Strategic Market Management—An Introduction and Overview

Plans are nothing, planning is everything.
—Dwight D. Eisenhower

Even if you are on the right track, you’ll get run over if you just sit there.
—Will Rodgers

If you don’t know where you’re going, you might end up somewhere else.
—Casey Stengel

All markets today are dynamic. Change is in the air everywhere, and change affects strategy. A winning strategy today may not prevail tomorrow. It might not even be relevant tomorrow.

There was a time, not too many decades ago, when the world held still long enough for strategies to be put into place and refined with patience and discipline. The annual strategic plan guided the firm. That simply is no longer the case. New products, product modifications, subcategories, technologies, applications, market niches, segments, media, channels, and on and on are emerging faster than ever in nearly all industries—from snacks to fast food to automobiles to financial services to software. Multiple forces feed these changes, including digital technologies, the rise of China and India, trends in healthy living, energy crises, political instability, and more. The result is markets that are not only dynamic but risky, complex, and cluttered.

Such convoluted markets make strategy creation and implementation far more challenging. Strategy has to win not only in today’s marketplace but also in tomorrow’s, when the customer, the competitor set, and the market context may all be different. In environments shaped by this new reality, some firms are driving change. Others are adapting to it. Still others are fading in the face of change. How do you develop successful strategies in dynamic markets? How do you stay ahead of competition? How do you stay relevant to the customer?
The task is challenging. Strategists need new and refined perspectives, tools, and concepts. In particular, they need to develop competencies around six management tasks—strategic analysis, innovation, getting control of multiple business units, developing sustainable competitive advantages (SCAs), and developing growth platforms.

**Strategic analysis.** The need for information about customers, competitors, and trends affecting the market is now stronger than ever. Furthermore, the information needs to be continuous and not tied to a planning cycle, because a timely detection of threats, opportunities, strategic problems, or emerging weaknesses can be crucial to getting the response right. There is an enhanced premium on the ability to predict trends, project their impact, and distinguish them from mere fads. That means resources need to be invested and competencies created in terms of getting information, filtering it, and converting it into actionable analysis.

**Customer value.** A strategy that fails to create customer value has no future. This value must resonate with a segment of customers and offer more benefits and/or lower costs than competitors. Creating that value for customers and ensuring that company profits from it over time are central tasks in strategy.

**Innovation.** Markets evolve and competitors imitate customer value. Therefore, it is important that the company creates new sources of value over time. The ability to innovate is key to winning in dynamic markets as numerous research studies have shown. Innovation, however, turns out to have a host of challenges. There is the organizational challenge of creating a context that supports innovation. There is the brand portfolio challenge of making sure that the innovation fits among current offerings. There is the strategic challenge of developing the right mix of innovations that ranges from incremental to transformational to ensure the company can maintain profits while also preparing for the future. There is the execution challenge; it is necessary to turn innovations into offerings in the marketplace. There are too many examples of firms that owned an innovation and let others bring it to market.

**Multiple businesses.** It is the rare firm now that does not operate multiple business units defined by channels and countries in addition to product categories and subcategories, countries, and product categories. Decentralization is a century-old organizational form that provides for accountability, a deep understanding of the product or service, being close to the customer, and fast response, all of which are good things. However, in its extreme form, autonomous business units can lead to the misallocation of resources, redundancies, a failure to capture cross-business potential synergies, and confused brands. A challenge, explored in Chapter 16, is to adapt the decentralization model so that it no longer inhibits strategy adaptation in dynamic markets.

**Creating sustainable competitive advantages (SCAs).** Creating strategic advantages that are truly sustainable in the context of dynamic markets and dispersed business units is challenging. Competitors all too quickly copy product and service improvements that are valued by customers. What leads to SCAs in dynamic markets? One possible cornerstone is the development of assets such as customer relationships, brands, and distribution channels, or competencies such as digital marketing skills or marketing analytics expertise. Another is leveraging organizational synergy created by multiple business units, which is much more difficult to copy than a single new product or service.

