ultrapremium

whole-bean coffees. It even tried free Wi-Fi service and sold its own music.

But none of these actions seemed to address the core problem: Although Starbucks still charged a premium price, it was no longer a special place. Compounding the problem was an increase in competition. For years, if you wanted a latte, Starbucks was about the only option. Not only were Dunkin' Donuts and McDonald's selling premium coffee drinks to the masses, but just about every mini-mart in the country boasted about the quality of its coffee. All of these competitors had prices considerably lower than those of Starbucks.

"VALUE" TO THE RESCUE?

Throughout 2009, Schultz continued to direct activities aimed at increasing growth. Starbucks launched a campaign designed to educate consumers that Starbucks really wasn't as expensive as they thought it was. That was followed by something Schultz held back for as long as possible: price reductions. "Breakfast pairings" – coffee cake, oatmeal, and an egg sandwich – soon followed.

All these tactics helped. By the end of 2009, Starbucks was regaining ground. With same-store sales up 4 percent and profits up 24 percent for the year, Starbucks' stock price doubled versus the previous year. He outlined a three-pronged growth strategy. In searching for Starbucks' roots and re-creating the Starbucks store experience, Schultz also aimed to reach customers outside the store.

The first prong of the new strategy centers on Via, an instant coffee that Starbucks introduced last year. It is available in singleserve packets at all Starbucks stores and in grocery stores at $1 each or $9.95 for 12 packs. Via lets Starbucks promote a genuine cup of Starbucks coffee for under a buck. Promotions for the new instant have made it clear that Starbucks isn't moving downscale; instant coffee is moving upscale.

Via is off to a good start, having surpassed company expectations. In fact, Via accounted for more than half of the 4 percent increase in Starbucks' 2009 same-store sales. According to Annie Young-Scrivner, global chief marketing officer for Starbucks, half of all Via serving occasions are at home, 25 percent are in the office, and 25 percent are "on the go."

The second prong of Starbucks strategy also focuses on the grocery business but through ground-flavored coffees. According to NPD Group, four out of five cups of coffee are consumed at home. Starbucks has a very small share of that market. Via will certainly help. But aiming more

directly at the "brew it at home" customer, Starbucks is partnering with Kraft to launch flavored coffees you can brew yourself. Sixty percent of bagged coffee buyers are either drinking flavored coffee or adding flavored creamer. Seventy-five percent of those customers said they would buy a flavored product at the grocery store if Starbucks made one. So after more than two years of testing, this substantial segment of grocery-store buying customers can now get Starbucks Natural Fusions in vanilla, caramel, and cinnamon.

The third prong of Starbucks strategy is Seattle's Best Coffee. Starbucks purchased the brand back in 2003 but is just now doing something with it. Rebranding efforts have given Seattle's Best a new look and tagline, "Great Coffee Everywhere." As with Via and Natural Fusions, and now with Seattle's Best, Starbucks is going after customers who don't normally buy Starbucks coffee. It is placing Seattle's Best where Starbuck's customers aren't – in vending machines, coffee carts, fast-food restaurants, theatres, and convenience stores. These are places that Starbucks has avoided for fear of eroding its upscale image. With prices ranging from $1 to just over $2, Seattle's Best also reaches customers who perceive Starbucks as too expensive. Now, Seattle's Best allows Starbucks to go head-to-head with competitors like McDonald's without putting the Starbucks name in the same sentence as downscale competitors.

The three-pronged strategy provides three good reasons to believe that Starbucks growth story will return, even without opening nine stores per day. The company sees huge potential growth abroad. But perhaps the greatest strength in Starbucks' new strategy is that it will allow the company to go after new customer segments while also restoring the essence of the Starbucks Experience.

Questions

1. Using the full spectrum of segmentation variables, describe how Starbucks initially segmented and targeted the coffee market.

2. What changed first – the Starbucks customer or the Starbucks Experience? Explain your response by discussing the principles of market targeting.

3. Based on the segmentation variables, how is Starbucks now segmenting and targeting the coffee market?

4. Will Starbucks ever return to the revenue and profit growth that it once enjoyed? Why yes or why no?

CASE TASK 6. Southwest Airlines: Balancing the Price-Value Equation

These days, not all airline passengers are equal. Nor do they all pay equally. In fact, a person on any given flight has likely paid a different price for his or her ticket than the people on either side of them. No matter where they sit, however, all passengers seem to have one thing in common: Almost nobody's happy with what they get for what they pay. Tempers are flaring over rising air travel prices coupled with fewer amenities and less attentive customer service. Something is just not right with the airline price-value equation.

