

PRINCIPLES OF MARKETING / 04B

IBMS /
University of Applied Sciences

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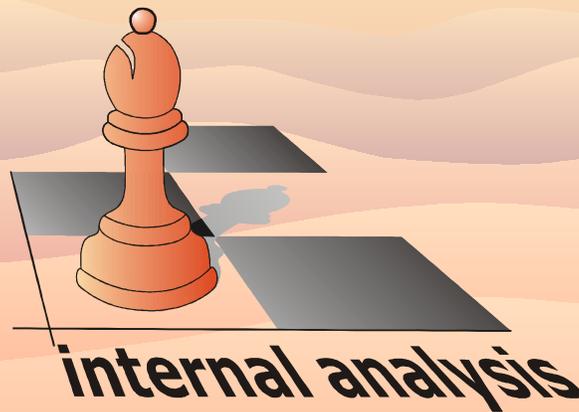
3R Business Development
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Based on Ph. Kotler's Principles of marketing / international edition, and miscellaneous designer's lecturing materials



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STRATEGIC MARKETING PLANNING



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STRATEGIC MARKETING PLANNING

Internal analysis, aspects

Internal analysis

- An internal analysis (internal audit) could consist of the following elements, i.a.:
- value chain
- purchasing policy
- product- and production policy
- research & development
- marketing & sales
- position in comparison to competitors
- business portfolio's
- distribution policy
- organizational factors
- financial position

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STRATEGIC MARKETING PLANNING

Internal analysis: value chain

Internal audits

- The internal audit often involves an evaluation of the **organization's entire value chain**: the chain (series) of consecutive processes, each adding a certain value to the organization's operations.
- **Prof. Michael Porter's value chain analysis** is a strategic model that helps organizations to analyze specific activities through which they can create value and competitive advantage.

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STRATEGIC MARKETING PLANNING

Michael Porter's value chain analysis

Internal audits



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Michael Porter's Value chain analysis

Value chain analysis

- According to Porter, the value chain encompasses **the whole organization**, and each part of it should contribute to achieving (sustainable) competitive advantage.

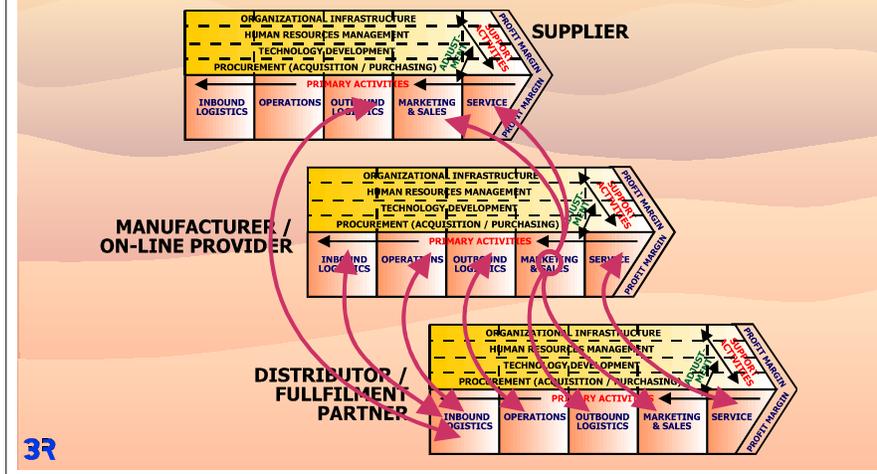
An organization's value chain is often connected to those of other organizations, and forms a part of a **larger value chain**. Competitive advantage depends on how effectively this value chain is being analyzed and managed: **supply chain management**.

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STRATEGIC MARKETING PLANNING

Michael Porter's Value chain analysis



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STRATEGIC MARKETING PLANNING

Internal analysis: purchasing

Purchasing policy

- Purchasing commonly represents $> \pm 60\%$ of the value of (the costs of) production.
- Purchasing policy is therefore aimed at:
 - **improving the competitive position** through more advantageous and higher quality purchasing;
 - **cutting down expenses** by standardizing stocks / supplies, and through discounts;
 - **TQM** and thus: zero-defect purchasing;
 - **JIT system / supply management.**

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STRATEGIC MARKETING PLANNING

