3. Business models and marketing:an overview

Editors: Salvador Treviño and Carlos Ruy Martinez (ITESM, Monterrey Campus, Mexico)

Contributors: Carlos Alberto Alanis, Gaspar Rivera, Jorge Echeagaray, Jose de Jesus Montes, Juana Monica Garcia, Ramiro Robles, and Roberto Sanchez

Learning objectives

- how to build and implement a successful business model
- understand the importance of a company to be market vs product oriented in a developing country
- how to identify consumers' wants successfully
- understand Porter's 5 forces of Industry Attractiveness
- how to perform a Market Research study

What is a business model?

Business models can be approached from two perspectives. A general perspective defines a business model as any type of conceptual framework explaining how to organize and evolve a business venture. On the other hand, specific circumstances guide business modeling. For instance, industries such as tourism, banking in the services sector, or automobile or shoe manufacturing demand specific models that take into account critical variables found within the industry's specific environment.

One definition from the general perspective is provide by Alex Osterwalder:

> *"A business model is a conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm. It is a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams." (Osterwalder 2005, http://business-model-design.blogspot.com/2005/11/what-is-business-model.html. Accessed November 25, 2007).*

Models are simplified representations of things in the real world. You are already familiar with many kinds of models. You have played with a model air plane or boat when you were a child. You may have seen models of buildings, dams, or other construction projects built by architects to show the sponsors of a project how a completed building will look after it is built. In the same way, a business model lets an entrepreneur try out different ways to put together the components of his or her business and evaluate various options before implementing the one that looks the best. This technique is especially important in today's business environment, where technology gives business people so many more options than ever before.

Osterwalder goes on to say:

> *"For managers and executives this means that they have a whole new range of ways to design their businesses, which results in innovative and competing business models in the same industries. Before it used to be sufficient to say in what industry you were for somebody to understand what your company was doing because all players had the same business model. Today it is not sufficient to choose a lucrative industry, but you must design a competitive business model. In addition increased competition and rapid copying of successful business models forces all the players to continuously innovate their business model to gain and sustain a competitive edge".*

Based on his search of the literature, Osterwalder lists nine building blocks for managers to use in developing an innovative and effective business model. We list them, along with some comments of our own:

- "The ***value proposition*** of what is offered to the market"; We have covered this issue earlier in the chapter in general, and with specific reference to how Porter's analytical tools can assist managers in generating a viable value proposition that consumers perceive as one that is superior to what is offered by the competition.
- "The ***target customer segments*** addressed by the value proposition"; Managers soon learn that they cannot be all things to all people, that what appeals to one segment of the market will not appeal to another. We will discuss this in more detail later in this chapter.
- "The communication and ***distribution channels*** to reach customers and offer the value proposition"; This issue relates to two of the "four P's" (promotion and place) we discussed briefly when we discussed the marketing mix. For example, do we promote the business by word of mouth, signs on a storefront, ads in a newspaper, ads on TV, ads on the Internet, or some combination of all of these? Place refers to where the product or service is made available to the customer. The three usual choices are in a store, through a mail-order catalog, or from an Internet website.
- "The ***relationships*** established with customers"; In general, however, the important point is not just to acquire customers, but to serve them in a way that your business retains them as customers. For example, it is usually much more expensive to attract a new customer to your business than it is for you to encourage a previous customer to return.
- "The ***core capacities*** needed to make the business model possible"; This point refers to the necessity to define the basic capabilities your business must have. For example, if you are opening an art gallery to sell your own work, you had better have some talent as an artist!
- "The ***configuration of activities*** to implement the business model"; Another way of stating this is to define the business processes that your business must have in order to function properly.
- "The ***partners*** and their motivations of coming together to make a business model happen"; Partnerships and alliances are increasingly important in today's world.

- "The ***revenue streams*** generated by the business model constituting the revenue model"; In essence, this is the Price component of the "Four P's". Where does your revenue come from, what are the projections for the future, and what are the plans to sustain the necessary revenue stream as business conditions change?
- "The ***cost structure*** resulting of the business model". The difference between revenues and costs, of course, is your profit. Without a profit, it will not be possible for you to stay in business very long.

Examples of successful business models

It may be helpful to illustrate the concept of business models with two examples, McDonalds and CEMEX. In the case of McDonalds, it operates franchises all over the world. Franchises are proven and successful business models whose business model "prescription" is successful within the country of origin and even overseas. Dominating the hamburger fast food market, McDonalds' franchise model has also proven to be successful since it quickly adapts and evolves according to the environment. For example, McDonalds USA does not have hot sauces, but in Mexico where Mexicans like a lot of spicy food, they offer hot sauce, as well as spicy meat put into the hamburgers. Another successful example is the Mexican cement maker CEMEX (the world's third largest producer of cement) that has successfully implemented and tested a standard business model called the "CEMEX Way" in all the plants and business units it has within more than 50 countries around the world. Considering it operates in four different continents, except Oceania, with very different cultures and ways of thinking; countries such as the US vs Thailand, or Italy vs Bangladesh; it allows CEMEX to have a very quick response mechanism to adjust to the market demands since it has a standard operational platform. This gives CEMEX a clear competitive advantage against its main rival giants such as Holcim and Lafarge.

