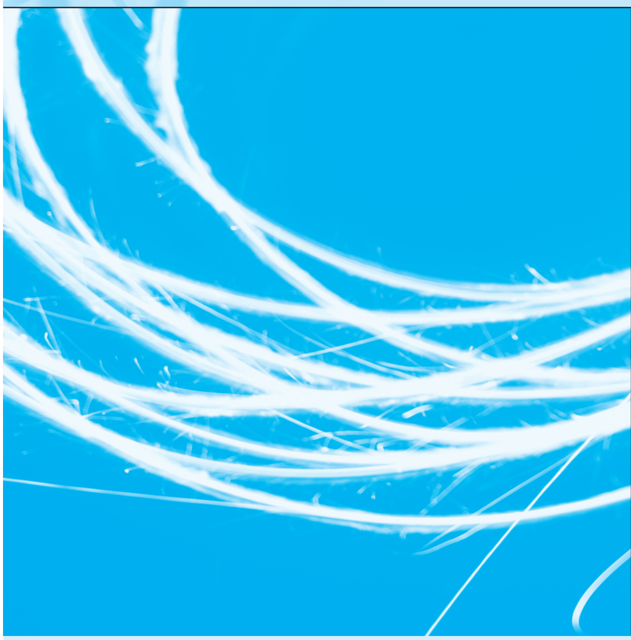
chapter two

2

Strategic marketing planning



Strategy is the matching of the activities of an organisation to the environment in which it operates and to its own resource capabilities.

Johnson and Scholes (1988)

Introduction

The essence of developing a marketing strategy for a company is to ensure that the company's capabilities are matched to the competitive market environment in which it operates, not just for today but into the foreseeable future. For a commercial organisation this means ensuring that its resources and capabilities match the needs and requirements of the markets in which it operates. For a non-commercial organisation, such as a charity or a public utility, it means achieving a fit between its abilities to serve and the requirements of the publics or causes it is seeking to serve. At the heart of strategy lies a need to assess critically both the organisation's resource profile (often referred to as its strengths and weaknesses) and the environment it faces (its opportunities and threats).

Strategic planning attempts to answer three basic questions:

1 What is the business doing now?

2 What is happening in the environment?

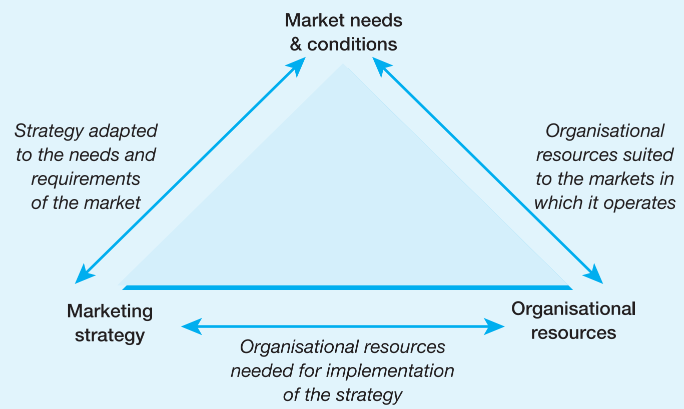
3 What should the business be doing?

Strategy is concerned primarily with effectiveness (doing the right things) rather than efficiency (doing what you do well). The vast bulk of management time is, of necessity, concerned with day-to-day operations management. A time audit for even senior management will often reveal a disproportionate amount of time spent on routine daily tasks, with the more difficult and demanding task of planning further into the future relegated to a weekend or week-long conference once a year. In the most successful companies, however, thinking strategically – sitting back from the present concerns of improving what you do now and questioning what it is you are doing – is a constant process.

Fundamental to strategic thinking is the concept of 'strategic fit', as exemplified in the quote at the start of this chapter from Johnson and Scholes (1988) and shown diagrammatically in Figure 2.1. For any strategy to be effective it needs to be well tuned both to the needs and requirements of customers (the market conditions in which it is implemented), and to the resources and capabilities of the firm seeking to implement it. No matter how wonderfully crafted and articulated the strategy, if it is not focused on meeting the needs of customers it is doomed to failure. Similarly, if the organisational resources necessary for its implementation are not available, or cannot be acquired, success will be illusive.

As with the adoption of a marketing philosophy throughout the organisation, the adoption of strategic thinking goes beyond the brief of marketing management alone. All senior executives in the company or organisation have a responsibility for developing the strategic profile of the company and giving it a strategic focus. Strategic planning and strategic marketing planning share many activities, although

Figure 2.1 Strategic fit



strategic planning has more breadth and covers all business activities. A marketing orientation must permeate the whole of an organisation, but the strategic marketing plan is just one of several functional plans that feed into the overall strategic plan of a company. Marketing management, however, with its specific responsibility for managing the interface between the organisation and its environment (both customers and competitors), has an increasingly important role to play in overall strategy development.

Marketing strategy should be set in the context of overall corporate strategy. Once the overall direction of the organisation has been decided, with appropriate input from all relevant stakeholders, the marketing strategy will need to be aligned to ensure that direction is achieved.

2.1 Defining the business purpose or mission

For many organisations a useful starting point in strategy formulation is to define its mission or purpose. Tim Smit, founder and chief executive of the Eden Project in Cornwall, set out to build the biggest global eco-brand and to change the way people think about themselves and their relationship with the planet on which they live. The mission was stated as: 'to promote the understanding and responsible management of the vital relationship between plants, people and resources leading to a sustainable future for all'. That guiding principle helped secure £40 million of UK lottery funding, together with £43 million of private investment to create a complex of greenhouse domes spanning 37 acres in a disused clay pit at St Austell. As importantly, it gave the people working on the project a worthwhile set of objectives to strive for and be committed to. Visitor numbers have been huge (exceeding 1 million in the first four months), despite the relatively inconvenient location, and the Eden brand is now set to expand into other parts of the world (*The Guardian*, 18 March 2002).

Defining the business purpose or mission requires the company to ask the fundamental questions first posed by Levitt nearly half a century ago (see Levitt, 1960):

What business are we in?

What business do we want to be in?

Several years ago, so marketing folklore has it, a new managing director took over at Parker Pens. One of his first actions was to assemble the board of directors, stand before them holding the top of the range Parker of the day and ask, 'Who is our greatest competitor?'

The first answer to emerge from the board was Shaeffer. Shaeffer produced a pen very similar to the Parker. It had a good reputation for quality, had a similar stylish finish and was similarly priced at the top end of the market. The new managing director was not, however, impressed with this answer. 'We certainly compete to some extent with Shaeffer, but they are by no means our major competitor.'

A newer member of the board then suggested that the major competitor might be Biro-Swan, the manufacturers and marketers of a range of ballpoint pens. While these retailed considerably cheaper than the Parker he reasoned that they were used for the same purpose (writing) and hence competed directly with Parker. The business definition was now changing from 'quality fountain pens' to 'writing implements' and under this definition pencils could also be considered as competitors, as could the more recent developments in the market of fibre tip pens and roller ball pens. 'Your thinking is getting better,' said the MD, 'but you're still not there.'

Another board member then suggested that perhaps the major competitor was the telephone, which had been gaining more widespread use in recent years. Under this view of the market they were in 'communications' and competing with other forms of communication including the written word (perhaps competing here with typewriters and more recently word processors) and other (verbal) means of communication. 'More creative thinking,' said the MD, 'but you still haven't identified the main competitor.'

Eventually the MD gave his view of the major competitor. To an astonished board he announced, 'Our major competitor is the Ronson cigarette lighter!' When asked to explain his reasoning he defined the market that the company was in as the 'quality gift market'. Analysis of sales of Parker pens showed that the majority of purchases were made by individuals buying them as gifts for other people. When they considered what to buy often a major alternative was a quality cigarette lighter and hence the definition of the market (example courtesy of Graham Kenwright, Birmingham Chamber of Commerce).

