CHAPTER ONE

Strategic Market Management—An Introduction and Overview

Plans are nothing, planning is everything.
—*Dwight D. Eisenhower*

Even if you are on the right track, you'll get run over if you just sit there.
—*Will Rodgers*

If you don't know where you're going, you might end up somewhere else.
—*Casey Stengel*

All markets today are dynamic. Change is in the air everywhere, and change affects strategy. A winning strategy today may not prevail tomorrow. It might not even be relevant tomorrow.

There was a time, not too many decades ago, when the world held still long enough for strategies to be put into place and refined with patience and discipline. The annual strategic plan guided the firm. That simply is no longer the case. New products, product modifications, subcategories, technologies, applications, market niches, segments, media, channels, and on and on are emerging faster than ever in nearly all industries—from snacks to fast food to automobiles to financial services to software. Multiple forces feed these changes, including Internet technologies, the rise of China and India, trends in healthy living, energy crises, political instability, and more. The result are markets that are not only dynamic but risky, complex, and cluttered.

Such convoluted markets make strategy creation and implementation far more challenging. Strategy has to win not only in today's marketplace but in tomorrow's, when the customer, the competitor set, and the market context may all be different. In environments shaped by this new reality, some firms are driving change. Others

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are adapting to it. Still others are fading in the face of change. How do you develop successful strategies in dynamic markets? How do you stay ahead of competition? How do you stay relevant?

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

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

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

Multiple businesses. It is the rare firm now that does not operate multiple business units defined by channels and countries in addition to product categories and subcategories. Decentralization is a century-old organizational form that provides for accountability, a deep understanding of the product or service, being close to the customer, and fast response, all of which are good things. However, in its extreme form, autonomous business units can lead to the misallocation of resources, redundancies, a failure to capture cross-business potential synergies, and confused brands. A challenge, explored in Chapter 15, is to adapt the decentralization model so that it no longer inhibits strategy adaptation in dynamic markets.

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

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

This book is concerned with helping managers identify, select, implement, and adapt market-driven business strategies that will enjoy a sustainable advantage in dynamic markets, as well as create synergy and set priorities among business units. The intent is to provide concepts, methods, and procedures that will lead to competencies in these five crucial management tasks—and, ultimately, to high-quality strategic decision making and profitable growth.

The book emphasizes the customer because in a dynamic market it is a customer orientation that is likely to be successful. The current, emerging, and latent motivations and unmet needs of customers need to influence strategies. Because of this, every strategy needs to have a value proposition that is meaningful and relevant to customers.

This first chapter starts with a very basic but central concept, that of a business strategy. The goal is to lend structure and clarity to a term that is widely employed but seldom defined. It continues with an overview of the balance of the book, introducing and positioning many of the subjects, concepts, and tools to be covered. Finally, the role of marketing in business strategy will be discussed. There is a significant trend for marketing to have a seat at the strategy table and to see the CMO (chief marketing officer) as empowered to create growth initiatives.

WHAT IS A BUSINESS STRATEGY?

Before discussing the process of developing sound business strategies, it is fair to address two questions. What is a business? What is a business strategy? Having groups of managers provide answers to these basic questions shows that there is little consensus as to what these basic terms mean. Clarifying these concepts is a necessary start toward a winning, adaptable strategy.

A Business

A business is generally an organizational unit that has (or should have) a defined strategy and a manager with sales and profit responsibility. They can be defined by a variety of dimensions including product line, country, channels, or segments. An organization will thus have many business units that relate to each other horizontally and vertically. For example, HP is a business that needs to set strategic directions for the many product markets in which it competes. And each product market will, in general, have its own business strategy. Thus, there may be a business strategy for the various HP product lines such as the LaserJet product group, but within that line, there may be business strategies for products such as the LaserJet printer supplies business, for segments such as large companies in the United States, or for geographies such as South America.

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There is an organizational and strategic trade-off in deciding how many businesses should be operated. On one hand, it can be compelling to have many units, because then each business will be close to its market and potentially capable of developing an optimal strategy. Thus, a strategy for each country or each region or each major segment may have some benefits. Too many business units become inefficient, however, and result in programs that lack scale economies and fail to leverage the strategic skills of the best managers. As a result, there is pressure to aggregate businesses into larger entities.

