Marketing Strategy Study Notes

A look into the frameworks and major themes of the course from lectures and text book

Table of Contents

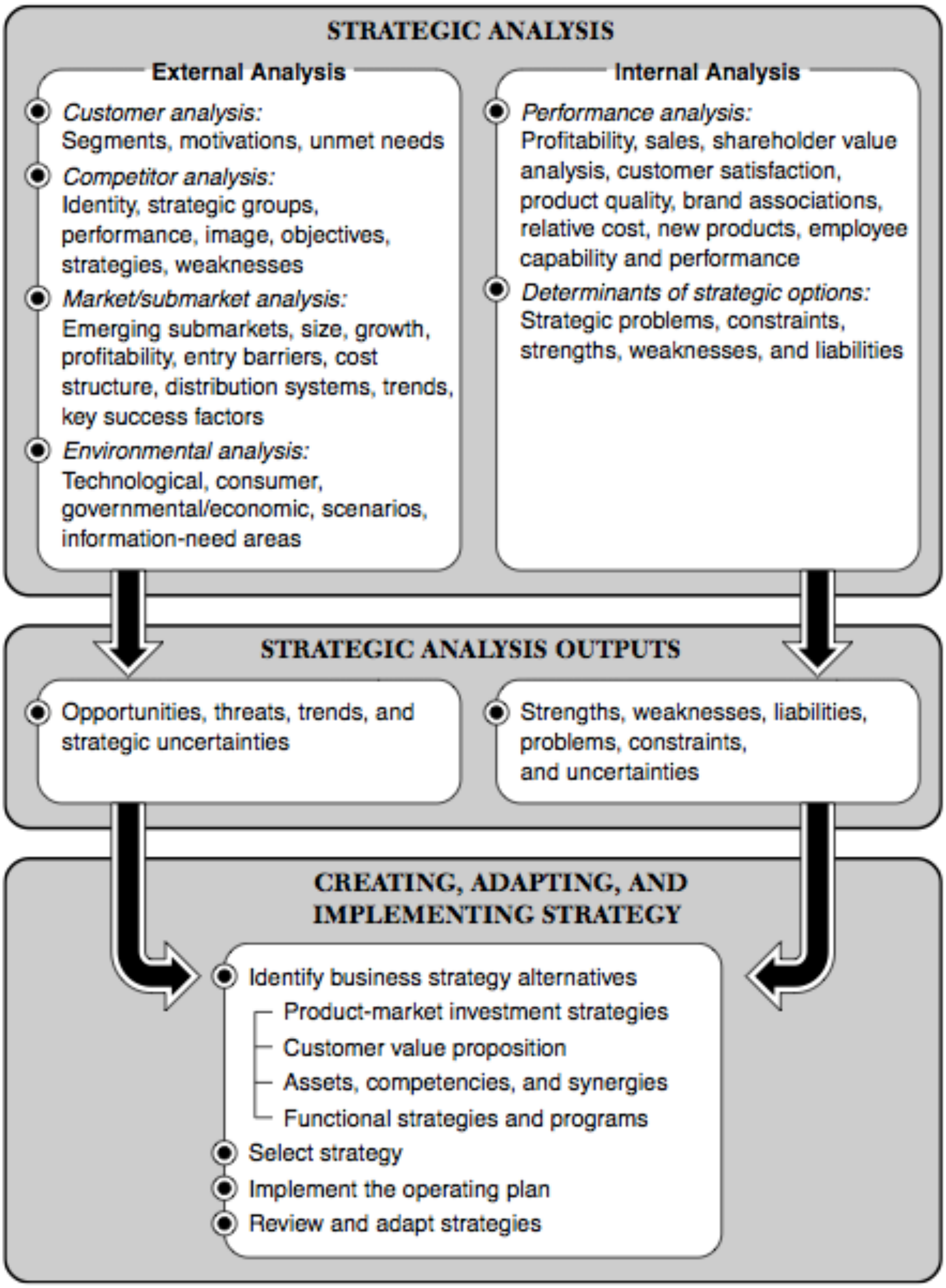


Figure 1.3 Overview of Strategic Management

The textbook and most lecture follows this structure. The course goes through each element as a way to develop a SCA. Within this there are only four areas of marketing strategy from which firms can compete. They are:

- Products-market investment strategies
- Customer value proposition
- Assets, competencies, and synergies
- Functional strategies and programs

Week 1 - Introduction to Marketing Strategy

A look into the platforms of the course and an introduction to the main ideas and topics that will be covered.

Chapter One: Strategic Market management - an introduction and overview

Main Point

An introduction to what Marketing Strategy is and is not. Also why marketing strategy is important and why it should be studied.

Stated Goal:

This book is concerned with helping managers identify, select, implement, and adapt market-driven business strategies that will enjoy a sustainable advantage in dynamic markets, as well as create synergy and set priorities among business units.

What do Strategist do?

Strategists need new and refined perspectives, tools, and concepts. In particular, they need to develop competencies around five management tasks—strategic analysis, innovation, getting control of multiple business units, developing sustainable competitive advantages (SCAs), and developing growth platforms.

- **Strategic analysis.** The need for information about customers, competitors, and trends affecting the market is now higher than ever. Further, the information needs to be continuous, not tied to a planning cycle, because a timely detection of threats, opportunities, strategic problems, or emerging weaknesses can be crucial to getting the response right. There is an enhanced premium on the ability to predict trends, project their impact, and distinguish them from mere fads. That means resources need to be invested and competencies created in terms of getting information, filtering it, and converting it into actionable analysis.

- **Innovation.** The ability to innovate is one key to successfully winning in dynamic markets as numerous empirical studies have shown. Innovation, however, turns out to have a host of dimensions. There is the organisational challenge of creating a context that supports innovation. There is the brand portfolio challenge of making sure that the innovation is owned and not a short-lived market blip. There is the strategic challenge of developing the right mix of innovations that ranges from incremental to transformational. There is the execution challenge; it is necessary to turn innovations into offerings in the marketplace..

- **Multiple businesses.** It is the rare firm now that does not operate multiple business units defined by channels and countries in addition to product categories and subcategories. Decentralisation is a century-old organisational form that provides for accountability, a deep understanding of the product or service, being close to the customer, and fast response, all of which are good things. However, in its extreme form, autonomous business units can lead to the misallocation of resources, redundancies, a failure to capture cross-business potential synergies, and confused brands. The challenge is to adapt the decentralisation model so that it no longer inhibits strategy adaptation in dynamic markets.

- **Creating sustainable competitive advantages (SCAs)**. Creating strategic advantages that are truly sustainable in the context of dynamic markets and dispersed business units is challenging. Competitors all too quickly copy product and service improvements that are valued by customers. What leads to SCAs in dynamic markets? One possible cornerstone is the development of assets such as brands, distribution channels, or a customer base or competencies such as social technology skills or sponsorship expertise. Another is leveraging organisational synergy created by multiple business units, which is much more difficult to copy than a new product or service.

- **Developing growth platforms.** Growth is imperative for the vitality and health of any organisation. In a dynamic environment, stretching the organisation in creative ways becomes an essential element of seizing opportunities and adapting to changing circumstances. Growth can come from revitalising core businesses to make them growth platforms as well as by creating new business platforms.

The Product-Market Investment Strategy: Where to Compete

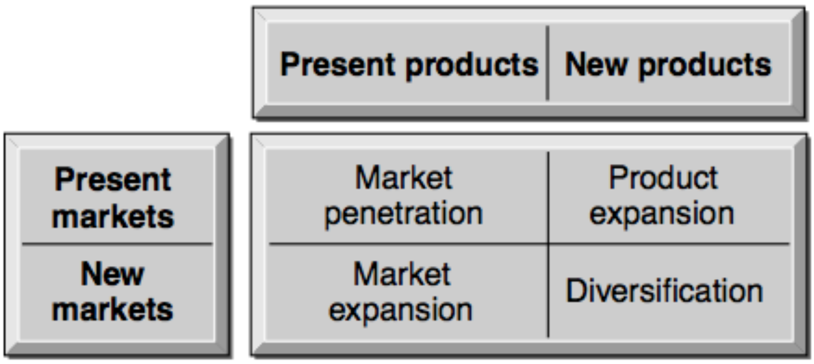


Figure 1.2 Product-Market Growth Directions

This matrix is important and must me understood.

Functional Strategies and Programs

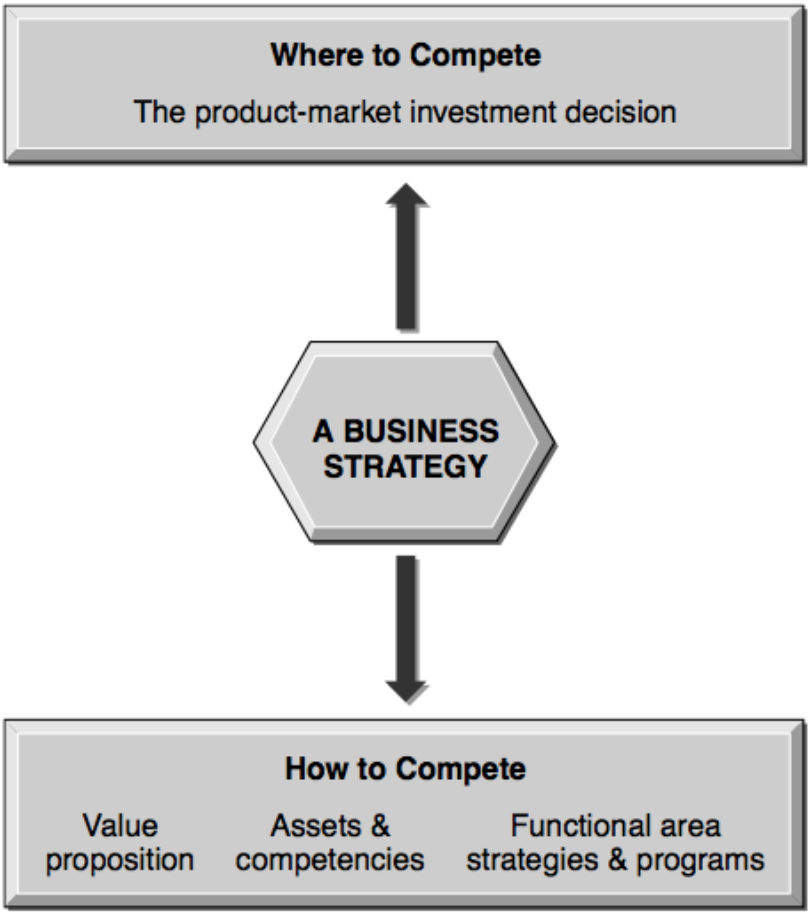


Figure 1.1 A Business Strategy

A target value proposition, or a set of assets and competencies, should mandate some strategy imperatives in the form of a supportive set of functional strategies or programs

Functional strategies or programs that could drive the business strategy might include a:

- Customer relationship program
- Brand-building strategy
- Social technology strategy
- Communication strategy
- Information technology strategy
- Distribution strategy
- Global strategy
- Quality program
- Sourcing strategy
- Logistical strategy
- Manufacturing strategy

Over view of Strategic management

MARKETING AND ITS ROLE IN STRATEGY

- Marketing has seen its strategic role growing over the years. The question for each organisation is whether the CMO (chief marketing officer) and his or her team have a seat at the strategy table or are relegated to being tactical implementers of tasks such as managing the advertising program. The view that marketing is tactical is changing; it is now more and more frequently being accepted as being part of the strategic management of the organisation. Given the definition of a business strategy and the structure of strategic market management, the roles that marketing can and should play become clearer.

- One marketing role is to be the primary driver of the strategic analysis. The marketing group is in the best position to understand the customers, competitors, market and submarkets, and environmental forces and trends. By managing marketing research and market data, it controls much of the information needed in the external analysis. Marketing should also take the lead in the internal analysis with respect to selected assets (such as the brand portfolio and the distribution channel) and competencies (such as new product introduction and the management of sponsorships).

- A second role is to drive growth strategy for the firm. Growth options are either based on or dependent on customer and market insights, and marketing therefore should be a key driver. In fact, a study by Booz Allen and Hamilton of some 2,000 executives found that a small but growing number of firms (9 percent) describe the CMO as a growth champion involved in all strategic levers relating to growth.5

- A third role is to deal with the dysfunctions of product and geographic silos. Although all functional groups need to deal with this problem, marketing is often on the front lines. The corporate brand and major master brands usually span silos, and a failure to exercise some central control and guidance will result in inefficiencies and inconsistencies that can be damaging to one or more business strategies. Business-spanning marketing programs such as sponsorships or distribution channels need to be actively managed if opportunities are to be realised and waste and inefficiency are to be avoided.

- A fourth role of marketing is to participate in the development of business strategies. This role is best understood by detailing the relationship between marketing and business strategies.

Lecture

Philosophy of the course

> "The strategist's method is very simple to challenge the prevailing assumptions with a single question: why? and to put the same question relentlessly to those responsible for the current way of doing things until they are sick of it" - Kenichi Ohmae in The Mind of the Strategist: The Art of Japanese Business

What is strategy

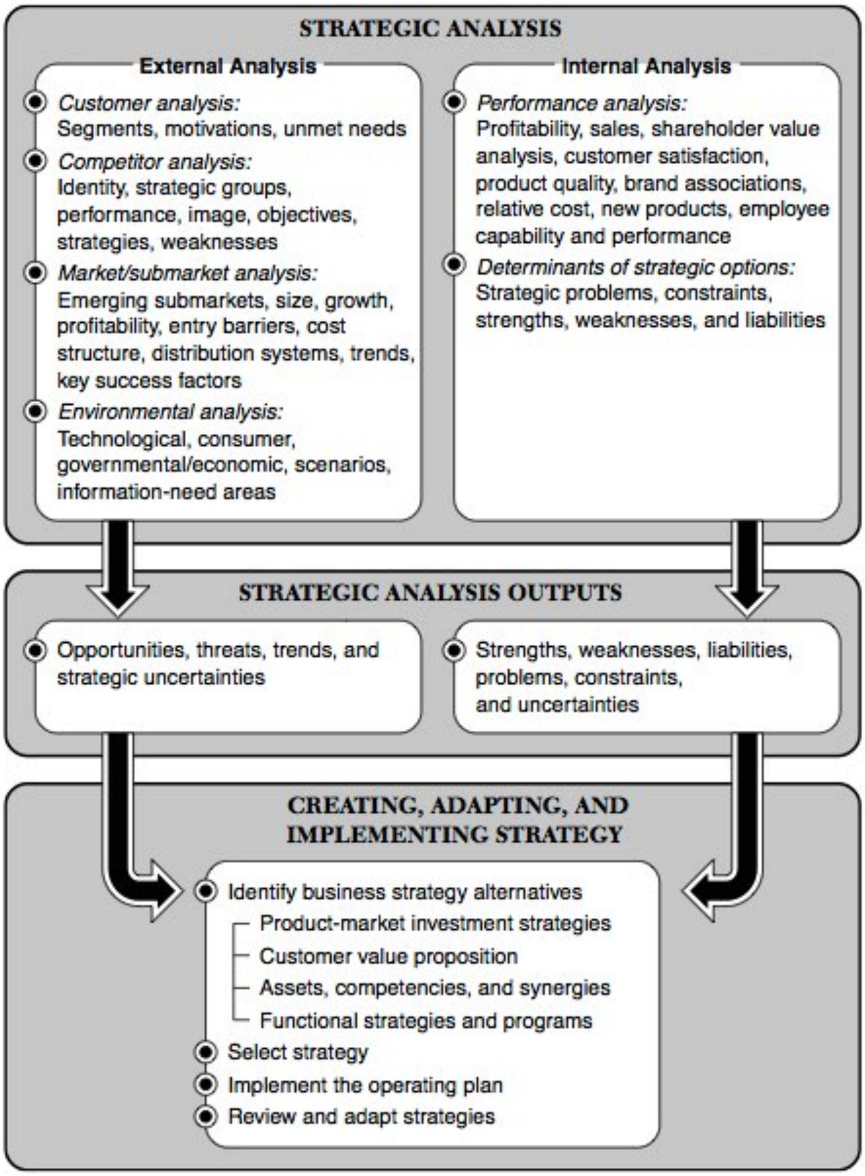


Figure 1.3 Overview of Strategic Management

Quotes

> *"Strategy is the creating of a unique and valuable position, involving a different set of activities"*- Micheal Porter in What is Strategy
>
> *"Four dimensions define business strategy: the product-market investment strategy, the customer value proposition, assets and programs. The first specifies where to compete and the remaining three indicate how to compete to win"* Daivd Asker in Strategic market management (the textbook)

These quotes imply that strategy incorporates
- Formulation aspects
- Implementation aspects
- Control aspects

<u>Overview of main areas of strategy</u>

The Product-market Investment strategy
- Invest to grow (or enter a product market)
- Invest only to maintain the existing position
- Milk the business by minimising investment
- Recover as many of the assets as possible by liquidation or divesting the business

The Customer Value Proposition
- Perceived benefit to customer
  - Functional
  - emotional
  - social
  - self- expressive

Assets and Competencies
- Strategic Competency
  - What a business unit dose exceptionally well
  - Has strategic importance to the business
  - Based on knowledge or a process
- Strategic Asset
  - A resource

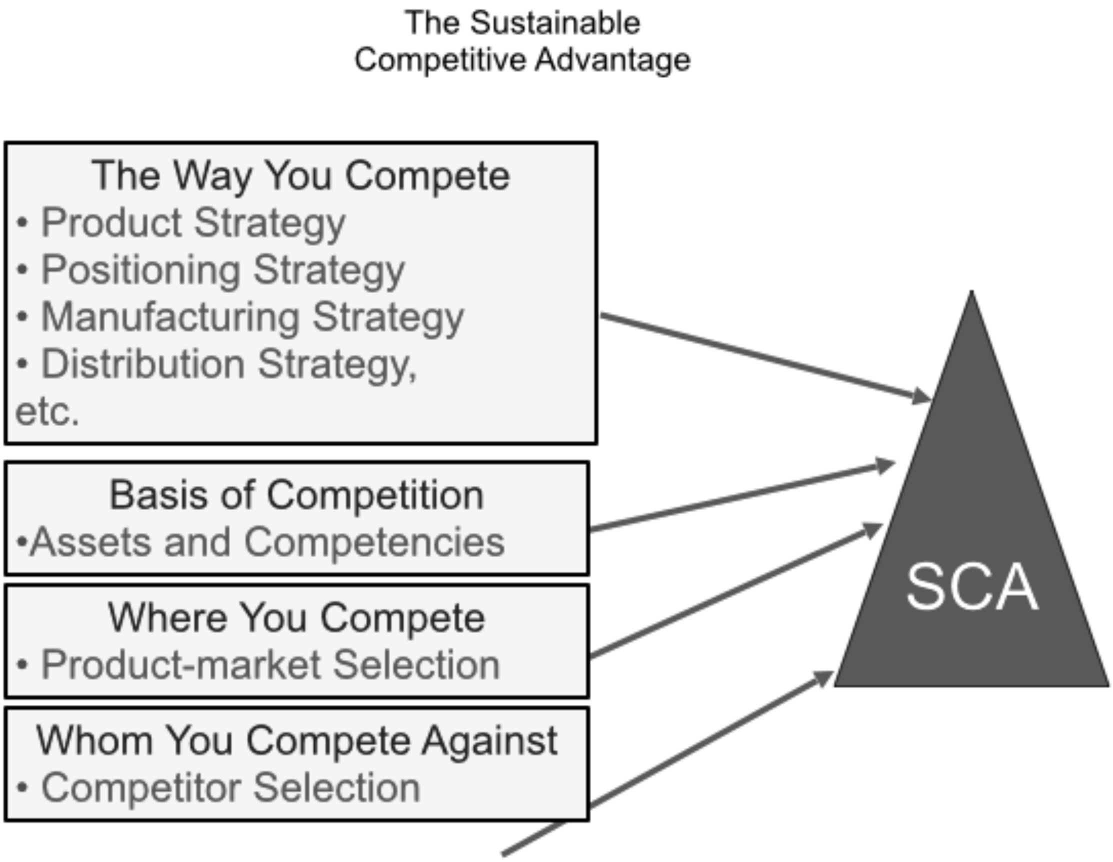
Functional Strategies and Programs
Strategy:
- Manufacturing
- Distribution
- Brand-Building
- Communication
- Information Technology

- sourcing
- Global
- Logistical

Programs:
- Quality program
- customer relationship program
- social technology program

SCA
is when a firm possess capabilities that allow it to serve customer needs better, it is said to have a completive or differential advantage. Competitive advantages are not realised unless customers see them as valuable.

The Sustainable Competitive Advantage



Key Learnings

- Strategy needs to be developed and executed in the context of a dynamic market. To cope, it is important to develop competencies in strategic analysis, innovation, managing multiple business, and developing SCAs and growth platforms.
- A business strategy includes the determination of the product - market investment strategy, the customer value proposition, assets and competencies, and the functional area strategy. A marketing strategy involves the allocation of the marketing budget over product markets, the customer value proposition by segment, the marketing assets and competencies, and the strategies of the functional areas of marketing.
- Strategic market management, a system designed to help management create, change, or retain a business strategy and to create strategic visions, includes a strategic analysis of the business to identify existing or emerging opportunities, threats, trends, strategic uncertainties, information need areas, scenarios, and strategic alternatives. It should precipitate strategic choices, help a business cope with change, force a long-term view, make visible resource allocations, aid strategy analysis and decisions, provide management and control systems, and enhance communication and coordination.
- The CMO role has grown over the years and is now often charged with being a partner in developing strategies and a vehicle to deal with the dysfunctions of the product-market silos.

