7

Measuring Strengths and Weaknesses

To measure is the first step to improve.

SIR WILLIAM PETTY

A business does not perform well by accident. Good performances occur because the people directing the affairs of the business interact well with the environment, capitalizing on its strengths and eliminating underlying weaknesses. In other words, to operate successfully in a changing environment, the business should plan its future objectives and strategies around its strengths and downplay moves that bear on its weaknesses. Thus, assessment of strengths and weaknesses becomes an essential task in the strategic process.

In this chapter, a framework will be presented for identifying and describing a business's strengths and weaknesses. The framework also provides a systematic scheme for an objective appraisal of the performance and strategic moves of the marketing side of business.

The appraisal of the marketing function has traditionally been pursued in the form of a marketing audit that stresses the review of current problems. From the strategic point of view, the review should go further to include the future as well.

Strengths and weaknesses in the context of marketing are relative phenomena. Strengths today may become weaknesses tomorrow and vice versa. This is why a penetrating look at the different aspects of a business's marketing program is essential. This chapter is directed toward these ends—searching for opportunities and the means for exploiting them and identifying weaknesses and the ways in which they may be eliminated.

MEANING OF STRENGTHS AND WEAKNESSES

Strengths refer to the competitive advantages and other distinctive competencies that a company can exert in the marketplace. Andrews notes that "the distinctive competence of an organization is more than what it can do; it is what it can do particularly well."[1] **Weaknesses** are constraints that hinder movements in certain directions. For example, a business short of cash cannot afford to undertake a large-scale promotional offensive. In developing marketing strategy, the business should, among other things, dig deeply into its skills and competencies and chart its future in accordance with these competencies.

As an example, in many businesses, service—speed, efficiency, personal attention—makes a crucial difference in gaining leverage in the marketplace. Companies that score higher than their rivals in the category of service have a real competitive strength. McDonald's may not be everyone's idea of the best place in town to dine, but at its level, McDonald's provides a quality of service that is the envy of the industry. Whether at a McDonald's in a rural community or in the downtown area of a large city, the customer gets exactly the same service. Every McDonald's employee is supposed to strictly follow the rules. Cooks must turn, never flip, hamburgers one, never two, at a time. If they haven't been purchased, Big Macs must be discarded ten minutes after being cooked; french fries after seven minutes. Cashiers must make eye contact with and smile at every customer.

Similarly, visitors to Disney World come home impressed with its cleanliness and with the courtesy and competence of the staff. The Disney World management works hard to make sure that the 14,200 employees are, as described in a *Fortune* article, "people who fulfill an expectation of wholesomeness, always smiling, always warm, forever positive in their approach."[2]

STUDYING STRENGTHS AND WEAKNESSES: STATE OF THE ART

A systematic scheme for analyzing strengths and weaknesses is still in embryonic form.[3] One finds few scholarly works on the subject of strengths and weaknesses. An interesting study on the subject was done by Stevenson, who examined six companies.[4] He was interested in the process of defining strengths and weaknesses in the context of strategic planning. He was concerned with the company attributes examined, the organizational scope of the strengths and weaknesses identified, the measurement employed in the process of definition, the criteria used for distinguishing a strength from a weakness, and the sources of information used. Exhibit 7-1 illustrates the process in detail.

Companies should make targeted efforts to identify their competitive strengths and weaknesses. This is a far from easy process, however. Many companies, especially the large ones, have only the vaguest notion of the nature and degree of the competencies that they may possess. The sheer multiplicity of production stages and the overlapping among product lines hinder clear-cut assessment of the competitive strength of a single product line. Despite such problems, development of competitive strategy depends on having a complete perspective on strengths and weaknesses. Success requires putting the best foot forward.

Unique strengths may lie in different areas of the business and may impact the entire company. Stevenson found a general lack of agreement on suitable definitions, criteria, and information used to measure strengths and weaknesses. In addition to the procedural difficulties faced by managers in their attempts to measure strengths and weaknesses, the need for situational analysis, the need for self-protection, the desire to preserve the status quo, and the problems of definition and computational capacity complicated the process. Stevenson makes the following suggestions for improvement of the process of defining strengths and weaknesses. The manager should

EXHIBIT 7-1
Steps in the Process of Assessing Strengths and Weaknesses

Which Attributes Can Be Examined?	*With What Organizational Entity Is the Manager Concerned?*	*What Types of Measurements Can the Manager Make?*	*What Criteria Are Applicable to Judge a Strength or a Weakness?*	*How Can the Manager Get the Information to Make These Assessments?*
Organizational structure	The corporation	Measure the existence of an attribute	Historical experience of the company	Personal observation
Major policies	Groups	Measure an attribute's efficiency	Intracompany competition	Customer contacts
Top manager's skills	Division	Measure an attribute's effectiveness	Direct competitors	Experience
Information system	Departments		Other companies	Control system documents
Operation procedures	Individual employees		Consultant's opinions	Meetings
Planning system			Normative judgments based on management's understanding of literature	Planning system documents
Employee attitudes			Personal opinions	Employees
Manager's attitudes			Specific targets of accomplishment, such as budgets, etc.	Subordinate managers
Union agreements				Superordinate managers
Technical skills				Peers
Research skills				Published documents
New product ideas				Competitive intelligence
Production facilities				Board members
Demographic characteristics of personnel				Consultants
Distribution network				Journals
Sales force's skill				Books
Breadth of product line				Magazines
Quality control procedures				Professional meetings
Stock market reputation				Government economic indicators
Knowledge of consumer's needs				
Market domination				

Source: Reprinted from "Defining Corporate Strengths and Weaknesses," by Howard H. Stevenson, *Sloan Management Review*, Vol. 17, No. 3 (Spring, 1976), p. 54, by permission of the publisher.

