CHAPTER

6

Business Marketing Planning: Strategic Perspectives

To this point, you have developed an understanding of organizational buying behavior, customer relationship management, market segmentation, and a host of other tools managers use. All of this provides a fundamentally important perspective to the business marketing strategist. After reading this chapter, you will understand:

1. **marketing's strategic role in corporate strategy development.**
2. **the multifunctional nature of business marketing decision making.**
3. **the components of a business model that can be converted into superior positions of advantage in the business market.**
4. **a valuable framework for detailing the processes and systems that drive strategy success.**

Most large corporations implicitly believe that strategy is the province of senior management. This is not so at GE Capital.[1] At a recent planning session, someone suggested that each of its 28 different businesses assemble a team of lower- to mid-level managers, all under the age of 30, and give them the task of finding opportunities that their "older managers" had missed. The young teams returned with a number of fresh ideas, including several focused on how GE Capital could further capitalize on the Internet. New growth strategies come from new ideas. New ideas often come from new voices. Drawing on the collective strengths of the organization is what strategy formulation is all about.

To meet the challenges brought on by growing domestic and global competition, business-to-business firms are increasingly recognizing the vital role of the marketing function in developing and implementing successful business strategies. Effective business strategies share many common characteristics, but at a minimum they are responsive to market needs, they exploit the special competencies of the organization, and they use valid assumptions about environmental trends and competitive behavior. Above all, they must offer a realistic basis for securing and sustaining a competitive advantage.[2] This chapter examines the nature and critical importance of strategy development in the business marketing firm.

First, the chapter highlights the special role of the marketing function in corporate strategy development, with a functionally integrated perspective of business marketing planning. Next, it identifies the sources of competitive advantage by exploring the key components of a business model and how they can be managed to secure distinctive strategic positioning. Finally, a framework is offered for converting strategy goals into a tightly integrated customer strategy. This discussion provides a foundation for exploring business marketing strategy on a global scale—the theme of the next chapter.

Marketing's Strategic Role

Market-driven firms are centered on customers—they take an outside-in view of strategy and demonstrate an ability to sense market trends ahead of their competitors.[3] Many firms—like Johnson & Johnson, Motorola, and Dow Chemical—have numerous divisions, product lines, products, and brands. Policies established at the corporate level provide the framework for strategy development in each business division to ensure survival and growth of the entire enterprise. In turn, corporate and divisional policies establish the boundaries within which individual product or market managers develop strategy.

The Hierarchy of Strategies

Three major levels of strategy dominate most large multiproduct organizations: (1) corporate strategy, (2) business-level strategy, and (3) functional strategy.[4]

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[1]Gary Hamel, "Bringing Silicon Valley Inside," *Harvard Business Review* 77 (September–October 1999): pp. 78–79. See also Gary Hamel, "The Why, What, and How of Management Innovation," *Harvard Business Review* 84 (February 2006): pp. 72–84.

[2]Eric M. Olson, Stanley F. Slater, and G. Thomas M. Hult, "The Performance Implications of Fit among Business Strategy, Marketing Organization Structure, and Strategic Behavior," *Journal of Marketing* 69 (July 2005): pp. 49–65.

[3]For a comprehensive review, see Ahmet H. Kirca, Satish Jayachandran, and William O. Bearden, "Market Orientation: A Meta Analytic Review of Its Antecedents and Impact on Performance," *Journal of Marketing* 69 (April 2005): pp. 24–41.

[4]This discussion draws on Frederick E. Webster Jr., "The Changing Role of Marketing in the Corporation," *Journal of Marketing* 56 (October 1992): pp. 1–17.

Corporate strategy defines the businesses in which a company competes, preferably in a manner that uses resources to convert distinctive competence into competitive advantage. Essential questions at this level include: What are our core competencies? What businesses are we in? What businesses should we be in? How should we allocate resources across these businesses to achieve our overall organizational goals and objectives? At this level of strategy, the role of marketing is to (1) assess market attractiveness and the competitive effectiveness of the firm, (2) promote a customer orientation to the various constituencies in management decision making, and (3) formulate the firm's overall value proposition (as a reflection of its distinctive competencies, in terms reflecting customer needs) and to articulate it to the market and to the organization at large. According to Frederick Webster Jr., "At the corporate level, marketing managers have a critical role to play as advocates, for the customer and for a set of values and beliefs that put the customer first in the firm's decision making."[5]

Business-level strategy centers on how a firm competes in a given industry and positions itself against its competitors. The focus of competition is not between corporations; rather, it is between their individual business units. A **strategic business unit (SBU)** is a single business or collection of businesses that has a distinct mission, a responsible manager, and its own competitors and that is relatively independent of other business units. The 3M Corporation has defined 40 strategic business units. Each develops a plan describing how it will manage its mix of products to secure a competitive advantage consistent with the level of investment and risk that management is willing to accept. An SBU could be one or more divisions of the industrial firm, a product line within one division, or, on occasion, a single product. Strategic business units may share resources such as a sales force with other business units to achieve economies of scale. An SBU may serve one or many product-market units.

For each business unit in the corporate portfolio, the following essential questions must be answered: How can we compete most effectively for the product market the business unit serves? What distinctive skills can give the business unit a competitive advantage? Similarly, the former CEO at GE, Jack Welch, asks his operating executives to crisply answer the following questions[6]:

- Describe the global competitive environment in which you operate.
- In the last two years, what have your competitors done?
- In the same period, what have you done to them in the marketplace?
- How might they attack you in the future?
- What are your plans to leapfrog them?

The marketing function contributes to the planning process at this level by providing a detailed and complete analysis of customers and competitors and the firm's distinctive skills and resources for competing in particular market segments.

Functional strategy centers on how resources allocated to the various functional areas can be used most efficiently and effectively to support the business-level strategy. The primary focus of marketing strategy at this level is to allocate and coordinate

[5] Ibid.; Webster, "The Changing Role of Marketing," p. 11.

[6] Noel M. Tichy and Stratford Sherman, *Control Your Destiny or Someone Else Will* (New York: Doubleday, 1993), p. 26; see also Jack Welch and John A. Byrne, *Jack: Straight from the Gut* (New York: Warner Books, 2001).

marketing resources and activities to achieve the firm's objective within a specific product market.

Strategy Formulation and the Hierarchy[7]

The interplay among the three levels of the strategy hierarchy can be illustrated by examining the collective action perspective of strategy formulation. This approach applies to strategic decisions that (1) cut across functional areas, (2) involve issues related to the organization's long-term objectives, or (3) involve allocating resources across business units or product markets. Included here are decisions about the direction of corporate strategy, the application of a core technology, or the choice of an alliance partner.

Observe in Figure 6.1 that strategic decision processes often involve the active participation of several functional interest groups that hold markedly different beliefs about the appropriateness of particular strategies or corporate goals. Strategic decisions represent the outcome of a bargaining process among functional interest groups (including marketing), each of which may interpret the proposed strategy in an entirely different light.

Turf Issues and Thought-World Views Two forces contribute to the conflict that often divides participants in the strategy formulation process. First, different meanings assigned to a proposed strategy are often motivated by deeper differences in what might be called "organizational subcultures." Subcultures exist when one subunit shares different values, beliefs, and goals than another subunit, resulting in different **thought-worlds**.[8] For example, marketing managers are concerned with market opportunities and competitors, whereas R&D managers value technical sophistication and innovation. Second, functional managers are likely to resist strategic changes that threaten their turf. To the extent that the subunit defines the individual's identity and connotes prestige and power, the organizational member may be reluctant to see it altered by a strategic decision.

Negotiated Outcomes Collective decisions emerge from negotiation and compromise among partisan participants. The differences in goals, thought-worlds, and self-interests across participants lead to conflicts about actions that should be taken. Choices must be negotiated with each interest group attempting to achieve its own ends. The ultimate outcomes of collective decisions tend to unfold incrementally and depend more on the partisan values and influence of the various interest groups than on rational analysis. A study of highly contested strategic decision in a *Fortune* 500 company illustrates the tension that may exist between marketing and R&D.

