Mekelle University

College of Business and Economics

Department of Marketing Management

Teaching Material For The Course Strategic Marketing Management Undergraduate Regular Bachelors Degree

Course Title: ***Strategic Marketing Management***
Course Code: ***Mktm 3112***
*Module Name:****Strategic Marketing and Entrepreneurship***
*Credit Hours:****4***
Year/Semester: ***Year III Semester II***
Academic Year: ***2019/20***
Instructor name: Absera Naizgi Abrha

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Course Outline for Strategic Marketing Management

1. Program: Undergraduate Regular Bachelors Degree

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2. Course Description

This course provides both theoretical and hands-on practice of marketing strategy. Students will learn theories and various concepts from leading scholars. The course is designed to develop analytical skills in the formulation and implementation of market driven strategies for an organization. The focus is on strategic decision making which has a long-term impact on an organization's overall performance. It involves thorough discussions of a company's internal and external environments together with analysis of its competitors, the formulation of strategy and the strategic management of the marketing mix.

3. Course Objectives

Up on completion of the course, students will be able to:

- ✓ Describe strategic marketing management and its corresponding process
- ✓ Grasp the factors that shape a company's environment
- ✓ Explain the concept of marketing audit
- ✓ Analyze competitor's strategies, objectives, strengths and weaknesses
- ✓ Explain portfolio analysis and how it is used in the development of a strategy
- ✓ Describe the different strategies open to an organization
- ✓ Gain insights about how organizations might attack others defend themselves
- ✓ Explore the issues associated with the strategic management of the individual elements of the marketing mix

4. Course Contents

Chapter One: Overview of Strategic Marketing

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1.2. Characteristics of Strategic marketing
1.3. Differences between strategic marketing and marketing management
1.4. Strategic marketing process

Chapter Two: Marketing Audit and Environmental Analysis

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2.2. Structure and focus of marketing audit
2.3. SWOT analysis
2.4. Analysis of the marketing environment
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    2.4.2. Environment types
    2.4.3. The PEST environment

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3.1. Intensity, or degree, of competition
3.2. Against whom are we competing?
 3.2.1. Identifying present competitors and new entrants
 3.2.2. Industry perspective of competition
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3.3. Identifying and evaluating competitors' strengths and weaknesses
3.4. Evaluating competitive relationships and analyzing how organizations compete
3.5. Identifying competitors' objectives
3.6. Identifying competitors' likely response profiles
/
3.7. Competitor analysis and the development of strategy
3.8. The competitive intelligence system

Chapter Four: The Formulation of Strategy

4.1. Targeting and positioning strategy
 4.1.1. Evaluating market segments
 4.1.2. Establishing organizational capability
 4.1.3. Strategic alignment of assets and competencies (targeting)
 4.1.4. The strategic nature of making target segment choices
 4.1.5. Positioning and its alternatives
4.2. Analyzing the product portfolio
 4.2.1. The development of strategic perspectives
 4.2.2. Strategic planning and issues of responsibility
 4.2.3. Planning with SBUs
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4.3. Generic strategies
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4.4. Strategies for leaders, followers, challengers, and nichers
 4.4.1. The influence of market position on strategy
 4.4.2. Strategies for market leaders
 4.4.3. Strategies for market challengers
 4.4.4. Strategies for market followers
 4.4.5. Strategies for market nichers

Chapter Five: The Strategic Management of the Marketing Mix

5.1. Product decisions and strategy
5.2. Pricing policies and strategies
5.3. Promotion and marketing communications
5.4. Distribution strategies and the distribution plan

Teaching Methodology

The course will be offered through mix of lectures, discussions, reading and writing assignments.

Evaluation Methods

- Tests ……………………………………….. 30%
- Group assignment …………………………….. 20%
- Final exam ……………………………………. 50%

References

- Richard M.S. Wilson and Colin Gilligan (2005). Strategic Marketing Management (3rd Ed.). Elsevier Butterworth-Heinemann
- Subhash C. Jain. Marketing planning and strategy (6th Ed.)
- David W. Carvens and Negel F. Piercy (2006). Strategic Marketing (8th Ed.) McGrawHill.

CHAPTER ONE

1. OVERVIEW OF STRATEGIC MARKETING

1.1. Concept of Strategic Marketing

Strategic marketing management is a system designed to help management both precipitate and make strategic decisions, as well as create strategic visions. A strategic decision involves the creation, change, or retention of a strategy. In contrast to a tactical decision, a strategic decision is usually costly in terms of the resources and time required to reverse or change it. The cost of altering a wrong decision may be so high as to threaten the very existence of an organization. Normally, a strategic decision has a time frame greater than one year; sometimes decades are involved.

A strategic vision is a vision of a future strategy or sets of strategies. The realization of an optimal strategy for a firm may involve a delay because the firm is not ready or the emerging conditions are not yet in place. A vision will provide direction and purpose for interim strategies and strategic activities.

Strategic market management, or simply, strategic management, is motivated by the assumption that the planning cycle is inadequate to deal with the rapid rate of change that can occur in a firm's external environment. To cope with strategic surprises and fast-developing threats and opportunities, strategic decisions need to be precipitated and made outside the planning cycle.

Recognition of the demands of a rapidly changing environment has stimulated the development or increased use of methods, systems, and options that are responsive. In particular, it suggests a need for continuous, real-time information systems rather than, or in addition to, periodic analysis. More sensitive environmental scanning, the identification and continuous monitoring of information need areas, efforts to develop strategic flexibility and the enhancement of the entrepreneurial thrust of the organization may be helpful. An information need area is an area of uncertainty that will affect strategy, such as an emerging consumer interest area. Strategic flexibility involves strategic options that allow quick and appropriate responses to sudden changes in the environment.

Strategic market management is proactive and future oriented. Rather than simply accepting the environment as given, with the strategic role confined to adaptation and reaction, strategy may be proactive, affecting environmental change. Thus, governmental policies, customer needs, and technological developments can be influenced and perhaps even controlled with creative, active strategies.

Gary Hamel and C.K. Prahalad argue that managers should have a clear and shared understanding of how their industry may be different in 10 years and a strategy for competing in that world. They challenge managers to evaluate the extent to which

- Management has a distinctive and farsighted view, rather than a conventional and reactive view, about the future.
- Senior management focuses on regenerating core strategies rather than on reengineering core processes.
- Competitors view the company as a rule maker rather than a rule follower.
- The company's strength is in innovation and growth rather than in operational efficiency.
- The company is mostly out in front rather than catching up.

Within a given environment, marketing strategy deals essentially with theinterplay of three forces known as the strategic three Cs: the customer, the competition,and the corporation. Marketing strategies focus on ways in which thecorporation can differentiate itself effectively from its competitors, capitalizing onits distinctive strengths to deliver better value to its customers. Agood marketingstrategy should be characterized by (a) a clear market definition; (b) a good matchbetween corporate strengths and the needs of the market; and (c) superior performance,relative to the competition, in the key success factors of the business.

All three Cs—customer, corporation, and competition—aredynamic, living creatures with their own objectives to pursue. If what the customerwants does not match the needs of the corporation, the latter's long-termviability may be at stake. Positive matching of the needs and objectives of customerand corporation is required for a lasting good relationship. But

suchmatching is relative, and if the competition is able to offer a better match, thecorporation will be at a disadvantage over time. In other words, the matchingof needs between customer and corporation must not only be positive, it mustbe better or stronger than the match between the customer and the competitor.

When the corporation's approach to the customer is identical to that of the competition,the customer cannot differentiate between them. The result could be aprice war that may satisfy the customer's but not the corporation's needs.**Marketing strategy**, in terms of these three key constituents, must be defined asan endeavor by a corporation to differentiate itself positively from its competitors,using its relative corporate strengths to better satisfy customer needs in agiven environmental setting.

1.2. WHY STRATEGIC MARKETING MANAGEMENT?

Strategic market management is often frustrating because the environment is so difficult to understand and predict. The communication and choices required within the organization can create strain and internal resistance. The most valuable organizational resource, management time, is absorbed. The alternative of simply waiting for and reacting to exceptional opportunities often seems efficient and adequate.

Despite these costs and problems, however, strategic market management has the potential to:

- **Precipitate the consideration of strategic choices.** What is happening externally that is creating opportunities and threats to which a timely and appropriate reaction should be generated? What strategic issues face the firm? What strategic options should be considered? The alternative to strategic market management is usually to drift strategically, becoming absorbed in day-to-day problems. Nothing is more tragic than an organization that fails because a strategic decision was not addressed until it was too late.

- **Force a long range view.** The pressures to manage with a short term focus are strong and frequently lead to strategic errors.

- **Make visible the resource allocation decision.** Allowing allocation of resources to be dictated by the accounting system, political strengths, or inertia (the same as last year) is too easy. One result of this approach is that the small but promising business with "no

problems" or the unborn business may suffer from a lack of resources, whereas the larger business areas with "problems" may absorb an excessive amount.

- **Aid strategic analysis and decision making.** Concepts, models, and methodologies are available to help a business collect and analyze information and address difficult strategic decisions.
- **Provide a strategic management and control system.** The focus on assets and competencies and the development of objectives and programs associated with strategic thrusts provide the basis for managing a business strategically.
- **Provide both horizontal and vertical communication and coordination systems.** Strategic market management provides a way to communicate problems and proposed strategies within an organization; in particular, its vocabulary adds precision.
- **Help a business cope with change.** If a particular environment is extremely stable and the sales patterns are satisfactory, there may be little need for meaningful strategic change either in direction or intensity. In that case, strategic market management is much less crucial. However, most organizations now exist in rapidly changing and increasingly unpredictable environments and therefore need approaches for coping strategically.

1.3. **Characteristics of Strategic Marketing**

Emphasis on long-term implications

Strategic marketing decisions usuallyhave far-reaching implications. In the words of one marketing strategist, strategicmarketing is a commitment, not an act. For example, a strategic marketing decisionwould not be a matter of simply providing an immediate delivery to afavorite customer but of offering 24-hour delivery service to all customers.

The long-term orientation of strategic marketing requires greater concern forthe environment. Environmental changes are more probable in the long run thanin the short run. In other words, in the short run, one may assume that the environmentwill remain stable, but this assumption is not at all likely in the long run.

Proper monitoring of the environment requires strategic intelligence inputs.Strategic intelligence differs from traditional marketing research in requiringmuch deeper probing. For example, simply knowing that a competitor has a costadvantage is not enough. Strategically, one ought to find out how much flexibilitythe competitor has in further reducing price.

Corporate inputs

Strategic marketing decisions require inputs from three corporate aspects: corporate culture, corporate publics, and corporate resources. **Corporate culture** refers to the style, whims, fancies, traits, taboos, customs, andrituals of top management that over time have come to be accepted as intrinsic tothe corporation. **Corporate publics** are the various stakeholders with an interestin the organization. Customers, employees, vendors, governments, and society typically constitute an organization's stakeholders. **Corporate resources** includethe human, financial, physical, and technological assets/experience of the company. Corporate inputs set the degree of freedom a marketing strategist has in deciding which market to enter, which business to divest, which business to invest in, etc. The use of corporate-wide inputs in formulating marketing strategyalso helps to maximize overall benefits for the organization.

Varying roles for different products/markets

Traditionally it has been heldthat all products exert effort to maximize profitability. Strategic marketing startsfrom the premise that different products have varying roles in the company. Forexample, some products may be in the growth stage of the product life cycle,some in the maturity stage, and others in the introduction stage. Each position in thelife cycle requires a different strategy and affords different expectations. Productsin the growth stage need extra investment; those in the maturity stage shouldgenerate a cash surplus.

The practice of strategic marketing seeks first to examine each product/marketbefore determining its appropriate role. Further, different products/marketsare synergistically related to maximize total marketing effort. Finally, each product/market is paired with a manager who has the proper background and experienceto direct it.

External Market Orientation

As already noted, organizations need to be oriented externally toward customers, competitors, the market, and the market's environment. In a sharp contrast to the projection-based, internally oriented, long-range planning systems, the goal is to develop market-driven strategies that are sensitive to the customer.

Proactive Strategies

A proactive strategy attempts to influence events in the environment rather than simply react to environmental changes is to participate in their creation. Second, because environmental changes can be significant, it may be important to be able to influence them. For example, it may be beneficial for an insurance firm to be involved in tort reform strategy.

Importance of the Information System

An external orientation puts demands on the supporting information system. The determination of what information is needed, how it can be obtained efficiently and effectively, and how it should best be analyzed, processed, and stored can be a key to an effective strategy development process.

Knowledge Management

Knowledge management is becoming critical as the key asset of companies increasingly is knowledge, whether it is knowledge of technology, marketing, processes, or other ingredient of success. Because knowledge resides in the minds of individuals, the challenge is to capture that knowledge in a form that it can be retained and nurtured over time and can be shared by a wide group of people.

Online Analysis and Decision Making

Organizations are moving away from relying only on the annual planning cycle and toward a more continuous, on-line system of information gathering, analysis, and strategic decision making. The design of such a system is demanding and requires new methods and concepts. The system must be structured enough to provide resistance in an inherently complex

decisioncontext, sensitive enough to detect the need to precipitate a strategic choice, and flexible enough to be applied in a..... Of situations.

Entrepreneurial Thrust

The importance of developing and maintaining an entrepreneurial thrust is increasingly being recognized. There is a need for the development of organizational forms and strategic market management support systems that allow the firm to be responsive to opportunities. The entrepreneurial skill is particularly important to large, diversified firms and to firm's involved in extremely fast-moving industries. Such as high-tech firms or industries that produce "hit" products such as video games, CDs, or movies. The strategy in such contexts must include providing an environment in which entrepreneurs can flourish.

Implementation

Implementation of strategy is critical. There needs to be concern about whether the strategy fits the organization's structure, systems, people, and culture or whether the organization can be changed to make the strategy fit. The strategy needs to be linked to the functional area policies and the operating plans.

Global Realities

Increasingly, the global dimension is affecting strategy. Global markets are extremely relevant to many businesses, from Boeing to McDonald's, and it is a rare firm that is not affected competitors either based in or with operations in other countries. The global element represents both direct and indirect opportunities and threats. The financial difficulty of a major country or a worldwide shortage of some raw material may have a dramatic impact on an organization's strategy.

Empirical Research

Historically, the field of strategy has been dominated by conceptual contributions based on personal experience and insights, as the writings of Alfred Sloan, the architect of General Motors, and Peter Drucker, the author of the classic book, the practice of Management, illustrate. More recently, an empirical research tradition has begun. The qualitative case-study approach

provides useful hypotheses and insights. In addition, a host of quantitative research streams compare and study the performance and characteristics of samples of business units over time. These research streams can now be found in most of the basic disciplines and in the field of strategy itself. They are an important indication that the field is finally reaching a maturity in which theories can be, and are being, subjected to scientific testing.

1.4. Differences between Strategic Marketing and Marketing Management

Strategic marketing focuses on choosing the right products for the right growthmarkets at the right time. It may be argued that these decisions are no differentfrom those emphasized in marketing management. However, the two disciplinesapproach these decisions from different angles. For example, in marketing management,market segments are defined by grouping customers according to marketingmix variables. In the strategic marketing approach, market segments areformed to identify the group(s) that can provide the company with a sustainableeconomic advantage over the competition.

Afurther difference between strategic marketing and marketing managementis that in marketing management the resources and objectives of the firm, howeverdefined, are viewed as uncontrollable variables in developing a marketingmix. In strategic marketing, objectives are systematically defined at different levelsafter a thorough examination of necessary inputs. Resources are allocated to maximize overall corporate performance, and the resulting strategies are formulated with a more inclusive view.

Strategic marketing differs from marketing management in many respects: orientation, philosophy, approach, relationship with the environment and other parts of the organization, and the management style required. For example, strategic marketing requires a manager to forgo short-term performance in the interest of long-term results. Strategic marketing deals with the business to be in; marketing management stresses running a delineated business. The differences between strategic marketing and marketing management are summarized below:

Major Differences between Strategic Marketing and Marketing Management

Point of difference	Strategic Marketing	Marketing Management
Time frame	Long range; i.e., decisions have long-term implications	Day-to-day; i.e., decisions have relevance in a givenfinancial year
Orientation	Inductive and intuitive	Deductive and analytical
Decision process	Primarily bottom-up	Mainly top-down
Relationship with environment	Environment considered ever-changing and dynamic	Environment considered constant with occasional disturbances
Opportunity sensitivity	Ongoing to seek new opportunities	Ad hoc search for a new opportunity
Organizational behavior	Achieve synergy between different components of the organization, both horizontally and vertically	Pursue interests of the decentralized unit
Nature of job	Requires high degree of creativity and originality	Requires maturity,experience, and controlorientation
Leadership style	Requires proactive perspective	Requires reactive perspective
Mission	Deals with what business to emphasize	Deals with running adelineated business

1.5. Strategic Marketing Process

The process of strategic marketing planning can either be quite complex or relatively straightforward. Strategic planning for a multinational corporation with its multiple divisions and business units is more elaborate than planning the marketing strategy of a sole proprietorship. Although the issues differ, the planning process is the same in many ways. Ultimately, the goals and objectives can be quite similar. Large or small, all marketers strive to meet the needs of their customers while meeting their own business and marketing objectives.

One way to think about the marketing planning is to picture it as a funnel. At the top are important corporate decisions dealing with the firm’s mission, vision, goals, and the allocation of resources among business units. Planning at this level also involves decisions regarding the purchase or divestment of the business units themselves. These decisions trickle down the funnel to the business unit level, where planning focuses on meeting goals and objectives within defined product markets. Planning at this level must take into account and be consistent with decisions made at the corporate level. However, in organizations having only one business unit, corporate and business unit strategy are the same. The most specific planning and decision making occurs at the bottom of the funnel. It is at this level where organizations make and implement tactical

decisions regarding marketing strategy (target markets and the marketing mix) as well as marketing plans.

The strategic planning process involves:

1. Corporate situation analysis

2. Corporate mission, goals, and objectives

3. Business unit situation analysis

4. Business unit mission, goals, and objectives

5. Business unit strategy

6. Implementation

7. Evaluation and control

Whether at corporate, business unit, or functional level, the planning process begins with an in-depth analysis of the organization's internal and external environments- sometimes referred to as a situation analysis. This analysis focuses on the firm's resources, strengths, and capabilities vis-à-vis competitive, customer, and environmental issues. Based on an exhaustive review of these relevant environmental issues, the firm establishes its mission, goals, and/or objectives; its strategy; and several functional plans.

The sequence of decision stages outlined in the following sections begins with broad decisions regarding the organizational mission, followed by a discussion of the corporate or business-unit strategy. It is within these contexts that marketing goals/objectives and marketing strategies must be developed and implemented.

Organizational mission versus organizational vision

To adequately address the role of the organizational mission in strategic planning, we must first understand the differences between the organization's mission and its vision. A mission, or mission statement, seeks to answer the question "what business are we in?" It is a clear and

concise statement that explains the organization's reason for existence. By contrast, a vision or vision statement seeks to answer the question "what do we want to become?"

A well-devised mission statement for any organization, unit within an organization, or single-owner business should answer the same five basic questions. These questions should clarify for the firm's stakeholders (especially employees):

i. Who are we?

ii. Who are our customers?

iii. What is our operating philosophy (basis beliefs, values, ethics, etc)?

iv. What are our core competencies or competitive advantage?

v. What are our responsibilities with respect to being a good steward of our human, financial, and environmental resources?

The mission statement is the one portion of the strategic plan that should not be kept confidential. It should tell everyone- customers, employees, investors, competitors, regulators, and society in general- what the firm stands for and why it exists.

Corporate or business unit strategy

All organizations need a corporate strategy, the central scheme or means for utilizing and integrating resources in the areas of production, finance, research and development, human resources, and marketing, to carry out the organization's mission and achieve the desired goals and objectives. In the strategic planning process, issues such as competition, differentiation, diversification, coordination of business units, and environmental issues all tend to emerge as corporate strategy concerns. In small business, corporate strategy and business-unit strategy are essentially the same. Although we use both terms, corporate and business-unit strategy apply to all organizations, from large corporations to small business and nonprofit organizations.

Large firms often find it beneficial to devise separate strategies for each strategic business unit (SBU), subsidiary, division, product line, or other profit center within the parent firm. Business unit strategy determines the nature and future direction of each business unit, including its

competitive advantages, the allocation of its resources, and the coordination of the functional business areas (marketing, production, finance, human resources, etc.). Many organizations manage their different SBUs in ways that create synergies by providing customers a single-branded solution across multiple markets.

Functional goals and objectives

Marketing and all other business functions must support the organization's mission and goals, translating these into objectives with specific quantitative measurements. For example, a corporate or business goal to increase return on investment might translate into a marketing objective to increase sales, a production objective to reduce the cost of raw materials, a financial objective to rebalance the firm's portfolio of investment, or a human resources objective to increase employee training and productivity. All functional objectives should be expressed in clear, simple terms so that all personnel understand what type and level of performance the organization desires. In other words, objectives should be written so that their accomplishment can be measured accurately. In the case of marketing objectives, units of measure might include sales volume, profitability per unit, percentage gain in market share, sales per square foot, average customer purchase, percentage of customers in the firm's market who prefer its products, or some other measurable achievement.

