Course Material 2

6MSMR1

Marketing Strategy

doc. Ing. Tomáš Kincl, Ph.D.

EVROPSKÁ UNIE
Evropské strukturální a investiční fondy
Operační program Výzkum, vývoj a vzdělávání

MINISTERSTVO ŠKOLSTVÍ, MLÁDEŽE A TĚLOVÝCHOVY

F6
Vysoká škola
ekonomická v Praze
Fakulta managementu

Product/Industry Life Cycle

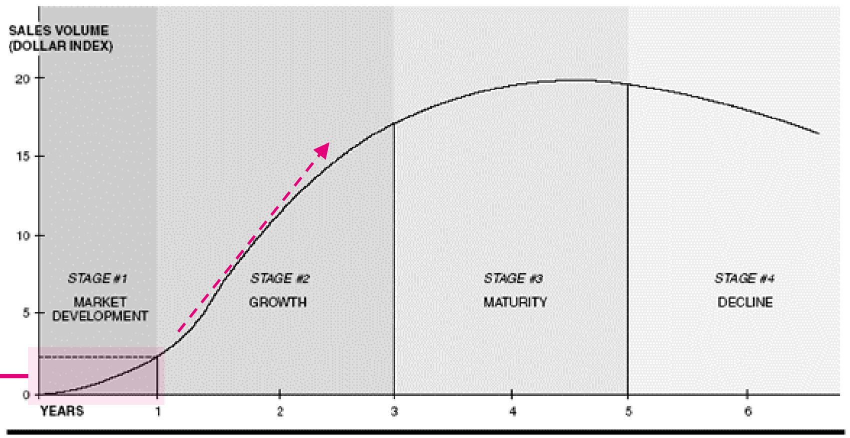
Industry/Product Life Cycle

- Well-known by most managers – often misused and misinterpreted

Recommended reading: LEVITT, Theodore. Exploit the Product Life Cycle. Harvard Business Review 11/1965

The concept of the product life cycle is today at about the stage that the Copernican view of the universe was 300 years ago: a lot of people knew about it, but hardly anybody seemed to use it in any effective or productive way.

EXHIBIT I
Product Life Cycle—Entire Industry



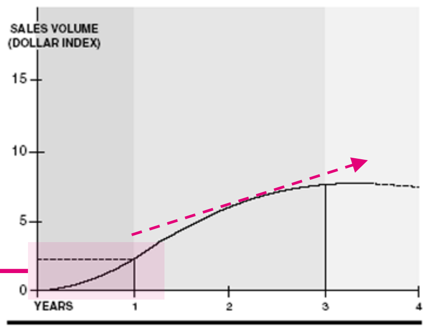
The products often cycle through stages not because it is a kind of natural law/exogennous process but because managers do expect and plan the products cycling through the stages.

Some companies prefer not to be first on the market

Some disillusioned and badly burned companies have recently adopted a more conservative policy—what I call the "used apple policy." Instead of aspiring to be the first company to see and seize an opportunity, they systematically avoid being first. They let others take the first bite of the supposedly juicy apple that tantalizes them. They let others do the pioneering. If the idea works, they quickly follow suit. They say, in effect, "The trouble with being a pioneer is that the pioneers get killed by the Indians." Hence, they say (thoroughly mixing their metaphors), "We don't have to get the first bite of the apple. The second one is good enough."

A key decision about pricing in the introductory stage of product life cycle – too low initial price may shorten the product life cycle (fashion)

EXHIBIT II
Product Life Cycle—Originating Company



In 2007 two months after introduction, Apple lowered the the price of Iphone. Current customers got angry since they paid 200 USD more just a few week before. Steve Jobs had to apologize (including 100 USD voucher).

Price Skimming's Unintended Consequences

The curves in exhibit I (industry LC) and II (product LC) overlap in the initial stage – Originator's sales represent sales of the whole industry. Further stages are different since the industry is shared by many competitors.

Managing Product Life Cycle

- Life cycle can be stretched out to sustain product’s growth and profitability
  1. Promoting more frequent usage of the product among current users (communications, planned obsolescence, …)
  2. Developing more varied usage of the product among current users (i.e. color alternatives)
  3. Creating new users for the product by expanding the market
  4. Finding new uses for the basic material (i.e. nylon in carpets)
  - Repositioning

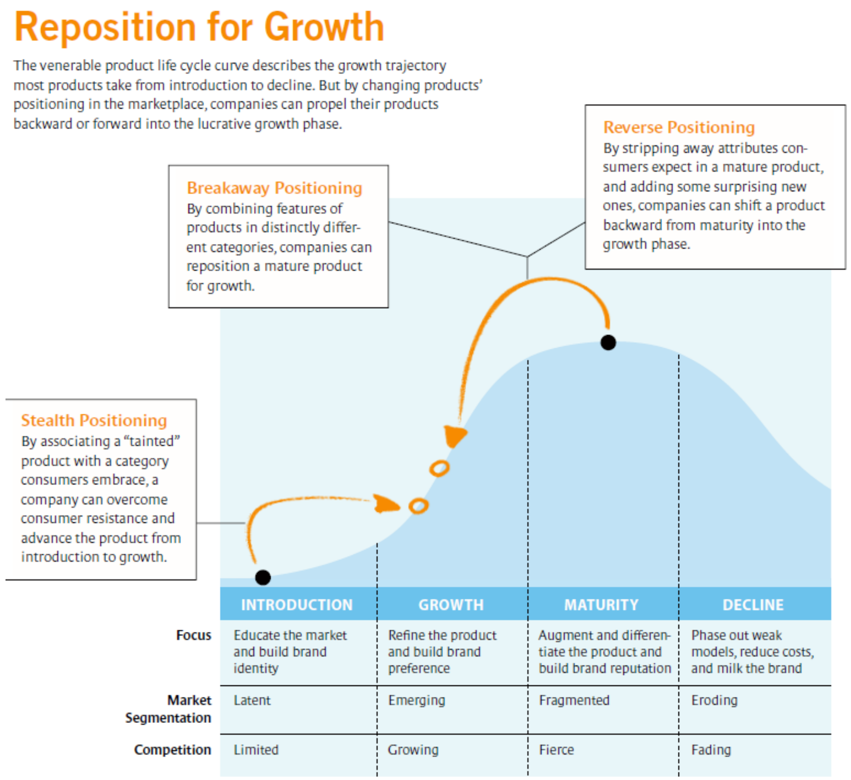
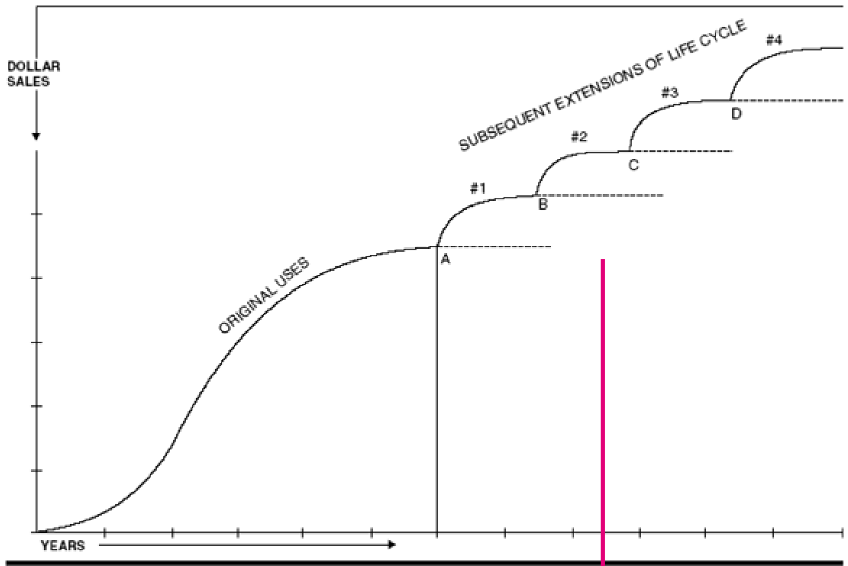
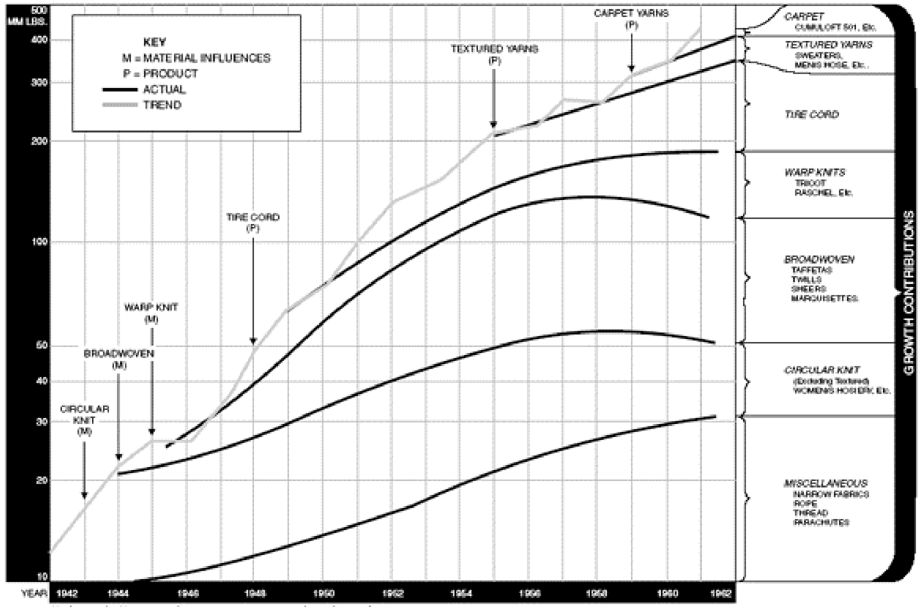


EXHIBIT IV
Hypothetical Life Cycle—Nylon



Example – nylon industry

EXHIBIT V
Innovation of New Products Postpones the Time of Total Maturity—Nylon Industry



Source: Modern Textiles Magazine, February 1964, p. 33. © 1962 by Jordan P. Yale

Recommended reading: MOON, Youngme. Break free from the product life cycle. *Harvard Business Review*, 5/2005

Product and Service Life Cycle

- The product life cycle includes after sales, maintenance, spare parts
  - The service life cycle covers the installed base of products needing maintenance

    computer may reach its peak in shipments after only 2-3 years, the service cycle can easily last 15 years. An elevator may have a product cycle of only 10 years but a service cycle of 100 years
  - May represent a substantial share of company's profits

    Some 70 % of service income came as computer shipments were on the wane.
  - Even after the product has been discontinued

    The installed base remaining after product sales have declined can yield a service profit annuity

Recommended reading: POTTS, George W. Exploit your product's service life cycle. *Harvard Business Review*, 9-10/1988

#7 – "Cars" (2006)

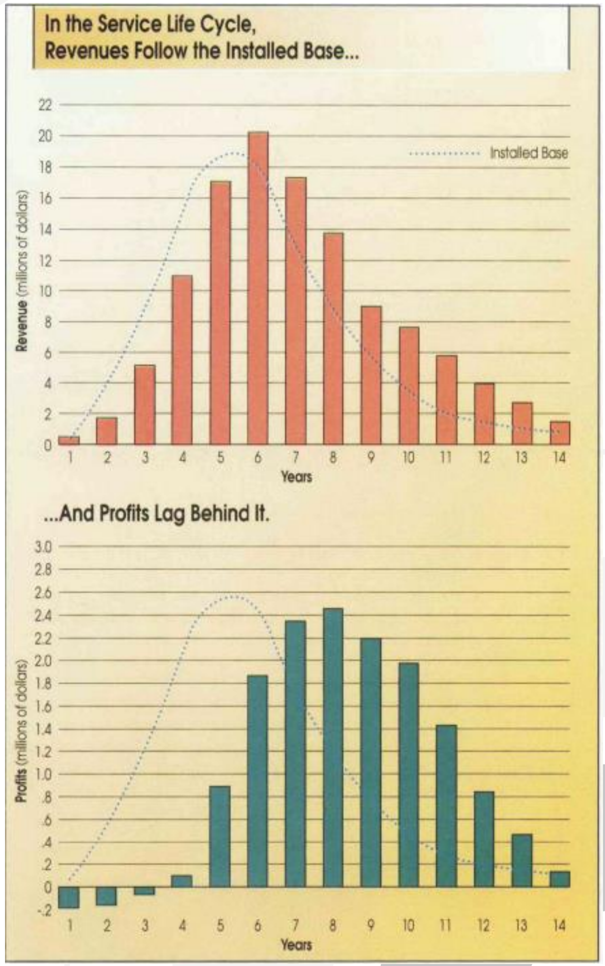
Budget: $120 million

Domestic Gross: $244 million

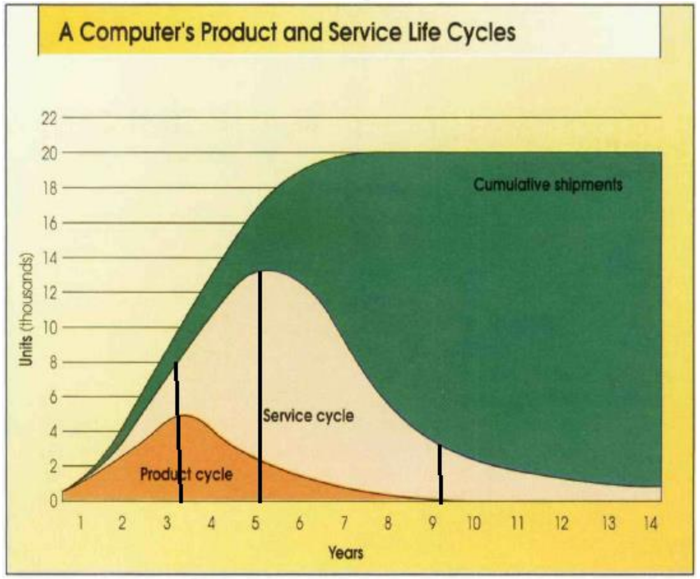
Profit: $124 million

Additionally, the merchandising for this film was through the roof. The LA Times estimated sales of $10 billion through 2010.

The "Cars" movie grossed more than $460 million in worldwide box office receipts during the summer of 2006, with almost as much money from the international market as domestic. "Cars" has generated more than $10 billion in merchandising sales and counting — the most of any Pixar movie by far.



Car dealers made an average of $23 for [every new car they sold] in 2011. New cars are essentially a loss leader for dealers, who make most of their money by fixing your car, selling you a warranty when you buy a new car, financing car loans, and used car sales. People are hanging on to their cars longer, stretching the average life of a car from 8.4 years in 1995 to 10.8 years in 2011, and many of them are having repairs done more often than they have in the past. Nearly 37 % of a dealership's gross profit comes from the sale of F&I products and service contracts on new and used cars. [Where Does the Car Dealer Make Money? Mostly From Service, Not From Car Sales]

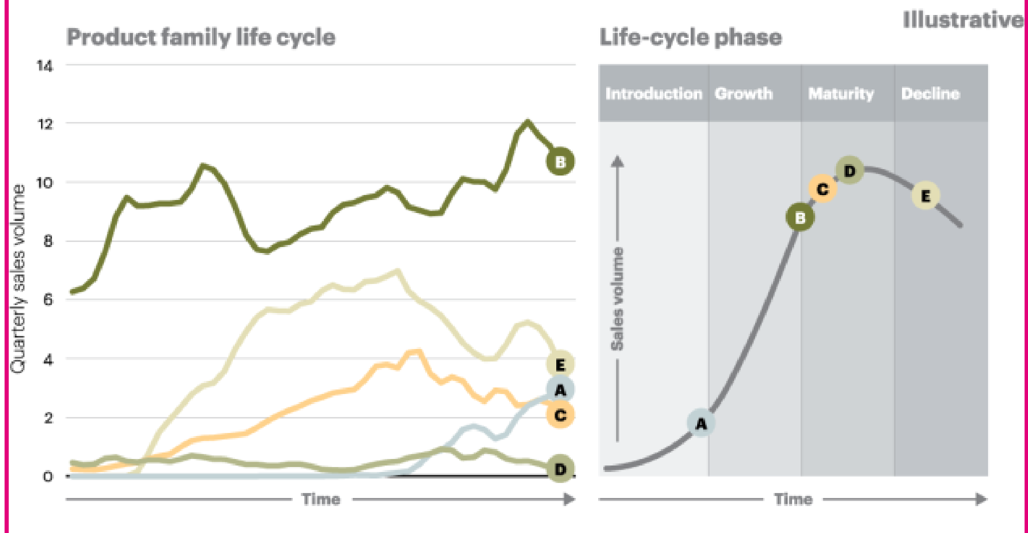


Stages of Product Life Cycle

- It might be difficult to recognize in which stage of the life cycle the product is

Figure 2

Sales analysis of five product families highlights their relative life-cycle stage

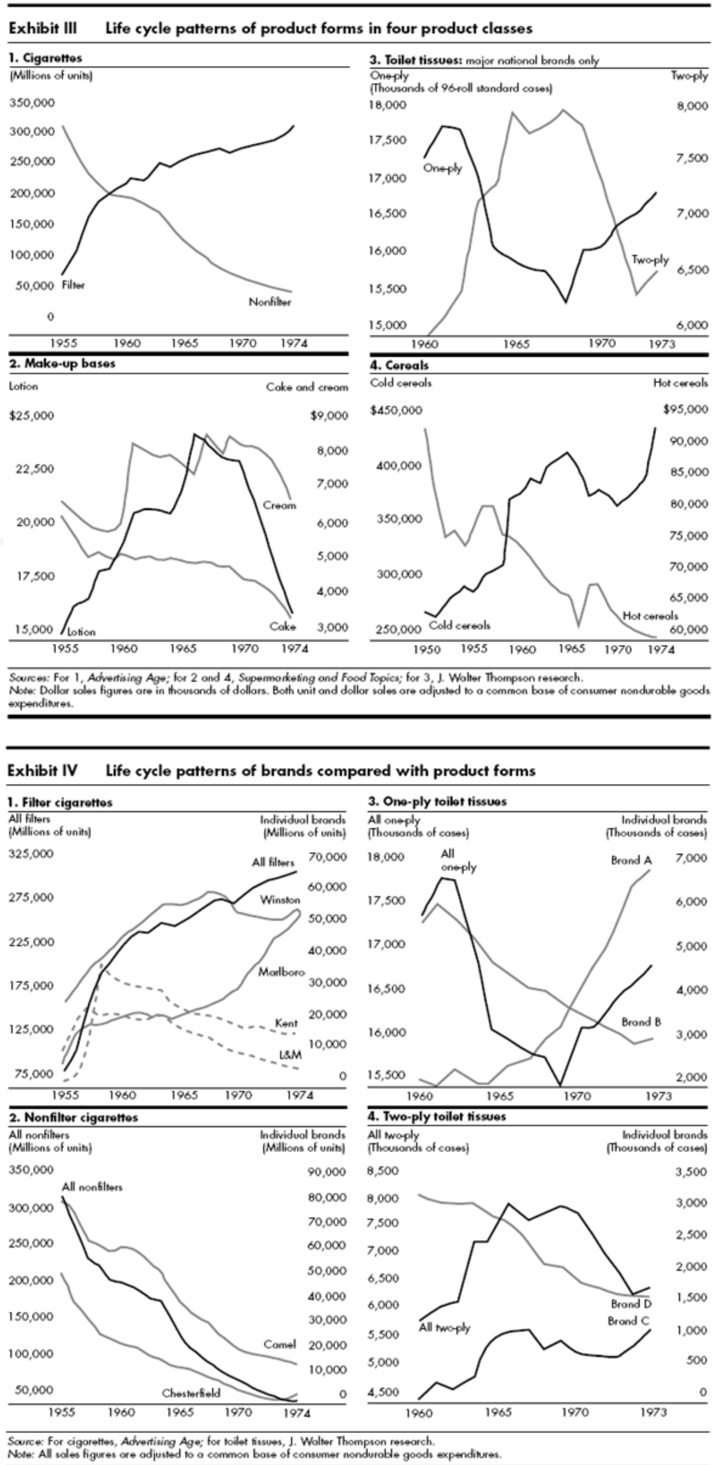


Source: A.T. Kearney analysis

Unfortunately, in numerous cases a brand is discontinued, not because of irreversible changes in consumer values or tastes, but because management, on the basis of the PLC theory, believes the brand has entered a dying stage. In effect, a self-fulfilling prophecy results.

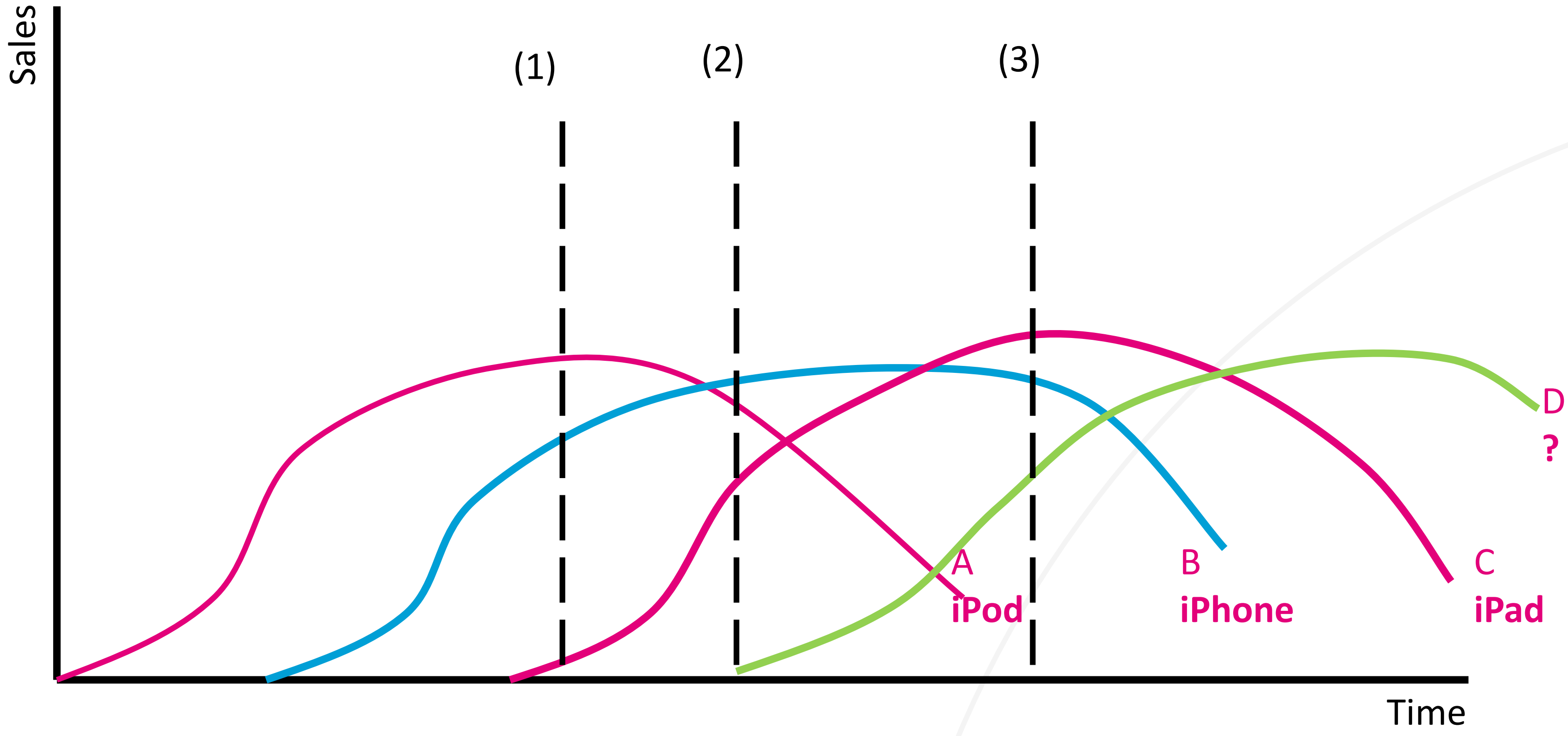
The PLC concept has little validity. The sequence of marketing strategies typically recommended for succeeding stages of the cycle is likely to cause trouble. In some respects, the concept has done more harm than good by persuading top executives to neglect existing brands and place undue emphasis on new products.

Recommended reading: DHALLA, Nariman K.; YUSPEH, Sonia. [Forget the product life cycle concept](). *Harvard Business Review*, 1/1976

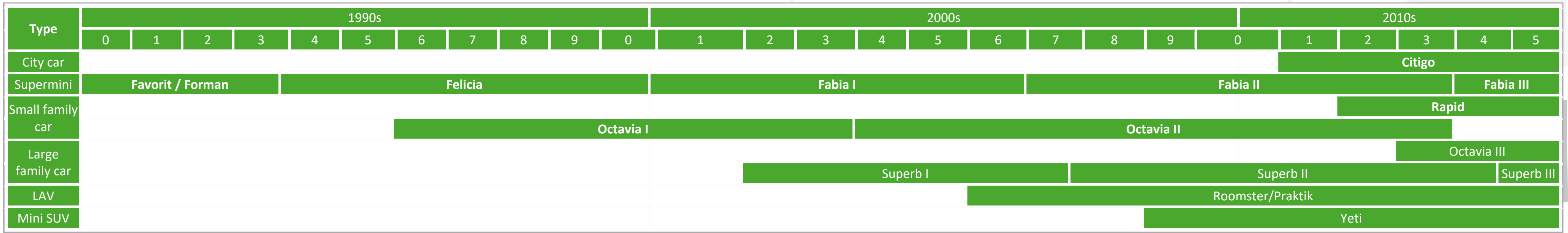


Managing Portfolio through Product Life Cycle

- Importance of maintaining a balance of products in the portfolio at different stages of the PLC

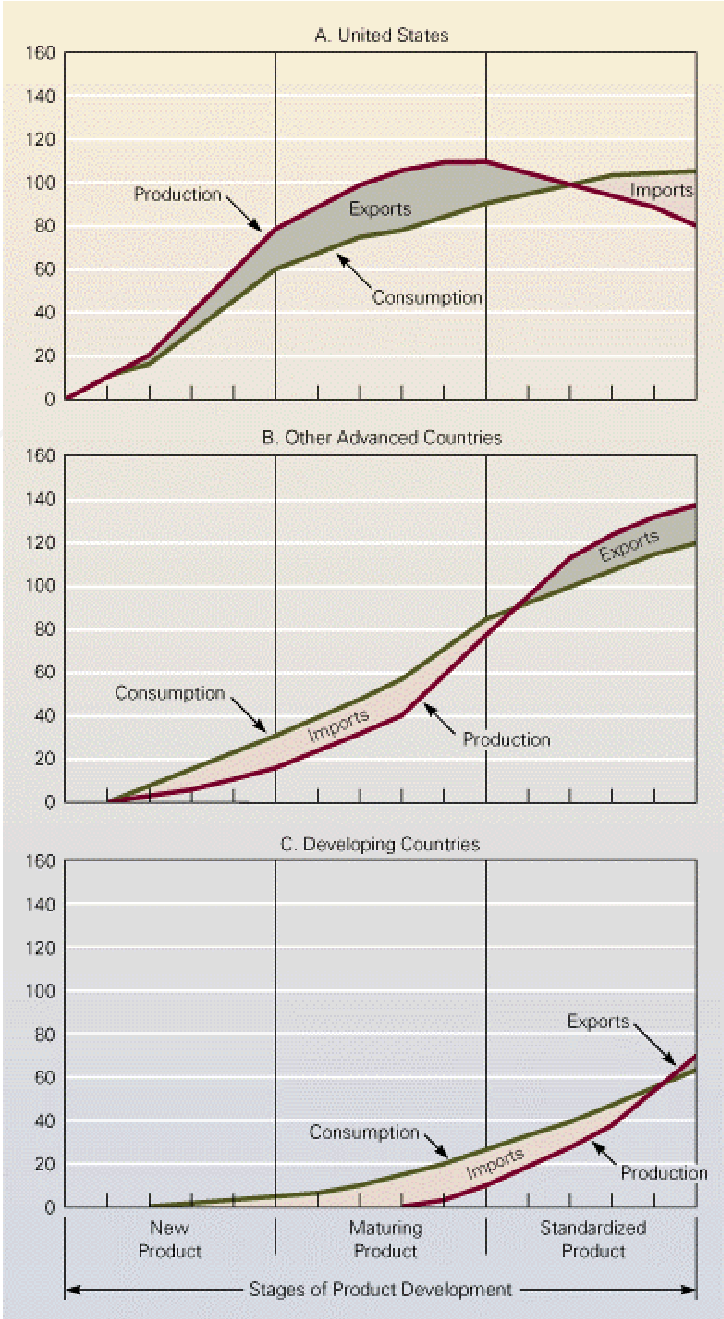


How Skoda Auto manages its portfolio according to the product life cycle?



