

**E16 - Business**

**Islamabad College of Accounts & Finance**

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## Strategy

“A pattern or plan that integrates an Organization’s major goals policies & action sequences into a coherent whole”

(Quim)

Mintzberg distinguish b/w a strategy as

5 P’s:-

- ❖ Plan: Forward looking / Purposive deliberate
- ❖ Ploy: Plan Designed to deceive/confuse
- ❖ Pattern: Consistencies of behavior whether intended or not
- ❖ Position: In the market; relative to the Competition
- ❖ Perspective: Values attitudes Cultures of Managers

## Dimensions of Strategy

Process	Content	Content
<ul style="list-style-type: none"> <li>- Analysis</li> <li>- Choice</li> <li>- Implementation</li> </ul>	<ul style="list-style-type: none"> <li>- Environment in which the Organization exists &amp; cope with</li> <li>- PESTEL</li> <li>- 5 forces</li> <li>- Life Cycle Model</li> <li>- KsFs / CsFs model</li> <li>- Competition Analysis</li> </ul>	<ul style="list-style-type: none"> <li>-What strategic decisions should be made by the organization</li> <li>-Missions</li> <li>-Objectives</li> <li>-Stakeholders</li> <li>-where to compete?</li> <li>-how to compete?</li> <li>-Means &amp; methods</li> </ul> <p>Content is about the decision the organization makes with its context</p>
All 3 interact with one another		

## Strategy Process

Central to Strategy is positioning

3 Processes of Strategy are:

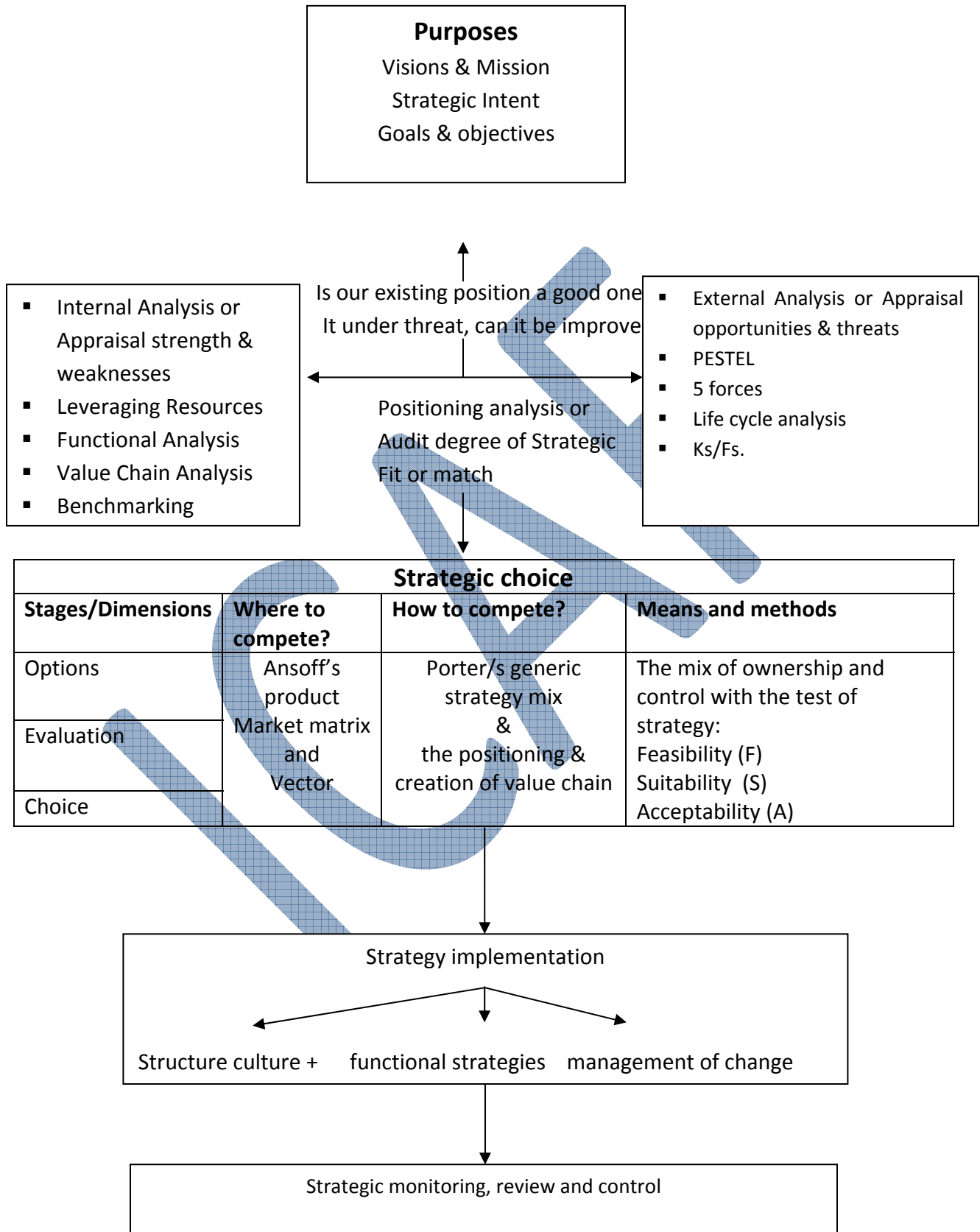
- Analysis
- Choice
- Implementation

In the Real world all the stages are not sequential and are not easily distinguished from one another.

Three types of strategic management methods:-

1. Rational/Structured Approach or model
2. Incrementalism
3. Emergent Strategy

**Rational / Traditional or the Structured Approach to Strategy:-**



**Strategic Analysis:-**

- Mission, Objectives, Power – Purpose  
 Opportunity and threats – environment  
 Strength and weakness, -- resources & Capabilities

For a strong sense of mission there has to be a fit between:-

**Purpose:** Why the Business Exists

**Values** : What Business Believes In

**Behavior:** Standards Policies and Actions

**Strategy:** Competitive Positioning.

**The Other Models:-****EMERGENT STRATEGY:-**

Mintzberg believed and describes the rational planning approach as a top down approach.

He believes it to be unrealistic and too systematic for it to be real and thus presented the idea that strategies evolve over time (emerge).

e.g., Honda's entry into the USA.

Freewheeling opportunities is an example of it where there is little apparent coherence or forethought in the strategy.

**HIGH RISK APPROACH** - Suite to smaller, entrepreneurial type of business.

**INCREMENTALISM:-**

Small scale adjustments to current policies and strategy as this are a less risky approach.

A very logical concept which falls in between **emergent and rational approach**

As we do not have or possibly cannot evaluate all possible options, therefore we create a loose tight structure with amendments and additions with the changes in environment.

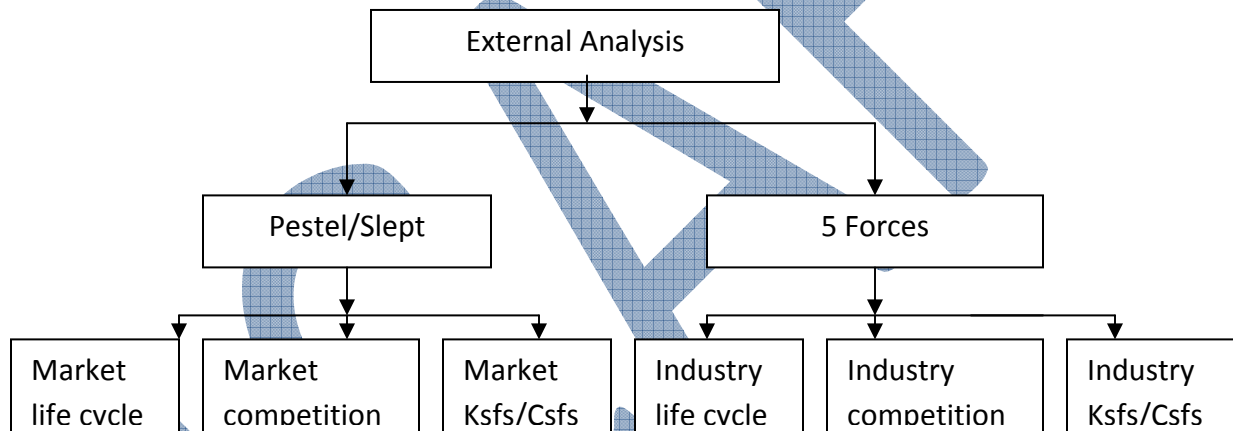
Also termed as **Repositioning**

Describe by Lindblom as “Small scale extensions to past practices.”

