STRATEGIC MARKET DECISIONS

A READER

Edited by

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STRATEGIC MARKET DECISIONS: A Reader

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PREFACE

Organizations are increasingly recognizing the importance of and placing greater emphasis on the role of strategy in achieving overall corporate as well as specific marketing goals. This increased attention is supported in part by the turbulent environments in which companies must operate and acceptance of the principle that a fundamental competitive advantage can be attained for those companies who develop, internalize, and follow a course of strategic management. In support of this significant development, we have assembled an eclectic collection of readings that are intended to appeal to both students and practitioners of marketing strategy.

Our core target audiences for this reader are students and teachers in both graduate and undergraduate courses in marketing strategy and marketing management. Additional audiences include students and teachers in other graduate marketing courses, students and teachers in executive development courses, and practitioners interested in reading more about strategy and its implications for marketing.

The articles in this reader bring together concepts and applications in the areas of (1) strategic planning, (2) strategic management, and (3) strategic markets. The strategic planning articles are focused on the nature and use of the strategic planning process rather than the view of strategic planning as a corporate staff function. Strategic management implies a fundamental approach that organizations should develop in setting broad organizational guidelines for the establishment of future strategy. The strategic market articles examine both conceptual and application viewpoints on matching market opportunities with organizational strengths.

The reader is divided into five major sections: (1) strategic market perspectives, (2) the role of strategy, (3) the strategic planning process, (4) strategic market planning, and (5) strategic market applications.

In selecting the thirty-two articles for this reader, our first criterion was to choose articles that were of primary interest to marketing managers rather than to staff or functional specialists. The second criterion was to select articles over a wide range of marketing areas—industrial, retailing, services, and international. The third criterion was to provide a practical perspective by selecting many articles dealing with real marketing strategies. Strategic options by such companies as Texas Instruments, Kellogg, Sears, United Airlines, Sun Oil, and Union Pacific are examined. The fourth criterion was to select articles that conceptually explained both the areas of strategic planning and strategic management. A greater number of articles that focused on these areas were included in the reader. The fifth criterion was to combine both classical articles with recent articles in the strategy area which show how organizations are applying these strategies.

The final selection of the articles included in this reader was the responsibility of the editors. Many articles were considered, and some deserving of inclusion were omitted because of space limitations. We are grateful to our many associates who offered suggestions concerning material for our consideration. Our intent was to provide a representative sampling of the better articles pertaining to our subject.

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I

STRATEGIC MARKET PERSPECTIVES

The three articles provided in the opening section are intended to provide the reader with a definitional framework for understanding the focus of "strategic market decisions." Thoughtfully read, these articles show the distinction among and relationship of such concepts as market strategy, corporate strategy, market planning, strategic planning, and the marketing process.

After reading this section, readers should have a better understanding of the following:

- The meaning of various terms related to marketing, planning, and strategy.
- The state of the art of marketing strategy.
- The relationship of market opportunities to strategic planning.
- The role of marketing in corporate strategy.
- Specific applications of product and/or market approaches.
- The evolution from the "marketing plan" to the "strategic market plan."

The Foundations of Marketing Strategy

Harper W. Boyd, Jr.
Jean-Claude Larréché

In recent years it has become increasingly commonplace—even fashionable—for both marketing academicians and practitioners to use such military terms as "strategy," "tactics," and "logistics." Though these terms have conveyed the need to think of management as a dynamic undertaking, they are used with less precision than might be desired. The word "strategy" in particular has been used in a variety of ways over the years by marketing people.

