

CHAPTER 7

SWOT analysis, strategic marketing planning and portfolio analysis

LEARNING OBJECTIVES

After studying this chapter you should be able to:

- describe the stages in strategic market planning
- understand the nature of corporate strategy and how it is connected to the SBU marketing strategy
- describe and understand the role of SWOT analysis in strategic marketing
- understand when and how to use different strategic tools in strategic market planning
- describe the two downstream portfolio models: the BCG and GE models
- discuss the advantages and disadvantages of these models
- explain the different levels of international portfolio analysis
- explain the purposes of integrating a supplier portfolio model in a marketing analysis
- understand how a supplier can be involved in product development with the manufacturer

7.1 INTRODUCTION

A strategic approach to marketing has a number of advantages. First, a strategic emphasis helps organisations orient themselves toward key external factors such as consumers and competition. Instead of just projecting past trends, the goal is to build market-driven strategies that reflect customer concerns. Strategic plans also tend to anticipate changes in the environment rather than just react to competition. Another reason strategic marketing is important is that it forces you to take a long-term view.

The structure of this chapter will follow the phases in the corporate marketing planning process.

7.2 CORPORATE MISSION

A formal organisation exists to serve a purpose. This purpose may take a variety of forms and may be classified in a number of ways according to the viewpoints of a particular organisation.

A well-defined organisation provides a sense of direction to employees and helps guide them towards the fulfilment of the firm's potential. Managers should ask, 'What is our business?' and 'What should it be?' The idea is to extract a purpose from a consideration of the firm's history, resources, distinctive abilities and environmental constraints. A mission statement should specify the business domains in which the organisation plans to operate, or more broadly, for example, 'we are an office productivity company'. The firm should try to find a purpose that fits its present needs and is neither too narrow nor too broad.

Determining a corporate mission that fulfils these requirements is by no means easy. Some companies spend two or three years redefining their corporate mission and still manage to produce a corporate mission statement that is not particularly useful or relevant. But what precisely is the nature of such a statement?

To be useful and relevant, a business definition should ideally fulfil a number of criteria. The following represents the more important of these criteria when thinking about how to define a business:

- The definition should be neither too broad nor too narrow. Definitions such as 'we are in the business of making profits' or 'we produce pens' are not really useful. Effective mission statements should cover product line definition, market scope and growth direction.
- Ideally, the definition should encompass the three dimensions of what Abell (1980) refers to as the 'business domain'. These three dimensions are customer groups to be served, customer needs to be served and technologies to be utilised.

7.3 SWOT ANALYSIS

SWOT (strengths, weaknesses, opportunities and threats) analysis is a technique specially designed to help identify suitable marketing strategies for the company to follow.

A SWOT analysis encompasses both the internal and external environments of the firm. Internally, the framework addresses a firm's strengths and weaknesses on key dimensions such as financial performance and resource; human resources; production facilities and capacity; market share; customer perceptions of product quality, price, and product availability; and organisational communication. The assessment of the external environment includes information on the market (customers and competition), economic conditions, social trends, technology and government regulation. When performed correctly, a SWOT analysis can drive the process of creating a sound marketing plan. SWOT analysis can be especially useful in discovering strategic advantages that can be exploited in the firm's marketing strategy. In this section, we will explore the benefits of a SWOT analysis and discuss guidelines for conducting a productive one.

The effective use of SWOT analysis provides the following four key benefits to the manager creating the marketing strategy.

- *Simplicity*: SWOT analysis requires no extensive training or technical skills to be used successfully. The analyst needs only a comprehensive understanding of the firm and the industry in which it operates. Because specialised training and skills are not necessary, the use of SWOT analysis can actually reduce the costs associated with strategic planning.
- *Collaboration*: because of its simplicity, SWOT analysis fosters collaboration and open information exchange between the managers of different functional areas. By learning what their colleagues do, what they know, what they think, and how they feel, the marketing

manager can solve problems and fill voids in the analysis before the marketing strategy is finalised. The SWOT analysis framework provides a process that generates open information exchange in advance of the actual marketing strategy development process.

- *Flexibility*: also closely related to its simplicity is the flexibility of SWOT. It can enhance the quality of an organisation's strategic planning even without extensive marketing information systems. However, when comprehensive systems are present, they can be structured to feed information directly into a SWOT framework. In addition, the presence of a comprehensive marketing information system, even though it is not needed, can make repeated SWOT analyses run more smoothly and efficiently.
- *Integration*: SWOT analysis can also deal with a wide variety of information sources. SWOT analysis allows the planner to integrate and synthesise diverse information, both of a quantitative and qualitative nature. It organises information that is widely known, as well as information that has only recently been acquired or discovered.

SWOT analysis can help push the planning team toward agreement as it uncovers potentially harmful disagreements. All of these different forms of information are inherent to, and sometimes problematic for, the strategic planning process. SWOT analysis helps transform this information from a weakness of the planning process into one of its major strengths.

Conditions for an effective and productive SWOT analysis

The degree to which a firm receives the full benefits of a SWOT analysis will depend on the way the framework is used. If done correctly, SWOT can be a strong catalyst for the planning process. If done incorrectly, it can be a great waste of time and other valuable resources. To ensure that you receive the full benefits, you should:

- stay focused;
- collaborate with other functional areas;
- research issues from the customer's perspective;
- separate internal issues from external issues.

Stay focused

A major mistake planners often make in conducting a SWOT analysis is to complete only one generic SWOT analysis for the entire organisation (corporate SWOT).

Instead you have to decide which organisational level is being analysed and then start the SWOT analysis there. However, as shown in Figure 7.1, SWOT analyses at the different levels are interlinked.

So when we say SWOT analysis, we really mean SWOT analyses. In most firms there should be a series of analyses, each focusing on a specific organisational level and/or a specific product/market combination. Such a focus enables the marketing manager to focus on the specific marketing mix being used in a given market. This focus also allows the manager to analyse the specific issues that are relevant to the particular product/market. If needed, separate product/market analyses can be combined to examine the issues that are relevant for the entire strategic business unit, and business unit analyses can be combined to create a complete SWOT for the entire organisation. The only time a single SWOT would be appropriate is when an organisation has only one product/market combination.

Besides increased relevance, another major benefit of a focused SWOT analysis is its ability to identify knowledge gaps. The identification of such gaps depends on the firm's ability to gather market intelligence.

The requirement of staying focused is also true when we talk about competitors. Information on competitors and their activities is an important aspect of a well-focused SWOT analysis.

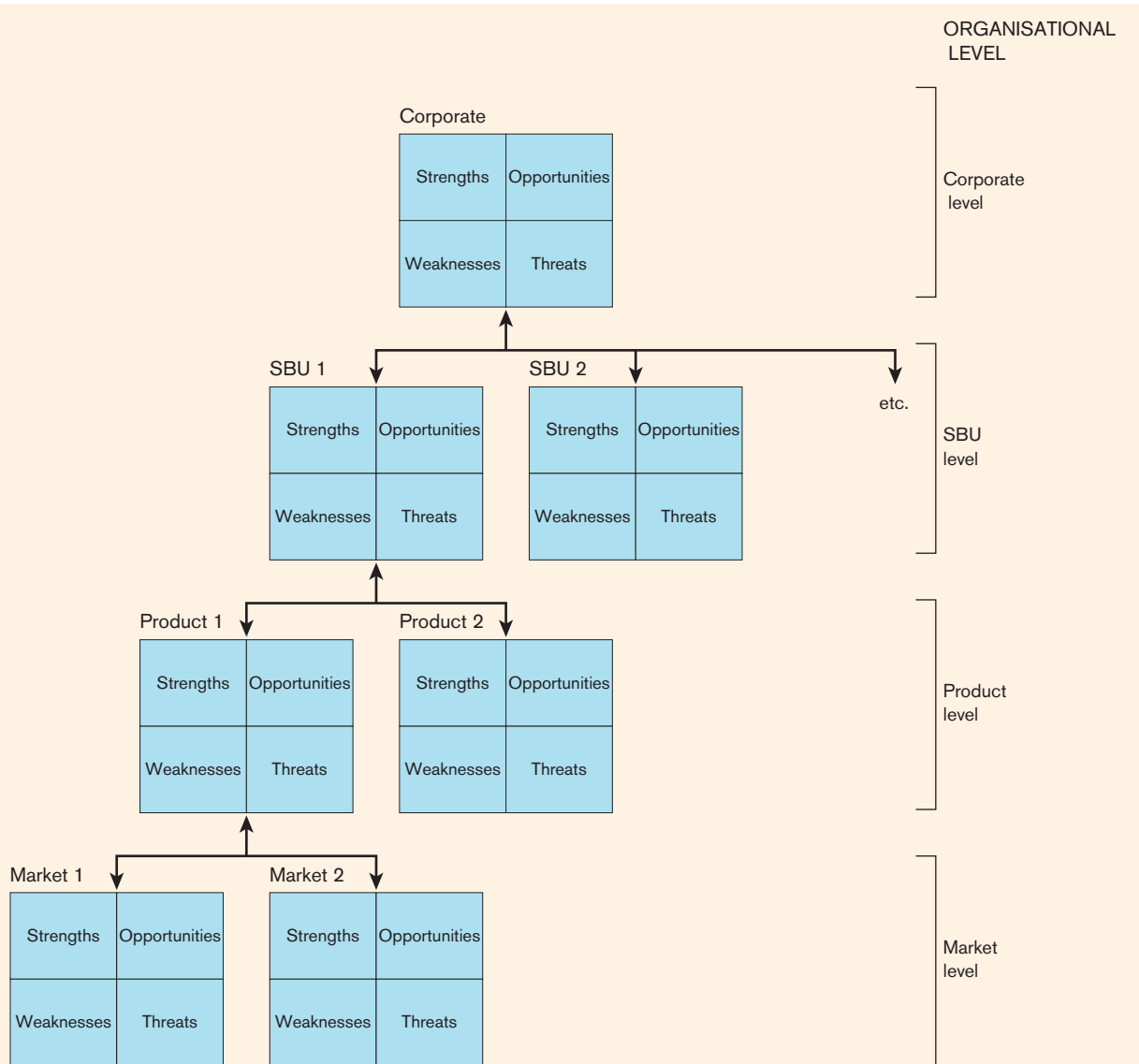


Figure 7.1

The link between SWOT analyses and different organisational levels

The key is not to overlook any competitor, whether a current rival or one that is not yet a competitor. As we discussed in Chapter 5, the firm will focus most of its efforts on brand competition. As the SWOT analysis is conducted, the firm must watch for any current or potential direct substitutes for its products. Product and total budget competitors are important as well. Looking at all types of competition is important because many planners never look past brand competitors. Thus, although the SWOT analysis should be focused, it must not be myopic. Even industry giants can lose sight of their potential competitors by focusing exclusively on brand competition. Kodak, for example, had always taken steps to maintain its market dominance over rivals such as Fuji, Konica and Polaroid in the film industry. However, entering the market for digital cameras completely changed Kodak's set of competing firms. Kodak was forced to turn its attention to giants like Sony and Canon in the fast-growing market for digital cameras.

Collaborate with other functional areas

The SWOT analysis should be a powerful stimulus for communication outside normal channels. The final outcome of a properly conducted SWOT analysis should be an amalgamation of information from many areas. Managers in product development, production finance, inventory control, quality control, sales, advertising, customer service, and other areas should learn what other managers see as the firm's strengths, weaknesses, opportunities and threats. This allows the marketing planner to come to terms with multiple perspectives before actually creating the marketing strategy and the marketing plan.

As the SWOT analyses from individual areas are combined, the marketing manager can identify opportunities for joint projects and **cross-selling** of the firm's products. In a large organisation, the first time a SWOT analysis is undertaken is the first time that managers from some areas have formally communicated with each other. Such cross-collaborations can generate a very good environment for creativity and innovation. Moreover, research has shown that the success of introducing a new product, especially a radically new product, is extremely dependent on the ability of different functional areas to collaborate and integrate their differing perspectives. This collaboration must occur across divisions and between different organisational levels.

Cross-selling

Selling an additional product or service to an existing customer

Research issues from the customer's perspective

Every issue in a SWOT analysis must be examined from the customer's perspective. To do this, the analyst must constantly ask questions such as:

- What do our customers (and non-customers) believe about us as a company?
- What do our customers (and non-customers) think of our product quality, customer service, price and overall value, and promotional messages in comparison to our competitors?
- What is the relative importance of these issues, not as we see them, but as our customers see them?

Examining every issue from the customer's perspective also includes the firm's internal customers: its employees. Some employees, especially front-line employees, are closer to the customer and can offer a different perspective on what customers think and believe. Other types of stakeholders, such as investors who are involved in providing capital for the firm, should also be considered. The SWOT analysis forces managers to change their perceptions to the way customers and other important groups see things. The contrast between these two perspectives often leads to the identification of a gap between management's version of reality and customers' perception. It is like putting a mirror in front of the manager and saying: 'This is how customers look at you – is this also how you see yourself?'

Separate internal issues from external issues

As you conduct a SWOT analysis, it is important to keep the internal issues separate from the external ones. Internal issues are the firm's strengths and weaknesses, while external issues refer to opportunities and threats in the firm's external environments.

The failure to understand the difference between internal and external issues is one of the major reasons for a poorly conducted SWOT analysis. This happens because managers tend to get ahead of themselves by listing their existing marketing strategies and tactics as opportunities. Opportunities and threats exist independently of the firm. Strategies and tactics are what the firm intends to do about its opportunities and threats relative to its own strengths and weaknesses.

SWOT-driven strategic marketing planning

In the previous section we looked at the conditions for conducting an effective SWOT analysis.

Now, we will consider how a firm can use its set of strengths, weaknesses, opportunities and threats to drive the development of strategic plans that will allow the firm to change its

current marketing strategy and achieve its goals and objectives. Remember that SWOT analysis should not be an academic exercise to classify information correctly. Rather, it should serve as a catalyst to facilitate and guide the creation of marketing strategies that will produce the desired results. The process of organising information within the SWOT analysis can help the firm see the difference between where it thinks it is, where others see it as being, and where it hopes to be.

To address these issues properly, the marketing manager should appraise every strength, weakness, opportunity and threat to determine its total impact on the firm's marketing efforts. This assessment will also give the manager an idea of the basic strategic options that might be available to emphasise the firm's capabilities or convert/minimise its weaknesses and threats. One method of conducting this SWOT assessment is to create and analyse the SWOT matrix. Let's look at how a marketing manager might conduct this assessment.

These are two main steps in a SWOT analysis (see Figure 7.2). In this process the assessment of the firm's strengths and weaknesses involves looking beyond the firm's current products. The manager should also assess the firm's business processes that are key to meeting customers' problems rather than specific products.

