

Haas School of Business
University of California, Berkeley

MBA299M
Marketing Strategy
Fall 2017
TuTh: 2:00pm – 3:30pm
C220

Instructor: Miguel Villas-Boas
F691
W: (510)642-1250
C: (510)409-4414
e-mail: villas@haas.berkeley.edu
Course website: bCourses
Office Hours: W 11am-12pm (and by appointment)

Graduate Student Instructor: Eddie Ning
F521
Email: eddie_ning@haas.berkeley.edu
Office Hours: W 2:00-3:00pm (and by appointment)

1. Course Overview

The purpose of this course is to develop an understanding, the skill, and experience in formulating and planning competitive strategies. The course builds on the foundations developed in Marketing Management and Strategy: 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. The first strategy course focuses on how to analyze and diagnose a business situation. In contrast, this course emphasizes *how to do* marketing and strategy: how to put these basic elements into practice in a strategic way.

The general idea behind management may be simple “make profit by meeting a need of a customer” but the art of putting it into practice is complex. Management 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 executives 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*, 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 strategy development and implementation. 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 management 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 strategy that are not covered in the simulation.

3. Required Course Material

- ◆ Larréché, Jean-Claude, Hubert Gatignon, and Rémi Triolet, “Markstrat Participant 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 is can be mastered by less experienced managers as well.

All students need to register for the course in the Markstrat web page by Thursday, August 24. To do so please take the following steps to purchase your Markstrat Handbook and Participant Activation Key (PAK) (\$65) to take part in the Simulation exercise. (We'll be using Markstrat.6 – Durable Goods (web).)

1. Please go to shop.stratxsimulations.com.
2. Please enter the number P5984ABA.
3. You will be asked to register to complete your purchase.
4. Upon purchase, you will automatically be registered in the course in the Markstrat web page.
5. You will be able to login stratxsimulations.com to access Markstrat. The Participant Handbook will be provided as soon as you access Markstrat.

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 a greater variety of points of view and background are generally better than those with less.

Team Formation

Please send me the composition and name of your team by Thursday, August 24.

A Markstrat Industry and Its Firms

Each team is assigned the responsibility of managing a Markstrat firm for ten 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 strategy decisions and exposes them to forces over which a manager has limited control but which (s)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 hour 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 the course *Leading People*. 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 10. 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 (50%), the group live case (20%), one individual case write-up (10%), a demand estimation exercise (5%), 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 7 (after Decision 2), September 12th, the group will be due the first Markstrat report. At the end of the simulation (Session 25, November 14th), 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 ten 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 ten 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 September 12th

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 November 14th

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 ten 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.

Group Live Case

On October 3rd, Session 13, Gary Shansby (Chairman and CEO at Tequila Partida, brand builder and entrepreneur) will be a guest speaker for the class and will present a real live case on managing a luxury brand. The information for the case can be obtained from the class, and any other information on the internet. The case is due in class on November 9, when Gary Shansby will return to class and listen and discuss five group presentations.

Individual Case Write-up

A four-page (double spaced) write-up on one of the two 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.

Demand Estimation Exercise

The demand estimation exercise is due at the beginning of the on September 26, Session 11.

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.

Graduate Student Instructor

The GSI for the course is Eddie Ning (eddie_ning@haas.berkeley.edu). In addition to being involved in grading Eddie gives full support on the simulation and is available for further student support on Wednesdays from 2:00-3:00PM (and by appointment) on the cases, techniques presented in class, or consulting on Markstrat.

SHORT OUTLINE OF SESSIONS

| TUESDAY | THURSDAY |
|---|--|
| 8/22 1. Course Introduction | 8/24 2. Introduction to Markstrat |
| 8/29 3. Resource Allocation | 8/31 4. Markstrat Decision 1 |
| 9/5 5. Understanding Customers | 9/7 6. Markstrat Decision 2 |
| 9/12 7. R&D and Product Development. Market Planning (First Markstrat report due) | 9/15 8. Markstrat Decision 3 |
| 9/19 9. Guest speaker: Federico Fabbri, The Boston Consulting Group | 9/21 10. Mid Markstrat presentations |
| 9/26 11. Marketing Diagnostics | 9/28 12. Markstrat Decision 4 |
| 10/3 13. Live Case: Managing a luxury brand. Guest speaker J.Gary Shasnby (Chaiman and CEO, Partida Tequila) | 10/5 14. Markstrat Decision 5 |
| 10/10 15. Launching New Products (Case: Modu: Optimizing the Product Line) | 10/12 16. Markstrat Decision 6 |
| 10/17 17. Guest speaker: Kelsey Robinson, McKinsey & Co. | 10/19 18. Markstrat Decision 7 |
| 10/24 19. Pricing & Competition | 10/26 20. Markstrat Decision 8 |
| 10/31 21. Dynamic Competition (Case: American Airlines' Value Pricing). | 11/2 22. Markstrat Decision 9 |
| 11/7 23. Markstrat Decision 10 | 11/9 24. Group presentations: Managing a luxury brand |
| 11/14 25. Team Presentations of Markstrat Report (Final Markstrat Report due) | 11/16 26. Course Wrap-Up |
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Course Overview

Session 1, Tuesday, August 22nd: 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, Thursday, August 24th: 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, pages 1-16, 33-45.

