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Thomas Bieger

Marketing Concept – The St. Gallen Management Approach

2nd edition

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Marketing Concept – The St. Gallen Management Approach

2nd, revised edition

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Preface to the 1st edition

[5] The St. Gallen Management Model created a comprehensive orientation framework for the management of companies and organizations of all kinds. Business processes play a special role in the model. They enable the real core function that justifies the existence of a company or organization, which is to deliver goods and services to third parties, usually for money.

This book is guided by the St. Gallen Management Model and, therefore, focuses on business processes. It also follows the approach of the marketing concept as an overall planning and designing approach, not just for marketing, but for all business functions. The content of this book thus offers an introduction to marketing as well as the design of business processes as a whole.

The book addresses two targets and thus two target groups: To begin with, it serves as a basis for the introduction to business administration as part of the Marketing Management curriculum during the Assessment Year at the University of St. Gallen. It covers the subject areas of marketing, performance and innovation.

At the same time, it is designed to appeal to the public at large as a basic text for study or practice. It serves as an introduction to or an update of knowledge in the areas of marketing and performance provision/performance process, while also presenting the marketing concept as a pragmatic approach of thought and action used by generations of (marketing) managers.

The outline of the book follows the usual structure of a marketing concept and is also the basis for the division into six lecture blocks at the University of St. Gallen:

1. Business Processes and Marketing Concept within the St. Gallen Management Model — an Introduction
2. Market Analysis — from a Static to a Dynamic Point of View
3. Marketing Strategy — from Market Segmentation to Positioning Strategy

[6]

4. Marketing Tool Application 1: Product Design and Performance
5. Marketing Tool Application 2: Pricing, Promotion and Distribution
6. Innovation and Controlling — Meta Processes of Business Activity

As a topical guide for decision-makers and as teaching material on a university level, the book's aim is not maximum depth and the transfer of detailed knowledge. Rather, the goal is contextual knowledge and new perspectives in thinking. As a textbook, it primarily points out key sources.

At the same time, the integrative approach cultivated at the University of St. Gallen is taken into account. This results from a focus on the St. Gallen Management Model as well as from methodically including the approach of networked thinking in the market-analysis section and by cross-referencing other disciplines, especially economics and law.

In part, this book is based on principles, concepts and sections of the book “Einführung in die Managementlehre” by Dubs, Euler, Rüegg-Stürm and Wyss (2009), which was used previously as a textbook at the University of St. Gallen and to which the author also contributed. The following authors also worked on the previous book in the area of business processes: Günther Schuh, Thomas Friedli, Torsten Tomczak, Fritz Fahrni and Sven Reinecke.

I wish to thank Mrs. Margareta Brugger for transcribing the manuscript, student assistant Jessica Schulten-Baumer for revising and editing the text, and my wife Barbara for critical reading. I also thank Samuel Heer for his valuable support, not only in revising this book but also in our efforts to offer actual and method-oriented lectures on the Assessment level of the University of St. Gallen. I also thank my colleagues o. Univ. Prof. Dr. Johannes Rüegg-Stürm and assistant professor Dr. Simon Grand for stimulating discussions, the good cooperation, and many valuable inputs.

May 2015 *Thomas Bieger*

Preface to the 2nd edition

[7] After six years of use in the first semester at the University of St. Gallen, a new edition of the “Marketing Concept” became necessary. This second edition integrates the latest developments of the St. Gallen Management Model as well as some important developments of the discipline, such as business model concepts.

I would like to thank Simon Kuster for his care in handling the process and his contributions. Thanks also go to Pietro Beritelli and Jay Binneweg for providing feedback on the English version. The second edition of this book is congruent with the third edition of the German version (Das Marketingkonzept im St. Galler Management-Modell).

July 2021 *Thomas Bieger*

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1.1 Case study Läderach

Läderach — Chocolatier Suisse

Läderach
chocolatier suisse

From an expert for specialty retailers and high-quality catering to a consumer brand

The Läderach company dates back to a bakery founded in 1926 in Netztal, Canton of Glarus, by Rudolph Läderach Sr. In 1962, Rudolf Läderach Jr. started a business as a chocolatier in Glarus. The young company achieved a breakthrough with a patented invention for manufacturing thin-walled chocolate truffle shells (hollow spheres). This invention simplified manufacturing of chocolate truffles as a semi-finished product for high-quality catering businesses and specialty shops, while also improving product quality. Ten years later, the foundation of Confiseur Läderach GMBH & CO KG in Germany was the first step abroad. Also, the company launched an export business.

