Chapter 4: Strategic marketing decisions, choices, and mistakes

Lecture 3

JUST DO IT.
Where do we want to be?
Strategic Decisions

1. Strategic decisions at corporate level
   - Developing mission statement,
   - Directional strategy (*Growth, Stability, Retrenchment*)
   - Resource allocation: BCG, GE

2. Strategic decisions at SBU level
   - Choosing Generic Strategy:
     - Porter’s generic strategies
     - Bowman’s strategy clock

3. Strategic decisions at functional level
   - Setting marketing objective
   - Products to offer and market segments to target: Ansoff Matrix
   - Positioning strategy: Competitive position tactics
1. Strategic decisions at corporate level

- Developing mission statement,
- Directional strategy (*Growth, Stability, Retrenchment*)
- Resource allocation: BCG, GE
Strategic decision at the corporate level: Developing mission statement

- An organization’s mission statement provides a brief description of the unique purpose of the organization.

- 9 generic components of mission statement
  - Customers
  - Goods or services
  - Location
  - Technology
  - Concern with survival
  - Philosophy
  - Self concept
  - Concern with public image
  - Concern with employees
The mission of North South University is to produce competent graduates in their selected disciplines who will have productive careers or choose to engage in advanced studies.

Our students will be:

1. life-long learners with good leadership skills
2. more proficient in oral, written and electronic communication
3. critical thinkers with well-developed analytical skills
4. ethical and socially responsible
5. champions of diversity and tolerance
6. globally aware with commitment to social justice and sustainability
Strategic decision at the corporate level: Directional strategies

<table>
<thead>
<tr>
<th>Growth Strategies</th>
<th>Stability Strategies</th>
<th>Retrenchment strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concentration</td>
<td>Pause/Proceed with Caution</td>
<td>Turnaround</td>
</tr>
<tr>
<td>–Vertical Growth</td>
<td>No Change Profit</td>
<td>Captive Company</td>
</tr>
<tr>
<td>–Horizontal Growth</td>
<td></td>
<td>Sell-Out/Divestment</td>
</tr>
<tr>
<td>Diversification</td>
<td></td>
<td>Bankruptcy/Liquidation</td>
</tr>
<tr>
<td>–Concentric</td>
<td></td>
<td></td>
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<tr>
<td>–Conglomerate</td>
<td></td>
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</tbody>
</table>
Strategic decision at the corporate level: Directional strategies

• Growth Strategies: Expand the corporation’s activities.
  – Concentration:
    • Horizontal Growth: Involves focusing resources on the profitable growth by *increasing market share in existing markets*. E.G. KFC added bbq chicken

• Vertical Growth: forward and backward *integration*
Strategic decision at the corporate level: Directional strategies

• Growth Strategies
  – Diversification
    • Concentric: involves acquisition of businesses *related* to acquiring firm in terms of *technology, markets, or products*. Ex: Ford acquired Aston Martin;
    • Conglomerate: involves acquisition of businesses *unrelated* to acquiring firm. Ex: GE acquired Opal Software; Beximco introduced Yellow; Pran food and RFL
Strategic decision at the corporate level: Directional strategies

• Stability Strategy: Make no change to the existing activity
  – Pause & proceed with caution
    • BATA in India in 2000; KFC in BD
  – No change in operation: the decision of not doing anything new and continuing with the existing business operations. E.g. Ring chips
  – Stable profit: organization aims to maintain the profit by whatever means possible. To earn profit the firm may
    • cut costs,
    • reduce investments,
    • raise prices,
    • increase productivity
Strategic decision at the corporate level: Directional strategies

• Retrenchment: Reduce the corporation’s level of activities
  – **Turnaround**: a retrenchment strategy followed by an organization when it feels that the decision made earlier is wrong and needs to be undone before it damages the profitability of the company.
  • e.g – Dominos Pizza, Meril Splash
Strategic decision at the corporate level: Directional strategies

• Retrenchment: Reduce the corporation’s level of activities
  – **Sell out/Divestment:** Divestiture strategy involves selling a firm or a major component of a firm.
    • e.g – BMW sold Rover to Ford
  – **Bankruptcy/ Liquidation:** involves complete distribution of a firm’s assets to creditors, most of whom receive a small fraction of amount owed whilst, reorganization involves creditors temporarily freezing their claims
    • E.g. HMV
Resource allocation: BCG matrix