Having established what a business model is, it is important to separate it from the design of a model actually implementing it, i.e. testing it and putting it into practice. The design is best defined as the strategy. If a business model design is not well outlined; the implementation and testing will also fail. Taking a very simple framework from Alexander Osterwalder (Business Model Design Blogpost, June, 2006) shown in Exhibit 12, business model design is separated from business model execution, preceded, of course, by business execution implementation and testing. Companies in quadrant "B" with sound business model designs and effective execution are successful companies, and they must focus on staying in that quadrant. Companies in quadrant "C" need to re-examine their business vision and strategy, while companies in quadrant "D" do not have a good design but are effective on its implementation; this latter usually happens with the appearance of **disruptive technologies** that "shake up" established industries and business models much the way iTunes and the iPod did. It is very common for companies to have a sound business model design but fail to implement and test it properly (quadrant "A").

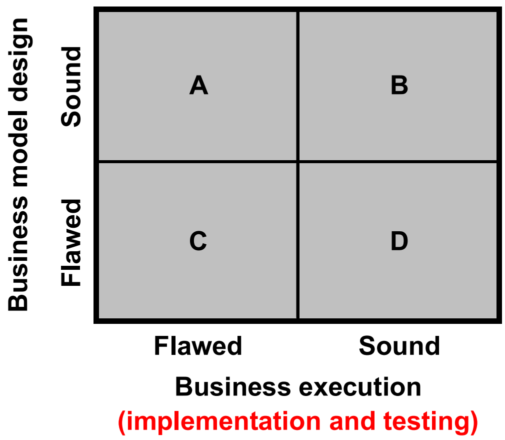


Exhibit 12: Success = Business model design and implementation

If we seek to have a successful test result from a business model it is mandatory to have a clear vision as well as a sound business model design. The rest is a matter of testing and implementations, or "execution" as it is often called. Still, successful execution is sometimes the most difficult task of all.

The focus of the balance of this section will be to review the main issues companies must consider in order to successfully implement and test a business model.

Model implementation/testing pre-requisites

A model must have the following pre-requisites in order to implement and test it:

1. A company owner/sponsor: Organizational models must manifest themselves as a cascading effect emanating from top to bottom. Therefore, the sponsor must either be the head of the company or other high level executive. Usually sponsors are identified as the head of a company department.
2. Sound budget: Testing a business model will always require funds. The amount provided must be the one demanded by the model to test it, no more and no less.
3. Leader: This is especially important since he/she will be the "authority" or responsible person who will get results.
4. Qualified human resources: The leader gets to choose his/her team. This an important point since the leader must look for the key individuals who are up to the test and have the necessary expertise to successfully implement and test a business model.
5. Effective training: With all the above accomplished, the final part of the pre-requisites is training. A business model automated or manually developed, must be operated by human beings, therefore these persons who will actually test and operate the model must have no doubts and be convinced about the model's processes and the benefits of working accordingly to the business model.

Real expectations outcome: benefits

Usually companies have a tendency to be very optimistic about outcomes when a business model is tested. Companies must be balanced between being aggressive and demanding about the model benefits and be realistic when evaluating outcomes of the test. The main benefits to show when a business model is tested must be outlined around the next three aspects.

Economical: They must reflect tangible economical benefits, such as: cost reductions or sales increases.

Process: They must improve connections between the company's value chain activities such as production, maintenance, procurement, finance, human resources, etc. so they are better coordinated and decision making processes are more effective and timely.

Practice: They must improve the work flow of how things are done in the company. These improvements can be translated into creating better historical data for a company e.g. real time inventory transactions from a plant warehouse, or complete and accurate recording of a maintenance job performed on a specific item of plant equipment. This creates a more accurate data set, later used as important information to make decisions.

Success factors

Once the benefits have been shown, the next step is to preserve them. In order to do so, the following success factors must be kept in mind.

1. Have the appropriate leadership. Person(s) that can make well based and quick decisions to assure the continuity of the model once it has been implemented.
2. Create an internal environment of quick and flexible response. All departments of the company must be flexible and adjust quickly to events
3. Have integrative indicators and measurements. This is a model "thermometer", one that will indicate if everything is going smoothly according to expectations or not. The indicators will show warning signs in order to take corrective action.
4. Have corrective actions or model adjustments. Learn from actual results by quickly adjusting and evolving the business model in an integrative way, being coherent, sound and aligned with the company vision.

Conclusions

After seeing what a business model is and the required issues involved in having a successful business model test and implementation; companies must keep in mind that there is no one time testing of a model and guarantees of success in the business world. In our era, businesses are dynamical propelled by technology that change constantly as we move more and more into a more global world. The keys for companies to succeed are to be always focused and to be flexible enough to adjust its business model quickly and effectively according to the changing demands of customers and markets.

One of the most important functions that companies can have to anticipate competitive threats and to recognize evolving market opportunities is to have a continuing competitive intelligence function within the company. Management failures are frequently associated with the inability to anticipate rapid changes in the markets, respond to new and proliferating competition, or re-orient technologies and the strategic direction of their business toward changing customer needs and new industry standards. Competitive intelligence is an important function in today's rapidly changing business environment.

Consumer marketing models

The formal use of marketing concepts is a fairly recent activity in developing economies. In the past, most companies focused on producing products or offering services without much emphasis on customers and wants. Understanding consumer behavior was not considered to be important. The emphasis was on the product or service per se. Given the emergence of a global economy, however, which brought the opening of markets and increased competition, the traditional approach has changed dramatically. Companies are increasingly focusing on what customers need and/or want. Market-oriented companies are beginning to emerge in every developing economy in the world.

