

July 27, 2012

NORTHWESTERN UNIVERSITY
J.L. Kellogg Graduate School of Management

There will be no class on Monday, October 15. Instead, this class is rescheduled for Friday, October 5. The reason for this change is because I will be teaching in the Kellogg-Recanati Executive MBA program in Tel-Aviv, Israel on Monday, October 15. I apologize for the inconvenience.

Please note any changes to the syllabus (note date on upper right hand corner) by checking under Krishnamurthi/ courses on the Marketing Department website at: <http://www.kellogg.northwestern.edu/marketing/faculty/index.htm>. Blackboard will only be available after the 2nd class meeting

MKT 466 Marketing Strategy
Fall 2012, Section 31***OVERVIEW***

This course presents an integrative, dynamic view of competitive brand strategy. It focuses on understanding, developing, and evaluating brand strategies over the life of a product market. An important distinction we will make in the course is the difference between Customer Advantage and competitive advantage. A framework for developing marketing strategies that yields a distinctive customer advantage based on customer and competitor analysis will be presented and applied in various situations throughout the course. A significant portion of the course will focus on growth strategies. Topics include growth strategies in the early stages of the market, in the later stages of the market when the market is growing, in the later stages of the market when the market is mature, and in declining markets. In addition, we will discuss defensive strategies. Material is presented using a mix of cases, lectures, and a computer simulation game called MARKSTRAT.

COURSE REQUIREMENTS

Evaluation

Class participation	20%
MARKSTRAT (includes two reports (15%) and performance in the game (20%))	35%
One mid-term case analysis	20%
Final exam	25%
Total	100%

Teams

Forming teams is required. Except for the final exam which will be an individual take home case, all other written material, including the case analysis and the MARKSTRAT simulation and the two reports, will be completed in these teams. Team size will depend on class enrollment. A deadline for forming teams is noted in the class schedule. As part of the evaluation process, group members will grade each other's participation on a number of dimensions. These grades will play an important role in the determination of final grades.

Class Participation

A significant portion of the course material is presented using both cases and lectures. Your **consistent** contribution to these sessions is essential to achieving the objectives of the course. The quality of the discussion is, in large part, your responsibility. **Therefore, plan to attend all sessions of the course, to arrive on time, fully prepared for either a case or class discussion, and plan to stay for the entire session.** Like group evaluations, class participation will be an important factor in determining your final grade. Strong or poor class participation can move the final grade up or down by one letter grade.

You must attend the first class. I will pass out a class roster in the first class to make it convenient to form groups. Everyone must be in groups by the end of the second class.

Please inform me ahead of time if you will be missing a class.

MARKSTRAT

Each team will be assigned a MARKSTRAT company to manage. Your task will be to (1) set marketing and financial objectives, (2) develop strategies to achieve those objectives, and (3) implement your strategies with appropriate tactical decisions.

Each team is required to make **seven** MARKSTRAT decisions. The due dates for the decisions are noted in this syllabus.

Each team is also required to submit two reports (details are in this syllabus).

Lecture Notes

Lecture notes will be made available in class when the particular material is discussed, and pdf copies will be posted on Blackboard a few dates later.

Case Analysis

We will discuss **six** cases in this course. Each has been selected with care with a particular learning objective in mind. The time frame of the case or the particular product or service that is the focus of the case is not important. Depending on your background, you may or may not associate with the product or service described in the case. What is important is the learning, the generalizability, that you take away from the case. How can you apply it to the particular situation that you are facing?

It is important in evaluating a case to put yourself in the state of mind of the protagonists at the time of the case. You may know what happened afterwards or may have some unique information about the case, either through personal experience or otherwise, that is not available in the case itself as given to you. Ignore that. Hindsight is always 20/20. **Based on the facts available, what is your best course of action?** That is what I want you to focus on, not on information that is unavailable in the case. You should not seek information that is not provided in the case. Do not look up the web for updated information! In every situation, I want you to consider how the firm can achieve **customer advantage**. That is the key to success!

The **first** case is **Emotiv Systems: It's the Thoughts that Count**. Emotiv is getting ready to launch its innovative brain-computer interfacing (BCI) technology. The company has developed a special headset, called EPOC, and highly sophisticated software that can translate a person's emotions, cognitive thoughts and facial expressions into digital outcomes. A critical question is whether to focus on the console market or the PC gaming market. The **second** case is **Groupon**. The business has grown extremely rapidly. You are asked to evaluate the business model both from the perspective of Groupon and the merchants. The **third** case is **Neiman Marcus (A)**. This is the **written group assignment**.

