Strategic Marketing Analysis

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Sales growth is a key factor for achieving sustainable profitability. Understanding the key factors influencing sales volume and identifying strategies for effectively managing sales growth are important aspects of a company's strategic planning and are the focus of this chapter. In particular, this chapter examines the two core strategies for increasing the sales volume of a company's offerings: managing product adoptions by new customers and managing product usage by current customers.

Managing Product Adoption

To identify the optimal strategy for increasing sales volume, a company first needs to understand the process by which its target customers adopt new products, then to identify the impediments to new product adoption in different stages of the process, and finally, to develop an action plan to remove these impediments. These different aspects of managing product adoption are discussed in more detail in the following section.

The Product Adoption Process

From a customer's perspective, product adoption can be viewed as a multi-stage process in which each stage identifies a factor necessary for product adoption. In particular, six such factors can be distinguished: awareness, understanding, attractiveness, affordability, availability, and purchase intent. This view of product adoption implies that, in order for customers to adopt an offering, they should (1) be aware of its availability, (2) understand its value proposition, (3) perceive the offering to be attractive, (4) perceive it to be affordable, (5) have access to the offering, and (6) intend to purchase it within a particular timeframe (Figure 1).

Figure 1: The Product Adoption Process

The six key steps of product adoption can be summarized as follows:

- **Awareness** reflects customers' knowledge of the availability of the offering. Awareness can be generated by the company's direct communications to its target customers, by communications initiated by the company's collaborators (distribution partners, supplier partners, co-developers, and co-promoters), as
well as by third-party communications, such as word-of-mouth, media coverage, and noncompensated endorsements.

- **Understanding** reflects customers' comprehension of the benefits and costs of the offering. Understanding the value of the offering goes beyond simply being aware of the existence of the offering; it must include comprehension of its benefits and costs. As in the case of creating awareness, understanding the value of the offering can be facilitated by the company's direct communications to its target customers, by communications initiated by the company's collaborators, and by third-party communications.

- **Attractiveness** reflects the utility customers expect to receive from the offering. This implies that consumers should not only be aware of the offering's existence and understand its benefits and costs, but should also find this offering's value proposition attractive. An offering's attractiveness is a function of two factors: its intrinsic value, which reflects the offering's innate ability to deliver value to its target customers in the absence of competitive offerings, and its competitive advantage, which reflects the offering's ability to deliver value superior to that of competitors' offerings. Thus, attractiveness reflects an offering's ability to satisfy a particular need of target customers better than competitors' offerings can.

- **Affordability** reflects customers' perceptions of the monetary cost of the offering with respect to their ability to pay for it. Thus, affordability implies that consumers not only find the offering attractive, but can also come up with the money to acquire it. Because affordability is a function of customers' financial resources, it often is the key impediment to product adoption in developing countries, as well as in financially strained demographics.

- **Availability** reflects the degree to which the offering is accessible by target customers. An offering's availability is a function of factors such as the density of the distribution channels catering to its target customers, as well as the availability of the offering in these channels on a day-to-day basis (e.g., absence of stock-outs).

- **Purchase intent** reflects customers' intention to purchase the offering within a particular timeframe. Thus, even though customers may find the company's offering attractive, affordable, and accessible, they may not necessarily have the intention to purchase it within the timeframe outlined by the company's sales goals.

- **Purchase** involves customers' actual acquisition of the offering. Purchase intent does not necessarily translate into an actual purchase: Numerous factors can either delay the intended action (e.g., anticipation of future price cuts) or void the purchase intent altogether (e.g., the introduction of a superior competitive offering).

### Identifying and Closing Adoption Gaps

A useful approach to managing product adoption involves identifying and eliminating impediments at the different stages of the adoption process. One ap-
proach to removing such impediments begins with identifying the dispersion of customers across different stages of the adoption process. Consider the scenario illustrated in Figure 2 below.

Figure 2. Analyzing Product Adoption: The Decision Tree Approach

Here, 78% of all target customers are aware of the company's offering; 71% are both aware of the offering and understand its value; 63% are aware of the offering, understand its value, and find it attractive; 57% are aware of the offering, understand its value, and find it attractive and affordable; 49% are aware of the offering, understand its value, find it attractive, affordable, and have access to the offering; 42% are aware of the offering, understand its value, find it attractive, affordable, and available, and intend to purchase it within a given timeframe; and, finally, 33% actually purchase the offering within this timeframe. The dispersion of customers across different stages of the adoption process can be represented in the form of a decision tree whose branches indicate the state of target customers at each step of the adoption process.
The dispersion of customers across different stages of the adoption process can also be represented by a series of bars – a format that visualizes the potential hurdles in the adoption process (Figure 3). Here, the blank part of each bar corresponds to the share of potential customers who have not transitioned to the next stage of the adoption process, whereas the ratio of the blank part to the shaded part reflects the effectiveness of the company's actions at each step in acquiring new customers.

