

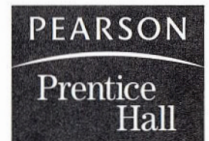
F I F T H E D I T I O N

Market-Based Management

Strategies for Growing
Customer Value and Profitability

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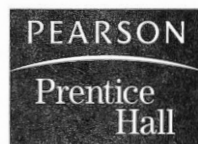
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Portfolio Analysis and Strategic Market Planning

■ Strategic market planning provides a sales and profit roadmap for the next 3 to 5 years.

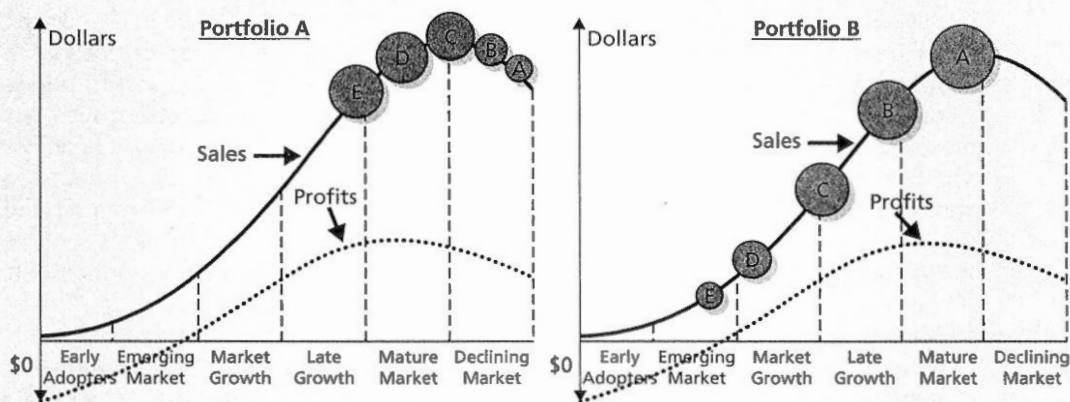
Portfolio analysis and strategic market planning focus on gaining an understanding of a business's current and future positions with respect to sales and profit. In Figure 11-1, the business with Portfolio A is in an excellent current position for profits. But its product portfolio is *unbalanced*. The business has not invested in new products and, as the products in its portfolio move through their product life cycles, sales and profits will at some point decline.

Portfolio B has been managed more effectively and is a *balanced* portfolio. It has a high percentage of sales (size of circle) at the late-growth and mature stages of the product life cycle, resulting in good profitability (dashed line in graph).

More importantly, Portfolio B has a great future. Roughly a third of its sales are in the early or growth stages of the product-market life cycle. As product A goes into its decline stage, each of the other products will progress at its market growth rate to the next stage of its product-market life cycle.

While Portfolio A has good short-run profitability, mismanagement will eventually leave this business with declining sales and profits. Portfolio B, while perhaps not quite as profitable in the short run, is the better-managed portfolio. It will continue to deliver growth in both sales and profits over time, for as long as the business maintains a balanced portfolio of products that offer good customer value.

FIGURE 11-1 PRODUCT LIFE CYCLES OF TWO PRODUCT PORTFOLIOS



● Circle size is proportionate to sales.