This definition has widespread implications for the marketing of the product. Packaging assumes a more important role, as does the development and maintenance of a superior quality image. Price is perhaps less important than might have been thought under alternative market definitions. Distribution (through the outlets where potential customers buy gifts) also becomes more important.

This example serves to illustrate how asking a basic question such as 'Who is our major competitor?' or 'What market are we in?' can affect the whole of the strategic direction of the company.

2.1.1 Mission formulation and statement

Formulating the mission into a brief and concise statement that can be communicated across the organisation can help engender a sense of common purpose and also provide guidelines for how decisions will be made and resource allocations prioritised in the future. Poorly constructed statements, however, especially those offering nothing more than 'motherhood and apple pie' can cause more damage than good by creating derision among employees, managers and even customers.

Hooley *et al.* (1992) discuss the elements that go to make up an effective statement of mission. These are shown in Figure 2.2. An effective mission statement needs to spell out the following:

1 The **strategic intent** (see Hamel and Prahalad, 1989), or vision of where the organisation wants to be in the foreseeable future. Hamel and Prahalad cite examples of strategic intent for Komatsu (earthmoving equipment manufacturers) as being to 'encircle Caterpillar' and for the American Apollo space programme as 'landing a man on the moon ahead of the Soviets'. Vision need not be as competitive

as these examples. The vision of an organisation such as a university might be enshrined in the achievement of a set of worthy social goals. For a charity the vision may be to improve the quality of life for particular groups of people or animals.

2 The **values of the organisation** should be spelled out to set the ethical and moral tone to guide operations. Fletcher Challenge, the New Zealand-based multinational, sets down its values in its Statement of Purpose (Company Report, 1991) as follows:

> *Fletcher Challenge will operate with integrity and a people oriented management style which stresses openness, communication, commitment, innovation and decentralisation of authority, responsibility and accountability.*

Once such statements have been made, however, it is clearly important that they are adhered to. The UK government's 'ethical foreign policy' has come in for a great deal of criticism in the light of support for foreign regimes some commentators would find morally questionable.

3 The **distinctive competencies of the organisation** should be articulated, clearly stating what differentiates the organisation from others of its kind – what is the distinctive essence of the organisation. This is a difficult but necessary thing for many organisations to articulate. It seeks to spell out the individuality of the organisation, in essence why it exists as a separate entity and what is special about it.

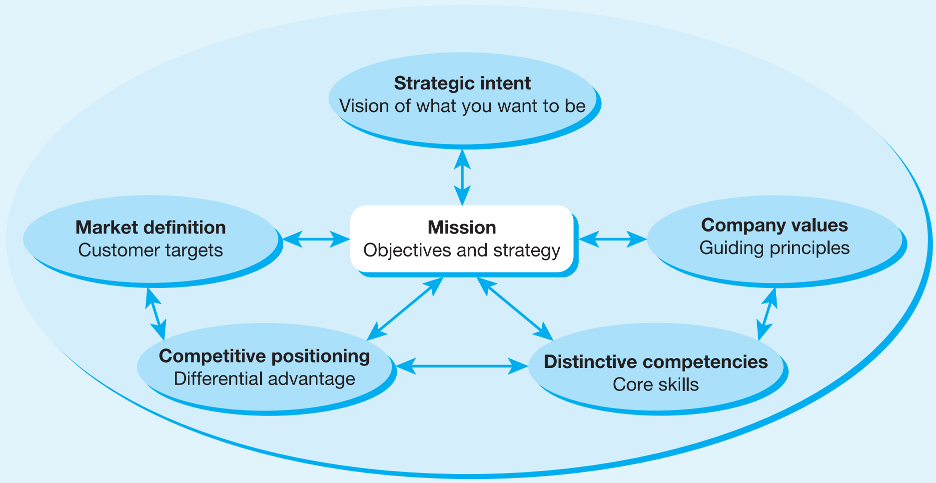
4 **Market definition**, in terms of major customer targets that the organisation seeks to serve and the functions or needs of those customers that will be served. The insurance company Sheila's Wheels has clearly focused on the needs of a well-defined market target, as reflected in its brand name and its business purpose: 'a car insurance company designed for the female driver' (www.sheilaswheels.com). Many successful entrepreneurs such as Richard Branson of Virgin have built their businesses around a clear definition of customer targets and their needs, seeking to serve them across many different product fields.

5 Finally, the mission should spell out where the organisation is, or intends to be, **positioned** in the marketplace. This is the result of bringing together market definition and distinctive skills and competencies.

Business definitions that are too narrow in scope are dangerous. They should include definition of both target market and function served. A camera manufacturer that defines its function in a way that includes only photochemical image storage ignores at its peril digital means of storing and manipulating images. The key to definition by function is not to be blinded by the company's perception of the function but to allow the customer view to come through.

Levitt (1960) provided many examples of companies adopting a myopic view in defining their businesses. The railroads believed they were in the railroad business, not transportation, and failed to take note of alternative means of transport. The oil industry believed they were in the business of producing oil, not in the business of producing and marketing energy. In defining the business it is necessary to understand the total product or service customers are buying and what benefits it delivers, and avoid the trap of concentrating too much on the physical features offered.

Figure 2.2 Components of mission



The second question posed at the start of this section – What business do we want to be in? – is often more difficult to answer. It requires a thorough analysis of the options open to the organisation and an understanding of how the world in general, and the company's markets in particular, are changing.

2.2 The marketing strategy process

Once the purpose of the organisation has been defined the marketing strategy can be crafted to help achieve that purpose. We can view the development of marketing strategy at three main levels: the establishment of a core strategy, the creation of the company's competitive positioning, and the implementation of the strategy (see Figure 2.3).

The establishment of an effective marketing strategy starts with a detailed, and creative, assessment both of the company's capabilities – its strengths and weaknesses relative to the competition – and the opportunities and threats posed by the environment. On the basis of this analysis the core strategy of the company will be selected, identifying marketing objectives and the broad focus for achieving them.

At the next level, market targets (both customers and competitors) are selected and/or identified. At the same time the company's differential advantage, or competitive edge, in serving the customer targets better than the competition is defined. Taken together the identification of targets and the definition of differential advantage constitute the creation of the competitive positioning of the organisation and its offerings.

At the implementation level a marketing organisation capable of putting the strategy into practice must be created. The design of the marketing organisation can

Figure 2.3 The marketing strategy process

be crucial to the success of the strategy. Implementation is also concerned with establishing a mix of products, price, promotion and distribution that can convey both the positioning and the products and services themselves to the target market. Finally, methods of control must be designed to ensure that the strategy implementation is successful. Control concerns both the efficiency with which the strategy is put into operation and the ultimate effectiveness of that strategy. Each of the three main levels of strategy is now considered in more detail.

2.3 Establishing the core strategy

The core strategy is both a statement of the company's objectives and the broad strategies it will use to achieve them. To establish the core strategy requires a detailed analysis of both the resources available and the market in which the organisation will operate, both within the context of achieving the overall business purpose or mission.

2.3.1 Analysis of organisational resources

Any organisation could create a long list of the resources it has at its disposal. Not all of those resources, however, will be equally useful in crafting a marketing strategy. Similarly, if it is honest, any organisation could list many weaknesses, but not all of those will be fatal. In defining the core strategy, organisations attempt to define the distinctive resources (assets and capabilities) that serve to define the organisation.

This helps to set the bounds on what options are open to the organisation and to identify where its strengths can be utilised to the full, while minimising vulnerability to its weaknesses. Core competencies or core skills may result from any aspect of the operation. They may stem from the skills of the workforce in assembling the product effectively or efficiently, from the skills of management in marketing or financial planning, or from the skills of the R&D department in initiating new product ideas or creating new products on the basis of customer research. What is important from a marketing strategy perspective, however, is whether they can be utilised in the marketplace to provide superior customer value.

The distinctive competencies of the company may lie in its marketing assets of image and market presence or its distribution network or after-sales service. The crucial issue in identifying distinctive competence is that it be something exploitable in the marketplace. Distinctive technological skills in producing a product are of little value if there is no demand for that product. Hence an important role of marketing management is to assess the potential distinctive competencies of the organisation in the light of exploitability in the market.