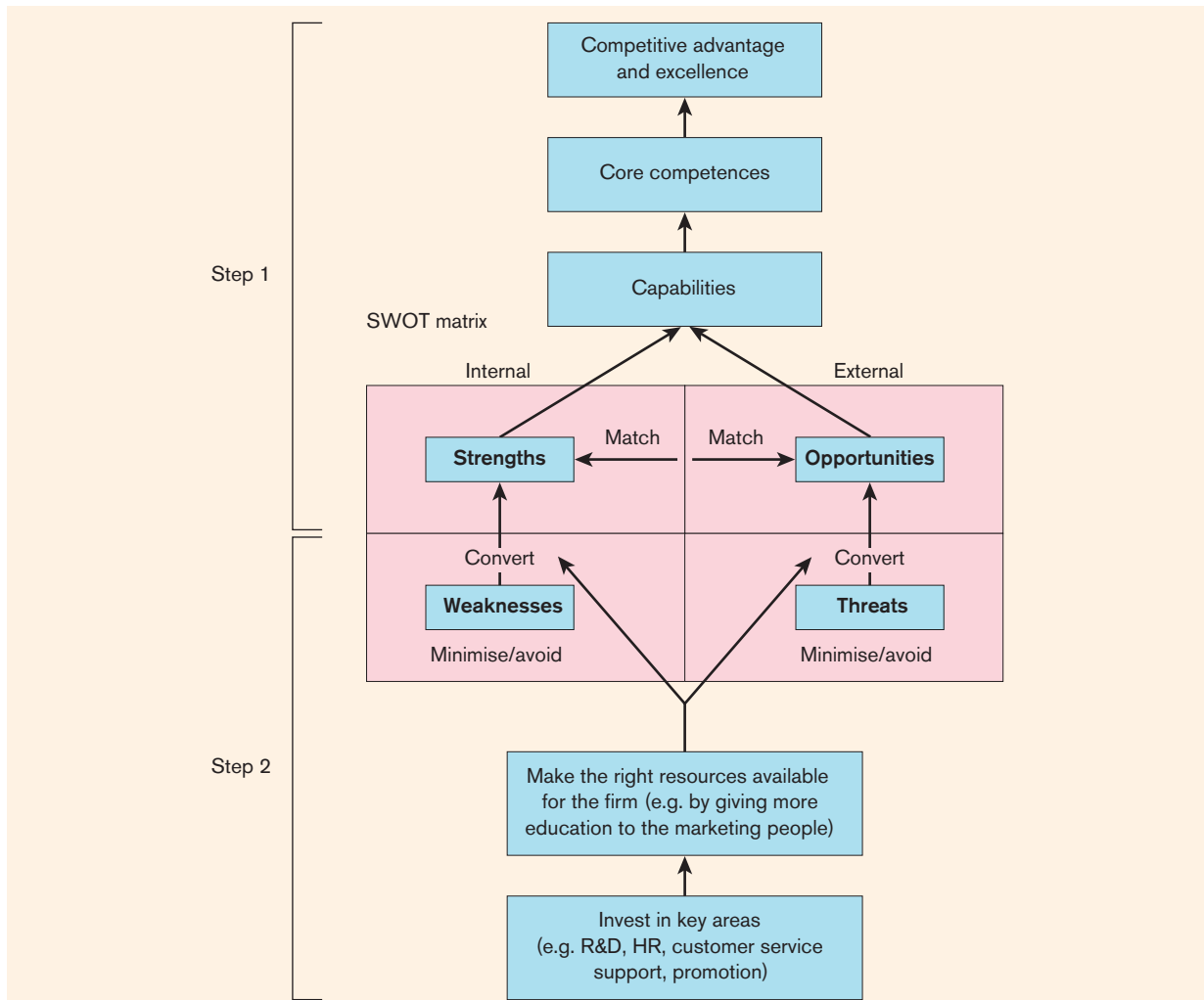


Figure 7.2

Turning the SWOT analysis into a strategic tool for gaining competitive advantage

Step 1: The matching of strengths and opportunities

The key to the successful achievement of the firm's goals and objectives depends on the ability of the firm to transform key strengths into capabilities by matching them with opportunities in the marketing environment. Capabilities can become competitive advantages if they provide better value to customers than competitors' offerings.

When we refer to capabilities or competitive advantage, we usually speak in terms of real differences between competing firms. After all, capabilities and competitive advantage stem from real strengths possessed by the firm. However, the capabilities and competitive advantage that any firm possesses are often based more on perception than reality. Most customers make purchase decisions based on their own perceptions of the firm's capabilities and advantages. How customers see a company is how that firm is. Regardless of the facts about a company, if customers perceive the company as slow to react, impersonal, or having excessively high priced or out-of-date products, that is quite simply the way that firm is.

Effectively managing customers' perceptions has been a challenge for marketers for generations. The problem lies in developing and maintaining capabilities and competitive advantage that customers can easily understand, and that solve specific customers' needs. Capabilities or competitive advantage that do not translate into specific benefits for customers are of little use to a firm.

Successful firms attempt to get very close to their customers by seeking their input on how to make the firm's goods and services better or how to solve specific customer problems. These firms also attempt to create long-term relationships between themselves and their customers.

As outlined in Chapter 3, a firm must possess certain core competences to be able to implement a market strategy of competitive excellence. Before a competitive advantage can be translated into specific customer benefits, the firm's target market(s) must recognise that its competences give it an advantage over the competition.

Step 2: Converting weaknesses and threats

Firms can convert weaknesses into strengths, and even capabilities, by investing strategically in key areas (e.g. R&D, customer support, promotion, employee training) and by linking key areas more effectively (such as linking human resources to marketing). Likewise, threats can often be converted into opportunities if the right resources are available. Finding new markets for a firm's products could be a viable conversion strategy.

In some cases, weaknesses and threats cannot be successfully converted in the short or long term. When this occurs, the firm must adopt strategies that avoid these issues or minimise their repercussions. One such strategy is to become a niche marketer. Another strategy for minimising or avoiding weaknesses and threats is to reposition the product. Changes in demographics, declining sales or increasing competition are common reasons for product **repositioning**. Despite a company's best efforts, some weaknesses and threats simply cannot be minimised or avoided. When this situation occurs, the firm is said to have a limitation. Limitations occur most often when the firm possesses a weakness or faces a threat that coincides with one of its opportunities. Limitations can be particularly troublesome if they are obvious to consumers. How does a company deal with its limitations? One way is to diversify, thus reducing the risk of operating solely within a single business unit or market.

The manager has several potential marketing activities that can be used to take advantage of capabilities and convert weaknesses and threats. At this stage, however, there are likely to be many potential directions for the manager to pursue. Because most firms have limited resources, it is difficult to accomplish everything at once. The manager must prioritise all potential marketing activities and develop specific goals and objectives for the marketing plan.

Repositioning

A product strategy that involves changing the product design, formulation, brand image or brand name so as to alter the product's competitive position.

7.4 CORPORATE OBJECTIVES

Broadly, setting objectives involves a company in considering the following two questions:

- Where do we wish to go?
- When do we intend to arrive?

Without an answer to these questions, a company can be likened to a ship without a compass; it can move, but it lacks a clear sense of direction. More specifically, objectives:

- provide for a *sense of purpose* in a company; without objectives, companies lack the means to focus and organise their efforts;
- help a company to *achieve consistency* between the various levels of decision making, and between the different functions;
- help to *stimulate effort*; they provide a basis for motivating individuals to achieve them;
- provide the *basis for control* in a company; unless we know precisely what is required, it is difficult, if not impossible, to know the extent to which we have achieved it.

In order to fulfil these important functions, objectives must have certain characteristics. Objectives should be:

- *Quantified*: quantitative objectives with respect to both levels of performance and time reduce the risk of their being vague or ambiguous.
- *Acceptable* and *agreeable*: to those charged with the responsibility of attaining them. It is pointless setting objectives if they are not acted upon – or if the effort to achieve them is given grudgingly. A frequent reason for objectives being unacceptable is that they are felt to be too difficult or impossible to achieve.
- *Consistent*: as we shall see shortly, often companies have a variety of objectives as opposed to a single one. It is important that these multiple objectives do not conflict one with another in such a way that the achievement of an objective in one area is inconsistent with the achievement of objectives in others. For example, an objective of improved profitability may be inconsistent with an objective of maximum sales.

Having discussed the functions of objectives, and the characteristics that objectives ideally should possess if they are to serve these functions, we can now turn our attention to the variety of corporate objectives that a company might set.

In economic analysis it is often asserted that a firm has one, and only one, objective: namely, to maximise its total profits. In addition to profit objectives, it is now recognised that companies may have a variety of objectives encompassing a spread of activities. Some of the most frequently encountered objectives and their corresponding performance criteria/measures are shown in Table 7.1.

Whatever the mix of objectives, it must be remembered that the objectives themselves relate to some point in the future, hence the importance of specifying a timescale for their achievement. For an existing business there will also be a past. It is possible, therefore, to measure the past and current performance of the company with respect to those areas in which it has objectives for the future. Management can then compare where it wishes to be (objectives) with where it is likely to be on the basis of a projection from past performance. Any difference constitutes what is referred to as a planning gap, which would cause some kind of **gap analysis**. This notion of a planning gap is illustrated in Figure 7.3.

The gap stems from the difference between future desired profit objectives and a forecast of projected profit based on past performance and following existing strategy.

If there is a planning gap, a number of options are available; the intention, however, is to close the gap. For example, the gap could be closed by revising objectives downwards. Such a

Gap analysis

A technique which compares future likely company performance against desired performance outcomes in order to identify any gaps.

Table 7.1 Common objectives, their performance criteria and measures

Objectives	Performance criteria	Possible measure or indexes
Profit and financial objectives	Profitability	<ul style="list-style-type: none"> • Profit • Profit as percentage of sales • Contribution margin • Return on investment (ROI)
	Contribution to owners	<ul style="list-style-type: none"> • Earnings per share • Price/earnings ratio
	Utilisation of fixed assets	<ul style="list-style-type: none"> • Capacity utilisation • Fixed assets as percentage of sales
Growth objectives/marketing objectives	Percentage yearly growth	<ul style="list-style-type: none"> • Sales • Unit sales • Profits
	Competitive strengths	<ul style="list-style-type: none"> • Market share • Brand awareness • Brand preference
	Contribution to customers	<ul style="list-style-type: none"> • Price relative to competitors • Product quality • Customer satisfaction • Customer retention • Customer loyalty
Social responsibility objectives	Contribution to employees	<ul style="list-style-type: none"> • Wage rates, benefits • Personnel development, promotions • Employment stability, turnover
	Contribution to society	<ul style="list-style-type: none"> • Contributions to charities or community institutions • Growth in employment

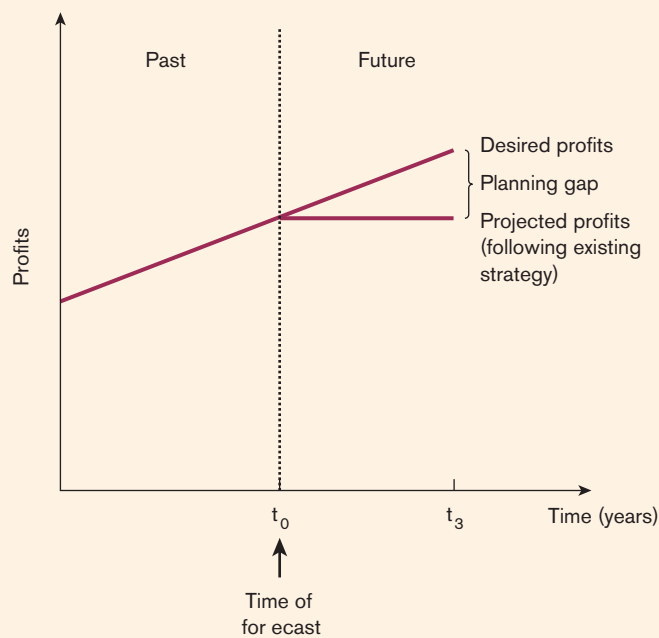


Figure 7.3 The planning gap

step might be taken where the initial objectives are unrealistic. Alternatively, or in addition, the gap could be closed by actions designed to move the company off the projected curve and towards the desired curve.

This next step in the process of corporate planning is the formulation of strategies.

7.5 CORPORATE GROWTH STRATEGY

Market penetration

A strategy for company growth by increasing sales of current products to current market segments without changing the product.

Market development

A strategy by which an organisation attempts to draw new customers to an existing product, most commonly by introducing the product in a new geographical area.

A strategy for reaching long-term objectives needs to be developed specifically for each SBU. **Market penetration**, product development, **market development** and diversification are the four basic product strategies (Figure 7.4) for closing the planning gap. Each cell in the Ansoff matrix presents distinct opportunities, threats, resource requirements, returns and risks, and will now be discussed.

Market penetration

The most frequently used strategy is to take the existing product in the existing market and try to obtain an increased share of that market. The two ways in which this can be achieved are by increasing sales to existing customers and by finding new customers in the same market. The first strategy means persuading users to use more of the product on more occasions, perhaps by replacing an indirect competitor. Alternatively, the strategy may be to use the product more often without any need to take business from competitors.

	Current products	New products
Current markets	Market penetration strategies <ul style="list-style-type: none"> • Increase market share • Increase product share • Increase frequency of use • Increase quantity used • New applications 	Product development strategies <ul style="list-style-type: none"> • Product improvements • Product-line extensions • New products for same market
New markets	Market development strategies <ul style="list-style-type: none"> • Expand markets for existing products • Geographic expansion • Target new segments/customer groups 	Diversification strategies <ul style="list-style-type: none"> • Vertical integration • Forward integration • Backward integration • Diversification into related businesses (concentric diversification) • Diversification into unrelated businesses (conglomerate diversification)

Figure 7.4

The Ansoff product–market matrix

Source: Adapted from Ansoff, H. I. (1957) Strategies for diversification, *Harvard Business Review*, September–October: 113–24. Copyright © 1957 by Harvard Business School Publishing Corporation. All rights reserved. Reproduced with permission.

The second strategy takes business directly from competitors by increasing both penetration and market share. This can be achieved either by changing the product offering or by changing the positioning of the product offering.

With this option, product improvement is also an option. An example of a company following such a tactic is Japan-based Komatsu, Caterpillar's most important competitor in the market for earthmoving and construction equipment. They have taken a significant market share by continually raising the quality of their products, which has allowed an extension of warranties, and by extending the range of their products' application through improved technologies. A company may attempt to expand a market that they already serve by *converting non-users to users* of their product. This can be an attractive option in new markets when non-users form a sizeable segment and may be willing to try the product given suitable inducements. Thus when Carnation entered the powdered coffee whitening market with Coffee-mate, a key success factor was its ability to persuade hitherto non-users of powdered whiteners to switch from milk. Former users can also be targeted. Kellogg has targeted former breakfast cereal users (fathers) who rediscover the pleasure of eating cornflakes when feeding their children. Market expansion can also be achieved by *increasing usage*. Colman attempted to increase the use of mustard by showing new combinations of mustard and food. Kellogg has also tried to increase the usage (eating) rate of its cornflakes by promoting eating them in the evening as well as at breakfast.

Market development

This entails the marketing of current products to new customer groups and new regions.

New customer groups

The promotion of nylon for new customer groups accounted for the growth in sales of nylon, which was first marketed as a replacement for silk in parachutes, but expanded into shirts, carpets, tyres, etc.

Geographic expansion

Geographic expansion is appropriate when important competitors are opening up new markets, or when opportunities in new markets will be available for only a short time. These characteristics are often found in high-tech industries such as computer technology and advanced circuit technology. The speed with which new computer chips, for example, can be matched by competitors means that they are marketed globally as quickly as possible to take advantage of product superiority for as long as possible.

Geographic expansion also becomes necessary when intense price competition in slow-growing markets leads to diminishing profit margins. To achieve higher sales volumes, the company introduces its products in markets where few product modifications are required. Eastman Kodak, for example, faced with strong competition from Japan's Fuji and Germany's Agfa-Gevaert (both penetrating growing US, European and Japanese markets), turned to China, where 35 mm film sales have quintupled since the early 1980s, to roughly 120 million rolls in 1995. Only one of the country's seven domestic makers, Lucky Film Corp., had a truly national brand in 1996. While just 12 per cent of China's 1.3 billion people owned a camera, picture taking is fast becoming as popular as it is in Japan. By the end of the decade, China is expected to overtake Japan, becoming the world's second-largest film market, behind the USA. But competition is unavoidable. With less than 30 per cent of the Chinese film market and an even smaller share of photographic paper in 1996, Kodak remains behind. Fuji leads in film and is fighting a price war with Agfa-Gevaert for that company's leading share of the photographic paper market. (Jobber, 1998).

Product development

This strategy involves a major modification of the goods or service, such as quality, style, performance or variety.

A company follows its basic strategy of product market development, allocates resources to a limited number of markets and focuses its operations on the development of new products in these areas. This approach is appropriate if the company is well established in its markets and lacks the motivation, ability or knowledge to adapt to a new environment. Product market development is most appropriate when the current product market has matured and new product markets are growing fast in existing markets.

An offer of 'high performance' versions of existing car models can be used to extend the ranges to additional customers. Similarly, adding vitamins to orange juice will possibly cause some existing users to increase their usage but may also attract new users.

Diversification

This option concerns the development of *new products for new markets*. This is the most risky option, especially when the entry strategy is not based upon the core competences of the business. Firms must be aware of diversification simply because the grass looks greener in the new market.

One obvious example is the tobacco companies that have diversified – often at considerable cost – into areas as varied as cosmetics and engineering. However, diversification can also be a positive move to extend the application of existing expertise.

Honda's move from motorcycles to cars (based on its core competence in engines) and Sony's move into 8 mm camcorders (based on its core competences in miniaturisation and video technology) extended the application of existing expertise.

Disney Corporation diversified from cartoons to theme parks and television broadcasting. Heinz has steadily and successfully extended beyond its core ketchup business; its Weight Watchers brand is now worth hundreds of millions of dollars. But it should be noted that, like many other similarly successful diversifications, Heinz's strategy was built on a logical extension of the company's existing strengths.

