Strategy Implementation

Chapter 9

CHAPTER OBJECTIVES

1. Develop effective perceptual maps to position rival firms.
2. Develop effective perceptual maps to identify market segments and demand voids.
3. Determine the cash worth of any business.
4. Explain market segmentation and product positioning as strategy implementation tools.
5. Discuss procedures for determining the worth of a business.
6. Develop project financial statements to reveal the impact of strategy recommendations.

CHAPTER OBJECTIVES (CONT.)

7. Perform EPS-EBIT analysis to evaluate the attractiveness of debt versus stock as a source of capital to implement strategies.
8. Discuss the nature and role of research and development in strategy implementation.
9. Explain how management information systems can determine the success of strategy-implementation efforts.
10. Explain business analytics and data mining.

COMPREHENSIVE STRATEGIC-MANAGEMENT MODEL

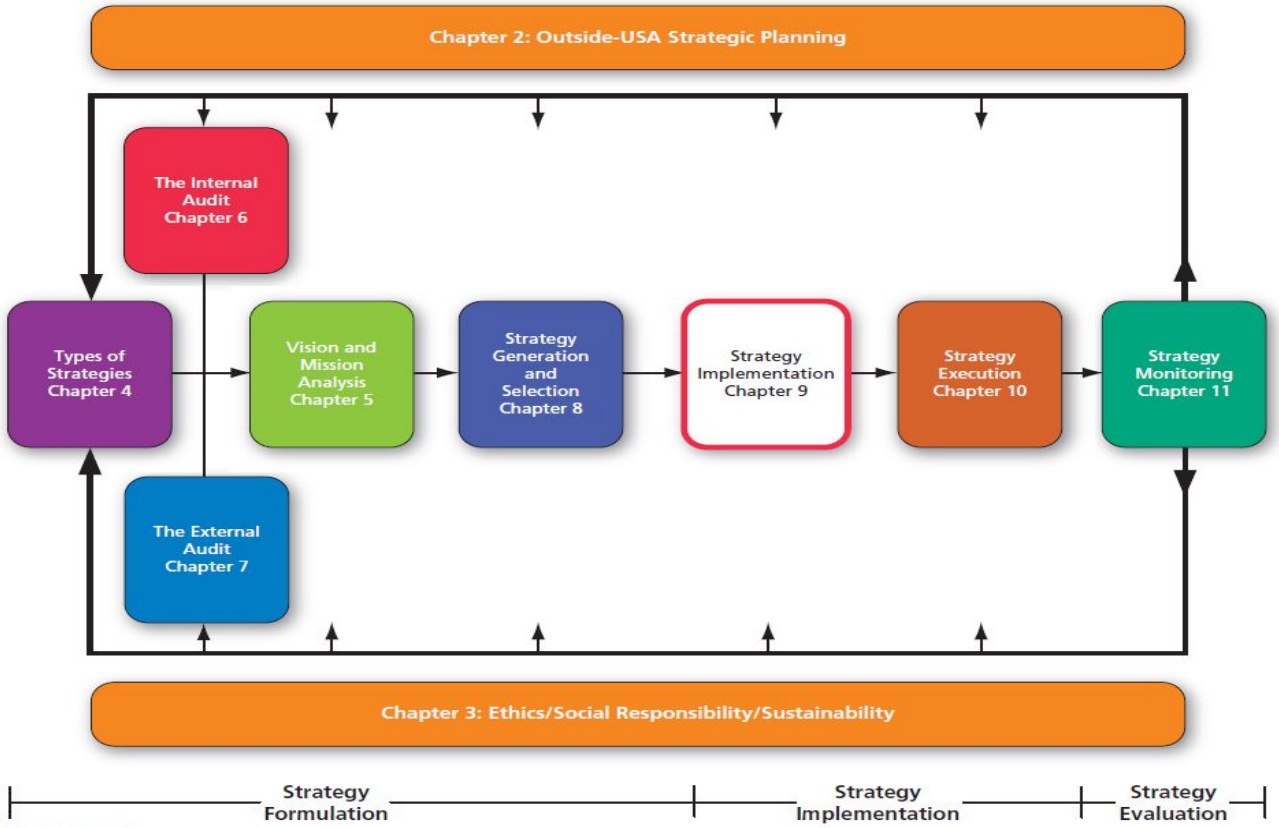

FIGURE 9-1
A Comprehensive Strategic-Management Model

CURRENT MARKETING ISSUES

1. How to make advertisements more interactive to be more effective
2. How to best take advantage of Facebook and Twitter conservations about the company and industry
3. To use exclusive dealerships or multiple channels of distribution
4. To use heavy, light, or no TV advertising versus online advertising

