Marketing Strategy and Competitive Positioning 8th edition Hooley Solutions Manual

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Instructor's Manual

Marketing Strategy & Competitive Positioning

Eighth edition

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Contents

Parts and Chapters

PART 1

Marketing strategy

CHAPTER 1

Market-led strategic management

Younger consumers drive shift to ethical products

By Alice Hancock in London

From free-range meat to vegan haircare, demand for sustainable goods is rising

In a busy north London supermarket the weekend before Christmas, the meat aisle is a hubbub. Sarah Rymer, 32, picks her way through a shelf of whole chickens. She chooses a free-range bird. 'I've definitely become more conscious of what I buy in the past few years,' she says. 'It can be confusing, but I think it's worth the money.' Ms Rymer is one of an increasing number of shoppers driving the UK's £81.3bn market for ethical products and services. According to not-for-profit consultancy Ethical Consumer, the sector has grown by more than £40bn since 2008, with households spending an average of £1,263 on ethical goods last year. The ethical food and drink market alone was up 9.7 per cent, compared with 5.3 per cent growth in 2015. Businesses are seeing the appeal. For Thanksgiving this year Butterball, the US's largest turkey producer, launched its first organic range in response to increasing consumer demand, while earlier in the year UK sandwich chain Pret A Manger opened its second and third all-vegetarian outlets. Ikea, which says that it uses its sustainable credentials to set it apart from other affordable homeware brands, intends to use only recycled or FSC certified wood by 2020. Big consumer product groups are making concerted efforts, too. French cosmetics company L'Oréal this month unveiled its first vegan hair colour products, aimed at boosting its flagging professional haircare division. As part of a steady strategy of smaller acquisitions, Unilever bought Sir Kensington, a maker of vegan mayonnaise, and Pukka organic teas. Its sustainable brands – those the company describes as 'combin[ing] a strong purpose delivering a social or environmental benefit' – grew 40 per cent faster than the rest of the business in 2016, it says.

With consumers showing increasing concern for animal welfare, demand has risen for free-range poultry

Source: Jamie McDonald / Staff/Getty Images.

Younger consumers are fuelling this response. YouGov data show that in the past year alone the proportion of 18- to 24-year-olds turning to vegetarianism for environmental or welfare reasons has increased from 9 to 19 per cent. And it is not just in their consumer habits. 'We know that millennials want to work for companies that take this stuff seriously,' says Rob Harrison, director of Ethical Consumer. 'Lots of new start-ups have an ethical mission and it translates across into buying patterns.' He is speaking to me on his Fairphone, marketed as 'the world's first ethical, modular smartphone'. Ben Gleisner is the founder of one such ethically minded start-up. In 2009, while working as an economist in the New Zealand treasury, he identified what he calls a 'massive market failure': businesses, unaware that customers were interested in ethical products did not invest in them, resulting in a 'huge undersupply'. Conscious Consumers, the platform he has set up, provides retailers with data about customers' ethical preferences. Shoppers sign up online and link their credit or debit card to the app. Whenever they spend money at businesses registered with Conscious Consumers, data entered on their profile – from whether they would prioritise buying organic to whether they are interested in climate change or workers welfare – is sent to the retailer. In 2015 Mr Gleisner and his team ran New Zealand's second-biggest crowdfunding campaign and in autumn next year it plans to launch in its first foreign market: the UK. Richard Collier-Keywood, previously managing partner of PwC UK, has come on board as a director. Mr Gleisner says that 16- to 35-year-olds – Generations Y and Z – are the strongest market. 'Generation Z is the most environmentally and socially "aware" consumer market yet. Even more so than millennials,' he says. The sticking point is cost. At higher-end supermarket Waitrose, where Ms Rymer is shopping, an Essential range chicken is £2.40 per kg while a free-range bird is £6.25 per kg – more than double the price. Josie Mallin, 27, who is shopping for a Sunday joint in the more affordable Morrisons supermarket nearby, chooses a standard chicken. 'I try to buy ethically but say a normal chicken is £4 and an organic chicken is £10, I'm going to buy the normal one,' she says.

Source: from 'Younger consumers drive shift to ethical products', *Financial Times*, 23/12/2017 (Hancock, A.).

Discussion questions

1. **What issues is Conscious Consumers trying to address?**

    - Changes in consumer needs and wants
    - Increase in veganism and ethical consumption
    - Lack of business awareness of these changes and a missed opportunity to meet demand, that is, lack of market orientation.
    - Generation segmentation: generations Y and Z are the strongest market for ethical products.

