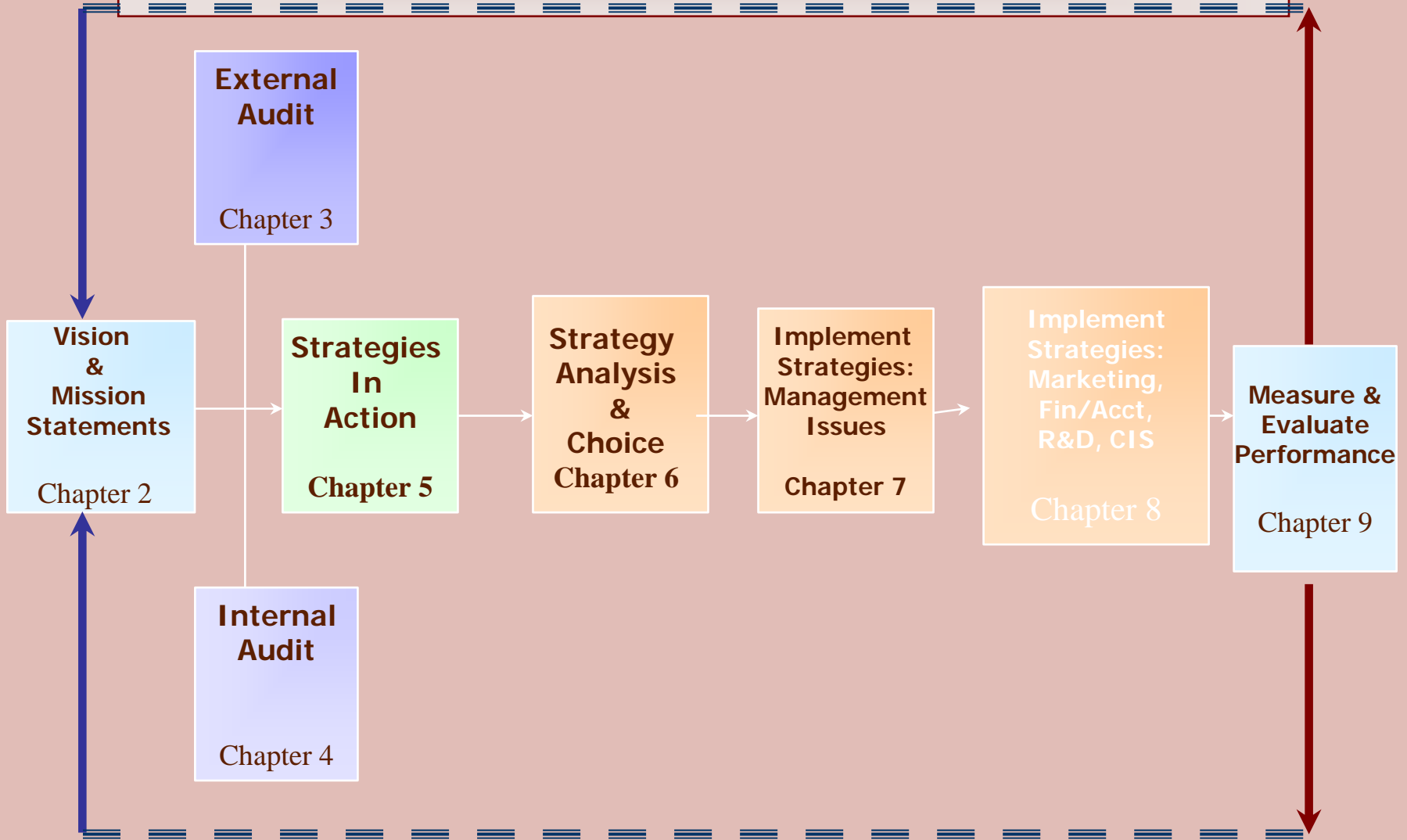


**Chapter 8:
Implementing Strategies:
Marketing,
Finance/Accounting, R&D,
and CIS Issues**

Comprehensive Strategic Management Model



Implementing Strategies

“There is no “perfect” strategic decision. One always has to pay a price. One always has to balance conflicting objectives, conflicting opinions, and conflicting priorities. The best strategic decision is only an approximation—and a risk.”

—Peter Drucker—

Implementing Strategies

“Most of the time, strategists should not be formulating strategy at all; they should be getting on with implementing strategies they already have.”

—Henry Mintzberg—

Implementing Strategies

Less than 10% of strategies formulated are successfully implemented!

