### LECTURE NOTES

### Chapter 1 – Strategic Market Management – An Introduction and Overview

**Content of Chapter 1**

1. Markets are very dynamic and strategy development needs to reflect that fact. There are implications to this reality. You need to be good at strategic analysis, innovation, managing multiple businesses, creating SCAs (sustainable competitive advantages), & developing growth platforms all in the context of dynamic markets.

2. Business strategies are defined rather precisely as they contain the product-market investment, a value proposition, assets/competencies, and functional strategies.

3. The book systematically covers external analysis and the development of strategies—Figure 1.3 summarizes showing the elements of both external and internal analysis plus the outputs of strategic analysis.

4. Marketing’s role at the strategy table follows from the definition of a business strategy.

**Dynamic markets**

Ask the class if they can think of any industries that are not dynamic. As industries come up, ask the class if anyone sees any dynamics. In all industries it will be easy to identify areas of dynamics—there will be emerging submarkets, opportunities, threats, new competitors, changing faces of existing competitors, global realities, etc.

Follow that up with the question as to what are the implications for strategy of a dynamic market. This discussion should lead to the importance of five tasks discussed on pages 2 and 3—strategic analysis, innovation, multiple business (to participate in emerging new markets and submarkets), SCAs (that work in dynamic times), and the need for growth platforms (that work in dynamic environments).

**Business strategy definition**

Logically if we are to develop strategy we should know what it means. It turns out that it is not so simple. Ask the class the simple questions--“What is Strategy?” Students will come up with concepts like strategy is a plan, a vision, planning, setting objectives, matching resources with objectives, or matching the 4Ps to your target market.

After the discussion above, you may consider discussing one or more of the following definitions.

“Strategy is a framework which guides those choices that determine the nature and direction of an organization.”

- Benjamin B. Tregoe &John W. Zimmerman

*“Top Management Strategy”*

“Strategy is the creation of a unique and valuable position, involving a different set of activities.”

-Michael Porter

*“What is Strategy?”*

*Harvard Business Review*

“In terms of the three key players (competitors, customers, company) strategy is defined as the way in which a corporation endeavors to differentiate itself positively from its competitors, using its relative corporate strengths to better satisfy customer needs.”

-Kenichi Ohmae

*“The Mind of the Strategist”*

The concept of strategy is precisely defined in this chapter. The discussion should motivate the class to want a definitive answer. This chapter provides one. A business strategy is defined by four dimensions--the product-market investment strategy, the customer value proposition, assets and competencies, and functional strategies and programs. The first specifies where to compete, and the remaining three indicate how to compete to win.

* Product-market investment--It is important to emphasize that knowing which product markets your company serves is equally as important as knowing which product markets your company does NOT serve. Otherwise your valuable resources may be used inefficiently.
* Customer value proposition—this concept of a strategy is market driven and the value proposition is a central part of it—it also serves as an umbrella concept that summarizes the strategy.
* Assets and competencies—the key to a long-term investment perspective (vs. a short-term fixation).
* Functional strategies—needed to support and implement.

What differentiates a business strategy from a marketing strategy? A business strategy is more comprehensive and contains significant financial data. A marketing strategy has a narrow focus and is driven more by targeting a customer and developing a needs-satisfying marketing mix. This book, *Strategic Market Management*, has a point of view that is customer driven.

It is useful to discuss at this point the acronym SCA. Ask students “what is a competitive advantage?” The discussion should get into the concepts of assets and competencies. Some examples could be discussed.

**Overview of the book**

Figure 1-3 might be discussed as a way to provide an overview of this course.

Ask the class why strategic market management? The answers are given in the objectives section.

**Marketing and strategy**

A discussion can occur around the role (if any) of marketing and strategy. Should marketing have a seat at the table? Why or why not? Does it matter what company or what strategy? This book makes clear that given the definition of a strategy marketing has a natural and key role. The question could be revisited in the context of each dimension.

**Exercise:**

1. Select a company or product line with which you are familiar like Bud Light or Cadillac or Wells Fargo.
2. What business are they in?
3. What is their business strategy?

Ask participants to form groups of 3-4 and answer the above questions. Make sure that the students understand the task—review what the definition of a business (the product market) and business strategy. Ask participants to name well-known companies otherwise it will be difficult to expand the discussion. This exercise gets students thinking about strategy making and the dynamics of markets.

The examples in question 2 could be used to illustrate what a business strategy is. The answer to the questions below outlines.

**FOR DISCUSSION:**

1. What is a business strategy? Do you agree with the definition proposed in this chapter? Illustrate your answer with examples.

This a good question during the first class when they have not read the first chapter. The definition will be all over the map. Drive home the point that this should be easy for a business major or business executive and it is not. Getting it solid provides a basis for strategy going forward, and having it vague is a recipe for drift. In the chapter, the business strategy is crisply defined to involve four dimensions: the product-market investment strategy, the customer value proposition, assets and competencies, and functional strategies and programs.