By 2004, under the next generation of leadership with Jürg Läderach, the company had developed into a strong B2B brand: trade with specialty retailers and catering businesses. Questions arose about whether the company should and could establish a second business focus as a consumer brand and whether it could sustain the B2B trade in the long run. The following fictional management dialogue, which could have taken place in 2003, presents essential aspects of this decision:

Managing director:
"We have largely reached the saturation point with our current market position in the B2B sector. We face cutthroat competition with some other suppliers of semi-finished chocolate products. We supply premium semi-finished products, especially our widely popular, high-quality thin-walled truffle shells to specialist retailers like confectioners and to catering businesses. They refine our products and turn them into "their own" truffles and desserts. Meanwhile, the consumer market is gradually consolidating. More and more confectioners are being acquired or are merging to form bigger companies. [18] *Hotels are integrating themselves into hotel chains that run central purchasing departments. On the other end of our value chain, there are increasingly larger suppliers of cocoa raw products, like Barry Callebaut, who are steadily consolidating and gaining market influence. The cocoa harvests are*

increasingly bought up by international trading houses and are becoming more and more a plaything for commodity speculators. Hemmed in between cocoa suppliers and specialist retailers, we are faced with dwindling margins. In the longer term, stagnating sales and dwindling margins threaten the development of our company. We have to create a second core product line."

Marketing director:
"This is exactly the development I have been warning against for years. Whoever has direct access to the end customer is in the stronger position. Eventually, the consumer decides what to buy. We will no longer be replaceable and we can demand a reasonable price for the quality we deliver only when we are a firmly established consumer brand. Committed, satisfied and loyal customers for whom we create real value are our most important assets, virtually our customer equity."

Production manager:
"The establishment of a second core product line with a line of products directly addressing the end customer also means extending the value chain. We would have to reorganize production to make more ready-made end products like chocolates. This entails a massive increase in investment. Besides, I want to curb the marketing director's euphoria a little. The end-customer market is a mature market. In an increasingly consolidating specialist retail situation, we are competing against established chocolate brands. Getting shelf space at traditional food

retailers like Coop and Migros is a big challenge for sales and marketing."

Finance manager:
"As finance manager, I certainly see the imperative to establish a business area in which we have larger margin flexibility. Conversely, the production manager has already noted the massive investments required to extend manufacturing capabilities, on the one hand, and to establish the required reputation as a strong brand and build distribution channels, on the other. But I want to mention another aspect: If we extend the value chain and go around our current buyers to reach the end-customer market directly, we will be competing with our existing clients. This could be damaging to the loyalty of our current customers and put additional pressure on our established core product line."

[19] Managing director:
"Ladies and gentlemen, I see your concerns from a broader perspective. To successfully lead our company into the next generation, I want to develop a second core product line. I see this as a necessary step to maintain our ground in a continuously consolidating market, characterized by bigger companies, and to achieve the necessary margins, while maximizing our traditional core competencies in processing chocolate. I, therefore, want our marketing director to develop a marketing concept for entering the end-customer market, and I want the production manager to outline the consequences in regard to our performance concept and the necessary innovations."

The LÄDERACH company did indeed take the step into the consumer market in 2004 by acquiring MERKUR CONFISERIE AG. At the time, MERKUR CONFISERIE AG operated a network of 41 specialty shops across Switzerland. Thus, LÄDERACH was able to reach end customers directly via a strong and well-established retailer and implement an effective distribution concept. Gradually, the MERKUR shops were repositioned as LÄDERACH chocolate boutiques, whereby the LÄDERACH brand was positioned successfully with consumers through branded stores. At the same time, performance processes were changed. For example, the company opened a new distribution-and-service center in Bilten, Canton of Glarus, in 2006, and opened a chocolate factory in Bilten in 2012. In 2012, the company possessed an integrated value chain that spanned manufacturing of semi-finished and consumer products as well as distributing consumer products to the end customer. It presented itself as a strong brand with clearly defined business and competency areas. LÄDERACH's management is now in the process of transitioning into the hands of the next generation, with Elias Läderach as a confectioner entering the product development of the family business, and Johannes Läderach joining the company after completing his master's degree at HSG in 2011.

[20] For consideration:

1. How is LÄDERACH embedded in the "chocolate" value-creation process?

2. How can the company’s “limit” in the value chain be explained?

3. What are the most important corporate objectives from the owner’s point of view?

4. What are the most important premises for the company’s survival and for reaching the owner’s objectives?

5. What are the characteristics of the existing B2B strategy, in particular the most important key points regarding target market, strategic resources and cooperation?