International Product Life Cycle and Reverse Innovations

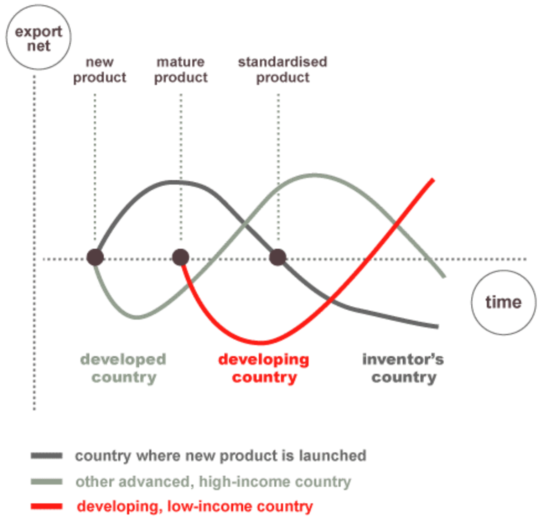
- As the product matures, its customers, markets and place of production changes
  1. Company in a developed country exploits a technological break-through and launches an innovative product. Market for such product is more likely to emerge also in a developed country; Exports to other developer countries allow to increase revenue and to increase the downward descent of the product's experience curve
  2. Exports to developed countries increase through time; it becomes economically possible to start local production. The company consi-ders foreign investments. Also local competitors recognize the opportunity to serve local markets. With lower prices, a demand in emerging countries is also stimulated
  3. Saturation of developed markets leads to further price drops and product standardization. Companies move manufacturing operations to emerging countries (lower labour costs)



VERNON, Raymond. International investment and international trade in the product cycle. *The quarterly journal of economics*, 1966, 190-207.

Assumptions (no longer valid):
Sophisticated products are being developed in developed countries
Products follow the well-known and widely accepted product life cycle and require
Products require R&D facilities

However the life cycles are much faster today



Recommended reading: WINTER, Amos, GOVINDARAJAN, Vijay. Engineering Reverse Innovations. Harvard Business Review 7-8/2015

International Product Life Cycle and Reverse Innovations

- Global (or multinational) companies usually follow the international product life cycle
  - Develop sophisticated product for developed economy(ies), as the product matures – move manufacturing operations to other (less developed countries), adjust (remove) features to attract local demand in emerging markets – glocalization
- Reverse Innovation – the process can go in the opposite direction - development of low-tech product focused on emerging markets and adjusting (adding) features to focus on developed markets later
  - Assumption that low-end product developed for emerging countries cannot succeed in developed markets is no longer valid
  - Such products can target completely new segments/ markets (extremely low prices or new ways of product usage)
  - Emerging markets (i.e China, India) are more than happy to adopt solutions with decent performance at an ultra-low costs – a huge opportunity considering the size of such markets

In India the rural majority still shaves with double-edge razors. This requires a lot of attention (and causes frequent nicks and cuts) and takes a lot of time. Indian men take different approach to shaving – often sitting on the floor, just a small cup of water, with a small hand-held mirror and in low-light conditions. Indian men have also thicker hair and a higher hair density than their American or European counterparts. They often shave less frequently and like to use more shaving foam.

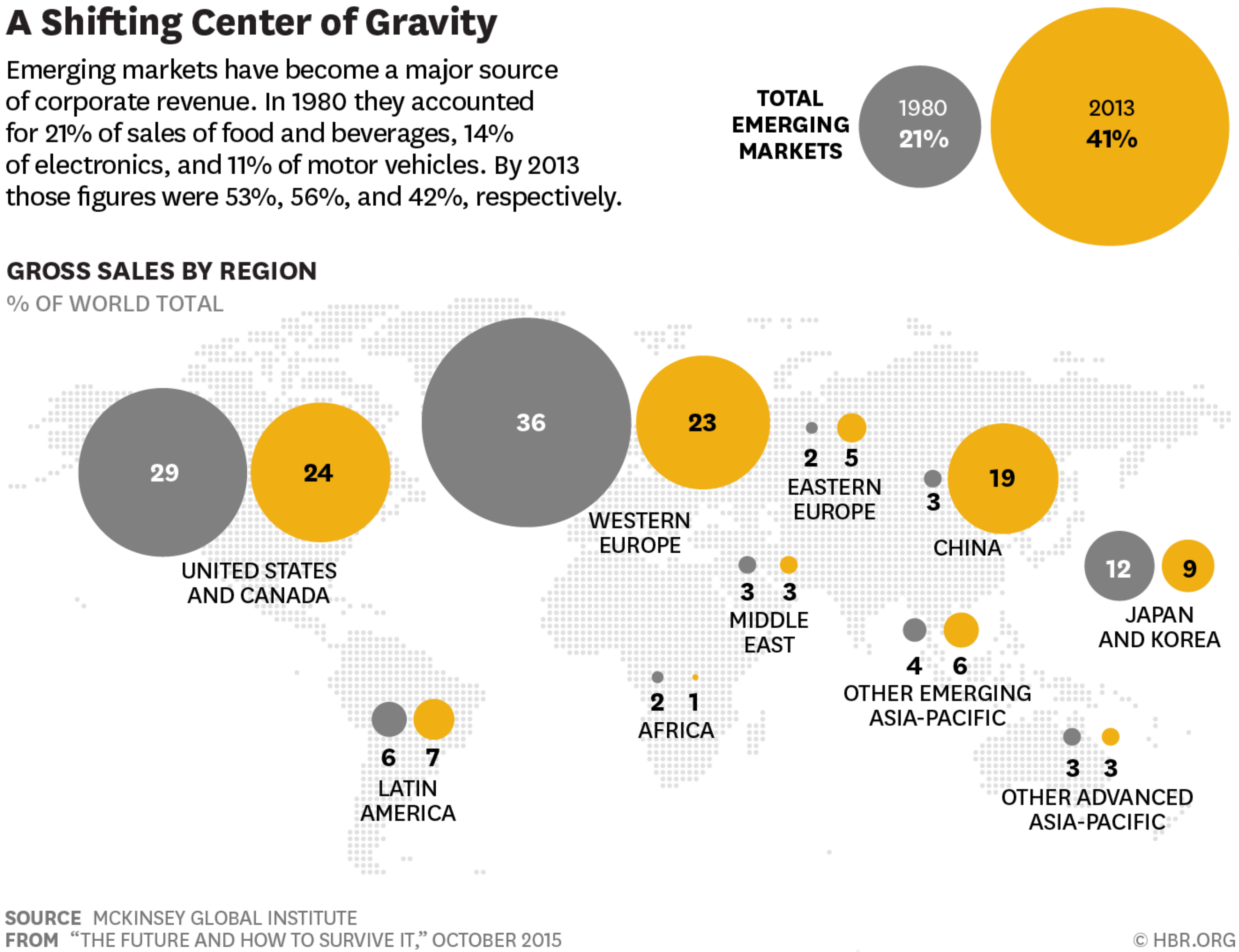
Gillette Guard comes as a result of intensive R&D – it has only a single blade, has 80 % fever parts than other products, has an unique pivoting head helping to maneuver around the curves of face and neck, allows better flushing out the razor by swishing in a cup of water, has small teeth at the cartridge front to better flatten the skin (preventing nicks and cuts). The razor is also extremely cheap (the razor is 25 cents, refill blade is 8 cents) – 3 % as much as Gillette's Mach3 razor that targets US and European markets. Gillette Guard is not sold outside India yet but the company plans to focus on emerging markets in Africa and Asia. 40 % of company's annual revenue comes from emerging markets.

To develop Gillette Guard, the company took 20 people team (from various fields) to India. The spent 3,000 hours with more than 1,000 different users at their homes just observing their shaving routine. Guard's predecessor, Gillette Vector was a huge flop since the company worked focus with focus groups consisting of MIT students rather than India residents How Gillette execs spent a fortune developing a razor for India using MIT student focus groups...without considering the country's lack of running water, Gillette's Plan For Dominating The World: P&G, Reverse Innovation, And The Gillette Guard

Other examples of reverse innovations: Microsoft has developed an app for "dumb" phones which allows users to access social networks, Nestlé sells low-fat low-cost noodles as a healthy alternative on Australian and NZ markets – originally created for rural India an Pakistan, …

International Product Life Cycle and Reverse Innovations

- The reason why the innovations are being reversed is obvious



Emerging-Market Competitors Have Changed the Rules

There are now twice as many multinational corporations as there were in 1990—85,000 is a conservative estimate. Although two-thirds are still headquartered in advanced economies, the balance is quickly shifting. In 1990, 5% of the Fortune Global 500 came from emerging markets. In 2013, 26% did. By 2025, we estimate, more than 45% will.

These new competitors are growing more than twice as quickly as companies in advanced economies, both in their home markets and beyond, eroding the traditional Western advantage of scale. Although their track records for profit and performance are uneven, the most successful of these players are now as big as or bigger than competitors from the U.S. and Europe.

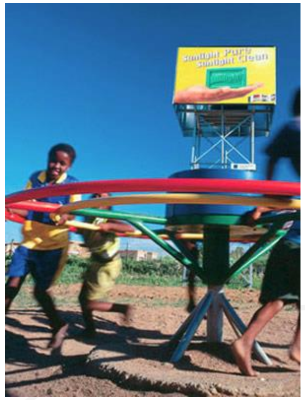
Recommended reading: DOBBS, Richard, KOLLER, Tim, RAMASWAMY, Sree. The Future and How to Survive It. Harvard Business Review 10/2015

Recommended reading: IMMELT, Jeffrey R.; GOVINDARAJAN, Vijay; TRIMBLE, Chris. How GE is disrupting itself. Harvard Business Review 10/2009

International Product Life Cycle and Reverse Innovations

- Companies often struggle to manage reverse innovation process. There are five traps to be avoided

1. Matching market segments to existing products; just slightly adapted products may not appeal to customers in emerging countries
   John Deere modified its tractors for developing countries (Indian market). Even though the tractor was small, it has wide turning radius (designed for large US farms) which was useless on small Indian holdings
2. Reducing the price through eliminating features
   US car manufacturers entered Indian market in mid 1990s. To lower the price, the developers decided to eliminate power windows in the rear doors. Unfortunately, even with the lowered price, the model targeted customers on the top of the pyramid, who often hire chauffeurs. This resulted in a situation, when the chauffeur got power windows while the owner had to operate the windows manually



3. Forgetting that emerging markets may have different technical landscape (infrastructure, technical capabilities, climate, but also human habits)
   PlayPump is a device designed for areas suffering from water scarcity. It allows to pump water as children spin merry-go-round. The energy required to supply whole village by water is not high, but the children refused to play on command (when the village needs water supply). The project has been canceled
4. Neglecting stakeholders
   Customer/user feedback is not enough. Developers has also consider who will make the product, distribute it, sell it, pay for it, repair it, and dispose of it. I.e. when designing prosthetic limb, also the opinion of local manufacturers, distributors, local clinics/doctors/medics must be considered
5. Refusing to believe that products developed for emerging markets could have global appeal
   Dacia Logan has been developer especially for CEE markets. It is manufactured in Romania since 2004 (cheap labor) and offered greater size and trunk space, higher ground clearance. Lately, Renault decided to make the car attractive to customers in developed markets (by adding more safety features and metallic colors). In 2013, Dacia sales (all car models) reached more than 400,000 vehicles, particularly in Western Europe

Diffusion of Innovations

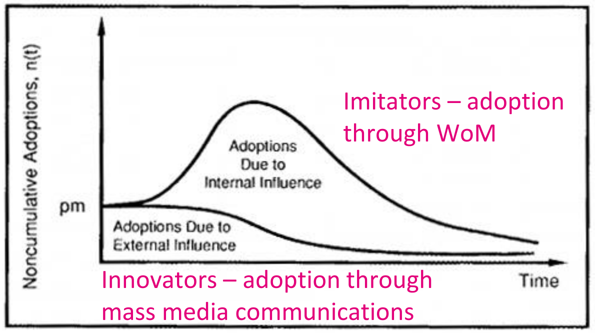
- How to estimate the sales through the product life cycle?
  - Diffusion models – how new products get adopted in a population, demand, forecasting

BASS, F. M., 1969, A new product growth for model consumer durables, Management Science, 15(5), pp. 215-227

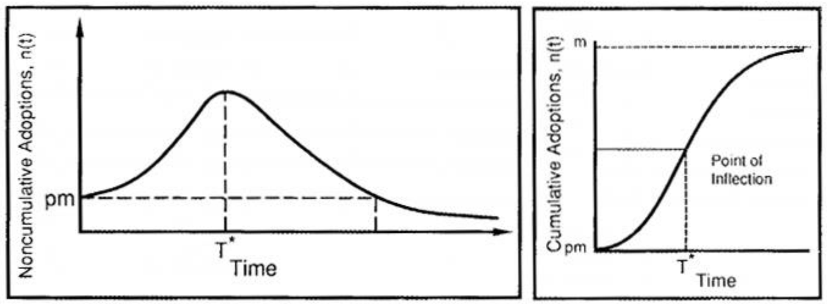
Extended of repeated purchases

NORTON, J. A., E M. BASS. 1987. A diffusion theory model of adoption and substitution for successive generations of high technology products. Management Science. 33(9) 1069-1086.

A. Adoptions Due to External and Internal Influences in the Bass Model



B. Analytical Structure of the Bass Model



$$F(t_i) = \frac{1 - e^{-(p+q)t_i}}{1 + \frac{q}{p} e^{-(p+q)t_i}}$$

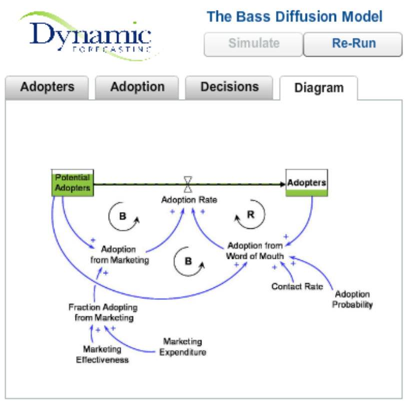
where

F(t) is the change of the installed base fraction

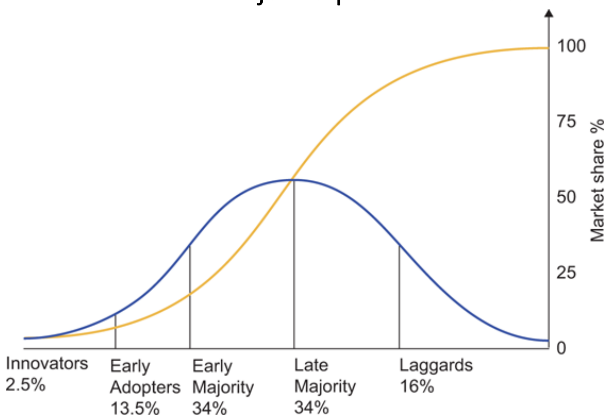
p is the coefficient of innovation (the average value of *p* has been found to be 0.03, and is often less than 0.01)

q is the coefficient of imitation(the average value of *q* has been found to be 0.38, with a typical range between 0.3 and 0.5)

p to *q* ratio doesn't change



Extensions of Bass Diffusion model – i.e. including other elements of marketing mix (pricing, advertising), removing limitations of the model (fixed number of potential adopters, binary decisions of customers, fixed p and q coefficients, just a positive influence of WpM, …) dynamic models, more customer groups, ….



Recommended reading (for real enthusiasts): RADAS, Sonja. Diffusion Models in Marketing: How to Incorporate the Effect of External Influence?. *Privredna kretanja i ekonomska politika*, 2006, 15.105: 30-51.

BASS, Frank M. Comments on "A new product growth for model consumer durables the bass model". *Management science*, 2004, 50.12_supplement: 1833-1840.

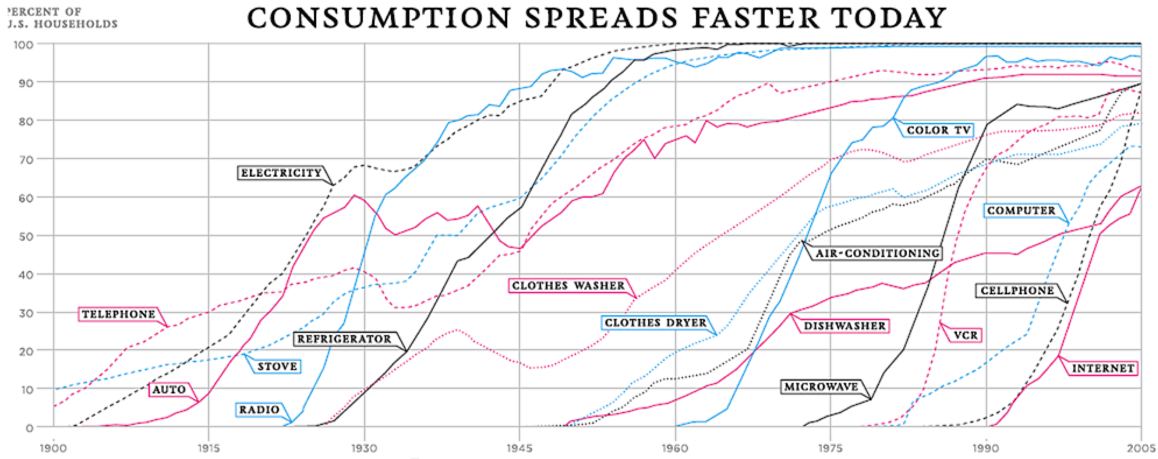
Lilien, Gary L., Arvind Rangaswamy, Arvind and Arnaud De Bruyn (2007) The Bass Model: Marketing Engineering Technical Note

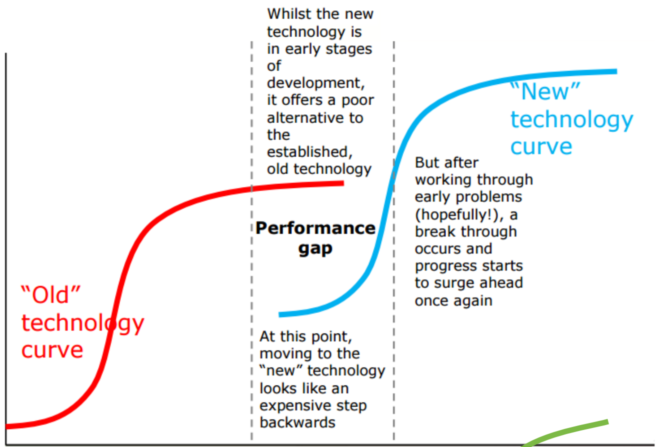
MAHAJAN, Vijay; MULLER, Eitan; BASS, Frank M. New product diffusion models in marketing: A review and directions for research. In: *Diffusion of technologies and social behavior*. Springer Berlin Heidelberg, 1991. p. 125-177.

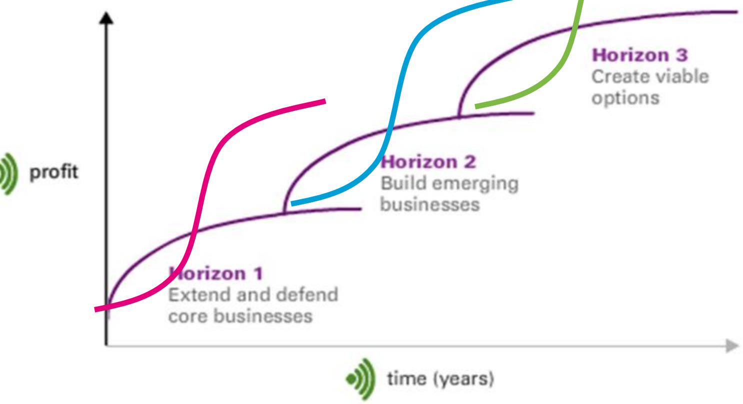
Many simulation models – system-dynamics or agent-based

Dealing with Disruptive Technologies – Three horizons

- Mature products – declining growth
  - To achieve consistent levels of growth – attend to existing businesses while still considering areas which can grow in the future







Three horizons Framework (McKinsey) – how to manage for current performance while maximizing future opportunities for growth.

Horizon one represents those core businesses most readily identified with the company name and those that provide the greatest profits and cash flow. Here the focus is on improving performance to maximize the remaining value. Effort to utilize current technologies available. Incremental changes of product design. Decisions to discontinue some products (lacking potential for the future)

Horizon two encompasses emerging opportunities, including rising entrepreneurial ventures likely to generate substantial profits in the future but that could require considerable investment. Products require substantial investments, do not generate profit (at the beginning), may require identification of new measures of success. Focus on Net Present Value, demand forecasting, …

Horizon three contains ideas for profitable growth down the road—for instance, small ventures such as research projects, pilot programs, or minority stakes in new businesses. Project with potential to change the industry (distruptive technology),

A need to manage all three horizons simultaneously, decisions about product life-cycles moving through horizons 3->2, 2->1. How many investments should be dedicated to further horizons (strategies for growth, product strategies) – 70, 20, 10?

Eric Schmidt, then Google CEO, speaking to Business 2.0 magazine, We spend 70 percent of our time on core search and ads. We spend 20 percent on adjacent businesses, ones related to the core businesses in some interesting way. Examples of that would be Google News, Google Earth, and Google Local. And then 10 percent of our time should be on things that are truly new… *How do you enforce that 70/20/10 rule?* For a while we put the projects in different rooms. That way, if we were in one room too long, we knew we were not spending our time correctly. It was sort of a stupid device, but it worked quite well. Now we have people who actually manage this, so I know how I spend my time, and I do spend it 70/20/10

Planned Obsolescence

- An approach to better manage products through the product/industry life cycle
  - Not only to rescue products foundering in the maturity phase
  - Planning or designing a product with an artificially limited useful life to manage the life cycle
  - Important in consumption-driven economy

Recommended reading: MAYCROFT, Neil, et al. Consumption, planned obsolescence and waste. 2009.

The Phoebus cartel was a cartel of, among others, Osram, Philips, and General Electric from 1924 until 1939, that existed to control the manufacture and sale of light bulbs. The cartel was a convenient way to lower costs and worked to standardize the life expectancy of light bulbs at 1000 hours, while at the same time raising prices without fear of competition.

DuPont's nylon tights were initially were very durable. When DuPont realized that it would not sell enough of them if each woman only needed to buy one pair, it began to produce tights of poorer quality. Thus it created the easily damaged product with which all ladies are familiar to this day.

Alfred P. Sloan, Jr., president of General Motors: „ The changes in the new model should be so novel and attractive as to create demand . . . and a certain amount of dissatisfaction with past models as compared with the new one." Unlike competitor Henry Ford, who saw little reason to change his black Model-T, the forward-thinking Sloan saw change as an economic driver that could benefit his company. The Greatest Invention: Planned Obsolescence

- Very common often also these days

Apple realized that they could sell more phones if they built the phone with an integrated battery, prompting users to upgrade once the battery wore down. Apple's Latest 'Innovation' Is Turning Planned Obsolescence Into Planned Failure

"After 3,000 coffees, Jura coffee machines would stop working and would show a message saying it was time for service. Built-In Obsolescence - Are We Being Scammed By Electronics Manufacturers?

Multiple sources: Johnson & Scholes, Exploring Corporate Strategy, 6th ed., Harlow, England: Prentice Hall, 2002, p. 119, and Operations Management, 2nd ed., Nigel Slack et al. London: Pitman Publishing, 1998, p. 88

Product Life Cycle – Summary

Stage	Launch	Growth	Saturation	Maturity	Decline
Customers	First and fast (Innovators)	Less picky (Early Adopters)	More picky (Early Majority)	Saturated (Late Majority)	Lagging behind (Laggards)
Competitors	A few or none	Increasing number	Weakest fall out	Stable number	Decreasing number
Type of competition	Almost none (substitutes?)	Innovative and copying	Based on price	Battle for market share, cost issues	Low profits and little competitive battling
Product variety	Individual production	Broad variety, standards set	Based on standards	Few basic types with countless subtypes	Standardized and limited
Distribution	Build selective distribution	Build intensive distribution		Build more intensive distribution	Selective phase out of unprofitable unit
Profits	Negative	Small but increasing		High	Low to negative
Sale volumes	Low	Rapidly growing	Slowly growing	Maximum and stable	Decreasing
Sales	Low Sales	Rapidly Increasing Sales		Peak Sales	Declining Sales
Average Cost	High and falling	Medium and falling		Low	Low
Customer Needs	Sophistication, features, fit	Performance		Value-price/ performance	Low price
Investment	High	High		Low	Negative
Objectives	Create product awareness and Trial	Maximize market share		Maximize profits and defend market share	Reduce expenses & milk brands
Advertising	Build product awareness among early adopters and dealers	Build awareness and interest in mass market		Stress on brand difference and benefits	Reduce to retain hard core loyals
Marketing Strategy	Promotion of brand and market	Build brand identity		Segment market, steal business	New promotion, bitter attacks

F6 | Vysoká škola ekonomická v Praze
Fakulta managementu

fm.vse.cz

(Marketing) Situational Analysis
Portfolio Analysis – Internal/External

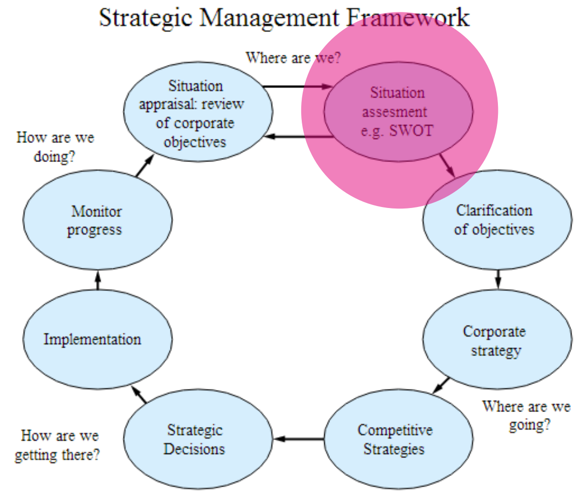
Strategic Planning Process

- Essential no matter whether Porter's or Mintzberg's perspective applied

  Porter's ideas are still relevant, corporate CEOs still use them as part of their strategy planning thinking. But they are getting a bit long in the tooth for today's different world. This is not to say that planning isn't useful, but other than some long term technology plans, the day of the 5 year and even 2 year plans has faded and emergent strategy is the reality in most industries.
  MOORE, Karl. [Porter or Mintzberg: Whose View of Strategy Is the Most Relevant Today?]