FIGURE 11-2 PORTFOLIO ANALYSIS AND STRATEGIC MARKET PLANNING

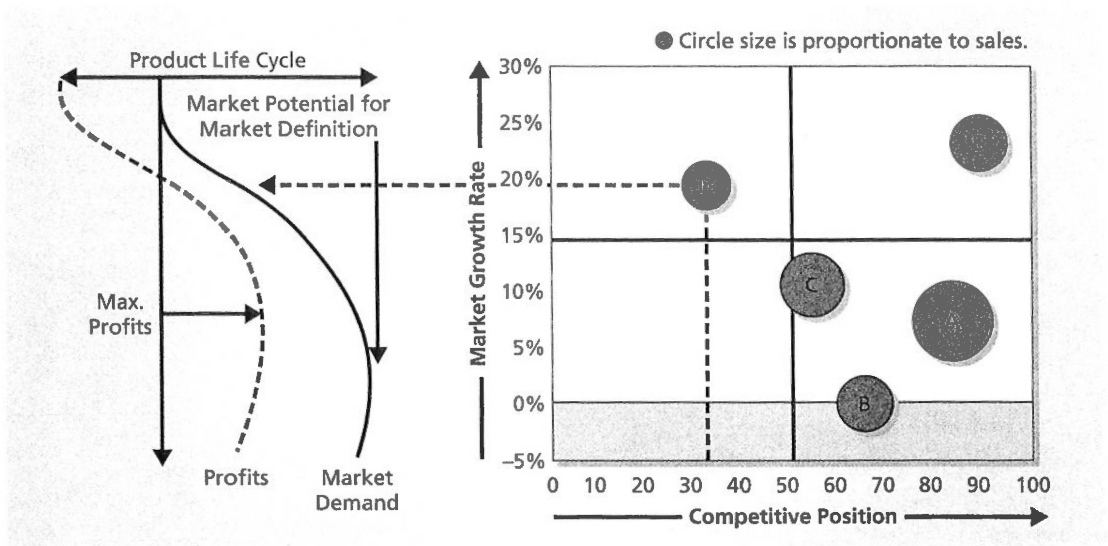
STRATEGIC MARKET PLANNING

Successful companies like General Electric, Procter & Gamble, and Toyota achieve success year after year with a great deal of strategic market planning.¹ The executives and managers of these companies are committed to serving shareholders by continuously reviewing current performance, tracking the results of funding and investment decisions aimed at promoting a balance of short- and long-run performance, and seeking new opportunities. An important part of this process is investing for the future and maintaining portfolio diversification to reduce large swings in overall performance.

Each product-market in a business's portfolio in some way affects both the short- and long-run performance of the business, as illustrated in Figure 11-1. The business may want to increase its investment in some product-markets, depending on their current and potential share positions and their performance levels, in order to grow or defend important strategic market positions. In other product-markets, the business may want to reduce its focus in order to achieve a stronger competitive position and profit contribution with available resources. For yet other product-markets, the business may decide to withdraw its resources and divest. Because resources in any business are limited, a strategic market plan is needed to carefully map a business's future share position, sales growth, and profit performance. A strategic market plan sets the direction and provides guidelines for resource allocation.²

In order to specify a strategic direction for each product-market and to allocate resources in a way that will bring about the desired short- and long-run performance, businesses engage in a strategic market planning process.³ Figure 11-2 outlines this process. The first step is a careful assessment of business performance, market attractiveness, and competitive position for each product-market a business serves or is considering serving.

- **Business Performance:** Businesses have many ways to assess their performance, but any assessment will include sales and profits as basic considerations.
- **Market Attractiveness:** Several factors can make one market attractive and another less attractive. Product life-cycle position and market growth rate are measures of market attractiveness that we know correspond to sales and profits, as we saw in Figure 11-1.

FIGURE 11-3 PRODUCT LIFE CYCLE VERSUS COMPETITIVE POSITION PORTFOLIO

■ **Competitive Position:** Several measures of competitive position help a business discern a strong competitive position from a weak one. One measure that corresponds to sales and profit performance is *relative market share*. The stronger a business's or a product's relative market share, the more profitable it is.⁴ Another measure we can use is the share development index, which also relates share growth to sales and profit.