Functional Strategy

Organizations design functional strategies to provide a total integration of efforts that focus on achieving the area's stated objectives. In marketing strategy, the process focuses on selecting one or more target markets and developing a marketing program that satisfies the needs and wants of members of that target market.

Functional strategy decisions do not develop in a vacuum. The strategy must (1) fit the needs and purpose of the functional area with respect to meeting its goals and objectives, (2) be realistic given the organization's available resources and environment, and (3) be consistent with the organization's mission, goals, and objectives. Within the context of the overall strategic planning process, each functional strategy must be evaluated to determine its effect on the organization's sales, costs, image, and profitability.

Implementation

Implementation involves activities that actually execute the functional area strategy. One of the more interesting aspects of implementation is that all functional plans have at least two target markets: an external market (i.e., customers, suppliers, investors, potential employees, the society at large) and an internal market (i.e., employees, managers, executives). This occurs because functional plans, when executed, have repercussions both inside and outside the firm. Even seemingly disconnected events in finance or human resource can have an effect on the firm's ultimate customers.

Evaluation and control

Organizations design the evaluation and control phase of strategic planning to keep planned activities on target with goals and objectives. In the big picture, the critical issue in this phase is coordination among functional areas. For example, timely distribution and product availability almost always depend on accurate and timely production. By maintaining with the production manager, the marketing manager helps to ensure effective marketing strategy implementation (by ensuring timely production) and, in the long run, increased customer satisfaction. The need for coordination is especially keen in marketing where the fulfillment of marketing strategy always depends on coordinated execution with other functional strategies.

The key to coordination is to ensure that functional areas maintain open lines of communication at all times. Although this can be quite a challenge, it is helpful if the organization culture is both internally and externally customer oriented. Maintaining a customer focus is extremely important throughout the strategic planning process, but especially so during the implementation, evaluation, and control phases of the process. Functional managers should have the ability to see the interconnectedness of all business decisions and act in the best interest of the organization and its customers.

In some ways, the evaluation and control phase of the planning process is an ending and beginning. On one hand, evaluation and control occur after a strategy has been implemented. In fact, the implementation of any strategy would be incomplete without an assessment of its success and the creation of control mechanisms to provide and revise the strategy or its implementation- or both if necessary. On the other hand, evaluation and control serve as the

beginning point for the planning process in the next planning cycle. Because strategic planning is a never ending process, managers should have a system for monitoring and evaluating implementation outcomes on an ongoing basis.

Review Questions

1. Define strategic marketing. Differentiate it from marketing management.
2. In light of any five characteristics, discuss the concept of strategic marketing.
3. Planning has always been considered an important function of management. How is strategic planning different from traditional planning?
4. Is the concept of strategic planning relevant only to profit-making organizations? Can nonprofit organizations or the federal government also embrace planning?
5. How might the finance function have an impact on marketing strategy? Explain

CHAPTER TWO

2. MARKETING AUDIT AND ENVIRONMENTAL ANALYSIS

Although the process of marketing auditing is a fundamental underpinning for the marketing planning process, it is for many organizations still a relatively new and under-utilized activity. This is despite a substantial body of evidence which suggests that an organization's performance in the marketplace is directly influenced by the marketing planner's perception of three factors:

- ✓ The organization's current market position
- ✓ The nature of environmental opportunities and threats
- ✓ The organization's ability to cope with environmental demands

Given this, the marketing audit is designed to provide the strategist with a clear understanding of these three dimensions and in this way provide a firm foundation for the development of strategy.

2.1. Meaning of marketing audit

The marketing audit is in a number of ways the true starting point for the strategic marketing planning process, since it is through the audit that the strategist arrives at a measure both of environmental opportunities and threats and of the organization's marketing capability. The

thinking that underpins the concept of the audit is therefore straightforward: it is that corporate objectives and strategy can only be developed effectively against the background of a detailed and objective understanding both of corporate capability and environmental opportunity.

Thus marketing audit is defined as a means by which a company can identify its own strengths and weaknesses as they relate to external opportunities and threats. It is thus a way of helping management to select a position in that environment based on known factors.

Definitions of the audit have also been proposed by a variety of authors, all of whom highlight the need for the audit to be a systematic, critical and impartial review of the total marketing operation. In essence, therefore, the audit must embrace the marketing environment in which the organization – or the business unit – is operating in, together with the objectives, strategies and activities being pursued. In doing this, the planner needs to take an objective view of the organization and its market and not be affected by preconceived beliefs. It follows from this that the audit must be comprehensive, systematic, independent and conducted on a regular basis.

Given this, the three major elements and potential benefits of the marketing audit can be seen to be:

- ✓ The detailed analysis of the external environment and internal situation
- ✓ The objective evaluation of past performance and present activities
- ✓ The clearer identification of future opportunities and threats.

The rationale for the audit is therefore straightforward and in a number of ways can be seen to derive from the more commonly known and widely-accepted idea of the financial audit which, together with audits of other functional areas, is part of the overall management audit.

2.2. Structure and focus of marketing audit

In terms of its structure, the marketing audit consists of three major and detailed diagnostic steps. These involve a review of:

1 The organization’s environment (opportunities and threats)

2 Its marketing systems (strengths and weaknesses)

3 Its marketing activities.

The first of these is designed to establish the various dimensions of the marketing environment, the ways in which it is likely to change and the probable impact of these changes upon the organization. The second stage is concerned with an assessment of the extent to which the organization's marketing systems are capable of dealing with the demands of the environment. The final stage involves a review of the individual components of the marketing mix.

It should be apparent from this that, in conducting an audit, the strategist is concerned with two types of variable. First, there are the environmental or market variables, over which the strategist has little or no direct control. Second, there are the operational variables, which can be controlled to a greater or lesser extent. This distinction can also be expressed in terms of the macro-environmental forces (political/legal, economic/demographic, social/cultural, and technological) that affect the business, and micro-environmental actors (customers, competitors, distributors and suppliers) who subsequently influence the organization's ability to operate profitably in the marketplace.

Regardless of which approach to categorization is used, the process and purpose of the audit is the same. It begins with an external audit covering the macro-environmental forces referred to above and the markets and competitors that are of particular interest to the company. The internal audit then builds upon this by assessing the extent to which the organization, its structure and resources relate to the environment and have the capability of operating effectively within the constraints that the environment imposes.

In doing this, the auditor should not view the marketing audit and its result in isolation but, should instead give full recognition to the way in which it sits within the general framework of the overall management audit and alongside the audits of the other management functions. In this way, the strategist should arrive at an accurate measure not just of environmental opportunity, but also of the ability of the organization as a whole to respond effectively. With regard to the question of how frequently the audit should be conducted, this is typically influenced by several factors, the most important of which are the nature of the business, the rate of environmental change and the planning cycle (annual, bi-annual). In so far as it is possible to provide a reasonably definitive guideline, it is that the organization should undertake a full audit at the

beginning of each major planning cycle, supplemented by less intensive but more frequent reviews of specific or key areas as conditions change.

2.3. The stages of the audit

In conducting a marketing audit, the majority of planners adopt a stepwise procedure. In this way, it is argued; the approach ensures a degree of consistency that allows for a comparison from one period to another. Marketing audit involves the following stages:

Table 2.1 Cannon's five stages of audit

Stage	Key elements
Step1 Define the market	Develop: ➡ Statement of purpose in terms of benefits ➡ Product scope ➡ Size, growth rate, maturity state, need for primary versus selective strategies ➡ Requirements of success ➡ Divergent definitions of the above by competitors ➡ Definition to be used by the company
Step 2 Determine performance differentials	➡Evaluate industry performance and company differences ➡Determine differences in products, applications, geography and distribution channels ➡ Determine differences by customer set
Step 3 Determine differences in competitive programmes	Identify and evaluate individual companies for their: ➡ Market development strategies ➡ Product development strategies Financing and administrative strategies and support
Step 4 Profile the strategies of competitors	➡Profile each significant competitor and/or distinct type of competitive strategy ➡ Compare own and competitive strategies

Step 5 Determine the strategic planning structure	When size and complexity are adequate: ➡ Establish planning units or cells and designate prime and subordinate dimensions ➡ Make organizational assignments to product managers, industry managers and others

It should be apparent from the discussion so far that a marketing audit, if carried out properly, is a highly specific, detailed and potentially time-consuming activity. Because of this, many organizations often do not bother with a full audit, and opt instead for a less detailed, more general and more frequent review of marketing effectiveness, coupled with an analysis of strengths, weaknesses, opportunities and threats.

2.4. Conducting effective audits

The characteristic of effective audits is that if they are to be worthwhile they should be ***comprehensive***, ***systematic***, ***independent*** and conducted on a ***regular*** basis.

Comprehensive auditing

For the auditing process to be worthwhile it is essential that it covers all of the major elements of the organization's marketing activity, including those that seemingly are doing well, rather than just a few apparent trouble spots. In this way a distinction can be drawn between the marketing audit and a functional audit, which would focus far more specifically upon a particular element of marketing activity such as sales or pricing. As an example of this, a functional audit might well suggest that a high sales-force turnover and low morale is due to a combination of inadequate sales training and a poor compensation package. A more fundamental reason is, however, might be that the company has a poor or inadequate product range and an inappropriate pricing and advertising strategy. It is the comprehensiveness of the marketing audit which is designed to reveal these sorts of factors and to highlight the fundamental causes of the organization's problems.

Systematic auditing

In carrying out the audit it is essential that a sequential diagnostic process is adopted, covering the three areas to which reference was made earlier: the external environment, internal marketing systems and specific marketing activities. This process of diagnosis is then followed by the development and implementation of both short-term and long-term plans designed to correct the weaknesses identified and, in this way, improve upon levels of marketing effectiveness.

Independent auditing

As with a financial audit, there are several ways in which the marketing audit can be conducted. These include:

- ✓ A self-audit in which managers use a checklist to assess their own results and methods of operation
- ✓ An audit by a manager of the same status but drawn from a different department or division within the organization
- ✓ An audit by a more senior manager within the same department or division
- ✓ The use of a company auditing office
- ✓ A company task force audit group
- ✓ An audit conducted by an outside specialist.

Regular auditing

If the company is to benefit fully from the auditing process, it is essential that it is carried out on a regular basis. All too often in the past companies have been spurred into conducting an audit largely as the result of poor performance. Ironically, this poor performance can often be traced to a myopia on the part of management, stemming from a failure to review activities on a sufficiently regular basis is that no marketing operation is ever so good that it cannot be improved. Even the best must be better, for few if any marketing operations can remain successful over the years by maintaining the status quo.

Components of the audit

Within the general framework of the external and internal audits, there is the need to focus upon six specific dimensions. These are:

1. The marketing environment audit; This involves an analysis of the major macro-economic forces and trends within the organization's task environment, including markets, customers, competitors, distributors, dealers and suppliers.
2. The marketing strategy audit. This focuses upon a review of the organization's marketing objectives and strategy; with a view to determining how well suited they are to the current and forecasted market environment.
3. The marketing organization audit. This aspect of the audit follows on from point 2 above, and is concerned specifically with an evaluation of the structural capability of the organization and its suitability for implementing the strategy needed for the developing environment.
4. The marketing systems audit. This covers the quality of the organization's systems for analysis, planning and control.
5. The marketing productivity audit. This examines the profitability of different aspects of the marketing program and the cost-effectiveness of various levels of marketing expenditure.
6. The marketing functions audit. This involves a detailed evaluation of each of the elements of the marketing mix.

2.5. SWOT analysis

Although SWOT analysis is one of the best-known and most frequently used tools within the marketing planning process, the quality of the outputs often suffer because of the relatively superficial manner in which it is conducted. There are several ways in which SWOT analyses can be made more rigorous, and therefore more strategically useful. However, before we turn to the detail of the SWOT, it is perhaps worth summarizing the key elements of the four dimensions.

Identifying opportunities and threats

Faced with a constantly changing environment, each business unit needs to develop a marketing information system (MIS) that is capable of tracking trends and developments within the

marketplace. Each trend or development can then be categorized as an opportunity or a threat, and an assessment made of the feasibility and action needed if the organization is either to capitalize upon the opportunity or minimize the impact of the threat.

Figure 2.1 SWOT: a summary

STRENGTHS: Areas of (distinctive) competence that: ✓ Must always be looked at relative to the competition ✓ If managed properly, are the basis for competitive advantage ✓ Derive from the marketing asset base
WEAKNESSES: Areas of relative disadvantage that: ✓ Indicate priorities for marketing improvement ✓ Highlight the areas and strategies that the planner should avoid
THREATS: Trends within the environment with potentially negative impacts that: ✓ Increase the risks of a strategy ✓ Hinder the implementation of strategy ✓ Increase the resources required ✓ Reduce performance expectations
OPPORTUNITIES: Environmental trends with positive outcomes that offer scope for higher levels of performance if pursued effectively: ✓ Highlight new areas for competitive advantage

SWOT analysis is therefore designed to achieve two principal objectives:

1. To separate meaningful data from that which is merely interesting

2. To discover what management must do to exploit its distinctive competencies within each of the market segments both now and in the longer term.

However, in examining opportunities and threats, the reader needs to recognize that they can never be viewed as ‘absolutes’. What might appear at first sight to be an opportunity may not be so when examined against the organization’s resources, its culture, the expectations of its stakeholders, the strategies available, or the feasibility of implementing the strategy. At the risk

of oversimplification, however, the purpose of strategy formulation is to develop a strategy which will take advantage of the opportunities and overcome or circumvent the threats.

For our purposes, an opportunity can be seen as any sector of the market in which the company would enjoy a competitive advantage. These opportunities can then be assessed according to their attractiveness and the organization's probability of success in this area.

The probability of success is influenced by several factors, but most obviously by the extent to which the organization's strengths, and in particular its distinctive competences, match the key success requirements for operating effectively in the target market and exceed those of its competitors. Competence by itself is rarely sufficient in anything more than the short term since, given time, competitive forces will erode this competence. Because of this the strategist needs to concentrate upon developing competitive advantages which are sustainable over time.

Probability of success

Attractiveness

	High	low
High	1	2
Low	3	4

Figure 2.2: The opportunity matrix

Cell 1 consists of opportunities offering the greatest scope, and management should focus upon these. Cell 4, by contrast, represents those opportunities that are either too small or the organization is unlikely to be able to exploit effectively. Cells 2 and 3 offer certain attractions, and management should examine these closely to see whether scope exists either for improving their attractiveness or increasing the probability of success.

Threats can be classified on the basis of their seriousness and the probability of their occurrence; an example of how this can be done is illustrated in Figure 2.3. Given the nature of these comments, it can be seen that by putting together a picture of the major opportunities and threats

facing the business the marketing planner is attempting to arrive at a measure of the market's overall attractiveness. In essence, four possibilities exist:

1. An ideal business that is characterized by numerous opportunities but few, if any, threats

2. A speculative business that is high both in opportunities and threats

3. A mature business that is low both in opportunities and threats

4. A troubled business that is low in opportunities but high in threats.

Probability of occurrence

Seriousness		High	low
	High	1	2
	Low	3	4

Figure 2.3: The threats matrix

The threats in cell 1 are serious and have a high probability of occurrence. Because of this, the strategist needs to monitor developments closely and have a detailed contingency plan available to cope with any changes that take place. The threats in cells 2 and 3 need to be closely monitored in case they become critical. At this stage, contingency planning is unlikely to be necessary. Threats in cell 4 are very minor and can be largely ignored.

Identifying strengths and weaknesses

Although in many markets it is often a relatively simple process to identify a whole series of environmental opportunities, few organizations have the ability or the competences needed to capitalize upon more than a small number of these. Each business needs therefore to evaluate on a regular basis its strengths and weaknesses.

Each factor is rated by management or an outside consultant according to whether it is a fundamental strength, a marginal strength, a neutral factor, a marginal weakness, or a fundamental weakness. By linking these ratings, a general picture of the organization's principal strengths and weaknesses emerges. Of course, not all of these factors are of equal importance either in an absolute sense or when it comes to succeeding with a specific business opportunity. Because of this, each factor should also be given a rating (high, medium or low) either for the business as a whole or for a particular marketing opportunity.

<table>
<tr><th colspan="4">Performance</th></tr>
<tr><th></th><th></th><th>Low</th><th>High</th></tr>
<tr><td rowspan="2">Importance</td><td>High</td><td>1
The focus for greater Managerial effort in order to improve performance</td><td>2
Continue with the current effort to ensure that performance does not decline</td></tr>
<tr><td>Low</td><td>3
Areas of low priority</td><td>4
Re-think the current effort.
Is it worth spending in these areas?</td></tr>
</table>

Figure 2.4: The performance–importance matrix

On occasions, organizations suffer not because of a lack of individual, departmental or divisional strengths, but quite simply because the various departments or divisions do not work together sufficiently well. As part of the SWOT process, the strategist therefore should also pay attention to the quality of interdepartmental and divisional relationships with a view to identifying any dysfunctional areas. One of the ways in which this can be done is by conducting a periodic survey in which each department is asked to identify the strengths and weaknesses both of itself and of each other department. Action can then be taken to overcome areas of conflict, misunderstanding and inefficiency.

Issues of capability

Although the analysis of strengths and weaknesses is a valuable step in the auditing process, the reader needs to recognize that strengths and weaknesses by themselves are of little real planning value. Instead, they should be seen as a step towards the planner coming to terms with the broader issue of capability. In doing this, the planner is giving recognition to the way in which the value of any strategy or plan is ultimately determined not by strengths and weaknesses, but by the organization's capability and the extent to which it is able to outperform its competitors.

Although capability has been defined in several ways it is, in essence, the ability of the management team to get things done. In arriving at a measure of capability, the marketing strategist needs to come to terms with six principal areas:

1. ***Managerial capability***. This includes not just the abilities of individuals, but also – and perhaps more importantly – that of the team.

2. ***Financial capability***. This is determined in part by the availability of money, but also the expectations of how it is used, the extent to which the management team is willing to take risks when investing, and the returns that are expected.

3. ***Operational capability***. This involves the levels of day-to-day efficiency and effectiveness.

4. ***Distribution capability***. This is determined by a combination of geographic reach or coverage, penetration (the proportion of possible outlets) and the quality of these distributors.

5. ***Human resource capability***. This is a reflection of the nature and experience of staff throughout the business.

6. ***Intangible factors (such as the brand)***. In the case of a powerful brand, capability is extended enormously, since it provides the opportunity not just for brand stretching,but also for pricing at a premium, gaining access to the strongest forms of distributionand increasing levels of customer loyalty.

Making SWOT analyses more effective

Although SWOT analysis is a potentially useful input to the strategic marketing planning process, in practice it often suffers from a number of weaknesses. Amongst the most common of these are those:

- ✓ The planner fails to relate strengths and weaknesses to critical success factors
- ✓ Strengths and weaknesses are seen in absolute terms rather than in relation to the competition
- ✓ The elements of the analysis are insufficiently specific
- ✓ Competitors' capabilities are underestimated and/or misunderstood
- ✓ The focus is upon marketing-specific issues rather than reflecting a broader company perspective
- ✓ Emphasis is placed largely upon the 'hard' or quantifiable elements and fails to take account of managerial attitudes, cultures, capabilities and competencies.

2.6. Analysis of the marketing environment

If there is a single issue or theme which now links all types and sizes of organization, it is that of the far faster pace of environmental change and the consequently greater degree of environmental uncertainty than was typically the case even a few years ago. This change and uncertainty has been manifested in a wide variety of ways, and has led to a series of environmental pressures and challenges with which managers need to come to terms. In essence, therefore, in formulating the marketing plan, the planner is concerned with matching the capabilities of the organization with the demands of the environment.

In doing this, the planner is faced with a difficult problem, since what we typically refer to as the environment encapsulates a wide variety of influences. The difficulty lies, therefore, in coming to terms with this diversity in such a way that it contributes to effective decision-making, since it is this that has a direct influence upon performance. This difficulty in coping with the environment can be viewed under two headings:

1. Understanding the extent to which the environment affects strategy

2. Understanding the ways in which environmental pressures can be related to the capabilities of the organization.

Stages of environmental analysis

No organization exists in a vacuum. Marketing strategy must therefore develop out of a detailed understanding of the environment. Given this, the planner must:

➡ Know what to look for

➡ Know how to look

➡ Understand what he or she sees

➡ Develop the strategy and plan that takes account of this knowledge and understanding.

Analyzing the environment involves an initial audit of general environmental influences, followed by a series of increasingly tightly-focused stages that are designed to provide the planner with an understanding of the key opportunities and threats as a prelude to identifying the organization's strategic position. This process consists of five stages:

1. The starting point in this process is the general audit of environmental influences. The purpose of this is to identify the types of environmental factors that have influenced the organization's development and previous performance, and to arrive at an initial conclusion of the likely important influences in the future.