Most of us probably have had experiences like those of Doug Fesler, an executive at a medical research group in Washington, D.C.

He wasn't expecting much in the way of amenities on his American Airlines flight to Honolulu. In fact, knowing the airline no longer served free meals, he had packed his own lunch for the second leg of his flight from Dallas to Honolulu. But he said he was shocked at the lack of basic services and the overall condition of the cabin. On that flight, the audio for the movie was broken. The light that indicated when the bathroom was occupied was squirrelly, causing confusion and, in some cases, embarrassingly long waits for passengers in need of the lavatory. And though food was available for purchase, the quantity of food was depleted before the flight attendants could serve the entire cabin.

His return flight was just as disappointing. This time the audio for the movie worked – but only in Spanish – and his seat refused to stay in the upright position. "I was just appalled,"said Fesler. "You pay $ 500 or $ 600 for a seat, and you expect it to be functional." He said he has considered refusing to fly airlines with such poor service but added that "if you did that with every airline that made you mad, you'd never get anywhere in this country."

Certainly, these aren't the best of times for airlines. The long recession has had the dual effect of decreasing revenues while increasing costs.

In the midst of the turmoil, however, one airline in particular seems to be flying high. Southwest Airlines is setting records for customer loads and profitability. This isn't just a recent phenomenon for the most famous low-fare airline. Since it started flying in 1972, Southwest Airlines has never lost money, something no other U.S. airline can claim. And for 2015, Southwest was the only airline to carry more passengers than it did the

year before. What's its secret? In short, it has been able to provide airline service that maximizes value by giving customers great benefits for the price paid.

THE SOUTHWEST FORMULA

From its humble beginnings, the airline has been known for a few things that truly classify it as a "no-frills" airline. For starters, it does not assign seats. Rather, passengers board on a first-come, first-served basis, a procedure that customers prefer by a two-to one ratio. It doesn't serve meals on any flights, only basic snacks. It flies only 737 narrow-body planes and doesn't have a first-class section. And it doesn't provide electronic entertainment, relying instead on humorous flight attendants to entertain passengers.

From the beginning, its main advantage has been low prices. It has communicated very effectively to customers that the lack of amenities allows it to charge some of the lowest fares in the industry. In fact, this has long been a competitive advantage for Southwest. As the airline expanded into city after city, other airlines were forced to drop their fares to compete. That overall lowering of fares in markets that Southwest enters has become widely known as the "Southwest effect."

But during the mid-2000s, Southwest's cost advantage over other airlines narrowed considerably. The bigger carriers in the industry cut costs tremendously as fuel and labor costs rose.

But Southwest didn't put all its eggs in the price basket. For years, it focused on providing the types of benefits that truly matter to air travel patrons. Gary Kelly, CEO since 2004, summarizes these benefits:

Ultimately, our industry is a customer-service business, and we have the best people to provide special customer service. Clearly, as the differences between air carriers narrow with respect to fares, we must execute in order to differentiate ourselves. But that's our core advantage. Since the U.S. Department of Transportation began collecting and publishing operating statistics, we've excelled at on-time performance, baggage handling, fewest complaints, and fewest canceled flights. Besides, we're still the low-cost producer and the low-fare leader in the U.S. We have no intention of conceding that position.

HOW TO INCREASE PROFITS

As the effects of the global recession tightened its grip on the travel industry, many major carriers struggled to find ways to cut costs and increase revenue. American dropped $30 million a year by eliminating free meal service on longer flights. In fact, in a move that extinguished any

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hope of hot meals returning to coach, the airline removed the rear galleys from its MD-80 aircraft and replaced them with four seats, an addition worth another $ 34 million a year. Eliminating pillows was good for another million. The cutting of such amenities has made some traditional airlines even lower on frills than "no-frills" Southwest. After all, you can still get free snacks and a pillow on its flights. "I actually have more respect for Southwest Airlines in this area," says one experienced traveler. "They've never pretended to have more than they do."

But the most common – and perhaps annoying – new practice is the addition of baggage fees. Almost every airline now charges a fee of $ 15 to $ 35 for the first checked bag, even more for the second bag, and as much $ 125 if you have to check a third bag. And that's only for the departing trip! Customers pay the same fees on the return. And Spirit Airlines recently announced the unthinkable. It will soon begin charging customers between $ 30 and $ 45 to stow carry-on bags in the overhead bin.

