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# Strategy Selection

> *All men can see the tactics whereby I conquer, but what none can see is the strategy out of which victory is achieved.*
>
> SUN-TZU

Two things were achieved in the previous chapters. First, the internal and external information required for formulating marketing strategy was identified, and the methods for analyzing information were examined. Second, using the available information, the formulation of objectives was covered. This chapter takes us to the next step toward strategy formulation by establishing a framework for it.

Our principal concern in this chapter is with business unit strategy. Among several inputs required to formulate business unit strategy, one basic input is the strategic perspective of different products/markets that constitute the business unit. Therefore, as a first step toward formulating business unit strategy, a scheme for developing product/market strategies is introduced.

Bringing product/market strategies within a framework of business unit strategy formulation emphasizes the importance of inputs from both the top down and the bottom up. As a matter of fact, it can be said that strategic decisions in a diversified company are best made at three different levels: jointly by product/market managers and the SBU manager when questions of implementation are involved, jointly by the CEO and the SBU manager when formulation of strategy is the concern, and by the CEO when the mission of the business is at issue.

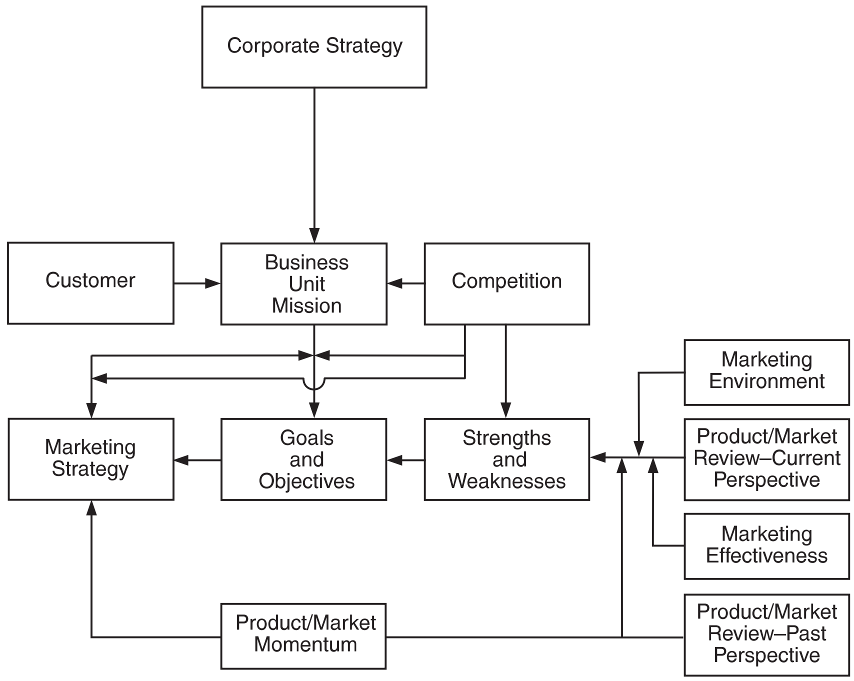
## CONCEPTUAL SCHEME

Exhibit 9-1 depicts the framework for developing marketing strategy. As delineated earlier, marketing strategy is based on three key factors: corporation, customer, and competition. The interaction among these three factors is rather complex. For example, the corporation factor impacts marketing strategy formulation through (a) business unit mission and its goals and objectives, (b) perspectives of strengths and weaknesses in different functional areas of the business at different levels, and (c) perspectives of different products/markets that constitute the business unit. Competition affects the business unit mission as well as the measurement of strengths and weaknesses. The customer factor is omnipresent, affecting the formation of goals and objectives to support the business unit mission and directly affecting marketing strategy.

## PRODUCT/MARKET STRATEGY

The following step-by-step procedure is used for formulating product/market strategy:

**EXHIBIT 9-1**
***Framework for Formulating Marketing Strategy***




1. Start with the present business. Predict what the momentum of the business will be over the planning period if no significant changes are made in the policies or methods of operation. The prediction should be based on historical performance.
2. Forecast what will happen to the environment over the planning period. This forecast will include overall marketing environment and product/market environment.
3. Modify the prediction in Step 1 in light of forecasted shifts in the environment in Step 2.
4. Stop if predicted performance is fully satisfactory vis-à-vis objectives. Continue if the prediction is not fully satisfying.
5. Appraise the significant strengths and weaknesses of the business in comparison with those of important competitors. This appraisal should include any factors that may become important both in marketing (market, product, price, promotion, and distribution) and in other functional areas (finance, research and development, costs, organization, morale, reputation, management depth, etc.).
6. Evaluate the differences between your marketing strategies and those of your major competitors.
7. Undertake an analysis to discover some variation in marketing strategy that would produce a more favorable relationship in your competitive posture in the future.

8. Evaluate the proposed alternate strategy in terms of possible risks, competitive response, and potential payout.
9. Stop if the alternate strategy appears satisfactory in terms of objectives.
10. Broaden the definition of the present business and repeat Steps 7, 8, and 9 if there is still a gap between the objective and the alternative strategy. Here, redefining the business means looking at other products that can be supplied to a market that is known and understood. Sometimes this means supplying existing products to a different market. It may also mean applying technical or financial abilities to new products and new markets simultaneously.
11. The process of broadening the definition of the business to provide a wider horizon can be continued until one of the following occurs:

    a. The knowledge of the new area becomes so thin that a choice of the sector to be studied is determined by intuition or by obviously inadequate judgment.
    b. The cost of studying the new area becomes prohibitively expensive because of lack of related experience.
    c. It becomes clear that the prospects of finding a competitive opportunity are remote.

12. Lower the objectives if the existing business is not satisfactory and if broadening the definition of the business offers unsatisfactory prospects.

There are three tasks involved in this strategy procedure: information analysis, strategy formulation, and implementation. At the product/market level, these tasks are performed by either the product/market manager or an SBU executive. In practice, analysis and implementation are usually handled entirely by the product/market manager; strategy formulation is done jointly by the product/market manager and the SBU executive.

Essentially, all firms have some kind of strategy and plans to carry on their operations. In the past, both plans and strategy were made intuitively. However, the increasing pace of change is forcing businesses to make their strategies explicit and often to change them. Strategy per se is getting more and more attention.

Any approach to strategy formulation leads to a conflict between objectives and capabilities. Attempting the impossible is not a good strategy; it is just a waste of resources. On the other hand, setting inadequate objectives is obviously self-defeating. Setting the proper objectives depends upon prejudgment of the potential success of the strategy; however, you cannot determine the strategy until you know the objectives. Strategy development is a reiterative process requiring art as well as science. This dilemma may explain why many strategies are intuitively made rather than logically and tightly reasoned. But there are concepts that can be usefully applied in approximating opportunities and in speeding up the process of strategy development. The above procedure is designed not only to analyze information systematically but also to formulate or change strategy in an explicit fashion and implement it.

### *Measuring the Momentum*

The first phase in developing product/market plans is to predict the future state of affairs, assuming that the environment and the strategy remain the same. This future state of affairs may be called *momentum*. If the momentum projects a desirable future, no change in strategy is needed. More often, however, the future implied by the momentum may not be the desired future.