- Recognize that the process of defining strengths and weaknesses is primarily an aid to the individual manager in the accomplishment of his or her task.
- Develop lists of critical areas for examination that are tailored to the responsibility and authority of each individual manager.
- Make the measures and the criteria to be used in evaluation of strengths and weaknesses explicit so that managers can make their evaluations against a common framework.
- Recognize the important strategic role of defining attributes as opposed to efficiency or effectiveness.
- Understand the difference in the use of identified strengths and identified weaknesses.[5]

Despite the primitive state of the art, today many more companies review their strengths and weaknesses in the process of developing strategic plans than did 10 years ago. Strengths and weaknesses may be found in the functional areas of the business, or they may result from some unusual interaction of functions. The following example illustrates how a study of strengths and weaknesses may uncover opportunities that might otherwise have not been conceived. A national distiller and marketer of whiskeys may possess such strengths as sophistication in natural commodity trading associated with its grain purchasing procedures; knowledge of complex warehousing procedures and inventory control; ability and connections associated with dealing in state political structures (i.e., state liquor stores, licensing agencies, and so on); marketing experience associated with diverse wholesale and retail outlets; and advertising experience in creating brand images. If these strengths are properly analyzed with a view to seeking diversification opportunities, it appears that the distiller has unique abilities for successfully entering the business of selling building products, such as wood flooring or siding and composition board. The distiller's experience in commodity trading can be transferred to trading in lumber; its experience in dealing with political groups can be used to gain building code acceptances; and its experience in marketing can apply to wholesalers (e.g., hardware stores and do-it-yourself centers) of building products.

The case of XYZ Corporation, on the other hand, illustrates how a company can get into trouble if it does not carefully consider its strengths and weaknesses. XYZ was a Northfield, Illinois, company with a penchant for diversifying into businesses that were in vogue in the stock market. Until it was reorganized as the Lori Corporation in 1985, it had been in the following businesses: office copying machines, mobile homes, jewelry, speedboats and cabin cruisers, computers, video recording systems, and small buses. Despite entry into some glamorous fields, XYZ did not share the growth and profits that other companies in some of these fields achieved. This is because XYZ entered new and diverse businesses without relating its moves to its basic skills and competencies. For example, despite the fact that it was the first company to develop a photocopy process, developing its process even before Xerox, its total market share for all types of copier machines and supplies in 1984 was well under 3 percent. XYZ Corporation could not keep pace with technological improvements nor with service on installed machines, an essential competency in the copier business. In addition, it overextended itself so much so that managerial controls were rendered inadequate. The company finally got out of all its *trendy* businesses and was reorganized in 1985 to design, manufacture, and distribute costume jewelry, fashion jewelry, and fashion accessories. Beginning in 1990, the company started making some money for its owners.[6]

SYSTEMATIC MEASUREMENT OF STRENGTHS AND WEAKNESSES

The strengths and weaknesses of a business can be measured at different levels in the organization: corporate, SBU, and product/market level. The thrust of this chapter is on the measurement of strengths and weaknesses at the SBU level. However, as the strengths and weaknesses of the SBU are a composite of the strengths and weaknesses of different products/markets, the major portion of the discussion will be devoted to the measurement of the marketing strengths and weaknesses of a product/market.

Exhibit 7-2 illustrates the factors that require examination in order to delineate the strengths and weaknesses of a product/market. These factors, along with competitive perspectives, describe the strengths and weaknesses of the product.

Current Strategic Posture

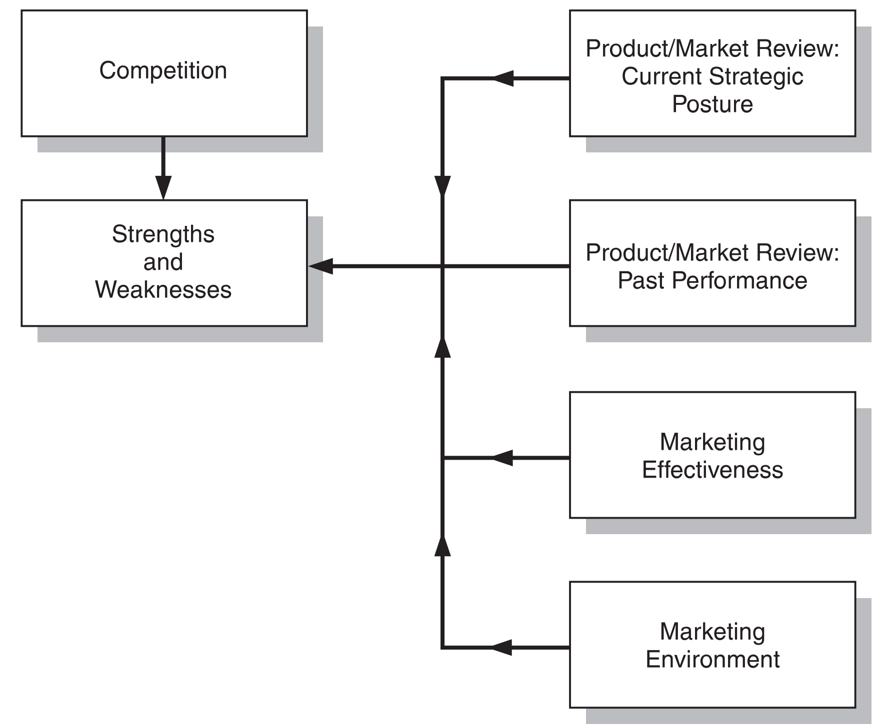
Current strategic posture constitutes a very important variable in developing future strategy. Although it is difficult and painful to try to understand current strategy if formal planning has not been done in the past, it is worth the effort to probe current strategy to achieve a good beginning in strategic planning.

The emphasis here is on the study of the current strategy of a product/market. Before undertaking such a study, however, it is desirable to assess company-wide perspectives by raising such questions as

1. What underlies our company's success, given competitors' patterns of doing business?
2. Are there any characteristics and traits that have been followed regularly?
3. To what strategic posture do these characteristics and traits lead?
4. What are the critical factors that could make a difference in the success of the strategy?
5. To what extent are critical factors likely to undergo a change? What may be the direction of change?