Implementing Strategies

Reasons for low success rate

- Failing to segment markets appropriately
- Paying too much for a new acquisition
- Falling behind competition in R&D
- Not recognizing benefit of computers in managing information

Marketing Issues

Two Variables of Central Importance to Strategy Implementation:

- *Market Segmentation*
- *Product Positioning*

Marketing Issues

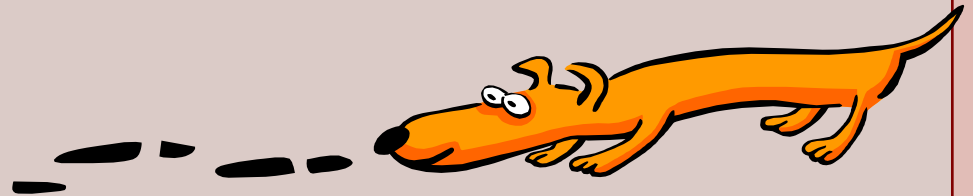
Decisions that may require policies:

- Use exclusive dealers or multiple channels of distribution
- Use heavy, light, or no TV advertising
- Be a price leader or price follower
- Offer a complete or limited warranty
- Salespersons reward structure

Marketing Issues

Current Issues:

- Tracking individual movements on the Internet



- Consumer “profiling”

Marketing Mix: Component Factors

Product

Place

Promotion

Price

Quality

Distribution channels

Advertising

Level

Features

Distribution coverage

Personal selling

Discounts & allowances

Style

Outlet location

Sales promotion

Payment terms

Brand name

Sales territories

Publicity

Packaging

Inventory levels/locations

Product line

Transportation carriers

Warranty

Service level

Marketing Issues

Market Segmentation

Used in strategy implementation

- Particularly useful in small and specialized firms

Marketing Issues

Market Segmentation

Important because:

- Market development, market penetration, and diversification require increased sales through new markets or products
- Firm can operate with limited resources. Enables a small firm by maximizing per-unit profits and per-segment sales.
- Segmentation decisions directly affect marketing mix variables:
 - Product, place promotion, and price

Marketing Issues

Market Segmentation

Strategists evaluate potential:

- Characteristics & needs of consumers
- Consumer similarities and differences
- Consumer group profiles

Marketing Issues

Market Segmentation

Based on:

- Geographic variables
- Demographic variables
- Psychographic variables
- Behavioral variables

Marketing Issues

Product Positioning

- After segmenting the market, determine what customers want and expect
 - Analysis & research

Marketing Issues

Product Positioning

- Develop schematic representations of products
 - Compare to competitors on industry success dimensions

Marketing Issues

Action Steps in Product Positioning

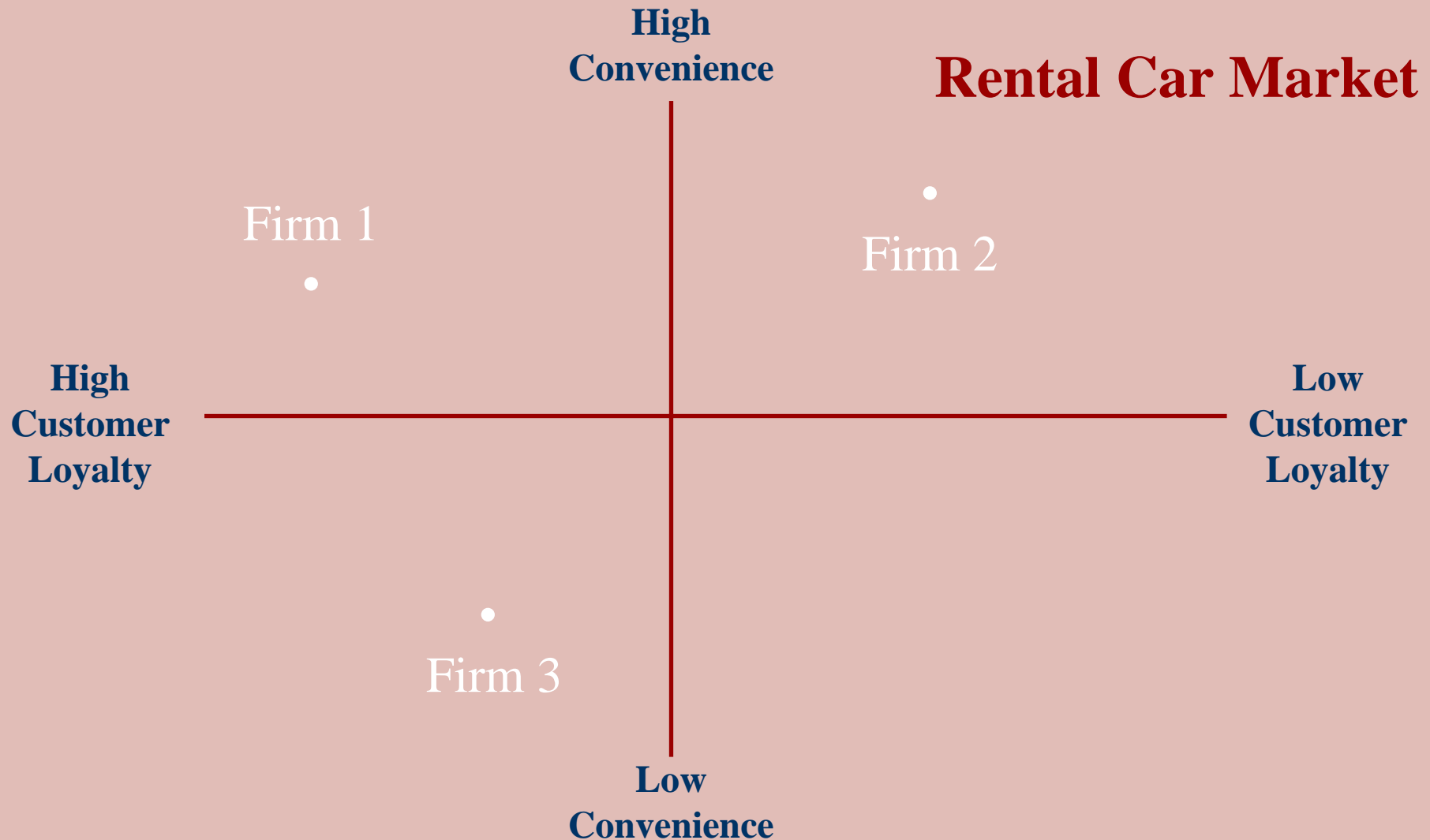
- Select key criteria that are differentiators in the industry.
- Diagram a two-dimensional product positioning map.
- Plot major competitors' products or services in the matrix.
- Identify areas in the positioning map where firm's products could be most competitive. Look for niches.
- Develop a marketing plan to position firm's products appropriately.