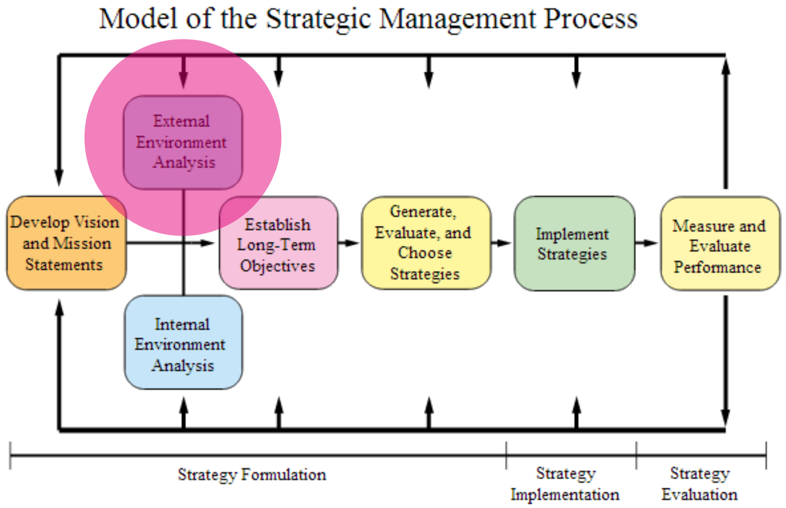
  The world is no longer dependable, consistent, or predictable enough for leaders to rely only on deliberate strategic planning in advance. If reality is constantly changing, the company cannot stop analyzing, assessing, and planning to keep up—or get ahead of—those changes.
  MOORE, Karl, LENIR, Phil. [Mintzberg's Better Way to Do Corporate Strategy].

- There are many frameworks and approaches to strategic planning

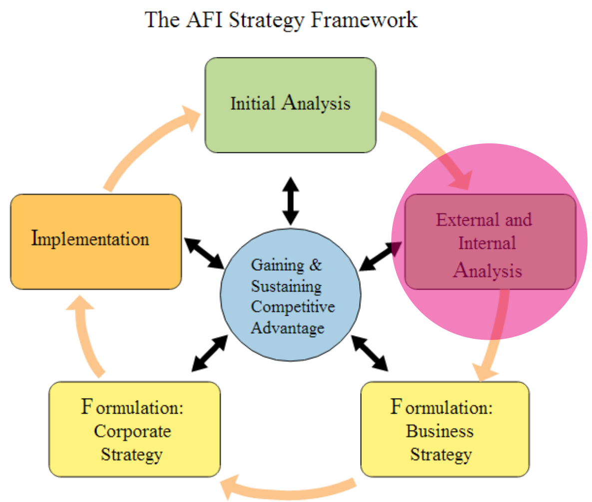


THOMPSON, J. and MARTIN, F. (2010). Strategic Management: Awareness & Change. 6th ed. Cengage Learning EMEA, p. 34

The Analysis-Formulation-Implementation (AFI) Strategy Framework



DAVID, F.R. (2009). Strategic Management: Concepts and Cases. 12th ed. FT Prentice Hall, p. 36-37



ROTHAERMEL, F. T. (2012). Strategic Management: Concepts and Cases. McGraw-Hill/Irwin, p. 20

Micro and Macro Level of Strategic Analysis

Macro Level of Situational Analysis

- The widely used approach to evaluate macro environment – PEST (PESTLE)
  – First in Aguilar, F.J. Scanning the business environment, New York, NY: Macmillan Company, 1967 (ETPS – Economic, Technical, Political, and Social)
  – 1980s Brown, A. (STEP – Strategic Trend Evaluation Process), environmental perspective has been added – STEPE. Many other variants (Fahey, Narayanan, Morrison, Renfro, Boucher, Mecca, ale i Porter)

PESTEL = PEST + Environmental + Legal
PESTELI = PESTEL + Industry
STEEP = PEST + Ethical
SLEPT = PEST + Legal
STEEPLE = PEST + Environmental + Legal + Ethical

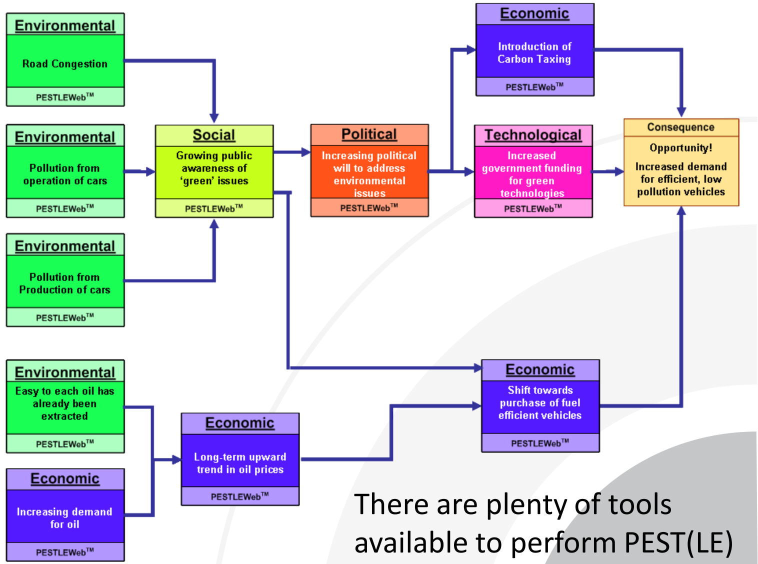
STEEPLED = STEEPLE + Demographic
PESTLIED = PEST + Legal + International + Environmental + Demographic
LONGPEST = Local + National + Global factors + PEST
STEER - Socio-cultural, Technological, Economic, Ecological a Regulatory factors

- These days **PESTLE** is the most popular approach

1st step: gather all relevant information about all factors influencing the company

2nd step: evaluate all factors (opportunities, threats), factor weighting – included in SWOT analysis

– When performing PEST (PESTLE) analysis – it is quite simple to determine list of influencing factors. However to evaluate the importance of all influences (how do they affect strategic choices) remains a challenge. Moreover – factors can be related and influence each other



There are plenty of tools available to perform PEST(LE) analysis, i.e. PESTLEWeb – similar to mind maps

PEST (PESTLE, STEEPLED)

PEST	
Political	**Economic**
Government stability and likely changes Bureaucracy Corruption level Tax policy (rates and incentives) Freedom of press Regulation/de-regulation Trade control Import restrictions (quality and quantity) Tariffs Competition regulation Government involvement in trade unions and agreements Environmental Law Education Law Anti-trust law Discrimination law Copyright, patents / Intellectual property law Consumer protection and e-commerce Employment law Health and safety law Data protection law Laws regulating environment pollution	Growth rates Inflation rate Interest rates Exchange rates Unemployment trends Labor costs Stage of business cycle Credit availability Trade flows and patterns Level of consumers' disposable income Monetary policies Fiscal policies Price fluctuations Stock market trends Weather Climate change
Socio-cultural	**Technological**
Health consciousness Education level Attitudes toward imported goods and services Attitudes toward work, leisure, career and retirement Attitudes toward product quality and customer service Attitudes toward saving and investing Emphasis on safety Lifestyles Buying habits Religion and beliefs Attitudes toward "green" or ecological products Attitudes toward and support for renewable energy Population growth rate Immigration and emigration rates Age distribution and life expectancy rates Sex distribution Average disposable income level Social classes Family size and structure Minorities	Basic infrastructure level Rate of technological change Spending on research & development Technology incentives Legislation regarding technology Technology level in your industry Communication infrastructure Access to newest technology Internet infrastructure and penetration

PESTLE	
Environmental (ecological)	**Legal**
Weather Climate change Laws regulating environment pollution Air and water pollution Recycling Waste management Attitudes toward "green" or ecological products Endangered species Attitudes toward and support for renewable energy	Anti-trust law Discrimination law Copyright, patents / Intellectual property law Consumer protection and e-commerce Employment law Health and safety law Data Protection
STEEPLED	
Ethical	**Demographic**
Ethical advertising and sales practices Accepted accounting, management and marketing standards Attitude towards counterfeiting and breaking patents Ethical recruiting practices and employment standards (not using children to produce goods)	Population growth rate Immigration and emigration rates Age distribution and life expectancy rates Sex distribution Average disposable income level Social classes Family size and structure Minorities

- Already performed analyses on a country/industry level can be found (i.e. Doing Business in China, Doing Business in Malaysia)
- Just numbers and statistics without deeper of (local) context, hidden relationships remain unknown
- Entering foreign markets is demanding and long-term activity involving (local) experts and various analyses
- A well-performed analysis is a large and extensive document
    - Not suitable topic for a thesis assignment!!!

PEST – Examples

- 2014 –IKEA's first India store to open in Hyderabade

P: Indie scores 94/176 in Transparency International's Corruption Perception Index (CPI); political instability, factions, criminal cases against leaders, corruption, stipulation for foreign brands 30 % of production must be sourced localy (7-years moratorium for IKEA), frequent strikes, protests and bandhs, policies keep changing according to who's ruling – **Solution:** hire local craftsmen, local logistics companies

E: weak and unstable economy, 7 % inflation, 12,5/15% VAT, high share of imported goods (price fluctuations), Indians are price sensitive , low disposable income– **Solution:** bundling, promotions, free mock-up models, direct sales

S: 1/3 of the population lives below national poverty line, 2016 forecast over 50 mil. middle class households, Indians love foreign labels, smaller homes (32 % or urban homes 25 m^2, 39 % rural homes 30 m^2 or smaller), high levels of piracy – **Solution:** Adjust sample flats to reflect local conditions and tastes, tie-up with builders and developers

T: weak infrastructure (roads, water and powerty supplies), power cuts, ¼ of population no electricity, not common to own a car; on the other hand increasing internet connectivity, popular social media, e-commerce – **Solution:** develop e commerce solutions, free delivery and installation

- Nespresso
  - 1970s and 1980s Nestlé dominated instant coffee segment, however struggled to hit gourmet-coffee segment – introduction of Nespresso

S: Small premium segment, cannot be distributed through retailers (beans must stay fresh and cannot be stocked for long) – exclusive distribution, small design boutiques, e-commerce, capsules are more expensive than competitors'); coffee machines ale small, high-quality, fancy-designed (expensive), targeting on professionals, building the brand cult, G. Clooney as brand ambassador

T: The Nespresso concept is protected by 70 patents, barrier for potential competitors, (patented 1976), targeted on customers who enjoy a good coffee but don't want to spend any time preparing it
E(N): Customers are sensitive to CSR activities – fair trade coffee, organic product, controlled entire process from growers to the final customer

- Tesco
  - Recognized an opportunity in e-commerce development, rapid changes in consumer behavior

T: Customers don't have much time to shop but are online all the time – introduction of Tesco online (click-and-collect), customer orders online and collects the goods in drive-through on his way back home. 2013 – Tesco has revealed it made £127m of trading profit in its UK online grocery

- Nike
  - Nike customers are sensitive to CSR activities

S + E(N): 1999 Nike initiated Fair Labor Association, 2005 as a first apparel company published a complete list of all suppliers, publishes CSR audits, uses recycled materials (PET bottles)

Micro Level of Situational Analysis

- Analysis of the closest surroundings of the company, focuses on competition

• How intensive is the competition? • Who are the competitors? • What are the competitors' market shares? • How are the competitors perceived by customers? • What are the competitors' objectives? • What are the strategic choices of competitors? • What are the competitors' strengths and weakness? • What threats represents the competition? • What are the competitors' offerings on the market?	• To which extent are customers satisfied with competitors' offerings? • Are there any patents, licenses, … owned by competitors? • How do the competitors communicate with customers? • What is the competitors' pricing strategy • What type of distribution is being used by the competitors • What is the technological level of competitors, how often do they innovate, how intensive are their R&D activities • What is the financial strength of competitors?

  – Micro Level (Industry) Situational Analysis is heavily criticized – myopic perspective in times of hyper competition and redefining borders of industries

The Wall Street Journal published a story which shows just how blurred traditional industry lines have become. In an article entitled "Cell Phones Are Eating the Family Budget" the *Journal* reporter profiled case after case of couples and families who give up spending on restaurants, entertainment, cars and even clothing in order to cover their burgeoning cell phone bills. In other words, funds that used to flow into local restaurants, clothing chains or other forms of entertainment are flowing instead into the top lines of mobile phone operators.

This story raises a real challenge to conventional strategy analysis, in which a key activity is often looking at traditional competitors, assessing their intentions and moves and figuring out key trends that are going to be meaningful within the confines of an industry. In cases like this one, the traditional competitors are important, sure, but you can actually think of all the traditional competitors in the same boat, as the very category in which you compete loses ground.

To consider competition like this, you need to think more broadly about what I call "oblique" competitors. These are competitors who may not be in your industry, may not be targeting the same problems you target, and may not even intend to compete with you at all. To do a competitive analysis in this situation, you'd need to get into the heads of potential customers and try to understand the tradeoffs they are making and why. Until you get in the habit of doing that, the risk of being collateral damage of someone else's successful strategy is all too real.

Industry Analysis Is Out of Date

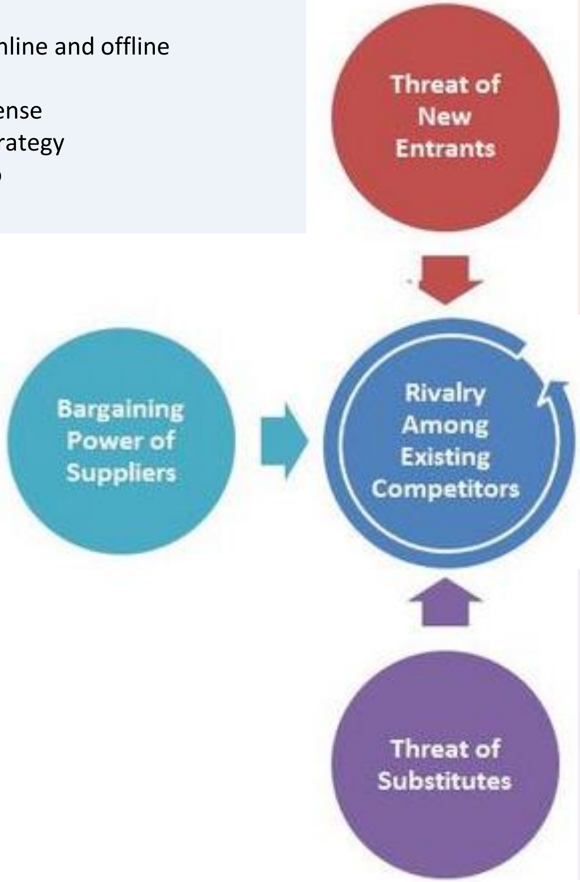
Recommended reading: Porter, M. E. How Competitive Forces Shape Strategy. *Harvard Business Review,* 3/1979
NALEBUFF, Barry J.; BRANDENBURGER, Adam M. The right game: use game theory to shape strategy. *Harvard Business Review*, 7/1995
SHARP, Byron. Competitive marketing strategy: Porter revisited. *Marketing Intelligence & Planning*, 1991, 9.1: 4-10

Porter's Five Forces

- Identification and analysis of main factors influencing the industry
- To reveal competition intensity in the industry
- One of the most-known and widely used frameworks in management/marketing to analyze micro level

The existence of barriers to entry (patents, rights, etc.). Government policy
Capital requirements
Absolute cost
Cost disadvantages independent of size
Economies of scale
Economies of product differences
Product differentiation
Brand equity
Switching costs or sunk costs
Expected retaliation
Access to distribution
Customer loyalty to established brands
Industry profitability

Sustainable competitive advantage through innovation
Competition between online and offline companies
Level of advertising expense
Powerful competitive strategy
Firm concentration ratio
Degree of transparency



Supplier switching costs relative to firm switching costs
Degree of differentiation of inputs
Impact of inputs on cost or differentiation
Presence of substitute inputs
Strength of distribution channel
Supplier concentration to firm concentration ratio
Employee solidarity (e.g. labor unions)
Supplier competition: the ability to forward vertically integrate and cut out the buyer.

Buyer concentration to firm concentration ratio
Degree of dependency upon existing channels of distribution
Bargaining leverage, particularly in industries with high fixed costs
Buyer switching costs relative to firm switching costs
Buyer information availability
Force down prices
Availability of existing substitute products
Buyer price sensitivity
Differential advantage (uniqueness) of industry products
RFM (customer value) Analysis
The total amount of trading

Buyer propensity to substitute
Relative price performance of substitute
Buyer switching costs
Perceived level of product differentiation
Number of substitute products available in the market
Ease of substitution
Substandard product
Quality depreciation

HENRY, A. (2008) *Understanding Strategic Management*. Oxford University Press

Porter's Five Forces

Recommended reading:
RYALL, M. D. The new dynamics of competition. Harvard Business Review, 6/2013
VAN ALSTYNE, M. W., PARKER, G. G., & CHOUDARY, S. P. Pipelines, platforms, and the new rules of strategy. *Harvard Business Review,* 4/2016

- Model criticism
  - Changes of current markets – hyper competition, redefining industry/market borders
  - Porter did not explain his choice of forces – other forces can be identified
  - Just a static perspective, doesn't provide any guidelines for strategic choices
  - The relations between companies are not necessarily just competitive (i.e. cooperation and technology sharing between car manufacturers)
  - Upstream and downstream activities are much more complex
  - Doesn't consider complements – i.e. lock-in complements (printer and ink), or services complementing products (real estates and mortgages)
  - Kotler recognizes more levels of competition
    - Brand competition – companies offering similar product for similar price
    - Industry competition – companies offering same class of products
    - Form competition – companies offering satisfaction of similar needs
    - Generic competition – in a broader perspective all companies competing for customers' wallet
  - Pipeline × Platform businesses

Pipeline businesses create value by controlling a linear series of activities—the classic value-chain model. Inputs at one end of the chain (say, materials from suppliers) undergo a series of steps that transform them into an output that's worth more: the finished product.
Platform businesses bring together producers and consumers in high-value exchanges. Their chief assets are information and interactions, which together are also the source of the value they create and their competitive advantage.
The competitive forces described by Michael Porter (the threat of new entrants and substitute products or services, the bargaining power of customers and suppliers, and the intensity of competitive rivalry) still apply. But on platforms these forces behave differently, and new factors come into play. The five forces model doesn't factor in network effects and the value they create.

Porter's Five Forces

- Automotive industry

[Porter's five forces analysis example for an automotive industry]

Threat of new entry (very weak)	Buyer power (strong)
• Large amount of capital required • High retaliation possible from existing companies, if new entrants would bring innovative products and ideas to the industry • Few legal barriers protect existing companies from new entrants • All automotive companies have established brand image and reputation • Products are mainly differentiated by design and engineering quality • New entrant could easily access suppliers and distributors • **A firm has to produce at least 5 million (by some estimations) vehicles to be cost competitive, therefore it is very hard to achieve economies of scale** • Governments often protect their home markets by introducing high import taxes	• There are many buyers • Most of the buyers are individuals that buy one car, but corporates or governments usually buy large fleets and can bargain for lower prices • It doesn't cost much for buyers to switch to another brand of vehicle or to start using other type of transportation • Buyers can easily choose alternative car brand • Buyers are price sensitive and their decision is often based on how much does a vehicle cost • Buyers do not threaten backward integration
Competitive rivalry (very strong)	**Supplier power (weak)**
• Moderate number of competitors • If a firm would decide to leave an industry it would incur huge losses, so most of the time it either bankrupts or stays in automotive industry for the lifetime • Industry is very large but matured • Size of competing firm's vary but they usually compete for different consumer segments • Customers are loyal to their brands • There is moderate threat of being acquired by a competitor	• Large number of suppliers • Some suppliers are large but the most of them are pretty small • Suppliers do not pose any threat of forward integration
Threat of substitutes (weak)	
• There are many alternative types of transportation, such as bicycles, motorcycles, trains, buses or planes • Substitutes can rarely offer the same convenience • Alternative types of transportation almost always cost less and sometimes are more environment friendly	

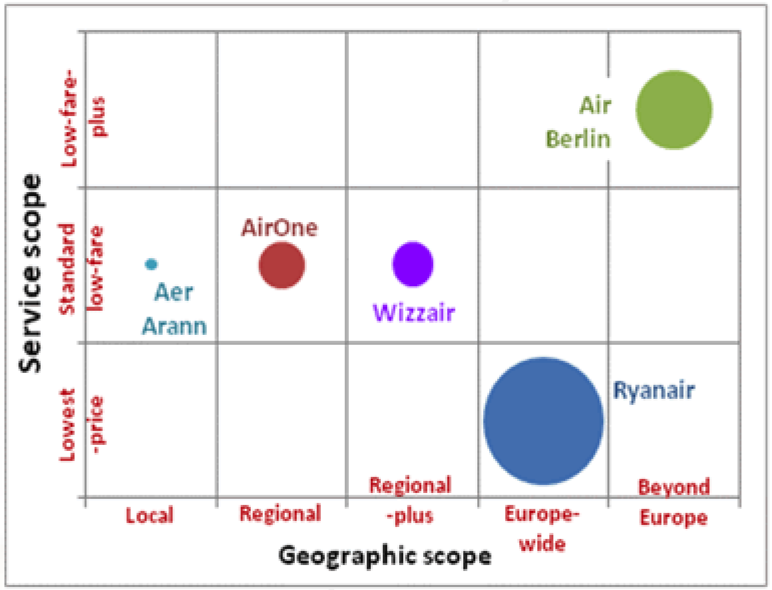
Applying Michael Porter's Five Forces (Hospital Market in Chicago Area)

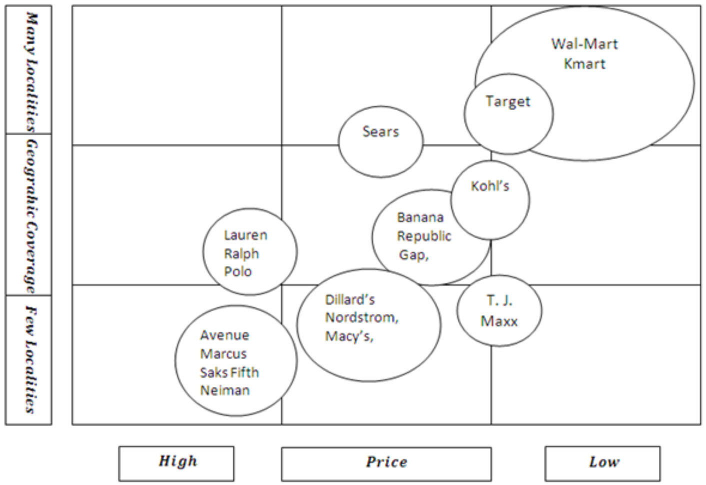
Starbucks Porter's Five Forces Analysis 2014

Hunt, M. (1972) "Competition in the Major Home Appliance Industry", doctoral dissertation, Harvard University, 1972.

Strategic Group Mapping

- Grouping companies with similar business models or strategies
  - Introduced by Hunt in 1972, further developed by Porter (1980)
  - Still very popular
  - Competitors close to each other – direct competition with similar offerings and positioning
  - Distant competitors – indirect competition
  - Axes – analysis objectives (usually product range, geographical coverage, number of segments served, price, quality, positioning,… – from a marketing perspective, optionally criteria that influence purchase behaviors [Decisive Buying Criteria]
  - Usually two variables with scales (numbers or adjectives), third variable – usually market share or production volume expressed by the size of the point
  - Similar approach can be utilized i.e. to analyze targeted segments





Recommended reading (for real enthusiasts): BALDWIN, C., CLARK, K., MAGRETTA, J. and DYER, J., Harvard Business Review on Managing the Value Chain, Harvard Business School Press, 2000

Porter’s Value Chain

- Introduced in Porter, M. E. The Competitive Advantage: Creating and Sustaining Superior Performance. NY: Free Press, 1985.

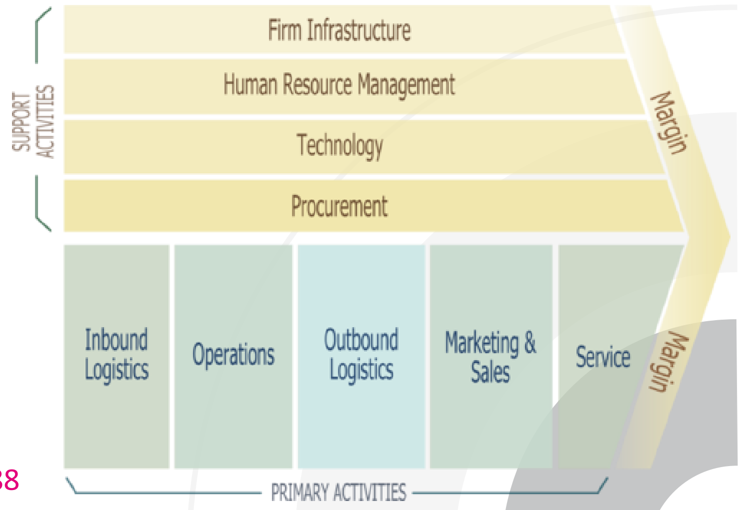
A systematic way of examining all the activities a firm performs and how they interact is necessary for analyzing the sources of competitive advantage. Each link in a value chain consists of a bundle of activities (value activities), and these bundles are performed by a firm to design, produce, market, deliver and support its product. Value activities are the discrete building blocks of competitive advantage.

  - Heavily criticized as „One of the most discussed and most misunderstood ideas in the whole of the management arena“
    - How to recognize those suggested discrete blocks of activities (especially for services)

    In so volatile a competitive environment, strategy is no longer a matter of positioning a fixed set of activities along a value chain. Increasingly, successful companies do not just *add* value, they *reinvent* it. Their focus of strategic analysis is not the company or even the industry but the *value-creating system* itself, within which different economic actors—suppliers, business partners, allies, customers—work together to *co-produce* value. Their key strategic task is the *reconfiguration* of roles and relationships among this constellation of actors in order to mobilize the creation of value in new forms and by new players. And their underlying strategic goal is to create an ever-improving fit between competencies and customers.

    Recommended reading: NORMANN, Richard, RAMÍREZ, Rafael. Designing Interactive Strategy. Harvard Business Review, 7/1993

  - Contradictory to holistic marketing concept – marketing is not just a discrete activity in value chain, mingled across all company activities; from marketing research to audit



  - The customer is not at the end of the value chain (consuming the outputs) but actively participates on value creation

    Today, both macroeconomic forces, and technological advances mean that customized products aren’t just for the one percent. Instead, customized products and experiences can be for everybody, at least some of the time.

