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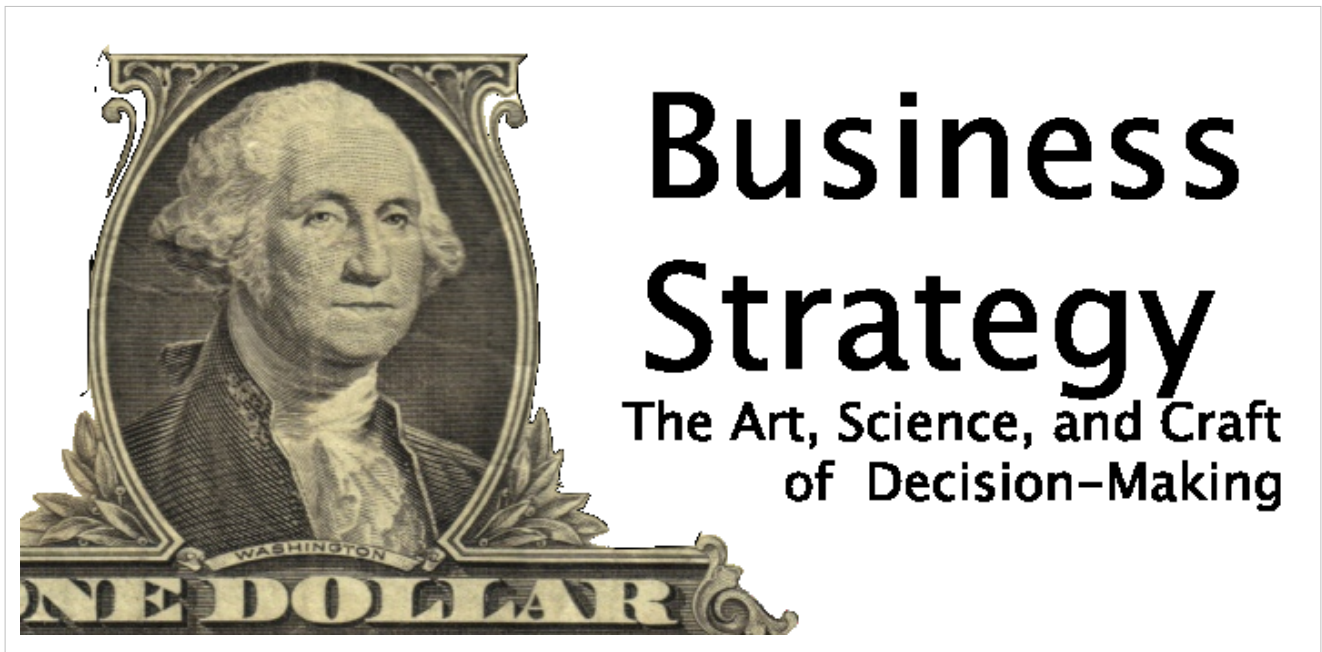
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Business Strategy



Business (or Strategic) management is the art, science, and craft of formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its long-term objectives. It is the process of specifying the organization's mission, vision and objectives, developing policies and plans, often in terms of projects and programs, which are designed to achieve these objectives, and then allocating resources to implement the policies and plans, projects and programs. Strategic management seeks to coordinate and integrate the activities of the various functional areas of a business in order to achieve long-term organizational objectives. A balanced scorecard is often used to evaluate the overall performance of the business and its progress towards objectives.

Strategic management is the highest level of managerial activity. Strategies are typically planned, crafted or guided by the Chief Executive Officer, approved or authorized by the Board of directors, and then implemented under the supervision of the organization's top management team or senior executives. Strategic management provides overall direction to the enterprise and is closely related to the field of Organization Studies. In the field of business administration it is useful to talk about "strategic alignment" between the organization and its environment or "strategic consistency". According to Arieu (2007), "there is strategic consistency when the actions of an organization are consistent with the expectations of management, and these in turn are with the market and the context."

Before reading the rest, it is recommended that An Overview of Strategic Planning be read.

General Business Management

1. The Three Processes of Strategy
2. Approaches to Strategic Management
3. History of Business Management until the 1970s
4. The Japanese Challenge
5. Gaining Competitive Advantage
6. Strategic Change in the 1990s
7. Information- and Technology-Driven Strategy
8. The Psychology of Business Management
9. Failure of Strategy
10. Limitations of Business Management

Business Planning

1. Business Plans
2. Marketing Plans and Strategies

The content of this Wikibook was originally found on Wikipedia, but moved due to various requests and because Wikibooks is a better location for the information. Theunixgeek (talk) 20:45, 25 February 2009 (UTC)

Business Strategy/Overview of Strategic Planning

Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy, including its capital and people. Various business analysis techniques can be used in strategic planning, including SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats) and PEST analysis (Political, Economic, Social, and Technological analysis) or STEER analysis involving Socio-cultural, Technological, Economic, Ecological, and Regulatory factors and EPISTELS (Environment, Political, Informatic, Social, Technological, Economic, Legal and Spiritual)

Strategic planning is the formal consideration of an organization's future course. All strategic planning deals with at least one of three key questions:

1. "What do we do?"
2. "For whom do we do it?"
3. "How do we excel?"

In business strategic planning, the third question is better phrased "How can we beat or avoid competition?". (Bradford and Duncan, page 1).

In many organizations, this is viewed as a process for determining where an organization is going over the next year or more -typically 3 to 5 years, although some extend their vision to 20 years.

In order to determine where it is going, the organization needs to know exactly where it stands, then determine where it wants to go and how it will get there. The resulting document is called the "strategic plan".

It is also true that strategic planning may be a tool for effectively plotting the direction of a company; however, strategic planning itself cannot foretell exactly how the market will evolve and what issues will surface in the coming days in order to plan your organizational strategy. Therefore, strategic innovation and tinkering with the 'strategic plan' have to be a cornerstone strategy for an organization to survive the turbulent business climate.

Vision, mission and values

Vision: Defines the desired or intended future state of a specific organization or enterprise in terms of its fundamental objective and/or strategic direction.

Mission: Defines the fundamental purpose of an organization or an enterprise, basically describing why it exists.

Values: Beliefs that are shared among the stakeholders of an organization. Values drive an organization's culture and priorities.

Methodologies

There are many approaches to strategic planning but typically a three-step process may be used:

- **Situation** - evaluate the current situation and how it came about.
- **Target** - define goals and/or objectives (sometimes called ideal state)
- **Path** - map a possible route to the goals/objectives

One alternative approach is called *Draw-See-Think*

- **Draw** - what is the ideal image or the desired end state?
- **See** - what is today's situation? What is the gap from ideal and why?
- **Think** - what specific actions must be taken to close the gap between today's situation and the ideal state?
- **Plan** - what resources are required to execute the activities?

An alternative to the *Draw-See-Think* approach is called *See-Think-Draw*

- **See** - what is today's situation?
- **Think** - define goals/objectives
- **Draw** - map a route to achieving the goals/objectives

In other terms strategic planning can be as follows:

- **Vision** - Define the vision and set a mission statement with hierarchy of goals
- **SWOT analysis** - Analysis conducted according to the desired goals
- **Formulate** - Formulate actions and processes to be taken to attain these goals
- **Implement** - Implementation of the agreed upon processes
- **Control** - Monitor and get feedback from implemented processes to fully control the operation

Situational analysis

When developing strategies, analysis of the organization and its environment as it is at the moment and how it may develop in the future, is important. The analysis has to be executed at an internal level as well as an external level to identify all opportunities and threats of the external environment as well as the strengths and weaknesses of the organizations.

There are several factors to assess in the external situation analysis:

1. Markets (customers)
2. Competition
3. Technology
4. Supplier markets
5. Labor markets
6. The economy
7. The regulatory environment

It is rare to find all seven of these factors having critical importance. It is also uncommon to find that the first two - markets and competition - are not of critical importance. (Bradford "External Situation - What to Consider")^[1]

Analysis of the external environment normally focuses on the customer. Management should be visionary in formulating customer strategy, and should do so by thinking about market environment shifts, how these could impact customer sets, and whether those customer sets are the ones the company wishes to serve.

Analysis of the competitive environment is also performed, many times based on the framework suggested by Michael Porter.

Goals, objectives and targets

Strategic planning is a very important business activity. It is also important in the public sector areas such as education. It is practiced widely informally and formally. Strategic planning and decision processes should end with objectives and a roadmap of ways to achieve those objectives.

The following terms have been used in strategic planning: desired end states, plans, policies, goals, objectives, strategies, tactics and actions. Definitions vary, overlap and fail to achieve clarity. The most common of these concepts are specific, time bound statements of intended future results and general and continuing statements of intended future results, which most models refer to as either goals or objectives (sometimes interchangeably).

One model of organizing objectives uses hierarchies. The items listed above may be organized in a hierarchy of means and ends and **numbered** as follows: Top Rank Objective (TRO), Second Rank Objective, Third Rank Objective, etc. From any rank, the objective in a lower rank answers to the question "How?" and the objective in a higher rank answers to the question "Why?" The exception is the Top Rank Objective (TRO): there is no answer to the "Why?" question. That is how the TRO is defined.

People typically have several goals at the same time. "Goal congruency" refers to how well the goals combine with each other. Does goal A appear compatible with goal B? Do they fit together to form a unified strategy? "Goal hierarchy" consists of the nesting of one or more goals within other goal(s).

One approach recommends having short-term goals, medium-term goals, and long-term goals. In this model, one can expect to attain short-term goals fairly easily: they stand just slightly above one's reach. At the other extreme, long-term goals appear very difficult, almost impossible to attain. Strategic management jargon sometimes refers to "Big Hairy Audacious Goals" (BHAGs) in this context. Using one goal as a stepping-stone to the next involves **goal sequencing**. A person or group starts by attaining the easy short-term goals, then steps up to the medium-term, then to the long-term goals. Goal sequencing can create a "goal stairway". In an organizational setting, the organization may co-ordinate goals so that they do not conflict with each other. The goals of one part of the organization should mesh compatibly with those of other parts of the organization.

Mission statements and vision statements

Organizations sometimes summarize goals and objectives into a **mission statement** and/or a **vision statement**:

While the existence of a shared mission is extremely useful, many strategy specialists question the requirement for a written mission statement. However, there are many models of strategic planning that start with mission statements, so it is useful to examine them here.

- A **Mission statement** tells you the fundamental purpose of the organization. It concentrates on the present. It defines the customer and the critical processes. It informs you of the desired level of performance.
- A **Vision statement** outlines what the organization wants to be. It concentrates on the future. It is a source of inspiration. It provides clear decision-making criteria.

Many people mistake vision statement for mission statement. The Vision describes a future identity while the Mission serves as an ongoing and time-independent guide. The Mission describes why it is important to achieve the Vision. A Mission statement defines the purpose or broader goal for being in existence or in the business and can remain the same for decades if crafted well. A Vision statement is more specific in terms of both the future state and

the time frame. Vision describes what will be achieved if the organization is successful.

A mission statement can resemble a vision statement in a few companies, but that can be a grave mistake. It can confuse people. The vision statement can galvanize the people to achieve defined objectives, even if they are stretch objectives, provided it can be elucidated in SMART (project management)|SMART (Specific, Measurable, Achievable, Relevant and Time-bound) terms. A mission statement provides a path to realize the vision in line with its values. These statements have a direct bearing on the bottom line and success of the organization.

Which comes first? The mission statement or the vision statement? That depends. If you have a new start up business, new program or plan to re engineer your current services, then the vision will guide the mission statement and the rest of the strategic plan. If you have an established business where the mission is established, then many times, the mission guides the vision statement and the rest of the strategic plan. Either way, you need to know your fundamental purpose - the mission, your current situation in terms of internal resources and capabilities (strengths and/or weaknesses) and external conditions (opportunities and/or threats), and where you want to go - the vision for the future. It's important that you keep the end or desired result in sight from the start.^[citation needed]

Features of an effective vision statement include:

- Clarity and lack of ambiguity
- Vivid and clear picture
- Description of a bright future
- Memorable and engaging wording
- Realistic aspirations
- Alignment with organizational values and culture

To become really effective, an organizational vision statement must (the theory states) become assimilated into the organization's culture. Leaders have the responsibility of communicating the vision regularly, creating narratives that illustrate the vision, acting as role-models by embodying the vision, creating short-term objectives compatible with the vision, and encouraging others to craft their own personal vision compatible with the organization's overall vision. In addition, mission statements need to conduct an internal assessment and an external assessment. The internal assessment should focus on how members inside the organization interpret their mission statement. The external assessment -- which includes all of the businesses stakeholders -- is valuable since it offers a different perspective. These discrepancies between these two assessments can give insight on the organization's mission statement effectiveness.