**Developing growth platforms.** Growth is imperative for the vitality and health of any organization. In a dynamic environment, stretching the organization in creative ways becomes an
essential element of seizing opportunities and adapting to changing circumstances. Growth can come from revitalizing core businesses to make them growth platforms as well as by creating new business platforms.

This book is concerned with helping managers identify, select, implement, and adapt market-driven business strategies that will enjoy a sustainable advantage in dynamic markets, as well as create synergy and set priorities among business units. The intent is to provide concepts, methods, procedures, and best practice case studies that will lead to competencies in these six crucial management tasks—and, ultimately, to high-quality strategic decision making and profitable growth.

The book emphasizes the customer because in a dynamic market, a customer orientation is critical to company success. The current, emerging, and latent motivations and unmet needs of customers need to influence strategies. Because of this, every strategy needs to have a value proposition that is meaningful and relevant to customers.

This chapter starts with a very basic but central concept, that of a business strategy. The goal is to lend structure and clarity to a term that is widely employed but seldom defined. It continues with an overview of the balance of the book, introducing and positioning many of the subjects, concepts, and tools to be covered. Finally, the role of marketing in business strategy is discussed. There is a significant trend for marketing to have a seat at the strategy table and to see the chief marketing officer (CMO) as empowered to create growth initiatives.

WHAT IS A BUSINESS STRATEGY?

Before discussing the process of developing sound business strategies, it is fair to address two questions. What is a business? What is a business strategy? Clarifying these concepts is a necessary start toward a winning, adaptable strategy.

A Business

A business is an organizational unit with a defined strategy and a manager with sales and profit responsibility. The organizational unit can be defined by a variety of dimensions, including product line, country, channels, or segments. An organization will thus have many business units that relate to each other horizontally and vertically.

There is an organizational and strategic trade-off in deciding how many businesses should be operated. On one hand, it can be compelling to have many units because then each business will be close to its market and potentially capable of developing an optimal strategy. Thus, a strategy for each country or each region or each major segment may have some benefits. Too many business units become inefficient, however, and result in programs that lack scale economies and fail to leverage the strategic skills of the best managers. As a result, there is pressure to aggregate businesses into larger entities.

Business units can be aggregated to create a critical mass, to recognize similarities in markets and strategies, and to gain synergies. Businesses that have similar market contexts and business strategies will be candidates for aggregation to leverage shared knowledge. Another aggregation motivation is to encourage synergies among business units when the combination is more likely to realize savings in cost or investment or create a superior value proposition.

There was a time when firms developed business strategies for decentralized business units defined by product, countries, or segments. These business strategies were then packaged or
aggregated to create a firm strategy. That time has passed. There also now needs to be a firm strategy that identifies macro trends and strategy responses to these trends as a firm, allocates resources among business units, and recognizes synergy potentials. So there needs to be a strategy for the Ford company and perhaps the SUV group as well as the Ford Explorer, a major SUV brand.

**The Business Strategy**

Four dimensions define an effective business strategy: the product-market investment strategy, the customer value proposition, the assets and competencies, and the functional strategies and programs. These four dimensions are depicted in Figure 1.1. To be effective, all four elements should be based on the idea of customer value. This foundation drives subsequent decisions about where and how to compete to win.

**The Foundation of Customer Value**

A critical foundation of any strategy is to ensure that the company’s actions offer value to customers. Without offering value, decisions about where and how to compete are unlikely to succeed. Unfortunately “value” may be one of the most overused and misused terms in business. Thus a “value” price is often wrongly used to mean a low price or a bundled price. Low-priced products can offer customers excellent value. However, equating customer value with low price obscures the more fundamental role value plays in how markets operate and how firms must compete.

Ultimately, *customer value* is about the difference between the benefits customers perceive they are getting from an offering minus the perceived cost of obtaining these benefits—adjusted

![Figure 1.1 A Business Strategy](image-url)
for the riskiness of the offering. Think about customer value using the following approach: Customer Value = [1 – Perceived Risk] × [Perceived Benefits – Perceived Costs]. The greater the perceived benefits and/or the lower the perceived total costs and/or risks of a product, the greater the customer value and the higher the likelihood the customer will choose that product. Each component will now be examined in detail.