Two marketing executives describe how the decision was ultimately resolved.[9] According to the marketing manager:

> [Marketing] did an extremely effective job of stepping right in the middle of it and strangling it. . . . What has happened is by laying out the market unit

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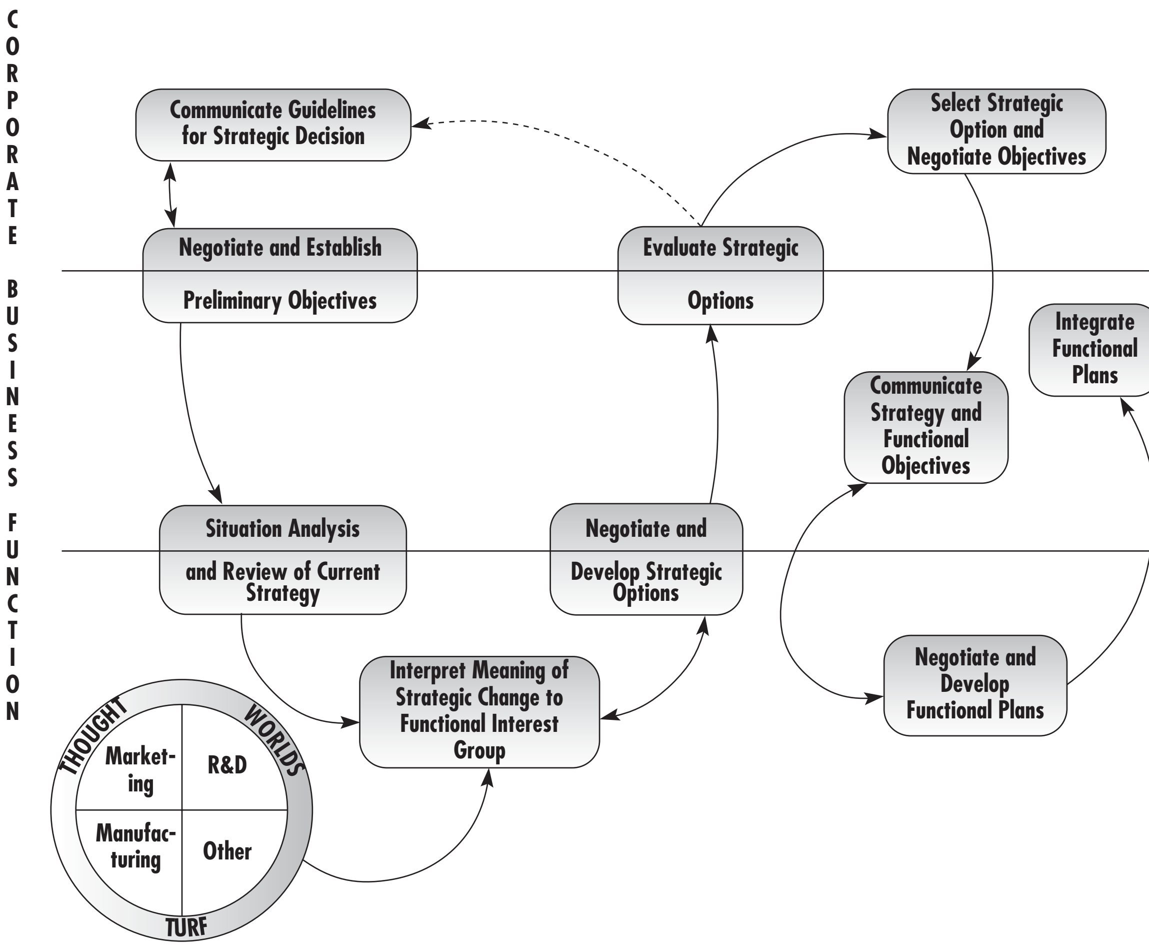
[7] Gary L. Frankwick, James C. Ward, Michael D. Hutt, and Peter H. Reingen, "Evolving Patterns of Organizational Beliefs in the Formation of Marketing Strategy," *Journal of Marketing* 58 (April 1994): pp. 96–110; see also Michael D. Hutt, Beth A. Walker, and Gary L. Frankwick, "Hurdle the Cross-Functional Barriers to Strategic Change," *Sloan Management Review* 36 (Spring 1995): pp. 22–30.

[8] See, for example, Christian Homburg, Ore Jensen, and Harley Krohmer, "Configurations of Marketing and Sales," *Journal of Marketing* 72 (March 2008): pp. 123–154; and Christian Homburg and Ore Jensen, "The Thought Worlds of Marketing and Sales: Which Differences Make a Difference?" *Journal of Marketing* 71 (July 2007): pp. 124–141.

[9] Frankwick, Ward, Hutt, and Reingen, "Evolving Patterns of Organizational Beliefs," pp. 107–108.

FIGURE 6.1 | A COLLECTIVE ACTION PERSPECTIVE OF THE STRATEGY FORMULATION PROCESS



SOURCE: Gary L. Frankwick, James C. Ward, Michael D. Hutt, and Peter H. Reingen, "Evolving Patterns of Organizational Beliefs in the Formation of Strategy," *Journal of Marketing* 58 (April 1994): p. 98. Reprinted with permission by the American Marketing Association.

> concerns and again, refocusing on the fact that we are market-based, basically what Marketing did was force the R&D team into submission where they no longer have the autonomy they once had to go about making decisions—they now get input. And whether it's formal or informal, they definitely get the buy-in of marketing before they move forward on what they're doing now.

According to the vice president of marketing:

> Before I felt it was technology driving the process. Now I feel that technology is partnering with the marketplace. And the reason I feel that way is because we have [marketing people] in place that are working closely with how the technology develops.

INSIDE BUSINESS MARKETING

From Bullet-Point Plans to Strategic Stories at 3M

After reviewing countless business plans over several years, Gordon Shaw, executive director of planning at 3M, concluded that the firm's business plans failed to reflect deep thought or to inspire commitment and active support. He suspected that the traditional, bullet-list format of the plans was a major part of the problem. Bullet lists are too generic and fail to convey how the business will win in a particular market. To remedy the problem, he turned to strategic narratives—planning through storytelling. Like a good story, a good strategic plan "defines relationships, cause and effect, and a priority among items—*and those elements are likely to be remembered as a complex whole.*"

In using the approach, a strategist at 3M first **sets the stage** by defining the current competitive, market, and company situation in an insightful and coherent manner. Next, the planner must **introduce the dramatic conflict**—the main challenges or critical issues that provide obstacles to success. Finally, the story must **reach resolution** in a satisfying and compelling fashion. Here a logical and concise argument is provided concerning the specific actions the company can take to overcome the obstacles and win. Narrative plans create a rich picture of strategy, bring critical assumptions to the surface, and provide a central message that can motivate and mobilize employees throughout the organization.

SOURCE: Gordon Shaw, Robert Brown, and Philip Bromley, "Strategic Stories: How 3M Is Rewriting Business Planning," *Harvard Business Review* 76 (May/June 1998): pp. 41–50. See also, David J. Collins and Michael G. Rukstad, "Can You Say What Your Strategy Is?" *Harvard Business Review* 86 (April 2008): pp. 82–89.

Implications for Marketing Managers In advocating a strategic course, marketing managers must be sensitive to the likely response it may arouse in other interest groups. To build pockets of commitment and trust, managers should develop and use a communication network that includes organizational members who have a major stake in the decision. Marketing managers can use these personal networks to understand the interests of other stakeholders, communicate their own interests clearly and sensitively, and thus diffuse the anxiety of others about threats to their turf.

Functionally Integrated Planning: The Marketing Strategy Center[10]

Rather than operating in isolation from other functional areas, the successful business marketing manager is an integrator—one who understands the capabilities of manufacturing, R&D, and customer service and who capitalizes on their strengths in developing marketing strategies that are responsive to customer needs. Marketing managers also assume a central role in strategy implementation.[11] Recent research indicates that in companies found to be strong on strategy execution, over 70 percent of employees affirm that they have a clear idea of the decisions and actions for which they are responsible; that figure drops to 32 percent in organizations weak on execution.[12]

[10]Michael D. Hutt and Thomas W. Speh, "The Marketing Strategy Center: Diagnosing the Industrial Marketer's Interdisciplinary Role," *Journal of Marketing* 48 (Fall 1984): pp. 53–61; see also Jeen-Su Lim and David A. Reid, "Vital Cross-Functional Linkages with Marketing," *Industrial Marketing Management* 22 (February 1993): pp. 159–165.

