

Principles and process involved in
formulating a marketing strategy

Introduction

Marketing is one of the main drivers of any business and it has gained more prominence in today's dynamic business environment where customers have a lot of choice and there is an increased need to be close to customers. As competition increases and external environment changes, there is a need to be on toes and keep a track of them along with customers.

Marketing strategy allows a company to identify the resources available and use them for the greatest opportunities that would allow them to achieve their objectives and maintain competitive advantage. With a multitude of available options, it is essential to arrive at marketing objectives and then derive at a strategy to achieve the same. This report talks about various principles and processes involved in formulating a marketing strategy and how those processes can be useful.

Internal and External Factors

Marketing strategy has to be designed so that internal resources are used to adapt and play with external factors and maintain competitive advantage. Hence, it is essential to talk about both the factors. This report first talk about the processes involved for identifying important external factors and then talks about the ways in which internal factors can be used to achieve competitive advantage.

External Factors

Marketing research

According to Burns and Bush(2007, pp 8), *the purpose of marketing research is to link the consumer to the marketer by providing information that can be used in marketing decisions.* Competition has intensified over the years and it has become important to understand the customers in order to design products and services as well as marketing campaigns. In primary research, consumers are contacted directly and data is collected from them, while secondary research uses data obtained from third parties such as government agencies or data collecting companies. Usage of one technique over the other depends on the data and budget, but overall there are certain advantages of both the techniques.

Advantages of primary research are:

- This is more focused and data collection can be done according to the exact needs of the company.
- Breakup of the secondary data might not be useful. With primary research data can be arranged in the way desired.
- Primary research gives the most recent data.

Advantages of secondary research are:

- It is inexpensive as compared to primary research and involves lesser effort
- Secondary data can be obtained quickly
- Secondary research can be easily done from remote location

Very often, companies use a mix of primary and secondary research and obtain data from both internal as well as external sources. Some of the data available from internal sources are:

- Customer data from the adjoining areas
- Sales data from the same region regarding another product or regarding same product from an identical region. This data can be available region-wise, segment-wise, product-wise etc
- Financial data including available cash, cost of production, procurement and marketing.

Major sources of external information are:

- Government data including population census, GDP, import/export, industrial activity and production statistics.
- Publication by trade associations.
- Market research report from third parties.
- Journals, articles, university reports and bank reports.

Internal and external data is used in conjunction to conduct a sound marketing research.

PESTLE Analysis

PESTLE analysis refers to political, economic, social, technological, legal and environmental factors (Henry, 2008). This tool is useful in studying external environment where a business is conducted or where an organization is planning to start a business. The factors refer to:

- Political: Amount of government intervention and policies in the environment. This determines how investor friendly a country is and how easy or difficult it would be to get permissions.
- Economic: Includes factors such as interest rates, economic growth and inflation rate. This affects on how fast a company can grow and operate.
- Social: Includes cultural aspects, demographics, population growth etc. This determines the demand for company's products and how that can change in future.
- Technological: Includes technical capabilities, R&D activities and automation. This determines various barriers to entry, and decisions to outsource.
- Legal: Include various laws such as employment law, consumer law etc. This affects how a company operates and also whether certain products can be launched.
- Environmental: Includes aspects such as climate, weather, rainfall etc. This can determine how a company set up its operations and manufacturing processes.

Porter's five forces model

Porter's analysis refers to study of five forces that define competitive scenario for a business. Apart from industry rivals, the competitive forces that affect a business include customers, suppliers, potential entrants and substitute products (Porter, 2008). The five competitive forces as defined by Porter are:

1. Threat of new entry
2. Competition among existing players
3. Threat of substitutes
4. Buyer power
5. Supplier power

Porter's five force analysis provides a good overall understanding of all the areas around the business.

Internal Factors

This set of analysis allows a company to identify the inherent strengths and weaknesses as well as the resources available. Various models and processes used are:

SWOT Analysis

SWOT Analysis refers to strength, weakness, opportunities and threats associated with an industry and the company in question (Kotler, 1991). It allows top management to identify the attractiveness of an industry, and whether the company is capable of gaining a competitive advantage. A sample SWOT analysis for IKEA is presented below

Strengths:

- IKEA has expanded to countries in Europe, United States, Russia, Japan and China leading to diversification of risks.
- IKEA enjoys high customer recall as well as strong brand image making them preferable over other competitors.
- IKEA employs a mix of global and local strategy while conducting business, allowing them to take advantage of global image and local preferences.