All the models described have their respective pro’s and con’s (advantages and disadvantages)

**Note:-**

From exam point of view you should be able to distinguish, describe and explain all three with examples.



**PESTEL Corporate Strategy:-**

**P - Political:** ideology, stability, policies etc.

**E - Economical:** → Economy (market: macro) Size, Growth, Inflation, Unemployment, Entrants,  
→ Industry Competitors, monetary and fiscal policies.

**S: Social:** Demographics, Family patterns, culture and values etc

**T: Technological:** Sophistication, substitute product

**E: Environmental:** Ecological environment and the damages to it.

**L: Legal:** Statute, legal environment and fit its applicability.

**5 Forces: - (for business strategy) (Industry Attractiveness Framework)**

Porter terms it as competitive strategy:

- All about how to deal with competition in an industry
- Assesses the industry attractiveness
- Identifies key success factors (Ksfs)
- Identifies the position of the business in the industry
- Forecast how the position/industry is likely to change

**1. Threats of New Entrants:**

Critical factors:-

- Industry attractiveness (profitability growth etc)
- Barriers to entry (capital, technology, legal, etc)

**2. Threats of Substitutes:-**

- Arising from outside the industry but perform the same function and increase competition.

**Power of Supplier and Customers:-**

The more they have power the less attractive the industry.

**Dependable on:**

- Relative size of the firms to that of the industry
- Relative importance of the industry

- Availability and price performance of substitutes
- Switching costs

### **Industry competitors: - (extent of competitive rivalry)**

- No. of competitors.
- Relative market share.
- Strategies persuade.
- Growth of industry and stages in life cycle.
- Fixed to variable cost ratio which on impacts on pricing.

### **Competitor analysis:**

Hamel and Prahalad use the success of Japanese businesses to understand competition assumptions, actions, intentions, and capabilities.

Western firms misread strategic intent and underestimate their resourcefulness and thus lost their positions within industries.

### **Identify the current strategy**

No crises- continuity of strategy overtime.

### **Identify strategic intent**

Their objectives and priorities

### **Identify their assumptions**

How do they see themselves?

### **Analyze their capabilities**

No just their resources but their resourcefulness in using limited resources.

### **Internal analysis:**

- Understanding the resources and skills of the business and how are they being used.
- Simplest framework is the functional analysis.
- The need for “benchmarking” measuring business performance, making systematic comparison.



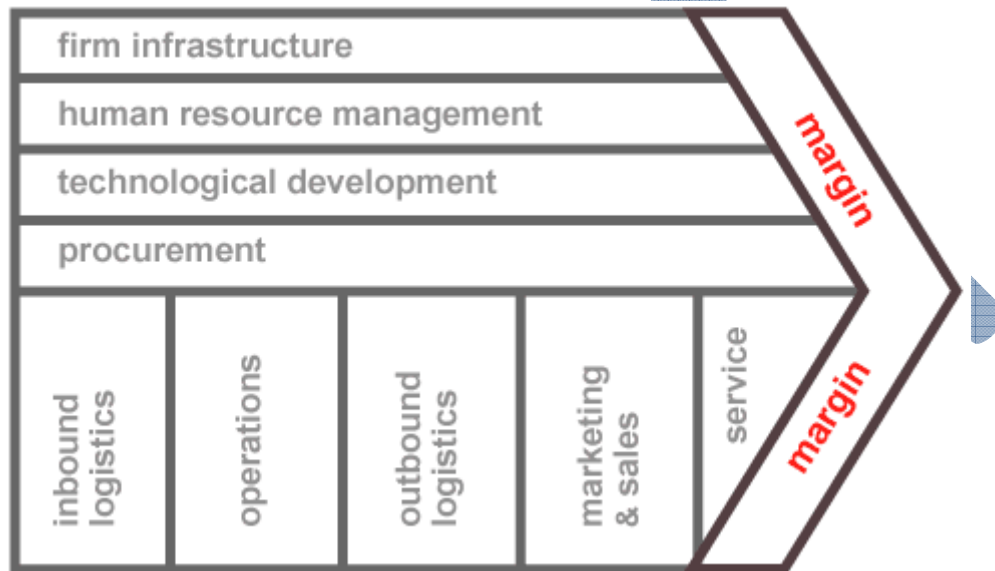
## Functional Analysis

- R & D & Engineering
- Marketing and sales
- HRM

Operational  
Financial  
IT


## Value Chain Analysis

Value is defined in terms of what customers are prepared to pay for the products and services.



**Aim:** create value greater than the cost of doing so.

## SWOT Analysis:

<b>Internal to the Coy</b>  <b>EXIST INDEPENDENTLY OF</b>  <b>THE COMPANY</b>	<b>M</b> <b>A</b> <b>T</b> <b>C</b> <b>H</b>	<b>Strength</b>  CONVERSION  	<b>Weakness</b>
	<b>I</b> <b>N</b> <b>G</b>	<b>Opportunities</b>	<b>Threats</b>

### Purposes:

- Assess the capability of the organization to reach its chosen objectives.
- To highlight critical strategic issues facing the firm.
- Identify the firm's competitive advantage.
- As part of review and control process, assess the current strategies and highlight the need for remedial action.
- Strength shows the leverage (method of applying resources) of the company.
- Weakness shows the Company's vulnerability.

### Benchmarking:-

Meeting the industry standards and norms but not valuable as a source of innovation Steps of benchmarking:-

- What are we going to benchmark?
- Who are we going to benchmark against?
- How will we get the information?
- How will we analyse the information?
- How will we use the information?

## Types of benchmarking:-

**Internal benchmarking:** as in the case of Xerox.

**Functional benchmarking:** internal function compared with the best external practitioners of those functions.

**Competitive:** information gathered about direct competition.

**Strategic benchmarking:** type of competitive benchmarking aimed at strategic action and organizational change.

## Stakeholders:

Identification of stakeholder expectations and power for the management to priorities them and deal with them appropriately.

### **2 Step Process:-**

1. How interested they are to impress their expectations on the organizations choice of strategies.
2. To what extent they have power to impose their wants.

## Mendelow proposed a matrix to help analyze them:

LEVEL OF INTEREST

Low

High

Low  Power  High	Box A <ul style="list-style-type: none"> <li>• Minimal effort</li> <li>• Direction</li> </ul>	Box B <ul style="list-style-type: none"> <li>• Keep informed</li> <li>• Educate/communicate</li> </ul>
	Box C <ul style="list-style-type: none"> <li>• Keep satisfied intervention</li> </ul>	Box D <ul style="list-style-type: none"> <li>• Key-players</li> <li>• participation</li> </ul>

Alternative model provided by Scholes in 1998 of direction, educate/communicate, intervention and participation.

**Organizational culture:**

- Set of values, guiding beliefs, understanding and ways of thinking, shared by its members.
- Unwritten feeling part of the organization.
- Like that of Ben and Jerry.

Miles and snow identifies 4 types of strategic culture affecting firms’ attitude to their business and markets.

<p><b>(a) Defenders:</b></p> <ul style="list-style-type: none"> <li>• narrow product market domains</li> <li>• little innovational concern</li> <li>• formalized decision making</li> <li>• preference for tired and tested means</li> </ul>	<p><b>(b) Prospectors:</b></p> <ul style="list-style-type: none"> <li>• Continual search for market opportunities</li> <li>• Create change and uncertainty</li> <li>• Decentralize and results valued.</li> </ul>
<p><b>(c) Analyzers:</b></p> <ul style="list-style-type: none"> <li>• Followers in the market</li> <li>• Balance risk and profit</li> <li>• Use core product to fund innovative product</li> </ul>	<p><b>(d) Reactors:</b></p> <ul style="list-style-type: none"> <li>• Muddle through</li> <li>• No strategic orientation</li> </ul>

**Culture is influenced by:-**

- The organization founder.
- The organization’s history: The way it works and how they have been doing work.
- Leadership and management style
- Structure and systems affect culture and strategy.