Neiman Marcus is evaluating several growth options. One option that is being seriously considered is opening small 10,000 – 11,000 square foot stores called the Galleries of Neiman Marcus which will focus on designer and semi-precious jewelry, precious jewelry, and decorative giftware. You are asked to evaluate the company's growth options in general, and the Galleries concept in particular.

The **fourth** case is **Ikea Invades America**. Furniture retailing is broadly split into premium retailers who offer wide selection, high quality woods and finishings, and service, and low end retailers who offer limited selection, low prices and a dismal shopping experience. Ikea is a low price retailer with a twist; offering furniture and other products in a Euro-styled "retailtainment" environment. They are now faced with a decision of expanding their footprint in a highly mature category. The **fifth** case is the **Steinway** case. Steinway has introduced a line of pianos under the Boston label. You are asked to evaluate the merits of this decision. The **sixth** case is the **A1 Steak Sauce** case. A1 is a Kraft brand and the dominant player in this category. Lawry's, a Unilever brand, has announced a new steak sauce at a significant price reduction to A1. You are asked to decide how Kraft should respond and to evaluate the profit implications of their response.

The formal written case analysis is the Neiman Marcus (A) case. Guidelines for the case write-up are noted in the syllabus. The case analysis is due at the start of class. No late papers will be accepted.

Final Exam

The final exam will be a take-home case. The case and case questions as well instructions for submitting the case solution will be provided at the last class meeting on **Monday, December 3**. The case will be due on or before **5 p.m. on Monday, December 10**. This is an **individual final exam**. It should not be discussed with your group members or other members of the class. You are also prohibited from accessing any information about the products or the company described in the case.

Honor Code

1. MARKSTRAT team members should not discuss any game details with anyone outside their group, either in this class or other classes, and should not access any outside sources for information about the game. The only information that should be used is what is available through the MARKSTRAT text, in-class discussion, self-learning, and interactions with the professor and teaching assistant.

2. When preparing the cases you should **only** have access to information that is presented in the cases. You should not access the web or any written material from any source to find information about the cases used in this course. This applies to any trade books or articles written about the specific matters in these cases. You should also not discuss these cases with students from prior classes.
3. There is **one case** to be submitted as a **group project** during the quarter. The above restrictions apply.
4. There is an individual final exam case to be submitted. In addition to the restrictions mentioned in item 2 above, you should not discuss the final exam case with your group members as well.
5. Class preparation of lecture material and assigned readings can be done individually or as part of your group.
6. This is the honor code requirement. **This requirement must be strictly followed to maintain the integrity of the course.** Please contact me if anything is unclear about the honor code as I have expressed it.

Course administration and Texts

Office hours are Mondays before class. **The best way of reaching me is by e-mail at LAKSH@kellogg.northwestern.edu**; my office telephone number is (847) 467-1286.

Optional text: Orville Walker & John Mullins, *Marketing Strategy* (McGraw Hill/ Irwin 2011, 7th edition). **This book is purely optional; it is not required.**

Required: Larreche and Gatignon, *MARKSTRAT Participant Handbook* (StratX International, latest)

This book comes with a unique id for each copy, so it appears that everyone needs to have his/her own copy. Sorry! Buy the book (hard copy or pdf file) **online**. It is cheaper to do so.

I will communicate with you several times during the course of the quarter by e-mail. I will use your **kellogg.northwestern.edu** account for this purpose. Therefore, you must make sure that your Northwestern account is functioning and you can retrieve messages from that account.

