Deploying Marketing Strategies

In general the strategic planning process is carried out at the corporate level, business level, and product level. Though it begins with an analysis of the organization's current strategic posture, but strategic planning focuses on the future. Strategic decisions define how the organization will align itself to meet the challenges and opportunities of the future since it is in the future that the organization can affect its fate by making good decisions today. Thus, effective strategic planning includes constant environmental scanning and the flexibility to adjust to changes in the environment. It enables an organization to avoid surprises, manage crises, and take a proactive stance with respect to the environment and its competition.

Levels of Strategic Planning

The three levels of strategic planning are:

1. The **strategic** plan lays out the broad marketing objectives and strategy based on current market situation and opportunities analysis for relatively long time span (4-7 years) and includes Corporate and Division Strategic Planning.
2. The **tactical** plan outlines specific marketing tactics for relatively shorter time frames (2-4 years) narrower scopes than strategic plans. Tactical planning provides the specific ideas for implementing the strategic plan. It is the process of making detailed decisions about what to do, who will do it, and how to do it.
3. The **operational** plans support tactical plans and are the tools for executing daily, weekly, and monthly activities. These include policies, procedures, methods, rules and product marketing plans.

MyCoolGuru™ Share . Care . Grow

Corporate Level Strategic Planning Process

We saw that strategic planning is basically concerned with shaping the future of the firm through the formulation of the right corporate strategy. Any single task is not strategic planning. It is an integration of several tasks that are distinct but are inter-related to each other. Each of the tasks covers a different issue and demanding different treatment. This is a long-term strategy concerning the entire organization. It addresses certain fundamental questions like what business to be in or how to expand. The top-level corporate management formulates this strategy. Corporate level strategic management is the management of activities, which define the overall character and mission of the organization the product, or service segments it will enter and leave and allocation of resources and management of synergy among its SBUs.

Let us examine each task of the corporate level strategic planning one by one.

- Defining the corporate mission
- Defining the business
- Environmental scanning
- Internal appraisal of the firm
- Setting the corporate objectives
- Formulating the corporate strategy

My Cool Guru ™
Share . Care . Grow

1. Defining the corporate mission

The strategic planning process begins with defining the corporate mission. The mission is a broad statement of the organization's vision. It explains the scope of the business, establishing the main concentration of the company's effort in terms of consumer, product and business sphere. The mission statement distinguishes one organization from the other. It provides the basis of awareness, of a sense of purpose, the degree to which the company's mission fits its capabilities, and the opportunities that the environment offers. Each company's mission is shaped by five elements:

- History
- Current preferences of the owners

- The market environment
- Resources
- Distinctive competencies.

The mission provides the organization with a purpose or reason for existence. A narrow definition hinders rather than helps the organization and leaves it susceptible to ***marketing myopia***. The mission of the organization is the expression of the corporate intent. It conveys the message to the insider and outsider what the company stands for.

According to McGinnis, a mission statement:

- Should define what the organization is and what the organization aspires to be
- Should be limited enough to exclude some ventures and broad enough to allow for creative growth
- Should distinguish a given organization from all others
- Should serve as a framework for evaluating both current and prospective activities
- Should be stated in terms sufficiently clear to be widely understood throughout the organization.

MyCoolGuru™
Share . Care . Grow

What does mission do?

The mission statement of an organization directs entire planning and guides objectives. For instance let us consider the mission statement the Reliance industries "To become a major player in the global chemical business and simultaneously grow in other growth industries infrastructure". This mission statement conveys the reference point guiding spirit for the growth plan of the reliance industries. Thus mission statement of any organization brings the corporate purpose or the term objective of the firm into focus.

A good mission statement will have following characteristics:

- Mission statement must focus on limited number of goals.
- Statement should stress the major policies and the values, company wants to honour.

- Mission statement should be clear and easy to understand, relevant to the organization, should be inspiring, should be unique and should not become obsolete after sometime.
- Mission should define the major competitive scopes within which the company will operate, which are:
    - *Industry scope*: The range of industries in which a company operates.
    - *Products and applications scope*: The range of products and application that the company supplies
    - *Competence scope*: The range of technological and other core competencies that a company will master and leverage.
    - *Market-segment scope*: The type of market or customers a company will serve.
    - *Vertical scope*: The number of channel levels from raw material to final product and distribution in which a company will participate. At one extreme are companies with a large vertical scope. Reliance has oil digging stations, oil refinery, PFY plants and clothing companies. At the other extreme are companies with low or no vertical integration which are also called "Hollow Corporations" or "Pure Marketing Companies"
    - *Geographical scope*: The range of regions, countries or country groups in which a company operates. There could be city centric companies or transnational companies

My Cool Guru™ Share . Care . Grow

2. Defining the Business

Defining the business is the next task in the strategy planning process, because most of the companies operate several businesses. Defining the business correctly is the pre-requisite for the selecting the opportunities and directing the firm to the correct path, and also difficult to set the corporate objectives in a proper manner, for formulating the strategy itself proper definition of business is required.

What does the business definition mean?

A business definition is a pithy, clear-cut statement of the business the firm is engaged in or is planning to pursue. It is an elaboration of the business arena it will play in. It prescribes the boundaries of the firm's business.

Management experts like Peter F. Drucker and Theodore Levitt emphasised that any firm, which want to define its business, it is necessary to consider the following questions:

- What business are we in?
- Whom do we intended to serve?
- Do we accurately define our business?
- Do we define our business in its broadest connotation?
- Do we know our customer?
- What brings us to this particular business?
- What would be the nature of the business in the future?
- In what business would we like to be in, in the future?
- What are our strengths and distinctive capabilities to pursue the present business or to branch off into the desired business?

My CoolGuru™ Share Care Grow

Purpose of defining business

Business definition helps the organizations planning by putting it on the right track; it also clarifies where to look for opportunities, and also provides the blue print for product market strategy.

For example: Xerox company business product definition is 'We make copying equipment'. The market definition of the same company is 'We help improve office productivity'.

Characteristics of a good business definition:

A good business definition should have following characteristic:

1) It must be related to the function of the product but not the product.

2) It must encompass in its fold as many related areas or functions as possible.

3) It must be wide enough to enter into new opportunities.

4) It must also be related to basic strengths and weaknesses of the organization.

3. Environmental scanning

Scanning of the environment is central to strategic planning, the environment is constantly changing and presenting either new opportunities or threats so a company need to understand importance of continuously monitoring and adopting to the (environment here the environment which we are speaking external environment which affect the business. In environmental scanning process, basically a firm gathers information and analysis it in detail, usually a business analyse the following factors of macro environment, such as demographic, socio-cultural, economic, political, natural, technological, and he legal environmental factors etc.

My Cool Guru ™
Share . Care . Grow

4. Internal appraisal of the firm

The next task in the strategic planning process is the internal appraisal; in this task, a company needs to find out whether the organization has the required strengths to tap the opportunities spotted through the environmental scanning.

The process of internal appraisal has the following distinct parts:

- Assessing the firm's strength and weaknesses in the different area of operations
- Appraisal of the status of strategic business units of the company
- Assessment of the firm's competitive advantage and core competence

5. Setting the corporate objectives:

After the thorough analysis of the company mission, its business, scanning of the environment, analysis of internal capabilities, now the stage is to set the corporate objectives. The main task here is to decide the extent of business growth the company wants to achieve. This should be decided

on the basis of strengths, competitive advantages resources at one side, and the business opportunities emerging in the environment on the other side by considering these factors the company has to decide what level of growth it should aim at.