2. **How is the company trying to address them?**

    Conscious Consumers is a start-up aiming to link the evidence of consumers' ethical choices and opinions to retailers via an app. As such it is following many marketing fundamentals explained in this chapter:

    - Focus on the customer.
    - Customers do not buy products (in this case, they chose products based on them matching their ethical and sustainability values).

- Markets are heterogeneous (here generation Z is leading ethical consumption).
- Markets and customers are constantly changing.

Lego builds new dimension with digital vision

Danish group launches toys-to-life game giving children the opportunity to put physical playthings into virtual worlds.

Imagine Homer Simpson driving the Batmobile down the Yellow Brick Road. Or Superman steering a DeLorean Time Machine through Middle-earth.

What was once fantasy will become reality this week when Lego and Warner Bros launch their big-budget game Lego Dimensions.

It marks a crucial step in the Danish toymaker's digital strategy. The game – whose starter pack will be priced at a hefty $100 – pushes it into a new segment: the toys-to-life category, worth $700m a year in the US alone.

'Lego is the archetypal toys to life experience. We are just pushing those digital borders continually so we remain present and relevant in all the environments where children want to play', says John Goodwin, the finance director.

Toymakers have been hit hard by the emergence of smartphones and tablets, as children spend increasing amounts of time in digital play on such devices. Lego has managed to buck that trend, largely thanks to the strength of its physical products as it became the world's biggest toymaker by sales in the first half of this year.

But, while it has developed a successful line in video games through Warner's TT Games, the privately owned Danish company has struggled in other digital ventures with a number of flops.

'I don't think they have conquered the digital world. It's hard to point to something digital that they have done that is successful. But what you are seeing now is the first attempts for Lego to create some kind of hybrid physical-digital experience', says David Robertson, co-author of Brick by Brick: How Lego Rewrote the Rules of Innovation and Conquered the Global Toy Industry.

That increases the pressure all the more on Lego Dimensions, a sprawling game that cost the same as a blockbuster film to develop and featuring different brands including Doctor Who, Back to the Future and Ghostbusters.

For their $100, players will get a game for Sony's PlayStation, Microsoft's Xbox or Nintendo's Wii, alongside almost 300 Lego pieces used to create a controller, as well as three characters: Batman, Gandalf from Lord of the Rings and Wyldstyle from The Lego Movie. Additional kits featuring other characters – from the Wicked Witch in The Wizard of Oz, through to Scooby Doo and Wonder Woman to Krusty the Clown – will cost $15–$30 and unlock new games levels and include vehicles for game play.

The game works by recognising which characters and vehicles are placed on a controller and making them part of the action, which takes place over 14 levels – one for each brand involved. Typical Lego flourishes are included, such as an ability to rebuild each vehicle in three different ways.

'I wanted to make a game like this eight years ago. With my own kids, I could see how they would play with Lego: Batman and Gandalf together. When I saw toys to life, I knew this was the mechanism', says Jon Burton, the founder of British developer TT Games.

The game, which took 160 people three years to develop, is launching in a crowded marketplace. Activision Blizzard's Skylanders game has dominated the toys-to-life category since it launched in 2011, but has been joined by Disney's Infinity - which will feature Star Wars' figures this Christmas – and Nintendo's Amiibo lines.

Liam Callahan, an analyst at market research group NPD, says the toys-to-life sector was worth $710m in the US in the year to the end of August, up 6 per cent on the previous year. He argues that, even though the price is high and there is plenty of competition, Lego Dimensions should be a success thanks to the toymaker's brand and the huge number of other brands and characters involved in the game. 'Our research shows that the main market for these types of games are young males; but with the range of toys for Lego Dimensions, there may be a wider age and gender for main consumer as well as a cross-generational appeal for families', he adds.

Mr Burton says that the broad pitch is deliberate as he pushed to include levels from Portal, a puzzle video game and Back to the Future to appeal to adults as well as children. 'There is a bigger market for this toys to life than just six to 12-year-olds', he adds.

Mr Goodwin is eager to underline that Lego is not betting the company on Dimensions. But he is keenly aware of the importance of the toymaker making a success of its digital offering.

'What is obvious is the digital and physical is something of a distinction we make but children don't... From a Lego brand point of view, we continue to be anchored in the physical brick experience. But we are going to explore more ways that you can build strong linkages between the physical and digital worlds', he says.