These questions cannot be answered entirely objectively; they call for creative responses. Managers often disagree on various issues. For example, the vice president of marketing of a company that had recently made a heavy investment in sales training considered this investment to be a critical success factor. He thought a well-trained sales staff was crucial for developing new business. On the other hand, the vice president of finance saw only that the investment in training had increased overhead. Though disagreements of this sort are inevitable, a review of current strategy is very important. The operational scheme for studying current strategy from the point of view of the entire corporation outlined below has been found useful.

EXHIBIT 7-2
Measurement of Product Strengths and Weaknesses



1. Begin with an identification of the actual current scope of the company's activities. The delineation of customer/product/market emphasis and concentration will give an indication of what kind of a company the company is currently.
2. An analysis of current scope should be followed by identification of the pattern of actual past and existing resource deployments. This description will show which functions and activities receive the greatest management emphasis and where the greatest sources of strength currently lie.
3. Given the identification of scope and deployment patterns, an attempt should be made to deduce the actual basis on which the company has been competing. Such competitive advantages or distinctive competencies represent the central core of present performance and future opportunities.
4. Next, on the basis of observation of key management personnel, the actual performance criteria (specifications), emphasis, and priorities that have governed strategic choices in the past should be determined.

Current Strategy of a Product/Market

As far as marketing is concerned, the strategy for a product is formulated around one or more marketing mix variables. In examining present strategy, the purpose is to pinpoint those perspectives of the marketing mix that currently dominate strategy. The current strategy of a product may be examined by seeking answers to the following two questions:

1. What markets do we have?
2. How is each market served?

What Markets Do We Have? Answering this question involves consideration of several aspects of the market:

1. Recognize different market segments in which the product is sold.
2. Build a demographic profile of each segment.
3. Identify important customers in each segment.
4. Identify those customers who, while important, also do business with competitors.
5. Identify reasons each important customer may have for buying the product from us. These reasons may be economic (e.g., lower prices), functional (e.g., product features not available in competing products), and psychological (e.g., "this perfume matches my individual chemistry").
6. Analyze the strategic perspective of each important customer as it concerns the purchase of our product. This analysis is relevant primarily for business customers. For example, an aluminum company should attempt to study the strategy of a can manufacturer as far as its aluminum can business is concerned. Suppose that the price of aluminum is consistently rising and more and more can manufacturers are replacing all-aluminum cans with cans of a new alloy of plastic and paper. Such strategic perspectives of an important customer should be examined.
7. Consider changes in each customer's perspectives that may occur in the next few years. These changes may become necessary because of shifts in the customer's environment (both internal and external), abilities, and resources.

If properly analyzed, information concerning what markets a company has should provide insight into why customers buy the company's products and how likely it is that they will do business with the company in the future. For example, a paper manufacturer discovered that most of his customers did business with him because, in their opinion, his delivery schedules were more flexible than those of other suppliers. The quality of his paper might have been superior, too, but this was not strategically important to his customers.

How Is Each Market Served? The means the company employs to serve different customers may be studied by analyzing the information contained in Exhibit 7-3. A careful examination of this information will reveal the current strategy the company utilizes to serve its main markets. For example, analysis of the information in Exhibit 7-3 may reveal the following facts pertaining to a breakfast cereal: Of the seven different segments in the market, the product is extremely popular in two segments. Customers buy the product mainly for health reasons or because of a desire to consume "natural" foods. This desire is strong enough for customers to pay a premium price for the product. Further, customers are willing to make a trip to another store (other than their regular grocery store) to buy this product. Different promotional devices keep customers conscious of the "natural" ingredients in the product. This analysis may point toward the following strategy for the product:

EXHIBIT 7-3
Information for Recognizing Present Market Strategy

1. Basis for segmenting the market
2. Definition of the markets for the product
3. Profile of customers in each segment: age, income level, occupation, geographical location, etc.
4. Scope and dimensions of each market: size, profitability, etc.
5. Expected rate of growth of each segment
6. Requirements for success in each market
7. Market standing with established customers in each segment: market share, pattern of repeat business, expansion of customer's product use
8. Benefits that customers in different segments derive from the product: economics, better performance, displaceable costs, etc.
9. Reasons for buying the product in different segments: product features, awareness, price, advertising, promotion, packaging, display, sales assistance, etc.
10. Customer attitudes in different segments: brand awareness, brand image (mapping), etc.
11. Overall reputation of the product in each segment
12. Purchase or use habits that contribute to these attitudes
13. Reasons that reinforce customer's faith in the company and product
14. Reasons that force customers to turn elsewhere for help in using the product
15. Life-cycle status of the product
16. Story of the product line: quality development, delivery, service
17. Product research and improvements planned
18. Market share: overall and in different segments
19. Deficiencies in serving or assisting customers in using the product
20. Possibility of reducing services in areas where customers are becoming more self-sufficient
21. Resource base: nature of emerging and developing resources—technical, marketing, financial—that could expand or open new markets for the product
22. Geographic coverage of the product market
23. Identification of principal channels: dealer or class of trade
24. Buying habits and attitudes of these channels
25. Sales history through each type of channel
26. Industry sales by type of outlet: retail, wholesale, institutional; and by major types of outlets within each area: department store, chain store, specialty store, etc.
27. Overall price structure for the product
28. Trade discount policy
29. Variations in price in different segments
30. Frequency of price changes
31. Promotional deals offered for the product
32. Emphasis on different advertising media
33. Major thrust of advertising copy
34. Sales tips or promotional devices used by salespeople

1. Concentrate on limited segments.
2. Emphasize the naturalness of the product as its unique attribute.
3. Keep the price high.
4. Pull the product through with heavy doses of consumer advertising.

Where strategy in the past has not been systematically formulated, recognition of current strategy will be more difficult. In this case, strategy must be inferred from the perspectives of different marketing decisions.

Past Performance

Evaluation of past performance is invaluable in measuring strengths and weaknesses because it provides historical insights into a company's marketing strategy and its success. Historical examination should not be limited to simply noting the directions that the company adopted and the results it achieved but should also include a search for reasons for these results. Exhibit 7-4 shows the type of information that is helpful in measuring past performance.

