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Haas School of Business
University of California, Berkeley

MBA299M
Marketing Strategy
Fall 2009
TTh: 9:30 – 11:00am
C220

Miguel Villas-Boas
F691
W: (510)642-1250
H: (510)843-5515
e-mail: villas@haas.berkeley.edu
Course website: <http://faculty.haas.berkeley.edu/villas/MBA299M/>

1. Course Overview

The purpose of this course is to develop an understanding, the skill, and experience in formulating and planning marketing strategies. The course builds on the foundation developed in Marketing Management: A successful firm delivers value to customers better than its competitors. The first marketing core course focuses on introducing the basic elements which underlie the practice of marketing - segmentation, targeting, positioning, 4 Ps. In contrast, this course emphasizes *how to do* marketing: how to put these basic elements into practice is a strategic way.

The general idea behind marketing may be simple “make profit by meeting a need of a customer” but the art of putting it into practice is complex. A marketer always operates in an environment with constraints, where information is incomplete, and both competitors and customers act unpredictably.

The objective of this course is (1) to introduce participants to concepts and tools that enable marketers to manage and understand this complexity and (2) to provide participants with “hands on” experience in designing and implementing a marketing strategy in a competitive environment. Central concepts include competitive and buyer analyses, problem identification, the design of marketing strategies for existing and new product markets, and the allocation of resources across marketing mix elements and products. The course puts special emphasis on teamwork and the application of the technical and conceptual skills under time pressure.

2. Course Format

The course utilizes three methods to introduce participants to the practice of marketing strategy: a computer based simulation, lectures, and cases. The computer simulation, *MARKSTRAT ONLINE*,

is used as a vehicle for learning-by-doing. Traditional case analyses or lectures do not expose participants to the complexity of operating in a competitive environment with incomplete information or to the process of “learning over time” which is fundamental to successful marketing. That is the objective of *MARKSTRAT*. In the context of a fast paced changing simulated business environment, *MARKSTRAT* forces participants to deal with competitive initiatives and reactions, market uncertainty and unfamiliarity, and a set of marketing tools that must be used strategically. Lectures are used to guide the simulation and explore the marketing process in greater depth. The cases are used to round out the course coverage and expose participants to several key topics in the practice of marketing that are not covered in the simulation.

3. Required Course Material

- ◆ Larréché, Jean-Claude, Hubert Gatignon, and Rémi Triolet, “Markstrat Online Student Handbook” (LGT)
This is a combination of manual and textbook.
- ◆ A package of readings. Additional reading material may be distributed during the course.

4. Preparation for Class

The success of this course depends on everybody’s effort to prepare before class. Most learning occurs when you are actively engaged in thinking about and doing marketing rather than passively absorbing the material. This is true for both Markstrat (when you are working in teams) and during the class sessions.

Everybody’s contribution is important. It is rare that there is one right answer to a particular marketing strategy issue. Do not expect one. Rather, you should expect to learn from seeing how others address the problem that you have thought seriously about. The better prepared you are the more you will learn. Therefore, I will try to call on everyone, not just volunteers to contribute and defend their viewpoints. Lectures and cases will be interactive. Laptops have to be turned off in class.

5. The Markstrat Exercise

Markstrat is the most widely used business simulation. It has proven to be sufficiently complex and realistic to challenge seasoned executives. Yet Markstrat is sufficiently user-friendly that with a concerted team effort, it can be mastered by less experienced managers as well.

All students need to register for the course at www.markstratonline.com. In order to register for the course in the Markstrat Online web page, you need to take the following steps:

1. Order the Markstrat Online manual (\$50) at <http://www.stratxstore.com/MarkStrat-C6.aspx> (you can either order the hardcopy or an electronic copy).
2. Once you receive the Markstrat Online manual, use the license number that comes with the manual to register at the Markstrat Online web site by going to <http://www.stratxsimulations.com/licensingsimulation/licensingsimulation/Student/StudentRegistration.aspx?simType=Markstrat%20Online> . When registering you will need to provide the course ID. The course ID is A96002.

3. Once registered you can login into the Markstrat Online web site at <http://www.stratxsimulations.com/licensingsimulation/licensingsimulation/student/StudentLogin.aspx?simType=Markstrat%20Online> . Please download the student software version V1.2.0.1.