Business units can be aggregated to create a critical mass, to recognize similarities in markets and strategies, and to gain synergies. Businesses that are too small to justify a strategy will need to be aggregated so that the management structure can be supportable. (Of course, two business units can share some elements of operations, such as a sales force or a facility, to gain economies without merging.) Businesses that have similar market contexts and business strategies will be candidates for aggregation to leverage shared knowledge. Another aggregation motivation is to encourage synergies among business units when the combination is more likely to realize savings in cost or investment or create a superior value proposition.

There was a time when firms developed business strategies for decentralized business units defined by product, countries, or segments. These business strategies were then packaged or aggregated to create a firm strategy. That time has passed. There now needs to be a firm strategy that identifies macro trends and strategy responses to these trends as a firm, allocates resources among business units, and recognizes synergy potentials. So there needs to be a strategy for the Ford company and perhaps the SUV group as well as the Ford Explorer.

A Business Strategy

Four dimensions define a business strategy: the product-market investment strategy, the customer value proposition, the assets and competencies, and the functional strategies and programs. The first specifies where to compete and the remaining three indicate how to compete to win, as suggested by Figure 1.1.

The Product-Market Investment Strategy: Where to Compete

The scope of the business, and the dynamics within that scope, represent a very basic strategy dimension. Which sectors should receive investments in resources and management attention? Which should have resources withdrawn or withheld? Even for a small organization, the allocation decision is key to strategy.

The scope of a business is defined by the products it offers and chooses not to offer, by the markets it seeks to serve and not serve, by the competitors it chooses to compete with and to avoid, and by its level of vertical integration. Sometimes the most important business scope decision is what products or segments to avoid because such a decision, if followed by discipline, can conserve resources needed to compete successfully elsewhere. Peter Drucker, the management guru, challenged executives to specify—"What is our business and what should it be? What is not our business and what should it not be?" Such a judgment can sometimes involve painful choices to divest or liquidate a business or avoid an apparently attractive opportunity.

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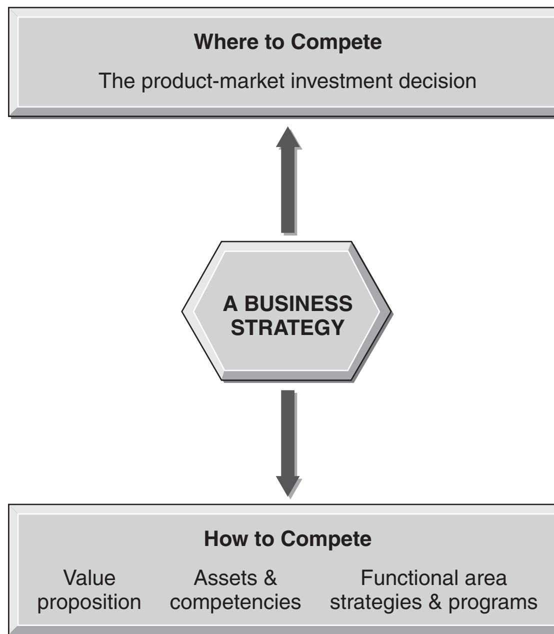

Figure 1.1 A Business Strategy

Chapter 14 discusses disinvestment judgments and why they are hard to make and easy to avoid.

Many organizations have demonstrated the advantages of having a well-defined business scope. Williams-Sonoma offers products for the home and kitchen. IBM turned around its firm under the direction of Lou Gerstner in part by dialing up its service component, and more recently by expanding its software footprint. P&G focuses on a broad spectrum of nonfood consumer goods. Wal-Mart and Amazon have a wide scope that generates both scale economies and a one-stop shopping value proposition.

More important than the scope is the scope dynamics. What product markets will be entered or exited in the coming years? As Figure 1.2 suggests, growth can be generated by bringing existing products to new markets (market expansion), bringing new products to existing markets (product expansion), or by entering new product markets (diversification).

Expanding the business scope can help the organization achieve growth and vitality and can be a lever to cope with the changing marketplace by seizing opportunities as they emerge. During the first five years of the Jeff Immelt era, GE changed its focus and character by investing in healthcare, energy, water treatment, home mortgages, and entertainment (by buying Universal) while exiting markets for insurance, industrial diamonds, business outsourcing based in India, and a motor division. In addition, the percentage of revenue sources outside the United States grew from 40 percent to nearly 50 percent.