Internal analysis: product / production

Product- and production policy

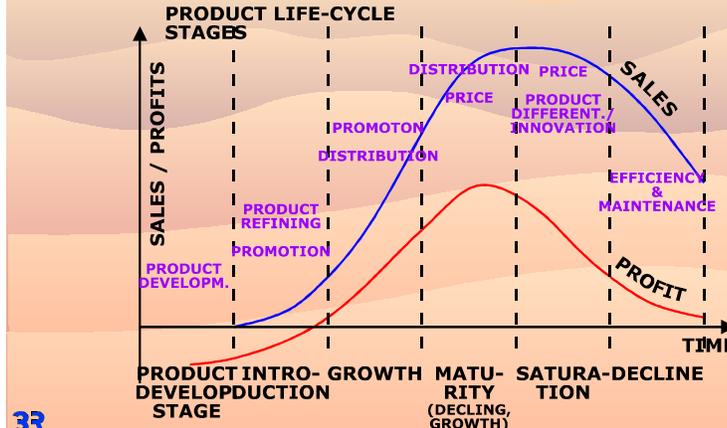
- Important aspects regarding product-and production policy:
 - **assortment** (range of products) / dimensions of assortment (width, depth, length, height, consistency);
 - **positioning of the product:** how the customer perceives a product in view of competitor's offerings;
 - the **PLC** and the need to renew or innovate;
 - **production's possibilities** to adapt to these policies (technology, capacity, quality, etc.)

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STRATEGIC MARKETING PLANNING

Internal analysis: PLC



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STRATEGIC MARKETING PLANNING

Internal analysis: R&D

Research and Development

■ Important aspects regarding R & D:

- the **ability to develop and to secure patents, copyrights, etc.;**
- **possibilities and facilities to conduct research, internally, externally and in co-operation with others;**
- **the degree of communications** between R&D and other departments, such as Production, Marketing & Sales, etc.

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STRATEGIC MARKETING PLANNING

Internal analysis: marketing & sales

Marketing & Sales

■ Important aspects regarding Marketing & Sales:

- **possibilities and abilities to develop and to synchronize adequate marketing instruments;**
- **possibilities and abilities to conduct market research and to develop products and product variations;**
- **skills within the sales department;**
- **the degree of communications** between Marketing & Sales and other departments.

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Internal analysis: comparing competition

Position in comparison to competitors

- Important aspects in this respect:
 - determination of **major competitors and their strengths and weaknesses**
 - determination of competitors who are or might become **dangerous to the organization**, in what way and to which extent;
 - determination of competitors that are or might **become endangered by the organization itself**, in what way and to which extent.

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STRATEGIC MARKETING PLANNING

The business portfolio analysis

Analyzing the current business portfolio

- The **business portfolio** is the collection of businesses and/or products that form the company.
A business portfolio should fit the company's strengths and weaknesses to opportunities in the environment.
- By analysing its current business portfolio, a company can decide **which businesses should receive more, less or no investment**, and it can develop growth strategies for adding new products or businesses to the portfolio.

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STRATEGIC MARKETING PLANNING

The business portfolio analysis

Analyzing the current business portfolio

- One of management's major first steps will be to identify the key businesses that make up the company. These are **strategic business units, SBU's**.
- A **strategic business unit** is a unit of the company that has its own separate mission and objectives, and which can be planned independently from other company businesses.
An SBU can be **a company division** (most commonly), **a product line within a division**, or sometimes even **a single product or brand**.

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STRATEGIC MARKETING PLANNING

The business portfolio analysis

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Analyzing the current business portfolio

- The next step in business portfolio analysis will be *assessing the attractiveness* of the various SBU's within the organization, and *deciding how much support* each SBU deserves.
- Most standard portfolio analysis methods evaluate SBU's on two major dimensions: the **attractiveness** of the SBU's market or industry, and the **strength of its position** in that market or industry. Common methods are the **Boston Consulting Group matrix** and the **McKinsey / GE-MABA grid**.

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The business portfolio analysis

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The Boston Consulting Group matrix

- This portfolio analysis tool was developed by the Boston Consulting Group in the mid 70's. It is based on the proposition that *cash flow* (= profit after taxes, plus depreciations) is an important factor in view of the following two dimensions:
 - a high **market growth rate** requires large funding -and therefore a rather large cash flow- in order to finance huge investments;
 - a relatively high **market share** has a positive effect on the cash flow of a company.