Markstrat schedule

1. Monday, September 24: Introduction to Markstrat
2. Monday, October 1: MARKSTRAT teams lists due
3. MARKSTRAT **decision I** due by midnight Sunday, October 14
4. MARKSTRAT **decision II** due by midnight Sunday, October 21
5. MARKSTRAT **Update I** due by midnight Sunday, October 21
6. MARKSTRAT Team Meetings (25 minutes/team)
 Monday, October 22, 5 p.m. – 6.15 p.m., 8 p.m. – 9.30 p.m.
 Tuesday, October 23, 5 p.m. – 6 p.m. (if necessary)
 Wednesday, October 24, 5 p.m. – 6 p.m. (if necessary)
7. MARKSTRAT **decision III** due by midnight Sunday, October 28
8. MARKSTRAT **decision IV** due by midnight, Sunday, November 4
9. MARKSTRAT **decision V** due by midnight Sunday, November 11
10. MARKSTRAT **decision VI** due by midnight Sunday, November 18
11. Final MARKSTRAT **decision VII** due by midnight Tuesday, November 27
12. MARKSTRAT **Update II** due by 5 p.m. Saturday, December 1

Markstrat Reports

You will be required to provide two reports on your assessment of your firm, its competitors and your marketing plans. **Each should be brief and to the point – not exceeding three - four double-spaced (12 point type) pages (plus tables and appendices, but only as necessary).** Precision, clarity and brevity are important. Deadlines for submitting these are noted on the outline. *Late reports will not be accepted.* Here is a summary of the assignments:

1. Initial Marketing Strategy (due midnight Sunday, October 21)

Provide a clear statement of your objectives (what you expect to achieve), your strategy for achieving those objectives, and the tactics you plan to use to implement your strategy. Present strong evidence that your objectives are reasonable, your strategy the best available, given consumer behavior, your position and the positions of the competitors. Use the available market research information to help with your analysis.

The write-up should be brief and to the point – not exceeding three - four double-spaced (12 point type) pages (plus tables and appendices, but only as necessary).

You can think of the write-up in the following way:

Assume that senior management of your company has selected the members of the group to manage a spin-off of the firm. You were given an initial budget (say \$7M or so) and after two periods (say 2 years), management is interested in knowing how you are doing and what your strategy is going forward.

Clearly there are several unknowns, but that is true in real life as well.

Objectives: Your goals for the 7 periods (not necessarily period by period); what do you expect to achieve. Include a profit goal.

Strategies: Key actions to deliver your objectives (how you are going to achieve your objectives). Discuss what you are going to do over the next five periods.

Plans or Tactics: How you plan to execute against your strategies (the specifics). The tactics could be written along with the strategy, but the strategies should be clear.

2. *Updated Report* (due 5 p.m. Saturday, December 1)

Here is what I am looking for:

A. A half page (or less) summary from Update 1 of what you said you would achieve and how you would achieve it:

Can be written as bullet points: Should be clear and precise

Think of this as what you promised to deliver to top management!

B. The rest of the document:

When you wrote the first report, you had the results of your first decision, and you were going to make (or had made) the second decision, but had not received the results. So, you had somewhat limited data on market and competitive evolution. Now, things are quite different. You have made all 7 decisions

Were you able to meet the objectives you set in the first report? Provide a clear analysis of how your strategy has evolved and why. The “**why**” is very important.

Can be written as bullet points with expansion around the bullet points.

Another very important part of the paper is to discuss key learnings/applications from the simulation. Work on coming up with **no less than five** strategic learnings from the Markstrat simulation which can be applied to real business situations. What are the key take-aways regarding marketing strategy?

The write-up should be brief and to the point – not exceeding three - four double-spaced (12 point type) pages (plus tables and appendices, but only as necessary).

CLASS SCHEDULE

1. Monday, September 24

Course Introduction

Introduction to MARKSTRAT (OHs in case packet)

Larreche and Gatignon, *MARKSTRAT* Participant Handbook

Notes on Markstrat (in case packet)

Note: This looks like a lot of reading from the text, but it is not tough going! Nevertheless, it may be confusing the first time around! So, here is some advice. Go over the "Introduction to Markstrat" in the case packet. This is a brief summary of the facts. Next, go over the "Notes on Markstrat" in the case packet. This will provide many of the answers to items that may not be clear in the text on first reading. **If you are confused about anything in the simulation, check the "Notes on Markstrat" first.** These notes will also help you with your decisions over the course of the quarter. Next, try out the Practice exercise available in the Online simulation. This will help to familiarize yourself with the software.

