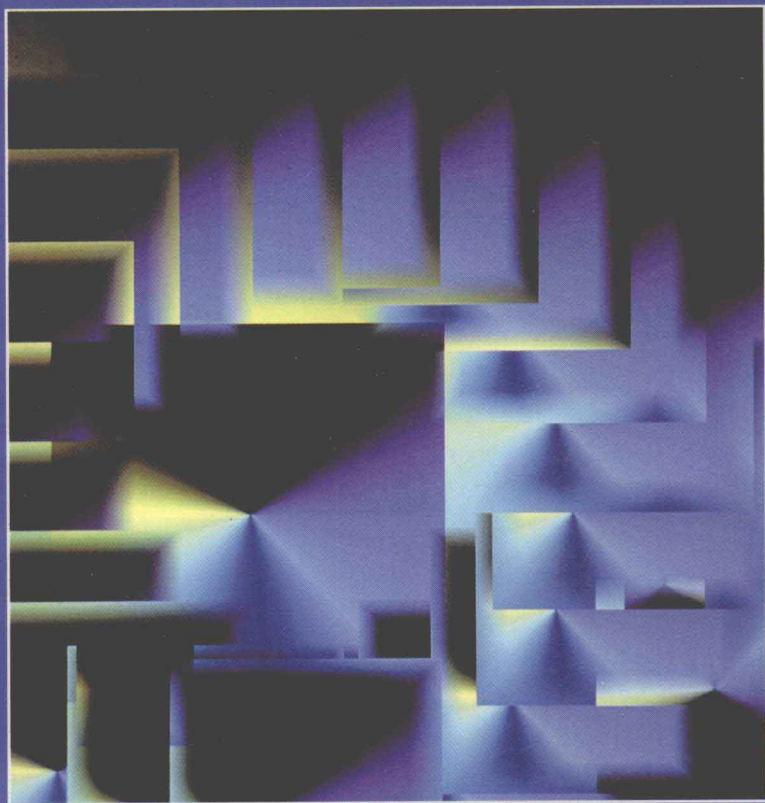


STRATEGIC MARKET MANAGEMENT

FOURTH EDITION



DAVID A. AAKER

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University of California, Berkeley



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PREFACE

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 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 skills. Thus, this book presents methods and concepts that will help readers to select relevant assets and skills 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 questions, portfolio models, and scenario analysis, this book will help managers identify and evaluate numerous strategic investment alternatives.

A 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 mature or declining or when competition is global in scope?

THE FOURTH EDITION

A popular feature of this book has been that it was compact—the fourth edition retains that quality. Although about 25 percent of the book is new, the length and structure remain intact. There are new illustrative examples in most sections of the book and new graphics in the figures. There are also new sections on economic value analysis, total quality management, the virtual corporation, competitor image and personality, exchanging assets and skills, competing in hostile markets, the borderless organization, and reengineering. A new format for the competitor strength grid has been designed. Material has been added on quality function deployment, brand extension strategies, strategic questions, strategic vision and opportunism, strategic alliances, the distinction between pioneering and preemptive strategies, and the pitfalls of planning without soul.

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 upon assets and skills 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—both 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 upon 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 questions; strengths; weaknesses; strategic skills and assets; mission; brand equity; flexibility; sustainable competitive advantage; synergy; preemptive strategies; strategic alliances; key success factors; usage gap; corporate culture; organizational structure; the virtual corporation; strategic types; 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, technologi-

cal forecasting, the experience curve, value chain analysis, portfolio models, customer-based competitor identification, and shareholder value analysis.

AN OVERVIEW

The book is divided into five 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 external analysis, which includes analysis of the customer, competitors, market, and environment.

The third part considers internal analysis, including performance analysis, the analysis of strategically important organizational characteristics, and portfolio analysis. The fourth part discusses and illustrates the SCA concept, differentiation strategies, strategies based upon low cost, focus, or a preemptive move, alternative growth strategies, global competition, and competition in mature and declining industries. The final part contains a chapter on how organizational components interact with strategy, a chapter on developing a formal planning system, 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.

ACKNOWLEDGMENTS

This book could not have been created without help from my friends and colleagues. This fourth edition benefited from the helpful comments of many students who attended my course in strategic market management, the work of some able research assistants—Steve Markey, Beth Ulman, Vincent Weller, Scott Poland, Bob Herbst, and Kirsten Mundschau—and an excellent editor, Carol Chapman.

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I am pleased to be associated with Wiley, a “class” organization, and three superb editors—Rich Esposito and John Woods, who guided the book through the first three editions, and Tim Kent, the capable current editor who is a pleasure to know and work with. I am also grateful for the patient guidance provided by Edward Winkleman, the senior production editor for this edition. It is reassuring to be supported by competent professionals.

This book is dedicated to the women in my life, my mother, Ida, my wife, Kay, and my children, Jennifer, Jan, and Jolyn. They all have contributed understanding, support and, sometimes, patience.

David A. Aaker
May 1994

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PART ONE

INTRODUCTION AND OVERVIEW

1

BUSINESS STRATEGY: The Concept and Trends in Its Management

Plans are nothing, planning is everything.

Dwight D. Eisenhower

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

Karl von Clausewitz, On War, 1832

In the period from 1962 to 1972, the W. T. Grant Company nearly doubled its size in square footage and increased its profits from \$9 million to \$37 million. Four years later, the company went into bankruptcy and its assets were liquidated. 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 Ward. In 1991, Wal-Mart, an upstart that began as a discounter to small towns in the rural South, surpassed Sears and Kmart to become the largest U.S. retailer. Clearly, some strategy choices caused these outcomes. Although these examples are dramatic, 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 will be 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.

The 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