The counterbalance to distinctive competencies, or exploitable strengths, are weaknesses relative to the competition. Where, for example, competitors have a more favourable or protected supply of raw materials, or a stronger customer loyalty, the company must be fully aware of its limitations and generate strategies to overcome, or circumvent, them. Structural weaknesses, those inherent in the firm's operations, brought about by its very mode of doing business, may be difficult or even impossible to eliminate. Strategies should be developed to shift competition away from these factors, to make them less important to competitive success. Other weaknesses may be more easily avoided once they have been identified, or even changed to strengths by exploiting them in a different way.

The product portfolio

A key aspect of understanding an organisation's resources is to undertake a portfolio analysis of the various offerings it has available on the market.

Being 'one or two in all we do' is the driving philosophy of General Electric (GE), the American power station to electric light bulb conglomerate. The businesses of GE are amazingly diverse. One of its most successful subsidiaries is market leader in America for electric light bulbs, a mature, high-volume, low-priced commodity. Other divisions make domestic electrical appliances of all types, another makes medical equipment including body scanners, and one of the most successful parts of the company is market leader in the military and commercial aeroengine markets. It is clear that the different businesses within the company are operating in different markets, with different opportunities and threats, and utilising different corporate skills and resources. It is therefore important to ensure that appropriate objectives and strategies are formulated for each business unit and that these objectives and strategies support each other. The process of balancing the activities across this variety of business units involves portfolio planning which is the subject of this chapter.

Consider, for example, the challenge for Virgin of managing a group of businesses spanning airlines and rail travel, music and cinemas, financial services, drinks, clothing and cosmetics, and a variety of smaller enterprises. We shall see that this is an example of growth by collaboration and of portfolio management, with both successes and failures. The sale, for example, of Virgin Megastores provided the capital for most of the subsequent investments in new areas to exploit the Virgin brand.

Portfolio analysis is the foundation for making important choices – for investment and for strategic direction. These examples underline the importance of portfolio issues and the central role of marketing variables, as opposed to purely financial criteria, in making portfolio choices.

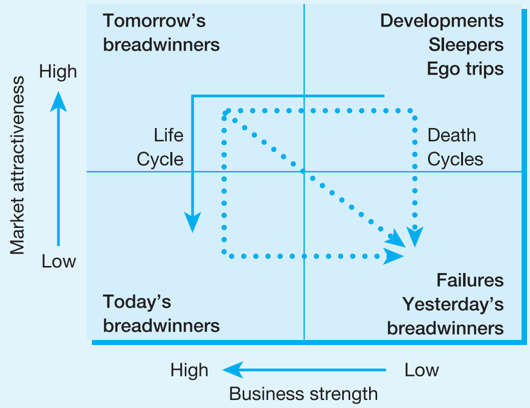
More than three decades ago Drucker (1973) identified seven types of businesses which still find resonance today:

1. **Today's breadwinners** – the products and services that are earning healthy profits and contributing positively to both cash flow and profits.
2. **Tomorrow's breadwinners** – investments in the company's future. Products and services that may not yet be making a strong financial contribution to the company, but that are in growth or otherwise attractive markets and are expected to take over the breadwinning role in the future, when today's breadwinners eventually fade.
3. **Yesterday's breadwinners** – the products and services that have supported the company in the past, but are not now contributing significantly to cash flow or to profits. Many companies have a predominance of businesses of this type, indicating that they have been slow to invest in future developments.
4. **Developments** – the products and services recently developed that may have some future, but where greater investment is needed to achieve that future.
5. **Sleepers** – the products and services that have been around for some time, but have so far failed to establish themselves in their markets or, indeed, their expected markets have failed to materialise. These are allowed to remain in the portfolio in the hope that one day they will take off.
6. **Investments in managerial ego** – the products and services that have strong product champions among influential managers, but for which there is little proven demand in the marketplace. The company, because of the involvement of powerful managers, continues to put resources into these products in the hope of their eventually coming good.
7. **Failures** – the products and services that have failed to play a significant role in the company's portfolio and have no realistic chance of doing so. These are kept on the company's books largely through inertia. It is easier to do so than admit defeat and withdraw or divest them.

The product life cycle (or death cycle) provides a link between the businesses identified by Drucker (see Figure 2.4). As they stand, developments, sleepers or ego trips contribute little to the company, but it is hoped that they may one day do so. The markets they are in may be highly attractive but, because of underinvestment, the company has little ability to serve them. If left alone as they are, with no extra investment being made in them, the businesses will follow the death cycle and become failures.

Strategically, a company faces a dilemma with these businesses. If left alone they are unlikely to succeed, so a choice has to be made between investing in them or getting out. In even the largest companies it is impossible to pursue all attractive

Figure 2.4 Product types in the portfolio



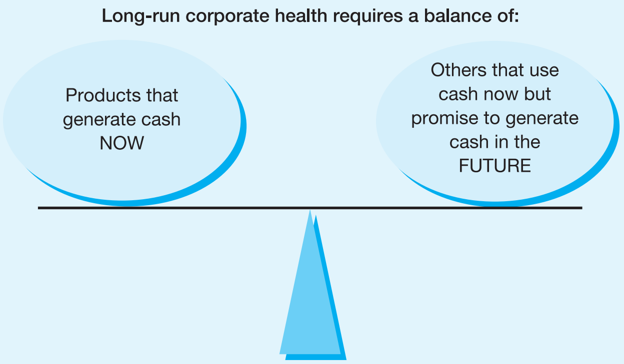
markets, so the first portfolio decision is one of double or quits. If the choice is to invest, then the aim is to build the business until it is strong enough to become one of tomorrow's breadwinners. This usually means achieving some degree of market dominance in a growth sector. If successfully managed, the product will mature to become one of today's breadwinners and, as it ages, one of yesterday's. As with all things, the difficulty in the portfolio is not starting ventures, but knowing when to kill them and when to concentrate resources where success can be achieved.

Portfolio planning

Any diversified organisation needs to find methods for assessing the balance of businesses in its portfolio and to help guide resource allocation between them. A number of portfolio planning models have been developed over the past forty years to facilitate this process. The earliest and most basic model was the Growth-Share Matrix, developed by the Boston Consulting Group. More sophisticated models have been developed by consultants Arthur D. Little and McKinsey, as well as by commercial companies such as Shell and General Electric. All, however, share a number of key objectives (Grant, 1995):

1 Development of business strategies and allocation of resources (both financial and managerial). By assessing the position of a business in its industry, together with the prospects for that industry over the medium to long term, investment priorities can be set for individual businesses. Those businesses that are strong in attractive markets are likely to be self-sustaining financially. They will require, however, attentive management to ensure they continue to achieve their potential. Hold or build strategies will typically be indicated. Weak businesses in attractive markets may require further investment to build position for the future. Products in declining sectors may be less deserving of resource allocation unless turnaround strategies are likely to reverse market trends. In declining markets, products are often managed for cash flow to enable resources to be reallocated to areas of the portfolio with more potential.