On this matter, Southwest has taken a stand. In a nationwide ad campaign, it has communicated to customers that "bags fly free." In fact, it is the only U.S. carrier that does not charge for checking luggage. Despite criticism that Southwest has faced for not taking advantage of the revenue stream from charging for bags, the airline has chosen to side with customers. "At Southwest, we try to give you more, while all our competitors are taking away," said Kelly.

Kelly couldn't be happier with the results of this campaign. He doesn't see it as a missed opportunity for revenue. In fact, he quickly points out that Southwest is the only airline that has actually gained customers. "We have fewer seats offered every day, and we're carrying more passengers." Kelly claims that Southwest has gained about $1 billion in revenue this past year by taking market share from its rivals.

Although he is quick to point out that it is difficult to determine just how much of that revenue increase is due to its "bags-flyfree" campaign, Kelly thinks that this policy is the biggest factor in its current financial success. "We can't prove to you it is the source of the (market share) shift, but what we can prove is the awareness," Kelly said. "The ad campaign has been very powerful. It has definitely penetrated the American traveler's consciousness. They definitely know that we don't charge for bags." Kelly believes that the airline's increase in revenues from its higher load factors dwarfs what it could have collected in bag fees.

A STRONG VALUE EQUATION

In addition to charging fees for checking bags, airlines are continually searching for ways to squeeze any dollar they can from customers. Some airlines charge a fee if you want to sit in an aisle or window seat. There are now booking fees, fees for checking in online or at the airport, and fuel surcharges. One airline even hinted that it might begin charging customers to use the onboard lavatory. All these new ways to make money make it difficult for customers to easily determine the actual price of a ticket. They also don't seem to be working as US Airways, Continental, United, Delta, and American combined lost almost $ 4 billion in 2015.

If Southwest was beginning to lose its low fare advantage, it is now evident that the airline has found a new way to compete on price. By not adding new fees, it is driving home the message that it is once again the cheaper choice. Combined with the fact that it has not cut services, customers are eager to board its planes. The tried and true method of increasing customer benefits while decreasing costs is working better than ever for Southwest.

Questions

1. What benefits do airline customers seek when they buy air travel tickets? Has Southwest done a better job than competitors of meeting the needs of these air travelers? In what ways?
2. How has Southwest executed value-based pricing?
3. What are the benefits and risks to airlines of cutting costs? What impact are these factors now having on airline pricing and profitability?
4. Does the airline's current strategy truly differentiate it from its competitors? Is the strategy sustainable?
5. What marketing recommendations, including pricing recommendations, would you make to Southwest?

CASE TASK 7. Amazon.com

Founded by Jeff Bezos, Amazon.com started as the "world's largest bookstore" in July 1995. A virtual bookstore that physically owned no books, Amazon.com promised to revolutionize retailing. Although some

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may debate whether it accomplished that, Bezos clearly blazed a trail of e-commerce innovations that many have studied and followed.

Amazon.com set out to create personalized storefronts for each customer by providing more useful information and more choices than could be found in your typical neighborhood bookstore. Readers can review books and evaluate them on a one- to five-star rating scale, and browsers can rate the reviews for helpfulness. Amazon.com's personal recommendation service aggregates data on buying patterns to infer who might like which book. The site offers peeks into books' contents, index, and beginning pages with a "search inside the book" feature that also lets customers search the entire text of 120,000 books—about as many titles as are in a Barnes & Noble bookstore. Amazon.com's one-click shopping lets buyers make purchases with one click.

Over the years, Amazon.com has diversified its product lines into DVDs, music CDs, computer software, video games, electronics, apparel (clothes), furniture, food, toys, and more. In addition, it has established separate Web sites in Canada, the United Kingdom, Germany, France, China, and Japan. Amazon.com continued to expand its product offerings with the 2007 launch of Amazon Video On Demand, allowing consumers to rent or purchase films and television shows on their computers or televisions. Later that year, Amazon.com introduced Amazon MP3, which competes directly with Apple's iTunes and has participation from all the major music labels. The company's successful product launch was the Amazon-branded Kindle, an electronic book reader that can deliver hundreds of thousands of books, magazines, blogs, and newspapers wirelessly in a matter of seconds. As thin as a magazine and light as a paperback, the device was Amazon.com's number one selling product in 2009.