6. What are the most important opportunities and risks of changing the strategy by establishing a second core product line?

7. What does the company’s value chain look like with the old and with the new strategy?

8. What are the most important issues that have to be addressed when changing the strategy?

1.2 Value-creation processes, enterprises and management

1.2.1 Value-creation chains and processes

Generating benefit is the objective of every human effort. *Benefit* can be defined as “a good’s ability to satisfy a specific need of the consumer” (Suchanek, Lin-Hi &

Piekenbrock, 2015). For example, one chops wood and lights a fire to satisfy the need for warmth. The economic *value* of an object is defined by the benefit expected to be obtained from it. Thus, “value” is defined as “the expression of a product’s importance for satisfying the subjective needs” (Suchanek, Lin-Hi & Piekenbrock, 2015). If someone chops more wood than he actually needs for his fire and makes a woodpile, he creates economic value. He can use the wood later for cooking or heating, or sell it.

[21] More complex products or services require more processing stages. Chocolate products, for example, require the production of cocoa, transport to a processing country, roasting/melting/conching as the actual chocolate production, finishing in the sense of converting it into the final shape (i.e. bar of chocolate), packaging, transport and sale. Those procedures are called the *value-creation chain (or process)* (cf. Gutenberg, 1971, 21 et seq., or Porter, 1986, 61 et seq.). Every element of a value-creation chain can be subdivided into individual sub-activities (e.g. in the case of cocoa production, soil cultivation, planting cocoa trees, harvesting). The earliest stage of a value-creation chain is defined by technical conditions: what can be done with the same technology (operation or machine) (e.g. fertilization or harvesting).

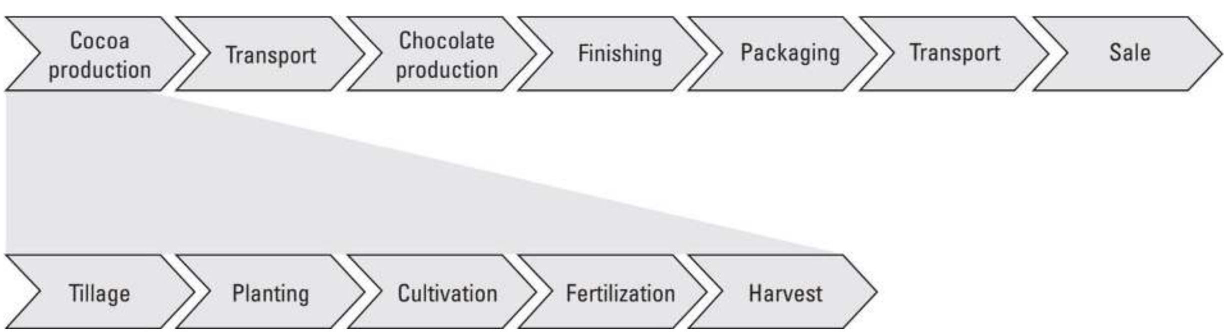
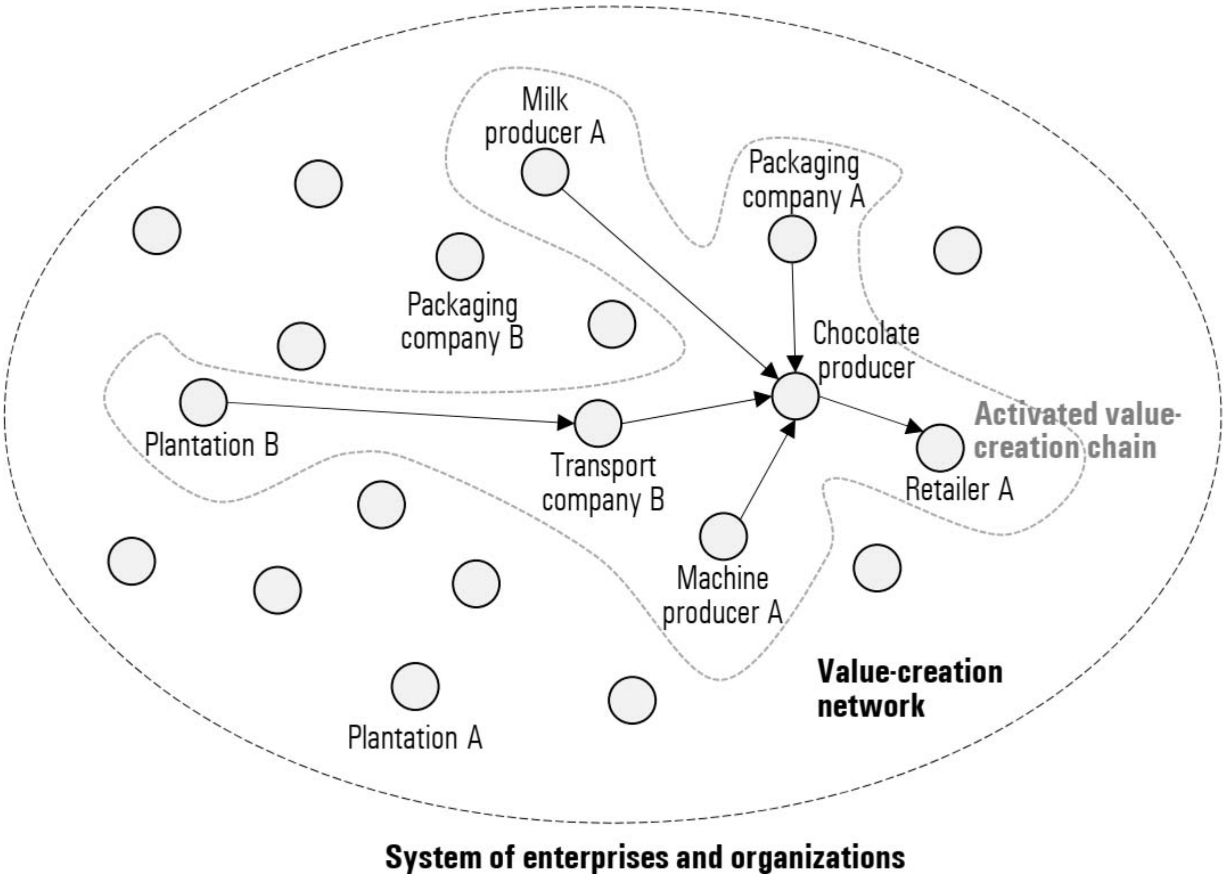