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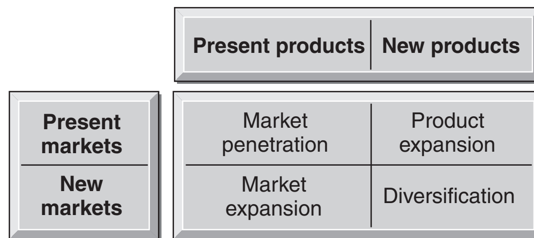

Figure 1.2 Product-Market Growth Directions

However, expanding the business scope poses risks as well. As the scope expansion ventures further from the core business, there will be increased risk that the firm's offering will not be distinctive, there will be problems in operations, or the firm's brands will not support the expansion. Despite similarities in manufacturing and distribution, Bausch & Lomb's attempt to move from eye care to mouthwash was a product and brand failure. An effort by a manufacturing equipment company to go into robots failed when it could not create or acquire the needed technology. Attention and resources may also be diverted from the core business, causing it to weaken.

The investment pattern will determine the future direction of the firm. Although there are obvious variations and refinements, it is useful to conceptualize the alternatives as follows:

- Invest to grow (or enter the product market)
- Invest only to maintain the existing position
- Milk the business by minimizing investment
- Recover as many of the assets as possible by liquidating or divesting the business

P&G had lost half its stock value in the six months before A. G. Lafley took over as CEO in 2000, in part because the firm invested considerable resources behind new business initiatives (such as Olay Cosmetics and Fit Wash) that disappointed or failed.[1] Two years later it had recovered most of that decline, even though the overall stock market dropped over a third of its value during that time. A key to the turnaround was a strategy of focusing on the largest brands, each contributing over a billion dollars in sales—Tide/Arial, Always/Whisper, Crest, Folgers, Iams, Pampers, Charmin, Bounty, Pantene, Downy/Lenor, and Pringles—and reducing investment in its other eighty or so brands. For example, with resources no longer diverted, the hair care group could focus on revitalizing Pantene. Lesser brands received less attention, and those such as Jif and Crisco, which lacked strategic fit, were jettisoned. Growth has since been obtained by expanding the list of billion-dollar brands, through both internal growth and the acquisition of Gillette.

The Customer Value Proposition

Ultimately the offering needs to appeal to new and existing customers. There needs to be a value proposition that is relevant and meaningful to the customer and is

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reflected in the positioning of the product or service. To support a successful strategy, it should be sustainable over time and be differentiated from competitors. The customer value proposition can involve elements such as providing to customers:

- A good value (Wal-Mart)
- Excellence on an important product or service attribute such as getting clothes clean (Tide)
- The best overall quality (Lexus)
- Product line breadth (Amazon)
- Innovative offerings (3M)
- A shared passion for an activity or a product (Harley-Davidson)
- Global connections and prestige (CitiGroup)

Home Depot and Lowe's are home improvement retailers with very different value propositions. Home Depot has very austere, functional stores that are designed to appeal to the contractor or homeowners on the basis of function and price. Lowe's strategy since 1994 was to have a softer side, a look that would be comfortable to women. Thus, their stores are well lit, the signs colorful and clear, the floors spotless, and the people friendly and helpful. Years later, the Lowe's strategy has traction, and Home Depot, with a service issue caused by a cost reduction program is attempting to adjust its own value proposition.

Assets and Competencies

The strategic assets or competencies that underlie the strategy often provide a sustainable competitive advantage (SCA). A *strategic competency* is what a business unit does exceptionally well—such as a customer relationship program, social technology, manufacturing, or promotion—that has strategic importance to that business. It is usually based on knowledge or a process. A *strategic asset* is a resource, such as a brand name or installed customer base that is strong relative to that of competitors. Strategy formulation must consider the cost and feasibility of generating or maintaining assets or competencies that will provide the basis for a sustainable competitive advantage.

Assets and competencies can involve a wide spectrum, from Web sites to R&D expertise to a symbol such as the Michelin Man. For P&G, it is consumer understanding, brand building, innovation, go-to-market capability, and global scale.[2] Though a strong asset or competency is often difficult to build, it can result in an advantage that is significant and enduring.