    Recommended reading: MERCHANT, Nilofer. Why Porter’s Model No Longer Works. HBR Blog Network. February 29, 2012

    SHAPIRO, Benson P. What the Hell Is “Market Oriented”? Harvard Business Review, 11/1988

F6 Vysoká škola ekonomická v Praze
Fakulta managementu

fm.vse.cz

(Marketing) Situational Analysis
Portfolio Analysis

Portfolio Analysis Approaches

- Portfolio analysis popular in 1970s and 1980s
  - Related to entering new and foreign markets, introducing new products, filling and stretching product lines, …
- Approaches to portfolio analysis may differ in
  - How general the models are
    - Standardized – growth-share matrix, directional policy matrix (GE, Shell), business profile matrix (A. D. Little, Hofer)
    - Customized – product performance matrix, analytical hierarchy process, risk/return model, conjoint analysis
  - What dimensions are used to construct the model
    - Single variable dimensions (i.e. growth-share matrix; relative market share/growth rate)
    - Composite characteristics (i.e. GE directional policy matrix –initially 40 variable, more recently reduced to 15; characteristics may vary according to the company analyzed)
  - The degree to which the model imposes rules for allocating resources among products

Recommended reading: WIND, Yoram, MAHAJAN, Vijay. Designing Product and Business Portfolios. Harvard Business Review 1/1981

Portfolio Analysis Approaches

- Choice of Portfolio Analysis Approach includes
  - Establishing the level and unit of analysis and determining what links connect them (SBUs, products, or product/segments)
  - Identifying the relevant dimensions (single-variable, composite, subjective – who evaluates)
  - Determining the relative importance of the dimensions (i.e. weighted, how to set the importance of the dimensions)
  - To the extent that two or more dimensions are viewed as dominant (constructing a matrix based on them – matrix 2 × 2 or 3 × 3 are visually attractive but provide limited outputs)
  - Locating the products or businesses on the relevant portfolio dimensions (requires data; internal/external, difficult interpretation of consumers' surveys)
  - Projecting the likely position of each product or business on the dimensions (usually historical data; forecasting…)
  - Selecting the desired position for each existing and new product (approaches mostly fail – no guidelines for portfolio or strategy selection)

Comparison of selected approaches (see recommended reading for more)

Growth-share matrix	
Degree of adaptability	**Dimensions**
None; a rigid framework	Relative market share (cash generation) Market growth (cash use)
Allocation rules	**Comments**
Allocation of resources among the four categories (move to problem child) Consideration for product deletion No explicit portfolio recommendation except with respect to the balance of cash cows	Widely used but conceptually questionable given the forcing of two dimensions, no consideration of risk, no weighting of dimensions

Directional policy matrix	
Degree of adaptability	**Dimensions**
More flexible than growth-share matrix but limited to two composite dimensions	Profitability of market segment Competitive position in the segment
Allocation rules	**Comments**
Slightly greater precision than growth-share matrix (9 vs 4; better definition of dimensions). In its more sophisticated uses (as by GE) classification of products used only as input to an explicit resource allocation model	Forcing two dimensions that might not be appropriate ones. Empirical determination of the correlates of the two dimensions is superior to the growth-share matrix. Comparability across industries is difficult. No consideration of risk

Conjoint analysis	
Degree of adaptability	**Dimensions**
Fully adaptable to management needs	No general dimensions; they and their relative importance are determined by management
Allocation rules	**Comments**
Based on computer simulation which incorporates management utility functions and product performance data. No optimal allocation is offered but any portfolio can be evaluated on the basis of performance on all dimensions	Limited applications; also time consuming. Approach is analogous to consumer choice of new products based on the relative importance of the key attributes and perception of the product's performance on these attributes

Growth-Share Matrix (BCG)

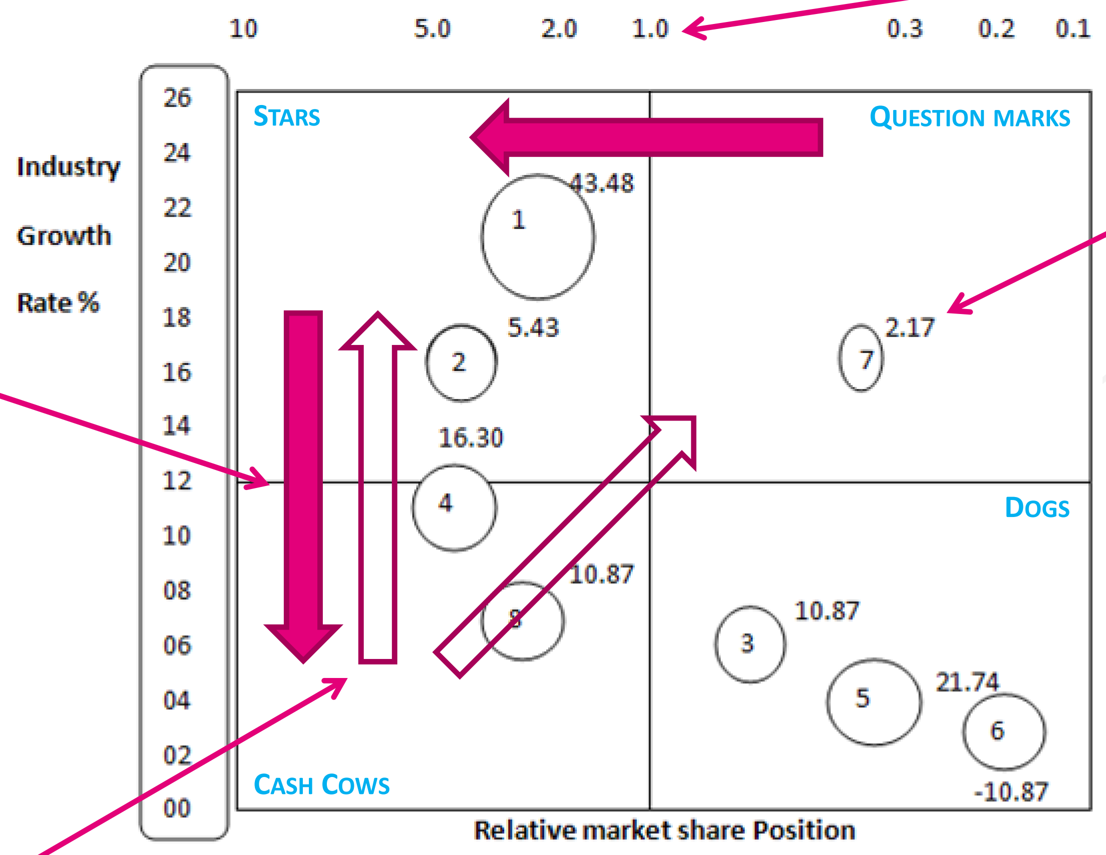
- Developed by Boston Consulting Group in 1968 to forecast market potential and evaluate competitive position of SBUs
- Assumptions
  - Generated cash flow grows with the growth of relative market share (experience effect, economies of scale)
  - Growing market must be supported by generated cash-flow
  - Matured products don't require such support and generate cash to support stars/question marks
  - 1970s and 1980s – > 50 % of Fortune 500 companies used BCG matrix to manage portfolios
- Limitations
  - Assumes economies of scale and experience effect, low market share companies can be successful as well (together with small competitors with fast growing market shares)
  - Static model
  - High market share is not the only success factor(FMCG markets growth < 1 %)
  - No clear definition of what constitutes a "market" (who competes who)
  - A high market share does not necessarily lead to profitability all the time.
  - Neglects the effects of synergies between SBUs
  - Surveys at the end of 1980s in USA – 72 % of SBUs dogs, 15 % cash cows, 10 % question marks, 3 % stars

Growth-Share Matrix (BCG)

Logarithmic scale

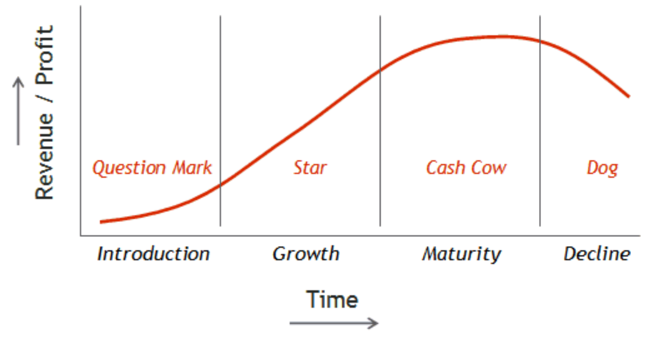
% of profits

Product life cycle



Cash flow (to support other products in portfolio)

BCG positions throughout the product life cycle:



SBU	Revenue	% of Revenue	Profits	% of Profits	RMS	Growth Rate %	Revenue of market leaders	Total market
1	200,000	29.63	40,000	43.48	2	20	100,000	400,000
2	40,000	05.93	5,000	05.43	4	15	10,000	60,000
3	50,000	07.41	10,000	10.87	0.63	5	80,000	150000
4	100,000	14.81	15,000	16.30	4	10	25,000	150000
5	130,000	19.26	20,000	21.74	0.43	3	300,000	500000
6	70,000	10.37	-10,000	(10.87)	2.33	2	30,000	200000
7	20,000	02.96	2,000	02.17	0.40	15	50,000	80000
8	65,000	09.63	10,000	10.87	3.25	5	20,000	100000
Total	$675,000	100.0	$92,000	100.0				

Growth-Share Matrix (BCG)

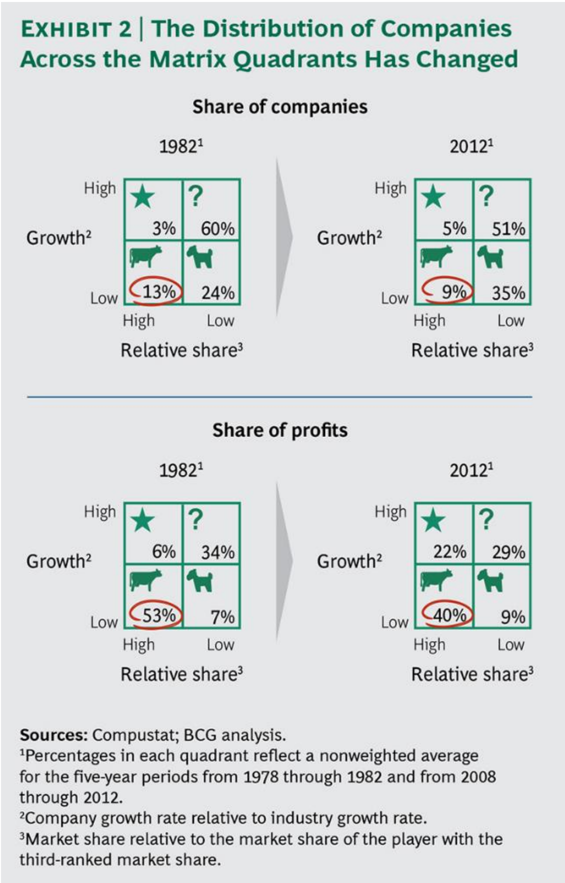
- Question marks – uncertain future, require substantial support, high potential for success if the market share grows. Decision whether to support or discontinue
- Stars – high chances to reach maturity stage (and become a cash cow), not necessarily profitable at the moment, require support, re-invesments
- Cash cows – matured products, cash generators, limited life-time, should be protected
- Dogs – lack potential in the future, can generate cash but require substantial support, no future, decision whether to eliminate
- Strategic choices
  - Question Marks – market penetration, market development, product development, divestiture
  - Stars – vertical integration, horizontal integration, market penetration, market development, product development
  - Cash cows – product development, diversification, divestiture, retrenchment
  - Dogs – retrenchment, divestiture, liquidation

- Sometimes also other product groups are identified
  - War horses (high market share, still substantial cash generator, but declining markets), similar to cash cows but without future potential
  - Dodos – low market share, declining market, – obsolete products, ego investments, unjustified or unnecessary specialties,

Barksdale, H. C., & Harris Jr, C. E. (1982). Portfolio analysis and the product life cycle. *Long Range Planning, 15*(6), pp. 74-83.

Growth-Share Matrix (BCG)

- BCG in 21st century
  - The markets have changed, changes are more faster and unpredictable, disruptions, deflections
  - Reduced importance of market share (to become successful)
  - New sources of competitive advantage
  - Companies circulate through the matrix quadrants faster (+50 %)
  - Decreasing share of total profits captured by cash cows (-25 %)

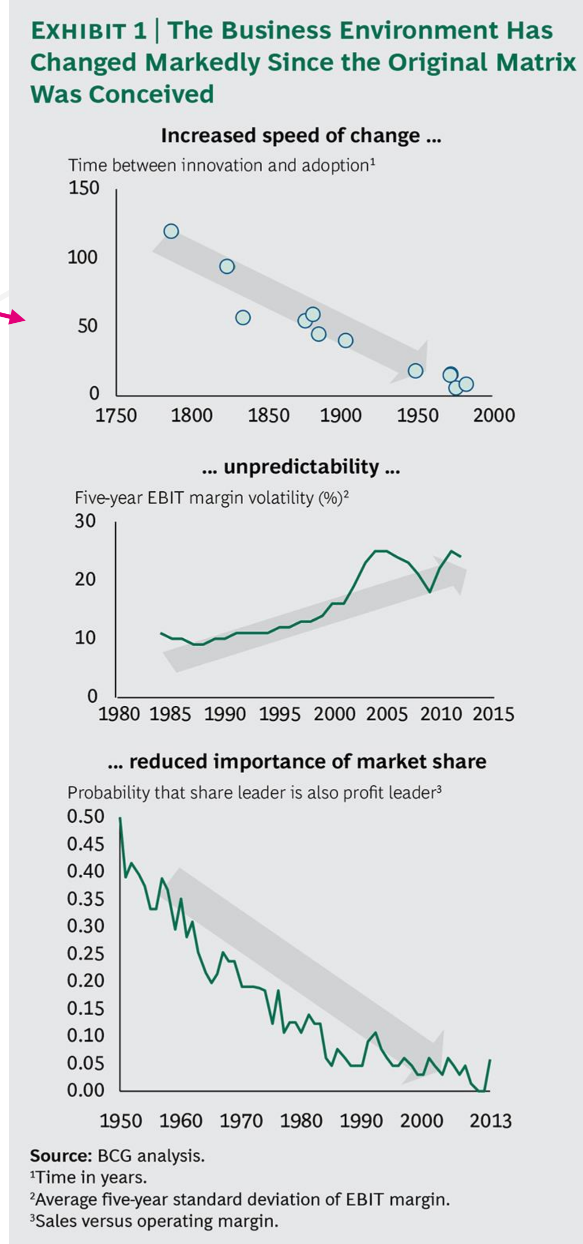


BCG Classics Revisited: The Growth Share Matrix

Companies circulate through the matrix quadrants faster in the five-year period from 2008 through 2012 than in the five-year period from 1988 through 1992. This was true in 75 percent of industries. The average time spent in a quadrant halved: from four years in 1992 to less than two years in 2012

Breakdown of the relationship between relative market share and sustained competitiveness..

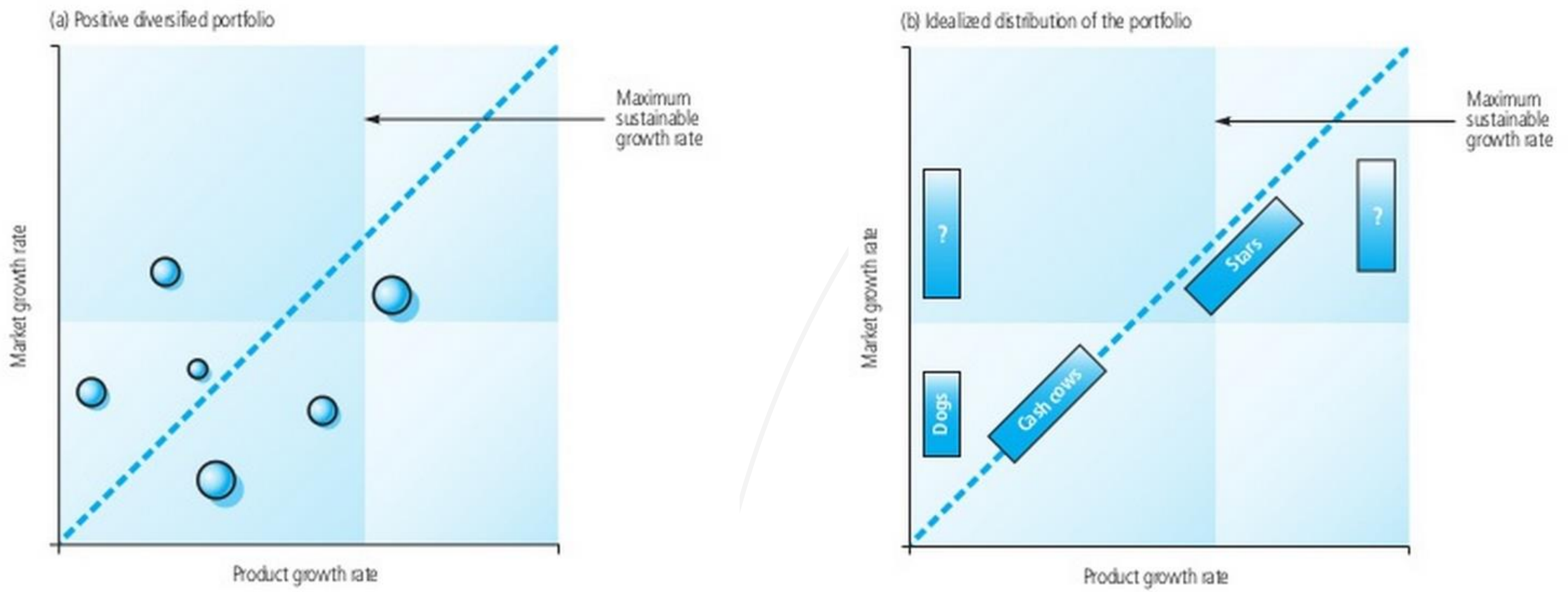
Cash generation is less tied to mature businesses with high market share



EBIT –Earnings before Interest and Taxes)

Growth-Share Matrix (BCG)

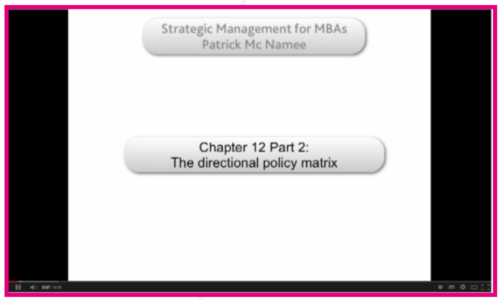
- Growth-gain matrix as an alternative to BCG
  - Considers market and product growth rate
  - Complements BCG
  - Products growing faster than market are under the diagonal



Directional policy matrix (GE-McKinsey)

- Addressed limitation of BCG matrix
- Considers composite dimensions – industry attractiveness and company competitive capabilities
- Introduced with 40 characteristics, lately (1980) reduced to 15 main variables
- More general model - Directional policy matrix – arbitrary variables

Industry attractiveness	Company competitive capabilities
market size growth profitability cyclicality ability to recover from inflation world scope	market position domestic market share world share share growth share compared with the leading competing brand) competitive strength quality technology cost marketing relative profitability

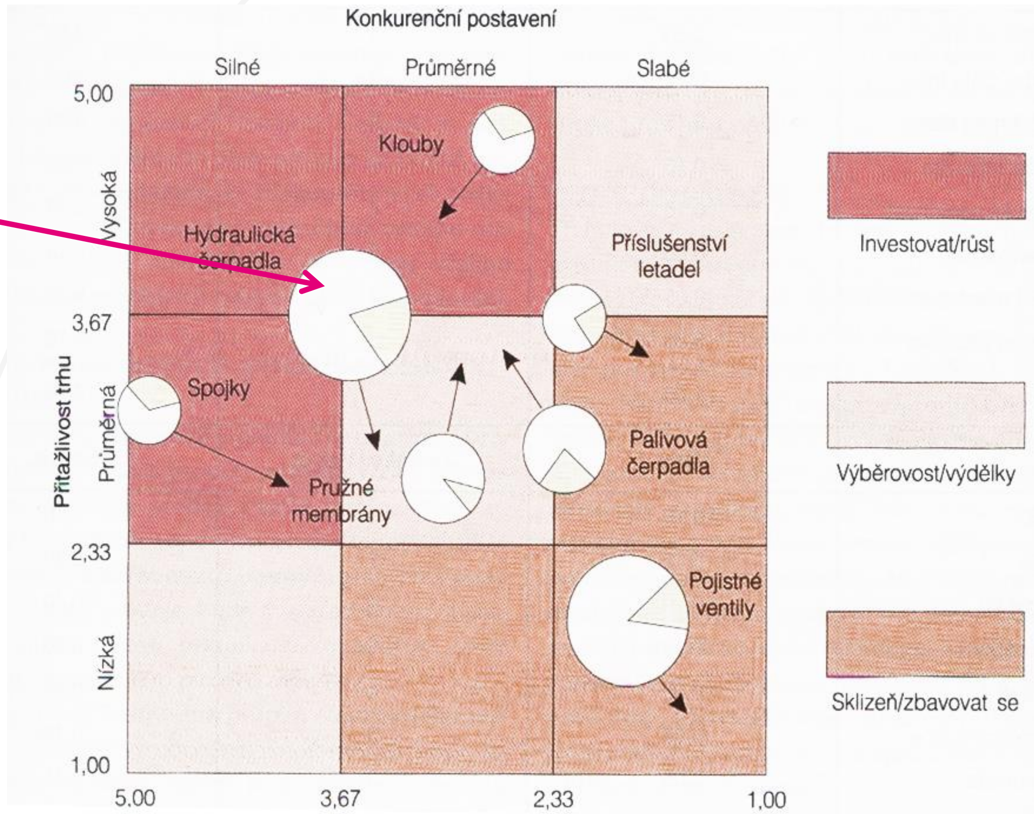


Directional policy matrix (GE-McKinsey)

- Factors are rated (scale usually – 0-5, -5-5, …) and weighted (1-5, 0-100, …)
- Displayed in matrix where the axes represent the composite dimensions (according to the selected scale
- Point size in the matrix represents market size/market share
- Subjective evaluation, how to selects and evaluate/aggregate factors, standardized set of factors is not available
- Similarly to BCG doesn't reflect synergies between SBUs

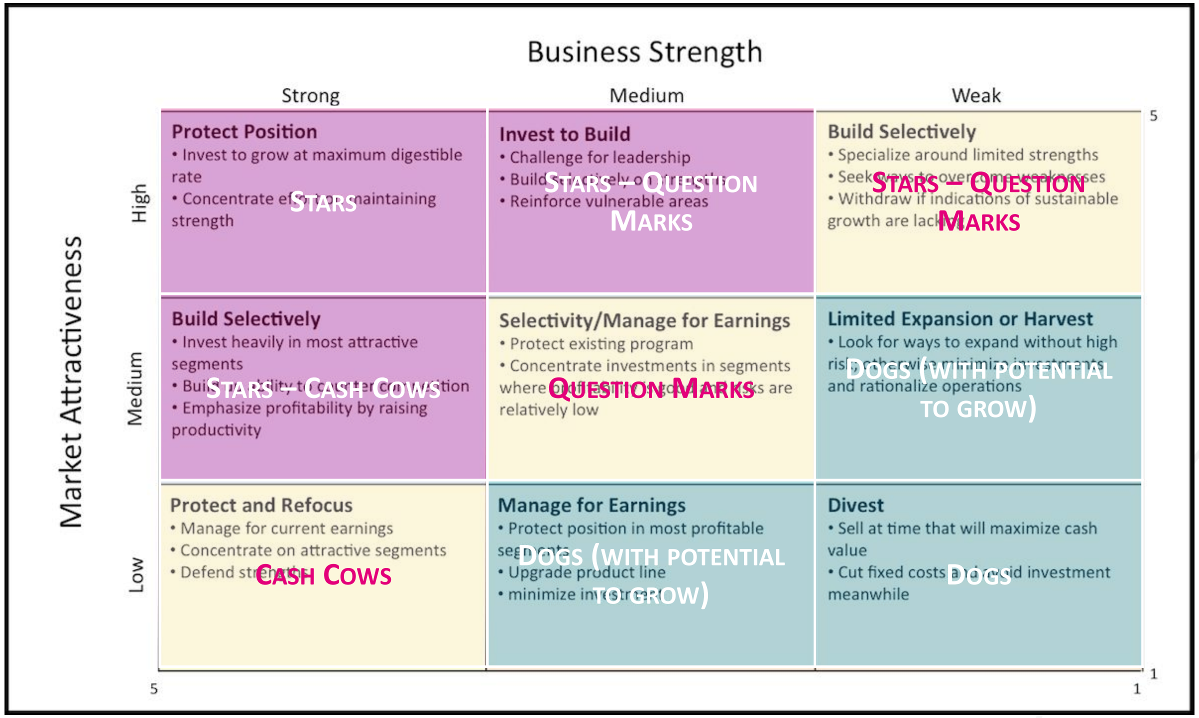
Faktor	Váha	Známka (1 až 5)	Součin
Celková velikost trhu	0,20	4	0,80
Roční tempo růstu trhu	0,20	5	1,00
Dlouhodobá míra zisku	0,15	4	0,60
Konkurenční intenzita	0,15	2	0,30
Technologická náročnost	0,15	4	0,60
Inflační zranitelnost	0,05	3	0,15
Energetická náročnost	0,05	2	0,10
Vliv na životní prostředí	0,05	3	0,15
Celkem	**1,00**		**3,70**

Faktor	Váha	Známka (1 až 5)	Součin
Tržní podíl	0,10	4	0,40
Růst podílu	0,15	2	0,30
Kvalita výrobku	0,10	4	0,40
Renomé značky	0,10	5	0,50
Distribuční síť	0,05	4	0,20
Efektivnost propagace	0,05	3	0,15
Výrobní kapacita	0,05	3	0,15
Efektivnost výroby	0,05	2	0,10
Jednotkové náklady	0,15	3	0,45
Dodávky materiálu	0,05	5	0,25
Úroveň výzkumu a vývoje	0,10	3	0,30
Manažerský personál	0,05	4	0,20
Celkem	**1,00**		**3,40**

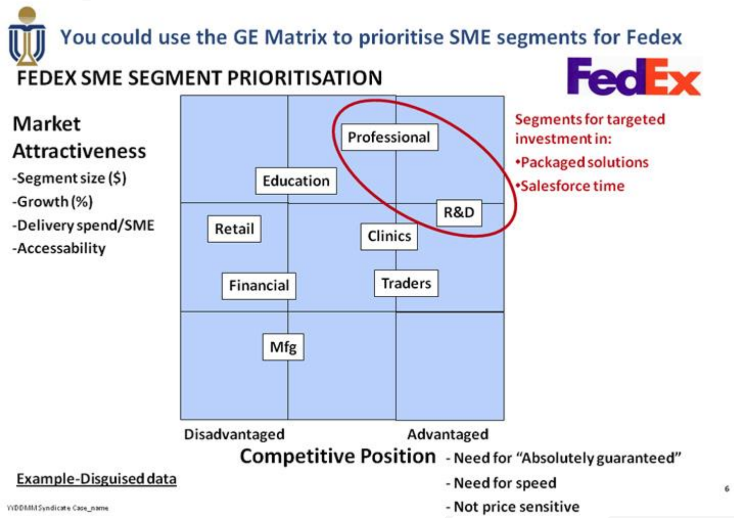


Directional policy matrix (GE-McKinsey)

- Relation to strategy and BCG matrix



Similar approach(es) can be used when evaluating targeted customers segments



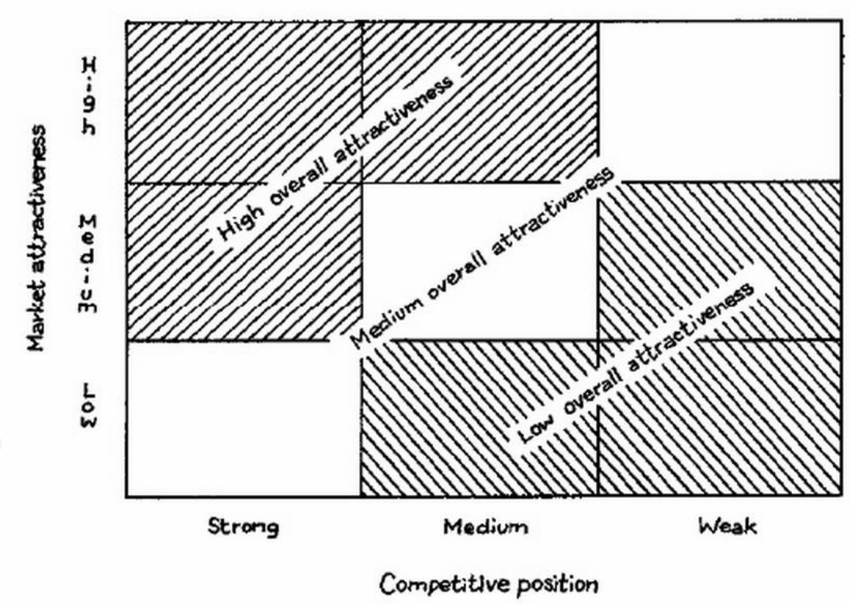
Other (Matrix) Approaches to Portfolio Analysis

- BCG a GE most popular and widely used but also other alternatives are available

Shell directional policy matrix

Company's competitive capabilities \ Business sector prospects	Unattractive	Average	Attractive
Weak	Disinvest	Phased withdrawal	Double or quit
Average	Phased withdrawal	Custodial	Try harder
Strong	Cash generation	Growth	Leader

Abel a Hammond's GE matrix expansion



Shell Chemical Co. (1975) *The Directional Policy Matrix: A New Aid to Corporate Planning. London*. Shell
Abell, D. F., & Hammond, J. S. (1979). *Strategic market planning: problems and analytical approaches*: Prentice-Hall Englewood Cliffs, NJ.