A Schematic Depiction of the Portfolio Management Concept

- Star Businesses
- Cash Generating Businesses
- Dog Businesses

Market Share

- Movement of cash
- Desired movements of business over time
Resource allocation: BCG matrix

• The BCG matrix can be used with the product life cycle concept

• Illustrates the movement of cash between different SBUs and desired movement of businesses over time

• If the funds are not transferrable to SBUs, then BCG will not be helpful
Resource allocation: BCG matrix

• Benefits of BCG
  – Helps organizations planning the desired movement of-
    • business over time
    • Funds over time in SBUs

• Limitation:
  – Too simplistic approach
Resource allocation: General Electric (GE) model

<table>
<thead>
<tr>
<th>Industry Attractiveness</th>
<th>Strong</th>
<th>Medium</th>
<th>Weak</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
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<td></td>
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<tr>
<td>Medium</td>
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<td></td>
<td></td>
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<tr>
<td>Low</td>
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</tbody>
</table>

Business Position/ Business strength

- Strong: Most attractive: Investment for Growth
- Medium: Least attractive: Harvesting/Divesting
- Weak: Medium attractiveness: Selectivity
Resource allocation: General Electric (GE) model

**Market Attractiveness**

- **High**
  - **Strong**
    - Protect Position
      - Invest to grow at maximum digestible rate
      - Concentrate effort on maintaining strength
  - **Medium**
    - Invest to Build
      - Challenge for leadership
      - Build selectively on strengths
      - Reinforce vulnerable areas
  - **Weak**
    - Build Selectively
      - Specialize around limited strengths
      - Seek ways to overcome weaknesses
      - Withdraw if indications of sustainable growth are lacking

- **Medium**
  - **Strong**
    - Build Selectively
      - Invest heavily in most attractive segments
      - Build up ability to counter competition
      - Emphasize profitability by raising productivity
  - **Medium**
    - Selectivity/Manage for Earnings
      - Protect existing program
      - Concentrate investments in segments where profitability is good and risks are relatively low
  - **Weak**
    - Limited Expansion or Harvest
      - Look for ways to expand without high risk; otherwise minimize investments and rationalize operations

- **Low**
  - **Strong**
    - Protect and Refocus
      - Manage for current earnings
      - Concentrate on attractive segments
      - Defend strengths
  - **Medium**
    - Manage for Earnings
      - Protect position in most profitable segments
      - Upgrade product line
      - Minimize investment
  - **Weak**
    - Divest
      - Sell at time that will maximize cash value
      - Cut fixed costs and avoid investment meanwhile
2. Strategic decisions at SBU Level

- Porter’s generic strategies
- Bowman’s strategy clock
Strategic decisions at SBU Level

Porter’s generic strategies

COMPETITIVE ADVANTAGE

Uniqueness  Low cost

Differentiation  Cost Leadership

Industry-wide

Specific segment

Differentiation focus  Cost focus
Strategic decisions at SBU Level

Porter’s generic strategies

• Cost leadership
  – aims at broad mass market
  – Vigorous pursuit of cost reduction, R&D, sales, advertisement etc.

• Advantage
  – Defense against rivals in heavy competition
  – High bargaining power with suppliers because it buys in large quantities
  – Creates barriers to new entrants as a new entrant will not be able to match the leader’s cost advantage
Strategic decisions at SBU Level

Porter’s generic strategies

• Differentiation:
  – Involves the creation of significant differentiated offerings of which the company charges a premium, by providing better design, brand image, technology, customer service.

• Advantage:
  – Companies can earn above average returns because the differentiation factor can create customer brand loyalty, which in return lowers customer’s price sensitivity.
  – Buyer’s loyalty also creates an entry barrier
Strategic decisions at SBU Level

Porter’s generic strategies

- **Cost Focus:**
  - A low cost strategy that focuses on a particular buyer group or geographic market and attempt to serve only this niche, along with a cost advantage

- **Advantage:**
  - Usually, companies can serve a narrow target more efficiently than competition.
Strategic decisions at SBU Level

Porter’s generic strategies

• Focused differentiation:
  – Concentrate on a particular buyer group, product line or geographical market which serves unusual needs

• Advantage
  – Narrow target can be served more efficiently
Strategic decisions at SBU Level
Porter’s generic strategies

• Stuck in the middle
  – Any company that fails to peruse one generic strategy is considered as stuck in the middle with no competitive advantage.