Theodore Levitt, famously observed “People don’t want to buy a quarter-inch drill. They want a quarter-inch hole!” *Perceived benefits* are these outcomes that customers associate with a product, service, or relationship from a company. What people want from a copier are machine up-time, speed of through-put and print quality, but customers also make choices based on the quality and speed of customer service. What people want from a video game is fun, excitement, and escape.

Customers’ *perceived costs* also have many dimensions. Price paid is the most straightforward cost. However, examining the full range of costs customers incur in their search for, acquisition, and disposal of products represent total life-cycle costs. In the personal computer market, for example, the total life-cycle costs include acquisition costs (comprised of searching, ordering, price paid, processing, receiving, and installing costs), operating costs (notably energy consumption), psychological costs of learning a new system, and maintenance and disposal costs (including the cost of software upgrades, technical assistance, and repairs).

Customer choices are also swayed by differences in *perceived risks* between offerings and the companies that sell them. The degree of risk depends on the buyer’s uncertainty about the answers to questions such as, “Can I trust the supplier’s promises? Will the offering perform as expected? Will the vendor stay around to support the product in the future?” Small and new companies with unknown brand names, no recommendations, and limited track records are at a real disadvantage because perceived risks sharply offset the gains from any superior perceived benefits.

Leaders should be wary of these common strategy pitfalls in managing for customer value:

- First, attributes do not replace benefits. Attributes are the product or service features that the company offers to the customer—the quarter-inch drill. The benefit is what the customer gets—the quarter-inch hole—and any other needs that are met by the hole. Even though managers seem to endorse Levitt’s powerful insight, most proceed to ignore the message. Instead they segment their markets by product attributes (type of drill, power, price point, etc.) or customer demographics, rather than focusing on how they are meeting customer needs.

- Second, within markets, customers vary in their emphasis on certain costs and benefits. Some segments of video game customers want high-tech performance features in a game that make it more realistic or futuristic, such as Rise of Tomb Raider, Grand Theft Auto, or Metro: Last Light; other segments want to personalize characters and the experience such as in World of Warcraft and Minecraft. The nature of the costs depends on the customer segment and the particular offering. Not all customers will recognize these costs and incorporate them into their buying decisions. Furthermore, costs that are incurred far in the future may be discounted back to their present value (consciously or not) at such a high discount rate that they virtually vanish.

- Third, customer value is dynamic. At any point in time, customers have a preference and know what they value. However, as customers become more experienced and competitors shift priorities, customer value evolves.
The Product-Market Investment Strategy: Where to Compete

The scope of the business and the dynamics within that scope represent a very basic strategy dimension. Which sectors should receive investments in resources and management attention? Which should have resources withdrawn or withheld? Even for a small organization, the allocation decision is key to strategy.

The scope of a business is defined by the products it offers and chooses not to offer, by the markets it seeks to serve and not serve, by the competitors it chooses to compete with and to avoid, and by its level of vertical integration. Sometimes the most important business scope decision is what products or segments to avoid because such a decision, if followed by discipline, can conserve resources needed to compete successfully elsewhere. Peter Drucker, the management guru, challenged executives to specify—“What is our business and what should it be? What is not our business, and what should it not be?” Such a judgment can sometimes involve painful choices to divest or liquidate a business or avoid an apparently attractive opportunity. Chapter 15 discusses disinvestment judgments and why they are hard to make and easy to avoid.

Many organizations have demonstrated the advantages of having a well-defined business scope. Williams-Sonoma offers products for the home and kitchen. IBM turned around its firm under the direction of Lou Gerstner in part by dialing up its service component and more recently by expanding its software and data analytics footprint. P&G focuses on a broad spectrum of nonfood consumer goods with an emphasis on current or potential billion dollar brands such as Tide/Arial, Always/Whisper, Crest, Iams, Pampers, Charmin, Bounty, Pantene, Downy/Lenor, and Gillette. Walmart and Amazon have a wide scope that generates both scale economies and a one-stop shopping value proposition.