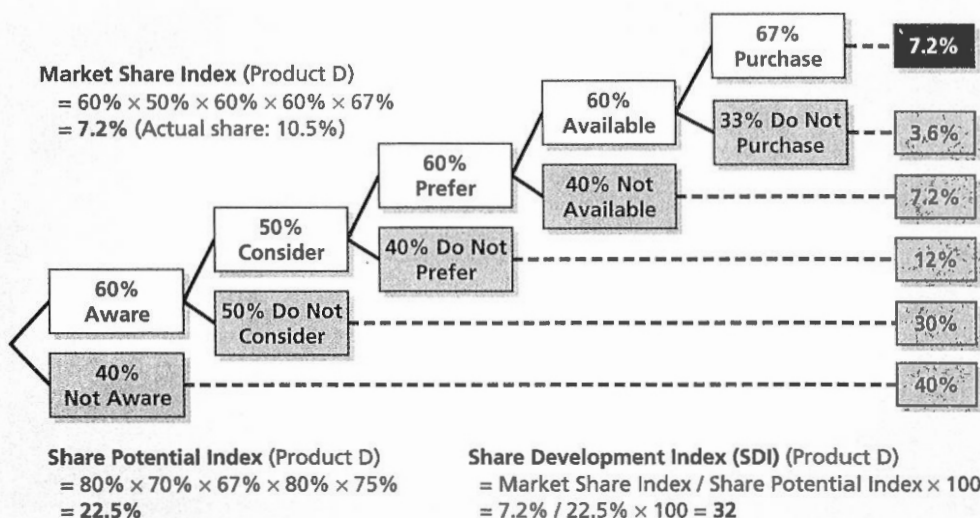
In creating the matrix for a portfolio based on the life cycles of a business's products, we begin by building the market attractiveness dimension of the portfolio. Figure 11-3 illustrates how the product's sales and profits vary over the product life cycle. The different levels of performance at different stages of the product life cycle require that a business implement different strategies and allocate different levels of marketing resources as a product moves through its life cycle.

Examining the sales and profits of product D in Figure 11-3 helps us understand the relationship between the stages of the product life cycle and market attractiveness. Assume the market demand for product D, now in the early growth stage of its product life cycle, is 1 million units annually and the product captures 10 percent of this demand with a price of \$100 per unit. The result is \$10 million in sales.

$$\begin{aligned}
 \text{Sales (Current)} &= \text{Market Demand} \times \text{Market Share} \times \text{Price} \\
 &= 1,000,000 \text{ units} \times 10\% \times \$100 \text{ per unit} \\
 &= \$10 \text{ million}
 \end{aligned}$$

With the market growing at 20 percent annually and the business maintaining its 10 percent market share, sales should increase by \$2 million.

$$\begin{aligned}
 \text{Sales (Year 1)} &= \text{Market Demand} \times \text{Market Share} \times \text{Price} \\
 &= 1,200,000 \text{ units} \times 10\% \times \$100 \text{ per unit} \\
 &= \$12 \text{ million}
 \end{aligned}$$

FIGURE 11-4 MARKET SHARE AND COMPETITIVE POSITION

Although this example is an oversimplification, because the price would undoubtedly decrease somewhat, it demonstrates the attractiveness of a market in terms of sales when the product is in the growth stage of its life cycle. If the price were to decrease 3 percent, from \$100 to \$97, sales would still be \$11.64 million.

But what about profits? By including in the equation the unit cost and the marketing and sales expenses, we can estimate the marketing profits produced with a hold share strategy for product D. The current-year net marketing contribution with a 10 percent market share, 40 percent margin, and marketing and sales expenses at 15 percent of sales is \$2.5 million.

$$\begin{aligned}
 \text{NMC (Current)} &= \text{Market Demand} \times \text{Market Share} \times \left(\frac{\text{Unit Price} - \text{Unit Cost}}{\text{Unit Price}} \right) - \text{Marketing Expenses} \\
 &= 1,000,000 \text{ units} \times 10\% \times (\$100 - \$60) - \$1.5 \text{ million} \\
 &= \$4 \text{ million} - \$1.5 \text{ million} \\
 &= \$2.5 \text{ million}
 \end{aligned}$$

The marketing return on sales is 25 percent. With marketing and sales expenses kept at 15 percent of sales, a hold share strategy would produce a \$3 million marketing profit in year 1.