The purpose of this section is to introduce you to the importance of marketing oriented companies in developing economies, as well as identifying business models which follow a **marketing model** rather than a **product model.**

The product model vs the marketing model

According to Philip Kotler, the product model is a management orientation that assumes that if a quality product is produced, and offered to consumers at a price they find to be acceptable, the company will be successful in the market place. Another author who successfully introduced a marketing orientation is Theodore Levitt. His orientation is sometimes referred as a "marketing myopia" approach since companies define their business in terms of products and not in terms of customer needs and wants. For example, a car manufacturer may think they are in the "car business" while they are, in fact, competing in the transportation industry.

Under the product model, management focuses on developing high quality products which can be sold at the right price, but with insufficient attention to what it is that customers really need and want. For example, Apple determined that what customers wanted was the ability to purchase music one song at a time rather than purchase an entire CD with 16 tracks, only three of which were really wanted. They subsequently developed and introduced the iPod and iTunes online store which revolutionized the way consumers buy music. In the meantime, traditional producers of traditional CDs lost market share to Apple, which had a much better understanding of how to satisfy consumers.

The premises implicit in the product model are:

- Consumers buy products more than solutions.
- Consumers are interested basically in product quality.
- Consumers recognize product quality and differences in performance alternative products.
- Consumers choose between different products based on getting the best quality for the money.
- The main task of organization is to keep improving quality and reducing cost as key factors to maintain and attract customers.

The product model used to be applied in developing or closed economies where few, if any choices were available. Advantages of the product model are that the cost of determining consumer preferences and the development of new products and services are minimized or eliminated because consumers are in some way captive. By way of example, compare the automobile industry in developed countries to the automobile industry in the Soviet Bloc countries prior to 1989. Customers had a wide variety of automobile models to choose from while citizens in the Eastern Bloc had few. The latter was operating on a product model rather than a marketing model. Disadvantages of the product model are that as soon as a company could offer a product more oriented to satisfy customers´ needs and desires the companies oriented to products will lose the most if not all of its market share. The traditional CD companies referred to above are a good example of this.

In summary, market orientation is essentially a customer orientation. Understanding customer needs lies at the core of the marketing concept.

The marketing model

The marketing model is a management orientation which maintains that the fundamental task of the organization is to determine needs and wants of customers in the target market and adapt the organization as a whole to satisfy their customers more effectively and efficiently. Satisfying customers more efficiently and effectively than competitive companies increases the chances of the organization's success. The marketing model is an approach whereby companies create value for their customers. This concept can be understood by applying it in the so called **Value Chain Model** introduced by Michael Porter. An application on how this model is applied in marketing is shown Exhibit 13below.

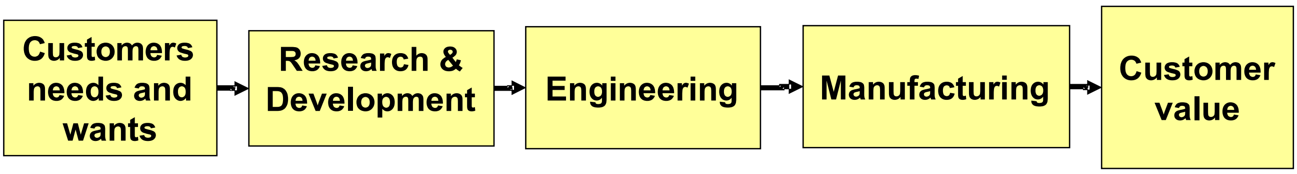


Exhibit 13: Value chain of marketing

- First, you need to know and understand your customers' needs and wants.
- Based on your understanding of their needs, through research and development you must develop an appropriate product or service that fulfills those needs.
- Based on your engineering capabilities you must define your manufacturing process that delivers the right product in the most efficient and economical way.
- Finally, the product or service must be delivered at the right time and place.

A simple way to understand the creation of value to customers is by examining the following equation:

Value = Benefits / Price

Value is created by increasing benefits to the customers. For this reason, "benefits" is specified in the numerator of this equation (the higher the benefits, the higher the perceived value by the customer); on the other hand, "price" is placed in the denominator since the higher the price the lower the perceived value.

Now you must understand how value is created for your customers. To do so, managers use a technique called the "**Marketing Mix**" (commonly called the four P´s)

- Product: What is the product/satisfactor that best fulfills my customer's needs?

- Price: What should be the appropriate price for this product that reflects not only its cost but also its benefits to compete with other products in the same segment or substitute products?
- Place: In what markets should the company offer the product?
- Promotion: How should the company promote the product or satisfactor?

One of the main advantages of the marketing model approach is that the company tries to be near the customer's needs by understanding them and therefore developing products that fulfill or exceed them in the best possible way. On the other hand, and especially in developing economies, the main disadvantage of this model is the cost in obtaining the information needed to understand the customer.

Identifying market needs

As mentioned previously, the essence of applying the marketing model lies in the finding of needs and filling them wisely. We will assess this issue of "Identifying market needs" by introducing a conceptual framework known as Abraham Maslow's **Hierarchy of Needs**.

This model focuses in the psychological features that explain the basic dimensions of human needs.