2. Monday, October 1

Customer Advantage! Marketing Strategy

Readings:

Walker & Mullins (hereafter WM), skim chs. 1-3

Harrington & Tjan, "Transforming Strategy One Customer at a Time,"
Harvard Business Review, March 2008

An excellent article describing the shift to an end-customer based segmentation at Thomson Corporation, now Thomson Reuters, described as the world's leading source of "intelligent information for businesses and professionals." From April 2008 to October 2009, Richard Harrington served as Chairman of the Thomson Reuters Foundation. He currently serves as Chairman of The Cue Ball Group (a venture capital firm) and Knovel Corporation (web-based application integrating technical information).

Ofek & Wathieu, “Are You Ignoring Trends That Could Shake Up Your Business,” *Harvard Business Review*, July-August 2010

What is the key point of this article? Spotting major trends is not difficult, but one needs to understand how these trends are influencing consumer’s aspirations, attitudes, and behaviors to be successful. The authors provide several examples which take advantage of consumer insight.

Seybold, “Get Inside the Lives of Your Customers,” *Harvard Business Review*, May 2001

What is the key point of this article? Envision the customer’s experience and make that experience as painless and simple as possible. Focus on how to create value for the customers and yourself.

*Vandermerwe, “Achieving Deep Customer Focus,” *Sloan Management Review*, Vol. 45, Issue 3, Spring 2004¹

The key point of this article is that organizational change is necessary to achieve deep customer focus; the article describes the changes that are necessary.

MARKSTRAT teams lists due

3. Friday, October 5 (make-up class for missed class on Monday, October 15)

Case: Emotiv Systems: It’s the Thoughts that Count

Assignment: This is a case for class discussion.

1. Evaluate the console gaming market for Emotiv.
 - Size/potential of the console gaming market?
 - Who are the gatekeepers?
 - Describe the user profiles of the players of XBox, PS3, and Wii.
 - What problems does Emotiv face? What are the advantages of targeting the console gaming market?
 - What explains the success of Guitar Hero and the Wii?

¹ Articles marked with an asterisk are NOT in the case packet and must be downloaded from the NWU library; see download instructions in the case packet.

2. Evaluate the PC gaming market for Emotiv.
 - Size/potential of the PC gaming market?
 - Who are the gatekeepers?
 - Describe the players of PC based games
 - What are the advantages of targeting this market?
 - What are the disadvantages of targeting this market?
 - Who is likely to adopt the EPOC system among PC game players?
3. Why is there lack of interest from Microsoft and Sony? What is the risk to them of embracing the brain controller interface (BCI) technology?
4. What can Emotiv do to encourage adoption by Microsoft and/or Sony?
5. Evaluate the economics for console makers like Microsoft, game developers (GDs), and Emotiv
 - a. Suppose 1 million BCI console games (say for the XBox) are sold in the first full year. Assuming a gamer buys 3 games, how much revenue would Microsoft make? Assume the game retails for \$60.
 - b. Using Exhibit 5 and other data in the case, what is the breakeven volume for a game developer for a console game developed for the PS3 or XBox?
 - c. Assume a retail price of \$199 for the EPOC headset. Using data on retail margins mentioned in the case, incorporating returns, a console royalty fee of 4%, a publisher fee of 2%, how much does Emotiv make per headset? Use a cost/unit of \$60. Take the first 2 years from Ex 14. What is the breakeven volume for Emotiv? Can this be achieved?
6. What would you do?

Growth Strategies: New Markets

Readings:

WM, ch. 8

4. Monday, October 8

Growth Strategies: New Markets (continued)

Case: Groupon (in case packet)

Assignment: This is a case for class discussion.

Preparation questions for the Groupon case

1. What is the biggest problem small merchants face?
2. What benefits does Groupon offer merchants?
3. What are the positives/negatives of a Groupon campaign for merchants?
4. Why do consumers buy Groupons? How are Groupons different from standard coupons?
5. Consider the American Apparel (AA) promotion described on the top of page 7 of the case
 - i. Assume that AA keeps \$15 of the coupon value of \$25.
 - ii. It is mentioned that between 10% to 30% of Groupons are not redeemed (see page 6 of case). Assume a base case non-redemption of 20%.
 - iii. Compute the profitability of the AA promotion using the base case non-redemption.
 - iv. Suppose all customers redeem the AA Groupon. Compute the profitability.
 - v. Again using the base case, suppose 50% of the customers who do redeem are previous customers who would have bought anyway. Compute the profitability.
6. Which type of merchants (product categories) are likely to benefit from a Groupon promotion?
 - a. Fixed costs (high or low)
 - b. Variable costs (high or low)
 - c. Capacity (high or low)
 - d. Awareness (high or low)
 - e. Opportunity for up-sell (high or low)
 - f. Likelihood of repeat (high or low)

Readings:

WM, ch. 9

**Growth Strategies: Established Markets
Small Scale Strategies**

Remember there is no class on Monday, October 15. This class was made-up on Friday, October 8.