More important than the scope is the scope dynamics. What product markets will be entered or exited in the coming years? As Figure 1.2 suggests, growth can be generated by bringing existing products to new markets (market expansion), bringing new products to existing markets (product expansion), or entering new product markets (diversification).

Expanding or changing the product-market mix can help the organization achieve growth and vitality and can be a lever to cope with the changing marketplace by seizing opportunities as they emerge. During the first five years of the Jeff Immelt era, GE changed its focus and character by investing in healthcare, energy, water treatment, home mortgages, and entertainment (by buying Universal) while exiting markets for insurance, industrial diamonds, business outsourcing based in India, and a motor division. In addition, the percentage of revenue sources outside the United States grew from 40 percent to nearly 50 percent.

There are risks as the scope expansion ventures further from the core business—the firm’s offering may not be distinctive, problems in operations may arise, or the firm’s brands may be
inadequate to support the expansion. Despite similarities in manufacturing and distribution, Bausch & Lomb’s attempt to move from eye care to mouthwash was a product and brand failure. An effort by a manufacturing equipment company to go into robots failed when it could not create or acquire the needed technology. Attention and resources may also be diverted from the core business, causing it to weaken.

The investment pattern will determine the future direction of the firm. Although there are obvious variations and refinements, it is useful to conceptualize the investment alternatives for each product-market as follows:

- Invest to grow (or enter the product market)
- Invest only to maintain the existing position
- Milk the business by minimizing investment
- Recover as many of the assets as possible by liquidating or divesting the business

The Customer Value Proposition and Customer Value Leadership

The customer value proposition is a clear statement about what sources of distinctive value the business wants to offer the customer. To be successful, the target market selected must find the value relevant and meaningful. It must also be supported by all aspects of the company’s strategy. For example, if Jessica Alba’s Honest Company promises consumers “effective, unquestionably safe, and eco-friendly” body and home products, all ingredients must reflect this status—a point questioned in recent lawsuits brought against the company. To be credible, all other aspects of the company’s communication and interactions must also support this position, including where the product is sold, the transparency of the salespeople, and all online interactions. To support a successful strategy, the value proposition should be sustainable over time and be differentiated from competitors.

Home Depot and Lowe’s are home improvement retailers with very different value propositions. Home Depot has very austere, functional stores that are designed to appeal to contractors and homeowners on the basis of good price and basic functionality. Lowe’s strategy since 1994 has been to have a softer side, a look that would be comfortable to women. Thus, their stores are well lit, the signs colorful and clear, the floors spotless, and the people friendly and helpful. Years later, the Lowe’s strategy has traction, and Home Depot, with service problems caused by a cost reduction program, is attempting to adjust its own value proposition.

A value proposition is just table stakes for competing, however. The most effective strategies pave the way the firm to be a customer value leader, which means that it performs very well on one type of value and at least meets basic levels on other types. For example, while IKEA competes on price, its no-frills products measure up to basic standards of functionality and its store environments, while simple, are clean, well-lit, and organized. Customer value leaders make decisive choices about which customers they will target within a market and with what types of value.

Assets and Competencies

The strategic assets and competencies that underlie the strategy are the critical resources that produce sustainable competitive advantage (SCA) for a firm. According to resource-based theories of the firm, these resources produce competitive advantage because they can be converted into sources of value for customers; they are rare, not easily imitated; and good substitutes for the
resource do not exist, which keeps competitors from offering the same value; and the firm can leverage them to its advantage.\textsuperscript{1}

A strategic asset is a resource that the firm owns or controls that can be leveraged in the design or implementation of a firm’s strategy. Assets include general resources such as financial assets, human assets (leaders and employees), physical assets (plant and equipment), legal assets (patents and trademarks) as well as marketing assets in the form of strong brand reputations, customer relationships, and powerful knowledge of markets.