Vertical integration is one way for corporations to diversify their operations. *Forward integration* occurs when a firm moves downstream in terms of the product flow – as when a manufacturer acquires a wholesaler or retail outlet. *Backward integration* occurs when a firm moves upstream by acquiring a supplier. For example, Compaq has strengthened its position in computer software markets by acquiring several software developers.

Concentric diversification occurs when a firm internally develops or acquires another business that does not have products or customers in common with its current business, but that might contribute to internal synergy through the sharing of production facilities, brand names, R&D know-how, or marketing and distribution skills. Thus, Sara Lee has made more than 60 acquisitions in recent years, most involving businesses that could benefit from the firm's well-respected brand and its distribution strengths in grocery stores.

Conglomerate diversification, the riskiest diversification of all, moves into completely new areas. For example, British Aerospace decided to apply the huge cash flow from its defence business to investments in cars, construction and property. The company never found the expected synergy and either divested the acquisitions or reported large losses (*Economist*, 1995).

Ansoff's product–market matrix is probably one of the best-known frameworks for delineating overall corporate strategies. A second and increasingly popular group of techniques aimed at the identification and selection of corporate strategies is also based on analysing appropriate marketing strategies. These are the so-called portfolio models and they will be discussed in the next section.

Vertical integration

Seeking control of channel members at different levels of the channel, e.g. the manufacturer's acquisition of the distributor (= forward integration).

7.6 SBU MARKETING STRATEGY/PORTFOLIO ANALYSIS

Portfolio planning

Managing groups of brands and product lines.

The definition of the unit of analysis for **portfolio planning** is a critical stage and one that is often poorly done in practice. The components of a firm involved in portfolio analysis or businesses are called strategic business units, or SBUs. Managers within each of these business units decide which objectives and strategies to pursue. Senior corporate managers typically reserve the right to grant final approval of such decisions to ensure their overall consistency with corporate objectives and resource allocations across SBUs in the company portfolio. Lower-level general managers, however, conduct much of the analysis on which such decisions are based. These managers are more familiar with a given SBU's products and customers, and ultimately they are responsible for implementing its strategy.

Ideally, strategic business units have the following characteristics:

- *homogeneous set of markets to serve with a limited number of related technologies*: minimising diversity across an SBU's product market entries enables the unit's manager to better formulate and implement a coherent and internally consistent business strategy;
- *unique set of product markets*: in the sense that no other SBU within the firm competes for the same customers with similar products. Thus, the firm avoids duplication of effort and maximises economies of scale within its SBUs;
- *control over those factors necessary for successful performance*: production, R&D and engineering, marketing and distribution, etc. This does not mean an SBU should not share resources – such as manufacturing plant or a salesforce – with one or more other business units. But the SBU should determine how its share of the joint resource is used effectively to carry out its strategy;
- *responsibility for their own profitability*.

As you might expect, firms do not always meet all of these ideals when creating business units. There are usually trade-offs between having many small homogeneous SBUs versus large but fewer SBUs that managers can more easily supervise.

Portfolio analysis was originally intended for use at the SBU level, where these are generally defined as subsidiaries which can operate independently as businesses in their own right. In reality, however, boundaries are seldom clear-cut and the problems of definition can be substantial.

Practitioners have often used the portfolio models (e.g. the BCG model) to look at products rather than business units or to provide a pictorial presentation of international markets. These applications do not conform strictly to those for which it was originally intended, but its value as a means of presenting much information still remains, providing the limitations of the matrix are kept in mind.

Where products are selected as the unit of analysis it is important that market shares and growth rates reflect the more specific market sectors in which they are operating.

Product life cycle (PLC)

In relation to portfolio models, the most important message the PLC can bring to management is that of cash flow. The model offers a clear reminder that the launch of a new brand requires significant investment that can last from its launch to the end of the growth phase, which can be a longer period than most organisations allow for. In addition, the more successful the new brand, the greater the investment needed.

This proposition suggests that products are born, grow to maturity and then decline, much like plants and animals. During the introductory period, sales grow rapidly but the high expenses mean that no profits are made. Near the end of the growth stage, the rate of expansion of sales begins to slow down and profits reach a peak. During the maturity phase,

sales reach their peak and profits are slowly eroded by increasing competition. If nothing is done to revive declining products, they eventually have to be dropped. However, sometimes it is hard to know when a product is leaving one stage and entering the next. The life cycle concept helps managers think about their product line as a portfolio of investments.

Most organisations offer more than one product or service, and many operate in several markets. The advantage here is that the various products – the **product portfolio** – can be managed so that they are not all in the same phase in their life cycles. Having products evenly spread out across life cycles allows for the most efficient use of both cash and human resources. Figure 7.5 shows an example of such life cycle management and some of the corresponding strategies that follow the different stages of the product life cycle.

The current investment in C, which is in the growth phase, is covered by the profits being generated by the earlier product B, which is at maturity. This product had earlier been funded by A, the decline of which is now being balanced by the newer products. An organisation

Product portfolio

A collection of products balanced as a group. Product portfolio analysis focuses on the interrelationships of products within a product mix. The performance of the mix is emphasised rather than the performance of individual products.

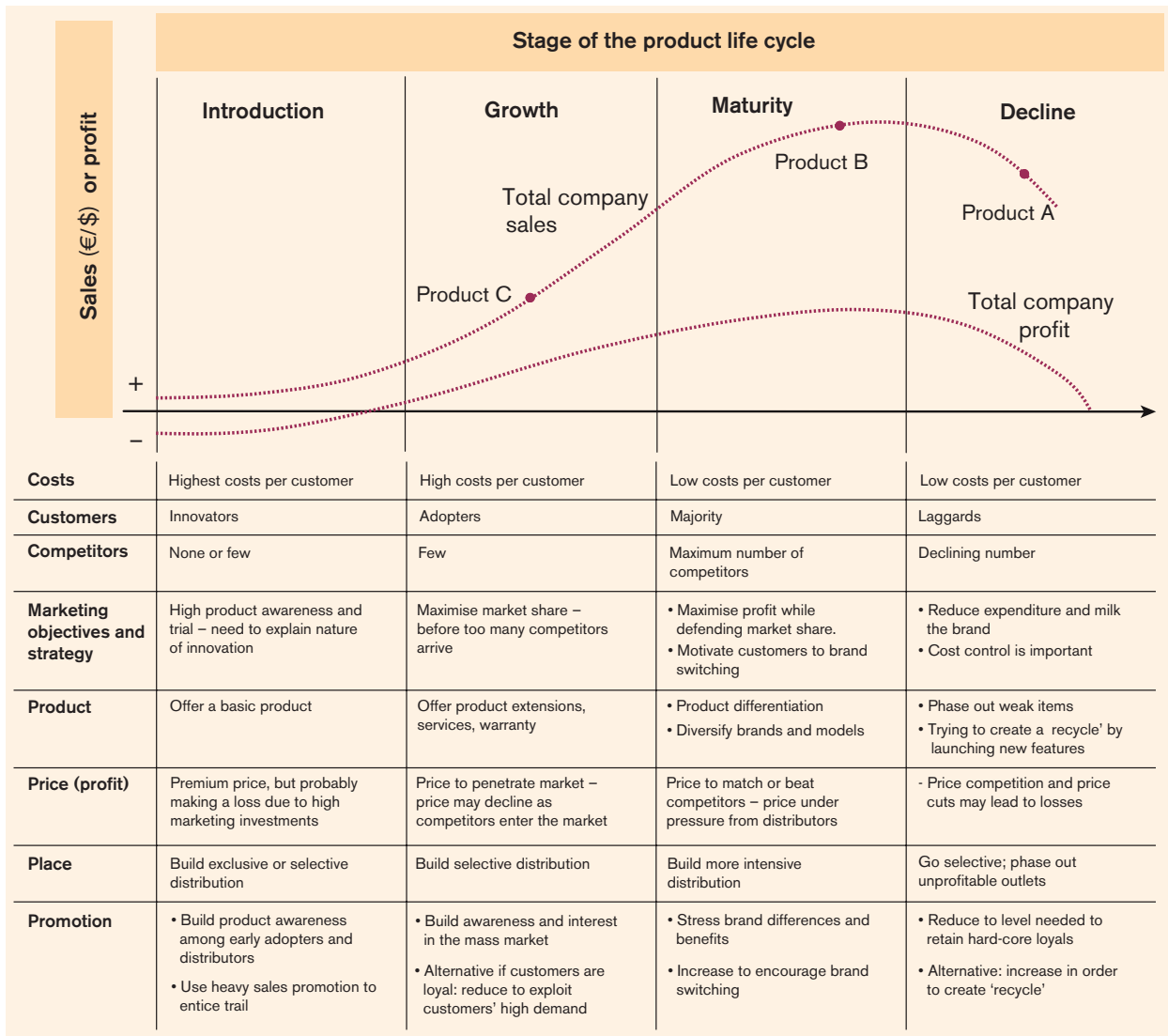


Figure 7.5

Product life cycle

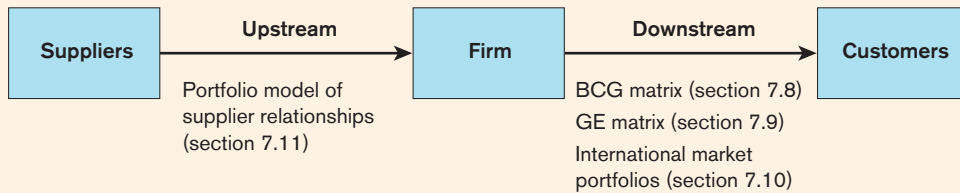


Figure 7.6

Portfolio models in upstream and downstream relationships

looking for growth can introduce new goods or services that it hopes will be bigger sellers than those that they succeed. However, if this expansion is undertaken too rapidly, many of these brands will demand investment at the beginning of their life cycles, and even the earliest of them will be unlikely to generate profits fast enough to support the numbers of later launches. Therefore, the producer will have to find another source of funds until the investments pay off.

7.7 INTRODUCTION TO PORTFOLIO MODELS

Relationship marketing attempts to involve and integrate customers, suppliers and other partners into the firm's development of marketing activities.

Portfolio models have their foundation in Markowitz's (1952) pioneering portfolio theory for the management of equity investments. Since then, portfolio models have been widely used in strategic planning, essentially at the SBU level.

The portfolio models discussed in this chapter tend to focus on the downstream relationships to the customers (market). Portfolio models have been used in strategic planning and marketing, but their application to the field of purchasing has been limited. This seems, however, to be changing, as procurement management has become more strategic. This is why the dyadic aspect of interdependence between buyer and suppliers, the upstream aspects of relationships, are also included in this chapter (Figure 7.6).

We will start with the downstream-oriented portfolio models (sections 7.8, 7.9 and 7.10) and then look at an upstream-oriented portfolio model of supplier relationships in section 7.11.

7.8 THE BOSTON CONSULTING GROUP'S GROWTH-SHARE MATRIX – THE BCG MODEL

One of the first – and best known – of the portfolio models is the growth–share matrix developed by the Boston Consulting Group in the late 1960s. The Boston Matrix offers a useful map of an organisation's product strengths and weaknesses as well as the likely cash flows. It was reasoned that one of the main indicators of cash generation was relative market share, and market growth rate was indicative of cash usage. Figure 7.7 shows the Boston Matrix. It is well worth remembering that one of the key underlying assumptions of this matrix is the expectation that the position of products in their markets will change over time. This assumption is, of course, the incorporation of the product life cycle thinking discussed earlier.

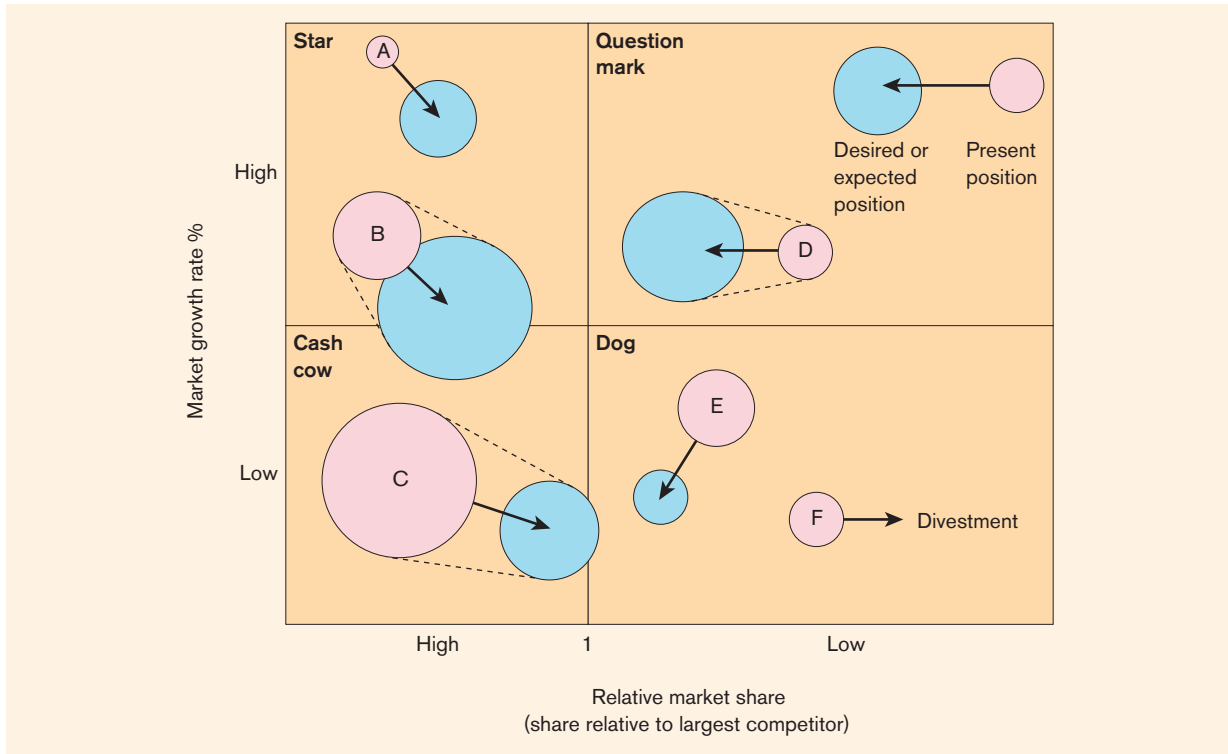


Figure 7.7

The BCG model

Market growth rate

The theory behind the BCG model assumes that a higher growth rate is indicative of accompanying demands on investment. Inflation and/or gross national product have some impact on the range and thus the vertical axis can be modified to represent an index where the dividing horizontal line between low and high growth is at e.g. 5%. Industries expanding faster than inflation or GNP would show above the line and those growing at less than inflation or GNP would be classed as low growth and show below the line. The theory behind the BCG model assumes that a higher growth rate is indicative of accompanying demands on investment.

Figure 7.7 presents an example of the share/growth matrix in which six product lines (A–F) make up the portfolio. A pink circle represents the current position, and a blue circle the forecast future position. The area of the circle is proportional to the product's contribution to company sales volume.

Figure 7.7 shows also the two factors which underlie the Boston Consulting Group's approach. Market share is used because it is an indicator of the product's ability to generate cash; market growth is used because it is an indicator of the product's cash requirements.

Market growth rate

The vertical axis recognises the impact of 'market growth rate' on cash flow. This dimension acts as a proxy, or more easily measured substitute, for the more difficult to assess product life cycle and reflects the strategies and associated costs typical over the cycle. At product launch costs are likely to far outstrip revenues. R&D costs will need to be recouped, production capacity created and market beachheads established. Typically during the launch and introductory phases of the life cycle, cash flow will be negative and hence there will be a need to invest cash generated elsewhere (or borrowed from external sources) in the venture.

As the product becomes established in the market, revenues will pick up, but the venture is likely to remain cash hungry because of the need to make further capital investment.

Relative market shares

The horizontal axis of the BCG model depicts relative market share. The term 'relative market share' is measured *relative* to the firm's largest competitor. This is important because it reflects

Relative market share

Comparing your market share with that of your biggest competitor. Having a relative market share of >1 means you are the market leader that outperforms the next biggest by this factor. A relative market share <1 shows how far away you are from being the market leader.