Week 2: Strategic Analysis - Customer and Competitor Analysis

The first step in marketing strategy is examining the customer and the competitor. Moreover, in this weeks lecture there are several alternative strategic planning framework to compare with the one in the text. These are:
- The resource based view
- Porter's Positioning School of strategy formation
- D'Avenis ideas of Hypercompetitioon

Chapter Two: External And Customer Analysis

Main Point

This chapter is about internal and customer analysis. The author goes through the 'how to' to both and then goes into why they are important to the firm and the marketing strategist.

THE EXTERNAL ANALYSIS:

The Role of External Analysis

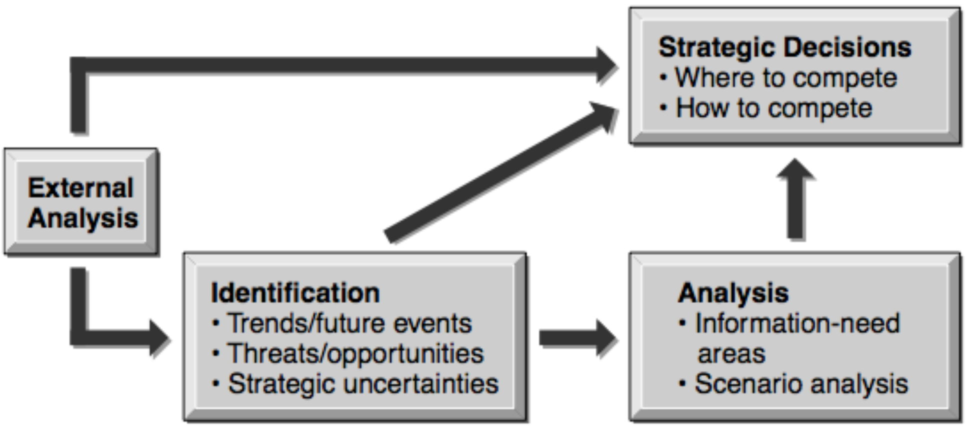


Figure 2.1 The Role of External Analysis

Analysis
There are three ways of handling uncertainty, as suggested by Figure 2.1. First, a strategic decision can be precipitated because the logic for a decision is compelling and/or because a delay would be costly or risky. Second, it may be worthwhile to attempt to reduce the uncertainty by information acquisition and analysis of an information-need area. The effort could range from a high-priority task force to a low-key monitoring effort. The level of resources expended will depend on the potential impact on strategy and its immediacy. Third, the uncertainty could be modelled by a scenario analysis.

THE CUSTOMER ANALYSIS

THE SCOPE OF CUSTOMER ANALYSIS

SEGMENTATION

- Who are the biggest customers? The most profitable? The most attractive potential customers? Do the customers fall into any logical groups based on needs, motivations, or characteristics?
- How could the market be segmented into groups that would require a unique business strategy?

CUSTOMER MOTIVATIONS

- What elements of the product/service do customers value most?
- What are the customers' objectives? What are they really buying?
- How do segments differ in their motivation priorities?
- What changes are occurring in customer motivation? In customer priorities?

UNMET NEEDS

- Why are some customers dissatisfied? Why are some changing brands or suppliers?
- What are the severity and incidence of consumer problems?
- What are unmet needs that customers can identify? Are there some of which consumers are unaware?
- Do these unmet needs represent leverage points for competitors or a new business model?

Figure 2.3 Customer Analysis

Segmentation

Segmentation is often the key to developing a sustainable competitive advantage. In a strategic context, segmentation means the identification of customer groups that respond differently from other groups to competitive offerings. A segmentation strategy couples the identified segments with a program to deliver an offering to those segments. Thus, the development of a successful segmentation strategy requires the conceptualisation, development, and evaluation of a targeted competitive offering.

How Should Segments Be Defined?

Loyalty

Brand loyalty, an important consideration in allocating resources, can be structured using a loyalty matrix as shown in Figure 2.5. Each cell represents a very different strategic priority and can justify a very different program.

	Low Loyalty	Moderate Loyalty	Loyal
Customer	Medium	High	Highest
Noncustomer	Low to Medium	High	Zero

Figure 2.5 The Brand Loyalty Matrix: Priorities

• User type	• Appliance buyer—home builder, remodeler, homeowner
• Usage	• Concert—season ticket holders, occasional patrons, nonusers
• Benefits sought	• Dessert eaters—those who are calorie-conscious versus those who are more concerned with convenience
• Price sensitivity	• Economy-sensitive Honda Civic buyer versus the luxury Mercedes-Benz buyer
• Competitor	• Users of competing products
• Application	• Professional users of chain saws versus homeowners
• Brand loyalty	• Those committed to Heinz ketchup versus price buyers

Figure 2.4 Examples of Approaches to Defining Segments

Unmet Needs

An unmet need is a customer need that is not being met by the existing product offerings. Unmet needs are strategically important because they represent opportunities for firms to increase their market share, break into a market, or create and own new markets. They can also represent threats to established firms in that they can be a lever that enables competitors to disrupt an established position.

Key Learnings

- External analysis should influence strategy by identifying opportunities, threats, trends, and strategic uncertainties. The ultimate goal is to improve strategic choices—decisions as to where and how to compete.
- Segmentation (identifying customer groups that can support different competitive strategies) can be based on a variety of customer characteristics, such as benefits sought, customer loyalty, and applications.
- Customer motivation analysis can provide insights in to what assets and competencies are needed to compete, as well as indicate possible SCAs.
- Unmet needs that represent opportunities (or threats) can be identified by asking customers, by accessing lead users, by ethnographic research, and by interacting with customers.

Chapter Three: Competitor Analysis

Main Point
This chapter focus on the competitor analysis, how to do a CA, how to get the information, and the importance of looking at strengths and weakness'.

What Questions are involved in a competitor analysis?

WHO ARE THE COMPETITORS?

- Against whom do we usually compete? Who are our most intense competitors? Less intense but still serious competitors? Makers of substitute products?
- Can these competitors be grouped into strategic groups on the basis of their assets, competencies, and/or strategies?
- Who are the potential competitive entrants? What are their barriers to entry? Is there anything that can be done to discourage them?

EVALUATING THE COMPETITORS

- What are their objectives and strategies? Their level of commitment? Their exit barriers?
- What is their cost structure? Do they have a cost advantage or disadvantage?
- What is their image and positioning strategy?
- Which are the most successful/unsuccessful competitors over time? Why?
- What are the strengths and weaknesses of each competitor or strategic group?
- What leverage points (or strategic weaknesses or customer problems or unmet needs) could competitors exploit to enter the market or become more serious competitors?
- How strong or weak is each competitor with respect to their assets and competencies? Generate a competitor strength grid.

Figure 3.1 Questions to Structure Competitor Analysis

Different Competitors

Direct

Companies the firm is in direct competition with.

Indirect

Companies that the firms is still in competition with but may be slightly different in offerings or segments.

Strategic groups

- A strategic group is a group of firms that:
    - Over time pursue similar competitive strategies (for example, the use of the same distribution channel, the same type of communication strategies, or the same price/quality position)
    - Have similar characteristics (e.g., size, aggressiveness)
    - Have similar assets and competencies (such as brand associations, logistics capability, global presence, or research and development)

Potential Competitors

In addition to current competitors, it is important to consider potential market entrants, such as firms that might engage in:

1. **Market expansion.** Perhaps the most obvious source of potential competitors is firms operating in other geographic regions or in other countries. A cookie company may want to keep a close eye on a competing firm in an adjacent state, for example.
2. **Product expansion.** The leading ski firm, Rossignol, has expanded into ski clothing, thus exploiting a common market, and has moved to tennis equipment, which takes advantage of technological and distribution overlap.
3. **Backward integration.** Customers are another potential source of competition. General Motors bought dozens of manufacturers of components during its formative years. Major can users, such as Campbell Soup, have integrated backward, making their own containers.
4. **Forward integration.** Suppliers attracted by margins are also potential competitors. Apple Computer, for example, opened a chain of retail stores. Suppliers, believing they have the critical ingredients to succeed in a market, may be attracted by the margins, the control, and the visibility that come with integrating forward.
5. **The export of assets or competencies.** A current small competitor with critical strategic weaknesses can turn into a major entrant if it is purchased by a firm that can reduce or eliminate those weaknesses. Predicting such moves can be difficult, but sometimes an analysis of competitor strengths and weaknesses will suggest some possible synergistic mergers. A competitor in an above-average growth industry that does not have the financial or managerial resources for the long haul might be a particularly attractive candidate for merger.
6. **Retaliatory or defensive strategies.** Firms that are threatened by a potential or actual move into their market might retaliate. Thus, Microsoft has made several moves (including into the Internet space) in part to protect its dominant software position.

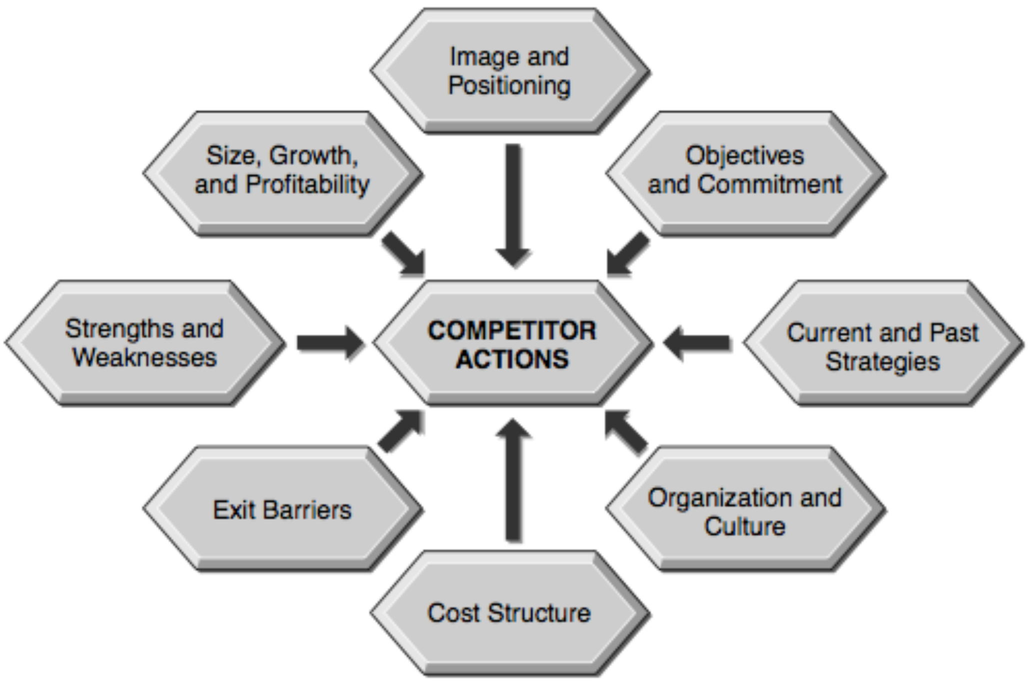


Figure 3.2 Understanding the Competitors

How to understand competitors?

Strengths and Weakness' of a competitor ?

INNOVATION
- Technical product or service superiority
- New product capability
- R&D
- Technologies
- Patents

MANUFACTURING/OPERATIONS
- Cost structure
- Effective and flexible operations
- Efficient operations
- Vertical integration
- Workforce attitude and motivation
- Capacity
- Outsourcing

FINANCE—ACCESS TO CAPITAL
- From operations
- From net short-term assets
- Ability to use debt and equity financing
- Parent's willingness to finance

MANAGEMENT
- Quality of top and middle management
- Knowledge of business
- Culture
- Strategic goals and plans
- Entrepreneurial thrust
- Planning/operation system
- Loyalty—turnover
- Quality of strategic decision making

MARKETING
- Product quality reputation
- Product characteristics/differentiation
- Brand name recognition
- Breadth of the product line—systems capability
- Customer orientation
- Segmentation/focus
- Distribution
- Retailer relationship
- Advertising/promotion skills
- Sales force
- Customer service/product support

CUSTOMER BASE
- Size and loyalty
- Market share
- Growth of segments served

Figure 3.4 Analysis of Strengths and Weaknesses

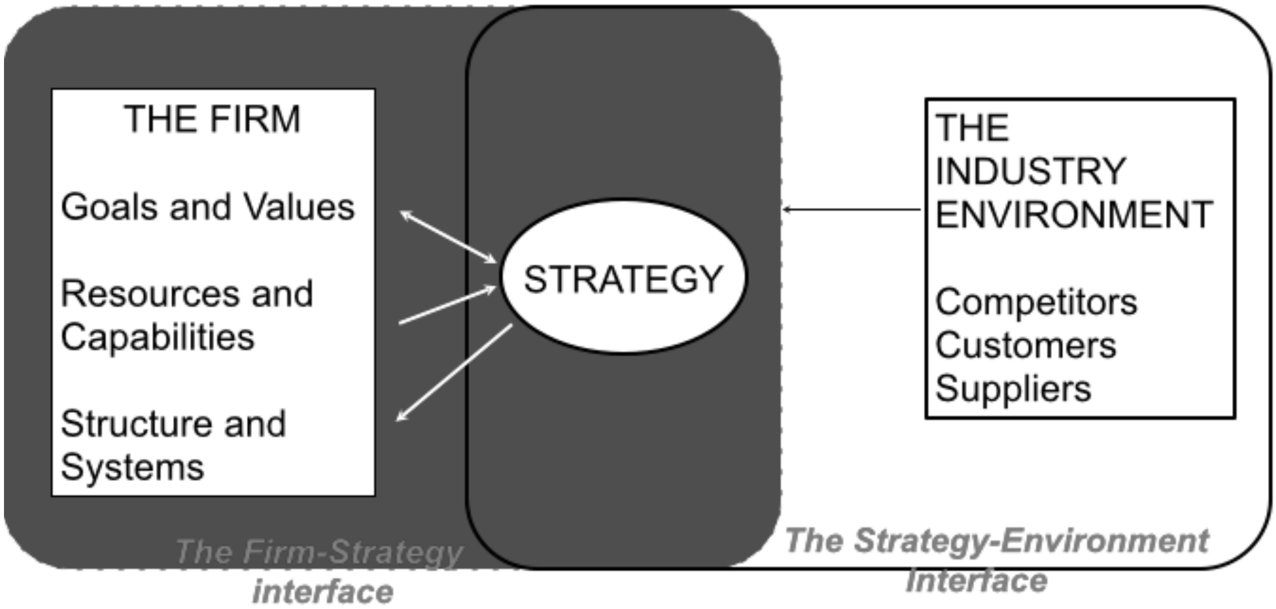
Key Learnings

- Competitors can be identified by customer choice (the set from which customers select) or by clustering them into strategic groups (firms that pursue similar strategies and have similar assets, competencies, and other characteristics). In either case, competitors will vary in terms of how intensely they compete.
- Competitors should be analysed along several dimensions, including their size, growth and profitability, image, objectives, business strategies, organisational culture, cost structure, exit barriers, and strengths and weaknesses.
- Potential strengths and weaknesses can be identified by considering the characteristics of successful and unsuccessful businesses, key customer motivation, mobility barriers, and value-added components.
- The competitive strength grid, which arrays competitors or strategic groups on each of the relevant assets and competencies, provides a compact summary of key strategic information.

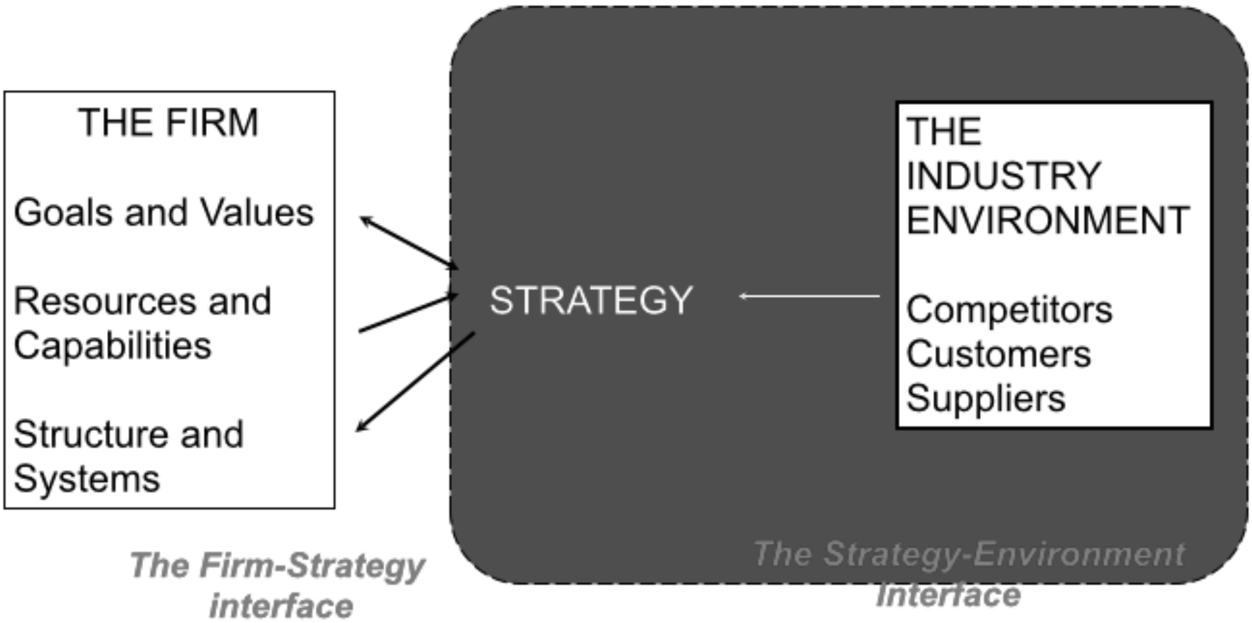
Lectures

What is the goal of Strategy?

Resource based View



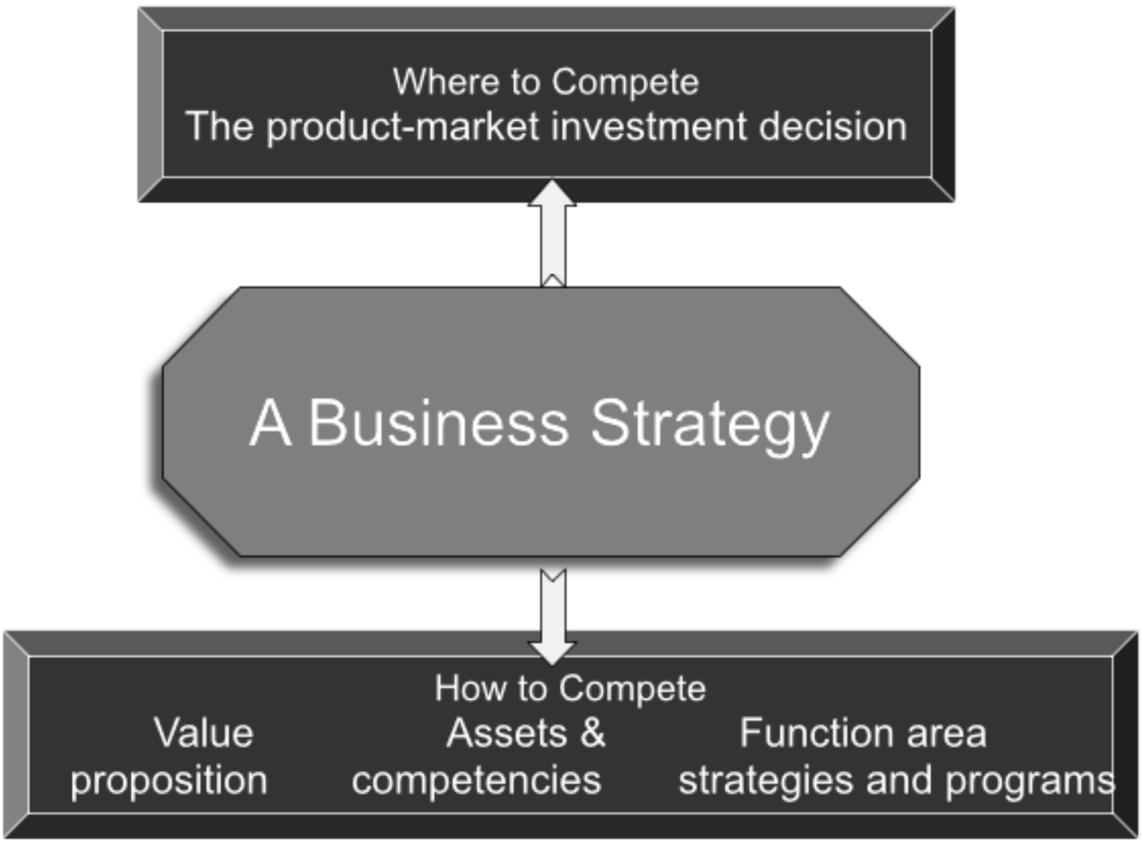
Positioning School



Overview of Two Key Strategic paradigms

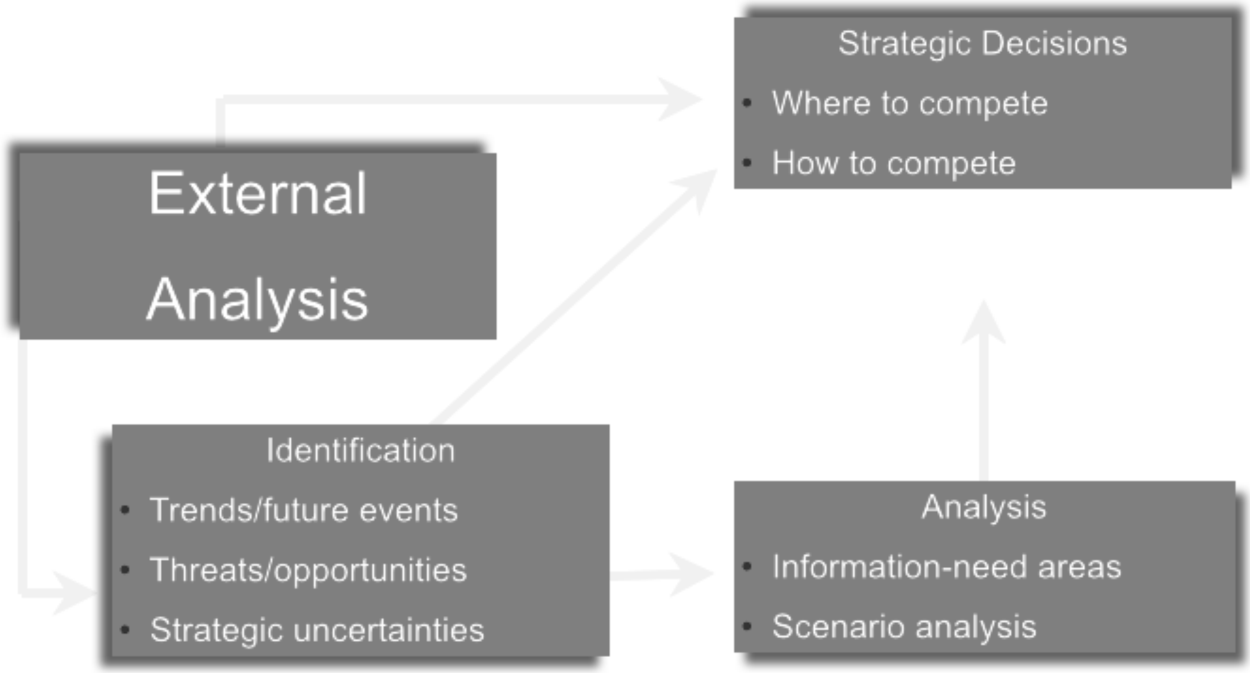
	Position	Resources
Strategic Logic	Established Position	Leveraged Resources
Strategic Steps	- Identify an attractive market. - Locate a defensible position - Fortify and Defend	- Establish Vision - Build Resources - Leverage across markets
Sources of Advantage	Unique, valuable position	Unique, valuable. Inimitable resources
Strategic Question	Where should we be?	What should we be ?