Strategically, the following three types of analysis should be undertaken to measure past performance: product performance profile, market performance profile, and financial performance profile. Information used for developing a

EXHIBIT 7-4
Information for Measuring Past Performance

The Consumer
Identify if possible the current "light," "moderate," and "heavy" users of the product in terms of

1. Recent trends in percentage of brand's volume accounted for by each group.
2. The characteristics of each group as to sex, age, income, occupation, income group, and geographical location.
3. Attitudes toward the product and category and copy appeals most persuasive to each group.

The Product
Identify the current consumer preference of the brand versus primary competition (and secondary competition, if available), according to

1. Light, moderate, and heavy usage (if available).
2. The characteristics of each group as to sex, age, income, occupation, income group, geographical location, size of family, etc.

Shipment History
Identify the recent shipment trends of the brand by total units and units/M population (brand development), according to districts, regions, and nation.

Spending History
Identify the recent spending trends on the brand by total dollars, dollar/M population, and per unit sold for advertising, for promotion, and for total advertising and promotion by districts, regions, and nation.

EXHIBIT 7-4
Information for Measuring Past Performance (continued)

Profitability History
Identify the recent trends of list price, average retail price (by sales areas), gross profit margins, and profit before taxes (PBT), *in addition* to trends in

1. Gross profit as a percentage of net sales.
2. Total marketing as percentage of gross profit and per unit sold.
3. PBT as a percentage of net sales and per unit sold.
4. ROFE (Return of Funds Employed) for each recent fiscal year.

Share of Market History
Identify recent trends of

1. The brand's share of market nationally, regionally, and district-wide.
2. Consumption by total units and percentage gain/loss versus year ago nationally, regionally, and district-wide.
3. Distribution by pack size nationally, regionally, and district-wide.

Where applicable, trends in all of the above data should also be identified by store classification: chain versus independent (large, medium, and small).

Total Market History
Identify recent trends of the total market in terms of units and percentage gain/loss versus year ago nationally, regionally, and district-wide per M population, store type, county size, type of user (exclusive versus partial user), retail price trends, and by user characteristics (age, income, etc.).

Competitive History (Major Brands), Where Available
Identify significant competitive trends in share; consumption levels by sales areas and store types; media and promotion expenditures; types of media and promotion; retail price differentials; etc.

product performance profile is shown in Exhibit 7-5. A product may contribute to company performance in six different ways: through profitability, image of product leadership, furnishing a base for further technological growth, support of total product line, utilization of company resources (e.g., utilization of excess plant capacity), and provision of customer benefits (vis-à-vis the price paid). An example of this last type of contribution is a product that is a small but indispensable part of another product or process with low cost relative to the value of the finished product. Tektronics, a manufacturer of oscilloscopes, is an example. An oscilloscope is sold along with a computer. It is used to help install the computer, to test it, and to monitor its performance. The cost of the oscilloscope is small when one considers the essential role it plays in the use of the much more expensive computer.

A market performance profile is illustrated in Exhibit 7-6. In analyzing how well a company is doing in the segments it serves, a good place to begin is with the marginal profit contribution of each customer or customer group. Other measures

EXHIBIT 7-5
Product Performance Profile Contribution to Company Performance

Product Line	*Profit-ability*	*Product Leader-ship*	*Techno-logical Growth*	*Support of Total Product Line*	*Utiliza-tion of Company Resources*	*Provision of Customer Benefits*
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- - - -						
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used are market share, growth of end user markets, size of customer base, distribution strength, and degree of customer loyalty. Of all these, only distribution strength requires some explanation. Distribution and dealer networks can greatly influence a company's performance because it takes an enormous effort to cultivate dealers' loyalty and get repeat business from them. Distribution strength, therefore, can make a significant difference in overall performance.

The real value of a strategy must be reflected in financial gains and market achievements. To measure financial performance, four standards may be employed for comparison: (a) the company's performance, (b) competitor's performance, (c) management expectations, and (d) performance in terms of resources committed. With these standards, for the purposes of marketing strategy, financial performance can be measured with respect to the following variables:

1. Growth rate (percentage).
2. Profitability (percentage), that is, rate of return on investment.
3. Market share (percentage as compared with that of principal competitors).
4. Cash flow.

It is desirable to analyze financial performance for a number of years to determine the historical trend of performance. To show how financial performance analysis may figure in formulating marketing strategy, consider the following example:

EXHIBIT 7-6
Market Performance Profile Contribution to Company Performance

Market Segments	*Profit-ability*	*Market Share*	*Growth of End User Markets*	*Size of Customer Base*	*Distribu-tion Strength*	*Degree of Customer Loyalty*
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> A maker of confectioneries that offers more than one hundred brands, flavors and packagings, prunes its lines—regularly and routinely—of those items having the lowest profit contribution, sales volume, and vitality for future growth. . . .
>
> Each individual product has been ranked on these three factors, and an "index of gross profitability" has been prepared for each in conjunction with annual marketing plans. These plans take into account longer-term objectives for the business, trends in consumer wants and expectations, competitive factors in the marketplace and, lastly, a deliberately ordered "prioritization" of the company's resources. Sales and profit performance are then checked against projected targets at regular intervals through the year, and the indexes of gross profitability are adjusted when necessary.
>
> The firm's chief executive emphasizes that even individual items whose indexes of profitability are ranked at the very bottom are nonetheless profitable and paying their way by any customary standard of return on sales and investment. But the very lowest-ranking items are regularly reviewed; and, on a judgmental basis, some are marked for pruning at the next convenient opportunity. This opportunity is most likely to arrive when stocks of special ingredients and packaging labels for the items have been exhausted.
>
> In a recent year, the company dropped 16 items that were judged to be too low on its index of gross profitability. Calculated and selective pruning is regarded within the company as a healthy means of working toward the best possible mix of products at all times. It has the reported advantages of increasing efficiencies in manufacturing as a result of cutting the "down time" between small runs, reducing inventories, and freeing resources for the expansion of the most promising items—or the development of new ones—without having to expand productive capacity. Another important benefit is that the sales force concentrates on a smaller line containing only the most profitable products with the largest volumes. On the negative side, however, it is acknowledged that pruning, as the company practices it, may result in near-term loss of sales for a line until growth of the rest of the items can compensate.