Figure 2.5 Balancing the business portfolio



2 Analysing portfolio balance. In addition to suggesting strategies for individual businesses, portfolio analysis assists assessment of the overall portfolio balance in terms of cash flow, future prospects and risk (see Figure 2.5). Cash flow balance is achieved where investments in businesses with potential are met through surpluses from current or past breadwinners. The extent to which the cash flow is out of balance suggests opportunities for expansion or acquisition (in the mid-1990s Microsoft was said to be sitting on a cash mountain of around $7 billion and looking for profitable new, synergistic businesses in which to invest) or the need to raise capital from external investors (see Figures 2.6 and 2.7). A crucial element of portfolio planning is to help assess the future prospects of the organisation as a whole. Too heavy a dependence in the portfolio on yesterday's products may indicate a healthy current cash flow, but unless that is invested in tomorrow's products the longer-term future may be in doubt. Too many future investments

Figure 2.6 Unbalanced, present-focused business portfolio

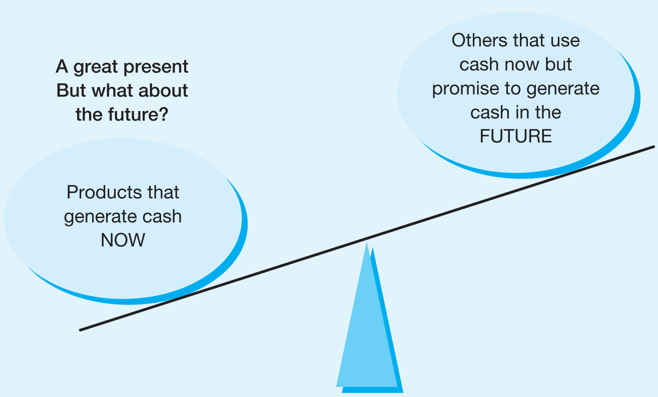
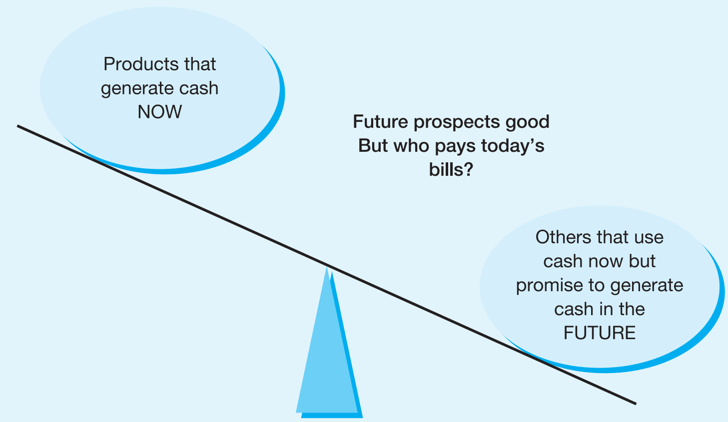


Figure 2.7 Unbalanced, future-focused business portfolio



without a solid enough current cash generation may suggest an overstretched portfolio. Finally, assessing the risks associated with individual businesses enables a firm to spread its overall risk, ensuring not all its ventures are high risk but allowing some more risky ventures to be balanced by perhaps less rewarding but more predictable activities.

Strengths and weaknesses can only be effectively determined through a systematic and comprehensive audit of the firm's resources and their utilisation relative to the competition. Chapter 6 describes in more detail how this can be accomplished.

2.3.2 Analysis of the markets served

An analysis of the markets in which the company operates, or wishes to operate, can serve to throw into focus the opportunities and threats facing the company. Those opportunities and threats stem from two main areas: the customers (both current and potential) and competitors (again both current and potential).

Most markets are segmented in one way or another. They consist of heterogeneous customers, or customers with varying needs and wants. Asking 'How is the market segmented?' can provide valuable insights into customer requirements and help in focusing on specific market targets.

In computers, for example, there are several ways in which the total market could be segmented. A simple, product-based segmentation is between mainframe, minicomputers and PCs. IBM has long dominated the mainframe market. Recognising the difficulties in tackling such a giant head-on, competitors sensibly focused their efforts on the minicomputer market, for smaller users with different requirements, and established dominance of that market. Similarly in the PC market Apple was very successful in leading the market prior to the dominance of 'IBM-compatible' machines using successive generations of Intel microprocessors and Microsoft operating systems.

Canon is also in the computer market but has taken a different tack. It recognised that computer users do not just need computers. They also need peripheral devices to enable them to use the computer to the best advantage. Canon carved a strong niche in the market as suppliers of inkjet colour printers while Hewlett-Packard focuses on laser printers.

Even within these broad product-based definitions of the market, however, further segmentation exists. Toshiba and Compaq (now HP) have focused on portable, laptop computers, while Sony has started the trend of 'living room entertainment computers' (www.sony.co.uk).

In the 1990s Sega, Nintendo and Sony were hugely successful in developing the computer games market with cheap machines and addictive software. Late entrant Sony became the leader with its PlayStations. For some time the market had been forecast to decline as the games and PC markets converge due to the increased power, availability and lower cost of Pentium-powered PCs. The market has remained remarkably resilient, however, and has continued to grow, with the successful launch in March 2002 of Microsoft's Xbox and Nintendo's Wii in December 2006.

Having examined the current and potential segmentation of the market, the next step in assessing alternatives is to search for untapped, or under-tapped, opportunities in the market. In the food market, for example, fundamental changes in eating habits are currently taking place. Two of the most important are the increased emphasis on convenience foods and the trend towards healthier eating. Both changes have opened up new opportunities to those companies willing and able to take advantage of them.

Van den Bergh, for example, was quick to spot the potential for margarine spreads that do not cause harmful cholesterol build-up. Its Flora Pro-Active, and similar products from Benecol, are spreads that actually reduce cholesterol, while other spreads add to it.

Opportunities are created through fundamental changes taking place (as with increased health awareness and its impact on eating habits) in the market or through competitor inability to serve existing needs. Apple's initial success in the microcomputer market was in part due to the fact that IBM originally chose not to enter the market, while Compaq and Dell's success rested on IBM's neglect of changing distribution channels. Market gaps can exist because companies cannot fill them (they do not have the skills and competencies to do so) or they choose not to fill them for one reason or another.

Abell (1978) has discussed the importance of timing in recognising and capitalising on opportunities. His concept of strategic windows focuses attention on the fact that there are only limited periods during which the fit between the requirements of the market and the capabilities of the firm is at an optimum. Investment should be timed to coincide with periods when such strategic windows are open, and conversely disinvestment should be considered once a good fit has been eroded. A good deal of the success of Japanese companies in world markets during the last two decades of the twentieth century was attributed to an ability to time their entry such that their competencies and the market requirements were closely in tune.

In addition to considering the opportunities open to the organisation it is important to examine the threats facing it. These threats stem from two main sources – a changing marketplace that the firm is not aware of or capable of keeping up with, or competitive activity designed to change the balance of power within the market.

A changing world requires constant intelligence gathering on the part of the organisation to ensure that it can keep abreast of customer requirements. Keeping up with technological developments can be particularly important in many markets. The pocket calculator destroyed the slide rule market in the early 1970s and the digital watch caused severe (if temporary) problems for Swiss watch manufacturers in the mid-1970s; now music downloads are leading to the demise of the CD. Changes also occur in customer tastes. Fashions come and go (many of them encouraged by marketers), but in markets where fashion is important keeping up is crucial. Chapter 4 deals in more detail with customer analysis.

The second major type of threat an organisation may face is from its competition. Increasing competition, both from domestic and international sources, is the name of the game in most markets. As competitors become more sophisticated in seeking out market opportunities and designing marketing programmes to exploit them, so the company itself needs to improve its marketing activities. In the United Kingdom many industries have failed or have been unable to respond adequately to increased international competition and have suffered the consequences. It is telling, for example, that in the highly competitive laptop computer market the first sub-3-pound lightweight computers – demanded by business users weary of carrying heavier machines around the world – did not come from existing PC manufacturers, but from Sony leveraging their core competence of making things smaller. In the more sophisticated marketing companies rigorous competitor analysis commands almost as much time as customer and self-evaluation. Substantial effort is geared to identifying competitors' strengths and weaknesses and their likely strategies (see Chapter 5).

2.3.3 SWOT analysis

The above analysis of organisational strengths and weaknesses (essentially an internal focus) can be brought together with the analysis of the market (an external focus) to create a SWOT (strengths, weaknesses, opportunities and threats) analysis (see Figure 2.8).