A business strategy



The role of External analysis

External analysis
serves to see future trends, threats/opportunities and examine strategic uncertainties. An external analysis will influence the strategic decisions of the company.



Strategic Uncertainties
are essential to understand as they inform the strategic decision of weakness in the future. The goal in strategy is to limit and know the strategic uncertainties as to remain competitive.

CUSTOMER ANALYSIS

Segmentation
identification of customer groups that respond differently from other groups to competitive offerings. Thus, a successful segmentation strategy requires the conceptualisation, development, and evaluation of targeted competitive offering. Examples include:

Customer Characteristics:
- Geographic
- type of organisation
- size of firm
- lifestyle
- sex
- age
- occupation

Product-related Approaches:
- User type
- Usage
- Benefits sough
- Price sensitivity
- Competitor
- Application
- Brand Loyalty

The Brans Loyalty Matrix: Priorities

	Low Loyalty	Moderate Loyalty	Loyal
Customer	Medium	High	Highest
Non-customer	Low to Medium	High	Zero

Customer Motivations

- What elements of the product/service do customers value most?
- What are the customers' objectives? What are they really buying ?
- How do segments differ in their motivations priorities ?
- What changes are occurring in customer motivation? In customer priorities?

Unmeet needs

- Why are some customers dissatisfied? Why are some changing brands or supplies?
- What are the unmeet needs that customers can identify? Are there some of which consumers are unaware?
- Do these unmet needs represent leverage points for competitors?

COMPETITOR ANALYSIS

There are two approaches to a competitor analysis.

- Degree to which they compete for a buyer's choice. A customer based approach
- Organise competitors into strategic groups on the basis of their completive strategy. A competitor based approach

Customer based Approaches

-Customer choices
  - What brand would you buy if your favourite was unavailable?
- Applications associations
  - What applications?
  - What brands for each application?
- What product substitutes?

Competitor Identification

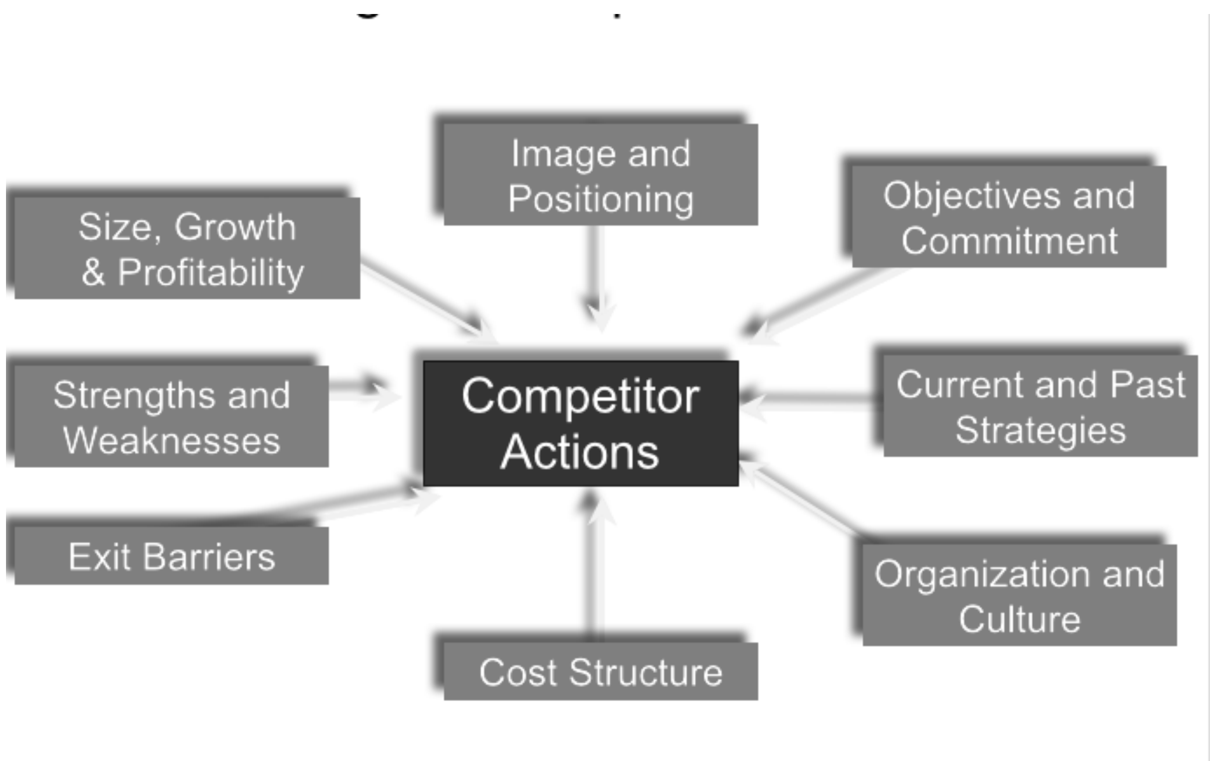
How do we arrange into strategic groups?

- Pursue similar competitive strategies
- Have similar characteristics
- Have similar assets and competencies

Potential Competitors

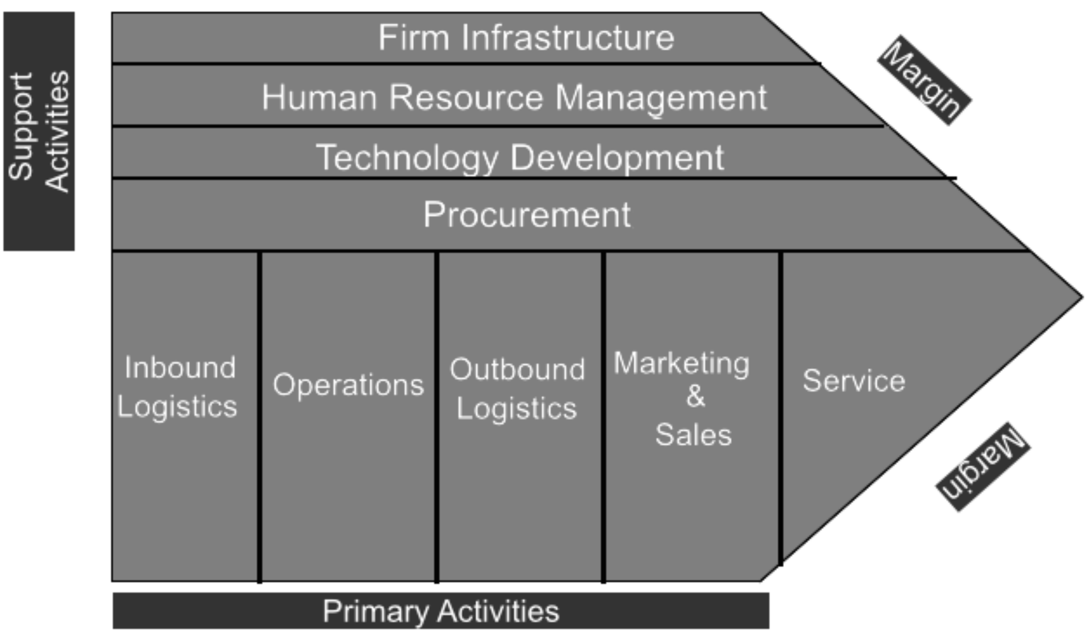
- Market expansion
- Product expansion
- backward integration
- Forward integration
- Export assets or competencies
- Retaliatory or defensive strategies

Understanding the Competitors



- Understanding competitor strengths and weaknesses may provide insights into opportunities
- General strategy 'pit our strengths against their weakness' rather then reacting to competitor strengths
- Competitor strengths and weakness are operationalised by markets in terms of the existence or absence of strategic assets or competences
- However, must assess these strengths and weakness in terms of the industry in question

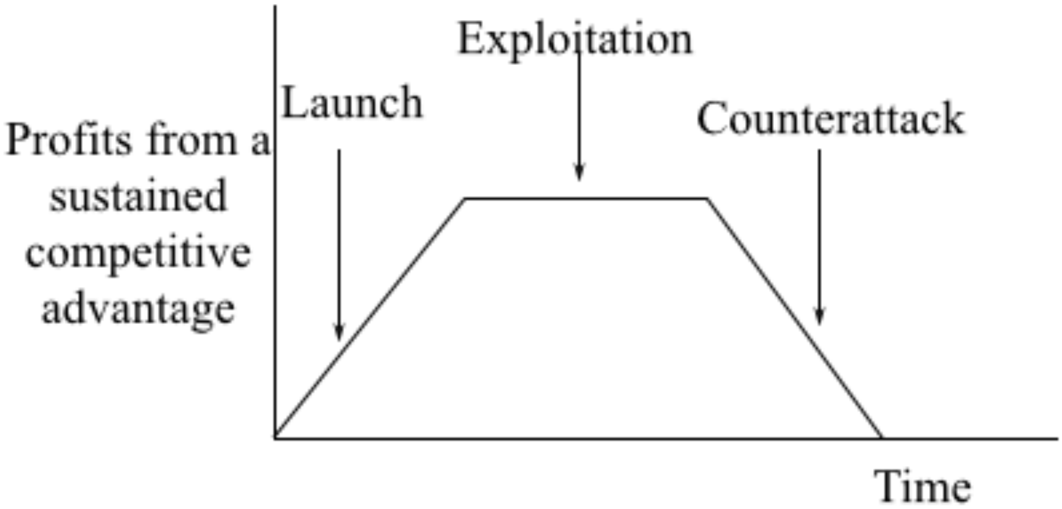
The value chain



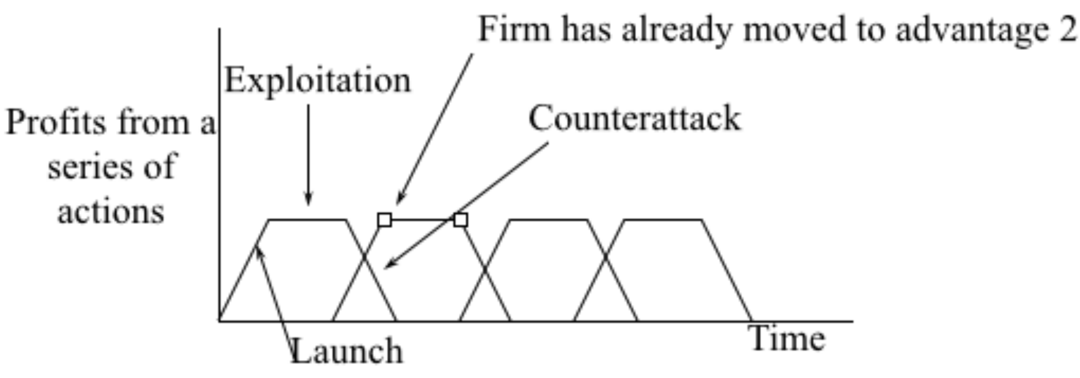
HYPERCOMPETITION

Sustained competitive advantage is not possible. According to D'Aveni there exists only temporary advantages created by a company's speed and aggressiveness. This assumes:
- Every advantage becomes eroded
- Sustaining an advantage uses too much time and resources
- Instead, companies must seek to stay ahead of its competitors by creating temporary advantages
- These are done in small steps over short competitive cycles. Focus on creating the next temporary advantage before the current benefits erodes.

Sustainable Competitive Advantage
the traditional view



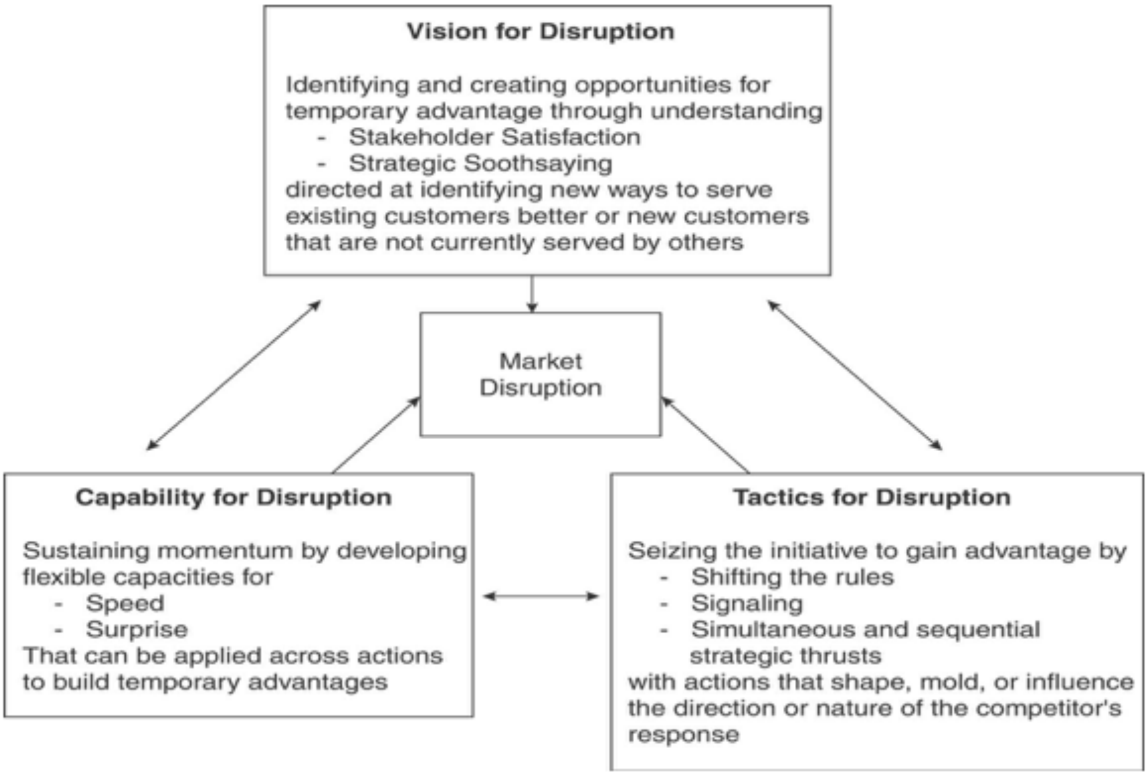
hyper-competition view



Where can you compete
There are only four areas where hypercompetition may have been seen:

- *Cost and Quality*
  - Higher quality has to be achieved even as costs are being lowered
- *Timing and Know-How*
  - Being first is important when exploiting the firm's special know-how
- *Strongholds*
  - The company needs to define some geographic or other market segment in which it is strong, and there some entry barriers can be built and defended
- *Financial Resources*
  - Financial strength is necessary for the company to keep the leading competitive edge by accessing new technology and acquiring competitors

7-S'S FRAMEWORK



D'Aveni's New 7-S's

- **Superior stakeholder satisfaction:** maximise customer satisfaction by adding value strategically
- **Strategic soothsaying:** use new knowledge to predict new windows of opportunity
- **Positioning for speed:** prepare the organisation to react as fast as possible
- **Positioning for surprise:** surprise competitors
- **Shifting the rules of competition:** serve customers in novel ways
- **Signalling strategic intent:** communicate intentions in order to stall competitors
- **Simultaneous and sequential strategic thrusts:** take steps to stun and confuse competitors in order to disrupt or block their efforts

What approach should a business take

The Market Orientation approach is the best

Customer Oriented Company	Competitor Oriented Company	Market Oriented Company
A company that focuses on customer developments in designing its marketing strategies	A company whose moves are mainly based on competitors' actions and reactions	A company that pays balanced attention to both customers and competitors in designing its marketing strategies

Market Orientation
the market and the customers that form the market should be the starting point in formulation the overall business strategy

Quote in market orientation:

> *“[Market Orientation,] the organisational culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and, thus, continues superior performance for the business’*
> Narver and Slater in 1990

Week 3: Strategic Analysis - Market and Environmental Analysis

This week examines the final two elements of the external analysis - the market and the environment.

Chapter Four: Market/Submarket Analysis

Market/Submarket Analysis

This chapter focus on the market analysis. The author says that the combination of market analysis with customer and competitor analysis allows the strategist to make strategic judgments about what tactics a firm can undertake.

The author claims that the market analysis allows the strategist to understand the dynamics of the market. Thereby, informing the investment decision of the firm so as to become a winner in the market. This process first starts off by finding the industry's **key success factors**, which are assets and competency's need to compete in the game, without these factors the firm will be very weak in the industry and the ability to survive will be very low.

Dimensions of a Market/Submarket analysis

The nature of market analysis really depends on context but will often include the following dimensions along with these following questions:

SUBMARKETS
Are submarkets emerging defined by lower price points, the emergence of niches, systems solutions, new applications, a customer trend, or new technology? How should the submarket be defined?

SIZE AND GROWTH
Important submarkets? What are the size and growth characteristics of a market and submarkets? What submarkets are declining or will soon decline? How fast? What are the driving forces behind sales trends?

PROFITABILITY
For each major submarket consider the following: Is this a business area in which the average firm will make money? How intense is the competition among existing firms? Evaluate the threats from potential entrants and substitute products. What is the bargaining power of suppliers and customers? How attractive/profitable are the market and its submarkets both now and in the future?

COST STRUCTURE
What are the major cost and value-added components for various types of competitors?

DISTRIBUTION SYSTEMS
What are the alternative channels of distribution? How are they changing?

MARKET TRENDS
What are the trends in the market?

KEY SUCCESS FACTORS
What are the key success factors, assets, and competencies needed to compete successfully? How will these change in the future? How can the assets and competencies of competitors be neutralized by strategies?

Figure 4.1 Questions to Help Structure a Market Analysis

SUBMARKETS:
One key area to understand for business is to detect and understand the emerging submarkets and identify areas that may be attractive, and the adjust offerings to take advantage of this change. This may include:

- Provide a lower price point—discount airlines
- Serve nonusers—Kodak Brownie camera - Serve niche markets—performance snowboards
- Provide systems solutions—home heaters
- Serve unmet needs—Lexus car buying experience
- Respond to a customer trend—fortified energy drinks
- Leverage a new technology—Gillette Fusion Razors

SIZE AND GROWTH:
The basic starting point for a market analysis of the total sales level. Other useful data includes:

- The financial analysis of relevant firms,
- Customer data
- Government data
- Trade magazines
- Associations

It is also useful to consider the potential size of the market. Things to consider include:

- New users
- New group users
- More frequent usage

In this new economic era focusing just on large invest decision may mean that a firm misses large sales in products that have great future sales. Things to keep in mind are:

- Most business area were small at one point
- Small niche business may be very profitable now thanks to technology
- The downside to focusing on niches is that the costs to run them while they grow can be costly.

The next thing to focus on is the market growth rate. Things to consider include:

- What are the size of the future markets/submarket
- Will there be sales growth without market share growth
- Is there any price pressures
- The most important strategic uncertainty involves the prediction of market sales.
- What factors are driving sales growth
- The historical data can provide a useful perspective

However, strategy is not about the history of the company or industry but about why it did what it did.

- **Submarket growth** is important because it affects investment decisions and value propositions
- An important set of **turning points** on market sales occurs when the growth phase of the product life cycle changes to a flat maturity phase and when the maturity phase changes into a decline phase.
- **Price pressure caused by over capacity and the lack of product differentiation.** When growth slows or even reverses, capacity developed under a more optimistic scenario becomes excessive. Furthermore, the product evolution process often results in most competitors matching product improvements. Thus, it becomes more difficult to maintain meaningful differentiation.
- **Buyer sophistication and knowledge.** Buyers tend to become more familiar and knowledgeable as a product matures, and thus they become less willing to pay a premium price to obtain the security of an established name. Computer buyers over the years have gained confidence in their ability to select computers—as a result, the value of big names has receded.
- **Substitute products or technologies.** The sales of personal TV services like TiVo provide an indicator of the decline of VCRs.
- **Saturation.** When the number of potential first-time buyers declines, market sales should mature or decline.
- **No growth sources.** The market is fully penetrated and there are no visible sources of growth from new uses or users.
- **Customer disinterest.** The interest of customers in applications, new product announcements, and so on falls off.