The synergies obtained from operating a business that spans product markets can be an important asset and SCA source. Synergies, which are significant because they are based on organizational characteristics that are not easily duplicated, can come in many forms. Two businesses can reduce costs by sharing a distribution system, sales force, or logistics system, as when Gillette acquired Duracell (and, later, was itself acquired by P&G). Synergy can also be based on sharing the same asset, as with the HP brand shared by the dozens of business units, or a competence such as Toyota's ability to manage manufacturing plants

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across brands and countries. Another source of synergy is the sharing of functional area strategies across business units. The Ford organization may be able to sponsor the World Cup, for instance, while Ford SUVs in the United Kingdom could not. Still another synergy source is the sharing of R&D. P&G aggregates brands such as Head & Shoulders, Aussie, infusion, and Pantene into a hair care category not just to provide shelf space guidance to retailers and to create promotions more easily, but also to manage the use of product innovations. Finally, a combination of products can provide a value proposition. Some software firms have aggregated products in order to provide a systems solution to customers; Microsoft Office is one example.

The ability of assets and competencies to support a strategy will in part depend on their power relative to competitors. To what extent are the assets and competencies strong and in place? To what extent are they ownable because of a symbol trademark or long-standing investment in a capability? To what extent are they based on organizational synergy that others cannot duplicate?

Assets and competencies can also provide points of parity. For dimensions such as perceived quality, distribution strength, or manufacturing cost, the goal may be not to create an advantage but to avoid a disadvantage. When an asset or competency is close enough to that of a competitor to neutralize the latter's strength, then a point of parity has been achieved. Such parity can be a key to success; if the perceived quality of a Wal-Mart offering is regarded as adequate, its price perception will then win the day.

Functional Strategies and Programs

A target value proposition, or a set of assets and competencies, should mandate some strategy imperatives in the form of a supportive set of functional strategies or programs. These strategies and programs, in turn, will be implemented with a host of tactical programs with a short-term perspective.

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

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

The need for functional strategies and programs can be determined by asking a few questions. What must happen for the firm to be able to deliver on the value proposition? Are the assets and competencies needed in place? Do they need to be created, strengthened, or supported? How?

Criteria to Select Business Strategies

The principal criteria useful for selecting alternatives can be grouped around five general questions:

- ***Is the ROI attractive?*** Creating a value proposition that is appealing to customers may not be worthwhile if the investment or operating cost is excessive. Starbucks opened in Japan in 1996 in the Ginza district and grew to over 400 units, many of which were in the highest-rent areas. The result was a trendy brand but one that was vulnerable to competitors, who matched or exceeded Starbucks' product offerings and were not handicapped with such high overhead because they developed less costly sites.
- ***Is there a sustainable competitive advantage?*** Unless the business unit has or can develop a real competitive advantage that is sustainable over time in the face of competitor reaction, an attractive long-term return will be unlikely. To achieve a sustainable competitive advantage, a strategy should exploit organizational assets and competencies and neutralize weaknesses.
- ***Will the strategy have success in the future?*** A strategy needs to be able to survive the dynamics of the market, with its emerging threats and

EXPANDING THE BUSINESS SCOPE

In his classic article "Marketing Myopia," Theodore Levitt explained how firms that define their business myopically in product terms can stagnate even though the basic customer need they serve is enjoying healthy growth.[3] Because of a myopic product focus, others gain the benefits of growth. In contrast, firms that regard themselves as being in the transportation rather than the railroad business, the energy instead of the petroleum business, or the communication rather than the telephone business are more likely to exploit opportunities.

The concept is simple. Define the business in terms of the basic customer need rather than the product. Visa has defined itself as being in the business of enabling a customer to exchange value (any asset, including cash on deposit, the cash value of life insurance, or the equity in a home) for virtually anything anywhere in the world. As the business is redefined, both the set of competitors and the range of opportunities are often radically expanded. After redefining its business, Visa estimated that it had reached only 5 percent of its potential given the new definition.

Defining a business in terms of generic need can be extremely useful for fostering creativity, generating strategic options, and avoiding an internally oriented product focus.