5. Monday, October 22

Growth Strategies: Established Markets: Small Scale Strategies (contd.)

Markstrat team meetings from 5 p.m. – 6.15 p.m. before class and from 8 p.m. – 9.30 p.m. Students without group meetings are free to leave after the class session is over.

6. Monday, October 29

Growth Strategies: Established Markets: Large Scale Strategies

Readings:

Chris Zook & James Allen, “Growth Outside the Core,” *Harvard Business Review* (December 2003)

This article discusses how to grow in adjacent spaces.

Chan Kim & Renee Mauborgne, “Blue Ocean Strategy,” *Harvard Business Review* (October 2004)

This article (there is also a book) discusses the difference between competing in existing market spaces and slugging it out with competition (red ocean) versus creating new market spaces where competition is irrelevant (blue ocean).

Case: Neiman Marcus (A)

Assignment: This is a written group assignment.

What we know about Neiman Marcus now is irrelevant to this case. This is a real decision the company faced at the time of the case. Only the data available at the time of the case and the facts available in the case should be used in answering the questions.

Neiman Marcus is facing a critical decision regarding how to grow. Your case write-up should address the following:

1. Executive summary outlining what Neiman Marcus should do; should they launch Galleries or not; any other growth options that the Neiman Marcus Group (includes the NM stores, BG stores, and NM Direct) can pursue? (half a page)
2. An analysis of the range of growth options available to the Neiman Marcus group and implications for Neiman Marcus (which of these are consistent with the positioning of Neiman Marcus; how likely to deliver top line and/or bottom line goals)
3.
 - a. Describe NM's positioning (referring to the NM full-line stores only)?
 - b. What actions does NM take to support its positioning?
 - c. How does NM compare to relevant competition on key criteria (both quantitative and qualitative)?
4. A **quantitative** analysis of the Galleries concept based on the objectives established by the CEO for new product concepts (the Galleries store is expected to carry **three lines**, namely fashion jewelry, precious jewelry, and gifts):
 - Make an estimate of annual sales and profit for a **single** Galleries store using **specific** data on the relevant product lines available in the case.
 - Based on the investment needed for a **single store** and a hurdle rate of 15% (or cut-off rate, or cost of capital, or discount rate or desired rate of return), what is the payback period (that is, how long will it take to recover the investment)? How many stores will be needed to meet the financial objectives?
5. A **qualitative** analysis of the Galleries concept; if Neiman Marcus were to proceed with Galleries (and even if you conclude they should not), which locations should be chosen (use the data in the case), likely success in attracting customers, scaling up of the Galleries concept, etc.

Some points to note:

1. The data in Table B in the case refers **only** to the NM store merchandise.
2. At the end of 5-7 years, NM wants a top line revenue **increase** of \$150-200 million from the new concept; not a top line revenue **growth** of \$150-200 million *every year* from the new concept. Say, for example, that NM revenue **in** year 6 would have been \$X million **without** the new concept. What management would like to see is revenue **in year 6** of \$X million + (\$150M-\$200M) because of **the new concept** started in year 1.
3. In computing viability of a Galleries store, it would be appropriate to figure out cash flow from a single store. This might, however, be difficult to do because of lack of specific information regarding depreciation and changes in current assets & liabilities. So, for our purpose, it might be enough to compute **operating profits before taxes**.
4. Do not assume any **terminal value** in your assessment of the viability of Galleries.
5. Assume there is only a **one-time** infusion of working capital at the beginning.
6. In the income statement in Exhibit 5, cost of goods sold **includes** buying and occupancy costs. Some retailers follow this practice. In Table B, on the other hand, the gross margins for each category only reflect pure cost of goods, and **excludes** buying and occupancy costs.
7. It might be easiest to use **gross square feet** in all your computations, to avoid having to make an estimate of selling square feet. It is common in the retailing industry to use \$/gross sq.feet. Treat the square feet in Table B as gross square feet.
8. On page 6 of the case, line 17 from the bottom: should be 250,000 gross square feet for BG, not selling square feet to be consistent with Exhibit 6.
9. In Exhibits 8 & 9, the \$ are in millions, not thousands.
10. In Exhibit 11, Premium BPI refers to Buying Power Index; this is another measure that reflects proportion of spending on premium products.
11. In Exhibit 11, Median Household EBI: EBI stands for "Effective Buying Income" which is similar to disposable income or after-tax income.
12. **Any quantitative analysis that is presented should be transparent; all the assumptions should be stated, appropriate explanations should be provided if spreadsheet computations are presented, etc. Please do not make me hunt around trying to figure out what you have done!**