The company objectives signify the end results to be achieved in a given period of time. It can be defined as the ends, which the organization seeks to achieve, by its existence and operations. It forms the basis of functioning of the organization. It helps justify the existence of an organization. The objectives help organizations to legitimise themselves in the eyes of the government, customers and society at large. Having multiple objectives in the key areas such as finance, quality of goods and services, selection and training of management personnel and even social responsibilities helps an organization to earn profits. Usually the companies set the corporate objectives in the areas like sales, profit margin, asset formation, productivity, market share and corporate image.

Importance of objectives

My Cool Guru
Share . Care . Grow

The objectives of an organization state the specific aims and activities, which the company desires to undertake. The importance of objective is:

1. Provide direction for functioning of organization
2. Signifies the aims and purpose of existence
3. Forms the basis for Management by Objectives, which lead to a way for management for results.
4. Helps effective functioning of an organization in a given environment.
5. Provides the basis for control and assessment of organizational performance.

6. Formulating the corporate strategy

The final stage in the corporate strategy planning is the formulation of the strategy. This acts as a heart of the planning. The major activities under this stage include deciding about what should be done with the each of the business (build, maintain, harvest, divest) and proper allocation of the resources.

Corporate-level strategies are basically the decisions related to allocating resources among the different businesses of a firm, transferring resources from one set of businesses to others, and managing and nurturing a portfolio of businesses in such a way that the overall corporate objectives are met. There are mainly 4 types of corporate-level strategies viz.

A. Stability strategies

B. Expansion strategies

C. Retrenchment strategies

D. Combination strategies

My Cool Guru TM
Share . Care . Grow

Stability Strategies

The stability grand strategy is adopted by an organization when it attempts at an incremental improvement of its functional performance by marginally changing one or more of its businesses in terms of their respective customer groups, customer functions, and alternative technologies- either singly or collectively.

In order to understand how stability strategies work, here are three examples to illustrate how organizations could aim at stability in each of the three dimensions of customer groups, customer functions, and alternative technologies, respectively.

- A packaged-tea company provides Ii special service to its institutional buyers, apart from its consumer sales through market intermediaries, in order to en courage bulk buying and thus improve its marketing efficiency.
- A copier machine company provides better after-sales service to its existing customers to

improve its company and product image, and increase the sale of accessories and consumables

- A steel company modernises its plant to improve efficiency and productivity

Note that all the three companies here do not go beyond what they are presently doing, they serve the same markets with the present products using the existing tech nology. The strategies aim at stability by causing the companies to marginally im prove their performance, or at least letting them remain where they are in case they face a volatile environment and a highly competitive market. The essence of stability strategies is, therefore, not doing nothing but sustaining a moderate growth in line within the existing trends. Where substantial growth is aimed at, the strategy of expansion has to be adopted. Stability strategies could be of 3 types.

No-change strategy: This strategy involves a conscious decision to do nothing new, which means to continue with present business definition. It is generally applied when external environment is predictable and certain.

Profit strategy: No firm can indefinitely continue with no-change strategy. Sometimes changing business situations compel firms to sustain profitability by artificial measures by adopting a profit strategy. Profit strategy includes reducing investments, cutting costs, raising prices, increasing productivity or adopting some such other measures to tide over temporary difficulties.

Pause/proceed-with-caution strategy: This strategy is employed by firms to test the ground before moving ahead with a full-fledged grand strategy. This is essential in several cases where an intervening phases of consolidation is necessary before the firm could embark on further expansion strategies.

Expansion Strategies

The expansion grand strategy is followed when an organization aims at high growth by substantially broadening the scope of one or more of its businesses in terms of their respective customer groups, customer functions, and alternative technologies- singly or jointly-in order to improve its overall performance.

My Cool Guru™ Share . Care . Grow

Given below are three examples to show how companies can aim at expansion either in terms of customer groups, customer functions, or alternative technologies.

A chocolate manufacturer expands its customer groups to include middle-aged and old persons among its existing customers comprising of children and adolescents.

A stockbroker's firm offers personalised financial services to small investors apart from its normal functions of dealing in shares and debentures in order to increase the scope of its business and spread its risks.

A printing firm changes from the traditional letterpress printing to desktop publishing in order to increase its production and efficiency.

In each of the above cases, the company moved in one or the other direction so as to substantially alter its present business definition. Expansion strategies have a pro found impact on a company's internal configuration causing extensive changes in almost all aspects of internal functioning. As compared to stability, expansion strategies are more risky. There are mainly 3 types of expansion strategies.

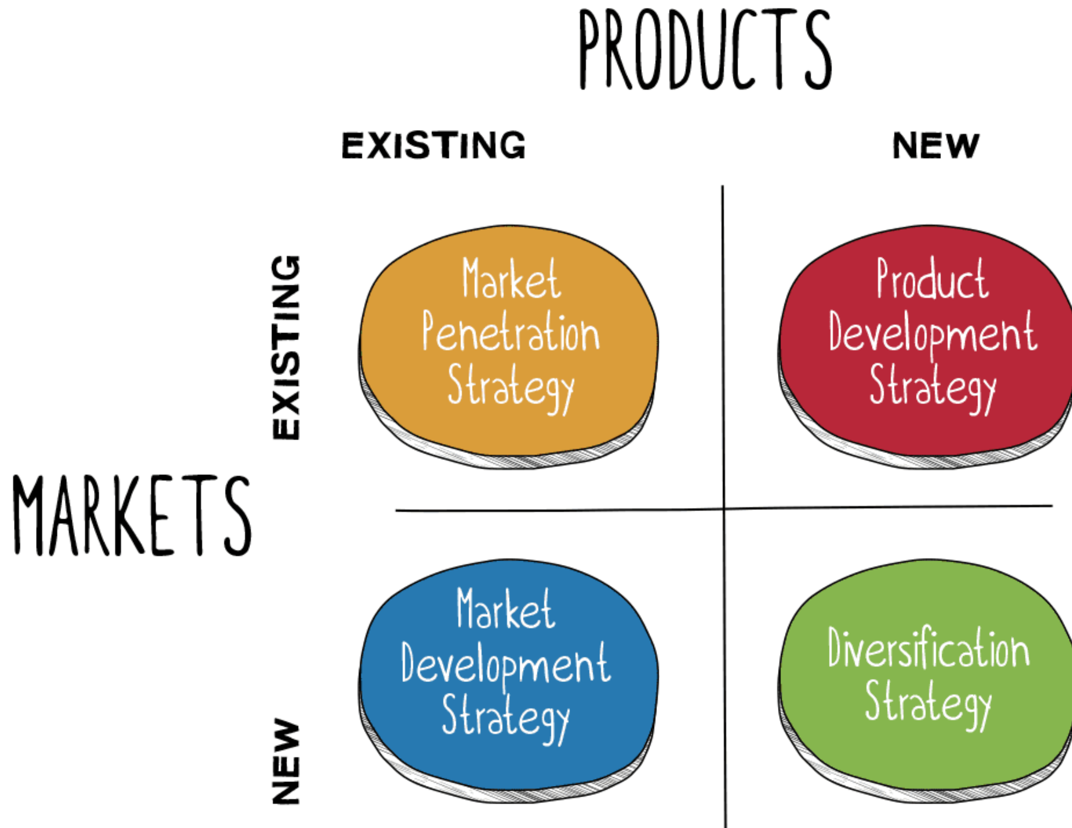
- Expansion through concentration
- Expansion through integration
- Expansion through diversification

My Cool Guru ™
Share . Care . Grow

Expansion through concentration

Concentration strategies involve investment of resources in a product line for an identified market with the help of proven technology. It can be done many ways. Ansoff Product/Market Expansion Grid is a portfolio-planning tool for identifying organization growth opportunities. It was created by Igor Ansoff and first published in his article "Strategies for Diversification" in the Harvard Business Review (1957). The matrix allows marketers to consider ways to grow the business via existing and/or new products, in existing and/or new markets – there are four possible product/market combinations. This matrix helps companies decide what course of action should be taken given current performance. The matrix consists of four strategies:

This model proposes 4 alternatives to the company.



