

Sixth Edition

Strategic Market Management



DAVID A. AAKER

STRATEGIC MARKET MANAGEMENT

6TH EDITION

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STRATEGIC MARKET MANAGEMENT

*There is a tide in the affairs of men,
Which, taken at the flood, leads on to fortune;
Omitted, all the voyage of their life
Is bound in shallows and in miseries.
On such a full sea are we now afloat,
And we must take the current when it serves,
Or lose our ventures.*

William Shakespeare, from *Julius Caesar*

The development, evaluation, and implementation of business strategies are essential to successful management. The key is a management system that will help managers

- Provide vision to their businesses.
- Monitor and understand a dynamic environment.
- Generate visionary and creative strategic options that will be responsive to changes facing a business.
- Develop strategies based on sustainable competitive advantages.

FOUR THRUSTS

This book has four key thrusts. The first is a structure and methodology for analyzing the external environment. Strategic planning that represents an automatic extension of what was done last year and that is dominated by financial objectives and spreadsheets will be inadequate and may even inhibit or prevent strategic change and innovation. Rather, strategy development should look outside the business to sense changes, trends, threats, and opportunities and then create strategies that are responsive. This book describes and illustrates a structured approach to external analysis that business managers should find helpful in generating strategic options. This approach is supported by a summary flow diagram, a set of agendas to help start the process, and a set of planning forms.

The second thrust is toward sustainable competitive advantages (SCAs). Having SCAs is crucial to long-term success. Without them a business will eventually be treading water if it survives at all. SCAs need to be based on organizational assets and competencies. Thus, this book presents methods and concepts that will help readers to select relevant assets and competencies and to develop strategies in branding, advertising, distribution, manufacturing, and finance to exploit them.

The third thrust involves the investment decision. The need is to select investment or disinvestment levels for existing product-market business areas and to chart growth directions. Among the alternative growth directions are market penetration, product expansion, market expansion, diversification, and vertical integration. By using a variety of concepts and methods, such as strategic uncertainties, portfolio models; and scenario analysis, this book will help managers identify and evaluate numerous strategic investment alternatives.

The fourth thrust is implementation. It is important to understand how an organization's structure, systems, people, and culture contribute to strategic success. In addition, how can an organization create dynamic strategies that are responsive to changing conditions? How can alliances be used to gain strategic advantage? What are the implementation issues when markets are hostile or declining or when competition is global in scope?

THE SIXTH EDITION

A popular feature of this book has been its compactness — the sixth edition retains that quality. Although about 30 percent of the book is new, the length and structure remain intact. There are new illustrative examples in most sections of the book, many from business-to-business, high-tech, or Internet-related arenas. Further there are a host of new or revised sections on such topics as the big idea, knowledge management, the customer as an active partner, creative thinking, distinguishing fad from trends, forecasting technologies, alliances, design as strategy, downstream business models, brand extensions, illusionary synergy, global leadership not global brands, global brand management, and the role of stories to represent culture and strategy. The role of the Internet in developing and supporting strategy appears throughout the book. Each chapter now ends with a Key Learnings section.

The most visible and important change is the addition of a new chapter — Strategic Positioning. This chapter provides a special perspective on strategy and its implementation. Strategic positioning, the face of a business strategy, can play a powerful role in crystallizing and clarifying strategy, driving strategic initiatives and guiding communication strategy both inside and outside the organization.

OBJECTIVES OF THE BOOK

This book has a number of objectives that influence its approach and style. The book attempts to

- Introduce a long-term perspective that may help a business avoid weaknesses or problems caused by the dominance of short-term goals or operational problems. The focus on assets and competencies and away from short-term financials provides one approach.
- Provide methods and structures to create entrepreneurial thrusts. In many organizations the key problem is how to support both efficiency and an entrepreneurial spirit.
- Emphasize a global perspective. Increasingly, effective strategies must consider — and be responsive to — international competitors and markets.
- Present a proactive approach to strategic market management in which, rather than merely detecting and reacting to change, a business anticipates or even creates it. In this approach, the strategy development process is driven by a dynamic analysis of the market and the environment. The inclusion of the term *market* into the phrase “strategic market management” emphasizes the external orientation and the proactive approach.
- Encourage on-line strategy development, which involves gathering information, analyzing the strategic context, precipitating strategic decisions, and developing strategic implementation plans outside the annual planning cycle.
- Draw on multiple disciplines. During the past decade many disciplines have made relevant and important contributions to strategic market management.