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[1] http://www.cssp.com/external_situation.php

Business Strategy/Approaches to Strategic Management

General approaches

In general terms, there are two main approaches, which are opposite but complement each other in some ways, to strategic management:

- **The Industrial Organizational Approach**
 - based on economic theory — deals with issues like competitive rivalry, resource allocation, economies of scale
 - assumptions — rationality, self discipline behaviour, profit maximization
- **The Sociological Approach**
 - deals primarily with human interactions
 - assumptions — bounded rationality, satisfying behaviour, profit sub-optimality. An example of a company that currently operates this way is Google

Strategic management techniques can be viewed as bottom-up, top-down, or collaborative processes. In the bottom-up approach, employees submit proposals to their managers who, in turn, funnel the best ideas further up the organization. This is often accomplished by a capital budgeting process. Proposals are assessed using financial criteria such as return on investment or cost-benefit analysis. Cost underestimation and benefit overestimation are major sources of error. The proposals that are approved form the substance of a new strategy, all of which is done without a grand strategic design or a strategic architect. The top-down approach is the most common by far. In it, the CEO, possibly with the assistance of a strategic planning team, decides on the overall direction the company should take. Some organizations are starting to experiment with collaborative strategic planning techniques that recognize the emergent nature of strategic decisions.

The strategy hierarchy

In most corporations there are several levels of management. Strategic management is the highest of these levels in the sense that it is the broadest - applying to all parts of the firm - while also incorporating the longest time horizon. It gives direction to corporate values, corporate culture, corporate goals, and corporate missions. Under this broad corporate strategy there are typically business-level competitive strategies and functional unit strategies.

Corporate strategy refers to the overarching strategy of the diversified firm. Such a corporate strategy answers the questions of "in which businesses should we compete?" and "how does being in these business create synergy and/or add to the competitive advantage of the corporation as a whole?"

Business strategy refers to the aggregated strategies of single business firm or a strategic business unit (SBU) in a diversified corporation. According to Michael Porter, a firm must formulate a business strategy that incorporates either cost leadership, differentiation or focus in order to achieve a sustainable competitive advantage and long-term success in its chosen arenas or industries.

Functional strategies include marketing strategies, new product development strategies, human resource strategies, financial strategies, legal strategies, supply-chain strategies, and information technology management strategies. The emphasis is on short and medium term plans and is limited to the domain of each department's functional responsibility. Each functional department attempts to do its part in meeting overall corporate objectives, and hence to some extent their strategies are derived from broader corporate strategies.

Many companies feel that a functional organizational structure is not an efficient way to organize activities so they have reengineered/reengineered according to processes or SBUs. A **strategic business unit** is a semi-autonomous unit that is usually responsible for its own budgeting, new product decisions, hiring decisions, and price setting. An SBU is treated as an internal profit centre by corporate headquarters.

An additional level of strategy called **operational strategy** was encouraged by Peter Drucker in his theory of management by objectives (MBO). It is very narrow in focus and deals with day-to-day operational activities such as scheduling criteria. It must operate within a budget but is not at liberty to adjust or create that budget. Operational level strategies are informed by business level strategies which, in turn, are informed by corporate level strategies.

Since the turn of the millennium, some firms have reverted to a simpler strategic structure driven by advances in information technology. It is felt that knowledge management systems should be used to share information and create common goals. Strategic divisions are thought to hamper this process. This notion of strategy has been captured under the rubric of **dynamic strategy**, popularized by Carpenter and Sanders's textbook [1]. This work builds on that of Brown and Eisenhart as well as Christensen and portrays firm strategy, both business and corporate, as necessarily embracing ongoing strategic change, and the seamless integration of strategy formulation and implementation. Such change and implementation are usually built into the strategy through the staging and pacing facets.

References

[1] <http://www.prenhall.com/carpenter/>

Business Strategy/Business Plans

Though business plans have many different presentation formats, business plans typically cover five major content areas:

1. Background information
2. A marketing plan
3. An operational plan
4. A financial plan
5. A discussion of the decision-making criteria that should be used to approve the plan.

Some of these content areas may be more or less important depending on the kind of business plan. There is no fixed content for a business plan. Rather the content and format of the business plan is determined by the goals and audience. A business plan should contain whatever information is needed to decide whether or not to pursue a goal.

Once a business plan has been developed, the key decision making points are usually summarized in an #Executive Summary executive summary.

Executive Summary

The executive summary summarizes the key points of the business plan. It should define the decision to be made and the reasons for approval. The specific content will be highly dependent on the core purpose and target audience. To get a sense of the difference the purpose and target audience can make, here are three different sets of key points for an executive summary - one for a loan request, one for a start-up seeking venture finance, and one for an internal plan. Items unique to a particular kind of plan are highlighted in bold:

A loan request executive summary might contain the following information ^[citation needed]:

- Company information: name of company, **years in business**, legal structure, minority and majority owners
- Brief description of project
- **Amount and length of loan**
- Objective reasons why the bank should be confident that the loan will be paid back. This likely will include
 - Financial track record
 - The future revenue stream
 - Any contracts in place that might guarantee the revenue stream is more than just a forecast.

For a new venture, the executive summary might contain:

- Company information: name of company, **proposed legal structure**, current legal structure, minority and majority investors.
- **Amount of investment requested**
- **Expected terminal value**
- **Description of market opportunity**
- **Objective reasons why the market opportunity can be exploited by this particular team**

For an internal project plan, the executive summary might look like this ^[citation needed]:

- Company information: **not applicable**
- Description of project
- **Project mandate: who requested the proposal, who is being assigned to carry it out**
- **Strategic, tactical** and financial justifications
- Summary of resources needed: **staff**, funds, **facilities**

In some cases information will overlap. For example, some of the reasons why a loan is likely to be repaid might equally as well be used as justification for the kind of extraordinary return expected by venture capitalists.

In some cases the business plan as a whole contains similar information, but for one type of plan it is mere detail and for another it is a key decision making factor. For instance, both start-ups and internal projects need staff and facilities. However the staffing and facilities needs are considered details in a plan for start-up financing. In a plan for internal projects they are key elements and, in fact, may be the only resources needed.

Organizational Background

In a written plan information may appear in a separate section, an appendix, or may be omitted all together depending on the nature of the plan. If the plan is directed at people outside of the company, a brief synopsis may appear in the executive summary. This will be supplemented with a more detailed discussion elsewhere in the plan.

Mission Statement and business model

To create a quality, online learning experience for students through an interactive learning environment. - As an example.

For a commercial organization, the business model sums up also how the business or project will satisfy customers and bring profitability

Current Status

- Number of Employees
- Annual sales figures
- Key product lines
- Location of facilities
- Current stage of development (start-ups)
- Corporate structure (options are):
 - Sole proprietors
 - Partnership
 - Joint Venture
 - Publicly traded corporation
 - Corporation/Private corporation
 - Limited liability company
 - Public utility
 - Non-profit organization
- Names of the majority investor, if any

History

- Founding date
- Major successes
- Strategically valuable learning experiences

Management Team

- Board members
 - Owners
 - Senior managers
 - Managing partners
 - Head scientists and researchers
-

Marketing Plan

The marketing plan has five objectives: If the product is a new product with no existing market, one must identify all substitute products. For each significant substitute product one must explain:

- Name, features, why substitute, why proposed product better
- Switching costs and why new product justifies switching
- Expected adoption dynamics
- Expected role once market begins to develop (see above for existing products)

Pricing

- Chosen price points
- Proposed Pricing|Pricing strategy

Demand Management

In economics, Demand management|demand management is the art or science of controlling economic demand to avoid a recession. The term is also used to refer to management of the distribution of, and access to goods and services on the basis of needs. An example is social security and welfare services. Rather than increasing budgets for these things, governments may develop policies that allocate existing resources according a hierarchy of need.

Distribution

- Distribution (business)|Distribution strategy
- List of major distributors
- Current status of negotiations

Promotion and Brand Development

- Promotion (marketing)|Promotion strategy

Operational Plan

The plan outlines how we will service our clients cost effectively

Manufacturing/Deployment Plan

- Supply chain requirements
- Production inputs
- Facility requirements - size, layout, capacity, location
- Equipment requirements
- Warehousing needs for raw materials, finished goods
 - Space requirements

Information and Communications Technology Plan

- Systems needed
 - Operations: Billing, HR, SCM, CRM, Knowledge bases, etc.
 - Websites: internal, public
- Security and privacy requirements
- Hardware requirements
- Off-the-shelf software needed
- Custom development requirements

Staffing Plan

Staffing Needs

- List of roles
- Management structure
- For each role
 - Number of employees
 - Proposed compensation
 - Availability

Asset Development Plan

Intellectual Property Plan

- Intellectual property inventory
- Portfolio development plan

Acquisition Plan

Some business plans gain competitive advantage by buying companies up and down the value chain. Some gain competitive advantage by buying up companies and consolidating them. Sometimes a business plan will seek to earn a superior return by adding superior management talent to an existing weak company.

For more information see Mergers and Acquisitions.

When acquisitions form a major part of the business strategy, the acquisition plan needs to be included in the business plan.

- Acquisition strategy
- Proposed acquisition targets
- Effect on market structure (if consolidation plan is being proposed)

Also, some acquisition plan will explain the basis of appointing the Liquidator of the acquisition procedures

Organizational Learning Plan

The organizational learning plan discusses what lessons will be learned from the marketing, operational, and finance plans and how those lessons will be consolidated to gain strategic advantage.

- Market sensing - organization's method for collecting information about customers (George Day)
 - Strategic Staircase - the accumulation of future competencies by building on existing competencies. (Michael Hays, Costas Markides)
-

Cost Allocation Model

If variable costs play an important role in the business plan, it may be helpful to include a cost allocation model. This is particularly true if one has a unique business model that creates competitive advantage by transforming traditionally fixed costs into variable costs^[citation needed].

- Fixed cost
- Variable costs

Financial Plan

For more information, see Financial plan.

Current Financing

- Key investors or owners
- Angels, friends, and family
- Existing loans and liabilities
 - Terms, obligations

Funding Plan

- IMF
- World Bank

Financial Forecasts

- Sometimes called pro formas
 - Balance sheet
 - Income statement
 - Cash flow statement
 - 1-3-5-7 year projections (depends on length of project)
 - For loans, repayment period determines length of projections, i.e. a six month loan doesn't need seven year forecasts
 - For investments point at which returns stabilize (terminal value) determines length of forecast
 - Annual, quarterly, and monthly versions should be provided
 - Graphs of key values often helpful: gross revenue, EBITDA, NPV, etc.
 - Financial portions of the marketing, asset development, and operations are often placed in this section rather than in the section discussing the plan. They are viewed as elaboration on the various line items in the pro-formas.
-

Risk analysis

For more information, see risk analysis.

Risk Evaluation

- Market risks - lack of surgeons; large geographical area so that we don't compete against our own clients;
 - New entrants to market
 - Ease of entry
 - Potential threat to market share- advertising companies
 - Slower than expected adoption
- Operational risks
- Staffing risks- embedding the right candidate for the right surgeon
 - Availability of skilled workforce- x-pharma reps, x-equipment reps
 - Union issues
- Financing risks
 - Liabilities
 - Poorly worded investor contracts at risk for litigation
 - Investor pull-out
 - Lack of follow-on funding to complete project
- Managerial risks
 - Poor board or investor dynamics
 - Agency risk particular to the venture

Risk Management Plan

Detailed plans are more often found as part of internal plans. Plans written for funders may need to include a high level of description if there are significant controllable risks.