Profit Impact of Marketing Strategy (PIMS)

An empirical study, which seeks to identify the key factors underlying profitability and strategic success in an industry.

the degree of dominance enjoyed by the product in the market. For example, if company A has 20 per cent market share and its biggest competitor has 40 per cent, the relative market share is $1:2 = 0.5$. If company A has 20 per cent market share and its biggest competitor also has 20 per cent market share, this position is usually less favourable than if company A had 20 per cent market share and its biggest competitor had only 10 per cent market share. The relative ratios would be 1:1 compared with 2:1. It is this ratio, or measure of market dominance, that the horizontal axis measures.

While market growth rate has been found to be a useful indicator of cash use (or the need for investment), market share has been found to be related to cash generation. Higher market shares, relative to competitors, are associated with better cash generation because of economies of scale and experience curve effects. The experience curve concept, also developed by the Boston Consulting Group in the 1960s, forms the foundation for this relationship, but further supporting evidence comes from the influential **Profit Impact of Marketing Strategy (PIMS)** study of the 1970s and 1980s. Relative market share is in effect used as a proxy for profitability, the underlying premise being that dominant share leads to superior profitability.

Each of the four cells in the growth–share matrix represents a different type of business with different strategy and resource requirements. The implications of each are discussed below.

Question marks

Businesses in high-growth industries with low relative market shares are called question marks or problem children. Such businesses require large amounts of cash, not only for expansion to keep up with the rapidly growing market, but also for marketing activities (or reduced margins) to build market share and catch the industry leader. If management can successfully increase the share of a question mark business, it becomes a star. But if they fail, it eventually turns into a dog as the industry matures and the market growth rate slows.

Stars

A **star** is the market leader in a high-growth industry. Stars are critical to the continued future success of the firm. As their industries mature, they move into the bottom-left quadrant and become cash cows. Paradoxically, while stars are critically important, they are often net users rather than suppliers of cash in the short term. This is because the firm must continue to invest in such businesses to keep up with rapid market growth and to support the R&D and marketing activities necessary to stave off competitors' attacks and maintain a leading market share. Indeed, share maintenance is crucial for star businesses to become cash cows rather than dogs as their industries mature.

Cash cows

Businesses with a high relative share of low-growth markets are called **cash cows** because they are the primary generators of profits and cash in a corporation. Such businesses do not require much additional capital investment. Their market shares are stable, and their share leadership position usually means they enjoy economies of scale and relatively high profit margins. Consequently, the corporation can use the cash from these businesses to support its question marks and stars (as shown in Figure 7.8). However, this does not mean the firm should necessarily maximise the business's short-term cash flow by cutting R&D and marketing expenditures to the bone – particularly not in industries where the business might continue to generate substantial future sales. When firms attempt to harvest too much cash from such businesses, they risk suffering a premature decline from cash cow to dog status, thus losing profits in the long term.

Dogs

Low-share businesses in low-growth markets are called dogs because, although they may generate some cash, they typically generate low profits, or losses. Divestiture is one option for such businesses, although it can be difficult to find an interested buyer. Another common

Star

A high market share product in a high-growth market.

Cash cow

A high market share product in a low-growth market.

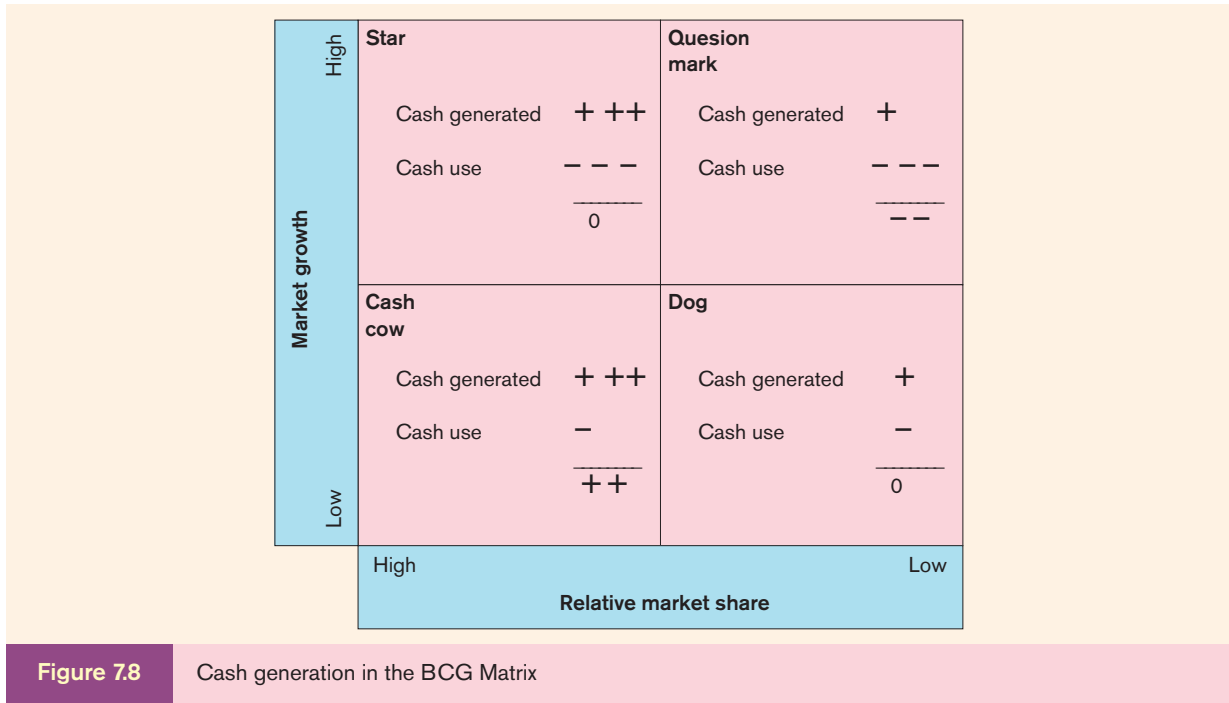


Figure 7.8 Cash generation in the BCG Matrix

strategy is to harvest dog businesses. This involves maximising short-term cash flow by paring investments and expenditures while the business is gradually phased out.

Strategy implications of BCG

In a typical company, products could be scattered in all four quadrants of the portfolio matrix. The appropriate strategy for products in each cell is given briefly in Table 7.2.

Table 7.2 Characteristics and strategy implications of products in the matrix quadrants			
Quadrant	Investment characteristics	Cash flow characteristics	Strategy implication
Stars	Continual expenditures for capacity expansion Pipeline filling with cash	Negative cash flow (net cash user)	Continue to increase market share, if necessary at the expense of short-term earnings
Cash cows	Capacity maintenance expenditures	Positive cash flow (net cash contributor)	Maintain share and leadership until further investment becomes marginal
Question marks	Heavy initial capacity expenditures High research and development costs	Negative cash flow (net cash user)	Assess chances of dominating segment: if good, go after share; if bad, redefine business or withdraw
Dogs	Gradually deplete capacity	Positive cash flow (net cash contributor)	Plan an orderly withdrawal so as to maximise cash flow

Source: Adapted from Hollensen, S. (2006) *Marketing Planning: A Global Perspective*, McGraw-Hill Education, Maidenhead. Reproduced with permission from the McGraw-Hill Companies.

In summary, the portfolio matrix approach provides for the simultaneous comparison of different products. It also underlines the importance of cash flow as a strategic variable. Thus, when continuous long-term growth in earnings is the objective, it is necessary to identify high-growth product/market segments early, develop businesses, and pre-empt the growth in these segments. If necessary, short-term profitability in these segments may be forgone to ensure achievement of the dominant share. Costs must be managed to meet scale-effect standards. The appropriate point at which to shift from an earnings focus to a cash flow focus must be determined and a liquidation plan for cash flow maximisation established. A cash-balanced mix of businesses should be maintained.

The portfolio matrix approach, however, is not a panacea for strategy development. In reality, many difficulties limit the workability of this approach. Some potential mistakes associated with the portfolio matrix concept are:

- 1 over-investing in low-growth segments (lack of objectivity and 'hard' analysis);
- 2 under-investing in high-growth segments (lack of guts);
- 3 misjudging the segment growth rate (poor market research).

The relationship between the BCG model and the concept of PLC

The product portfolio matrix approach propounded by the Boston Consulting Group may be related to the product life cycle by putting the introduction stage in the question mark quadrant; growth starts toward the end of this quadrant and continues well into the star quadrant. Going down from the star to the cash cow quadrant, the maturity stage begins. Decline is positioned between the cash cow and the dog quadrants (see Figure 7.9). Ideally, a company should enter the product/market segment in its introduction stage, gain market share in the growth stage, attain a position of dominance when the product/market segment enters its

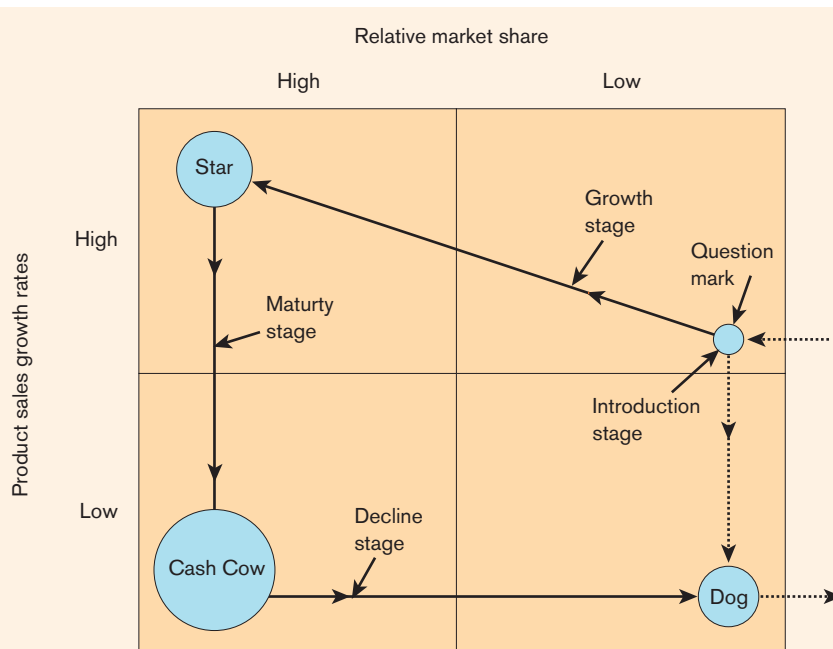


Figure 7.9

The BCG model and the product life cycle

maturity stage, maintain this dominant position (with a generation of cash for new products) until the product/market segment enters its decline stage, and then determine the optimum point for removing the product.

This ideal PLC is often in contrast to the typical PLC flow which is represented by the dotted line in Figure 7.9.

The advantages of the BCG model

The advantages of the BCG model are as follows:

- 1 It fulfils a human desire for taxonomy, classifying a complex mix of different businesses. It is easy to grasp, has an attractive presentation and uses catch phrases and terms which are easy to memorise and have a clear link to strategy. These may be poor reasons for using a strategic tool, but they make it an effective means of communication in an area where little else is clear.
- 2 Research has provided some evidence to support the Boston Matrix. It embodies simple ideas with cash flow implications which are intuitively appealing to managers. The PIMS study has been a particularly fruitful source of support for the Boston Matrix.
- 3 Simplicity is probably the Boston Matrix's greatest virtue. It brings together a number of very important strategic issues and allows them to be presented and understood quickly. Fashion has led to the popularity of the Boston Matrix. This means it is an idea that is well understood and liked by many managers and therefore one which allows communication between headquarters and SBUs. It has become part of the common business vocabulary.
- 4 One of the most informative uses of the Boston Matrix is to plot competitors' positions along with the firm's own. This gives a valuable insight into their position (especially their cash position), indicates how they may behave in the future, and shows the relative strengths and weaknesses of the firm's own brands.

The disadvantages of the BCG model

The BCG model is not without problems and limitations. Some of the more frequent criticisms are as follows:

- 1 Defining the relevant industry and market served (i.e. the target market segments being pursued) can present problems. Market share varies depending on the definition of the corresponding product/market. Hence, a product may be classified in different cells, depending on the market boundaries used. For example, Coke Classic holds about a 24 per cent share of the US soft-drinks market, but less than 8 per cent of the market for all beverages. Given that consumers substitute other beverages – such as coffee, bottled water and fruit juice – for soft drinks to varying degrees, which is the most appropriate market definition to use?
- 2 Many critics have argued that the BCG growth share matrix is an oversimplification of product markets and can lead to insufficient management attention to the range of factors that is important in marketing strategy. For example, the matrix is based on only two key factors – market growth and relative market share. While the matrix specifies appropriate investment strategies for each business, it provides little guidance on how best to implement those strategies. While the model suggests that a firm should invest cash in its question mark businesses, it does not consider whether there are any potential sources of competitive advantage that the business can exploit to successfully increase its share. Simply providing a business with more money does not guarantee that it will be able to improve its position within the matrix.

- 3 Market growth rate is an inadequate description of overall industry attractiveness. For one thing, market growth is not always directly related to profitability or cash flow. Some high-growth industries have never been very profitable because low entry barriers and low capital requirements have enabled supply to grow even faster, resulting in intense price competition. Also, rapid growth in one year is no guarantee that growth will continue in the following year.
- 4 Relative market share is inadequate as a description of overall competitive strength. The assumption is that an experience curve resulting from a combination of scale economies and other efficiencies gained through learning and technological improvements over time leads to continuing reductions in unit costs as a business's relative market share increases. But a large market share within an industry does not always give a business a significant cost advantage – especially when the product is a low-value-added item.
- 5 The model implicitly assumes that all business units are independent of one another except for the flow of cash. If this assumption is inaccurate, the model can suggest some inappropriate resource allocation decisions. For instance, if other SBUs depend on a dog business as a source of supply, or if they share functional activities, such as a common salesforce, harvesting that dog might increase the costs or reduce the effectiveness of the other SBUs.
- 6 The BCG portfolio framework was developed for balancing cash flows. It ignores the existence of capital markets. Cash balancing is not always an important consideration. Partly because of limitations and criticisms of the BCG growth share matrix, a number of product/market portfolio techniques now use several factors to analyse strategic business units instead of only the two found in BCG's approach. Working in conjunction with McKinsey & Co., General Electric USA (GE) has developed one of the more popular of these multiple-factor **screening** methods.

Screening

The stage in new product or market development in which a marketer analyses ideas to determine their appropriateness and reasonableness in relation to the organisation's goals and objectives.

7.9 GENERAL ELECTRIC MARKET ATTRACTIVENESS – BUSINESS POSITION MATRIX (GE MATRIX)

In the GE matrix, SBUs are evaluated using the two factors of *market attractiveness* and *competitive position*. In contrast to the BCG approach, each of these two dimensions is, in turn, further analysed into a number of sub-factors that underpin each factor.

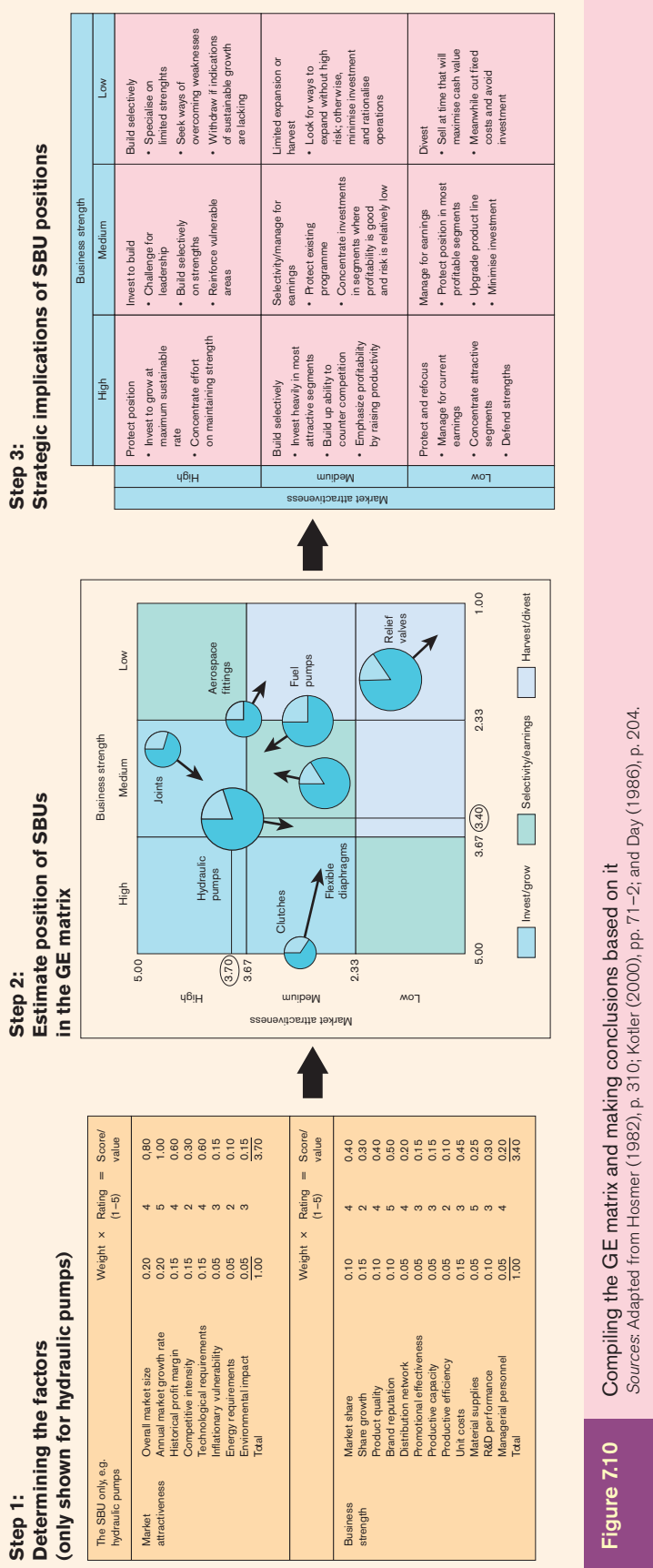
The market attractiveness–business position portfolio assessment model was developed by General Electric USA and designed to overcome some of the problems of models such as the BCG Matrix.