Team Size

The Markstrat game imposes significant constraints on group size. Group size is determined by class size, e.g., if the class size is 60, groups of 4 are ideal.

Team Composition

Groups with more diversity are generally better than those with less.

Team Formation

Please form your groups and submit the names of group members by Session 5, September 10.

A Markstrat Industry and Its Firms

Each team is assigned the responsibility of managing a Markstrat firm for eight decision periods. Every industry will likely be comprised of five Markstrat firms so each firm is in competition with four other firms in its industry.

Decision Making

Markstrat requires teams to make typical marketing decisions and exposes them to forces over which a marketing manager has limited control but which he must manage to be successful. These forces include competitive interactions, uncertainty, limited resources, and time pressure.

Team Meetings

Eight class sessions are dedicated to Markstrat decisions. As indicated in the schedule, 1 hours 30 minutes of class time are allocated for each decision, plus some time before the class. These time blocks are classes and attendance is mandatory, and checked by the group.

Time Pressure

Given the tight schedule, it is absolutely essential that you be on time. Any team filing a decision after the posted deadline will be subject to a fine. You will find that the length of the decision period places you under considerable time pressure. This is by design and not by accident. First, the time pressure forces you to work together as a team. This will give you the opportunity and the need to apply concepts you have been exposed to in Organization Behavior. Second, the time pressure forces teams to set clear priorities. While there is always some benefit to learning more about the market environment for each decision, the time limit forces teams to consider the marginal value of paying attention to different problems or pieces of information. An important skill of effective marketers is their ability to discern the critically important from the merely important.

End-Gaming

You are expected to manage your firm such that it will be competitive in periods after you have completed decision 8. Do not maximize short-term net contribution at the expense of the long-term position of your firm and the ability of a future management team to continue to run your firm.

Collusion

Price fixing, market splitting and sharing of confidential information are illegal. Meeting places of competing teams are off-limit. Company reports contain confidential information and must be stored appropriately.

6. Course Requirements and Evaluation

My expectations for you are straightforward: come to class on time, be prepared and participate. To help your preparation and guide your learning, in this syllabus, you will find a short introduction to each session, a description of the required reading material, a list of study questions and assignments. For cases, the study questions will guide our in-class discussion.

Grading

Your grade in this course will be based on Markstrat (55%), individual case write-ups (3 cases, 10% each = 30%), and Class Participation (15%).

Markstrat

The simulation requires each team to (1) set marketing and financial objectives, (2) develop marketing strategies to achieve these objectives, and (3) implement and adapt the strategies with appropriate marketing decisions. On Session 16 (after Decision 4), October 20th, the group will be due the first Markstrat report. At the end of the simulation (Session 28, December 3rd), each team is required to file a final report containing an assessment of the firm, its customers and competitors, the major issues facing it in the future, and an appropriate marketing strategy to address these issues. Evaluation consists of three parts: (1) firm performance, (2) first report, and (3) final report.

(1) Firm Performance

You will make eight decisions. Each decision will yield a set of financial and operating results, including net marketing contribution, market shares, and a stock price. Your company's results over the eight periods will be combined into a composite indicator of your overall operating performance. This indicator will be compared to (i) other firms that started from the same starting position in other industries and (ii) to the companies from the same industry.

(2) First Markstrat report, due October 20th

This report has a three-page limit (double-spaced). Assess your initial market position (including your products, competitors, and potential growth). Address the following questions:

- (a) What were the principal strengths and weaknesses of the firm and its starting position? Do a similar analysis for each of your competitors.
- (b) What is the best possible competitive position for your firm? Do a similar analysis for each of your competitors.
- (c) How do buyer preferences vary throughout the market?

(3) Final Markstrat report, due December 1st

This report has a six-page limit (double space) excluding figures. The final report is used to assess a team's competence, i.e., its understanding of the market environment and ability to design, implement, and adjust a marketing strategy. A competent team is well organized, is able

to cope with customer behavior and competitive reactions, understands the value and limitation of the available market research, and knows how to effectively allocate its limited resources to various marketing mix elements. A successful team as judged by firm performance is not necessarily a competent team. The final report provides teams with the opportunity to show that good performance is not (only) due to luck, but that during the course of the eight decisions the team has learned about customers, competitors and the capabilities of your own company. Details about the report are provided at the end of this syllabus.