CURRENT MARKETING ISSUES

5. To limit (or not) the share of business done with a single customer
6. To be a price leader or a price follower
7. To offer a complete or limited warranty
8. To reward salespeople based on straight salary, straight commission, or a combination salary/commission

CURRENT MARKETING ISSUES

- Firms should provide incentives to consumers to share their thoughts, opinions, and experiences on the company website
- The company website must not be all about the company—it must be all about the customer too

TABLE 9-1 The New Principles of Marketing

1. Do not just talk at consumers—work with them throughout the marketing process.
2. Give consumers a reason to participate.
3. Listen to—and join—the conversation outside your company's website.
4. Resist the temptation to sell, sell, sell. Instead attract, attract, attract.
5. Do not control online conversations; let it flow freely.
6. Find a "marketing technologist," a person who has three excellent skill sets (marketing, technology, and social interaction).
7. Embrace instant messaging and chatting.

ADVERTISING MEDIA

- Internet advertising is growing so rapidly that marketers are more and more allowed to create bigger, more intrusive ads that take up more space on the web page
- Websites are allowing lengthier ads to run before short video clips play
- Blogs are creating more content that doubles also as an ad

INTERACTIVE MARKETING

- **Interactive Marketing**
  - redesigning websites to be more interactive.
  - building new sponsorship programs and other enticements on websites.
  - mixing editorial and advertising content on blogs.

MARKET SEGMENTATION

- **Market Segmentation**
  - subdividing of a market into distinct subsets of customers according to needs and buying habits
  - widely used in implementing strategies

MARKET SEGMENTATION

- Strategies such as market development, product development, market penetration, and diversification require increased sales through new markets and products
- Market segmentation allows a firm to operate with limited resources because mass production, mass distribution, and mass advertising are not required

MARKET SEGMENTATION

- Market segmentation decisions directly affect *marketing mix variables:* product, place, promotion, and price

TABLE 9-2 The Marketing Mix Component Variables

Product	Place	Promotion	Price
Quality	Distribution channels	Advertising	Level
Features and options	Distribution coverage	Personal selling	Discounts and allowances
Style	Outlet location	Sales promotion	Payment terms
Brand name	Sales territories	Publicity	
Packaging	Inventory levels and locations		
Product line	Transportation carriers		
Warranty			
Service level			
Other services			

RETENTION-BASED SEGMENTATION

Tag #1: Is this customer at high risk of canceling the company's service?

Tag #2: Is this customer worth retaining?

Tag #3: What retention tactics should be used to retain this customer?

TABLE 9-3 Alternative Bases for Market Segmentation

Variable	Typical Breakdowns
Geographic	
Region	Pacific, Mountain, West North Central, West South Central, East North Central, East South Central, South Atlantic, Middle Atlantic, New England
County Size	A, B, C, D
City Size	Under 5,000; 5,000–20,000; 20,001–50,000; 50,001–100,000; 100,001–250,000; 250,001–500,000; 500,001–1,000,000; 1,000,001–4,000,000; 4,000,001 or over
Density	Urban, suburban, rural
Climate	Northern, southern
Demographic	
Age	Under 6, 6–11, 12–19, 20–34, 35–49, 50–64, 65+
Gender	Male, female
Family Size	1–2, 3–4, 5+
Family Life Cycle	Young, single; young, married, no children; young, married, youngest child under 6; young, married, youngest child 6 or over; older, married, with children; older, married, no children under 18; older, single; other
Income	Under $10,000; $10,001–$15,000; $15,001–$20,000; $20,001–$30,000; $30,001–$50,000; $50,001–$70,000; $70,001–$100,000; over $100,000
Occupation	Professional and technical; managers, officials, and proprietors; clerical and sales; craftspeople; foremen; operatives; farmers; retirees; students; housewives; unemployed
Education	Grade school or less; some high school; high school graduate; some college; college graduate
Religion	Catholic, Protestant, Jewish, Islamic, other
Race	White, Asian, Hispanic, African American
Nationality	American, British, French, German, Scandinavian, Italian, Latin American, Middle Eastern, Japanese