**STRATEGIC CHOICE:**

**Ansoff’s product market matrix:**

	<b>Existing product</b>	<b>New product</b>
<b>Existing market</b>	Market consolidation or penetration	Product development
<b>New Market</b>	Market development	Complete diversification

**Market Penetration:**

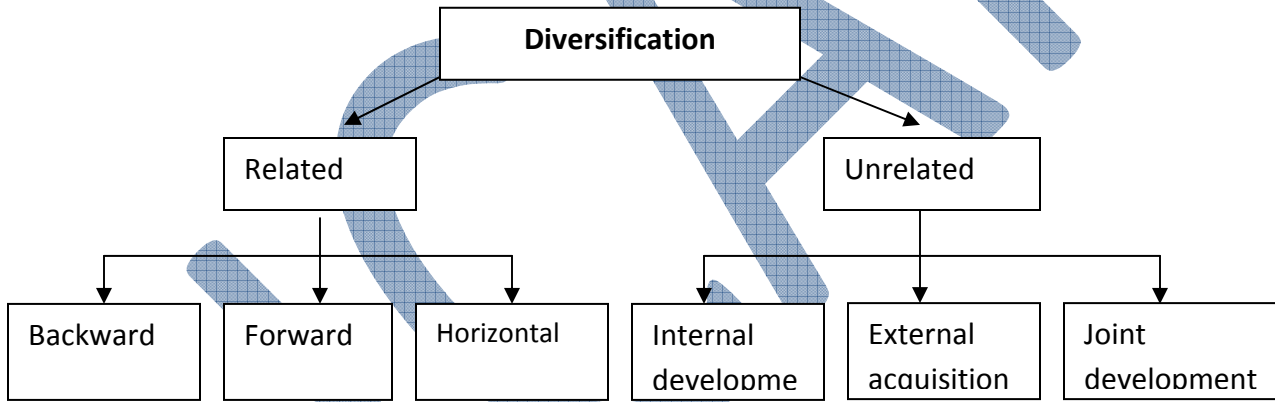
- Increase market share
- Improved quality productivity
- Increased marketing activity.

**Market Development:**

- Tried and tested products to new markets.
- Security present products plus extra revenue from new market areas.

**Product Development:**

- Alternative to the present product
- Builds upon present knowledge and skills.  
e.g., mars ice-cream



**How to complete:**

**Porter’s generic strategies:**

2 sources of competitive advantages

	Cost Based	Differentiation
Broad	Overall cost leadership	Differentiation
Narrow	Cost focus	Differentiation focus

**Broadly:** across the whole industry.

**Narrowly:** focusing on part of the industry or market.(NICHE)

### Characteristics of both (distinctive features):

Cost based	Differentiation
<ul style="list-style-type: none"> <li>• High relative market share</li> <li>• Economies of scale</li> <li>• Efficient plant operation</li> <li>• Standardization</li> <li>• Low cost location</li> <li>• Low cost suppliers</li> <li>• Price sensitive customers</li> </ul>	<ul style="list-style-type: none"> <li>• High level of services</li> <li>• Innovation</li> <li>• Brand image</li> <li>• Flexibility</li> <li>• Prestige location</li> <li>• Low cost supplies</li> <li>• Customers prepared to pay more</li> </ul>

### Means and Methods

Mix of ownership and control.

#### Organic growth:

- Relatively slow
- Not feasible with diversification based strategy.
- As there is little base to grow from.
- May have legal issues.
- Avoids most of the problems of acquisition and JV's.

#### Acquisition:

Divided into:

- Horizontal integration
- Vertical integration
- Other forms of related diversification
- Unrelated diversification
- As you moved down the list the risks increase management familiarities declines and potential for synergy declines.

**Joint Ventures:**

Often 2 competitors create a jointly owned subsidiary to exploit:-

- A particular technology
- Or market.

Advantage is of reduced costs and risks through sharing but possible that one partner may benefit more than others.

**Franchising:**

- Low cost growth option.
- Selling of right by franchisers to the franchisee to use the brand name.
- Franchisee provides investment in the franchise and also manages it.

**Licensing:**

- Similar to the franchising arrangement except for, that it provides a technology rather than a brand name.
- Both licensing and franchising are long term contracts.

**Outsourcing:**

- Externalizing value chain activities to specialist providers.
- Allows business to concentrate on core activities.
- But there is a lost of control, synergy and profit margins.

**Tests of strategy:****Johnson and Schools****Feasibility**

- Skills & resources required by the organization.
- Simply have we got what it takes

**Suitability:**

- Appropriate use of resources and skills.

- Something feasible does not make it suitable.
- Simply is this a good use of resources.

### **Acceptability:**

- Interest, power and support of the stakeholders
- Will our stakeholders go along with the strategy?

### **Strategy implementation:-**

- Danger of the top down strategy is that implementation seen as a lower level issue.
- Problems attributed to implementation failure rather than the strategy itself.

### **Reasons for implementation difficulties are:**

- Strategy formulated may not have been realistic
- Opposition from powerful shareholders
- Lack of top management backing
- Failure of top management to align functional with business strategies.
- Failure to adjust to unforeseen circumstances.
- Failure to resource the strategy adequately.
- Failure to modify the structure and culture.
- Failure to monitor and review implementation.

### **Possible solution:**

- Implementation should form part of formulation of strategy.
- Such separations inhibit learning and flexibility.

### **This implies:**

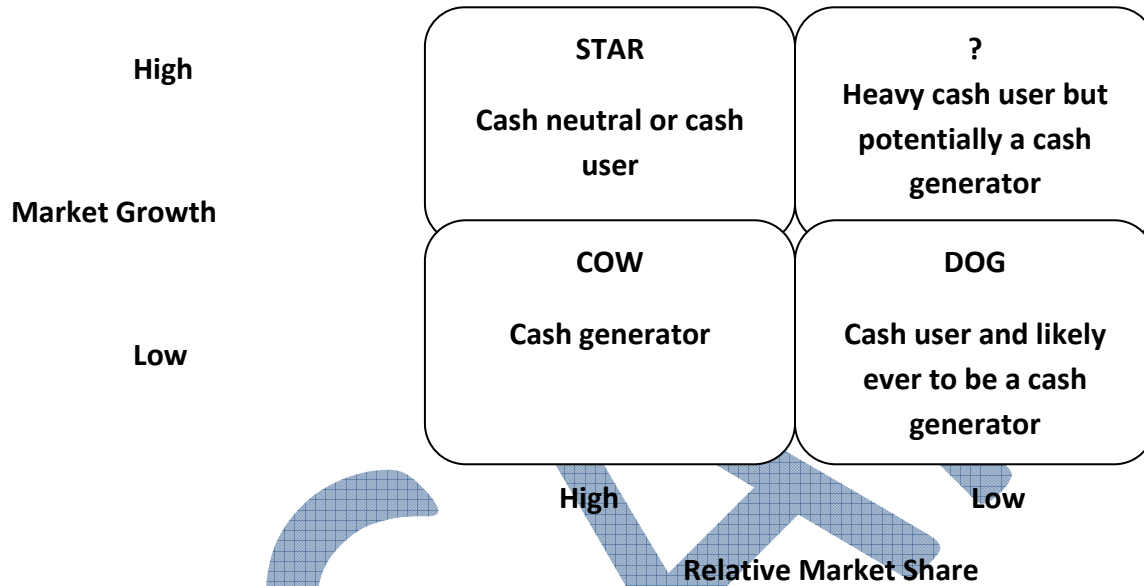
- Assessing and considering the implementation aspects at the choice stage – the “feasibility” test.
- Involving those at lower level.
- Involving those who formulated the strategy.



# The BCG Matrix

## Assumptions:

- ❖ The company holds a portfolio of SBU's
- ❖ Some generate and some use cash
- ❖ Profitability is connected to relative market share
- ❖ Market follows a pattern of growth, maturity and decline



## Strategies for them:

<b>Dog:</b> <ul style="list-style-type: none"> <li>❖ Divest-if any one buys it</li> <li>❖ Harvest short term profits</li> <li>❖ close</li> </ul>	<b>Question Mark:</b> <ul style="list-style-type: none"> <li>❖ Potential generator of cash</li> <li>❖ Either invest to build market share or Divest</li> </ul>
<b>Star:</b> <ul style="list-style-type: none"> <li>❖ Cash neutral or user</li> <li>❖ Because of the costs of maintaining high market share in a high growth market</li> </ul>	<b>Cow: (cash generator)</b> <ul style="list-style-type: none"> <li>❖ Milk</li> <li>❖ But protect market share</li> </ul>

## Ethics and Social Responsibility

Ethical Problems facing managers

- Maximization of shareholders wealth and generation of profits affects the way business is carried out.
- **Distinctions:-**
  - ◇ **Extortion:-** Threats to close companies if payment not made
  - ◇ **Bribery:-** (Bakhshish) Payments for services company is not entitled to
  - ◇ **Grease Money:-** Cash payments to receive legally entitled services
  - ◇ **Gifts:-** Ethically dubious

**Social Responsibilities:**

**Towards**

- Employees
- Society
- Environment
- Customers and Suppliers

**Externalities:-**

- ❖ A Company's ecological damage may effect some one else's health
- ❖ This gives rise to external cost
- ❖ Generally paid out of general taxation
- ❖ Advocates social responsibility says that these costs should be paid by the countries themselves.