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STRATEGIC MARKETING PLANNING

The business portfolio analysis

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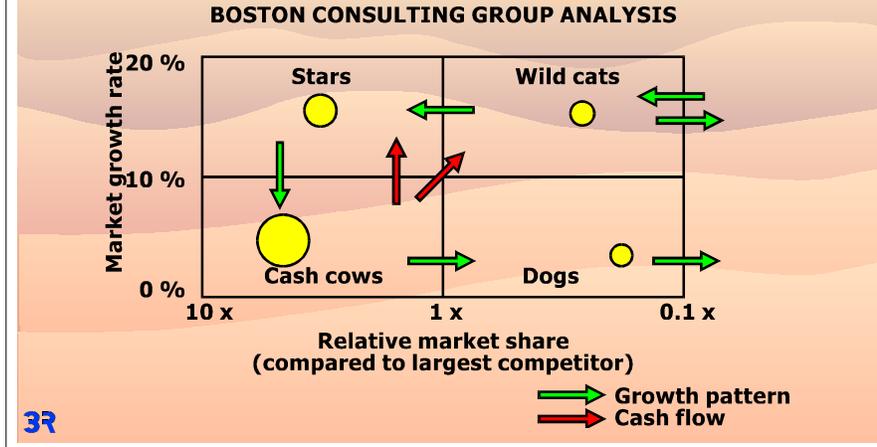
The Boston Consulting Group matrix

- The method involves classifying all the firm's SBU's according to a growth / share matrix. This matrix is divided into 4 areas:
 - low-share business in high-growth markets: the so called **wild cats** (or question marks, or problem children);
 - high-share business in high-growth markets: the so called **stars**;
 - high-share business in low-growth markets: the so called **cash cows**, and finally:
 - low-share business in low-growth markets: the so called **dogs**.

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STRATEGIC MARKETING PLANNING

The business portfolio analysis



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The business portfolio analysis

BCG strategies for the various SBU's

- The company could choose to invest more in a business (unit) in order *to build its share*.
- It could choose to invest just enough *to hold the SBU's share at the current level*.
- It could choose to *harvest the SBU*, milking its short-term cash flow regardless of the long-term effect.
- It could choose to *divest the SBU*, by selling it or phasing it out and using the resources elsewhere.

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STRATEGIC MARKETING PLANNING

The business portfolio analysis

The McKinsey / GE-MABA grid

- Like the BCG approach, this portfolio analysis tool also uses a matrix with two dimensions: **industry attractiveness** and the **company's strength in the industry**. However, contrary to the BCG method, this MABA analysis (*Market Attractiveness Business Assessment analysis*) examines many other factors besides market growth rate and relative market share. All these factors form two kinds of indexes: an **industry attractiveness index** and a **business strength index**.

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STRATEGIC MARKETING PLANNING

The McKinsey / GE-MABA grid

The McKinsey / GE-MABA grid

- | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> ■ Industry attractiveness ○ Market growth ○ Market volume share ○ Porter's 5 forces ○ Distribution channels ○ Life cycle position ○ Customer's buying power ○ Profitability ○ etc. | <ul style="list-style-type: none"> ■ Business strengths ○ Market share ○ Relative market share ○ Product position ○ Price position ○ Cost-price position ○ Distribution position ○ Quality position ○ etc. |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

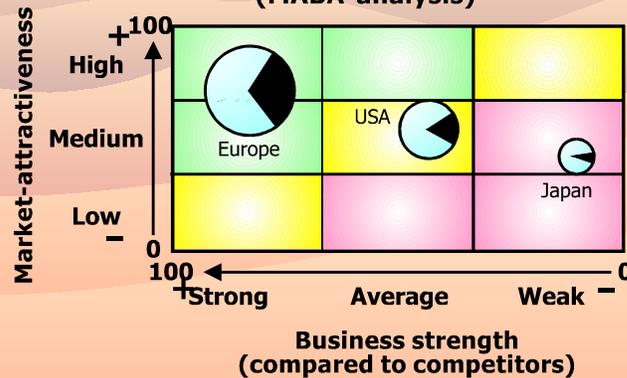
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The McKinsey / GE-MABA grid

McKINSEY / GENERAL ELECTRIC - ANALYSIS
(MABA-analysis)