Competencies leverage these assets to perform activities important to the firm’s strategy. They do so through organizational processes, which act as recipes for actions. Without the right assets, these processes are not likely to have much impact. At the same time, the assets, whether they are smart employees, patents, or strong brands, will not help the company unless they are leveraged repeatedly through strong processes. These processes help companies outpace competitors and also make it difficult for them to easily imitate the firm’s strengths because it is hard to observe all of the complex activities involved in a competency. Therefore, companies must ensure that they have both the strong assets and processes for leveraging those resources for marketing excellence. If exercised well, these competencies can, over time, add to the strength of a company’s asset base by improving customer relationships and brands.

The ability of assets and competencies to support a strategy will in part depend on their strength relative to competitors. To what extent are the assets and competencies unique or rare in the marketplace? If unique now, how easily can they be imitated by competitors? Many assets require a long-time to develop and so competitors trying to build the strength of Amazon’s strong customer relationships may be hopelessly behind. Competencies are often difficult to imitate because competitors cannot easily understand the recipe that companies use to create such outstanding processes. This is why Southwest Airlines is known to offer tours of their offices and activities—they know that the special ingredient that makes their culture such a valuable asset can neither be understood nor imitated very easily.

Assets and competencies leveraged across multiple product markets offer additional synergies that can be a source of SCA. Synergies can come in many forms. Two businesses can reduce costs by sharing a distribution system, sales force, or logistics system, as when Gillette acquired Duracell (and later was itself acquired by P&G). Synergy can also be based on sharing the same asset, as with the HP brand shared by the dozens of business units or a competence such as Toyota’s ability to manage manufacturing plants across brands and countries. Another source of synergy is the sharing of functional area strategies across business units. For example, the Ford Motor Company may be able to sponsor the World Cup, which would benefit all brand across divisions. Another synergy source is the sharing of R&D. P&G aggregates brands such as Head & Shoulders, Aussie, Infusion, and Pantene into a hair care category not only to provide shelf space guidance to retailers and to create promotions more easily, but also to manage its innovation processes. Finally, a combination of products can provide a value proposition. Some software firms have aggregated products in order to provide a systems solution to customers; Microsoft Office is one example.

**Functional Strategies and Programs**

A company’s value proposition, assets, and competencies require the support of functional activities to succeed. Assets and competencies should mandate some strategy imperatives in the form of a supportive set of functional strategies or programs.
Functional strategies or programs that could drive the business strategy might include:

- Information technology strategy
- Distribution strategy
- Global strategy
- Quality program
- Sourcing strategy
- Logistical strategy
- Manufacturing strategy
- Analytics program

The need for certain functional strategies and programs can be determined by asking a few questions. What must happen for the firm to be able to deliver on the value proposition? Are the assets and competencies needed in place? Do they need to be created, strengthened, or supported? How?

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**PITFALLS IN STRATEGY DEVELOPMENT**

Richard Rumelt, noted strategy thinker, has identified some common pitfalls in developing a business strategy. First, a central problem or threat is ignored. The problem could be a quality issue or a receding marketplace. A competitor’s innovation or a customer trend could represent a threat. A strategy developed as if either did not exist will be doomed. Second, the strategy is a long to-do list with no sense of what is important. There needs to be a sense of priorities. Third, a set of goals is assumed to be a strategy. It is not. There can and should be goals, especially long-term goals that go beyond financial measures, but a strategy needs to address the four key dimensions in order to find a path to success. Finally, a strategy is a fluffy description of some desired state of affairs. We will become the industry leaders while increasing margins and addressing sustainability challenges. Rather, the strategies and accompanying action plans need to be specific.

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**Criteria to Select Business Strategies**

The principal criteria useful for selecting a strategy can be grouped around five general questions:

- **Is the ROI attractive?** Creating a value proposition that is appealing to customers may not be worthwhile if the investment or operating cost is excessive. Starbucks opened in Japan in 1996 in the Ginza district and grew to over 400 units, many of which were in the highest rent areas. The result was a trendy brand but one that was vulnerable to competitors, who matched or exceeded Starbucks’ product offerings and were not handicapped with such high overhead because they developed less costly sites.