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opportunities. Either the strategy components should be expected to have a long life, or the strategy should be capable of adapting to changing conditions. In that context, future scenarios (described in Chapter 5) might be used to test the robustness of the strategy with respect to future uncertainties.

- ***Is the strategy feasible?*** The strategy should be within both the financial and human resources of the organization. It also should be internally consistent with other organizational characteristics, such as the firm's structure, systems, people, and culture. These organizational considerations will be covered in Chapter 15.
- ***Does the strategy fit with the other strategies of the firm?*** Are the sources and uses of cash flow in balance? Is organizational flexibility reduced by an investment in financial or human resources? Is potential synergy captured by the strategy?

STRATEGIC MARKET MANAGEMENT

Strategic market management is a system designed to help management create, change, or retain a business strategy and to create strategic visions. A *strategic vision* is a projection of a future strategy or sets of strategies. The realization of an optimal strategy may involve a delay because the firm is not ready, or the emerging conditions are not yet in place. A vision will provide direction and purpose for interim strategies and activities and can inspire those in the organization by providing a purpose that is worthwhile and ennobling.

Strategic market management involves decisions with a significant, long-term impact on the organization. The resulting business strategies can be costly in terms of time and resources to reverse or change. In fact, emerging strategic decisions can mean the difference between success, mediocrity, failure, or even survival.

Developing the right business strategies is a basic goal, but it is not the end of the story. With a business strategy in hand, the task is to:

- Continuously challenge the strategy in order to make sure that it remains relevant to the changing marketplace and responsive to emerging opportunities
- Ensure that the organization develops and retains the necessary skills and competencies to make the strategy succeed
- Implement the strategy with energy and focus; the best strategy badly implemented will be a failure (or worse, jeopardize the firm)

Figure 1.3 provides a structure for strategic market management and for this book. A brief overview of its principal elements and an introduction to the key concepts will be presented in this chapter.

External Analysis

External analysis, summarized in Figure 1.3, involves an examination of the relevant elements external to an organization—customers, competitors, markets and submarkets,