1) Market penetration strategy: It suggests that growth is possible by achieving a deeper penetration (sell more) of its present product within a present market. An organization could sell more of its current product(s) to its current customers, attract competitors' customers, or convince non-users to begin using the product, thereby increasing its existing market share. Another growth alternative is to try and identify new markets for its present products.

2) Market development strategy: By employing a market development strategy, an organization might identify new markets for its product by determining potential user groups for its current products, seeking additional distribution channels in its present locations, or offering its product for sale in new geographic locations, either domestic or international.

3) Product development strategy: Another alternative is to develop new products for an existing target market. Through a product development strategy, an organization might create an augmented, or entirely new product in order to stimulate the current markets and create new

ones. For example, McDonalds is always within the fast-food industry, but frequently markets new burgers. Frequently, when a firm creates new products, it can gain new customers for these products. Hence, new product development can be a crucial business development strategy for firms to stay competitive.

4) Diversification strategy: Finally, an organization could consider diversification as a growth strategy. The organization develops new products to sell to new markets. Also, it could involve acquiring or starting businesses outside current markets. Virgin Cola, Virgin Megastores, Virgin Airlines, Virgin Telecommunications are examples of new products created by the Virgin Group of UK, to leverage the Virgin brand. This resulted in the company entering new markets where it had no presence before.

The matrix illustrates, in particular, that the element of risk increases the further the strategy moves away from known quantities - the existing product and the existing market. Thus, product development (requiring, in effect, a new product) and market extension (a new market) typically involve a greater risk than `penetration' (existing product and existing market); and diversification (new product and new market) generally carries the greatest risk of all. In his original work, which did not use the matrix form, Igor Ansoff stressed that the diversification strategy stood apart from the other three.

My Cool Guru™ Share . Care . Grow

While the latter are usually followed with the same technical, financial, and merchandising resources which are used for the original product line, diversification usually requires new skills, new techniques, and new facilities. As a result it almost invariably leads to physical and organizational changes in the structure of the business which represent a distinct break with past business experience.

For this reason, most marketing activity revolves around penetration; and the Ansoff Matrix, despite its fame, is usually of limited value - although it does always offer a useful reminder of the options, which are open.

Expansion through integration

Integration means combining activities related to present activity of a firm. There are 2 types of integration.

Horizontal integration: When an organization takes up the same type of products at the same level of production or marketing process, it is said to follow a strategy of horizontal integration. Tata Motors buying Jaguar and Land Rover is an example of this

Vertical integration: When an organization starts making new products that serve its own needs, vertical integration takes place. It is of 2 types.

Backward: It means relating to the sources of raw materials. Reliance went from synthetic apparel to petrochemical fibre to petroleum refinery to crude oil exploration

Forward: Here the organization moves closer to end-users. BISK FARM being biscuit manufacturer started Just Baked retail outlets

Expansion through diversification

My Cool Guru ™
Share . Care . Grow

Diversification strategies involve all the dimensions of strategic alternatives. 2 basic diversification strategies are discussed below.

Concentric diversification: When an organization takes up an activity in such a manner that it is related to the existing business definition of one or more of a firm's businesses, either in terms of customer groups, customers functions or alternatives technologies, it is called concentric diversification. Concentric diversification maybe of three types:

- ***Marketing-related concentric diversification:*** When a similar type of product is offered with the help of unrelated technology, for example, a company in the sewing machine business diversifies into kitchenware and household appliances, which are sold to housewives through a chain of retail stores.
- ***Technology-related concentric diversification:*** When a new type of product or service is provided with the help of related technology, for example, a leasing firm offering

hire-purchase services to institutional customers also starts consumer financing for the purchase of durables to individual customers.

- ***Marketing and technology-related concentric diversification:*** When a similar type of product (or service) is provided with the help of related technology, for example, a raincoat manufacturer makes other rubber-based items, such as, waterproof shoes and rubber gloves, sold through the same retail outlets.

Conglomerate diversification: When an organization adopts a strategy which requires taking up those activities which are unrelated to the existing business definition of one or more of its businesses, either in terms of their respective customer groups, customer functions or alternative technologies, it is called conglomerate diversification. There are several examples of Indian companies, which have adopted a path of growth and expansion through conglomerate diversification. The classic example is of ITC, a cigarette company diversifying into the hotel industry. Some other examples are those of the Essar Group (shipping, marine construction, oil sup port services, and iron and steel); Shriram Fibers Ltd (nylon industrial yarn, synthetic industrial fabrics, nylon tyre cords, fluorochemicals, fluorocarbon refrigerant gases, ball and needle bearings, auto-electricals, hire-purchase and leasing, and financial services); the Polar group (fans, marbles, and granite), and the TTK group (pressure cookers, chemicals, pharmaceuticals, hosiery, contraceptives, publishing, etc.).

My Cool Guru™ Share . Care . Grow

There are many reasons why organizations adopt diversification strategies. The three basic and important reasons are:

1. Diversification strategies are adopted to minimise risk by spreading it over several businesses.

2. Diversification may be used to capitalise on organizational strengths or minimise weaknesses.

3. Diversification may be the only way out if growth in existing businesses is blocked due to environmental and regulatory factors.

Retrenchment Strategies

A retrenchment grand strategy is followed when an organization aims at a contraction of its activities through substantial reduction or the elimination of the scope of one or more of its businesses, in terms of their respective customer groups, customer functions, or alternative technologies--either singly or jointly-in order to improve its overall performance. Retrenchment involves a total or partial withdrawal from either a customer group, customer function, or the use of an alternative technology in one or more of a firm's businesses, as can be seen from the situations given below:

- A pharmaceutical firm pulls out from retail selling to concentrate on institutional selling in order to reduce the size of its sales force and increase marketing efficiency.
- A corporate hospital decides to focus only on specialty treatment and realise higher revenues by reducing its commitment to general cases, which are typically less profitable to deal with.
- A training institution attempts to serve a large clientele through the distance learning system and to discard its face-to-face interaction methodology or training in order to reduce its expenses and use the existing facilities and personnel more efficiently.

My Cool Guru TM
Share . Care . Grow

In this manner, retrenchment attempts to 'trim the fat' and results in a 'slimmer' organization bereft of unprofitable customer groups, customer functions, or alternative technologies. All the situations described above are, in fact, an over-simplification of the complex reality that an organization faces. In order to deal with the real-life situations, organizations have to evolve a combination of the three grand strategies.

Retrenchment strategies are of 3 types.

- Turnaround strategy: It involves reversing a negative trend.
- Divestment strategy: It involves sale or liquidation of a portion of a business or a major division, profit centre or SBU.
- Liquidation strategy: It involves closing down a firm and selling its assets.

Combination Strategies

The combination grand strategy is followed when an organization adopts a mixture of stability, expansion, and retrenchment, either at the same time in its different businesses, or at different times in the same business with the aim of improving its performance.