Maslow's Hierarchy of Needs

Maslow's Hierarchy of Needs, a staple of sociology and psychology courses, provides a useful framework for understanding how and why local products and brands are being selected and additionally how they can be extended beyond home country borders. Maslow hypothesized that people's desires can be arranged into a hierarchy of five needs. As an individual fulfils needs at each level, he or she progresses to higher levels (see Exhibit 14 Maslow's Hierarchy of Needs). At the most basic level of human existence, physiological and safety needs must be met. People need food, clothing, and shelter, and a product that meets these basic needs has potential for introduction into a specific market. However, the basic human need to consume food and liquids is not the same thing as wanting or preferring a hamburger and a soft drink.

An additional consideration is that preferences are deeply embedded in local cultures. Responding to such differences has required the creation of products and brands for specific regional or country markets.

Mid-level needs in the hierarchy include self-respect, self-esteem, and the esteem of others. These social needs, which can create a powerful internal motivation, driving demand for status-oriented products, cut across the various stages of country development.

Luxury goods marketers are especially skilled at catering to **esteem needs** on a global basis. Some consumers flaunt their wealth by buying expensive products and brands that others will notice. Such behaviour is referred to as "**conspicuous consumption**" or "**luxury badging**". Any company with a premium product or brand that has proven itself in a local market by fulfilling esteem needs should consider devising a strategy for taking the product global.

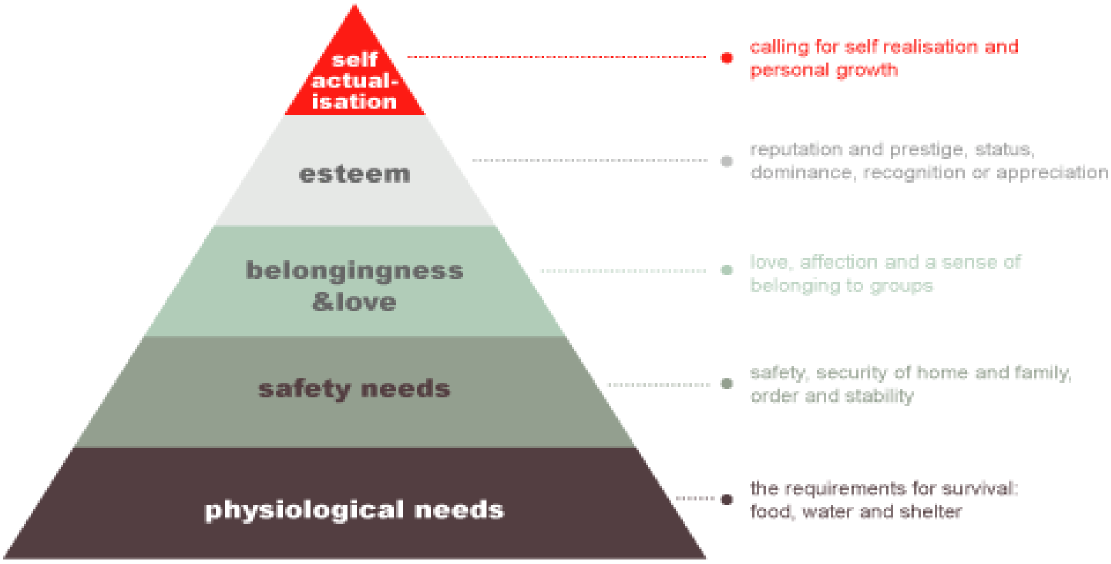


Exhibit 14: Maslow's Hierarchy of Needs

Source: http://www.provenmodels.com/19/image

Identifying customer's wants successfully

A process to determine the actual needs of consumers requires the identification of the market factors that produce them. In this process companies should find real consumption motivators that eventually evolve into product offerings. Furthermore, a correct business definition leads to a natural market orientation; for instance, Charles Revson famous quote "in the factory we make cosmetics; in the drug store we sell hope" (www.thinkexist.com) made possible for the company to develop cosmetic products based on women's hopes rather than product features. Several potential pitfalls should be avoided. First, the natural tendency to impose a personal point of view when launching a new product or entering a new market. Second, simple imitation about competitors' moves. Third, lack of sufficient research and market knowledge to produce market proved ideas. A framework has been proposed to align customer's needs and wants with companies capabilities. This framework was introduced by Sherri Dorfman in her 2005 marketing article entitled "What do Customers Really, Really Want".

In the article aforementioned, Dorfman proposes a three-step process to develop a natural market orientation:

Step 1. **Discovery**: Finding out what customers really need

To learn about customer needs and priorities, to identify opportunities in the company to fulfill these needs, and to create new or enhanced product offerings. These ideas must be incorporated in a market research process involving customers and other clients and suppliers in the Value Chain.

Step 2. **Definition**: Shaping the offerings to meet customer needs

In this step, Dorfman proposes prioritizing features and benefits identified by clients, suppliers, and customers. Different qualitative research techniques such as in-depth interviews, ethnographies, and focus group sessions permit the identification of the core market needs.

Step 3. **Validation**: Insuring your offerings fit into your customer's world.

Further communication with consumers validate the final definition of a market based product or service. This validation takes place as prototypes are assessed by consumers to identify potential problems and to smooth out design issues.

All these models take into account the so-called end consumer perspective, which implies that consumers buying, using, or recommending the products are the driving force behind successful marketing efforts.

However, there are other marketing perspectives that assume that organizations of many sorts, given their importance in the overall size of the global economy are the real forces behind markets' success. This implies that marketing efforts should be aimed at understanding their behaviour as consumption entities, and use this knowledge to develop marketing strategies.