TABLE 9-3 Alternative Bases for Market Segmentation

Variable	Typical Breakdowns
Psychographic	
Social Class	Lower lowers, upper lowers, lower middles, upper middles, lower uppers, upper uppers
Personality	Compulsive, gregarious, authoritarian, ambitious
Behavioral	
Use Occasion	Regular occasion, special occasion
Benefits Sought	Quality, service, economy
User Status	Nonuser, ex-user, potential user, first-time user, regular user
Usage Rate	Light user, medium user, heavy user
Loyalty Status	None, medium, strong, absolute
Readiness Stage	Unaware, aware, informed, interested, desirous, intending to buy
Attitude Toward Product	Enthusiastic, positive, indifferent, negative, hostile

DOES THE INTERNET MAKE MARKET SEGMENTATION EASIER?

- The segments of people whom marketers want to reach online are much more precisely defined than the segments of people reached through traditional forms of media, such as television, radio, and magazines
- People in essence segment themselves by nature of the websites that comprise their "favorite places," and many of these websites sell information regarding their "visitors"

PRODUCT POSITIONING

- **Product positioning**
  - entails developing schematic representations that reflect how your products or services compare to competitors' on dimensions most important to success in the industry

PRODUCT POSITIONING STEPS

1. Select key criteria that effectively differentiate products or services in the industry.
2. Diagram a two-dimensional product-positioning map with specified criteria on each axis.
3. Plot major competitors' products or services in the resultant four-quadrant matrix.

PRODUCT POSITIONING STEPS

4. Identify areas in the positioning map where the company's products or services could be most competitive in the given target market. Look for vacant areas (niches).

5. Develop a marketing plan to position the company's products or services appropriately.

RULES FOR USING PRODUCT POSITIONING AS A STRATEGY-IMPLEMENTATION TOOL

1. Look for the hole or *vacant niche.*

2. Don't serve two segments with the same strategy.

3. Don't position yourself in the middle of the map.

PRODUCT POSITIONING

An effective product positioning strategy meets two criteria:

- ►it uniquely distinguishes a company from the competition
- ►it leads customers to expect slightly less service than a company can deliver