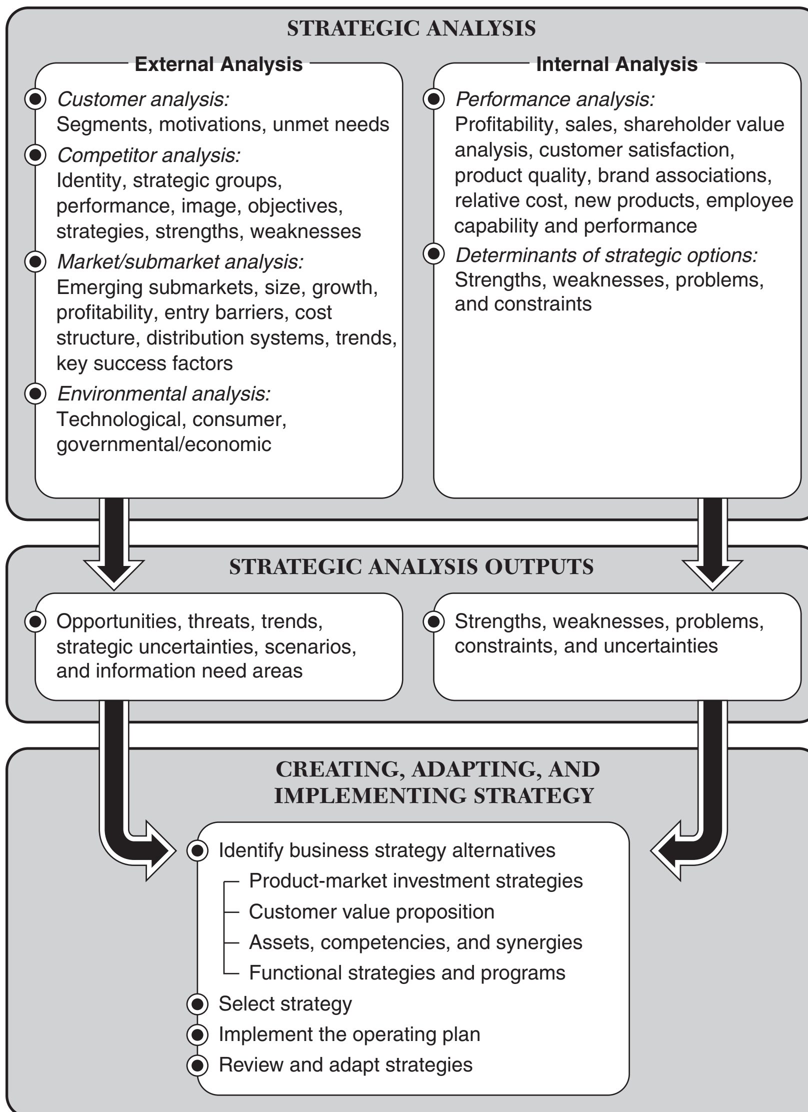

Figure 1.3 Overview of Strategic Management

and the environment or context outside of the market. Customer analysis, the first step of external analysis and a focus of Chapter 2, involves identifying the organization's customer segments and each segment's motivations and unmet needs. Competitor analysis, covered in Chapter 3, attempts to identify competitors (both current and potential) and describe their performance, image, strategy, and strengths and weaknesses. Market analysis, the subject of Chapter 4, aims to determine the attractiveness of the market and submarkets and to understand the dynamics of the market so that threats and

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opportunities can be detected and strategies adapted. Environmental analysis, the subject of Chapter 5, is the process of identifying and understanding emerging opportunities and threats created by forces in the context of the business.

The external analysis should be purposeful, focusing on key outputs: the identification of present and potential opportunities, threats, trends, strategic uncertainties, and strategic choices. There is a danger in being excessively descriptive. Because there is literally no limit to the scope of a descriptive study, the result can be a considerable expenditure of resources with little impact on strategy.

The frame of reference for an external analysis is typically a defined strategic business unit (SBU), but it is useful to conduct the analysis at several levels. External analyses of submarkets sometimes provide critical insights; for example, an external analysis of the mature beer industry might contain analyses of the import and nonalcoholic beer submarkets, which are growing and have important differences. It is also possible to conduct external analyses for groups of SBUs, such as divisions, that have characteristics in common. For instance, a food products company might consider analyses of the healthy-living segment and food trends that could span operating units within the firm.

Internal Analysis

Internal analysis, presented in Chapter 6 and also summarized in Figure 1.3, aims to provide a detailed understanding of strategically important aspects of the organization. Performance analysis looks not only at sales and return on assets but also measures of

GALLO: A CASE STUDY

Gallo, despite producing roughly one out of every four bottles of wine sold in the United States (primarily in the form of cheap wines sold under the Gallo name), felt it had to adapt to a strong market trend to premium varietals.

One vehicle was the launching of the premium Gallo of Sonoma brand, which enjoyed several significant potential SCAs. The grapes available to Gallo from Sonoma County in northern California (whose climate, some say, is superior to the famous Napa region), coupled with the company's willingness and ability to make great wine, have resulted in a product that has won some major international wine competitions. In addition, the brand gained synergies from Gallo's substantial distribution clout and operational scale efficiencies.

The decision to put the Gallo name on the new line undoubtedly created a huge liability, but it also had some compensating advantages. First, it permitted the business to leverage the credibility and personality of a third-generation family winemaker, Gina Gallo. Second, it boosted the pride of the organization and its partners in an aspect of the business (winemaking) that is at the core of its values. Finally, the seeming incongruity of Gallo making a fine wine could appeal to the wine tastemakers of the world by giving them a chance to prove that they are above labels.

The success of Gallo of Sonoma emboldened Gallo to radically change the business and brand strategy. Gallo of Sonoma became the Gallo Family Vineyards Sonoma, one of four Gallo Family brands. The Gallo value brands were retired and other brands in the portfolio took on the value role.

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customer satisfaction/loyalty, quality, brand image, costs, and new product activity. The identification and assessment of organizational strengths and weaknesses will guide strategic priorities, including both the development of new strategies and the adaptation of existing ones.

Creating, Adapting, and Implementing Strategy

After describing strategic analysis, the book turns to the creation, adaptation, and implementation of strategy. How do you decide on the business scope? What are the alternative value propositions, and how do they guide strategy development? What assets and competencies will provide points of advantage, and which will aim for points of parity? What functional strategies and programs will lead to strategic success? What growth options will receive investment? Is the core business to be the source of growth, or is there a need to move beyond the core? What is to be the global strategy? How should the business units be prioritized? Should there be disinvestment in the business portfolio? How can the organization be adapted so that it supports rather than constrains strategy?