[11]Charles H. Noble and Michael P. Mokwa, "Implementing Marketing Strategies: Developing and Testing a Managerial Theory," *Journal of Marketing*, 63 (October 1999): pp. 57–73.

[12]Gary L. Neilson, Karla L. Martin, and Elizabeth Powers, "The Secrets to Successful Strategy Execution," *Harvard Business Review* 86 (June 2008): p. 63.

B2B TOP PERFORMERS

Cross-Functional Relationships: Effective Managers Deliver on Promises

Ask an R&D manager to identify a colleague from marketing who is particularly effective at getting things done and he or she readily offers a name and a memorable episode to justify the selection. To explore the characteristics of high-performing cross-functional managers, detailed accounts of effective and ineffective interactions were gathered from managers at a *Fortune* 100 high-technology firm. Interestingly, the top-of-mind characteristics that colleagues emphasize when describing high performers are soft skills like openness rather than hard skills like technical proficiency or marketing savvy. Here's a profile:

- High-performing managers are revered by their colleagues for their *responsiveness*. Remembering effective cross-functional episodes, colleagues describe high performers as "timely," "prompt," and "responsive" (for example, "When I need critical information, I turn to him and he gets right back to me").
- Rather than a "functional mindset," high performers demonstrate *perspective-taking* skills—the ability to anticipate and understand the perspectives and priorities of managers from other units (for example, "He's a superb marketing strategist but he also recognizes the special technical issues that we've been working through to get this product launched on schedule").
- When colleagues describe the *communication style* of their high-performing cross-functional counterparts, they focus on three consistent themes: openness, frequency, and quality. Interactions with high performers are described as "candid," "unencumbered," and characterized by a "free flow of thoughts and suggestions." Such high-quality interactions clarify goals and responsibilities.

By "delivering on their promises," effective managers develop a web of close relationships across functions. "He has really good personal relationships with a lot of people and he has a network—he really understands the mechanisms that you have to use to get things done."

SOURCE: Michael D. Hutt, Beth A. Walker, Edward U. Bond III, and Matthew Meuter, "Diagnosing Marketing Managers' Effective and Ineffective Cross-Functional Interactions," working paper, Tempe, Ariz.: Arizona State University, 2005. See also Edward U. Bond III, Beth A. Walker, Michael D. Hutt, and Peter H. Reingen, "Reputational Effectiveness in Cross-Functional Working Relationships," *Journal of Product Innovation Management* 21 (January 2004): pp. 44–60.

Responsibility charting is an approach that can classify decision-making roles and highlight the multifunctional nature of business marketing decision making. Table 6.1 provides the structure of a responsibility chart. The decision areas (rows) in the matrix might, for example, relate to a planned product-line expansion. The various functional areas that may assume particular roles in this decision process head the matrix columns. The following list defines the alternative roles that participants can assume in the decision-making process.[13]

1. *Responsible* (R): The manager takes initiative for analyzing the situation, developing alternatives, and assuring consultation with others and then makes the initial recommendation. Upon approval of decision, the role ends.
2. *Approve* (A): The manager accepts or vetoes a decision before it is implemented or chooses from alternatives developed by the participants assuming a "responsible" role.

[13] Joseph E. McCann and Thomas N. Gilmore, "Diagnosing Organizational Decision Making through Responsibility Charting," *Sloan Management Review* 25 (Winter 1983): pp. 3–15.

3. *Consult* (C): The manager is consulted or asked for substantive input before the decision is approved but does not possess veto power.
4. *Implement* (M): The manager is accountable for implementing the decision, including notifying other relevant participants about the decision.
5. *Inform* (I): Although not necessarily consulted before the decision is approved, the manager is informed of the decision once it is made.

Representatives of a particular functional area may, of course, assume more than one role in the decision-making process. The technical service manager may be consulted during the new-product-development process and may also be held accountable for implementing service-support strategy. Likewise, the marketing manager may be responsible for and approve many of the decisions related to the product-line expansion. For other actions, several decision makers may participate. To illustrate, the business unit manager, after consulting R&D, may approve (or veto) a decision for which the marketing manager is responsible.

The members of the organization involved in the business marketing decision-making process constitute the **marketing strategy center**. The composition or functional area representation of the strategy center evolves during the marketing strategy development process, varies from firm to firm, and varies from one situation to another. Likewise, the composition of the marketing strategy center is not strictly prescribed by the organizational chart. The needs of a particular strategy situation, especially the information requirements, significantly influence the composition of the strategy center. Thus, the marketing strategy center shares certain parallels with the buying center (see Chapter 3).

Managing Strategic Interdependencies A central challenge for the business marketer in the strategy center is to minimize interdepartmental conflict while fostering shared appreciation of the interdependencies with other functional units. Individual strategy center participants are motivated by both personal and organizational goals. They interpret company objectives in relation to their level in the hierarchy and the department they represent. Various functional units operate under unique reward systems and reflect unique orientations or thought-worlds. For example, marketing managers are evaluated on the basis of sales, profits, or market share; production managers on the basis of manufacturing efficiency and cost-effectiveness. In turn, R&D managers may be oriented toward long-term objectives; customer service managers may emphasize more immediate ones. Strategic plans emerge out of a bargaining process among functional areas. Managing conflict, promoting cooperation, and developing coordinated strategies are all fundamental to the business marketer's interdisciplinary role. By understanding the concerns and orientations of personnel from other functional areas, the business marketing manager is better equipped to forge effective cross-unit working relationships.

The Components of a Business Model[14]

For a strategy to succeed, individuals must understand and share a common definition of a firm's existing business concept. For example, ask any employee at Dell and they

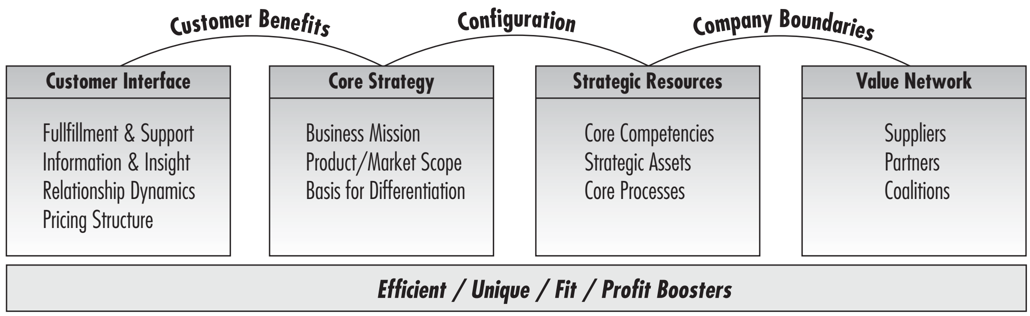
[14] Except where noted, this discussion is based on Gary Hamel, *Leading the Revolution* (Boston: Harvard Business School Press, 2000), pp. 70–94.

TABLE 6.1 INTERFUNCTIONAL INVOLVEMENT IN MARKETING DECISION MAKING: AN ILLUSTRATIVE RESPONSIBILITY CHART

	Organizational Function						
Decision Area	**Marketing**	**Manufacturing**	**R&D**	**Logistics**	**Technical Service**	**Strategic Business Unit Manager**	**Corporate Level Planner**
PRODUCT							
Design specifications							
Performance characteristics							
Reliability							
PRICE							
List price							
Discount structure							
TECHNICAL SERVICE SUPPORT							
Customer training							
Repair							
LOGISTICS							
Inventory level							
Customer service level							
SALES FORCE							
Training							
ADVERTISING							
Message development							
CHANNEL							
Selection							

NOTE: Decision role vocabulary: R = responsible; A = approve; C = consult; M = implement; I = inform; X = no role in decision.

FIGURE 6.2 | COMPONENTS OF A BUSINESS MODEL



SOURCE: Reprinted by permission of *Harvard Business Review*. From "Customer Benefits, Configuration and Boundaries" in *Leading the Revolution* by Gary Hamel, p. 96. Copyright © 2000 by the Harvard Business School Publishing Corporation; all rights reserved.

will tell you about the "Dell model" that sets them apart from competitors. A **business concept** or model consists of four major components (Figure 6.2):

- Customer Interface
- Core Strategy
- Strategic Resources
- Value Network

The major components of the business concept are tied together by three important "bridge" elements: customer benefits, configuration, and company boundaries.