Business to business marketing models

Models of industry attractiveness; the strategic perspective

In order to be successful in business, we must understand what our customer's needs and wants are and deliver them in an efficient and profitable manner. In order to do so, we must also understand the industries in which the companies are immersed and what makes them attractive from the general point of view.

Industry attractiveness was initially described by Michael Porter in his book, *Competitive Strategy* (Porter 1980). Porter's well-known **Five Forces Model** is often used as an analytical tool by companies when they are deciding whether or not to enter a particular industry. According to Porter, what makes an industry attractive or unattractive is determined by 5 forces:

1. Rivalry: This force is measured by how intense the rivalry/competition relationship in an industry is. The factors affecting rivalry are: number of competitors, slow market growth, low levels of product differentiation, how aggressive competing companies are, etc. For example, retailing has always had the reputation of being a highly competitive industry, while the rail road industry is thought to be less competitive.

2. Threat of substitutes: In Porter's model, substitute products refer to products that can be substituted for your own. Substitute products can be found within own or other industries. For example, if you decide to start an inter-city bus company, you have to consider all the other options your customers have to get from one city to another, for instance, city trains, small shuttle service, shared private cars, among others.

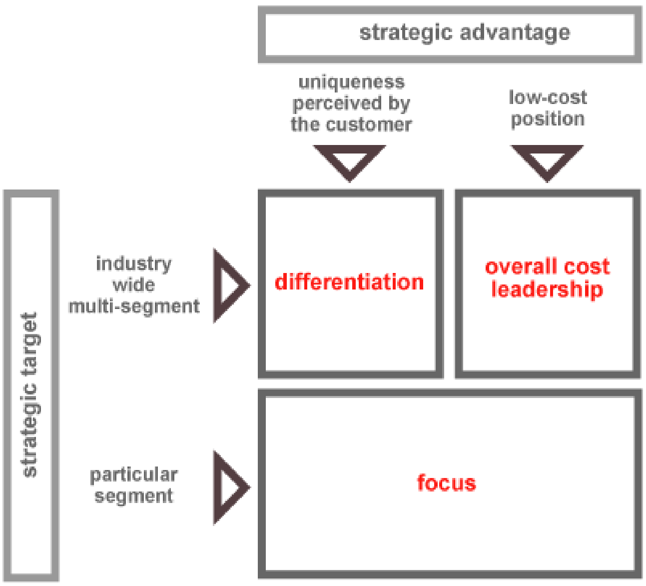
3. Buyer power: The power of buyers is the impact that customers have on a producing industry. In general, when buyer power is strong, the buyer has the ability to set the price because usually there are very few buyers and many suppliers. Grain farmers are often used as an example. In most countries, there are many small farmers who grow grain, but few large buyers who have the power to set the price a farmer receives.

4. Barriers to entry: Barriers to entry are unique offerings of companies in an industry that any company wishing to enter that industry must be prepared to overcome. Examples from developed economies are online banking and ATM services for banks and frequent flyer programs for airlines. In many cases, development of these expected products or services is quite expensive for a new entrant, and, thus, it s a barrier to entry.

5. Supplier power: Suppliers are powerful when there are few suppliers for a company to purchase necessary items from. In a situation where there are few suppliers, it is typically difficult for a buyer to get a lower price from another supplier. An example is the oil industry, where they are many buyers, but relatively few suppliers, and most of the suppliers are members of the OPEC cartel which sets common production quotas, thereby controlling the market price for oil.

Michael Porter developed two other tools that are widely used by organizations in their approach to markets: **Three Generic Strategies** and the **Value Chain.**

Porter postulated that a firm should adopt only one of three generic strategies. They are illustrated in :



Source: http://www.provenmodels.com/27/image A firm can choose to be the low cost producer for a wide segment of the market; it can offer a differentiated product for a wide segment that customers are willing to pay more for because of its perceived greater value; or it can focus on a market niche as a low cost producer or with a differentiation strategy. For example, the original Volkswagen automobile focused in a broad low-cost market. As a matter of fact, the word in German means “Peoples Car”, indicating it was meant to be affordable by everyone. A good example of a differentiated automobile is the BMW. People pay more for a BMW because of the “conspicuous consumption” or “luxury badging aspects” they have managed to create in peoples’ minds, not necessarily because the BMW is actually worth 30 per cent more than a comparable automobile from Cadillac or Nissan. An example of a car positioned towards a low cost niche is the Mazda Miata, a two-seat sports car that costs much less than comparable cars. Finally, you can consider the Hummer as a car that appeals to a differentiated market niche.

Porter's other widely-used tool is the Value Chain, which is used to model the firm as a chain of value-creating activities or processes. Porter identified a set of interrelated generic processes common to a wide range of firms. He divided them into primary activities and support activities, as illustrated in Exhibit 15.

