

Chapter 5

Marketing Planning: Strategic Perspectives

Chapter 5 begins the two-chapter sequence addressing the next stage of the effective marketing management process: planning (see Figure 5.1).

Marketing managers who begin with adoption of a societal marketing orientation (SMO) feel it is important to understand *before* they plan. An integral part of the SMO is the desire to serve the short- and long-term needs of customers and society at a profit, and accomplish this objective better than competitors. Thus, we seek to first understand the market (i.e., consumers, competitors, and the financial implications of what we do) and then use that understanding to develop plans of how we can create mutually beneficial exchange rela-

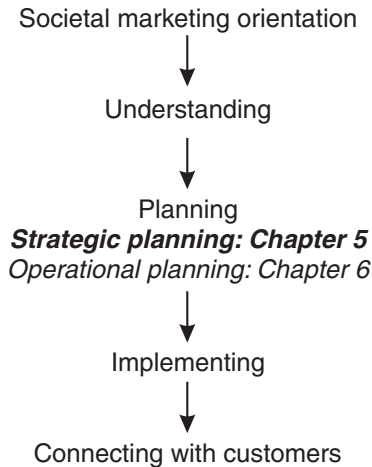


FIGURE 5.1. The Effective Marketing Management Process

tionships. This planning process occurs at two levels—a corporate level, which is referred to as strategic planning, and a product/market level, which is referred to as operational or marketing planning. This chapter addresses broader, strategic planning issues.

Many of today's most successful companies evolved out of an era in which they introduced a good product or service into a market which was ready to accept the product. Geographic growth was achieved by expanding to new markets and later by adding new products to build a complete line of products rather than concentrating on one. In many companies, growth just appeared to happen with little or no formal thought about the management processes that went into it.

However, with significant shifts in economic, environmental, and competitive forces, most managers have now realized that for survival and growth to occur they must be much more aware of the impact of the decisions they are making and the management processes used to make these decisions. Two characteristics differentiate successful from less successful firms: (1) good management and (2) the development of a competitive advantage. Managers of successful firms tend to be action-oriented “strategic thinkers” who focus their attention on customers, markets, and competitors as well as internally on operations. They seem to be able to blend strategy development with strategy implementation through a whole process referred to as strategic management.

WHY STRATEGIC MANAGEMENT?

Out of a large number of decisions made by managers there are a handful of critical ones that can significantly impact an organization's future. The same is also true for products and services. These strategic decisions require identification and thoughtful consideration because of their long-term impact. Tactical decisions, while important, have only a short-term impact on an organization. For example, the decision to seek new target markets is a strategic decision while deciding how much to spend for sales promotion in a given month is a tactical decision.

Perspectives of strategic management can be illustrated with this question: Who are the two most important persons responsible for the success of an airplane's flight? Would you say it is the pilot and the navigator, the pilot and the maintenance supervisor, the pilot and the air

traffic controller, or the pilot and the flight engineer? All of these responses recognize the day-to-day hands-on importance of the pilot. They all introduce one of several other important support or auxiliary functionaries to the answer. However, each of these suggested responses ignores the one person who is perhaps the single most important individual to the ultimate success of the airplane—the designer. Perhaps the pilot and the designer are the two most important individuals to the success of an airplane. The pilot because of his or her day-to-day responsibilities in commanding the craft and the designer because of his or her ability to create a concept that can be economically constructed, easily operated by competent flight crew, and maintained safely by the ground crew. Most modern executives perceive themselves as the “pilots” of their organizations; taking off, landing, conferring with the navigator, and communicating with the air traffic controller. They generally view themselves as the chief hands-on operational managers. However, what has been most lacking in American industry in the past few years has been an appreciation for the long-run strategic viewpoint. There is a need for more emphasis on the “designer” approach to operating an organization. A well-conceived strategic management system can facilitate this emphasis.

THE STRATEGIC MANAGEMENT PROCESS

The strategic management process is illustrated in Figure 5.2. This process consists of (1) defining the purpose or mission of the business, (2) developing a set of corporate objectives, (3) formulating a corporate strategy, (4) implementing the strategy, and (5) evaluating and monitoring the strategy to determine if changes are needed in any of the preceding steps. The first three steps are referred to as strategic planning. When these three steps are completed, an organization can prepare its strategic plan, which is the written document that contains the results of these three stages.

Once the overall corporate- or business-level strategies are developed, the marketing objectives and strategies should be developed. Marketing objectives and strategies must be consistent with the overall corporate objectives and strategies to ensure coordination of plans throughout the organization. A corporate objective of a 20 percent return on investment, for example, would lead to marketing objectives

