

**New York University**  
**Stern School of Business – Graduate Division**  
**Marketing Concepts (Summer II 2005)**  
**<http://sternclasses.nyu.edu>**

Professor Sunder Narayanan	MW 6-9
Office: 9-69, KMC	B01.2310.70
Stern Email: snarayan	Classroom: TBA
Office Hours: By appointment	TF: TBA

### **Course Description**

A marketing orientation drives strategic decision-making in most companies today. The business press is constantly discussing the efforts of companies to get close to their customers or to meet their needs better than the competition. Indeed, it is impossible to understand the current and potential financial success of companies today without a thorough understanding of their target markets, customer relationships, product development skills, and competitive advantages and disadvantages.

Marketing is all about creating and capturing value. By providing superior value to customers, companies enhance their own value. The marketing concept is so pervasive in companies that a marketing orientation extends well beyond the marketing department. Marketing has become everyone's job. This course will enable you to apply marketing tools and concepts, whether you work in the marketing department or not. Specific course objectives include:

1. To understand the role of marketing in companies, particularly its role in understanding your customers, competitors and your company's strengths and weaknesses and then using this knowledge to develop a competitive advantage in the market.
2. To enhance knowledge and skills necessary to understand and apply the frameworks, concepts and methods used in the development of effective marketing strategy and tactics.
3. To gain practical experience in the application of analytical tools and processes used to develop strategy.
4. To develop specific recommendations and actions plans for companies facing difficult marketing decisions.

These objectives will be achieved through a combination of lectures, readings, discussions, and case analysis. Class participation during lectures and meaningful contributions to discussions are extremely important.

### **Course Material**

1. Market-Based Management, 4<sup>th</sup> edition, by Roger J. Best, Prentice Hall, 2005.
2. Casebook available from the bookstore

### **Course Evaluation**

- |                            |                                |
|----------------------------|--------------------------------|
| 1. Class participation     | 20% (individual)               |
| 2. Take Home Case Analysis | 40% (groups of up to 4 people) |
| 3. Final Exam              | 40% (individual)               |

### ***Class Participation (20%)***

Every session of the course will involve interaction in the form of class discussion. We expect each one of you to come to class on time and be prepared to contribute to any class session. To ensure credit for class participation, you must display your name card in every class session.

Assigned readings are intended to provide the framework for understanding fundamental concepts and provide examples of their usefulness. The text and readings are intended to prepare you for case discussions and class participation. Please go over the readings prior to class. Lectures will not duplicate text or reading material: they will supplement and embellish the text, and offer alternate viewpoints. Please also come prepared to class with the cases so that you can meaningfully contribute to the discussions. We will use the cases as a means of understanding the main concepts covered in the book chapters.

*Some Guidelines for Case Analysis.* Although each case is different, your own case analysis skills will develop more effectively if you approach each with a similar framework. In performing your analysis, the following framework is offered as a method of approach:

1. Decisions: What are the key decisions that have to be made by the focal decision maker? Often you will isolate relatively minor decisions; push your analysis so that you can identify the full decision scope.
2. Objectives: What objectives are management trying to achieve? These often take the form of growth, market share, profit or cash goals. Do these make sense, given your analysis?
3. Market Analysis: What do you know about the market size, growth, presence/evolution of market segments? What markets for other products forms impinge upon the market you are considering?
4. Environmental Analysis: What are the key imperatives and/or changes taking place outside of the industry that affect both your firm and its competitors? Examine the economic, technological, social, regulatory, political, and legal environments.
5. Industry Analysis: What is happening in the industry? What is the state of competition between existing competitors? To what extent are new firms entering the market? What is the level of competition from products made with different technologies? Are our suppliers integrating forwards? Are our customers integrating backwards?
6. Customer Analysis: Who are our customers? What sets of benefits do they require? You need to consider both direct and indirect customers.
7. Competitor Analysis: What are the strengths and weaknesses of our competitors? What are their strategies? Will their strategies change? If so, how? What strategies might we expect from entrants?
8. Firm Analysis: What are our strengths and weaknesses? What strategies have we pursued in the past? How successful have they been?

9. Economic Analysis: What does the economic analysis show? Given the set of decisions and objectives facing the decision maker, what is the nature of the job in economic terms?
10. Assumptions: As you reflect on your analysis, what are the key givens upon which you will base your strategy?
11. Alternatives: What are the two or three major courses of action that could be followed to reach the firm's objectives. For each that you identify, you should lay out pros and cons.
12. Action Plan: What are you going to do? Lay out a broad strategy and specific action steps.

***Take Home Case Analysis (40%).***

This assignment is due on Aug 10, 2005 by 6 PM. You can do this assignment in groups of up to 5 people. The report should not exceed ten pages (12-point font, double-spaced) including tables and exhibits. Please modify the above framework to suit your purposes. Your analysis should demonstrate an understanding of the concepts discussed in class. The report will be evaluated based on the quality and comprehensiveness of the analysis, and the quality of the recommendations.