Chapter 7 discusses the concept of an SCA and the slippery concept of synergy before introducing three strategic philosophies—strategic commitment, strategic opportunism, and strategic adaptability. These strategy styles provide a good overview of ways to manage strategy in the face of dynamic markets. Chapter 8 provides an overview of the scope of strategic choices by describing over a dozen possible value propositions, each of which provides an umbrella over a business strategy. Chapter 9 shows how brand equity, a key asset and adaptability lever, can be created and used. The next four chapters discuss growth options: Chapter 10 covers energizing the business, Chapter 11 leveraging the business, Chapter 12 creating new businesses, and Chapter 13 global strategies. Chapter 14 discusses the disinvestment option, an important and often overlooked dimension of the investment decision. Finally, Chapter 15 introduces organizational dimensions and their role in strategy choice and implementation and discusses the problems engendered by product-autonomous and country-autonomous silo organizational units and how to replace competition and isolation with cooperation and communication.

Strategic Market Management—The Objectives

Strategic market management is intended to:

- ***Precipitate the consideration of strategic choices.*** What external events are creating opportunities and threats to which a timely and appropriate reaction should be generated? What strategic issues face the firm? What strategic options should be considered? The alternative to strategic market management is usually to drift strategically, becoming absorbed in day-to-day problems. Nothing is more tragic than an organization that fails because a strategic decision was not addressed until it was too late.
- ***Help a business cope with change.*** If a particular environment is extremely stable and the sales patterns are satisfactory, there may be little

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need for meaningful strategic change—either in direction or intensity. In that case, strategic market management is much less crucial. However, most organizations now exist in rapidly changing and increasingly unpredictable environments and therefore need approaches for coping strategically.

- ***Force a long-range view.*** The pressures to manage with a short-term focus are strong, but they frequently lead to strategic errors.
- ***Make visible the resource allocation decision.*** Allowing allocation of resources to be dictated by the political strengths or inertia (i.e., the same strategy as last year) is too easy. One result of this approach is that the small but promising business with "no problems" or the unborn business may suffer from a lack of resources, whereas larger business areas may absorb an excessive amount.
- ***Aid strategic analysis and decision making.*** Concepts, models, and methodologies are available to help a business collect and analyze information and address difficult strategic decisions.
- ***Provide a strategic management and control system.*** The focus on assets and competencies and the development of objectives and programs associated with strategic thrusts provide the basis for managing a business strategically.
- ***Provide both horizontal and vertical communication and coordination systems.*** Strategic market management provides a way to communicate problems and proposed strategies within an organization to product and country business units; in particular, its vocabulary adds precision and its processes help coordinate and encourage synergy.

The Planning Cycle

Too often an annual planning exercise is perceived as strategy development when the output is not strategy but an operating and resource budget that specifies financial targets, hiring plans, and investment authorizations. Research at McKinsey involving a survey of over 700 executives suggests ways to make the strategy development process more effective.[4] In particular, a strategy process should:

- Start with the issues. CEOs say that planning should focus on anticipating big challenges and spotting important trends. Strategy choice will be well served by identifying the key associated strategic issues. One CEO asks the business leaders in his firm to imagine how a set of specific trends will affect their business. Another creates a list of three to six priorities for each business to form a basis for discussion.
- Bring together the right people. In particular, it is not enough to have staff people involved but also the people who will implement the strategy, the decision makers. Also in order to foster synergies and strategies that span product or country organizational silos, it is worthwhile to have relevant teams of businesses represented.

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- Adapt planning cycles to the businesses. It is unrealistic to say that all businesses need to have planning exercises each year. Some may need it every other year or even every third year. Also, trends, events, or issues should trigger a strategy review even if it is not in the annual cycle.
- Implement a strategy performance system. Too many businesses fail to follow up on strategy development. As a result, it becomes a rather empty exercise. Major strategic initiatives should have measurable progress goals as well as end objectives. What will be the barrier to success? What needs to happen for the strategy to be on track?