Lego took the decision to concentrate on the physical brick when it neared financial collapse in 2004. As part of its recovery under chief executive Jorgen Vig Knudstorp, over-diversification was diagnosed as one of its ills and its video games development arm was sold off.

Mr Burton, who was also an executive producer of The Lego Movie, says each company decided to focus on what they were best at: 'They handle bricks, we handle the digital side'.

Another recent collaboration is Lego Worlds, a game still only in limited beta release that many see as the toymaker's answer to Minecraft. Players can build worlds, buildings and figures using Lego bricks with nearly all the freedom of the physical world, while new ideas are being incorporated according to what Lego's online community suggests.

Mr Goodwin and Mr Burton say there is more to come, especially around making the digital experience more 'real'. The toys-to-life category works by the controller reading a chip in a character's base, meaning that if Batman is placed on Superman's base the machine will still think it is Superman. Similarly, only the exact model or vehicle will be imported into the game, not whatever the player imagines. Mr Goodwin hopes that will change one day.

Mr Robertson says that Lego's great success has been building a range of products and experiences around the physical brick – so that children cannot just play with the products but also watch a television show, go to an event or see a display in a toy shop. Its digital push should be seen in that light, he argues, although he also says Lego could gradually develop into more of a digital company. 'Maybe you and I might be talking in 2020 about what is the core of Lego: is it physical or digital?'.

Mr Goodwin dismisses such talk, arguing that if you 'put bricks in front of kids they just love to build'.

Losing strategies: Award-winning games but not sales winners.

Success is far from guaranteed for Lego Dimensions as some of toymaker's previous digital efforts show. Lego Universe, an ambitious and costly attempt to replicate the experience of playing with bricks in a game, developed by dozens of workers, was killed off within months of its launch in 2010.

At about the same time, a single Swedish computer enthusiast working part-time developed Minecraft, which became one of the biggest-selling games of all time and is in Jon Burton's words 'a digital version of Lego'.

John Goodwin says that failure led to Lego realising it needed to be more agile when dealing with digital products than physical ones: 'Other companies put their games out in beta [an early development stage] and constantly reiterate it'. That's not part of our DNA.

'We have a tendency to want to have perfection by the time it gets into consumer hands'.

More recently, Lego Fusion won a string of awards in the US but it was unsuccessful in grabbing children's attention and that too was discontinued. It allowed players to create two-dimensional models with physical bricks that they then imported into the game using a smartphone or tablet camera. 'One product was unusable, one was not fun', summarises David Robertson, a professor at the Wharton School in Pennsylvania.

Mr Goodwin adds, somewhat ruefully: 'It's not about winning awards, it's about delighting consumers constantly and we weren't able to do that'.

Discussion questions

1. **Evaluate and comment on Lego's market orientation using the market orientation assessment form (see Box 1.1) to support your analysis.**

Box 1.1 Market orientation assessment

1 CUSTOMER ORIENTATION

	Strongly agree	*Agree*	*Neither*	*Disagree*	*Strongly disagree*	*Don't know*
Information about customer needs and requirements is collected regularly	5	4	3	2	1	0
Our corporate objective and policies are aimed directly at creating satisfied customers	5	4	3	2	1	0
Levels of customer satisfaction are regularly assessed and action taken to improve matters where necessary	5	4	3	2	1	0
We put major effort into building stronger relationships with key customers and customer groups	5	4	3	2	1	0
We recognise the existence of distinct groups or segments in our markets with different needs and we adapt our offerings accordingly	5	4	3	2	1	0
Total score for customer orientation *(out of 25)*						

2 COMPETITOR ORIENTATION

	Strongly agree	*Agree*	*Neither*	*Disagree*	*Strongly disagree*	*Don't know*
Information about competitor activities is collected regularly	5	4	3	2	1	0
We conduct regular benchmarking against major competitor offerings	5	4	3	2	1	0
There is rapid response to major competitor actions	5	4	3	2	1	0

We put major emphasis on differentiating ourselves from the competition on factors important to customers	5	4	3	2	1	0
Total score for competitor orientation *(out of 20)*						

3 LONG-TERM PERSPECTIVES

	Strongly agree	*Agree*	*Neither*	*Disagree*	*Strongly disagree*	*Don't know*
We place greater priority on long-term market share gain than short-run profits	5	4	3	2	1	0
We put greater emphasis on improving our market performance than on improving internal efficiencies	5	4	3	2	1	0
Decisions are guided by long-term considerations rather than short-run expediency	5	4	3	2	1	0
Total score for long-term perspectives (*out of 15*)						