In an early paper, Oxenfeldt introduced the concept of market strategy to emphasize the need to define appropriate market targets before determining the composition of the marketing mix.[1] Along this line of thought, marketing strategy also has been viewed as a process which generally consists of analyzing market opportunities, specifying objectives, developing plans, and monitoring performance. The most common usage of the word "strategy" in marketing, however, has been in connection with the various elements contained in the marketing mix; e.g., product strategy, price strategy, communications strategy, and distribution strategy.[2] The term "marketing strategy" also has been associated with the selection of any key options in a marketing situation.[3] More recently, it has been used in conjunction with market share objectives and product/market choices.[4]

The purpose of this article is to assess the state of the art of marketing strategy and to investigate bases for future research in this field. Marketing strategy first is positioned in relation to corporate strategy and to lower-level strategies within the marketing function. The concept of the product-market domain as an investment unit in marketing strategy then is discussed, and alternative approaches to product-market portfolio analysis are reviewed. Finally, potential future developments in marketing strategy are explored.

ROLE OF MARKETING IN THE FORMULATION AND EXECUTION OF CORPORATE STRATEGY

Though the statement that there are ". . . probably more kinds of strategy and more definitions of it than there are varieties and definitions of economics or politics"[5] seems particularly applicable to marketing strategy, it is also applicable to corporate strategy. Definitions of corporate strategy, however, have tended in recent years to be more complementary than contradictory. Thus, most writers on this subject agree that a firm's strategy is essentially an adaptive search process which is concerned

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with how a firm deploys its resources over time in response to changes in its environments. Thus, ". . . strategy has to do principally with things external to the company rather than internal to it. It is generally because of the external environment and its ever-changing nature that we are so concerned with strategy formulation."[6]

Ultimately, the firm's strategy is expressed in terms of a set of resource allocation rules which pertain to the relationships between the organization and its environment.[7] These relationships find meaning and specificity in the firm's product-market entries which individually serve as allocation (investment) units. Thus, corporate strategy can be defined in terms of the firm's portfolio of product-market entries. Viewed in this light, corporate strategy clearly provides a way for management to better answer the questions, "What business(es) are we in?" and "What business(es) should we be in?"

Corporate strategy derives from a process—typically referred to as strategic planning—which is essentially anticipatory in nature. It consists of:[8]

- Specifying present goals with respect to each of the firm's present product-market entries.
- Assessing environmental change as it relates to each entry.
- Deciding whether what is anticipated is important enough to warrant changing present entry allocations.

The end goal of this planning system is a future "best-yield" (as determined by some return-on-investment measure) portfolio composed of the firm's product-market entries *given* management's perceptions of the risks associated with alternative investment schedules and the short-term tradeoffs required to satisfy one or more stakeholder groups such as stockholders, labor, consumers, government, and so on. For the ongoing firm, strategy is associated with a *change* (addition and/or deletion) in its product-market entries *and/or* a shift in the importance of an entry. The latter frequently is stated in terms of a change in its market position, i.e., its market share.

Corporate strategy, by definition, constrains all administrative and operational decisions throughout the organization. It serves to integrate the activities of such critical management areas as marketing, finance, and production. Because of the size and complexity of these areas, it is not surprising that each, in turn, seeks to develop its own strategy hierarchy which constrains the actions within its group. Each of these functional area strategies is an extension of corporate strategy and when aggregated they provide substance and meaning to the firm's overall strategy. Each strategy statement in the hierarchy stresses those critical elements which must be emphasized to achieve the firm's overall strategic objective, which is defined as a future best-yield portfolio of product-market entries.

Marketing Strategy

A review of the marketing literature reveals that the word "strategy" has been used in a variety of ways. Its most common usage has been in connection with the *individual* elements contained in the "marketing mix," e.g., product strategy, price strategy, channel strategy, and promotion strategy. Some writers have chosen to define it as the marketing mix itself, given a certain set of market conditions including competitive product positioning and distribution opportunities. In more recent years the literature has indicated use of product-market relationships as the basis for classifying alternative marketing strategies.

It seems clear that a hierarchy of strategies can be defined within the marketing function. Solely for the purpose of this discussion, three levels of strategies are suggested.