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STRATEGIC MARKETING PLANNING

The McKinsey / GE-MABA grid

<p>Protect position</p> <ul style="list-style-type: none"> - invest to grow at maximum digestible rate - concentrate effort on maintaining strength 	<p>Invest to build</p> <ul style="list-style-type: none"> - challenge for leadership - build selectively on strengths - reinforce v. vulnerable areas 	<p>Build selectively</p> <ul style="list-style-type: none"> - specialize around limited strengths - seek ways to overcome weaknesses - withdraw when lack of sustainable growth
<p>Build selectively</p> <ul style="list-style-type: none"> - invest heavily in most attractive segments - build on ability to counter competition - emphasize profitability by raising productivity 	<p>Selectivity / Manage for earning</p> <ul style="list-style-type: none"> - protect existing programs - concentrate investments in profitable, low-risk segments 	<p>Limited expansion or harvest</p> <ul style="list-style-type: none"> - concentrate on ways to expand without high risk, or: - minimize investment and rationalize operations
<p>Protect and refocus</p> <ul style="list-style-type: none"> - manage for current earnings - focus on attractive segments - defend strengths 	<p>Manage for earning</p> <ul style="list-style-type: none"> - protect position in most profitable segments - upgrade product line - Minimize investment 	<p>Divest</p> <ul style="list-style-type: none"> - sell at time that will maximize cash value - cut fixed costs and avoid investment in the meantime.

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Internal analysis: distribution

Distribution policy

- To what extent does the present distribution policy correspond to the market developments? Important issues in this respect are, i.a.:
 - **presence in relevant channels** that are important to the company and its customers;
 - **service possibilities** within the distribution channels;
 - **occurring co-operations between distributors** and other organizations in the distribution channels that are being used.

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STRATEGIC MARKETING PLANNING

McKinsey's 7-S model

Organizational factors to be considered

- **The McKinsey consulting firm** developed the 7-s model in the 70's. The McKinsey consultants had discovered that in many cases a firm's ability to undergo changes (resulting from new strategies, for instance) depends strongly on **7 key factors**.

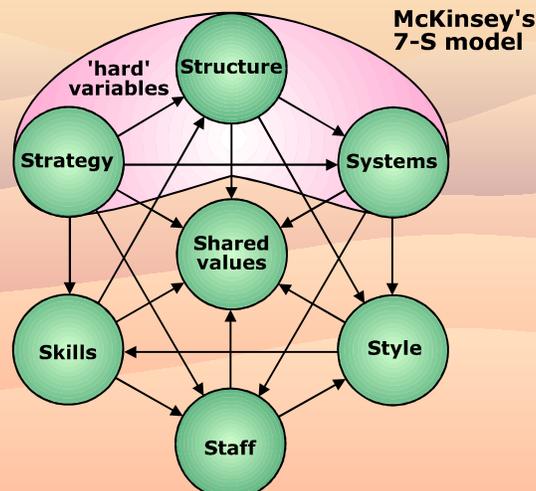
Neglecting one or a couple of these factors may delay change processes or even make them fail.

- All these factors are considered equally important and are closely linked together.

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McKinsey's 7-S model

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Shared values

- Also known as *superordinate goals*, this category of factors involves concepts, values, core beliefs and expectations that people have of their organization, and that forge an organization, aimed at a mutual objective. Usually these shared values are important elements of a company's mission, often stated simply in tags, such as: 'customer service' (IBM), or 'innovation' (3M). Not every organization has clear superordinate goals. However, those that do, often perform much better than those without them.

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STRATEGIC MARKETING PLANNING

McKinsey's 7-S model

Strategy

- Strategy refers to the organization's objectives and the conscious choices it makes to achieve them, such as prioritizing certain PMC's or allocating resources.

Strategy involves devising the plan(s) to maintain and build competitive advantage over the competition.

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STRATEGIC MARKETING PLANNING

McKinsey's 7-S model

Structure

- this category has to do with the structure of an organization, its hierarchy and co-ordination, and the way the organization is divided into smaller units or departments and their *degree of coherence* (consistency). Structure also refers to the organization's integration of tasks and activities.
Well structured organizations can carry through temporary structural changes for specific strategic tasks, without decomposing the basic structure of their entire organization.