### CORPORATE GOVERNANCE

- "Systems by which the companies are directed and controlled"

#### Cadbury Report

- Corporate governance Responsibilities

Directors: Responsible for running the country

Shareholders: linked to directors via financed Reporting Systems

Auditors: Provide shareholder with a check on directors abilities

Other Concerned Users: Particularly employees

➤ Green bury Report:-

- Principles for determining Directors pay and detailing disclosure in Annual Report
- Remuneration committee to be formed to determine directors pay

➤ Hampel Report:-

- Accounts should contain a statement of how the companies applies the corporate governance principles
- Accounts should explain their policies
- 

### Combined Code

LSE issued the combined code derived from Cadbury, Green bury and Hampel Reports.

#### **Provisions of the Combined Code:**

- ❖ **The Board:** meet regularly, clear division of responsibility between the CEO and chairman
  - **NED's** to make up half the board
  - **Director** to have election
- ❖ **The AGM:** Separate Resolutions on each Separate issues
- ❖ **Accountability and Audit:** Going Concern and directors to explain their responsibilities
- ❖ **Remuneration:** Remuneration committee(NED,s) to set directors pay
- ❖ **Internal Control:** Directors to review the effectiveness of internal control systems at least annually.
- ❖ **Audit Committee:** Board to have an audit committee

❖ **Auditors Responsibilities:-**

**Statement of Responsibilities:** Auditors to have a statement of Responsibilities

## Human Resource Management

A process of evaluating an organizations HR needs, finding people to fill those needs, getting the best work and productivity from each employee by providing the right incentives and job environment.

Overall Aim: Achieve organization’s goals

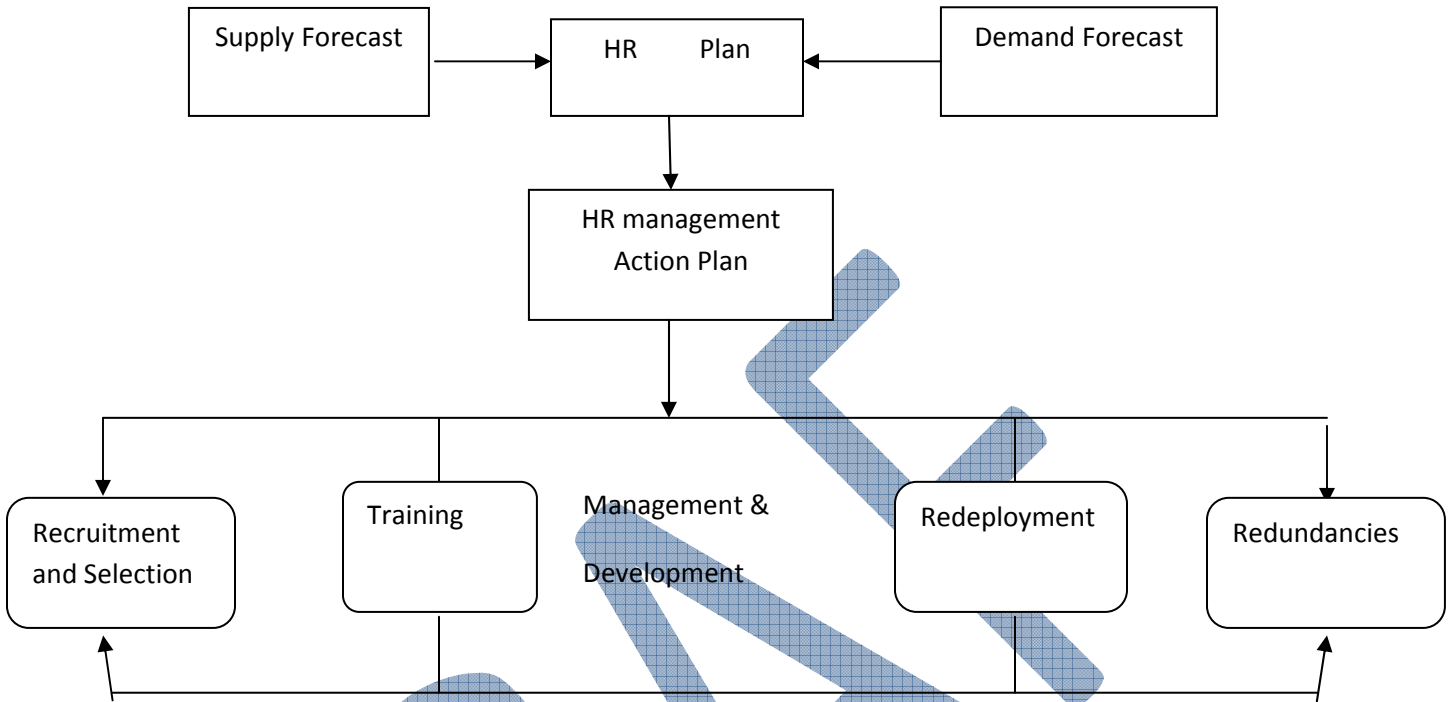
### Importance of HR

- To increase Productivity
- To enhance group leasing via multi skilled team
- To reduce staff turnover
- To encourage initiative

### The Process HR Planning:

<p><b>1. Strategic Analysis</b></p> <ul style="list-style-type: none"> <li>➤ Of environment</li> <li>➤ Organization manpower,</li> <li>➤ strength and weaknesses,</li> <li>➤ opportunities and threats</li> <li>➤ Organization’s use of employee’s</li> <li>➤ Organization’s objectives</li> </ul>	<p><b>2. Forecasting</b></p> <ul style="list-style-type: none"> <li>• Of Internal Demand and Supply</li> <li>• External Supply</li> <li>• Constraints</li> </ul>
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## Stages in HR Planning



### **Reconciliation of supply and demand**

Recruitment is concerned with finding applications going out in the labor market

- Selection (Filtering Process): Procedures to choose a successful candidate from those available by recruitment effort
  - ❖ Application forms
  - ❖ Interviews
  - ❖ Testing of Candidates
  - ❖ Bio data
  - ❖ Assessment Centers
  - ❖ References
  - ❖ Negotiation