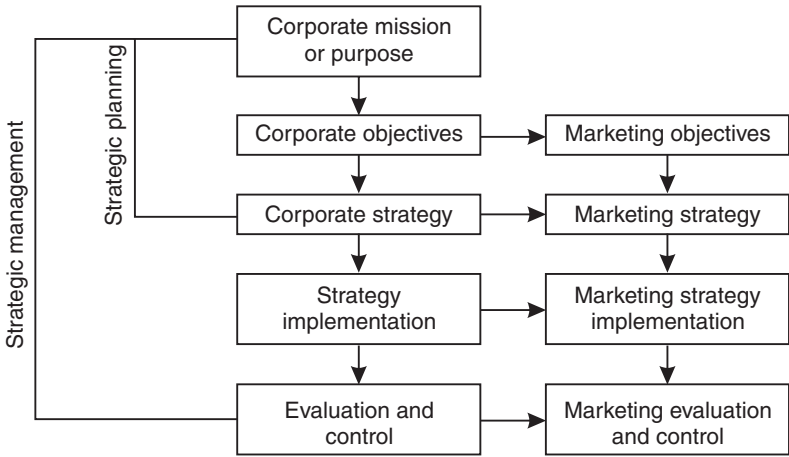


FIGURE 5.2. The Strategic Management Process

that are also profitability oriented. A corporate strategy that positions a firm as the low-cost producer in an industry may lead to greater emphasis on price in a firm's marketing strategy.

Before discussing marketing planning in more detail, the strategic planning process will be discussed from the standpoint of the whole organization. This will put marketing planning in perspective.

Corporate Purpose or Mission

Peter Drucker has referred to an organization's purpose as its mission or reason for being. To define a business's purpose is to ask,

What is our business and more importantly, what should it be? Only a clear definition of the mission and purpose of the business makes possible clear and realistic business objectives. It is the foundation for priorities, strategies, plans, and work assignments. It is the starting point for the design of managerial jobs and above all for the design of managerial structure.¹

One aspect of every firm's purpose should be to meet a need in the marketplace. However, a statement of purpose needs to be a formal

written statement that spells out in some detail the uniqueness which has led to the creation of the business enterprise. Such a statement becomes a reference point for subsequent managerial action. In effect, it becomes the reference point on which all operating areas in a firm must reflect as a part of their decision-making processes. Typical questions faced by most firms are: Do we enter a particular market? or, Should we introduce a particular product? Answers should be based on how these decisions relate to accomplishing the stated purpose of the organization. If it does not help the organization accomplish its stated purpose, it should not be undertaken, no matter how profitable or otherwise successful it appears to be. A firm's purpose can be altered over time to reflect changing environmental conditions or changing managerial philosophies, but at any given point there must be a standard of relevance for managerial thought and action.

A clear understanding of company purpose is needed to ensure alignment of strategies with the way the firm has defined its mission. Otherwise, strategies will be at cross-purposes with the organizational mission or, there will be a failure to attempt strategies beneficial to fulfillment of purpose. Common vision and unity can be achieved only by common purpose.

The statement of purpose shown in Box 5.1 was prepared by an energy resource company's management and illustrates the type of statement that can be developed to provide unity and guidance in decision making.

A few of the implications of this statement for strategy development will help show how a company's statement of mission or purpose is related to the strategies a firm can pursue. Paragraph one of this mission statement, for example, states that the company will produce at an optimum rate that provides orderly community growth, protects the environment, and so on. This means that the strategies must not be based on rapid expansion of sales volume, which would cause a large increase in productive capacity and would involve both rapid community growth and less environmentally compatible production techniques. Another restraint can be derived from the third paragraph—"quality product." This stipulation limits strategies aimed at lower-product-quality markets to reach more cost-oriented customers or customers actually wanting a lower-quality product.

BOX 5.1. Sample Mission Statement

The primary purpose of the Company is to operate at a profit for the benefit of owners, employees, and the community. We will produce coal resources at optimum rates that will provide orderly community growth, protect the environment, and contribute to alleviating our nation's energy needs.

The Company is committed to adhering to its approved mining plan by following laws, rules, and applications with a minimum disturbance to the environment, and timely restoration to disturbed areas.

Our purpose is to produce a quality product and to provide superior services to customers. We will provide a work environment for employees that allows them, through training and other means, to achieve personal growth while helping the Company to achieve its stated objectives.

An equal opportunity employer, the Company makes every effort to provide safe, healthy working conditions for employees as it seeks to operate within the tenets of the free enterprise system.

Finally, the Company is committed to conducting its business relationships in such a manner as to be a credit to its partners, employees and their families, customers, and the community. The Company is proud to be a leader in the mining industry of our country.

Source: Adapted from Colowyo Coal Company, *Colowyo Magazine*, 1(1)(1980), p. 1.

These examples illustrate the impact of statements of purpose on strategy development. To be effective, strategies must be consistent with overall purpose.

Corporate Objectives

Corporate objectives vary so widely in their nature, content, and specificity that it is difficult to describe a common "state of the art" of what corporate objectives should be. Even the terms used to describe objectives vary widely: *policy*, *goals*, *values*, and *objectives*, are often used interchangeably even within the same company. The definition used in this book is a generally accepted view of what is meant by objectives.

Basically, an objective is an end result desired, a statement of what is to be accomplished by an organization. Achievement of objectives is the way the organization fulfills its purpose.

The following three objectives are basic to any business organization:

1. Do something that is both economically and socially useful.
2. Maintain and/or survive as a business entity.
3. Grow in size and/or excellence of operations—whether measured in sales, profits, number of employees, or some other growth or effectiveness criterion.

These objectives are almost inherent to a business even though many firms do not formally state them. However, to provide more specific guidance to the organization as both a statement of end results sought and as a tool for evaluating performance, objectives need to be more explicit in defining what is to be accomplished.