To overcome the lag between purchase and delivery of product, Amazon.com offers fast, inexpensive shipping. For a $ 79 annual fee, Amazon.com Prime provides unlimited free express shipping for most items. While free shipping and price cuts are sometimes unpopular with investors, Bezos believes it builds customer satisfaction, loyalty, and frequency of purchase orders.

Amazon.com has established itself as an electronic marketplace by enabling merchants of all kinds to sell items on the site. It powers and operates retail Web sites for Target, the NBA, Timex, and Marks & Spencer. Amazon.com derives about 40 percent of its sales from its million-plus affiliates called "Associates," independent sellers or

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businesses that receive commissions for referring customers who then make a purchase at the Amazon.com site. Associates can refer consumers to Amazon.com through a variety of ways, including direct links and banner ads as well as Amazon Widgets, miniapplications that feature Amazon.com's wide selection of products.

Amazon.com also launched an affiliate product called aStore, which gives Associates the ability to create an Amazon-operated online store easily and without any programming knowledge. Amazon.com then supports these merchants by providing new tools for their Web site, offering access to Amazon.com's catalog of products, and handling all payments and payment security through its Web Services. Amazon.com can also "pick, pack and ship the products to the merchant's customers anytime and to any place" through its Fulfillment by Amazon (FBA). This essentially creates a virtual store for the third-party merchants with low risk and no additional cost.

One key to Amazon.com's success in all these different ventures was a willingness to invest in the latest Internet technology to make shopping online faster, easier, and more personally rewarding for its customers and third-party merchants. The company continues to invest in technology, is focused on the long-term, and has successfully positioned itself as a technology company with its wide range of Amazon Web Services. This growing collection of infrastructure services meets the retailing needs of companies of virtually all sizes.

From the beginning, Bezos stated that even though he started as an online bookstore, he eventually wanted to sell everything through Amazon.com. Now, with more than 600 million annual visitors, the company continues to get closer to that goal with revolutionary products like the Kindle and cloud computing Web services.

Questions

1. Why has Amazon.com succeeded online when so many other companies have failed?

2. How is distribution organized in the company? Describe the distribution channels in the company?

3. Was the Kindle a revolution in the book industry? Why or why not?

4. What's next for Amazon.com? Where else can it grow?

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CASE TASK 8. Pepsi:Can a Soda Really Make the World a Better Place?

Rather than continuing with the same old messages of the past, focusing on the youthful nature of the Pepsi Generation, and using the same old mass-media channels, Pepsi is taking a major gamble by breaking new ground with its advertising program. Its latest campaign, called Pepsi Refresh, represents a major departure from its old promotion efforts in two ways: (1) The message centers on a theme of social responsibility, and (2) the message is being delivered with a fat dose of social media.

At the center of the campaign is the Pepsi Refresh Project. PepsiCo has committed to award $20 million in grants ranging from $5,000 to $ 250,000 to organizations and individuals with ideas that will make the world a better place. The refresheverything .com Web site greets visitors with the headline, "What do you care about?" PepsiCo accepts up to 1,000 proposals each month in each of six different areas: health, arts and culture, food and shelter, the planet, neighborhoods, and education. Then crowdsourcing takes over, as consumers vote for their favorites. Pepsi awards the grants each month.

INTEGRATING DIGITAL THROUGHOUT THE PROMOTIONAL MIX

The Pepsi Refresh campaign has been a groundbreaking effort, in part because of its heavy use of social media. The company is quick to point out that Pepsi Refresh is not a social media add-on like almost others, where an ad simply directs people to a Web site. Nor is it a social media campaign as such, where the entire campaign takes place through social media. Rather, social media are the glue that holds together a truly integrated marketing communications effort.

PepsiCo is not ditching broadcast media. To the contrary, Pepsi is running spot ads on the main networks as well as 30 different cable channels. The ads initially informed people about the Pepsi Refresh campaign, directing them to the refresheverything.com site. But shortly after the first grants were awarded, ads began highlighting projects that had been funded. Traditional media efforts extend to 10 print publications as well. And PR plays a role through agreements such as the one with NBC Universal for paid pitches on the "Today" show.

The world's number two soft drink seller is shifting as much as one-third of its marketing budget to interactive and social media.

The refresheverything.com Web site is just one component of the brand's online efforts. PepsiCo is spreading the message through the big networks, such as Facebook and Twitter, and even partnering with them for advertising opportunities. PepsiCo even partnered with Spin magazine, music festival South by Southwest, and two Indie bands in a Web-based contest where music lovers could vote for their favorite.