MARKET AND SUBMARKET PROFITABILITY ANALYSIS (or porters five forces)

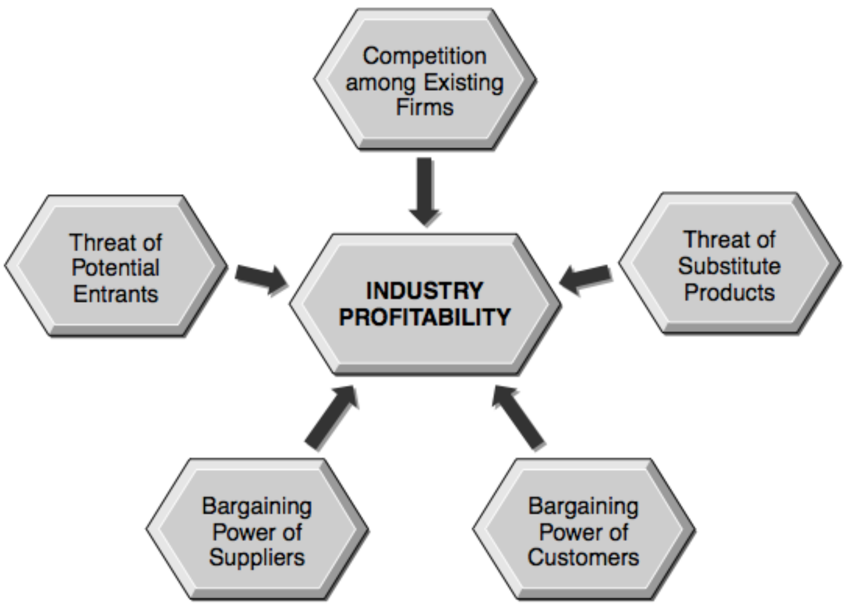


Figure 4.3 Porter's Five-Factor Model of Market Profitabiliy

To best understand some Key Success Factors you need to understand a few aspects:

COST STRUCTURE

An understanding of the cost structure of a market can provide insights into present and future key success factors. The first step is to conduct an analysis of the value chain:

Production Stage	Markets That Have Key Success Factors Associated with the Production Stage
• Raw material procurement	• Gold mining, winemaking
• Raw material processing	• Steel, paper
• Production fabricating	• Integrated circuits, tires
• Assembly	• Apparel, instrumentation
• Physical distribution	• Bottled water, metal cans
• Marketing	• Branded cosmetics, liquor
• Service backup	• Software, automobiles
• Technology development	• Razors, medical systems

Figure 4.4 Value-Added and Key Success Factors

The value chain can be a very useful place to understand the changes in a market, especially if that market is undergoing a large macro change.

DISTRIBUTION SYSTEMS

Should include three main questions:

- What are the alternative distribution channels?
- What are the trends? What channels are growing in importance? What new channels have emerged or are likely to emerge?
- Who has the power in the channel, and how is that likely to shift?

MARKET TRENDS

What are the market trends ? This question usually has two main focus:

- it focuses on change,
- and it tends to identify what is important.

Strategic insights are usually generated with these questions

Trends vs. Fads
What trends will actually drive growth and what trend will fizzle out is an important question.

One firm, the Zandl Group, suggests that three questions can help detect a real trend, as opposed to a fad.

- **What is driving it?** A trend will have a solid foundation with legs. Trends are more likely to be driven by demographics (rather than pop culture), values (rather than fashion), lifestyle (rather than a trendy crowd), or technology (rather than media).
- **How accessible is it in the mainstream?** Will it be constrained to a niche market for the foreseeable future? Will it require a major change in ingrained habits? Is the required investment in time or resources a barrier (perhaps because the product is priced too high or is too hard to use)?
- **Is it broadly based?** Does it find expression across categories or industries? Eastern influences, for example, are apparent in health care, food, fitness, and design—a sign of a trend.

KEY SUCCESS FACTORS

An important output of market analysis is the identification of key success factors (KSFs) for strategic groups in the market. These are assets and competencies that provide the basis for competing successfully.

There is generally two different types:

- Strategic necessities do not necessarily provide an advantage, because others have them, but their absence will create a substantial weakness.
- Strategic strengths, are those at which a firm excels, the assets or competencies that are superior to those of competitors and provide a base of advantage.

It is important not only to identify KSFs but also to project them into the future and, in particular, to identify emerging KSFs. Many firms have faltered when KSFs changed and the competencies and assets on which they were relying became less relevant. Microsoft anybody!!!!

RISKS IN HIGH-GROWTH MARKETS

The conventional wisdom that the strategist should seek out growth areas often overlooks a substantial set of associated risks.

Competitive Overcrowding
Perhaps the most serious risk is that too many competitors will be attracted by a growth situation and enter with unrealistic market share expectations. The reality may be that sales volume is insufficient to support all competitors. Overcrowding has been observed in virtually all hyped markets, from railroads to automobiles, airplanes, radio stations and equipment, television sets, and personal computers.

Key high risk areas include:
The number and commitment of competitors may be greater than the market can support:

- A competitor may enter with a superior product or low-cost advantage.
- Key success factors might change and the organisation may be unable to adapt.

- Technology might change.
- The market growth may fail to meet expectations.
- Price instability may result from over capacity or from retailers' practice of pricing hot products low to attract customers.
- Resources might be inadequate to maintain a high growth rate. Adequate distribution may not be available.

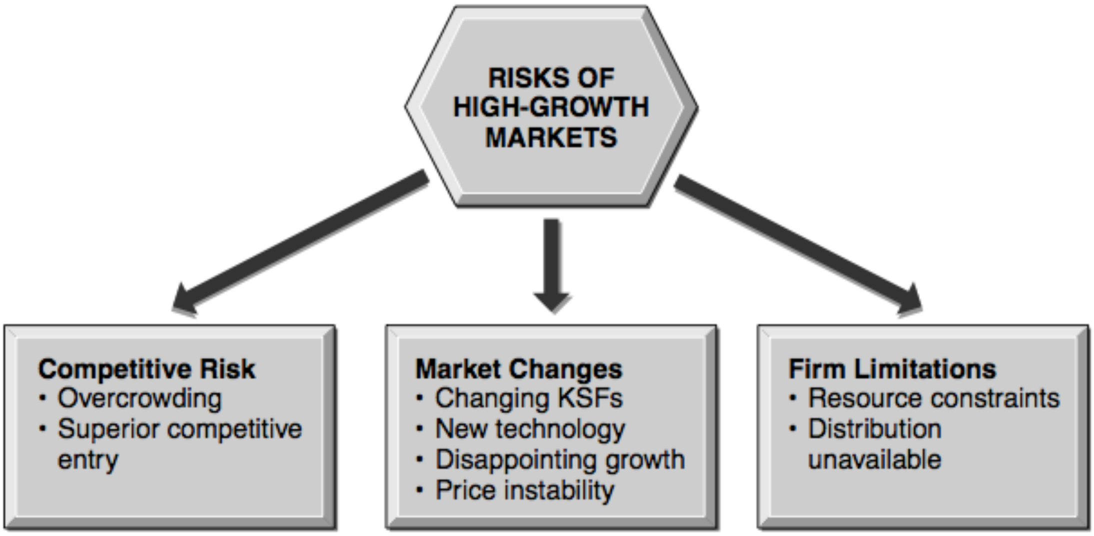


Figure 4.5 Risks of High-Growth Markets

KEY LEARNINGS

- Market analyse should assess the attractiveness of a market or submarket, as well as its structure and dynamics.
- A usage gap can cause the market size to be understated.
- Market growth can be forecast by looking at driving forces, leading indicators, and analogous industries.
- Market profit ability will depend on five factors—existing competitors, supplier power, customer power, substitute products, and potential entrants.
- Cost structure can be analysed by looking at the value added at each production stage.
- Distribution channels and trends will often affect who wins.
- Market trends will affect both the profitability of strategies and key success factors.
- Key success factors are the skills and competencies needed to compete in a market.
- Growth-market challenges involve the threat of competitors, market changes, and firm limitations.

Chapter Five: Environmental Analysis and Strategic Uncertainty

This chapter:
This chapter examines the environmental analysis. This analysis consists of five parts:

- Technology
- Consumer Trends
- Government/Economic trends
- General External Analysis Questions
- Scenarios

The author says that the Environmental analysis is very broad and involves casting a wide net. Its important to actually ensure that the firm dose not get carried away with this type of analysis.

An Environmental Analysis Involves

TECHNOLOGY TRENDS

- To what extent are existing technologies maturing?
- What technological developments or trends are affecting or could affect the industry?

CONSUMER TRENDS

- What are the current or emerging trends in lifestyles, fashions, and other components of culture? Why? What are their implications?
- What demographic trends will affect the market size of the industry or its submarkets?
- What demographic trends represent opportunities or threats?

GOVERNMENT/ECONOMIC TRENDS

- What are the economic prospects and inflation risks for the countries in which the firm operates? How will they affect strategy?
- What changes in regulation are possible? What will their impact be?
- What are the political risks of operating in a governmental jurisdiction?

GENERAL EXTERNAL ANALYSIS QUESTIONS

- What are the significant trends and future events?
- What threats and opportunities do you see?
- What are the key areas of uncertainty as to trends or events that have the potential to impact strategy? Evaluate these strategic uncertainties in terms of their impact.

SCENARIOS

- What strategic uncertainties are worth being the basis of a scenario analysis?

Figure 5.1 Environmental Analysis

TECHNOLOGY

Big Data
Is a massive challenge to firms in both the strategic and tactical areas. This topic is covered later in the course

Transformational Innovations
will fundamentally change the business model in all four of Aaker's four areas of Strategic advantage.

Substantial innovations
Aaker describes substantial innovations in terms of; "newness and impact" and often represent a new generation of products. In most instances the value proposition is enhanced.

Incremental Innovations
are transformational or even substantial ,are often championed by new entrants into the industry so it is important to monitor new, even small, firms and not let the large established firms dominate the external analysis.

Forecasting Technologies
Forecasting new technologies can be hard. However, there is a useful guideline:

- Use technology to create an immediate, tangible benefit for the consumer. The benefit, in short, needs to be perceived as such.
- Make the technology easy to use.
- Execution matters: prototype, test, and refine.
- Recognise that customer response to technology.

Impact of new Technologies
can be critical for the firm but hard to know what the impact will be. Managing to move over to a new innovation, even a incremental innovation can take a lot of resources and change dramatically the established strategy of the company.

CONSUMER TRENDS

Cultural Trends
There is a general trend towards a social unit that is centred around an interest or activity.

Being Green
or greeness is the consumers desire to have ever more eco-friendly products. One of the challenges of this movement is that the consumer will examine backwards to see where the products come from and expect that to be 'Green' too

Demographics
can be a powerful force in a market and can be predictable. The most influential demographics are:

- age
- income
- education
- geographic location
- ethnicity

GOVERNMENT/ECONOMIC TRENDS

Economic Recessions
effects strategy. For example a very different strategy is needed in a downturn than when the economy is heathy

Government Regulations
can effect your business depending on what industry you are in.

Global Events
with an increasing global economy events on a global scale are becoming more important. This ranges from sports such as FIFA to the wars in Iraq.

Cultivation Vigilance
organisations have to remain vigilant on the changing cultural trends otherwise it might find itself overtaken.

GENERAL EXTERNAL ANALYSIS QUESTIONS

Strategic Uncertainties

Strategic uncertainty, uncertainty that has strategic implications, is a key construct in external analysis. A typical external analysis will emerge with dozens of strategic uncertainties. To be manageable, they need to be grouped into logical clusters or themes. It is then useful to assess the importance of each cluster in order to set priorities with respect to information gathering and analysis.

Impact Analysis

is designed to examine the different strategic uncertainties and rate from most important to least important.

The extent to which a strategic uncertainty should be monitored and analysed depends on its impact and immediacy.

1. The impact of a strategic uncertainty is related to:
   - The extent to which it involves trends or events that will impact existing or potential businesses
   - The importance of the involved businesses
   - The number of involved businesses
2. The immediacy of a strategic uncertainty is related to:
   - The probability that the involved trends or events will occur
   - The time frame of the trends or events
   - The reaction time likely to be available compared with the time required to develop and implement appropriate strategy

Managing Strategic Uncertainties

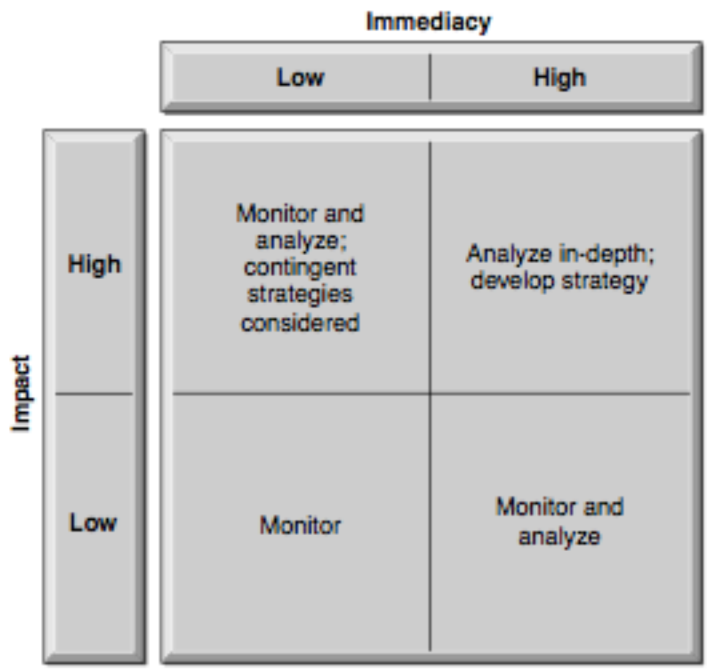


Figure 5.2 Strategic Uncertainty Categories

SCENARIOS ANALYSIS
is designed to help with uncertainty. By undertaking this method a firm may save time and money and instead focus in small scale situations. There are three main steps to a scenario analysis:

1. *Identify Scenarios*
   ask what is the most important scenario to test

2. *Relate Scenarios to Strategies*
   After scenarios have been identified, the next step is to relate them to strategy—both existing strategies and new options. If an existing strategy is in place, it can be tested with respect to each scenario.

3. *Estimate Scenario Probabilities*
   To evaluate alternative strategies, it is useful to determine the scenario probabilities. The task is actually one of environmental forecasting, except that the total scenario may be a rich combination of several variables. Experts could be asked to assess probabilities directly. A deeper understanding will often emerge, however, if causal factors underlying each scenario can be determined

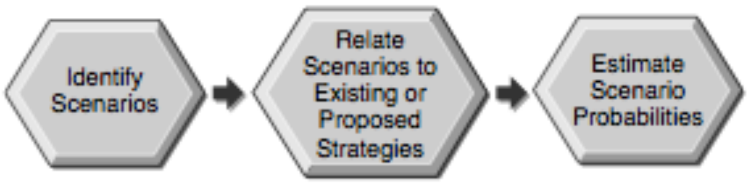


Figure 5.3 Scenario Analysis

KEY LEARNING
- Environmental analysis of technology, consumer, and government/ economic trends can detect opportunities or threats relevant to an organisation.
- The green movement provides opportunities to connect to customers and employees.
- Impact analysis involves assessing systematically the impact and immediacy of the trends and events that underlie each strategy uncertainty.

- Scenario analysis, a vehicle to explore different assumptions about the future, involves the creation of two to three plausible scenarios, the development of strategies appropriate to each, the assessment of scenario.

Lecture

OBJECTIVES OF A MARKET ANALYSIS

Measure of industry attractiveness

Understand dynamics of market or sub-market

- Emerging key success factors.
- Trends
- Threats and Opportunities.
- Strategic uncertainties.

Basis for future information gathering and analysis.

Dimensions of a Market Analysis

Submarkets
are augmented products, emerging niches, trend toward systems, new applications, repositioned product classes, customer trends, or new technologies creating worthwhile submarkets? How should they be defined?

Size and Growth
potentially important submarkets? Size and growth characteristics? Submarkets declining? How fast? Driving forces behind the trends?

Profitability
how intense is the competition among existing firms? Threats from potential entrants and substitute products? Bargaining power of suppliers and customers? Attractive/profitable markets or submarkets?

Cost Structure
major cost and value-added components for various types of competitors?

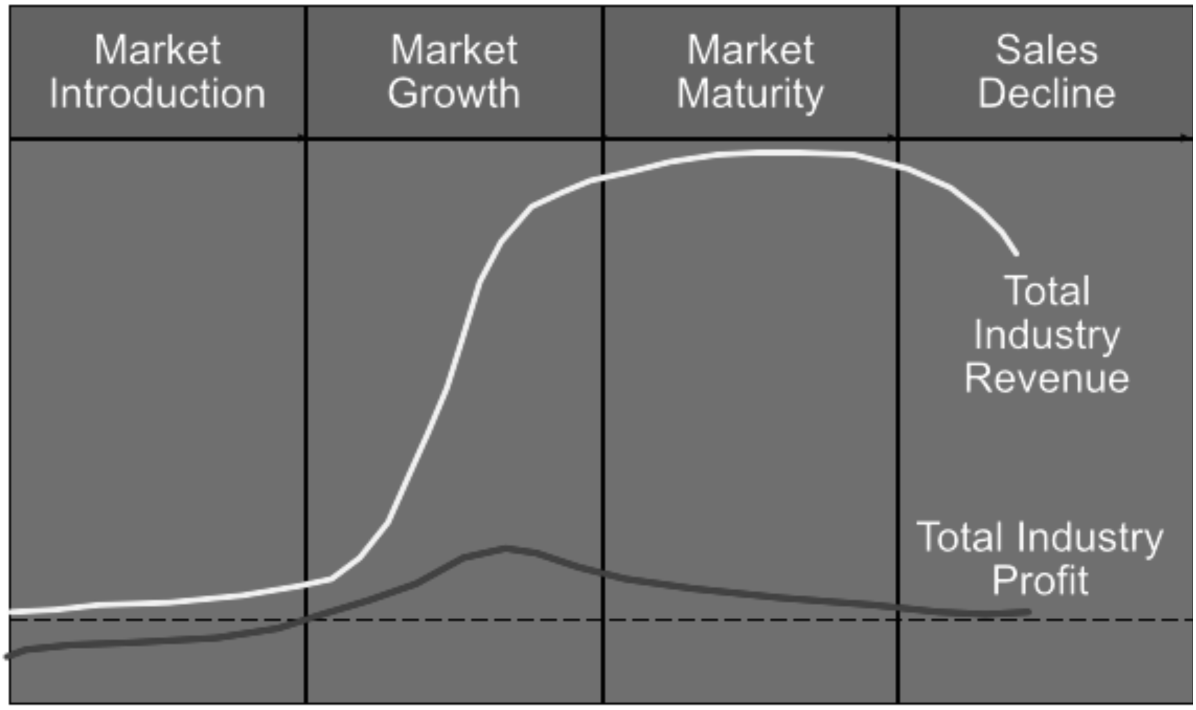
Distribution Systems
alternative channels of distribution? How are they changing?

Market Trends
a look into what the trends in the market are

Key Success Factors

KSF are assets and competencies needed to compete successfully.

The Product Life Cycle



Knowing where a product sits within the product life cycle will influences how the company marketing strategy is conducted. For example if the product is in the introduction phase then there will be a learning marketing campaign telling people about the product. However, if the product is in the maturity phase then their will a lot more marketing then when the decline phase happens. Thats where marking should start to stop.

Detecting Maturity and Decline

- Price pressure caused by overcapacity and the lack of product differentiation
- Buyer sophistication and knowledge
- Substitute products or technologies
- Saturation
- No growth sources
- Customer disinterest

Porters Five Factor Model
In marketing strategy Porters five forces is explored in relation to marketing activities. This includes examining the competitor in terms of their positioning. It is useful in marketing strategy to get the big picture and understand what is happing in the market place.

The implications of the 5 forces model

- The competitive environment is **unattractive** from a profit making standpoint when:
  - Rivalry is vigorous
  - Entry barriers are low and entry is likely
  - Competition from substitutes is strong
  - Suppliers and customers have considerable bargaining power

- The competitive environment is **ideal** from a profit-making standpoint when:
  - Rivalry is moderate
  - Entry barriers are high and no firm is likely to enter
  - Good substitutes do not exist
  - Suppliers and customers are in a weak bargaining position

Risks in High Growth Markets

ENVIRONMENTAL ANALYSIS AND STRATEGIC UNCERTAINTY

Environmental Analysis

Technology Trends

- To what extent are existing technologies maturing?
- What technological developments or trends are affecting or could affect the industry?

Government/Economic Trends

- What changes in regulation are possible? What will their impact be?
- What are the political risks of operating in governmental jurisdiction?
- What are the economic prospects and inflation outlets for the countries in which the firm operates? How will they affect strategy?

Consumer Trends

- What are the current or emerging trends in lifestyles, fashions, and other components of culture? Why? What are their implications?
- What demographic trends will affect the market size of the industry or its submarkets? What demographic trends represent opportunities or threats?

Innovations

Transformational—changes what people buy—changes the assets and competencies needed

Substantial—significant change as in a new generation offering

Incremental—makes the offering more attractive or less costly

Disruptive technologies
technologies that change the current way of doing things.