Peter Drucker points out the importance of objectives being more than abstractions: “If objectives are only good intentions they are worthless. They must degenerate into work. And work is always specific, always has—or should have—unambiguous measurable results, a deadline and a specific assignment of accountability.”²

Box 5.2 shows an example of corporate financial objectives from a major food company. Notice the differences in the degree of specificity of the objectives. Some companies state their objectives in a more quantifiable format while others do not. When objectives are quantified, they can be evaluated on an absolute quantitative basis. Otherwise, they must be analyzed on the basis of what was accomplished on a relative basis—relative to other years and perhaps other companies.

Corporate Strategies

The final stage in the strategic planning process is the development of the overall corporate strategies that will be used to accomplish objectives. The strategy development process can be viewed as a matching process. The organization attempts to match its capabilities and skills with the key requirements of the market to take advantage of an opportunity that has opened up. Opportunities are created or opened

BOX 5.2. Sample Goals and Objectives

Our financial goals and objectives are based upon measures of superior competitive performance. Management believes these standards are appropriate guides for development of plans and evaluation of performance over time.

These goals include:

1. to earn the highest possible return on shareholders' equity consistent with responsible business practices;
2. to ensure repetitive, predictable, and steadily growing per-share profits and dividends as the yield from an ample stream of reinvestments; and
3. to perform consistently better than the industry in every market where our products and services compete.

These goals translate into the following financial objectives:

1. Annual earnings per share growth of 12 to 15 percent.
2. Pretax return on average invested capital of 25 percent.
3. After-tax return on average stockholders' equity of 18 percent.
4. A strong "A" credit rating on senior debt of the parent company.

by changes in the environment. However, opportunities also close—like a window. This concept has been referred to as the *strategic window*.³ In other words, the opportunity that matches what the firm can do well with the needs of the market exists for only a specific and often a short period of time. The timing of a strategy becomes a key element of success. The strategic planner attempts to develop the right strategy at the right time.

SWOT Analysis

Many organizations evaluate opportunities utilizing an analysis framework referred to as a SWOT. SWOT is an acronym for strengths, weakness, opportunities, and threats. The ultimate goal of a SWOT analysis includes, on one hand, the matching of vital operational

strengths with major environmental opportunities. On the other hand, it provides a basis for improving weaknesses or at least minimizing them and avoiding or managing environmental threats to operations. Ideally, a SWOT study helps identify a *distinctive competence*, something the organization does exceptionally well. Table 5.1 illustrates one format for evaluating internal strengths and weaknesses in light

TABLE 5.1. Analysis of Strengths and Weaknesses

Factor	Opportunity implication
<p><i>Marketing resources</i></p> <p>Strengths:</p> <p> Established facilities</p> <p>Weaknesses:</p> <p> No in-house advertising and dependence on agency relationship</p>	<p>New service could use the same facilities</p> <p>Service needs strong advertising effort—must use ad agency</p>
<p><i>Financial resources</i></p> <p>Strengths:</p> <p> Good cash position and strong earning records</p> <p>Weaknesses:</p> <p> Higher than average debt/equity ratio</p>	<p>Offer customers payment plans</p> <p>Must fund through internal resources</p>
<p><i>Productive capacity</i></p> <p>Strengths:</p> <p> High-quality production</p> <p>Weaknesses:</p> <p> Low labor availability</p>	<p>Go for quality end of market</p> <p>Must offer limited quantities</p>
<p><i>Managerial resources</i></p> <p>Strengths:</p> <p> Strong research and development staff</p> <p>Weaknesses:</p> <p> No experience with new product</p>	<p>Cost effectiveness in operation</p> <p>Hire new manager</p>

of external opportunities by considering the application of major organizational resources. Each factor—capacity, personnel, marketing, finance, and management—is rated in relation to an opportunity on a quantitative basis.

This approach is used to analyze resources as strengths or weaknesses in relation to opportunities in the organization's environment. For each strength and weakness identified, strategy implications are drawn. Analysis of strengths and weaknesses flows logically from the identification of the resources relative to the opportunity.

Strategy Development

Designing strategies is a process that involves (1) identifying strategic options, (2) assessing options, and (3) selecting the most appropriate strategy or strategies. Since most companies include growth as a basic objective, one area of strategy development revolves around the question of how growth will be obtained. Two possible alternative growth strategies are:

1. Product/market expansion strategies
2. Integrative strategies

Several strategic alternatives can be illustrated in a 2×2 matrix called a product/market growth matrix. This type of matrix is shown in Figure 5.3.

Product/Market Expansion Strategies

Product/market expansion strategies involve growth through (1) penetration of existing markets with existing products, (2) development of new products aimed at existing markets, (3) development of new markets for existing products, and/or (4) development of new products aimed at new markets.

Market penetration is a strategy of growth aimed at increasing sales of existing products in existing markets. This expansion of sales can occur by (1) altering purchase patterns of existing customers—getting them to buy more when they purchase or to purchase more frequently, (2) attracting nonusers to purchase the product, and (3) enticing purchasers of competitors' products to switch, thereby increasing market share. Alternatives 1 and 2 involve increasing the total size of the market; alternative 3 involves increasing market share.