Udo-Imeh, P. T., Edet, W. E., & Anani, R. B. (2012). Portfolio Analysis Models: A Review. *European Journal of Business and Management, 4*(18), pp. 101-120.

Other (Matrix) Approaches to Portfolio Analysis

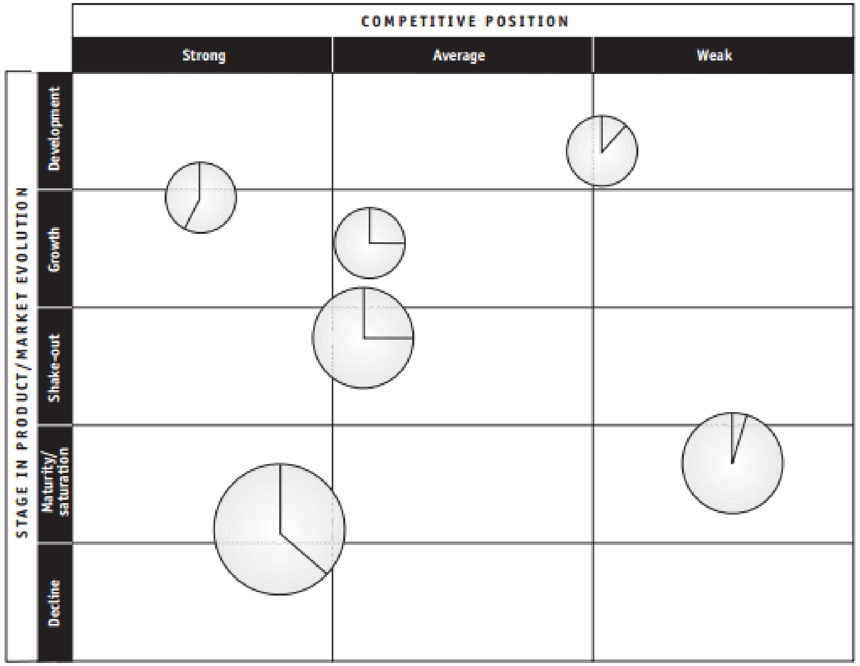
- BCG a GE most popular and widely used but also other alternatives are available

ADL model (Little)

Stage of Industry Maturity

Competitive Position	*Embryonic*	*Growth*	*Mature*	*Ageing*
Dominant	Grow fast. Build barriers. Act offensively.	Grow fast. Aim for cost leadership. Defend position. Act offensively.	Defend position. Increase the importance of cost. Act offensively.	Defend position. Focus. Consider withdrawal.
Strong	Grow fast. Differentiate.	Lower cost. Differentiate. Attack small firms.	Lower costs. Differentiate. Focus.	Harvest.
Favourable	Grow fast. Differentiate.	Focus. Differentiate. Defend.	Focus. Differentiate. Hit smaller firms.	Harvest.
Tenable	Grow with the industry. Focus.	Hold-on or withdraw. Niche. Aim for growth.	Hold-on or withdraw. Niche.	Withdraw.
Weak	Search for a niche. Attempt to catch others.	Niche or withdraw.	Withdraw.	Withdraw.

Hofer's matrix



Patel, P., & Younger, M. (1978). A frame of reference for strategy development. *Long Range Planning, 11*(2), pp. 6-12.
Hofer, C. and Schendel, D. (1978). Strategy Formulation: Analytical Concepts, West Publishing Co

Recommended reading: DRUCKER, Peter F. Managing for Business Effectiveness. Harvard Business Review. 5/1963

Drucker's Product Classification

- BCG a GE most popular and widely used but also other alternatives are available
  - P. Drucker distinguishes between eleven product categories (original HBR article 6 categories)

High priority products, highly profitable
Stars, Cash Cows

In-between categories. Have potential for growth. Question Marks, Stars

Low priority, generation of loss Cash Cows at the end of life cycle, Dogs

Products (easy decisions)	
Today's breadwinners	Highest production volumes, generate most profit, well-managed Cash Cows
Tomorrow's breadwinners	Rising Stars, growing markets, high potential to become Cash Cow
Productive Specialties	Successful products on market niches. Positive profit/costs ratio
Development Products	Early stages of development, potentially successful products, should be supported
Failures	Unsuccessful products, easy decision do discontinue the production
Problem children (difficult decisions)	
Yesterday's breadwinners	High volumes but decreasing profits; supported by promotions, aftersales services;
Repair Jobs	High turnover, potential for growth after reconstruction and with intensive communications support
Unnecessary Specialties	Low production volumes, overspecialized products, targeting very narrow market niches, should be reduced/discontinued
Unjustified Specialties	No longer serve any segments, require demanding support, source of complaints, doesn't generate any profit
Investments in Managerial Ego	Irrationally supported products, high expectations but failed, management has to admit a wrong decision, should be discontinued
Sleepers (Cinderellas)	Could be successful but failed for various reasons – i.e. wrong position in portfolio/product line, threatened Cash Cows or Stars, insufficiently supported (and thus failed), wrong costs calculations, …; Often discovered by competition (and the become successful)

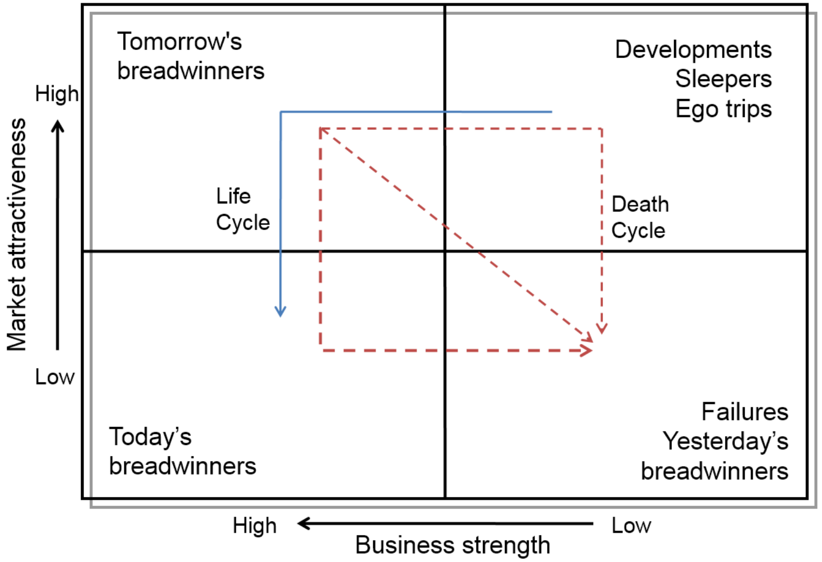
DRUCKER, Peter F. (1964) Managing for Results. Harper & Row

1. Tomorrow's breadwinners
2. Today's breadwinners
3. Products capable of becoming net contributors if something drastic is done
4. Yesterday's breadwinners
5. The "also rans"
6. The failures

Drucker's Product Classification

– Drucker's product classification and BCG/Product life cycle

DRUCKER, Peter (1973). *Management: Tasks, Responsibilities and Practices* – 7 categories of products



Drucker thought every organization should regularly go through this kind of rigorous examination for all of its current lines: products, services, technologies, processes, and distribution channels. Bank of America's Self-Imposed Exam; or mobile carriers

Thousands of Three Mobile customers who are out-of-contract will be moved off their current deal to a "similar" plan next year as the provider phases out old tariffs – but whether you're a winner or a loser depends on your current package. Three Mobile moving out-of-contract users to new deals as it axes old tariffs

HOOLEY, Graham J.; SAUNDERS, John A.; PIERCY, Nigel (2004). *Marketing strategy and competitive positioning*. Pearson Education

"Every three months, a group of people from the organization—younger people, junior people, but never the same people—sits down and looks at one segment of the company's products, or services, or process or policies with a question: If we didn't do this already, would we go into it the way we are now?" Drucker explained. "Every four or five years, that company has systematically abandoned or at least modified every single one of it products and processes, and especially its services. That's the secret of its growth and its profitability."

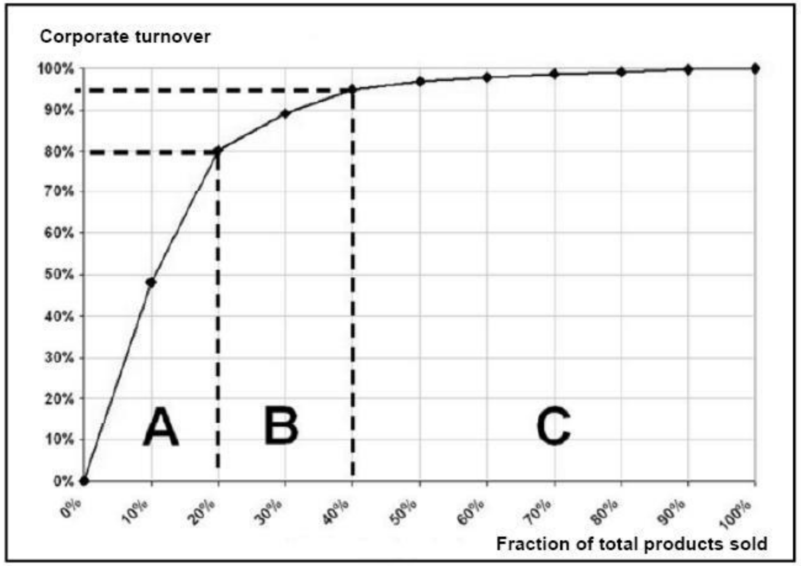
DRUCKER, Peter (2012). *Managing in the next society*. Routledge

- There are other products' classification available (i.e. by L. P. Fluitman)
  - Considers for products' dimensions (sales volume, average annual growth rate, utilization of key resources, return on investment (ROI)
  - Failures, products of tomorrow, products of today, investments in managerial ego, sleepers, fade out products, specialties, yesterday's product

    FLUITMAN, Lourens P. (1973) The necessity of an industrial product mix analysis. *Industrial Marketing Management*, 1973, 2.4: 345-352.

Pareto Analysis (ABC method)

- Suitable for companies with wide-scale portfolios
  - Formulated in 1940s by J. Juran (based on Pareto rule 80:20)
  - To identify (group of) products that contribute at most



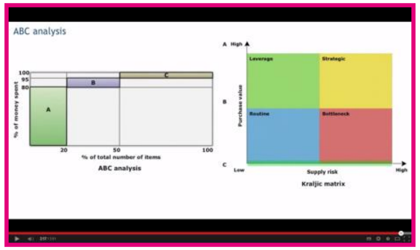
80 % of complaints is about 20 % products
80 % of delays is caused by 20 % of reasons
20 % of product portfolio generates 80 % of profit
….

Sally's Grocery Store

Sally's Inventory	In stock
Apples	150
Toothbrushes	100
Paper Towels	200
Flowers	50
Squash	30
Magazines	200
Stools	100
Balloons	400

Sally's Inventory	
Item	*Item Price*
Stools	$ 15.00
Toothbrushes	$ 4.00
Balloons	$ 1.00
Magazines	$ 1.00
Paper Towels	$ 1.50
Flowers	$ 0.50
Apples	$ 0.10
Squash	$ 0.25

	Sally's Inventory				
	Item	*Item Price*	*Amount*	*Item Revenue*	*% Revenue*
A	Stools	$ 15.00	100	$ 1,500.00	53%
B	Toothbrushes	$ 4.00	100	$ 400.00	14%
B	Balloons	$ 1.00	400	$ 400.00	14%
B	Paper Towels	$ 1.50	200	$ 300.00	11%
C	Magazines	$ 1.00	200	$ 200.00	7%
C	Flowers	$ 0.50	50	$ 25.00	1%
C	Apples	$ 0.10	150	$ 15.00	1%
C	Squash	$ 0.25	30	$ 7.50	0%
		Total Revenue		$ 2,847.50	



Brand	Sales	Revenue
Volkswagen	63%	52%
Audi	16%	26%
Skoda	10%	5%
VW Commercial Vehicles	6%	5%
Seat	4%	4%
Porsche	**1%**	**7%**
Bentley	0%	1%

Sally's Inventory					
Item	*Item Price*	*Amount*	*Item Revenue*	*% Revenue*	*% of Items*
Stools	$ 15.00	100	$ 1,500.00	53%	8%
Toothbrushes	$ 4.00	100	$ 400.00	14%	8%
Balloons	$ 1.00	400	$ 400.00	14%	33%
Paper Towels	$ 1.50	200	$ 300.00	11%	16%
Magazines	$ 1.00	200	$ 200.00	7%	16%
Flowers	$ 0.50	50	$ 25.00	1%	4%
Apples	$ 0.10	150	$ 15.00	1%	12%
Squash	$ 0.25	30	$ 7.50	0%	2%
	Total Revenue		$ 2,847.50		
	Total Items		1,230		

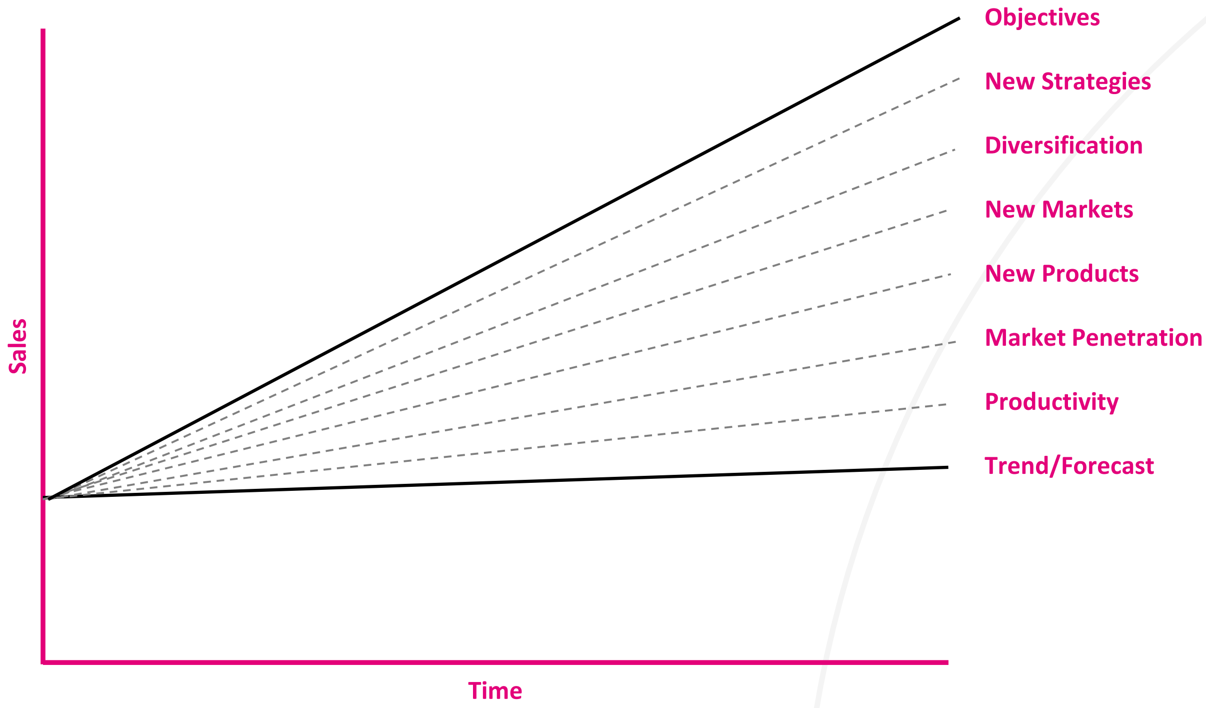
F6 Vysoká škola ekonomická v Praze Fakulta managementu

fm.vse.cz

Other Methods of (Marketing) Situational Analysis

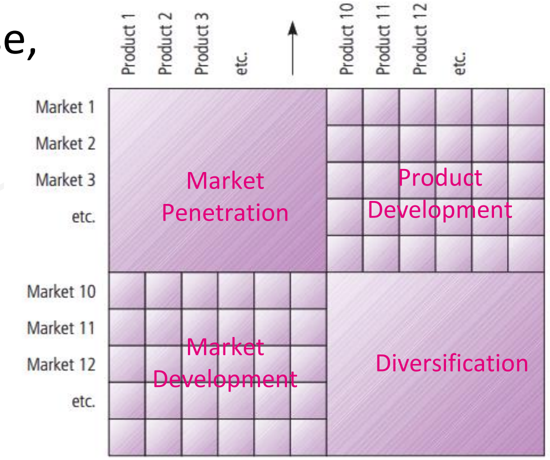
GAP Analysis

- A comparison between current situation and desired objectives
  - Not only in marketing, but also as a part of project management approaches (i.e. PRINCE2)
- Three steps
  1. Analyze the current situation
  2. Identify the objectives
  3. Identify how to bridge the gap



GAP Analysis

- Possible steps how to bridge the gap between current situation and object
  - Adjust the objectives (to reflect the current situation ☺)
  - Increase productivity – inner perspective (cost reduction, price increase, cancel promotion programs/rebates, processes optimization, etc.)
  - Market penetration (see Ansoff's Strategies for Diversification), increase market share, more frequent use, …
  - Introduce new products (Product development)
  - Find the markets (Market development), new geographical areas, new segments
  - Diversification – developing new products for new markets, acquisitions, joint ventures, licensing, franchising, …)
  - Develop new strategies



- Taken actions should build on company's strengths and sources of competitive advantage
  - Can be either quantitative (i.e. implement new software) or qualitative (team restructuring to reach synergies of a better cooperation)

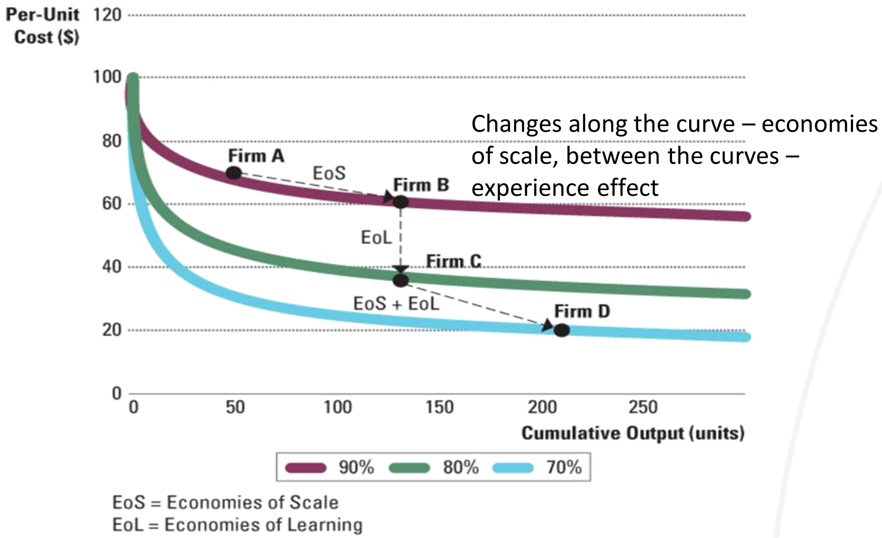
Current State	Objectives	Action Proposal
Approximately 50 per cent of calls are answered within 2 minutes	Answer 90 per cent of calls within 2 minutes.	1. Develop a call volume reporting/queue modeling system to ensure that there are enough staff during busy periods. 2. Recruit any additional people needed. 3. Develop a system that allows callers to book a call back during busy periods.

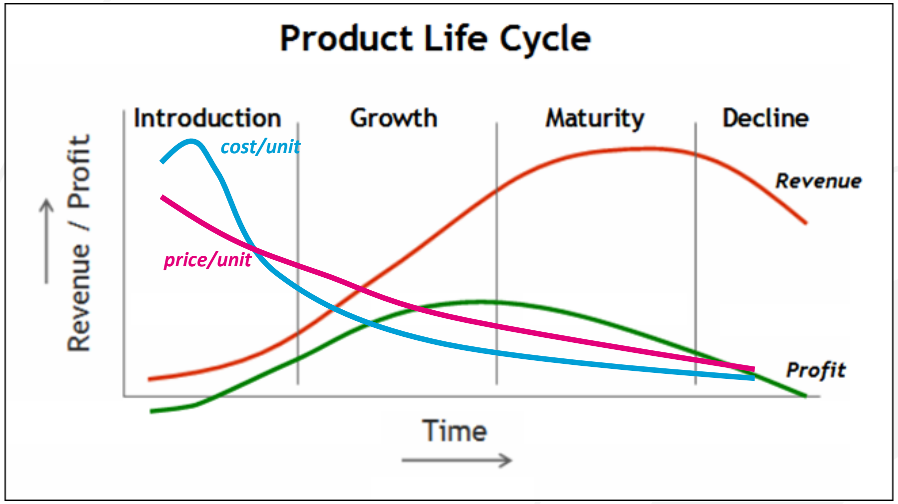
Experience Effect/Curve

Between 1910 and 1921, Ford cut Model T costs by three-quarters by modernizing plants, integrating vertically to reduce the cost of purchased inputs, increasing the division of labor, and eliminating model changes. (The Model T came only in black because black paint dried the quickest, which helped speed up the car's assembly.) Market share soared from 10% to 55%, and Ford was enormously profitable.
But by its single-minded focus on cost reduction, Ford had sown the seeds of its own downfall. As consumer demand shifted to a heavier, closed body and to a greater emphasis on comfort and styling, Ford responded by tacking on features to the Model T rather than changing models, as General Motors did. Worried about having to replace its massive investment in facilities dedicated to the Model T, Ford continued to build the car until 1927, when customer preferences forced it to close down its plants for nearly a year while it retooled the Model A. In the process Ford lost$200 million and suffered an irreversible decline in market share.
Ghemawat, Pankaj. Building Strategy on the Experience Curve. Harvard Business Review 3/1985

- A relation between cumulative outputs and per-unit costs
  Quantified in 1920s at Wright Patterson Air Force Base
- Later described by B. Henderson (Boston Consulting Group)
- In almost all industries, the effect can reach up to 30 %

Every time the total aircraft production doubled, the required labor time decreased by 10–15 %



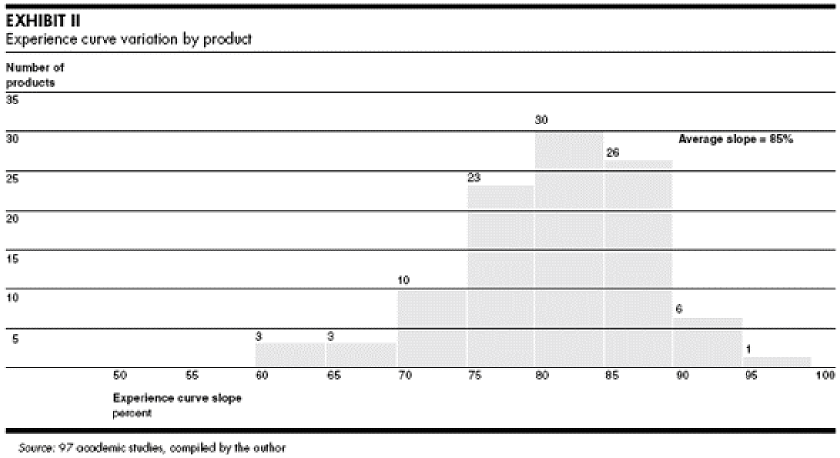


Recommended reading: Ghemawat, Pankaj. Building Strategy on the Experience Curve. Harvard Business Review 3/1985
HAGEL, John III, BROWN, John S. DAVISON, Lang. Does the Experience Curve Matter Today?. Harvard Business Review Blog
HAGEL, John III, BROWN, John S. DAVISON, Lang. The Big Shift: Measuring the Forces of Change. Harvard Business 7-8/2009

Experience Effect/Curve

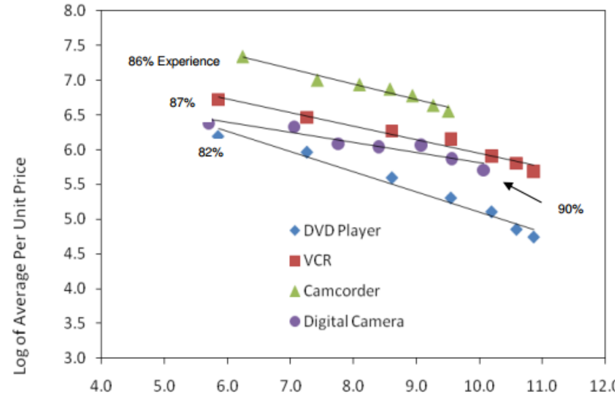
- Higher production volume (market penetration, market development) can help to reach higher experience effect
  - The effect doesn't happen automatically, influenced by company management, nature of the company's processes

Analysis of 13 0000 new products by 700 companies on US market between 1976 and 1981 – every time the production doubled, the costs decreased (in average) by 29 %.
BOOZ; ALLEN & HAMILTON. *New products management for the 1980s*. New York, 1982.



Many companies routinely assume 75% to 85% experience curves for their products, but this can lead to serious financial problems. For example, Douglas Aircraft fixed prices for the DC-9 on the basis of an 85% experience curve. When the estimated cost reductions failed to materialize, its losses forced Douglas into acquisition by the McDonnell Company. Big surprises like this happen because experience curve slopes vary widely from product to product. In some industries the slope may be as steep as 60%; in others it may not occur at all. Building Strategy on the Experience Curve

Figure 1: Experience Curve of Selected Products



Příklad: Hossain, T. M. (2011). Diffusion and experience curve pricing of new products in the consumer electronics industry. *Journal of Management and Marketing Research, 6*, pp. 1-9.