Any combination strategy is the result of a serious attempt on the part of strategists to take into account the variety of environmental and organizational factors that affect the process of strategy formulation. Complicated situations generally require complex solutions. Combination strategies are the complex solutions that strategists have to offer when faced with the difficulties of real-life business. Observe how the two companies below deal with the complex situations they face.

A paints company augments its offering of decorative paints to provide a wider variety to its customers (stability) and expands its product range to include industrial and automotive paints (expansion). Simultaneously, it decides to close down the division, which undertakes large-scale painting contract jobs (retrenchment).

Over the years strategic changes at a large business group indicate that it has been strengthening its manufacturing base and divesting its trading activities. Stability has been aimed at in some of its divisions by retrenching the unprofitable products and services, while major expansion has taken place in the case of its industrial products and construction business. A variety of grand strategies have thus been followed, both sequentially and simultaneously, creating a complex web of strategies in line with the nature of the conglomerate that the company actually is.

Growth and Portfolio Model

In the 1970s much of strategic management dealt with size, growth, and portfolio theory. The Profit Impact of Marketing Strategies (PIMS) study was a long term study, started in the 1960s and lasted for 19 years, which attempted to understand the effect of market share. Started at General Electric, moved to Harvard in the early 1970s, and then moved to the Strategic Planning Institute in the late 1970s, it now contains decades of information on the relationship between profitability and strategy. Their initial conclusion was unambiguous: The greater a company's market share, the greater will be their rate of profit. The high market share provides volume and economies of scale. It also provides experience and learning curve advantages. The combined effect is increased

profits. According to Tom Peters, "PIMS provides compelling quantitative evidence as to which business strategies work and don't work."

The benefits of high market share naturally lead to an interest in growth strategies. The relative advantages of horizontal integration, vertical integration, diversification, franchises, mergers and acquisitions, joint ventures, and organic growth were discussed. The most appropriate market dominance strategies were assessed given the competitive and regulatory environment.

There was also research that indicated that a low market share strategy could also be very profitable. Schumacher (1973), Woo and Cooper (1982), Levenson (1984), and later Traverso (2002) showed how smaller niche players obtained very high returns.

The management of diversified organizations required new techniques and new ways of thinking. The first CEO to address the problem of a multi-divisional company was Alfred Sloan at General Motors. GM was decentralized into semi-autonomous “strategic business units” (SBU's), but with centralized support functions.

Strategic Business Units (SBU)

With time the companies have expanded a lot. And it is no longer justified and possible to bind the entire business into one strategy. So the emergence of concept of business unit and business unit level strategy. This is a concept relevant to multi product and multi business organizations. In such a situation the business has to form manageable number of strategically related group and then go for strategizing. Historically widespread business grouped them as per geographical vicinity i.e. territory based. But these groups may be handling more than one business or products each or more than one of them can be operating in one area only. So Strategic Business Units (SBU) emerged out as an improvement over the old concept. A SBU is a related business that can be treated as a unified entity for the purpose of strategic planning. Grouping into SBUs generally remove the vagueness and confusions.

Once the corporate strategy is decided, now strategy has to take the form at unit level, the strategic planning processes at the unit level consisting of the following steps:

a) Formulating the business mission.

My Cool Guru ™ Share . Care . Grow

b) SWOT analysis that deals with external environment analysis (opportunity and threat analysis) and internal environment analysis (strengths and weakness analysis).

c) Goal formulation.

d) Strategy formulation.

e) Programme formulation.

f) Implementation

g) Feedback and control.

The above stages are more or less resemble the stages of corporate strategy planning.

Strategic Planning Tools to assign resources to each SBU

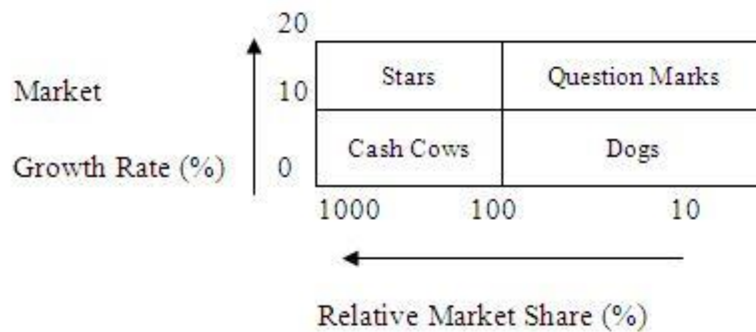
The organization is managed as a 'portfolio' of businesses with each serving a clearly defined product-market with a clearly defined strategy. Each SBU in the portfolio develops a strategy tailored to its capabilities and competitive needs, but consistent with the overall organization's capabilities and needs. The total portfolio is managed to serve the interests of the whole (balancing growth in sales, earnings, assets and risks). The business portfolio is the collection of businesses and products that make up the company. In portfolio analysis, management evaluates the businesses or products for their strategic fit in meeting company objectives. Strategic planning tools are useful to managers in assessing an organization's overall situation and making basic resource allocation decisions.

The two main reasons for business portfolio analysis are to allocate resources among units effectively and to develop growth strategies for growing the units and adding new units to the portfolio. The first step in business portfolio analysis is to identify the appropriate units of analysis, strategic business units (SBUs) or products. The next step is to assess the attractiveness of the SBUs or products and decide how much support each deserves. Alternative actions include build (increase market share), hold (maintain current market share), harvest (increase short-term cash flow regardless of the long-term effects) and divest (sell or liquidate the business). The 2 most useful and popular portfolio modes are The Boston Consulting Group approach and The General Electric Model

MyCoolGuru™ Share . Care . Grow

BCG Matrix

The BCG Matrix or the Boston Consulting Group Growth-Share Matrix is one tool that can be used to assess the attractiveness of SBUs. SBUs are classified according to two factors: its market share relative to competitors, and the growth rate of the industry in which the SBU operates.



As could be seen above, SBUs are plotted on a matrix with two axes.

- On the vertical axis, market growth rate indicates the annual growth rate of the market in which the business operates and provides a measure of market attractiveness.
- Relative market share measured on the horizontal axis is the SBU's market share relative to its nearest competitor that serves as a measure of the company's strength in the market. The relative market share of 1000%, 100% and 10% indicate that the SBU has 10 times, same or $1/10^{th}$ market share of its nearest competitor respectively.

Plotting a company's SBUs on this matrix allows for some basic resource allocation decisions. It is important to watch the movement of SBUs across the matrix over time. Based on whether each of these is high or low, the four quadrants of the matrix are defined as Stars, Cash Cows, Question Marks, or Dogs each indicating different type of business.

Question Marks

Also called "Problem Children", these are the businesses that operate in high-growth markets, but have low relative market share. Most businesses start off as question marks when they enter existing high-growth markets where there is already a market leader. The company has to spend a lot of money on all production factors needed for expansion of the business. A question mark

MyCoolGuru™ Share · Care · Grow

requires a lot of cash both to keep up with a rapidly growing market and improve its share position. The term question mark is given to such type of business, as the company has to question itself whether to spend money on it. Strategy must decide between further investment to move question marks to star status (differential advantage) or to phase out the product.

Stars

If the question marks are successful, they become stars. A star is market leader in high-growth market. Star name for this type of business is appropriate as it is the star performer at the marketplace. But that does not mean stars always contribute huge cash flow, as they often require heavy investment to build and/or maintain share in rapidly expanding markets that may eat up the revenues. The strategy is to build or even maintain or hold its position as long as possible.