Individual Case Write-ups

A four-page (double spaced) write-up on any three cases discussed in class is required. The write-up should focus on the questions provided for each case in the schedule below. Papers are due at the start of the class in which the case is discussed. Late papers will not be accepted. The four-page limit constitutes an upper-bound. So please do not feel compelled to turn in 4 pages each time. It takes some time to grade a case. So you may have to write a second case prior to getting feedback on the first.

Class Participation

While evaluation of this component is necessarily subjective, it is not hard to identify key characteristics of effective participators:

1. They are **well prepared** and their comments reflect it. They come to class with an informed opinion about the problem and a possible solution to it.
2. They **listen** effectively. Their comments are linked to current discussion in the class.
3. They are **succinct**.

People who arrive late for class, leave early, or who talk and work on assignments for other courses disrupt the class and diminish the learning experience for other participants. There is no mystery; the easiest way to get a poor participation grade is to disrupt the class.

If you have difficulty with participating in class, call or e-mail me to discuss it. I can suggest individualized strategies to help you improve your class participation and reduce the associated stress.

SHORT OUTLINE OF SESSIONS

TUESDAY	THURSDAY
	8/27 1. Course Introduction
9/1 2. Industry Analysis (Case: Sony PlayStation 3: Game Over?) (Case: Home Video Games: Generation Seven)	9/3 3. Pricing Strategy
9/8 4. New Product Development (Case: Nestle Refrigerated Foods)	9/10 5. Strategic Segmentation.
9/15 6. Market evolution (Case: Sony Corp. Car Navigation Systems)	9/17 7. Resource Allocation
9/22 8. Introduction to Markstrat	9/24 9. Markstrat Decision 1
9/29 10. Understanding Customers	10/1 11. Markstrat Decision 2
10/6 12. R&D and Product Development	10/8 13. Markstrat Decision 3
10/13 14. Market Planning.	10/15 15. Markstrat Decision 4
10/20 16. Marketing Diagnostics. (First Markstrat report due)	10/22 17. Markstrat Decision 5
10/27 18. Competition	10/29 19. Markstrat Decision 6
11/3 20. Guest speaker: Rohit Dube, Bain & Company	11/5 21. Markstrat Decision 7
11/10 22. Competition (Case: American Airlines' Value Pricing).	11/12 23. Markstrat Decision 8
11/17 24. Guest speaker: Trevor Traina (MBA 96), Founder & Chairman, SchemaLogic Corporation	11/19 25. Relationship Management Strategies (Case: Hilton HHonors Worldwide: Loyalty Wars)
11/24 26. Guest speaker: Marc Singer, McKinsey & Company.	11/26 Thanksgiving. No Class.
12/1 27. Team Presentations of Markstrat Report (Final Markstrat Report due)	12/3 28. Guest speaker: Steven Chan, Clorox (Case: Brita: In Search of a Winning Strategy)
12/8 29. Course Wrap-Up	

Course Overview

Session 1, Thursday, August 27th: Course introduction

...the most basic notion of how to succeed in business: talking to customers, learning their needs, and figuring out how to satisfy them. It's easy to say but hard to do.

The objective of this first session is to introduce you to typical problems firms encounter when competing and what they can do to cope with them. We will discuss “war stories” and the contribution of ancient war philosophers to strategic thinking, and see how even experts can make monumental errors.

Readings

This syllabus

Skim “Applying the Thirty-six Chinese Classical Strategies of War to Retail Marketing and Planning”

“The Rise and Fall (?) of Palm Computing in Handheld Operating Systems”

Session 2, Tuesday, September 1st: Industry Analysis

Case: Sony Playstation 3: Game Over?

(Read also “Home Video games: Generation Seven”)

This case outlines the challenges faced by Sony subsequent to its launch of the PlayStation 3 (PS3). The case allows for a rich analysis of how Sony should position its next-generation console, manage cannibalization across generations, and compete with rivals that have either beat it to market (Xbox 360) or that offer a different experience altogether (Wii).

Study Questions

1. If you were in charge of the Sony PlayStation 3 launch for the holiday season of 2006, how would you position the new console? (Who are you targeting and what value proposition are you highlighting?)
2. How worried should Sony be about the unexpected success of the Nintendo Wii? Is there anything Sony can do to ensure the Wii does not eat into PS3 adoption?
3. Given the way things had unraveled in 2007, what actions should Sony take to improve the performance of its PlayStation 3 in 2008 and beyond? (Consider all elements of the marketing mix; consider also the profitability of the PS3 from the sale of game titles).