EXAMPLES OF PRODUCT-POSITIONING MAPS

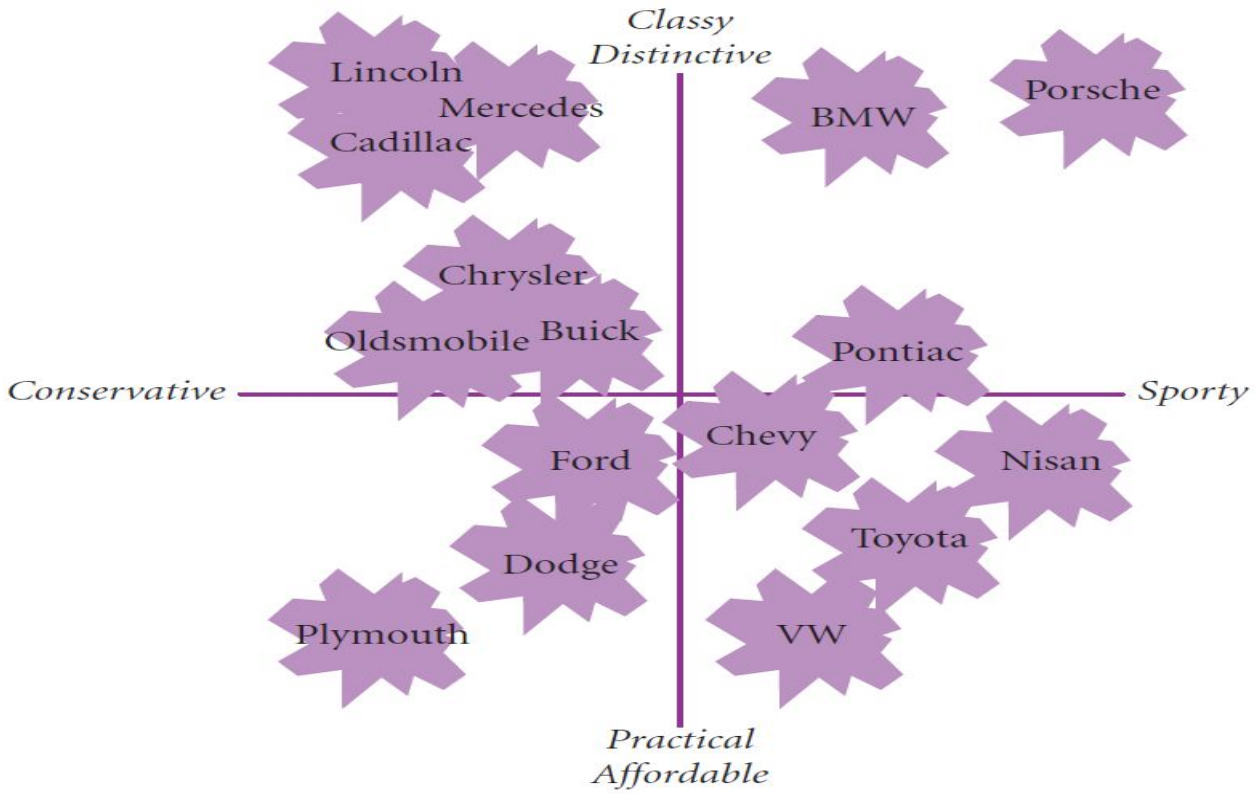

FIGURE 9-2

A Perceptual Map for the Automobile Industry

FINANCE/ACCOUNTING ISSUES

1. To raise capital with short-term debt, long- term debt, preferred stock, or common stock
2. To lease or buy fixed assets
3. To determine an appropriate dividend payout ratio
4. To use LIFO (Last-in, First-out), FIFO (First-in, First-out), or a market-value accounting approach

FINANCE/ACCOUNTING ISSUES

5. To extend the time of accounts receivable
6. To establish a certain percentage discount on accounts within a specified period of time
7. To determine the amount of cash that should be kept on hand

ACQUIRING CAPITAL TO IMPLEMENT STRATEGIES

- Successful strategy implementation often requires additional capital
- Besides net profit from operations and the sale of assets, two basic sources of capital for an organization are debt and equity

ACQUIRING CAPITAL TO IMPLEMENT STRATEGIES

- EPS = Earnings Per Share, which is Net Income divided by # of Shares Outstanding.
- Another term for Shares Outstanding is Shares Issued
- EBIT = Earnings Before Interest and Taxes (also called operating income)
- EBT = Earnings Before Tax
- EAT = Earnings After Tax

TABLE 9-4 EPS/EBIT Analysis for the XYZ Company

Input Data	The Number	How Determined
$Amount of Capital Needed	$100 million	Estimated $cost of recommendations
EBIT Range	$20 to $40 million	Estimate based on prior year EBIT and recommendations for the coming year(s)
Interest Rate	5 percent	Estimate based on cost of capital
Tax Rate	30 percent	Use prior year %: taxes divided by income before taxes, as given on income statement
Stock Price	$50	Use most recent stock price
#Shares Outstanding	500 million	For the debt columns, enter the existing #shares outstanding. For stock columns, use the existing #shares outstanding + the #new shares that must be issued to raise the needed capital, i.e., based on stock price. So divide the stock price into the $amount of capital needed.

	100% Debt		100% Stock		50/50 Debt/Stock Combo	
$ EBIT	20,000,000	40,000,000	20,000,000	40,000,000	20,000,000	40,000,000
$ Interest	5,000,000	5,000,000	0	0	2,500,000	2,500,000
$ EBT	15,000,000	35,000,000	20,000,000	40,000,000	17,500,000	37,500,000
$ Taxes	4,500,000	10,500,000	6,000,000	12,000,000	5,250,000	11,250,000
$ EAT	10,500,000	24,500,000	14,000,000	28,000,000	12,250,000	26,250,000
# Shares	500,000,000	500,000,000	502,000,000	502,000,000	501,000,000	501,000,000
$ EPS	0.0210	0.049	0.0279	0.056	0.0245	0.0523

Conclusion—the best financing alternative is 100% stock because the EPS values are largest; the worst financing alternative is 100% debt because the EPS values are lowest.