1a. Consider one of the firms in the list below. Read the description in the text, and then go to the firm’s web site and use it to gain an understanding of the business strategy. Look at elements such as the products and services offered, the history of the firm, and its values. What is the business strategy? What product markets does the firm serve? What value propositions does it use? How are the value propositions delivered? What are the firm’s assets and competencies? What strategic options has it pursued?

* 1. Dell
  2. Charles Schwab
  3. Pampers
  4. A firm of your choice

This discussion will make it clear that it is not easy to crystallize a business strategy. As the strategies are articulated, some students may want to expand the definition of a business strategy.

a. Dell Computer (<http://www.dell.com>)

Dell serves the worldwide market for customers to build their information-technology and Internet infrastructures. Their value proposition is based around being standards-based (there is no proprietary software like Sun and Apple) which leads to lower prices and operating costs for customers and the advantages of the direct model. The direct model provides intense customer intimacy, customized systems, very competitive prices, and reliable and speedy delivery. Their assets include a customer base, brand awareness, and operational ability to run the direct model.

b. Charles Schwab (<http://www.schwab.com>)

Charles Schwab offers products/services to the individual investor. Their value proposition has been expanded from low cost to one with a host of added choices and information that enables their customer to manage their own portfolios. Their expert, personalized advice is not driven by commissions or clouded by conflicts of interest; they have a large product-line breadth of investments and they have research that, in the past, was only available to investment institutions. They empower. They have a host of operational and branded services such as OneSource to support.

c. Pampers (<http://pampers.com>)

Pampers offers more than a product to just keep the baby dry. Their website contains a vast selection of information that is helpful to the new parent. They offer advice to mothers to overcome their fears about raising a baby. The product market they serve is the baby sanitary market. Their website clearly is aimed at the parents yet it has a very child-like feel and they segment and address their markets for prenatal, newborn, infant, cruiser, toddler, explorer and pre-schooler. Their assets include a powerful R&D capability plus the ability to reach out to other firms for innovation.

2. The point of this question is to emphasize that marketing strategy is a subset of a business strategy and thus there is overlap. To make the point ask what is it about each business strategy that would not be in the marketing strategy. And is there anything in the marketing strategy not in the business strategy—the general answer to the last question is no.

3. Consider the Gallo strategic decision. Describe how you would go about evaluating that decision.

The evaluation should consider the risk of not going into the premium wine market and maintaining their position in the jug wine market. They would need to consider market size, market players, barriers to entry and exit, needed resources and assets, and marketing acumen. Since the premium market is growing, the evaluation should look at the competitive set (who are the major players in the market and is there room for another supplier or is the market fragmented and no one player has major market share?). How would the Gallo customer value proposition differ from the existing suppliers? What competencies and assets does Gallo have that would permit them to economically and efficiently enter the new market? Is this consistent with the organizational goals? Will they be able to build an attractive ROI? Are the resources available, especially since their name is synonymous with the jug wine category? There is the risk that the customers for the jug wine would be alienated because they would feel like Gallo had gone upscale on them. They will need the financial resources and marketing talent to promote the new brand(s).

4. Apply the marketing-myopia concept to print media, magazines, and newspapers. What are the implications?

The reader and advertising base is declining for newspapers and to a lesser extent for magazines. Expanding the vision of the business is one way to avoid sliding into oblivion. If a newspaper could be defined as a producer of current in-depth unbiased reporting, they would naturally be directed toward the Internet and text messaging devices. Calling yourself a newspaper is extremely limiting and self-defeating.

5. Which criteria to pick a strategy would you consider most important? Why? How would the context affect your answer?

The point of this question is to get the class into the criteria and, in doing so, understand the definition of strategy better. The five criteria are given on pages 9 and 10. You can make the argument that all are equally important. You can also argue that the ROI criteria is less important because it is more short-term oriented. You can also argue that the fit criteria will be of less importance for some firms or situations.

6. The quotes from the front of each chapter are thought provoking. It can be useful to discuss those in this chapter, in part, to sensitize students to them.

Students will come up with very creative interpretations to any of the quotes. It might be useful to entertain objections from other students as to the position taken by a student on a quote; not for the sake of it but for further analysis of the quote.

“Plans are nothing, planning is everything”

- Dwight D. Eisenhower

The *process* is more important than the *plan.* The fact is that plans will need to be adapted and the process of making a plan will provide the ability to adjust it when submarkets, opportunities, and threats emerge. Note that one theme of the book is how to respond to dynamic markets.

“Even if you are on the right track, you’ll get run over if you just sit there.”

- Will Rogers

You need to continuously adjust. Does this always work? No. Sometimes you might want to be persistent and committed to a plan and avoid change. There is a section on strategic commitment in Chapter 7 that will elaborate on this point.

“If you don’t know where you are going, you might end up somewhere else.”

- Casey Stengel

As usual, Casey stumbles onto some truth.