The momentum may be predicted using modeling, forecasting, and simulation techniques. Let us describe how these techniques were applied at a bank. This bank grew by opening two to three new branches per year in its trading area. The measurement of momentum consisted of projecting income statement and balance sheet figures for new branches and merging them with the projected income statement and balance sheet of the original bank. A model was constructed to project the bank's future performance. The first step in construction of the model was the prediction of $B_{ijt}$, that is, balances for an account of type $i$ in area $j$ and in time period $t$. Account types included checking, savings, and certificates of deposit; areas were chosen to coincide with counties in the state. County areas were desirable because most data at the state level were available by county and because current branching areas were defined by counties. Balances were projected using multiple linear regression. County per capita income and rate of population growth were found to be important variables for predicting total checking account balances, and these variables, along with the last period's savings balance, were shown to be important in describing savings account balances.

The next step was to predict $M_{jt}$ (i.e., the market share of the bank being considered in area $j$ and time period $t$). This was done using a combination of data of past performances and managerial judgment. The total expected deposit level for the branch being considered, $D_{it}$, was then calculated as:

$$D_{it} = \sum_{jb} (B_{ijt} M_{jt})$$

For the existing operations of the bank, past data were utilized to produce a 10-year set of deposit balances. These deposit projections were added to those of new branches. Turning to other figures, certain line items on the income statement could be attributed directly to checking accounts, others to savings accounts. The remaining figures were related to the total of account balances.

For this model, ratios of income and expense items to appropriate deposit balances were predicted by a least-squares regression on historical data. This was not considered the most satisfactory method because some changing patterns of incurring income and expenses were not taken into account. However, more sophisticated forecasting techniques, such as exponential smoothing and Box-Jenkins, were rejected because of the potential management misunderstanding they could generate.

Once the ratio matrix was developed, income statements could be generated by simply multiplying the ratios by the proper account balance projection to arrive at the 10-year projection for income statement line items. These income statements, in conjunction with the bank's policy on dividends and capitalization, were then used to generate a 10-year balance sheet projection. The net results were presented to the bank's senior executive committee to be reviewed and modified. After incorporating executive judgment, final 10-year income statements and balance sheets were obtained, indicating the bank's momentum into the future.

### Gap Analysis

In the banking example, momentum was extrapolated from historical data. Little attention was given to either internal or external environmental considerations in developing the momentum. However, for a realistic projection of future outcomes, careful analysis of the overall marketing environment as well as the product/market environment is necessary.

As a part of gap analysis, therefore, the momentum should be examined and adjusted with reference to environmental assumptions. The industry, the market, and the competitive environment should be analyzed to identify important threats and opportunities. This analysis should be combined with a careful evaluation of product/market competitive strengths and weaknesses. On the basis of this information, the momentum should be evaluated and refined.

For example, in the midst of continued concern about recession in 1998, the chairman of the Federal Reserve System, Alan Greenspan, decided to increase the money supply. To do so, the prime and short-term interest rates were decreased. For instance, the rate of interest on many 30-month certificates of deposit went down from 5.25 percent in 1997 to 4.75 percent in 1998. This increase led many depositors to choose other forms of investment over certificates of deposit. In the illustration discussed in the last section, the impact of such a decline in interest rates was not considered in arriving at the momentum (i.e., in making forecasts of deposit balances). As a part of gap analysis, this shift in the environment would be duly taken into account and the momentum would be adequately adjusted.

The "new" momentum should then be measured against objectives to see if there is a gap between expectation and potential realization. More often than not, there will be a gap between desired objectives and what the projected momentum, as revised with reference to environmental assumptions, can deliver. How this gap may be filled is discussed next.

### Finding the Gap

The gap must be filled to bring planned results as close to objectives as possible. Essentially, gap filling amounts to reformulating product/market strategy.[1] A three-step procedure may be used for examining current strategy and coming up with a new one to fill the gap. These steps are issue assessment, identification of key variables, and strategy selection. The experience of some companies suggests that gap filling should be assigned to a multifunctional team. Nonmarketing people often provide fresh inputs; their objectivity and healthy skepticism are generally of great help in sharpening focus and in maintaining businesswide perspectives. The process the team follows should be carefully structured and the analytical work punctuated with regular review meetings to synthesize findings, check progress, and refocus work when desirable. The SBU staff should be deeply involved in the evaluation and approval of the strategies.

***Issue Assessment.*** The primary purpose of this step is to raise issues about the status quo to evaluate the business's competitive standing in view of present and expected market conditions. To begin, a team would typically work through a series of general questions about the industry to identify those few issues that will most crucially affect the future of the business. The following questions might be included: How mature is the product/market segment under review? What new avenues of market growth are conceivable? Is the industry becoming more cyclical? Are competitive factors changing (e.g., Is product line elaboration declining and cost control gaining in importance?)? Is our industry as a whole likely to be hurt by continuing inflation? Are new regulatory restrictions pending?

Next, the company should evaluate its own competitive position, for which the following questions may be raised: How mature is our product line? How do our products perform compared with those of leading competitors? How does our marketing capability compare? What about our cost position? What are our customers' most common criticisms? Where are we most vulnerable to competitors? How strong are we in our distribution channels? How productive is our technology? How good is our record in new product introduction?

Some critical issues are immediately apparent in many companies. For example, a company in a highly concentrated industry might find it difficult to hold on to its market share if a stronger, larger competitor were to launch a new low-priced product with intensive promotional support. Also, in a capital-intensive industry, the cyclical pattern and possible pressures on pricing are usually critical. If a product's transport costs are high, preemptive investments in regional manufacturing facilities may be desirable. Other important issues may be concerned with threats of backward integration by customers or forward integration by suppliers, technological upset, new regulatory action, or the entry of foreign competition into the home market. Most strategy teams supplement this brainstorming exercise with certain basic analyses that often lead to fresh insights and a more focused list of critical business issues. Three such issues that may be mentioned here are profit economics analysis, market segmentation analysis, and competitor profiling.

*Profit Economics Analysis.* Profit economics analysis indicates how product costs are physically generated and where economic leverage lies. The contribution of the product to fixed costs and profits may be calculated by classifying the elements of cost as fixed, variable, or semivariable and by subtracting variable cost from product price to yield contribution per item sold. It is then possible to test the sensitivity of profits to possible variations in volume, price, and cost elements. Similar computations may be made for manufacturing facilities, distribution channels, and customers.

*Market Segmentation Analysis.* Market segmentation analysis shows alternate methods of segmentation and whether there are any segments not being properly cultivated. Once the appropriate segment is determined, efforts should be made to project the determinants of demand (including cyclical factors and any constraints on market size or growth rate) and to explain pricing patterns, relative market shares, and other determinants of profitability.

*Competitor Profiling.* Profiling competitors may involve examining their sales literature, talking with experts or representatives of industry associations, and interviewing shared customers and any known former employees of competitors. If more information is needed, the team may acquire and analyze competing products and perhaps even arrange to have competitors interviewed by a third party. With these data, competitors may be compared in terms of product features and performance, pricing, likely product costs and profitability, marketing and service efforts, manufacturing facilities and efficiency, and technology and product development capabilities. Finally, each competitor's basic strategy may be inferred from these comparisons.

***Identification of Key Variables.*** The information on issues described above should be analyzed to isolate the critical factors on which success in the industry depends.[2] In any business, there are usually about five to ten factors with a decisive effect on performance. As a matter of fact, in some industries one single factor may be the key to success. For example, in the airline industry, with its high fixed costs, a high load factor is critical to success. In the automobile industry, a strong dealer network is a key success factor because the manufacturer's sales crucially depend on the dealer's ability to finance a wide range of model choices and offer competitive prices to the customer. In a commodity component market, such as switches, timers, and relays, both market share and profitability are heavily influenced by product range. An engineer who is designing circuitry normally reaches for the thickest catalog with the richest product selection. In this industry, therefore, the manufacturer with a wide selection can collect more share points with only a meager sales force.