- **Is there a sustainable competitive advantage?** Unless the business unit has or can develop a real competitive advantage that is sustainable over time in the face of competitor reaction, an attractive long-term return will be unlikely. To achieve a
sustainable competitive advantage, a strategy should exploit organizational assets and competencies and neutralize weaknesses.

- **Will the strategy have success in the future?** A strategy needs to be able to survive the dynamics of the market, with its emerging threats and opportunities. Either the strategy components should be expected to have a long life or the strategy should be capable of adapting to changing conditions. In that context, future scenarios (described in Chapter 5) might be used to test the robustness of the strategy with respect to future uncertainties.

- **Is the strategy feasible?** The strategy should be within both the financial and human resources of the organization. It also should be internally consistent with other organizational characteristics, such as the firm’s structure, systems, people, and culture. These organizational considerations are covered in Chapter 16.

- **Does the strategy fit with the other strategies of the firm?** Are the sources and uses of cash flow in balance? Is organizational flexibility reduced by an investment in financial or human resources? Is potential synergy captured by the strategy?

**EXPANDING THE BUSINESS SCOPE**

In his classic article “Marketing Myopia,” Theodore Levitt explained how firms that define their business myopically in product terms can stagnate even though the basic customer need they serve is enjoying healthy growth. Because of a myopic product focus, others gain the benefits of growth. In contrast, firms that regard themselves as being in the transportation rather than the railroad business, the energy instead of the petroleum business, or the communication rather than the telephone business are more likely to exploit opportunities.

The concept is simple. Define the business in terms of the basic customer need rather than the product. Visa has defined itself as being in the business of enabling customers to exchange value (any asset, including cash on deposit, the cash value of life insurance, or the equity in a home) for virtually anything anywhere in the world. As the business is redefined, both the set of competitors and the range of opportunities are often radically expanded. After redefining its business, Visa estimated that it had reached only 5 percent of its potential given the new definition.

Defining a business in terms of generic need can be extremely useful for fostering creativity, generating strategic options, and avoiding an internally oriented product focus.

**STRATEGIC MARKET MANAGEMENT**

Strategic market management is a process designed to help management create, change, or retain a business strategy and to create new strategies for the future. A marketing strategy is a subset of business strategy that involves the same four strategy components although the scope is restricted to marketing. It includes decisions and budgets related to product market activities, customer value proposition, marketing assets and competencies, and different functional areas within marketing.

**The Book Framework**

Figure 1.3 provides a structure for strategic market management and for this book. A brief overview of its principal elements and an introduction to the key concepts are presented in this chapter.
External Analysis

External analysis, summarized in Figure 1.3, involves an examination of the relevant elements external to an organization—customers, competitors, markets and submarkets, and the environment or context outside of the market. Customer analysis, the first step of external
analysis and a focus of Chapter 2, involves identifying the organization’s customer segments and each segment’s motivations and unmet needs. Competitor analysis, covered in Chapter 3, attempts to identify competitors (both current and potential) and describe their performance, image, strategy, and strengths and weaknesses. Market analysis, the subject of Chapter 4, aims to determine the attractiveness of the market and submarkets and to understand the dynamics of the market so that threats and opportunities can be detected and strategies adapted. Environmental analysis, the subject of Chapter 5, is the process of identifying and understanding emerging opportunities and threats created by forces in the context of the business.

The external analysis should be purposeful, focusing on key outputs: the identification of present and potential opportunities, threats, trends, strategic uncertainties, and strategic choices. There is a danger in being excessively descriptive. Because there is literally no limit to the scope of a descriptive study, the result can be a considerable expenditure of resources with little impact on strategy.