- Success is more likely to come from creating transformational technologies rather than just forecasting them.
- As established companies usually rely upon incremental innovation as it sustains their approach in the marketplace.
- The introduction of disruptive technologies doesn't impact upon existing technologies right away, because they tend to create new markets.

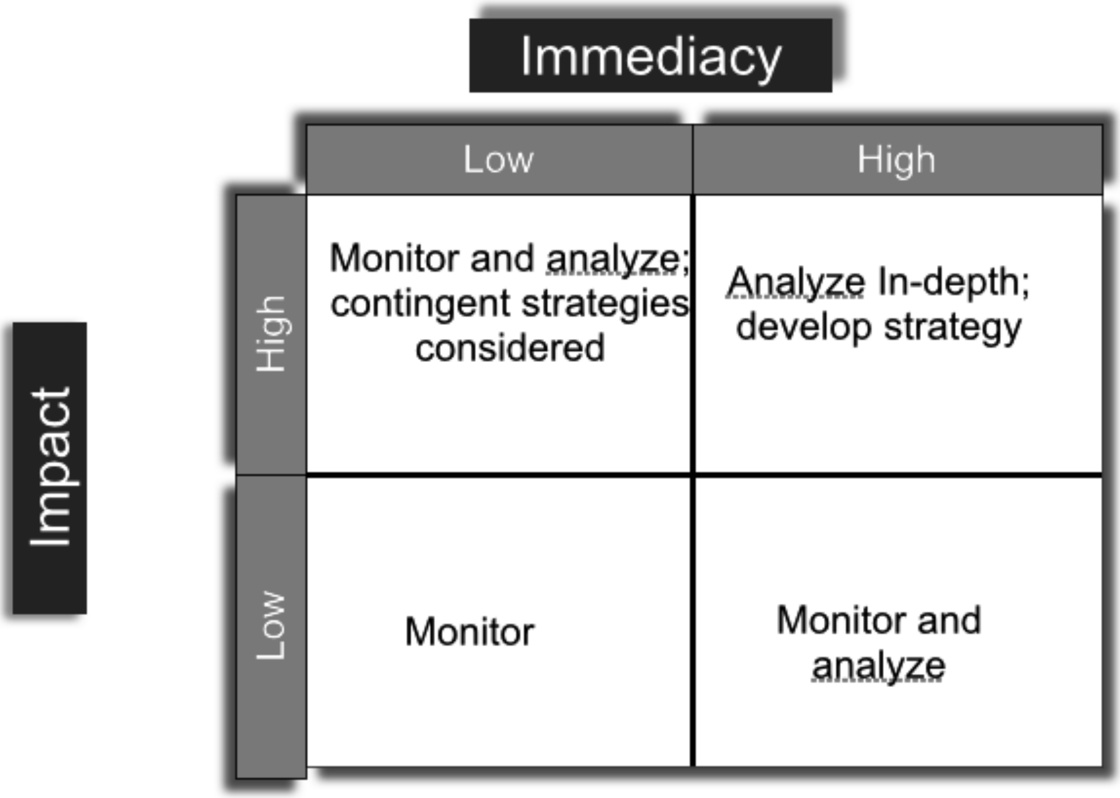
This goes back to D'Aveni's ideas of hypercompetition, that no one company can sustain a competitive advantage for a long time. You as a company have to keep innovating new technologies and new marketing efforts in order to stay ahead.

Being Green
- Motivation in terms of the protecting the natural environment
- Practical functional benefits to customers and firms
- Customers see it as a solution to global warming
- Generates respect from customers and employeers

General External Analysis Questions
- What are the significant trends and future events?
- What threats and opportunities do you see?
- What are the key areas of uncertainty as trends or events that have the potential to impact strategy?

- and then asses these strategic uncertainties in terms of their impact and immediacy

Scenarios
what strategic uncertainties are worth being the basis of a scenario analysis?



Examples

Overall Cost Leadership Strategy and the Internet

The Internet can decrease costs throughout a firm's value chain in both primary and support activities:

- Minimising rework
- Minimising sales-force expense
- Reducing costs of procurement and paper
- Reducing costs of and speeding up the new product development process
- Reducing costs of hiring and training employees

The Internet can create new ways of differentiating by enabling customisation and increasing customer control over the process:

- Shortening response times and accelerating organisation learning
- Personalising online customer access
- Enhancing marketing efforts
- Empowered sales force and updated R&D efforts

The Internet permits focusers to access markets less expensively (low cost) and provides more services and features (differentiation):

- Focusing sales efforts on specific customers
- Creating community for customers with common interests
- Providing advertisers with access to viewers with specialised interests
- Highlighting specialised buyers and drawing attention to smaller suppliers

Leveraging Internet Capabilities

Business-Level Strategy

- Providing new ways to add value
- Shifting power to the five forces
- Requiring modifications in generic strategies
- Altering competitive climate in many industries

Corporate-level strategy

- New means of generating synergies
- Enhancing revenue among elements of a diverse firm
- Linking sources of supply more efficiently
- Streamlining distribution
- Dealing with suppliers more efficiently

International-level strategy

- Conducting business without time and expense of physical travel
- Increasing level of access to local cultures and markets conditions
- Addressing both cost reduction and local adaptation issues
- Facilitating collaborations between remote locations

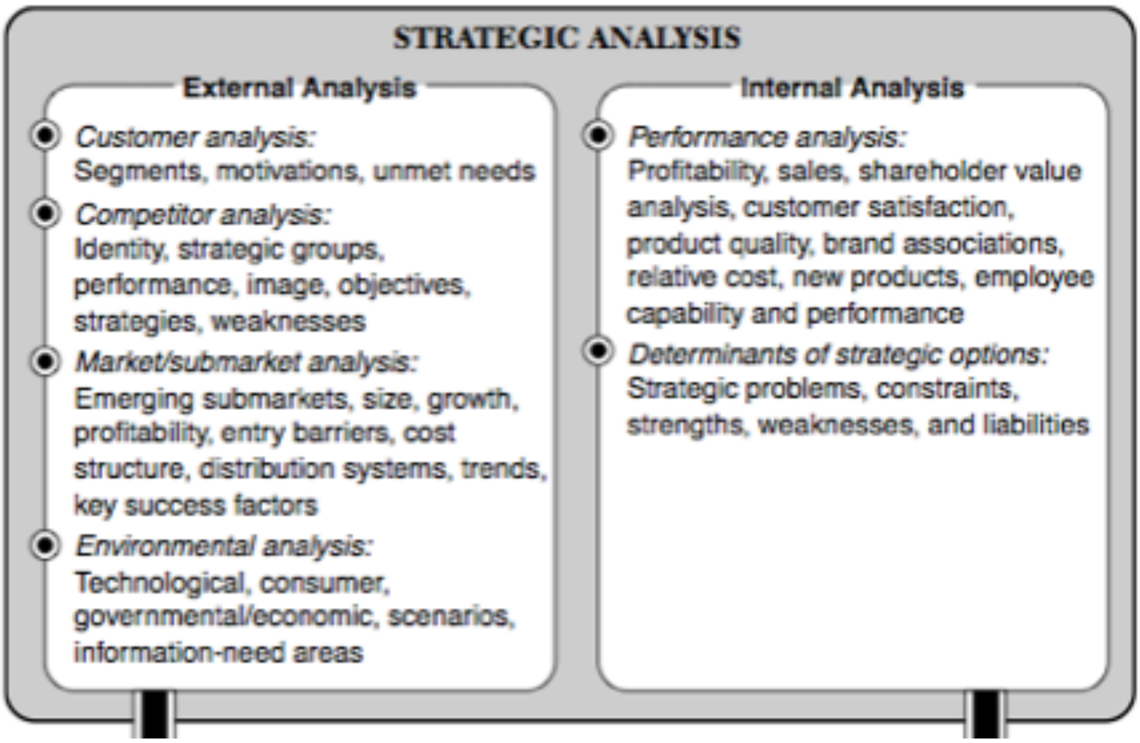
Week 4: Internal Analysis and Creating Advantage

This week we look at several dimensions of internal analysis. The lecture examines how an organisation evaluates itself in terms of its resources and capabilities. It links with the Resource Based View of strategy formation as shown between the relationship between an organisation's internal structure, strengths and capabilities and the strategic directions it is then able to consider. Then the lecture moves onto identifying sources of competitive advantage with a focus on those that have the most chance of remaining sustainable.

SINCE THE LECTURE IS FOLLOWING THE TEXT BOOK AND ADDING BITS HERE AND THEIR FROM THIS POINT ON I AM MIXING THE TWO. IT MAKES MORE SENSE.

About

This is the last part of the strategic analysis. It deals with the internal analysis of the company.



FINANCIAL PERFORMANCE AND PROFITABILITY

Sales and Market Share

how customers regard a product or service can be through knowing the sales or market share of the company. Sales levels can be strategically important. Increased sales can mean that the customer base has grown. An enlarged customer base, if we assume that new customers will develop loyalty, will mean future sales and profits. Increased share can provide the potential to gain SCAs in the form of economies of scale and experience curve effects. Conversely, decreased sales can mean decreases in customer bases and a loss of scale economies.

Profitability

is the ultimate measure of a firms ability to be completive.

Shareholder Value Analysis

a calculation of the value of a company made by looking at the returns it gives to its shareholders. It assumes that the objective of a company director is to maximise the wealth of the company's shareholders, and is based on the premise that discounted cash flow principles can be applied to the business as a whole.

In terms of strategy it is a valid analysis because if a firms success depends on good strategy and its the leaders that make good strategy then their should be a good return.

PERFORMANCE MEASUREMENT BEYOND PROFITABILITY

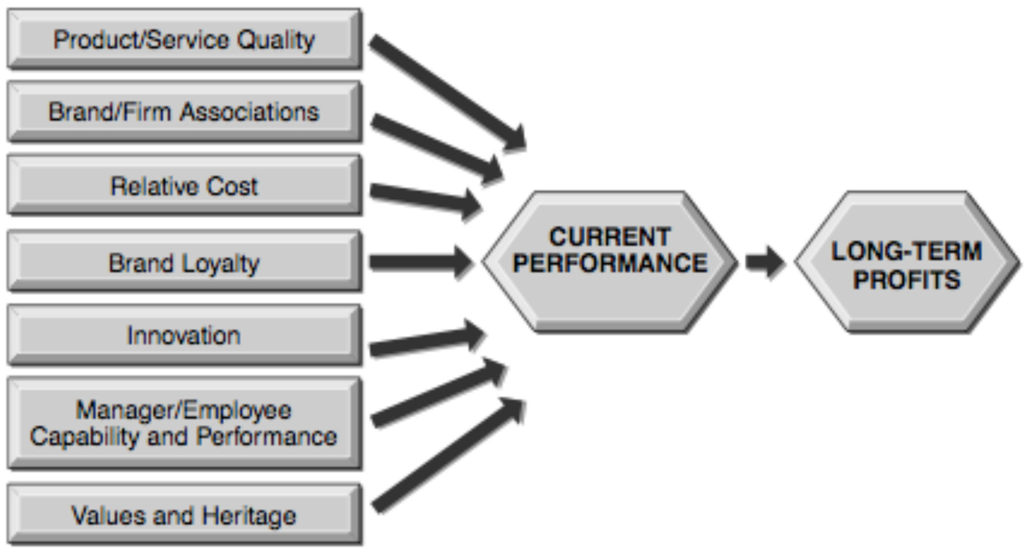


Figure 6.1 Performance Measures Reflecting Long-term Profitability

Product and Service Quality
The quality must meet or exceed expectations of the customer base and even do more if the customer needs are different than expectations. Is the offering delivering value? How? Is it delivering superior quality?

Brand/Firm Associations
what the brand is associated with will effect its value. Thos may be that the brand is seen as expensive even though its actually affordable.

Relative Cost
A careful cost analysis of a product (or service) and its components, which can be critical when a strategy is dependent on achieving a cost advantage or cost parity, involves tearing down competitors' products and analysing their systems in detail.

Brand Loyalty
loyalty of customer base. Strategic investments will be influenced by an assessment of customer loyalty. Loyalty will affect profitability by supporting prices and by reducing cost of customer acquisition and retentions. Consequently, a firm should, in general, invest behind product-markets in which a strong loyal customer base exists. If a business lacks loyalty and a program cannot be economically be created to generate that missing asset, on average, that would not be a place to invest.

Innovation
looks at what new products the firm is making. Can also include internal improvements.

Manager/Employee Capability and Performance
one key to a firm's long-term prospects are the people who must implement strategies.

Values and Heritage
The firms with strong performance over time usually have a well-defined set of values that are both known and accepted within the organisation, values that are more than simply increasing financial return. Strong values that guide and even inspire are enhanced if they are supported by a well-known and relevant heritage. Values and a heritage not only create a strong and consistent brand but also support the business strategy.

Often when the company is in trouble it will look to its heritage to see where it started out strong.

STRENGTHS AND WEAKNESSES

The goal of strategy is to leverage strengths and neutralise weakness

Point-of-advantage

Points-of-parity
Associations that are not necessarily unique to the brand but may be shared by other brands

Strategic Liability
the absence of an asset

<u>Point-of-advantage V's Points-of-parity V's Liability</u>

THREATS AND OPPORTUNITIES

Threats can come in the form of a strategic problem or a liability. Strategic problems, events, or trends adversely affecting strategy generally need to be addressed aggressively and corrected even if the fix is difficult and expensive.

An **opportunity** similarly can be evaluated as to whether its impact will be immediate and major. If so, the organisation should be set up to move quickly and decisively.

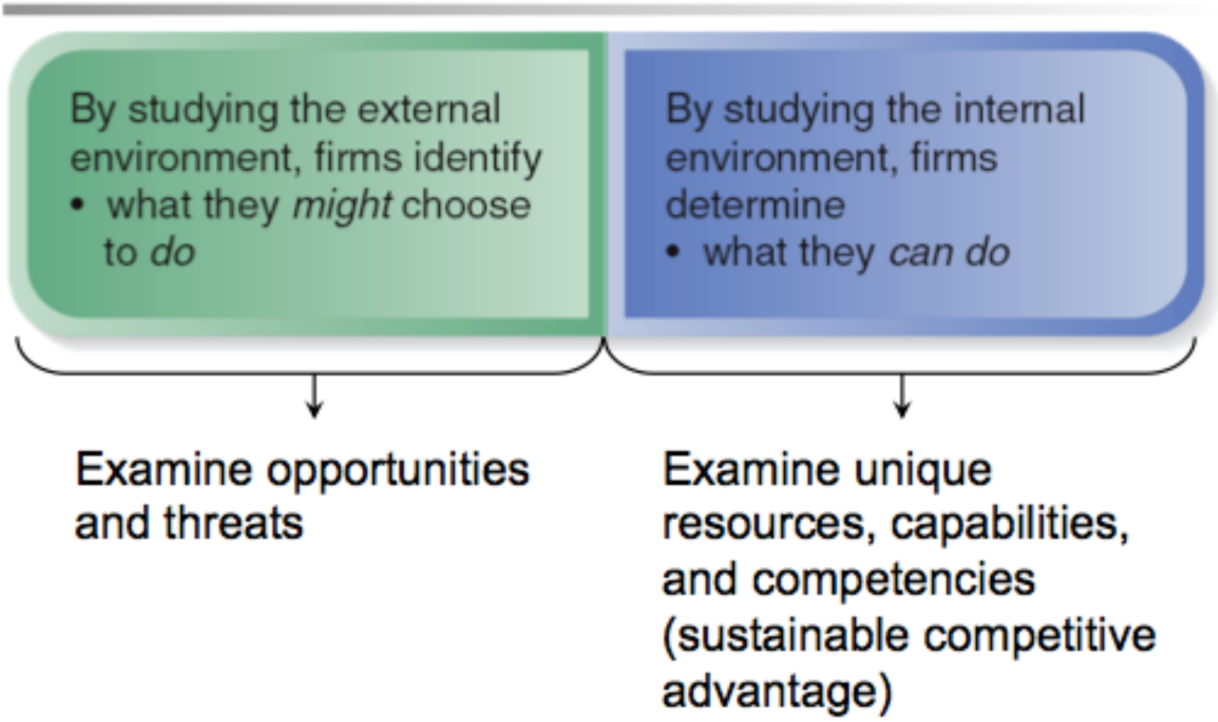
FROM ANALYSIS TO STRATEGY

"However, the core of any strategic decision should be based on three types of assessments. The first concerns organizational strengths and weaknesses. The second evaluates competitor strengths, weaknesses, and strategies because an organization's strength is of less value if it is neutralized by a competitor's strength or strategy. The third assesses the competitive context, the customers and their needs, the market, and the market environment in order to determine how attractive the selected market will be, given the business strategy.

The goal is to develop a strategy that exploits business strengths and competitor weaknesses and neutralizes business weaknesses and competitor strengths. The ideal is to compete in a healthy, growing industry with a strategy based on strengths that are unlikely to be acquired or neutralized by competitors."

Aaker, David A. *Strategic Market Management, 10th Edition*. John Wiley & Sons, 2013-10-21. VitalBook file.

OUTCOMES OF EXTERNAL AND INTERNAL ENVIRONMENTAL ANALYSES



From a combination of both external and internal analysis come the actual information strategist can use to create strategies. But seeing all this information in a useful way can be hard. Some methods are shown below:

TOWS MATRIX

INTERNAL FACTORS (IFAS) / EXTERNAL FACTORS (EFAS)	**Strengths (S)** List 5 – 10 *internal* strengths here	**Weaknesses (W)** List 5 – 10 *internal* weaknesses here
Opportunities (O) List 5 – 10 *external* opportunities here	**SO Strategies** Generate strategies here that use **strengths** to take **advantage** of **opportunities**	**WO Strategies** Generate strategies here that take **advantage** of **opportunities** by **overcoming weaknesses**
Threats (T) List 5 – 10 *external* opportunities here	**ST Strategies** Generate strategies here that use **strengths** to **avoid threats**	**WT Strategies** Generate strategies here that **minimize weaknesses** and **avoid threats**

the TOWS matrix its possible to see how the key internal factors and the key external factors can result in strategy.

MATCHING KEY FACTORS TO FORMULATE ALTERNATIVES STRATEGIES

Key Internal Factor		Key External Factor		Resultant Strategy
Excess working capacity (strength)	+	20% annual growth in the cell phone industry (opportunity)	=	Acquire Cellfone, Inc.
Insufficient capacity (weakness)	+	Exit of two major foreign competitors form the industry (opportunity)	=	Pursue horizontal integration by buying competitor's facilities
Strong R&D (strength)	+	Decreasing numbers of young adults (threat)	=	Develop new products for older adults
Poor employee morale (weakness)	+	Strong union activity (threat)	=	Develop a new employee benefits package

This is designed to see what key factors influence each other and then decide on a strategy.

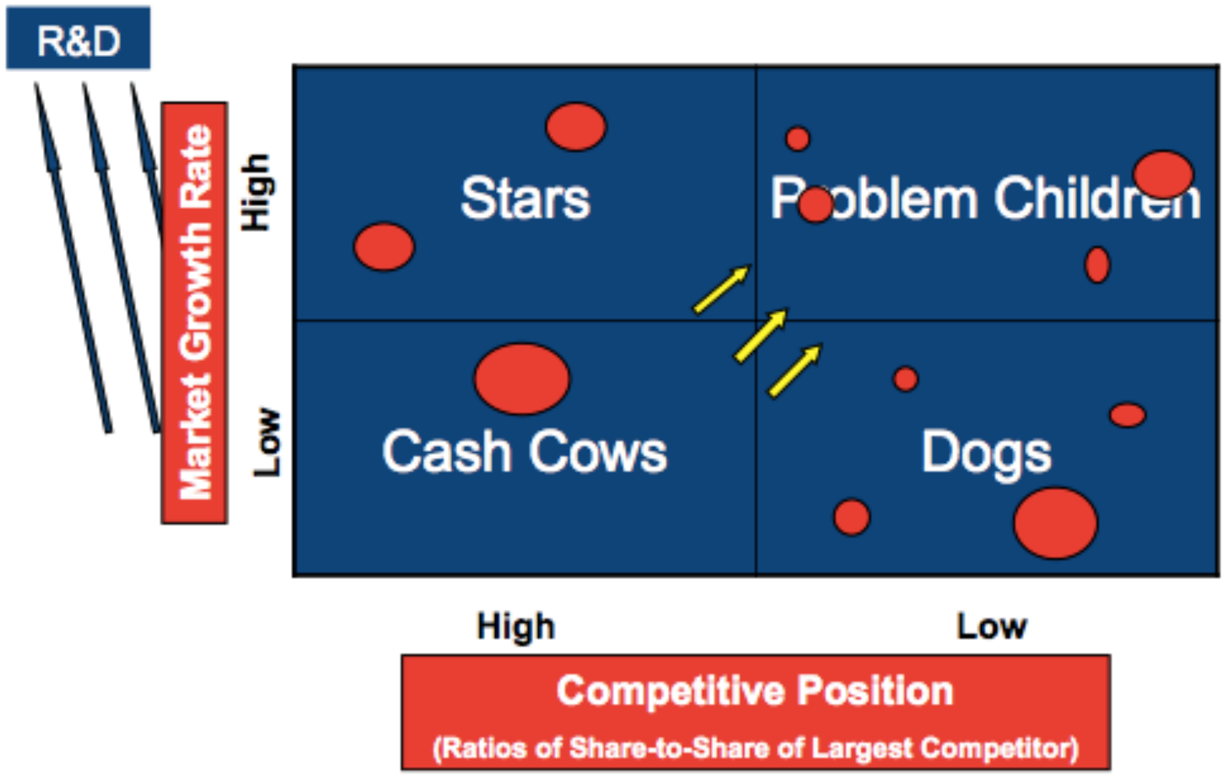
PORTFOLIO STRATEGY

considers the business mix of the firm, that is, the types of business unites and products lines the firm control. In using a portfolio strategy companies use the BCG matrix and the GE matrix to help them select portfolios

BCG matrix:

Major Assumption:
If you have a low market share and/or it's a slow growth market, the long term profitability potential of an investment is low.