  - The experience effect varies among company's processes

Effects of accumulated experience over the cost accrued in different stages of value added

Deflated direct cost per unit →

R&D	Purchasing and Mfg of parts & Components	Subassembly	Marketing	Distribution	Retail
95%	75%	70%	90%	85%	95%

The more "experience" is cumulated in the industry, the lower experience effect can be reached. After decades of optimizing, it is not easy to optimize any further Does the Experience Curve Matter Today?
Until now, companies were designed to get more efficient by growing ever larger, and that's how they created considerable economic value. The rapidly changing digital infrastructure has altered the equation, however: As stability gives way to change and uncertainty, institutions must increase not just efficiency but also the rate at which they learn and innovate, which in turn will boost their rate of performance improvement. The Big Shift: Measuring the Forces of Change

F6 | Vysoká škola ekonomická v Praze
Fakulta managementu

fm.vse.cz

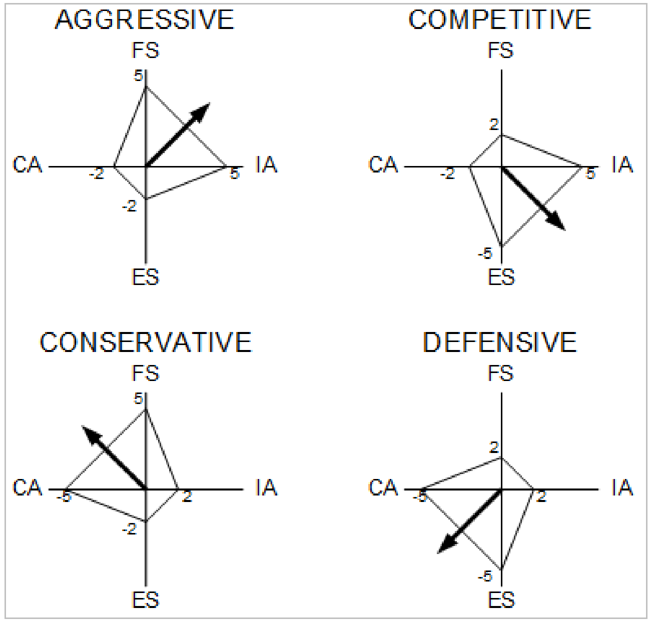
Summarizing the Outputs of (Marketing) Situational Analysis

Developed by A. Rowe, R. Mason, K. Dickel, R. Mann a R. Mockler – SIMISTER, P. (2011). SPACE Analysis – Strategic Position and Action Matrix. Retrieved from http://www.differentiateyourbusiness.co.uk/space-analysis-strategic-position-and-action-evaluation-matrix

Strategic Position and Action Evaluation

- Basis for other analyses, industry analysis, assessing strategic alternatives
  - Similarly to SWOT considers both internal (financial strength, competitive advantage) and external (environmental stability, industry attractiveness) dimensions
  - Values range from 1 to 6 (FS, IA) and from -6 to -1 (CA, ES; where -6 means low and -1 high values)
  - Financial strength compensates environmental (un)stability, industry attractiveness compensates competitive (dis)advantage

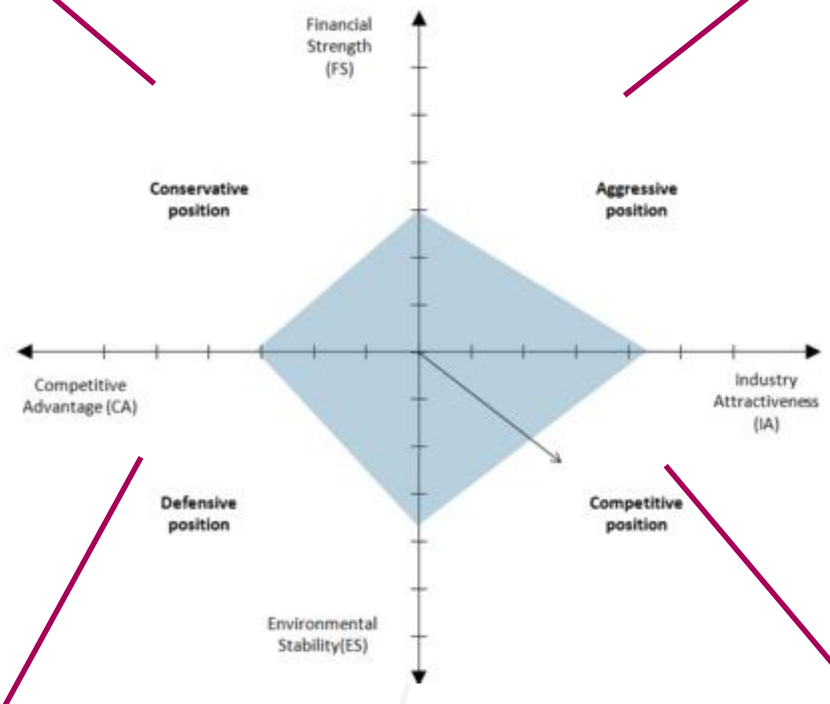
Financial Strength	**Competitive Advantage**
Return on investment (low to high) Leverage (debt to equity ratio) (unbalanced to balanced) Liquidity (access to quick money when needed) (unbalanced to solid) Capital required versus capital available) (high to low) Cash flow (low to high) Ease of exit from market (difficult to easy) Risk involved in the business (much to little) Inventory turnover (slow to fast) Use of economies of scale and experience (low to high)	Market share (small to large) Product quality (inferior to superior) Product life cycle (late to early) Product replacement cycle (variable to fixed) Customer loyalty (low to high) Competition's capacity utilization (low to high) Technological know-how (low to high) Vertical integration (low to high) Speed of new product introductions (slow to fast)
Industry Attractiveness	**Environmental Stability**
Growth potential (low to high) Profit potential (low to high) Financial stability (low to high) Technological know-how (simple to complex) Resource utilization (inefficient to efficient) Capital intensity (low to high) Ease of entry into the market (easy to difficult) Productivity; capacity utilization (low to high) Manufacturer's bargaining power (low to high)	Technological changes Rate of inflation Demand variability Price range of competing products Barriers to entry into market Competitive pressure/rivalry Price elasticity of demand Pressure from substitutes



Strategic Position and Action Evaluation

Stable industry, lower growth rates,
Critical factors: entry of new competitors, competitiveness of products;
Focus on competitive products, product development

Attractive and stable industry,
Critical factors: entry of new competitors, competitiveness of products;
Protect and increase market share, focusing on competitive products, market penetration, market development



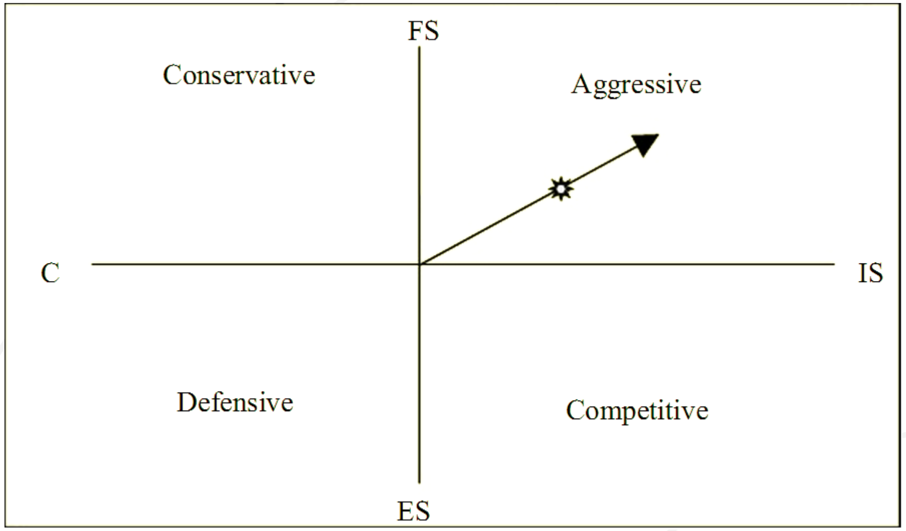
Unattractive industry, company lacks competitive products and financial strength;
Critical factor: competitiveness;
Cost reduction, consolidation, harvesting, leaving industry, horizontal integration

Attractive but unstable industry
Critical factor: financial strength (does not compensate instability);
Horizontal or vertical integration, processes optimization, costs reduction

Strategic Position and Action Evaluation

- Example: McDonald's

Financial Strength		Environmental Stability	
Return on investment	4	Rate of inflation	-3
Leverage	4	Demand Changes	-3
Net Income	6	Price Elasticity of demand	-1
EPS	5	Competitive pressure	-3
ROE	5	Barriers to entry new markets	-3
Cash Flow	4	Risk involved in business	-2
Average	**4,7**	**Average**	**-2,5**
		Y-axis	**2,17**
Competitive Advantage		**Industry Strength**	
Market share	-1	Growth potential	5
Product Quality	-1	Financial stability	5
Customer Loyalty	-1	Ease of entry new markets	4
Control over other parties	-2	Resources utilization	4
		Profit potential	5
		Demand variability	3
Average	**-1,3**	**Average**	**4,3**
		X-axis	**3,08**



Rowe, AJ; Dickel, KE; Mason, RO; and Snyder, NH *Strategic Management: A Methodological Approach*. Reading, MA: Addison-Wesley, 1994

Internal-External Matrix

- To analyze conditions and strategic position of a business
  Similarly to SWOT considers internal and external factors
  - External factors are summarized in EFE matrix (external factors evaluation), factors are assigned weights (0–1) and rating (1–4), based on PEST analysis, factors may be considered as threats or opportunities (similarly to SWOT)
  - Internal factors are summarized in IFE matrix (internal factors evaluation), factors are assigned weights (0–1) and rating (1–4), might be based on various tools (i.e. Balanced Scorecard), factors may be considered as strengths or weaknesses (similarly to SWOT)

Key External Factors	Weight	Rating	Weighted Score
Opportunities			
1. New immigration laws abolish the restrictions for immigrants to live and work freely in the country.	0.02	1	0.02
2. A government increases budget spending for our products.	0.17	4	0.68
3. New product market, worth $1 billion a year, could be introduced for the consumers.	0.05	4	0.20
4. Consumers are 20 % more likely to by the products that share the same ecosystem.	0.12	4	0.48
5. We have patented the technology that increases the quality of our products and lowers the amount of the materials needed to produce it.	0.03	3	0.09
6. Our largest competitor is selling their subsidiary in TV market.	0.14	2	0.28
Threats			
7. Tax rates will increase by 10% for the polluting companies.	0.06	2	0.12
8. Due to the fast economic growth credit availability will tighten.	0.04	4	0.16
9. Credit rates are growing by 5%.	0.02	2	0.04
10. Natural disasters disrupt our suppliers' or our operations.	0.08	3	0.24
11. Rivalry in the market is intensifying.	0.12	4	0.48
12. Competitor is pursuing horizontal integration strategy.	0.10	3	0.30
13. Inflation has increased to 6%.	0.05	2	0.10
Total	**1.00**	**-**	**3.19**

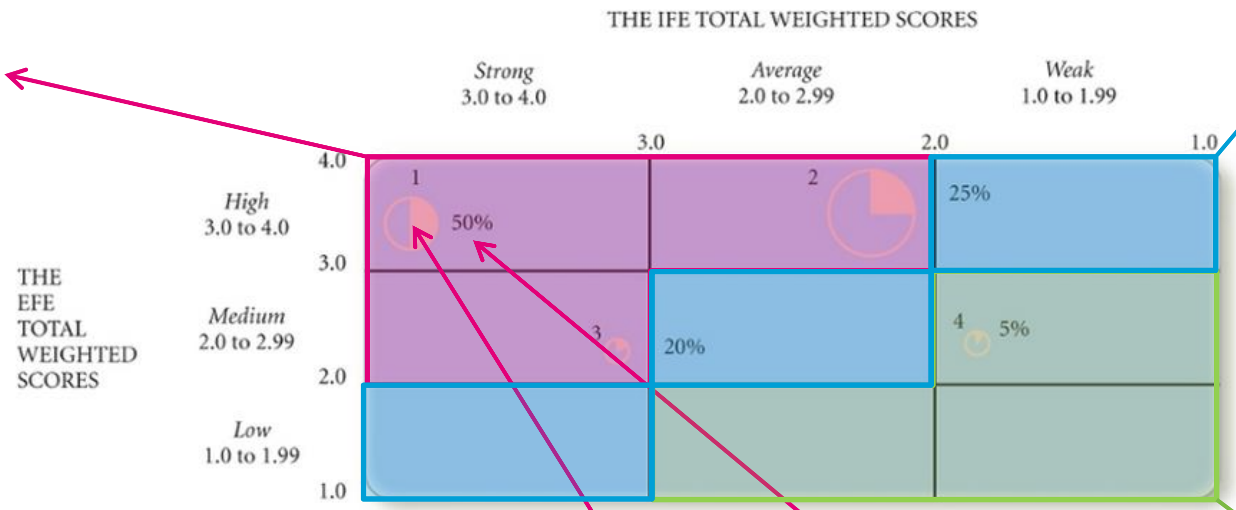
Key Internal Factors	Weight	Rating	Weighted Score
Strengths			
1. Diversified income (5 different brands earning more than $4 billion each)	0.10	4	0.40
2. Brand reputation valued at $35 billion	0.08	3	0.24
3. Strong patents portfolio (13,000 patents)	0.07	4	0.28
4. Excellent employee management	0.02	3	0.06
5. Competency in mergers and acquisitions	0.06	3	0.18
6. Extensive distribution channels	0.11	4	0.44
7. Strong product ecosystem	0.08	4	0.32
Weaknesses			
8. High debt level ($3 billion)	0.10	1	0.10
9. Over-dependence on sales from U.S.	0.13	2	0.26
10. Too low net profit margin	0.07	2	0.14
11. Competition based on prices	0.09	2	0.18
12. Rigid (bureaucratic) organizational culture impeding fast introduction of new products	0.04	1	0.04
13. Negative publicity	0.05	2	0.10
Total	**1.00**	**-**	**2.74**

Internal-External Matrix

- EFE and IFE is summarized in IE matrix
  - IE Matrix was developed from the GE Matrix

Grow and build
Backward, forward or horizontal integration
Market penetration
Product/market development

Hold and maintain
Market penetration
Product development



For each SBU

Division	*Sales*	*Percent Sales*	*Profits*	*Percent Profits*	*IFE Scores*	*EFE Scores*
1	$100	25.0	10	50	3.6	3.2
2	200	50.0	5	25	2.1	3.5
3	50	12.5	4	20	3.1	2.1
4	50	12.5	1	5	1.8	2.5
Total	**400**	**100.0**	**20**	**100**		

David, F., R. Strategic Management Concepts: A Competitive Advantage Approach, 14th ed. Pearson, 2011

Harvest or Divest
Retrenchment
Divestiture

Internal-External Matrix

Example: MetroBank, FPhilippines

External Factor Evaluation (EFE) Matrix

Key External Factors	Weight	Rating	Weighted Score
Opportunities			
Car Loan Financing and Credit Card Inclines	0.06	2	0.12
Development and Trainings of Personnel	0.17	2	0.34
Increased by 7.8% of OFW Remittance	0.18	4	0.34
Banking Technology Innovation	0.14	2	0.28
Threats			
Increased by 4.0% Inflation Rate	0.06	2	0.24
Improving Competitor's Product	0.11	1	0.11
Decreased in Construction Loan	0.07	2	0.14
Foreign Currency's Supply and Demand	0.06	2	0.12
Climate Change Effects	0.07	2	0.14
Reasonable Money Transfer Existence	0.08	2	0.16
Total	1.00		2.41

Internal Factor Evaluation Matrix

Key Internal Factors	Weight	Rating	Weighted Score
Strengths			
Number of Personnel had Increased	0.15	3	0.45
Local Branches and ATM's Broad Distribution	0.20	4	0.80
Number of Foreign Branches had Increased	0.15	4	0.60
Financial Stability of Metrobank	0.10	3	0.30
Positive Value System of Employees	0.05	4	0.20
Metrobank's Corporate Social Responsibilities	0.05	3	0.15
Weaknesses			
Provisions for Loans and Impairment Loss In-clines	0.10	2	0.20
Low Budget for Advertising	0.10	1	0.10
Deposits to Capital Declines by 46%	0.05	2	0.10
Interest Income Declines by 0.43%	0.05	2	0.10
TOTAL	1.00		3.00

IFE TOTAL WEIGHTED SCORE

EFE TOTAL WEIGHTED SCORE

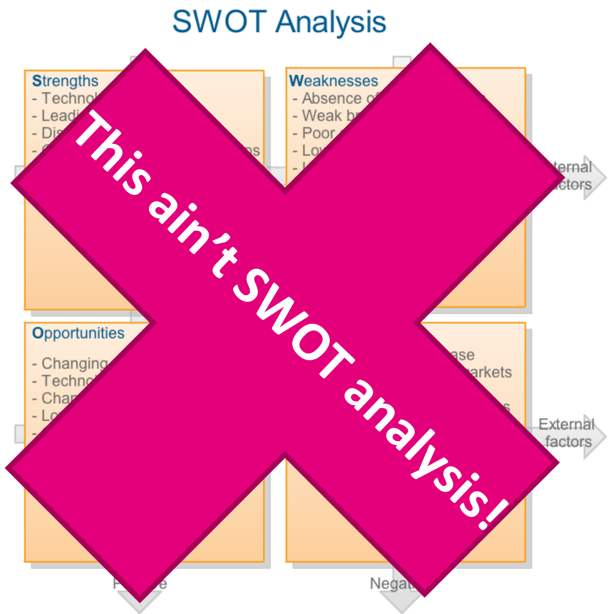
IFE = 3.00 EFE = 2.41	STRONG (3.00 – 4.00)	AVERAGE (2.00 – 2.99)	WEAK (1.00 – 1.99)
HIGH (3.00 – 4.00)	I	II	III
MEDIUM (2.00 – 2.99)	IV	V	VI
LOW (1.00 – 1.99)	VII	VIII	IX

The results of Metrobank's strategic approach to growth are evident in the bank's steady increase in profitability and continuous improvement in asset quality.

Metrobank delivered a compounded annual growth rate in net income of 37 percent over the past five years, hitting a high of P18.1 billion in the first semester of 2013. [Metrobank bags investment grade rating]

SWOT analysis

- Unknown history, as an author often claimed A. Humphrey at Stanford Research Institute in 1960s and 1970s on Fortune 500 data
  - Complex assessment of situation
  - Integrates (similarly to IE matrix) outputs from previous/partial analyses
  - Very popular, often misinterpreted, doesn't provide guidelines for strategy (–> TOWS)



Perhaps the single most common way to kick off a strategy process is with a SWOT analysis. However, there is simply no such thing as a generic strength, weakness, opportunity, or threat. A strength is a strength only in the context of a particular where-to-play and how-to-win (WTP/HTW) choice, as is the case for any weakness, opportunity and threat. So attempting to analyze these features in advance of a potential WTP/HTW choice is a fool's game. This is why SWOT analyses tend to be long, involved, and costly, but not compelling or valuable. The time to do analyses of the sort that typically turn up in SWOT analyses is after you have reverse-engineered a WTP/HTW possibility.

Typically right after the SWOT exercise, the strategy team turns its attention to producing a vision or mission statement. This often devolves into a long and arduous process during which the team members argue sincerely about specific word choices in order to produce the "perfect" statement. Three Quick Ways to Improve Your Strategy-Making

SWOT –> TOWS

- First step is external factors analysis, builds on PEST or utilizes IFE
  - Each factor is rated and weighted
  - Factors can be displayed in matrix (of opportunities and threats)

Seriousness	High	Low
High	1 Major Threat	2 Moderate Threat
Low	3 Moderate Threat	4 Minor Threat

Probability of Occurrence

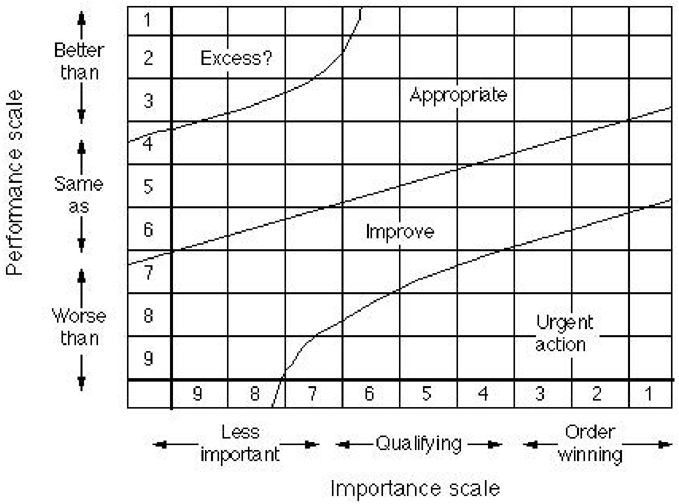
Attractiveness	High	Low
High	1 Very Attractive	2 Moderately Attractive
Low	3 Moderately Attractive	4 Least Attractive

Probability of Occurrence

  - Setting priorities –factors 1 require attention; 2, 3 may become critical (require monitoring), 4 doesn’t represent any serious threat (opportunity)
  - Alternatively the factors can be evaluated through Likert scales

SWOT –> TOWS

– Second step is internal factors analysis
  - Based on various perspectives (i.e. marketing mix elements), can utilize IFE
  - Factor weighting or evaluating through performance-importance matrix



marketing Memo — **Checklist for Performing Strengths/Weaknesses Analysis**

	Performance					Importance		
	Major Strength	Minor Strength	Neutral	Minor Weakness	Major Weakness	High	Med.	Low
Marketing								
1. Company reputation								
2. Market share								
3. Customer satisfaction								
4. Customer retention								
5. Product quality								
6. Service quality								
7. Pricing effectiveness								
8. Distribution effectiveness								
9. Promotion effectiveness								
10. Sales force effectiveness								
11. Innovation effectiveness								
12. Geographical coverage								
Finance								
13. Cost or availability of capital								
14. Cash flow								
15. Financial stability								
Manufacturing								
16. Facilities								
17. Economies of scale								
18. Capacity								
19. Able, dedicated workforce								
20. Ability to produce on time								
21. Technical manufacturing skill								
Organization								
22. Visionary, capable leadership								
23. Dedicated employees								
24. Entrepreneurial orientation								
25. Flexible or responsive								

SWOT –> TOWS

- Outputs of SWOT are summarized
- Also other outputs (i.e. Competition Profile Matrix) can be utilized
- Elaborated for each SBU separately!

1 SBU description
Here, describe the market for which the SWOT is being done

2 Critical success factors
What are the few key things, from the customer's point of view, that any competitor has to do right to succeed?

3 Weighting
How important is each of these CSFs? Score out of 100

	Critical success factors	Weighting
1		
2		
3		
4		
5		
		Total 100

4 Strengths/weaknesses analysis
Score yourself and each of your main competitors out of 10 on each of the CSFs. Then multiply the score by the weight

CPM

CSF \ Comp	You	Competitor A	Competitor B	Competitor C	Competitor D
1					
2					
3					
4					
5					
Total (score x weight)					

5 Opportunities/threats
What are the few key things outside your direct control that have had, and will continue to have, an impact on your business?

	Opportunities	Threats
1		
2		
3		
4		
5		

6 Key issues that need to be addressed

7 Key assumptions for the planning period

8 Key objectives

9 Key strategies

	7 Key assumptions	8 Key objectives	9 Key strategies
1			
2			
3			
4			
5			
6			
7			

Final consequences

McDonald, M., Wilson, H. *Marketing Plans*, 7ed. Wiley & Sons, 2011

Competition Profile Matrix

- Defines Critical Success Factors (CSF), factors are weighted and rated, compared to competition
  (usually scale 4–1, where 4 means important strength, 3 less important strength, 2 minor weakness, 1 major weakness)
- Either external (ECPM or EFE) or internal (ICPM or IFE) factors
- Outputs can be utilized in SWOT->TOWS, IE matrix, SPACE, …

Factors usually considered when building CPM

Market Share	Location of facilities	On time delivery
Product Quality	Production capacity	Strong online presence
Clear strategic direction	Added product features	Effective social media
Customer service	Price competitiveness	management
Customer loyalty	Low cost structure	Experience and skills
Brand reputation	Variety of products	in e-commerce
Customer satisfaction	Complementary products	Management qualification
Financial position	Level of product integration	and experience
Cash reserves	Successful product promotions	Innovation in products and
Profit margin	Superior marketing capabilities	services
Inventory turnover	Superior advertising capabilities	Innovative culture
Employee retention	Superior IT capabilities	Efficient production
Income per employee	Size of advertising budget	Lean production system
Innovations per employee	Effectiveness of sales distribution	Strong supplier network
Cost per employee	Employee satisfaction	Strong distribution network
R&D spending	Effective planning and budgeting	Product design
Strong patent portfolio	Variety of distribution channels	Level of vertical integration
New patents per year	Power over distributors	Effective corporate social
Revenue per new product	Power over suppliers	responsibility programs
Successful new introductions	Access to key suppliers	Sales per outlet
Union relations	Efficient supply chain	Parent company support
Skilled workforce	Supply chain integration	

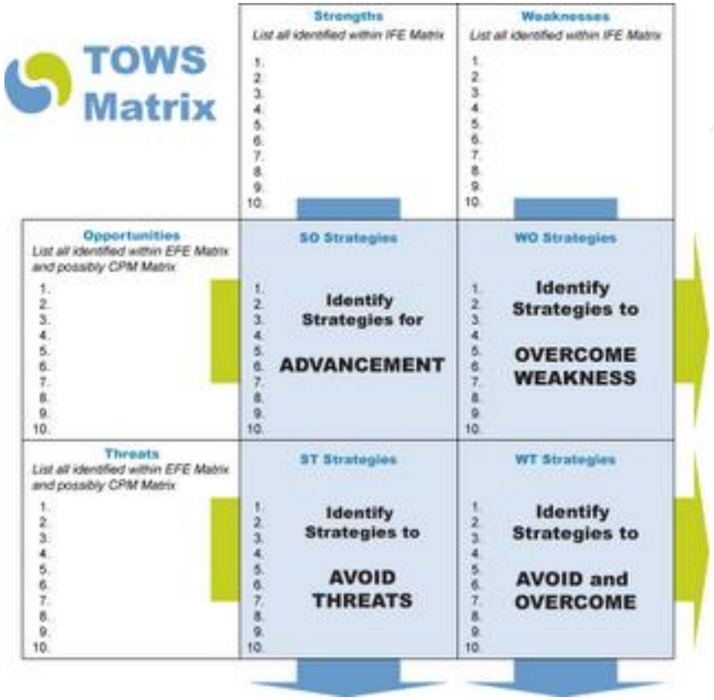
		Starbucks		McDonalds		Dunkin Donuts	
Key Factors	Weight	Rating	Score	Rating	Score	Rating	Score
Advertising	0.05	4.00	0.20	3.00	0.15	3.00	0.20
Product quality	0.20	4.00	0.80	2.00	0.40	3.00	0.60
Product variety	0.10	3.00	0.30	4.00	0.40	3.00	0.30
Price competitiveness	0.20	2.00	0.40	4.00	0.80	2.00	0.40
Financial position	0.05	3.00	0.15	4.00	0.20	3.00	0.15
Customer loyalty	0.10	2.00	0.20	3.00	0.30	4.00	0.40
Global expansion	0.10	3.00	0.30	4.00	0.40	4.00	0.30
Customer service	0.20	4.00	0.80	3.00	0.60	3.00	0.60
Total	1.00		3.15		3.25		3.00

		NIKE		ADIDAS		REEBOK	
Critical Success factors	Weights 0.0 to 1.0	Rating 1 to 4	Weighted Score	Rating 1 to 4	Weighted Score	Rating 1 to 4	Weighted Score
Domestic Market positioning	0.1	4	0.4	2	0.2	3	0.3
International Market positioning	0.1	4	0.4	3	0.3	3	0.3
Consumer Loyalty	0.08	3	0.24	3	0.24	3	0.24
Brand recognition	0.1	4	0.4	4	0.4	4	0.4
Price competitiveness	0.09	3	0.27	3	0.27	4	0.36
Product Quality	0.07	4	0.28	4	0.28	3	0.21
Relationship with manufacturers and supplier	0.07	3	0.21	4	0.28	3	0.21
Product R&D	0.1	4	0.4	3	0.3	3	0.3
Product Diversity	0.1	4	0.4	3	0.3	2	0.2
Financial Position	0.07	3	0.21	3	0.21	2	0.14
Marketing	0.08	4	0.32	4	0.32	3	0.24
Organizational Structure	0.04	3	0.12	3	0.12	3	0.12
Totals	1		2.85		2.72		2.42

		UPS		FedEx	
Critical Success Factors	Weight	Rating	Score	Rating	Score
Advertising	0.05	4	0.20	3	0.15
Organization Structure	0.08	2	0.16	1	0.08
Customer Service	0.10	4	0.40	3	0.30
Global Expansion	0.07	4	0.28	3	0.21
Financial Position	0.10	4	0.40	3	0.40
Employee Dedication	0.08	4	0.32	3	0.24
Management Experience	0.10	4	0.40	3	0.30
Customer Loyalty	0.10	4	0.40	3	0.30
Market Share	0.10	4	0.40	3	0.30
Product Quality	0.08	3	0.24	2	0.16
E-commerce	0.06	2	0.12	3	0.18
Price Competitiveness	0.08	4	0.32	2	0.16
Total	1.00		3.64		2.78

SWOT –> TOWS

- SWOT criticism – the framework lacks dynamic perspective, doesn’t provide guidelines for strategy formulation –> TOWS (Weihrich, 1982)
- TOWS enables to identify potential strategies based on SWOT outputs



Recommended reading: WEIHRICH, Heinz. The TOWS matrix—A tool for situational analysis. *Long range planning*, 1982, 15.2: 54-66.