Page Limit: The case write-up is limited to **six - seven** pages (12 point type, 1" margins; no less than 1.5 spaced), *plus, if necessary*, a maximum of **two-three** pages of exhibits. Please do **not** exceed the page limit. Written case analyses are due at the start of class on **Monday, October 29**. No late papers will be accepted. **Please submit a hard copy of the case analysis to me in class!**

7. Monday, November 5

Growth Strategies: Established Markets: Large Scale Strategies (contd.)

Case: IKEA Invades America

Assignment: This is a case for class discussion.

There are some aspects of IKEA's business model which have changed since the time of the case. We will ignore them at the start and bring them up later in the discussion.

Preparation questions for the IKEA case:

1. Furniture retailing is a mature industry consisting of low-end and high-end retailers. How has IKEA differentiated itself from the low-end and high-end retailers? Can you think of companies in other industries which have been able to do something similar?
2. Is IKEA's positioning sustainable, i.e., can competitors copy IKEA?
3. What are the downsides of shopping at Ikea?
4. Describe the typical Ikea shopper.
5. How would you improve Ikea's value proposition to make it more attractive to a larger base of buyers?

Readings

Pankaj Ghemawat and Thomas Hout, "Tomorrow's Global Giants: Not the Usual Suspects," *Harvard Business Review* (November 2008)

A very interesting article that talks about competitors from countries like China and India.

"I Think of my Failures as a Gift," an interview with former P&G CEO Lafley by Karen Dillon, *Harvard Business Review* (April 2011)

Mr. Lafley talks about how a company can learn from failures and use the learning to improve the odds of success in future undertakings.

8. Monday, November 12

Marketing Strategies for Mature & Declining Markets

Readings:

WM, chapter 10

Narayandas, "Building Loyalty in Business Markets," *Harvard Business Review*, September 2005

Case: Steinway & Sons: Buying a Legend (A)

Assignment: This is a case for class discussion.

Preparation questions for the Steinway case:

1. What is the nature of the piano market?
2. How does the market look to the new owners of Steinway from Steinway's vantage point?
3. What is Steinway's positioning? How does Steinway support its positioning?
4. Does the Boston line make sense for Steinway? Why or why not?
5. Are there other ways of leveraging the Steinway brand?

There is no class on Monday, November 19 because of the Thanksgiving Holidays.

9. Monday, November 26

Marketing Strategies for Mature & Declining Markets (continued)

Case: A.1. Steak Sauce: Lawry's Defense

Assignment: This is a case for class discussion.

Preparation questions for the A1 case:

1. Evaluate A1's position in the market.
2. Suppose A1 **does not match** Lawry's 2 for \$5 promotion during Memorial Day week.
 - What is the worst case scenario for A1 during this week. Estimate the profit impact for A1.
 - What if A1 loses 25%/50% of its Memorial Day week volume? What is the profit impact?
3. Suppose A1 **matches** Lawry's 2 for \$5 promotion on Memorial Day week. What is the profit impact on A1?
4. What should A1 do?

Notes:

1. Assume variable cost of a unit of A1 is \$0.60
2. Note that margin is computed on the selling price
3. First need to compute annual unit volume of A1 sales
4. Assume that even though Lawry's is running a 2-for-\$5 promotion, the consumer is not required to buy 2 units to get the special price; can buy 1 unit for \$2.50

Defensive Marketing Strategies

10. Monday, December 3

Defensive Marketing Strategies (continued)

Course Summary

MARKSTRAT Debrief

!! Best wishes for the Holidays!!