4. If you were a game development firm, which of the three consoles would you be most willing to develop games for? How many units would you need to sell to break even on the development of one game title for the PS3?
5. How soon should Sony phase out its PlayStation 2?
6. Does Xbox 360's head start seem to have been effective? Who should Microsoft be more concerned about, the PS3 or the Wii?

Session 3, Thursday, September 3rd: Pricing Strategy

This session will go through the basics of pricing, and its impact on strategy. We will review basic pricing rules, and will discuss dynamic issues in pricing. Pricing is the firm's attempt to capture some of the value it creates in the marketplace.

Readings

Skim, Nagle, Chapt 5, "Making pricing decisions: formulating and implementing a pricing strategy consistent with the environment".

Session 4, Tuesday, September 8th: New product development.

Case: Nestle Refrigerated Foods

Stephen Cunliffe, the president of the Nestle Refrigerated Food Company (NRFC) is pondering the introduction of a refrigerated pizza to the refrigerated food category. In the late 1980s, NRFC had successfully pioneered the category with the introduction of refrigerated pasta and sauces to the US market. At the time of the case, however, the pasta market is showing signs of saturation and NRFC must decide whether to launch its newly developed pizza product. The case illustrates the new product development process followed by Nestlé.

Study Questions

1. Using the BASES model described in Exhibit 9, forecast the estimated demand (trial and repeat) for the two pizza options under consideration: Pizza & Topping and Pizza Only. Most of the data needed for the forecasting exercise is available is pages 14-15 and page 34 (Exhibit 21). *Hints:* In Exhibit 21, there is a big difference between Contadina users and non-users on the "top two box" scores. This will obviously affect the forecast depending on what proportions are used for Contadina users versus non-users in the population. On page 14, Nestlé's marketing research department cautions us that parent brand usage could vary from 5% to 25%. It would be worthwhile to judge the sensitivity of the forecast under 5%, 15%, and 25% parent brand penetration scenarios.
2. In general, how would you compare the pizza opportunity to the pasta opportunity? What are the similarities? Differences?
3. Would you launch the pizza? Why?

Readings

“First to market, first to fail? Real causes of enduring market leadership”

Session 5, Thursday, September 10th: Strategic Segmentation

In this session we will cover the advantages of strategic segmentation as a way for a firm to capture more of the value that it creates. We will talk about several forms of strategic segmentation under different information available to the company.

Readings

Skim, Nagle, Chapt. 7, “Segmented pricing: tactics for separating markets”

“Market Segmentation: A Strategic Management Tool”

Session 6, Tuesday, September 15th: Market evolution.

Case: Sony Corporation: Car Navigation Systems

In April 1996, Masao Morita, president of Sony’s Personal and Mobile Communication division, pondered how to recover Sony’s leadership in car navigation systems (CNS). Given the different market conditions in Japan, Europe, and the United States and Sony’s unsatisfactory position in each market, he had to formulate Sony’s worldwide marketing strategy for the fast changing CNS market over the next five years. Morita needed to resolve conflicting views among his senior executives regarding key issues, including geographical focus, product choice, and product standards.

Study Questions

1. What factors determine demand for CNS? How will demand vary by market?
2. How has the CNS category evolved so far? How will it evolve in the United States and Europe?
3. Assess Sony’s strategy and current position in Japan.
4. What recommendations would you make to Sony regarding: (a) Geographical balance, (b) Product line policy, and (c) product standards.

Session 7, Thursday, September 17th: Resource Allocation

Budgets are always too small. That’s one of the few certainties of life. A marketing manager.

Implementation of a marketing plan requires the allocation of available resources to different brands in a portfolio and, for each brand, to different marketing instruments. Over the years, various models and approaches have been introduced to help managers make these allocation decisions.

Readings

Lambin, Jean-Jacques, “Advertising Budget Decisions”, pp. 667-676.

Session 8, Tuesday, September 22th: Introduction to Markstrat

The objective of this session is to prepare you for the launch of the Markstrat simulation. I will review some aspects of the Markstrat environment (described in detail in Chapter 2 of Larréché & Gatignon) and the decisions you have to make to compete in this environment.