**Figure 3: Analyzing Product Adoption: The Gap Approach**

Comparing the loss of potential customers at each step of the process offers a simple way to identify steps with a disproportionate drop in product adoption. These disproportionate drops in the product adoption process are also referred to as **adoption gaps**. To illustrate, consider the adoption chart in Figure 4. It indicates that the largest drops occur in steps 2 (communicating the benefits of the offering) and 3 (perceived attractiveness of the offering). The next largest drop in adoptions occurs at the point of forming an intent to purchase the offering within the given timeframe (step 6).

**Figure 4: Identifying Adoption Gaps**

The gap analysis can be used both to pinpoint the problem spots in product adoption and to identify specific **solutions** to close adoption gaps. Some of the most
common solutions for closing performance gaps at the different stages of the adoption process are outlined below.

- **A gap at step 1** calls for increasing target customers' awareness of the offering. This can be achieved by optimizing company, collaborator, and third-party communications. In particular, optimizing company communications can be achieved by increasing the magnitude of communication expenditures and increasing the effectiveness and cost efficiency of these resources (e.g., by streamlining the message, developing a better creative solution, and using more effective media in a more cost-efficient manner). In addition to directly communicating the availability of the offering to target customers, the company also can involve some of its current collaborators to create awareness among target customers, as well as to identify new collaborators explicitly for the purpose of promoting the offering. Finally, the company may stimulate third-party communications that promote the offering (e.g., by encouraging product adoption by opinion leaders and facilitating the creation and functioning of early-adopter forums and user groups).

- **A gap at step 2** calls for increasing target customers' understanding of the true benefits and costs of the offering. As in the case of closing awareness gaps, a gap in customers' understanding of the offering's value can be closed by optimizing company, collaborator, and third-party communications. The key difference is that the focus of communications here is on improving the understanding of the value of the offering rather than simply creating awareness of its existence. In addition to using advertising, public relations, and personal communications, communicating the benefits of an offering can be effectively achieved by providing target customers with an option to experience the offering (e.g., using product samples and demos).

- **A gap at step 3** calls for improving the expected value of the offering. This typically can be achieved by reformulating/redesigning the offering to increase its perceived benefits and/or decrease its expected costs. This reformulation can involve permanent changes in the product, service, branding, and pricing aspects of the offering, as well as the use of incentives to improve the overall value proposition of the current offering.

- **A gap at step 4** indicates that target customers do not consider the offering to be affordable. For example, a customer may be aware of the existence of a Porsche GT, understand its benefits and costs, and find its value proposition attractive, yet not be able to afford its hefty price tag. One solution to increase sales volume in this case is to improve affordability of the offering. The intuitive solution is to lower the price or introduce price incentives targeting the desired customer segment. Lowering the price and introducing price incentives, however, while potentially increasing the sales volume, may eventually lead to a decline in sales revenues as well — a scenario that can occur when the marginal increase in the sales volume generated by the price cut cannot offset the decline in revenues associated with the drop in price. An alternative approach to circumvent the affordability barrier involves changing the perceived importance of the benefits provided by the of-
ferring so that customers reallocate additional resources to this offering in their budget planning.

- A gap at step 5 indicates that the offering is not available to all target customers. To illustrate, an offering may be in short supply because a company underestimated its appeal to target customers or because of inadequate distribution coverage. The logical solution to increase sales volume in this case is to improve the offering's availability. This can be achieved by (1) ramping up production to meet demand, (2) improving the geographical coverage of the offering's distribution channels to offer its target customers better accessibility to the offering, and (3) improving channel operations to minimize logistical stock-outs.

- A gap at step 6 indicates that target customers have no intention to purchase the offering within the timeframe set by the company. For example, a customer may have a general intention to buy a new car without having a specific timeframe in mind. The logical solution to increase sales volume in this case is to facilitate the formulation of purchase intent within the desired timeframe. Strategies to achieve this involve introducing time-sensitive incentives as well as making salient the immediate gratification from purchasing the offering.