- Methods and procedures to limit liabilities
- Reserve funds
- Continuity of operations plan

Decision Making Criteria

- Break even analysis
 - NPV
 - IRR
 - Balanced Scorecard
-

Business Strategy/Failure of Strategy

Reasons why strategic plans fail

There are many reasons why strategic plans fail, especially:

- Failure to understand the customer
 - Why do they buy
 - Is there a real need for the product
 - inadequate or incorrect marketing research
 - Inability to predict competitive/environmental reaction
 - What will competitors do
 - Fighting brand management/brands
 - Price wars
 - Will government intervene
 - Over-estimation of resource competence
 - Can the staff, equipment, and processes handle the new strategy
 - Failure to develop new employee and management skills
 - Failure to coordinate
 - Reporting and control relationships not adequate
 - Organizational structure not flexible enough
 - Failure to obtain senior management commitment
 - Failure to get management involved right from the start
 - Failure to obtain sufficient company resources to accomplish task
 - Failure to obtain employee commitment
 - New strategy not well explained to employees
 - No incentives given to workers to embrace the new strategy
 - Under-estimation of time requirements
 - No critical path analysis done
 - Failure to follow the plan
 - No follow through after initial planning
 - No tracking of progress against plan
 - No consequences for above
 - Failure to manage change
 - Inadequate understanding of the internal resistance to change
 - Lack of vision on the relationships between processes, technology and organization
 - Poor communications
 - Insufficient information sharing among stakeholders
 - Exclusion of stakeholders and delegates
-

Business Strategy/Gaining Competitive Advantage

The Japanese challenge shook the confidence of the western business elite, but detailed comparisons of the two management styles and examinations of successful businesses convinced westerners that they could overcome the challenge. The 1980s and early 1990s saw a plethora of theories explaining exactly how this could be done. They cannot all be detailed here, but some of the more important strategic advances of the decade are explained below.

Gary Hamel and C. K. Prahalad declared that strategy needs to be more active and interactive; less “arm-chair planning” was needed. They introduced terms like **strategic intent** and **strategic architecture**.^{[1][2]} Their most well known advance was the idea of core competency. They showed how important it was to know the one or two key things that your company does better than the competition.^[3]

Active strategic management required active information gathering and active problem solving. In the early days of Hewlett-Packard (H-P), Dave Packard and Bill Hewlett devised an active management style that they called **Management By Walking Around (MBWA)**. Senior H-P managers were seldom at their desks. They spent most of their days visiting employees, customers, and suppliers. This direct contact with key people provided them with a solid grounding from which viable strategies could be crafted. The MBWA concept was popularized in 1985 by a book by Tom Peters and Nancy Austin.^[4] Japanese managers employ a similar system, which originated at Honda, and is sometimes called the 3 G's (Genba, Genbutsu, and Genjitsu, which translate into “actual place”, “actual thing”, and “actual situation”).

Probably the most influential strategist of the decade was Michael Porter. He introduced many new concepts including; 5 forces analysis, generic strategies, the value chain, strategic groups, and Porter's cluster/clusters. In Porter 5 forces analysis he identifies the forces that shape a firm's strategic environment. It is like a SWOT analysis with structure and purpose. It shows how a firm can use these forces to obtain a sustainable competitive advantage. Porter modifies Chandler's dictum about structure following strategy by introducing a second level of structure: Organizational structure follows strategy, which in turn follows industry structure. Porter's generic strategies detail the interaction between **cost minimization strategies**, **product differentiation strategies**, and **market focus strategies**. Although he did not introduce these terms, he showed the importance of choosing one of them rather than trying to position your company between them. He also challenged managers to see their industry in terms of a value chain. A firm will be successful only to the extent that it contributes to the industry's value chain. This forced management to look at its operations from the customer's point of view. Every operation should be examined in terms of what value it adds in the eyes of the final customer.

In 1993, John Kay (economist) John Kay took the idea of the value chain to a financial level claiming “ Adding value is the central purpose of business activity”, where adding value is defined as the difference between the market value of outputs and the cost of inputs including capital, all divided by the firm's net output. Borrowing from Gary Hamel and Michael Porter, Kay claims that the role of strategic management is to identify your core competencies, and then assemble a collection of assets that will increase value added and provide a competitive advantage. He claims that there are 3 types of capabilities that can do this; innovation, reputation, and organizational structure.

The 1980s also saw the widespread acceptance of positioning (marketing) positioning theory. Although the theory originated with Jack Trout in 1969, it didn't gain wide acceptance until Al Ries and Jack Trout wrote their classic book “Positioning: The Battle For Your Mind” (1979). The basic premise is that a strategy should not be judged by internal company factors but by the way customers see it relative to the competition. Crafting and implementing a strategy involves creating a position in the mind of the collective consumer. Several techniques were applied to positioning theory, some newly invented but most borrowed from other disciplines. Perceptual mapping for example, creates visual displays of the relationships between positions. Multidimensional scaling (in marketing) Multidimensional scaling, discriminant analysis (in marketing) discriminant analysis, factor analysis, and

conjoint analysis (in marketing)|conjoint analysis are mathematical techniques used to determine the most relevant characteristics (called dimensions or factors) upon which positions should be based. Preference regression (in marketing)|Preference regression can be used to determine vectors of ideal positions and cluster analysis (in marketing)|cluster analysis can identify clusters of positions.

Others felt that internal company resources were the key. In 1992, Jay Barney, for example, saw strategy as assembling the optimum mix of resources, including human, technology, and suppliers, and then configure them in unique and sustainable ways.^[5]

Michael Hammer and James Champy felt that these resources needed to be restructured.^[6] This process, that they labeled reengineering, involved organizing a firm's assets around whole processes rather than tasks. In this way a team of people saw a project through, from inception to completion. This avoided functional silos where isolated departments seldom talked to each other. It also eliminated waste due to functional overlap and interdepartmental communications.

In 1989 Richard Lester and the researchers at the MIT Industrial Performance Center identified seven **best practices** and concluded that firms must accelerate the shift away from the mass production of low cost standardized products. The seven areas of best practice were:^[7]

- Simultaneous continuous improvement in cost, quality, service, and product innovation
- Breaking down organizational barriers between departments
- Eliminating layers of management creating flatter organizational hierarchies.
- Closer relationships with customers and suppliers
- Intelligent use of new technology
- Global focus
- Improving human resource skills

The search for "best practices" is also called benchmarking.^[8] This involves determining where you need to improve, finding an organization that is exceptional in this area, then studying the company and applying its best practices in your firm.

A large group of theorists felt the area where western business was most lacking was product quality. People like W. Edwards Deming,^[9] Joseph M. Juran,^[10] A. Kearney,^[11] Philip Crosby,^[12] and Armand Feignbaum^[13] suggested quality improvement techniques like Total Quality Management (TQM), kaizen|continuous improvement, lean manufacturing, Six Sigma, and Return on Quality (ROQ).

An equally large group of theorists felt that poor customer service was the problem. People like James Heskett (1988),^[14] Earl Sasser (1995), William Davidow,^[15] Len Schlesinger,^[16] A. Paraurgman (1988), Len Berry,^[17] Jane Kingman-Brundage,^[18] Christopher Hart, and Christopher Lovelock (1994), gave us fishbone diagramming, service charting, Total Customer Service (TCS), the service profit chain, service gaps analysis, the service encounter, strategic service vision, service mapping, and service teams. Their underlying assumption was that there is no better source of competitive advantage than a continuous stream of delighted customers.

Process management uses some of the techniques from product quality management and some of the techniques from customer service management. It looks at an activity as a sequential process. The objective is to find inefficiencies and make the process more effective. Although the procedures have a long history, dating back to Taylorism, the scope of their applicability has been greatly widened, leaving no aspect of the firm free from potential process improvements. Because of the broad applicability of process management techniques, they can be used as a basis for competitive advantage.

Some realized that businesses were spending much more on acquiring new customers than on retaining current ones. Carl Sewell,^[19] Frederick F. Reichheld,^[20] C. Gronroos,^[21] and Earl Sasser^[22] showed us how a competitive advantage could be found in ensuring that customers returned again and again. This has come to be known as **the loyalty effect** after Reichheld's book of the same name in which he broadens the concept to include employee loyalty,

supplier loyalty, distributor loyalty, and shareholder loyalty. They also developed techniques for estimating the lifetime value of a loyal customer, called customer lifetime value (CLV). A significant movement started that attempted to recast selling and marketing techniques into a long term endeavor that created a sustained relationship with customers (called relationship selling, relationship marketing, and customer relationship management). Customer relationship management (CRM) software (and its many variants) became an integral tool that sustained this trend.

James Gilmore and Joseph Pine found competitive advantage in mass customization.^[23] Flexible manufacturing techniques allowed businesses to individualize products for each customer without losing economies of scale. This effectively turned the product into a service. They also realized that if a service is mass customized by creating a “performance” for each individual client, that service would be transformed into an “experience”. Their book, *The Experience Economy*,^[24] along with the work of Bernd Schmitt convinced many to see service provision as a form of theatre. This school of thought is sometimes referred to as customer experience management (CEM).

Like Peters and Waterman a decade earlier, James Collins (management theorist)|James Collins and Jerry Porras spent years conducting empirical research on what makes great companies. Six years of research uncovered a key underlying principle behind the 19 successful companies that they studied: They all encourage and preserve a **core ideology** that nurtures the company. Even though strategy and tactics change daily, the companies, nevertheless, were able to maintain a core set of values. These core values encourage employees to build an organization that lasts. In *Built To Last* (1994) they claim that short term profit goals, cost cutting, and restructuring will not stimulate dedicated employees to build a great company that will endure.^[25] In 2000 Collins coined the term “built to flip” to describe the prevailing business attitudes in Silicon Valley. It describes a business culture where technological change inhibits a long term focus. He also popularized the concept of the **BHAG** (Big Hairy Audacious Goal).

Arie de Geus (1997) undertook a similar study and obtained similar results. He identified four key traits of companies that had prospered for 50 years or more. They are:

- Sensitivity to the business environment — the ability to learn and adjust
- Cohesion and identity — the ability to build a community with personality, vision, and purpose
- Tolerance and decentralization — the ability to build relationships
- Conservative financing

A company with these key characteristics he called a **living company** because it is able to perpetuate itself. If a company emphasizes knowledge rather than finance, and sees itself as an ongoing community of human beings, it has the potential to become great and endure for decades. Such an organization is an organic entity capable of learning (he called it a “learning organization”) and capable of creating its own processes, goals, and persona.

The military theorists

In the 1980s some business strategists realized that there was a vast knowledge base stretching back thousands of years that they had barely examined. They turned to military strategy for guidance. Military strategy books such as *The Art of War* by Sun Tzu, *On War* by Carl von Clausewitz|von Clausewitz, and *The Red Book* by Mao Zedong became instant business classics. From Sun Tzu they learned the tactical side of military strategy and specific tactical prescriptions. From Von Clausewitz they learned the dynamic and unpredictable nature of military strategy. From Mao Zedong they learned the principles of guerrilla warfare. The main marketing warfare strategies|marketing warfare books were:

- *Business War Games* by Barrie James, 1984
- *Marketing Warfare* by Al Ries and Jack Trout, 1986
- *Leadership Secrets of Attila the Hun* ^[26] by Wess Roberts, 1987

Philip Kotler was a well-known proponent of marketing warfare strategy.

There were generally thought to be four types of business warfare theories. They are:

- Offensive marketing warfare strategies
- Defensive marketing warfare strategies
- Flanking marketing warfare strategies
- Guerrilla marketing warfare strategies

The marketing warfare literature also examined leadership and motivation, intelligence gathering, types of marketing weapons, logistics, and communications.

By the turn of the century marketing warfare strategies had gone out of favour. It was felt that they were limiting. There were many situations in which non-confrontational approaches were more appropriate. The "Strategy of the Dolphin" was developed in the mid 1990s to give guidance as to when to use aggressive strategies and when to use passive strategies. A variety of Aggressiveness strategies (business) aggressiveness strategies were developed.

In 1993, J. Moore used a similar metaphor.^[27] Instead of using military terms, he created an ecological theory of predators and prey (see ecological model of competition), a sort of Darwinian management strategy in which market interactions mimic long term ecological stability.

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Business Strategy/History of Business Management until the 1970s

Historical development of strategic management

Birth of strategic management

Strategic management as a discipline originated in the 1950s and 60s. Although there were numerous early contributors to the literature, the most influential pioneers were Alfred D. Chandler, Jr., Philip Selznick, Igor Ansoff, and Peter Drucker.

Alfred Chandler recognized the importance of coordinating the various aspects of management under one all-encompassing strategy. Prior to this time the various functions of management were separate with little overall coordination or strategy. Interactions between functions or between departments were typically handled by a boundary position, that is, there were one or two managers that relayed information back and forth between two departments. Chandler also stressed the importance of taking a long term perspective when looking to the future. In his 1962 groundbreaking work *Strategy and Structure*, Chandler showed that a long-term coordinated strategy was necessary to give a company structure, direction, and focus. He says it concisely, “structure follows strategy.”^[1]

In 1957, Philip Selznick introduced the idea of matching the organization's internal factors with external environmental circumstances.^[2] This core idea was developed into what we now call SWOT analysis by Learned, Andrews, and others at the Harvard Business School General Management Group. Strengths and weaknesses of the firm are assessed in light of the opportunities and threats from the business environment.