Appraising Marketing Excellence

Marketing is concerned with the activities required to facilitate the exchange process toward managing demand. The perspectives of these activities are founded on marketing strategy. To develop a strategy, a company needs a philosophical orientation. Four different types of orientation may be considered: manufacturing, sales, technology, and marketing. Manufacturing orientation emphasizes a physical product or a service and assumes that the customer will be pleased with it if it has been well conceived and developed. Sales orientation focuses on promoting the product to make the customer want it. The thrust of technology orientation is on reaching the customer through new and varied products made feasible through technological innovations. Under marketing orientation, first the customer group that the firm wishes to serve is designated. Then the requirements of the target group are carefully examined. These requirements become the basis of product or service conception and development, pricing, promotion, and distribution. Exhibit 7-7 contrasts marketing-oriented companies with manufacturing-, sales-, and technology-oriented firms.

An examination of Exhibit 7-7 shows that good marketers should think like general managers. Their approach should be unconstrained by functional

EXHIBIT 7-7
Comparison of Four Kinds of Companies

	Orientation			
	Manufacturing	*Sales*	*Technology*	*Marketing*
Typical strategy	Lower cost	Increase	Push research	Build share profitability
Normal structure	Functional	Functional or profit centers	Profit centers	Market or product or brand; decentralized profit responsibility
Key systems	Plant P&L's Budgets	Sales forecasts Results vs. plan	Performance tests R&D plans	Marketing plans
Traditional skills	Engineering	Sales	Science and engineering	Analysis
Normal focus	Internal efficiencies	Distribution channels; short-term sales results	Product performance	Consumers Market share
Typical response to competitive pressure	Cut costs	Cut price Sell harder	Improve product	Consumer research, planning, resting, refining
Overall mental set	"What we need to do in this company is get our costs down and our quality up."	"Where can I sell what we make?"	"The best product wins the day."	"What will the consumer buy that we profitably make?"

Source: Edward G. Michaels, "Marketing Muscle: Who Needs It?" *Business Horizons*, May–June, 1982, p. 72. © 1982 by the foundation for the School of Business at Indiana University. Reprinted by permission.

boundaries. Without neglecting either near- or medium-term profitability, they should concentrate on building a position for tomorrow.[7]

Despite the lip service that has been paid to marketing for more than 30 years, it remains one of the most misunderstood functions of a business. According to Canning, only a few corporations, Procter & Gamble, Citibank, Avon, McDonald's, Emerson Electric, and Merck, for example, really understand and practice true marketing.[8] Inasmuch as marketing orientation is a prerequisite for developing a successful marketing strategy, it behooves a company to thoroughly examine its marketing orientation. The following checklist of 10 questions provides a quick self-test for a company that wants a rough measure of its marketing capabilities.

- Has your company carefully segmented the various segments of the consumer market that it serves?
- Do you routinely measure the profitability of your key products or services in each of these consumer market segments?
- Do you use market research to keep abreast of the needs, preferences, and buying habits of consumers in each segment?
- Have you identified the key buying factors in each segment, and do you know how your company compares with its competitors on these factors?
- Is the impact of environmental trends (demographic, competitive, lifestyle, governmental) on your business carefully gauged?
- Does your company prepare and use an annual marketing plan?
- Is the concept of "marketing investment" understood—and practiced—in your company?
- Is profit responsibility for a product line pushed below the senior management level?
- Does your organization "talk" marketing?
- Did one of the top five executives in your company come up through marketing?

The number of yes answers to these questions determines the marketing orientation of a company. For example, a score of nine or ten yes answers would mean that the company has a strong marketing capability; six to eight would indicate that the firm is on the way; and fewer than six yes answers would stress that the firm is vulnerable to marketing-minded competitors. Essentially, truly marketing-oriented firms are consumer oriented, take an integrated approach to planning, look further ahead, and have highly developed marketing systems. In such firms, marketing dominates the corporate culture. A marketing-oriented culture is beneficial in creating sustainable competitive advantage. It becomes one of the internal strengths an organization possesses that is hard to imitate, is more durable, and is not transparent nor transferable.

This analysis reveals the overall marketing effectiveness of the company and highlights the areas that are weak and require management action. Management may take appropriate action—management training, reorganization, or installation of measures designed to yield improvements with or without the help of consultants. If weaknesses cannot be addressed, the company must live with them, and the marketing strategist should take note of them in the process of outlining the business's future direction. A marketing orientation perspective of a firm largely reflects its marketing excellence.

Marketing Environment

Chapter 6 was devoted to scanning the environment at the macro level. This section looks at the environment from the product/market perspective. Environmental scanning at the macro level is the job of a staff person positioned at the corporate, division, group, or business unit level. The person concerned may go by any of these titles: corporate planner, environmental analyst, environmental scanner, strategic planner, or marketing researcher.

Monitoring the environment from the viewpoint of products/markets is a line function that should be carried out by those involved in making marketing decisions because product/market managers, being in close touch with various marketing aspects of the product/market, are in a better position to read between the lines and make meaningful interpretations of the environment. The constituents of the product/market environment are social and cultural effects, political influences, ethical considerations, legal requirements, competition, economic climate, technological changes, institutional evolution, consumerism, population, location of consumers, income, expenditure patterns, and education. Not all aspects of the environment are relevant for every product/market. The scanner, therefore, should first choose which parts of the environment influence the product/market before attempting to monitor them.

The strategic significance of the product/market environment is well illustrated by the experience of Fanny Farmer Candy Shops, a familiar name in the candy industry. Review of the environment in the mid-1980s showed that Americans were watching their waistlines but that they were also indulging in chocolate. In 1983, the average American ate nearly 18 pounds of confections—up from a low of 16 pounds in 1975. Since the mid-1980s, the market for upscale chocolates has been growing rapidly. Chocolates are again popular gifts for dinner parties, providing a new opportunity for candy makers, who traditionally relied on Valentine's Day, Easter, and Christmas for over half of their annual sales.