The purpose of SWOT is twofold. First, it seeks to identify the most significant factors, both internal and external, affecting the organisation and its markets. It provides a quick, executive summary of the key issues. Second, however, by looking at where strengths and weaknesses align with opportunities and threats it can help strategy formulation (see Figure 2.9). The organisation can begin to see where its strengths might be best deployed, both offensively and defensively, as well as where its weaknesses leave it vulnerable to market change or competitor action.

2.3.4 Core strategy

On the basis of the above analysis the company seeks to define the key factors for success (KFS, sometimes termed critical success factors) in its particular markets. Key factors for success in the industry are those factors that are crucial to doing business (see Ohmae, 1982). The KFS are identified through examining the differences between winners and losers, or leaders and also-rans in the industry. They

Figure 2.8 SWOT Analysis

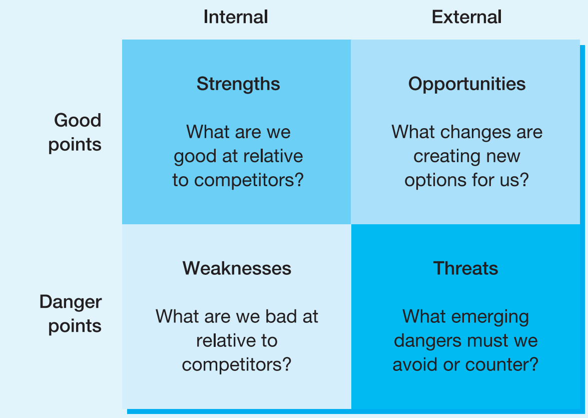
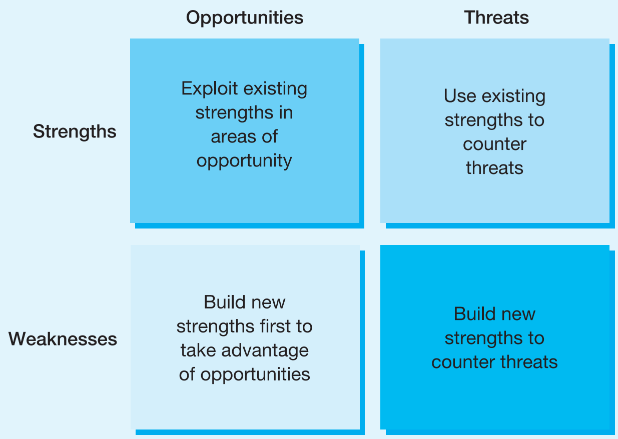


Figure 2.9 SWOT strategic implications



often represent the factors where the greatest leverage can be exerted, i.e. where the most effect can be obtained for a given amount of effort.

In the grocery industry, for example, the KFS can centre on the relationships built up between the manufacturer and the retailer. The power of the major multiples (less than half a dozen major food retail chains now account for around 80 per cent of food sales in the United Kingdom) is such that if a new food product does not obtain distribution through the major outlets a substantial sector of the potential market is denied. In commodity markets the KFS often lie in production process efficiency, enabling costs to be kept down, where pricing is considered the only real means of product differentiation. As Ohmae (1982) points out, for the Japanese elevator business the KFS centre on service – it is essential that breakdown is rectified immediately as the Japanese hate to be stuck in lifts!

A further consideration when setting the core strategy for a multi-product or multi-divisional company is how the various corporate activities add up, i.e. the role in the company's overall business portfolio (see Chapter 6) of each activity.

Having identified corporate capabilities, market opportunities and threats, the key factors for success in the industry in which the firm operates and the role of the particular product or business in the company's overall portfolio, the company sets its marketing objectives. The objectives should be both long and short term. Long-term objectives indicate the future overall destination of the company: its long-term goals. To achieve those long-term goals, however, it is usually necessary to translate them into shorter-term objectives, a series of which will add up to the longer-term goals. Long-term objectives are often set in terms of profit or market domination for a firm operating in the commercial sector. Non-profit-making organisations, too, set long- and short-term goals. The long-term goal of Greenpeace, for example, is to save the world's environment. Shorter-term goals in the mid 2000s centred on single, high-profile campaigns, such as making Apple computer greener, to global issues, such as stopping world climate change.

Often short-term and long-term goals can become confused, and there is always the danger that setting them in isolation can result in a situation where the attainment of the short-term goals does nothing to further the long-term objectives and may, in some instances, hinder them. For example, a commercial company setting long-term market domination goals will often find short-term profit maximisation at odds with this. Many of the managers, however, will be judged on yearly, not long-term, performance, and hence will be more likely to follow short-term profit objectives at the expense of building a stronger market position (see the discussion in Chapter 1 on stakeholder motivations).

The core strategy of the organisation is a statement of how it intends to achieve its objectives. If, for example, the long-term objective is to be market leader in market X, with a share of market at least twice that of the nearest competitors, the core strategy may centre on using superior technology to achieve this, or it may centre on lower prices, or better service or quality. The core strategy will take advantage of the firm's core competencies and bring them to bear wherever possible on the KFS to achieve the corporate objectives of the company.

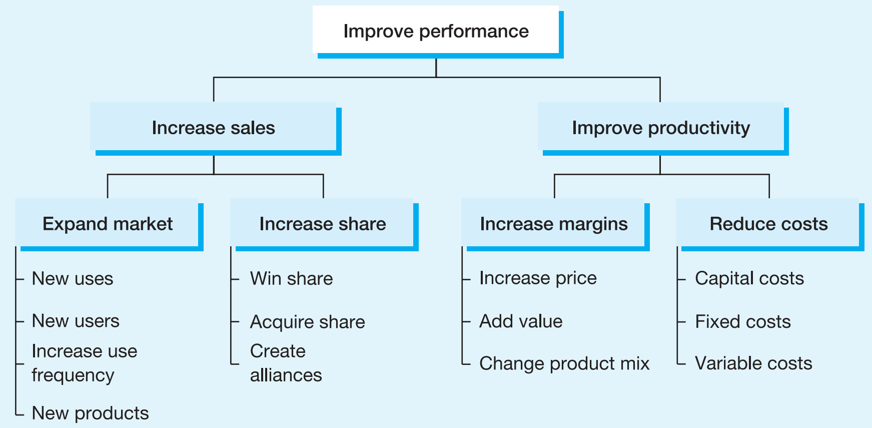
The core strategy to be pursued may vary at different stages of the product or service's life cycle. Figure 2.10 shows alternative ways in which a company may go about improving the performance of its products or services.

A basic choice is made between attempting to increase sales or improve the level of profitability achieved from existing sales (or even reduced sales in a declining market). When the objectives are to increase sales, again two fundamental approaches may be taken: to expand the total market (most easily, though not exclusively, achieved during the early, growth stages of the life cycle) or to increase share of the existing market (most often pursued during the late growth/maturity phases).

Expand the market

Market expansion can be achieved through attraction of new users to the product or service, identifying new uses for the product or developing new products and services to stimulate the market. New users can be found through geographical expansion of the company's operations (both domestically and internationally).

Figure 2.10 Strategic focus



Asda (now owned by Wal-Mart), for example, pursued new customers for its grocery products in its move south from the Yorkshire home base while Sainsbury's attacked new markets in its march north from the south-east. Alternatively, new segments with an existing or latent need for the product may be identifiable. Repositioning Lucozade as a high-energy drink found a new segment for a product once sold exclusively to parents of sick children.

The spectacular growth of the 'no-frills' airlines, easyJet and Ryanair, is founded not simply on taking market share but on growing the market – i.e. 'more people fly more often'. Ryanair, in particular, with its carefully chosen routes where it is the only flyer, has on occasion experienced fourfold traffic growth.

Land-Rover, manufacturer of the Freelander, Discovery and Range Rover brands, aimed to increase the demand for 4 × 4 vehicles by encouraging drivers of other types of car to switch. It first identified those car drivers who were keen on adventure through leaflets and direct mail. This was followed up by a campaign of telemarketing, direct mail and dealer contact, offering extended test drives without the dealer present. In 12 months the campaign added 80,000 high-quality prospects to the database, and generated 10,000 test drives of which 28 per cent were converted into sales. The company estimates that its investment of just under £1 million has resulted in £100 million worth of extra sales (RoyalMail.com, November 2001).