Igor Ansoff built on Chandler's work by adding a range of strategic concepts and inventing a whole new vocabulary. He developed a strategy grid that compared market penetration strategies, product development strategies, market development strategies and horizontal integration/horizontal and vertical integration and diversification strategies. He felt that management could use these strategies to systematically prepare for future opportunities and challenges. In his 1965 classic *Corporate Strategy*, he developed the gap analysis still used today in which we must understand the gap between where we are currently and where we would like to be, then develop what he called “gap reducing actions”.^[3]

Peter Drucker was a prolific strategy theorist, author of dozens of management books, with a career spanning five decades. His contributions to strategic management were many but two are most important. Firstly, he stressed the importance of objectives. An organization without clear objectives is like a ship without a rudder. As early as 1954 he was developing a theory of management based on objectives.^[4] This evolved into his theory of **management by objectives** (MBO). According to Drucker, the procedure of setting objectives and monitoring your progress towards them should permeate the entire organization, top to bottom. His other seminal contribution was in predicting the importance of what today we would call intellectual capital. He predicted the rise of what he called the “knowledge worker” and explained the consequences of this for management. He said that knowledge work is non-hierarchical. Work would be carried out in cross-functional teams/teams with the person most knowledgeable in the task at hand being the temporary leader.

In 1985, Ellen-Earle Chaffee summarized what she thought were the main elements of strategic management theory by the 1970s.^[5]

- Strategic management involves adapting the organization to its business environment.
 - Strategic management is fluid and complex. Change creates novel combinations of circumstances requiring unstructured non-repetitive responses.
 - Strategic management affects the entire organization by providing direction.
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- Strategic management involves both strategy formation (she called it content) and also strategy implementation (she called it process).
- Strategic management is partially planned and partially unplanned.
- Strategic management is done at several levels: overall corporate strategy, and individual business strategies.
- Strategic management involves both conceptual and analytical thought processes.

Growth and portfolio theory

In the 1970s much of strategic management dealt with size, growth, and portfolio theory. The PIMS study was a long term study, started in the 1960s and lasted for 19 years, that attempted to understand the Profit Impact of Marketing Strategies (PIMS), particularly the effect of market share. Started at General Electric, moved to Harvard in the early 1970s, and then moved to the Strategic Planning Institute in the late 1970s, it now contains decades of information on the relationship between profitability and strategy. Their initial conclusion was unambiguous: The greater a company's market share, the greater will be their rate of profit. The high market share provides volume and economies of scale. It also provides experience and learning curve advantages. The combined effect is increased profits.^[6] The studies conclusions continue to be drawn on by academics and companies today: "PIMS provides compelling quantitative evidence as to which business strategies work and don't work" - Tom Peters.

The benefits of high market share naturally lead to an interest in growth strategies. The relative advantages of horizontal integration, vertical integration, diversification, Franchising|franchises, mergers and acquisitions, joint ventures, and organic growth were discussed. The most appropriate market dominance strategies were assessed given the competitive and regulatory environment.

There was also research that indicated that a low market share strategy could also be very profitable. Schumacher (1973),^[7] Woo and Cooper (1982),^[8] Levenson (1984),^[9] and later Traverso (2002)^[10] showed how smaller niche players obtained very high returns.

By the early 1980s the paradoxical conclusion was that high market share and low market share companies were often very profitable but most of the companies in between were not. This was sometimes called the "hole in the middle" problem. This anomaly would be explained by Michael Porter in the 1980s.

The management of diversified organizations required new techniques and new ways of thinking. The first CEO to address the problem of a multi-divisional company was Alfred Sloan at General Motors. GM was decentralized into semi-autonomous "strategic business units" (SBU's), but with centralized support functions.

One of the most valuable concepts in the strategic management of multi-divisional companies was **portfolio theory**. In the previous decade Harry Markowitz and other financial theorists developed the theory of modern portfolio theory|portfolio analysis. It was concluded that a broad portfolio of financial assets could reduce specific risk. In the 1970s marketers extended the theory to product portfolio decisions and managerial strategists extended it to operating division portfolios. Each of a company's operating divisions were seen as an element in the corporate portfolio. Each operating division (also called strategic business units) was treated as a semi-independent profit center with its own revenues, costs, objectives, and strategies. Several techniques were developed to analyze the relationships between elements in a portfolio. B.C.G. Analysis, for example, was developed by the Boston Consulting Group in the early 1970s. This was the theory that gave us the wonderful image of a CEO sitting on a stool milking a **cash cow**. Shortly after that the G.E. multi factorial analysis|G.E. multi factorial model was developed by General Electric. Companies continued to diversify until the 1980s when it was realized that in many cases a portfolio of operating divisions was worth more as separate completely independent companies.

The marketing revolution

The 1970s also saw the rise of the marketing orientationmarketing oriented firm. From the beginnings of capitalism it was assumed that the key requirement of business success was a product (business)product of high technical quality. If you produced a product that worked well and was durable, it was assumed you would have no difficulty selling them at a profit. This was called the production orientation and it was generally true that good products could be sold without effort, encapsulated in the saying "Build a better mousetrap and the world will beat a path to your door." This was largely due to the growing numbers of affluent and middle class people that capitalism had created. But after the untapped demand caused by the second world war was saturated in the 1950s it became obvious that products were not selling as easily as they had been. The answer was to concentrate on selling. The 1950s and 1960s is known as the sales era and the guiding philosophy of business of the time is today called the sales orientation. In the early 1970s Theodore Levitt and others at Harvard argued that the sales orientation had things backward. They claimed that instead of producing products then trying to sell them to the customer, businesses should start with the customer, find out what they wanted, and then produce it for them. The customer became the driving force behind all strategic business decisions. This marketing orientation, in the decades since its introduction, has been reformulated and repackaged under numerous names including customer orientation, marketing philosophy, customer intimacy, customer focus, customer driven, and market focused.

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Business Strategy/Information- and Technology-Driven Strategy

Peter Drucker had theorized the rise of the “knowledge worker” back in the 1950s. He described how fewer workers would be doing physical labor, and more would be applying their minds. In 1984, John Nesbitt theorized that the future would be driven largely by information: companies that managed information well could obtain an advantage, however the profitability of what he calls the “information float” (information that the company had and others desired) would all but disappear as inexpensive computers made information more accessible.

Daniel Bell (1985) examined the sociological consequences of information technology, while Gloria Schuck and Shoshana Zuboff looked at psychological factors.^[1] Zuboff, in her five year study of eight pioneering corporations made the important distinction between “automating technologies” and “infomating technologies”. She studied the effect that both had on individual workers, managers, and organizational structures. She largely confirmed Peter Drucker's predictions three decades earlier, about the importance of flexible decentralized structure, work teams, knowledge sharing, and the central role of the knowledge worker. Zuboff also detected a new basis for managerial authority, based not on position or hierarchy, but on knowledge (also predicted by Drucker) which she called “participative management”.^[2]

In 1990, Peter Senge, who had collaborated with Arie de Geus at Dutch Shell, borrowed de Geus' notion of the **learning organization**, expanded it, and popularized it. The underlying theory is that a company's ability to gather, analyze, and use information is a necessary requirement for business success in the information age. (See organizational learning.) In order to do this, Senge claimed that an organization would need to be structured such that:^[3]

- People can continuously expand their capacity to learn and be productive,
- New patterns of thinking are nurtured,
- Collective aspirations are encouraged, and
- People are encouraged to see the “whole picture” together.

Senge identified five components of a learning organization. They are:

- Personal responsibility, self reliance, and mastery — We accept that we are the masters of our own destiny. We make decisions and live with the consequences of them. When a problem needs to be fixed, or an opportunity exploited, we take the initiative to learn the required skills to get it done.
- Mental models — We need to explore our personal mental models to understand the subtle effect they have on our behaviour.
- Shared vision — The vision of where we want to be in the future is discussed and communicated to all. It provides guidance and energy for the journey ahead.
- Team learning — We learn together in teams. This involves a shift from “a spirit of advocacy to a spirit of enquiry”.
- Systems thinking — We look at the whole rather than the parts. This is what Senge calls the “Fifth discipline”. It is the glue that integrates the other four into a coherent strategy. For an alternative approach to the “learning organization”, see Garratt, B. (1987).

Since 1990 many theorists have written on the strategic importance of information, including J.B. Quinn,^[4] J. Carlos Jarillo,^[5] D.L. Barton,^[6] Manuel Castells,^[7] J.P. Lieleskin,^[8] Thomas Stewart,^[9] K.E. Sveiby,^[10] Gilbert J. Probst,^[11] and Shapiro and Varian^[12] to name just a few.

Thomas A. Stewart, for example, uses the term **intellectual capital** to describe the investment an organization makes in knowledge. It is comprised of human capital (the knowledge inside the heads of employees), customer capital (the knowledge inside the heads of customers that decide to buy from you), and structural capital (the knowledge that resides in the company itself).

Manuel Castells, describes a **network society** characterized by: globalization, organizations structured as a network, instability of employment, and a social divide between those with access to information technology and those without.

Stan Davis and Christopher Meyer (1998) have combined three variables to define what they call the **BLUR equation**. The speed of change, Internet connectivity, and intangible knowledge value, when multiplied together yields a society's rate of BLUR. The three variables interact and reinforce each other making this relationship highly non-linear.

Regis McKenna posits that life in the high tech information age is what he called a "real time experience". Events occur in real time. To ever more demanding customers "now" is what matters. Pricing will more and more become variable pricing changing with each transaction, often exhibiting price discrimination first degree price discrimination. Customers expect immediate service, customized to their needs, and will be prepared to pay a premium price for it. He claimed that the new basis for competition will be **time based competition**.^[13]

Geoffrey Moore (1991) and R. Frank and P. Cook^[14] also detected a shift in the nature of competition. In industries with high technology content, technical standards become established and this gives the dominant firm a near monopoly. The same is true of networked industries in which interoperability requires compatibility between users. An example is word processor documents. Once a product has gained market dominance, other products, even far superior products, cannot compete. Moore showed how firms could attain this enviable position by using E.M. Rogers five stage diffusion (business) adoption process and focusing on one group of customers at a time, using each group as a base for marketing to the next group. The most difficult step is making the transition between visionaries and pragmatists (See Crossing the Chasm). If successful a firm can create a bandwagon effect in which the momentum builds and your product becomes a de facto standard.

Evans and Wurster describe how industries with a high information component are being transformed.^[15] They cite Encarta's demolition of the Encyclopædia Britannica (whose sales have plummeted 80% since their peak of \$650 million in 1990). Many speculate that Encarta's reign will be short-lived, eclipsed by collaborative encyclopedias like Wikipedia that can operate at very low marginal costs. Evans also mentions the music industry which is desperately looking for a new business model. The upstart information savvy firms, unburdened by cumbersome physical assets, are changing the competitive landscape, redefining market segments, and disintermediating some channels. One manifestation of this is personalized marketing. Information technology allows marketers to treat each individual as its own market, a market of one. Traditional ideas of market segments will no longer be relevant if personalized marketing is successful.

The technology sector has provided some strategies directly. For example, from the software development industry agile software development provides a model for shared development processes.

Access to information systems have allowed senior managers to take a much more comprehensive view of strategic management than ever before. The most notable of the comprehensive systems is the balanced scorecard approach developed in the early 1990s by Drs. Robert S. Kaplan (Harvard Business School) and David Norton (Kaplan, R. and Norton, D. 1992). It measures several factors financial, marketing, manufacturing|production, organizational development, and new product development in order to achieve a 'balanced' perspective.

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Business Strategy/Limitations of Business Management

Although a sense of direction is important, it can also stifle creativity, especially if it is rigidly enforced. In an uncertain and ambiguous world, fluidity can be more important than a finely tuned strategic compass. When a strategy becomes internalized into a corporate culture, it can lead to group think. It can also cause an organization to define itself too narrowly. An example of this is marketing myopia.

Many theories of strategic management tend to undergo only brief periods of popularity. A summary of these theories thus inevitably exhibits survivorship systemic bias/bias (itself an area of research in strategic management). Many theories tend either to be too narrow in focus to build a complete corporate strategy on, or too general and abstract to be applicable to specific situations. Populism or faddishness can have an impact on a particular theory's life cycle and may see application in inappropriate circumstances. See business philosophies and popular management theories for a more critical view of management theories.