		Products	
		Existing	New
Markets	Existing	Market penetration	Product development
	New	Market development	Diversification

FIGURE 5.3. Product/Market Growth Matrix

Product development is a strategy aimed at increasing sales through the introduction of new products to existing markets. Product development may involve altering existing products by (1) adding new features, (2) offering different quality levels, or (3) offering different sizes of the product.

Market development is a strategy which entails offering existing products to new markets. These markets can be (1) new geographical markets such as foreign countries, or (2) new market segments not currently using the product.

Diversification is a strategic alternative aimed at growth. Diversification entails introducing new products into new markets or acquiring other firms that are already in these new product/market situations. Diversification strategies can take various forms. The most common are (1) product/technology-related, (2) market-related, and (3) nonproduct/nonmarket-related.

1. *Product/technology diversification* consists of adding products that are technologically related to existing products even though they are aimed at different markets. A company that manufactures electronic watches and develops a line of industrial gauges using the same electronic technology would be an example of this type of diversification.

2. *Market-related diversification* consists of introducing products aimed at the same market even though the product technologies are different. A company that manufactures and markets a line of cosmetics, for example, could introduce a cosmetic bag. This product would be aimed at the same market as cosmetics but involves quite different product technologies.

3. *Nonproduct/nonmarket-related diversification*, sometimes called conglomerate diversification, seeks to add new products aimed at new classes of customers. A family-oriented entertainment company is an example of this type of diversification. This company might introduce a new water-related recreation park aimed at the nontourist market whereas their prior business efforts had been concentrated on nonwater-related entertainment appealing to the tourist market.

Examples of these strategy options are shown in Table 5.2. These four strategies focus on growth through reaching the same markets with new products, reaching new segments, gaining increasing usage from existing segments, or pursuing new segments with new products. Each of these strategic options carries with it advantages and risks as far as management is concerned. In a market penetration strategy, management has the advantage of both product knowledge and knowledge of existing markets. The obvious disadvantage is the fact that the products will eventually pass through various product life-cycle stages ending with sales decline and extinction.

In a product development strategy, the advantage is knowledge of the relevant market since the products are aimed at existing markets. The disadvantage is lack of product knowledge.

When a market development strategy is used, product knowledge is the advantage, while market knowledge is the disadvantage. When a diversification strategy is used, management is under the most strain. Management has neither product knowledge nor market knowledge as an advantage so it must quickly acquire it or rely on acquiring managers or companies who already possess it.

Integrative Strategies

As a strategic alternative a company can choose growth through integration of activities within its current industry. Three alternatives are suggested for this type of growth: (1) forward integration, (2) backward integration, and (3) horizontal integration.

TABLE 5.2. Strategy Examples in the Product/Market Matrix

Market	Products	
	Existing	New
Existing	<p><i>Market penetration strategy examples:</i></p> <ol style="list-style-type: none"> 1. Ford uses rebates to stimulate prospective buyers. 2. Charmin uses larger package sizes for heavy users. 3. Northwest Airlines provides WorldPerks miles and benefits to frequent flyers. 4. Aleve uses comparative ads to induce brand switching. 5. AOL offers free service for limited time periods. 	<p><i>Product development strategy examples:</i></p> <ol style="list-style-type: none"> 1. Microsoft launches Windows XP to improve previous Windows versions. 2. Kimberly-Clark adds ridges and softness to Scott Towels. 3. Jeep redesigns the Cherokee and renames it Liberty. 4. State Farm adds long-term care insurance to its line of home, life, and auto coverage.
New	<p><i>Market development strategy examples:</i></p> <ol style="list-style-type: none"> 1. GM launches the Saturn auto in Japan. 2. Arm & Hammer baking soda is promoted as a carpet deodorizer. 3. Kodak and Fuji targets the children's photographer market with promotions and special programs. 4. Tuna is promoted as a calcium additive for the diet. 5. McDonald's opens outlets in Wal-Mart, airports, zoos, casinos, etc. 6. Lipton provides dip recipes for its dry soup mixes. 	<p><i>Diversification strategy examples:</i></p> <ol style="list-style-type: none"> 1. Starbucks moves into grocery stores with Starbucks Frappuccino bottled drinks, and Tazo Tea. 2. Coleman adds air compressors for the building contractor market. 3. Coca-Cola acquires Mad River Traders to gain entrance into premium teas, sodas, and juice drinks. 4. Philip Morris adds foods and beers to its cigarette core.

Forward integration means the company looks “down” the channel of distribution to the next channel members who currently represent a customer type. For example, a manufacturer who “looks down the channel” generally sees either wholesalers or retailers as the next channel member. Thus, forward integration takes the form of expanding—either internally or through acquisitions—through taking over wholesaling or retailing functions.

Backward integration seeks growth through ownership of companies “up the channel,” in other words, suppliers of products or raw materials. A manufacturer of automotive tires that builds its own plant to produce synthetic fibers used in tire production would be growing through backward integration.

Organizations that do not want to acquire other organizations through forward or backward integration can accomplish some of the benefits of vertical integration through a concept called supply-chain (also called value chain) management. This involves managing the relationships among the entire sequence or chain of suppliers that are involved in the creation or delivering of a product. This process affects relationships with upstream suppliers and downstream users. Effective supply-chain management can create a competitive advantage for a marketer by increasing innovation, decreasing costs, improving cooperation, and helping resolve conflict among chain members.