The classic analysis of attractiveness is contained in the nine-cell GE matrix, which also includes a study of the competitive strength of a supplier. Other similar matrices are the Shell directional policy matrix and the Arthur D. Little product–market evolution portfolio. Each is a logical refinement of the heavily criticised Boston Consulting Group (BCG) Matrix. The replacement of the single BCG factor of market growth with the more complex multi-dimensional market attractiveness on the vertical axis, and, on the horizontal, using measures of competitive strength instead of the single factor of relative market share makes the nine-cell alternative far stronger as an analytical tool.

Compiling the GE matrix

As shown in Figure 7.10, the process of compiling the GE matrix consists of the following three major steps:

- Step 1: determine the factors and the position of the SBU in the GE matrix;
- Step 2: prepare the GE matrix (estimate position of SBUs);
- Step 3: make strategic recommendations based on the GE matrix.



The five sub-steps in step 1 are:

- list the products and services that you intend to include in the analysis;
- determine factors contributing to market attractiveness;
- determine factors contributing to business position;
- establish ways of measuring market attractiveness and business position;
- rank each strategic business unit according to whether it is high, medium or low on business strength; and high, medium or low on market attractiveness.

Products and services

The list can consist of: countries, companies, subsidiaries, regions, products, markets, segments, customers, distributors or any other unit of analysis that is important. The GE matrix can be used at any level in an organisation and for any kind of SBU.

Factors

In order to use the GE matrix, the strategic planner must first determine the various factors contributing to market attractiveness and business position. The total list of possible factors to include could look like Table 7.3.

Ranking each SBU

After selecting some important factors from the list, the strategic planner should try to estimate the position of the single SBUs in the GE matrix. Within the matrix, the circle size represents the size of the market and the shaded part the share of the market held by the SBU.

The positions of these SBUs could then give implications for different strategies (step 3). The three cells in the upper-left corner indicate strong SBUs in which the company should invest or grow. The diagonal cells stretching from the lower left to the upper right indicate SBUs that are medium in overall attractiveness. The company should be selective and manage for earnings in these SBUs. The three cells in the lower-right corner indicate SBUs that have low overall attractiveness.

Advantages and disadvantages of the GE matrix

Advantages

- The GE matrix uses several factors to assess SBUs instead of only two, and is also based on return on investments rather than simply cash flow.
- The GE analysis is much richer than the BCG analysis because more factors are taken into account, and it is more flexible.
- Much of the value of such a tool lies in the discussion and debate necessary to identify and weight relevant factors.

Disadvantages

- The technique is much more complex than the BCG approach, and requires much more extensive data gathering and processing.
- Evaluation and scoring of SBUs is subjective. Subjectivity can be a problem, especially if planners are inexperienced in exercising the judgement required.

Table 7.3 Factors contributing to market attractiveness and competitive position

Attractiveness of your market	Competitive position of your business (business strengths)
Market factors	
Size (value, units or both)	Your share (in equivalent terms)
Size of key segments	Your share of key segments
Growth rate per year:	Your annual growth rate:
– total	– total
– segments	– segments
Diversity of market	Diversity of your participation
Sensitivity to price, service features and external factors	Your influence on the market
Cyclicality	Lags or leads in your sales
Seasonality	
Bargaining power of upstream suppliers	Bargaining power of your suppliers
Bargaining power of downstream suppliers	Bargaining power of your customers
Competition	
Types of competitor	Where you fit, how you compare in terms of products, marketing capability
Degree of concentration	
Changes in type and mix	Service, production strength, financial strength, management
Entries to and exits from market segment	Segments you have entered or left
Changes in share	Your relative share change
Substitution by new technology	Your vulnerability to new technology
Degrees and types of integration	Your own level of integration
Financial and economic factors	
Contribution margins	Your margins
Leveraging factors, such as economies of scale and experience	Your scale and experience
Barriers to entry or exit (both financial and non-financial)	Barriers to your entry or exit (both financial and non-financial)
Capacity utilisation	Your capacity utilisation
Technological factors	
Maturity and volatility	Your ability to cope with change
Complexity	How strong your skills are
Differentiation	Types of your technological skills
Patent and copyrights	Your patent protection
Manufacturing process technology required	Your manufacturing technology
Socio-political factors in your environment	
Social attitudes and trends	Your company's responsiveness and flexibility
Law and government agency regulations	Your company's ability to cope
Influence with pressure groups and government representatives	Your company's aggressiveness
Human factors, such as unionisation and community acceptance	Your company's relationships

- Another limitation is the unproven relationship between influencing factors and the overall factors (market attractiveness and business position) themselves. For instance, management recognises that its company's technological innovativeness gives it a strong status in the market, but the form and the direction of that relationship is not specified or easily quantifiable. Again, informed debate about the nature and form of such relationships can be highly beneficial.

Despite the limitations and practical difficulties in assessing future changes and strategic choices to deal with them, the technique has useful implications for marketing strategy. The limitations may be somewhat minimised if management uses informed judgement throughout the assessment. The model can be used to build up a qualitative picture of the product portfolios of its own or other companies, hence also providing a useful insight into competitors' market positions and business strengths.

7.10 INTERNATIONAL PORTFOLIO ANALYSIS

To decide which markets should be served, management must simultaneously examine the attractiveness of potential product and country markets and the firm's competitive position in the markets. On the one hand, management will try to focus the activities of the firm on the most attractive markets. On the other, it has to consider the firm's ability to build on or develop competitive advantages in those markets.

A potential method of simultaneously analysing the attractiveness of markets and the competitive position of the firm (its business units, product range or products) in those markets is portfolio analysis. The matrix used for international portfolio analysis is very similar to the GE matrix, but factors such as political and financial risk, transferability of funds, taxes and subsidies, or the potential for standardisation influence the portfolio structure. These factors have to be introduced to the comparison to increase the information level included in the analysis. A highly profitable market can be threatened by political unrest, religious upheavals or restrictive laws concerning business.

Figure 7.11 shows an example of how a country is positioned in an international portfolio. The principle behind the positioning process is the same as with the GE matrix.

The corporate portfolio analysis provides an important tool to assess how to allocate resources not only across geographic areas, but also across the different product businesses (Douglas and Craig, 1995). The global corporate portfolio represents the highest level of analysis and it might consist of operations by product businesses or geographic areas.

As illustrated in Figure 7.12 Unilever's highest level of analysis is its different product businesses. With this global corporate portfolio as a starting point, the further analysis of single corporate product businesses can go in a product factor, a geographic factor or a combination of the two factors.

It appears from the global corporate portfolio in Figure 7.12 that Unilever's foods business is characterised by high market attractiveness and high competitive strengths. However, a more distinct picture of the situation is obtained by analysing underlying levels. This more detailed analysis is often required to give an operational input to specific market planning decisions.

By combining the product and geographic dimensions it is possible to analyse the global corporate portfolio at the following levels (indicated by the arrows in Figure 7.12):

- 1 product category by region (or vice versa)
- 2 product category by country (or vice versa)
- 3 region by brand (or vice versa)
- 4 country by brand (or vice versa).

Of course, it is possible to make further detailed analysis of, for example, the country level by analysing different customer groups (e.g. food retailers) in certain countries. Thus, it may be important to assess the interconnectedness of various portfolio units across countries or regions. A customer (e.g. a large food retail chain) may have outlets in other countries, or the large retailers may have formed cross-border alliances in retailing with central purchasing from suppliers (e.g. Unilever) – see also section 13.11 on retailing.

Step 1:
Factors of country attractiveness
and competitive strength

Market/country attractiveness	Competitive strength
Market size (total and segments)	Market share
Market growth (total and segments)	Marketing ability and capacity (country specific know-how)
Buying power of customers	Product fit to market demands
Market seasons and fluctuations	Price
Average industry margin	Contribution margin
Competitive conditions (concentration, intensity, entry barriers, etc.)	Image
Market prohibitive conditions (tariff/non-tariff barriers, import restrictions, etc.)	Technology position
Government regulations (price controls, local content, compensatory exports, etc.)	Product quality
Infrastructure	Market support
Economic and political stability	Quality of distributors and service
Psychic distance (from home base to foreign market)	Financial resources
	Access to distribution channels

Step 2:
Questionnaire for locating countries
on a market attractiveness/competitive
strength matrix

Time of analysis:
Analysis of product area:
In country:

A. Market attractiveness

	1	2	3	4	5	% Weight factor	Result (grading factor x weight)
Market size	Very poor	Poor	Medium	Good	Very good		
Market growth							
Buying structure							
Prices							
Buying power							
Market access							
Competitive intensity							
Political/economical							
Other							
Total						100	

Market attractiveness = Result: 100 =

B. Relative competitive strength
With regard to the strongest competitor

	1	2	3	4	5	% Weight factor	Result (grading factor x weight)
Products fit to market demands	Very poor	Poor	Medium	Good	Very good		
Prices and conditions							
Market presence							
Marketing							
Communication							
Obtainable market							
Financial results							
Other							
Total						100	

Market attractiveness = Result: 100 =

Step 3:
Strategic implications of country positions

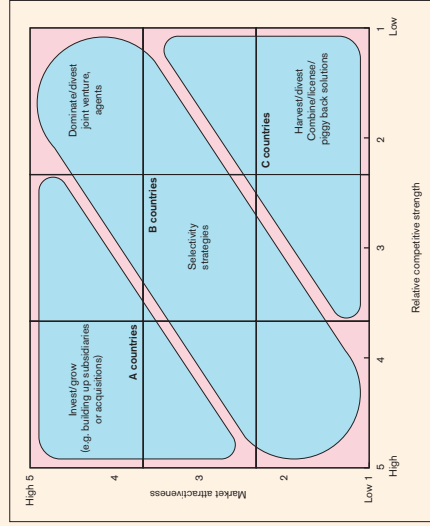


Figure 7.11

Country positioning in the international portfolio

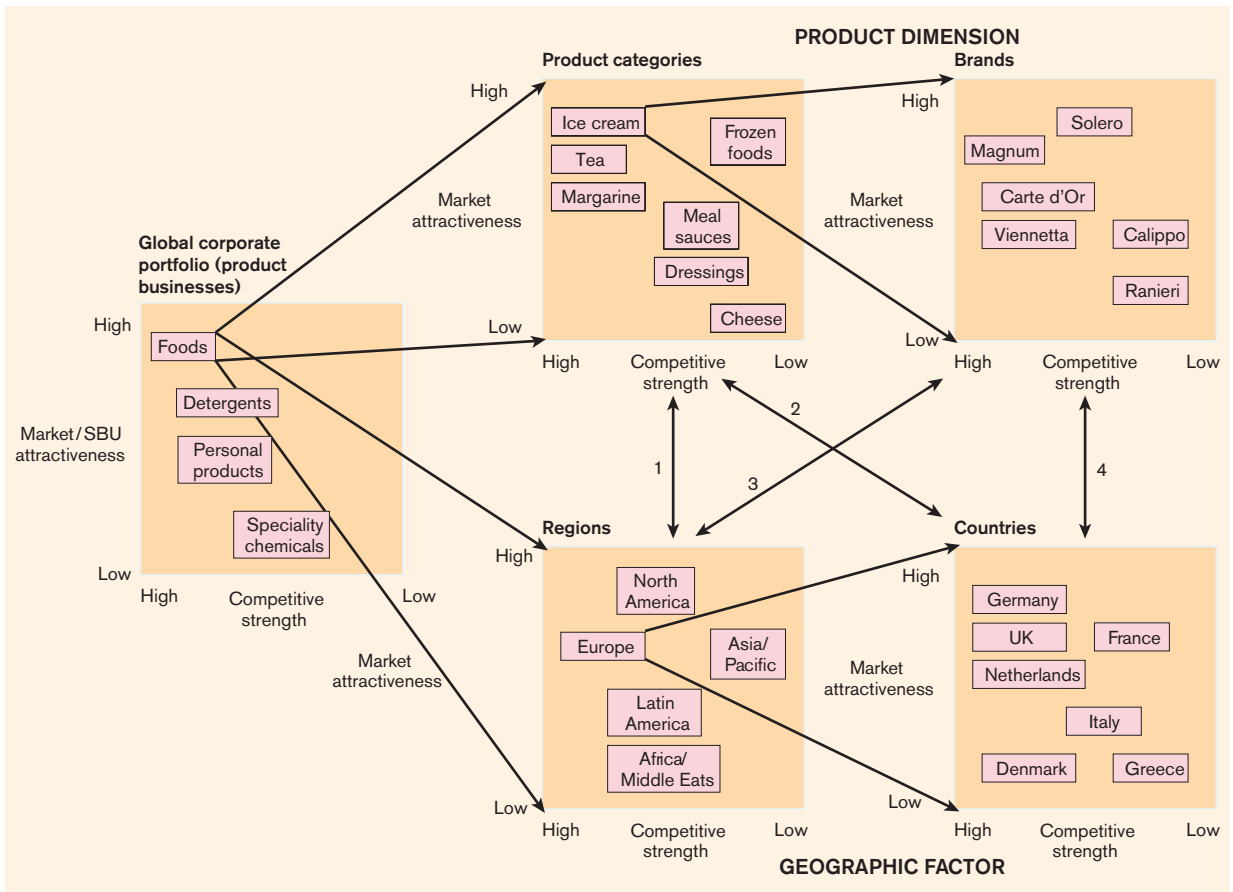


Figure 7.12

Unilevers global portfolio

Source: Hollensen, S. (2001) *Global Marketing: A Market Responsive Approach*, 2nd ed., Financial Times-Prentice Hall, Harlow, p. 209. Reproduced with permission.

7.11 PORTFOLIO ANALYSIS OF SUPPLIER RELATIONSHIPS

During the past two decades, the strategic importance of firms' supply sides has increased considerably. These changes are commonly referred to as a shift from purchasing to supply management. According to this perspective, competitive advantage no longer resides with a firm's own capabilities, but rather with the relationship and linkages that the firm can establish with external organisations, including suppliers.

In particular, it has been emphasised that buying firms tend more and more to:

- outsource non-critical activities;
- establish close 'partnership' relationships with suppliers;
- reduce and trim their supplier base.

Why are there so many advocates of the relationship focus in marketing?

The transaction cost approach argues that every arm's-length transaction involves a transaction cost in search, negotiation and other associated activities. This leads to inefficiencies instead of efficiencies for the firms engaged in exchange transactions.

Relationship marketers, therefore, believe that interdependencies reduce transaction costs and generate higher quality while keeping management costs lower than exchange marketing. In short, better quality at a lower cost is achieved through interdependence and partnering among the value chain players.

The primary objective of this section is to describe some important considerations when analysing and developing a supplier portfolio. Based on the Kraljic (1983) supplier portfolio model, the approach in this study suggests that power and the risk of opportunistic behaviour are only two factors influencing the appropriate strategy when managing supplier relationships. Therefore, the portfolio of supplier relationships associated with purchases is categorised based on the relative supplier attractiveness and the strength of the relationship between the buyer and the supplier (Olsen and Ellram, 1997).