Customer Interface

Customer benefits provide the bridge between the core strategy and the customer interface. Customer benefits link the core strategy directly to the needs of customers. The customer interface includes four elements:

1. **Fulfillment and support** refers to the channels a business marketing firm uses to reach customers and the level of service support it provides.
2. **Information and insight** refers to the knowledge captured from customers and the degree to which this information is used to provide enhanced value to the customer.
3. **Relationship dynamics** refers to the nature of the interaction between the firm and its customers (for example, the proportion of relational versus transactional customers; see Chapter 4). Key question: What steps can be taken to raise the hurdle for competitors by exceeding customer expectations or strengthening the customer's sense of affiliation with the firm?
4. **Pricing structure.** A business concept may offer several pricing choices. For example, a firm can bundle products and services or price them on a menu basis.

For example, when airlines buy a Boeing 777, which is equipped with jet engines produced by GE, they pay GE a fee for each flight hour in line with a fixed-priced maintenance agreement. So, rather than products, GE is selling "power by the hour."

Core Strategy

The **core strategy** determines how the firm chooses to compete. From Figure 6.2, observe that three elements are involved in setting a core strategy:

1. The **business mission** describes the overall objectives of the strategy, sets a course and direction, and defines a set of performance criteria that are used to measure progress. The business mission must be broad enough to allow for business concept innovation, and it should be distinguished from the mission of competitors in the industry. For example, by focusing its mission on copiers and copying, Xerox allowed Hewlett-Packard to build a dominant lead in the printer business.
2. **Product/market scope** defines *where* the firm competes. The product markets that constitute the domain of a business can be defined by customer benefits, technologies, customer segments, and channels of distribution.[15] Strategists might consider this question: Are particular customer segments being overlooked by competitors or customers who might welcome a new product-service solution?
3. **Basis for differentiation** captures the essence of how a firm competes differently than its rivals. George Day and Robin Wensley explain:

   A business is differentiated when some value-adding activities are performed in a way that leads to perceived superiority along dimensions that are valued by customers. For these activities to be profitable, the customer must be willing to pay a premium for the benefits and the premium must exceed the added costs of superior performance.[16]

There are many ways for a firm to differentiate products and services:

- Provide superior service or technical assistance competence through speed, responsiveness to complex orders, or ability to solve special customer problems.
- Provide superior quality that reduces customer costs or improves their performance.
- Offer innovative product features that use new technologies.

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[15] George S. Day, Strategic Market Planning: The Pursuit of Competitive Advantage (St. Paul, MN: West Publishing, 1984).

[16] George S. Day and Robin Wensley, "Assessing Advantage: A Framework for Diagnosing Competitive Superiority," *Journal of Marketing* 52 (April 1988): pp. 3–4. See also Douglas W. Vorhies and Neil A. Morgan, "Benchmarking Marketing Capabilities for Sustainable Competitive Advantage," *Journal of Marketing* 69 (January 2005): pp. 80–94.

Strategic Resources

A business marketing firm gains a competitive advantage through its superior skills and resources. The firm's strategic resources include core competencies, strategic assets, and core processes.

1. **Core competencies** are the set of skills, systems, and technologies a company uses to create uniquely high value for customers.[17] For example, Dell uses its direct-distribution competencies to sell a host of new products to corporate customers, including switches, servers, storage, and a range of peripheral products.[18] Concerning core competencies, the guiding questions for the strategist are: What important benefits do our competencies provide to customers? What do we know or do especially well that is valuable to customers and is transferable to new market opportunities?
2. **Strategic assets** are the more tangible requirements for advantage that enable a firm to exercise its capabilities. Included are brands, customer data, distribution coverage, patents, and other resources that are both rare and valuable. Attention centers on this question: Can we use these strategic assets in a different way to provide new levels of value to existing or prospective customers?
3. **Core processes** are the methodologies and routines companies use to transform competencies, assets, and other inputs into value for customers. For example, drug discovery is a core process at Merck, and delivery fulfillment is a core process at FedEx. Here the strategist considers these questions: Which processes are most competitively unique and create the most customer value? Could we use our process expertise effectively to enter other markets?

From Figure 6.2, note that a configuration component links strategic resources to the core strategy. "Configuration refers to the unique way in which competencies, assets, and processes are interrelated in support of a particular strategy."[19] For example, Honda manages key activities in the new-product-development process differently than its rivals.

The Value Network

The final component of a business concept is the **value network** that complements and further enriches the firm's research base. Included here are suppliers, strategic alliance partners, and coalitions. To illustrate, nimble competitors like Cisco and General Electric demonstrate special skills in forging relationships with suppliers and alliance partners. Concerning the value network, the guiding question for the strategist is: What market opportunities might become available to us "if we could 'borrow' the assets and competencies of other companies and marry them with our own?"[20]

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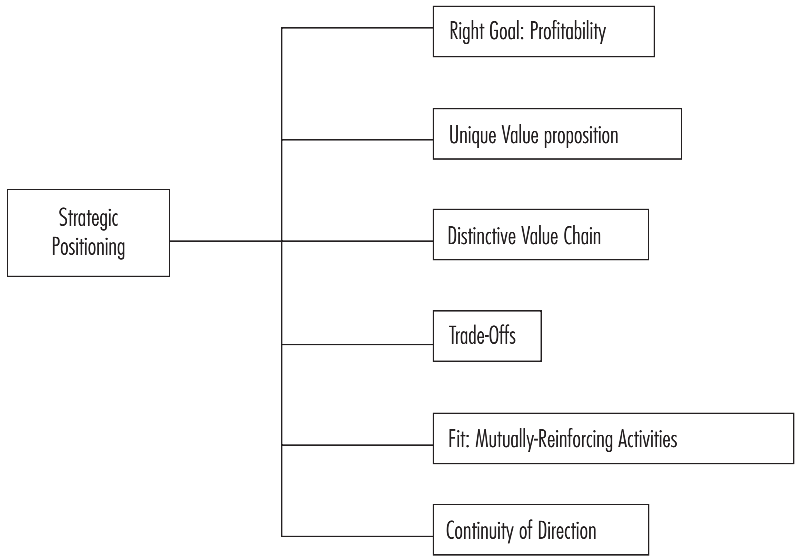
[17] James Brian Quinn, "Strategic Outsourcing: Leveraging Knowledge Capabilities," *Sloan Management Review* 40 (Summer 1999): pp. 9–21.

[18] Andy Serwer, "Dell Does Domination," *Fortune*, January 21, 2002, pp. 70–75.

[19] Hamel, Leading the Revolution, p. 78.

[20] Ibid., p. 90.

FIGURE 6.3 | THE PRINCIPLES OF STRATEGIC POSITIONING



SOURCE: Adapted from Michael E. Porter, "What Is Strategy?" *Harvard Business Review* 74 (November–December 1996): pp. 61–78.

Strategic Positioning[21]

Competitive strategy, at the core, is about being different, choosing to compete in a distinctive way. A business model should reveal the way in which a firm is deliberately emphasizing a different set of activities in order to deliver a unique mix of customer value. Michael Porter asserts that six fundamental principles provide a company with the foundation for establishing and maintaining a distinctive strategic positioning (see Figure 6.3).

- Center on the *right goal*—superior long-term return on investment rather than performance goals defined in terms of sales volume or market share leadership.
- Deliver a *customer value proposition*, or set of benefits, that differs from those of rivals. (For example, Southwest Airlines delivers low-cost, convenient service to customers—particular benefits that full-service rivals cannot match.)
- Create a *distinctive value chain* by performing different activities than rivals or performing similar activities in different ways. (For example, by streamlining the passenger boarding process, Southwest achieves faster turnaround at the gate and can provide more frequent departures with fewer planes.)

[21]This section is based on Michael E. Porter, "What Is Strategy?" *Harvard Business Review* 74 (November–December 1996): pp. 61–78.

- Accept *trade-offs* and recognize that a company must forgo some product features or services to remain truly distinctive in others. (For example, Continental Airlines introduced Continental Lite to compete directly against Southwest. By trying to be low cost on some routes and full service on others, Continental lost several hundred million dollars before grounding Continental Lite.)
- Emphasize the way in which all the elements of the strategy *fit* and reinforce one another. (For example, from its standardized fleet of Boeing 737 aircraft to its well-trained ground crews that speed flight turnaround, and its strict limits on the type and length of routes, Southwest's activities complement and reinforce one another, creating a whole system of competing that locks out imitators.)
- Build strong customer relationships and develop unique skills by defining a distinctive value proposition that provides *continuity of direction*. (For example, Southwest continues to pursue its disciplined strategic agenda.)