Horizontal integration seeks growth through ownership of competitors. This strategy involves identifying and acquiring firms that are in competition with the firm seeking growth. Another approach to horizontal growth can come through strategic alliances. A strategic alliance is a partnership with other companies to create a competitive advantage. These relationships are created to improve each partner’s ability to create or enhance its competitive stance in today’s fast-changing market.

One example of this strategy is combining a service station/convenience store with a fast-food operation and/or a donut shop. This creates traffic flow to a location from which all partners can benefit.

Factors Influencing Strategy Selection

Many factors must be evaluated before selecting a particular strategy. The most important factors and the attendant changes that may occur with each strategy option are shown in Table 5.3. Note that the diversification strategy alternative results in the most changes in operations and therefore has potentially more risks. Many companies pursuing diversification strategies have later divested of these products/companies and moved back to their original product/market positions.

TABLE 5.3. Factors Influencing Strategy Selection

Strategy position	Competition	Product	Distribution	Market knowledge
Market penetration	Well known and well established	Often at maturity stage of life cycle with no anticipated changes	Existing relationships unchanged	Extensive and based on considerable experience
Market development	Often new due to move into new markets	Product has potential but none in present market	May require new channels of distribution, new relationships	Sometimes minimal due to move into new markets
Product development	Usually well known and well established	New product developed for an existing market	Usually can maintain existing channel relationships	Extensive and based on considerable experience
Diversification	May be totally new because of new product and new market	Often totally new and in early stages of life cycle, but might not be if product introduced into an established program	May require completely different channels, new relationships	Often very minimal due to new products in new markets

Source: Adapted from David W. Cravens, "Marketing Strategy Positioning," *Business Horizons*, December 18, 1975, pp. 53-61.

PLANNING LEVELS

Many companies have discovered that new organizational concepts are needed for more effective strategic planning. One concept that is extremely useful in this process is the strategic business unit.

A strategic business unit (SBU) meets the following criteria:

1. It has a clearly defined market.
2. It faces identifiable competitors in an external market (as opposed to being an internal supplier).
3. As a separate, distinct, and identifiable unit whose assets do not depend on the existence of another SBU, its manager has control over planning and decision areas that determine success of the business.

In large, multiproduct line companies planning typically occurs at three levels:

1. *Corporate-level planning*: generates a strategic plan
2. *Strategic-business-unit-level planning*: generates a strategic marketing plan
3. *Product-market-level planning*: referred to as an operating marketing plan

Table 5.4 shows the typical questions and outcomes addressed at each of these levels. In moderate-sized businesses with a single SBU, the strategic marketing and operating marketing planning may be conducted as a single process, with longer-term strategic planning being conducted at the corporate level. In smaller organizations the planning process incorporates all three levels simultaneously.

For example, PepsiCo is the parent company for Pepsi Cola Bottling, Inc., Taco Bell, Inc., Kentucky Fried Chicken, Inc., and Pizza Hut, Inc. At the corporate level, PepsiCo acts as a holding company with a portfolio of investments in several companies. Management of PepsiCo must decide what types of businesses to add or delete from this portfolio to fulfill its corporate mission and objectives.

At the SBU level, Pepsi Cola Bottling, Inc.'s management is focused on the overall marketing plan to position Pepsi products in world markets to create and sustain a competitive advantage versus other beverage companies. This plan would focus on creating the operating marketing plan for a specific product line within the Pepsi SBU, detailing product introductions, promotional campaigns, pricing, and distribution strategies to achieve annual objectives relating to market share, sales, profits, etc.

TABLE 5.4. Levels of Planning

Level	Name	Question	Output
Corporate	Strategic planning	What is our business? What should it be?	Mission, objectives, SBU portfolio
SBU	Strategic marketing	Where should we be going?	Marketing strategy to gain a sustainable competitive advantage
Product/ market	Market management	How do we get there?	Marketing plan

In this chapter we focus our attention on planning at the corporate and SBU levels. Planning at the operational or product/market level will be the focus of Chapter 6.

STRATEGIES FOR EXISTING STRATEGIC BUSINESS UNITS

Once an organization's SBUs are identified, strategic planning can be carried out for each. However, care must be exercised to ensure that the activities of each SBU are interrelated to the corporate level objectives and purpose.

Growth-Share Matrix

The Boston Consulting Group (BCG), a well-known consulting organization, has developed an approach to strategic planning that permits classifying SBUs on the basis of their relative market share and market growth rate. This approach, depicted in Figure 5.4, permits development of strategies for each SBU based on its classification within the matrix.

The vertical axis shows annualized market growth rates for each SBU in its respective market. The division of high-low rates at 10 percent represents the midpoint of the range of growth rates for SBUs under consideration.

The horizontal axis shows the market share of each SBU in relation to the industry leaders. Thus it is relative market share and not absolute market share. If relative market share for an SBU is 1.5, that SBU is the market leader and its share is one and a half times greater than the next closest competitor. A relative market share of .8 would indicate that the SBU's market share was 80 percent of the market leader's share. Relative market share places each SBU in relation to the leader and provides more information about market position than absolute market share. The 1.0x division is the generally accepted point for separating SBUs into high-low relative market shares.