Key factors may vary from industry to industry. Even within a single company, factors may vary according to shifts in industry position, product superiority, distribution methods, economic conditions, availability of raw materials, and the like. Therefore, suggested here is a set of questions that may be raised to identify the key success factors in any given situation:

1. What things must be done exceptionally well to win in this industry? In particular, what must we do well today to lead the industry in profit results and competitive vitality in the years ahead?
2. What factors have caused or could cause companies in this industry to fail?
3. What are the unique strengths of our principal competitors?
4. What are the risks of product or process obsolescence? How likely are they to occur and how critical could they be?
5. What things must be done to increase sales volume? How does a company in this industry go about increasing its share of the market? How could each of these ways of growing affect profits?
6. What are our major elements of cost? In what ways might each of them be reduced?
7. What are the big profit leverage points in this industry (i.e., What would be the comparative impact on profits of equal management efforts expended on each of a whole series of possible improvement opportunities?)?

8. What key recurring decisions must be made in each major functional segment of the business? What impact on profits could a good or bad decision in each of these categories have?
9. How, if at all, could the performance of this function give the company a competitive advantage?

Once these key factors have been identified, they should be examined with reference to the current status of the product/market to define alternative strategies that may be pursued to gain competitive advantage over the long term. Each alternative strategy should be evaluated for profit payoff, investment costs, feasibility, and risk.

It is important that strategy alternatives be described as specifically as possible. Simply stating “maintain product quality,” “provide high-quality service,” or ”expand market overseas” is not enough. Precise and concrete descriptions, such as “extend the warranty period from one year to two years,” “enter U.K., French, and German markets by appointing agents in these countries,” and “provide a $100 cash rebate to every buyer to be handed over by the company directly,” are essential before alternatives can be adequately evaluated.

Initially, the strategy group may generate a long list of alternatives, but informal discussion with management can soon pare these down to a handful. Each surviving alternative should be weighted in terms of projected financial consequences (sales, fixed and variable costs, profitability, investment, and cash flow) and relevant nonfinancial measures (market shares, product quality and reliability indices, channel efficiency, and so on) over the planning period.

At this time, due attention should be paid to examining any contingencies and to making appropriate responses to them. For example, if market share increases by only half of what was planned, what pricing and promotional actions might be undertaken? If customer demand instantly shoots up, how can orders be filled? What ought to be done if the Consumer Product Safety Commission should promulgate new product usage controls? In addition, if the business is in a cyclical industry, each alternative should also be tested against several market-size scenarios, simultaneously incorporating varying assumptions about competitive pricing pressures. In industries dominated by a few competitors, an evaluation should be made of the ability of the business to adapt each strategy to competitive actions—pricing moves, shifts in advertising strategy, or attempts to dominate a distribution channel, for example.

***Strategy Selection.*** After information on trade-offs between alternative strategies has been gathered as discussed above, a preferred strategy should be chosen for recommendation to management. Usually, there are three core marketing strategies that a company may use: (a) operational excellence, (b) product leadership, and (c) customer intimacy. Operational excellence strategy amounts to offering middle-of-the-market products at the best price with the least inconvenience. Under this strategy, the proposition to the customer is simple: low price or hassle-free service or both. Wal-Mart, Price/Costco, and Dell Computer epitomize this kind of strategy.[3] The product leadership strategy concentrates on offering products that push performance boundaries. In other words, the basic premise of this strategy is that customers receive the best product. Moreover, product leaders don't build their propositions with just one innovation: they continue to innovate year after year. Johnson & Johnson, for instance, is a product leader in the medical equipment field. With Nike, the superior value does not reside just in its athletic footwear, but also in the comfort customers can take from knowing that whatever product they buy from Nike will represent the hottest style and technology on the market.[4]

For product leaders, competition is not about price or customer service, it is about product performance. The customer intimacy strategy focuses not on what the market wants but on what specific customers want. Businesses following this strategy do not pursue one-time transactions; they cultivate relationships. They specialize in satisfying unique needs, which often only they recognize, through a close relationship with and intimate knowledge of the customer. The underlying proposition of this strategy is: we have the best solution for you, and provide all the support you need to achieve optimum results.[5] Long-distance telephone carrier Cable and Wireless, for example, follows this strategy with a vengeance, achieving success in a highly competitive market by consistently going the extra mile for its selectively chosen, small business customers. Exhibit 9-2 summarizes the differentiating aspects of the three core strategies examined above.

**EXHIBIT 9-2**
***Distinguishing Aspects of Different Core Marketing Strategies***

| | Core Strategy | | |
|---|---|---|---|
| *Managerial Attributes* | *Operational Excellence* | *Product Leadership* | *Customer Intimacy* |
| *Strategic Direction* | Sharpen distribution systems and provide no-hassle service | Nurture ideas, translate them into products, and market them skillfully | Provide solutions and help customers run their businesses |
| *Organizational Arrangement* | Has strong, central authority and a finite level of empowerment | Acts in an ad hoc, organic, loosely knit, and ever-changing way | Pushes empowerment close to customer contact |
| *Systems Support* | Maintain standard operating procedures | Reward individuals' innovative capacity and new product success | Measure the cost of providing service and of maintaining customer loyalty |
| *Corporate Culture* | Acts predictably and believes "one size fits all" | Experiments and thinks "out-of-the-box" | Is flexible and thinks "have it your way" |

The core strategy combines one or more areas of the marketing mix.[6] For example, the preferred strategy may be product leadership. Here the emphasis of the strategy is on product, the area of primary concern. However, in order to make an integrated marketing decision, appropriate changes may have to be made in price, promotion, and distribution areas. The strategic perspectives in these areas may be called *supporting strategies*. Thus, once core strategy has been selected, supporting strategies should be delineated. Core and supporting strategies should fit the needs of the marketplace, the skills of the company, and the vagaries of the competition.

The concept of core and supporting strategies may be examined with reference to the Ikea furniture chain.[7] Ikea, the giant Swedish home-furnishings business, has done well in the U.S. market by pursuing operational excellence as its core strategy. Where other Scandinavian furniture stores have faltered in the United States, Ikea keeps growing. Despite its poor service, customers keep coming to buy trendy furniture at bargain basement prices. The company has well aligned its supporting strategies of product, promotion, and distribution with its core strategy. For example, it selects highly visible sites easily accessible from major highways to generate traffic. Few competitors can match the selection offered by its cavernous 200,000-square-foot branches, which on average are five times larger than full-line competitors. The products are stylish and durable as well as functional; the quality is good. Advertising attempts to mold Ikea's image as hip and appealing. Ikea's enticing in-store models, easy-to-find price tags, and attractive displays create instant interest in the merchandise. But all these supporting strategies are fully price relevant. The company is so price conscious that it has used components from as many as four different manufacturers to make a single chair. Briefly, Ikea follows a strategy to satisfy the desire for contemporary furniture at moderate prices.