1. *Marketing Strategies.* This is the generalized statement which applies to the

marketing mix across a set of product-market entries. As such, it is company-specific and stresses the interrelation of those elements related to the product, its price, the distribution system, and the communication function. Thus, it emphasizes the commonality of the various entries with respect to marketing action.[9]

An example is the marketing strategy pursued by Cosmetically Yours. Its products were copied from prestige cosmetic firms which had already launched the items successfully through specialty outlets. The firm sold a complete line of products through discount stores using a pilfer-proof package with high visual content to the "young at heart." Price was considerably below that of the prestige brands and communication was entirely through point-of-purchase.[10]

2. *Marketing Element Strategies.* By definition this type and level of strategy is concerned with a specific element and is considerably narrower in scope than a marketing strategy. Within the marketing mix it seeks to generalize across entries and lend substance and meaning to the overall marketing strategy. Thus, there are product strategies such as innovating versus following, price strategies such as skimming versus penetration, channels strategies based on intensity of distribution and channel type, and such alternative promotion strategies as push versus pull.

3. *Product-Market Entry Strategies.* This kind of strategy statement sets forth guidelines pertaining to the management of a specific product-market relationship. It determines what marketing action should be taken as well as the extent of such action and may be said to be essentially goal-oriented. It precedes the formulation of higher-level marketing strategies which summarize and constrain the types of marketing actions which the firm will employ for the individual product-market entry as well as across entries. The more recent marketing management literature has tended to emphasize this particular type of strategy. Given that corporate strategy focuses on product-market relationships, it is not surprising that some writers have used these units as the basis for discussing (classifying) these kinds of strategy. Cravens et al., for example, do so in terms of marketing strategy positions, i.e., those relating to new ventures, growth, market development, market retention, and "balancing."[11] Closely akin to this scheme is a more simplistic one which is concerned with market share objectives (grow, hold, or harvest).[12] Kotler takes a somewhat different tack through his discussion of "analyzing opportunities" which, in turn, classifies different growth possibilities.[13]

Clearly these three levels are hierarchial and interdependent. Each contributes to and, in turn, is constrained by the others. Sequentially, the product-market entry strategies precede the other two types. The three strategy levels can be viewed as part of the firm's allocation rules serving to link marketing to the corporate strategic plan.

To develop a product-market relationship strategy, it is necessary to develop an understanding and definition of products and their related markets because these combinations represent the firm's basic investment units. Then an analysis of the relationship between the product and its markets is required. The recommendations on what these relationships should be over time constitute the very essence of corporate strategy. Marketing obviously has considerable responsibility for advising corporate management about these desired relationships, including the costs associated with each. The reliability of these "strategy" recommendations is critical.

PRODUCT–MARKET RELATIONSHIPS

Any attempt to examine product-market relationship strategies must include a definition of a product, a market, and a relationship. In this section these three subjects are explored on an interrelated basis. The term "product-market domain" is used to represent the entries on which marketing strategy and, ultimately, corporate strategy are based.[14] They are, in essence, the firm's *basic investment units* because the firm's income streams derive from the coupling of specific products with specific markets. The yield of the investment made in each is largely a function of the fit between the product and the needs and wants of the target market(s), the size and growth of this market, and the firm's relative competitive market position. Clearly, how these domains are defined and analyzed is critical, not only because of the obvious organizational implications, but because of the potential synergistic effects of an investment made in one domain on the outcome of another. These effects derive not only from costs but also from interactions between buyers in different domains with regard to one or more products sold by the firm.

The Product Hierarchy

At the minimum a product hierarchy must distinguish clearly between different levels of aggregation.[15] At the "top" is the product class which includes all those objects which are close substitutes for the same needs despite differences in shape, size, and technical characteristics. Examples include all automobiles, television sets, refrigerators, margarines, and so on.

Under certain conditions, it can be argued that there is a higher level of aggregation—i.e., one which takes into account the cross-elasticities between product classes which serve basically the same needs. An example would be a combination of such product classes as butter, margarine, and mayonnaise into one superclass called "spreads." Clearly, the interdependency between product classes is an important consideration in strategizing long-term investments in any one class.