2. From here the strategist moves to an assessment of the nature of the environment and the degree of uncertainty and change that is likely to exist. If, from this, the strategist concludes that the environment is relatively static, then historical analysis is likely to prove useful. If, by contrast, the environment shows signs of instability, then a stronger emphasis upon the future is needed.

3. The third phase then involves focusing upon specific environmental factors such as the nature and structure of the market.

4. This in turn leads to an analysis of the firm's competitive position. In essence, this involves a combination of strategic group analysis in which competitors are mapped in terms of their similarities, dissimilarities, their capabilities and the strategies they follow, and market share analysis to highlight their relative degrees of market power.

5. This information is then used as the basis for identifying in detail how environmental forces are likely to affect the organization and, in particular, the opportunities and threats that are likely to exist. This in turn provides the basis for a detailed understanding of the organization's strategic position and the degree to which there is match between strategy, structure and environment.

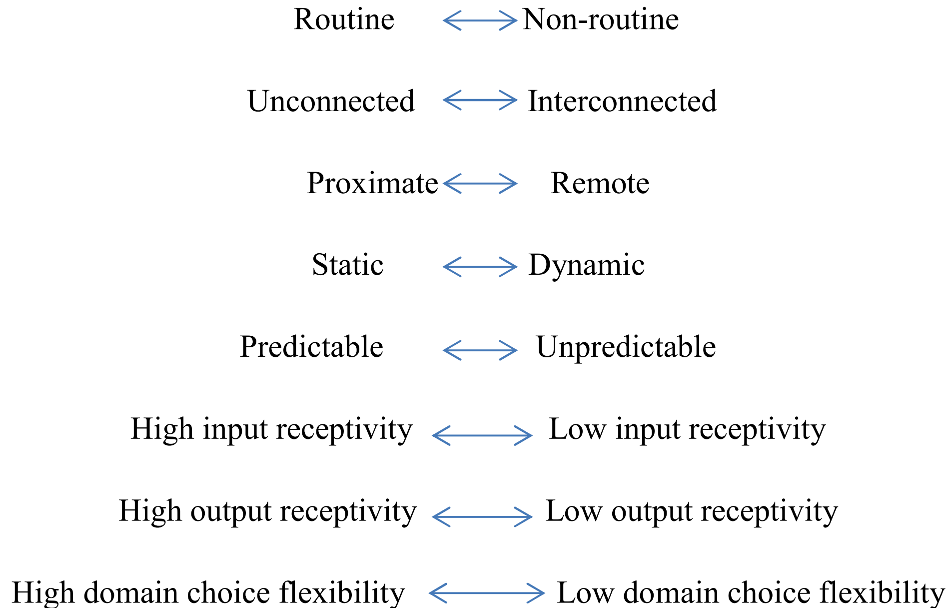
Environment types

The question of how to categorize environments is based upon the answers to the following six questions:

1. How complex is the environment? (Complexity is a measurement of the number of different environmental forces which have an impact, or potential impact, upon the organization.
2. How routine and standardized are organizational interactions with elements of the environment?
3. How interconnected and how remote, initially, are the significant environmental variables?
4. How dynamic and how unpredictable are the changes taking place around the organization?
5. How receptive is management to the ways in which environmental pressures adversely affect the input and output processes of the organization?
6. How high is flexibility of choice and to what extent is the organization constrained from moving into new areas?

Using this checklist of questions, the strategist should then be able to establish the organization's environmental position on a number of continua:

Simple ⟷ Complex



The implications of environmental change

Undoubtedly one of the major problems faced by managers comes when the organization, having operated for some time in a largely predictable environment, is faced with having to come to terms with a far more complex, uncertain and possibly malevolent environment. Among those who have had to do this in recent years are the major clearing banks, which have been faced with a very different type of competition, initially from telephone banking and then, subsequently, from Internet banking. Quite obviously, what is appropriate to a static environment is not suited to either a dynamic or a complex environment.

Static, dynamic and complex environments

With regard to the question of how the organization monitors the environment, evidence suggests that, in broadly static conditions, straightforward environmental scanning is likely to be a useful and generally adequate process. In a **dynamic** environment, however, the organization is typically faced with major change in the areas of technology and markets, with the result that decisions can no longer be based upon the assumption that what broadly has happened in the past will continue in the future. As a consequence of this, the focus needs to be upon the future with a far greater degree of inspirational interpretation.Among the techniques that have been used to do this is Delphic forecasting. The results are then used as the basis for building alternative scenarios.

This idea of alternative futures can then be used to identify the likely impact upon consumers, suppliers, competitors, government, the financial institutions, their probable responses, and subsequently their impact upon the organization.

For organizations faced with a complex environment, many of the issues and problems to which reference has been made are exacerbated.

"Complexity as a result of diversity might be dealt with by ensuring that different parts of the organization responsible for different aspects of diversity are separate and given the resources and authority to handle their own part of the environment. Where high knowledge requirements are important it may also be that those with specialist knowledge in the organization become very powerful because they are relied upon, not only to make operational decisions, but are trusted to present information in such a way that a sensible strategic decision can be made: or indeed they themselves become responsible for the strategic decisions. As information processing approach there may be an attempt to model the complexity. This may be done through a financial model, for example, which seeks to simulate the effects on an organization of different environmental conditions. In its extreme form there may be an attempt to model the environment itself."

Regardless, however, of the degree of complexity in the environment, there appear to be certain common strands in the ways in which managers cope with their environments. The most significant of these is that managers develop over time what can loosely be referred to as the accepted wisdom of the industry and the workable solutions to the various situations that are likely to emerge. One consequence of this is that the major competitive threats to organizations often come from companies outside the industry, which, on entering the market, adopt a strategy that falls outside this area of standardized expectation, allowing for the conventional wisdom of response to change to be adopted.

The political, economic, social and technological (PEST) environments

Effective marketing planning is based on two important analytical ingredients. First, market opportunity must be analyzed and, second, the company's ability to take advantage of these opportunities and cope with threats must be assessed. Under the first heading, there are four basic building blocks:

1. Customers must be analyzed to determine how the market can be segmented and what the requirements of each segment are
2. Competitors must be identified and their individual strategies understood
3. Environmental trends (social, economic, political, technological) affecting the market must be isolated and forecasted
4. Market characteristics in terms of the evolution of supply and demand and their interaction must be understood.

The political (and legal) environment

Marketing decisions are typically affected in a variety of ways by developments in the political and legal environments. This part of the environment is composed of laws, pressure groups and government agencies, all of which exert some sort of influence and constraint on organizations and individuals in society. With regard to the legislative framework, the starting point involves recognizing that the amount of legislation affecting business has increased steadily over the past two decades. This legislation has been designed to achieve a number of purposes, including:

- Protecting companies from each other so that the size and power of one organization to damage another is limited
- Protecting consumers from unfair business practice by ensuring that certain safety standards are met, that advertising is honest, and that generally companies are not able to take advantage of the possible ignorance, naivety and gullibility of consumers
- Protecting society at large from irresponsible business behavior

It is important therefore that the marketing planner is aware not only of the current legislative framework, but also of the ways in which it is likely to develop and how, by means of industry pressure groups and lobbying of parliament, the direction of legislation might possibly be influenced so that it benefits the company. At a broader level, the strategist should also be familiar with the way in which legislation in other countries differs, and how this too might provide opportunities and constraints.

The economic and physical environments

Within the majority of small and medium-sized enterprises (SMEs), the economic environment is typically seen as a constraint, since the ability of a company to exert any sort of influence on this element of the environment is, to all intents and purposes, negligible. As a consequence, it is argued, firms are typically put into the position of responding to the state of the economy. Having said this, larger companies, and particularly the multinationals (MNCs), are perhaps able to view the economic environment in a rather different way, since they are often able to shift investment and marketing patterns from one market to another and from one part of the world to another in order to capitalize most fully on the global opportunities that exist. For a purely domestic operator, however, the ability to do this is generally non-existent. For both types of company there is still a need to understand how the economic environment is likely to affect performance. The sorts of changes that are currently taking place in the economic environment can be identified as:

1. An increase in real income growth
2. Continuing inflationary pressures
3. Changes in the savings/debt ratio
4. Concern over levels of Third World debt
5. Different consumer expenditure patterns

The significance of changes such as these should not be looked at in isolation, but should be viewed instead against the background of changes in the political/economic balances of power and major changes in the physical environment.

The social, cultural and demographic environments

It should be apparent from what has been said so far that a broad perspective needs to be adopted in looking at the economic environment. From the viewpoint of the marketing planner, analysis of short-term and long-term economic patterns is of vital importance. In doing this, arguably the most useful and indeed logical starting point is that of demography, since not only is demographic change readily identifiable, but it is the size, structure and trends of a population that ultimately exert the greatest influence on demand. There are several reasons for this, the two most significant of which are, first, that there is a strong relationship between population and economic growth and, second, that it is the absolute size of the population that acts as the boundary condition determining potential or primary demand. A detailed understanding of the size, structure, composition and trends of the population is therefore of fundamental importance to the marketing planner. It is consequently fortunate that, in the majority of developed countries, information of this sort is generally readily available and provides a firm foundation for forecasting. At the same time, a variety of other equally important and far-reaching changes are currently taking place, including:

1. The growth in the number of one-person households;
2. A rise in the number of two-person cohabitant households;
3. An increase in the number of group households
4. A much greater degree of social mobility

At the same time a variety of other significant demographic shifts are taking place throughout the world, all of which need to be reflected in the planning process. These include:

1. Explosions in the world's population, with much of this growth being concentrated in those nations that, by virtue of low standards of living and economic development, can least afford it.
2. A slowdown in birth rates in many of the developed nations. Many families today, for example, are opting for just one child and this has had significant implications for a variety of companies.
3. An ageing population, as advances in medical care allows people to live longer. One result of this trend, which has in turn been exacerbated by the slowdown in the birth rate, has been an increase in the number of empty nesters who have substantial sums of discretionary income and high expectations.
4. Changing family structures as a result of:
   - ✓ Later marriage
   - ✓ Fewer children
   - ✓ Increased divorce rates
   - ✓ More working wives
   - ✓ An increase in the number of career women
5. Higher levels of education and an increasing number of families in what has traditionally been seen as the middle class.
6. Geographical shifts in population
7. A growth in the number of people willing to commute long distances to work, and an upsurge in the opportunities for telecommuting whereby people can work from home and interact with colleagues via computer terminals.

The technological environment

The fourth and final strand of the environment considered here is that of technology. Seen by many people as the single most dramatic force shaping our lives, technological advance needs to be seen as a force for 'creative destruction' in that the development of new products or concepts has an often fatal knockout effect on an existing product. The creation of the xerography photocopying process, for example, destroyed the market for carbon paper, while the development of cars damaged the demand for railways.The implications for the existing industry are often straightforward: change or die. The significance of technological change does,

however, need to be seen not just at the corporate or industry level, but also at the national level, since an economy's growth rate is directly influenced by the level of technological advance. Technology does, therefore, provide both opportunities and threats, some of which are direct while others are far less direct in their impact. Recognizing that the impact of technology is to all intents inevitable, therefore the areas to which the marketing planner should pay attention include:

- The accelerating pace of technological change
- Unlimited innovational opportunities
- Higher research and development budgets
- A concentration of effort in some industries on minor product improvements
- A greater emphasis upon the regulation of technological change

From the viewpoint of marketing, the implications of each of these areas are potentially significant, and argue the case for careful technological monitoring in order to ensure that emerging opportunities are not ignored or missed. This, in turn, should lead to more market-oriented, rather than product-oriented, research and to a generally greater awareness of the negative aspects of any innovation.

Review Questions

1. Discuss the usefulness of the concept of the SWOT analysis as a planning tool.
2. What are the appraisals that a firm should undertake when undertaking a self-audit?
3. One of the primary objectives of a market analysis is to assess its prospects for participants. Another key purpose of market analysis is to understand the dynamics of the market. Indicate how these objectives might be achieved.
4. Discuss the various ways in which an organization can try to change its external environment.
5. Explain the meaning of environmental scanning. Which constituents of the environment, from the viewpoint of a corporation, require scanning?
6. Illustrate with examples the relevance of technological, political, economic, social, and regulatory environments in the context of marketing strategy.

CHAPTER THREE

3. COMPETITIVE ANALYSIS

3.1. Introduction

Although the vast majority of marketing planners and strategists acknowledge the importance of competitive analysis, it has long been recognized that less effort is typically put into detailed and formal analysis of competitors than, for example, of customers and their buying patterns. In many cases this is seemingly because marketing managers feel that they know enough about their competitors simply as the result of competing against them on a day-by-day basis. In other cases there is almost a sense of resignation, with managers believing that it is rarely possible to understand competitors in detail and that, as long as the company's performance is acceptable, there is little reason to spend time collecting information. In yet others, there is only a general understanding of who it is that the company is competing against. The reality,however, is that competitors represent a major determinant of corporate success, andany failure to take detailed account of their strengths, weaknesses, strategies and areasof vulnerability is likely to lead not just to a sub-optimal performance, but also to anunnecessarily greater exposure to aggressive and unexpected competitive moves.Otherprobable consequences of failing to monitor competition include an increased likelihoodof the enterprise being taken by surprise, its relegation to being a follower ratherthan a leader, and to a focus on short-term rather than more fundamental long-termissues.

Competitive analysis should be a central element of themarketing planning process, with detailed attention being paid to each competitor'sapparent objectives, resources, capabilities, perceptions and competitive stance, as wellas to their marketing plans and the individual elements of the marketing mix. In thisway, areas of competitive strength and weakness can more readily be identified, andthe results fed into the process of developing an effective marketing strategy. Better andmore precise attacks can then be aimed at competitors and more effective defenseserected to fight off competitors' moves. An additional benefit of competitor analysis, incertain circumstances at least, is that it can help in the process of understanding buyingbehavior by identifying the particular groups or classes of customer to whom

eachcompetitor's strategy is designed to appeal. This can then be used as the basis for determiningthe most effective probable positioning strategy for the organization.

Recognition of these points leaves the strategist needing to answer five questions:

1. Against whom are we competing?

2. What strengths and weaknesses do they possess?

3. What are their objectives?

4. What strategies are they pursuing and how successful are they?

5. How are they likely to behave and, in particular, how are they likely to react to offensivemoves?

3.2. Intensity, or Degree, of Competition

The degree of competition in a market depends on the moves and counter moves of various firms active in the market. It usually starts with one firm trying to achieve a favorable position by pursuing appropriate strategies. Because what is good for one firm may be harmful to rival firms, rival firms respond with counterstrategies to protect their interests.

Intense competitive activity may or may not be injurious to the industry as awhole. For example, while a price war may result in lower profits for all membersof an industry, an advertising battle may increase demand and actually be mutuallybeneficial.

The following are the factors that affect the intensity of competition in the marketplace:

Opportunity Potential

A promising market is likely to attract firms seeking to capitalize on an availableopportunity. As the number of firms interested in sharing the pie increases, thedegree of rivalry increases.

Ease of Entry

When entry into an industry is relatively easy, many firms, including some marginalones, are attracted to it. The long-standing, committed members of theindustry, however, do not want

“outsiders’’ to break into their territory. Therefore,existing firms discourage potential entrants by adopting strategies that enhancecompetition.

Nature of Product

When the products offered by different competitors are perceived by customersto be more or less similar, firms are forced into price and, to a lesser degree, servicecompetition. In such situations, competition can be really severe.

Exit Barriers

For a variety of reasons, it may be difficult for a firm to get out of a particularbusiness. Possible reasons include the relationship of the business to other businessesof the firm, high investment in assets for which there may not be an advantageousalternative use, high cost of discharging commitments (e.g., fixed laborcontracts and future purchasing agreements), top management’s emotionalattachment to the business, and government regulations prohibiting exit (e.g., thelegal requirement that a utility must serve all customers).

Homogeneity ofthe Market

When the entire market represents one large homogeneous unit, the intensity ofcompetition is much greater than when the market is segmented. Even if theproduct sold is a commodity, segmentation of the market is possible. It is possible,for example, to identify frequent buyers of the commodity as one segment;and occasional buyers as another. But if a market is not suited to segmentation,firms must compete to serve it homogeneously, thus intensifying competition.

Industry Structure

When the number of firms active in a market is large, there is a good chance thatone of the firms may aggressively seek an advantageous position. Such aggressionleads to intense competitive activity as firms retaliate. On the other hand, ifonly a few firms constitute an industry, there is usually little doubt about industryleadership. In situations where there is a clear industry leader, care is oftentaken not to irritate the leader since a resulting fight could be very costly.

Commitment tothe Industry

When a firm has wholeheartedly committed itself to a business, it will do everythingto hang on, even becoming a maverick that fearlessly makes moves withoutworrying about the impact on either the industry or its own resources.

Feasibility of Technological Innovations

In industries where technological innovations are frequent, each firm likes to doits best to cash in while the technology lasts, thus triggering greater competitiveactivity.

Scale Economies

Where economies realizable through large-scale operations are substantial, a firmwill do all it can to achieve scale economies. Attempts to capture scale economiesmay lead a firm to aggressively compete for market share, escalating pressures onother firms. A similar situation occurs when a business's fixed costs are high andthe firm must spread them over a large volume. If capacity can only be added inlarge increments, the resulting excess capacity will also intensify competition.

Economic Climate

During depressed economic conditions and otherwise slow growth, competitionis much more volatile as each firm tries to make the best of a bad situation.

Diversity of Firms

Firms active in a field over a long period come to acquire a kind of industry standardof behavior. But new participants invading an industry do not necessarilylike to play the old game. Forsaking industry patterns, newcomers may have differentstrategic perspectives and may be willing to go to any lengths to achievetheir goals.

3.3.Against whom are we competing?

3.3.1.Identifying present competitors and new entrants

Although the answer to the question of who it is that a company is competing againstmight appear straightforward, the range of actual and potential competitors faced by acompany is often far broader than appears to be the case at first sight. The strategistshould, therefore, avoid

competitive myopia both by adopting a broad perspective andrecognizing that, in general, companies tend to overestimate the capabilities of largecompetitors and either underestimate or ignore those of smaller ones.

It is possible to see competition operating at four levels:

1. ***Brand competition*****:** A company sees its competitors as other companies that offer similar products and services to the same customers at similar prices.

2. ***Industry competition*****:** A company sees its competitors as all companies that make the same product or class of products.

3. ***Form competition:*** A company sees its competitors as all companies that manufacture products that supply the same service.

4.***Generic competition*****:** A company sees its competitors as all companies that compete for the same consumer dollars.

It should be apparent from this that the marketing strategist needs not only to identifythose competitors who reflect the same general approach to the market, but also toconsider those who 'intersect' the company in each market, who possibly approach itfrom a different perspective, and who ultimately might pose either a direct or an indirectthreat. As part of this, the strategist needs also to identify potential new entrants tothe market and, where it appears necessary, develop contingency plans to neutralizetheir competitive effect.

3.3.2. The industry perspective of competition

An industry is seen to consist of firms offering a product or classof products or services that are close substitutes for one another; a close substitute inthese circumstances is seen to be a product for which there is a high cross-elasticity ofdemand. An example of this would be a dairy product such as butter, where if the pricerises a proportion of consumers will switch to margarine. A logical starting pointfor competitor analysis therefore involves understanding the industry's competitivepattern, since it is this that determines the underlying competitive dynamics.

Anindustry can typically be categorized in terms of five types:

1. An absolute monopoly, in which, because of patents, licenses, scale economics orsome other factor, only one firm provides the product or service.

2. A differentiated oligopoly, where a few firms produce products that are partially differentiated.

3. A pure oligopoly, in which a few firms produce broadly the same commodity.

4. Monopolistic competition, in which the industry has many firms offering a differentiatedproduct or service.

5. Pure competition, in which numerous firms offer broadly the same product or service.

3.3.3.The market perspective of competition

As an alternative to the industry perspective of competition, which takes as its startingpoint companies making the same product or offering the same service, we can focus oncompanies that try to satisfy the same customer needs or that serve the same customergroups.Theodore Levitt has long been a strong advocate of this perspective and it was thiswhich was at the heart of his classic article 'Marketing Myopia'.In this article, Levittpointed to a series of examples of organizations that had failed to recognize howactual and potential customers viewed the product or service being offered. Thus, in thecase of railways, the railway companies concentrated on competing with one another andin doing this failed to recognize that, because customers were looking for transport, theycompared the railways with planes, buses and cars. The essence of the market perspectiveof competition, therefore, involves giving full recognition to the broader range of productsor services that are capable of satisfying customers' needs. This should, in turn, lead to themarketing strategist identifying a broader set of actual and potential competitors, andadopting a more effective approach to long-run market planning.