The portfolio model in Figure 7.13 illustrates an example of a firm by representing each relationship with a circle where the size of the circle illustrates the current allocation of resources to the relationship. This is often equivalent to the yearly value of purchase at that particular supplier. In Figure 7.13 the firm has 14 suppliers.

The relative supplier attractiveness describes the factors that make a company choose a specific supplier. It is necessary to use a contingency approach, because the factors and especially their importance will vary from company to company. Figure 7.13 contains some important factors that could be used to evaluate the relative supplier attractiveness. Therefore, it is important to emphasise that the company has to do this. The current supplier should be compared with alternative suppliers to determine the attractiveness. The list is not comprehensive, and firms may benefit from including other more specific factors. It is important that the company discusses which factors are important and allocates a weight to each relevant factor.

The financial and economic factors include an evaluation of the supplier's margins, financial stability, scale and experience, and the barriers to the supplier's entry and exit. An assessment of the economic factors also includes an evaluation of the slack, that is, a measure of the effect of the supplier's activities on the reduction of the buyer's internal economic process costs. The performance factors include a traditional evaluation of delivery, quality, price, etc. The technological factors include an assessment of the supplier's ability to cope with changes in the technology and an assessment of the current and future strength and types of the supplier's technological capabilities, the supplier's current and future capacity utilisation, the supplier's design capabilities, the speed in development, and the supplier's patent protection.

The organisational, cultural and strategic factors include an evaluation of the relationship's influence on the company's overall supply chain position. An evaluation of the possibility of opportunistic behaviour and other internal and external factors is also important. Finally, the group of other factors includes an assessment of the supplier's ability to cope with general changes in the environment. These changes could include changes in legislation, supply condition or the level of competition. Another important factor could be the safety record of the supplier.

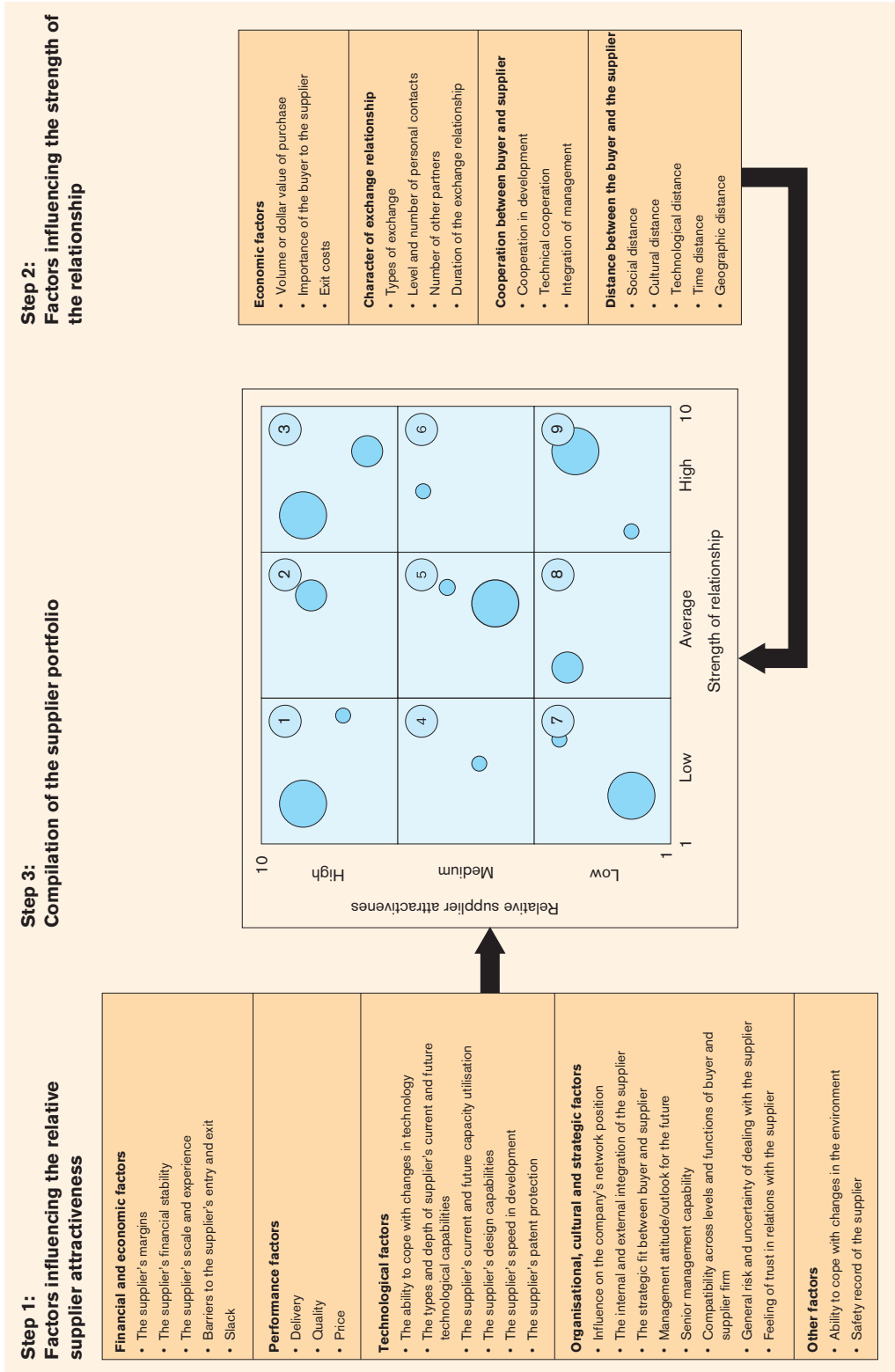
The strength of the relationship describes the factors that create bonds between two companies. Figure 7.13 illustrates some factors that could be evaluated; it is not comprehensive.

The economic factors describing the strength of the relationship include the value of the purchase, the importance of the buyer in terms of the percentage of the supplier's sales being purchased by the buyer, and the cost of exiting that market. In this situation, the transaction-specific investments will create exit costs, because the investments cannot be transferred to other customers or suppliers.

The character of the exchange relationship describes characteristics of the exchange situation that creates stronger bonds between the companies.

Strategic implications of the suppliers' portfolio

The two 'extreme' situations (cells 3 and 7 in Figure 7.13) will be used as examples for the strategic implications.



Cell 3 includes the supplier relationships where the supplier has a high relative attractiveness and the relationship is relatively strong. The strategy for these relationships could be to reallocate resources among different activities in order to maintain a strong relationship.

Strong relationships are costly because coordination, adaptation and interaction entail costs. Increasing involvement usually means a substantial increase in relationship and supply handling costs, but may, under certain circumstances, lead to lower direct procurement and transaction costs. However, the main rationale for strong relationships is to achieve cost benefits, for instance through taking advantage of supplier skills and developing capabilities to improve the quality of the customer's end product. Increased involvement makes sense only when the increased relationship costs are more than offset by relationship benefits. Reaping these benefits most often requires non-standardised solutions and customer-specific adaptations. High-involvement relationships are associated with investment logic.

Cell 7 includes relationships with low supplier attractiveness combined with a weak relationship. These relationships need attention because a reasonable strategy would be to change the supplier.

Weak relationships may lead to higher direct procurement costs and transaction costs. On the buyer side, there may be costs for adapting internal resources to fit with what suppliers have to offer. In the absence of good coordination, the buyer might be obliged to build up inventories as a buffer against possible risks. Furthermore, in order to ensure availability of supplies, the customer might tend to use many suppliers, resulting in increased supply handling costs.

At first sight it does not seem right that the firm offers so many resources to the relationship with the 'big size circle' supplier in cell 7. However, before changing the supplier, it is important to reconsider the supplier's influence on the company's network position. The supplier could be important in relation to other members of the network (other suppliers or customers). This could be an important reason to maintain the supplier. Other strategies include outsourcing the purchase or using systems contracting to enhance the supplier attractiveness.

Supplier types

Based on the assessment of the supplier portfolio model it is possible to develop a typology which breaks the suppliers into four categories (Figure 7.14). The following analyses the involvement of partner suppliers into one of the key activities of the firm, product development.

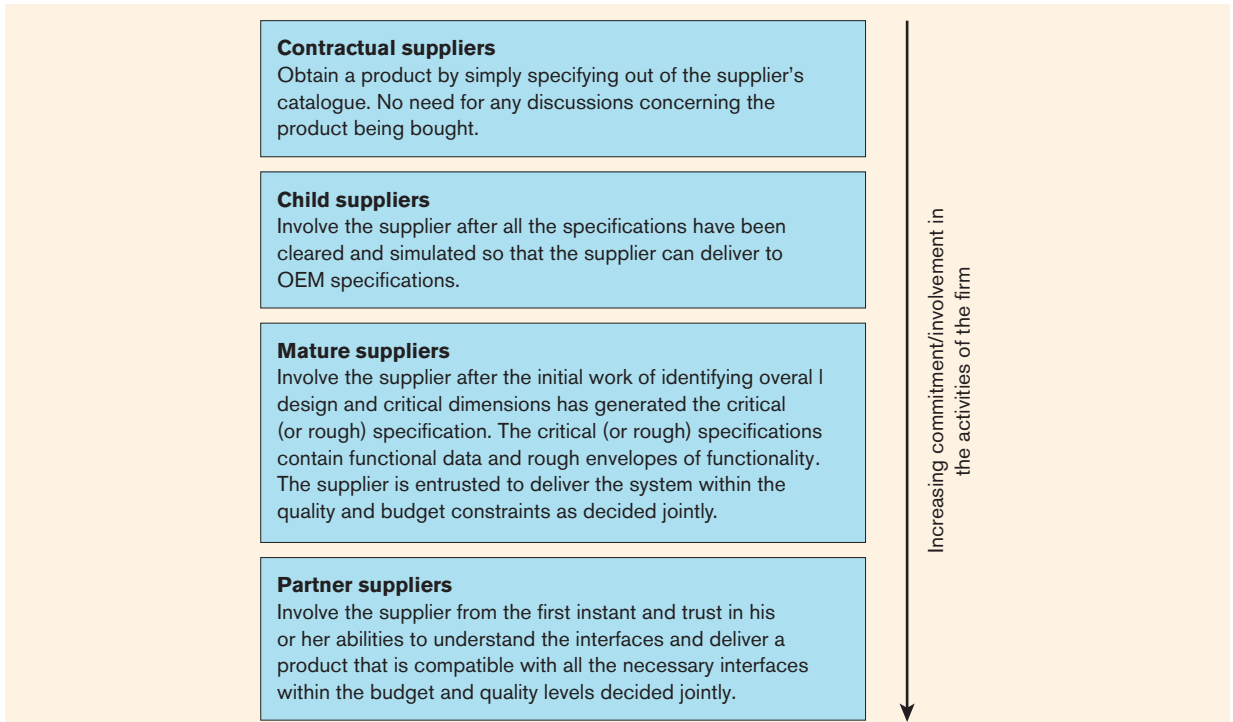
Involvement of partner suppliers in product development

In many industries, manufacturing companies give suppliers increasing responsibilities with regard to the design, development and engineering of products. The overall aims are to make better use of suppliers' technological capabilities and expertise and to improve (short-term) product development efficiency and effectiveness.

In terms of efficiency, supplier involvement can lead to the reduction of development costs and the reduction of development lead-time. This is mainly achieved by preventing, reducing or introducing design changes earlier by means of early and intensive communication with the supplier ('right first time' development).

In terms of effectiveness, supplier involvement may lead to the reduction of product cost and the increase of product value. This can be achieved by mobilising and leveraging supplier expertise.

Apart from improving (short-term) development project performance in terms of effectiveness and efficiency, manufacturers may have an interest in collaborating with suppliers in product development to achieve long-term benefits. One common long-term goal involves getting (long-term) access to the technological knowledge of suppliers. Ultimately, manufacturers may even have an interest in influencing supplier decisions with regard to the kind of technologies to invest in, in order to provide the best conditions for future technological collaboration (Wynstra *et al.*, 2001). However, it has been pointed out (*ibid.*) that not all efforts regarding supplier involvement in product development do result in the envisaged benefits; there are several problems to overcome.

**Figure 7.14****Four categories of suppliers**

Source: Adapted from Nellore, R. and Söderquist, K. (2000) Portfolio approaches to procurement, *Long Range Planning*, 23: 253–4. Copyright © 2000 Elsevier. Reproduced with permission.

There may be problems that cannot be attributed only to the manufacturer or the supplier, but which are primarily connected to the relationship between the two. Problems such as a lack of communication and trust may lead to unclear agreements and diverging expectations, which hinder the collaboration's effectiveness and efficiency. Significant problems arise when the manufacturer fails to communicate clearly to suppliers what it expects from them, especially in terms of development responsibility for the products developed.

A lack of trust between the two parties may also hinder collaboration, as both parties will see large potential risks. Because of that, it may be especially difficult to collaborate with new suppliers, which may be necessary, for example, when the manufacturer needs a new type of component it has not used before.

Furthermore, manufacturers may end up selecting suppliers with little or limited experience in joint product development, for example due to supplier selection criteria only focusing on price. Weighting technological and innovative capabilities more heavily in supplier selection could improve the results of supplier involvement.

Despite the difficulties with supplier involvement, it can result in major benefits, both in the short and long term.

7.12 SUMMARY

Developing a successful marketing strategy requires activities to be chosen that are different from competitors'. The structure of this chapter has followed the main phases in the complex marketing planning process, where the end result emerges from the interplay of different factors.

A corporate mission is the reason why a firm exists. It can be considered as a definition of what the organisation is and what it does.

SWOT analysis structures the internal and external information into four categories:

- strengths and weaknesses (internal)
- opportunities and threats (external).

The SWOT analysis serves as a catalyst for structuring the creation of marketing strategies that will produce the desired result. It focuses on creating competitive advantage by matching company strengths to market opportunities. Furthermore, it provides guidance on how the firm might structure its marketing strategy to convert weaknesses and threats, and minimise or avoid those weaknesses and threats that cannot be converted.

Corporate objectives state where the firm intends to be at some specific time in the future. A corporate growth strategy describes how the long-term objectives will be achieved. According to the Ansoff product–market matrix there are four options: market penetration, market development, product development and diversification.

An SBU marketing strategy is concerned with how to create competitive advantage in each of the SBUs (combination of products/markets). The portfolio models (PLC, BCG, GE/McKinsey, etc.) guide the development of strategic alternatives for each of the company's SBUs and new business possibilities. In this way, this chapter has described the 'corporate' input to the later formulation of marketing plans.

In order to manage a firm's collection of SBUs, products or markets (countries), three downstream portfolio models were presented:

- The Boston Matrix (BCG model), where businesses are positioned in terms of market growth rate and relative market share, is certainly one of the best known.
- General Electric pioneered another matrix (GE model) which is more marketing oriented. In this portfolio model, each business is rated in terms of market attractiveness and competitive position.
- The international market portfolio is very similar to the GE model in its structure.

Furthermore, an upstream-oriented supplier portfolio was presented. This portfolio approach is a three-step approach to managing supplier relationships. The first step is to classify the components into the different factors of the portfolio model. The second step is to classify the suppliers based on their attractiveness to the firm (manufacturer) and the strength of the buyer–supplier relationship. Finally, strategies are drawn up to improve the supplier's strength and/or relationship with the buyer, in order to deliver the desired component optimally.

Portfolio models have been criticised both for their general structure, in which the different factors are only approximate estimations of the parameters that are supposed to be measured, and for their limited applicability in specific fields such as marketing and purchasing. This might be due to the fact that companies focus too much on developing very complex factors, in order to classify components, customers or suppliers, and become confused. The classification is not an end in itself, but a means to aid the development of appropriate action plans.

Involving suppliers in product development can result in major benefits in terms of money and time. Supplier involvement in product development holds great potential, both in the short and long term, but few companies seem to be able to realise these benefits. A large part of the unfulfilled potential is due to common problems such as lack of communication and trust, insufficient supplier abilities and internal resistance at the manufacturer. Also, it requires a great deal of thinking and effort. Primarily, it presupposes active management on behalf of the manufacturer, both in the short and long term, supported by adequate organisational and human resources.