**XM Satellite Radio (A)**

*Synopsis.* XM Radio is a radically new way to listen to radio. XM's service makes use of advanced satellite capabilities and novel receiver architecture to deliver a wide array of high quality radio programming nationwide. In early 1998, Robert Acker, director of strategic planning at XM, needs to develop a marketing strategy for the new radio service. At the center of XM's challenge is to decide which of two business models to pursue. In particular, management must decide whether emphasis should be placed on charging customers a high monthly subscription fee, or whether to rely more on the sale of airtime to advertisers. In addressing this dilemma, management must consider the value that XM radio creates for different consumer segments as compared with existing modes of radio (AM, FM) and in relation to its sole competitor in satellite radio (Sirius). There is also a need to explore how best to leverage manufacturer and channel partners. XM has commissioned market research that forecasts demand at different price points for different segments of the population. The market research, along with data on other industry characteristics, should be analyzed to help resolve the business model dilemma, to set the monthly service fee and to formulate other aspects of the marketing strategy and plan.

*Assignment questions.*

1. What is the value proposition of XM to different consumer segments? Who should be the primary target of XM?
2. What aspects need to be considered in pricing the radio receiver and the subscription fee? Assuming a five-year lifetime for a consumer, what would be the optimal price for monthly subscription? How would your answer change if the lifetime was shorter or longer?
3. How should the price of the service change over time? Should you price low initially and then increase it over time? Or should you price high initially and then decrease it over time? Or should the price remain the same over time?

4. What aspects need to be considered to allow advertising to run on XM's service? How does the fact that the firm could also earn advertising revenue affect the optimal subscription price?
5. What are the implications of the expected launch plans for XM's rival Sirius?
6. What revenue model should XM pursue to capture value from satellite radio?
7. Given the business model selected, what should be the marketing plan for launching the XM service? (communication strategy, channel design, pricing, and incentives).

***Final Exam (40%)***

There will be final exams on the date indicated in the schedule. The exams will consist of multiple-choice and/or short-answer types of questions. All readings, lectures, class discussions, and cases are included in the final exam. The exam will be open book and notes. More details on the exam will be given in class. Please bring a calculator to the exam.

## Class Schedule

Session	Date	Topic	Readings/Assignments
<b>Module 1: Identifying Marketing Opportunities</b>			
1	Jun 29	Strategic Marketing	Best Chapter 11
NO CLASS JUL 4 – INDEPENDENCE DAY			
2	Jul 6	Market Analysis <i>Case Discussion</i>	Best Chapters 3 and 6 <i>Citibank in Asia Pacific</i>
<b>Module 2: Managing Marketing Assets I – Customers</b>			
3	Jul 11	Customer Satisfaction and Loyalty	Best Chapter 1
4	Jul 13	Creating Customer Value <i>Case Discussion</i>	Best Chapter 4 <i>Virgin Mobile USA</i>
5	Jul 18	Segmentation and Targeting	Best Chapter 5
6	Jul 20	Segmentation and Targeting <i>Case Discussion</i>	<i>Biopure</i>
<b>Module 3: Managing Marketing Assets II – Brands</b>			
7	Jul 25	Positioning and Product Strategy	Best Chapter 7
8	Jul 27	Pricing Strategy <i>Case Discussion</i>	Best Chapter 8 <i>Bush Boake Allen</i>
9	Aug 1	Communication Strategy	Best Chapter 10
10	Aug 3	Distribution Strategy <i>Case Discussion</i>	Best Chapter 9 <i>Wal Mart</i>
<b>Module 4: Course Integration</b>			
11	Aug 8	<i>Take Home Case Analysis (due Aug 10)</i>	<i>XM Satellite Radio</i>
12	Aug 10	Course Summary In class final exam	

## Questions for Case Analysis

### Citibank

*Synopsis.* Rana Talwar, head of Citibank's Asia Pacific Consumer Bank, is considering the launch of a credit card in several Asia Pacific markets. Talwar's goal is to grow divisional earnings from \$70 million in 1988 to \$100 million by 1990. With these high growth targets, Citibank is searching for ways to expand. Branch banking, the traditional mode of growth, is restricted due to individual country government regulations, so Citibank is contemplating the use of an alternative distribution system, credit cards, to gain market access.

### *Questions*

1. Given its upscale customer base, how should Citibank position its card, if it decides to launch it?
2. Which countries should Citibank enter first? Which countries should it avoid?
3. How should Talwar convince his country managers and head quarters to accept the credit card? What organizational mechanisms does he have in his control?
4. If you recommend not to introduce the card, then how can Talwar meet his \$100 million earnings target by 1990?