It is rather common for firms competing in the same industry to choose different core and supporting strategies through which to compete. The chosen strategy reflects the particular strength of the firm, the specific demands of the market, and the competitive thrust. As has been noted:

> Coca-Cola was born a winner, but Pepsi had to fight to survive by distinguishing itself from the leader. For most of its history, Pepsi differentiated itself purely on price: "Twice as much for a nickel, too." Only in the early 1970s did Pepsi start to believe that its product actually may be as good as if not better than Coke's. The resulting strategy was: "The Pepsi challenge."
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> The first belief of Coca-Cola was that its product was sacred. The resulting strategy was simple: "Don't touch the recipe" and "don't put lesser products under the same brand name" (call them "Tab"). Coca-Cola's second belief was that anyone should be able to buy Coke within a few steps of anywhere on earth. This belief drove the company to make its product available in every conceivable outlet and required a distribution strategy that allowed all outlets a reasonable profit at competitive prices.
>
> While Coca-Cola was driven by a product focus, Pepsi developed a more market-oriented perspective. Pepsi was the first to offer new sizes and packages. When consumer trends toward health, fitness and sweeter taste emerged, Pepsi again was the

innovator: It was the first to market diet and light varieties and it quickly sweetened its formula. Unencumbered by reverence for its base brand, it introduced the new varieties as extensions of the Pepsi signature. Where Coca-Cola feared a dilution of its brand name, Pepsi saw an opportunity to exploit the cost advantages and advertising of an umbrella brand.[8]

It is important to remember that the core strategy is formulated around the critical variable(s) that may differ from one segment to another for the same product. This is well supported by the following quotation taken from a case study of the petroloids business. Petroloids, a family of such unique materials as oils, petro-rubbers, foams, adhesives, and sealants, are manufactured substances based on the synthesis of organic hydrocarbons:

> Major producers competed with one another on a variety of dimensions. Among the most important were price, technical assistance, advertising and promotion, and product availability. Price was used as a competitive weapon primarily in those segments of the market where products and applications had become standardized. However, where products had been developed for highly specialized purposes and represented only a small fraction of a customer's total material cost, the market was often less price sensitive. Here customers were chiefly concerned with the physical properties of the product and operating performance.
>
> Technical assistance was an important means of obtaining business. A sizable percentage of total petroloid sales were accounted for by products developed to meet the unique needs of particular customers. Products for the aerospace industry were a primary example. Research engineers of petroloid producers were expected to work closely with customers to define performance requirements and to insure the development of acceptable products.
>
> Advertising and promotional activities were important marketing tools in those segments which utilized distribution channels and/or which reached end users as opposed to OEM's. This was particularly true of foams, adhesives, and sealants which were sold both to industrial and consumer markets. A variety of packaged consumer products were sold to hardware, supermarkets, and "do-it-yourself" outlets by our company as well as other competitors. Advertising increased awareness and stimulated interest among the general public while promotional activities improved the effectiveness of distribution networks. Since speciality petroloid products accounted for only a small percentage of a distributor's total sales, product promotion insured that specific products received adequate attention.
>
> Product availability was a fourth dimension on which producers competed. With manufacturing cycles from 2–16 weeks in length and thousands of different products, no supplier could afford to keep all his items in stock. In periods of heavy demand, many products were often in short supply. Those competitors with adequate supplies and quick deliveries could readily attract new business.[9]

Apparently, strategy development is difficult because different emphases may be needed in different product/market situations. Emphasis is built around critical variables that may themselves be difficult to identify. Luck plays a part in making the right move; occasionally, sheer intuition suffices. Despite all this, a careful review of past performance, current perspectives, and environmental changes go a long way in choosing the right areas on which to concentrate.

Reformulation of current strategy may range from making slight modifications in existing perspectives to coming out with an entirely different strategy. For example, in the area of pricing, one alternative for an automobile manufacturer may be to keep prices stable from year to year (i.e., no yearly price increases). A different alternative is to lease cars directly to consumers instead of selling them. The decision on the first alternative may be made by the SBU executive. But the second alternative, being far-reaching in nature, may require the review and approval of top management. In other words, how much examination and review a product/market strategy requires depends on the nature of the strategy (in terms of the change it seeks from existing perspectives) and the resource commitment required.

Another point to remember in developing core strategy is that the emphasis should always be placed on searching for new ways to compete. The marketing strategist should develop strategy around those key factors in which the business has more freedom than its competitors have. The point may be illustrated with reference to Body Shop International, a cosmetic company that spends nothing on advertising, even though it is in one of the most image-conscious industries in the business world.[10] Based in England, this company operates in 37 nations. Unlike typical cosmetic manufacturers, which sell through drugstores and department stores, Body Shop sells its own franchise stores. Further, in a business in which packaging costs often outstrip product costs, the Body Shop offers its products in plain, identical rows of bottles and gives discounts to customers who bring Body Shop bottles in for refills. The company has succeeded because it is so different from its rivals. Instead of assailing its customers with promotions and ads, it educates them. A great deal of Body Shop's budget is spent on training store personnel on the detailed nature of how its products are made and how they ought to be used. Training, which is accomplished through newsletters, videotapes, and classroom study, enables salesclerks to educate consumers on hair care, problem skin treatments, and the ecological benefits of such exotic products as rhassoul and mud shampoo, white grape skin tonic, and peppermint foot lotion. Consumers have also responded to Body Shop's environmental policies: the company uses only natural ingredients in its products, doesn't use animals for lab testing, and publicly supports saving whales and preserving Brazilian rain forests.

Another example is provided by Enterprise Rent-a-Car Company. While Hertz, Avis, and other members of the car rental industry were aggressively competing to win a point or two of the business and vacation travelers market at airports, Enterprise invaded the hinterlands with a completely different strategy—"one that relies heavily on doughnuts, ex-college frat house jocks, and your problems with your family car."[11] The company's approach is simple: It aims to provide a spare family car. Say a person's car has been hit or has broken down, or is in for routine maintenance. Once upon a time, the person could have asked his spouse for a ride or he could have borrowed her car, but now she is commuting to her own job. "Lo and behold, even before you have time to kick the repair shop's Coke machine, a well-dressed, intelligent young Enterprise agent materializes with some paperwork and a car for you."[12] Typically, an Enterprise car rents for one-third less than one from an airport.

Instead of massing 10,000 cars at a few dozen airports, Enterprise sets up inexpensive rental offices just about everywhere. As soon as one branch grows to about 150 cars, the company opens another a few miles away. The company claims that 90% of the American population lives within 15 minutes of an Enterprise office. Once a new office opens, employees fan out to develop relationships with the service managers of every good-size auto dealership and body shop in the area. When a person's car is being towed, he/she is in no mood to figure out which local rent-a-car company to use. Enterprise knows that the recommendations of the garage service managers will carry enormous weight, so it has turned courting them into an art form.

The end result is Enterprise has bypassed everybody in the industry. It owns over 400,000 cars and operates in more locations than Hertz. The company accounts for more than 20% of the $15 billion-a-year car rental business, versus 17% for Hertz and about 12% for Avis.

In the final analysis, companies with the following characteristics are most likely to develop successful strategies:

1. **Informed opportunism**—Information is the main strategic advantage, and flexibility is the main strategic weapon. Management assumes that opportunity will keep knocking but that it will knock softly and in unpredictable ways.
2. **Direction and empowerment**—Managers define the boundaries, and their subordinates figure out the best way to do the job within them. Managers give up some control to gain results.
3. **Friendly facts, congenial controls**—Share information that provides context and removes decision making from the realm of mere opinion. Managers regard financial controls as the benign checks and balances that allow them to be creative and free.
4. **A different mirror**—Leaders are open and inquisitive. They get ideas from almost anyone in and out of the hierarchy: customers, competitors, even next-door neighbors.
5. **Teamwork, trust, politics, and power**—Stress the value of teamwork and trust the employees to do the job. Be relentless at fighting office politics, since politics are inevitable in the workplace.
6. **Stability in motion**—Keep changing but have a base of underlying stability. Understand the need for consistency and norms, but also realize that the only way to respond to change is to deliberately break the rules.
7. **Attitudes and attention**—Visible management attention, rather than exhortation, gets things done. Action may start with words, but it must be backed by symbolic behavior that makes those words come alive.
8. **Causes and commitment**—Commitment results from management's ability to turn grand causes into small actions so that everyone can contribute to the central purpose.