CASE STUDY 7.1

Red Bull

The global market leader in energy drinks is considering further market expansion



The beginning

Energy drinks may well have come from Scotland in the form of *Irn-Bru*, first produced in the form of 'Iron Brew' in 1901. In Japan, the energy drink phenomenon dates at least as far back as the early 1960s, with the release of the *Lipovitan*. Most such products in Japan bear little resemblance to soft drinks, and are sold instead in small brown glass medicine bottles or cans styled to resemble such containers. These so-called 'genki drinks', which are also produced in South Korea, help employees to work long hours, or to stay awake on the late commute home.

In the UK, *Lucozade Energy* was originally introduced in 1929 as a hospital drink for 'aiding the recovery'; in the early 1980s, it was promoted as an energy drink for 'replenishing lost energy'.

Red Bull dates back to 1962 where the original formula was developed by *Chaleo Yoovidhya*, a Thai businessman, and sold under the name *Krating Daeng* by a local pharmaceutical company to treat jetlag and boost energy for truck drivers.

Dietrich Mateschitz grew up in a small village in *Styria*, Austria. When he turned 18, he went to the University of Vienna. It took *Mateschitz* 10 years to finally graduate with a degree in world trade. His friends said that *Mateschitz* liked to play, party and pursue pretty women. After graduation he decided to get serious and become a 'really good marketing man'. His natural charm helped him land a training position at *Unilever*, and soon he was promoting dishwashing detergents and soap all over Europe. Colleagues described him as 'funny, full of ambition and always filled with crazy ideas'.

Mateschitz had a natural talent for selling. He was creative and had a knack for getting things done. He soon got promoted to the position of marketing director for a leading international toothpaste brand called *Blendax*.

After years of travelling and selling toothpaste around the globe, *Mateschitz* became obsessed with the idea of creating his own business. In the summer of 1982 *Mateschitz* read a story about the top 10 taxpayers in Japan. He was surprised that a certain *Mr Taisho*, who had introduced a high-energy drink to Japan, made the top of the list. On the next stop of his sales trip – in Thailand – he learned from a local toothpaste distributor that energy

drinks were a hot item among tired drivers stopping at gas stations. The top brand was *Krating Daeng*, meaning water buffalo. The ingredients were clearly written on the can. Like the original *Yellow Pages*, there was no trademark or patent to protect the formula.

Dietrich Mateschitz met up with *Chaleo Yoovidhya* (owner of *Krating Daeng*) shortly after and they decided to start an energy drink company together. Each partner would contribute about half a million dollars in start-up capital. *Chaleo Yoovidhya* provided the beverage formula and his partner contributed with the marketing flair.

Red Bull was, then, founded in 1984 by *Dietrich Mateschitz* and *Chaleo Yoovidhya*, and was headquartered in Austria.

The start-up in Austria and the further international expansion

The optimistic 40-year-old *Mateschitz* quit his job and applied for a licence to sell the high-energy drink in Austria. However, the Austrian bureaucracy would not allow the drink to be sold without scientific tests. It took three years and many sales calls to get a licence to sell the product. While waiting for the official licence, *Mateschitz* asked his old school friend *Johannes Kastner*, who ran an advertising agency in Frankfurt, Germany, to design the can and logo. *Mateschitz* rejected dozens of samples before settling on a macho logo with two red bulls charging each other. *Kastner* worked diligently on a snappy slogan, but *Mateschitz* rejected one after the other, each time saying, 'Not good enough!'

Kastner told *Mateschitz* to find someone else to come up with a better slogan, but *Mateschitz* pleaded, 'Sleep on it, and give me one more tag line!' The next morning *Kastner* called and said, 'Red Bull – gives you wings!' The slogan turned into a prophecy for the *Red Bull* brand, which continues to soar around the globe.

Mateschitz still had to find a bottler to produce his drink. Every bottler he called told him that *Red Bull* had no chance of success. Finally, *Mateschitz* found a sympathetic ear in *Roman Rauch*, the leading soft-drink bottler in Austria, and soon the shiny silver cans rolled off the production line. Within two years, and after many creative promotions, sales began to grow, but so did his losses.

While a million-dollar loss in two years may scare an entrepreneur into closing the business, Mateschitz was undaunted. He financed everything without outside capital, and by 1990 Red Bull was in the black. He soon realised that Austria was not a big enough market, and in 1993 he expanded to neighbouring Hungary and then focused his energies on conquering the German market.

Once the news of Red Bull's advancing sales spread in Europe, dozens of copycat competitors came on the market. Red Bull's initial move into the German market was highly successful. However, after three months of increasing demand, Mateschitz could not get enough aluminum to produce the cans anywhere in Europe, and sales of Red Bull dropped fast. A competitor named Flying Horse became the market leader. It took Red Bull four years to reclaim the top spot in the German market.

In 1995, Red Bull hit Britain; in 1997, the United States, starting in California. There, in a marketing trick typical of his unusual style, he hired students to drive around in liveried Minis with a Red Bull can on the roof to promote the drink.

The rest is history. Red Bull has become extremely popular over recent years with almost 1 billion 250 ml cans sold in 2000 to more than 3 billion cans sold in 2006 in over 130 countries. In 2006, Red Bull generated over €2.6 billion throughout the world with the help of its 3,900 employees.

Red Bull is produced at a single facility in Austria and then distributed around the world via a network of local subsidiaries and distributors. By the end of 2007 Red Bull had subsidiaries in the following countries:

Europe:

Germany, Switzerland, Ireland, Italy, Netherlands, Finland, Greece, Portugal, Czech Republic and Slovakia.

Outside Europe:

Australia, New Zealand and United Arab Emirates.

Marketing orientation and consumers

Red Bull devised an innovative viral marketing approach to target mainly consumers seeking an energy boost: young adults (16–29), young urban professionals, post-secondary school students and club-goers.

The company also set about promoting the Red Bull brand directly to Generation Y, the so-called 'millennials', people born after 1981 who were believed to be cynical of traditional marketing strategies. Part of this idea involved recruiting 'student brand managers' who would be used to promote Red Bull on university campuses. These students would be encouraged to throw a party at which cases of Red Bull would be distributed. The brand managers would then report back to the company, giving the firm a low-cost form of market research data.

Red Bull tries to portray its products as drinks for energetic, physically active and health-conscious consumers, characterised by the sugar-free version. People in need of energy boosts include, but are not limited to, club-hoppers, truck drivers and students.

The Red Bull marketing strategy

Red Bull essentially threw the traditional marketing book out the window. Their highly acclaimed strategy has been variously described as: grassroots, guerilla, word-of-mouth, viral marketing, underground, buzz-marketing and, without a doubt, successful.

The first marketing trials of Red Bull failed miserably. The respondents didn't like the taste, colour or the 'stimulates mind and body' concept. At this point, many companies would have abandoned their plan or reformulated to make it more appealing to the consumer. However, Mateschitz rejected any suggestion that this testing of consumer taste should be the basis for their marketing strategy. Mateschitz's message was that Red Bull was not selling a beverage; rather, it was selling a 'way of life.' Red Bull will *give you wings* . . . Red Bull is an enabler for what you desire. Red Bull needed to be enjoyed in the right context – where an energy boost was needed.

One effective brand builder was not initiated by the company. Red Bull faced many obstacles in gaining regulatory approval in several countries because of their unique ingredients. During this time a rumour circulated that the taurine used came from bull's testicles and Red Bull was 'liquid Viagra', which made the drink even more mystic. Adding to the allure was the fact that the beverage has actually been banned in several countries such as France and Denmark.

The product

Red Bull is sold as an energy drink to combat mental and physical fatigue. Active ingredients include, but are not limited to, 27 g of sugar, B-complex vitamins, and 80 mg of caffeine – which is a little less than the amount of caffeine found in an average cup of coffee and about two times as much caffeine as many leading cola drinks. Besides water, sugar and caffeine the drink contains an ingredient named taurine, an amino acid that, according to Japanese studies, benefits the cardiovascular system.

A sugar-free version has been available since the beginning of 2003. The drink tastes of citrus and herbs, and is commonly used as a mixer in alcoholic drinks such as Red Bull Wings (Red Bull and Vodka) or a base ingredient in the famous Jägerbomb (a cocktail combining one shot of Jägermeister dropped into a glass of Red Bull).



Red Bull Original

Source: Red Bull GmbH



Red Bull Sugarfree

Source: Red Bull GmbH

Red Bull specialises in energy drinks. Red Bull is the company's main brand and with only two flavour varieties and one packaging size, this allows the company to focus its efforts and expand its footprint quickly while leveraging marketing and promotions used in other regions. In most countries and regions, Red Bull was the first energy drinks brand and, as a result, is the leading brand in almost all regions where it is sold.

Red Bull distinguishes itself from a lot of the beverage market by only offering its product in one size, 8.3 ounce (250 ml) cans, which is smaller than a typical soft drink. The cans are small, sleek vessels with distinctive printing, which have been described as more 'European' styling. With the exception of mandated warning labels, the can design does not vary by country. Furthermore, unlike soft drinks or vodka, Red Bull is only offered in two varieties: original and sugar-free. This recognisable packaging provides Red Bull an advantage, and the one size that is used worldwide creates production efficiencies.

On 24 March 2008 Red Bull introduced 'Simply Cola', or Red Bull Cola. The cola, which contains natural flavouring and caffeine, was introduced in several countries (as of 2008, Red Bull Cola is available in the Netherlands, Austria, Czech Republic, Egypt, Switzerland, Spain, Poland, Germany, Belgium, Italy, the United Kingdom, Ireland, Thailand, Romania, Hungary, Russia and the United States). Red Bull Cola is not manufactured by Red Bull itself, but in Switzerland by Rauch Trading AG for Red Bull GmbH. It is the company's own take on a cola beverage. The product was the first major brand extension since Red Bull Sugar-Free was introduced in 2003. It was available in both the original 250 ml cans and the newer 355 ml version. Red Bull Cola also has slightly more caffeine, at 45 milligrams per 355 ml (12-ounce) can, than Coca-Cola (34 mg) or Pepsi-Cola (37.5 mg), but less than Diet Coke (47 mg).

Price

This clear positioning has created a foothold in key markets such as the UK, Germany and the US. Sales in key markets help drive the global positioning of the company, as well as providing the opportunity to sell Red Bull at a premium price over other brands. A single can is generally around €2.00, which is up to five times the cost of other branded soft drinks.

Premium pricing is a feature of the energy drinks category. Since its inception the category has been positioned as providing products that not only refresh you, but give you the energy and related brain power to make the most of your time. While it could never be said that energy drinks position themselves as healthy, there is little doubt

that they claim to provide a functional benefit to the consumer, which is the main reason why they can command a premium price. In 2006, the average price per litre for an energy drink across the world was US\$5.78, almost four times the average price of a litre of carbonates (US\$1.54), and similarly ahead of the average price per litre in the soft drinks category as a whole (US\$1.50).

Distribution

A key growth strategy at Red Bull has been increased international distribution. It has consistently worked on growing international sales, first making moves outside its domestic market in 1992, only five years after the first cans of Red Bull appeared in Austria. Now available in over 100 countries worldwide, Red Bull has a well-developed network of local subsidiaries set up in key markets to oversee distribution in any given region. These subsidiaries are responsible for importing Red Bull from Red Bull GmbH in Austria and either setting up an independent distribution network or working with a partner, such as in Australia where Red Bull Australia uses Cadbury Schweppes's distribution network. In this case, Red Bull Australia imports and sells on to Cadbury Schweppes, which then sells to vendors in its network.

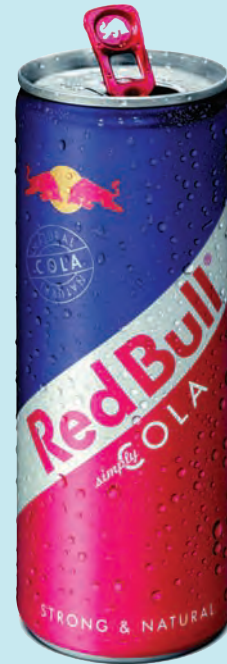
The typical Red Bull national distribution strategy for new markets is, like all else, atypical. Instead of targeting the largest distributors with the greatest reach, Red Bull targets small distributors who often become exclusively Red Bull distributors. They even went to the extreme of hiring teenagers/college students and giving them vans to distribute the product.

Small independent venues were the first targets. Red Bull would find the small bars, restaurants and stores and give them a small cooler to sell the beverage from. This was their preferred method rather than dealing with the demands of the larger stores, which eventually were begging to sell the product.

Promotion/advertising

Many product launches are coupled with large advertising campaigns, both in print and on TV, taste tests, give-aways and celebrity endorsements to get the brand and product out into the public. This is not a technique that is used by Red Bull.

Red Bull does not use traditional advertising to enter a market. Only after the product is in the market does advertising serve as a reminder. Furthermore, they never use print media since it is too dull and flat to express the product. Television ads are often cartoon drawings using the 'Red Bull gives you wings' slogan and are very



Red Bull Simply Cola
Source: Red Bull GmbH

carefully placed. Stations and programming are carefully selected to maximise exposure to the target audience such as late-night TV shows.

Red Bull does not hire celebrity endorsers, but they do enable celebrity endorsers. Some of the earliest deliveries of Red Bull in the US were to Hollywood movie sets for consumption during long days of filming, even before the beverage was readily available. This created a scheme where the celebrities were doing what they could to get Red Bull and instantly became endorsers for the brand to the masses. Celebrities are not the only ones who were enabled for endorsements. Again, before the product was widely available, the company made it available to bar tenders in New York's trendiest spots for their own consumption. This led to an unpaid endorsement to the club patrons by the bar tenders.

Every year the company sponsors dozens of extreme sporting events, like the climbing of iced-down silos in Iowa or kite sailing in Hawaii, as well as cultural events like break-dancing contests and rock music jam sessions. Red Bull also sponsors a DJ camp where some of the up-and-coming DJs get a chance to learn from some of the masters, courtesy of Red Bull. Red Bull also sponsors some 500 athletes around the world, the type who would surf in Nova Scotia in January or jump out of a plane to 'fly' across the English Channel.



Red Bull X Fighters

Source: © Balazsgardi.com/Red Bull Photo Files

It also hosts events such as the 'Red Bull Flugtag' (German for 'flight day' or 'flying day'), a competition where entrants launch themselves off a 30-foot ramp in homemade 'flying machines' into a body of water. It takes place in big cities such as London (here it is taking place in Hyde Park).

The local subsidiaries are also responsible for local marketing content such as buzz marketing, local sponsorships and arranging media including TV, billboards and radio. In addition to local marketing and advertising, local subsidiaries also acquire marketing material from Red Bull GmbH and its exclusive advertiser Kastner & Partner.

Red Bull is also involved with more popular sports, such as football and racing. Red Bull has extended its presence in sports to purchasing and entirely rebranding a number of sports teams.

On 6 April 2005, Red Bull bought the Austrian club SV Austria Salzburg and renamed it Red Bull Salzburg, a move which has been heavily criticised by supporter groups within Austria and across Europe.

Red Bull Racing is one of two Formula One teams owned by Red Bull (the other being Scuderia Toro



Red Bull X Fighters

Source: © Flohagena.com/Red Bull Photo Files



Red Bull Flugtag

Source: © Marcel Lammerhirt/Red Bull Photo Files

Rosso). The team is based in Milton Keynes in the UK but holds an Austrian licence. The team won its first Grand Prix as Red Bull at the 2009 Chinese Grand Prix in Shanghai, with young German driver Sebastian Vettel.

In addition to sports sponsorships, Red Bull has developed the Mobile Energy Team programme consisting mostly of outgoing college students who drive specially designed Red Bull Mini Coopers with the red can on the roof to promote the drink. They go to all types of events and arrange sampling of the energy drink. They are usually employed by Red Bull on a part-time basis and often have teams running on 24/7 formats.

All in all, Red Bull spends relatively little on traditional print and TV advertising, instead relying on sponsorships of sports or giving away samples at local events. Since its introduction, Red Bull has invested heavily in building the brand, spending around 40 per cent of revenue on marketing and promotion. As a comparison, Coca-Cola spends 9 per cent.

Competition

By definition, Red Bull operates within the functional drinks market, which is mostly made up of sales from energy drinks and sports drinks – Red Bull is only active in the energy drinks market. Sports drinks are not to be confused with energy drinks. Sports drinks are intended to replenish electrolytes, sugar, water and other nutrients, and are usually isotonic (containing the same proportions as found in the human body) and used after strenuous training or competition. Energy drinks, on the other hand, mainly provide sugar and caffeine in order to increase concentration or mental and physical capacities. The most well-known sports drink is Gatorade (Quaker Oats Co.), which was introduced in 1965.