Cash Cows

When the market's growth rate plummets to less that 10%, a star becomes a cash cow if it still maintains market leadership. Cash Cows are low growth, high share businesses that should be "milked" as cash cows have the ability to generate more cash than can be reinvested profitably in its own operations and the extra revenues can be used for investment in other businesses. The strategy is to defend market share. Also, they are possible candidates for a harvest strategy. A cash cow is appropriate as it contributes a lot of cash in the company's coffer for 3 reasons:

- The company does not have to finance capacity expansion as the market growth has slowed down
- The company enjoys economies of scale through acquired business experiences and capacity utilisation
- The company operates at higher profit margins

Dogs

These are the businesses that have weak market shares in low-growth markets. They generate low profits or losses. Dogs are often targets for divestment, but may still be profitable and/or contribute

My Cool Guru ™ Share . Care . Grow

to other organizational goals. The strategy is to minimize expenditures.

Decisions based on BCG Matrix

The company after understanding of its various businesses by above-mentioned definitions must determine whether its portfolio is healthy. An unhealthy typically has too many dogs or question marks and/or a few stars and cash cows. The company should also monitor the moving positions of their businesses as any business is transformational and passes through successive stages of question mark, star, cash cow and finally dog. Then the company has to determine what objective, strategy and budget to assign to each SBU. 4 strategies can be pursued:

Build: The objective is to increase market share. This strategy is appropriate for question marks for they have to increase their market shares in order to become stars.

Hold: The objective is to preserve market share. This strategy is appropriate for cash cows on order to continue positive cash flow.

Harvest: The objective is to increase short-term cash flow by reducing costs at a faster rate than any potential sales drop. This strategy is appropriate for dogs and question marks.

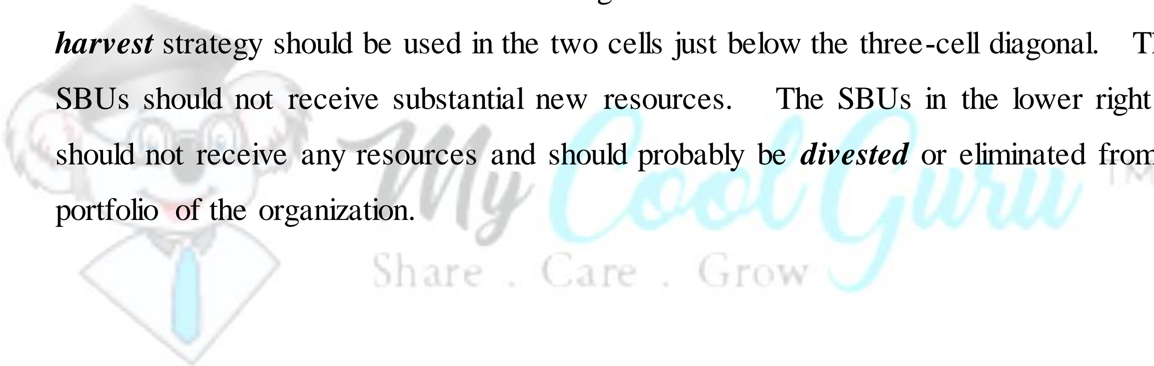
Divest: The objective is to sell or liquidate the business because resources can be better used elsewhere. This strategy is appropriate for dogs and question marks.

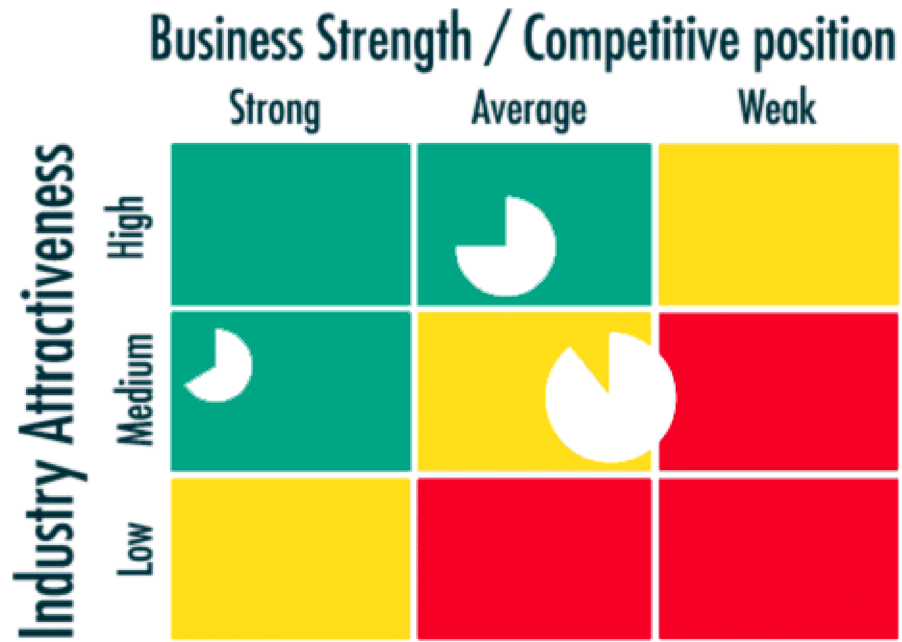
The General Electric Model

McKinsey & Co prepared the nine boxes for General Electric, which became popular and is better known as GE Business Screen or GE Strategic Business Planning Grid. This model is very similar to the BCG matrix in the sense that the vertical axis represents industry attractiveness and the horizontal axis represents the company's strength in the industry or business position. These parameters are necessary in the sense that any company's success depends on the extent of ease and promptness it enters attractive markets and has the required business strengths to succeed in those markets. One difference from BCG matrix is that the GE approach considers more than just market growth rate and relative market share in order to determine market attractiveness and

business strength. The industry attractiveness index is made up of such factors as market size, market growth, industry profit margin, amount of competition, seasonal and cyclical nature of demand, and industry cost structure. Business strength is an index of factors like relative market share, price, competitiveness, product quality, customer and market knowledge, sales effectiveness, and geographic advantages. GE matrix is divided into 9 cells, which form 3 zones.

- The most desirable SBUs are those located in the highly attractive industries where the company has high business strength. Strategically, the SBUs located in the 3 green cells in the upper-left corner are those in which the company should ***invest and grow***.
- The SBUs in the yellow cells along the diagonal running from lower left to upper right are overall medium in attractiveness. The strategy is to ***protect*** or allocate resources on a selective basis.
- The SBUs in the red cells on the lower right corner have low overall attractiveness. A ***harvest*** strategy should be used in the two cells just below the three-cell diagonal. These SBUs should not receive substantial new resources. The SBUs in the lower right cell should not receive any resources and should probably be ***divested*** or eliminated from the portfolio of the organization.





	Invest/Grow
	Selectivity/Earnings
	Harvest/Divest

My Cool Guru ™
Share . Care . Grow

Decisions based on GE Model

Management should also forecast each SBU's expected position both in short-term as well as long-term in view of product life cycle, competitor's strategies, economic cycles, threat of substitutes or new entrants.

The specific strategies for 9 situations are:

Industry Attractiveness \ Business Strength	High	Medium	Low
High	Invest heavily for growth	Invest selectively and build	Develop for income
Medium	Invest selectively and build	Develop selectively for income	Harvest or divest
Low	Develop selectively and build on strengths	Harvest	Divest

Shell Directional Policy Matrix

This model sets the company's competitive capabilities against the prospects for sector profitability in a 3-by-3 matrix; each of the nine cells contains a recommended strategy. Like Boston model, it has been designed to assess business or strategic business units, but it can be applied to products too.