As another component of the integrated campaign, the company has not shied away from using celebrity endorsers. Among various celebrities, Pepsi has recruited Demi Moore; NFL players Mark Sanchez, DeMarcus Ware, and Drew Brees; and NASCAR veterans Jeff Gordon, Dale Earnhardt Jr., and Jimmie Johnson to apply for grants and act as spokespersons for the project. These celebrities are vying for votes to award grants to such organizations as the Girls Education and Mentoring Service, the American Cancer Society, and the Brain Aneurysm Foundation.

PepsiCo is also getting its message out to consumers at the point of purchase. Cans, bottles, and multipacks feature updated graphics that minimize an all lowercase Pepsi logo written vertically and highlights a new Pepsi brand mark: a large circle with swaths of red, white, and blue. That symbol replaces any "o" in Pepsi's packaging and promotional materials. Thus, both "Do Some Good" and "Doing Good 101" each carry four of the new Pepsi circles. To draw people into retailer outlets to see the point-of-purchase (POP) materials and hopefully buy its soft drinks, Pepsi has partnered with Foursquare, the social network that connects people through GPS in real time. Foursquare members are directed to Pepsi retailers and given offers as an incentive for them to visit.

DOING WELL BY DOING GOOD

Despite the growth of cause-related marketing, PepsiCo's effort is perhaps the first example of a major brand making social responsibility the main theme of its campaign, rather than an add-on.

Projects funded thus far are too numerous to list. But they include more than high-profile efforts like the celebrity campaigns. Many awards are being given to everyday people just trying to improve their own little corners of the world.

All this cutting edge promotion and the effort to change the world are wonderful. But at the end of the day, PepsiCo has to sell soft drinks. After all, it is the fiftieth largest publicly held corporation in the Fortune 500. Pepsi is also the 23rd most valuable brand in the world according to Interbrand. If this experiment fails to support sales of its core brand,

PepsiCo will no doubt abandon its innovative promotion efforts and return to its old ways.

But PepsiCo remains extremely optimistic. In the first few months of the campaign, the number of Facebook fans doubled. The company formerly got a Twitter tweet every five minutes or so. Now, it receives more tweets per minute than a person can read. But just what is the value of a Facebook or a Twitter fan? Although many advocates of social networking say questions like that are irrelevant, budget-strapped chief marketing officers want to see return on investment. Using standard research methods, PepsiCo will be measuring whether or not this campaign merits the expense.

Pass or fail, many observers inside and outside PepsiCo will learn much from this first-of-its-kind social media and social responsibility campaign.

Questions

1. List all the promotional mix elements used in the Pepsi Refresh campaign. What grade would you give PepsiCo on integrating these elements into an integration marketing communications campaign?

2. Describe PepsiCo's target audience. Is the Pepsi Refresh campaign consistent with that audience?

3. As completely as possible, analyze the campaign according to the steps listed in the Topic 12 for developing effective marketing communication.

4. Will the Pepsi Refresh campaign be successful? Why or why not?

CASE TASK 9. HP: Overhauling a Vast Corporate Sales Force

Imagine this scenario: You need a new digital camera. You're not sure which one to buy or even what features you need. So you visit your nearest electronics superstore to talk with a salesperson. You walk through the camera section but can't find anyone to help you. When you finally find a salesperson, he yawns and tells you that he's responsible for selling all the products in the store, so he doesn't really know all that much about cameras. Then he reads some information from the box of one of the models that you ask about, as if he is telling something that you can't figure out for yourself. He then suggests that you should talk to someone else. You finally find a camera-savvy salesperson. However, after

answering a few questions, she disappears to handle some other task, handing you off to someone new. And the new salesperson seems to contradict what the first salesperson said, even quoting different prices on a couple of models you like.

That imaginary situation may actually have happened to you. If so, then you can understand what many business buyers face when attempting to buy from a large corporate supplier. This was the case with business customers of technology giant Hewlett Packard before Mark Hurd took over as HP's CEO a few years ago. Prior to Hurd assuming command, HP's revenues and profits had flattened, and its stock price had plummeted. To find out why, Hurd first talked directly with 400 corporate customers. Mostly what he heard were gripes about HP's corporate sales force.