In 2000, Gary Hamel coined the term **strategic convergence** to explain the limited scope of the strategies being used by rivals in greatly differing circumstances. He lamented that strategies converge more than they should, because the more successful ones get imitated by firms that do not understand that the strategic process involves designing a custom strategy for the specifics of each situation.^[1]

Ram Charan, aligning with a popular marketing tagline, believes that strategic planning must not dominate action. "Just do it!", while not quite what he meant, is a phrase that nevertheless comes to mind when combatting analysis paralysis.

The Linearity Trap

It is tempting to think that the elements of strategic management – (i) reaching consensus on corporate objectives; (ii) developing a plan for achieving the objectives; and (iii) marshalling and allocating the resources required to implement the plan – can be approached sequentially. It would be convenient, in other words, if one could deal first with the noble question of ends, and then address the mundane question of means.

But in the world in which strategies have to be implemented, the three elements are interdependent. Means are as likely to determine ends as ends are to determine means.^[2] The objectives that an organization might wish to pursue are limited by the range of feasible approaches to implementation. (There will usually be only a small number of approaches that will not only be technically and administratively possible, but also satisfactory to the full range of organizational stakeholders.) In turn, the range of feasible implementation approaches is determined by the availability of resources.

And so, although participants in a typical “strategy session” may be asked to do “blue sky” thinking where they pretend that the usual constraints – resources, acceptability to stakeholders, administrative feasibility – have been lifted, the fact is that it rarely makes sense to divorce oneself from the environment in which a strategy will have to be implemented. It’s probably impossible to think in any meaningful way about strategy in an unconstrained environment. Our brains can’t process “boundless possibilities”, and the very idea of strategy only has meaning in the context of challenges or obstacles to be overcome. It’s at least as plausible to argue that acute awareness of constraints is the very thing that stimulates creativity by forcing us to constantly reassess both means and ends in light of circumstances.

The key question, then, is, “How can individuals, organizations and societies cope as well as possible with ... issues too complex to be fully understood, given the fact that actions initiated on the basis of inadequate understanding may lead to significant regret?”^[3]

The answer is that the process of developing organizational strategy must be iterative. It involves toggling back and forth between questions about objectives, implementation planning and resources. An initial idea about corporate objectives may have to be altered if there is no feasible implementation plan that will meet with a sufficient level of acceptance among the full range of stakeholders, or because the necessary resources are not available, or both.

Even the most talented manager would no doubt agree that “comprehensive analysis is impossible” for complex problems^[4]. Formulation and implementation of strategy must thus occur side-by-side rather than sequentially, because strategies are built on assumptions which, in the absence of perfect knowledge, will never be perfectly correct. Strategic management is necessarily a “repetitive learning cycle [rather than] a linear progression towards a clearly defined final destination.”^[5] While assumptions can and should be tested in advance, the ultimate test is implementation. You will inevitably need to adjust corporate objectives and/or your approach to pursuing outcomes and/or assumptions about required resources. Thus a strategy will get remade during implementation because “humans rarely can proceed satisfactorily except by learning from experience; and modest probes, serially modified on the basis of feedback, usually are the best method for such learning.”^[6]

It serves little purpose (other than to provide a false aura of certainty sometimes demanded by corporate strategists and planners) to pretend to anticipate every possible consequence of a corporate decision, every possible constraining or enabling factor, and every possible point of view. At the end of the day, what matters for the purposes of strategic management is having a clear view – based on the best available evidence and on defensible assumptions – of what it seems possible to accomplish within the constraints of a given set of circumstances. As the situation changes, some opportunities for pursuing objectives will disappear and others arise. Some implementation approaches will become impossible, while others, previously impossible or unimagined, will become viable.

The essence of being “strategic” thus lies in a capacity for “intelligent trial-and error”^[7] rather than linear adherence to finally honed and detailed strategic plans. Strategic management will add little value -- indeed, it may well do harm -- if organizational strategies are designed to be used as a detailed blueprints for managers. Strategy should be seen, rather, as laying out the general path - but not the precise steps - by which an organization intends to create

value.^[8] Strategic management is a question of interpreting, and continuously reinterpreting, the possibilities presented by shifting circumstances for advancing an organization's objectives. Doing so requires strategists to think *simultaneously* about desired objectives, the best approach for achieving them, and the resources implied by the chosen approach. It requires a frame of mind that admits of no boundary between means and ends.

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Business Strategy/Marketing Plans and Strategies

A **marketing plan** is a written document that details the necessary actions to achieve one or more marketing objectives. It can be for a product or Service (economics)service, a brand, or a product line. Marketing plans cover between one and five years.

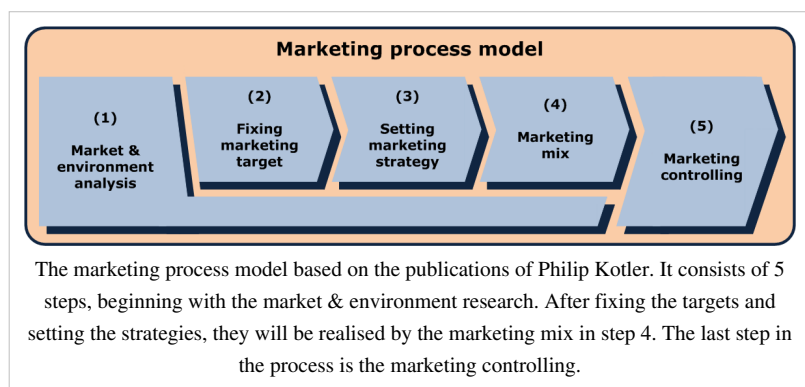
A marketing plan may be part of an overall business plan. Solid marketing strategy is the foundation of a well-written marketing plan. While a marketing plan contains a list of actions, a marketing plan without a sound strategic foundation is of little use.

The marketing planning process

In most organizations, "strategic planning" is an annual process, typically covering just the year ahead. Occasionally, a few organizations may look at a practical plan which stretches three or more years ahead.

To be most effective, the plan has to be formalized, usually in written form, as a formal "marketing plan." The essence of the process is that it moves

from the general to the specific; from the overall objectives of the organization down to the individual Objective (goal)action plan for a part of one marketing program. It is also an interactive process, so that the draft output of each stage is checked to see what impact it has on the earlier stages - and is amended.



Marketing planning aims and objectives

Behind the corporate objectives, which in themselves offer the main context for the marketing plan, will lay the "corporate mission"; which in turn provides the context for these corporate objectives. This "corporate mission" can be thought of as a definition of what the organization is; of what it does: "Our business is ...".

This definition should not be too narrow, or it will constrict the development of the organization; a too rigorous concentration on the view that "We are in the business of making meat-scales," as IBM was during the early 1900s, might have limited its subsequent development into other areas. On the other hand, it should not be too wide or it will become meaningless; "We want to make a profit" is not too helpful in developing specific plans.

Abell suggested that the definition should cover three dimensions: "customer groups" to be served, "customer needs" to be served, and "technologies" to be utilized ^[1]. Thus, the definition of IBM's "corporate mission" in the 1940s might well have been: "We are in the business of handling accounting information [customer need] for the larger US organizations [customer group] by means of Punch card/punched cards [technology]."

Perhaps the most important factor in successful marketing is the "corporate vision." Surprisingly, it is largely neglected by marketing textbooks; although not by the popular exponents of corporate strategy - indeed, it was perhaps the main theme of the book by Peters and Waterman, in the form of their "Superordinate Goals." "In Search of Excellence" said: "Nothing drives progress like the imagination. The idea precedes the deed." ^[2] If the organization in general, and its chief executive in particular, has a strong vision of where its future lies, then there is a good chance that the organization will achieve a strong position in its markets (and attain that future). This will be not least because its strategies will be consistent; and will be supported by its staff at all levels. In this context, all of IBM's marketing activities were underpinned by its philosophy of "customer service"; a vision originally promoted by the charismatic Watson dynasty.

The emphasis at this stage is on obtaining a complete and accurate picture. In a single organization, however, it is likely that only a few aspects will be sufficiently important to have any significant impact on the marketing plan; but all may need to be reviewed to determine just which "are" the few.

A "traditional" - albeit product-based - format for a "brand reference book" (or, indeed, a "marketing facts book") was suggested by Godley more than three decades ago:

1. Financial data --Facts for this section will come from management accounting, costing and finance sections.
2. Product data --From production, research and development.
3. Sales and distribution data - Sales, packaging, distribution sections.
4. Advertising, sales promotion, merchandising data - Information from these departments.
5. Market data and miscellany - From market research, who would in most cases act as a source for this information.

His sources of data, however, assume the resources of a very large organization. In most organizations they would be obtained from a much smaller set of people (and not a few of them would be generated by the marketing manager alone). It is apparent that a marketing audit can be a complex process, but the aim is simple: "it is only to identify those existing (external and internal) factors which will have a significant impact on the future plans of the company."

It is clear that the basic material to be input to the marketing audit should be comprehensive. Accordingly, the best approach is to accumulate this material continuously, as and when it becomes available; since this avoids the otherwise heavy workload involved in collecting it as part of the regular, typically annual, planning process itself - when time is usually at a premium. Even so, the first task of this "annual" process should be to check that the material held in the current "facts book" or "facts files" actually "is" comprehensive and accurate, and can form a sound basis for the marketing audit itself.

The structure of the facts book will be designed to match the specific needs of the organization, but one simple format - suggested by Malcolm McDonald - may be applicable in many cases. This splits the material into three groups:

1. "Review of the marketing environment." A study of the organization's markets, customers, competitors and the overall economic, political, cultural and technical environment; covering developing trends, as well as the current situation.
2. "Review of the detailed marketing activity." A study of the company's marketing mix; in terms of the 7 Ps - (see below)
3. "Review of the marketing system." A study of the marketing organization, marketing research systems and the current marketing objectives and strategies.

The last of these is too frequently ignored. The marketing system itself needs to be regularly questioned, because the validity of the whole marketing plan is reliant upon the accuracy of the input from this system, and 'garbage in, garbage out' applies with a vengeance.

- "Portfolio planning." In addition, the coordinated planning of the individual products and services can contribute towards the balanced portfolio.
- "80:20 rule." To achieve the maximum impact, the marketing plan must be clear, concise and simple. It needs to concentrate on the 20 per cent of products or services, and on the 20 per cent of customers, which will account for 80 per cent of the volume and 80 per cent of the profit.
- "7 P's": Product, Place, Price and Promotion, Physical Environment, People, Process. The 7 P's can sometimes divert attention from the customer, but the framework they offer can be very useful in building the action plans.

It is only at this stage (of deciding the marketing objectives) that the active part of the marketing planning process begins'.

This next stage in marketing planning is indeed the key to the whole marketing process. The "marketing objectives" state just where the company intends to be; at some specific time in the future. James Quinn succinctly defined objectives in general as: "Goals (or objectives) state 'what' is to be achieved and 'when' results are to be accomplished, but they do not state 'how' the results are to be achieved."^[3]

They typically relate to what products (or services) will be where in what markets (and must be realistically based on customer behavior in those markets). They are essentially about the match between those "products" and "markets." Objectives for pricing, distribution, advertising and so on are at a lower level, and should not be confused with marketing objectives. They are part of the marketing strategy needed to achieve marketing objectives.

To be most effective, objectives should be capable of measurement and therefore "quantifiable." This measurement may be in terms of sales volume, money value, market share, percentage penetration of distribution outlets and so on. An example of such a measurable marketing objective might be "to enter the market with product Y and capture 10 per cent of the market by value within one year." As it is quantified it can, within limits, be unequivocally monitored; and Corrective Action/corrective action taken as necessary.

The marketing objectives must usually be based, above all, on the organization's financial objectives; converting these financial measurements into the related marketing measurements.

He went on to explain his view of the role of "policies," with which strategy is most often confused: "Policies are rules or guidelines that express the 'limits' within which action should occur."