4 INTERFUNCTIONAL COORDINATION

	Strongly agree	*Agree*	*Neither*	*Disagree*	*Strongly disagree*	*Don't know*
Information about customers is widely circulated and communicated throughout the organisation	5	4	3	2	1	0
The different departments in the organisation work effectively together to serve customer needs	5	4	3	2	1	0
Tensions and rivalries between departments are not allowed to get in the way of serving customers effectively	5	4	3	2	1	0

Our organisation is flexible to enable opportunities to be seized effectively rather than hierarchically constrained	5	4	3	2	1	0
Total score for interfunctional co-ordination (*out of 20*)						

5 ORGANISATIONAL CULTURE

	Strongly agree	*Agree*	*Neither*	*Disagree*	*Strongly disagree*	*Don't know*
All employees recognise their role in helping to help create satisfied end customers	5	4	3	2	1	0
Reward structures are closely related to external market performance and customer satisfaction	5	4	3	2	1	0
Senior management in all functional areas give top importance to creating satisfied customers	5	4	3	2	1	0
Senior management meetings give high priority to discussing issues which affect customer satisfaction	4	3	2	1	0	
Total score for organisational culture (*out of 20*)						

Summary

Customer orientation (*out of 25*)

Competitor orientation (*out of 20*)

Long-term perspectives (*out of 15*)

Interfunctional coordination (*out of 20*)

Organisational culture (*out of 20*)

Total score (*out of 100*)

Interpretation

- 80–100 indicates a high level of market orientation. Scores below 100 can still, however, be improved!
- 60–80 indicates moderate market orientation – identify the areas where most improvement is needed.
- 40–60 shows a long way to go in developing a market orientation. Identify the main gaps and set priorities for action to close them.
- 20–40 indicates a mountain ahead of you! Start at the top and work your way through. Some factors will be more within your control than others. Tackle those first.

Note: If you scored '0' on many of the scales you need to find out more about your own company!

Students should be asked to complement the information given here with some further research and use the assessment form to discuss Heineken's market orientation.

2. Which of the three approaches to marketing presented in this chapter do you think best describes Lego's approach? Why?

Lego is currently following the resource-based approach to marketing by giving equal considerations to the needs of the market (e.g. by introducing digital offerings) and its ability to serve it (by complementing its strengths in physical toys with Warner Bros' in films). The company's focus on delighting consumers drives it to take a longer term view and adjust its resource profile over time (including strategic relationships) to take advantage of new opportunities (e.g. in the digital world) and remain competitive.

3. What marketing principles are in evidence in this case?

In this case principles 1, 2, 3, 5 and 6 are in evidence. Lego

1. clearly demonstrates a focus on the customer/consumer (`it is about delighting consumers constantly');
2. is clearly intent on competing in markets where it can establish a competitive advantage;
3. is aware that it is marketing the experience, the story and not plastic bricks;
4. has segmented the market and approach each segment differently, e.g. the toys-to-life experience segment and
5. is aware that markets and customers are constantly changing and that the company has to adapt to stay relevant.

CHAPTER 2

Strategic marketing planning

Three brings Smarty to the low-cost mobile party

By Nic Fildes

New UK mobile phone service gives discount to customers who do not use all their data

Three is set to go downmarket with the launch of a new mobile phone service that will give discounts to customers who do not use up all their data.

The imminent launch of Smarty is the first time that Three has delivered a sub-brand to the market. The move represents a push to attract a different segment of customers – those looking for cheaper deals than they can get through the main Three brand, which has almost 9m customers.

A website for Smarty offering 'simple and honest' mobile phone services has appeared online, with only details in the small print of the privacy policy revealing that Three is behind the new service. A source briefed on the new brand said it would initially only be open to a limited number of people. Three itself declined to comment.

The new SIM-only network is targeted at a low-spending demographic that does not want to sign up for pricey data contracts. The move to offer discounts on bills if a user does not use their data allotment is similar to moves by Sky and Virgin Media to add more mobile customers – by allowing users to roll over unused data capacity between months.

Source: Matthew Lloyd/Bloomberg/Getty Images.

The Smarty launch also comes ahead of a new range of Vodafone packages due to be launched in the second half designed to stimulate growth in the UK market and reposition the brand.

Other telecoms companies have established sub-brands. O2 owns the GiffGaff service and half of Tesco Mobile, while BT also operates under both the EE and Plusnet brands. Sub-brands can be used to target different customer segments but can also prove an expensive distraction. Vodafone, for example, is set to close down the Talkmobile brand it acquired from Carphone Warehouse to save costs.