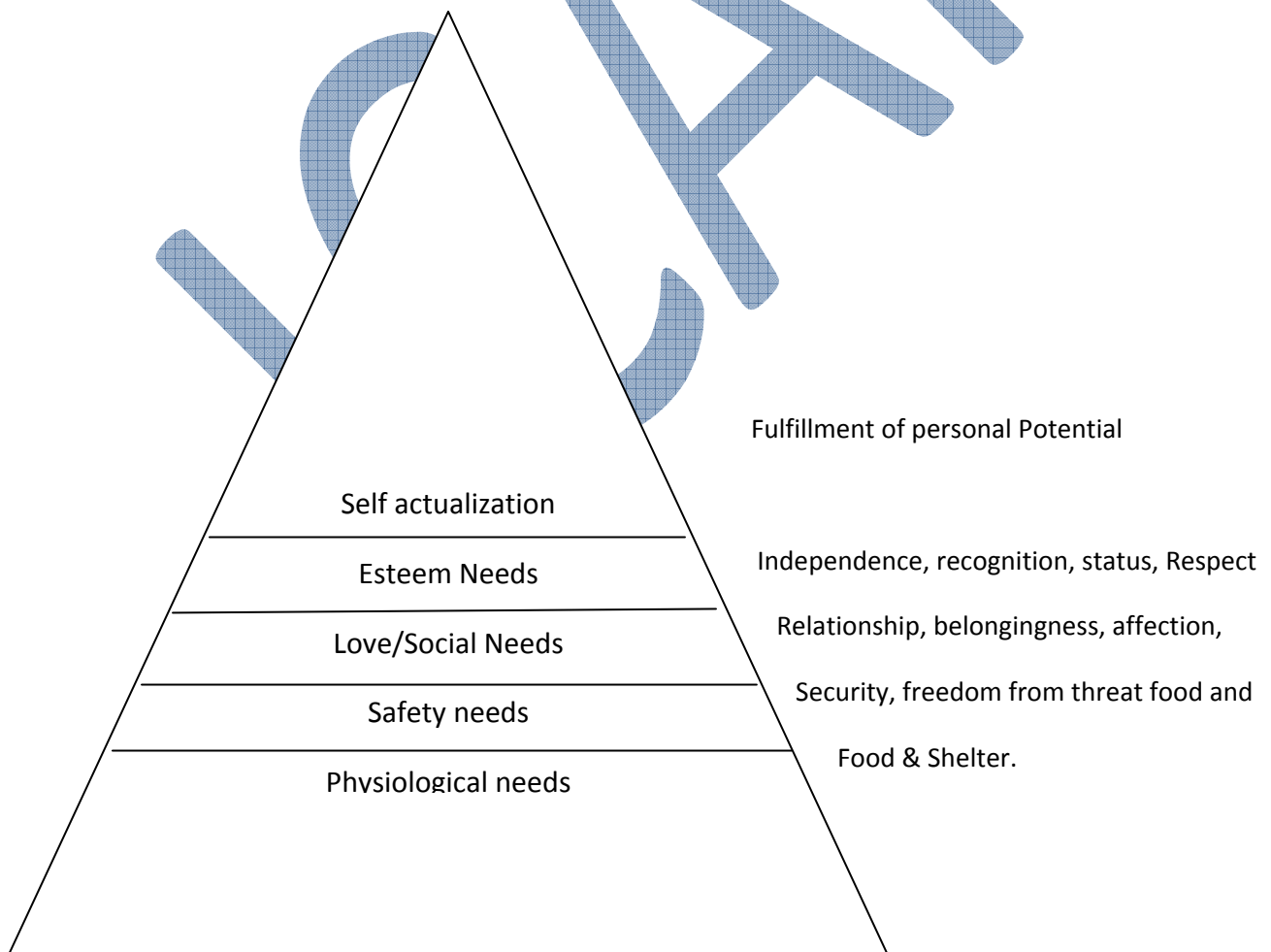
**Inductions:**

- ❖ Training sessions for new candidates
- ❖ once recruited and selected then motivation and performance follows:-
- ❖ Theory X & Y by Douglas McGregor

Theory X	Theory Y
People dislike work so they must be coerced, controlled and directed.	Expenditure of physical and mental effect is as natural as play and rest.  People should be understood and managers to act democratically.

**Motivation Theory:**

Maslow’s Hierarchy of needs



## Mc Clelland's three needs of Individuals

**Affiliation:** People need a sense of belonging, membership of a group.

**Power:** Those who seek power seek a Leadership position to influence and control.

**Achievement:** People have a strong desire to success and fear of failure.

Money can be a motivator and a reason for job satisfaction.

### Incentive Schemes:

Types:-

- ❖ Performance related Pay
- ❖ Bonus Schemes (ESOP's)
- ❖ Profit Sharing

All are to do with goal congruence and achievement of organization's objectives.

### Working Arrangements

Attitudes and Values

- Multi-skilling gives rise to learning and may create interest
- Flexibility: - Able to respond and adapt quickly to customer demands.
- Empowerment: Giving employees the freedom to take responsibility

### **Flexible Working Arrangement**

- Working from home.
- Compressed week: 40 hours worked in lesser no. of days.

- Job Sharing
- Part time/reduced hours

### Development:

“Growth or realization of person’s abilities and potential through the provisions of learning and educational experiences”

### Training:

Planned and systematic modification of behavior through learning events, programs and instructions

### Development Activities

- ❖ Training, both on and off the job
- ❖ Career planning
- ❖ Job Rotation
- ❖ Other learning opportunities

### Formal Training

- ❖ Internal courses run by the organization’s training department
- ❖ External Courses (either on or off site)

### Method Used on Courses

- ❖ Lectures
- ❖ Discussions
- ❖ Exercises
- ❖ Role plays (Acting out practically in a role)
- ❖ Case Studies



## Evaluating Training

- ❖ Comparing the actual costs of the scheme with the benefits obtained

### Methods Used are:

- ❖ Trainee's Reaction to experience
- ❖ Change in Job behavior following Learning
- ❖ Organizational change as a result of training
- ❖ Impact of training on the achievement of organizational goals.

**Appraisal is the systematic review and assessment of an employee's performance, potential and training needs.**

### Appraisals can be:

- **Upward appraisal** :-employee's rate their superiors
- **Customer appraisal** :-feedback from customers
- **360 Appraisal**:-collecting feedback from all sources.

Manager, peers and coworkers, customers etc

Management is firstly educated, and then trained skills wise and the process are continually repeated to achieve development.

Successful companies have kind of leadership required to influence people to strive willingly and actively for group objectives.

Management is about coping with complexity whereas leadership is about coping with change.

Management is exercised over resources, activities and projects.

Leadership is exercised over people and aims to secure willingness, enthusiasm and commitment.

## Leadership Style:

**Transactional Leaders:** See the relationship with their followers in terms of trade.

**Transformational Leaders:** See their role as inspiring and motivating others.

### Leadership Skills:-

- ❖ **Idealized Influence:** identified with charisma, putting the needs of others before personal interest.
- ❖ **Inspirational Motivation:** Articulation of the challenge and arouses , team spirit
- ❖ **Intellectual Stimulation:**
  - **Leader encourages free thinking**
  - **Rational problem solving**

**Management Styles (identified by Ashridge management college):-**

### Styles:

**Tells** (Autocratic)

**Sells** (Persuasive) convincing

**Consults** (managers confer with Subordinates)

**Joins:** Democratic, decisions made on the basis of consensus.

## Groups

A collection of people who perceives themselves to be a group

The group normally has:

- ❖ A sense of identity
- ❖ Loyalty to the group
- ❖ Purpose and leadership

Sometimes there can be conflicts with groups.

These conflicts can be constructive (enhancing innovation, devising solutions and encourage creativity) but can also be destructive (distracting attention, polarize views, encouraging defensive or spoiling behavior)

## Responses to Conflicts:

- ❖ Denial
- ❖ Supervision/ accommodation
- ❖ Dominance
- ❖ Compromise: bargaining and negotiating

Discipline is a way to promote order and good behavior, enforcing acceptable standards of conduct.

## Discipliner Actions:

- Written, Specific
- Non discriminatory
- Stating the level of management involved
- hearing out the employee
- No employee dismissed for the first breach
- Requires management to investigate fully
- Allow employees to appeal

## Strategies for Critical Periods

At times organizations go into Decline and contract:-

### Causes:

- Environmental Entropy (Organizations environment may no longer be supportive).
- Vulnerability
  - » Organizations may fail to prosper within its environment.
  - » Not pursue the right strategy or the right business.
- Organizational Atrophy (Too bureaucratic manager complacent, and unable to adapt.

### Two Types of Decline

- **Product Revitalization:** Temporary and Genuine recession in consumer demand
- **Endgame:** Substantially Lower demand permanently

### Possible Causes of Decline

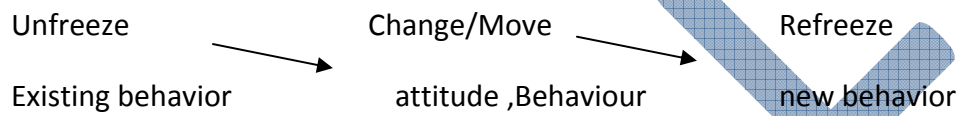
- ❖ Poor management
- ❖ Poor financial controls
- ❖ High cost structure
- ❖ Poor marketing
- ❖ Competitive weakness
- ❖ Big Projects/acquisitions go bad and high premiums paid(therefore shortage of cash)