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STRATEGIC MARKETING PLANNING

McKinsey's 7-S model

Systems

- Systems refers to the **primary and secondary processes** that the organization has set up that enable it to get things done, such as its manufacturing systems, its logistical systems, its order processing systems, its quality control systems, etc.
Systems also involves all the formal and informal methods, procedures, instructions and arrangements that form part of the organizations processes.

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STRATEGIC MARKETING PLANNING

McKinsey's 7-S model

Style

- Style has little to do with personality; style involves the **pattern of actual and symbolic actions** managers take.
Style also looks into spans, scopes and depths of control (**span of control**: the number of subordinates a manager supervises directly; **scope of control**: the number of subordinates a manager is capable of supervising; **depth of control**: the impact a manager has on subordinates working in lower levels of the organization).

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STRATEGIC MARKETING PLANNING

McKinsey's 7-S model

Staff

- Successful organizations look upon their **employees as precious assets** which need to be encouraged, developed and cared for.
In such organizations a considerable amount of time and energy will be spent on training and motivating employees.

This factor refers to aspects such as degree of absence, level of education, and degree of willingness and flexibility of employees and their managers.

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STRATEGIC MARKETING PLANNING

McKinsey's 7-S model

Skills

- Skills are the things **-activities- an organization does best**, and what it is (or should be) well known for, and are independent of individuals. Skills are dependent upon the six others S's. DuPont is well known for its research skills; Procter & Gamble for their product management skills; Hewlett-Packard for their innovative power and their quality, etc.

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Internal analysis: finance

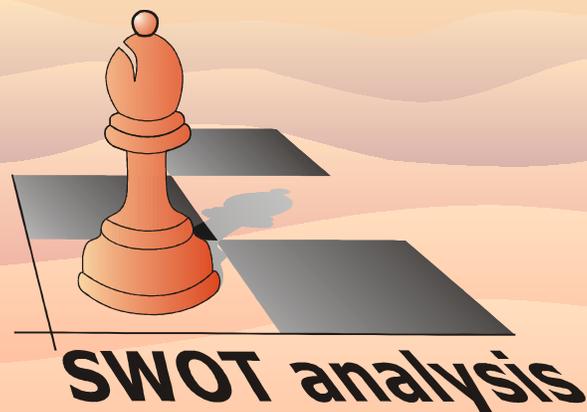
Financial analysis

- Determination of the business economic aspects of the organization
 - **return on assets**, in view of the company's activities: ratio between revenues and assets;
 - development of **costs and revenues**;
 - financial structure of the organization (**working capital, solvency, liquidity, etc.**)

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STRATEGIC MARKETING PLANNING

The SWOT analysis

Distillation of the findings of in-/external analysis

- **SWOT analysis** : a distillation of the findings of the internal and external audit, focussing on critical organizational *strengths* and *weaknesses*, and the *opportunities* and *threats* facing the company.
- The SWOT analysis contains various data of differing importance and reliability; these data show where a business should focus its attention

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STRATEGIC MARKETING PLANNING

The SWOT analysis

Opportunities & threats

- Marketing managers need to identify the main threats and opportunities that their company faces. The purpose of the opportunities / threats analysis is to make the marketing manager **anticipate important developments that can have an impact on the firm.**

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STRATEGIC MARKETING PLANNING

The SWOT analysis

Opportunities & threats

- **Opportunities** involve situations that occur regarding customer's needs or possibly profitable chances for the company.
- **Threats** involve undesirable trends or developments that, without appropriate counter-measures, could lead to decline of sales or profit

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STRATEGIC MARKETING PLANNING

The SWOT analysis

	OPPORTUNITIES	THREATS
MESO FACTORS <ul style="list-style-type: none"> ■ MARKET ANALYSIS <ul style="list-style-type: none"> □ Nature, volume □ Growth rate □ ■ CUSTOMERS ANALYSIS <ul style="list-style-type: none"> □ Customers behaviour □ Target groups □ ■ DISTRIBUTION ANALYSIS <ul style="list-style-type: none"> □ Structure, channels □ Concentrations □ ■ BRANCH / COMPETITION <ul style="list-style-type: none"> □ Developments in branch □ Porter's 5 forces model □ 		
MACRO FACTORS <ul style="list-style-type: none"> ■ MACRO ECONOMIC <ul style="list-style-type: none"> □ General economic climate □ Economic developments □ 		