3.4.Identifying and evaluating competitors' strengthsand weaknesses

By this stage it should be apparent that the identification and evaluation of competitors'strengths, weaknesses and capabilities is at the very heart of a well-developedcompetitive strategy. The marketing planner should, as a first step, therefore concentrateupon collecting information under a number of headings as a prelude to a fullcomparative assessment. These include:

- ➡ Sales
- ➡ Market share
- ➡ Cost and profit levels
- ➡ Cash flows
- ➡ Return on investment
- ➡ Investment patterns
- ➡ Production processes
- ➡ Marketing and selling capabilities
- ➡ Financial capabilities
- ➡ Management capabilities and attitudes to risk
- ➡Human resources capability and flexibility
- ➡ Levels of capacity utilization
- ➡ Organizational culture
- ➡ Products and the product portfolio
- ➡ Product quality
- ➡Size and pattern of the customer base
- ➡Levels of brand loyalty
- ➡ Dealers and distribution channels
- ➡ Operations and physical distribution
- ➡ Previous patterns of response
- ➡Ownership patterns

The sources of this information will obviously vary from industry to industry, butwill include most frequently the sales force, trade shows, industry experts, the tradepress, distributors, suppliers and, perhaps most importantly, customers. Customerinformation can be gained in several ways, although periodically a firm may find it ofvalue to conduct primary research among customers, suppliers and distributors toarrive at a profile of competitors within the market.

The rate of an organizationand its four major competitors on a series of attributes is shown in figures 3.1 and 3.2 below.In the first of these,a list of characteristics that can be associated with success in the sector in questionhas been identified and each main competitor (including ourselves – ABC Co) hasbeen evaluated on each of the characteristics. From the total scores it appears thatRival 2 is the strongest competitor, with Rival 1 being only marginally weaker thanABC Co. However, while the relative strengths of each competing enterprise areclearly visible in Figure 3.1, there is no indication of the relative importance of each ofthe key success factors. For example, it may be that relative cost position and abilityto compete on price are the

most important factors for competitive success within thissector, with technological skills, advertising effectiveness and distribution being relativelyunimportant. These priorities can be indicated by weights, as in Figure 3.2.From this it is now evident that Rival 1 is the market leader, followed by Rival 2,which is ahead of ABC Co. These profiles indicate quite clearly the relative importanceof key success factors and the relative strength of each competitor on each ofthose factors.

Figure 3.1 Unweighted competitive strength assessment

Key success factor/ Strength measure	ABC Co	Rival 1	Rival 2	Rival 3	Rival 4
Quality/product performance	8	5	10	1	6
Reputation/image	8	7	10	1	6
Raw material access/cost	2	10	4	5	1
Technological skills	10	1	7	3	8
Advertising effectiveness	9	4	10	5	1
Distribution	9	4	10	5	1
Financial strength	5	10	7	3	1
Relative cost position	5	10	3	1	4
Ability to compete on price	5	7	10	1	4
Unweighted overall strength rating	**61**	**58**	**71**	**25**	**32**
Rating scale: 1 = Very weak; 10 = Very strong					

Figure 3.2 Weighted competitive strength assessment

Key success factor/ strength measure	Weight	ABC Co	Rival 1	Rival 2	Rival 3	Rival 4
Quality/product performance	0.10	8/0.80	5/0.50	10/1.00	1/0.10	6/0.60
Reputation/image	0.10	8/0.80	7/0.70	10/1.00	1/0.10	6/0.60
Raw material access/cost	0.10	2/0.20	10/1.00	4/0.40	5/0.50	1/0.10
Technological skills	0.05	10/0.50	1/0.05	7/0.35	3/0.15	8/0.40
Advertising effectiveness	0.05	9/0.45	4/0.20	10/0.50	5/0.25	1/0.05
Distribution	0.05	9/0.45	4/0.20	10/0.50	5/0.25	1/0.05
Financial strength	0.10	5/0.50	10/1.00	7/0.70	3/0.30	1/0.10
Relative cost position	0.30	5/1.50	10/3.00	3/0.90	1/0.30	4/1.20
Ability to compete on price	0.15	5/0.75	7/1.05	10/1.50	1/0.15	4/0.60
Sum of weights	1.00					
Weighted overall strength rating		**5.95**	**7.70**	**6.85**	**2.10**	**3.70**
Rating scale: 1 = Very weak; 10 = Very strong						

3.5. Evaluating competitive relationships and analyzing how organizations compete

In essence, five types of relationship can develop between an organization and its competitors:

1. *Conflict*: where the firm sets out to destroy, damage or force the competitor out of themarket.

2. *Competition:* where two or more firms are trying to achieve the same goals and penetratethe same markets with broadly similar product offers.

3. *Coexistence*: where the various players act largely independently of others in the market.This may in turn be due to the marketing planner being unaware of the competition;recognizing them but choosing to ignore them; or behaving on the basis thateach firm has certain territorial rights that, tacitly, each player agrees not to infringe.

4. *Cooperation*: where one or more firms work together to achieve interdependent goals.Typically, this is done on the basis of exchanging information, licensing arrangements,joint ventures and through trade associations.

5. *Collusion*: although typically illegal, has as its purpose that of damaginganother organization or, more frequently, ensuring that profit margins and the statusquo are maintained.

Given this, any analysis of *how* firms compete falls into four parts:

1. What is each competitor's current strategy?

2. How are competitors performing?

3. What are their strengths and weaknesses?

4. What can we expect from each competitor in the future?

However, before moving on to the detail of these four areas, the strategist should spendtime identifying what is already known about each competitor. There are numerousexamples of companies that have collected information on competitors only to find outat a later stage that this

knowledge already existed within the organization but that, forone reason or another, it had not been analyzed or disseminated.

In attempting to arrive at a detailed understanding of competitive relationships, itis essential that each competitor is analyzed separately, since any general analysis providesthe strategist with only a partial understanding of competitors, and tells littleeither about potential threats that might emerge or opportunities that can be exploited.It is worth remembering, however, that what competitors have done in the past canoften provide a strong indication of what they will do in the future. This is particularlythe case when previous strategies have been conspicuously successful.

Other factors that need to be borne in mind include:

➡ Patterns of investment in plant

➡ Links with other competitors

➡ Patterns of advertising expenditure

➡ Relative cost positions

➡ Major changes in the senior management structure, but particularly the appointmentof a new chief executive who might act as an agent for change.

3.6 Identifying competitors' objectives

Each competitor has a variety of objectives, each of which has a differentweight. These objectives might typically include cash flow, technological leadership,market share growth, service leadership or overall market leadership. Gaining aninsight into this mix of objectives allows the strategist to arrive at tentative conclusionsregarding how a competitor will respond to a competitive thrust. A firm pursuing marketshare growth is likely to react far more quickly and aggressively to a price cut or toa substantial increase in advertising than a firm that is aiming for, say, technologicalleadership.

In a general sense, however, company objectives are influenced by a wide variety of factors, but particularly the organization's size, history,culture and the breadth of the operating base.It follows that the marketing strategist should give explicit consideration to the relativeimportance

of each market to a competitor in order to understand the probablelevel of commitment that exists. By doing this, it is possible to estimate the level ofeffort that each competitor would then logically make in order to defend its position.

Several factors are likely to influence this level of commitment, the five most importantof which are likely to be:

1. The proportion of company profits that this market sector generates

2. The managerial perceptions of the market's growth opportunities

3. The levels of profitability that exist currently and that are expected to exist in thefuture

4. Any interrelationships between this and any other product or market sector in whichthe organization operates

5. Managerial cultures – in some companies, for example, any threat will be respondedto aggressively almost irrespective of whether it is cost-effective.

As a general rule of thumb, therefore, competitive retaliation will be strong wheneverthe company feels its core business is being attacked. Recognizing this, the marketingplanner should concentrate on avoiding areas that are likely to lead to this sort ofresponse, unless of course the target has a strong strategic rationale.

3.7. Identifying competitors' likely response profiles

Although knowledge of a competitor's size, objectives and capability (strengths andweaknesses) can provide the strategist with a reasonable understanding of possibleresponses to company moves such as price cuts, the launch of new products and so on,other factors need to be examined. One of the most important of these is the organization'sculture, since it is this that ultimately determines how the firm will do businessand hence how it will act in the future.

The issue of how a competitor is likely to behave in the future has two components.Firstly, how is a competitor likely to respond to the general changes taking place in theexternal environment and, in particular, in the marketplace? Secondly, how is that competitorlikely to respond to specific competitive moves that we, or indeed any other company,might make? For some

companies at least, there is also a third question that needsto be considered: how likely is it that the competitor will initiate an aggressive move,and what form might this move be most likely to take? In posing questions such as thesewe are trying to determine where each competitive company is the most vulnerable,where it is the strongest, where the most appropriate battleground is likely to be andhow, if at all, it will respond. In doing this, a potential starting point involves identifyingeach competitor's most probable reaction profile, the four most common of which are:

1. *The relaxed competitor*: the one who either fails to react or reacts only slowly to competitivemoves. There are several possible reasons for this, the most common of whichare that the management team believes that their customers are deeply loyal andare therefore unlikely to respond to a (better) competitive offer; they may fail to seethe competitor's move or underestimate its significance; they may not have theresources to respond; the market might be of little real importance; or the focus maybe upon harvesting the business. However, whatever the reason, the marketingstrategies must try to understand why the competitor is taking such a relaxedapproach.

2. *The tiger competitor*: the one who responds quickly and aggressively almost regardless of thenature and significance of any competitive move. Over time, firms such as thisdevelop a reputation for their aggression and in this way create Fear, Uncertaintyand Despair (FUD marketing) amongst other players in the market.

3. *The selective competitor*: the one who chooses carefully – and often very strategically – how,where and with what level of aggression they will respond to any competitive move.Such an approach is generally based not just on a clear understanding of the relativevalue of the organization's markets, but also on the costs of responding and the likelihoodof the response proving to be cost-effective.

4. *The unpredictable competitor*: the one for whom it proves difficult or impossible to identify inadvance how – or, indeed, if – they will respond to any particular move. The unpredictabilityof competitors such as this comes from the way in which in the past theymay have responded aggressively on one occasion, but not at all on another whenfaced with what appears to be a broadly similar attack.

3.8 Competitor analysis and the development of strategy

Given the nature of our comments so far, how then does the analysis of competitorsfeed in to the development of a strategy? Only rarely can marketing strategy be basedjust on the idea of winning and holding customers. The marketing strategist also needsto understand how to win the competitive battle. As the first step in this, as we haveargued throughout this chapter, the planner must understand in detail the nature andbases of competition, and what this means for the organization. In the absence of this,any plan or strategy will be built upon very weak foundations. This involves:

➡ knowing the strength of each competitor's position

➡ knowing the strength of each competitor's offering

➡ knowing the strength of each competitor's resources

➡understanding each competitor's strategy.

Against this background, the planner needs then to think about how this informationcan best be used. With respect to this, four areas of focus are illustrated in figure 3.3 below.

Figure 3.3 Linking competitor analysis to strategy

1. The market's key factors for success	➡ Identify the KFSs for industry ➡ Inject resources where you can gain a competitive advantage
2. Relative superiority	➡ Exploit differences in competitive conditions between company and rivals using technology and the sales network
3. Developing aggressive initiatives	➡ Challenge assumptions about the way of doing business ➡ Change the rules of the game ➡ Challenge the status quo ➡ Develop a fast-moving and unconventional strategy
4. Developing strategic degrees of freedom	➡ Be innovative ➡ Open up new markets or develop new

	products ➡ Exploit market areas untouched by competitors ➡ Search for 'loose bricks' in their position

It can be seen from this that it is through understanding the nature of the market'skey success factors and issues of relative strength and weakness that the planner canstart to move towards the development of the sorts of marketing initiatives and degreesof freedom that will underpin the strategy.

3.9 The competitive intelligence

*Competitive intelligence*is the publicly available information on competitors, currentand potential, that serves as an important input in formulating marketing strategy.No general would order an army to march without first fully knowing theenemy's position and intentions. Likewise, before deciding which competitivemoves to make, a firm must be aware of the perspectives of its competitors.Competitive intelligence includes information beyond industry statistics and tradegossip. It involves close observation of competitors to learn what they do best andwhy and where they are weak. No self-respecting business admits to not doing anadequate job of scanning the competitive environment, but what sets the outstandingcompanies apart from the merely self-respecting ones is that they watch theircompetition in such depth and with such dedication that, as a marketing executiveonce remarked to the author, "The information on competitive moves reaches thembefore even the management of the competing company learns about it.''

Essentially, knowledge about competitors comprise their size, growth, andprofitability, the image and positioning of their brands, objectives and commitments,strengths and weaknesses, current and past strategies, cost structure, exitbarriers limiting their ability to withdraw, and organization style and culture.

3.9.1. Procedures adopted to gather competitive intelligence

1.Recognize key competitors in market segments in which the company is active. Presumably a product will be positioned to serve one or more market segments.In each segment there may be different competitors to reckon with; an attemptshould be made to recognize all important competitors in each segment. If thenumber of competitors is excessive, it is sufficient to limit

consideration to thefirst three competitors. Each competitor should be briefly profiled to indicate totalcorporate proportion.

2. Analyze the performance record of each competitor. The performance of a competitorcan be measured with reference to a number of criteria. As far as marketingis concerned, sales growth, market share, and profitability are the important measuresof success. Thus, a review of each competitor's sales growth, market share,and profitability for the past several years is desirable. In addition, any ad hoc reasonsthat bear upon a competitor's performance should be noted.

3.Study how satisfied each competitor appears to be with its performance. Referto each competitor's objective(s) for the product. If results are in concert with theexpectations of the firm's management and stakeholders, the competitor will besatisfied. A satisfied competitor is most likely to follow its current successfulstrategy. On the other hand, if results are at odds with management expectations,the competitor is most likely to come out with a new strategy.

4.Probe each competitor's marketing strategy. The strategy of each competitorcan be inferred from game plans (i.e., different moves in the area of product,price, promotion, and distribution) that are pursued to achieve objectives.

Information on game plans is available partly from published stories on thecompetitor and partly from the salespeople in contact with the competitor's customersand salespeople.

To clarify the point, consider a competitor in the small appliances businesswho spends heavily for consumer advertising and sells products mainly throughdiscount stores. From this brief description, it is safe to conclude that, as a matterof strategy, the competitor wants to establish the brand in the mass marketthrough discounters. In other words, the competitor is trying to reach customerswho want to buy a reputable brand at discount prices and hopes to make moneyby creating a large sales base.

5.Analyze current and future resources and competencies of each competitor. Inorder to study a competitor's resources and competencies, designate and examine broadareas of concern: facilities and equipment, personnel skills, organizational capabilities,management capabilities etc.A checklist should be developed to specifically pinpoint thosestrengths that a competitor can

use to pursue goals against your firm as well asother firms in the market. Simultaneously, areas in which competitors look particularlyvulnerable should also be noted. The purpose here is not to get involved ina ritualistic, detailed account of each competitor but to demarcate those aspects ofa competitor's resources and competencies that may account for a substantial differencein performance.

6.Predict the future marketing strategy of each competitor. The above competitiveanalysis provides enough information to make predictions about future strategicdirections that each competitor may pursue. Predictions, however, must be madequalitatively, using management consensus. The use of management consensus asthe basic means for developing forecasts is based on the presumption that, byvirtue of their experience in gauging market trends, executives should be able tomake some credible predictions about each competitor's behavior in the future. Asenior member of the marketing research staff may be assigned the task of solicitingexecutive opinions and consolidating the information into specific predictionson the moves competitors are likely to make.

7.Assess the impact of competitive strategy on the company's product/market. The Delphi technique can be used to specify the impactof competitive strategy. The impact should be analyzed by senior marketingpersonnel, using competitive information and personal experiences on the job asa basis. Thereafter, the consensus of a larger group of executives can be obtainedon the impact analysis performed previously.

3.9.2. Sources of competitive intelligence

Essentially, three sources of competitive intelligence can be distinguished: (a) whatcompetitors say about themselves, (b) what others say about them, and (c) whatemployees of the firm engaged in competitive analysis have observed and learnedabout competitors.

What competitors say about themselves may include the likes of advertising, promotional materials, press releases, speeches, books, personnel changes, manuals, technical papers, seminars, annual meeting, annual reports, etc.

What others say about them may constitute sources like articles, consultants, newspaper reporters, environmental groups, consumer groups, suppliers, trade press, industry study, customers and subcontractors.

Review Questions

1. What is meant by competitive strategy? How should an organization set about determining its competitive strategy?
2. What is the industrial organization viewpoint of competition?
3. How does industry structure affect intensity of competition?
4. Take any five factors and explain how they determine the degree or intensity of competition in a market place.
5. Discuss the usefulness of Porter's five forces model in helping an organization develop its business strategies. With the aid of examples, explain how the five forces analysis defines the competitive environment of an industry.
6. What are key success factors? How might they be identified in practice?
7. How might a firm set about trying to collect information on a continuous basis about its competitors?

CHAPTER FOUR

THE FORMULATION OF STRATEGY

4.1. Targeting and positioning strategy

At a fundamental level marketing strategy is about markets andproducts. Organizations are primarily making decisions about whichmarkets to operate in and which products/services to offer to thosemarkets. Once those essential decisions have been taken the companythen has to decide on what basis it is going to compete in that chosenmarket. Segmentation is, therefore, at the heart of strategic marketingdecision making. In essence it is a strategic rather than an operationalissue and has to be treated as such.

Once segments have beenidentified they then have to be evaluated in order that an organizationcan decide which particular segments it should serve. Target marketing,or targeting, is the common term for this process.

Once target markets have been chosen an organization then has todecide how it wishes to compete. What differential advantage can itcreate that will allow the company's product or service to hold adistinctive place in the chosen market segment? This process isnormally called positioning. Targeting and positioning are criticalprocesses that require the attention of senior management.

4.1.1. Evaluating market segments

To evaluate different market segments effectively it is necessary tosystematically review two issues: the market attractiveness of thecompeting segments and the organization's comparative ability toaddress the needs of that segment. There are a number of criteria thatcan be used to judge the attractiveness of a market segment. These fallunder three broad headings: market factors, the nature of competitionand the wider environmental factors.

I. Market factors

When assessing market attractiveness the particular features of amarket will affect any evaluation.

Segment size- A large segment will generally have greater salespotential. This in itself will make it more attractive but it may alsooffer the potential of gaining economies of scale because of the largervolumes involved. Large segments with their potentially larger salescan justify the higher investments that may be necessary fororganizations wishing to operate within them. However, largesegments may not always be the most attractive. Large segments canbe more competitive as their very size will attract other companiesinto them. Smaller organizations may

not have the resources toaddress a large market and therefore may find smaller segmentsmore appropriate for their attention.

Segment rate of growth (measured in terms of real revenue growthafter inflation)- Segments that are growing are normally seen asbeing more attractive than segments where growth has peaked oreven begun to decline. Segments in growth are seen as having alonger-term potential and therefore justify any investment necessary.Once again, however, these segments are likely to be more competitiveas other companies also recognize their potential.

Segment profitability- What is the total profitability of the segment?If you are already operating in this segment it is not yourorganization's profitability alone that should be reviewed. In orderthat all segments are evaluated on a consistent basis it is theprofitability of all companies operating in the segment that should becalculated. This will have to be an estimate based on analyzing competitors' activities.

Customer price sensitivity- Segments where consumers have low pricesensitivity are likely to be more attractive as higher profit margins canbe gained. Consumers will be more concerned about quality andservice rather than price alone. Price sensitive segments are moresusceptible to price competition, which leads to lower margins.

Stage of industry life cycle- Entering a segment that is in the earlystages of an industry's life cycle offers the advantages of potentiallyhigh growth in the future. In the early stages there are also likely tobe fewer competitors. However, the early stages of the industry lifecycle are characterized by the need for high investment in new plant,promotional activities and securing distribution channels. Thisoccurs at a time when there may be only modest sales revenue. Therewill be a drain on cash into the new area of business that thecompany has to be able to fund. Businesses that are more interestedin cash generation or profits in the short term may consider maturemarkets more favorable. These markets are likely to require a moremodest level of investment.

Predictability- The potential value of a market will be easier topredict if it is less prone to disturbance and the possibility ofdiscontinuities. In the long term a predictable market is likely to bemore viable.

Pattern of demand- The attractiveness of a segment will be affectedby any seasonal or other cyclical demand patterns it faces. A largepercentage of sales in the gift and card market take place at Christmasin Western countries. An organization has to be able to withstand thecash flow implications of this skewed demand. The same problemoccurs in other industry sectors such as travel and tourism.

Potential for substitution- In any market there is the potential fornew solutions to be developed that will address consumers' needs.An organization should review markets to establish whether newinnovations could be used in the segment. Where substitutions arelikely an organization may decide not to enter on the basis that itmakes the segment less attractive. If, however, the organization hasthe ability to deliver that innovatory approach it may make thesegment a prime target as the company has the skills to change thenature of competition to their advantage.