MARKETING AND ITS ROLE IN STRATEGY

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

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

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

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

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

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Marketing versus Business Strategies

A marketing strategy is a subset of a business strategy and involves the same four components although the scope is restricted to marketing. It includes the allocation of the marketing budget across product-markets, the customer value proposition by segment, marketing assets and competencies, and the strategies of the functional areas of marketing. The marketing budget allocation decision should follow the lead of the strategic priorities but it should also consider the effectiveness of marketing programs. If there are two business units with equal strategic importance and one has marketing programs much more effective than the other, the allocation of the marketing budget should be affected. This implies that there is a process to project the effectiveness of marketing programs that is common across silos, a challenge for most firms.

There are contexts in which the marketing strategy adapts to the business strategy and other contexts in which it influences or even drives the business strategy.

The product-market investment decision will be influenced by judgments that marketing is best able to provide about the health and competitor vitality of product markets. Further, customer research based segmentation strategies that both identify and prioritize customer segments will be relevant to the business investment decision.

The value proposition will in most cases be driven by the marketing strategy because it will be informed by the customer insights of the marketing team and its partners that are close to the customers. The marketing team should be charged with developing the value proposition and adapting it to the various product-markets and the changing market contexts as opposed to being an organizational unit that simply implements the value proposition dictated by the business strategy. Marketing ought to be the voice of the customer in the strategy discussion, making sure that the value proposition is based on substance and is meaningful to the customer.

Because the marketing assets and competencies are always an important subset of those underlying a business strategy, marketing will have a role in their identification, creation, and prioritization. The marketing strategy will involve marketing assets such as brand (Unilever) or distribution (Frito-Lay) and competencies such as sponsorship expertise (Nike) or new product introduction capability (P&G). In contrast, a business strategy will include assets like plants (HP), technology (Oracle), and outsourcing partners (GAP) and competencies such as R&D capability (TI), manufacturing expertise (Toyota), and logistics (Wal-Mart).

Finally, the ability of the marketing team to be effective in developing and implementing functional strategies will often be crucial to the success of a business strategy. Marketing strategies will employ the functional strategies of marketing such as branding, advertising, social technology, media, call centers, training of customer contact people, etc. A business strategy, of course, will involve a wider array of functional strategies getting into manufacturing, plant locations, executive hiring outside marketing, firm wide compensation plans, etc.

Thus, marketing is a partner, usually a key partner, in the development and the implementation of a business strategy. The conceptualization of a business and marketing strategy as having four dimensions helps illuminate the nature of that relationship. The firms that are able to achieve success over time are those that realize that marketing should have a strong voice in business strategy.

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KEY LEARNINGS

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

FOR DISCUSSION

1. What is a business strategy? Do you agree with the definition proposed? Illustrate your answer with examples. Consider one of the following firms. Read the description of a business strategy in the text. Go to the firm's Web site and use it to gain an understanding of the business strategy. Look at elements such as the products and services offered, the history of the firm, and its values. What is the business strategy? What are the firm's product markets? What are its value propositions? How are the value propositions delivered? What assets and competencies exist? What strategic options? Consider the scope question raised by Levitt. What would be a narrow and broad scope specification?
   - **a.** Dell
   - **b.** P&G (Tide, Pampers)
   - **c.** Citicorp (Citibank)
   - **d.** A firm of your choice
2. In question 1, identify the marketing as opposed to the business strategy.

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3. Consider the Gallo strategic decision. Describe how you would go about evaluating that decision.
4. Apply the marketing-myopia concept to print media, magazines, and newspapers. What is the implication?
5. Which criteria to pick a strategy would you consider most important? Why? How would the context affect your answer?
6. Which quote at the front of the chapter do you find the most insightful? Why? Under what circumstances would its implications not hold?

NOTES

1. Katrina Brooker, "The Un-CEO," *Fortune*, September 16, 2002, pp. 68–78.
2. A. G. Lafley, "What Only the CEO Can Do," *Harvard Business Review*, May 2009, p. 58.
3. Theodore Levitt, "Marketing Myopia," *Harvard Business Review*, July–August 1960, pp. 45–56.
4. Renee Dye and Olivier Sibony, "How to Improve Strategic Planning," *McKinsey Quarterly*, Number 3, 2007, pp. 41–49.
5. Constantine von Hoffman, "Armed with Intelligence," *BrandWeek*, May 29, 2006, pp. 17–20.