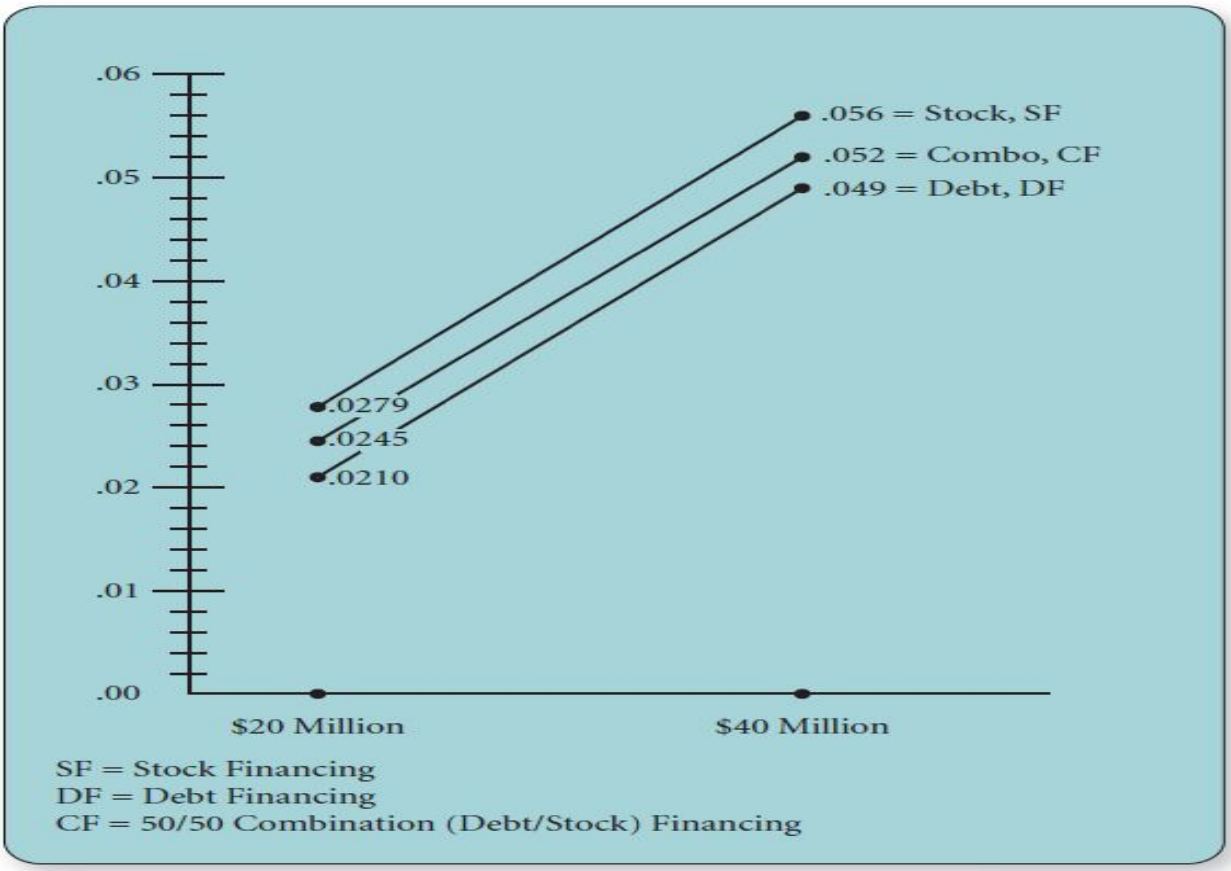

FIGURE 9-4
An EPS/EBIT Chart for the XYZ Company

ACQUIRING CAPITAL TO IMPLEMENT STRATEGIES

- When using EPS/EBIT analysis, timing in relation to movements of stock prices, interest rates, and bond prices becomes important
- In times of high stock prices, stock may prove to be the best alternative
- However, when cost of capital (interest rates) is low, debt is more attractive