For some products it may be possible to identify new uses. An example is the use of the condom (largely abandoned as a means of contraceptive for the more popular pill and IUD in the 1960s and 1970s) as a defence against contracting HIV-AIDS. In household cleaners Flash was originally marketed as a product for cleaning floors, but now is also promoted as an all-purpose product for cleaning baths and basins.

Increase share

Increasing market share, especially in mature markets, usually comes at the expense of existing competition. The main routes to increasing share include: winning competitors' customers; merging with (or acquiring) the competitors; or entering into strategic alliances with competitors, suppliers and/or distributors. Winning competitors' customers requires that the company serves them better than the competition. This may come about through identification of competitor weaknesses, or through better exploitation of the company's own strengths and competencies. Each of the elements of the marketing mix – products, price, promotion and distribution – could be used to offer the customer added value, or something extra, to induce switching.

Increasing usage rate may be a viable approach to expanding the market for some products. An advertising campaign for Guinness (the 'Guinnless' campaign devised by the ad agency Ogilvy & Mather) sought to convert irregular users (around one bottle per month) to regular use (at least one bottle per week). Colman's has attempted to encourage more frequent use of mustard, and Hellmann's more varied use of mayonnaise beyond the traditional accompaniment to summer salads. Breakfast cereals are now being promoted as healthy, any time of day snacks or, even, slimming aids (such as Kelloggs' Special K). Lastminute.com has run a 'get 5 a year' campaign aimed at encouraging people to book five holidays a year through them.

The UK children's charity Barnardo's set out in 1999 to increase its share of charitable donations. The £1 million spent on advertising and promotion around the theme 'Giving Children back their Future' was aimed at 35–54-year-olds. Over a six-month period to April 2000 its share of donations went up 66 per cent, while that of other children's charities fell. The core target (35–54-year-old, ABC1 adults with children) rose from 19 per cent of donors to 34 per cent. An associated website attracted over 2,000 visits per week (compared with 700 before the campaign), and a controversial advertisement showing a baby affected by heroin misuse generated an additional £630,000 worth of media coverage (*Marketing Business*, July/August 2001).

Improving profitability

With existing levels, or even reduced levels, of sales, profitability can be improved through improving margins. This is usually achieved through increasing price, reducing costs, or both. In the multi-product firm it may also be possible through weeding of the product line, removing poorly performing products and concentrating effort on the more financially viable. The longer-term positioning implications of this weeding should, however, be carefully considered prior to wielding the axe. It may be, for example, that maintenance of seemingly unprofitable lines is essential to allow the company to continue to operate in the market as a whole or its own specifically chosen niches of that market. They may be viewed as the groundstakes in the strategic game essential to reserve a seat at the competitive table.

2.4 Creation of the competitive positioning

The competitive positioning of the company is a statement of market targets, i.e. where the company will compete, and differential advantage, or how the company will compete. The positioning is developed to achieve the objectives laid down under the core strategy. For a company whose objective is to gain market share and the broad approach to that is to win competitors' customers, for example, the competitive positioning will be a statement of exactly how and where in the market that will be achieved.

2.4.1 Market targets

While the discussion of core strategy required an analysis of customers and competitors to identify potential opportunities and threats, competitive positioning selects those targets most suited to utilising the company's strengths and minimising vulnerability due to weaknesses.

A number of factors should be considered in choosing a market target. Broadly, they fall into two categories: assessing market attractiveness, and evaluating the company's current or potential strengths in serving that market (see Robinson *et al.*, 1978; Porter, 1987).

Market attractiveness is made up of many, often conflicting, factors. Other things being equal, however, a market will generally be more attractive if the following hold:

It is large.

It is growing.

Contribution margins are high.

Competitive intensity and rivalry are low.

There are high entry and low exit barriers.

The market is not vulnerable to uncontrollable events.

Markets that possess all these features do not exist for long, if at all. They are, almost by definition, bound to attract high levels of competition and hence become less attractive to other entrants over time. For small or medium-sized companies small and/or static markets, which do not attract more powerful competitors, may be more appealing. In a market where high entry barriers (such as proprietary technology, high switching costs, etc.) can be erected the company will be better able to defend its position against competitive attack (see Chapter 11).

All markets are vulnerable to some extent to external, uncontrollable factors such as general economic conditions, government legislation or political change. Some markets, however, are more vulnerable than others. This is especially true when selecting among international market alternatives. In the international context one way UK companies assess vulnerability to external political events is through the Department of Trade and Industry's Export Credit Guarantee Department. The department operates the UK's official export credit guarantee agency, helping to arrange finance facilities and credit insurance. Under the scheme advice about the risks involved in entering a particular market is freely available and insurance against default in payments is made available. Recently the scheme has underwritten export business valued at over £2 billion on a yearly basis.

Domestically, the company must weigh the power of various pressure groups in determining market vulnerability. The company's strengths and potential strengths in serving a particular market must be considered relative to customer requirements and to competitor strengths. Other things being equal, the company's existing strength in a market will be greater where (relative to the competition) the following hold:

- It commands a high market share.
- It is growing faster than the market.
- It has unique and valued products or services.
- It has superior quality products.
- It has better margins.
- It has exploitable marketing assets.
- It can achieve production and marketing efficiencies.
- It has protected technological leadership.

As with assessing market attractiveness, it is unlikely that in any market a particular company will enjoy all the above favourable characteristics. In any situation the management will have to assess the relative importance of each aspect of strength in evaluating overall strength in serving that market (target market selection is covered in more detail in Chapter 10).

Having selected the market target or targets on the basis of market attractiveness and current, or potential, business strength in serving the market, the company creates its differential advantage, or competitive edge, in serving the market.

2.4.2 Differential advantage

A differential advantage can be created out of any of the company's strengths, or distinctive competencies relative to the competition. The essential factors in choosing how to create the advantage are that it must be on a basis of value to the customer (e.g. lower prices, superior quality and better service) and should be using a skill of the company that competitors will find hard to copy.

Porter (1980) has argued that a competitive advantage can be created in two main (though not exclusive) ways: through cost leadership or differentiation (see Figure 2.11).

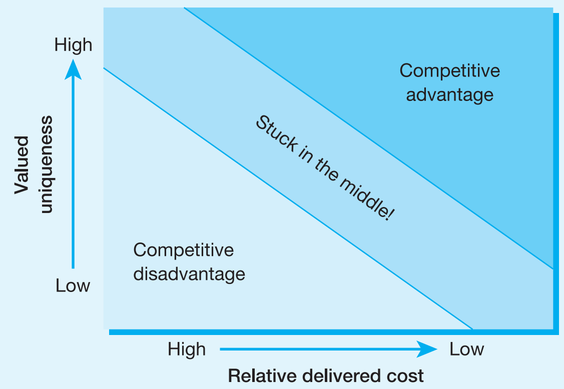
Cost leadership

The first type of advantage involves pursuing a cost leadership position in the industry. Under this strategy the company seeks to obtain a cost structure significantly below that of competitors while retaining products on the market that are in close proximity to competitors' offerings. With a low cost structure above-average returns are possible despite heavy competition.

Cost leadership is attained through aggressive construction of efficient scale economies, the pursuit of cost reductions through experience effects, tight cost and overhead control, and cost minimisation in R&D, services, salesforce, advertising, etc. The cost leadership route is that followed aggressively by Ryanair in the budget airline market and Seiko in watches.

Cost leaders typically need high market shares to achieve the above economies, and favourable access to raw materials. If, for example, efficient production processes,

Figure 2.11 Routes to competitive advantage



or superior production technology enabling cheaper production, were identified as company strengths or distinctive competencies, they could be effectively translated into a competitive advantage through cost leadership. Similarly, if backward integration (merger with, or acquisition of, suppliers) has secured the relatively cheaper supply of raw materials, that asset could also be converted into a competitive advantage.