The size of each circle in the figure represents the proportional dollar contribution of each SBU to total company sales. The larger the circle, the larger the SBU's contribution to total company sales.

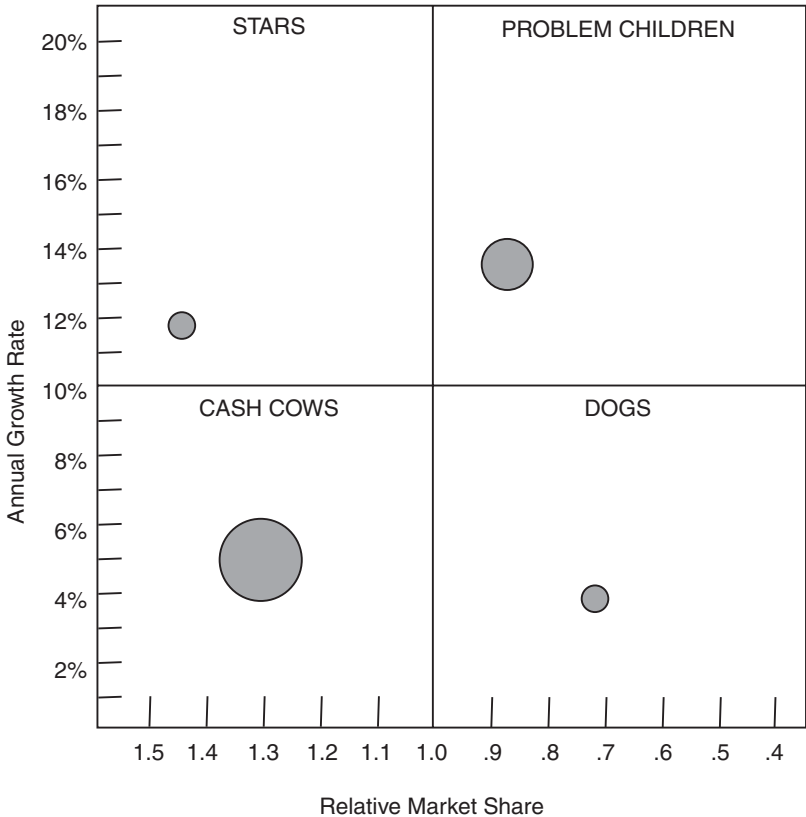


FIGURE 5.4. Boston Consulting Group Business Portfolio Matrix (Source: Adapted from B. Hedley, "Strategy and the Business Portfolio," *Long Range Planning*, February 1977, p. 12.)

Each SBU is placed in one of the four quadrants in the following four classifications:

1. *Cash cows*—A cash cow is an SBU with a high relative market share compared to other competitors in the market, but it is in an industry that has a low annual growth rate. These SBUs generate more than enough cash to cover operating expenses, and their growth rate does not warrant large investments in that industry. The cash generated can therefore be used to support other SBUs which offer more potential for growth.

2. *Stars*—Stars are SBUs that have a high relative market share and are also in an industry with expected high rates of growth. Stars usually have a high demand for cash to finance their growth.

3. *Problem children*—Problem children are SBUs that have a low relative market share but are in industries with a high annual rate of growth. The potential exists for them to become stars but their low relative share represents a major challenge to management to create strategies capable of increasing relative market share.

4. *Dogs*—Dogs are SBUs that not only have low relative market share but also are in industries with low growth potential. They may not be operating at a loss but they generate only enough cash to maintain their operations and market share.

Classifying a company's SBUs into such a matrix helps define the current position of each SBU and also suggests strategic options for management to improve performance. Although the position of an SBU will change over time because of changes in growth rates or market composition, the following four strategic actions are implied for the four cells: (1) "milk" the cows, (2) "shine" the stars, (3) "solve" the problems, and (4) "divest" the dogs.

1. *"Milk" the cows*—The strategy for cash cows is to spend enough on them to maintain their market share and "keep them healthy" so they can continue to generate cash.

2. *"Shine" the stars*—The strategy for stars is to continue to invest funds to support their growth rate and high market shares. They will eventually slow in growth and become cash cows and help generate funds for new stars.

3. *"Solve" the problems*—The strategy for these SBUs involves one of two options: (a) develop and test strategies for improving market share, or (b) divest and use the cash to support other more promising SBUs.

4. *"Divest" the dogs*—Dogs SBUs with low share and low growth potential are prime prospects for divestiture. Cash generated by divesting these SBUs can be reinvested into other SBUs with more potential.

Utilizing the Growth-Share Matrix

The BCG portfolio approach treats investments in SBUs like an individual investor's portfolio of stocks and bonds. Managers can in-

vest or divest to improve the overall performance of the portfolio. This approach provides general strategy implications for each SBU and is a useful tool for analyzing multiline business companies. However, there are several limitations to this approach:

1. The identification of the midpoints on the axis is arbitrary. What is a high-growth industry? Is a 10 percent increase in annual sales volume too high or too low to be classified as a growth industry? Should it be 16 percent?
2. Not all business units will fall neatly into the four quadrants. Strategy implications are quite different for SBUs that appear to be falling into the problem child and dog categories.
3. An SBU might be classified as a star or cash cow at any given point but the trend in market share or industry growth could mean the SBU is gaining or losing share.
4. An SBU classified as a dog may still be profitable for years to come even though it never gains market share. It could be in a market niche that will sustain its position for years. Should it be divested or harvested?