Problem with Assumption:
Does not allow for a sharing of activities or core competencies (skills and abilities) that makes an otherwise poor investment (for some) more attractive for your firm.
Assumes that if it's a high growth market where you can have a large presence, then it's a good investment.



GE matrix:

		Industry Attractiveness		
Competitive Strength		Low	Medium	High
	High	Up Or Out	Selective Growth	Invest
	Moderate	Harvest	Up Or Out	Selective Growth
	Low	Divest	Harvest	Up Or Out

STRUCTURING STRATEGIC DECISION

Key Learning

- Sales and profitability analysis provide an evaluation of past strategies and an indication of the current market viability of a product line.
- Shareholder value holds that the flow of profits emanating from an investment should exceed the cost of capital (which is the weighted average of the cost of equity and cost of debt). Routes to achieving shareholder value – such as downsizing, reducing assets employed, and outsourcing – can be risky when they undercut assets and competencies.
- Performance assessment should go beyond financials to include such dimensions as customer satisfaction/brand loyalty, product/service quality, brand/firms associations, relative cost, new product activity, and manager/employee capability and performance.
- Assets and competences can represent a point of advantage, a point of parity, or a liability. Threats and opportunities that are both imminent and important should trigger strategic imperatives, programs with high priority.

CREATING, ADAPTING, AND IMPLEMENTING STRATEGY
a good overview of strategy

This chapter move past strategic analysis and starts to look at ways to develop business marketing strategy. It is an general overview of what will come from the rest of the book. A good source of revision. The main focus of this section is about the main three strategic philosophy's. The lecture material introduces one more:

- Commitment
- Opportunism
- Adaptability
- Intent

Synergy
means that the whole is more than the sum of its parts. Sounds simple but the reality is that achieving synergy is very hard.

- Two or more businesses in combination will generate:
  - Increased customer value and thus loyalty and/or sales
  - Lower operating costs
  - Reduced investment
- Challenge
  - Finding it
  - Overcoming organisational issues
    - Especially when an alliance is involved

SUSTAINABLE COMPETITIVE ADVANTAGE
Asset or competency that provides a basis for sustainable advantage. Is meaningful, sustainable and depends of the four main areas:
- Assets and competences (resource based view)
- Value Proposition
- Product/market Investment
- Functional Areas strategies

Some examples of SCA:

3M	- Innovation
BMW	- Technological superiority
Rolex	- Brand Image
Arnotts	- Quality, heritage

Amazon.com- Distribution, product range
Body Shop - Environmentally friendly philosophy
Virgin Airlines- Price / consumer advocate

Assets and competences (resource based view)

The Resource-Based Model suggests that above-average returns for any firm are largely determined by characteristics inside the firm.

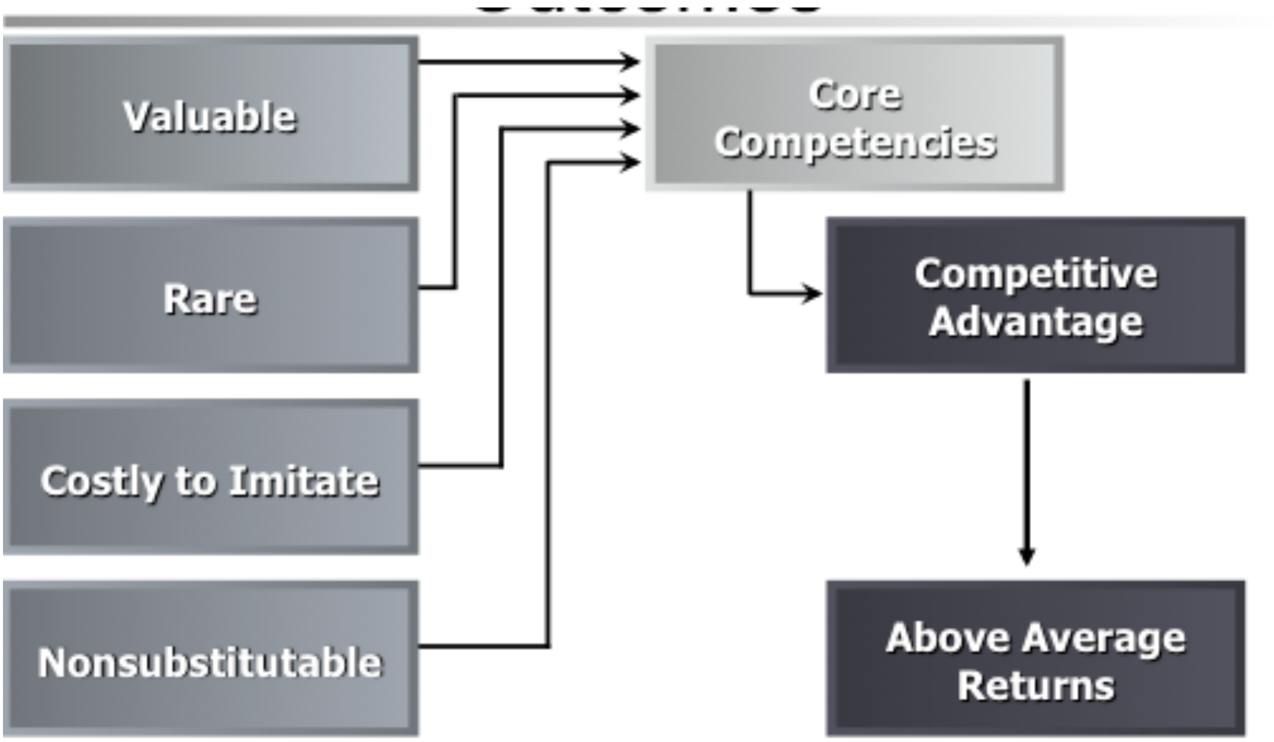
The Resource-Based view focuses on developing valuable resources and capabilities which are difficult or impossible for rivals to imitate

Example of firms that have a SCA in a resource based view:
- IBM
- Microsoft
- Intel Inside
- Apple

All these companies depend heavily on developing resources which their rival cant copy. This may involves other elements of the four but all these companies actively try and improve this advantage and are competitive in it.

Assumptions of the Resource-Based View to Superior Profitability
- Firms are unique.
- Firms may not possess the same resources and capabilities.
- Resources may not be highly mobile across firms.
- Differences in firms form the basis of competitive advantage.

Outcome



Value Proposition

- Provide or enhance a value proposition
- SCA with positioning
- Can sometimes be imitated by competitors.
- Perception is as important (or more) than reality
  - Your target market should clearly recognise and understand your value proposition

Product/market Investment

- Choice of target market critical
- A more sustainable source of SCA than some other elements.
- Need to ask does it work in the market place?
  - Relevant to the customer?

Functional Areas strategies

- Refers to marketing tactical programmes relating to a wide range of functions. E.g distribution, communication, pricing, information technology, human resources.
- In some cases can be easily imitated by others and therefore not always a good source of SCA.

KEY SUCCESS FACTOR
Asset or competency required to compete

Differences between SCA and KSF:

KSF is essential . SCA is desirable!

STRATEGIC COMMITMENT, OPPORTUNISM, AND ADAPTABILITY

With each philosophy that a company takes comes a set of risks that the company has to take into consideration. This is summarised in this table:

Strategic Approach	Strategic Risk
Strategic Commitment	Strategic Stubbornness
Strategic Opportunism	Strategic Drift
Strategic Adaptability	Strategic Blunders - Misreading trends
Strategic Intent	Continuing effort

Strategic Commitment:
involves a passionate, disciplined loyalty to a clearly defined business strategy that can result in an ever stronger and more profitable business over time. This “stick to your knitting” focus avoids being distracted by enticing opportunities or competitive threats that involve expending resources that do not advance the core strategy.

This strategy:
- Assumes that the current strategy will work into the future
- Tunnel vision—avoid distractions
- Buy-in throughout the organisation
- Improve the offering, the costs, the customer relationships
- Patience

Strategic stubbornness
that the vision may become obsolete or faulty and its pursuit may be a wasteful exercise in strategic stubbornness. May involve:
- Implementation Barriers
- Faulty assumptions of the future
- a paradigm shift

Strategic Opportunism:
is driven by a focus on the present. The premise is that the environment is so dynamic and uncertain that it is least risky, and more likely futile, to predict the future and invest behind those predictions.

This strategy:
- Assumes that the company is in a fast changing market and that it is not possible to predict the future, so the best strategy is to be sensitive to current opportunities and exploit them.
- Short-term oriented
- Decentralised, entrepreneurial, risk taking organisation

Strategic Drift
Investment decisions are made incrementally in response to opportunities rather than directed by a vision. As a result, a firm can wake up one morning and find that it is in a set of businesses for which it lacks the needed assets and competencies and that this situation provide few synergies.

Strategic Adaptability:
Strategic adaptability, like strategic opportunism, is based on the assumption that the market is dynamic, the future will not necessarily mimic the past, and an existing business model, however successful, may not be optimal in tomorrow's marketplace. Unlike in strategic opportunism, however, there is also an assumption that it is possible to understand, predict, and manage responses to market dynamics that emerge and even create or influence them.

This strategy:
- Assumes a changing market and that the organisation can predict and manage responses to those changes
- A medium term perspective
- Organisation is flexible and supports investments behind trends

Strategic Blunders
Investing behind trends and emerging submarkets is inherently risky because of the uncertainty and judgment involved and because the execution of the strategy is often difficult.

Strategic Intent:
Couples strategic vision with a sustained obsession with winning at all levels of the organisation (e.g. Samsung, Fuji Xerox). Stretches an organisation with a continuing effort to identify and develop new SCAs or to improve existing ones.

Often requires real innovation, a willingness to do things very differently. However, it takes a lot of effort to implement this strategy and the firms needs to be fully committed.

Blended Philosophies
Firms can engage in strategic commitment in one business arena, strategic opportunism in another, and strategic adaptability in still another.

Key Learnings

- To create an SCA, a strategy needs to be valued by the market and supported by assets and competencies that are not easily copied or neutralised by competitors. **The most common SCAs are quality reputation, customer support, and brand name.**
- Synergy is often sustainable because it is based on the unique characteristics of an organisation.
- *Strategic commitment,* involving a stick-to-your-knitting focus on a clearly articulated strategy, is based on an assumption that the business model needs to be refined and improved and not changed.
- *Strategic opportunism* assumes that the environment is so dynamic and uncertain that it is futile to predict the future and invest behind those predictions. The more prudent and profitable route is to detect and capture opportunities when they present themselves, with a goal of achieving immediate profits.
- *Strategic adaptability,* based on the assumption that is possible to understand, predict, and manage responses to market dynamics that emerge and even create or influence them, is about managing relevance.
- A blended strategy uses all three over time and over products.

Week 5: Alternative Value Propositions and Building and Managing Brand Equity

This week introduces Porters Five Forces in terms of marketing. And starts to examine how to create, adapt, and implement marketing strategy in terms of different value propositions. However, the majority of the lecture focus's on the importance of building and managing successful brands and how brands can be strategic assets an can help develop a SCA.

Value Propositions
is a promise of value to be delivered and acknowledged and a belief from the customer that value will be appealed and experienced. A value proposition can apply to an entire organisation, or parts thereof, or customer accounts, or products or services.

Business Strategy Challenges

- A real customer value proposition?
- A perceived customer value proposition?
- Is the value proposition/strategy feasible?
- Is the value proposition relevant to customers?
- Does it represent a sustainable point of difference?

Porters Generic Strategies

Target Scope	*Strategic Advantage*	
	Low Cost	Product Uniqueness
Broad (Industry Wide)	Cost Leadership Strategy	Differentiation Advantage
Narrow (Market Segment)	Cost Focus	Focussed Differentiation

Strategic Options
while there is almost an unlimited number of value propositions there are some elements that are use more often then not. Each one of these options relates to porters generic strategies as part of the border strategy. Below is some of the main strategic options when it comes to value propositions:

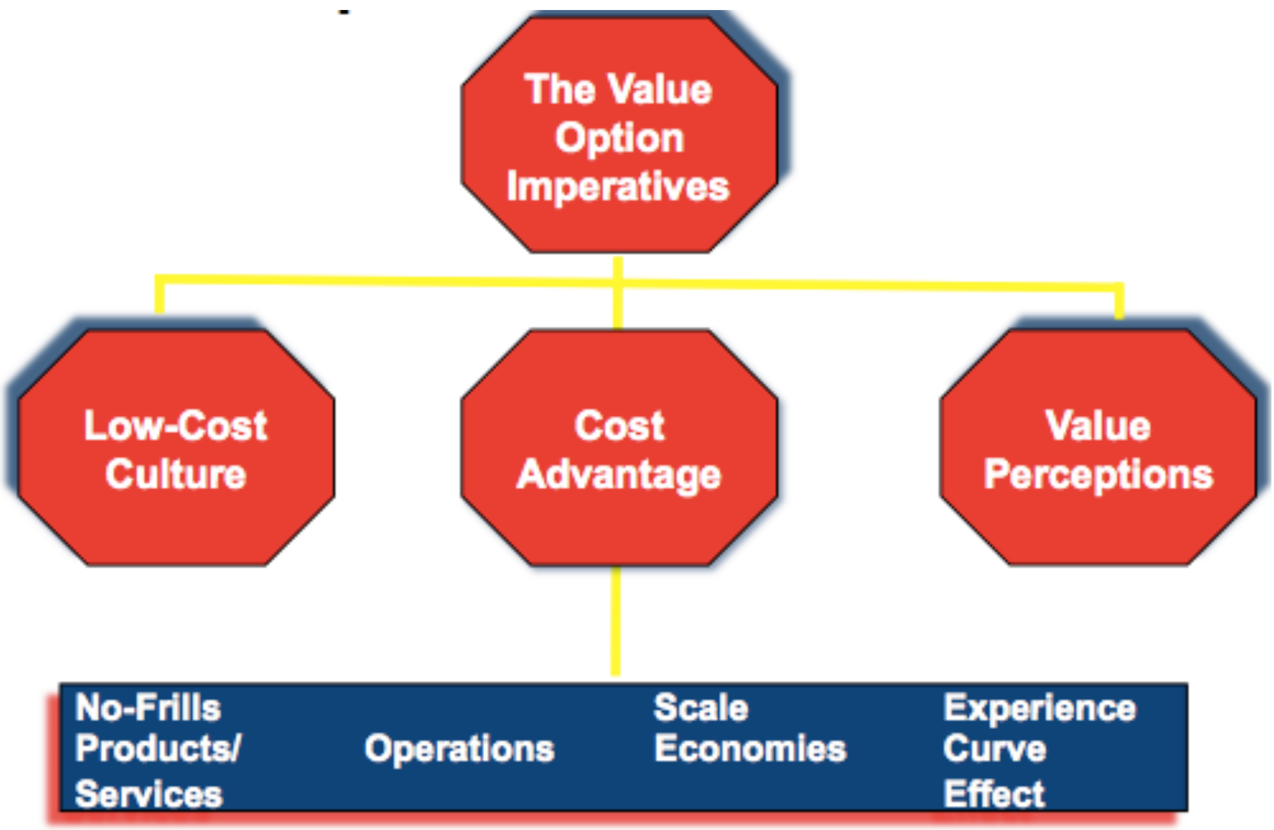
Niche Specialist
Focus strategy (part of Porters Generic Strategies)

- Involves differentiation, low cost or both
- Concentrates on one part of the market or product line. e.g Ocean Media
- has three attributes:
  A. Concentrating resources and energy
  B. Competing with limited Resources
  C. Strategic position

Quality Value Proposition

1. Performance
2. Conformance to specifications
3. Features
4. Customer support
5. Process quality
6. Aesthetic design

The Value Option



A Low-Cost Culture

A successful low-cost strategy is usually multifaceted and supported by a cost-oriented culture. Performance measurement, rewards, systems, structure, top management values, and culture are all fronts where cost reduction should be stressed. The single-minded focus needed is comparable to that required for total quality management.

Creating a Cost Advantage
or avoiding a Cost Disadvantage involves 4 main areas:
- No-Frills Product/Service
- Operations
- Scale economics
- the experience curve

Cost Advantage: No frills product/service
Approach – remove all extras from a product or service. eg. Aldi – "Welcome to smarter shopping." From a strategic point of view, what is a potential *problem* with pursuing this strategy?
You may start to devalue your own brand, or you may get into a price war etc

Competitors…
Offer marginally better service and position themselves against low-cost incumbents in industry. Especially risky in services sector (discount insurance brokers etc).

Cost advantage- Operations
Low cost may be derived through exploiting strategic assets and competencies in operations Access to raw materials. Vertical integration in distribution channel. Labour costs (global sourcing). Government subsidies (tariff barriers). Location costs (close to customers).

Cost Advantage: Scale economies
Spread cost of R&D, advertising, sales force, staff work and facilities over many units. Larger operations can support specialised assets and activities (eg market research, legal staff, manufacturing/ engineering operations).

Cost Advantage - Experience Curve Learning
- Rationale: People do things faster/ more efficiently with repetition
- Tendency to improve task processes with greater volume.
- Technological improvement in operations (new machinery, information systems and resultant improvements in personnel efficiency).
- Product redesign. Simplifying products can result in cost savings.

Key Leanings
Business strategies usually cluster around a limited number of value propositions, such as superior attribute, appealing design, offering complete system solutions, social responsibility, a familiar brand, a superior customer relationship, a specialist niche, superior quality, and superior value. The value proposition should be real, believed, feasible, relevant, and sustainable.

A value proposition needs to be communicated effectively and supported by a cost advantage, which can be based on a no-frills offering, operations, scale economies, and/or the experience curve.

Superior quality, which has been shown to drive stock return, has to be continuously addressed through processes and programs and transferred into quality perceptions.

BUILDING AND MAINTAINING BRAND EQUITY

BRAND AWARENESS

is an asset that can be extremely durable and thus sustainable. It can be very difficult to dislodge a brand that has achieved a dominant awareness level. This allow brands with high awareness to have advantages such as:

- Provides sense of familiarity
- Signal of commitment and substance
- Salience will help it get considered

BRAND LOYALTY

Brand loyalty, or resistance to switching, can be based on simple habit (there is no motivation to change from the familiar gas station or supermarket), preference (people genuinely like the brand of cake mix or its symbol, perhaps based on use experience over a long time period), or switching costs. Switching costs would be a consideration for a software user, for example, when a substantial investment has already been made in training employees to learn a particular software system. This can result in:

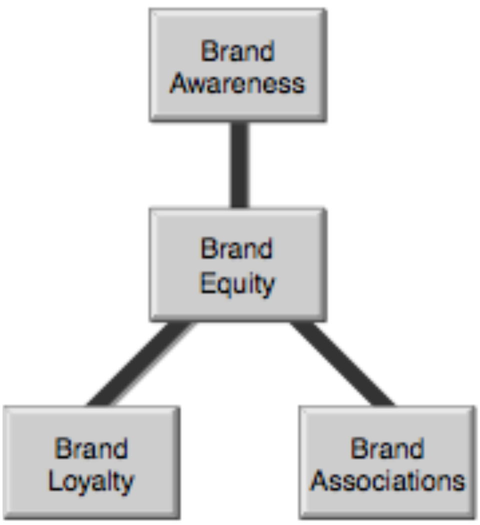
- Reduces marketing costs
- Creates entry barrier
- Generates a positive image
- Provides time to respond to competitor moves

BRAND ASSOCIATIONS

associations attached to a firm and its brands can be key enduring business assets, as they reflect the strategic position of the brand. A brand association is anything that is directly or indirectly linked in the consumer's memory to a brand. Thus, McDonald's could be linked to Ronald McDonald, kids, the Golden Arches, Ronald McDonald House.

Attribute or benefit associations provide a reason-to-buy but are easily copied.
Brand associations usually go beyond to other value propositions into:

- Product category—relevance
- Personality
- Organisational associations
- Emotional or self-expressive benefits
- The experience
- Being global



BRAND IDENTITY

Creating and managing a brand requires a brand strategy, the heart of which is the brand identity, which provides direction, purpose, and meaning for the brand. A brand identity is a set of brand associations that the firm aspires to create or maintain, an aspirational external brand image. These associations represent what the brand aspires to stand for and imply a promise to customers from the organisation. It differs from brand image in that it could include elements that are not present in the current image (you now make trucks as well as cars) or even conflict with it (you aspire to have a quality reputation that is superior to the current perceptions). Summery:

Externally

-Shape our brand image

-Provide basis for relationships and choice

Internally

-Stimulate programs and prioritise initiatives

-Inspire people

Potential dimensions

- Attributes/benefits/branded differentiators
- Personality
- Organisational associations
- Emotional & self-expressive benefits
- Product class relevance-scope

How does a brand fit with other elements of strategy ?

1) Segmentation
2) Positioning
3) Platform for growth
4) Financial Analysis – Brand Value
5) Competitor Analysis – Porter's 5 Forces

How is a Brand a Strategic Asset?

Segmentation

Strong brand associations clearly help a firm recognise consumers (or segments) who identify with these characteristics and who seek similar benefits from a product or service.

Positioning
Brands help consumers organise product/service information in their minds so as they have a clear idea of what the brand stands for relative to competitors.

Platform for Growth
Strong brands make it easier for firms to enter new segments / markets, as consumers already have familiarity and trust in the brand and will accept a new product more readily.