This strategy is particularly suitable in commodity markets where there is little or no differentiation between the physical products offered. Where products are highly differentiated, however, the strategy has the major disadvantage in that it does not create a reason why the customer should buy the company's offering. Low costs could be translated into lower price, but this would effectively be a differentiation strategy (using price as the basis on which to differentiate).

Differentiation

The second approach to creating a differential advantage is differentiation, i.e. creating something that is seen as unique in the market. Under this strategy company strengths and skills are used to differentiate the company's offerings from those of its competitors along some criteria that are valued by consumers.

Differentiation can be achieved on a variety of bases, for example by design, style, product or service features, price, image, etc. The major advantage of a differentiation strategy, as opposed to a cost leadership strategy, is that it creates, or emphasises, a reason why the customer should buy from the company rather than from its competitors. While cost leadership creates an essentially financially based advantage for the company, differentiation creates a market-based advantage (see Hall, 1980; and Figure 11.3). Products or services that are differentiated in a valued way can command higher prices and margins and thus avoid competing on price alone. An example of this in the market for blue jeans would be designer jeans. In the same market Levi Strauss and Co.'s offerings are differentiated by the 'Levi' name from the competition.

Differentiation and cost leadership

Fulmer and Goodwin (1988) point out that the two strategies are not mutually exclusive, but could both be pursued simultaneously. Buzzell and Gale (1987) demonstrate that differentiation, especially through superior quality, can often result in lower unit costs through achieved gains in market share and attendant economies of scale and/or experience effects.

Each of the two basic approaches to creating a differential advantage has its attendant risks. Cost leadership may be impossible to sustain due to competitor imitation (using, for example, similar technology and processes), technological change occurring that may make it cheaper for newer entrants to produce the products or services, or alternatively competitors finding and exploiting alternative bases for cost leadership (see the discussion of cost drivers in Chapter 11). Cost leadership is also a risky strategy where there is a high degree of differentiation between competitive offerings. Differentiation creates reasons for purchase, which cost leadership does not. In addition, cost leadership typically requires minimal spending on R&D, product improvements and image creation, all of which can leave the product vulnerable to competitively superior products.

Differentiation as a strategy is also open to a variety of risks. If differentiation is not based on distinctive marketing assets it is possible that it will be imitated by competitors. This risk can be minimised by building the differentiation on the basis of skills or marketing assets that the company alone possesses and which cannot be copied by competitors. In addition, the basis for differentiation may become less important to customers or new bases become more important. These latter points should be guarded against by constant customer and competitor monitoring. A further danger of the differentiation strategy is that the costs of differentiating may outweigh the value placed on it by customers.

For both the cost leadership and differentiation approaches that seek to appeal industry wide there is the added risk that focusers or nichers in the market (those competitors that focus their activities on a selected segment) may achieve lower costs or more valued differentiation in specific segments. Thus, in markets where segmentation is pronounced, both the basic approaches carry high risks. Chapter 11 explores further these approaches to creating a defensible position in the marketplace.

2.5 Implementation

Once the core strategy and the competitive positioning have been selected the task of marketing management is to implement those decisions through marketing effort. The three basic elements of implementation – marketing mix, organisation and control – are discussed next.

2.5.1 Marketing mix

The marketing mix of products, price, promotion and distribution is the means by which the company translates its strategy from a statement of intent to effort in the marketplace. Each of the elements of the mix should be designed to add up to the positioning required.

Viewed in this light it is evident that decisions on elements of the mix, such as pricing or advertising campaigns, cannot be considered in isolation from the strategy being pursued. A premium positioning, for example, differentiating the company's offerings from the competition in terms of high product quality, could be destroyed through charging too low a price. Similarly, for such a positioning to be achieved the product itself will have to deliver the quality claimed and the promotions used communicate its quality. The distribution channels selected, and the physical distribution systems used or created, must ensure that the products or services get to the target customers.

Where elements of the mix do not pull in the same direction but contradict each other, the positioning achieved will be confused and confusing to customers.

2.5.2 Organisation

How the marketing effort and the marketing department are organised will have an effect on how well the strategy can be carried through.

At a very basic level it is essential for the required manpower, as well as financial resources, to be made available. Given the resources, however, their organisation can also affect their ability to implement the strategy effectively. The traditional organisational forms found in marketing are functional and product (brand) management.

Under a **functional organisation** the marketing department consists of specialists in the various marketing activities reporting to a marketing coordinator (manager or director). Typical functions include sales management, advertising and promotions management, market research and new product development. An extension of the functional design is geographic organisation where, within the functions (such as sales management), managers have responsibility for specific geographic markets. Functional designs offer simplicity of structure and foster a high level of expertise in each function. They are often the first step in a company adopting a higher profile for the marketing function as a whole. They are most applicable where the number and complexity of products or services the company has on the market are limited.

Product (or brand) management, pioneered in 1927 by the US multinational Procter & Gamble for its ailing Camay soap brand, vests responsibility for all the marketing activities of a particular product in one product manager. In diversified companies with many different products the system has the major advantage of coordinating under one individual the entire mix of marketing activities, and hence making it more likely that they will all pull in the same direction. In the larger companies product managers are able to call on the talents of functional specialists as and when necessary.

Recent dramatic changes in the marketing environment have caused many companies to rethink the role of the product manager. Today's consumers face an ever-growing set of brands and are now more deal prone than brand prone. As a result companies are shifting away from national advertising in favour of pricing and other point-of-sale promotions. Brand managers have traditionally focused on long-term, brand-building strategies targeting a mass audience, but today's marketplace realities demand shorter-term, sales-building strategies designed for local markets.

A second significant force affecting brand management is the growing power of retailers. Larger, more powerful, and better informed retailers are now demanding and getting more trade promotions in exchange for their scarce shelf space. The increase in trade promotion spending leaves fewer dollars for national advertising, the brand manager's primary marketing tool (Teinowitz, 1988; Dewar and Schultz, 1989).

To cope with this change Campbell Soups created **brand sales managers**. These combine product manager and sales roles charged with handling brands in the field, working with the trade and designing more localised brand strategies. The managers spend more time in the field working with salespeople, learning what is happening in stores and getting closer to the customer.

Other companies, including Colgate-Palmolive, Procter & Gamble, Kraft and Lever Brothers, have adopted **category management** (Spethman, 1992). Under this system brand managers report to a category manager, who has total responsibility for an entire product line. For example, at Procter & Gamble the brand manager for Dawn liquid dishwasher detergent reports to a manager who is responsible for Dawn, Ivory, Joy and all other light-duty liquid detergents. The light-duty liquids manager, in turn, reports to a manager who is responsible for all of Procter & Gamble's packaged soaps and detergents, including dishwasher detergents, and liquid and dry laundry detergents. This offers many advantages. First, the category managers have broader planning perspectives than brand managers do. Rather than focusing on specific brands they shape the company's entire category offering. Second, it better matches the buying processes of retailers. Recently retailers have begun making their individual buyers responsible for working with all suppliers of a specific product category. A category management system links up better with this new retailer 'category buying' system.

Some companies, including Nabisco, have started combining category management with another idea: **brand teams** or **category teams**. Instead of having several brand managers Nabisco has three teams covering biscuits: one each for adult rich, nutritional and children's biscuits. Headed by a category manager, each category team includes several marketing people/brand managers, a sales planning manager and a marketing information specialist handling brand strategy, advertising and sales promotion. Each team also includes specialists from other company departments: a finance manager, an R&D specialist, and representatives from manufacturing, engineering and distribution. Thus category managers act as a small business, with complete responsibility for the performance of the category and with a full complement of people to help them plan and implement category marketing strategies.

For companies that sell one product line to many different types of market that have different needs and preferences, a **market management organisation** might be best. Many companies are organised along market lines. A market management organisation is similar to the product management organisation. Market managers are responsible for developing long-range and annual plans for the sales and profits in their markets. This system's main advantage is that the company is organised around the needs of specific customer segments.