We will then have a brief discussion of the most difficult challenge in getting started. A core element of marketing is the selection of customers, i.e., segmentation, targeting, and positioning but Markstrat firms operate in a competitive environment. A critical hurdle is understanding who your competitors are and why.

Readings

LGT, Chapters 1, 2, 3
Skim, LGT, Chapter 4

Session 9, Thursday, September 24th: Markstrat Decision 1

Your decision must be submitted by 11:00am. Late submissions will be penalized.

Hint: You cannot change or reposition your two Sonites, but you can change your prices, your advertising and/or your sales force spending. I recommend that you order all available market research and look at them before deciding that some reports are not worth ordering.

Session 10, Tuesday, September 29th: Understanding customers

In marketing, there is nothing more important than understanding customer needs and behavior. This is particularly important when developing new products or repositioning old ones. Different market research tools are available for this task and no single tool can provide all the answers. Every tool has advantages and disadvantages and misinterpretation can lead to poor decisions. It is therefore essential that managers have some knowledge of how to interpret results from these different research tools. I will then review how you can take this knowledge to reposition brands and launch new products.

Readings

“How to diagnose what buyers really want”

LGT, Chapters 5

Session 11, Thursday, October 1st: Markstrat Decision 2

You can now reposition and introduce new brands to affect the future of your company. You have a limited budget available, so set priorities and spend your money wisely. As always, your decision has to be submitted by 11:00am. Deadlines will be enforced, so manage your time.

Readings

LGT, Chapters 4 & 5

Skim, LGT, Chapter 7

Session 12, Tuesday, October 6th: R&D and Product Development

We will review how to take the knowledge from the Marketing Research reports to develop new products in Markstrat, i.e., how you interact with your R&D department.

Readings

Skim “Product Life Cycle”

“Disruptive Technologies: Catching the wave”

Session 13, Thursday, October 8th: Markstrat Decision 3

You can now develop new products to determine the future of your company.

Session 14, Tuesday, October 13th: Market Planning.

In this session we will discuss how to select and prioritize markets, and set objectives. In order to determine this one has to understand the process and the resources and skills of the company and its competitors.

Readings

LGT, Chapter 7

Session 15, Thursday, October 15th: Markstrat Decision 4

I skate to where the puck is going, not to where it is. Wayne Gretzky (when asked what makes him a great hockey player).

Session 16, Tuesday, October 20th: Marketing Diagnostics

First Markstrat report due.

Results such as market shares do not provide sufficient information to guide future marketing actions. To turnaround or further improve a company's position, one needs to understand the 'causes' of the observed results, i.e., the underlying processes that lead to market outcomes. These processes are rooted in customer and competitor behavior. Today we will examine typical marketing process measures to gain a more comprehensive understanding of a company's market position and what is needed to change it.

Session 17, Thursday, October 22nd: Markstrat Decision 5

By now, you should be familiar with the software and the procedure of obtaining your input and submitting your decisions. Use the models looked at in the previous sessions to analyze your firm's position.

Session 18, Tuesday, October 27th: Competition

Strategic thinking: Think forward, reason backward. Game theoretic principle.

Understanding the competitors' strategies can help you decide what is best for you.

Readings

"How Game Theory Rewrote all the rules"

"Right Game: Use Game Theory to shape Strategy"

Session 19, Thursday: October 29th: Markstrat Decision 6

Session 20, Tuesday, November 3rd: Guest speaker: Rohit Dube, Bain & Company

Session 21, Thursday, November 5th: Markstrat Decision 7

Session 22, Tuesday, November 10th: Competition

Case: American Airlines' Value Pricing (A)

Little differentiation, high fixed costs, and over-capacity characterize the airline industry. American Airlines, the largest US carrier is changing its pricing approach, a radical departure from a structure that has evolved over more than a decade following the deregulation of the industry. It considers this action necessary to restore industry profitability.

Study Questions

1. Is Value Plan a net price increase or decrease for different customers?
2. What do you think is Robert Crandall's motivation to launch Value Plan?
3. You are Stephen Wold (United), how will you respond to Value Plan? You are Carl Icahn (TWA), how will you respond to Value Plan?