## DETERMINING SBU STRATEGY

SBU strategy concerns how to create competitive advantage in each of the products/markets it competes with. The business-unit-level strategy is determined by the three Cs (customer, competition, and company). The experience of different companies shows that, for the purposes of strategy formulation, the strategic three Cs can be articulated by placing SBUs on a two-by-two matrix with industry maturity or attractiveness as one dimension and strategic competitive position as the other.

Industry attractiveness may be studied with reference to the life-cycle stage of the industry (i.e., embryonic, growth, mature, or aging). Such factors as growth rate, industry potential, breadth of product line, number of competitors, market share perspectives, purchasing patterns of customers, ease of entry, and technology development determine the maturity of the industry. As illustrated in Exhibit 9-3, these factors behave in different ways according to the stage of industry maturity. For example, in the embryonic stage, the product line is generally narrow, and frequent changes to tailor the line to customer needs are common. In the growth stage, product lines undergo rapid proliferation. In the mature stage, attempts are made to orient products to specific segments. During the aging stage, the product line begins to shrink.

Going through the four stages of the industry life cycle can take decades or a few years. The different stages are generally of unequal duration. To cite a few examples, personal computers and solar energy devices are in the embryonic category. Home smoke alarms and sporting goods in general fall into the growth category. Golf equipment and steel represent mature industries. Men's hats and rail cars are in the aging category. It is important to remember that industries can experience reversals in the aging processes. For example, roller skates have experienced a tremendous resurgence (i.e., moving from the aging stage back to the growth stage) because of the introduction of polyurethane wheels. It should also be emphasized that there is no "good" or "bad" life-cycle position. A particular stage of maturity becomes "bad" only if the expectations or strategies adopted by an industry participant are inappropriate for its stage of maturity. The particular characteristics of the four different stages in the life cycle are discussed in the following paragraphs.

Embryonic industries usually experience rapid sales growth, frequent changes in technology, and fragmented, shifting market shares. The cash deployment to these businesses is often high relative to sales as investment is made in market development, facilities, and technology. Embryonic businesses are generally not profitable, but investment is usually warranted in anticipation of gaining position in a developing market.

The growth stage is generally characterized by a rapid expansion of sales as the market develops. Customers, shares, and technology are better known than in the embryonic stage, and entry into the industry can be more difficult. Growth businesses are usually capital borrowers from the corporation, producing low-to-good earnings.

In mature industries, competitors, technology, and customers are all known and there is little volatility in market shares. The growth rate of these industries is usually about equal to GNP. Businesses in mature industries tend to provide cash for the corporation through high earnings.

The aging stage of maturity is characterized by

**EXHIBIT 9-3**
***Industry Maturity Guide***

| | Stages of Industry Maturity | | | |
|---|---|---|---|---|
| *Descriptors* | *Embryonic* | *Growth* | *Mature* | *Aging* |
| Growth rate | Accelerating; meaningful rate cannot be calculated because base is too small | Substantially faster than GNP; industry sales expanding significantly | Growth at rate equal to or slower than GNP; more subject to cyclicality | Industry volume declining |
| Industry potential | Usually difficult to determine | Demand exceeds current industry volume but is subject to unforeseen developments | Well known; primary markets approach saturation | Saturation is reached; supply capability exceeds demand |
| Product line | Line generally narrow; frequent changes tailored to customer needs | Product lines undergo rapid proliferation; some evidence of products oriented toward multiple industry segments | Product line turnover but little or no change in breadth; products frequently oriented toward narrow industry segments | Product line shrinking but tailored to major customer needs |
| Number of competitors | Few competing at first but number increasing rapidly | Number and types are unstable; increase to peak followed by shakeout and consolidation | Generally stable or declining slightly | Declines or industry may break up into many small regional suppliers |
| Market share stability | Volatile; share difficult to measure; share frequently concentrated | Rankings can change; a few firms have major shares | Little share volatility; firms with major shares are entrenched; significant niche competition; firms with minor shares are unlikely to gain major shares | Some change as marginal firms drop out; as market declines, market share generally becomes more concentrated |
| Purchasing patterns | Varies; some customers have strong loyalties; others have none | Some customer loyalty; buyers are aggressive but show evidence of repeat or add-on purchases; some price sensitivity | Suppliers are well known; buying patterns are established; customers generally loyal to limited number of acceptable suppliers; increasing price sensitivity | Strong customer loyalty as number of alternatives decreases; customers and suppliers may be tied to each other |
| Ease of entry (exclusive of capital considerations) | Usually easy; opportunity may not be apparent | Usually easy; presence of competitors is offset by growth | Difficult; competitors are entrenched; growth slowing | Little incentive |
| Technology | Important to match performance to market needs; industries started on technological breakthrough or application; multiple technologies | Fewer competing technologies; significant product line refinements or extensions likely; performance enhancement is important | Process and materials refinement; technologies developed outside this industry are used in seeking efficiencies | Minimal role in ongoing products; new technology sought to renew growth |

1. Falling demand for the product and limited growth potential.
2. A shrinking number of competitors (survivors gain market share through attrition).
3. Little product line variety.
4. Little, if any, investment in research and development or plant and equipment.

The competitive position of an SBU should depend not only on market share but also on such factors as capacity utilization, current profitability, degree of integration (forward or backward), distinctive product advantages (e.g., patent protection), and management strength (e.g., willingness to take risks). These factors may be studied for classifying a given SBU in one of the following competitive positions: dominant, strong, favorable, tenable, or weak.

Exhibit 9-4 summarizes the typical characteristics of firms in different competitive positions. An example of a dominant firm is IBM in the computer field; its competitors pattern their behavior and strategies on what IBM does. In the beer industry, Anheuser-Busch exemplifies a strong firm, a firm able to make an independent move without being punished by the major competitor.

**EXHIBIT 9-4**
***Classification of Competitive Strategic Positions***

| | |
|---|---|
| Dominant | • Controls behavior and/or strategies of other competitors<br>• Can choose from widest range of strategic options, independent of competitor's actions |
| Strong | • Can take independent stance or action without endangering long-term position<br>• Can generally maintain long-term position in the face of competitor's actions |
| Favorable | • Has strengths that are exploitable with certain strategies if industry conditions are favorable<br>• Has more than average ability to improve position<br>• If in a niche, holds a commanding position relatively secure from attack |
| Tenable | • Has sufficient potential and/or strengths to warrant continuation in business<br>• May maintain position with tacit consent of dominant company or of the industry in general but is unlikely to significantly improve position<br>• Tends to be only marginally profitable<br>• If in a niche, is profitable but clearly vulnerable to competitors' actions |
| Weak | • Has currently unsatisfactory performance but has strengths that may lead to improvement<br>• Has many characteristics of a better position but suffers from past mistakes or current weaknesses<br>• Inherently short-term position; must change (up or out) |
| Nonviable | • Has currently unsatisfactory performance and few, if any, strengths that may lead to improvement (may take years to die) |

Determining strategic competitive position is one of the most complex elements of business analysis and one of the least researched. With little state-of-the-art guidance available, the temptation is to fall back on the single criterion of market share, but the experiences of successful companies make it clear that determining competitive position is a multifaceted problem embracing, for example, technology, breadth of product line, market share, share movement, and special market relationships. Such factors change in relative importance as industry maturity changes.