- A gap at step 7 indicates that target customers fail to act upon purchase intention. To illustrate, a consumer may fail to act upon the intent to purchase the offering because of unexpected budgetary constraints. To increase sales volume in this case, a company needs to improve the conversion of the purchase intent into purchase behavior. As in the case of facilitating the formation of purchase intent, the conversion of this intent into actual behavior can be facilitated by introducing time-sensitive incentives, as well as making salient the immediate gratification from purchasing the offering.

Managing Product Usage

The discussion so far has focused on increasing sales volume by concentrating on product adoption by new customers. In addition to increasing adoption by new customers, in many cases, an offering's sales volume can also be increased by influencing its usage by current customers. To identify the optimal product usage strategy for increasing sales volume, it is important to first understand factors that determine the process by which customers repurchase the offering, identify impediments to achieving the desired product usage, and develop an action plan to remove these impediments. These aspects of managing product usage are discussed in more detail in the following sections.

Understanding the Product Repurchase Process

From a customer's perspective, product repurchase can be viewed as a multistep process in which each step identifies a factor that is essential for repurchase. In particular, five key factors in product repurchase can be distinguished: satisfaction, usage frequency, usage quantity, and repurchase intent (Figure 5).
The five key steps of product repurchase can be summarized as follows:

- **Satisfaction** reflects the degree to which customers find the offering attractive after having experienced it. Unlike the attractiveness stage in product adoption, which is based on customers' expectations of an offering's attractiveness, satisfaction reflects customers' postconsumption evaluation of the offering. Thus, satisfaction is a function of the customers' experience of the benefits and costs of the offering.

- **Frequency** reflects the rate at which customers use the offering. For example, in the case of toothpaste, frequency refers to the number of times people use toothpaste to brush their teeth. The frequency of usage is a function of factors such as customers' satisfaction with the offering, their awareness of the offering and its optimal usage frequency, their understanding of the optimal usage rate, the affordability of the offering and its availability for repurchase, as well as customers' existing usage habits.

- **Quantity** reflects the amount of the offering customers consume during each usage occasion. This step is relevant for offerings where the quantity consumed on a given usage occasion is determined by customers. For example, in the case of toothpaste, quantity refers to the amount of toothpaste people use to brush their teeth.

Based on the nature of the offering, two types of usage can be distinguished: **volume-based usage and time-based usage**. Volume-based usage reflects a scenario in which the usage quantity is determined by the actual amount of the item consumed on a given usage occasion (e.g., soft drinks, laundry detergent, toothpaste, and mobile phone service). In contrast, time-based usage reflects a scenario in which the product is offered in units, and each unit is used across multiple usage occasions (e.g., printer cartridges, water filters, and shaving blades). Here the usage quantity is determined by the number of occasions on which the item is used.

Similar to the case of usage frequency, usage quantity is a function of factors such as customers' satisfaction with the offering, their awareness of the optimal usage rate, their understanding of the optimal usage rate, the affordability of the offering, its availability for repurchase, and customers' existing usage habits. In addition, usage quantity is also a function of the physical characteristics of the offering, such as packaging size and usage management features (e.g., dosage cup in laundry detergents).

- **Repurchase intent** reflects customers' intent to repurchase the offering within a particular timeframe. Thus, customers' satisfaction with the offering does not guarantee that they will necessarily form an intent to repurchase the company's offering; they may instead decide to purchase a competitor's offering. Even if customers remain loyal to the company, this


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does not necessarily imply that they will form an intention to repurchase the offering within the timeframe determined by the company’s sales goals.

- Repurchase involves customer’s actual reacquisition of the offering. Formulating an intent to repurchase the offering in a given timeframe does not guarantee that customers will actually do so. A number of factors may either delay customers’ acting on their intent (e.g., anticipation of future price cuts) or lead to customers deciding not to repurchase the product (e.g., introduction of a superior offering).

Identifying and Closing Usage Gaps

A functional approach to managing product usage calls for identifying and eliminating impediments at the different stages of the repurchase process. This can be achieved by identifying the dispersion of customers across different stages of the usage process (Figure 6).

Figure 6: Identifying Gaps in Product Repurchase

Comparing the loss of potential customers at each stage of the repurchase process offers a simple way to identify stages in which there are disproportionate drops in product usage. These disproportionate drops are also referred to as usage gaps. In addition to pinpointing the hurdles in product repurchase, usage gap analysis also identifies specific solutions for closing these gaps. The most common solutions for closing usage gaps at the different stages of the repurchase process are outlined below.

- A gap at step 1 calls for improving customer satisfaction with the offering. This can be achieved by improving actual product performance, for example, by optimizing its design, functionality, and user friendliness.