• Advantage:
  – Some studies found out that “Stuck in the middle” strategy become a key to success for many companies i.e: Apple iPhone
Strategic decisions at SBU Level

Porter’s generic strategies

• Limitation of Porter’s generic strategy: Some researchers argue that it’s just a rename of old strategies

  – Cost leadership = Undifferentiated/Standardization
  – Differentiation = Differentiated
  – Focus = Concentrated / Niche marketing
Strategic decisions at SBU Level

Bowman's strategy clock
1. **Low price low value**: Firms do not usually choose to compete here. Rather it’s a position they find themselves **forced** to compete because they **lack differentiated value**
2. Low price:
   1. Typical low cost leaders.
   2. Drive prices down to minimum
   3. Sales high volume with low margin
Strategic decisions at SBU Level

Bowman's strategy clock

3. Hybrid: Offers products at low cost but *higher perceived value* than position 1 and 2
Strategic decisions at SBU Level

Bowman's strategy clock

• 4. Differentiation:
  – High perceived value
  – high price
  – high margin
Strategic decisions at SBU Level

Bowman's strategy clock

5. Focus differentiation:
   - designer products and exclusive brands
   - high perceived value
   - high price
Strategic decisions at SBU Level

Bowman's strategy clock

• 6. Risky high margin:
  – High price
  – Lacks brand value
  – standard product
Strategic decisions at SBU Level

Bowman's strategy clock

- 7. Monopoly pricing:
  - High price
  - Low perceived value.
  - Applicable for monopoly goods
Strategic decisions at SBU Level

Bowman's strategy clock

8. Loss of market share:
   - Low value product
   - Unaffordable price
3. Strategic decisions at functional Level

- Setting marketing objective
- Products to offer and market segments to target: Ansoff Matrix
- Positioning strategy:
  Competitive position tactics
Strategic decisions at functional Level: Setting marketing objective

- Marketing objective must be
  - Hierarchical: Most to least important
  - Quantitative: Measurable targets
  - Realistic
  - Consistent
Strategic decisions at functional Level: Ansoff’s product/market matrix

<table>
<thead>
<tr>
<th></th>
<th>Existing Products</th>
<th>New Products</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Existing Market</strong></td>
<td>Penetration Strategy</td>
<td>Product Development Strategy</td>
</tr>
<tr>
<td></td>
<td>• Increase share of customer spending</td>
<td>• Product modification via new features</td>
</tr>
<tr>
<td></td>
<td>• Increase market share</td>
<td>• Different quality levels</td>
</tr>
<tr>
<td></td>
<td>• Non-users to users (where both are in the same segment)</td>
<td>• New Product(s)</td>
</tr>
<tr>
<td><strong>New Market</strong></td>
<td>Market Development Strategy</td>
<td>Diversification Strategy</td>
</tr>
<tr>
<td></td>
<td>• New markets</td>
<td>• New unrelated field</td>
</tr>
<tr>
<td></td>
<td>• New distribution channels</td>
<td>• Joint ventures</td>
</tr>
<tr>
<td></td>
<td>• New geographical areas</td>
<td>• Mergers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Acquisitions/takeovers</td>
</tr>
</tbody>
</table>

- **Penetration Strategy**: Increase share of customer spending, increase market share, non-users to users (where both are in the same segment).
- **Product Development Strategy**: Product modification via new features, different quality levels, new product(s).
- **Market Development Strategy**: New markets, new distribution channels, new geographical areas.
- **Diversification Strategy**: New unrelated field, joint ventures, mergers, acquisitions/takeovers.
Strategic decisions at functional Level:
Competitive position tactics

**Figure 4.8** Competitive position tactics

*Source: Drawn by the authors and adapted from various sources, e.g., Richard M. S. Wilson and Colin Gilligan (2005), Strategic Marketing Management: Planning, Implementation and Control.*
Strategic decisions at functional Level:

Competitive position tactics

• Market leader: Firm with the largest market share
• Market Challenger: Runner-up firm that is fighting to increase market share
• Market follower: another runner-up firm that wants to hold market share without rocking the boat
• Market nicher: Firms that serves smaller segments not being perused by other firms (concentrated marketing)
Indian mobile operators market share for Feb 2016

- Bharti: 24.22%
- Airtel: 19.16%
- Reliance: 9.93%
- Idea: 17.01%
- BSNL: 8.26%
- Aircel: 8.44%
- Tata: 5.87%
- Telenor: 5.03%
- Sistema: 0.75%
- Videocon: 0.66%
- MTNL: 0.35%
- Quadrant: 0.30%