### Virgin Mobile

*Synopsis.* Dan Schulman, the CEO of Virgin Mobile USA, must develop a pricing strategy for a new wireless phone service targeted toward consumers in their teens and twenties, many of whom are believed to have poor credit quality and uneven usage patterns. Contrary to conventional industry wisdom, Schulman is convinced that he can build a profitable business based on this under-represented target segment. The key is pricing. Schulman is currently debating three pricing options: (1) adopting a pricing approach that is roughly equivalent to the major carriers; (2) adopting a similar pricing structure, but with actual prices below the major carriers; or (3) coming up with a radically different pricing approach. With respect to the third option, Schulman is considering various alternatives including reliance on pre-paid (as opposed to post-paid) plans, and the total elimination of contracts.

### *Questions*

1. Given Virgin Mobile's target market (14-24 year olds), which of the three pricing options should it choose? In designing your pricing plan, please be specific with respect to the various elements under consideration (e.g., contracts, the size of the subsidies, hidden fees, average per-minute charges, etc.)
2. Evaluate the financial viability of your proposed plan.
3. The cellular industry is notorious for high customer dissatisfaction. Despite the existence of service contracts, the big providers churn roughly 24% of their customers every year. What is the source of this dissatisfaction? How have the various pricing variables (contracts, pricing buckets, hidden fees, off-peak hours, etc.) have affected the customer experience?
4. How do the major carriers make money in this industry? Is there a financial logic underlying their pricing approach?
5. What do you think of the Virgin Mobiles' value proposition (the VirginXtras, etc.)? What do you think of its channel and merchandising strategy?
6. Do you agree with Virgin Mobile's target market selection?

## Biopure

*Synopsis.* Biopure is a small biopharmaceutical firm with \$200 million invested in the development of a revolutionary new “blood substitute” designed to replace the need for donated blood. To date, they have developed two (and only two) products – ‘Oxyglobin’ for the veterinary market, and ‘Hemopure’ for the human market. These products are nearly identical in physical properties and production processes. Oxyglobin has just been approved for commercial release by the FDA, while Hemopure is still two years away from final FDA approval.

### *Questions*

1. Estimate Biopure’s potential in the human and animal markets.
2. What are the biggest obstacles for Biopure’s success in the human and animal markets?
3. How might Oxyglobin be a threat to Hemopure? How might it be an asset?
4. What should Biopure do regarding the commercial release of Oxyglobin? If they do release it, what price should they set? How should they distribute it?

## Bush Boake Allen

*Synopsis.* Bush Boake Allen (BBA), a global supplier to companies like Nestle in the \$11 billion specialty flavor industry, faces slow growth and price erosion. Specialty flavors enhance the taste of nearly all processed foods and their development requires considerable customization and expertise, being more art than science. An important problem for BBA is that companies asking for custom flavors neither pay for R&D nor commit to purchasing the flavors until they have been developed. Given an acceptance rate of 10%, management has no choice but to focus on very large customers so the expected volume can offset risk-adjusted R&D expenses. In 2000, BBA’s CEO had asked his people to develop a design toolkit through which smaller companies could customize flavors on their own, thus fundamentally changing the way specialty flavors are developed in the industry. While this new approach could provide BBA with new sources of growth, senior management struggles with how this toolkit should be used and the way it would affect their business model.

### *Questions*

1. Please characterize BBA’s traditional flavor development process. Draw a process flow chart. What are the roles of R&D, marketing, and manufacturing? What is the role of customers?
2. Please characterize the proposed development process using the “Spider” toolkit technology. Draw a process flow chart. How will the roles of R&D, marketing, manufacturing, and customers change? How would BBA’s business model be affected?
3. As CEO Julian Boyden which strategy would you endorse: (1) keep the Spider technology in-house; (2) give only large customers access to the technology; or (3) make the internet-based design toolkit available to any flavor customer from anywhere in the world? With your recommendation, please be prepared to discuss specific proposals on strategy execution.

## Wal-Mart Neighborhood Markets

*Synopsis.* Wal-Mart has grown at an astonishing pace since its founding in 1962 and shows no signs of peaking. Can its past growth continue? If it does, the mathematics is simple. Wal-Mart will be a trillion dollar company by 2011. But is this plausible? Wal-Mart’s main growth vehicle has been the Supercenter, and there is room for many more of those. But Wal-Mart is also testing a

supermarket concept they called “Neighborhood Markets.” Is this the right way to go, or is this just a distraction?

*Questions*

1. Estimate the value created by Wal-Mart in 2001. How much is that on a per-customer basis (see Exhibit 2)?
2. Consider Wal-Mart’s growth possibilities in Springfield. By consideration of Exhibit 7 or otherwise, what would be the implication to competition if Wal-Mart were to continue growing at 17% annually?
3. How can Wal-Mart achieve the projections given in Table A?
4. What should Scott do about Neighborhood Markets?