**Strategy Adopted were:**

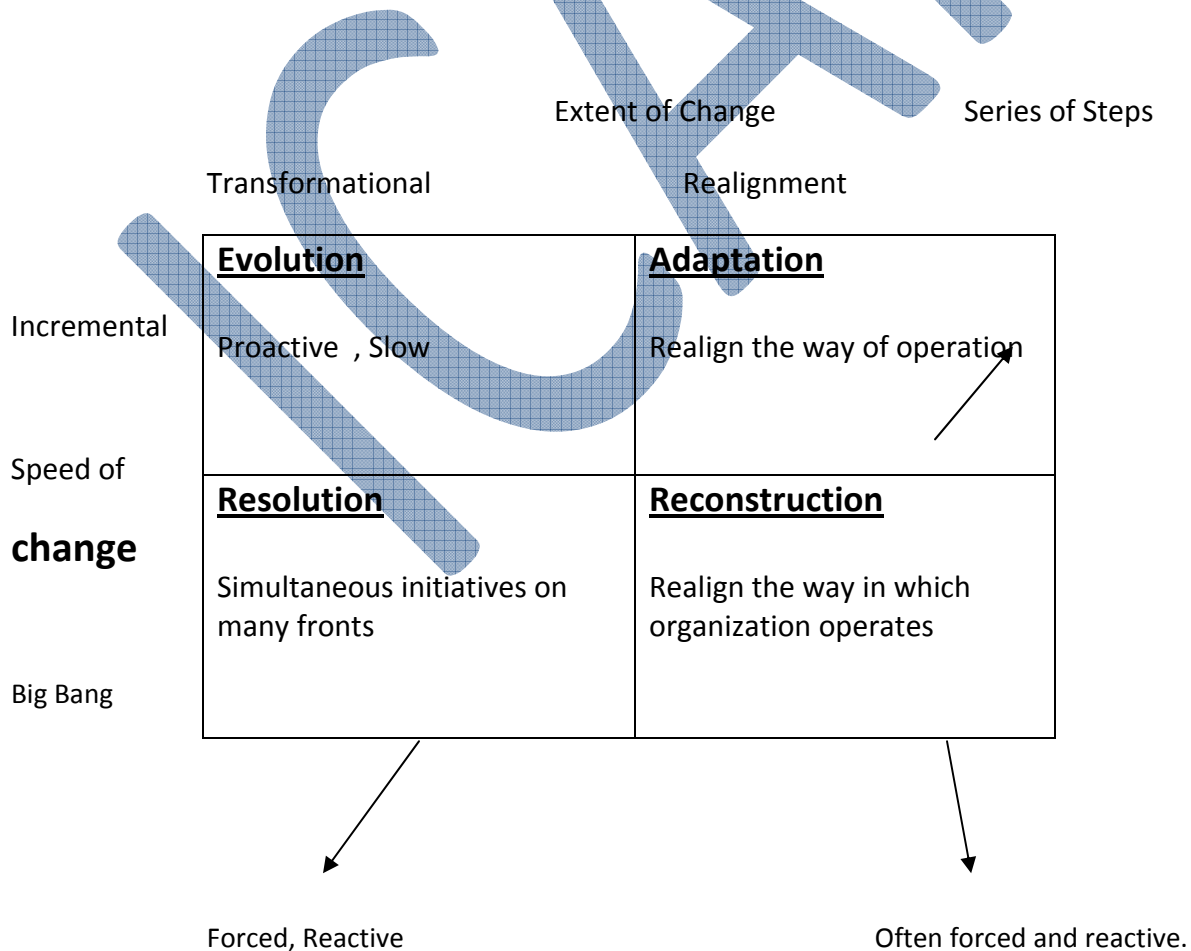
- Turnaround: Approaches are
- Contraction and cost cutting
- Reinvestment and fund put through to enhance capability and efficiency.
- Rebuilding with a concentration on innovation

**Change:**

3 Stages approach:- (Levin/Schein)



**Types of Strategic Change:**

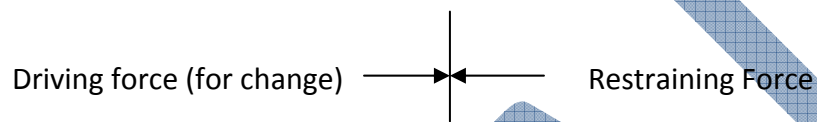


## Resistance to Change:

### Source of Resistance:

- Attitudes or beliefs
- Loyalty to a group
- Habits or past norms
- Policies etc.

Force field Analysis:- (Kurt Lewin)



Can be both internal and external issues

Factors to consider in resistance to change:-

- 1) The pace of Change
- 2) The manner of Change
- 3) Scope of Change

Corporate Culture is difficult to change as it is glued to its paradigm.

It becomes complicated and can be achieved using forecasting, Reporting, communicating and coordination.

### Culture consists of

- » beliefs,
- » attitudes,

- » practices and customs to which people are exposed during their interaction with the organization.

# Marketing

## Marketing Information:-

Provides basis on which to make marketing decisions and to evaluate marketing effectiveness

## Simple Classification:-

### 1. Internal Information

- ❖ Sales analysis
- ❖ Customer loyalty
- ❖ Lost Customers
- ❖ Complaints
- ❖ Sales force surveys

Store loyalty cards, although are about sales promotion but may provide value information about customer behavior.

### 2. External Information:-

- ❖ Social and economic trends
- ❖ Market composition
- ❖ Characteristics and trends of the market

## Techniques

### a. Secondary Data:-

- ❖ Govt. publications
- ❖ Journals
- ❖ Trade publication and Newspapers
- ❖ Starting point for research

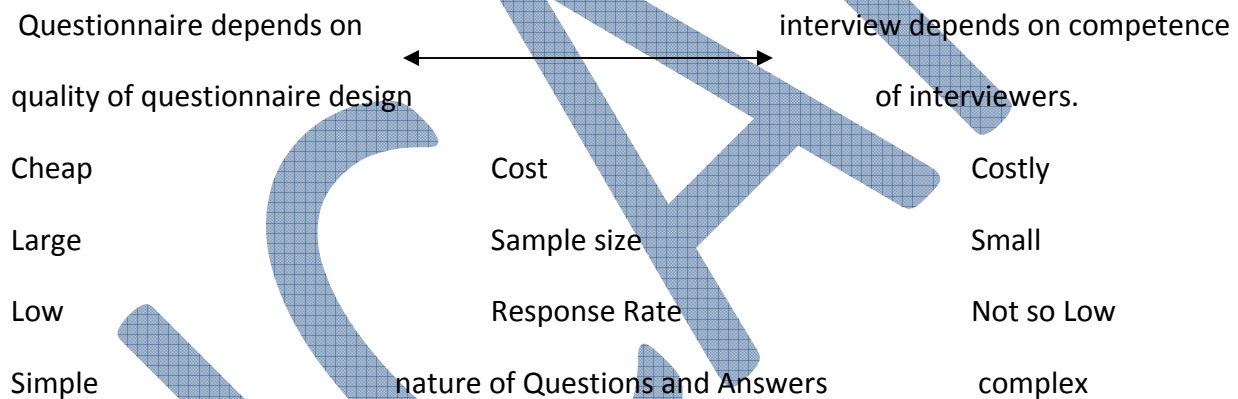
Since the information is cheap and readily available.

### Primary Research:-

- Costly as it involves gathering new data.
- Experiment e.g. Use of test marketing
- Observation e.g. retail audits
- Surveys : questionnaires , telephone, personal interview

To test, markets samples are taken.

Random sampling in which random number tables are used and are the purest of them all but costly.



### Test Markets:

Testing out of the marketing mix in a sample market or markets prior to a national launch

#### Benefits

- ❖ Reduces risk of launch failure
- ❖ Provides a basis for sales forecast
- ❖ Enable the marketing mix to be improved.



## Disadvantages

- ❖ Only possible with fmcg's
- ❖ Costly since the entire marketing mix has to be reproduced over an extended time period.
- ❖ Difficulty in finding a representative market.
- ❖ Fore ware competitors of the marketing strategy.

### By the way:

Marketing is the management process which:

- Identifies
- Anticipates
- Supplies

**“Customer requirements efficiently and profitably”**

(Institute of marketing)

**“Customers do not buy products; they buy what the product will do for them”.**

(Levitt)

## Marketing Strategy



## Customer Relationship

### Marketing:

Involves investing selectively in retaining existing customers

1. Identify the profitability of different types of customers (complex exercise)
2. Treat customers as streams of future discounted cash flows
3. Estimate how much is it worth investing in retaining the more profitable customers
4. Identify the unprofitable ones and make them more profitable by reducing the level of services offered or selling them more profitable products.
5. Increase profitability by up sell or coss sell
6. Interact and create a strong relation with the most valued customers

However such strategies have their limitation for e.g. in the airline industry not focusing on back packers may loose critical mass to competition. As today's back packers are tomorrow's business people. Such factors are difficult to quantify.

### General Marketing Objectives:

- Market share and growth
- Sales value, volume, mix and growth
- Customer satisfaction and retention
- Appropriate marketing mix

### Market Segmentation:

- Division of markets into different groups of customers with distinctive needs and preferences
- Different variables can be used to divide up markets for e.g. geographic, demographic etc.

### Industrial market segmentation:

- Customer size
- Customer profitability and industry
- Geographic location
- Ownership (Public or private)

The more variables used the smaller but more similar the market becomes and more precisely it can be targeted.

### Marketing Mix:

“The decision variables that the business can use to influence its target markets” (Kotler)

- Price, product, place and promotion.
- For each ‘P’ there is a customer ‘C’.