A somewhat different higher level of aggregation could emerge from the need to take into account the joint costs between product classes manufactured by the same firm, i.e., to determine the firm's overall cost position in relation to competition as well as the relative magnitude of funds available for product and market development. An example would be the aggregation by a firm of various major home appliances (e.g., refrigerators, dryers, washers, and dishwashers) into a single superclass.

Product type is the next level of aggregation. It is a subset of a product class wherein the items differ in size, shape, price, and even form. There may be substantial differences in the production technology used between types. Examples include fresh, frozen, and canned vegetables; electronic, jeweled, and pin-levered watches; and paperback and hard-cover books.

The lowest level in the product hierarchy is the brand, which often is in the form of several stock-keeping units. For food and personal care items these usually consist of different package sizes. For appliances they are items of different colors. For cars the stock-keeping units may be defined in terms of colors and accessories. In some product classes there may be a level between the stock-keeping unit and the product type which could be termed a subtype. An example would be different automobile models (e.g., sports, station wagon, and four-door sedan) within a type of car such as compact, subcompact, and standard.

There is nothing sacrosanct about the levels of aggregation that a firm should use in defining its product hierarchy or in the terminology used to describe each level. The main considerations are that (1) the more homogeneous the "level," the better the firm can relate its investments to meaningful potential income streams over time, and (2) the level of aggregation selected should provide important insights into the interdependencies among the various levels. The latter point is especially important in providing knowledge about comparative cost position.

Market Hierarchies

The lack of an explicit definition of the market hierarchy to which a given product is linked may hide elements of strategic importance to the firm. The hierarchy is built by using market segments, the most important of which is concerned with how the product is perceived by various groups of potential buyers who have different choice criteria by which they evaluate alternative offerings. These segments are defined largely on the basis of the similarity of choice criteria as well as the ratings accorded alternative brands. They are typically referred to as product segments.[16]

Such a segment approach is the first step in structuring the hierarchy because it links the product to definable groups whose preferences about product class and type attributes are known. Such knowledge points up opportunities for new products as well as product modifications. Further, it provides important guidelines for certain marketing activities such as promotion and pricing. Finally, it is the basis on which brand or product share is determined.

Once the firm's product segments are set a series of operational segments should be defined. For consumer goods it is necessary first to identify members of the target product segments not only in terms of whether they are heavy or light buyers, but also as to their demographic characteristics and media habits. Then follows the definition of other operational segments which would include, for goods, retail accounts within retail type by geography. If wholesalers were used, such a channel type would be fitted into the hierarchy.

Despite considerable similarity between the hierarchies of segments for consumer and industrial goods firms, the latter type of companies tend to define the buyers of their products and/or services in account terms. One could well argue, however, that there is a more basic segment level by which to cope with the several "buying influentials" within the accounts who have different attitudes toward the product, and who therefore need to be serviced differently.[17]

The more homogeneous the choice criteria of the product segments and the more distinct the segments are, the better the firm can relate its marketing investments to meaningful potential income streams. Though homogeneity typically is defined in terms of response to marketing actions, it should be considered here in connection with such strategic issues as market growth, competitive structures, and servicing costs. Given a brand or product, each operating segment should constitute an investment unit. This investment unit allows the firm to allocate resources among units to influence competitive position and market shares. It should be clear that the market share for a given product derives from the action taken by the firm with respect to each operating segment. The analysis of operating segments in an hierarchical fashion will help in identifying interdependencies with regard to both demand (e.g., image transfers or reinforcement) and the use of common marketing resources (e.g., different levels of distribution channels). Finally, the segment hierarchy is an important integrating scheme because different organizational units within the marketing department serve different segments (e.g., advertising is concerned primarily with groups of household buyers whereas sales is preoccupied with channel segments).

Product-Market Relationships

The relationships can be evaluated best in terms of market share, which serves as a powerful summary measure of the firm's competitive position in a given marketplace. This fact is particularly evident when market share is described in terms of the present value of future profits. The inherent problem with "long-run profit maximization" as the primary economic