An effort has been made to draw on and integrate developments in marketing, economics, organizational behavior, finance, accounting, management science, and the field of strategy itself.

- Incorporate several important empirical research streams that have helped strategic market management become more professional and scientific.
- Introduce concepts, models, and methods that are or have promise of being useful to the strategy development process. Among the concepts covered are strategic groups; exit, entry, and mobility barriers; industry structure; segmentation; unmet needs; positioning; strategic problems; strategic uncertainties; strengths; weaknesses; strategic assets and competencies; brand equity; flexibility; sustainable competitive advantage; synergy; preemptive strategies; strategic alliances; key success factors; corporate culture; organizational structure; the virtual corporation; strategic types; strategic vision; strategic opportunism; strategic intent; and global strategies. The models and methods covered include researching lead customers, scenario analysis, impact analysis, total quality control, reengineering, the competitor strength grid, technological forecasting, the experience curve, value chain analysis, portfolio models, customer-based competitor identification, and shareholder value analysis.

AN OVERVIEW

This book is divided into four parts. The first part structures the book by introducing concepts, methods, and strategy alternatives and by providing an overview of strategic market management based on a comprehensive flow model. The second part, drawing heavily from marketing and economics, covers strategic analysis. Strategic analysis involves both external analysis (the analysis of the customer, competitors, market, and environment) and internal analysis (which includes performance analysis, the analysis of strategically important organizational characteristics, and portfolio analysis). The third part discusses and illustrates the SCA concept, differentiation strategies, strategies based on low cost, focus, or a preemptive move, strategic positioning, alternative growth strategies, global competition, and competition in hostile and declining industries. The final part contains a chapter on how organizational components interact with strategy, and an appendix that includes a set of sample planning forms.

THE AUDIENCE

This book is suitable for any management or business school course that focuses on the management of strategies. It is especially appropriate for

- Marketing strategy courses, such as strategic market management, strategic market planning, strategic marketing, or marketing strategy.
- Policy or entrepreneurship courses, such as strategic management, strategic planning, business policy, entrepreneurship, or policy administration.

The book is also designed to be used by managers who need to develop strategies — especially those who have recently moved into a general management position or who run a small business and want to improve their strategy development and planning processes. Another intended audience consists of those general managers, top executives, and planning specialists who would like an overview of recent issues and methods in strategic market management.

A WORD TO INSTRUCTORS

The sixth edition contains an extensive teacher's resource guide. The resource guide has four course outlines, a list of cases to consider, test questions (now expanded), and three cases — the beer industry, Xerox, and Intel. This edition also includes a section describing instructor resources, a PowerPoint presentation by chapter, a book specific website (www.wiley.com/college/aaker), and a set of lecture suggestions by chapter.

ACKNOWLEDGMENTS

This book could not have been created without help from my friends and colleagues. This edition benefited from the helpful comments of many students who attended my course in strategic market management and the work of some able research assistants: Satoshi Akutsu, Nicholas Lurie, Heather Honea, and Andrew Schwarz and several insightful MBA students: Amy Luna Capelle, Iris M. Cardenas, Robert B. Spears, Kevin Stonelake, Leslie Trigg, Pablo Valencia, Kevin A. Yen, and T. Jason Young. Among the people who read large portions of earlier editions were Norm Smothers, Gregory Gundlach, Robert Headen, Chauncey Burke, Tom Gilpatrick, Frank Acito, George Jackson, Sid Dudley, R. Vishwanathan, Andrew Forman, Patricia Hopkins, Bruce McNab, John B. Lord, Yama Yelkur, Gene Lacznia, Don Leemon, Baruch Lev, Ray Miles, Steve Penman, Charles O'Reilly, and David Teece. I owe a large debt to all of these people.