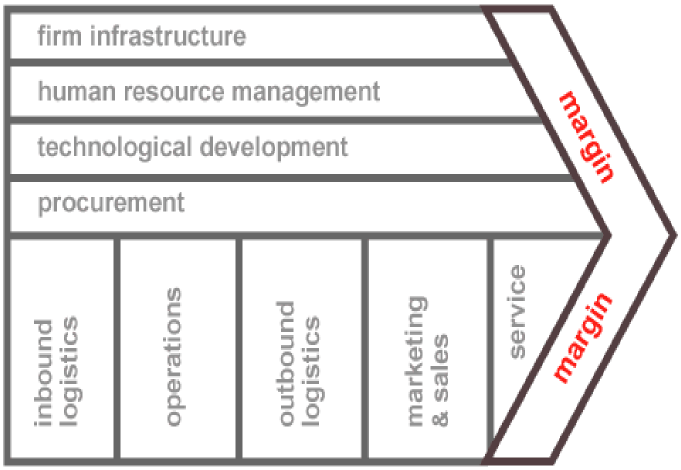


Exhibit 15: Value chain

Source: http://www.provenmodels.com/26/image

The primary activities in the value chain are: inbound logistics, operations, outbound logistics, marketing and sales, and service. The support activities are procurement, technology development and research and development, human resource management, and firm infrastructure (top management). The primary value chain activities are interrelated, to the extent that they can be formed with high quality and low cost, the firm will be able to have value-added that will be returned to the firm as profit. As an example of the way that primary value activities are interrelated, suppose that the inbound logistics process does not do well in identifying raw materials of poor quality. This will cause problems with the next process, operations, and it may cause problems as far down the value chain as service after the sale. The value chain is, thus, a useful tool for analysing a company's business processes and searching for ways to lower costs, improve efficiency or search for process innovations.

Other Strategic Models

There are many other strategic models used by companies to help them formulate their overall business and marketing strategies. Three of best known models are the Boston Consulting Group (BCG) Matrix, the McKinsey Matrix, and Larry Downe three forces. Each of these models is described below.

The BCG matrix

The BCG matrix method is based on the **product life cycle** theory that can be used to determine what priorities should be given in the product portfolio of a Strategic Business Unit (SBU). To ensure long-term value creation, a company should have a portfolio of products that contains both high-growth products in need of cash inputs and low-growth products that generate a lot of cash. This model can be explained in two dimensions: relative market share and market growth. The basic idea behind this model is that the larger the market share a product has relative to its competitors or the faster the product's market grows, the better it is for the company in an economic sense. The key components of the matrix are illustrated in Exhibit 16 and discussed below:

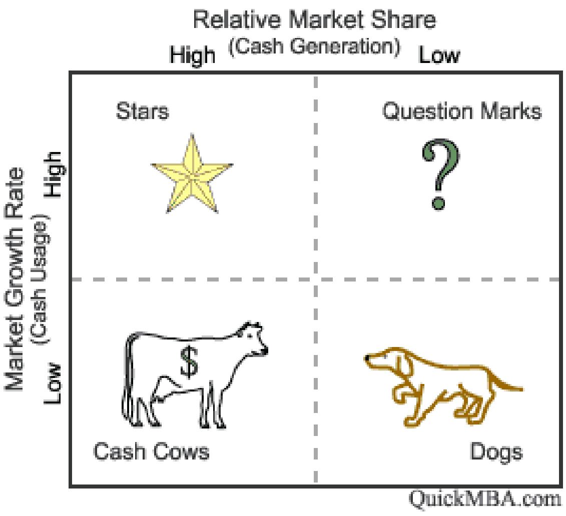


Exhibit 16: BCG Matrix

Source:http://www.quickmba.com/strategy/matrix/bcg/

1. Stars (high market growth, high relative market share). These are products that require large amounts of cash and are also leaders in the business and therefore they should also generate large amounts of cash. They are frequently roughly in balance on net cash flow.

2. Cash Cows (low market growth, high relative market share). These are products that generate high amounts of profit and cash, and because of the low growth, investments needed should be low.

3. Given its characteristics, companies should avoid and minimize the number of products in this category. If the product does not deliver cash, it may be discontinued.

4. Question Marks (high market growth, low relative market share). These products have the worst cash characteristics of all, because of high cash demands and low returns due to low market share. If nothing is done to change the market share, question marks will simply absorb great amounts of cash and later, as the growth stops, it

may become a dog. So, managers should either invest heavily in order to improve market share, or sell off/invest nothing and generate whatever cash is possible.

The McKinsey matrix

The McKinsey matrix is a later and more advanced form of the BCG Matrix. It has several differences with BCG's matrix, as discussed below. It is illustrated in Exhibit 17.

Exhibit 17: McKinsey matrix

Source:http://www.quickmba.com/strategy/matrix/bcg/

1. Market (Industry) attractiveness replaces market growth as the dimension of industry attractiveness. Market attractiveness includes a broader range of factors other than just the market growth rate that can determine the attractiveness of an industry/market. For example, market attractiveness could be determined using Porter's five forces model.
2. Competitive strength replaces market share as the dimension by which the competitive position of each Strategic Business Unit is assessed. Competitive strength likewise includes a broader range of factors other than just the market share that can determine the competitive strength of a Strategic Business Unit.
3. Finally the McKinsey matrix works with a 3x3 grid, while the BCG Matrix has only 2x2. This also allows for more insight in the analysis of the business.

Downes' three new forces

Larry Downes (1999) identifies three new forces that require a totally different perspective towards a strategic framework and a set of very different analytic and business design tools: digitalization, globalization, and deregulation.

Digitalization: As the power of information technology grows, all players in a market will have access to far more information. Thus, totally new business models will emerge in which even players from outside the industry are able to vastly change the basis of competition in a market. Downes gives the example of the rise of electronic shopping malls, operated for instance by telecom operators or credit card organizations. Those who use the Five Forces Model and who base their thinking on today's industry structure would never see these changes coming in time.