II. Nature of competition in the target market and the underlying industry structure

Quality of competition- Segments that have weak competition aremore attractive than segments where there are strong and aggressivecompetitors. It is not the number of competitors operating but thenature of their competition that is critical in judging an opportunity.

Potential to create a differentiated position- A segment will be moreattractive if it contains unsatisfied customer needs that allow thecompany to create a differentiated product or service and gain ahigher margin by charging a premium price. If it is a commoditymarket then competition is likely to be driven by price and thesegment will be less attractive.

Likelihood of new entrants- Segments that currently have limitedcompetition may appear attractive. However, the potential for othercompanies to enter this market has to be taken into account.

Bargaining power of suppliers- An organization will be in a strongernegotiating position where there is a range of potential suppliers. If,however, supply is in the hands of a few dominant companies thebalance of power in negotiations will lie with the suppliers, makinga segment less attractive.

Bargaining power of customers- Customers may be the endcustomer but they can also be a customer in the channel ofdistribution, e.g. a major supermarket. If customers are in a

strongnegotiating position they will try to push suppliers' prices down,reducing margins. A market segment will be less favorable when afew major customers dominate it or the channels of distribution.

Barriers to entry into the market segment- There may be entrybarriers to a segment that will reduce its appeal. These can be in theform of patents, the necessity for new specialized plant or machinery,or the need for high promotional expenditure. It may be that theoverall level of investment necessary to enter an area successfullymay be unrealistic for some companies. These same barriers may alsoput off other potential entrants. Therefore if a company calculatesthat it can overcome these barriers it may be able to enter a segmentwhere there is little direct competition.

Barriers to exiting the market segment- There may be barriers thatmake exiting a segment difficult. Expensive facilities may have tobe built that can only be used in servicing a particular marketsegment. Therefore withdrawing from this segment would leaveexpensive plant redundant. Other barriers could include serviceagreements to provide spare parts to customers for a number ofyears into the future, or plant and machinery that would beexpensive to decommission. Organizations would have to anticipatethe potential barriers to exit when they are initially evaluating asegment's attractiveness.

III. Environmental factors

Social- Social changes can lead to newly emerging segments that arenot currently served by any organization. There can be a significantadvantage to companies that are the first to move into these areas.Organizations also need to review the impact that any likely changesin social trends will have on a particular segment.

Political- Changes in the political environment can create newsegments in a market. The deregulation of the utilities market createdseveral new market segments that organizations could address. Thepolitical environment may also make certain segments less attractive.Segments that

are located in particular geographic areas may beaffected by political instability. There may also be regulatory changesthat will affect a sector such as pharmaceuticals.

Economic- Economic trends may make segments more or lessattractive. For example, the growing affluence of older people inWestern economies is making them a much more attractive groupthan twenty years ago.

Technology- Technological changes have to be taken into considerationwhen evaluating a segment. A judgment will have to be madeas to whether new entrants will be able to enter a segment competingon a different basis by using technology to create innovative ways ofdelivering a product or service.

Environmental- Consumers' and governments' concerns aboutenvironmental issues have become much more important in recentyears. Therefore an evaluation of the environmental issues that mayaffect an organization's ability to service a segment will have to beconsidered.

4.1.2. Establishing organizational capability

Companies will not be capable of supplying every attractive segmentthat is identified. Having analyzed a segment's market attractiveness, itis then necessary to compare the needs of that group of consumers withthe organization's capabilities. An organization's strengths can bejudged by analyzing its assets and competencies.

Organizational capabilities will be made up of specific assets andcompetencies. The key areas to identify are where the organization issuperior to the competition.

Assets are organizational attributes, tangible or intangible,that can be utilized to gain advantages in the market. Obviously assets should not be viewed in isolation – it is alsoimportant to establish any competencies that give the organizationadvantages. The value chain is a useful framework to use to identifythese areas of unique competence. Keycompetencies may lie in primary activities. These include activities suchas in-bound logistics (e.g. inventory control), operations (e.g. manufacturing),out-bound logistics (e.g. global delivery), marketing (e.g.brand development) and service (e.g. installation). Other key competenciesmay lie in support activities such as procurement, technologydevelopment, human resource management and the organization'sinfrastructure.

4.1.3. Strategic alignment of assets and competencies (targeting)

The critical stage in the segmentation process is matching thecapabilities of the organization to attractive market segment opportunities.At a largely operational level management analyses organizationalassets and competencies to identify the skills and resources available tobuild low cost or differentiated positions. Where these assets orcompetencies currently, or with development could, surpass thecompetition, they form the basis for creating a specific competitiveposition in a target market. Company capability should always bejudged relative to the competition.

Areas that should be assessed when attempting to match assets and competencies with potential market segments may include:

Marketing assets- Does the market segment allow a company to take advantage of its currentmarketing strengths? Successful situations are more likely to occur where acompany's current brand identity, or method of distribution, is consistent withthose required to enter the new target market.

Cost advantage-Entering a price sensitive segment would be consistent with the capabilities ofan organization that has a low cost base.

Technological strengths-Where the organization has access to superior technology, is its use compatiblewith the market segment, and will it allow the company to gain any advantage?

Managerial capabilities and commitment-Does the company have the technical and managerial skills necessary tosuccessfully enter a market segment?

Overall, the organization has to establish whether entering aparticular segment is consistent with its long-term aims and objectives.If not then, no matter how tempting, entering the segment should beresisted. It will only divert company resources and management timeaway from the core goals of the enterprise.

Once the key areas of a company's capabilities have been identifiedthey can be aligned with the attractive market segments alreadyidentified. An organization should enter segments that allow it toexploit current assets and competencies, or that will allow potentialcapabilities to develop into

strengths. This is an area where adaptingportfolio models more normally used to evaluate current products orbusiness units can be useful.

4.1.4. The strategic nature of making target segment choices

Segmentation is a strategic processwhere qualitative and creative judgments have to be taken. Opportunitieshave to be evaluated on their strategic fit. Not only do the assetsand competencies of the organization have to have synergy with aparticular market segment, but wider issues have to be considered aswell. Opportunities have also to be evaluated on the followingsomewhat subjective criteria:

- Ability to allow the creation of a sustainable market position.
- Compatibility with the corporate mission.
- Consistency with the organization's values and the culture. Segmentsthat are a radical departure from current practice may challengethe prevailing values in the organization and the established statusquo. The new segment may challenge the current power structurewithin the organization, which will create influential barriers toimplementation.
- Ability to provide a focal point for action and future development inthe organization.
- Ability to facilitate an innovative approach to market entry.
- Ability of the current organizational structure to service the targetmarket. Does this opportunity lie between two areas of responsibilityin the current organizational structure? This may lead to theopportunity never being seriously addressed.
- Compatibility with current internal information flows and reportinglines.

4.1.5. Positioning and its alternatives

Having selected a target market or markets the organization then has todecide on what basis it will compete in the chosen segment or segments.How best can it combine its assets and competencies to create a distinctiveoffering in the market? This has to be done in such a way that consumerscan allocate a specific position to the company's product or service withinthe market, relative to other products. Consumers have to cope with ahuge amount of product information. Consumers will position a productin their mind in relation to other products on the market based on theirperception of the key attributes it contains. Consumers will see the keyattributes of Volvo

as safety and durability. BMW's main attributes arebased on performance, hence the 'The Ultimate Driving Machine'advertising slogan. When consumers consider the car market these twocompanies' products will be positioned relative to each other based onthese perceptions. Companies can attempt to associate various qualitieswith their product as a way to help shape consumers' perceptions of theirposition in the market. A brand can be positioned using a range ofassociations:

- **Product attributes**. Heinz positions it products on the attributes of no artificial coloring, flavoring or preservatives.
- **Product benefits**. Volvo positions itself using the product benefits ofsafety and durability.
- **Usage occasions**. The convenience store SPAR eight-till-late shops arepositioned on the usage occasion. Customers use the shops whenthey need to shop out of normal hours or near to their homes. Kit Kat('Have a break, have a Kit Kat') links the brand to tea and coffeebreaks in the UK market.
- **Users**. Ecocover cleaning products are positioned as environmentallyfriendly products for the green customer.
- **Activities**. Lucozade is positioned as an isotonic drink for sportingactivities.
- **Personality**. Harley Davidson motorbikes are positioned as a machoproduct with a free spirit.
- **Origin**. Audi clearly illustrates its German origins in the UK marketby the use of the 'Vorsprungdurchtechnik' slogan. The hope is thatthe product will be linked to the German reputation for qualityengineering.
- **Competitors**. Pepsi-Cola is positioned as the choice of the nextgeneration reflecting the fact that in blind tasting tests youngerpeople preferred Pepsi over competitors' offerings.
- **Product class**. Kellogg's Nutrigrain bars are positioned as 'morningbars', a substitute for the traditional breakfast.
- **Symbol**. Esso petrol has used the symbol of the tiger to position itselfin the market.

These are the various ingredients that can be used by an organizationendeavoring to influence consumers' perceptions of the productoffering. Companies have to decide which of these they

can use and,more importantly, how they wish to position their product in themarket *vis-à-vis*the competing options.

Four factors are of critical importance for successful positioning(Jobber, 1995):

Credence- The attributes used to position the product have to beperceived to be credible by the target customers. It would be verydifficult for a nuclear power generator to position itself as environmentallyfriendly.

Competitiveness- The product should offer the consumer benefitswhich competitors are not supplying.

Consistency- A consistent message over time is invaluable in helpingto establish a position against all the other products and servicesfighting for a share of the market. An organization that changes itspositioning on a regular basis causes confusion in the consumer'smind. This will mean they have an unclear perception of exactly whatare the key characteristics of the product.

Clarity- The positioning statement an organization chooses has tocreate a clearly differentiated position for the product in the minds ofthe target market.

Positioning alternatives

In a seminal work, Ries and Trout (1981) claim that when consideringpositioning there are three principal alternatives open to an organization:

1. An organization can build on a current position to create a **distinctive perception** of the brand by consumers.
2. Having established the attributes that are most important to the consumer, see if there are any **unoccupied** positions that are desirable in consumer's minds and therefore viable opportunities.
3. Due to changes in consumer behavior or where perhaps there has been of a failure of the original positioning a third alternative can be considered which is to **reposition** the brand.

4.2. Analyzing the product portfolio

4.2.1. The development of strategic perspectives

Strategic planning process is developed based on three central premises:

1. The company's business should be viewed and managed in a similar way to aninvestment portfolio, with each aspect of the business being closely monitored anddecisions subsequently made on which products or specific parts of the businessshould be developed, maintained, phased out or deleted.

2.Emphasis should be placed upon identifying in detail the future profit potential ofeach aspect of the business.

3. A strategic perspective to the management of each major element of the businessshould be adopted. This notion of what has sometimes been referred to as a 'gameplan' for achieving long-term objectives required the strategist to plan on the basis ofindustry position, objectives, opportunities and resources.

It needs to be recognized, however, that for the strategist to be able to adopt thisapproach to management, there is a need to understand in detail the complexities of theinterrelationships that exist between different parts of the organizational structure. Inthe majority of businesses, three different organizational levels can be identified: ***the corporate level, the business unit level and the product level.***

At the corporate level, the decisions made are concerned principally with the corporatestrategic plan and how best to develop the long-term profile of the business.This, in turn, involves a series of decisions on the levels of resource allocation to individualbusiness units, be it a division, subsidiary or brand, and on which new potentialbusiness should be supported. Following on from this, each business unit should,within the resources allocated by corporate headquarters, then develop its own strategicplan. Finally, marketing plans need to be developed at the product level. Plans atall three levels need then to be implemented, the results monitored and evaluated, and,where necessary, corrective action taken.

4.2.2. Strategic planning and issues of responsibility

It should be apparent that the ultimate responsibility forthe planning process rests firmly with corporate management.This process, whichinvolves statements of vision, mission, policy and strategy, establishes the broad frameworkwithin which plans at the business unit level are then developed. In practice, ofcourse, organizations differ greatly both in how they go about this and in the degree offreedom given to the managers of individual business units. Some organizations, forexample, allow the managers of business units considerable scope in developing theirown objectives and strategies, requiring only that the promised levels of performanceare then obtained–this is typically referred to as *bottom-up planning*. Others, by contrast,adopt an approach that is diametrically opposed to this in that they not onlyestablish the objectives, but also subsequently insist on being involved in the developmentand implementation of strategy (*top-down planning*).Still others are content toestablish the goals and then leave the business unit to develop the strategies for theirachievement (*goals down/plans up*). However, irrespective of which approach is adopted,corporate management has the ultimate responsibility for the four major dimensions ofplanning:

1. The definition of the vision and business mission

2. Establishing the company's strategic business units (SBUs)

3. Evaluating the existing business portfolio

4. Planning new businesses, downsizing, or terminating older businesses

5. Identifying new areas for the business to enter.

4.2.3. Planning with SBUs

The idea of SBUs as the basis for planning first emerged in the 1960s and gave recognitionto the fact that the majority of companies operate a number of businesses, not all ofwhich will necessarily be immediately apparent or identifiable. It does not follow, forexample, that a company with four operating divisions will have four businesses andhence four SBUs, since one division may in practice contain several quite separate businesses.

This typically comes about when the division produces different products forvery different customer groups. Equally, two or three divisions may overlap or be interrelatedin such a way

that, in effect, they form a single business. It is therefore importantthat the planner understands in detail the nature and extent of these interrelationshipsso that the organization's strategy can be developed in the most logical way.

SBUs exhibit a number of characteristics, the threemost important of which are that an SBU:

1. It is a single business or a collection of related businesses that offer scope for independentplanning and might feasibly stand alone from the rest of the organization.

2. Has its own set of competitors

3. Has a manager who has responsibility for strategic planning and profit performance,and control of profit-influencing factors.

The identification ofSBUs is a convenient starting point for planning since, once the company'sstrategic business units have been identified, the *responsibilities* for strategic planningcan be more clearly assigned. In practice, the majority of companies work on the basisthat strategic planning at the SBU level has to be agreed by corporate management.Thus, plans are typically submitted on an annual basis, with corporate managementthen either agreeing them or sending them back for revision.

In going through this process of review, corporate management attempts to identifyfuture potential and hence where investment can most profitably be made. Thisin turn leads to the development of a variety of frameworks in which products are categorizedon the basis of their potential. One of the best known of these was put forward byDrucker (1963), who labeled products as:

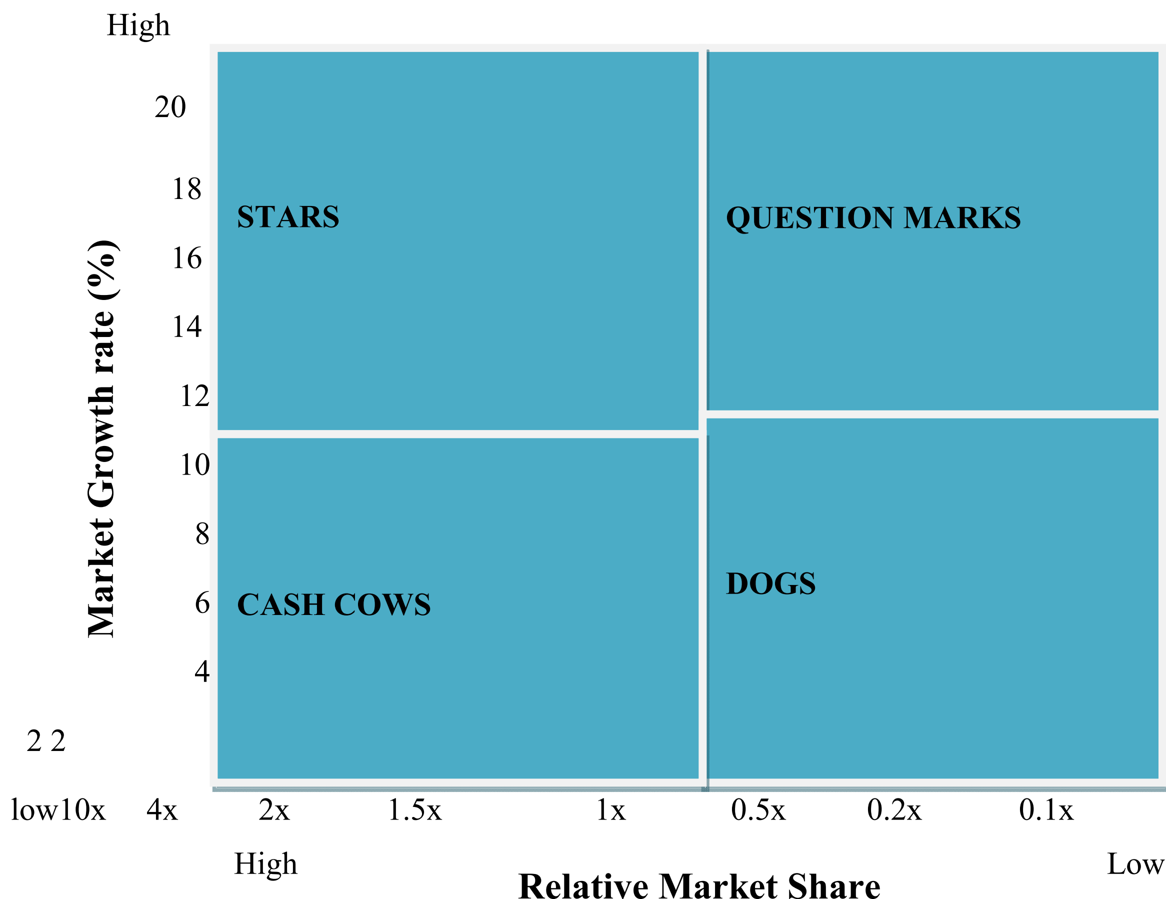
- Tomorrow's breadwinners
- Today's breadwinners
- Products that are capable of making a contribution assuming drastic remedial actionis taken
- Yesterday's breadwinners
- The also-rans
- The failures.

By categorizing products or SBUs in this way, corporate management is movingtowards a position where decisions regarding patterns of investment in the overallportfolio can be made with a far higher degree of objectivity than is typically the casewhen each SBU is viewed in partial or total isolation. To help with this and in order toensure that the process is analytical rather than impressionistic, a number of models ofportfolio evaluation have been developed. Among the best known of these are theBoston Consulting Group's growth–share and growth–gain matrices.

4.2.4. Models of portfolio analysis

A. The Boston Consulting Group's growth–share matrix

Undoubtedly the best-known approach to portfolio analysis, the Boston ConsultingGroup's (BCG) growth–share model involves SBUs being plotted on a matrix accordingto the *rate of market growth* and their *market share relative to that of the largest competitor*.This is illustrated in Figure 4.1**Figure 4.1 Boston Consulting Group's growth-share matrix**



In using these dimensions as the basis for evaluating the product portfolio, theBoston Consulting Group forces management to give explicit consideration both tothe *future potential of the market*(i.e. the annual growth rate) and to the *SBU's competitiveposition*. Within the model, competitive position is measured on a logarithmicscale against the share of the firm's largest competitor; thus, a relative market share of 0.3 in Figure 4.1 signifies that the SBU's sales volume is 30 per cent of the leader'ssales volume, while 4.0 would mean that the company's SBU is the market leader andhas four times the market share of the next largest company in the market. A ratio of1.0 signifies joint leadership. The vertical axis is then used to illustrate the largelyuncontrollable annual rate of market growth in which the business operates. In Figure 4.1 this ranges from 0 to 20 per cent, with a growth rate in excess of 10 per centbeing seen as high.

The 2 ×2 matrix that emerges from this is based on four assumptions:

1. Margins and the funds generated increase with market share largely as the result ofexperience and scale effects

2. Sales growth demands cash to finance working capital and increases in capacity

3. Increases in market share generally need cash to support share-gaining tactics

4. Growth slows as the product reaches life-cycle maturity and, at this stage, a surplusof cash can often be generated without the organization experiencing any loss ofmarket share; this can then be used to support products still in the growth stages oftheir life cycles.

The matrix itself is divided into four cells, each of which indicates a different type ofbusiness with different cash-using and cash-generating characteristics; the characteristicsof each of these cells are discussed below:

Dogs (low share, low growth)

Dogs are those businesses that have a weak market share in a low-growth market. Typically they generateeither a low profit or return a loss. The decision faced by the company is whether to hold on to the dog forstrategic reasons (e.g. in the expectation that the market will grow, or because the product provides anobstacle, albeit a minor one, to a competitor). Dog businesses frequently

take up more management timethan they justify and there is often a case for phasing out (shooting) the product.

Question marks (low share, high growth)

Question marks are businesses operating in high-growth markets but with a low relative market share. Theygenerally require considerable sums of cash since the firm needs to invest in plant, equipment and manpowerto keep up with market developments. These cash requirements are, in turn, increased significantly if thecompany wants to improve its competitive position. The title of **question mark** comes about becausemanagement has to decide whether to continue investing in the SBU or withdrawing from the market.