Skim, LGT, pages 17-32.

Session 3, Tuesday, August 29th: 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 4, Thursday, August 31st: Markstrat Decision 1

Your decision must be submitted by 3:30pm. 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 5, Tuesday, September 5th: 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, pages 17-32.

Session 6, Thursday, September 7th: 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 3:30pm. Deadlines will be enforced, so manage your time.

Readings

LGT, skim pages 48-56

Session 7, Tuesday, September 12th: R&D and Product Development. Market Planning.

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. 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

Skim “Product Life Cycle”

“Disruptive Technologies: Catching the wave”

LGT, pages 48-61.

First Markstrat report due.

Session 8, Thursday, September 14th: Markstrat Decision 3

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

Session 9, Tuesday, September 19th: Guest speaker Federico Fabbri (The Boston Consulting Group). Pricing Project.

Session 10, Thursday, September 21st: Mid-Markstrat Presentations

Session 11, Tuesday, September 26h: Marketing Diagnostics

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.

Demand estimation exercise.

Session 12, Thursday, September 28th: Markstrat Decision 4

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

Session 13, Tuesday, October 3rd: Guest speaker J. Gary Shansby (Chairman and CEO Partida Tequila, brand builder and entrepreneur). Live case.

Session 14, Thursday, October 5th: 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 15, Tuesday, October 10th: Launching New Products.

Case: Modu: Optimizing the Product Line

Israeli entrepreneur and inventor Dov Moran envisioned the creation of a mobile device that was a small, stand-alone, fully functional mobile phone that could be slipped into a variety of enclosures, or "jackets," that would provide added functionality and better reflect the personalities of its users. As the development of the Mobu phone began to take shape, Moran and his team decided that to ensure the success of the new phone's much anticipated launch, Mobu would develop and market the accessory jackets itself. The question now was which of the eight jackets to develop and what factors should be considered in making that decision.

Study Questions

1. What are the potential benefits and risks of targeting each segment outlined by Neal Zed?
2. What behaviors outlined in the customer behavior survey shown in Exhibit 3 are most useful for Modu to take into consideration in its decision making, and why?
3. Create a positioning statement for each of the potential targets described by Neal Zed.
4. Which of the potential segments would you target and why?
5. Use the information in Exhibits 4 and 6 to create a matrix that illustrates which jackets offer the highest value for the given targets. Does the answer affect your targeting decision? Why or why not?
6. Using the data in Exhibit 8 and the three jackets you have selected to target to each potential segment from Question 5, estimate the market potential for each target. What do the results tell you? How can you use this information in formulating your decision?
7. Given the matrix created in Question 5 and the market potential calculations in Question 6, would you still recommend the same target? Why or why not? What information is most important to the targeting decision?
8. In practice, Modu would probably target all three segments to maximize revenue potential. Using the data in Exhibit 8, estimate the total market opportunity for each of the eight jackets Modu has developed.

9. Now, assume the jackets could cannibalize each other's sales based on the similarity of their features. Use the cannibalization matrix (Exhibit 9) and cost information (Exhibit 7) to calculate cost, revenues, and profits. For simplicity's sake, we will assume pair-wise cannibalization of jackets and that each jacket's nearest neighbor is unique. Also, assume an experience curve effect – that for every million components, cost decreases by 10 percent after the first million. What new information does this exercise reveal about the jackets and potential revenues? What should Modu's team do with the new information? Analyze the impact of cannibalization on Modu's decision on which jackets to produce.
10. Should Modu limit itself to developing just three jackets? Examine the implications of possibly developing more than three jackets if there were cost savings due to component sharing and the possibility of higher profits. Consider the jacket combination possibilities and determine which jackets comprise the optimal set. What did you learn about potential additional revenues and profits that could accrue? Could Modu use this information to change its current strategy?
11. Can you think of some of the hidden costs and complexities of the Modu model? Take, for instance, inventory. How would Modu decide which models to store? At what point would Modu decide that the optimal set of sets has been reached?
12. What is still missing from this model? What other suggestions can you offer to make the model more realistic? Summarize two or three takeaways, and two or three suggestions for improving this model.

Readings

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

Session 16, Thursday, October 12th: Markstrat Decision 6

Session 17, Tuesday, October 17th: Guest speaker Kelsey Robinson, McKinsey & Co. Customer Analytics.

Session 18, Thursday: October 19th: Markstrat Decision 7

Session 19, Tuesday, October 24th: Pricing & Competition

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

This session 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. Furthermore, understanding the competitors' strategies can help you decide what is best for you.

Readings

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

“How Game Theory Rewrote all the rules”

“Right Game: Use Game Theory to shape Strategy”

Session 20, Thursday, October 26th: Markstrat Decision 8

Session 21, Tuesday, October 31st: Dynamic 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 22, Thursday, November 2nd: Markstrat Decision 9

Session 23, Tuesday, November 7th: Markstrat Decision 10

Session 24, Thursday, November 9th: Group presentations: Managing a luxury brand.

Session 25, Tuesday, November 14th: Team Presentations of Markstrat Reports

Final Markstrat report due.

Session 26, Thursday, November 16th: 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: Tuesday, November 14th, in the beginning of the class.