Pvt: 91.38%
PSU: 8.62%
## Market share mobile industry 2010

<table>
<thead>
<tr>
<th>Company</th>
<th>3Q '10 Units</th>
<th>3Q '10 Market Share (%)</th>
<th>3Q '09 Units</th>
<th>3Q '09 Market Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nokia</td>
<td>117,461,000</td>
<td>28.2</td>
<td>113,466,200</td>
<td>36.7</td>
</tr>
<tr>
<td>Samsung</td>
<td>71,671,800</td>
<td>17.2</td>
<td>60,627,700</td>
<td>19.6</td>
</tr>
<tr>
<td>LG</td>
<td>27,478,700</td>
<td>6.6</td>
<td>31,901,400</td>
<td>10.3</td>
</tr>
<tr>
<td>Apple</td>
<td>13,484,400</td>
<td>3.2</td>
<td>7,040,400</td>
<td>2.3</td>
</tr>
<tr>
<td>RIM</td>
<td>11,908,300</td>
<td>2.9</td>
<td>8,522,700</td>
<td>2.8</td>
</tr>
<tr>
<td>Sony Ericsson</td>
<td>10,346,500</td>
<td>2.5</td>
<td>13,409,500</td>
<td>4.3</td>
</tr>
<tr>
<td>Motorola</td>
<td>8,961,400</td>
<td>2.1</td>
<td>13,912,800</td>
<td>4.5</td>
</tr>
<tr>
<td>HTC</td>
<td>6,494,300</td>
<td>1.6</td>
<td>2,659,500</td>
<td>0.9</td>
</tr>
<tr>
<td>ZTE</td>
<td>6,003,600</td>
<td>1.4</td>
<td>4,143,700</td>
<td>1.3</td>
</tr>
<tr>
<td>Huawei Tech.</td>
<td>5,478,100</td>
<td>1.3</td>
<td>3,339,700</td>
<td>1.1</td>
</tr>
<tr>
<td>Others</td>
<td>137,797,600</td>
<td>33</td>
<td>49,871,100</td>
<td>16.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>417,085,700</strong></td>
<td><strong>100</strong></td>
<td><strong>308,894,700</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Gartner Research
Strategic decisions at functional Level: Competitive position tactics

• Tactics for market leader:
  – Expand the total market:
    New users (unaware users),
    new uses e.g. – Pepsi, Coke
  – Expanding market share:
    Heavy advertising,
    distribution, promotion,
    new product line
Strategic decisions at functional Level: Competitive position tactics

• Tactics for market leader:
  – Protect current market share
    • Position defense: Defend current position: GP
    • Flanking defense: Protect the weaker flanks
    • Preemptive defense: Aggressive leader attacks first before competitor does it: GP with BL
    • Counter offensive: Counter attack: bb vs apple
    • Mobile defense: Extends to new market. Airtel in BD
    • Contraction defense: Withdraws vulnerable or least potential businesses. GM withdrew Chevrolet from Russia
Strategic decisions at functional Level: 

Competitive position tactics

• Competitive tactic for market challenger:
  – Frontal Attack: Attacks competitors directly. Coke vs Pepsi: BB vs Apple
Strategic decisions at functional Level: Competitive position tactics

• Competitive tactic for market challenger:
  – Flanking attack: Attacks competitor’s weaker flank or gap. e.g. Honda vs Harley
Strategic decisions at functional Level: Competitive position tactics

• Competitive tactic for market challenger:
  – Encirclement attack: Attacks for the front and flank in terms of product or market or both. e.g – Casio
Strategic decisions at functional Level:

Competitive position tactics

• Competitive tactic for market challenger:
  – Bypass attack:
    • Diversify into unrelated product,
    • moving into new geographical market,
    • new technology.
    • e.g – Pran in India
Strategic decisions at functional Level: Competitive position tactics

• Competitive tactic for market challenger:
  – Guerrilla attack: Intense promotion, price cut, assorted legal action. Apon and Amin Jewelers in diamond jewelry
Strategic decisions at functional Level: Competitive position tactics

- Competitive tactic for market follower:
  - Following closely: Similar marketing mix and market segment e.g the new Banoful
  - Following at a distance: Keep some areas of differentiation and diminish obvious similarities e.g – Teletalk internet package
  - Following selectively: Follows certain aspects of the leader e.g- NSU’s course format is followed by numerous pvt. universities
Strategic decisions at functional Level: Competitive position tactics

• Competitive tactic for market nichers
  – Serving one type of end user
  – Serving few specific customers