SWOT –> TOWS examples

	Strengths	***Weaknesses***
NIKE	1. Global audience and established market leader 2. Worldwide range of suppliers 3. Good range and quality of products	1. Poor history regarding social and ethical issues 2. Strong focus on footwear 3. Reliance on cheap labour
Opportunities 1. Increased sports initiatives 2. Potential for new technology 3. Growing preference to shop online	• Use their current market position to help influence and promote health and awareness • Migrate customers to the web strategy • Increase partnership strategies and marketing intermediaries • Continue developing technology	• Use the Olympics and sporting events to represent themselves • Create a wider range of products • Take advantage of the online market, showcasing changes regarding ethical issues and sweat shops • Lower production cost
Threats 1. Competitive market 2. Ever changing market 3. The recession	• Constantly create new designs and ideas • Expand their range of suppliers to keep the cost low • Search for innovative concepts to outcompete their competition	• Try and move away from 3rd party manufactures to improve quality • Keep their competitive advantage by using customization and expand by some means

TOWS Whirpool

Internal Factors / *External Factors*	*Strengths* *S1 R n D* *S2 Whirlpool's Culture* *S3 Quality* *S4 Marketing Strategies*	*Weaknesses* *W1 Financial Position* *W2 Global Positioning* *W3 Manufacture Facilities*
Opportunities *O1 Economic integration of Europe* *O2 Internet / e-commerce* *O3 Economic development in Asia and L. America* *O4 Innovations* *O5 Increase in disposable income* *O6 Harmonization of standards*	*SO Strategies* *S1O3* Focus on Asian mrket and make products conforming to living patterns *S4O5* Increase marketing capabilities to the upscale market *S2O3* Get ready for the internet boom	*WO Strategies* *W1W2O3* Cut costs and go for mergers in Asia *W2O4* Bring new products to market to get better position globally
Threats *T1 Global competition* *T2 Demand saturated* *T3 Economies of scale*	*ST Strategies* *S2S3T2* Buy Maytag to increase market share in U.S *S1S4T1* Leverage use of RnD and marketing to compete on global fronts	*WT Strategies* *W1T3* Shift facilities to India and China for cheap labor. *W1T2* Sell some of the facilities and units not profitable

Table I
The SWOT matrix of Hong Kong with attributes of the balanced scorecard

	Strengths	**Weaknesses**
	S1 – Good legal system S2 – Good tele-communication/ infrastructure S3 – Huge reserve S4 – Quality/efficient civil servant S5 – Stable currency S6 – Hard working quality people	W1 – Inexperienced executive council W2 – Weakening English standard W3 – Lack of natural resource W4 – US $ Peg W5 – Weakening manufacture base W6 – High operating costs
Opportunities 01 – Spring board to China 02 – Unstable Asian politic 03 – Support from China 04 – Birth of EURO 05 – 50th anniversary of China	Maxi-maxi (strengths/opportunities) (F) S1S201 – Promote commerce activity (F) S1S202 – Attract foreign/ Chinese investment/tourism (F) S1S2S304 – Asian joint currency (F) S1S203 – Intensify financial service (currency window) (C) S101 – Advisory role to China (C) S30103 – Co-operation with China to develop hi-technology (C) S1S205 – Promote tourism. (L) S40103 – Cross-training with Chinese government	Mini-maxi (weaknesses/ opportunities) (F) W3W502 – Financial/service focus (F) W404 – Diversify governmental investment (I) W101 – Restructure executive council (L) W203 – Multiple languages policy
Threats T1 – Inrush of immigrant T2 – From neighbouring countries T3 – Millennium bugs (Y2K) T4 – Pollution of water from China T5 – China opening up to the world Market T6 – Declining world economy	Maxi-mini (strengths/threats) (C) S3T4 – Promote environmental protection concept to China. (C) S1S2T6 – Media businesses. (I) S1T1 – Review immigration law/ co-operation with related Chinese authorities (I) S3S4T2 – Improve quality image of Hong Kong. (I) S3S4T3 – Y2k promotion campaign (L) S3T1 – Build new schools for immigrants (L) S3S6T5 – Bilingual education	Mini-mini (weaknesses/threats) (C) W3T5 – Develop a natural resource link between Hong Kong and China (C) W5T1T5 – Develop Chinese medicine research centre (I) W3T1 – Review tax policy and social welfare policy (L) W2T5T6 – Improve English education standard

Notes: F = Financial perspective, C = Customer perspective, I = Internal process perspective, L = Learning and growth perspective

TOWS of Hranice town in Czech republic

Davidson, J.H. Making the most of your assets, The marketer, 2007 p. 34-35

Asset–Competency–Marketing

- Alternative tool enables companies to get more out of what they already have
  - Any business consist of assets and competencies
  - The goal is to align assets and competencies
  - capitalizing on assets, matching them to distinctive competencies
    1. Identify exploitable assets and competencies - focus on competitive advantages that deliver superior value to customers (i.e. brand for Nike, customers' support for Disney)
    2. Review effectiveness of exploitation
    3. Identify the shape of the future (industries, markets)
    4. Decision how to change assets (i.e over the next five years)
    5. Build and exploit assets and competencies
       - Reassigning assets
       - Developing available competencies, identification of new competencies required to fully capitalize on assets
    6. Match assets, competencies and future opportunities
       - Reprioritize markets, channels, segments to better align A–C

Asset and competency-based marketing is a powerful tool for diagnosing a firms current position and charting its future. Hugh Davidson explains how it works

Asset–Competency–Marketing

– Examples

Company	Assets	Competencies
Procter & Gamble	Global brands	Brand development
Toyota	Low-cost plants	Process engineering
First Direct bank	Customer database	Customer service

Assets and competencies

Market attractiveness	Weak	Medium	Strong
Low	Exit	Milk profits, refocus the strategy or exit the market	Leverage short-term profits, and then exit or transform the market
Medium	Exit or acquire competencies	Rethink the focus and strategy	Invest heavily to leverage advantage and deliver grater customer value
High	Acquire competencies by internal investment or acquisition	Invest in order to strengthen the competencies base	Invest to leverage advantage and deliver grater customer value

In 1990s Ross Young's was a company competing in most categories of frozen foods. However frozen foods business was just a slow-growth and low-margin industry. Of its two main brands, Ross competed on price, while Young's had limited awareness and an unclear identity. In most sectors, the company was a weak number two.
Ross Young's decided to focus on a limited number of growth sectors, where it could achieve differentiation and market leadership; and to manage down and eventually exit low-margin commodity sectors. It is s now the market leader in the pizza sector with San Marco and in meat-free products with the Linda McCartney range. Its position in seafood has strengthened through the Young's Chip Shop, and Harry Ramsden's brands. The burger and vegetable businesses have been sold, and the proceeds redeployed to help build the new asset areas.

McDonald's owns one of the world's most valuable brands, however since 1987 the per-store profit dropped by 40 %, sales increased only by 18 %.
To target new customers, McDonald's decided to build on a large network of sites and introduce new offerings – Premium coffee and Smoothies.
McCafé targets women under 35 (segment that hasn't been addressed before). In 2010–2012 the sales of coffee doubled and smoothies became extremely popular among McDonald's customers. [What was John Betts thinking when he transformed McDonald's into a smooth(ie) operator?]

Mars wanted to enter the 'everyday' sector of the boxed assortment market, led by two strong brands - Cadbury's Roses, and Nestle's Quality Street.
The conventional approach would have been to launch a totally new brand, with a distinctive product, packaging, and positioning.
Instead Mars decided to capitalize on existing brands and production skills by producing wrapped and branded mini-versions of Mars, Snickers, Bounty, Twix, and so on in a new shape of box, using the umbrella brand name Celebrations.

Marketing Strategy

- Sets the direction how to achieve company goals and objectives
- Combines and build on company’s mission and vision
- Based on marketing situational analysis
- Strategic choices often include
  - Decisions about markets to be served
  - How to stimulate the markets
  - Positioning own brands according to the competition
  - Decisions about strategic alliances

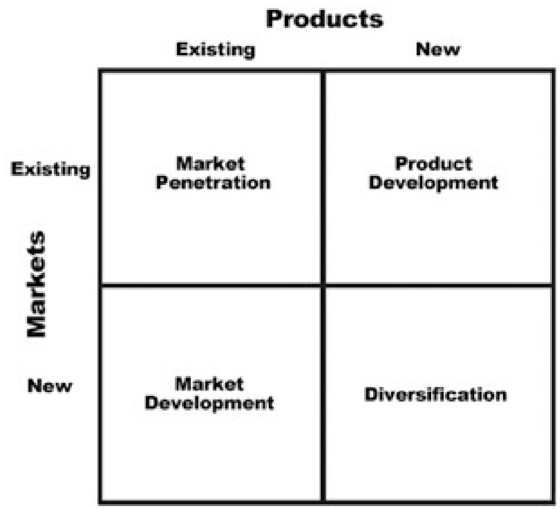
- Generic strategies
  - Choice of a general approach to the market
  - Decision about what is the competitive advantage based on
- Partial strategies
  - Provide just a limited perspective
  - Ansoff, Porter, Kotler, …
- Integrated strategies
  - Provide an integrated, multidimensional perspective
  - Becker, Beckhaus, Haedrich a Tomczak, El-Ansary’s model,...

F6 | Vysoká škola ekonomická v Praze
Fakulta managementu

fm.vse.cz

Approaches to Marketing Strategy

Ansoff’s Strategies for Diversification



Strategy	Costs	Success Likehood
Market Penetration	~	50 %
Market Development	4×	20 %
Product Development	8×	33 %
Diversification	12–16×	5 %

If companies stuck to their traditional products, they cannot stay on top in a long-term. The Brookings Institute Survey: From 100 largest companies in 1909 only 36 stayed in top100 in 1948. Mostly companies that are notable for drastic changes made in their product mix and methods, generating or responding to new competition (KAPLAN, A. D. H. *Big Enterprise in a Competitive System* (Washington, The Brookings Institution, 1954),

- Ansoff almost exclusively focuses on diversification strategy
  Recommended reading: ANSOFF, Igor. Strategies for Diversification. Harvard Business Review, Vol. 35 Issue 5, 1957

Market penetration – growth through existing offerings on existing markets, increasing market share, price reductions, rival acquisition, more frequent use, increase promotion and distribution intensity; mobile carriers, car manufacturers in lower segments; for non-saturated markets, for growing markets, struggling competition, …

Market Development – targeting new segments, expansion to foreign markets) (i.e. fast food chains entering Czech market; Rudolf Jelínek and kosher spirits, …); for unoccupied markets,, surplus of production capacity, development of new distribution channels…

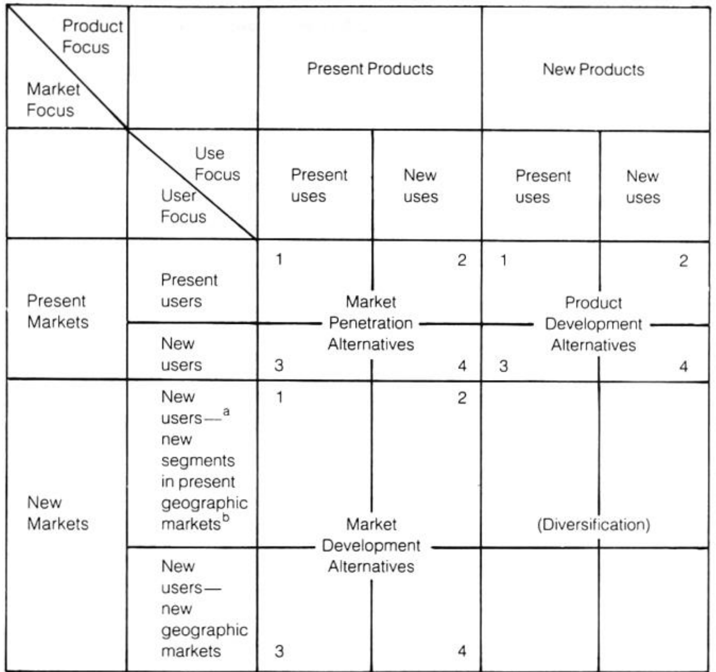
Product Development – product innovations, complementing products with new services, i.e. car facelifts, new positioning devices (Kinect and consoles); in industries with rapid technological changes, orientation on R&D

Diversification – developing products for new markets, i.e. Apple and introduction of iPod **(horizontal** diversification – introducing product that are not related to current company’s products; current know-how or technology can be utilized; and iTunes (**vertical** diversification – today known as vertical integration), to take advantage of synergies or similarities between current and intended products; or **lateral** diversification, when the company enters a completely new market unrelated to its previous business (ČEZ as mobile carrier; Agrofert and media, wood processing industry, chemical industry, power energy industry,…)

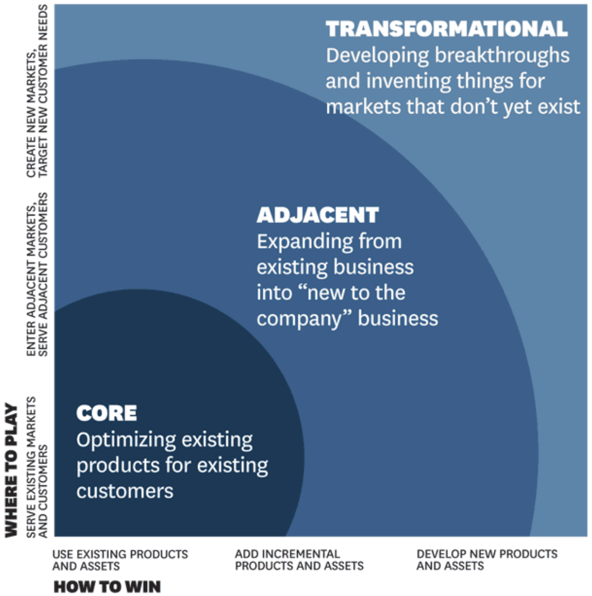
Ansoff's Strategies for Diversification

- 9-cell matrix alternative is available
- Diversification and perspective of Product life cycle
  - [Levitt suggests how to expand sales via four different routes]
    1. Promoting more frequent usage of the product among current users (communications, [planned obsolescence], …)
    2. Developing more varied usage of the product among current users (i.e. color alternatives)
    3. Creating new users for the product by expanding the market
    4. Finding new uses for the basic material (i.e. nylon in carpets)
  - Ansoff's matrix can be expanded by Levitt's strategies for growth – combination of present/new uses and new users in present/new geographical area

Recommended reading: VARADARAJAN, P. Intensive Growth Opportunities: An Extended Classification. *California Management Review*. 1983. Vol. XXV, No. 3. p. 118 – 132

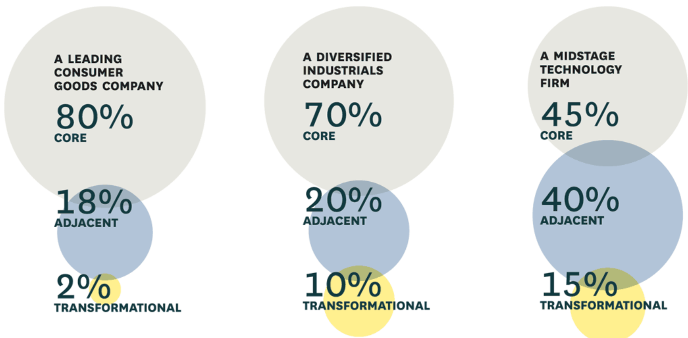


- Ansoff's idea is still being developed



Recommended reading: NAGJI, Bansi, TUFF, Geoff [Managing Your Innovation Portfolio] Harvard Business Review, 5/2012

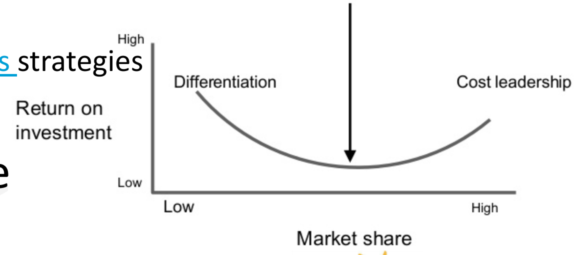
How to split innovation resources?



Kotler's Competitive Strategies for Market Leaders

Assumption: a high market share has a major influence on company's profit – Analyses give strong support to the proposition that market share is indeed a major influence on profitability) – a study by Marketing Science Institute in 1970s *Profit impact of market strategies (PIMS)*
Recommended reading : Schoeffler, Sidney. Buzzell, Robert D. and Heany, Donald F. Impact of Strategic Planning on Profit Performance. *Harvard Business Review*, 3/1974. However it has shown that the link between market share and profit is rather weak: Yannopoulos, P. The Market Share Effect: New Insights from Canadian Data.

Might be related to Porter's strategies



Market Leader (40 %)

Market-Challenger (30 %)

Market-Follower (20 %)

Market-Nicher (10 %)

- Expanding total market share (via four different routes suggested by Levitt) or protecting market share (proactive marketing or defensive marketing). Defensive marketing may include
  - Position defense – occupying the space in consumers' mind, making the brand almost invulnerable, consumers don't event think about substitutes (Procter&Gamble)
  - Flank defense – outposts to protect main brands, introducing new brands, filling the production lines
  - Preemptive defense – announce new products in advance (Google announces a new service, other companies rather focus on another markets)
  - Counteroffensive defense – frontal attack against attacker (UPS and FedEx)
  - Mobile defense – leader expands over new territories or domains, market broadening (BP is not just an oil company, also focuses on energy industry) or diversification (Philip Morris acquired Kraft in 1988 and General Foods in 1985)
  - Contraction defense – when the territory cannot be no longer defended, giving up weaker markets (Microsoft discontinued PC gaming peripherals in 2003)

Kotler's Market-Challenger Strategies

- Usually a strategy to increase market share (attack either market leader, companies of similar size or small local companies, nichers
  - Lower price/quality or superior quality, better services, distribution; intensive advertising
- Attack strategies
  - Frontal attack – attacker matches leader's product, price, promotion and distribution (i.e. formerly Toyota and GM)
    Flank attack – filling the gaps on the market, where the leader struggles (i.e. geographical area or specific segments) – i.e. Canon and Xerox on home copiers market
  - Encirlement – offensive on several fronts, i.e. Sun Microsystem has supported Java developers to increase market share over Microsoft
  - Bypass – bypass the leader to attack easier major markets - in 1998 Pepsi acquired Tropicana (double market share compared to Minute Maid owned by Coca-Cola, today completely different story)
  - Guerrilla Attacks – small, intermittent (either conventional or unconventional) attacks selective price cuts, intense promotions, to harrash market leader (low-cost airlines)
- When market-challenger accepts rather passive role – market-follower

Kotler’s Market-Follower Strategies

- T. Levitt suggests that strategy of product imitation can be as profitable as strategy of product innovation
  - Imitator doesn’t bear any innovation costs
- No ambitions to become a market leader
- Strategies are based on the extent how much the company imitates other products

  - Counterfeit – duplicates of luxury products (Rolex, Apple), illegal

  - Cloning – emulation of leader’s products and packaging, just slight differences
  - Imitation – some aspects are identical, the difference may be in packaging, pricing, advertising or location. Since the attack is not aggressive, the leaders doesn’t take any counteraction
  - Adaption – leader’s product is adapted and improved, the adapter often grows into future market challenger

Kotler’s Market-Nicher Strategies

- An alternative to being a follower on a large market
- Based on being a leader on a small market (which has no or little potential for true market leaders)
  - Delivering high value for a premium price
  - Continually create expand and protect market niches
    - Niches usually weaken over time
    - Single or multiple niching (risk diversification)

Kotler’s Market-Nicher Strategies

– Happy Socks
    - 2008 – Viktor Tell and Mikael Söderlindh

    "I guess we were bored," says Söderlindh, Happy Socks’ CEO. "Viktor told me about an idea he had for a sock brand called Happy Socks. I Googled how many pairs of socks people buy each year and came up with 12 to 14. Think about the potential market—every Western country: let’s just say around 1 billion people – even 0.01% of this is still a hell of a lot of socks.„

    - The company doesn’t sell just socks, it sells vivid, rich-pattern socks designed by young designers, two collection per year
    - Customers have an opportunity to participate in design, specialized editions (i.e. Minecraft)

    "Making socks that have a high level of design with a great quality is a simple idea and a good business," he continues. "It’s better, in my view, to be a niche company that knows what it’s doing than risk credibility by stretching yourself to thin."

    - Happy Socks operates in 55 countries worldwide, has sold over 10 mil socks

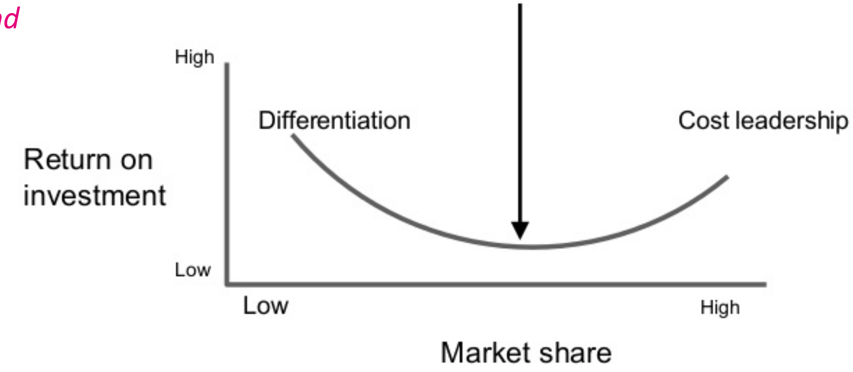
Happy Socks Builds A Business – And Happiness – Two Feet At A Time,
10 million pairs of Happy Socks and counting

Porter's Generic Competitive Strategies

Published in Porter, M. E. *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. New York: Free Press, 1980.

There are three potentially successful generic strategic approaches to outperforming other firms in an industry: (1) overall cost leadership (2) differentiation (3) focus.

Cílem je ujasnit si, co je zdrojem konkurenční výhody a nezůstat uvězněn uprostřed (*do not get stuck in the middle*)



Often criticized and misinterpreted model

Recommended reading: SHARP, Byron. Competitive Marketing Strategy: Porter Revisited. Marketing Intelligence & Planning, Vol. 9 No. 1, 1991, pp 4-10,

MURRAY, Alan I. A contingency view of Porter's "generic strategies". *Academy of Management Review*, 1988, 13.3: 390-400.

- Cost leadership – achieving low costs through economies of scale or lower quality, often undifferentiated marketing (Walmart) Walmart
  - Often misinterpreted in many books – cost leadership doesn't mean low price (not necessarily)
  - In Porter's defense he did not actually write that the aim of low cost was lowest price — he said that the essential aim of a firm following a low cost strategy is not to differentiate through low price, but to achieve a price as high as competitors, whilst retaining lower costs of production.
  - Cost leadership doesn't include downstream activities!
  - Ironically, low price might cause a problem - well-known brands like Michael Kors , Ralph Lauren , Calvin Klein and Tommy Hilfiger are struggling. When the Great Recession hit, they lowered their prices to try to keep sales strong. Now those discounts are a drag on the bottom line. How Michael Kors, Ralph Lauren and friends lost their cool
- Differentiation – to address specific customers' needs
  - The difference among product does not need to be on a physical basis
  - Differentiation has been interpreted by marketing and strategic management texts as "making the product appear different", ensuring that the offering is perceived by the customer, as unique in some respect. The inadequacy of this definition is apparent, in that logically any new offering must be different in some way for customers to buy it.

P&G Persil REX palmex Henkel

Porter’s Generic Competitive Strategies

- Focus strategy – often premium products with an unique value (BMW, Miele, Bang and Olufsen) or products for a specific customer segment, where low-costs can be achieved (RyanAir)

Focus doesn’t mean the same as differentiation

Differentiation involves gaining proximity to other producers in the provision of most benefits desired by the market and then involves differentiating through exceeding them in the provision of at least one benefit.

Focus does not require outperforming all other competitors in the provision of one (or few) benefit(s); it simply requires getting the balance of benefits a firm offers to match perfectly (or meaningfully better than any other offering) the demands of the customers in one segment.