Globalization: Improvements in distribution logistics and communications have allowed nearly all businesses to buy, sell, and cooperate on a global level. Customers, meanwhile, have the chance to shop around and compare prices globally. As a result, even locally oriented mid-sized companies find themselves in a global market, even if they do not export or import themselves. In addition, global and networked markets impose new requirements on organizations' strategies. It is not enough any more to position oneself as a price-leader or quality-leader (as Porter suggests in his Generic Strategies model). Rather, competitive advantages emerge now from the ability to develop lasting relationships to more mobile custumers and to manage far-reaching networks of partners for mutual advantage.

Deregulation: The past decade has seen a dramatic shrinking of government influence in many industries like airlines, communications, utilities, and banking in the US and in Europe. Fueled by the new opportunities provided by information technology, organizations in these industries were able and forced to completely restructure their businesses and to be on the lookout for new opportunities and competitive threats. For example, traditional land line telephone companies that did not enter the wireless telephony market found themselves with a shrinking customer base. This is because young people frequently use only cell phones now and do not bother to have a land line phone in their homes.

Chapter summary

While each of these models (and others we have not covered) have their own strengths and weaknesses, what organizations must learn is how to best utilize each of them. Porter still is the best known authority in strategy models and complemented with Downes' digital age model works well for many companies. BCG's Matrix and Mckinsey's Matrix help diagnose the dimensions in a product's life cycle. They are all tools, and just as a workman has many tools in his tool kit, so managers must have many tools in theirs, and know when to use the right tool in a given situation.

Establishing that a market exists

Market research

Understanding the market's needs, competitors' strategies, and to obtain information for decision making, it is imperative to do market research. Next, we will introduce a case that demonstrates the value of market research to any firm willing to spend time and resources using it. After this example is introduced, two sections are developed. One, introducing the market research process, and second, the general guidelines on how to conduct a market research study.

A Candy Store Company with subsidiaries in New York and other large cities in US was interested in opening a store in Monterrey, Mexico.

The New York subsidiary is located in one of the most visited areas of Manhattan. It is housed on three floors, a huge locale focused on selling all type of candies. Every floor has a thematic decoration, characters, and games, depending on the type of candies sold on that floor. Inside they even have a coffee shop. They employ a high price strategy, and most of their visitors are tourists (a differentiated niche in Porter's Three Generic Strategies model).

The plan for the store located in Monterrey was recently completed. It will be a big store, almost the same size as the one in New York, with high prices and focused on high-income consumers. Additional to the thematic areas defined in the New York store, this store will have a space for "old candy brands" to attract older consumers. The store will also have a section for local brands.

A consultant was hired for advising the owners on how to achieve the plan. His first advice was to do some market research to understand the real opportunity. The market research results were astonishing: there was no market in Monterrey. Consumers loved the idea, but they were not willing to pay the high prices or even to visit the store more than once a month and being Monterrey city with a small amount of tourists there would not be enough revenue to maintain the business.

The investment for opening the store in Monterrey was about USD 1 million dollars. The potential entrepreneurs spent around USD 10 thousand in marketing research, which kept them from making a bad investment.

The market research process

There is an inherent risk when trying to expand the market, launching a new product, or starting a new business. Defining that a market exists for your business idea will help in reducing that risk.

You may think that with a bunch of collected data and facts you will be able to decide whether or not to go forward with your idea. But the challenge is not just collecting the data, but how to transform it and how to use it. Market research will support you in collecting, transforming, and getting meaning from the data.

Some of the reasons why market research is so important are:

1. The cost of errors. Launching and selling a new product that is not successful in the marketplace could cause you to lose your entire investment.

2. Conducting market research will help you identify new trends, market segments, and niches.

3. Market research will end up saving you time by developing focused strategies based on a better understanding of your customers.

Market research involves all the activities that allow the company to obtain the required data for decision support. Market research is collecting, interpreting, and communicating the information used for strategic marketing. The most typical approaches are to conduct a tailored, one-time market research study as described below, or to use readily available information such as the periodical information provided by companies like AC Nielsen.

This section will describe how to conduct a market research study. The main steps are:

1. Identify and define the problem: The first step is defining the target or problem to solve for your market research. Most of the time it is more than one problem to solve, but you should prioritize. The right definition of the problem should allow us to obtain the needed data.

2. Define the objectives: The objective should answer the question of what you want to obtain from the market research. In this step you should define the scope and action plan. Developing the objectives should consist of establishing a budget, understanding the environment, developing the approach to analysis, and formulating hypotheses.

3. Developing a research plan: Based upon a well-defined problem and objectives, the framework for the research plan should be apparent. This step requires the greatest amount of thought, time, and expertise. It includes incorporating knowledge from **secondary information**, analysis, qualitative research, methodology selection, question measurement and scale selection, questionnaire design, sample design and size, and determining the data analysis to be performed.

4. Collecting the data: This is the point at which the finalized questionnaire (survey instrument) is used in gathering information among the chosen sample segments. There are a variety of data collection methodologies to consider. For instance: Computer Assisted Telephone Interviewing, Mail Survey, Internet Survey, Mall intercepts, Traditional telephone interviewing, Internet panel, home panel, among others.