Company's Competitive Capabilities \ Prospects for sector profitability	Unattractive	Average	Attractive
Weak	Disinvest	Phased withdrawal	Double or quit
Average	Phased withdrawal	Custodial	Try harder
Strong	Cash generation	Growth	Leader

Industry maturity/competitive position matrix

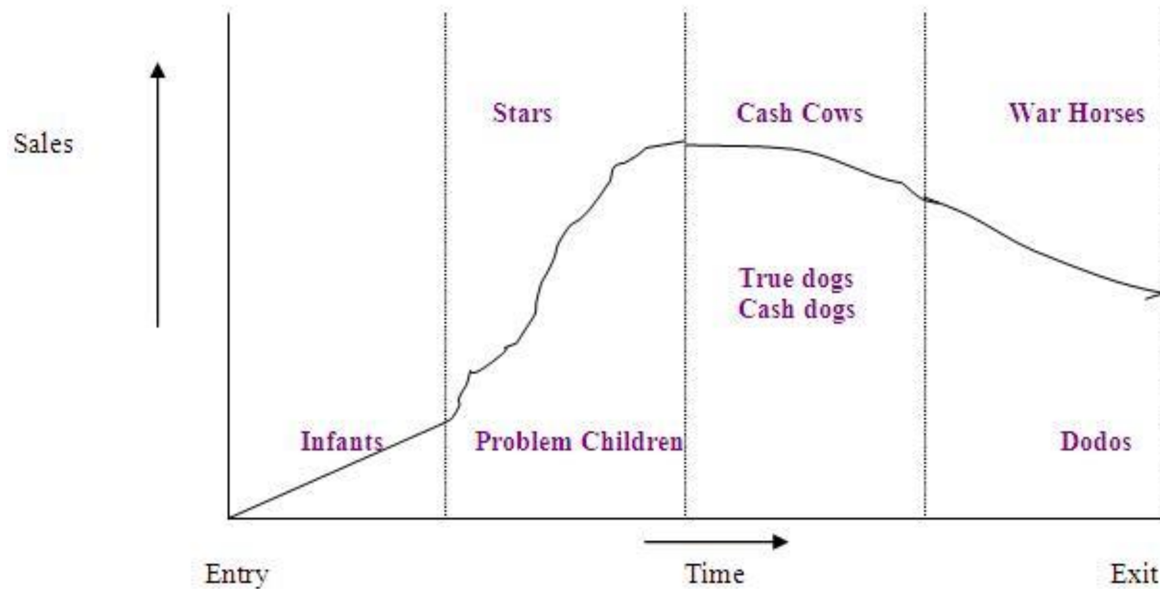
This was proposed by the consultants Arthur D Little. The vertical axis cites a number of criteria from 'dominant' to 'weak' and the SBU is then entered into the appropriate box along the horizontal axis, depending upon the life-cycle stage the overall industry has reached. It is perhaps a slightly subjective set of measures, but at least it does give the analyst an immediate point of reference, and its utility is perhaps more one of comparing one company or SBU against another, rather than a practical marketing planning tool. It is depicted in following figure:

	Embryonic	Growth	Maturity	Ageing
Dominant				
Strong				
Favourable				
Tentative				
Weak				

My Cool Guru ™
Share . Care . Grow

BCG/product life cycle matrix

This model was developed by Barksdale and Harris on the grounds that the BCG matrix ignores the position of the industry. Their matrix attempts to resolve this difficulty as indicated in following figure.



'Infants' are seen at the pioneering (introduction) stage. Research and development costs are being recouped and promotional costs are high because most communication effort is being directed towards informing the marketplace.

'Stars' enjoy high market share in a high growth market. These are costly in terms of communication costs at this growth stage, but this SBU has good potential for the future once the product becomes accepted and the SBU moves into the 'cash cow' category.

'Problem children' being in a low market share but high growth situation are costly to maintain and to become successful marketing action must be taken to move them to star or ulti mately to cash cow status.

'Cash cows' provide a steady revenue flow as they simply make money having a high market share, albeit in a low growth market.

'True dogs' have a low market share in a saturated market and provide a flat or even negative cash flow.

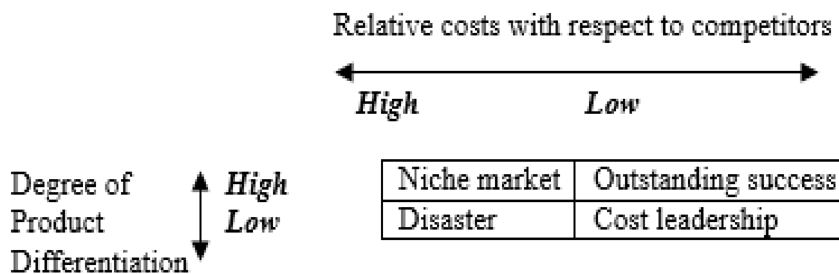
'Cash dogs' have a low market share in a saturated market, but produce a small positive cash flow.

'War horses' are seen in a declining market but are still support able because of their high market share, which contributes to a positive cash flow. The likelihood, too, is that competitors are leaving the market, so handing their market share back to the marketplace.

'Dodos' are precarious SBUs in that they are in a declining market and have a low market share and the likelihood is that their cash flow is negative. They should be deleted, but are probably still there because management clings to the belief that they might witness a revival.

Industry/Market Evolution Model

Michael Porter first recognized the generic strategies for success in a competitive market. He identified two key factors for attaining the competitive advantage that wins higher market share. These two factors are low costs in relation to other competitors and a high degree of product differentiation. These two aspects of competitive positioning form the axes of Porter's Competitive Positioning Matrix as shown in following figure.



As seen from the matrix, the most undesirable (and hence disastrous) situation would be when an organisation offers a product that is undistinguished against its rivals with relatively high cost in comparison to competitors. The unquestionable organisational success lies in attaining just opposite status i.e. low costs and high product distinctiveness. Some companies may survive with high costs with distinctive product offerings in a niche market or with undistinguished run-of-the-mill products having tight control over operating costs.

Porter's Generic Strategies

Michael Porter has described a category scheme consisting of three general types of strategies that are commonly used by businesses. These three generic strategies are defined along two dimensions: strategic scope and strategic strength. Strategic scope is a demand-side dimension (Porter was originally an economist before he specialised in strategy) and looks at the size and

composition of the market you intend to target. Strategic strength is a supply-side dimension and looks at the strength or core competency of the firm. In particular he identified two competencies that he felt were most important: product differentiation and product cost (efficiency).

He originally ranked each of the three dimensions (level of differentiation, relative product cost, and scope of target market) as either low, medium, or high, and juxtaposed them in a three dimensional matrix. That is, the category scheme was displayed as a 3 by 3 by 3 cube. But most of the 27 combinations were not viable.

In his 1980 classic Competitive Strategy: Techniques for Analysing Industries and Competitors, Porter simplifies the scheme by reducing it down to the three best strategies. They are cost leadership, differentiation, and market segmentation (or focus). Market segmentation is narrow in scope while both cost leadership and differentiation are relatively broad in market scope.