Target Scope	Advantage	
	Low Cost	Product Uniqueness
Broad (Industry Wide)	Cost Leadership Strategy	Differentiation Strategy
Narrow (Market Segment)	Focus Strategy (low cost)	Focus Strategy (differentiation)

Hyundai/Kia
Production: 5,74 m
Profit: 4,35 mld. $
Profit per Unit: 1.320 $

Dacia
Production: 348 000
Profit: 73,5 mil. €
Profit per Unit: 211 €

Porsche
Production: 90.000
Profit: 680 mil €
Profit per Unit: 7.555 €

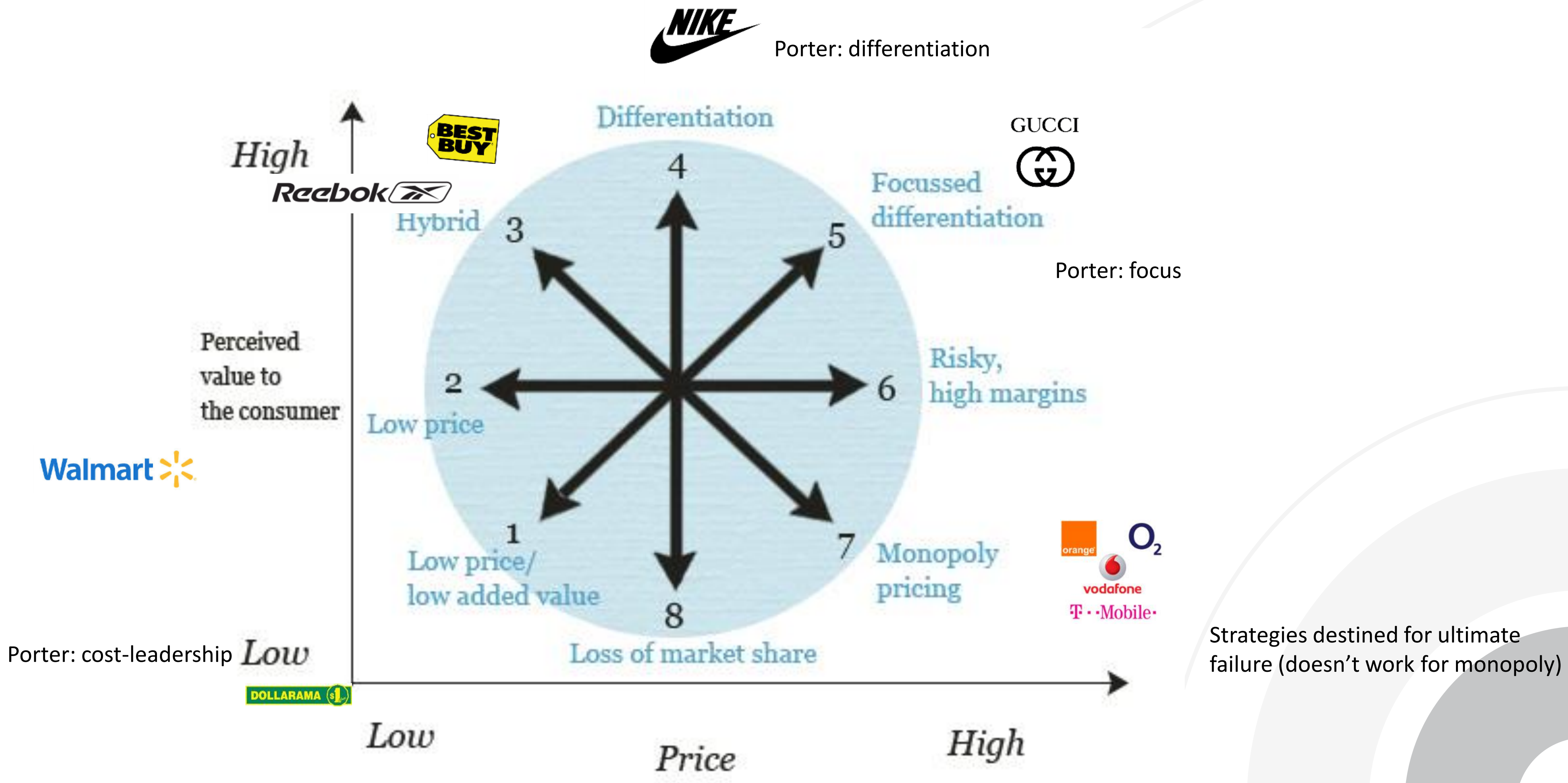
Rolls-Royce
Production: 2.711
Profit: £539 mil.
Profit per Unit: £198.000

Bowman a Faulkner's Strategic Clock

- An extension of Porter's generic strategies (a way to general)

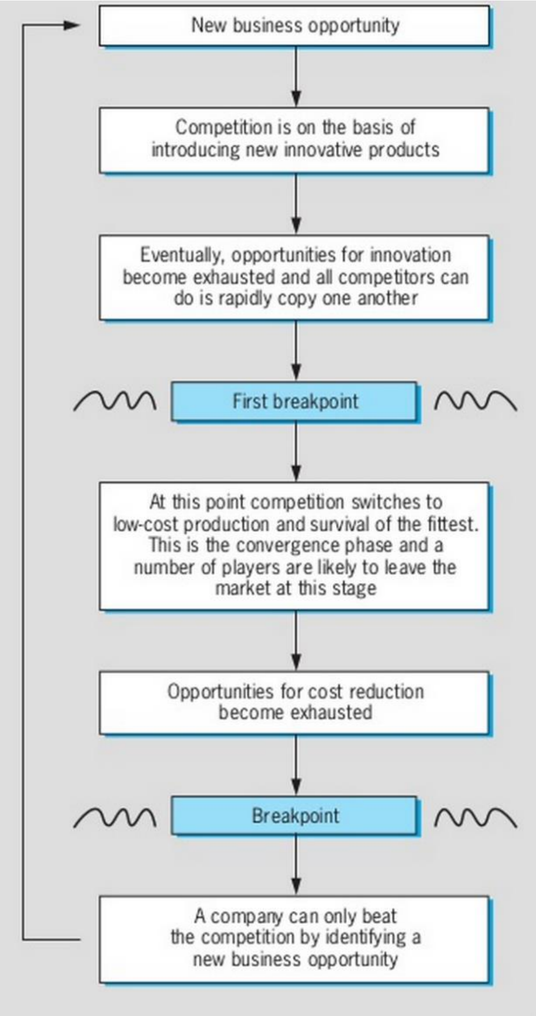
  Bowman, C. and Faulkner, D. (1997), "Competitive and Corporate Strategy", Irwin, London.

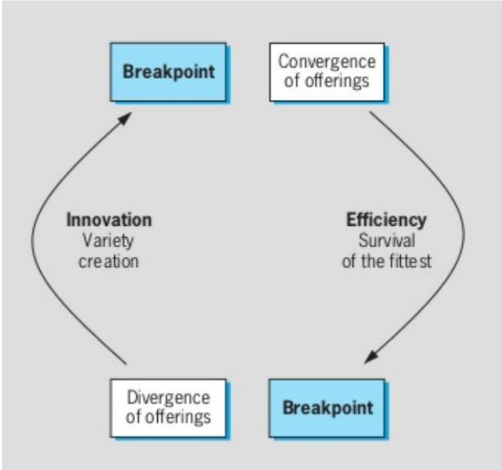
  - Offers eight strategies (instead of Porter's three), suggests also hybrid strategies
  - identified also the likelihood of success for each strategy

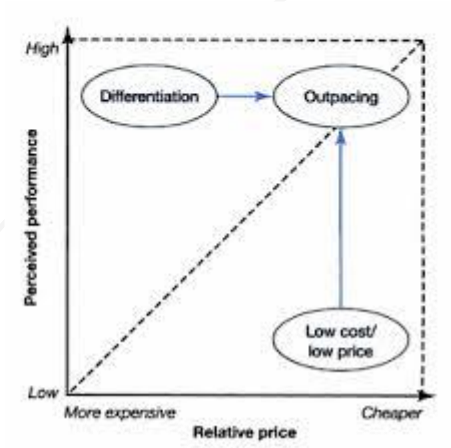


Strategy to Outpace the Competition (Gilbert a Strebel)

- Criticism of Porter's strategies – in long-term it is not possible to sustain one dimensional (either cost-leadership or differentiation) strategy
  - The strategy changes over time as the industry evolves
  - Strategy to outpace the competition – the companies repeatedly alternate in technology and cost leadership to sustain competitive advantage.



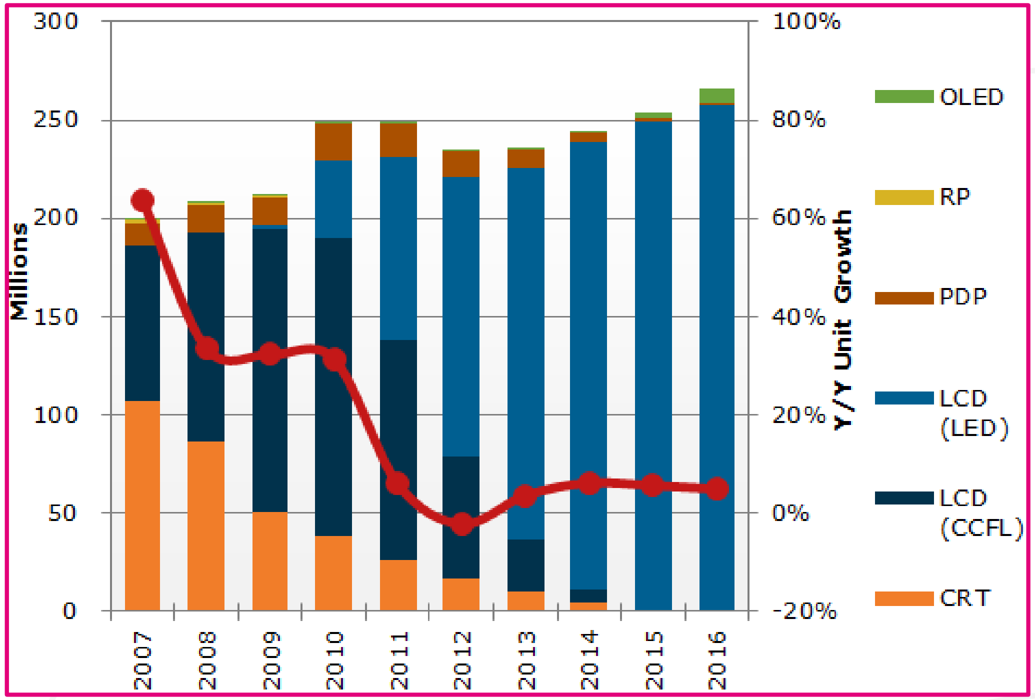


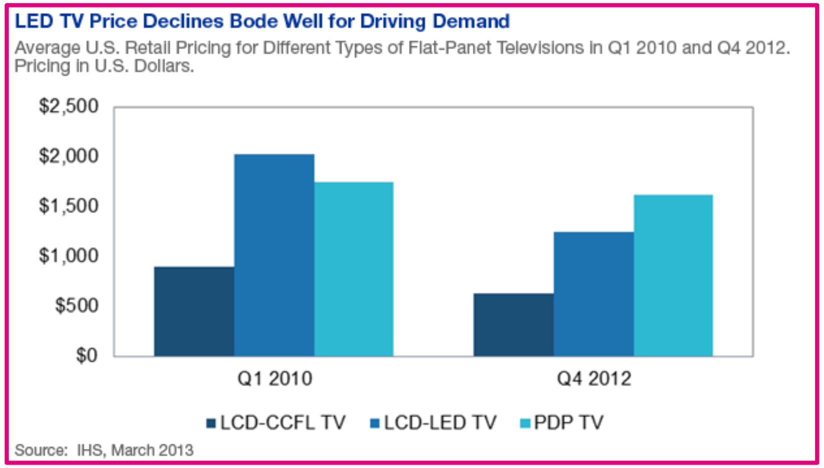


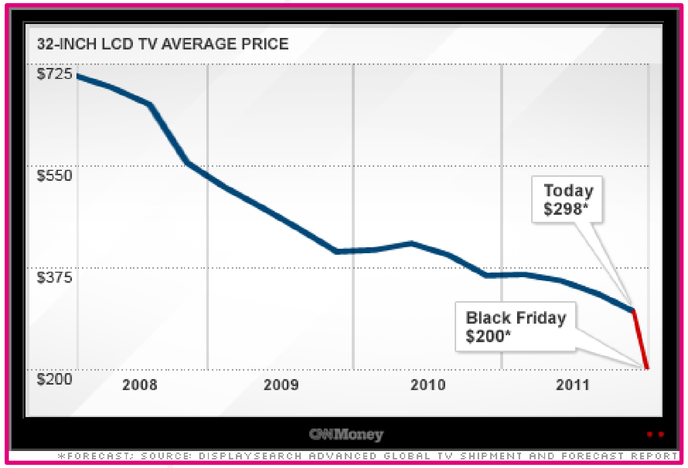
Gilbert, Xavier, Strebel, Paul (1987). Strategies to outpace the competition
Journal of Business Strategy 1987 8(1) , pp. 28-36

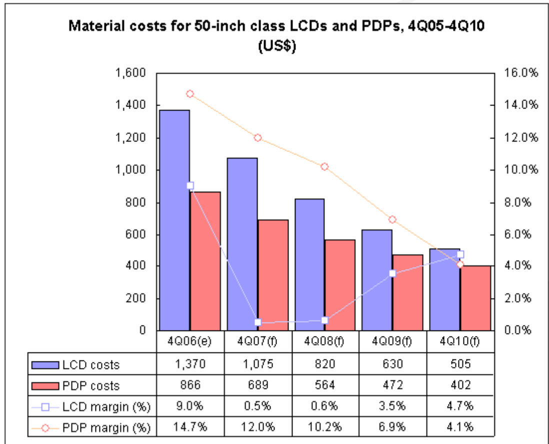
Strategy to Outpace the Competition (Gilbert a Strebel)

- Example – TV industry
  - A manufacturer introduces a new display technology, the price is high to reflect the costs of development
  - Other manufacturers implement new technology soon, adding new features
  - The market becomes highly competitive, the price of the technology declines
  - A manufacturer introduces a new display technology, the price is high to reflect the costs of development
  - Other manufacturers implement new technology soon, adding new features









Blue Ocean Strategy

- How to deal with hyper-competition and commoditization of markets?
- There are two types of markets – *blue and red oceans*

Recommended reading: MAUBORGNE, Renee, KIM, W. Chan. Blue Ocean Strategy
Harvard Business Review, 10/2004

Red Ocean Versus Blue Ocean Strategy

The imperatives for red ocean and blue ocean strategies are starkly different.

Red ocean strategy	Blue ocean strategy
Compete in existing market space.	Create uncontested market space.
Beat the competition.	Make the competition irrelevant.
Exploit existing demand.	Create and capture new demand.
Make the value/cost trade-off.	Break the value/cost trade-off.
Align the whole system of a company's activities with its strategic choice of differentiation *or* low cost.	Align the whole system of a company's activities in pursuit of differentiation *and* low cost.

Creating uncontested market spaces (blue oceans) where the competition is irrelevant, instead of fighting it out in overcrowded, commoditized industries (red oceans). In blue oceans, companies invent and capture new demand by turning noncustomers into customers, and by providing customers with more value while streamlining costs and building brand equity.

In a study of business launches in 108 companies, we found that 86% of those new ventures were line extensions–incremental improvements to existing industry offerings–and a mere 14% were aimed at creating new markets or industries. While line extensions did account for 62% of the total revenues, they delivered only 39% of the total profits. By contrast, the 14% invested in creating new markets and industries delivered 38% of total revenues and a startling 61% of total profits.

- Company has to leave its "comfort zone" and create a blue ocean where no competition is present
  - A combination of Porter's differentiation and cost-leadership (usually perceived as a trade-off) strategies
  - To find an unoccupied market niche
    - Different tools than common strategic analysis approaches (PEST, SWOT, …)

Using Blue Ocean Strategy in performance evaluation

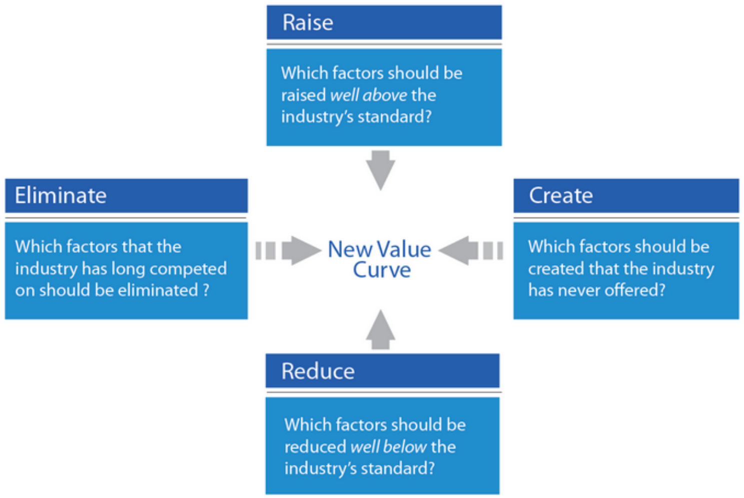
Blue Ocean Strategy

- Nástroje pro odhalení modrého oceánu

  https://www.blueoceanstrategy.com/tools/

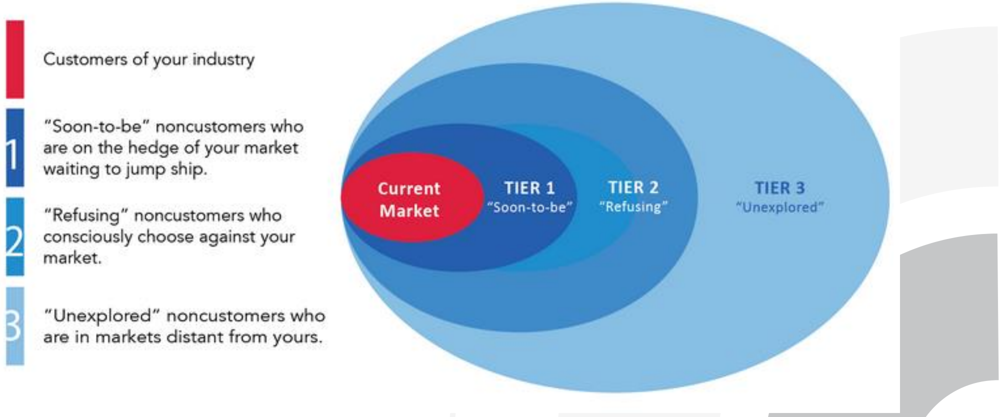
Six Paths Framework – There are six basic approaches to reconstructing market boundaries. These challenge the six fundamental assumptions underlying many companies' strategies that keep companies trapped competing in red oceans. Instead of looking within the accepted boundaries of competition, the Six Paths Framework allows managers to look systematically across them to create blue oceans.
https://www.blueoceanstrategy.com/tools/six-paths/

	Head-to-Head Competition	Blue Ocean Creation
Industry	Focuses on rivals within its industry	Looks across alternative industries
Strategic Group	Focuses on competitive position within strategic group	Looks across strategic groups within industry
Buyer Group	Focuses on better serving the buyer group	Redefines the industry buyer group
Scope of Product or Service Offering	Focuses on maximizing the value of product and service offerings within the bounds of its industry	Looks across to complementary product and service offerings
Functional-emotional Orientation	Focuses on improving the price performance within the functional-emotional orientation of its industry	Rethinks the functional-emotional orientation of its industry
Time	Focuses on adapting to external trends as they occur	Participates in shaping external trends over time



4 Actions Framework – The Eliminate-Reduce-Raise-Create (ERRC) Grid complements the Four Actions Framework. It pushes companies not only to ask the questions posed in the Four Actions Framework but also to act on all four to create a new value curve, which is essential to unlocking a new blue ocean.
https://www.blueoceanstrategy.com/tools/4-actions-framework/

3 Tiers of Noncustomers – to grow their share of a market, companies strive to retain and expand their existing customer base. This often leads to finer segmentation and greater tailoring of offerings to better meet customer preferences. The more intense the competition is, the greater, on average, is the resulting customization of offerings. As companies compete to embrace customer preferences through finer segmentation, they often risk creating too-small target markets.
https://www.blueoceanstrategy.com/tools/3-tiers-of-noncustomers/



Blue Ocean Strategy

- Blue oceans are not related to recent technologies, they have been always here
  - Often not related to technology at all (more often value pioneering)

Recommended reading: KIM, W. Chan, MAUBORGNE, Renee, Red Ocean Traps. Harvard Business Review, 3/2015

MAUBORGNE, Renee, KIM, W. Chan. From Blue Ocean Strategy to Blue Ocean Leadership. Harvard Business Review, 5/2014

As a predecessor of Blue Ocean Strategy – Ansoff and diversification strategy, or Hamel, Gary, and C. K. Prahalad (1994) Competing for the Future, *Harvard Business School Press, Boston* – creating „white spaces" on the market

Blue Ocean Strategy Criticism – Authors describe only successful stories, ignoring the dead ends

	Key blue ocean creations	Was the blue ocean created by a new entrant or an incumbent?	Was it driven by technology pioneering or value pioneering?	At the time of the blue ocean creation, was the industry attractive or unattractive?
Automobiles	**Ford Model T** Unveiled in 1908, the Model T was the first mass-produced car, priced so that many Americans could afford it.	New entrant	Value pioneering* (mostly existing technologies)	Unattractive
Automobiles	**GM's "car for every purse and purpose"** GM created a blue ocean in 1924 by injecting fun and fashion into the car.	Incumbent	Value pioneering (some new technologies)	Attractive
Automobiles	**Japanese fuel-efficient autos** Japanese automakers created a blue ocean in the mid-1970s with small, reliable lines of cars.	Incumbent	Value pioneering (some new technologies)	Unattractive
Automobiles	**Chrysler minivan** With its 1984 minivan, Chrysler created a new class of automobile that was as easy to use as a car but had the passenger space of a van.	Incumbent	Value pioneering (mostly existing technologies)	Unattractive
Computers	**CTR's tabulating machine** In 1914, CTR created the business machine industry by simplifying, modularizing, and leasing tabulating machines. CTR later changed its name to IBM.	Incumbent	Value pioneering (some new technologies)	Unattractive
Computers	**IBM 650 electronic computer and System/360** In 1952, IBM created the business computer industry by simplifying and reducing the power and price of existing technology. And it exploded the blue ocean created by the 650 when in 1964 it unveiled the System/360, the first modularized computer system.	Incumbent	Value pioneering (650: mostly existing technologies) Value and technology pioneering (System/360: new and existing technologies)	Nonexistent
Computers	**Apple personal computer** Although it was not the first home computer, the all-in-one, simple-to-use Apple II was a blue ocean creation when it appeared in 1978.	New entrant	Value pioneering (mostly existing technologies)	Unattractive
Computers	**Compaq PC servers** Compaq created a blue ocean in 1992 with its ProSignia server, which gave buyers twice the file and print capability of the minicomputer at one-third the price.	Incumbent	Value pioneering (mostly existing technologies)	Nonexistent
Computers	**Dell built-to-order computers** In the mid-1990s, Dell created a blue ocean in a highly competitive industry by creating a new purchase and delivery experience for buyers.	New entrant	Value pioneering (mostly existing technologies)	Unattractive
Movie Theaters	**Nickelodeon** The first Nickelodeon opened its doors in 1905, showing short films around-the-clock to working-class audiences for five cents.	New entrant	Value pioneering (mostly existing technologies)	Nonexistent
Movie Theaters	**Palace theaters** Created by Roxy Rothapfel in 1914, these theaters provided an operalike environment for cinema viewing at an affordable price.	Incumbent	Value pioneering (mostly existing technologies)	Attractive
Movie Theaters	**AMC multiplex** In the 1960s, the number of multiplexes in America's suburban shopping malls mushroomed. The multiplex gave viewers greater choice while reducing owners' costs.	Incumbent	Value pioneering (mostly existing technologies)	Unattractive
Movie Theaters	**AMC megaplex** Megaplexes, introduced in 1995, offered every current blockbuster and provided spectacular viewing experiences in theater complexes as big as stadiums, at a lower cost to theater owners.	Incumbent	Value pioneering (mostly existing technologies)	Unattractive

*Driven by value pioneering does not mean that technologies were not involved. Rather, it means that the defining technologies used had largely been in existence, whether in that industry or elsewhere.

Blue Ocean Strategy

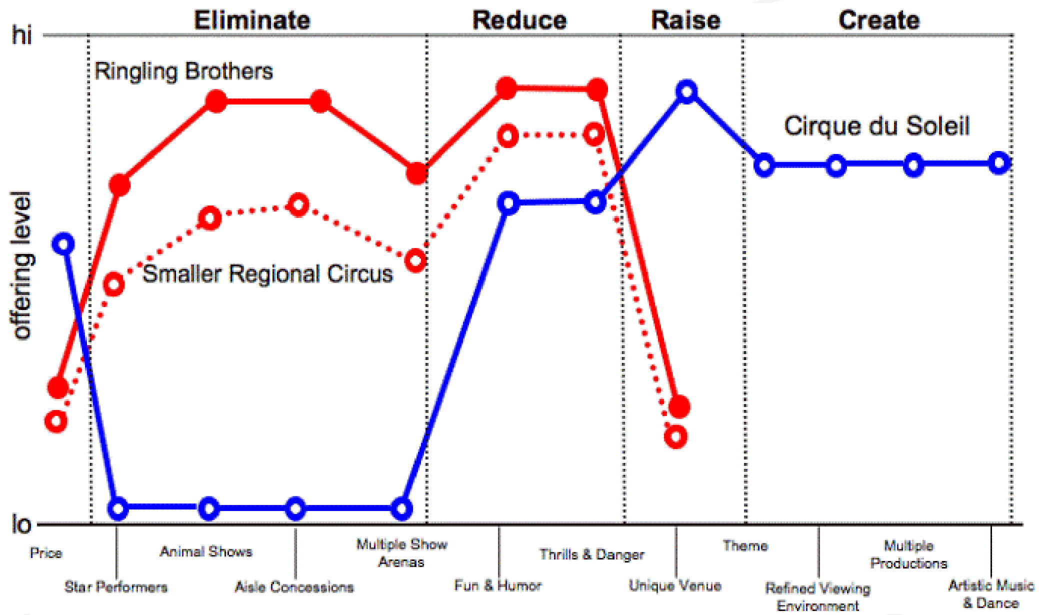
Cirque de Soleil

Founded in 1984 by a group of street performers, Cirque has staged dozens of productions seen by some 40 million people in 90 cities around the world. In 20 years, Cirque has achieved revenues that Ringling Bros. and Barnum & Bailey—the world's leading circus—took more than a century to attain.

The circus business was (and still is) in long-term decline. Alternative forms of entertainment—sporting events, TV, and video games—were casting a growing shadow. Children, the mainstay of the circus audience, preferred PlayStations to circus acts. There was also rising sentiment, fueled by animal rights groups, against the use of animals, traditionally an integral part of the circus.

“We reinvent the circus.” Cirque did not make its money by competing within the confines of the existing industry or by stealing customers from Ringling and the others. Instead it created uncontested market space that made the competition irrelevant. It pulled in a whole new group of customers who were traditionally noncustomers of the industry—adults and corporate clients who had turned to theater, opera, or ballet and were, therefore, prepared to pay several times more than the price of a conventional circus ticket for an unprecedented entertainment experience.

MAUBORGNE, Renee, KIM, W. Chan. Blue Ocean Strategy Harvard Business Review, 10/2004



Marketing Strategy and Segmentation

- General approaches how to meet company's objectives
- Reflects company's mission and vision
- Based on marketing situation analysis
- Strategic decisions usually include
  - Choice of the market
  - How to stimulate the targeted audience
  - Define own position against competition
  - Decisions about strategic aliances

Just has been performed

Recommended reading: SMITH, Wendell. R. (1956). Product differentiation and market segmentation as alternative marketing strategies. *The Journal of Marketing, 31*(1), pp. 3-8.

Differentiation is bending of demand to the will of supply. It is an attempt to shift or to change the slope of the demand curve for the market offering of an individual supplier. Successful product differentiation will result in giving the marketer a horizontal share of a broad and generalized market, equally successful application of the strategy of **market segmentation** tends to produce depth of market position in the segments that are effectively defined and penetrated. The differentiator seeks to secure a layer of the market cake, whereas one who employs market segmentation strives to secure one or more wedge-shaped pieces.

- Detailed knowledge about market and segmentation
  - Segmentation is an integral part of marketing since 1950s. Segmentation has been introduced by W. Smith in 1956 as an alternative to product differentiation

Recommended reading: CHRISTENSEN, Clayton. M., COOK, Scott, HALL, Taddy. Marketing malpractice: the cause and the cure. *Harvard Business Review*, 12/2005

Thirty thousand new consumer products are launched each year. But over 90% of them fail—and that's after marketing professionals have spent massive amounts of money trying to understand what their customers want.
Theodore Levitt used to tell his students, "People don't want to buy a quarter-inch drill. They want a quarter-inch hole!" Every marketer we know agrees with Levitt's insight. Yet these same people segment their markets by type of drill and by price point; they measure market share of drills, not holes; and they benchmark the features and functions of their drill, not their hole, against those of rivals. They then set to work offering more features and functions in the belief that these will translate into better pricing and market share. When marketers do this, they often solve the wrong problems, improving their products in ways that are irrelevant to their customers' needs.

  - Detailed knowledge about customer's needs is required before segmenting the market