Customers complained that they had to deal with too many salespeople, and HP's confusing management layers made it hard to figure out whom to call. They had trouble tracking down HP sales representatives. And once found, the reps often came across as apathetic, leaving the customer to take the initiative. HP reps were responsible for a broad range of complex products, so they sometimes lacked the needed depth of knowledge on any subset of them. Customers grumbled that they received varying price quotes from different sales reps, and it often took weeks for reps to respond to seemingly simple requests. In all, HP's corporate customers were frustrated, not a happy circumstance for a company that gets more than 70 percent of its revenues from businesses. But customers weren't the only ones frustrated by HP's unwieldy and unresponsive sales force structure. HP was organized into three main product divisions: the Personal Systems Group (PSG), the Technology Solutions Group (TSG), and the Image and Printing Group (IPG). However, HP's corporate sales force was housed in a fourth division, the Customer Sales Group (CSG). All salespeople reported directly to the CSG and were responsible for selling products from all three product divisions. To make matters worse, the CSG was bloated and underperforming. According to one reporter, "of the 17,000 people working in HP's corporate sales, only around 10,000 sold directly to customers. The rest were support staff or in management." HP division executives were frustrated by the CSG structure. They complained that they had little or no direct control over the salespeople who sold their products. And multiple layers of management slowed sales force decision making and customer responsiveness.

Finally, salespeople themselves were frustrated by the structure. They weren't being given the time and support they needed to serve their customers well. Burdened with administrative tasks and bureaucratic red tape, they were spending less than one-third of their time with customers. And they had to work through multiple layers of bureaucracy to get price quotes and sample products for customers. "The customer focus was lacking," says an HP sales vice president. "Trying to navigate inside HP was difficult. It was unacceptable."

As Hurd peeled back the layers, it became apparent that HP's organizational problems went deeper than the sales force. The entire company had become so centralized, with so many layers of management, that it was unresponsive and out of touch with customers. Hurd had come to HP with a reputation for cost-cutting and ruthless efficiency. Prior to his new position, he spent 25 years at NCR, where he ultimately headed the company. Although it was a considerably smaller company than HP, Hurd had it running like a well-oiled machine. Nothing bothered him more than the discoveries he made about HP's inefficient structure.

Thus began what one observer called "one of Hurd's biggest management challenges: overhauling HP's vast corporate sales force." For starters, Hurd eliminated the CSG division, instead assigning salespeople directly to the three product divisions. He also did away with three layers of management and cut hundreds of unproductive sales workers. This move gave divisional marketing and sales executives direct control over a leaner, more efficient sales process, resulting in speedier sales decisions and quicker market response.

Hurd also took steps to reduce salesperson and customer frustrations. Eliminating the CSG meant that each salesperson was responsible for selling a smaller number of products and was able to develop expertise in a specific product area. Hurd urged sales managers to cut back on salesperson administrative requirements and improve sales support so that salespeople could spend more quality time with customers. As a result, salespeople now spend more than 40 percent of their time with customers, up from just 30 percent before. And HP salespeople are noticing big changes in the sales support they receive:

Salesman Richard Ditucci began noticing some of the changes late last year. At the time, Ditucci was trying to sell computer servers to Staples. As part of the process, Staples had asked him to provide a sample server for the company to evaluate. In the past, such requests typically took two to three weeks to fulfill because of HP's bureaucracy. This time,

Ditucci got the server he needed within three days. The quick turnaround helped him win the contract, valued at several million dollars.

To ensure that important customers are carefully tended, HP assigned each salesperson three or fewer accounts. The top 2,000 accounts were assigned just one salesperson – "so they'll always know whom to contact." Customers are noticing differences in the attention that they get from HP salespeople:

James Farris, a senior technology executive at Staples, says HP has freed up his salesman to drop by Staples at least twice a month instead of about once a month before. The extra face time enabled the HP salesman to create more valuable interactions, such as arranging a workshop recently for Staples to explain HP's technology to the retailer's executives. As a result, Farris says he is planning to send more business HP's way. Similarly, Keith Morrow, chief information officer of convenience store chain 7-Eleven, says his HP sales representative is now "here all the time" and has been more knowledgeable in pitching products tailored to his business. As a result, last October, 7-Eleven began deploying in its U.S. stores 10,000 HP pen pads – a mobile device that helps 7-Eleven workers on the sales floor.

A SALESMAN AT HEART

Once the new sales force started to take shape, Hurd began to focus on the role of the client in the sales process. The fact that HP refers to its business buyers as "partners" says a lot about its philosophy. "We heavily rely on [our partners]. We look at them as an extension of the HP sales force," Hurd said. To strengthen the relationship between HP and its partners, HP has partners participating in account planning and strategy development, an activity that teams the partners with HP sales reps and its top executive team.