STRATEGIC MARKETING PLANNING

The SWOT analysis

	OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> ■ POLITICAL / LEGAL <ul style="list-style-type: none"> □ Laws & legislation □ Other measures □ ■ SOCIAL / CULTURAL <ul style="list-style-type: none"> □ Values, rules □ Religion, education □ ■ SOCIETAL <ul style="list-style-type: none"> □ Environment, emancipation □ Consumer awareness □ ■ DEMOGRAPHIC <ul style="list-style-type: none"> □ Demographic developments □ Household sizes □ ■ TECHNOLOGICAL <ul style="list-style-type: none"> □ New technologies □ PLC-developments □ 		



STRATEGIC MARKETING PLANNING

The SWOT analysis

Strengths & weaknesses

- The **strengths** and **weaknesses** in the SWOT analysis involve features of a company that are closely related to the critical success factors of the firm.
- **Critical success factors** are strengths and weaknesses that most critically affect an organization's success, such as the ability to build successful relationships with customers, or securing financing for further expansion.
- Strengths and weaknesses are / should be **relative** (to competition), not absolute.



STRATEGIC MARKETING PLANNING

The SWOT analysis

MICRO FACTORS	STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> ■ MARKETING & SALES <ul style="list-style-type: none"> <input type="checkbox"/> Marketing policy <input type="checkbox"/> Marketing instruments <input type="checkbox"/> ■ CUSTOMERS <ul style="list-style-type: none"> <input type="checkbox"/> Choice of target groups <input type="checkbox"/> Segmentation policy <input type="checkbox"/> ■ DISTRIBUTION POLICY <ul style="list-style-type: none"> <input type="checkbox"/> Choice of channels <input type="checkbox"/> Account management <input type="checkbox"/> ■ PRODUCT / PRODUCTION POLICY <ul style="list-style-type: none"> <input type="checkbox"/> Product range policy <input type="checkbox"/> Quality <input type="checkbox"/> ■ PURCHASING POLICY <ul style="list-style-type: none"> <input type="checkbox"/> Purchasing discounts <input type="checkbox"/> Stock control, JIT <input type="checkbox"/> 		

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STRATEGIC MARKETING PLANNING

The SWOT analysis

	STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> ■ RESEARCH & DEVELOPMENT <ul style="list-style-type: none"> <input type="checkbox"/> Patents pending <input type="checkbox"/> In- / external communications <input type="checkbox"/> ■ COMPETITIVE POSITION <ul style="list-style-type: none"> <input type="checkbox"/> Portfolio analysis <input type="checkbox"/> Market attractiveness <input type="checkbox"/> ■ FINANCIAL POSITION <ul style="list-style-type: none"> <input type="checkbox"/> Investment capacity <input type="checkbox"/> Cost / revenue development <input type="checkbox"/> ■ HUMAN RESOURCES POLICY <ul style="list-style-type: none"> <input type="checkbox"/> McKinsey's 7-S analysis <input type="checkbox"/> Service aspects <input type="checkbox"/> ■ PROMOTION POLICY <ul style="list-style-type: none"> <input type="checkbox"/> Use of communic. instrumts <input type="checkbox"/> Promotion budget system <input type="checkbox"/> 		

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STRATEGIC MARKETING PLANNING

Connecting arguments: confrontation grid

	A Co-operate all lines	B Own base system	C Size / drive system	D Own base system	E Capacity low utilization	F Relative market share	Overhead / costs
	Strengths			Weaknesses			
Opportunities							
1 business market development	++	+	++	++	+	+	+-
2 expansion of landing rights in USA / Azia	++	+	++	++	+	+	+-
3 consumer's destination preferences	++	++	++	++	+	+	--
Threats							
4 market entry of low budget airlines	++	+-			--	--	--
5 decrease consumer's buying power	++		+-		--	--	--
6 instability in the Middle-East	++	-	--		+-		

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STRATEGIC MARKETING PLANNING

SWOT analysis: no easy conclusions

Further analysis

- Clearly, SWOT-confrontations will not result directly in easy solutions or suitable strategies; however, they do provide strategic issues that may need to be further investigated.

In this phase, especially larger companies will want a more quantity based examination, for instance by means of the earlier mentioned *strategic gap analysis* .