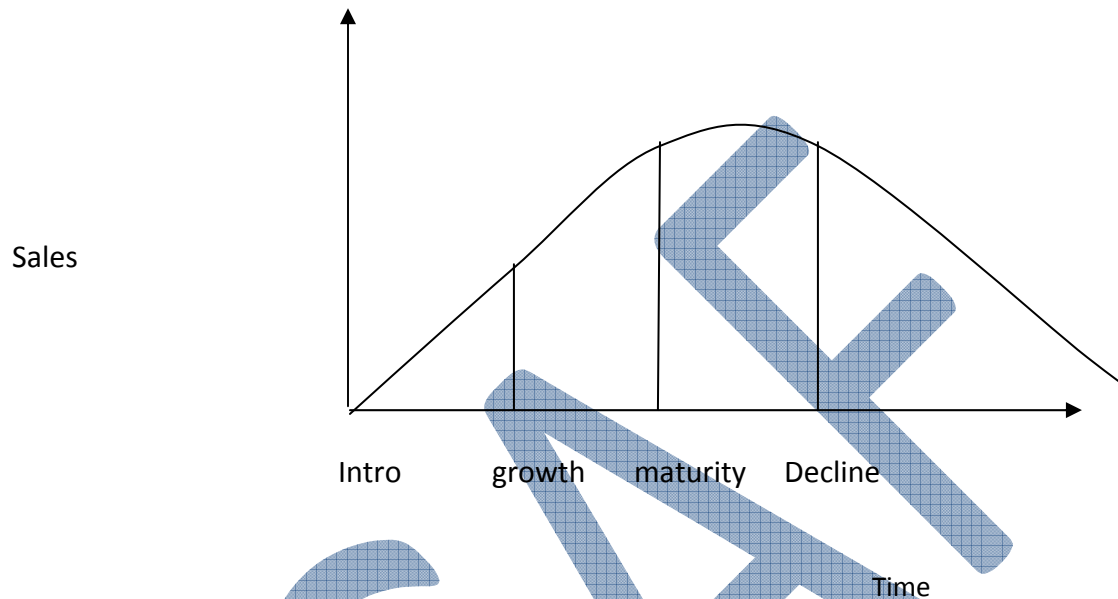
### Kotler on Marketing Strategies:-

<p><b>Market Leader:-</b></p> <ul style="list-style-type: none"> <li>◇ Normally every industry has 1</li> <li>◇ Objective is to remain dominant</li> </ul> <p><b>Possible Strategies:</b></p> <p>They expand the total market by frequent use and protect market share by acquiring competitors</p>	<p><b>Market Challenger:-</b></p> <ul style="list-style-type: none"> <li>◇ Immediate runners up in the market</li> <li>◇ Challenge the dominance of the leader</li> </ul> <p><b>Strategies:-</b></p> <ul style="list-style-type: none"> <li>◇ Direct attack on the leader</li> <li>◇ Back door strategy where opportunity is exploited, overlooked by the leader.</li> </ul>
<p><b>Market Follower:-</b></p> <ul style="list-style-type: none"> <li>◇ Runners up accept the market share and position of leader and start following in leaders footsteps.</li> <li>◇ Avoids innovation and price wars.</li> </ul>	<p><b>Market Nicher:-</b></p> <ul style="list-style-type: none"> <li>◇ Appropriate for smaller firms</li> <li>◇ Survive by exploiting segment overlooked by the majors</li> <li>◇ Essence of the strategy is high level Of specialization.</li> </ul>

A firm may use a combination of strategies.

## Product:-

- Anything that satisfies customer needs
- Product life Cycle.



## Characteristics

### Intro:

- Slow sales growth, low EOS and little competition
- Basic product, promotional emphasis on product awareness and trial

### Growth:

- Rapid sales growth, competitors enter, Increased EOS
- Product improvements and options
- Promotional emphasis on brand preference

### Maturity:

- Sales level static, increased competition
- Promotional emphasis on brand loyalty and brand switching.

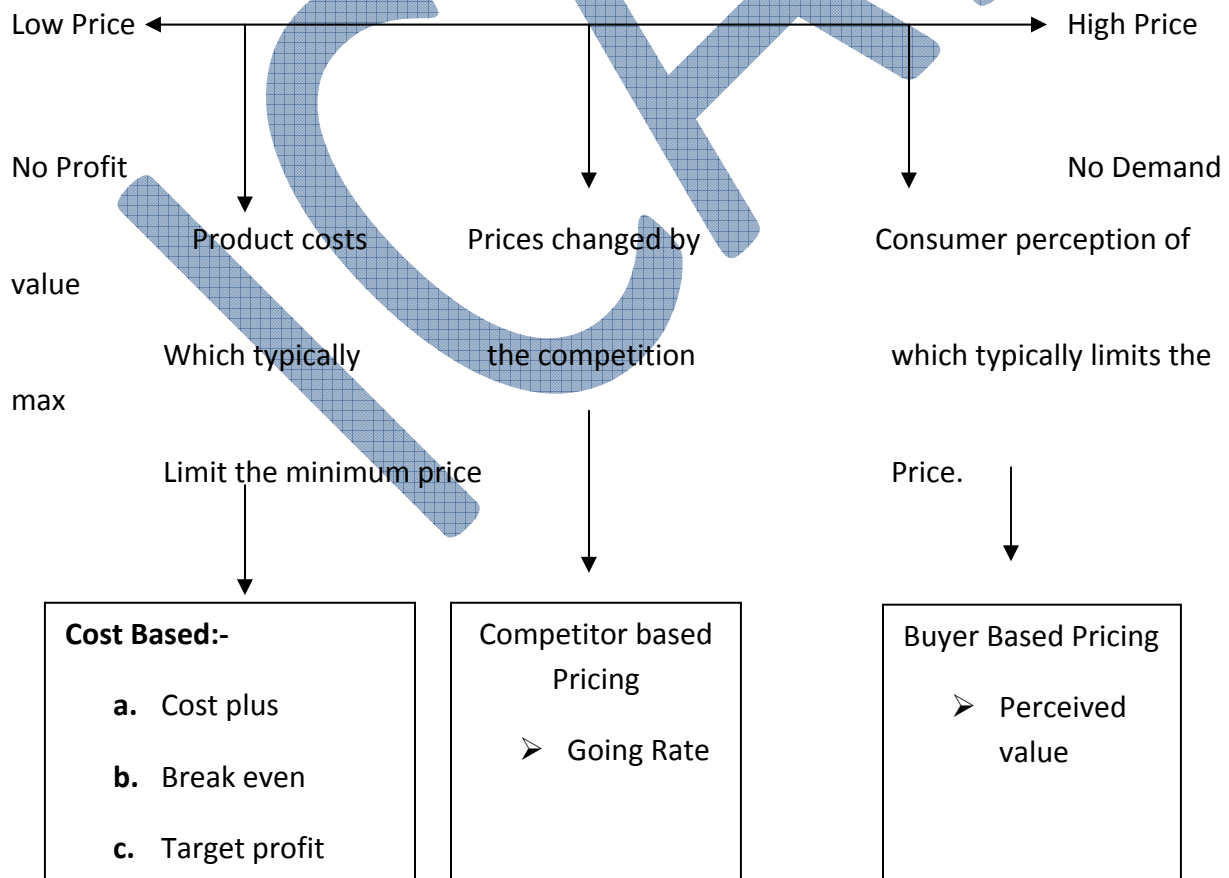
**Decline:**

- Sales fall due to product obsolescence
- Technological change
- Weak competitors exit
- Sales and contribution insufficient to support large scale promotion.

**Price:**

Four Influences:

1. Cost of the product
2. Customer's readiness to purchase
3. Competition from competing and substitute products
4. Choice of business strategy i.e. generic strategies cost based or differentiation.



- ❖ Price will be heavily affected by the stage of the product life Cycle
- ❖ Generally prices fall as the product moves through the product Life Cycle
- ❖ Low price Strategies only sustainable if business enjoys lowest costs.

## Promotion:

It is about communication with customer. The Strategy would involve

### (1) Identifying the target audience:-

The target audience will be heavily influenced by

“What will be said, how it will be said, when it will be said, where it will be said and who will say it”.

### (2) Deciding on the Response Required :-

The “Buyers Readiness State”

4 Stages:-

Awareness, Interest, Desire, Action (AIDA)

### (3) Selecting and designing the message:-

What appeal or theme to use, rational, emotional or moral (The 3 main Categories).

### (4) Choosing the mix:-

Main modeling tool are advertising, Sales promotion, personal selling & public relations. However of key importance is word of mouth, which is not directly controlled by the business.

### (5) Measuring Response:-

Collecting and interpreting feedback, the impact of the communication on awareness (did they see it, remember, like it, associate it with the product) and the impact on behavior (did they buy it as a result).