In 1992 Elida-Gibbs, Unilever's personal care products division, scrapped both brand manager and sales development roles. They had many strong brands, including Pears, Fabergé Brut, Signal and Timotei, but sought to improve their service to retailers and pay more attention to developing the brands. To do this they created two new roles: brand development managers and customer development managers. **Customer development managers** work closely with customers and have also taken over many of the old responsibilities of brand management. This provides an opportunity for better coordination of sales, operations and marketing campaigns. The change leaves **brand development managers** with more time to spend on the strategic development of brands and innovation. They have the authority to pull together technical and managerial resources to see projects through to completion.

Elida-Gibbs' reorganisation goes beyond sales and marketing. Cross-functional teamwork is central to the approach and this extends to the shop floor. The company is already benefiting from the change. Customer development managers have increased the number of correctly completed orders from 72 per cent to 90 per cent. In addition, brand development managers developed Aquatonic (an aerosol deodorant) in six months – less than half the usual time.

Increased attention is also being given to organisational approaches based on key processes of value creation and delivery rather than traditional structures and mechanisms. Traditional organisational approaches are often seen as too slow, unresponsive and cumbersome to deal with rapidly changing markets, new Internet-based competition, and strategies depending on alliances and partnering. For example, **venture marketing organisation** is one such approach (Aufreiter *et al.*, 2000). It was this approach that allowed Starbucks to take its Frappucino from a line manager's idea to a full national launch in less than a year. In its first year Frappucino contributed 11 per cent of Starbucks' US sales. More generally, the pressure is towards more effective integration of company resources around value creation, sometimes regardless of traditional organisational structures (Hulbert *et al.*, 2003).

Whichever structure or organisation is adopted by the company, individuals with the skills necessary to carry out the various marketing tasks are needed. Two sources of personnel emerge: internal to the company or brought in from outside. When entering new markets bringing in external expertise can be a short-cut to creating in-house the knowledge needed. Skills can be improved and extended through training programmes held within the company or through outside training agencies.

2.5.3 Control

As the marketing strategy is being executed an important role of the marketing department is to monitor and control the effort.

Performance can be monitored in two main ways: on the basis of market performance and on financial performance. Market performance measures such things as sales, market share, customer attitudes and loyalty, and the changes in them over time can be related back to the original objectives of the strategy being pursued. Performance measures should, however, include factors other than those used to set objectives to ensure that pursuit of those objectives has not lost sight of the wider implications.

Financial performance is measured through a monitoring of product contribution relative to the resources employed to achieve it. Often a basic conflict between marketing and financial performance may arise. Where the marketing objectives are long-term market domination, short-term financial performance may suffer. Where managers are rewarded (i.e. promoted or paid more) on the basis of short-term financial performance it is likely that long-term marketing objectives may be sacrificed to short-term profit. In comparing the strategies pursued in a number of UK markets by Japanese firms and their UK competitors, Doyle *et al.* (1986) found that the Japanese were more prepared to take a longer view of market performance, compared with the short-term profit orientation pursued by many of the UK firms.

Recent attention has focused on the development of 'marketing metrics' as a better way of linking marketing activities and financial returns to the business (Ambler, 2000). Ambler reports the most important marketing metrics used by companies:

- relative perceived quality;
- loyalty/retention;
- total number of customers;
- customer satisfaction;
- relative price (market share/volume);
- market share (volume or value);
- perceived quality/esteem;
- complaints (level of dissatisfaction);
- awareness;
- distribution/availability.

Ambler argues that linking marketing to business performance requires that such metrics be reported to top management regularly, compared with forecasts and compared with competitors, with the drivers of buyer behaviour clarified and monitored.

A final important element in implementation is contingency planning, i.e. answering the question: 'What will we do if?' Contingency planning requires a degree of forecasting competitive reaction to the plans developed should they be implemented and then estimation of the likely competitive moves. Forecasting a range of likely futures and making plans to deal with whichever occur is termed scenario planning.

Summary

Strategic marketing planning involves deciding on the core strategy, creating the competitive positioning of both the company and its offerings, and implementing that strategy.

The above is equally true of the one-product firm as it is of the large conglomerate containing many different businesses. For the conglomerate, however, there is an added dimension to planning. That extra dimension consists of portfolio planning, ensuring that the mix of businesses within the total corporation is suitable for achieving overall corporate objectives.

iPhone

FT **Case study**

Getty Images News

The throngs of Apple fans who crowded into the Moscone convention centre in San Francisco to hear Steve Jobs give his annual MacWorld keynote address went into the room with high expectations.

Judging by their response their expectations were more than met.

The unveiling of the iPhone, Apple's long-awaited entry into the mobile handset market, was greeted by rapturous applause, gasps of disbelief, and occasional whoops of joy from the Apple faithful.

Six years after Apple transformed the market for digital music players with the introduction of the iPod, the company had attempted a repeat performance in the market for mobile handsets with the iPhone – a slim, sleek handset that relies on an innovative touch-screen interface.

'This thing is amazing,' says Van Baker, an analyst at Gartner, who had a chance to try the iPhone himself during an analyst briefing by Apple. 'It's the biggest home run for them I've seen yet.'

Apple is far from the first company to try to crack the so-called smartphone market. Microsoft, Apple's arch-rival, has been talking about such devices for years, but its mobile windows effort has slumped – in part because mobile carriers were wary of Microsoft and kept out.

Just 6m smart phones were sold in the US last year, compared with more than 1bn mobile handsets sold worldwide.

Two million of them operated on Windows software, with the rest of the market split between Research In Motion, makers of the Blackberry; Palm, maker of the Treo handset; and a handful of others. Shares of RIM fell 7.9 per cent yesterday while Palm stock fell 5.7 per cent.

Charles Golvin, analyst at Forrester, cautions that, even with Apple's impressive device, the market for phones that integrate voice calls, e-mail, web browsing and music will remain a small part of the overall handset market.

Miro Kazakoff, senior associate at Compete, an industry analyst group, says his research shows that 'it's unlikely that any phone, no matter how good, is going to get people to pay a high price and up to $200 in early termination fees on their current contract.'

'Wireless shoppers are hooked on free phones as carriers have subsidized better and better devices over the years.'

Apple is betting that the iPhone's unique user interface – the result of years of research – will reinvent the entire smartphone category, just as the Macintosh redefined computers and just as the iPod redefined what customers came to expect from their digital music players.

'Apple is going to reinvent the phone,' was Mr Jobs' bold pronouncement at MacWorld.

The early signs are encouraging.

Ralph Simon, MEF Americas Chairman Emeritus of the Mobile Entertainment Forum, says that the iPhone represents a 'quantum leap in innovation' for the entertainment industry.

'You can't overlook the strides already made by competitors like Nokia and Motorola, but the seamless marriage of the iPod's kudos to the mobile phone is a key step evolution of the mobile to becoming an all-round entertainment device,' says Mr Simon. With the least expensive iPhone models priced at $499, price remains a concern. 'How many people will be out there willing to pay that kind of premium?' Mr Golvin asks.

However, he says there are some encouraging signs in Motorola's recent experience with the Razr, its ultra-thin premium mobile phone. 'The

Razr is now several years old – they were able to keep their premium prices for quite a while,' Mr Golvin says.

Mr Jobs was keen to signal Apple's intention to become a leading player in consumer electronics yesterday. At the close of his MacWorld speech, he announced the company had decided to drop the word 'computer' from its name now that its brand has spread well beyond the Macintosh to include other devices.

Even the most jaded observers would be hard pressed to deny that, with the iPhone, the newly christened Apple is off to a great start.

Source: Kevin Allison, 'Apple faithful smitten to the core with iPhone', *Financial Times*, 10 January 2007.

Discussion questions

1 What is driving Apple's entry into the mobile phone market?

2 Is the move consistent with Steve Jobs' vision for Apple?

3 What strategic focus does the move signify? What alternatives are open to Apple and how could Apple pursue them?