Michael Porter observes:

> Having a strategy is a matter of discipline. It requires a strong focus on profitability rather than just growth, an ability to define a unique value proposition, and a willingness to make tough trade-offs in choosing what not to do. . . . It involves the configuration of a tailored value chain—the series of activities required to produce and deliver a product or service—that enables a company to offer unique value.[22]

Let's examine how a business-to-business firm has used these principles to establish and maintain a distinctive strategic positioning.

Strategic Positioning Illustrated[23]

Paccar operates in the fiercely competitive heavy-duty truck industry, designing and manufacturing trucks under the Kenworth and Peterbilt brand names. The firm, headquartered in Bellevue, Washington, commands 20 percent of the North American heavy truck market and derives approximately half of its revenues and profits from outside the United States.

A Unique Focus Rather than centering on large-fleet buyers or large leasing companies, Paccar has chosen to focus on one group of customers—drivers who own their own trucks and contract directly with shippers or serve as contractors to larger trucking companies. Paccar provides an array of specialized services that specifically address the needs of owner-operators: luxurious sleeper cabins, noise-insulated cabins, and sleek interior and exterior options (numbering in the thousands) that prospective buyers can select to put their personal signatures on their trucks. Paccar delivers its products and services to customers through an extensive dealer network of nearly 1,800 locations worldwide.

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[22]Michael E. Porter, "Strategy and the Internet," *Harvard Business Review* 79 (March 2001): p. 72.

[23]This illustration is based on Michael E. Porter, "The Five Competitive Forces that Shape Strategy," *Harvard Business Review* 86 (January 2008): p. 89.

Distinctive Value Proposition Built to order, these customized trucks are delivered to customers in six to eight weeks and incorporate features and value-added services that are embraced by owner-operators. Paccar's trucks feature an aerodynamic design that reduces fuel consumption and they maintain resale value better than the trucks offered by rivals. To reduce out-of-service time, Paccar offers a comprehensive roadside assistance program and an information-technology-supported system for expediting and delivering spare parts. According to Michael Porter, "Customers pay Paccar a 10 percent premium, and its Kenworth and Peterbilt brands are considered status symbols at truck stops."[24] Moreover, Paccar has received recognition for consistently leading the heavy-duty truck market in quality, innovation, and customer satisfaction.[25]

By configuring its activities on new product development, manufacturing, and service support differently from rivals, and by tailoring these activities to its customer value proposition, Paccar has achieved an enviable record of financial performance: 68 straight years of profitability, averaging a long-run return on equity above 20 percent.

Building the Strategy Plan

By finding an intricate match between strategy and operations, strategic positioning depends on doing many things well—not just a few. But yet, most companies' underperformance is caused by breakdowns between strategy and operations. Robert S. Kaplan and David P. Norton contend that successful strategy execution involves two basic rules: "understand the management cycle that links strategy and operations, and know what tools to apply at each stage of the cycle."[26] To that end, they propose that companies develop a management system to plan, coordinate, and monitor the links between strategy and operations. This **management system** represents "the integrated set of processes and tools that a company uses to develop its strategy, translate it into operational actions, and monitor and improve the effectiveness of both."[27] (See Figure 6.4.)

Observe that the management system involves five stages, beginning with strategy development (Stage 1) and then moving on to the crucial stage of translating the strategy (Stage 2) into objectives and measures that can be clearly communicated to all functional areas and employees. We will give special attention to two tools: (1) the **balanced scorecard** that provides managers with a comprehensive system for converting a company's vision and strategy into a tightly connected set of performance measures; and (2) the **strategy map**—a tool for visualizing a firm's strategy as a chain of cause-and-effect relationships among strategic objectives. These tools and processes assume a central role in designing key processes (Stage 3), monitoring performance (Stage 4), and adapting the strategy (Stage 5).

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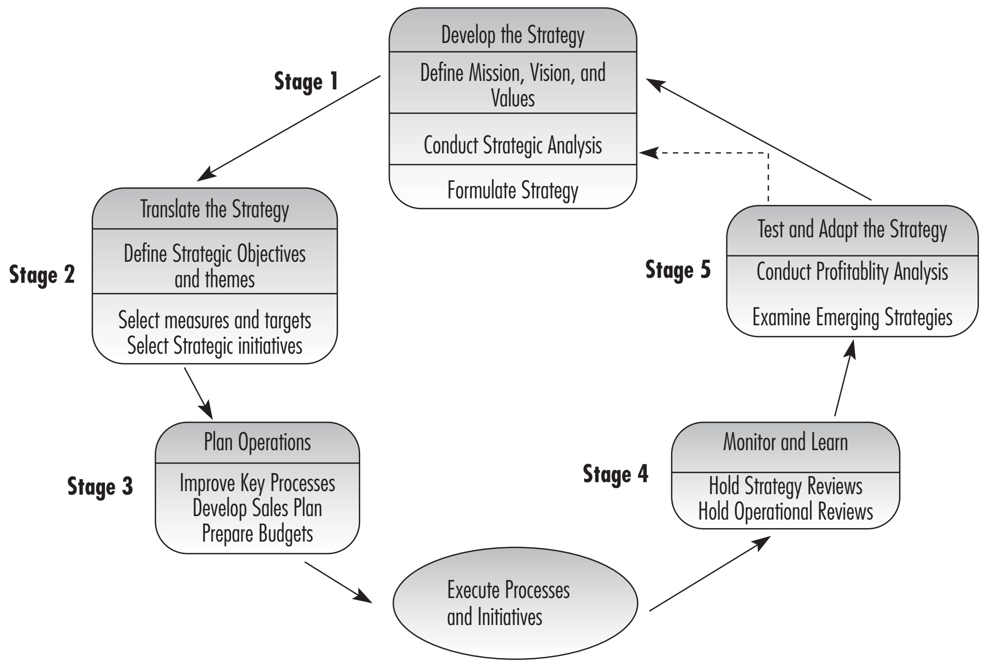
[24]Ibid.

[25]"Kenworth Wins J.D. Power Awards," August 27, 2007, accessed at http://www.paccar.com/company/jdpower on July 11, 2008.

[26]Robert S. Kaplan and David P. Norton, "Mastering the Management System," *Harvard Business Review* 86 (January 2008): p. 63.

[27]Ibid., p. 64.

FIGURE 6.4 | THE MANAGEMENT SYSTEM: LINKING STRATEGY AND OPERATIONS



SOURCE: Adapted with modifications from Robert S. Kaplan and David P. Norton, "Mastering the Management System," *Harvard Business Review* 86 (January 2008): p. 65.

The Balanced Scorecard[28]

Measurement is a central element in the strategy process. The balanced scorecard combines financial measures of *past* performance with measures of the drivers of performance. Observe in Figure 6.5 that the scorecard examines the performance of a business unit from four perspectives: (1) financial, (2) customer, (3) internal business processes, and (4) learning and growth.

The architects of the approach, Robert Kaplan and David Norton, emphasize that "the scorecard should tell the story of the strategy, starting with the long-run financial objectives, and then linking them to the sequence of actions that must be taken with financial processes, customers, and finally employees and systems to deliver the desired long-run economic performance."[29]