**Advertising:**

Any paid form of non personal presentation and promotion by an identified Sponsor. (Kotler)

Media: Print, Mail shot, TV, Radio, Billboard

**Sales Promotion:**

“Point of Sale incentives to encourage purchase”

- “Win” competitions
- “Free” gifts
- Save “money off”.

Sale promotion has some advantages over advertising:-

- Low cost
- POS impact
- Promotion on the packet

**Public Relations:**

“A sponsored attempt to create a favorable image of the Organization”  
(Kotler)

- Influencing media
- Sponsorship
- Lobbying
- Visitor Centers

**Personal Selling:**

“Personal oral presentation to prospective customer”

- Door to door
- Telemarketing
- Sales reps

**Place:**

Concerned with the selection of distribution channel used to deliver goods to the consumer”

Distribution Channel  $\implies$  Institution through which goods are transferred from producers to consumers

**Functions Include:**

- ❖ Transport
- ❖ Stock holding and storage
- ❖ Local Knowledge
- ❖ Promotional Campaigns
- ❖ Display (presentation of the product)

**Types of Distributors:**

- ❖ Retailers
- ❖ Wholesalers
- ❖ Distributors and dealers
- ❖ Agents
- ❖ Franchises
- ❖ Multiple stores i.e. Supermarkets
- ❖ Direct Selling(mail order, telephone selling & door to door)



# GLOBALIZATION

## **Absolute Advantage:-**

In the production of a good, a country can produce more of the goods with a given amount of resources than the other country.

## **Comparative Advantage:**

Two countries can gain from trade when each specializes in the industry in which it has the lowest possible costs. But countries avoid specialization due to:-

- Technological change and instability
- Diversification protects against excessive reliance on one product  
For example:- agriculture is subject to uncertainties of climate
- Governments may wish to develop self sufficiency.

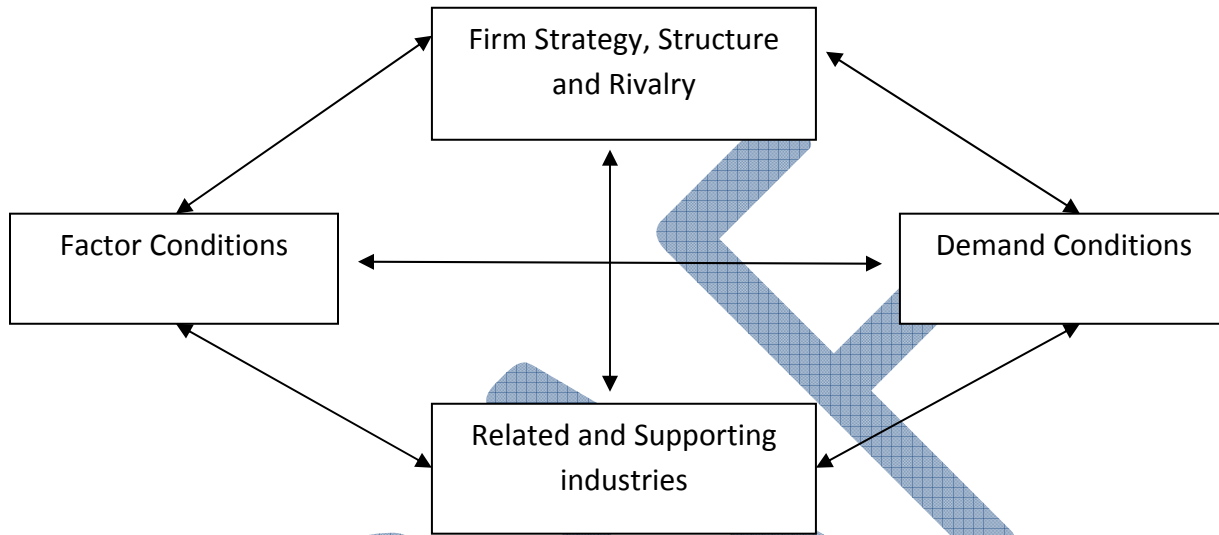
Protectionism is the discouraging of imports by govt. action.

## **Method used:**

- (a) Tariff or custom duty
- (b) Non-tariff barriers
  - Import Quota's
  - Minimum price and anti dumping actions
  - Embargoes
  - Subsidies for local producers
- (c) Exchange controls and exchange rate policy.

## THE COMPARATIVE ADVANTAGES OF NATIONS

Porter suggests that some nations industries are more internationally competitive than others.



<p><b>Factor Conditions:-</b></p> <ul style="list-style-type: none"> <li>◇ HR</li> <li>◇ Physical Resources</li> <li>◇ Knowledge</li> <li>◇ Capital</li> <li>◇ Infrastructure</li> </ul>	<p><b>Demand Condition:-</b></p> <ul style="list-style-type: none"> <li>◇ The home market decides how firms perceive, interpret and respond to buyer needs.</li> <li>◇ Sophisticated and elevating buyers set standards`</li> </ul>
<p><b>Related and Supporting Industries</b></p> <ul style="list-style-type: none"> <li>◇ The existence and support of local suppliers and their development</li> </ul>	<p><b>Firm Strategy, Structure and Rivalry</b></p> <ul style="list-style-type: none"> <li>◇ German managers tend to be bent towards engineering</li> <li>◇ Best at products demanding careful development and complex manufacturing process.</li> </ul>

## 5 Stages in the Evolution of Global Business Operation

- ❖ Exporting
- ❖ Overseas branching
- ❖ Overseas production
- ❖ The global company

## 5 Reasons why Companies are moving towards the global Stage

- ❖ Customer
- ❖ Company
- ❖ Competition
- ❖ Currency
- ❖ Country

## Standardization or Adaptation

### HR Issues:

- Expatriates or Local
- HRM
  - 1) Recruitment and Selection
  - 2) Training
  - 3) Appraisal Schemes
  - 4) Communication
    - I. E mail and Satellite Linkages
    - II. Major conferences

## Political Risks and Blocked Funds

It is the risk that political action will affect the position and value of a company.

### Actions usually taken by Govt.:-

- Import Quotas
- Import tariffs
- Legal Standards of Safety and Quality
- Exchange control regulation
- Restrict the ability of foreign companies to buy domestic companies
- Nationalize foreign owned companies
- Govt. could insist on minimum shareholding.

### Ways of Dealing with host govt.

- Negotiation with host govt.
- Insurance (UK Export Credit Guarantee Department)
- Production Strategies
- Local borrowing as it may have an effect on local institutions if foreign company's assets taken by the govt.
- Management Structure, Local Ventures and profit sharing arrangements

### Treasurer ship

Function concerned with the provision and use of finance it covers:-

- Provision of Capital
- Short term borrowing
- Foreign Currency management
- Banking
- Money market investments

## Role of treasurer

### ❖ **Corporate financial Objectives**

- Financial aims and objectives
- Financial and treasury policies
- Financial and treasury Systems

### ❖ **Liquidity Management**

- Working Capital Management
- Banking relationship and arrangements
- Money management

### ❖ **Funding Management**

- Funding Policies and Procedures
- Sources of funds
- Types of Funds

### ❖ **Currency Management**

- Exposure Policies and Procedures
- Exchange dealings including Risk management tools

### ❖ **Corporate Finance**

- Equity Capital management
- Business acquisition and Sales
- Project finance and JV's

### ❖ **Other Issues**

- Corporate Domestic and foreign tax
- Risk management and insurance
- Pension fund investment management

## Centralized or Decentralized Cash Management

❖ **Centralized being controlled and directed by the head office.**

### ○ **Advantages Include**

- Lower bank Charges due to inter group borrowing and lending
- Large amounts available to invest therefore high interest accounts.
- Bulk borrowing offers lower interest charges
- Foreign Currency risk management improves with the use of netting off and matching.
- Expert knowledge in various Risk management areas
- Transfer price can be set centrally thus lowering the global tax burdens.

### ○ **Advantages of Decentralization**

Decentralized is a mean of having a local office of treasury at the subsidiary level.

- Diversified source of finance and match local assets
- Greater Autonomy
- More responsive to individual operations

## Profit Centre or Cost Centre

### Cost centre

The managers have to keep the cost of the department within specified targets

- ❖ Its like providing a service to other departments

In a profit centre significant resources can be earned with the help of specialist staff and risk undertaken.

For profit centre approaches following needs are considered:

- ❖ Competence of Staff
- ❖ Controls (to prevent costly errors)
- ❖ Complete up to date market information
- ❖ Attitudes to risk of treasury team and the Board
- ❖ Internal charges for the services of the department to other departments