Simplifying somewhat, marketing strategies can be seen as the means, or "game plan," by which marketing objectives will be achieved and, in the framework that we have chosen to use, are generally concerned with the 7 P's. Examples are:

Price- The amount of money needed to buy products

Product- The actual product

Promotion (advertising)- Getting the product known

Placement- Where the product is located

People- Represent the business

Physical environment- The ambiance, mood, or tone of the environment

Process- How do people obtain your product

In principle, these strategies describe how the objectives will be achieved. The 7 P's are a useful framework for deciding how the company's resources will be manipulated (strategically) to achieve the objectives. It should be noted, however, that they are not the only framework, and may divert attention from the real issues. The focus of the strategies must be the objectives to be achieved - not the process of planning itself. Only if it fits the needs of these objectives should you choose, as we have done, to use the framework of the 7 P's.

The strategy statement can take the form of a purely verbal description of the strategic options which have been chosen. Alternatively, and perhaps more positively, it might include a structured list of the major options chosen.

One aspect of strategy which is often overlooked is that of "timing." Exactly when it is the best time for each element of the strategy to be implemented is often critical. Taking the right action at the wrong time can sometimes be almost as bad as taking the wrong action at the right time. Timing is, therefore, an essential part of any plan; and should normally appear as a schedule of planned activities.

Having completed this crucial stage of the planning process, you will need to re-check the feasibility of your objectives and strategies in terms of the market share, sales, costs, profits and so on which these demand in practice. As in the rest of the marketing discipline, you will need to employ judgment, experience, market research or anything else which helps you to look at your conclusions from all possible angles.

Detailed plans and programs

At this stage, you will need to develop your overall marketing strategies into detailed plans and program. Although these detailed plans may cover each of the 7 P's, the focus will vary, depending upon your organization's specific strategies. A product-oriented company will focus its plans for the 7 P's around each of its products. A market or geographically oriented company will concentrate on each market or geographical area. Each will base its plans upon the detailed needs of its customers, and on the strategies chosen to satisfy these needs.

Again, the most important element is, indeed, that of the detailed plans; which spell out exactly what programs and individual activities will take place over the period of the plan (usually over the next year). Without these specified - and preferably quantified - activities the plan cannot be monitored, even in terms of success in meeting its objectives.

It is these programs and activities which will then constitute the "marketing" of the organization over the period. As a result, these detailed marketing programs are the most important, practical outcome of the whole planning process. These plans should therefore be:

- **Clear** - They should be an unambiguous statement of 'exactly' what is to be done.
- **Quantified** - The predicted outcome of each activity should be, as far as possible, quantified; so that its performance can be monitored.
- **Focused** - The temptation to proliferate activities beyond the numbers which can be realistically controlled should be avoided. The Pareto principle 80:20 Rule applies in this context too.
- **Realistic** - They should be achievable.
- **Agreed** - Those who are to implement them should be committed to them, and agree that they are achievable.

The resulting plans should become a working document which will guide the campaigns taking place throughout the organization over the period of the plan. If the marketing plan is to work, every exception to it (throughout the year) must be questioned; and the lessons learned, to be incorporated in the next year's planning.

Content of the marketing plan

A marketing plan for a small business typically includes Small Business Administration Description of competitors, including the level of demand for the product or service and the strengths and weaknesses of competitors

1. Description of the product or service, including special features
2. Marketing budget, including the advertising and promotional plan
3. Description of the business location, including advantages and disadvantages for marketing
4. Pricing strategy
5. Market Segmentation

Medium-sized and large organizations

The main contents of a marketing plan are.^[citation needed]

1. **Executive Summary**
2. **Situational Analysis**
3. **Opportunities / Issue Analysis - SWOT Analysis**
4. **Objectives**
5. **Strategy**
6. **Action Programme** (the operational marketing plan itself for the period under review)
7. **Financial Forecast**
8. **Controls**

In detail, a complete marketing plan typically includes.^[citation needed]

1. Title page
2. **Executive Summary**
3. Current Situation - environmental scanning|Macroenvironment
 - economy
 - legal
 - government
 - technology
 - ecological
 - sociocultural
 - supply chain
4. Current Situation - industry or market research|Market Analysis
 - market definition
 - market size
 - market segmentation
 - industry structure and strategic groupings
 - Porter 5 forces analysis
 - competition and market share
 - competitor analysis|competitors' strengths and weaknesses
 - market trends
5. Current Situation - Consumer Analysis ^[4]
 - nature of the buying decision
 - participants
 - demographics
 - psychographics
 - buyer motivation and expectations

- loyalty segments
6. Current Situation - Internal
 - company resources
 - financial
 - people
 - time
 - skills
 - objectives
 - mission statement and vision statement
 - corporate objectives
 - financial objective
 - marketing objectives
 - long term objectives
 - description of the basic business philosophy
 - corporate culture
 7. Summary of Situation Analysis
 - external threats
 - external opportunities
 - internal strengths
 - internal weaknesses
 - Critical success factors in the industry
 - our sustainable competitive advantage
 8. Marketing research
 - information requirements
 - research methodology
 - research results
 9. Marketing Strategy - Product management/Product
 - product line/product mix
 - product strengths and weaknesses
 - perceptual mapping
 - Product Life Cycle Management/product life cycle management and new product development
 - brand/Brand name, brand image, and brand equity
 - the product (business)/augmented product
 - product Product portfolio/portfolio analysis
 - B.C.G. Analysis
 - contribution margin analysis
 - G.E. Multi Factoral analysis
 - Quality Function Deployment
 10. Marketing Strategy ^[5] - Market segment/segmented marketing actions and market share objectives
 - by product,
 - by customer segment,
 - by geographical market,
 - by distribution channel.
 11. Marketing Strategy - Pricing/Price
 - pricing objectives
-

- pricing method (e.g.: cost plus, demand based, or competitor indexing)
 - pricing strategy (e.g.: skimming, or penetration)
 - discounts and allowances
 - price elasticity of demand|price elasticity and customer sensitivity
 - geographical pricing|price zoning
 - break even analysis at various prices
12. Marketing Strategy - promotion (marketing)|promotion
- promotional goals
 - Promotional_mix|promotional mix
 - advertising reach, frequency, flights, theme, and media
 - sales|sales force requirements, techniques, and management
 - sales promotion
 - publicity and public relations
 - electronic promotion (e.g.: e-marketing|Web, or direct marketing|telephone)
 - word of mouth marketing (buzz)
 - viral marketing
13. Marketing Strategy - Distribution (business)|Distribution
- geographical coverage
 - distribution channels
 - physical distribution and logistics
 - electronic distribution
14. Implementation
- personnel requirements
 - assign responsibilities
 - give incentives
 - training on selling methods
 - financial requirements
 - management information systems requirements
 - month-by-month agenda
 - Program Evaluation and Review Technique|PERT or critical path analysis
 - monitoring results and benchmarks
 - adjustment mechanism
 - contingencies (What if's)
15. Financial Summary
- assumptions
 - pro-forma monthly income statement
 - contribution margin analysis
 - breakeven analysis
 - Monte Carlo methods in finance|Monte Carlo method
 - ISI: Internet Strategic Intelligence
16. Scenarios
- Prediction of Future Scenarios
 - Plan of Action for each Scenario
17. Appendix
- pictures and specifications of the new product
 - results from research already completed
-

Measurement of progress

The final stage of any marketing planning process is to establish targets (or standards) so that progress can be monitored. Accordingly, it is important to put both quantities and timescales into the marketing objectives (for example, to capture 20 per cent by value of the market within two years) and into the corresponding strategies.

Changes in the environment mean that the forecasts often have to be changed. Along with these, the related plans may well also need to be changed. Continuous monitoring of performance, against predetermined targets, represents a most important aspect of this. However, perhaps even more important is the enforced discipline of a regular formal review. Again, as with forecasts, in many cases the best (most realistic) planning cycle will revolve around a quarterly review. Best of all, at least in terms of the quantifiable aspects of the plans, if not the wealth of backing detail, is probably a quarterly rolling review - planning one full year ahead each new quarter. Of course, this does absorb more planning resource; but it also ensures that the plans embody the latest information, and - with attention focused on them so regularly - forces both the plans and their implementation to be realistic.

Plans only have validity if they are actually used to control the progress of a company: their success lies in their implementation, not in the writing'.

Performance analysis

The most important elements of marketing performance, which are normally tracked, are:

Sales analysis

Most organizations track their sales results; or, in non-profit organizations for example, the number of clients. The more sophisticated track them in terms of 'sales variance' - the deviation from the target figures - which allows a more immediate picture of deviations to become evident. 'Micro-analysis', which is a nicely pseudo-scientific term for the normal management process of investigating detailed problems, then investigates the individual elements (individual products, sales territories, customers and so on) which are failing to meet targets.

Market share analysis

Few organizations track market share though it is often an important metric. Though absolute sales might grow in an expanding market, a firm's share of the market can decrease which bodes ill for future sales when the market starts to drop. Where such market share is tracked, there may be a number of aspects which will be followed:

- overall market share
- segment share - that in the specific, targeted segment
- relative share -in relation to the market leaders
- annual fluctuation rate of market share

Expense analysis

The key ratio to watch in this area is usually the 'marketing expense to sales ratio'; although this may be broken down into other elements (advertising to sales, sales administration to sales, and so on).

Financial analysis

The 'bottom line' of marketing activities should at least in theory, be the net profit (for all except non-profit organizations, where the comparable emphasis may be on remaining within budgeted costs). There are a number of separate performance figures and key ratios which need to be tracked:

- gross contribution<>net profit
 - gross profit<>return on investment
-

- net contribution <> profit on sales

There can be considerable benefit in comparing these figures with those achieved by other organizations (especially those in the same industry); using, for instance, the figures which can be obtained (in the UK) from 'The Centre for Interfirm Comparison'. The most sophisticated use of this approach, however, is typically by those making use of PIMS (Profit Impact of Management Strategies), initiated by the General Electric Company and then developed by Harvard Business School, but now run by the Strategic Planning Institute.

The above performance analyses concentrate on the quantitative measures which are directly related to short-term performance. But there are a number of indirect measures, essentially tracking customer attitudes, which can also indicate the organization's performance in terms of its longer-term marketing strengths and may accordingly be even more important indicators. Some useful measures are:

- market research - including customer panels (which are used to track changes over time)
- lost business - the orders which were lost because, for example, the stock was not available or the product did not meet the customer's exact requirements
- customer complaints - how many customers complain about the products or services, or the organization itself, and about what

Use of marketing plans

A formal, written marketing plan is essential; in that it provides an unambiguous reference point for activities throughout the planning period. However, perhaps the most important benefit of these plans is the planning process itself. This typically offers a unique opportunity, a forum, for information-rich and productively focused discussions between the various managers involved. The plan, together with the associated discussions, then provides an agreed context for their subsequent management activities, even for those not described in the plan itself.

Budgets as managerial tools

The classic quantification of a marketing plan appears in the form of budgets. Because these are so rigorously quantified, they are particularly important. They should, thus, represent an unequivocal projection of actions and expected results. What is more, they should be capable of being monitored accurately; and, indeed, performance against budget is the main (regular) management review process.

The purpose of a marketing budget is, thus, to pull together all the revenues and costs involved in marketing into one comprehensive document. It is a managerial tool that balances what is needed to be spent against what can be afforded, and helps make choices about priorities. It is then used in monitoring performance in practice.

The marketing budget is usually the most powerful tool by which you think through the relationship between desired results and available means. Its starting point should be the marketing strategies and plans, which have already been formulated in the marketing plan itself; although, in practice, the two will run in parallel and will interact. At the very least, the rigorous, highly quantified, budgets may cause a rethink of some of the more optimistic elements of the plans.

Marketing Strategy

A **marketing strategy**^{[6] [7]} is a process that can allow an organization to concentrate its limited resources on the greatest opportunities to increase sales and achieve a sustainable competitive advantage^[8]. A marketing strategy should be centered around the key concept that customer satisfaction is the main goal.

Key part of the general corporate strategy

A marketing strategy is most effective when it is an integral component of corporate strategy, defining how the organization will successfully engage customers, prospects, and competitors in the market arena. Strategic management/corporate strategies, corporate missions, and corporate goals. As the customer constitutes the source of a company's revenue, marketing strategy is closely linked with sales. A key component of marketing strategy is often to keep marketing in line with a company's overarching mission statement^[9].

Basic theory: 1) Target Audience 2) Proposition/Key Element 3) Implementation

Sectorial tactics and actions

A marketing strategy can serve as the foundation of a marketing plan. A marketing plan contains a set of specific actions required to successfully implement a marketing strategy. For example: "Use a low cost product to attract consumers. Once our organization, via our low cost product, has established a relationship with consumers, our organization will sell additional, higher-margin products and services that enhance the consumer's interaction with the low-cost product or service."