Brand Value
A strong brand is a source of long term profitability for the firm due to it's ability to retain customers and generate loyalty.

Brands have the ability to move all the 5 forces.

Porter's 5 Forces

Suppliers – brands represent the maintenance of quality and supply at the best price.
Customers – brands affect the ability of customers to put the firm under pressure (create switching costs) and the degree to which they are price sensitive.
New Entrants – a strong brand is a barrier to entry as it costs time and money to create one.
Substitutes – brands create a sense of uniqueness around a product or service, making substitution harder.
Competition – brands exist at the very edge of competition, driving choice and creating desire beyond the simply rational.

How is a Brand a Source of SCA?

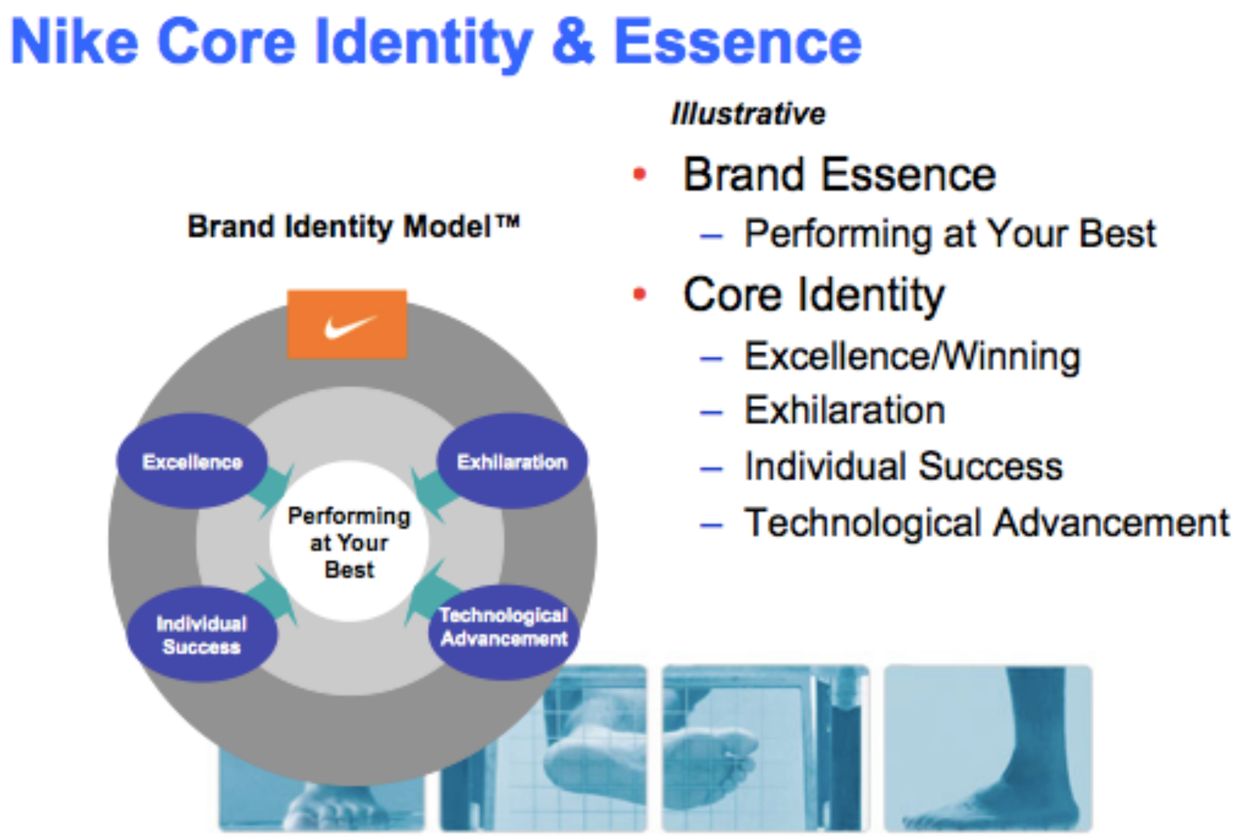
Product / Market Investment
Brands help identify segments
Brands provide a platform for growth

Value Proposition
Brands help consumers process and retrieve information
Creates positive attitudes and feelings towards the product / service
Provides the consumers with a reason to buy.

Assets and Competencies
A strong brand provides the firm with trade leverage over other members of the value chain.
E.g distributors Reduces marketing costs
A strong brand provides a firm with time to respond to competitive threats.

Functional Area Strategies
A strong brand reduces marketing costs for communication strategies.
Again provides trade leverage with distribution strategy.
A strong brand allows a price premium to be charged in some markets which enhances profitability for the firm

EXAMPLES



Key Learnings

- Brand equity, a key asset for any business, consists of brand awareness, brand loyalty, and brand associations.
- Awareness provides a sense of familiarity, credibility, and relevance in that customers are more likely to consider brands that are top-of-mind.
- A core loyal customer base reduces the cost of marketing, provides a barriers to competitors, supports a positive image, and provides time to respond to competitor moves.
- Brand associations can and should go beyond attributes and benefits to include such associations as brand personality, organisational intangibles, and product category associations.
- The brand identity represents aspirational associations. The most important of these, the core identity, should be supported by proof points and/or strategic imperatives and should be the driver of strategic programs including product development.
- While the identity represents long-term aspirational associations and is multidimensional, the position represents the short-term communication objectives and is more focused.

Week 6: Energising and Leveraging the Business

This week moves onto to the strategy creation stage and examines Ansoff growth principles as a alternative way to energise business and leveraging growth. These is again a push to use examples to make the work relevant.

Energising the Business
There are four ways to grow a business. The first is about leveraging the current business. That can mean taking the existing products into new markets, finding new products or services for the existing customer base, or leveraging assets such as brand equity or competencies such as managing the supermarket channel. The second involves creating a new business based on finding a white space in the market or by transformational innovation, a business for which a substantial competitive advantage will exist and persist. The third entails going global, leveraging the business into new countries to create a broader market or creating new or improved assets and competencies that will lead to sustainable advantage in a global marketplace.

The fourth route to growth, the subject of this chapter, is to energise the existing business, an attractive growth avenue because an established firm has market and operating experience, assets, competencies, and a customer base on which to build.

INNOVATING THE OFFERING

The ultimate business energiser is to improve the offering through innovation. An innovation, or better, a series of innovations, provides a sense that a firm is dynamic, creative, and always improving its offering. Innovation means new, interesting, and energetic. However it is essential too:

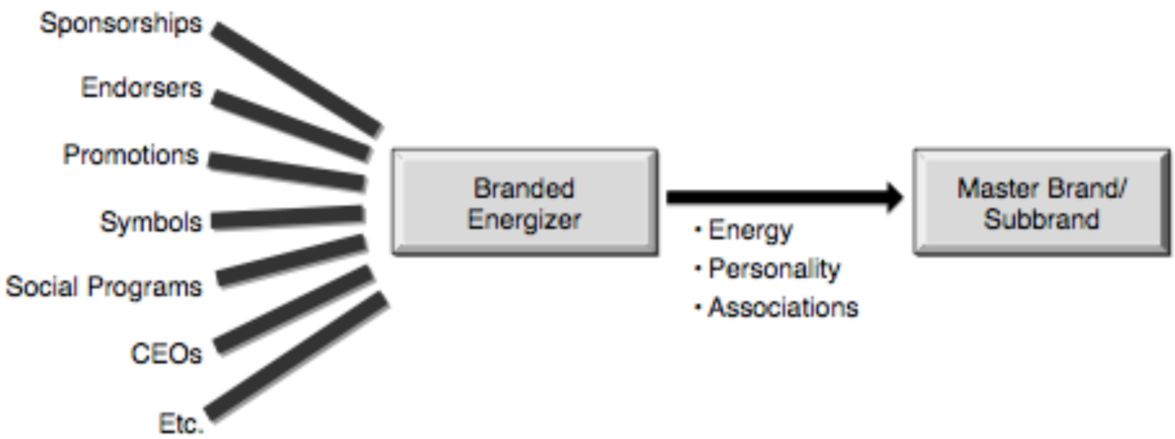
Branding the Innovation

- Innovations, no matter how exciting, novel, and relevant, will not energise the business unless they are communicated to the marketplace.

Branded Differentiators
A branded differentiator is an actively managed, branded feature, ingredient or technology, service, or program that creates a meaningful, impactful point of differentiation for a branded offering over an extended time period.

Example:
For example, the Westin Hotel Chain created the "Heavenly Bed" in 1999, a custom-designed mattress set (by Simmons) with 900 coils, a cozy down blanket adapted for climate, a comforter with a crisp duvet, high-quality sheets, and five goosedown pillows. The Heavenly Bed became a branded differentiator in a crowded category in which differentiation is a challenge. Later on the bed even became a brand energise when the company started selling the bed separately.

Branded Energisers
A branded energiser is a branded product, sponsorship, endorser, promotion, symbol, social program, CEO, or other entity that by association significantly enhances and energies a target brand. The branded energiser and its association with the target brand are actively managed over an extended time period.



What is the difference between a differentiator and an energiser ?
Branded Differentiators: Is part of an offering
Branded Energisers: May or may not be part of an offering

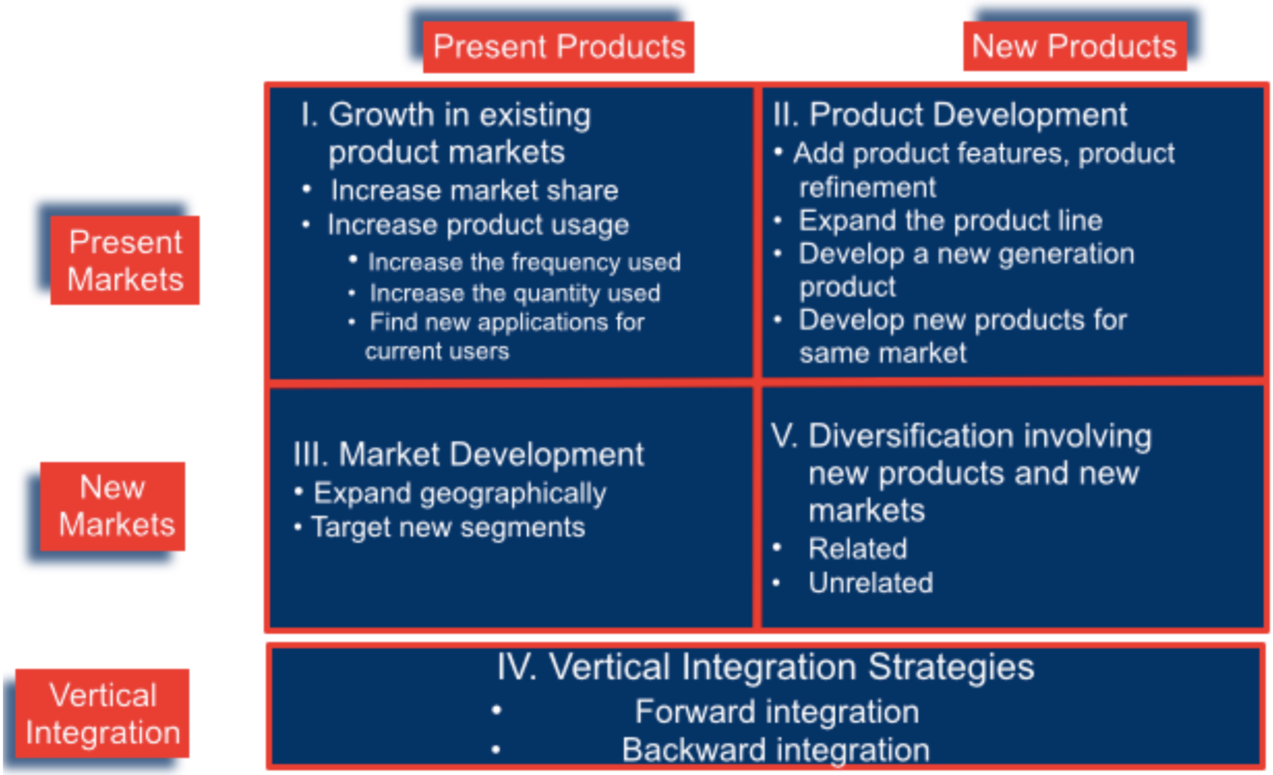
INCREASING THE USAGE OF EXISTING CUSTOMERS

Attempts to increase market share will very likely affect competitors directly and therefore precipitate competitor responses. An alternative, attempting to increase usage among current customers, is usually less threatening to competitors. Examples of strategy to increasing usage is below:

Strategy	Examples
Motivate heavy users to use more	Perks with more season tickets
Make the use easier	Microwaveable containers
Provide incentives	Frequent flyer miles
Remove or reduce reasons not to buy	Gentle shampoo for frequent use
Provide reminder communication	E-mail birthday reminder
Position for regular use	Floss after meals
Find new uses	Snowmobiles for delivery

Figure 11.5 Increasing Usage in Existing Product Markets

Alternative Growth Strategies



Increasing the Usage of Existing Customers

- Motivate Heavy Users to Use More
- Provide Reminder Communications
- Position for Regular or Frequent Use
- Make the Use Easier
- Provide Incentives
- Reduce Undesirable Consequences of Frequent Use
- Find New Uses

Key Learnings

- Increasing product usage can be based on motivated heavy users to use more, make the use easier with reduced undesirable consequences, providing usage incentives, reminder communicator, positioning for frequent use and by finding a new use.
- A branded differentiator is an actively managed branded feature, ingredient or technology, service or program that creates a meaningful, impactful point of differentiation for a branded offering over an extended time period.
- A branded energiser is a branded product, promotion, sponsorship, symbol, program, or other entity that by association significantly enhances and energies a target brand—the branded energiser and its association with the target brand is actively managed over an extended time period.

LEVERAGING THE BUSINESS

Growth Options
Some questions to ask include:

- Which assets and competencies can be leveraged?
- What brand extensions are possible?
- Can the scope of the offering be expanded?
- Do viable new markets exist?

Which Assets and Competencies Can be Leveraged?

Marketing Skills
A firm will often either possess or lack strong marketing skills for a particular market. Thus, a frequent motive for expanding into new product markets is to export or import marketing skills

Capacity in Sales or Distribution
A firm with a strong distribution capability may add products or services that could exploit that capability

Manufacturing Skills
Design and manufacturing ability can be the basis for entry into a new business area.

R&D Skills
Expertise in a certain technology can lead to a new business based on that technology.

Achieving Economies of Scale

BRAND EXTENSIONS
One common exportable asset is a strong, established brand name—a name with visibility, associations, and loyalty among a customer group. The challenge is to take this brand asset and use it to enter new product markets. The name can make the task of establishing a new product more feasible and efficient because it makes developing awareness, trust, interest, and action all easier.

New Products for Existing Markets

- Expand boundaries
- Explore customer use context
- Methods:
  - Product Feature Addition.
  - Developing New-Generation Products.
  - Expand the product scope
  - New Products for Existing Markets.

New Markets for Existing Products

- Expanding Geographically
- Expanding into New Market Segments
  - Distribution Channel
  - Age
  - Home vs. Office

Expanding into new market segments

Define the new segments
  - Usage (non-users can be a good segment).
  - Distribution channel
  - Age.
  - Attribute preference (some users may require greater detail/accuracy)
  - Application-defined market.

THE MIRAGE OF SYNERGY

Potential Synergy Does not Exist
Strategists often manipulate semantics to delude themselves that a synergistic justification exists.

Example:
When a packaged-goods manufacturer bought Burger Chef, a chain of 700 fast-food restaurants, the fact that both entities were technically in the food business was of little consequence. Because the packaged-goods firm never could master the skills needed to run restaurants, there was considerable negative organisational synergy.

Potential Synergy Exists But is Unattainable
Sometimes there is real potential synergy, but implementation difficulties—usually far greater than expected—inhibit or block this synergy from being realised. When two organisations (perhaps within the same firm) have different cultures, strategies, and processes, there are significant issues to overcome.

Example:
The effort to combine United Airlines, Westin Hotels and Resorts, and Hertz into one organisation was a classic case in which the operational problems coupled with presenting a confused brand face to customers doomed the idea. The efforts to create multi- service telecommunication companies and fully integrated entertainment companies in order to achieve synergies have struggled.

Potential Synergy is Overvalued
One risk of buying a business in another area, even a related one, is that the potential synergy may seem more enticing than it really is.

Example:
Perhaps carried away by its success with Gatorade, Quaker Oats purchased the Snapple business in 1994 for $1.6 billion, only to sell it two years later for a mere $300 million. Quaker had difficulties in distribution and was inept at taking a quirky personality brand into the mainstream beverage market (its program was based on pedestrian advertising and a giant sampling giveaway). Moreover, the fact that Quaker paid several times more than Snapple was worth was a fatal handicap.

Example

Eskimo Joes

The Problem:

- 1985 – Legal age for drinking increased from 18 to 21 years in Oklahoma state.
- Major threat – elimination of Eskimo Joe's core customer base.

Strategic Alternative:

- **Option 1: Product Development** – convert bar to full service restaurant.
- **Option 2: Market Penetration** – continue with beer bar and try to offset decline in sales with clothing sales.
- **Option 3: Market Development** – close beer bar leaving alcohol industry and focus on retail/clothing business.

The Solution:

- **Option 1: Product Development** – convert bar to full service restaurant. But still sell clothing

- Identify according to Aaker and Ansoff principles various growth options undertaken by EJ..
- Outline growth strategies implemented over short, medium and long term.

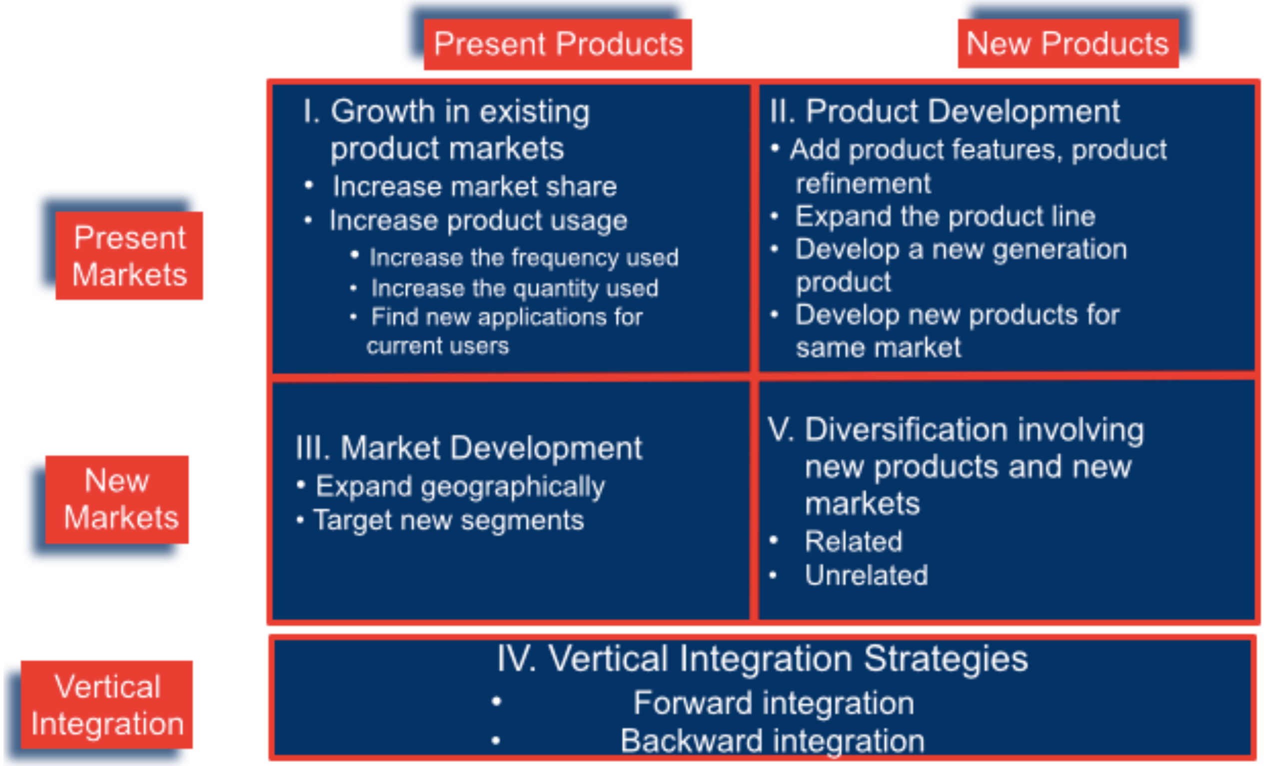
Key Learnings

- Leveraging assets and competencies involves identifying them and creatively determining in what business areas they might be able to contribute.
- Brand extensions should both help and be enhanced by the new offering, in addition to being perceived to have a fit with it.
- The business can be leveraged by introducing new products to the market or expanding the market for the existing products. In doing so, the new product market should be attractive, be accessible to the business with its current assets and competencies, and have access to the needed resources to be successful.
- Entering a new product market is risky, as the new offering might lack market acceptance or needed resources. Success likelihood goes up if the core business is healthy, if the new product market is attractive (competitors will be profitable), if the business model is repeatable, if market leadership is possible, and if the stretch from the core is small.
- Synergy can be a mirage. Too often, it does not exist, or it exists but is unattainable or overvalued.

Week 7: Creating New Business and Global Strategies

This lecture examines growth strategies and looks are creating new business and global strategies. It build on the last lecture and Ansoff growth principles. These is again a lot of examples to make the work relevant.

CREATING NEW BUSINESS



Diversification

Related diversification eg. Qantas Airlines and Qantas Holidays Travel Agents.
Unrelated diversification eg. Virgin Music, Airlines, Mobile, Credit cards.