PROJECTED FINANCIAL STATEMENTS

- **Projected Financial Statements**
  - allows an organization to examine the expected results of various actions and approaches
  - allows an organization to compute projected financial ratios under various strategy-implementation scenarios

PERFORMING PROJECTED FINANCIAL ANALYSIS

1. Prepare the projected income statement before the balance sheet
2. Use the percentage-of-sales method to project cost of goods sold (CGS) and the expense items in the income statement
3. Calculate the projected net income
4. Subtract from the net income any dividends to be paid for that year

PERFORMING PROJECTED FINANCIAL ANALYSIS

5. Project the balance sheet items, beginning with retained earnings and then forecasting stockholders' equity, long-term liabilities, current liabilities, total liabilities, total assets, fixed assets, and current assets (in that order)
6. List comments (remarks) on the projected statements

FINANCIAL BUDGETS

- **Financial budget**
  - a document that details how funds will be obtained and spent for a specified period of time
  - include cash budgets, operating budgets, sales budgets, profit budgets, factory budgets, capital budgets, expense budgets, divisional budgets, variable budgets, flexible budgets, and fixed budgets

LIMITATIONS OF FINANCIAL BUDGETS

- Budgetary programs can become so detailed that they are cumbersome and overly expensive
- Financial budgets can become a substitute for objectives

LIMITATIONS OF FINANCIAL BUDGETS

- Budgets can hide inefficiencies if based solely on precedent rather than on periodic evaluation of circumstances and standards
- Budgets are sometimes used as instruments of tyranny that result in frustration, resentment, absenteeism, and high turnover

EVALUATING THE WORTH OF A BUSINESS

Three main approaches:

- What a firm owns
- What a firm earns
- What a firm will bring in the market

EVALUATING THE WORTH OF A BUSINESS

- The **first** approach is determining a firm's net worth or stockholders' equity
- The **second** approach is based on the future benefits a firm's owners may derive through net profits

EVALUATING THE WORTH OF A BUSINESS

- The **third** approach is to divide the market price of the firm's common stock by the annual earnings per share and multiply this number by the firm's average net income for the past five years
- Also called the **price-earnings ratio method**

EVALUATING THE WORTH OF A BUSINESS

- The **fourth** method is to simply multiply the number of shares outstanding by the market price per share
- Also called the **outstanding shares method**

RESEARCH AND DEVELOPMENT (R&D) ISSUES

1. Emphasize product or process improvements
2. Stress basic or applied research
3. Be leaders or followers in R&D
4. Develop robotics or manual-type processes
5. Spend a high, average, or low amount of money on R&D
6. Perform R&D within the firm or contract R&D to outside firms
7. Use university researchers or private-sector researchers

R&D APPROACHES FOR IMPLEMENTING STRATEGIES

- Be the first firm to market new technological products
- Be an innovative imitator of successful products, thus minimizing the risks and costs of start-up
- Be a low-cost producer by mass-producing products similar to but less expensive than products recently introduced

TABLE 9-15 Research and Development Involvement in Selected Strategy-Implementation Situations

Type of Organization	Strategy Being Implemented	R&D Activity
Pharmaceutical company	Product development	Test the effects of a new drug on different subgroups.
Boat manufacturer	Related diversification	Test the performance of various keel designs under various conditions.
Plastic container manufacturer	Market penetration	Develop a biodegradable container.
Electronics company	Market development	Develop a telecommunications system in a foreign country.

MANAGEMENT INFORMATION SYSTEMS (MIS) ISSUES

- Having an effective *management information system (MIS)* may be the most important factor in differentiating successful from unsuccessful firms
- The process of strategic management is facilitated immensely in firms that have an effective information system

BUSINESS ANALYTICS

- **Business analytics**
  - a management information system technique that involves using software to mine huge volumes of data to help executives make decisions
  - also called predictive analytics, machine learning, or **data mining**

BUSINESS ANALYTICS

- A key distinguishing feature of **business analytics** is that it is predictive rather than retrospective, in that it enables a firm to learn from experience and make current and future decisions based on prior information

BUSINESS ANALYTICS

- Business analytics can reveal where competitors are weak so that marketing and sales activities can be directly targeted to take advantage of resultant opportunities (knowledge). In addition to understanding consumer behavior better, business analytics is also being used to slash expenses.