A strategy consists of a well thought out series of tactics to make a marketing plan more effective. Marketing strategies serve as the fundamental underpinning of marketing plans designed to fill market needs and reach marketing objectives^[10]. Plans and objectives are generally tested for measurable results.

A marketing strategy often integrates an organization's marketing goals, policies, and action sequences (tactics) into a cohesive whole. Similarly, the various strands of the strategy, which might include advertising, channel (marketing)|channel marketing, internet marketing, promotion (marketing)|promotion and public relations can be orchestrated. Many companies cascade a strategy throughout an organization, by creating strategy tactics that then become strategy goals for the next level or group. Each one group is expected to take that strategy goal and develop a set of tactics to achieve that goal. This is why it is important to make each strategy goal measurable.

Marketing strategies are dynamic and interactive. They are partially planned and partially unplanned. See strategy dynamics.

Types of strategies

Marketing strategies may differ depending on the unique situation of the individual business. However there are a number of ways of categorizing some generic strategies. A brief description of the most common categorizing schemes is presented below:

- Strategies based on market dominance - In this scheme, firms are classified based on their market share or dominance of an industry. Typically there are three types of market dominance strategies:
 - Leader
 - Challenger
 - Follower
- Porter generic strategies - strategy on the dimensions of strategic scope and strategic strength. Strategic scope refers to the market penetration while strategic strength refers to the firm's sustainable competitive advantage.
 - Product differentiation
 - Market segmentation

- Innovation strategies - This deals with the firm's rate of the new product development and business model innovation. It asks whether the company is on the cutting edge of technology and business innovation. There are three types:
 - Pioneers
 - Close followers
 - Late followers
- Growth strategies - In this scheme we ask the question, "How should the firm grow?". There are a number of different ways of answering that question, but the most common gives four answers:
 - Horizontal integration
 - Vertical integration
 - Diversification
 - Intensification

A more detailed scheme uses the categories:

 - Prospector
 - Analyzer
 - Defender
 - Reactor
- Marketing warfare strategies - This scheme draws parallels between marketing strategies and military strategies.

Strategic models

Marketing participants often employ strategic models and tools to analyze marketing decisions. When beginning a strategic analysis, the 3C's/3Cs can be employed to get a broad understanding of the strategic environment. An Ansoff Matrix is also often used to convey an organization's strategic positioning of their marketing mix. The 4P's/4Ps can then be utilized to form a marketing plan to pursue a defined strategy.

Marketing in Practice

The Consumer-Centric Business

There are a many companies especially those in the Consumer Package Goods (CPG) market that adopt the theory of running their business centered around Consumer, Shopper & Retailer needs. Their Marketing departments spend quality time looking for "Growth Opportunities" in their categories by identifying relevant insights (both mindsets and behaviors) on their target Consumers, Shoppers and retail partners. These Growth Opportunities emerge from changes in market trends, segment dynamics changing and also internal brand or operational business challenges. The Marketing team can then prioritize these Growth Opportunities and begin to develop strategies to exploit the opportunities that could include new or adapted products, services as well as changes to the 7Ps.

Real-life marketing primarily revolves around the application of a great deal of common-sense; dealing with a limited number of factors, in an environment of imperfect information and limited resources complicated by uncertainty and tight timescales. Use of classical marketing techniques, in these circumstances, is inevitably partial and uneven.

Thus, for example, many new products will emerge from irrational processes and the rational development process may be used (if at all) to screen out the worst non-runners. The design of the advertising, and the packaging, will be the output of the creative minds employed; which management will then screen, often by 'gut-reaction', to ensure that it is reasonable.

For most of their time, marketing managers use intuition and experience to analyze and handle the complex, and unique, situations being faced; without easy reference to theory. This will often be 'flying by the seat of the pants', or 'gut-reaction'; where the overall strategy, coupled with the knowledge of the customer which has been absorbed almost by a process of osmosis, will determine the quality of the marketing employed. This, almost instinctive

management, is what is sometimes called 'coarse marketing'; to distinguish it from the refined, aesthetically pleasing, form favored by the theorists.

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Business Strategy/Strategic Change in the 1990s

In 1970, Alvin Toffler in *Future Shock* described a trend towards accelerating rates of change.^[1] He illustrated how social and technological norms had shorter lifespans with each generation, and he questioned society's ability to cope with the resulting turmoil and anxiety. In past generations periods of change were always punctuated with times of stability. This allowed society to assimilate the change and deal with it before the next change arrived. But these periods of stability are getting shorter and by the late 20th century had all but disappeared. In 1980 in *The Third Wave*, Toffler characterized this shift to relentless change as the defining feature of the third phase of civilization (the first two phases being the agricultural and industrial waves).^[2] He claimed that the dawn of this new phase will cause great anxiety for those that grew up in the previous phases, and will cause much conflict and opportunity in the business world. Hundreds of authors, particularly since the early 1990s, have attempted to explain what this means for business strategy.

In 1997, Watts Waker and Jim Taylor called this upheaval a "500 year delta."^[3] They claimed these major upheavals occur every 5 centuries. They said we are currently making the transition from the "Age of Reason" to a new chaotic **Age of Access**. Jeremy Rifkin (2000) popularized and expanded this term, "age of access" three years later in his book of the same name.^[4]

In 1968, Peter Drucker (1969) coined the phrase **Age of Discontinuity** to describe the way change forces disruptions into the continuity of our lives.^[5] In an age of continuity attempts to predict the future by extrapolating from the past can be somewhat accurate. But according to Drucker, we are now in an age of discontinuity and extrapolating from the past is hopelessly ineffective. We cannot assume that trends that exist today will continue into the future. He identifies four sources of discontinuity: new technologies, globalization, cultural pluralism, and knowledge capital.

In 2000, Gary Hamel discussed **strategic decay**, the notion that the value of all strategies, no matter how brilliant, decays over time.^[6]

In 1978, Dereck Abell (Abell, D. 1978) described **strategic windows** and stressed the importance of the timing (both entrance and exit) of any given strategy. This has led some strategic planners to build planned obsolescence (business)planned obsolescence into their strategies.^[7]

In 1989, Charles Handy identified two types of change.^[8] **Strategic drift** is a gradual change that occurs so subtly that it is not noticed until it is too late. By contrast, **transformational change** is sudden and radical. It is typically caused by discontinuities (or exogenous shocks) in the business environment. The point where a new trend is initiated is called a **strategic inflection point** by Andy Grove. Inflection points can be subtle or radical.

In 2000, Malcolm Gladwell discussed the importance of the **tipping point**, that point where a trend or fad acquires critical mass and takes off.^[9]

In 1983, Noel Tichy recognized that because we are all beings of habit we tend to repeat what we are comfortable with.^[10] He wrote that this is a trap that constrains our creativity, prevents us from exploring new ideas, and hampers our dealing with the full complexity of new issues. He developed a systematic method of dealing with change that involved looking at any new issue from three angles: technical and production, political and resource allocation, and corporate culture.

In 1990, Richard Pascale (Pascale, R. 1990) wrote that relentless change requires that businesses continuously reinvent themselves.^[11] His famous maxim is “Nothing fails like success” by which he means that what was a strength yesterday becomes the root of weakness today, We tend to depend on what worked yesterday and refuse to let go of what worked so well for us in the past. Prevailing strategies become self-confirming. In order to avoid this trap, businesses must stimulate a spirit of inquiry and healthy debate. They must encourage a creative process of self renewal based on constructive conflict.

In 1996, Art Kleiner (1996) claimed that to foster a corporate culture that embraces change, you have to hire the right people; heretics, heroes, outlaws, and visionaries^[12]. The conservative bureaucrat that made such a good middle manager in yesterday’s hierarchical organizations is of little use today. A decade earlier Peters and Austin (1985) had stressed the importance of nurturing champions and heroes. They said we have a tendency to dismiss new ideas, so to overcome this, we should support those few people in the organization that have the courage to put their career and reputation on the line for an unproven idea.

In 1996, Adrian Slywotsky showed how changes in the business environment are reflected in value migrations between industries, between companies, and within companies.^[13] He claimed that recognizing the patterns behind these value migrations is necessary if we wish to understand the world of chaotic change. In “Profit Patterns” (1999) he described businesses as being in a state of **strategic anticipation** as they try to spot emerging patterns. Slywotsky and his team identified 30 patterns that have transformed industry after industry.^[14]

In 1997, Clayton Christensen (1997) took the position that great companies can fail precisely because they do everything right since the capabilities of the organization also defines its disabilities.^[15] Christensen's thesis is that outstanding companies lose their market leadership when confronted with **disruptive technology**. He called the approach to discovering the emerging markets for disruptive technologies **agnostic marketing**, i.e., marketing under the implicit assumption that no one - not the company, not the customers - can know how or in what quantities a disruptive product can or will be used before they have experience using it.

A number of strategists use scenario planning techniques to deal with change. Kees van der Heijden (1996), for example, says that change and uncertainty make “optimum strategy” determination impossible. We have neither the time nor the information required for such a calculation. The best we can hope for is what he calls “the most skillful process”.^[16] The way Peter Schwartz put it in 1991 is that strategic outcomes cannot be known in advance so the sources of competitive advantage cannot be predetermined.^[17] The fast changing business environment is too uncertain for us to find sustainable value in formulas of excellence or competitive advantage. Instead, scenario planning is a technique in which multiple outcomes can be developed, their implications assessed, and their likelihood of occurrence evaluated. According to Pierre Wack, scenario planning is about insight, complexity, and subtlety, not about formal analysis and numbers.^[18]

In 1988, Henry Mintzberg looked at the changing world around him and decided it was time to reexamine how strategic management was done.^{[19][20]} He examined the strategic process and concluded it was much more fluid and unpredictable than people had thought. Because of this, he could not point to one process that could be called strategic planning. Instead he concludes that there are five types of strategies. They are:

- Strategy as plan - a direction, guide, course of action - intention rather than actual
- Strategy as ploy - a maneuver intended to outwit a competitor
- Strategy as pattern - a consistent pattern of past behaviour - realized rather than intended

- Strategy as position - locating of brands, products, or companies within the conceptual framework of consumers or other stakeholders - strategy determined primarily by factors outside the firm
- Strategy as perspective - strategy determined primarily by a master strategist

In 1998, Mintzberg developed these five types of management strategy into 10 “schools of thought”. These 10 schools are grouped into three categories. The first group is prescriptive or normative. It consists of the informal design and conception school, the formal planning school, and the analytical positioning school. The second group, consisting of six schools, is more concerned with how strategic management is actually done, rather than prescribing optimal plans or positions. The six schools are the entrepreneurial, visionary, or great leader school, the cognitive or mental process school, the learning, adaptive, or emergent process school, the power or negotiation school, the corporate culture or collective process school, and the business environment or reactive school. The third and final group consists of one school, the configuration or transformation school, an hybrid of the other schools organized into stages, organizational life cycles, or “episodes”.^[21]

In 1999, Constantinos Markides also wanted to reexamine the nature of strategic planning itself.^[22] He describes strategy formation and implementation as an on-going, never-ending, integrated process requiring continuous reassessment and reformation. Strategic management is planned and emergent, dynamic, and interactive. J. Moncrieff (1999) also stresses strategy dynamics.^[23] He recognized that strategy is partially deliberate and partially unplanned. The unplanned element comes from two sources: **emergent strategies** (result from the emergence of opportunities and threats in the environment) and **Strategies in action** (ad hoc actions by many people from all parts of the organization).

Some business planners are starting to use a complexity theory approach to strategy. Complexity can be thought of as chaos with a dash of order. Chaos theory deals with turbulent systems that rapidly become disordered. Complexity is not quite so unpredictable. It involves multiple agents interacting in such a way that a glimpse of structure may appear. Axelrod, R.,^[24] Holland, J.,^[25] and Kelly, S. and Allison, M.A.,^[26] call these systems of multiple actions and reactions **complex adaptive systems**. Axelrod asserts that rather than fear complexity, business should harness it. He says this can best be done when “there are many participants, numerous interactions, much trial and error learning, and abundant attempts to imitate each others' successes”. In 2000, E. Dudik wrote that an organization must develop a mechanism for understanding the source and level of complexity it will face in the future and then transform itself into a complex adaptive system in order to deal with it.^[27]

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Business Strategy/The Japanese Challenge

By the late 70s people had started to notice how successful Japanese industry had become. In industry after industry, including steel, watches, ship building, cameras, autos, and electronics, the Japanese were surpassing American and European companies. Westerners wanted to know why. Numerous theories purported to explain the Japanese success including:

- Higher employee morale, dedication, and loyalty;
- Lower cost structure, including wages;
- Effective government industrial policy;
- Modernization after WWII leading to high capital intensity and productivity;
- Economies of scale associated with increased exporting;
- Relatively low value of the Yen leading to low interest rates and capital costs, low dividend expectations, and inexpensive exports;
- Superior quality control techniques such as Total Quality Management and other systems introduced by W. Edwards Deming in the 1950s and 60s.^[1]

Although there was some truth to all these potential explanations, there was clearly something missing. In fact by 1980 the Japanese cost structure was higher than the American. And post WWII reconstruction was nearly 40 years in the past. The first management theorist to suggest an explanation was Richard Pascale.