The frame of reference for an external analysis is typically a defined strategic business unit (SBU), but it is useful to conduct the analysis at several levels. External analyses of submarkets sometimes provide critical insights; for example, an external analysis of the mature beer industry might contain analyses of the import and nonalcoholic beer submarkets, which are growing and have important differences. It is also possible to conduct external analyses for groups of SBUs, such as divisions, that have characteristics in common. For instance, a food products company might consider analyses of the healthy-living segment and food trends that could span operating units within the firm.

**Internal Analysis**

Internal analysis, introduced in Chapter 5 (see also similar competitor criteria in Chapter 2), Appendix A, and as summarized in Figure 1.3, aims to provide a detailed understanding of strategically important aspects of the business. Performance analysis looks not only at financial performance, but also examines the company’s assets and competencies (including brand, customer relationships, and innovation), the company’s current image and position, culture as well as its past and current strategies. The identification and assessment of organizational strengths and weaknesses will guide strategic priorities, including both the development of new strategies and the adaptation of existing ones.

**Creating and Adapting Strategy**

After describing strategic analysis, the book turns to the creation and adaptation of strategy. How do you decide on the business scope? What are the alternative value propositions, and how do they guide strategy development? What assets and competencies will provide points of advantage, and which will aim for points of parity? What functional strategies and programs will lead to strategic success? What growth options will receive investment? Is the core business to be the source of growth, or is there a need to move beyond the core? What is to be the global strategy? How should the business units be prioritized? Should there be disinvestment in the business portfolio? How can the organization be adapted so that it supports rather than constrains strategy?

Chapter 6 provides an overview of the scope of strategic choices by describing the firm’s choice of value propositions as a means to customer value leadership and sustainable competitive advantage. Chapter 7 examines customer relationships with a focus on facilitating the decision
journey, creating value through strong experiences, and defending relationships over the long-
term. Chapter 8 shifts to a focus creating valuable customers by examining purchase funnel
management and customer lifetime value approaches. Chapter 9 shows how brand equity, a key
asset can be created and used. Chapter 10 discusses how to develop a strong brand relationship
with customers. The next four chapters discuss growth options: Chapter 11 covers energizing
the business, Chapter 12 leveraging the business, Chapter 13 creating new businesses, and
Chapter 14 global strategies. Chapter 15 discusses the disinvestment option, an important and
often overlooked dimension of the investment decision.

Implementing Strategy and Producing Firm Value
Chapter 16 examines the organizational reality of implementing strategy. It considers the idea
of customer-centricity—an approach that puts the customer at the forefront of all company
decisions—as a guiding approach to ensuring that the company is able to compete effectively in
the marketplace over time. Customer centricity requires a focus on five organizational elements—
culture, competencies, structure, metrics and incentives, and human capital. Finally, Chapter 17
considers more deeply how marketing creates value for firm, including the effect of customer
relationships and brands on both revenues and shareholder value. The arrow feeding back to the
firm (top box) denotes the financial performance effects and improvement of assets and
competencies that strengthen the company.

The Planning Cycle
Too often an annual planning exercise is perceived as strategy development when the output is not
strategy but an operating and resource budget that specifies financial targets, hiring plans, and
investment authorizations. Research at McKinsey involving a survey of over 700 executives suggests ways to make the strategy development process more effective. In particular, a strategy process should involve the following activities.

- **Start with the issues.** CEOs say that planning should focus on anticipating big challenges and spotting important trends. Strategy choice will be well served by identifying the key associated strategic issues. One CEO asks the business leaders in his firm to imagine how a set of specific trends will affect their business. Another creates a list of three to six priorities for each business to form a basis for discussion.

- **Bring together the right people.** In particular, it is not enough to have staff people involved but also the people who will implement the strategy, the decision makers. Also, in order to foster synergies and strategies that span product or country organizational silos, it is worthwhile to have relevant teams of businesses represented.

- **Adapt planning cycles to the businesses.** It is unrealistic to say that all businesses need to have planning exercises each year. Some may need it every other year or even every third year. Also, trends, events, or issues should trigger a strategy review even if it is not in the annual cycle.