Stars (high share, high growth)

Stars are those products which have moved to the position of leadership in a high growth market. Their cashneeds are often high with the cash being spent in order to maintain market growth and keep competitors atbay. As stars also generate large amounts of cash, on balance there is unlikely to be any positive or negativecash flow until such time as the state of market growth declines. At this stage, provided the share has beenmaintained, the product should become a cash cow.

Cash cows (high share, low growth)

When the rate of market growth begins to fall, stars typically become the company‘s cash cows. The termcash cow is derived from the fact that it is these products which generate considerable sums of cash for theorganization but which, because of the lower rate of growth, use relatively little. Because of the SBU‘sposition in the market, economies of scale are often considerable and profit margins high.

Having plotted the position of the organization’s SBUs, the balance and health ofthe portfolio can be seen fairly readily. A balanced portfolio typically exhibits certaincharacteristics, including a mixture of cash cows and stars. By contrast, an unbalancedand potentially dangerous portfolio would have too many dogs or question marks, andtoo few stars and cash cows. The likely consequence of this is that insufficient cash willbe generated on a day-to-day basis to fund or support the development of other SBUs.

Having identified the shape of the portfolio, the planner needs then to consider theobjectives, strategy and budget for each SBU. In essence, four major strategies can bepursued:

1. ***Build.*** In following a building strategy, the primary objective is to increase the SBU'smarket share in order to strengthen its position. In doing this, short-term earningsand profits are quite deliberately forsaken in the expectation that long-term returnswill be far greater. It is a strategy that is best suited to question marks, so that theybecome stars.

2.***Hold.*** The primary objective in this case is to maintain the current share. It is the strategythat typically is used for cash cows to ensure they continue to generate the maximumamounts of cash.

3. ***Harvest.*** By following a harvesting strategy, management tries to increase short-termcash flows as far as possible, even at the expense of the SBU's longer-term future. It isa strategy best suited to cash cows that are weak or are in a market with seeminglyonly a limited future life. It is also used on occasions when the organization is inneed of cash and is willing to mortgage the future of the product in the interests ofshort-term needs. Harvesting is also used for question marks when there appear tobe few real opportunities to turn them into stars, and for dogs.

4. ***Divest or terminate.*** The essential objective here is to rid the organization of SBUs that actas a drain on profits or to realize resources that can be used to greater effect elsewhere inthe business. It is a strategy that, again, is often used for question marks and dogs.

Having decided which of these four broad approaches to follow, the strategist needsthen to give consideration to the way in which each SBU is likely to change its positionwithin the matrix over time. SBUs typically have a life cycle that begins with theirappearance as question marks and their progression through the stages of star, cashcow and, finally, dog. It is essential therefore that the BCG matrix is used not simply toobtain a snapshot of the portfolio as it stands currently, but rather that it is used to seehow SBUs have developed so far and how they are likely to develop in the future. Indoing this, it is possible to gain an impression of the probable shape and health of theportfolio in several years' time, any gaps that are likely to exist, and hence the sort ofstrategic action that is needed in the form of decisions on new products, marketing supportand indeed product deletion. This process can then be taken a step further if similarcharts are developed for each major competitor, since by doing this the strategistgains an insight into each

competitor's portfolio strengths, weaknesses and potentialgaps. The implications can then be fed back into the organization's own strategy.

B.The General Electric multifactor portfolio model

The thinking behind General Electric's multifactor model is straightforward and basedon the argument that it is not always possible or appropriate to develop objectives or tomake investment decisions for an SBU solely on the basis of its position in the growth–share matrix. The General Electric model therefore takes the general approach a stepfurther by introducing a greater number of variables against which the position of SBUsmight be plotted. This model involves SBUs being ratedagainst two principal dimensions: *industry attractiveness* and *competitive position*. These two factors make excellent marketing sense for rating a business. Companies are successful to the extent that they enter attractive markets and possess the required business strengths to succeed in those markets. If one of these factors is missing, the business will not produce outstanding results. Neither a strong company operating in an unattractive market nor a weak company operating in an attractive market will do well.

Industry attractive is determined by factors like overall market size, annual market growth rate, historical profit margin, competitive intensity, technological requirements, inflationary vulnerability, energy requirements and environmental impact. Equally, the competitive position or the businessstrength is influenced by factors such as market share, share growth, product quality, brand reputation, distribution network, promotional effectiveness, productive capacity and efficiency, research and development performance etc.

Using these two dimensions, the business units are plotted in the nine cells of the matrix and strategies pursued are presented in figure 4.2 below.

Figure 4.2 The General Electric multifactor portfolio model strategies

Competitive Position

Industry Attractiveness	Strong	Average	Weak
High	**PROTECT POSITION** - Invest to grow at maximum digestible rate - Concentrate efforts on maintaining strength	**INVEST TO BUILD** - Challenge for leadership - Build selectively on strengths - Reinforce vulnerable areas	**BUILD SELECTIVELY** - Specialize around limited strengths - Seek ways to overcome weakness - Withdraw if indications of sustainable growth are lacking
Medium	**BUILD SELECTIVELY** - Invest heavily in most attractive segments - Build up ability to counter competition - Emphasize profitability by raising productivity	**MANAGE FOR EARNINGS** - Protect existing program - Concentrate investments in segments where profitability is good and risks are relatively low	**OR HARVEST** - Look for ways to expand without high risk; otherwise, minimize investment and rationalize operations
Low	**PROTECT AND REFOCUS** - Manage for current earnings - Concentrate on attractive segments - Defend strengths	**MANAGE FOR EARNINGS** - Protect position in most profitable segments - Upgrade product line - Minimize investment	**DIVEST** - Sell at time that will maximize cash value - Cut fixed costs and avoid investment meanwhile

4.3.Porter's three generic competitive strategies

Overall cost leadership

By pursuing a strategy of cost leadership, the organization concentrates upon achievingthe lowest costs of production and distribution so that it has the *capability* of setting itsprices at a lower level than its competitors. Whether it then chooses to do this dependson its objectives and its perception of the market.More commonly, firms that set out to be costleaders then use this lower cost base to reduce prices and in this way build marketshare.

Although cost reduction has always been an important element of competitivestrategy, Portersuggests thatCost leadership requires aggressive construction of efficient-scale facilities, vigorouspursuit of cost reductions from experience, tight cost and overhead control, avoidance ofmarginal customer accounts, and cost minimization in areas like R&D, service, sales force,advertising, and so on.

In tackling costs the marketing planner therefore needs to recognize in advance thepotential complexity of the task, since the evidence suggests that true cost leaders generallyachieve this by very tight and consistent control across *all* areas of the business,including engineering, purchasing, manufacturing, distribution and marketing. Animportant additional element, of course, is the scale of operations and the scope thatexists for economies of scale. However, scale alone does not necessarily lead to lowercosts; rather it provides management with an *opportunity* to learn how the triad of technology,management and labor can be used more effectively. Whether these opportunitiesare then seized depends on the management stance and determination to takeadvantage of the *potential* that exists for cost cutting.

The potential benefits of being a low-cost producer are quite obviously significant,since the organization is then in a far stronger position to resist all five competitiveforces, outperform its rivals and erect barriers to entry that will help protect the organization'slong-term position.

Differentiation

By pursuing a strategy of differentiation, the organization gives emphasis to a particularelement of the marketing mix that is seen by customers to be important and, as aresult, provides a meaningful basis for competitive advantage. The firm might thereforeattempt to be the quality

leader, service leader,marketing leader, or the technological leader. Otherpotential bases for differentiation include:

➡ Speed, by being the first into new market segments

➡ Levels of reliability that are higher than those of the competition

➡ Design

➡ Levels of service and delight

➡ Unique product features

➡ The brand image and personality

➡ New technologies

➡ A greater number and/or more relevant product features

➡ Stronger and more meaningful relationships.

It should be apparent that, if a strategy of differentiation is to succeed,there is a need for a very different set of skills and attitudes than is suited to costleadership. Instead of a highly developed set of cost control skills, the strategistneeds to be far more innovative and flexible so that me-too companies are kept at adistance.

Focus

The third of the generic strategies identified by Porter involves the organization in concentratingits efforts upon one or more narrow market segments, rather than pursuing abroader-based strategy. By doing this the firm is able to build a greater in-depth knowledgeof each of the segments, as well as creating barriers to entry by virtue of its specialistreputation. Having established itself, the firm will typically then, dependingupon the specific demands of the market, develop either a cost-based or differentiatedstrategy.

One of the biggest problems faced by companies adopting this approach stemsparadoxically from its potential for success since, as the organization increases in size,there is a tendency both

to outgrow the market and to lose the immediacy of contactthat is often needed. As a general rule, therefore, a focused strategy is often best suitedto smaller firms, since it is typically these that have the flexibility to respond quickly tothe specialized needs of small segments.

Specializing in this way also enables the organization to achieve at least some of thebenefits of the other two strategies since, although in absolute terms the scale of operationsmay be limited, the organization may well have the largest economies of scale*within* the chosen segment. Equally, the greater the degree of concentration upon a targetmarket, the more specialized is the firm's reputation and hence the greater the degree ofperceived product differentiation.

Although Porter presents competitive strategies in this way, many companies succeednot by a blind adherence to any one approach, but rather by a combination of ideas. It follows from this that the identification, development and maintenance ofa competitive advantage, and hence a strong selling proposition, is at the very heartof an effective marketing strategy.

4.4. Strategies for leaders, followers, challengers, and nichers

4.4.1. The influence of market position on strategy

In discussing how best to formulate marketing strategy, we have focused so far on thesorts of model and approaches to planning that can help to formalize the analyticalprocess. In making use of models such as these, the strategist needs to pay explicitattention to a series of factors, including the organization's objectives and resources,managerial attitudes to risk, the structure of the market, competitors' strategies and,very importantly, the organization's position within the market.The significance ofmarket position and its often very direct influence upon strategy has been discussed indetail by a wide variety of writers, most of whom suggest classifying competitive positionalong a spectrum from market leader to market nichers:

Market leader- In the majority of industries there is one firm that is generally recognizedto be the leader. It typically has the largest market share and, by virtue of itspricing, advertising intensity, distribution coverage, technological advance and rateof new product introductions, it determines the nature, pace and bases of competition.It is this dominance that typically provides the benchmark for other companiesin the industry. However, it needs to be emphasized that market leadership,although often associated with size, is in reality a more complex concept and

shouldinstead be seen in terms of an organization's ability to *determine the nature and basesof competition within the market*.

Market challengers and followers- Firms with a slightly smaller market share can adoptone of two stances. They may choose to adopt an aggressive stance and attack otherfirms, including the market leader, in an attempt to gain share and perhaps dominance(market challengers), or they may adopt a less aggressive stance in order to maintainthe status quo (market followers).

Market nichers- Virtually every industry has a series of small firms that survive, andindeed often prosper, by choosing to specialize in parts of the market that are toolimited in size and potential to be of real interest to larger firms.By concentrating theirefforts in this way, market nichers are able to build up specialist market knowledgeand avoid expensive head-on fights with larger companies.

This approach to classification has, in turn, led to a considerable discussion of thestrategic alternatives for leaders, challengers and nichers, with numerous analogiesbeing drawn between business strategy and military strategy. The idea has been toshow how the ideas of military strategies might be applied to the alternatives open to a company intent ongaining or retaining a competitive advantage. Within this section we will thereforeexamine some of these ideas and show how market leaders might defend their currentposition, how challengers might attempt to seize share, and how followers and nichersare affected by this.

4.4.2. Strategies for market leaders

Although a position of market leadership has undoubted attractions, both in terms ofthe scope that often exists to influence others and a possibly higher return on investment,leaders have all too often in the past proved to be vulnerable in the face of anattack from a challenger or when faced with the need for a major technological change.If, therefore, a market leader is to remain as the dominant company, it needs to defendits position constantly. In doing this, there are three major areas to which the marketingstrategist needs to pay attention:

1. Expanding the total market

- Targeting groups thatcurrently are non-users
- Identifying new uses for theproduct/service
- Increasing usage rates

2. Protecting the organization's current share of the market

- Strong market positioning
- The development andrefinement of meaningfulcompetitive advantage(s)
- Continuous product andprocess innovation
- A generally proactive stance
- Heavy advertising
- Strong customer relations
- Strong distributor relations

3. Increase market share

- Heavy advertising
- Improved distribution
- Price incentives
- New product development
- Mergers
- Takeovers
- Geographic expansion
- Distributor expansion

Marketing strategy and military analogies: lessonsfor market leaders

The greater intensity of competition that has taken place throughout the world in recent years has led to many managers developing an interest in models of military warfare witha view to identifying any lessons that might be learned and applied to business. From theviewpoint of a market leader intent on defending his position, there are six militarydefense strategies that can be

used: position defense, mobile defense, flanking defense,contraction defense, pre-emptive defense and counter-offensive defense.

Position defense

Arguably one of the consistently least successful methods of defense, the positiondefense or fortress, relies on the apparent impregnability of a fixed position.A company attempting a fortress defense will find itself retreating from line after lineof fortification into shrinking product markets. The stationary company will end up withoutdated products and lost markets, undermined by competitors who find superiority innew products in the marketplace. Even a dominant leader cannot afford to maintain astatic defense. It must continually engage in product improvement, line extensions andproduct proliferations.

Mobile defense

The second approach, a mobile defense, is based in part on the ideas discussed by Theodore Levitt in 'Marketing Myopia'; here, rather than becoming preoccupiedwith the defense of current products and markets through the proliferation of brands,the strategist concentrates upon market broadening and diversification. The rationalefor this is to cover new territories that might in the future serve as focal points both foroffence and defense. In doing this, the intention is to achieve a degree of strategicdepth, which will enable the firm not just to fight off an attacker, but to retaliate effectively.At the heart of a mobile defense, therefore, is the need for management to definecarefully, and perhaps redefine, the business it is in. Several years ago, for example, thebicycle manufacturers redefined their business by recognizing that their future was thatof leisure and health rather than that of cheap and generally functional transport.

However, in pursuing a strategy of market broadening, the marketing strategistshould never lose sight of two major principles – the *principle of the objective* (pursue aclearly defined and realistic objective) and the *principle of mass* (focus your efforts uponthe enemy's point of weakness). The implications of these are perhaps best understoodby considering for a moment the oil industry. In the 1970s, faced with the likelihood ofoil reserves being exhausted in the twenty-first century, the oil companies were encouragedto redefine their business from that of petrol and oil to that of 'energy'. This ledseveral companies to experiment with, and in some cases invest in, nuclear energy, coal,hydroelectric power, solar energy and wind power. In the

majority of cases, however,success has at best been limited and in some instances has diluted the company's massin the markets it is operating in currently. A strategy of market broadening shouldtherefore be realistic and reflect not just the two principles referred to above but also,and very importantly, company capability.

The second dimension of a mobile defense involves *diversification* into unrelatedindustries. Among those who have done this, in some cases with considerable success,are the tobacco manufacturers, who, faced with a declining market, have moved intoindustries such as food and financial services, both of which offer greater long-term stabilityand profits. The net effect of this has been that their vulnerability to predators hasbeen reduced significantly, although there is an irony in the linking of tobacco productswith life assurance, which could produce another related net effect.

Flanking defense

It has long been recognized that the flank of an organization, be it an army or a company,is often less well protected than other parts. This vulnerability has several implicationsfor the marketing strategist, the most significant of which is that secondarymarkets should not be ignored. Leaders under attack would be foolish to rely on building fortifications around their current product; the market leader should also erect outposts to protect a weak front or possibly serve as an invasion base for counterattack.

Contraction defense

There are occasions when, faced with an actual or potential attack, a company will recognizethat it has little hope of defending itself fully. It therefore opts for a withdrawalfrom those segments and geographical areas in which it is most vulnerable or in whichit feels there is the least potential. It then concentrates its resources in those areas inwhich, perhaps by virtue of its mass, it considers itself to be less vulnerable.

Pre-emptive defense

Recognizing the possible limitations both of a position defense and a contractiondefense, many strategists, particularly in recent years, have begun to recognize thepotential value of pre-emptive strikes. This involves gathering information on potentialattacks and then, capitalizing upon competitive advantages, striking first. Pre-emptivestrikes can take one of two broad forms: either the company behaves aggressively by, forexample, hitting one competitor after another, or it uses psychological warfare by lettingit be known how it will behave if a competitor acts in a particular way, a strategy whichhas been labeled FUD marketing – that is, spreading 'fear uncertainty and despair'.

Counter-offensive defense

The final form of defense tends to come into play once an attack has taken place. Facedwith a competitor's significant price cut, major new product or increase in advertising,a market leader needs to respond in order to minimize the threat. This response cantake one of three forms:

- ✓ Meet the attack head-on
- ✓ Attack the attacker's flank
- ✓ Develop a pincer movement in an attempt to cut off the attacker's operational base.

4.4.3. Strategies for market challengers

Companies that are not market leaders are faced with a straightforward strategicchoice: either they attack other firms – including perhaps the market leader – in anattempt to build market share and achieve leadership themselves (*market challengers*), orthey pursue a far less aggressive strategy and, in doing so, accept the status quo (*marketfollowers*). In deciding between the two, several factors need to be taken into account,the most significant of which are the costs of attacking other firms, the likelihood ofsuccess, the eventual probable returns, and the willingness of management to engage inwhat in most cases will prove to be a costly fight.

Frontal attacks

In launching a frontal attack, a market challenger can opt for either the *pure frontalattack* (by matching the leader product for product, price for price, and so on) or arather more *limited frontal attack* (by attracting away selected customers).

Flank attacks

As an alternative to a costly and generally risky frontal attack, many strategists havelearned the lesson from military history that an indirect approach is both more economicaland more effective. In business terms, a flanking attack translates into an attack onthose areas where the leader is geographically weak and in market segments or areas oftechnology that have been neglected.

Encirclement attacks

Whereas flanking in its purest form involves an attack on just one front, encirclementhas parallels with a blitzkrieg in that it involves launching an attack on as many frontsas possible in order to overwhelm the competitor's defenses. In this way, the defender'sability to retaliate effectively is reduced dramatically. Whilst this is an expensive strategyto pursue, and one that is almost guaranteed to lead to significant short-termlosses, its record of success in the hands of certain types of company is impressive.

Bypass attacks

The fourth approach, a bypass attack, is (in the short-term at least) the most indirect ofassaults in that it avoids any aggressive move against the defender's existing productsor markets. Instead, the strategist typically concentrates on developing the organizationby focusing on *unrelated products, newgeographical markets for existing products and, in the case of the hi-tech industries, bytechnological leap-frogging.*

Guerrilla warfare

The fifth option open to a challenger is in many ways best suited to smaller companieswith a relatively limited resource base. Whereas frontal, flanking, encirclement andeven bypass attacks are generally broad-based and costly to pursue, a guerrilla attack ismade up of a series of hit-and-run moves designed to demoralize the opponent as aprelude to destabilizing and keeping the

competitor off balance. In practice, this typicallyinvolves drastic short-term price cuts, sudden and intensivebursts of advertising, product comparisons, damaging public relations activity, poachinga competitor's key staff, legislative moves, and geographically concentrated campaigns.

4.4.4. Strategies for market followers

As an alternative to challenging for leadership, many companies are content to adopta far less proactive posture simply by following what others do.

Counterfeiter

The counterfeiter duplicates the leader's product and package and sells it on the black market or through disreputable dealers.

Cloner

The cloner emulates the leader's products, name, and packaging, with slight variations

Imitator

The imitator copies some things from the leader but maintains differentiation in terms of packaging, advertising, pricing, or location.

Adapter

The adapter takes the leader's products and adapts or improves them.

Followers do therefore need to decide how they intend operating and, in particular,how closely they intend following the market leader. In doing this, it is essential thatthe firm reduces its vulnerability as much as possible by a combination of tight costcontrol, an early recognition of developing opportunities, and a clear product and servicestrategy. This final point is particularly significant, since there is a danger of seeingmarket followers quite simply as imitators of the market leader. Where this does happenthe dangers of confusion among customers increases and the reasons for buyingfrom the follower decrease markedly.

4.4.5. Strategies for market nichers

The fourth and final strategic position for a firm is that of a market nicher. Althoughniching is typically associated with small companies, it is in practice a strategy that isalso adopted by divisions of larger companies in industries in which competition isintense and the costs of achieving a prominent position are disproportionately high.The advantages of niching can therefore be considerable since, if properly done, it is notonly profitable but also avoids confrontation and competition.

The attractiveness of a market niche is typically influenced by several factors, themost significant of which are:

- It needs to be of sufficient size and purchasing power to be profitable
- There is scope for market growth
- The niche is of little immediate interest to the major competitors
- The firm has the abilities and resources to be able to serve the niche effectively
- The firm is capable of defending itself against an attack through areas such as customer loyalty.

It is specialization that is at the heart of effective niching. Specialization can, however, prove dangerous if the market changes in a fundamentalway, either as the result of greater competition or an economic downturn, andthe nicher is left exposed. For this reason, there is often a strong argument for multipleniching rather than single-sector niching.