In 1981 Richard Pascale and Anthony Athos in *The Art of Japanese Management* claimed that the main reason for Japanese success was their superior management techniques.^[2] They divided management into 7 aspects (which are also known as McKinsey 7S Framework): Strategy, Structure, Systems, Skills, Staff, Style, and Supraordinate goals (which we would now call shared values). The first three of the 7 S's were called hard factors and this is where American companies excelled. The remaining four factors (skills, staff, style, and shared values) were called soft factors and were not well understood by American businesses of the time (for details on the role of soft and hard factors see Wickens P.D. 1995.) Americans did not yet place great value on corporate culture, shared values and beliefs, and social cohesion in the workplace. In Japan the task of management was seen as managing the whole complex of human needs, economic, social, psychological, and spiritual. In America work was seen as something that was separate from the rest of one's life. It was quite common for Americans to exhibit a very different personality at work compared to the rest of their lives. Pascale also highlighted the difference between decision making styles; hierarchical in America, and consensus in Japan. He also claimed that American business lacked long term vision, preferring instead to apply management fads and theories in a piecemeal fashion.

One year later *The Mind of the Strategist* was released in America by Kenichi Ohmae, the head of McKinsey & Co.'s Tokyo office.^[3] (It was originally published in Japan in 1975.) He claimed that strategy in America was too analytical. Strategy should be a creative art: It is a frame of mind that requires intuition and intellectual flexibility. He claimed that Americans constrained their strategic options by thinking in terms of analytical techniques, rote formula, and step-by-step processes. He compared the culture of Japan in which vagueness, ambiguity, and tentative decisions were acceptable, to American culture that valued fast decisions.

Also in 1982 Tom Peters and Robert Waterman released a study that would respond to the Japanese challenge head on.^[4] Peters and Waterman, who had several years earlier collaborated with Pascale and Athos at McKinsey & Co. asked “What makes an excellent company?”. They looked at 62 companies that they thought were fairly successful. Each was subject to six performance criteria. To be classified as an excellent company, it had to be above the 50th percentile in 4 of the 6 performance metrics for 20 consecutive years. Forty-three companies passed the test. They then studied these successful companies and interviewed key executives. They concluded in *In Search of Excellence* that there were 8 keys to excellence that were shared by all 43 firms. They are:

- A bias for action — Do it. Try it. Don’t waste time studying it with multiple reports and committees.
- Customer focus — Get close to the customer. Know your customer.
- Entrepreneurship — Even big companies act and think small by giving people the authority to take initiatives.
- Productivity through people — Treat your people with respect and they will reward you with productivity.
- Value-oriented CEOs — The CEO should actively propagate corporate values throughout the organization.
- Stick to the knitting — Do what you know well.
- Keep things simple and lean — Complexity encourages waste and confusion.
- Simultaneously centralized and decentralized — Have tight centralized control while also allowing maximum individual autonomy.

The basic blueprint on how to compete against the Japanese had been drawn. But as J.E. Rehfeld (1994) explains it is not a straight forward task due to differences in culture.^[5] A certain type of alchemy was required to transform knowledge from various cultures into a management style that allows a specific company to compete in a globally diverse world. He says, for example, that Japanese style kaizen (continuous improvement) techniques, although suitable for people socialized in Japanese culture, have not been successful when implemented in the U.S. unless they are modified significantly.

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Business Strategy/The Psychology of Business Management

Several psychologists have conducted studies to determine the psychological patterns involved in strategic management. Typically senior managers have been asked how they go about making strategic decisions. A 1938 treatise by Chester Barnard, that was based on his own experience as a business executive, sees the process as informal, intuitive, non-routinized, and involving primarily oral, 2-way communications. Barnard says "The process is the sensing of the organization as a whole and the total situation relevant to it. It transcends the capacity of merely intellectual methods, and the techniques of discriminating the factors of the situation. The terms pertinent to it are "feeling", "judgement", "sense", "proportion", "balance", "appropriateness". It is a matter of art rather than science."^[1]

In 1973, Henry Mintzberg found that senior managers typically deal with unpredictable situations so they strategize in *ad hoc*, flexible, dynamic, and implicit ways. He says, "The job breeds adaptive information-manipulators who prefer the live concrete situation. The manager works in an environment of stimulus-response, and he develops in his work a clear preference for live action."^[2]

In 1982, John Kotter studied the daily activities of 15 executives and concluded that they spent most of their time developing and working a network of relationships from which they gained general insights and specific details to be used in making strategic decisions. They tended to use "mental road maps" rather than systematic planning techniques.^[3]

Daniel Isenberg's 1984 study of senior managers found that their decisions were highly intuitive. Executives often sensed what they were going to do before they could explain why.^[4] He claimed in 1986 that one of the reasons for this is the complexity of strategic decisions and the resultant information uncertainty.^[5]

Shoshana Zuboff (1988) claims that information technology is widening the divide between senior managers (who typically make strategic decisions) and operational level managers (who typically make routine decisions). She claims that prior to the widespread use of computer systems, managers, even at the most senior level, engaged in both strategic decisions and routine administration, but as computers facilitated (She called it "deskilled") routine processes, these activities were moved further down the hierarchy, leaving senior management free for strategic decision making.

In 1977, Abraham Zaleznik identified a difference between leaders and managers. He describes leaders as visionaries who inspire. They care about substance. Whereas managers are claimed to care about process, plans, and form.^[6] He also claimed in 1989 that the rise of the manager was the main factor that caused the decline of American business in the 1970s and 80s. Lack of leadership is most damaging at the level of strategic management where it can paralyze an entire organization.^[7]

According to Corner, Kinichi, and Keats,^[8] strategic decision making in organizations occurs at two levels: individual and aggregate. They have developed a model of parallel strategic decision making. The model identifies two parallel processes both of which involve getting attention, encoding information, storage and retrieval of information, strategic choice, strategic outcome, and feedback. The individual and organizational processes are not independent however. They interact at each stage of the process.

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Business Strategy/The Three Processes of Strategy

Strategic management is a combination of three main processes which are as follows:

Strategy formulation

- Performing a situation analysis, self-evaluation and competitor analysis: both internal and external; both micro-environmental and macro-environmental.
- Concurrent with this assessment, objectives are set. These objectives should be parallel to a timeline; some are in the short-term and others on the long-term. This involves crafting vision statements (long term view of a possible future), mission statements (the role that the organization gives itself in society), overall corporate objectives (both financial and strategic), strategic business unit objectives (both financial and strategic), and tactical objectives.
- These objectives should, in the light of the situation analysis, suggest a strategic plan. The plan provides the details of how to achieve these objectives.

This three-step strategy formulation process is sometimes referred to as determining where you are now, determining where you want to go, and then determining how to get there. These three questions are the essence of strategic planning. I/O Economics for the external factors and RBV for the internal factors.

Strategy implementation

- Allocation and management of sufficient resources (financial, personnel, time, technology support)
- Establishing a chain of command or some alternative structure (such as cross functional teams)
- Assigning responsibility of specific tasks or processes to specific individuals or groups
- It also involves managing the process. This includes monitoring results, comparing to benchmarks and best practices, evaluating the efficacy and efficiency of the process, controlling for variances, and making adjustments to the process as necessary.
- When implementing specific programs, this involves acquiring the requisite resources, developing the process, training, process testing, documentation, and integration with (and/or conversion from) legacy processes.

Thus this type of problem can occur in strategy

In order for a policy to work, there must be a level of consistency from every person in an organization, including from the management. This is what needs to occur on the tactical level of management as well as strategic.

Strategy evaluation

- Measuring the effectiveness of the organizational strategy, it's extremely important to conduct a SWOT analysis to figure out the strengths, weaknesses, opportunities and threats (both internal and external) of the entity in question. This may require to take certain precautionary measures or even to change the entire strategy.

In corporate strategy, Johnson and Scholes present a model in which strategic options are evaluated against three key success criteria:

- Suitability (would it work?)
- Feasibility (can it be made to work?)
- Acceptability (will they work it?)

Suitability

Suitability deals with the overall rationale of the strategy. The key point to consider is whether the strategy would address the key strategic issues underlined by the organisation's strategic position.

- Does it make economic sense?
- Would the organisation obtain economies of scale, economies of scope or experience economy?
- Would it be suitable in terms of environment and capabilities?

Tools that can be used to evaluate suitability include:

- Ranking strategic options
- Decision trees
- What-if analysis

Feasibility

Feasibility is concerned with the resources required to implement the strategy are available, can be developed or obtained. Resources include **funding, people, time** and **information**.

Tools that can be used to evaluate feasibility include:

- cash flow analysis and forecasting
- break-even analysis
- resource deployment analysis

Acceptability

Acceptability is concerned with the expectations of the identified stakeholders (mainly shareholders, employees and customers) with the expected performance outcomes, which can be return, risk and stakeholder reactions.

- **Return** deals with the benefits expected by the stakeholders (financial and non-financial). For example, shareholders would expect the increase of their wealth, employees would expect improvement in their careers and customers would expect better value for money.
- **Risk** deals with the probability and consequences of failure of a strategy (financial and non-financial).
- **Stakeholder reactions** deals with anticipating the likely reaction of stakeholders. Shareholders could oppose the issuing of new shares, employees and unions could oppose outsourcing for fear of losing their jobs, customers could have concerns over a merger with regards to quality and support.

Tools that can be used to evaluate acceptability include:

- what-if analysis
 - stakeholder mapping
-

Management Strategy

Management Strategy is about determining **where** you want an organization to go and **how** you want it to get there. Activities that fall into the category of strategy affect a significant portion of the organization for a considerable time, distinguished from tactics which are activities in response to particular situations and are unlikely to ruin the organization if they fail.

There are competing theories as to how to determine what goals and actions are required. All of them boil down to analyzing the current situation, developing goals and a plan of action, and then driving towards those goals.

- Michael Porter's Five Forces
- Jay Barney's Sustainable Competitive Advantage
- David A. Aaker's Strategic Market Management
- Main Text: Henry Mintzberg's The Strategy Process 4th Ed.
- Analyzing Resources and Capabilities
- Cost Advantage

Management Strategy/Five Forces

Michael Porter, one of the leading researchers in the field of business and a professor at Harvard Business School, has identified five key forces which affect the strategy of any industry. These forces are:

1. Threat of New Entrants
2. Threat of Substitutes
3. Industry Competition
4. Bargaining Power of Suppliers
5. Bargaining Power of Buyers

Managers use the Five Forces model to help identify opportunities or evaluate decisions in the context of the environment. Often, the Five Forces are mapped against a SWOT analysis to develop a corporate strategy.

To complete a Five Forces analysis, it is often best to build a grid on a piece of paper and label each section--keeping Industry Competition separate. Fill-in each section and to develop a view of the industry. Then, think about if the industry is truly competitive or if the industry is a monopoly or oligopoly. What makes your company able to compete in this environment?

Management Strategy/Sustainable Competitive Advantage

In 1991, Jay Barney developed the Resource Based View of the firm. This view established four criteria that determine a firm's competitive capabilities in the marketplace.

These four criteria for judging a firm's resources are:

1. Are they Valuable? (do they enable a firm to devise strategies that improve efficiency or effectiveness?)
2. Are they Rare? (if many other firms possess it, then it is not rare)
3. Are they Imperfectly Imitable? (because of unique historical conditions, causally ambiguous, and/or are socially complex)
4. Are they Non-Substitutable? (if a ready substitute can be found, then this condition is not met)

When all four of these criteria are met, then a firm can be said to have a **sustainable competitive advantage**. In other words, the firm will have an advantage in the marketplace which will last until the criteria are no longer met completely. As a result, the firm will be able to earn higher profits than other firms with which it competes.

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