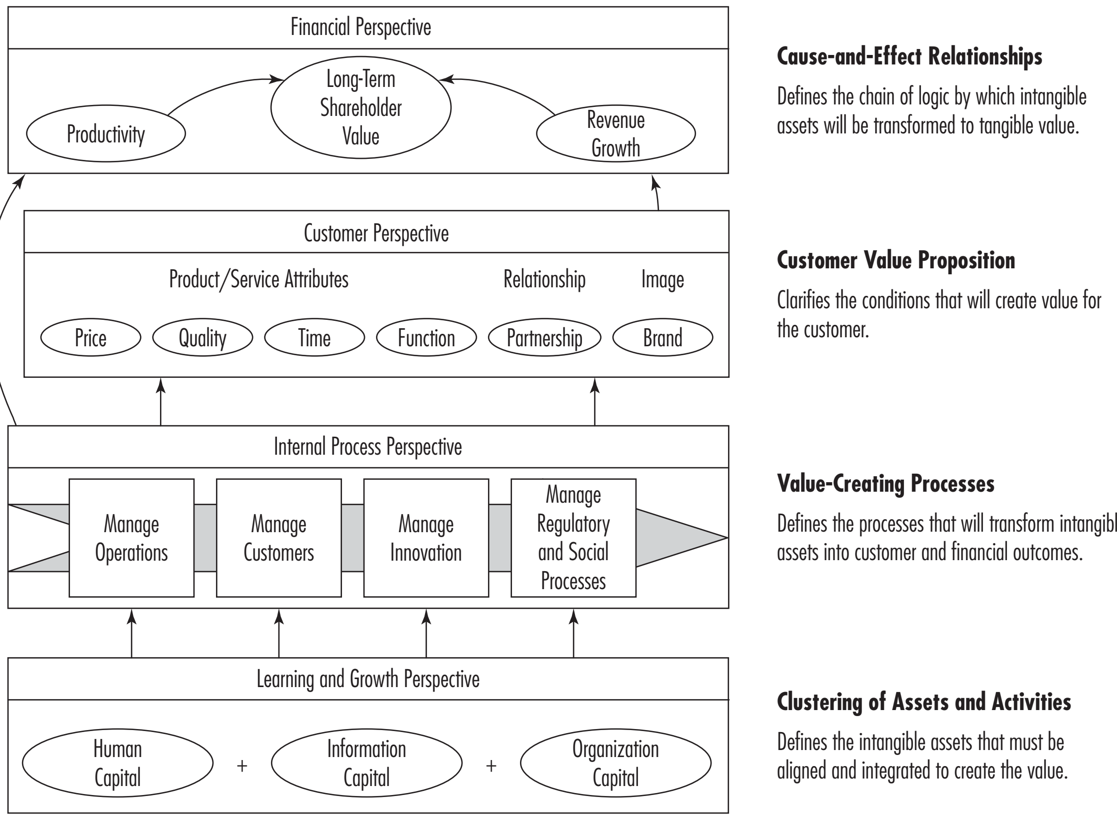
Financial Perspective

Financial performance measures allow business marketing managers to monitor the degree to which the firm's strategy, implementation, and execution are increasing profits.

[28]Except where noted, this discussion is based on Robert S. Kaplan and David P. Norton, *Strategy Maps: Converting Intangible Assets into Tangible Outcomes* (Boston: Harvard Business School Publishing Corporation, 2004). See also Robert S. Kaplan and David P. Norton, *The Balanced Scorecard: Translating Strategy into Action* (Boston: Harvard Business School Press, 1996), chaps. 1–3.

[29]Kaplan and Norton, *The Balanced Scorecard*, p. 47.

FIGURE 6.5 | THE BALANCED SCORECARD: A FRAMEWORK TO TRANSLATE A STRATEGY INTO OPERATIONAL TERMS



SOURCE: Reprinted by permission of *Harvard Business Review*. From "Balanced Scorecard Framework" by Robert S. Kaplan in *Strategy Maps*, p. 31.

Measures such as return on investment, revenue growth, shareholder value, profitability, and cost per unit are among the performance measures that show whether the firm's strategy is succeeding or failing. Companies emphasize two basic levers in developing a financial strategy: revenue growth and productivity.[30] The revenue-growth strategy centers on securing sales from new markets and new products or strengthening and expanding relationships with existing customers. The productivity strategy can also take two forms: improve the company's cost structure by reducing expenses and/or use assets more efficiently by decreasing the working and fixed capital needed to support a given level of output.

The balanced scorecard seeks to match financial objectives to a business unit's growth and life cycle stages. Three stages of a business are isolated and linked to appropriate financial objectives:

1. **Growth:** Business units that have products and services with significant growth potential and that must commit considerable resources (for example, production facilities and distribution networks) to capitalize on the market opportunity.

[30]Robert S. Kaplan and David P. Norton, "Having Trouble with Your Strategy? Then Map It," *Harvard Business Review* 78 (September–October 2000): pp. 167–176.

Financial Objectives: Sales growth rate by segment; percentage of revenue from new product, services, and customers.

2. **Sustain:** Business units, likely representing the majority of businesses within a firm, that expect to maintain or to perhaps moderately increase market share from year to year.

   Financial Objectives: Share of target customers and accounts; customer and product-line profitability.

3. **Harvest:** Mature business units that warrant only enough investment to maintain production equipment and capabilities.

   Financial Objectives: Payback; customer and product-line profitability.

Customer Perspective

In the customer component of the balanced scorecard, the business unit identifies the market segments it will target (see Chapter 5). Those segments supply the revenue stream that support critical financial objectives. Marketing managers must also identify the value proposition—how the firm proposes to deliver competitively superior and sustainable value to the target customers and market segments. The central element of any business strategy is the value proposition that describes a company's unique product and service attributes, customer relationship management practices, and corporate reputation. Importantly, the value proposition should clearly communicate to targeted customers what the company expects to do *better* and differently than its competitors.

Key Value Propositions and Customer Strategies Business-to-business firms typically choose among four forms of differentiation in developing a value proposition[31]:

- **Low total cost**—customers are offered attractive prices, excellent and consistent quality, ease of purchase, and responsive service (for example, Dell, Inc.).
- **Product innovation and leadership**—customers receive products that expand existing performance boundaries through new features and functions (for example, Intel and Sony).
- **Complete customer solutions**—customers feel that the company understands them and can provide customized products and services tailored to their unique requirements (for example, IBM).
- **Lock-in**—customers purchase a widely used proprietary product or service from the firm and incur high switching costs (for example, Microsoft's operating system, Cisco's infrastructure products, or Google's search engine).

For the chosen strategy, Table 6.2 presents the core customer outcome measures used to monitor performance in each target segment. The customer perspective complements traditional market share analysis by tracking customer acquisition, customer retention, customer satisfaction, and customer profitability.

[31]Kaplan and Norton, *Strategy Maps*, pp. 322–344.

TABLE 6.2 | **THE CUSTOMER PERSPECTIVE—CORE MEASURES**

Market Share	Represents the proportion of business in a given market (in terms of number of customers, dollars spent, or unit volume sold) that a business unit sells.
Customer Acquisition	Tracks, in absolute or relative terms, the rate at which a business unit attracts or wins new customers or business.
Customer Retention	Tracks, in absolute or relative terms, the rate at which a business unit retains customers.
Customer Satisfaction	Matches the satisfaction level of customers on specific performance criteria such as quality, service, or on-time delivery reliability.
Customer Profitability	Assesses the net profit of a customer, or segment, after deducting the unique expenses required to support that customer or segment.

SOURCE: Adapted from Robert S. Kaplan and David P. Norton, *The Balanced Scorecard: Translating Strategy into Action* (Boston: Harvard Business School Press, 1996): p. 68.

Internal Business Process Perspective

To develop the value proposition that will reach and satisfy targeted customer segments and to achieve the desired financial objectives, critical internal business processes must be developed and continually enriched. Internal business processes support two crucial elements of a company's strategy: (1) they create and deliver the value proposition for customers and (2) they improve processes and reduce costs, enriching the productivity component in the financial perspective. Among the processes vital to the creation of customer value are

1. Operations Management Processes,
2. Customer Management Processes,
3. Innovation Management Processes.

Strategic Alignment Robert S. Kaplan and David P. Norton emphasize that "value is created through internal business processes."[32] Table 6.3 shows how key internal processes can be aligned to support the firm's customer strategy or differentiating-value proposition. First, observe that the relative emphasis (see shaded areas) given to a particular process vary by strategy. For example, a firm that actively pursues a product-leadership strategy highlights innovation-management processes, whereas a company adopting a low-total-cost strategy assigns priority to operations-management processes. Second, although the level of emphasis might vary, note how the various processes work together to reinforce the value proposition. For example, a low-total-cost strategy can be reinforced by an innovation-management process that uncovers process improvements and a customer relationship management process that delivers superb postsales support.

From our discussion of strategic positioning, recall that it is much harder for a rival to match a set of interlocked processes than it is to replicate a single process. Michael Porter observes:

> Strategic fit among many activities is fundamental not only to competitive advantage but also to the sustainability of that advantage. . . . Positions built on systems of activities are far more sustainable than those built on individual activities.[33]

[32]Ibid., p. 43.

[33]Michael E. Porter, "What Is Strategy?" *Harvard Business Review* 74 (November–December 1996): p. 73.