### Choice of Strategy

Once the position of an SBU is located on the industry maturity/competitive position matrix, the guide shown in Exhibit 9-5 may be used to determine what strategy the SBU should pursue. Actually, the strategies shown in the exhibit are guides to strategic thrust rather than strategies per se. They show the normal

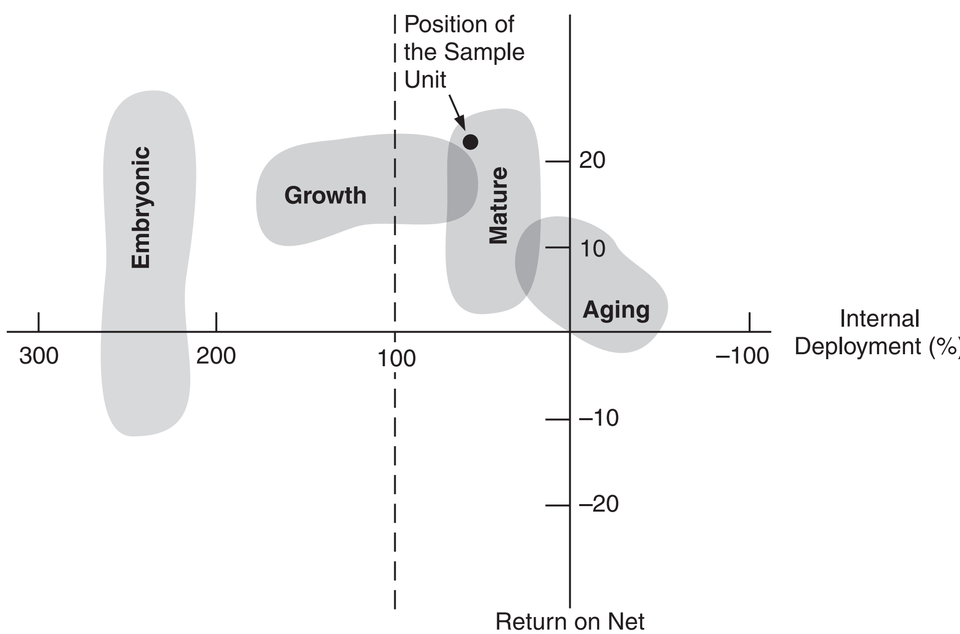
**EXHIBIT 9-5**
***Guide to Strategic Thrust Options***

| | Stages of Industry Maturity | | | |
|---|---|---|---|---|
| *Competitive Position* | *Embryonic* | *Growth* | *Mature* | *Aging* |
| Dominant | Grow fast<br>Start up | Grow fast<br>Attain cost leadership<br>Renew<br>Defend position | Defend position<br>Focus<br>Renew<br>Grow fast | Defend position<br>Renew<br>Grow into maturity |
| Strong | Start up<br>Differentiate<br>Grow fast | Grow fast<br>Catch up<br>Attain cost leadership<br>Differentiate | Attain cost leadership<br>Renew, focus<br>Differentiate<br>Grow with industry | Find niche<br>Hold niche<br>Hang in<br>Grow with industry<br>Harvest |
| Favorable | Start up<br>Differentiate<br>Catch up<br>Focus<br>Grow fast | Differentiate, focus<br>Find niche, hold niche<br>Grow with industry | Harvest, hang in<br>Turn around<br>Renew, turn around<br>Differentiate, focus<br>Grow with industry | Retrench |
| Tenable | Start up<br>Grow with industry<br>Focus | Harvest, catch up<br>Hold niche, hang in<br>Find niche<br>Turn around<br>Focus<br>Grow with industry | Harvest<br>Turn around<br>Find niche<br>Retrench | Divest<br>Retrench |
| Weak | Find niche<br>Catch up<br>Grow with industry | Turn around<br>Retrench | Withdraw<br>Divest | Withdraw |

strategic path a business unit may adopt, given its industry maturity and competitive position. The Appendix at the end of this chapter further examines the strategic thrusts identified in Exhibit 9-5. Each strategic thrust is defined, and its objective, requirements, and expected results are noted.

To bridge the gap between broad guidelines and specific strategies for implementation, further analysis is required. A three-stage process is suggested here. First, using broad guidelines, the SBU management may be asked to state strategies pursued during previous years. Second, these strategies may be reviewed by using selected performance ratios to analyze the extent to which strategies were successfully implemented. Similarly, current strategies may be identified and their link to past strategies established. Third, having identified and analyzed past and current strategy with the help of strategic guidelines, the management, using the same guidelines, selects the strategy it proposes to pursue in the future. The future perspective may call for the continuation of current strategies or the development of new ones. Before accepting the future strategic course, however, it is desirable to measure its cash consequences or internal deployment (i.e., percentage of funds generated that are reinvested). Exhibit 9-6 illustrates an SBU earning 22 percent on assets with an internal deployment of 80 percent. Such an SBU would normally be considered in the mature stage. However, if the previous analysis showed that the SBU was in fact operating in

**EXHIBIT 9-6**
***Profitability and Cash Position of a Business***



a growth industry, the corporation would need to rethink its investment policy. All quantitative information pertaining to an SBU may be summarized on one form, as shown in Exhibit 9-7.

Different product/market plans are reviewed at the SBU level. The purpose of this review is twofold: (a) to consider product/market strategies in finalizing SBU strategies and (b) to approve product/market strategies. The underlying criterion for evaluation is a balanced achievement of SBU goals, which may be specified in terms of profitability and cash consequences. If there is a conflict of interest between two product/market groups in the way the strategy is either articulated or implemented, the conflict should be resolved so that SBU goals are maximized. Assume that both product/market groups seek additional investments during the next two years. Of these, the first product/market will start delivering positive cash flow in the third year. The second one is not likely to generate positive cash flow until the fourth year, but it will provide a higher overall return on capital. If the SBU's need for cash is urgent and if it desires additional cash for its goals during the third year, the first product/market group will appear more attractive. Thus, despite higher profit expectations from the second product/market group, the SBU may approve investment in the first product/market group with a view to maximizing the realization of its own goals.

At times, the SBU may require a product/market group to make additional changes in its strategic perspective before giving its final approval. On the other hand, a product/market plan may be totally rejected and the group instructed to pursue its current perspective.

Industry maturity and competitive position analysis may also be used in further refining the SBU itself. In other words, after an SBU has been created and is analyzed for industry maturity and competitive position, it may be found that it has not been properly constituted. This would require redefining the SBU and undertaking the analysis again. Drawing an example from the car radio industry, considerable differences in industry maturity may become apparent between car radios with built-in cassette players and traditional car radios. Differences in industry maturity or competitive position may also exist with regard to regional markets, consumer groups, and distribution channels. For example, the market for cheap car radios sold by discount stores to end users doing their own installations may be growing faster than the market served by specialty retail stores providing installation services. Such revelations may require further refinement in formulating SBUs. This may continue until the SBUs represent the highest possible level of aggregation consistent with the need for clear-cut analyses of industry maturity and competitive position.