Marketing Issues

Product Positioning as a Strategy Implementation Tool

- Look for the “vacant niche.”
- Avoid suboptimization
- Don’t serve two segments with same strategy.
- Don’t position firm in the middle of the map.

Product Positioning Map



Finance/Accounting

Central to Strategy Implementation

- Capital acquisition
- Development of pro forma financial statements
- Financial budget preparation
- Business valuation

Finance/Accounting

Decisions that may require policies:

- Raise capital with short-term debt, long-term debt, preferred stock, or common stock
- Lease or buy fixed assets
- Determine dividend payout ratio
- LIFO, FIFO, or market-value accounting approach

Finance/Accounting

Decisions that may require policies:

- Extend the time of accounts receivable
- Establish a certain percentage of discount on accounts within a specified period of time
- Determine the amount of cash on hand

Finance/Accounting

Capital Acquisition

Sources of capital:

- Net profit from operations
- Sale of assets
- Debt
- Equity

Finance/Accounting

Capital Acquisition

Earnings Per Share/Earnings Before Interest and Taxes (EPS/EBIT) Analysis

- Determination of debt, stock, or combination of debt & stock is best alternative for raising capital to implement strategies

Finance/Accounting

Pro Forma Financial Statements

- Allows the firm to examine the expected results of various actions and approaches

Finance/Accounting

Pro Forma Financial Statements

- Forecast impact of various implementation decisions
 - *Compute projected financial ratios under various strategy-implementation scenarios*

Finance/Accounting

Financial Budgets

- Document that details how funds will be obtained and spent for a specified period of time.
 - Annual budgets most common
 - Not a tool for limiting expenditures
 - Method for obtaining the most productive and profitable use of firm's resources

Finance/Accounting

Financial Budgets

Limitations:

- Can become too detailed cumbersome and expensive
- Can become a substitute for objectives
- Can hide inefficiencies
- Can be used as instruments of tyranny

Finance/Accounting

Business Valuation

Main approaches:

1. What a firm owns
2. What a firm earns
3. What a firm will bring in the market

Finance/Accounting

Business Valuation

- Determine net worth or stockholders' equity
 - Sum of common stock, additional paid in capital and retained earnings. Goodwill and under or overvalued assets.
 - Provides estimate of firm's monetary value

Finance/Accounting

Business Valuation

- Future benefits derived through net profits
 - 5 X the firm's current annual profit or
 - Five-year average profit level

Finance/Accounting

Business Valuation

- *Market determination*
 - Selling price of similar company
 - Price-earnings ratio method
 - Outstanding shares method

R&D Issues

Research and Development (R&D)

- Development of new products and improvement of existing products.
- Strategies of product development, market penetration, and concentric diversification require R&D

R&D Issues

Research and Development (R&D)

- R&D policies should match market opportunities with internal capabilities

R&D Issues

Research and Development (R&D)

- Policies enhance strategy-implementation efforts:
 - Product or process improvements
 - Stress basic or applied research
 - Leaders or followers in R&D

R&D Issues

Three Major Approaches

1. First mover in new technological products
2. Innovative imitator of successful products
3. Low-cost producer through mass production similar to recently introduced products