Because Hurd wants the sales force to have strong relationships with its partners, he practices what he preaches. He spends up to 60 percent of the year on the road with various channel partners and *their* customers. Part of his time is funneled through HP's Executive Connections program, roundtable meetings that take place worldwide. But many of Hurd's interactions with HP partners take place outside that program as well. This demonstration of customer commitment at the highest level has created some fierce customer loyalty toward HP.

"I've probably met Mark Hurd more times in the last three or four years than all the CEOs of our other vendors combined," said Simon Palmer, president of California-based STA, one of HP's fastest growing

solution provider partners. “There’s no other CEO of any company that size that’s even close. He’s such a down-toearth guy. He presents the HP story in very simple-to-understand terms.” Mark Sarazin, executive vice president of AdvizeX Technologies, an HP partner for 25 years, sings similar praises. “He spent two-and-a-half hours with our customers. He talked in terms they could relate with, about his own relationship with HP IT. He knocked the ball out of the park with our 25-plus CIOs who were in the room. One said it was the best event he’d been to in his career.”

In the four years since Hurd took over as CEO, HP’s revenues, profits, and stock price have increased by 44 percent, 123 percent, and 50 percent, respectively. Still, with HP’s markets as volatile as they’ve been, Hurd has taken HP into new equipment markets as well as gaining a substantial presence in service solutions. Each time the company enters a new market and faces new competitors, the HP sales force is at the center of the activity. In an effort to capture market share from Dell, Cisco, and Lexmark in the server market, HP opened a new sales operation in New Mexico called the SMB Exchange. It combines a call center, inside sales, and channel sales teams. Observers have noted that whereas HP’s sales force was known for being more passive in the past, it is now much more aggressive – like Cisco’s.

Hurd knows that because of HP’s enormous size, it walks a fine line. In fact, he refers to the company’s size as a “strange friend.” On the one hand, it allows the company to offer a tremendous portfolio of products and services with support from a massive sales force. On the other hand, multiple organizational layers can make it more difficult to create solutions for partners and customers. Hurd is doing everything he can to make HP leaner and meaner so that it can operate with the nimbleness and energy of a much smaller company.

Questions

1. Which of the sales force structures described in the text best describes HP’s structure?

2. What are the positive and negative aspects of HP’s new sales force structure?

3. Describe some of the differences in the selling process that an HP sales rep might face in selling to a long-term established customer versus a prospective customer.

4. Given that Hurd has an effective sales force, does he really need to meet with HP partners as much as he does?

5. Is it possible for HP to function like a smaller company? Why or why not?

CASE TASK 10. Nokia: Envisioning a Connected World

Few companies lead their industries the way that Nokia does. Half of the world's population holds an active cell phone, and more than one in three of those phones is a Nokia. That's over one billion people holding a cell phone with a Nokia logo. Perhaps even more amazing, the company sells half-again that many – about half a billion – phones every year. In fact, Nokia sells more cell phones each year than its three closest rivals – Samsung, Motorola, and Sony-Ericsson – combined!

You might think that Nokia has accomplished this feat by being the product leader, always introducing the latest cutting-edge gadget. But Nokia has actually been slow to take advantage of design trends, such as clamshell phones; "candy-bar" phones that slide open and closed; and ultrathin, blingy, multifunction phones. Rather, Nokia has risen to global dominance based on a simple, age-old strategy: sell basic products at low prices. Nokia mass produces basic reliable hardware cheaply and ships it in huge volumes to all parts of the world.

GAINING STRENGTH AS THE VOLUME LEADER

Based in Finland, Nokia's single most profit- and revenue-generating region is Europe. But the company's global strategy has been likened to that of Honda decades ago. Honda started by focusing on developing markets with small motorbikes. As the economies of such countries emerged and people could afford cars, they were already loyal to Honda.

Nokia has followed that same model. It sells phones in more than 150 countries, and in most of those countries, it is the market leader. Nokia has a real knack for forging regional strategies based on the overall needs of its consumers. But Nokia has filled its coffers by understanding the growth dynamics of specific emerging markets. Soren Peterson, Nokia's senior vice president of mobile phones, understands that concept more than anyone. He spends a great deal of his time studying the needs of consumers in emerging markets. And for the most part, these consumers need cheap phones.