## STRATEGY EVALUATION

The time required to develop resources is so extended, and the timescale of opportunities is so brief and fleeting, that a company which has not carefully delineated and appraised its strategy is adrift in white water. This underlines the

**EXHIBIT 9-7**
***Sources of Competitive Information***

PERFORMANCE

| | Indices of: | | | | | Return<br>Investment (per $ sales) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Year | *Industry Capacity (A)* | *Business Unit's Product Capacity (B)* | *Business Unit's Sales (C)* | *Profits after Taxes (D)* | *New Assets (E)* | *Receivables (F)* | *Inventories (G)* | *New Current Liabilities (H)* | *Working Capital (I)* | *Other Assets (J)* | *Total Net Assets (K)* |
| | | | | | | | | | | | |

INVESTMENT

| | Return (continued) | | | | | | | | Funds Generation and Deployment | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Cost and Earnings (per $ sales) | | | | | | | | (per $ sales) | | | (%) |
| Yr. | *Cost of Goods Sold (L)* | *Research and Develop-ment (M)* | *Sales and Marketing (N)* | *General and Administrative (O)* | *Other Income and Expenses (P)* | *Profit before Taxes (Q)* | *Profit after Taxes (R)* | *Return on Net Assets (S)* | *Operating Funds Flow (T)* | *Changes in Assets (U)* | *Net Cash Flow to Corporation (V)* | *Internal Development (U ÷ T) (W)* |
| | | | | | | | | | | | | |

*Source:* Arthur D. Little, Inc. Reprinted by permission.

importance of strategy evaluation. The adequacy of a strategy may be evaluated using the following criteria:[13]

1. **Suitability**—Is there a sustainable advantage?
2. **Validity**—Are the assumptions realistic?
3. **Feasibility**—Do we have the skills, resources, and commitments?
4. **Internal consistency**—Does the strategy hang together?
5. **Vulnerability**—What are the risks and contingencies?
6. **Workability**—Can we retain our flexibility?
7. **Appropriate time horizon**.

***Suitability***

Strategy should offer some sort of competitive advantage. In other words, strategy should lead to a future advantage or an adaptation to forces eroding current competitive advantage. The following steps may be followed to judge the competitive advantage a strategy may provide: (a) review the potential threats and opportunities to the business, (b) assess each option in light of the capabilities of the business, (c) anticipate the likely competitive response to each option, and (d) modify or eliminate unsuitable options.

***Validity (Consistent with the Environment)***

Strategy should be consistent with the assumptions about the external product/market environment. At a time when more and more women are seeking jobs, a strategy assuming traditional roles for women (i.e., raising children and staying home) would be inconsistent with the environment.

***Feasibility (Appropriateness in Light of Available Resources)***

Money, competence, and physical facilities are the critical resources a manager should be aware of in finalizing strategy. A resource may be examined in two different ways: as a constraint limiting the achievement of goals and as an opportunity to be exploited as the basis for strategy. It is desirable for a strategist to make correct estimates of resources available without being excessively optimistic about them. Further, even if resources are available in the corporation, a particular product/market group may not be able to lay claim to them. Alternatively, resources currently available to a product/market group may be transferred to another group if the SBU strategy deems it necessary.

***Internal Consistency***

Strategy should be in tune with the different policies of the corporation, the SBU, and the product/market arena. For example, if the corporation decided to limit the government business of any unit to 40 percent of total sales, a product/market strategy emphasizing greater than 40 percent reliance on the government market would be internally inconsistent.

***Vulnerability (Satisfactory Degree of Risk)***

The degree of risk may be determined on the basis of the perspectives of the strategy and available resources. A pertinent question here is: Will the resources be available as planned in appropriate quantities and for as long as it is necessary to implement the strategy? The overall proportion of resources committed to a venture becomes a factor to be reckoned with: the greater these quantities, the greater the degree of risk.

### *Workability*

The workability of a strategy should be realistically evaluated with quantitative data. Sometimes, however, it may be difficult to undertake such objective analysis. In that case, other indications may be used to assess the contributions of a strategy. One such indication could be the degree of consensus among key executives about the viability of the strategy. Identifying ahead of time alternate strategies for achieving the goal is another indication of the workability of a strategy. Finally, establishing resource requirements in advance, which eliminates the need to institute crash programs of cost reduction or to seek reduction in planned programs, also substantiates the workability of the strategy.

### *Appropriate Time Horizon*

A viable strategy has a time frame for its realization. The time horizon of a strategy should allow implementation without creating havoc in the organization or missing market availability. For example, in introducing a new product to the market, enough time should be allotted for market testing, training of salespeople, and so on. But the time frame should not be so long that a competitor can enter the market first and skim the cream off the top.

## SUMMARY

This chapter was devoted to strategy formulation for the SBU. A conceptual framework for developing SBU strategy was outlined. Strategy formulation at the SBU level requires, among different inputs, the perspectives of product/market strategies. For this reason, a procedure for developing product/market strategy was discussed first.

Product/market strategy development requires predicting the momentum of current operations into the future (assuming constant conditions), modifying the momentum in the light of environmental changes, and reviewing the adjusted momentum against goals. If there is no gap between the set goal and the prediction, the present strategy may well be continued. Usually, however, there is a gap between the goal and expectations from current operations. Thus, the gap must be filled.

The following three-step process was suggested for filling the gap: (a) issue assessment (i.e., raising issues with the status quo vis-à-vis the future), (b) identification of key variables (i.e., isolating the key variables on which success in the industry depends) and development of alternative strategies, and (c) strategy selection (i.e., choosing the preferred strategy). The thrust of the preferred strategy is on one or more of the four variables in the marketing mix—product, price, promotion, or distribution. The major emphasis of marketing strategy, the core strategy, is on this chosen variable. Strategies for the remaining variables are supporting strategies. Usually, the three core marketing strategies are operational excellence, product leadership, and customer intimacy.

The SBU strategy is based on the three Cs (customer, competition, and company). SBUs were placed on a two-by-two matrix with industry maturity or attractiveness as one dimension and strategic competitive position as the other. Stages of industry maturity—embryonic, growth, mature, and aging—were identified. Competitive position can be classified as dominant, strong, favorable, tenable, or weak. Classification by industry maturity and competitive position generates 20 different quadrants in the matrix. In each quadrant, an SBU requires a different strategic perspective. A compendium of strategies was provided to figure out the appropriate strategy in a particular case.

The chapter concluded with a procedure for evaluating the selected strategy. This procedure consists of examining the following aspects of the strategy: suitability, validity, feasibility, internal consistency, vulnerability, workability, and appropriateness of time horizon.

## DISCUSSION QUESTIONS

1. Describe how a manufacturer of washing machines may measure the momentum of the business for the next five years.
2. List five issues Sears may raise to review its strategy for large appliances.
3. List five key variables on which success in the home construction industry depends.
4. In what industry state would you position (a) light beer and (b) color television?
5. Based on your knowledge of the company, what would you consider to be Miller's competitive position in the light beer business and GE's position in the appliance business?
6. Discuss how strategy evaluation criteria may be employed to review the strategy of an industrial goods manufacturer.

## NOTES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11 Brian O'Reilly, "The Rent-a-Car Jocks who make Enterprise #1," *Fortune* (October 1996): 125

12 Ibid.

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## APPENDIX *Perspectives on Strategic Thrusts*

***A. Start Up***

*Definition:* Introduction of new product or service with clear, significant technology breakthrough.