5. Performing data analysis: This is the process of analyzing the collected data, and transforming complex to simple information. Less complex analysis on smaller data sets can be handled with any of a number of personal computer office suite tools, like spreadsheets, while more complex analysis and larger data sets require dedicated market research analysis software. Types of analysis that might be performed are simple frequency distributions, crosstab analysis, multiple regression (driver analysis), cluster analysis, factor analysis, perceptual mapping (multidimensional scaling), structural equation modeling and data mining

6. Reporting and presentation: This is one of the most important steps. All business critical information and knowledge that comes from your market research investment are limited by how they are presented to decision makers. There are as many reporting styles as there are research reports, but some are definitely better than others, and there are definitely trends to be aware of.

It is important to mention that market research by itself does not arrive at solutions or marketing decisions. It does not even guarantee your business success. However, when conducting a well-executed market research study you can reduce the uncertainty in the decision-making process, increasing at the same time the probability and magnitude of success.

> To illustrate these concepts in a live situation, we have included a discussion of how a market research study was performed to determine the potential market for a new concept for funeral services in Monterrey, Mexico.

Market research to determine the potential market for funeral services in Monterrey, Mexico

Background: A group of investors thought about developing a new enterprise concept of funeral services in Monterrey, Mexico. The main idea was to offer improved funeral services, satisfying a need not yet covered in the city.

Concept of the project: The company will offer funeral services to people of socioeconomic level A and B+. The new funeral services will include: Sale of coffins or crematory urns, luxury transportation, memorial vigils, chapel, flowers and cafeteria services, religious ceremonies, wide parking with valet parking service, legal requirements, condolences via Internet, publication of brief letters, private room for the family with foods at the request of the client and pre-arranged funeral plans.

The architecture of the place will include many green areas, big spaces and a quiet and peaceful atmosphere.

The added value will be to support the client in his pain, reason why a specific executive will be in charge of all the proceedings and procedures for the memorial vigil and burial of his beloved.

Objectives:

To understand if a potential market exists for a funeral services enterprise in Monterrey City.

Identify current specific needs for the sector.

Evaluate project concept.

Evaluate project location.

Evaluate project name and logo.

Methodology:

Stage I

Qualitative study:

2 sessions group with the following profile:

Session 1: Men between 35 and 50 years of age, from socioeconomic level A and +B who experience in the process of hiring funeral services in the last year.

Session 2: Women between 35 and 50 years of age from socioeconomic level A and +B who had experience with the process of hiring funeral services in the last year.

Stage II

Quantitative study:

The size of sample was of 472 personal interviews to men and women of socioeconomic level A and +B, ages between 35 and 60 years old, who live in Monterrey and its metropolitan area.

Main findings and conclusions:

In this research we found an important opportunity at the funeral logistics services since 76 per cent of the interviewed people consider that it is necessary to have a company of this type in the city, since at the moment the companies that offer these services have many opportunity areas.

"Cedillas del Toro", the most important funeral services enterprise up to date show us some opportunity areas as: lack of parking, mentioned by 15 per cent of the sample; the lack of a comfortable cafeteria, mentioned by 10 per cent of the sample; small chapel, mentioned by 7 per cent of the sample; and the temperature of the very cold climate, mentioned by 7 per cent of the sample, among others.

In the qualitative study, people interviewed mentioned what they dislike about "Cedillas del Toro" is that the memorial vigils have a common area for visits in where you can not identify whom each person is accompanying, turning it very informal.

The challenges that we found at the second more important funeral services company of the city, "Cedillas Carmelo" were: high price (20 per cent of mentions), lack of facilities for handicaps (crowded elevating) (15 per cent of mentions) and poor availability of chapels (only three) (10 per cent of mentions), among others.

The concept of the new funeral services enterprise was very well accepted by most of the people interviewed (70 per cent), mainly the idea of having a person who facilitates all the funeral proceedings, seems to be very helpful and important in those moments of grief.

The proposed location for the new funeral services enterprise had an acceptance of 80 per cent of the people interviewed, mainly because they are near the most important churches of the city with easy accesses.

The options of names people interviewed preferred were "Cedillas Marian" or "Cedillas de Maria" by 45 per cent and 30 per cent respectively.

The people interviewed in the qualitative study suggested some ideas to improve the concept mentioned like: To have a private area with all the comforts (telephone, computer, air condition, bath) for the family who does not wish to receive visits, that have a pleasant decoration (not funeral), and personal attention, among others.

Thanks to this market study, the investors could corroborate the idea that a funeral service enterprise in Monterrey may be a good business opportunity. In addition they could delineate the concept according to the market.

The funeral business has been an economic success so far, thanks to its clear definition of its mission and its market oriented philosophy: always searching for and delivering an excellent service to its customers.

3. Business models and marketing:an overview

Discussion questions

- Think of an industry with which you are familiar. Discuss the major elements of a business model and apply it to the industry chosen. What features in the model appear to be a standard compared to other industries?
- What are the steps in the process of customers' needs and wants identified in the chapter as defined by Dorfman?
- Or: Refer to the section of this chapter entitled "Identifying customers' wants successfully". In Dorfman's framework three steps lead to the identification of customers' need and wants. This process ends on the validation of needs. What would be a further step geared to identify future needs?
- Read the case about the Market research to determine the potential market for funeral services in Monterrey, Mexico.
  - What objectives would you propose for this study?
  - Methodology suggested?
  - What policies could be derived from the information obtained by the Marketing Research study?

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