The launch of the low-cost service comes amid a fierce debate about the impending spectrum auction, which will free up more airwaves for mobile phone companies to improve 4G networks and launch 5G in the future.

Three, part of the CK Hutchison conglomerate, has threatened to launch a judicial review of the process after Ofcom refused to introduce a 30 per cent cap on the amount of airwaves any operator can own. Three has argued that there is a spectrum imbalance, with EE, part of BT, and Vodafone controlling the majority of the airwaves between them and leaving Three and O2 constrained by their smaller spectrum holdings.

Source: from 'Three brings Smarty to the low-cost mobile party', *Financial Times*, 10/08/2017 (Fildes, N. Telecoms Correspondent).

Discussion questions

1. Why is Three launching a sub-brand?

This is strategic marketing planning. Three would have evaluated the market needs and identified a new segment ('a low-spending demographic') that matches the company's resources. The market needs exist and competitors have also established sub-brands so it appears that Three does not want to be left behind.

2. How is Three trying to compete?

Three has developed and is implementing a marketing strategy that ensures the company has an offer comparable to that of its competitors and has an increased portfolio covering a larger part of the total market. It is also trying to protect itself from Vodafone that is due to launch a product similar to Smarty in the next few months.

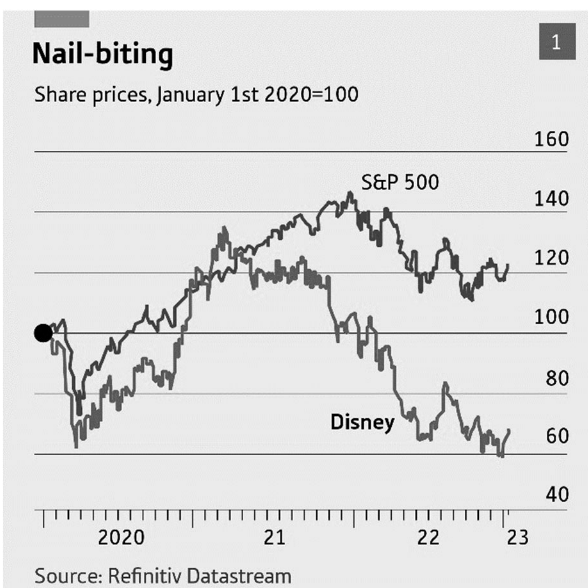
As Disney turns 100, its business is on a rollercoaster ride

The decline of TV and cinema and rise of streaming will reshape entertainment

Splash mountain, a popular ride in Disneyland, towers over attractions that encapsulate the 100-year history of the Walt Disney Company. To the south, on Main Street usa, a little cinema screens "Steam Boat Willie", in which Mickey Mouse made his debut in 1928. In the centre of the park the Sleeping Beauty Castle evokes the classic Disney animations of the 1940s and 1950s. On the outskirts are areas themed around Star Wars and the Marvel universe, which Disney took over during an acquisitions spree in the 2000s. Passengers at the high point of the ride have a few seconds to take in the view. Then, with a lurch, their car makes a near-vertical plunge and everyone gets drenched.

In the run-up to its centenary, which Disney will start celebrating on January 27th, the company itself has been on something of a rollercoaster ride. The world's biggest entertainment firm, with a market value of $180bn, still rules the box office, with four of the ten highest-grossing films of 2022 (including the sequel to the most lucrative ever, "Avatar"). Its American theme parks have bounced back from pandemic shutdowns to generate record profits. Its broadcast and cable-television networks continue to rake in billions of dollars a year. And in streaming, the medium of the future, Disney has racked up more subscriptions than anyone, last year overtaking Netflix. During 12 thrilling months in 2020-21, investors clung on as the company's share price doubled.

Then came the plunge into cold water (see Chart 1). In the past year Wall Street has realised that Hollywood's old formats are decaying faster than its new ones are growing. Cinema has not fully recovered from covid-19, and may never. Cable is in steepening decline. Meanwhile Disney's streaming division is still losing more than $1bn a quarter as it competes with rivals like Apple and Amazon, who use streaming as a loss-leader for their other businesses. Disney's market value has dropped by half since its peak in 2021, back to the depths it plumbed at the outbreak of the pandemic. In November the company sacked its chief executive, Bob Chapek, and brought his predecessor, Bob Iger, back from retirement.



The Economist