Equipped with this analysis of the environment, Fanny Farmer decided to become a dominant competitor in the upscale segment. It introduced rich, new specialty chocolates at $14 to $20 per pound, just below $25-per-pound designer chocolates (a market dominated by Godiva, a subsidiary of Campbell Soup Co., and imports such as Perugina of Italy) and above Russell Stover and Fannie May candies, whose chocolates averaged $10 per pound. The company thinks that its new strategic thrust will advance its position in the candy market, though implementing this strategy will require overcoming a variety of problems.[9]

ANALYZING STRENGTHS AND WEAKNESSES

The study of competition, current strategic perspectives, past performance, marketing effectiveness, and marketing environment provides insights into information necessary for designating strengths and weaknesses. Exhibit 7-8 provides a rundown of areas of strength as far as marketing is concerned. Where feasible, strengths should be stated in objective terms. Exhibit 7-8 is not an all-inclusive list, but it indicates the kind of strength a company may have over its competitors. It should be noted that most areas of strength relate to the excellence of personnel or are resource based. Not all factors have the same significance for every product/market; therefore, it is desirable to first recognize the critical factors that could directly or indirectly bear on a product's performance. For example, the development of an improved product may be strategic for drug companies. On the other hand, in the case of cosmetics, where image building is usually important, advertising may be a critical factor. After-sale service may have significance for products such as copying machines, computers, and elevators. Critical factors may be chosen with reference to Exhibit 3-6. From among the critical factors, an

EXHIBIT 7-8
Areas of Strength

1. Excellence in product design and/or performance (engineering ingenuity)
2. Low-cost, high-efficiency operating skill in manufacturing and/or in distribution
3. Leadership in product innovation
4. Efficiency in customer service
5. Personal relationships with customers
6. Efficiency in transportation and logistics
7. Effectiveness in sales promotion
8. Merchandising efficiency—high turnover of inventories and/or of capital
9. Skillful trading in volatile price movement commodities
10. Ability to influence legislation
11. Highly efficient, low-cost facilities
12. Ownership or control of low-cost or scarce raw materials
13. Control of intermediate distribution or processing units
14. Massive availability of capital
15. Widespread customer acceptance of company brand name (reputation)
16. Product availability, convenience
17. Customer loyalty
18. Dominant market share position, deal from a position of strength
19. Effectiveness of advertising
20. Quality sales force
21. Make and sell products of highest quality
22. High integrity as a company

attempt should be made to sort out strengths. It is also desirable to rate different strengths for a more objective analysis.[10]

An example from the personal computer business illustrates the measurement of strengths and weaknesses. In 1987, Apple, IBM, Tandy, and imports from Taiwan and South Korea were the major competitors. In 1990, the major firms in the industry included Apple, IBM, Tandy, Compaq Computers, Zenith Electronics, and imports from Taiwan and South Korea. In 1998, the front-runners in the business were IBM, Compaq, Apple, Dell, and Packard-Bell. Among these, Compaq Computer Corp. was the leader in worldwide PC shipments, followed by IBM. As a matter of fact, in the important U.S. market IBM ranked fourth, trailing even the late-entrant Packard Bell Electronics Inc. Exhibit 7-9 lists the relative strengths of these firms in 1998.

Success in the personal computer business depends on mastery of the following three critical areas:

- **Low-cost production**—As personal computer hardware becomes increasingly standardized, the ability to provide the most value for the dollar greatly influences sales. The most vertically integrated companies have the edge.
- **Distribution**—Retailers have shelf space for just two or three brands; only those makers that are able to keep their products in the customer's line of sight are likely to survive.

EXHIBIT 7-9
Relative Strengths of Personal Computer Firms in 1994

Current Strengths

Companies	Applications software	Brand image	Depth of management	Financial muscle	Low-cost production	National sales force	Retail distribution	Service support
Apple Computer	●	●	●				●	●
Compaq Computer		●	●		●		●	●
Packard-Bell	●			●	●	●		●
IBM	●	●	●	●	●	●	●	●
Dell Computer	●		●	●	●		●	●

- **Software**—Computer sales suffer unless a wide choice of software packages is offered to increase the number of applications.

Without these three strengths in place, a company cannot make it in the personal computer business. Thus, Texas Instruments withdrew from the field in 1983 because it did not have enough applications software. Fortune Systems dropped out in 1984. Zenith Electronics left the field in the early 1990s; Tandy became an insignificant contestant. Even imports from Taiwan and South Korea could not cope with changes in the fast-moving PC business, in which prices fall more than 20 percent a year, and product life cycles have shortened to as little as six months. Introducing a new generation of PCs just three months behind schedule can cost a company 40 percent to 50 percent of the gross profit it had planned to make on the new line.[11]

Both IBM and Apple appeared to be in trouble in 1995. By 1998 however, both of them had been able to overcome their weaknesses in logistics, manufacturing, and research and development. IBM reorganized the PC division and hired seasoned executives to fix the problems. In addition, the company shifted the focus to push for market share instead of profit to realize production efficiencies and lower parts costs. IBM hopes that with these measures, and the company's unrivaled assets—the IBM name and the brand equity built over many years—in its favor, it can create a solid position to enter the next century.[12] Apple wrought remarkable changes, remaking Apple's products, structure, personnel, manufacturing, distribution, and marketing to once again reemerge as a major factor in the PC industry.[13] The IBM and Apple stories illustrate the importance of analyzing strengths and weaknesses to define objectives and strategies for the future.