Weakness:

- Majority of sales for the company is derived from North America and Western Europe that are matured.
- IKEA's business model of "do it yourself" might not work in some countries where labor cost is low and people prefer to get work done by professionals.

Threats:

- An economic downturn will have a negative impact on the sales and profitability. Sales of IKEA were hit badly during recent economic downturn.
- Retail chains such as Wal-Mart and Tesco are posing a competitive threat in the developed market as well as developing ones, where they are expanding rapidly.

Opportunity:

- IKEA can enter growing markets of Asia and keep up the growth momentum as growth slows down in Western markets.
- IKEA can take advantage of the growth of Internet and expand its footprint in online retailing.

Marketing Processes

Based on marketing research and analysis of internal and external factors, companies then decide on the marketing processes that are to be adopted. Some of the important ones are discussed below:

Segmentation

According to Weinstein (2004, pp4) market segmentation is the process of *portioning market into groups of potential customers with similar needs and/or characteristics who are likely to exhibit similar purchase behavior*. Objective of such a process is to analyze and understand market, identify opportunities and use or develop competitive edge to capitalize on those opportunities. Specifically, following benefits are realized by companies by segmenting the market:

- Products and services can be differentiated to make them more suitable for the targeted customers
- Additional hidden requirements of customers can be uncovered and essential changes can be made to the offering
- Most responsive and appropriate part of the market can be identified. This would allow a company to focus on a set of customers and can potentially make the company a market leader
- Marketing tools can be used more efficiently and effectively based on segmented market
- Marketing campaigns can be designed according to the target market derived after segmentation.
- Most profitable and least profitable customers can be identified and brand loyalty can be increased among most profitable customers.

Branding

Healey (2008) defines a brand as a promise of satisfaction and emphasis that good branding reinforces reputation, generates loyalty and assure quality. Few companies in this world has developed a brand as strong as Coca Cola

Coca Cola has been successful in creating brand loyalty among its consumers. This is a result of sustained marketing efforts starting from early 20th century. Right from early days Coca Cola focused on organizations, universities and colleges, apart from usual advertising through bill boards and newspapers. This increased sales while promoting the brand name. Today, the company has fan pages on all major networking sites including facebook and twitter. Coca Cola is directly able to engage with customers through these websites. Branding has made Coca Cola recognizable across the globe and customers everywhere buy its beverages with assurance of high quality product.

Marketing Mix

All the marketing elements can be designed to improve one of the four aspects of marketing by a business – product, price, place and promotion. These are known as marketing mix and forms backbone of any marketing campaign.

- **Product:** This refers to the offering of a product or service and include aspects such as color, packaging and associated services. It includes all the aspects and benefits that customers get on purchasing a product or service.
- **Price:** This refers to the amount charged for the product and services and is one of the most important aspects of the marketing mix. Price vs quality perception of a product/service determines the potential of buying the product/service.
- **Place:** This refers to the location where product or service is sold. In case of products such as consumer goods, it would refer to retail channels while for others it would refer to how easily customers can avail of the products or services.
- **Promotion:** This refers to the advertisements and promotional campaigns launched through various mediums. This is used to build brand awareness as well as perceptions. This includes mass marketing campaigns as well as targeted campaigns.

Promotional Campaigns

A promotional campaign consists of using advertising, sales promotion, public relations and personal selling in order to promote a product or service. Various internal and external factors influence a promotional campaign.

Some of the external factors remain same as the ones that comprise of PESTLE analysis. Those factors refer to the macro environment factors. Other external factors would include marketing practices adopted by competitors as well as strengths of their products and/or services.

Further, every promotional campaign is designed for achieving specific marketing objectives. Some of these objectives can be:

- Communicate the availability of products or services to the customers. The communication can also be related to a promotions, discounts or offers.
- Increase market share by attracting more customers while ensuring that the existing customers remain loyal. Various product features and offers can be highlighted in order to attract customers.
- Position the product/service in the market. This is done to create an impression of the product in the mind of the customers. This would differentiate products from the competitors and help create competitive advantage.
- Stabilizing sales during off season or other periods of dropping sales. Promotion can be used as a quick measure to check dropping sales and get it back on track.

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