These limitations of the BCG portfolio led to the development of other approaches to the same set of strategic questions. One of these approaches is referred to as the business screen.

The Business Screen

An alternative matrix approach has been developed by General Electric with the help of the consulting firm of McKinsey & Company. This matrix is based on two dimensions: long-term industry attractiveness and the business strength/competitive position of the firm in the industry. This matrix is shown in Figure 5.5. The “red, yellow, and green” areas each represent different combinations of industry attractiveness and company strength/position. The “red” zone represents SBUs of low to medium industry attractiveness and average to weak business strength/position. These are prime candidates for harvesting or divestment unless some type of turnaround strategy is developed. The “yellow” zone consists of the three diagonal cells stretching from the lower left to the upper right. These SBUs warrant

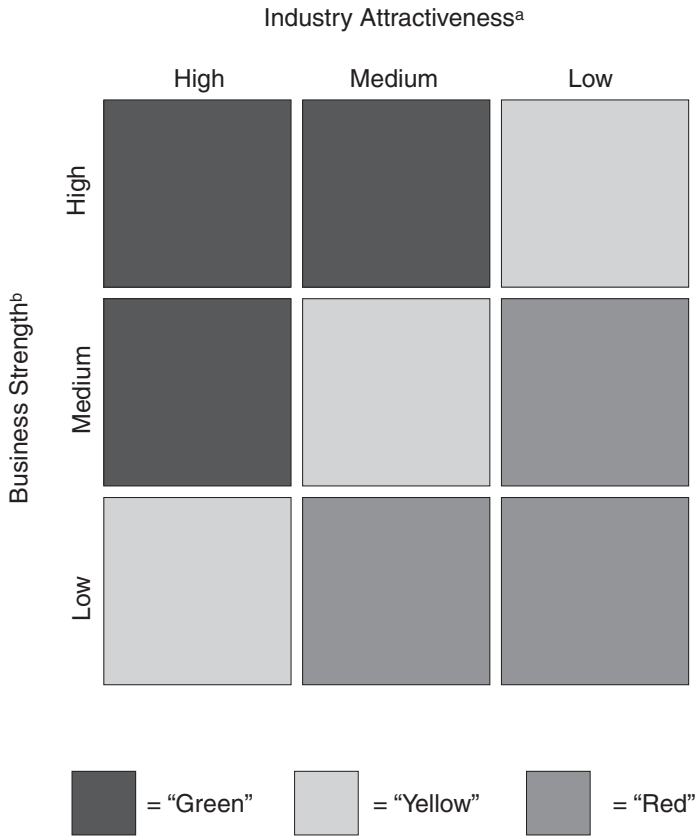


FIGURE 5.5. The Business Screen (Source: Adapted from M. G. Allen, "Strategic Problems Facing Today's Corporate Planner," speech given at the Academy of Management, 36th Annual Meeting, Kansas City, Missouri, 1976.)

^aIndustry attractiveness is determined by market size, market growth, pricing, competitive structure, profitability, technology role, social, environment, legal, etc.; ^bBusiness strength is determined by company size, market share and growth rate, brand position, profitability margins, technology position, product quality, image, etc.

only a medium investment allocation and the strategy is usually "hold and maintain." The "green" zone represents SBUs that are in the most attractive industries where the company has relatively favorable strength/position. These SBUs are in the highest investment priority. The strategy for these SBUs is "grow and build."

Utilizing the Business Screen

Although considerably more time and effort is needed to collect the data and rank each business using the GE approach, the results are much more detailed in terms of strategy implications. This approach allows for intermediate rankings of firms on the two dimensions and clearly identifies the SBUs which should be built and those which should be harvested or divested.

One advantage of the GE approach is that it allows for more classifications of SBUs including a medium range. It also involves analysis of many factors to evaluate business strength and industry attractiveness and not just market share and industry growth rates. The detail and richness of this type of analysis provide a more in-depth perspective of an SBU's current position.

Each industry attractiveness factor must be identified, a weight must be assigned to the importance of the factor, and then each must be evaluated on a rating scale to create an overall value for industry attractiveness. The same procedures must be followed for business strength/competitive position to create an overall value before the position of the SBU can be plotted.

This matrix approach, like all such approaches, yields only general strategy implications. Detailed strategies must be developed for each SBU. For example, an SBU in the grow and build green zone would still require a specific strategy with its own unique set of business strengths/competitive setting.

CORPORATE PLANNING AND MARKETING PLANNING

The strategic planning process described thus far has concentrated on corporate level and business unit planning. These two levels of planning precede development of the strategic marketing plan and the annual or operating marketing plan. The strategic marketing plan contains the overall approaches to marketing within a business unit and the annual marketing plan details what is to be done on a day-to-day, week-to-week, and month-to-month basis to translate the major strategies into specific actions, responsibilities, and time schedules.

Both strategic and operational marketing plans must be consistent with corporate strategic plans. Although marketing plans are more detailed and cover only the marketing functions, the marketing plan-

ning process involves steps similar to the strategic planning process at the corporate level. Steps usually include a detailed analysis of the company's situation, setting specific objectives, developing strategy, implementing strategy, and evaluating and controlling strategy. The details of the marketing planning process are discussed in Chapter 6.