Review Questions

1. What factors impact upon a firm's selection of market segments? What do you understand by 'segment strategies' and how do these influence a firm's approach to market segmentation?
2. What do you understand by a competitive positioning strategy? How is product or service positioning accomplished? Discuss the factors that influence choice of positioning strategy.
3. What is repositioning and why are products and services repositioned periodically?
4. Discuss how an organization should set about identifying and selecting competitive strategies.

5. Explain why firms need to have a balanced product/service portfolio to ensure long-term survival and growth.
6. Explain how the Boston Consulting Group (BCG) model might be used to assess the health of a firm's product mix and to suggest strategies. What are the limitations of the BCG model?
7. How might the GE/McKinsey matrix be used to assess the health of a firm's product mix and to suggest strategies? What are the limitations of the GE/McKinsey model?
8. Porter argues that failure to make the choice between cost leadership and differentiation implies that a company is 'stuck in the middle', with no competitive advantage. How can this point of view be reconciled with the success of those firms which apply both of these strategic thrusts?
9. What is an SBU? What criteria may be used to divide businesses into SBUs?

- Differentiate between:

  (a) market leader

  (b) market challenger

  (c) market follower

  (d) market nicher

  and discuss the various strategies which might be pursued by each one of the four categories.

CHAPTER FIVE

5. THE STRATEGIC MANAGEMENT OF THE MARKETING MIX

5.1. Product decisions and strategy

Because the product is at the very heart of marketing strategy, the need to manage it strategically is of paramount importance, since how well this is done is the key both to the organization's overall financial performance and to the gaining and retaining of market share. The question of *how* to manage the product strategically is not necessarily answered easily, however, and for many firms involves a careful balancing of costs, risks and returns. In doing this, explicit consideration needs to be given to competitors and in particular to the probable implications of any moves that they are likely to make.

In many cases, time is a critical dimension of product strategy and exerts a significantinfluence on any marketing manager's freedom of movement. In the long term,say five to ten years, products can be changed radically in almost all industries and cantherefore make a major contribution to corporate objectives. In the short term, however,the product is often much more inflexible. In the car industry, for example, a period offour years or so is often needed to develop and introduce a totally new model. In theshorter term, the strategist's flexibility is consequently more limited and restricted to aseries of minor and often cosmetic changes. For this reason, innovation tends not to bea major element of short-term marketing strategy. Instead, the strategist is limited to aseries of package and label changes, new varieties, accessories, options, and combinationsof products that inject a degree of newness into the market.

In developing an effective product strategy, a variety of factors need to be considered.The first, and in many ways the most important, is the question of the *type* ofproduct strategy that is to be pursued. Is it, for example, to be broadly offensive orbroadly defensive? If it is to be offensive, the strategist needs to consider not just howthis is to be translated into action, but also its feasibility and the costs and risks that areassociated with it. We can identify four types of product strategy:

1. A market leader product strategy

2. A leadership challenging product strategy, which might translate, initially at least,into 'the strategy of the fast second', whereby the firm allows the existing leader toincur the costs and risks of developing a new product and then moves in rapidlyafter the launch with a copy or an improved version of the product

3. A product following strategy

4. A me-too product strategy.

When an organization is intent either onleading or challenging, the implications for product strategy are considerable and arelikely to make heavy demands upon resources.The majority of

leaders retain theirleadership position by means of a series of small and large innovations, supported by aheavy investment in advertising and distribution. For a challenger to succeed, theimplications are straightforward, and in many industries require an even greater levelof investment and/or the sort of radical and breakpoint thinking.

The question of which strategy to pursue cannot be made in isolation, but requiresa detailed understanding both of the organization's current position and capabilities,and of each competitor's stance and likely response pattern when challenged. The startingpoint should therefore be an assessment of the organization's current portfolio.Such an assessment can be carried out in one of several ways, including using the productlife cycle and techniques of portfolio analysis. Based on this sort of analysis, Drucker (1963) recommends classifyingproducts in one of six ways:

- ✓ Tomorrow's breadwinners
- ✓ Today's breadwinners
- ✓ Products that are capable of making a contribution assuming that drastic action is taken
- ✓ Yesterday's breadwinners
- ✓ Also-rans
- ✓ Failures.

This approach to classification then provides the basis for posing three questions:

1. Should we continue to market the product?

2. If so, should the strategy and level of resource allocation be changed in a minor way?

3. Should there be a major rethink of the product's strategy (e.g. a relaunch, a repositioning,or a major styling change)?

In answering these questions, the strategist needs to consider a variety of factors, butmost importantly how the product is perceived by consumers and distributors; itsprobable future sales pattern; the scope that exists for repositioning or extending thelife of the product; the availability of resources; the returns that are being generatedcurrently; the ways in which returns are likely to

increase or decrease in the future; possiblecompetitive moves that will affect consumers' perceptions of the product; and thenature of any competing demands for the resources currently being absorbed by theproduct. In addition, consideration needs to be given to the relative rates of productand market growth, and whether the product is growing at a faster or slower rate thanthe overall market. Regardless of whether the growth rate is faster or slower, the strategistneeds to consider firstly why this is the case and then secondly the strategic implicationsof this.

Much of the information needed for this should be generated on a regular basis by theorganization's marketing information system, although in some instances specific studiesof buyers, distributors and competitors will be needed. By studying the product on a regularbasis and, in particular, by focusing upon changing consumer needs and competitors'moves, the strategist should be able to identify more readily any inadequacies that existand the scope or need for product development.

Brand strategies

A fundamental element of any product strategy is the role played by the brand. Brandsare designed to enable customers to identify products or services that promise specificbenefits. As such, they are a form of shorthand in that they create a set of expectationsin the minds of customers about purpose, performance, quality and price. This, in turn,allows the strategist to build added value into products and to differentiate them fromcompetitors. Because of this, well-known brand names such as Nike, Microsoft, Nokia,Intel, Disney and McDonald's are of enormous strategic and financial value, and are inmany cases the result of years of investment in advertising, positioning and distributiondevelopment. The significance of this in the case of Coca-Cola has been highlightedby the suggestion that the company's brand name is now worth far more than the grossnational product of many nations. It also helps to explain why pirating of brand nameshas developed with enormous rapidity over the past decade.

To be truly effective, a brand strategy has to develop over time and reflect environmentalconditions. There is therefore a need for brand development, the key elements ofwhich involve a detailed understanding of:

1. Current perceptions of the brand amongst customers and the trade

2. The expectations of both customers and the trade

3. The strengths and weaknesses of each brand within the portfolio

4. The value of each of the brands

5. The links that exist between the different brands owned and the nature and significanceof any overlaps and gaps

6. Following on from point 5, the dangers of brand cannibalization

7. When and where new brand names need to be developed

8. The scope that exists for licensing

9. The opportunities for brand stretching

10. Probable competitor moves

11. Corporate expectations of the brand, something that highlights the need for a branddevelopment plan.

The starting point for this involves analyzing the brand in order to understand in detailwhat it means to customers and how much it is worth. In doing this, the strategistneeds to identify the core values, the scope that exists for extending the brand nameinto other product or market sectors, and the areas that must be avoided at all costs.The core values relate to the essential meaning of the brand and can be subdivided intothe *inner core values* or intrinsic qualities, which if altered would seriously damage thebrand's integrity, and the *outer core values*, which have a greater degree of flexibility.

From here, the strategist needs to move on to consider the interrelationships betweenthe brand names used. In the case of the Volkswagen Golf GTi, for example, Volkswagenis the umbrella name, Golf the model, and GTi the designation for performance. The issuehere, therefore, is the extent to which names can be used, how they might be extendedand how they might be used in combination with other models in the range.

The third stage involves deciding how far brand names can be stretched and stillbe meaningful.A company that has done this with considerable success in the 1990s isMars, which, having developed a very strong brand name and image with Mars Bars,then stretched the name into a Mars drink and Mars ice-cream. Similarly, Johnson &Johnson, best known for its baby care products, stretched its brand name to cover arange of toiletry products for men, while Marks & Spencer stretched its name forclothes into foods, home furnishings and financial services.

In attempting to stretch a brand, the strategist needs to tread carefully. The obviousdanger, of course, is that of moving into an area in which the brand name has little relevanceor which detracts from the value of the brand in its core market.

As an alternative to brand stretching, or indeed in addition to brand stretching, thestrategist can opt for the development of new brand names. The strategist, however, needs to tread carefully and consider developing a new brandname only when certain criteria can be satisfied. These include:

- The product has a series of distinctive values
- The consumer benefits are both strong and obvious
- Acceptance of the new product is highly likely
- When using an existing brand name would be inappropriate because there is littleapparent linkage between the existing and new products
- When using an existing name would weaken the novelty impact of the new product.

For those organizations with very strong brand names there is often scope for generatingadditional profits by means of licensing.

The final stage of any brand development stems from the need for an explicit branddevelopment plan. There is little real evidence to suggest, despite the growing recognitionof the need for planning, that this extends into the area of brand name development.Because of this, and because of the significance of the brand name, the strategistshould concentrate upon developing a brand development plan showing how eachbrand name is to be used over the next five years. In doing this, the strategist needs toconsider five key questions:

1. What does the brand mean today and what do we want it to mean in three and fiveyears' time?

2. What line extensions and new products do we wish to develop under this brandname?

3. What changes in market needs and consumer demographics do we foresee that willrequire us to modify or change the brand meaning?

4. What are the detailed plans by year for achieving these changes in the next fiveyears, and what are the sales, spending and profit implications?

5. Bearing in mind the new markets we wish to enter, which ones can be covered withexisting brand names and which need new brand names?

A final issue that needs to be considered at this stage stems partly from the developmentstaking place in the media as a result of the emergence of the global media footprints that have emerged as the result of satellite broadcasting,and partly from the growing internationalism of companies. The combination of thesefactors has led several manufacturers to reconsider their branding policies. Whereaspreviously different brand names have been used for the same product in differentcountries, there is now a move towards a greater commonality.

Main Aspects of brand management

I. Creating brand equity

The overall aim of branding decisions is to create an identity for theproduct or service that is distinctive and also in line with the targetingand positioning decisions already taken. Organizations should strive toproduce a brand equity that delivers value to the consumer. This willresult in either the customer showing greater brand loyalty or beingwilling to pay a premium price for the product. Brand equity accordingto Aaker (1991) is ‘a set of assets and liabilities linked to a brand’s name andsymbol that add to or subtract from the value provided by a product orservice to a firm and/or that firm’s customers’

Brands that contain high equity have strong name awareness, strongassociations attached to the brand, a perception of quality and have highlevels of brand loyalty.To create a brand that

exhibitsthese characteristics (brand awareness, brand identity, perceived quality, and brand loyalty) takes time and investment.However, once established, a successful brand will, in its ownright, become a valuable asset to an organization.

II. Brand valuation

There has been a trend in recent years for companies to try to turn thegeneral concept of brand equity into a specific financial valuation forthese organizational assets and to account for them on their companybalance sheets separately from goodwill. Accountants have largely beenat the forefront of this approach and have developed a range of factorsseen as indicators of a brand's value. All are linked to the ability of thebrand to sustain higher returns than competitors. These factors include:

- **Market type**. Brands operating in high margin, high volume andstable markets will carry a higher valuation than brands in lessprofitable or stable sectors. The confectionery or beer markets havetraditionally been seen as less liable to changes in technology orfashion. Deciding on the potential of a market type, however, is fullof difficulties. Even the drinks industry now shows signs of moreregular changes in consumers' behaviour. It should also be borne inmind that one of the aims of developing a strong brand is to allow acompany to compete on other factors than price in order to makestrong margins even in what could be seen as commodity markets.
- **Market share**. Brands that are market leaders are deemed tocommand a premium because competitors will find it difficult toovercome consumers' tendency to buy the dominant brand. In effect,holding the market leadership position is seen as a barrier to entry forother brands.
- **Global presence**. Brands that either are, or carry the potential to be,exploited internationally obviously carry more value than brandswithin a purely domestic market. Developments in e-commerce maylower barriers to establishing a global brand name and therefore seta potential challenge to the high values placed on current globalbrands. There is also, obviously, the potential for the current globalbrands to end up as the dominant players in the e-commerce marketthereby reinforcing their position and value.

- **Durability**. Some brands manage to maintain a contemporary appealand retain their relevance to customers over a long period of time.These brands have created strong customer loyalty and become anestablished player in the market. A study by Blackett found thatbrands such as Cadbury in the chocolate market, Gillette in razors,Kodak in film and Colgate in toothpaste, were all the brand leadersin their market areas over the period 1931 to 1991 (Murphy, 1992).Such long-term brand leaderships are therefore likely to generatehigh valuations.
- **Extendability**. Brands that have the ability to be extended into relatedmarkets or stretched in new markets offer greater value than brandswith more limited options. The Bic brand, for example, has beensuccessfully extended from disposable pens into a number of otherdisposable markets such as cigarette lighters and razors.
- **Protection**. Brands that have some protection from being copiedthough patents or registered trademarks or designs, potentially offergreater value. However, this protection has in reality been limited. Inparticular, retailers have launched own label products with similarpackaging to market leading brands.

The factors considered so far have generally been developments froman accountancy perspective. However, there is a range of othersignificant factors marketers perceive to be crucial in terms of judgingthe brand's potential value.

- **Superior products and services**. Brands that offer the consumer products and/or services that are superior to those of competitorscreate greater value. Brands that are perceived to deliver clearbenefits to the consumer, such as quality, style, or cheapness, presentthe company with a clear asset in the market.
- **Country of origin**. The identity of the country of origincan either attach or deductvalue from a brand. Association with Scotland is seen as attachingvalue to fresh food products in countries such as France. Associationwith Britain, however, has been deemed to have a negative image byconsumers in certain market sectors such as telecommunications. Thisresulted in British Telecom for example, re-branding itself as BT as away of distancing itself from its country of origin and appearing moreinternational. Conversely, in the clothing market in the USA,association with Britain is seen as positive, much to the benefit ofbrands such as Barbour (jackets etc.) and Church's shoes.

- **Market domination**. The brand's ability to gain extensive coverage inthe market, a dominant position in the distribution channels, and theability to command good shelf positions are all assets of considerablevalue. Most of these attributes accompany brand leadership andmerely add to the potential that market position gives a brand. Thereis some limited evidence, however, that affluent customers are nowmoving away from the major brands as a way of standing out fromthe crowd. In Japan there has even been the development of a retailclothing store, Seibu, successfully selling high quality clothing thatcarry no branded labels.

III. Brand name strategy

Anorganization also has to decide its policy for naming brands across all itsproducts and services. Branding decisions for any new products can thenbe taken within this framework. The focal point of decisions on brandingstrategy is about the emphasis the organization wishes to place oncreating a distinctive offering in the market against the weight it wishesto place on the origin of the product or service.

Between the extremes offered by these two approaches (*Increasing emphasis on thedifferentiation of the product or service*and *Increasing emphasis on theorigin of the product or service)* lie severaloptions available to an organization when considering an overall brandstrategy:

- **Corporate brand**. Organizations following this approach use one corporate name across all products. Heinz would be a classic example of this unified approach. Individual products merely carry a descriptive name under the corporate umbrella Heinz brand, hence Heinz Baked Beans, Heinz Cream of Mushroom Soup, Heinz Tomato Ketchup. Linking the individual products together creates a strong overall image. It also gives the opportunity to create economies of scale in marketing communication and possibly distribution. The clear danger is that if there is a problem with an individual product the reputation of all the products may suffer.
- **Multi-brand**. Multi-branding or discrete branding is the completeopposite of the corporate branding approach. With multi-brandingeach product is given its own unique brand name. The aim is to buildcompletely separate brand identities. This is appropriate

if theorganization is competing in a number of different segments and theconsumers' perceptions of a product's position in one segment mayadversely affect the consumers' perceptions of another product. Aclassic example of this approach would be Proctor & Gamble, whoproduce a range of washing powders such as Daz, Ariel and Boldaimed at discrete sectors of the market.

- **Company and individual brand (endorsed approach)**. Unileverused to practice a multi-brand approach with its washing powdersbut recently has been moving closer to the strategy of linking acompany name to an individual brand name. Their products nowhave Lever Bros as a high profile endorsement on the individualbrands such as Persil, Radion and Surf. This can be used in differentways. Endorsing a product with the corporate name gives a newproduct credibility while at the same time allowing the new brandsome degree of freedom. A fixed endorsed approach entails thecorporate brand name being given a consistent profile against eachindividual product's brand name in the range. For example, allKellogg products give individual product brand names the prominentposition on the pack, while the same secondary weighting isgiven to the company brand name.

- **Range brand**. Some organizations use different brand names fordifferent ranges of product, in effect creating a family of products.Ford has done this to an extent, using Ford for its mass-market carrange and Jaguar for the upmarket executive car range. Volvo, Ford'slatest acquisition, has its own distinct brand values that appeal to aparticular market segment and therefore will become another brandfamily for the Ford group.
- **Private brand (distributor's own brand)**. An organization maydecide to supply private brands, in particular retail brands. In thiscase the private brand is owned and controlled by the distributorwho will make decisions regarding the product's position in themarket. The distributor is likely to use either a strategy of corporateor a company and individual brand for its products.
- **Generic brand**. This strategy involves the product having no brandname. The product's packaging merely states the contents of thepackage, for instance flour or washing up liquid.

IV. Brand extension

There are occasions when an organization will try to extend the use ofa brand name to new products in the same broad market. Brands thatcarry high brand equity are candidates for brand extension as they havethe ability to increase the attractiveness of the new products.

V. Brand stretching

Brand stretching takes place when an organization stretches a brand intonew unrelated markets. Virgin is an obvious example of this, movingfrom the record industry to airlines, railways, financial services and coladrinks.This policy is more likely to be successful where the original brand valuesare compatible with the aspirations of the new target group.

VI. Brand revitalization

Over a period of time, it is likely that an organization will be requiredto undertake actions to improve the performance of a brand. This canoccur for a number of reasons such as the advent of new technology,changing consumer behavior or new competition. The options open toa company in these circumstances are either to increase sales volume orto raise the brand's profitability. Brand revitalization and brandrepositioning are two approaches that can be employed to increase thesales volume of a brand.

Brand revitalization involves gaining sales volume by expanding themarket for a brand. Four significant opportunities exist that can expanda market:

- **Enter new markets**. One approach is to expand into new geographical areas. Irn-Bru, the Scottish soft drinks, brand has recently expanded into the Russian market as a way of increasing sales.
- **Exploit new market segments**. Once the initial market segment has been fully exploited a company can then expand by targeting new market segments. Johnson & Johnson's baby shampoo was stagnating until they moved the brand into a new market segment of adults who wash their hair frequently.
- **Increase the frequency of use**. This can be achieved by actions such as:

  – appealing to consumers to use products on new occasions.

– providing incentives to purchase, such as frequent-flyer programmeswhich promote the sale of airline tickets.

- **Increase quantity used**. This can be achieved by:

  – increasing the size of the 'normal-sized container' such as the popcorn or soft drink containers offered in cinemas. If consumers accept this size as normal, then consumption will increase.

  – undertaking advertising campaigns promoting larger portions asnormal.

  – removing barriers to consumption. Thus companies can offer lowcalorie chocolate or soft drinks as a way of removing a majorobstruction to consumer purchase.

VII. Brand repositioning

Brand repositioning is undertaken in order to increase a brand'scompetitive position and therefore increase sales volume by seizingmarket share from rival products. When repositioning companies canchange aspects of the product, change the brand's target market or both.This gives four repositioning options:

- **Image repositioning**. This takes place when both the product and thetarget market remain unchanged. The aim is to change the image ofthe product in its current target market.
- **Market repositioning**. Here the product remains unchanged but it isrepositioned to appeal to a new market segment. Lucozade, a brandof carbonated glucose drink, was originally targeted as a product forindividuals suffering from illness, particularly children. In recentyears it has been repositioned as an isotonic drink aimed at youngadults undertaking sporting activities.
- **Product repositioning**. In this situation the product is materiallychanged but is still aimed to appeal to the existing target market.
- **Total repositioning**. This option involves both a change of targetmarket and accompanying product modifications. Skoda has managedunder Volkswagen's ownership to reposition itself totally. The productquality and design has changed significantly and the brand now hascredibility with new, more affluent consumers. This has also allowedthe brand to expand its sales outside its Eastern European heartland.

The development of new products

The development and introduction of new products has traditionallybeen seen to be a costly and risky activity. For an organization intent on eithermaintaining or improving its position in the marketplace there are, however, few alternativesto new product activity of one sort or another. The issues faced by many marketingstrategists therefore revolve around the issue of the type of new product activitythat is to be pursued and how best to manage and, hopefully, reduce risk levels.

In the majority of industries, there are two principal ways in which new products canbe added to the product range: first, acquisition and, second, internal new product development.