- **Implement a strategy performance system.** Too many businesses fail to follow up on strategy development. As a result, it becomes a rather empty exercise. Major strategic initiatives should have measurable progress goals as well as end objectives. What will be the barrier to success? What needs to happen for the strategy to be on track?

**MARKETING AND ITS ROLE IN STRATEGY**

Marketing’s strategic role has grown over the years. The question for each organization is whether the chief marketing officer (CMO) and his or her team have a seat at the strategy table or are relegated to being tactical implementers of tasks such as managing the advertising program. The view that marketing is tactical is changing; it is now more and more frequently being accepted as being part of the strategic management of the organization. Given the definition of a business strategy and the structure of strategic market management, the roles that marketing can and should play become clearer.

One marketing role is to be the primary driver of the strategic analysis. The marketing group is in the best position to understand the customers, competitors, market and submarkets, and environmental forces and trends. By managing marketing research and market data, it controls much of the information needed in the external analysis. Marketing should also take the lead in the internal analysis with respect to selected assets (such as the brand portfolio and the distribution channel) and competencies (such as new product introduction and customer relationship management).

A second role is to focus attention on customer insight and customer value. By placing a premium on meeting customer needs over other organizational imperatives, marketing helps ensure company relevance over time.

A third role is to drive growth strategy for the firm. Growth options are either based on or dependent on customer and market insights, and marketing therefore should be a key driver. In fact, a study by Booz Allen and Hamilton of some 2,000 executives found that a small but growing number of firms (9 percent) describe the CMO as a growth champion involved in all strategic levers relating to growth.
Finally, marketing should play a leading role in building, managing, and defending strong customer and brand assets—called customer and brand equity. These assets deliver value back to the firm and are critical to firm strategy now and in the future.

Thus, marketing is a partner, usually a key partner, in the development and implementation of a business strategy. The conceptualization of a business and marketing strategy as having four dimensions helps illuminate the nature of that relationship. The firms that are able to achieve success over time are those that realize that marketing should have a strong voice in business strategy.

KEY LEARNINGS

- Strategy needs to be developed and executed in the context of a dynamic market. To cope, it is important to develop competencies in strategic analysis, innovation, managing multiple business, and developing SCAs and growth platforms.
- A business strategy includes the determination of the product-market investment strategy, the customer value proposition, assets and competencies, and the functional area strategy. A marketing strategy involves the allocation of the marketing budget over product markets, the customer value proposition by segment, the marketing assets and competencies, and the strategies of the functional areas of marketing.
- Strategic market management, a process designed to help management create, change, or retain a business strategy and to create new strategies for the future. It involves external analysis, internal analysis, creating and adapting strategy, and implementing strategy and producing firm value.
- Marketing plays a key role in a firm’s business strategy. It drives company strategic analysis; it focuses attention on customer insight and value; it drives company growth strategies; and it builds, manages, and defends company customer and brand assets. The CMO role has grown over the years and is now often charged with being a partner in developing strategies and a vehicle to deal with the dysfunctions of the product-market silos.

FOR DISCUSSION

1. What is a business strategy? Do you agree with the definition proposed? Illustrate your answer with examples. Consider one of the following firms. Go to the firm’s website and annual report to gain an understanding of its business strategy. Look at elements such as the products and services offered, the history of the firm, and its values. What is the business strategy? What are the firm’s product markets? What are its value propositions? What assets and competencies are important to this strategy? What outstanding functional programs and strategies exist?
   a. Dell
   b. Zappos
   c. Visa
   d. A firm of your choice
2. In question 1, identify any distinctive elements of each firm’s marketing strategy.

3. Considering the Gallo wine case, are there any current wine companies for whom this strategy would not have worked? Why?

4. Apply Theodore Levitt’s marketing-myopia concept to print media, magazines, and newspapers. What is the implication?

5. Which criteria to pick a strategy do you consider most important? Why? Name one company that failed because it did not follow your priority. What should it have done instead?