I owe a special debt to five people who helped with this edition. Leah Porter of Nestlé again updated the pet food example which provides the basis for the planning forms in the appendix. Carol Chapman, a great editor and friend, contributed the final 10 percent. Edmond Wong took over the luxury car example in Chapter 4. Jose Rizo-Patron did research to support this edition and made a significant contribution. Finally, my friend, colleague, and strategy teacher extraordinaire, Jim Prost, made numerous suggestions about the book and has created a world-class teacher's manual.

I am pleased to be associated with our publisher John Wiley, a class organization, and its superb editors — Rich Esposito (who helped give birth to the first edition), John Woods, Tim Kent, Ellen Ford, and Jeff Marshall who guided this edition. It is a pleasure to be supported by competent professionals.

This book is dedicated to my mother Ida, who lived a life full of energy and love.

David A. Aaker
January, 2001

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PART ONE

INTRODUCTION AND OVERVIEW

Business Strategy:

The Concept and Trends in Its Management

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

Where absolute superiority is not attainable, you must produce a relative one at the decisive point by making skillful use of what you have.

Karl von Clausewitz, On War, 1832

In the 1930s, Sears and Montgomery Ward were approximately equal in sales, profits, capability, and potential. Two decades later, Sears was roughly three times bigger than a stagnant Wards. One reason that Wards failed to keep pace can be traced to the belief of its chairman, Sewell Avery, that depressions inevitably follow wars. Based on that belief, he failed to open a single new store from 1941 to 1957. Another reason was that in 1946, recognizing the automobile's growing role in shopping, Sears decided to begin an aggressive and costly move into suburban shopping centers. But both stores had trouble adjusting their strategy to compete with the discounters from below and the specialty stores from above. Wards ultimately went out of business whereas Sears has survived largely based on its ability to leverage strong assets such as the Craftsman and Kenmore brands.

The success of Wal-Mart has been in part due to its highly efficient distribution system based on assets and competences that others have not been able to duplicate. Developing and then improving those assets and competences have been success drivers at Wal-Mart. In contrast, when retail chains experience disappointing performance it is usually caused by a failure to create the assets and competences needed. For example, Macy's has faltered in their effort to enter the e-commerce arena because they failed to develop the operational competences needed to provide competitive customer experience and because they failed to link the e-commerce operation to their stores.

Clearly, the fortunes of Sears and Wards, as well as of Wal-Mart, Macy's and other players, depended in large measure on their ability to analyze their competitive context, make sound strategic choices, and support those choices with needed strategic initiatives. The fact is that nearly every organization is affected by strategic decisions or, sometimes, nondecisions.

This book is concerned with helping managers identify, select, and implement strategies. The intent is to provide decision makers with concepts, methods, and procedures by which they can improve the quality of their strategic decision making.

This and the following chapter have several functions. First, they identify the approach toward strategy and its management that is taken in this book. Second, they introduce and position most of the concepts and methods that are covered in the book. Third, they position and structure the other parts and chapters. Fourth, they provide a general overview and summary. Thus, the reader can productively reread these two chapters as a way to review.

This chapter begins by defining the concept of a business strategy. It then describes five strategic thrusts, discusses the key concept of a strategic business unit, provides a historical perspective to strategy, and, finally, presents some characteristics, trends, and rationales of strategic market management.

WHAT IS A BUSINESS STRATEGY?

Before discussing the process of developing sound business strategies, it is fair to ask what a business strategy is in the first place. A business strategy, sometimes termed competitive strategy or simply strategy, is here defined by six elements or dimensions. The first four apply to any business, even if it exists by itself. The remaining two are introduced when the business exists in an organization with other business units. A business strategy specification includes a determination of

1. ***The product market in which the business is to compete.*** 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.
2. ***The level of investment.*** Although there are obvious variations and refinements, it is useful to conceptualize the alternatives as
 - 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.