- A gap at step 2 calls for increasing customers’ usage rate of the offering. This can be achieved by improving customers’ satisfaction with the offering, their awareness of the optimal usage rate, and their understanding of its benefits; by increasing the affordability of the offering and its availability for repurchase; and by changing customers’ usage-rate habits. To illustrate, in order to increase sales volume from its current customers, Campbell
Soup Company launched an advertising campaign to promote the use of its soup during summer. In the same vein, Arm & Hammer promotes baking soda not only for baking, but also as a household cleaner and deodorizer.

- A gap at step 3 calls for increasing the usage quantity of the offering. This can be achieved by improving customers' satisfaction with the offering, their awareness of the optimal usage quantity and their understanding of its benefits; by increasing the affordability of the offering and its availability for repurchase; and by changing customers' existing usage-quantity habits. For example, to change consumers' usage habits, many shampoo companies have included the word "repeat" in usage instructions.

Usage quantity can also be managed by reformulating and/or redesigning the product in a way that will lead to greater consumption. One approach to achieve this goal involves increasing the size of the packaging in categories where increased package size typically leads to a greater usage quantity (e.g., laundry detergents as well as many food and beverage products). For example, PepsiCo's introduction of the larger, 2-liter bottle in 1970 resulted in increased consumption of Pepsi products.

An alternative strategy involves designing the product in a way that ensures dispensing the optimal quantity per usage occasion. To illustrate, to increase the quantity of ketchup consumed at each usage occasion, Heinz introduced a plastic squeeze bottle, increased the size of the opening in the bottle neck, and designed the "upside-down bottle" in which ketchup is ready to be poured without having to wait for the contents to slide down to the opening of the bottle. Similarly, liquid laundry detergents often have caps that can be used to measure the optimal usage quantity, and solid detergents typically include measuring cups inside the box.

Using product design can also be effective in cases of time-based usage, where usage quantity is determined by the number of occasions on which the same item is used. For example, to encourage customers to replace their toothbrush, Gillette added blue indicator bristles on its Oral B toothbrush, which faded halfway to alert users of the need to replace their brush. The new design was prominently featured in its advertising: "When the blue is gone, it's time to move on."

- A gap at step 4 calls for facilitating the formulation of an intent to repurchase the offering within the desired timeframe. This can be achieved by creating awareness of the product's scarcity as well as by offering time-sensitive incentives encouraging customers to repurchase the offering within a specific timeframe. For example, printer manufacturers include toner-level indicators to alert users that the cartridge will soon need replacement. Similarly, to ensure that customers have milk in ready supply, the California Milk Processor Board launched the famous "Got Milk?" campaign in 1993, featuring scenarios in which customers consuming complementary products (e.g., chocolate-chip cookies and cereal) are deprived of milk.

- A gap at step 5 calls for improving the conversion of repurchase intent into repurchase behavior. As in the case of facilitating the formation of repur-
chase intent, the conversion of this intent into actual behavior can be facilitated by creating awareness of the product’s scarcity as well as by offering time-sensitive incentives encouraging customers to repurchase the offering within a specific timeframe. Ensuring an offering’s availability at the time of purchase is also an important factor in encouraging the desired repurchase behavior. Another important and often overlooked aspect of managing the conversion of repurchase intent into behavior involves ensuring continuity in the product’s appearance, functionality, and availability. Indeed, a dramatic change in an offering’s marketing mix (e.g., packaging, branding, pricing, and distribution) can result in customers reevaluating their purchase intent, postponing their purchase decision, or even switching to a competitor’s offering.

Relevant Concepts

**Market Size:** Monetary value of an existing or potential market, typically measured on an annual basis. Market size is also used in reference to the number of customers comprising a particular market.

**Penetration Rate:** The number of customers who have tried the offering at least once, relative to the total number of potential customers.

\[
\text{Penetration rate} = \frac{\text{Current and former customers}}{\text{Potential customers}}
\]

**Retention Rate:** The number of customers who have repurchased the offering during the current buying cycle (e.g., month, quarter, year) relative to the number of customers who have purchased the offering during the last cycle. Also used in reference to the number of customers who have repurchased the offering relative to the total number of customers who have tried the product at least once.

\[
\text{Retention rate} = \frac{\text{Active customers during the current period}}{\text{Active customers during the last period}}
\]

Additional Readings


Note

1 Note that the sequence of these steps in the adoption process may vary across products and customers. The model presented in Figure 1 reflects the most common sequence.