Assets and Competencies - Diversification

Positive Scenario

Relevant assets and competencies are transferred across different markets and product lines efficiently and profitably?

Negative Scenario:

Assets and competencies not shared across markets and product lines. Resources are fragmented and spread ineffectively across too many areas resulting in inefficiencies and poor profit performance.
Eg. Fosters Brewing – control whole alcoholic beverage market (wine & spirits)

Vertical Integration Strategies

Access to Supply or Demand

Access to Supply (access to supply of raw materials will reduce availability risk).
Access to Demand. (manufacture near key consumer markets to control transport / distribution costs)

Control of the Product System

Vertical integration may be only method of ensuring that desired quality of input products is achieved (external suppliers may not have the money for the required levels of investment).

Entry into a Profitable Business Area

Comprehensive services.
(Augment product to extend product value).
Integrated solutions. Eg. Car manufacturers – Mercedes

Risks of Managing a Different Business

Reduction in Strategic Flexibility

Alternatives to Integration

Long term contracts, exclusive deals, joint ventures, franchising etc

The Innovator's Advantage

Competitors inhibited from responding

- Fear cannibalisation
- Fear taking eye off existing business

Competitors unable to respond

- Lack assets, competencies, culture etc.

Innovator can create customer loyalty & authenticity

Early Market Leaders Strategy
- Early Market Leaders Strategy
- Envision the Mass Market
- Managerial Persistence
- Financial Commitment
- Relentless Innovation
- Asset Leverage

Managing Category Perceptions
Focus at outset on attributes and functional benefits
Labels help define the category—use them. Make your brand the exemplar (the best example of the new category)

Creating New Business Arenas
- Creating a dramatically lower price point
- Technological innovation
- From components to systems
- Customer insights—unmet needs
- Market trends
- Niche markets

Key Learnings
- In general, above-average earnings come from new business arenas, and those attempting to excel in existing business arenas on average do less well financially.
- A business can vary in its “newness” depending on how much it departs from existing businesses in terms of value proposition, target market, assets and competencies employed, and how it defines what a customer is buying.
- An innovator has an advantage because it can build up a core loyal customer segment and because competitors, committed to their own business, may lack the motivation and capability to respond.
- Successful market leaders envision a mass market, are persistent, make a commitment, continue to innovate, leverage firm assets, and manage category perception.
- Transformational new business arenas can be based on offering a dramatically lower price point, analyzing alternative industries to find white space, offering systems rather than components building on customer insights or market trends, and by collaborating with other people and firms.
- Established firms tend to be focused on their own business and regard new ventures as a distraction that is unlikely to help their financials and may make them worse. To overcome these biases they need to create a space for entrepreneurial initiatives and a mechanism that ensures new ventures will get the resources they need.

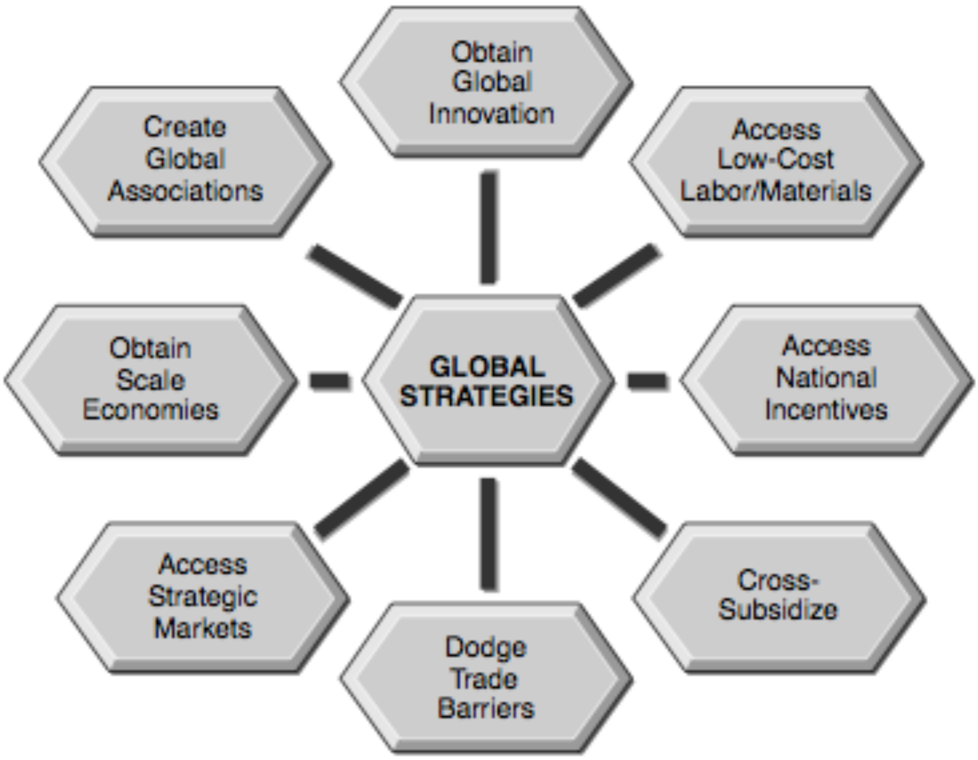
Week 8: From Silos to Synergy - Harnessing the Organisation

Last chapter of the textbook. This lecture examines the different organisational levers and how this influences strategic development and formation. The textbook focus heavily on the ideas and concepts around silos and their advantages and disadvantages.

Global Strategies

A global strategy requires addressing a set of issues that include the following:
1. What are the motivations (objectives) for a global strategy?
2. To what extent should products and service offerings be standardised across countries?
3. To what extent should the brand name and marketing activities (such as brand position, advertising, and pricing) be standardised across countries?
4. How can the global footprint be expanded successfully? 5. To what extent should strategic alliances be used to enter new countries? 6. How should the brand be managed globally?

MOTIVATIONS UNDERLYING GLOBAL STRATEGIES



Obtaining Scale Economies
- Scale economies can occur from product standardisation.
- Scale economies can also occur from standardisation of marketing, operations, and manufacturing programs.

Global Brand Associations
Being global generates the image of being global, which turns out to be a significant advantage

Global Innovation
Being global means that innovation around brand building, new product, and product improvements can be sourced anywhere.

Access to Low-Cost Labor or Materials
Another motivation for a global strategy is the cost reduction that results from access to the resources of many countries. Substantial cost differences can arise with respect to raw materials, R&D talent, assembly labor, and component supply.

Access to National Investment Incentives
Another way to obtain a cost advantage is to access national investment incentives that countries use to achieve economic objectives for target industries or depressed areas.

Cross-Subsidisation
A global presence allows a firm to cross-subsidise, to use the resources accumulated in one part of the world to fight a competitive battle in another

Dodge Trade Barriers
Strategic location of component and assembly plants can help gain access to markets by penetrating trade barriers and fostering goodwill.

Access to Strategically Important Markets
Markets can be strategically important because of their size and growth. It is hard to be successful be avoid the large growth markets.

Standardisation vs Adaptation

Adaptation

- Adjusting marketing mixes according to cultural, regional, and national differences

"The adoption of a strategy of universal standardisation appears to be naive and oversymplistic" (Douglas & Craig, 1987)

Adaptation

- Cultural differences
- Brand Positioning
- Customer Motivations
- Government demands
  - Economic as well as social, cultural, nationalistic requirements

Standardisation

- The development of marketing strategies that treat the entire world (or its major regions) as a single entity
- Includes standardisation of products, promotion campaigns, prices, and distribution channels

"A powerful force drives the world toward a converging commonality, and that force is technology" (Levitt, 1983

Standardisation

- Leverage great branding and marketing
- Economies of scale
- Better resources are available
- Easier to manage brands

Forces for Standardisation

- *Economies of scale*
  - Decreasing costs per unit production
  - Typical for capital intensive production

    e.g., car assembly > optimal scale

- *Economies of scope*
  - Handling related products through a single set of facilities

    e.g., broad lines of consumer electronics

- *Factor costs*
  - Globalisation in search for cheap resources

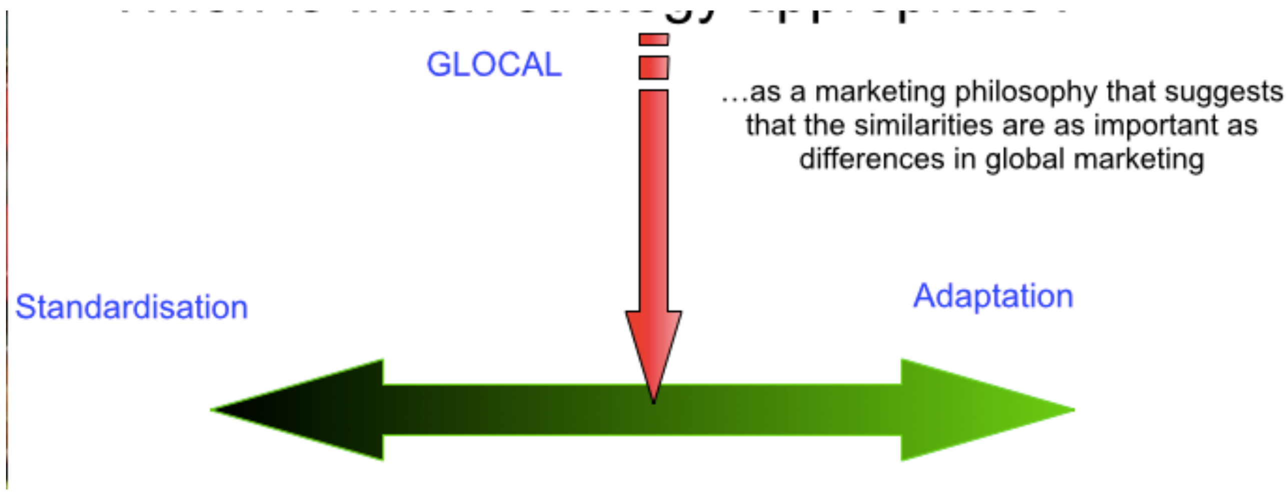
- *Cross- subsidisation potential*
  - Funds generated in one market can subsidise a product in another market

Advantages and Drawbacks of Standardisation

Advantages	Disadvantages
Cost Reduction	Lack of Uniqueness
Global Customers	Sensitive to protectionism
Global Segments	Strong Local competitors

The Globalisation Paradox

- The degree to which we modify our products
- When is which strategy appropriate? Hard to say what is better !



Expanding the Global Footprint

- A strong core. A strong home market provides resources and experience that can be leveraged in geographic expansion. It is a rare firm that finds success abroad without a successful home market.
- A repeatable formula for expansion. When the same model works in country after country, the risk of entry is reduced. Avon, for example, uses its direct model everywhere and has refined the execution to a science.
- Customer differentiation that travels. When the same segments are targeted and the same product and position work across countries, there is no need to research the market and reinvent the offering every time a new country is entered. Nike, Pampers, and Heineken, for example, have been able to differentiate their respective brands the same way everywhere.
- Industry economics. It is important to recognise whether global share or local share will drive success. Some industries like razors or computers, for example, provide cost advantages for global scale. Others, like beer, cement, and software, reward high local share. A mistake is to expect global scale in a local scale industry.

Which countries ?

- Market attractiveness
- Can the firm add value?
- Competition?

- Critical mass be achieved?

Examples:

Gillette Philosophy:
One Market
One Brand
One Positioning
One Campaign

- Phase 1
  - Re-establish bond with men
  - Increase advertising
- Phase 2:
  - Enhance technology leadership
  - Shift market to refillable systems
- Phase 3:
  - Extend beyond shaving
  - Become grooming leader worldwide

Packaging Objectives:
- Support positioning
- Complement imagery
- Have strong visual impact
- Differentiate from Sensor

Advertising:
- Capitalizes on MACH3 name
- Utilizes jet plane and sonic booms (masculine approach)

Marketing Support
- Communications launch explosion
- Mass advertising (TV, radio, Magazines)
- Public Relations
- Point-of-sale

Success
- Repeat Sensor success faster
- Become Number 1 in every market
- Drive user growth and trade up
- Attract new users to Gillette franchise

Moral of the Story:
- Operate in right category
- Have a right product
- Organize to implement global strategy
- Commit resources to advertising and promotion
- Focus on commonalties

LEVIS – “GO FORTH” 2011

- Levis first global creative platform and marketing campaign in its 138 year history.
- Campaign will utilise TV, cinema, print, digital and outdoor marketing vehicles in 24 countries across the Americas, Europe, and Asia-pacific regions.
- Campaign launched August 2011 will showcase the fall collection while encouraging customers to make positive changes in the world.
- “Go Forth is more than a marketing idea. It is also a call to action. For youth today, optimism is power.”
- Had to postpone launch in UK due to the youth riots and images of “revolution” portrayed in the ads.

Key learnings

- A global strategy considers and exploits interdependencies between operations in different countries.
- Among the motivations driving globalization are obtaining scale economies, accessing low-cost labor or materials, taking advantage of national incentives to cross-subsidize, dodging trade barriers, accessing strategic markets, enhancing firm innovation, and creating global associations.
- Companies successful at expanding their global footprint usually had a strong core market, a repeatable expansion formula, customer differentiation that travels, and an understanding of local vs. global scale.
- A brand with extensive commonalities across countries can potentially yield economies of scale, enhanced effectiveness because of better resources involved, cross-market exposure, and more effective brand management.
- The selection of a country to enter should involve an analysis of the attractiveness of the market and the ability of the firm to succeed in that market.
- A standardized brand is not always optimal. Economies of scale may not exist, the discovery of a global strategy (even assuming it exists) may) be difficult, or the context (for example, different market share positions or brand images) may make such a brand impractical.
- Global brand management needs to include a global brand communication system, a global brand planning system, a global management structure, and a system to encourage excellence in brand building. The brand group can operate under a command-and-control, service provider, consultative, or facilitator style.
- Strategic alliances (long-term collaboration leveraging the strengths of two or more organizations to achieve strategic goals) can enable an organization to overcome a lack of a key success factor, such as distribution or manufacturing expertise. A key to the long–term success of strategic alliances is that each partner contributes assets and competencies over time and obtains strategic advantages.

Week 9: Red and Blue Ocean Strategy

This lecture is the first that dose not use the textbook. This lecture examines the differences in Red and Blue Ocean strategies and class decision was focused on exploring how to use these strategies and when.

Red Ocean – Basic Concepts

- "How to outpace rivals in existing market space – a market competing strategy."
- Industry boundaries are already defined and accepted.
- Competitive rules of the game are known.
- Companies try to outperform rivals and grab a share of existing demand.
- As market space gets crowded, profit and growth prospects reduce.
- Products become commodities, cut throat competition turns the red ocean bloody!
-

Blue Ocean – Basic Concepts

- "is about how to get out of established market boundaries to leave competition behind – a market creating strategy".
- The existence of 'blue oceans' is not new, just the term and perspective.
- Most industries are characterised by over supply as trade barriers fall – need to search for blue oceans is increasing.
- Demand for most goods in developed markets is not increasing – again suggesting the need to find uncontested market space.
- Finding a true 'blue ocean' can bring considerable barriers to imitation.

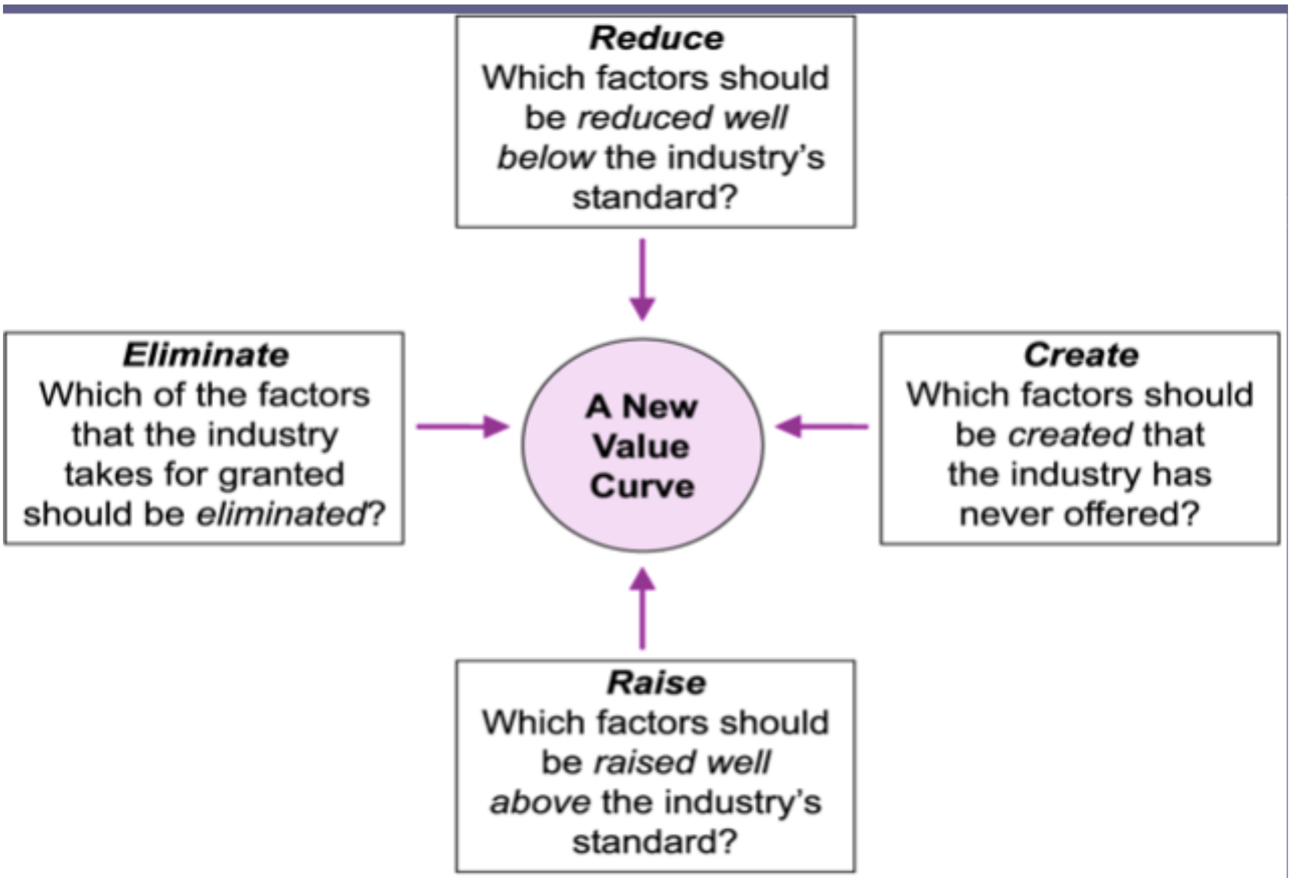
VALUE INNOVATION

- Focus on making competition irrelevant by creating new value for consumers = an uncontested market space.
- Align innovation with utility, price and cost positions: incremental scale.
- New way of thinking about strategy
- Defies the value-cost trade off: value innovation sees a company's actions favorably affecting both Cost Structure and its value proposition to buyers simultaneously,
- More than innovation – about a strategy that embraces the entire system of company's activities.

EXAMPLE

EG: Cirque de Soleil

- sought to offer fun and thrill of circus AND intellectual sophistication and artistic richness of theatre.
- Removed animal shows, three ring venues and ‘so called stars’
- Kept tent, clowns, acrobatics but positioned them with sophisticated style and offered a story line/theme.
- FORMULA:
- New form of entertainment (differentiation / buyer value +
- Elimination of costly elements of the circus (decreased cost structure) = Value Innovation / Blue Ocean strategy



The Imperative for Red and Blue Ocean Strategies

RED OCEAN STRATEGY	BLUE OCEAN STRATEGY
Compete in existing market space.	Create uncontested market space.
Beat the competition.	Make the competition irrelevant.
Exploit existing demand.	Create and capture new demand.
Make the value/cost trade off	Break the value/cost trade off.
Align the whole system/activities with EITHER differentiation or low cost.	Align the whole system/activities in pursuit of differentiation AND low cost.

THE US WINE INDUSTRY –
A Red OceanFinding a Blue Ocean – Casella Wines – Yellowtail!

- Australian Market shows similar characteristics to US.

a) Oversupplied.
b) Capital intensive.
c) Dominated by a few large players with huge resources.

Casella Wines – Finding a Blue Ocean for Yellowtail Wines!

- Rapid increase in demand / production from 500k cases in 2001 to 16 million in 2005
- Within 2 years of entering the market

a) Yellowtail #1 imported brand in US
b) Fastest growing wine brand in US market history.
c) Yellowtail Shiraz #1 selling red wine brand in the US.

- Changed positioning of wine from “a special occasion indulgence to an everyday pleasure.”
- Didn’t try to take the big market players ‘head on.’
- Attempted to capture (existing drinkers) and create (non-wine drinkers) new demand.

Blue Ocean Issues for Debate!

- As most industries today are considered to operate within “red oceans”, does this mean the only way to compete effectively is to pursue a “blue ocean” strategy?
- Is it always possible to find a “Blue Ocean” and does it always involve a degree of risk for organisations?

Week 10: Contemporary Marketing Issues

This weeks lecture is to examine the current issues in marketing that relate to strategic marketing plans. The three main areas of focus are:

- Co-creation
- Content marketing
- Big Data

What this lecture is about is the growing importance of of the digital marketing platform and their relationship to each of the three main areas of focus. What is the strategic implications of trying to use these ideas?

Week 13: Course Review

In this section we will go ever the main concepts of the course. Furthermore it will be a good indicator of what is happening in the test. The lecture says that knowing how all the main ideas work together with one another to allow for marketing strategy decisions is what will get good marks in the test.