Fig. 1: Example of a value-creation chain

(source: own illustration)

Value-creation processes must be performed based on a division of labor and often are spread out geographically because of the required resources or competencies/know-how/raw materials, etc. Cocoa production requires a tropical climate, chocolate production requires milk and machinery, and sales require customer contacts in attractive markets.

A value-creation process based on a division of labor must be organized (cf. Weick, 1979: organization as a process of continuous organizing). It is necessary to bring together a *system* of enterprises and organizations, i.e. a "set of ordered elements with characteristics linked by relations" (Suchanek, Lin-Hi & Piekenbrock, 2015) (e.g. various cocoa producers, milk producers, means of transport, etc.), to perform a value-creation process.



[22] Fig. 2: Enterprise systems, value-creation networks, value-creation chains (source: own illustration)

A *value-creation system* can be understood as those enterprises, organizations and entities with which the enterprise has a direct (e.g. supplier or customer) or indirect (e.g. knowledge exchange) relationship. Today, the term “ecosystems” is also used in various contexts. According to Moore’s original definition of a *business ecosystem*, participating organizations jointly develop new capabilities by working together both cooperatively and competitively to satisfy customer needs, develop new products and shape innovation (Moore, 1993, 76).

Business ecosystems are critical to the competitiveness of an enterprise. If an enterprise operates in direct and indirect contact with excellent suppliers, consultants, competent authorities, etc., it can continue to develop in an optimal manner (e.g. through better information, which allows approval procedures to be implemented quickly), and it can deliver better quality less expensively (e.g. through efficient suppliers or distribution partners with good know-how about the needs of customers).

[23] Management as the reflexive design of value creation (cf. Rüegg-Stürm, & Grand, 2015) has the task:

- to design productive relationships in the business ecosystem (e.g. through cooperation),
- to design concrete value-creation processes in the form of value-creation chains based on the division of labor.

There are interfaces, frequently technical transitions, between the individual value-creation stages within the value-creation chain. For example, different machines are necessary for chocolate production and packaging. Different people or organizations (e.g. suppliers) perform these activities — leading to the rise of transaction interfaces that incur costs. Transaction costs can be defined as costs that arise from using the market (cf. Williamson & Masten, 1995, 233 et seq.), concrete costs for the search for partners and the negotiation, conclusion and monitoring of contracts (cf. also Section 2.2.1).

How a value-creation chain is divided between organizations and how extensive the value creation of an enterprise is, or how much of the value-creation chain is covered, depends mostly on the relationship between transaction and organization costs (cf. Crew, 1975; Coase, 1937: Theory of the Firm). A Swiss chocolate producer could lower transaction costs if it also owned plantations,