Of the two, acquisition is often the faster and involves one of three approaches:

1 The organization can buy other firms

2 The organization can buy a licence or franchise

3 The organization can buy patents.

New product development (NPD) can, in turn, involve two approaches, with productseither being developed internally by an in-house R&D team or by means of outsideagencies used to develop products that satisfy internally generated criteria. In the majorityof firms, of course, both routes are pursued, with a greater or lesser emphasis beingplaced on one or other activity as environmental conditions and pressures change.

The role of new product development

Although organizations have, in the past, demonstrated that they develop new andmodified products for a wide variety of reasons, the underlying strategic purposeshould always be either to help create and maintain a competitive advantage or toreduce the advantages of a competitor. Recognizing this, the specific role of new productdevelopment can be stated in terms of:

- Ensuring that the product mix matches changing environmental conditions and thatproduct obsolescence is avoided
- Enabling the organization to compete in new and developing segments of themarket

- Reducing the organization’s dependence upon particular elements of the productrange or vulnerable market segments
- Matching competitive moves – where, for example, a competitor moves into a newand potentially valuable segment there is often a strong argument for following, sothat the competitor’s advantage is kept to a minimum
- Filling excess capacity
- Achieving greater long-term growth and profit.

The relative importance of these factors is influenced both by the nature and culture ofthe organization and by the nature of the market. Where, for example, the organizationis either poorly resourced or has a risk-averse culture, the perceived role and importanceof new products is likely to be fairly minimal. Where, however, there is a greateravailability of resources and the competitive stance is more proactive, new productdevelopment is likely to take on a far more important role. At the same time, the natureof the market often exerts a series of pressures that are capable of dictating levels ofnew product activity. Where, for example, competition is intense, the need both for differentiationand a regular flow of new and modified products increases dramatically.The strategist should nevertheless avoid falling into the trap of seeing the solutionpurely in terms of new products.

5.2. Pricing policies and strategies

The second principal element of the marketing mix – price – is in many ways one ofthe most visible, and for many organizations price is also potentially the most controllableand flexible element of the mix. It is also in many cases one of the mostimportant elements and, together with the product, a key component of an organization’smarketing strategy. At the same time, however, it is generally acknowledgedthat pricing decisions are among the possibly most difficult that marketing managersare required to make. There are several reasons for this, the most significant of whichis the nature and complexity of the interaction that commonly exists between threegroups – consumers, competitors and the distribution network – and the need thatexists to take this interaction into account when either setting or changing a price.An added complexity is that pricing decisions often have to be made quickly andwithout testing, but almost invariably have a direct effect upon profit. Largelybecause of this, many marketing managers work to reduce the relative importance ofprice by, for example, giving far greater emphasis to

the product's distinctive valuesand to its image. In other cases, the pricing decision is taken out of the hands of themarketing strategist by a combination of market-related factors. Prominent amongthese is the presence of a large and aggressive competitor, who in effect determinesprices for the industry as a whole and who, with the exception of just one or twosmall niche players, all other organizations are obliged to follow. The issue facedthen by the strategist revolves not around the question of what price to set, butrather how to ensure that costs are contained in such a way that profits can still bemade.

Price is undoubtedly a significant strategic variable and in many markets, despite agrowth in the importance of non-price factors, it is still the principal determinant ofconsumer choice. Its significance is further emphasized by the fact that price is the onlyelement of the mix that generates revenue – the others produce costs. It is perhapsunderstandable, therefore, that many marketing strategists treat pricing decisions withan extra degree of caution, which helps to explain why studies on both sides of theAtlantic have suggested that setting prices and dealing effectively with price competitionis one of the biggest problems faced by marketing managers. The combination ofthese factors also goes some way towards explaining why it has often been suggestedthat relatively few organizations handle pricing well and why a series of mistakes arecommonly made. The most common of these are that:

- Pricing decisions are often too heavily biased towards cost structures and failto take sufficient account of either competitors' or customers' probable responsepatterns
- Prices are often set independently of other mix elements and without sufficientlyexplicit account being taken of, for example, advertising strategies and marketpositioning
- Too little account is taken of the opportunities to capitalize on differentiation
- Prices often do not vary sufficiently greatly between different segments of themarket
- Prices often reflect a defensive rather than an offensive posture.

Approaches to price setting

Our earlier comment that, in some industries at least, organizations have little choiceother than to follow the prices set by the market leader leads to the hypothesis thatthere are two types of firm:

1 *Price-takers*, which, by virtue of their size and market position, lack of product differentiationor passive organizational culture, are either unable or unwilling to adopt aproactive

pricing stance. As a result, they follow the lead set by one or more largerand more aggressive organizations within the industry.

2 *Price-makers*, which, largely as the result of their size and power within the market,are able to determine the levels and patterns of price that others then follow.

It is the price-makers with which we are principally concerned here.

In setting a price either for a new or modified product, or for an existing productthat is being introduced into a new sector of the market, the strategist needs to giveexplicit consideration to a variety of factors. Of these, the mostsignificant are:

The organization's corporate objectives

- The nature and structure of competition
- The product life cycle
- Legal considerations
- Consumers and their response patterns
- Costs.

Deciding on the pricing objectives

Having developed the framework within which pricing decisions are to be made, themarketing strategist needs then to decide upon the specific pricing objectives that are tobe pursued. Although the nature of these objectives and their implications for the eventualprice charged can vary greatly, the ten most commonly pursued are:

1. *Survival*. This is arguably the most fundamental pricing objective and comes intoplay when the conditions facing the organization are proving to be extremely difficult.Thus, prices are reduced often to levels far below cost simply to maintain a sufficientflow of cash for working capital.

2. *Return on investment*. Here prices are set partly to satisfy the needs of consumers,but more importantly to achieve a predetermined level of return on the capitalinvestment involved.

3. *Market stabilization*. Here, having identified the leader in each market sector, the firmdetermines its prices in such a way that the likelihood of the leader retaliating isminimized. In this way, the status quo is maintained and market stability ensured.

4. *The maintenance and improvement of market position*. Recognizing that price is often aneffective way of improving market share, the marketing strategist uses price partly asa means of defending its current position, and partly as a basis for gradually increasingits share in those parts of the market where gains are most likely to be made andleast likely to result in competitive action.There are, however,dangers of using price to pursue market share, which include the following:

- Gaining market share, particularly in mature markets, is often prohibitively expensive and only rarely cost-effective
- Share-gaining price strategies tend to be blunt weapons that do not reflect differences between buyers
- At particular stages of the life cycle, market share is an inappropriate goal and can lead to the organization ignoring strategically more important areas, such as distribution.

5. *Meeting or following competition*. Having entered a market in which competitors arefirmly entrenched, the firm may decide quite simply to take its lead in pricing fromothers until it has built up sufficient experience and established a firm reputation onwhich it can subsequently build.

6. *Pricing to reflect product differentiation*. For a firm with a broad product range, differencesbetween the products can often be made most apparent by means of pricevariations related to each market segment. The differences in price are not necessarilylinked to the costs of product, but are instead designed to create different perceptionsof their products' value, and indirectly to increase profits. Among those whodo this with a high degree of success and skill are the volume car manufacturers,who offer a variety of derivatives from a basic model.

7. *Market skimming*. With a skimming objective the marketer enters the market with ahigh price and only gradually lowers it as he or she seeks a greater number of marketsegments. In this way, profits are likely to be relatively high and, by minimizingthe degree of commitment at any one time, the levels of risk are minimized.

8. *Market penetration*. As an alternative to the gradual entry strategy of market skimming,the firm may adopt a far more aggressive approach in which prices are set ata deliberately low level to ensure a high level of sales and to keep competitors at adistance.

9. *Early cash recovery*. Faced with problems of liquidity or a belief that the life of theproduct or market is likely to be short, the firm may opt for a policy designed togenerate a high cash flow and lead to an early recovery of cash.

10. *Discouraging others from entering the market*. This is done by deliberately setting a lowprice so that returns are low, whilst simultaneously sending out signals about a willingnessto engage in a price war with any new entrants.

Using price as a tactical weapon

In many cases, price is used very largely as a tactical weapon, a role to which,because of its flexibility, it is well suited. There are several ways in which this tacticalrole can be performed, including:

- Varying prices to reflect geographic differences
- Offering discounts for early payment, off-season buying, and to encourage highvolume purchases
- Trade-in allowances to boost sales when the economy generally is sluggish
- Discriminatory pricing in order to capitalize upon the ability or willingness of particular market segments to pay a higher price
- Optional feature pricing, which allows the price of the basic product such as a car to be kept low, but for substantial profits then to be made by adding accessories such as a sunroof
- Hitting at competitors who appear particularly vulnerable.

Perhaps the most obvious and most important tactical role that can be played by pricestems from the periodic need or opportunity to raise or lower prices in order to gain orretain a competitive advantage.

Price cutting, for example, can be used to put pressure on competitors and reversea falling market share. Equally, it can be used to solve the problem of short-term excesscapacity. Raising

prices can often be a means of overcoming the problems of excessdemand and generating an increase in profits.

However, before making any changes to prices, the strategist needs to consider theimpact on the triumvirate to which we referred at the beginning of the chapter –consumers, the trade and competitors – and hence their likely reaction. Faced with aprice increase, buyers and distributors may, for example, both respond negatively:buyers by turning to another product and distributors by focusing their attention oncompetitive products. A price increase might also provide competitors with an opportunitythat they then become determined to exploit as far as possible.

Price cutting can, in certain circumstances at least, also create difficulties. Buyersmay respond by perceiving the quality to have been lowered, while distributors mayfeel their margin has been eroded. Even where sales increase, this may simply be as theresult of the lower price and does not necessarily lead to any degree of brand loyalty.The implication of this is that when either the price rises at a later stage or when a competitorlowers his price, sales drop. However, perhaps the biggest problem with pricecutting is the danger of sparking off a price war.

Faced with a price change that is initiated by a competitor, the strategist has a numberof choices:

- Follow by increasing prices by the same amount
- Keep prices the same in the hope that those who have previously bought from the competitor will be encouraged to shift supplier
- Cut prices to increase the price differential.

There are, of course, no hard and fast rules that can be applied. Rather it is the case thatthe strategist should give full consideration to both the short- and long-term implicationsof any move that is made.

5.3. Promotion and marketing communications

For many organizations marketing communications represent the most visible face ofthe organization. The question of how the communications program is to be managedis therefore a fundamental part of the strategic marketing task. In deciding howbest to do this, the planner needs to come to terms with a variety of issues, includingthe question of how the

communications program can be integrated with the otherelements of the marketing mix in order to achieve the greatest degree of synergy.

Within this part of the chapter it is not our intention to focus in detail upon theindividual elements of the communications mix, but rather to highlight the sorts ofissues to which the marketing strategist needs to pay attention when developing theguidelines for the communications program. In doing this, the marketing plannerneeds to take account of eight areas:

1. ***The nature and detail of the target audience(s)*****-**Without this understanding, anythingthat follows will lack focus. The planner therefore needs to think about how the marketmight be segmented and then how the messages need tobe tailored to fit the needs of each group.

2. ***The short- and long-term communications objective(s)*** **-**Having identified the target audience,the planner's focus needs then to shift to the question of the communicationsobjectives. In essence, these objectives relate to the cognitive, affective or behavioralresponses that the campaign is designed to achieve. In other words, the plannermight be aiming to put something into the consumer's mind, change the consumer'sattitude or encourage the consumer to behave in a particular way. The response hierarchy models arebased on the idea of a 'learn–feel–do' process, inwhich the buyer discovers something in general terms about the product, moves onto a more detailed understanding and then – and only then – takes action in the formof trying the product and possibly becoming a regular user. It is the role of the marketingand communications mixes to move potential buyers through this process. Atthe same time, of course, there are several elements that have the effect of slowingdown or reversing this process; these include competitive action, memory lapses,poor previous experiences with the product or brand, and so on. However, it needsto be recognized that this sequence, although logical, is not necessarily the one thatwill always be followed. In the case of products in sectors in which there is little realor obvious differentiation and with which the buyer has little real involvement, thesequence may be that of 'learn–do–feel'. In these circumstances, the buyer buys theproduct and only after having used it develops a more detailed understanding of itand possibly a degree of brand loyalty.

3. *The messages that are to be used-* Having developed an understanding of the sort ofresponse that the communications campaign needs to achieve, the planner can thenbegin to focus upon the design of the message, a task which involves deciding uponfour issues:

(i) What to say (the content)

(ii) How to say it logically (the structure)

(iii) How to say it emotionally or symbolically (the format)

(iv) Who should say it (the source).

In deciding upon the first of these – what to say – the planner is faced with anumber of choices, including whether to use a highly *rational appeal* (by buying thisproduct you will gain this distinct and tangible benefit) or an *emotional appeal*.Emotional appeals can, in turn, be either positive or negative. In the case of a positiveemotional appeal, the planner sets out to associate the product with an especiallyfavorable image; an obvious example would be the ways in which cars, perfumesand expensive watches are advertised. *Negative* emotional appeals include fear,shame and guilt; an example of this would be how the advertisers of toothpastes typicallyplay upon these sorts of emotions by emphasizing bad breath or the fear oftooth decay. However, irrespective of whether the appeal is positive or negative, theplanner needs to identify the platform or selling proposition that the campaign isdesigned to rest upon.

4. *The communication channels that will carry the message-*For the message to reach thetarget market, the planner needs to select the channels through which contactand communication can be made in the most effective way. These channels fallinto one of two categories: *personal influence channels* and *non-personal influencechannels*. In turn, personal influence channels can be subdivided into: (a) *advocatechannels*, consisting primarily of the sales force and others who are employed bythe company; (b) *expert channels*, which consist of those whose views are seento be independent and respected (these include independent authorities andadvisers such as consumer groups, research institutes, *Which?* magazine andother bodies not employed by the company, but which comment on the value ofa product); and (c) *social channels*, made up of neighbors, friends, businessassociates and reference groups.

Non-personal influence channels include the mass media, such as newspapers,television, magazines, the cinema and posters, which have the advantage, not generallyenjoyed by personal influence channels, of reaching large numbers of people.However, in doing this, they lack any personal element, with the result that the messageis more easily ignored and misinterpreted.

5. *The budget-*Although there are various ways in which the communications budgetmight be set, the most common of these are the *affordable approach, competitiveparity*, a *percentage of sales*, and the *objective and task technique.*

6 and 7. *The mix of communication tools that is to be used and how the elements of the promotions mix are to be integrated and how, in turn, the promotions mix is to be integrated with the marketing mix-* In deciding upon which promotional tools should be used, themarketing planner needs to take account of eight elements:

(i) The degree of control that is needed in terms of how the message is delivered.

(ii) The financial resources that are available.

(iii) The credibility of each of the tools in the eyes of the buyer.

(iv) The size of the target markets and their geographic spread.

(v) The nature of the product and market and, in particular, whether it is an industrial or a consumer product.

(vi) Whether a push or a pull strategy is being used. (A push strategy, involving a heavy use of the sales force and trade promotions, is best suited to situations where there is a low level of brand loyalty; the choice is generally made at thepoint of purchase and the benefits are well understood by the buyer. A pullstrategy, by contrast, is more appropriate when brand loyalty is high, differencesbetween brands are easily perceived and there is a higher degree ofinvolvement in the purchase.)

(vii) The stage reached by the product in its life cycle.

(viii) The buyer’s readiness stage. Advertising and publicity are generally the most effective tools for raising levels of buyer awareness in the early stages and are more cost-effective than

either personal selling or sales promotion. However, as levels of awareness and readiness increase, so personal selling takes on a more direct and valuable role. Closing the sale is also achieved most effectively by personal selling and sales promotion, while advertising then begins to increase in importance again at the re-ordering stage.

8 *How the results of the campaign are to be measured*- An important part of any marketingactivity is the measurement of the results that have been achieved. In the case ofcommunications, this can be done using two dimensions: *qualitative measures* and*quantitative measures*. In the case of qualitative issues, the planner is concerned largelywith attitudinal changes; quantitative measures relate to changes in sales levels, levelsof satisfaction, and trial levels. The extent to which a campaign is successful is,however, influenced by a whole series of factors, many of which are outside the controlof the marketing planner.

5.4. Distribution strategies and the distribution plan

Channel management

Channel management embraces the analysis, planning, organizing and controlling ofan enterprise's channel of distribution. This is an increasingly demanding element ofthe marketing domain due, in part, to pressures from global competition, but alsobecause of a series of other major trends that impact upon channel management:

- *An increasing emphasis on the development of channel strategy*
- *The emergence of new retailing concepts*
- *The increasing importance of channel power*
- *The growth of partnerships and strategic alliances*
- *The development of direct marketing*
- *Enhanced distribution productivity*

Key decisions in channel management

1. Formulating the channel strategy

The objectives to be served by a distribution strategy will typically cover how, when andwhere the enterprise's market offerings should be made available to the targeted markets.The strategy

provides a means to these ends. Perhaps the most crucial aspect is the choiceof a *level of service* by which an enterprise might seek to secure competitive advantage.

The importance of channel strategyis likely to depend upon the existence of one or more of the following conditions:

- ✓ Target markets (or customers) demand a strong emphasis on distribution
- ✓ Competitive parity exists in other marketing mix variables, with the need for channel strategy to provide some differential advantage
- ✓ Competitive vulnerability exists because of distribution neglect
- ✓ Opportunities for synergy exist through channel strategy (e.g. via partnerships and strategic alliances).

2. Designing the channel structure

Doyle (1994) has suggested that there are three generic channel options:*direct marketing,via a sales force* or *via intermediaries*.

To some extent, the choice between these generic options will depend on answers to the following questions:

➡ Can we effect distribution better than intermediaries at an equivalent cost?

➡ Can we effect distribution as well as intermediaries at a lower cost?

If the answer to either of these questions is yes, then the enterprise should considerdirect distribution. However, a barrier to direct marketing might exist in the form of*entrenched buying behavior*. That is, people get used to buying certain products throughparticular intermediaries and have an inbuilt inertia to change.

In deciding on the most appropriate configuration of distribution channels, it mustbe decided whether to aim to sell products through all available outlets, through aselection of the available outlets in a particular area, or to limit distribution to one outletin each area. These three alternative strategies are known as:

➡***Intensive distribution***, often sought by manufacturers of high-volume, low-valueproducts in mass demand for which the typical pattern of buying behavior is thatof habit and convenience.

➡***Selective distribution***, used by manufacturers of consumer durables for which the typicalpattern of buying behavior is that of ‘shopping around’. Most consumers willmake an effort to compare the offerings available in different outlets. For this reason,the manufacturer need not distribute their products through all the available outlets.Selective distribution involves less communication effort than does intensivedistribution and also offers opportunities to develop closer relationships within thechannel from which adequate market coverage might be achieved with lower costand greater control than is possible with intensive distribution.

➡***Exclusive distribution***, which arises when the producer limits the number of intermediariesmore strictly to one per geographical area. The dealer will receive exclusiverights to distribute the producer’s offerings in that geographical area in return foragreeing not to carry competing products. The producer will consequently receive agreater commitment from the outlet and more control over image and price.

Channels of distribution, once selected and established, involve the enterprise in relativelylong-term commitments to other organizations (such as wholesalers and retailers),as well as affecting in a very significant manner every other major marketingdecision. It is important, therefore, to ensure that the implications of each alternativechoice are carefully evaluated. We now turn to this question.

3. Selecting the channel members

In developing this part of the distribution plan consideration needs to be given to:

➡*Economic criteria*, which will reflect the pattern and levels of costs, sales revenue andprofit. As each alternative channel configuration is likely to produce different levelsof sales revenue and costs, the best alternative is not necessarily that producing themost or the least respectively, but the one which produces the best relationshipbetween the two – i.e. profit.

➡*Control criteria*, which relate to the degree of influence, motivation and conflictamong channel members. For example, an agent who handles many different manufacturers’lines will

probably not be seen favorably by manufacturer "A" because theagent will put his own interests ahead of A's in endeavoring to sell *any* line – notjust A's – and this can lead to friction.

➡*Adaptive criteria*, by which the manufacturer is able to preserve some flexibility inresponding to changing conditions. Long-term franchise agreements are antitheticalto adaptive behavior within distribution channels.

➡*End-user considerations*, since it would not be helpful to select intermediaries notfavored by customers further down the supply chain

➡*Product characteristics*, including the complexity, special application requirements,servicing needs and so forth that channel members must be competent to handle

➡*Manufacturer's capability and resources*, which are reflected in bargaining power andchannel control.

Review Questions

- Conceptualize how a lagging brand (assume a grocery product) may be repositioned for new uses.
- Discuss the importance of the price quality relationship in formulating marketing strategies.
- What does the term strategy mean in the context of channel management?
- How might the accuracy of communication be influenced by noise or distortion which enters into both the message and the channel?
- Suggest some of the kinds of objectives that might be set for marketing communications. How might these objectives be pursued in practice?
- Distinguish between intensive, selective, and exclusive types of distribution.

THE END!