*Objective:* To develop a totally new industry to create and satisfy new demand where none existed before.

*Requirements:* Risk-taking attitude of management; capital expenditures; expense.

*Expected Results:* Negative cash flow; low-to-negative returns; a leadership position in new industry.

***B. Grow with Industry***

*Definition:* To limit efforts to those necessary to maintain market share.

*Objective:* To free resources to correct market, product, management, or production weaknesses.

*Requirements:* Management restraint; market intelligence; some capital and expense investments; time-limited strategy.

*Expected Results:* Stable market share; profit, cash flow, and RONA not significantly worse than recent history, fluctuating only as do industry averages.

***C. Grow Fast***

*Definition:* To pursue aggressively larger share and/or stronger position relative to competition.

*Objective:* To grow volume and share faster than competition and faster than general industry growth rate.

*Requirements:* Available resources for investment and follow-up; risk-taking management attitude; and appropriate investment strategy.

*Expected Results:* Higher market share; in the short term, perhaps lower returns; above average returns in the longer term; competitive retaliation.

***D. Attain Cost Leadership***

*Definition:* To achieve lowest delivered costs relative to competition with acceptable quality levels.

*Objective:* To increase freedom to defend against powerful entries, strong customer blocks, vigorous competitors, or potential substitute products.

*Requirements:* Relatively high market share; disciplined, persistent management efforts; favorable access to raw materials; substantial capital expenditures; aggressive pricing.

*Expected Results:* In early stages, may result in start-up losses to build share; ultimately, high margins; relatively low capital turnover rates.

***E. Differentiate***

*Definition:* To achieve the highest degree of product/quality/service difference (as perceived by customers) in the industry with acceptable costs.

*Objective:* To insulate the company from switching, substitution, price competition, and strong blocks of customers or suppliers.

*Requirements:* Willingness to sacrifice high market share; careful target marketing; focused technological and market research; strong brand loyalty.

*Expected Results:* Possibly lowered market share; high margins; above-average earnings; highly defensible position.

***F. Focus***

*Definition:* To select a particular segment of the market/product line more narrow in scope than competing firms.

*Objective:* To serve the strategic target area (geographic, product, or market) more efficiently, fully, and profitably than it can be served by broad-line competitors.

*Requirements:* Disciplined management; persistent pursuit of well-defined scope and mission; premium pricing; careful target selection.

*Expected Results:* Above-average earnings; may be low-cost producer in its area; may attain high differentiation.

***G. Review***

*Definition:* To restore the competitiveness of a product line in anticipation of future industry sales.

*Objective:* To overcome weakness in product/market mix in order to improve share or to prepare for a new generation of demand, competition, or substitute products.

*Requirements:* Strong-enough competitive position to generate necessary resources for renewal efforts; capital and expense investments; management capable of taking risk; recognition of potential threats to existing line.

*Expected Results:* Short-term decline in sales, then sudden or gradual breakout of old volume/profit patterns.

***H. Defend Position***

*Definition:* To ensure that relative competitive position is stable or improved.

*Objective:* To create barriers that make it difficult, costly, and risky for competitors, suppliers, customer blocks, or new entries to erode your firm's market share, profitability, and growth.

*Requirements:* Establishment of one or more of the following: proprietary technology, strong brand, protected sourcing, favorable locations, economies of scale, government protection, exclusive distribution, or customer loyalty.

*Expected Results:* Stable or increasing market share.

***I. Harvest***

*Definition:* To convert market share or competitive position into higher returns.

*Objective:* To bring returns up to industry averages by trading, leasing, or selling technology, distribution rights, patents, brands, production capacity, locations, or exclusive sources to competitors.

*Requirements:* A better-than-average market share; rights to entry or mobility barriers that the industry values; alternative investment opportunities.

*Expected Results:* Sudden surge in profitability and return; a gradual decline of position, perhaps leading to withdrawal strategy.

***J. Find Niche***

*Definition:* To opt for retaining a small, defensible portion of the available market rather than withdraw.

*Objective:* To define the opportunity so narrowly that large competitors with broad lines do not find it attractive enough to dislodge you.

*Requirements:* "Think small" management style; alternative uses for excess production capacity; reliable sources for supplies and materials; superior quality and/or service with selected sector.

*Expected Results:* Pronounced decline in volume and share; improved return in medium to longer term.

***K. Hold Niche***

*Definition:* To protect a narrow position in the larger product/market arena from larger competitors.

*Objective:* To create barriers (real or imagined) that make it unattractive for competitors, suppliers, or customer blocks to enter your segment or switch to alternative products.

*Requirements:* Designing, building, and promoting "switching costs" into your product.

*Expected Results:* Lower-than-industry average but steady and acceptable returns.

***L. Catch Up***

*Definition:* To make up for poor or late entry into an industry by aggressive product/market activities.

*Objective:* To overcome early gains made by first entrants into the market by careful choice of optimum product, production, distribution, promotion, and marketing tactics.

*Requirements:* Management capable of taking risk in flexible environment; resources to make high investments of capital and expense; corporate understanding of short-term low returns; probably necessary to dislodge weak competitors.

*Expected Results:* Low-to-negative returns in near term; should result in favorable to strong position by late growth stage of industry.

***M. Hang In***

*Definition:* To prolong existence of the unit in anticipation of some specific favorable change in the environment.

*Objective:* To continue funding a tenable (or better) unit only long enough to take advantage of unusual opportunity known to be at hand; this might take the form of patent expiration, management change, government action, technology breakthrough, or socioeconomic shift.

*Requirements:* Clear view of expected environmental shift; a management willing and able to sustain poor performance; opportunity and resources to capitalize on new environment; a time limit.

*Expected Results:* Poorer-than-average performance, perhaps losses; later, substantial growth and high returns.

***N. Turn Around***

*Definition:* To overcome inherent, severe weaknesses in performance in a limited time.

*Objective:* To halt further declines in share and/or volume; to bring about at least stability or, preferably, a small improvement in position; to protect the line from competitive and substitute products.
*Requirements:* Fast action to prevent disaster; reductions or redirection to reduce losses; change in morale.
*Expected Results:* Stable condition and average performance.

***O. Retrench***

*Definition:* To cut back investment in the business and reduce level of risk and exposure to losses.
*Objective:* To stop unacceptable losses or risks; to prepare the business for divestment or withdrawal; to strip away loss operations in hopes of exposing a "little jewel."
*Requirements:* Highly disciplined management system; good communication with employees to prevent wholesale departures; clear strategic objective and timetable.
*Expected Results:* Reduced losses or modestly improved performance.

***P. Divest***

*Definition:* To strip the business of some or all of its assets through sale of the product line, brands, distribution facilities, or production capacity.
*Objective:* To recover losses sustained through earlier strategic errors; to free up funds for alternative corporate investments; to abandon part or all of a business to competition.
*Requirements:* Assets desirable to others competing or desiring to compete in the industry; a recognition of the futility of further investments.
*Expected Results:* Increase in cash flow; reduction of asset base; probable reduction in performance levels and/or losses.

***Q. Withdraw***

*Definition:* To remove the business from competition.
*Objective:* To take back from the business whatever corporate assets or expenses can be recovered through shutdown, sale, auction, or scrapping of operations.
*Requirements:* A decision to abandon; a caretaker management; a phased timetable; a public relations plan.
*Expected Results:* Losses and write-offs.