Session 23, Thursday, November 12th: Markstrat Decision 8

Session 24, Tuesday, November 17th: Guest speaker, Trevor Traina (MBA 96), Founder & Chairman, SchemaLogic Corporation

Session 25, Thursday, November 19th: Relationship management strategies.

Case: Hilton HHonors Worldwide: Loyalty Wars

This case examines how Hilton can and should use frequency programs both to create customer loyalty and to enhance franchisee discipline. It is important to understand the forces that shape a service firm's profitability and how frequency programs can be used to manage these forces. A related issue is to understand how frequency programs are used to deliver on customer needs.

Study Questions

1. What should Diskin do?
2. What are the strengths and weaknesses of the Hilton HHonors Program?
3. What is the optimum level of spending on the program?
4. What is Starwood doing and how should Hilton respond?

Session 26, Tuesday, November 24th: Guest speaker, Marc Singer, McKinsey & Company

Session 27, Tuesday, December 1st: Team Presentations of Markstrat Reports

Final Markstrat report due.

Session 28, Thursday, December 3rd: Guest speaker: Steven Chan, Clorox. Strategic Segmentation and Targeting

Case: Brita: In Search of a Winning Strategy

This case describes the meteoric rise of Brita in the US market, following the acquisition of local rights by The Clorox Company in 1988, until a sudden decline in 1999. The case outlines the various failed strategies attempted by the brand between 1999 and 2006 and poses the question as to what Brita should do to turn its fortunes around. The case presents the results of a recent segmentation study, which could hold the key to developing the turnaround strategy.

Study Questions

1. What led to Brita's success in the years since its launch to 1999?
2. What led to Brita's problems?
3. What do you think of the strategies attempted between 1999 and 2006? Why didn't they work? How would you characterize Brita's marketing strategy during this period of time?
4. What do you think of the segmentation commissioned by Brita?
5. What criteria would you use to choose the target segment? Which segment would you target and why? What value proposition would you offer to the target consumer and why? What are the key business decisions you need to take to make this value proposition work? What would your marketing mix be?

Session 29, Tuesday, December 8th: Course wrap-up

Final Markstrat Report

Purpose

The Final Markstrat report is an integral part of the overall learning experience. It requires a team to reflect on its experience over the first few periods, identify what has been learned about its competitive environment, and think forward several periods to develop a marketing plan.

The marketing planning process is a delicate combination of creativity and structure. A business has to find the right balance between no marketing plan and an overly formalized plan. With no marketing plan a business may lack direction. At the other extreme, in a business with a highly formalized process planning likely degenerates to filling out forms. Both extremes diminish the opportunity to uncover meaningful market insights.

Content

The final report is a short version of a marketing plan and should contain the results from a situation analysis, a list of identified key issues, objectives for the next five years, and a description of the marketing strategy to achieve these objectives. The report should conclude with a discussion of key uncertainties and possible adjustments to the proposed plan. Key uncertainties are potential problems and obstacles that might arise during implementation of the plan.

The analysis section should focus on providing conclusions and insights and not simply repeat historic facts and market research results. One way to think about this task is as if you write a brief to inform a successor. Conclusions and meaning of numbers are much more important to a successor who would have access to the current market research results, but would lack your experience in interpreting them and “seeing” trends.

From the analysis should follow a list of key issues, which together with specific financial and marketing objectives form the basis for the marketing strategy for the next five years. It is not necessary to include a detailed action plan, it is sufficient to show the allocation of the available budget to the various marketing mix elements in a table or spreadsheet. The allocation should be accompanied by a projected P&L statement.

Requirements

The final report must not exceed 6 pages (double-spaced), excluding figures. Budget allocation and projected P&L statements for the next five years should be put in an appendix of no more than 5 pages.

Grading will not be based on the beauty, correctness, or eloquence of your English writing, but will focus instead on the ideas and rationales you present. Yet the document is also part of your ‘sales effort’ for approval of the plan by higher management and should therefore be easily understandable and readable. Use at least a 10-point font and leave recognizable margins. Communicate important insights with figures and graphs where possible and use bullet points where appropriate.

Do not wait until the last minute to start writing your report. Lack of time, last second computer problems, etc. are no excuses to ask for an extension of the deadline. The deadline for submitting the report is fixed: Thursday, December 3rd, in the beginning of the class.