Red Bull, despite being widely known as an energy drink, has other uses such as a coffee, tea and soda substitute, a vitamin/energy supplement, and a mixer for alcohol.

The majority of consumers use Red Bull as a vitamin supplement or energy stimulant in place of preferred stimulants such as ginseng. Red Bull, with its liquid



Red Bull Mini

Source: Red Bull GmbH

B-vitamin supplement, competes in the niche market for vitamins and is competing with the larger pharmaceutical companies. Red Bull also competes indirectly with various drink mixers such as juice, sour mix and tonic. Red Bull initially marketed its energy drink mixed with alcohol to the average club-goers. However, due to various health concerns and fatal incidents associated with Red Bull when mixed with alcohol, explicit warnings have been placed on product labels discouraging improper use.

The market for energy drinks is characterised by the presence of specialised manufacturers as well as food and beverage powerhouses. Key players in the marketplace include Pepsi, Coca-Cola, Danone, Hansen Beverage Company, Monarch Beverage Co., Red Bull, Dark Dog, GlaxoSmithKline, Extreme Beverages, Taisho Pharmaceuticals and Otsuka Pharmaceuticals. In terms of market share, Gatorade and Red Bull lead the sports and energy drinks segments respectively. Most of the

soft drink multinationals (e.g. Pepsi, Coca-Cola, Danone, GlaxoSmithKline) also cover the functional drinks market. For example, Coca-Cola added the Von Dutch and Tab Energy brands to its energy drinks portfolio in 2006. While smaller players have proven the most innovative, the production, distribution and marketing resources of the major multinationals represent a considerable threat to Red Bull.

The total market for functional drinks (including energy drinks)

Today's 24/7 lifestyle is driving the sales of functional drinks, with volume having increased by impressive figures. Functional drinks have now clearly moved from niche to mass market, having seen significant growth every year since their introduction. In order to get the most out of every day, consumers are increasingly looking at products with an extra kick, which is one reason why so many people are reaching for these kinds of drink.

In the overall functional drinks market, Red Bull is increasingly being challenged by new innovative brands.

With global sales of 3 billion cans in 2006, Red Bull reached a 45 per cent market share of the world market in energy drinks. This has made Red Bull a clear world market leader in this segment. Higher per litre revenue in 'energy drinks' has attracted brands from all the major players into the market, such as Coca-Cola's Burn and Pepsi's Adrenaline, but so far they have not come close to dislodging Red Bull from its position as global market leader.

In the overall global soft drink market the Red Bull market share is small: according to Euromonitor (2007) it is 0.8 per cent.

The overall Red Bull market shares in the 'functional drinks market' are shown in Table 7.4.

The market development in the 'global energy drinks' market

Asia dominates consumption of energy drinks, accounting for around 40 per cent of volume. However, at a per capita level it is North America and Australia/NZ that lead the way. In almost all regions, the concept of energy drinks has been established and accepted by the consumer. The only two regions that partly remain exceptions are Eastern Europe and Central and South America, where lower levels of disposable income remain a barrier.

Not surprisingly, the US is the largest country market, ahead of Japan, Indonesia and China. Three other Asian countries also appear in the top ten markets for energy

drinks, namely Thailand, South Korea and Vietnam. While still accounting for nearly half of all energy drinks consumed worldwide, Asian dominance is starting to slowly slip as other regions begin to catch up. In fact, worldwide growth in consumption is beginning to slow. Following year-on-year growth of 31 per cent in 2004, and 24 per cent in 2005, growth slowed to 17 per cent in 2006.

In Western Europe, the UK leads the way in volume terms, accounting for nearly half of energy drinks consumed in the region. However, the Republic of Ireland and Austria have a far higher per capita consumption figure, with Irish consumers drinking an average of just under 8 litres of energy drinks per year, hugely more than the regional average of 1.6 litres per capita. Higher per capita figures in Austria can perhaps be explained by the fact that Red Bull and other energy drinks companies originated there.

In Western Europe, many energy drinks are banned from sale due to certain ingredients, including Red Bull, which is banned in France and Denmark. This obviously has a marked effect on the market when compared to other geographic regions.

On-trade and off-trade challenges

Red Bull was originally targeted at the on-trade (bars, discos, etc.), and still in Spain, for example, the popularity of Red Bull as a mixer underpins the fact that on-trade channels accounted for 59 per cent of energy drinks volume sales in 2007. The role of fashion in determining product choice in the on-trade channel presents

Table 7.4

Red Bull market shares (value) in the functional drinks market, 2006

Region	Red Bull market share in the functional drinks market %
Western Europe	26.8
Eastern Europe	31.4
North America	10.0
Latin America	11.7
Asia (excluding Aus/NZ)	2.8
Aus/NZ	13.6
Africa/Middle East	22.7
Total world	10.9
Total world market (functional drinks market)	US\$24,250 million

Source: Euromonitor International (2008) Functional drinks: world market report, *Euromonitor*.

Red Bull with the opportunity to generate sales by developing new combinations with alcoholic drinks.

Off-trade (retail) has now become the principal channel for energy drinks, with approximately two-thirds of worldwide volume being sold through these channels. This picture is pretty consistent worldwide, other than in Central and South America where the split is far more even, and North America where the emphasis is far heavier on the retail channels (85 per cent). In many markets, the UK being a good example, the volume sold through on-trade channels is heavily impacted by energy drinks being sold as mixers with spirits, primarily vodka.

Overall, the energy drinks market has seemed to shift from impulse-dependent to planned purchases with the expansion through supermarkets/hypermarkets. The development of non-impulse-oriented off-trade distribution creates opportunities to develop new packaging formats, including larger cans, multipacks and bottles. Furthermore, the shift to supermarket/hypermarket distribution may further encourage Red Bull to engage in agreements with major multinationals which have strong relationships with large and powerful retailers. The expansion of a non-impulse off-trade presence carries a risk of undermining Red Bull's fashionable image, especially given the emergence of rival brands targeting cutting-edge niches.

Red Bull is challenged in the US market by Monster

When Monster and other brands launched a larger 16-ounce can, Red Bull reacted too slowly. It was costly: from 2001 to 2006 Red Bull's market share in dollar terms went from 91 per cent to well under 50 per cent, and much of that loss has been Monster's gain.

From 2006 to 2008 California-based Hansen Natural Corp's line of Monster energy drinks gained further market shares from Red Bull and Monster is now the top US energy drink in terms of both unit volume and value (dollars) in the important convenience store channel. Monster has strong momentum in the US across all channels. However, taken together (off-trade plus on-trade), Monster is still the nation's No. 2 selling energy drink (in value) behind Red Bull. Both companies had around 25 per cent market share in 2008. Rockstar is a distant third with approximately 14 per cent market share in 2008.

In October 2008 Monster and Coca-Cola Enterprises (Coca-Cola's bottler) made a 20-year deal to distribute Monster energy drinks in about 20 US states, Canada and in six Western Europe countries. This deal with Monster could give Coca-Cola a

stronger position in the growing energy drink market. Conversely, it could help Monster by giving it access to Coca-Cola's distribution system in Europe. In January 2009 Coca-Cola began distributing the Monster line in France, Monaco, Belgium, Holland, Luxembourg and Canada (Much, 2009).

In February 2009, it was announced that the No. 3 brand in US energy drinks, Rockstar, had signed a 10-year distribution deal with PepsiCo Inc., which in future will distribute Rockstar to most parts (approximately 80 per cent) of the United States and Canada. Both companies hope the deal will give the brand more consistent coverage across the US and increase PepsiCo's presence in the energy drink category. (Rockstar had in fact signed a distribution agreement with Coca-Cola Enterprises in 2005, and renegotiated the deal in 2008 as Coke was in negotiations with Monster-parent Hansen Natural; Casey, 2009.)

In contrast to Monster and Rockstar, Red Bull still has full confidence in its own distribution model in the United States, by having its sales subsidiary Red Bull North America taking care of the overall distribution strategy and then relying on smaller distributors (often young committed entrepreneurs) in order to penetrate local markets.

Strategic options

In October 2008 Dietrich Mateschitz is preparing for the next top management meeting: he summarises some current strategic options for Red Bull in random order:

- (a) *Expansion in emerging markets:* The top management team of Red Bull is considering placing the focus of its further expansion on new markets such as India, Turkey, Russia, Mexico, Japan, China or the Middle East. These markets are seeing demand for energy drinks grow strongly in urban areas thanks to rising purchasing power, accelerated lifestyles and improving distribution. Red Bull's prime consumers are in their 20s and the large youth population in the region can potentially become energy drinks consumers in the long term. India boasts the highest number of 20- to 24-year-olds (98 million), followed by China (82 million) and Indonesia (21 million). The liberalisation of the Chinese and Indian economies is set to raise living standards and improve levels of disposable incomes, which will benefit sales of highly valued consumer products. Along with total increases in the consumption of soft drinks, China, India and Indonesia will continue to see high sales growth of energy drinks in years to come, implying optimistic business prospects for Red Bull.

- (b) *International production*: Expanding the Red Bull production infrastructure would help the company to diminish the negative impact of exchange rate fluctuations and provide greater flexibility on price in the context of international expansion.
- (c) *Healthier product variants*: Rising consumer health-consciousness is creating opportunities to develop energy drinks with healthier ingredients and more specific functional properties.
- (d) *Hybrid products*: As busy consumers look for quick energy boosts, there are growing opportunities to develop hybrid products which combine energy-giving properties with other drink categories, such as tea, fruit/vegetable juice and bottled water. Another example is the emergence of malt-based alcohol brands with already added energy components. In the USA in 2005, Anheuser-Busch launched 'B to the E', a beer with added ginseng and guarana. In 2006 Miller Brewing purchased Sparks, a malt beverage with added caffeine, ginseng and taurine. Such drinks pose a particular threat to Red Bull's position as a mixer for alcoholic beverages in on-trade establishments.
- (e) *Strategic alliances*: Red Bull may consider engaging in more agreements with major multinational partners, such as Cadbury Schweppes in Australia, which would allow it to exploit established distribution networks and accelerate its penetration of new markets. This has also been the strategy of the main US competitor, Monster, which has allied itself with Coca-Cola Enterprises as its US and European distributor.

Dietrich Mateschitz is interested in your input for the following tasks/questions.

QUESTIONS

- 1 Prepare a SWOT analysis for Red Bull.
- 2 Was it a wise decision of Red Bull to:
 - launch Red Bull Cola?
 - launch Red Bull Cola in many markets at the same time?
- 3 Should Red Bull counteract US competitor Monster's new marketing initiatives? If yes, what should Red Bull do in response?
- 4 Which of the five strategic options would you recommend for Red Bull's future strategy? Present arguments in support of your suggested priority list.

Red Bull targets the Japanese market

After evaluating the different international options, Red Bull decided to conduct further analysis on the Japanese

market. The following paragraphs contain key facts about the Japanese market for functional drinks (including energy drinks).

Energy drinks became popular in Asia long before they reached Europe or the United States. In 1962, Japanese pharmaceutical company, Taisho, released its Lipovitan D drink. It was designed to help employees work hard well into the night. Lipovitan D contains taurine, the same ingredient found in many of today's energy drinks.

Energy drinks in Japan are under intense competition from other beverages, namely over-the-counter (OTC) tonic drinks. Energy drinks are registered as shokuhin or food products in Japan, which means that they can be sold through all retail channels, including vending machines. In 1999, however, deregulation in Japanese OTC healthcare reclassified tonic drinks as 'newly designated quasi-drugs', allowing for their sale through the same retail channels as energy drinks. This resulted in intense competition, as consumers in need of a pick-me-up generally prefer to consume tonic drinks as these contain stronger ingredients.

At the same time, energy drinks suffered from shifting consumer trends towards healthier beverages. Energy drinks in Japan are often very sweet, containing high amounts of sugar in addition to caffeine, guarana and other energy-boosting ingredients. However, with growing consumer awareness about healthier lifestyles and the growing incidence of diabetes in Japan, Japanese consumers are becoming increasingly concerned about blood glucose levels. Many are therefore shifting towards soft drinks that contain no sugar or reduced levels of sweeteners.

As seen in Table 7.5, Coca-Cola (Japan) Co. Ltd continues to lead the Japanese functional drinks market, followed by strong domestic manufacturers.

With a per capita consumption of 1.7 litres, Japan has a highly concentrated energy drinks market, with Otsuka's brands and Coca-Cola's brands together accounting for over 70 per cent of the market. The two top brands have their own strong consumer base and it would be very costly for a new brand to fight for the shrinking consumer base in the face of declining birth rates and a rapidly ageing population. In fact, energy drinks players have failed to find new consumers and total consumption has declined consistently since the late 1990s, and this trend is expected to continue in years to come.

From 2000 to 2006 the functional drink sector has seen a decline of 5 per cent in volume and 4 per cent in value terms. The market sector is currently being squeezed by functional bottled water and OTC tonic drinks. A reason for decline in functional drinks is the limited consumer base for energy drinks. Energy drinks

Table 7.5

Red Bull market shares (value) in the Japanese functional drinks market, 2005

Company	Biggest brand	Market share %
Coca-Cola (Japan) Co. Ltd	Real Gold, Aquarius	35.6
Otsuka Pharmaceutical Co. Ltd	Oronamin C, Pocari Sweat	34.3
Suntory Ltd	Suntory	3.0
Kirin Beverage Corp.	Gekiryuu	2.7
Asahi Soft Drinks Ltd	Super H2O	2.5
Dydo Drinco Inc.	Miu	2.2
Private label	–	0.6
Others	–	19.1
Total		100.0

Source: Euromonitor International (2006) Functional drinks in Japan: market report, *Euromonitor*, pp. 5–6.

mainly target male office workers, who consume such drinks as a pick-me-up during stressful work conditions. However, this consumer base will shrink over the forecast period, not only because of population decline, but also because the growing incidence of diabetes and other lifestyle diseases is generating rising awareness about foods containing high amounts of sugar, which include carbonates and energy drinks.

Red Bull is known for being aggressive in marketing terms but cautious in terms of product development. Its unwillingness to modify the product format and the taste of the drink may not be attractive to young Japanese consumers, who typically flirt with new products and are quick to change brands. In the competitive Japanese soft drinks market, even established brands need to be revamped regularly to cater for ever-changing preferences and fads. On top of this, the new consumer trend favouring natural ingredients may well work against Red Bull.

Nevertheless, Japan is a wealthy country and the ready ability to pay for premium drinks is in no doubt. Red Bull may stand a chance of winning over young Japanese consumers if it manages to carve itself a niche in the on-trade channel, which currently records negligible sales of energy drinks. Success may be more likely if Red Bull partners local players such as Suntory, which has experience in distributing international brands and operates a large number of vending machines across the country. Suntory's expertise and its connection with on-trade channels for both alcoholic and soft drinks would help Red Bull to quickly penetrate the market.

QUESTIONS

- Would you recommend that Red Bull invests in the penetration of the Japanese market, or would you rather use the market resources elsewhere?
- Suppose you choose to invest your marketing resources in the Japanese market. Which marketing planning process would you suggest for this market? Which parts of the marketing mix are the most critical?
- Which changes would you suggest for Red Bull's future global marketing mix, in order to meet the future challenges?

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QUESTIONS FOR DISCUSSION

- 1 How can corporate objectives be derived from the corporate mission?
- 2 What is the purpose of a SWOT analysis?
- 3 How can a SWOT analysis be carried out? What are the critical issues?
- 4 What are the differences between marketing objectives and marketing strategies?
- 5 What purpose may a product portfolio serve in the context of a marketing strategy?
- 6 What is the meaning of relative market share in the BCG model?
- 7 The Ajax company has 4 SBUs, as shown in the table below:

SBU	Ajax SBU market share (%)	Largest competitor's market share (%)	Market growth rate (%)	Dollar sales (\$ millions)
A	30	10	8	5.0
B	40	20	14	2.0
C	10	40	5	1.0
D	10	30	16	0.5

- (a) Prepare the BCG (Boston Consulting Group) Matrix for Ajax's SBUs.
- (b) What are the strategic implications of Ajax's BCG Matrix?
- (c) What are the general drawbacks of using the BCG Matrix in the strategic planning?
- (d) Is there a relevant alternative portfolio planning model to the BCG Matrix?
- 8 What are the advantages and disadvantages of using portfolio models in strategic marketing planning?
- 9 What is the purpose of integrating supplier portfolio models in marketing planning?
- 10 Why is it important to involve suppliers in product development?

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