The relationships between the corporate strategic plan, the strategic marketing plan, and the annual operating marketing plan are demonstrated in Figure 5.6. This approach to planning ensures a consis-



FIGURE 5.6. Relating Marketing Plans to Corporate Plans

tency between what is done on a weekly or monthly basis and the overall marketing strategy. The strategic marketing plan is devised from and, in turn, supports the corporate plan.

STRATEGIC PLANNING IN GLOBAL ORGANIZATIONS

Many organizations have adopted a global perspective to strategic planning. International markets have been sought as a means of growth under a strategy of market development discussed earlier. Some companies, such as Singer, Massey Ferguson, and Weyerhaeuser, have increasingly turned to international markets for new opportunities. Massey Ferguson, a U.S. farm equipment producer, has about 70 percent of its sales outside the United States.

Global competition is prevalent in many industries: oil, televisions, motorcycles, automobiles, aircraft, and sewing machines. To be successful, companies in these industries must take a global view of strategic marketing.

Following are three basic strategy options for competing on a global basis:

1. Competing worldwide with an entire product line in all markets where the same, basically unchanged products can be successfully sold.
2. A global focus concentrating on marketing the same basic products in a few countries.
3. A country-by-country focus strategy in which differences in each country are recognized and the products are customized to match market conditions.

Each of these strategies must be evaluated in terms of consistency with overall corporate objectives and strategies to make sure the global marketing strategies match the firm's resources and skills. The third approach, a country-by-country strategy, requires detailed knowledge of the consumers in each market. Then the marketing strategy elements of product, price, promotion, and distribution are adjusted to each situation. This requires more resources and marketing management skills than the first two approaches.

Market Entry

Once a firm has identified the basic strategic approach it wants to adopt in international marketing, the next step is to decide exactly how to enter the market. Several options are available, and each of these should be evaluated carefully because each requires a different level of commitment of resources and also different levels of risk. Each of these alternatives will be discussed next.

Exporting

The lowest level of commitment and risk in multinational marketing is exporting. Exporting involves marketing products that are domestically produced in another country. A company can market its products directly to customers in a country, sell to retailers, or use an independent exporting intermediary.

The most common approach is to sell to an export firm, called an export merchant. The export merchant sells the products to its customers around the world and assumes all risks associated with the sales.

Another type of intermediary is called an export agent or broker. They serve essentially the same task as agents and brokers in domestic distribution. Export agents may reside in a foreign country and represent the domestic company to foreign customers or they may reside in the domestic producer's country and represent foreign customers. These agents may also arrange for financing and distribution of the products.

Licensing

Licensing is a process in which one company agrees to license a company in another country to manufacture or brand products for sale in other countries. This is a legal arrangement that specifies what can be done, in what location, and the conditions of sales.

The licensor must carefully monitor the activities of the licensee to ensure that quality, pricing, distribution, and promotion levels are consistent with the contract levels. If the licensee decides to violate the contract, the licensor may not be in a position to control such ac-

tions. International law is often ineffective in dealing with such contractual arrangements.

Joint Ventures

A joint venture combines a domestic firm and a foreign firm for a specific business venture. The domestic firm supplies capital and sometimes managerial resources to a foreign company and receives part ownership in that venture. The arrangement is for a specific venture and does not commit the firms to other activities.

Many countries' governments promote joint ventures to aid the economic development of their own country. Resources flow from one country into the economy of another and yet production, marketing, and employment are enhanced and controlled locally.

Contract Manufacturing

Contract manufacturing enables a multinational company to enter a market without building a plant by having a firm located in the foreign market manufacture the product and affix the multinational's brand name. If the sales of the product continue to grow, the company can then build its own manufacturing plants.

Under contract manufacturing, the local manufacturer performs only the manufacturing function for the multinational firm. Marketing would continue to be controlled by the brand's owner.

Direct Investment

The highest level of commitment and risk is associated with direct investment. Direct investment means a company operates a wholly owned manufacturing and marketing operation in another country. Although substantial returns can be experienced with this option through savings in transportation and/or manufacturing costs, risks are also high. Unstable political and social conditions can lead to governmental overthrows, wars, and expropriation of company assets by foreign governments.

Some countries discourage direct investment in favor of joint ventures while others encourage direct investments. A country's tax structure can be altered to reward or punish companies making direct investments.

SUMMARY

In this chapter we presented the basic concepts used in strategic planning for whole organizations as well as for the marketing function. Strategic issues were dealt with rather than tactical or operating issues. Strategic decisions are of critical importance to an organization because of their long-term impact on what the company is and does for its customers.

Strategic management is a process that involves defining the business, setting objectives, formulating strategy, implementing strategy, and evaluating and controlling strategy. Strategic marketing plans are developed after the corporate-level plan and must be consistent with them.

Several tools were introduced to aid plan development. The product market matrix was used to show growth alternatives while the Boston Consulting Group Matrix and the business screen were presented as aids in diagnosing existing SBUs.

This chapter concluded with a discussion of global strategic planning. Three basic strategies for entering the international realm were identified.