As another example, consider the Walt Disney Company strengths. Its theme parks offer a *genuinely distinctive experience* built around universally recognized animated characters or *brand name*. The brand is supported by near-flawless delivery in every element of the business, coupled with a full range of marketing communications, all reinforcing the "childhood at any age" theme that Disney represents worldwide. Customers have powerful associations with the brands that often go back generations.[14] These strengths offer the following benefits in developing future strategy:

- **Substantial, often dominant, and sustained market share**. Disney occupies the dominant market position in animated features and theme parks, and is a leading producer of feature films.
- **Premium prices.** Disney theme parks, hotels, and merchandise command significantly higher prices than competitors' offerings.
- **A track record of extending the brand to new products.** The Disney brand was launched in 1923 with the first Mickey Mouse cartoon and has since been extended to films, network and cable television programs and studios, theme parks, hotels, merchandise, and a National Hockey League team, the Mighty Ducks.
- **New markets.** From its original focus on children, the brand has been extended to the full range of demographic groups ("ages 8 to 80").
- **New geographic areas.** Disney's films and products are distributed worldwide. Theme parks are open or planned in the United States, Europe, and Asia.

Strengths should be further examined to undertake what may be called opportunity analysis (matching strengths, or competencies, to opportunity). Opportunity analysis serves as an input in establishing a company's economic mission. Opportunity analysis is also useful in developing an individual product's objectives. In Exhibit 7-10 the objectives for a food product are shown as they emerged from a study of its strengths. The objectives were to produce a premium product for an unscored segment and to develop a new channel outlet. In other words, at the product level, the opportunity analysis seeks to answer such questions as: What opportunity does the company have to capitalize on a competitor's weaknesses? Modify or improve the product line or add new products? Serve the needs of more customers in existing markets or develop new markets? Improve the efficiency of current marketing operations?

Opportunities emerge from the changing environment. Thus, environmental analysis is an important factor in identifying opportunities. Exhibit 7-11 suggests a simple format for analyzing the impact of the environment.

The concept of opportunity analysis may be illustrated with Procter & Gamble's moves in the over-the-counter (OTC) drug business. There is an increasing sense in the drug industry that the OTC side of the drug business will grow

EXHIBIT 7-10
Matching Strengths with Opportunities

Strength	*Likely Impact*	*Opportunity Furnished by the Environment*	*Objectives and Goals*
Customer loyalty	Incremental product volume increases Price increases for premium quality/service New product introductions	A trend of changing taste An identified geographic shift of part of the market A market segment neglected by the industry	Develop a premium product Introduce the existing product in a segment hitherto not served Develop a new channel for the product, etc.
Cordial relationships with channels	New product introductions Point-of-purchase advertising Reduction of delivered costs through distribution innovations Tied-in products Merchandising differentiation	A product-related subconscious need not solicited by the competition A product weakness of the competition A distribution weakness of the competition Technical feasibility for improving existing package design A discovered new use for the product or container	

EXHIBIT 7-11
Impact of Environmental Trends

Trends	*Impact*	*Timing of Impact*	*Response Time*	*Urgency*	*Threats*	*Opportunities*

faster than prescription sales will grow. Consumers and insurers are becoming more interested in OTC medications, partly because of the steep cost of prescription drugs. Further, with the patents of many major medicines expiring, generic drugs will pose an even greater threat to prescription products. Consequently, drugmakers are taking another look at the OTC business, where a well-marketed brand can keep a franchise alive long after exclusive rights have expired. A case in point is the success of Advil, an ibuprofen-based painkiller.

To participate in the growing OTC market, Procter & Gamble has been making inroads into the industry. As a matter of fact, Procter & Gamble is already one of the largest marketers of OTC drugs. But to expand its position in the field, Procter & Gamble decided to speed things up by entering into partnerships with drugmakers and technology companies. By linking its formidable marketing strength with emerging technological advances in medicine, Procter & Gamble hopes to propel itself to the forefront of the health market.

Thus, the company is working on new formulations for minoxidil, a baldness remedy, and other new products promoting hair growth with UpJohn. It joined with Syntex to market Aleve, a nonprescription version of Anaprox, an anti-inflammatory drug that is popular with arthritis sufferers. It hopes to sell De-Nol, a gastrointestinal medicine made by Dutch drugmaker Gist-Brocades, as an ulcer treatment. It may use technology from Alcide, a Connecticut maker of disinfectants, in its toothpaste or mouthwash business. Finally, Procter & Gamble has an agreement with Triton Biosciences and Cetus to use Betaseron, a synthetic interferon, that it hopes will fight the common cold.[15]

In this case, it was Procter & Gamble's marketing strength that led it to enter the OTC drug industry. The opportunity was furnished by the environment—a concern for increasing health care costs—and many drug companies were glad to form alliances with this established OTC marketer.

In recent years flavored coffees have become popular and companies like Starbucks have established a new style of coffee drinking. Considering this as an opportunity to expand, Dunkin' Donuts expanded into coffee trendiness by offering four or more blends of fresh-brewed coffee, even hot and cold specialty drinks —all at a fraction of the Starbucks price. Value, together with no-nonsense service, has made Dunkin' Donuts a favorable place for coffee lovers.

To continue to ride on this opportunity, the chain has decided to be the latest in fast-food cool, offering in addition to specialty coffee, oven-baked bagels and fat-free muffins. In its redone stores, the tacky old pink décor is giving way to a more upscale "ripe raisin" hue. And not content to stop at morning munchies, the company has set its sights on the lunch crowd.[16]

An interesting observation with regard to opportunity analysis, made by Andrews, is relevant here:

> The match is designed to minimize organizational weakness and to maximize strength. In any case, risk attends it. And when opportunity seems to outrun present distinctive competence, the willingness to gamble that the latter can be built up to the required level is almost indispensable to a strategy that challenges the organization and the people in it. It appears to be true, in any case, that the potential capability of

a company tends to be underestimated. Organizations, like individuals, rise to occasions, particularly when the latter provide attractive reward for the effort required.[17]

In the process of analyzing strengths, underlying weaknesses should also be noted. Exhibit 7-12 is a list of typical marketing weaknesses. Appropriate action must be taken to correct weaknesses. Some weaknesses have SBU-wide bearing; others may be weaknesses of a specific product. SBU weaknesses must be examined, and necessary corrective action must be incorporated into the overall marketing strategy. For example, weaknesses 3, 5, and 6 in Exhibit 7-12 could have SBU-wide ramifications. These must be addressed by the chief marketing strategist. The remaining three weaknesses can be corrected by the person in charge of the product/market with which these weaknesses are associated.