To that end, Petersen has led Nokia on a crusade to bring down costs and make its phones even less expensive. Petersen cites an example of one cost-cutting tactic that sparked a chain of events at Nokia. While on a visit

to Kenya, he stopped by an "excessively rural storefront," where he noticed that all products were displayed in plastic bags. When he asked the merchant where the boxes and manuals had gone, the man replied, "Make good fire." Petersen quickly realized that packaging for many areas of the world barely needed to "last the journey." Packaging changes resulted in a savings of $147 million a year.

Among other notable discoveries for emerging markets, Nokia developed an icon-based interface to replace text, a welcome innovation for many people in the world who don't know how to read. Nokia has even developed an inexpensive charging kit for bicycles with a dynamo that attaches to the wheel and a phone holder for the handlebars. At 7.5 miles per hour, it charges as fast as a traditional wall charger.

CAPITALIZING ON MARKET LEADERSHIP

Just as Honda used strength gained from selling motorbikes in emerging countries to establish itself as a manufacturer of virtually every kind of passenger vehicle, Nokia aims to do the same in the mobile industry. Although Nokia remains committed to the entry-level market and emerging nations, it has developed a comprehensive global strategy. According to Nokia's vision statement, that strategy has three facets: growing the number of people using Nokia devices, transforming the devices people use, and building new businesses.

For the first part of this plan, Nokia projects that global cell phone usage will reach five billion users by 2015. That means Nokia can significantly increase the number of phones it sells, even if it doesn't increase its market share. In fact, if Nokia simply holds its current share of the market, that means that approximately 1.7 billion people will be holding Nokia phones, 67 percent more than today.

As for transforming the devices that people use, Nokia is aiming to become more than just an entry-level phone provider. Of its 123,000 employees, almost one-third work in R&D, and R&D expenses account for approximately 10 percent of net sales. Beyond selling lots of phones, Nokia is also one of the most trusted brands in the world. With a brand value of $35 billion, it's the fifth-most-valuable brand in the world. "The trust is so high, it has less trouble than other brands getting a customer back who may have tried out a competing brand," says a branding expert.

Nokia also recognizes that the biggest trends in mobile devices are music, navigation, and gaming. Focusing on these activities, it is collaborating with the best minds in the business to find ways to add value

for the consumer. Nokia appears poised to take advantage of the convergence of the Internet, media, and the cell phone. Last year, Nokia sold more than 200 million camera phones (far more cameras than Canon) and more than 140 million music phones (Apple only sold 52 million iPods).

This creates a logical transition to the third leg of Nokia's strategy, building new businesses. In an effort to gain income from existing devices, Nokia has opened its "Ovi Store." The goal is to accomplish something that has eluded many mobile network operators – building a profitable business in mobile services. The Ovi Store is a one-stop shop that connects consumers with content providers through their Nokia phones. Users can access apps, games, videos, widgets, podcasts, location-based services, and personalized content. Nokia customers all over the planet now download more than one million apps per day; that's not close to the 30million apps downloaded from Apples iTunes store, but it's a start.

Nokia continues to develop a host of mobile services, including Nokia Home Control Center (lets users interact with home appliances and devices), and various satellite location services. Not only has the cell phone giant invested a great deal of money in these projects, it is has also lured executives from Yahoo!, Microsoft, eBay, and IBM and is collaborating with numerous other corporations to help build these business ventures.

STORM ON THE HORIZON

Growth in smartphones is fast outpacing the growth of the overall market. Although global sales of mobile handsets surged 17 percent in the first quarter of 2012, most of that was due to the increasing hunger for smartphones, which grew by a whopping 40 percent, the strongest annual increase for the category since 2006. Despite Nokia's R&D efforts to expand its portfolio of high-end devices, the company still lags in that area. Smartphones are the only phones that Apple makes, so it is poised to enjoy the lion's share of market growth. For example, Apple sold 83 percent more iPhones in 2009 than it did the year before, a bigger bump than any other company. In terms of market share, that translates to a jump from 3 percent of the global smartphone market to more than 13 percent.

Nokia still holds the title not only for the most phones sold but also for the most smartphones, with a 39 percent share. But Apple has hit another home run with its new iPhone4. On the first day of preorders, the company sold 600,000 units (a company record) despite the fact that higher than expected volume crashed the servers at both Apple's online store and

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Compiled by *T. G. Filchuk*, senior lecturer

Reviewer: associate professor of the department "Economics" of the Educational Institution "Sukhoi State Technical University of Gomel" Ph.D.. associate professer *M. N. Andriyanchikova*

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