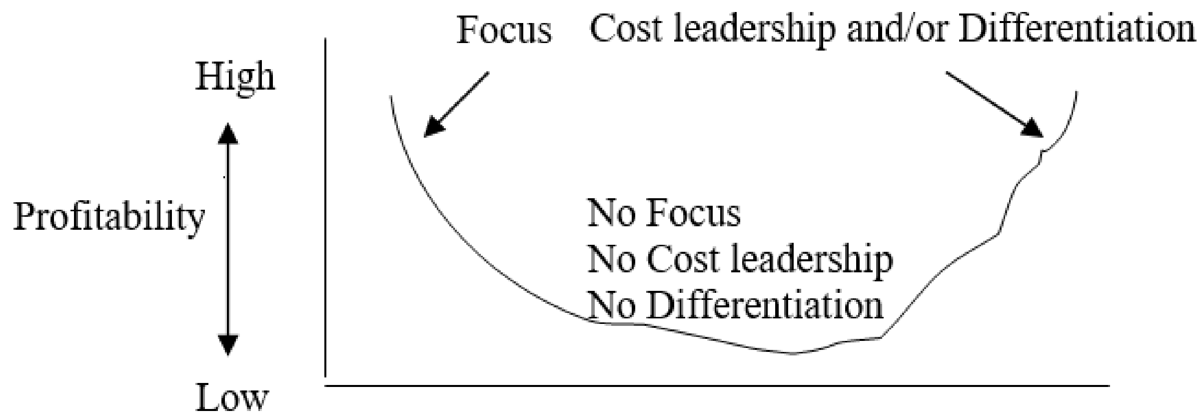
Empirical research on the profit impact of market share indicated that firms with a high market share were often quite profitable, but so were many firms with low market share. The least profitable firms were those with moderate market share. This was sometimes referred to as the hole in the middle problem. Porter's explanation of this is that firms with high market share were successful because they pursued a cost leadership strategy and firms with low market share were successful because they used market segmentation to focus on a small but profitable market niche. Firms in the middle were less profitable because they did not have a viable generic strategy.

My Cool Guru TM Share . Care . Grow

Combining multiple strategies is successful in only one case. Combining a market segmentation strategy with a product differentiation strategy is an effective way of matching your firm's product strategy (supply side) to the characteristics of your target market segments (demand side). But combinations like cost leadership with product differentiation are hard (but not impossible) to implement due to the potential for conflict between cost minimisation and the additional cost of value-added differentiation.

Since that time, some commentators have made a distinction between cost leadership, that is, low cost strategies, and best cost strategies. They claim that a low-cost strategy is rarely able to provide a sustainable competitive advantage. In most cases firms end up in price wars. Instead, they claim a best-cost strategy is preferred. This involves providing the best value for a relatively low price.

Porter also mentioned that a high market share is not necessarily a major financial criterion, which is shown in the following figure.



Here three situations are important.

<u>Cost leadership</u>: This simply means reducing prices to be lowest in the market. By pursuing this strategy, the organisation concentrates upon achieving the lowest costs of production and distribution so that it has the capability of setting its prices at a lower level than its competitors. This strategy emphasises efficiency. By producing high volumes of standardised products, the firm hopes to take advantage of economies of scale and experience curve effects. The product is often a basic no-frills product that is produced at a relatively low cost and made available to a very large customer base. Maintaining this strategy requires a continuous search for cost reductions in all aspects of the business. The associated distribution strategy is to obtain the most extensive distribution possible. Promotional strategy often involves trying to make a virtue out of low cost product features.

Whether it then chooses to do this depends on its objectives and perception of the market. Saunders provided the examples of IBM and Boeing, both of which are cost leaders who have chosen to use their lower costs not to reduce prices, but rather to generate higher returns that could subsequently be invested in marketing, R&D and manufacturing as a means of maintaining or strengthening their position.

To be successful, this strategy usually requires a considerable market share advantage or preferential access to raw materials, components, labour, or some other important input. Without one or more of these advantages, the strategy can easily be mimicked by competitors. Successful

implementation also benefits from:

- Process engineering skills
- Products designed for ease of manufacture
- Sustained access to inexpensive capital
- Close supervision of labour
- Tight cost control
- Incentives based on quantitative targets

Differentiation: This is the establishment of some unique features (also described as USP by Roger Reeves), which could be product or image related that competitors couldn't match. By pursuing this strategy, the organisation emphasises a particular element of the marketing-mix that is seen by customers to be important and as a result provides a meaningful basis for competitive advantage. The firm then wants to be quality leader (Mercedes Benz with cars), service leader (McDonald's), marketing leader (Japanese cars) or the technological leader (Dolby with noise suppression circuits for tape decks). Differentiation can also be achieved by means of the brand image and packaging especially in a mature market where the products are for the most part physically indistinguishable.

Differentiation involves creating a product that is perceived as unique. The unique features or benefits should provide superior value for the customer if this strategy is to be successful. Because customers see the product as unrivalled and unequalled, the price elasticity of demand tends to be reduced and customers tend to be more brand loyal. This can provide considerable insulation from competition. However there are usually additional costs associated with the differentiating product features and this could require a premium pricing strategy.

To maintain this strategy the firm should have:

- Strong research and development skills
- Strong product engineering skills
- Strong creativity skills
- Good cooperation with distribution channels
- Strong marketing skills
- Incentives based largely on subjective measures
- Be able to communicate the importance of the differentiating product characteristics
- Stress continuous improvement and innovation
- Attract highly skilled, creative people

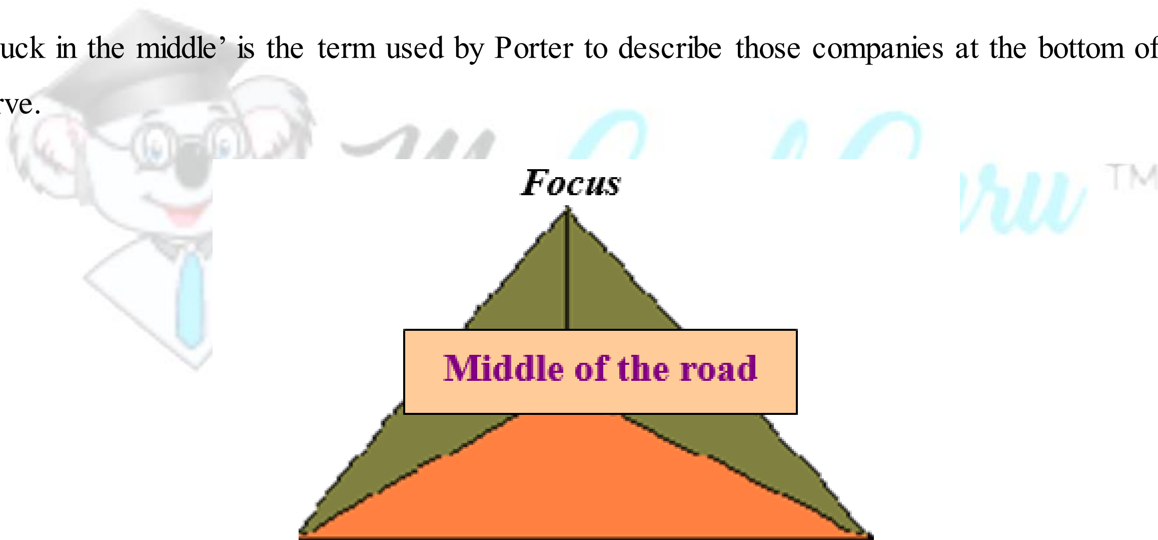
My Cool Guru™ Share . Care . Grow

Focus: This is where the company consolidates its efforts on a small product range in a singular market niche. In this strategy the firm concentrates on a select few target markets. It is also called a focus strategy or niche strategy. It is hoped that by focusing your marketing efforts on one or two narrow market segments and tailoring your marketing mix to these specialised markets, you can better meet the needs of that target market. The firm typically looks to gain a competitive advantage through effectiveness rather than efficiency. It is most suitable for relatively small firms and has much in common with guerrilla marketing warfare strategies.