TABLE 6.3 **ALIGNING INTERNAL BUSINESS PROCESSES TO THE CUSTOMER STRATEGY**

Customer Strategy	**The Focus of Internal Business Processes**		
	Operations Management	**Customer Relationship Management**	**Innovation Management**
Low-Total-Cost Strategy	Highly Efficient Operating Processes Efficient, Timely Distribution	Ease of Access for Customers; Superb Postsales Service	Seek Process Innovations Gain Scale Economies
Product Leadership Strategy	Flexible Manufacturing Processes Rapid Introduction of New Products	Capture Customer Ideas for New Offering Educate Customers about Complex New Products/ Services	Disciplined, High-Performance Product Development First-to-Market
Complete Customer Solutions Strategy	Deliver Broad Product/ Service Line Create Network of Suppliers for Extended Product/Service Capabilities	Create Customized Solutions for Customers Build Strong Customer Relationships Develop Customer Knowledge	Identify New Opportunities to Serve Customers Anticipate Future Customer Needs
Lock-in Strategies	Provide Capacity for Proprietary Product/ Service Reliable Access and Ease of Use	Create Awareness Influence Switching Costs of Existing and Potential Customers	Develop and Enhance Proprietary Product Increase Breadth/ Applications of Standard

SOURCE: Reprinted by permission of *Harvard Business Review*. From "Customer Objectives for Different Value Propositions" by Robert S. Kaplan in *Strategy Maps*, p. 41.

Learning and Growth The fourth component of the balanced scorecard, **learning and growth**, highlights how the firm's intangible assets must be aligned to its strategy to achieve long-term goals. **Intangible assets** represent "the capabilities of the company's employees to satisfy customer needs."[34] The three principal drivers of organizational learning and growth are

1. *human capital*—the availability of employees who have the skills, talent, and know-how to perform activities required by the strategy;
2. *information capital*—the availability of information systems, applications, and information-technology infrastructure to support the strategy;
3. *organization capital*—the culture (for example, values), leadership, employee incentives, and teamwork to mobilize the organization and execute the strategy.

[34]Thomas A. Stewart, *Intellectual Capital: The New Wealth of Organizations* (New York: Doubleday, 1998), p. 67, cited in Kaplan and Norton, *Strategy Maps*, pp. 202–203.

Strategic Alignment To create value and advance performance, the intangible assets of the firm must be aligned with the strategy. For example, consider a company that plans to invest in staff training and has two choices—a training program on total quality management (TQM) or a training initiative on customer relationship management (CRM). A company like Dell, which pursues a low-total-cost strategy, might derive higher value from TQM training, whereas IBM's consulting unit, which pursues a total customer solution strategy, would benefit more from CRM training. Unfortunately, research suggests that two-thirds of organizations fail to create strong alignment between their strategies and their human resources and information technology programs.[35]

Measuring Strategic Readiness Senior management must ensure that the firm's human resources and information technology systems are aligned with the chosen strategy. To achieve desired performance goals in the other areas of the scorecard, key objectives must be achieved on measures of employee satisfaction, retention, and productivity. Likewise, front-line employees, like sales or technical service representatives, must have ready access to timely and accurate information. However, skilled employees who are supported by a carefully designed information system will not contribute to organizational goals if they are not motivated or empowered to do so. Many firms, such as FedEx and 3M, have demonstrated the vital role of motivated and empowered employees in securing a strong customer franchise.

Now that each of the components of the balanced scorecard have been defined, let's explore a clever tool that can be used to communicate the desired strategy path to all employees while detailing the processes that will be used to implement the strategy.

Strategy Map

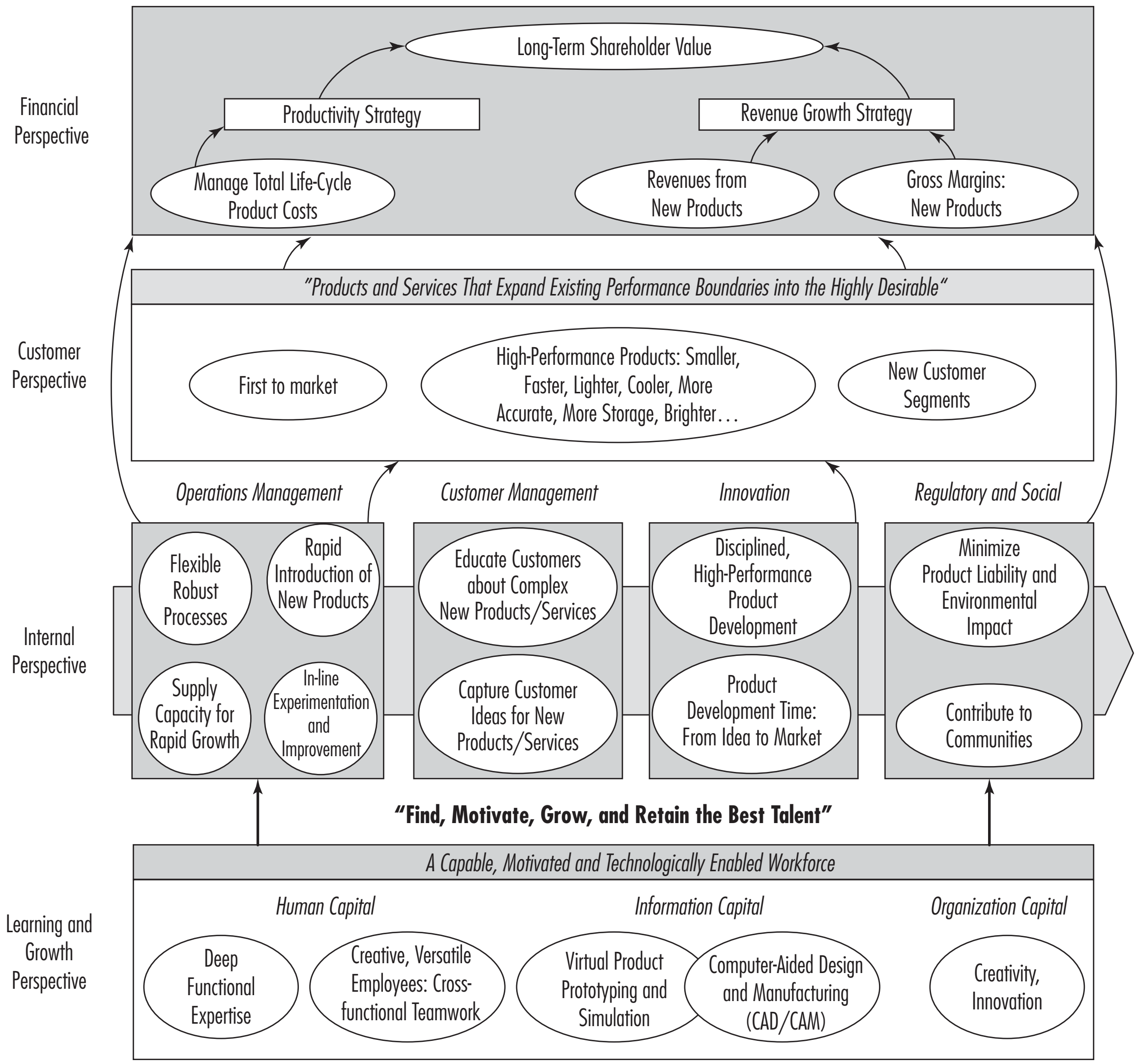
To provide a visual representation of the cause-and-effect relationships among the components of the balanced scorecard, Kaplan and Norton developed what they call a strategy map. They say that a strategy must provide a clear portrait that reveals how a firm will achieve its desired goals and deliver on its promises to employees, customers, and shareholders. "A strategy map enables an organization to describe and illustrate, in clear and general language, its objectives, initiatives, and targets; the measures used to assess performance (such as market share and customer surveys); and the linkages that are the foundation for strategic direction."[36]

Key Strategy Principles Figure 6.6 shows the strategy map template for a firm pursuing a product-leadership strategy. We can use this illustration to review and reinforce the key principles that underlie a strategy map:

- *Companies emphasize two performance levels in developing a financial strategy—a productivity strategy and a revenue-growth strategy.*
- *Strategy involves choosing and developing a differentiated customer value proposition.* Note the value proposition for product leadership: "Products and services that expand existing performance boundaries into the highly desirable." Recall that the other value propositions and customer strategies include low total cost, complete customer solutions, and system lock-in.