CONCEPT OF SYNERGY

Before concluding the discussion of strengths and weaknesses, it will be desirable to briefly introduce the concept of synergy. **Synergy**, simply stated, is the concept that the combined effect of certain parts is greater than the sum of their individual effects. Let us say, for example, that product 1 contributes X and product 2 contributes Y. If they are produced together, they may contribute X+Y+Z. We can say that Z is the synergistic effect of X and Y being brought together and that Z represents positive synergy. There can be negative synergy as well. The study of synergy helps in analyzing new growth opportunities. A new product, for instance, may have such a high synergistic effect on a company's existing product(s) that it may be an extremely desirable addition.

Conceptually, business synergies take one of six forms:[18]

1. **Shared Know-How.** Units often benefit from sharing knowledge or skills. They may, for example, improve their results by pooling their insights into a particular process, function, or geographic area.
2. **Coordinated Strategies.** It sometimes works to a company's advantage to align the strategies of two or more of its businesses. Divvying up markets among units may, for instance, reduce interunit competition. And coordinating responses to shared competitors may be a powerful and effective way to counter competitive threats.

EXHIBIT 7-12
Typical Marketing Weaknesses

1. Inadequate definition of customer for product/market development
2. Ambiguous service policies
3. Too many levels of reporting in the organizational setup
4. Overlapping channels
5. Lack of top management involvement in new product development
6. Lack of quantitative goals

3. **Shared Tangible Resources.** Units can sometimes save a lot of money by sharing physical assets or resources. By using a common manufacturing facility or research laboratory, for example, they may gain economies of scale and avoid duplicated effort.
4. **Vertical Integration.** Coordinating the flow of products or services from one unit to another can reduce inventory costs, speed product development, increase capacity utilization, and improve market access.
5. **Pooled Negotiating Power.** By combining their purchases, different units can gain greater leverage over suppliers, reducing the cost or even improving the quality of the goods they buy. Companies can also gain similar benefits by negotiating jointly with other stakeholders, such as customers, governments, or universities.
6. **Combined Business Creation.** The creation of new businesses can be facilitated by combining know-how from different units, by extracting discrete activities from various units and combining them in a new unit, or by establishing internal joint ventures or alliances.

Quantitative analysis of synergy is far from easy. However, synergy may be evaluated following the framework illustrated in Exhibit 7-13. This framework refers to a new product/market entry synergy measurement.

A new product/market entry contribution could take place at three levels: contribution to the parent company (from the entry), contribution to the new entry (from the parent), and joint opportunities (benefits that accrue to both as a result of consolidation). As far as it is feasible, entries in Exhibit 7-13 should be assigned a numerical value, such as increase in unit sales by 20 percent, time saving by two months, reduction in investment requirements by 10 percent, and so on. Finally, various numerical values may be given a common value in the form of return on investment or cash flow.

EXHIBIT 7-13
Measurement of the Synergy of a New Product/Market Entry

	SYNERGY MEASURES							
	Startup Economies			Operating Economies				
Synergistic Contribution to:	*Investment*	*Operating*	*Timing*	*Investment*	*Operating*	*Expansion of Present Sales*	*New Product and Market Areas*	*Overall Synergy*
Parent								
New entry								
Joint opportunities								

SUMMARY

This chapter outlined a scheme for the objective measurement of strengths and weaknesses of a product/market, which then become the basis of identifying SBU strengths and weaknesses. Strengths and weaknesses are tangible and intangible resources that may be utilized for seeking growth of the product. Factors that need to be studied in order to designate strengths and weaknesses are competition, current strategic perspectives, past performance, marketing effectiveness, and marketing environment. Present strategy may be examined with reference to the markets being served and the means used to serve these markets.

Past performance was considered in the form of financial analysis, ranging from simple measurements, such as market share and profitability, to developing product and market performance profiles. Marketing effectiveness was related to marketing orientation, which may be determined with reference to questions raised in the chapter. Finally, various aspects of the product/market marketing environment were analyzed.

These five factors were brought together to delineate strengths and weaknesses. An operational framework was introduced to conduct opportunity analysis. Also discussed was the concept of synergy. The analysis of strengths and weaknesses sets the stage for developing marketing objectives and goals, which will be discussed in the next chapter.

DISCUSSION QUESTIONS

1. Why is it necessary to measure strengths and weaknesses?
2. Because it is natural for managers and other employees to want to justify their actions and decisions, is it possible for a company to make a truly objective appraisal of its strengths and weaknesses?
3. Evaluate the current strategy of IBM related to personal computers and compare it with the strategy being pursued by Apple Computer.
4. Develop a conceptual scheme to evaluate the current strategy of a bank.
5. Is it necessary for a firm to be marketing oriented to succeed? What may a firm do to overcome its lack of marketing orientation?
6. Making necessary assumptions, perform an opportunity analysis for a packaged-goods manufacturer.
7. Explain the meaning of synergy. Examine what sort of synergy Procter & Gamble achieved by going into the frozen orange juice business.

NOTES

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[6] *Moody's Industrial Manual* (1197): 5842–5845.

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[10] Bart Ziegler, "IBM Tries, And Fails, to Fix PC Business," *The Wall Street Journal*, (22 February 1995): B1. *Also see* "It Just May Be The Year of the Apple," *Business Week* (16 January 1995): 4.

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[12] "Blue Is the Color," *The Economist*, (6 June 1998): 65.

[13] David Kirkpatrick, "The Second Coming of Apple," *Fortune*, (9 November 1998): 87.

[14] Frank Rose, "Mickey Online," *Fortune*, (28 September 1995): 273.

[15] "Where P&G's Brawn Doesn't Help Much," *Business Week*, (10 November 1997): 112.

[16] "Dunkin' Donuts is on a Coffee Rush," *Business Week*, (16 March 1998): 7.

[17] Andrews, *The Concept of Corporate Strategy*, 100.

[18] Michael Goold and Andrew Campell, "Desperately Seeking Synergy," *Harvard Business Review*, (September–October 1998): 130–139.