Porter's Model of competitive advantage

	COMPETITIVE ADVANTAGE	
	Uniqueness perceived by customer	**Low cost position**
STRATEGIC TARGET — **Industry-wide**	**Differentiation**	**Cost Leadership**
STRATEGIC TARGET — **Specific segment**	**Differentiation focus**	**Cost focus**

'Stuck in the middle' is the term used by Porter to describe those companies at the bottom of the curve.



There is no single best strategy within a given industry and the task faced by the marketing strategists involves selecting the strategic approach that will best allow it to maximise its strengths vis-à-vis its competitors.

Type of strategy	Ways to achieve the strategy	Benefits	Possible problems
Cost leadership	Size and economies of scale Globalisation Relocating to low-cost parts of world Modification/simplification of designs Greater labour effectiveness Greater operating effectiveness Strategic alliance New sources of supply	Outperforming rivals Erecting entry barriers Resisting five competitive forces	Vulnerability to even lower cost operators Possible price wars Difficulty of sustaining in long-term
Focus	Concentration upon one or a small number of segments The creation of a strong and specialist	A more detailed understanding of particular segments Creation of entry barriers Reputation for specialisation Ability to concentrate efforts	Limited opportunities for sector growth Possibility of outgrowing market Decline of the sector Reputation for specialisation that ultimately inhibits growth and development into other sectors
Differentiation	The creation of strong brand identities The consistent pursuit of those factors which customers perceive to be important High performance in one or more of a spectrum of activities	Distancing from others in the market Creation of major competitive advantage Flexibility	Difficulties of sustaining the bases for differentiation Possible high costs Difficulty of achieving true and meaningful differentiation

My CoolGuru™ Share . Care . Grow

Porter's advanced Model

		Growth (Emerging industry)	Maturity (Transition to maturity)	Decline
Strategic Position	***Leader***	Keep ahead of the field	Cost leadership Raise barriers to entry Deter competitors	Redefine scope Divest peripheral activities Encourage departures
	Follower	Imitation at lower cost Joint ventures	Differentiation Focus	Differentiation Look for new opportunities

- '**Growth'** is exemplified in an emerging industry by purchasing conservatism over the attributes of new products and the potential for them becoming quickly dated in the style or functional senses.
- **'Transition to maturity'** usually means diminished profit margins as more competitors enter the market and there is a slowing down of sales. Purchasing confidence is higher through product familiarity, and the emphasis is upon features and non-price factors like image. Focus is important in terms of attempting to serve individual market segment needs.
- **'Decline'** suggests that the marketplace has become saturated and that products are uninteresting. Alternate products start to appear and this stage is when companies should seek to exit the marketplace and look for alternative markets and products.

My Cool Guru™ Share • Care • Grow

Michael Porter's Value Chain Model

A value chain is a chain of activities. Products pass through all activities of the chain in order and at each activity the product gains some value. The chain of activities gives the products more added value than the sum of added values of all activities. It is important not to mix the concept of the value chain with the costs occurring throughout the activities. A diamond cutter can be used as an example of the difference. The cutting activity may have a low cost, but the activity adds too much of the value of the end product, since a rough diamond is a lot less valuable than a cut diamond.

The value chain categorizes the generic value-adding activities of an organization. The "primary activities" include: inbound logistics, operations (production), outbound logistics, marketing and sales, and services (maintenance). The "support activities" include: administrative infrastructure management, human resource management, information technology, and procurement. The costs

and value drivers are identified for each value activity. The value chain framework quickly made its way to the forefront of management thought as a powerful analysis tool for strategic planning. Its ultimate goal is to maximize value creation while minimizing costs.

Primary activities are directly concerned with the creation or delivery of a product or service. They can be grouped into following five main areas.

1) **Inbound Logistics** involve relationships with suppliers and include all the activities required to receive, store, and disseminate inputs.

2) **Operations** are all the activities required to transform inputs into outputs (products and services).

3) **Outbound Logistics** include all the activities required to collect, store, and distribute the output.

4) **Marketing and Sales** activities inform buyers about products and services, induce buyers to purchase them, and facilitate their purchase.

5) **Service** includes all the activities required to keep the product or service working effectively for the buyer after it is sold and delivered.

My Cool Guru ™
Share : Care : Grow

Each of these primary activities is linked to support activities, which help to improve their effectiveness or efficiency.

There are four main areas of support or secondary activities as discussed below:

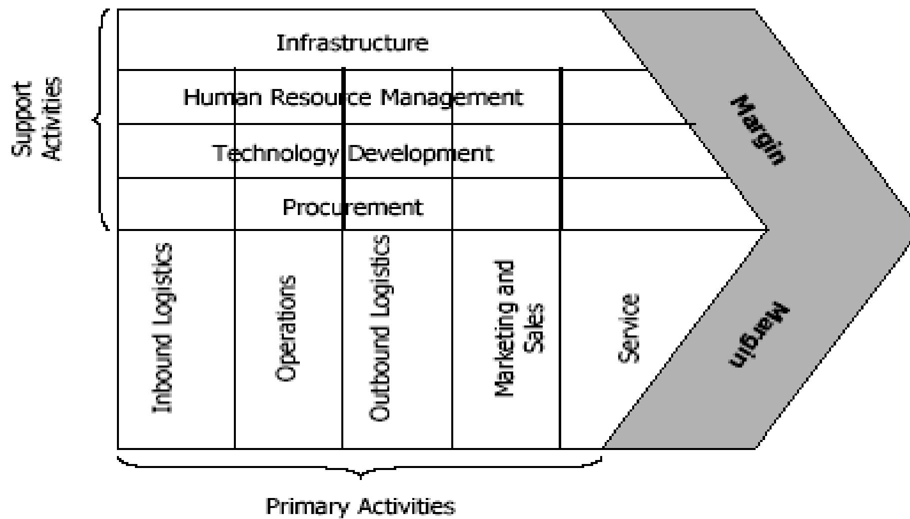
1) **Procurement** - is the acquisition of inputs, or resources, for the firm.

2) **Human Resource management** - consists of all activities involved in recruiting, hiring, training, developing, compensating and (if necessary) dismissing or laying off personnel.

3) **Technological Development** - pertains to the equipment, hardware, software, procedures and technical knowledge brought to bear in the firm's transformation of inputs into outputs.

4) **Infrastructure** - serves the company's needs and ties its various parts together, it consists of functions or departments such as accounting, legal, finance, planning, public affairs, government relations, quality assurance and general management.

The basic model of Porter's Value Chain is as follows:



The concept has been extended beyond individual organizations. It can apply to whole supply chains and distribution networks. The delivery of a mix of products and services to the end customer will mobilize different economic factors, each managing its own value chain. The industry wide synchronized interactions of those local value chains create an extended value chain, sometimes global in extent. Porter terms this larger interconnected system of value chains the "value system." A value system includes the value chains of a firm's supplier (and their suppliers all the way back), the firm itself, the firm distribution channels, and the firm's buyers (and presumably extended to the buyers of their products, and so on).