[35] Kaplan and Norton, *Strategy Maps*, p. 13.
[36] Kaplan and Norton, "Having Trouble with Your Strategy?" p. 170.

FIGURE 6.6 | **Strategy Map Template: Product Leadership**



SOURCE: Reprinted by permission of *Harvard Business Review*. From "Project Leadership" by Robert S. Kaplan in *Strategy Maps*, p. 326.

- *Value is created through internal business processes.* The financial and customer perspectives in the balanced scorecard and strategy map describe the performance outcomes the firm seeks, such as increases in shareholder value through revenue growth and productivity improvements, as well as enhanced performance outcomes from customer acquisition, retention, loyalty, and growth.
- *Strategy involves identifying and aligning the critical few processes that are most important for creating and delivering the customer value proposition.* For a product-leadership

strategy, observe how each of the internal business processes directly supports the customer value proposition—product leadership.

- *Value is enhanced when intangible assets (for example, human capital) are aligned with the customer strategy.* From Figure 6.6, note the strategic theme for learning and growth: "a capable, motivated, and technologically enabled workforce." When the three components of learning and growth—human, information, and organization capital—are aligned with the strategy, the firm is better able to mobilize action and execute that strategy.

To recap, the balanced scorecard provides a series of measures and objectives across four perspectives: financial, customer, internal business process, and learning and growth. By developing mutually reinforcing objectives across these four areas, a strategy map can be used to tell the story of a business unit's customer strategy and to highlight the internal business processes that drive performance.

Summary

Guided by a deep understanding of the needs of customers and the capabilities of competitors, market-driven organizations are committed to a set of processes, beliefs, and values that promote the achievement of superior performance by satisfying customers better than competitors do. Because many business-to-business firms have numerous divisions, product lines, and brands, three major levels of strategy exist in most large organizations: (1) corporate, (2) business level, and (3) functional. Moving down the strategy hierarchy, the focus shifts from strategy formulation to strategy implementation. Marketing is best viewed as the functional area that manages critical connections between the organization and customers. Business marketing planning must be coordinated and synchronized with corresponding planning efforts in other functional areas. Strategic plans emerge out of a bargaining process among functional areas. Managing conflict, promoting cooperation, and developing coordinated strategies are all fundamental to the business marketer's role.

A business model or concept consists of four major components: (1) a core strategy, (2) strategic resources, (3) the customer interface, and (4) the value network. The core strategy is the essence of how the firm competes, whereas strategic resources capture what the firm knows (core competencies), what the firm owns (strategic assets), and what employees actually do (core processes). Specifying the benefits to customers is a critical decision when designing a core strategy. The customer interface component refers to how customer relationship management strategies are designed and managed, whereas the value network component considers how partners and supply chain members can complement and strengthen the resource base of the firm. To establish and maintain a distinctive strategic positioning, a company should focus on profitability, rather than just revenue growth, deliver a unique value proposition, and configure activities—like new product development or customer relationship management—differently from rivals and in a manner that supports its value proposition.

Successful execution involves linking strategy to operations, using tools and processes like the balanced scorecard and strategy map. The balanced scorecard converts a strategy goal into concrete objectives, and measures are organized into four different perspectives: financial, customer, internal business process, and learning and growth.

The approach involves identifying target customer segments, defining the differentiating customer value proposition, aligning the critical internal processes that deliver value to customers in these segments, and selecting the organizational capabilities necessary to achieve customer and financial objectives. Business marketers primarily emphasize one of the following value propositions or customer strategies: low total cost, product leadership, or system lock-in. A strategy map provides a visual representation of a firm's critical objectives and the cause-and-effect relationships among them that drive superior organizational performance.

Discussion Questions

1. Commenting on the decision-making process of his organization, a senior executive noted: "Sometimes the process is bloody, ugly, just like sausage meat being made. It's not pretty to watch but the end results are not too bad." Why do various functional interest groups often embrace conflicting positions during the strategic decision process? How are decisions ever made?
2. Describe how the primary focus of marketing managers at the corporate level differs from the focus marketing managers take at the business-unit or functional level.
3. A day in the life of a business marketing manager involves interactions with managers from other functions in the firm. First, identify the role of R&D, manufacturing, and logistics functions in creating and implementing marketing strategy. Next, describe some of the common sources of conflict that can emerge in cross-functional relationships.
4. Gary Hamel, a leading strategy consultant, contends that managers as well as Wall Street analysts like to talk about business models but few of them could define "what a business model or business concept really is." Describe the major components of a business model and discuss how these components are linked to the benefits a firm provides to customers.
5. Select a firm such as FedEx, Apple, IBM, Boeing, GE, or Caterpillar and assess its business model. Develop a list of particular skills, resources, and strategies that are especially important to the selected firm's strategic position. Give particular attention to those skills, resources, or characteristics that competitors would have the most difficulty in matching.
6. "Trying to be all things to all customers almost guarantees a weak strategic position for a firm." Agree or disagree? Explain.
7. Strategy experts argue that effective and aligned internal business processes determine how value is created in an organization. Provide an illustration to demonstrate the point.
8. Describe why a business-to-business firm that plans to enter a new market segment may have to realign its internal business processes to succeed in this segment.

9. Describe how the learning and growth objectives in a balanced scorecard might differ for a firm pursuing a low-total-cost strategy versus one that emphasizes complete customer solutions.
10. The fourth component of the balanced scorecard, learning and growth, captures the intangible assets of the firm (for example, human, information, and organization capital). Describe the role these intangible assets might assume in executing strategy at FedEx or Google.

Internet Exercises

1. 3M is a large, diversified, technology company that has numerous business units and manufactures thousands of products. Go to http://www.3m.com and
   a. identify the major market or industry sectors that the firm serves;
   b. describe a new product that 3M has recently introduced for the health-care sector.

CASE

Microsoft Targets Small and Mid-Sized Businesses[37]

By targeting small and medium-sized businesses, Microsoft hopes to capture a lucrative market sector, offsetting the slower growth among large-enterprise customers. This large and highly fragmented market includes small businesses with fewer than 50 employees and mid-sized firms with fewer than 500 employees. Microsoft's chief executive, Steve Ballmer, views this market sector as the most vital and fastest-growing segment of the economy. To serve small and mid-market customers, Microsoft has developed a multiyear product plan that calls for increased investment in research and development.

Challenging Intuit, Inc.

Targeting small-business customers, Microsoft recently introduced Microsoft Office Small Business Accounting and Microsoft Office Small Business Management. These offerings are designed to enable small businesses to manage all their sales, marketing, and financial processes within an easy-to-use operating environment. The software is widely available through resellers and retail outlets, including Amazon.com, Best Buy, Office Depot, and Staples. Likewise, Dell offers the software preinstalled on selected Dell small-business computing systems.

By introducing a small-business accounting program, Microsoft is taking direct aim at Intuit, Inc.'s widely used QuickBooks accounting software. Dan Levin, vice president of product management at Intuit, welcomed the competition, adding that the new accounting program "marks the fourth time Microsoft has attempted entry into the small business accounting software market." Intuit is the undisputed leader in this market with its QuickBooks product line, but Microsoft wants to build volume in the small-business accounting market.

Among the key battlegrounds where the two will compete head-to-head are

- first-time accounting software users, most heavily concentrated in the one-to-four-employee segment, that still use basic checkbook accounting and manual processes;
- the one-third of small businesses that upgrade or change their software annually;
- the more than 500,000 new small businesses created in the United States each year.

[37]"Microsoft Goes After Small Business," *CNN Money*, September 7, 2005, http://www.cnnmoney.com, and "Cashing in on the U.S. Small Business Accounting Market: Intuit and Microsoft Go Head to Head," Access Markets International Partners, Inc., March 13, 2006, accessed at http://www.ami-partners.com on July 12, 2008.

Discussion Questions

1. To succeed against rivals like Intuit that specialize in small-business customers, describe the differentiating value proposition that Microsoft should offer to customers.
2. Drawing on the balanced scorecard, describe how Microsoft might realign its internal business processes (for example, operations, customer, innovation management) to achieve targeted revenue and profit goals in the small- and mid-sized business segment. What steps might Intuit take to counter Microsoft's challenges?