$$\begin{aligned}
 \text{NMC (Year 1)} &= \text{Market Demand} \times \text{Market Share} \times \left(\frac{\text{Unit Price} - \text{Unit Cost}}{\text{Unit Price}} \right) - \text{Marketing Expenses} \\
 &= 1,200,000 \text{ units} \times 10\% \times (\$100 - \$60) - \$1.8 \text{ million} \\
 &= \$4.8 \text{ million} - \$1.8 \text{ million} \\
 &= \$3 \text{ million}
 \end{aligned}$$

FIGURE 11-5 SHARE PERFORMANCE METRICS AND SHARE DEVELOPMENT INDEX

Products' Share Indexes	Gate 1 Awareness	Gate 2 Interest	Gate 3 Price	Gate 4 Availability	Gate 5 Purchase	Share Index	Share Development Index
A Current Potential	90% 90%	67% 70%	60% 60%	85% 90%	60% 65%	18.5% 22.1%	84
B Current Potential	85% 90%	67% 70%	50% 60%	80% 90%	67% 67%	15.3% 22.8%	67
C Current Potential	70% 75%	70% 70%	50% 60%	60% 80%	75% 80%	11.0% 20.2%	54
D Current Potential	60% 80%	50% 70%	60% 67%	60% 80%	67% 75%	7.2% 22.5%	32
E Current Potential	70% 80%	88% 70%	80% 67%	60% 80%	73% 80%	21.6% 24.0%	90

We can see, then, that the product life cycle serves as a good indication of market attractiveness not only in terms of share growth and sales, but also with regard to profit.

But what about measuring competitive position? While we can measure a business's competitive position in different ways, the one single measure that provides a reliable assessment of competitive position is the level of market share. Market share is highly representative of a business's competitive position in the market place, and it can be managed over the product life cycle for positive impacts on sales and profit. But, again, a word of caution: A business must manage market share gains to improve profit, not just sales and market share. For this reason, we have selected the share development index (SDI) as the strategic measure of competitive position for the portfolio based on product life cycles in Figures 11-3 and 11-6. The SDI also indicates the level of opportunity that a business has for improving a product's competitive position: Product D's relatively low SDI of 32 as shown in the two charts means its potential for greater sales and profit is very high.

Recall that in calculating a product's SDI, we first estimate its market share and share potential indexes. Using the share development path presented in Chapter 3, we can estimate that product D has a market share index of 7.2 percent, as shown in Figure 11-4. The share potential index is the share index that product D would achieve if it could reach all of the potential performance targets in Figure 11-5. In this case, the share potential index is estimated at 22.5 percent. The ratio of current to potential share multiplied by 100 produces the share development index of 32.

The market share index for each product listed in Figure 11-5 is the function of five sequential share performance metrics. Many other share performance models are possible based on a business's particular product-market and how market share is achieved. In some product-markets, for example, a trial is an important step in the share performance hierarchy and would be included in the share development path. It is also possible and even likely that different products in the same market would have different share

performance structures. However, for simplicity, in Figure 11-5 we used the same share performance structure for all five portfolio products.

Remember that the market share index is not intended to represent a business's actual market share. Many factors besides the ones in the share development path shape actual market share. However, the market share index is a summary index of the more important share performance metrics—in this case, the five metrics we chose. A business can expect gains in actual market share to the extent that it improves its market share index.

The following example illustrates how an improved market share index can lead to sales and profit growth. A business with sales of \$10 million increased its marketing resources to improve its market share index from 7.2 percent to 10 percent during year 1 of its strategic market plan, resulting in a 1 percent increase in actual market share—from 10 to 11 percent.

$$\begin{aligned}\text{Sales (Year 1)} &= \text{Market Demand} \times \text{Market Share} \times \text{Price} \\ &= 1,200,000 \text{ units} \times 11\% \times \$100 \text{ per unit} \\ &= \mathbf{\$13.2 \text{ million}}\end{aligned}$$

The increase in market share resulted in \$3.2 million in additional sales revenue. But what about profits? Is this market share strategy profitable? To calculate the net marketing contribution, we take into account that the marketing budget was increased from \$1.8 to \$2 million to support the improvement in the market share performance metrics.

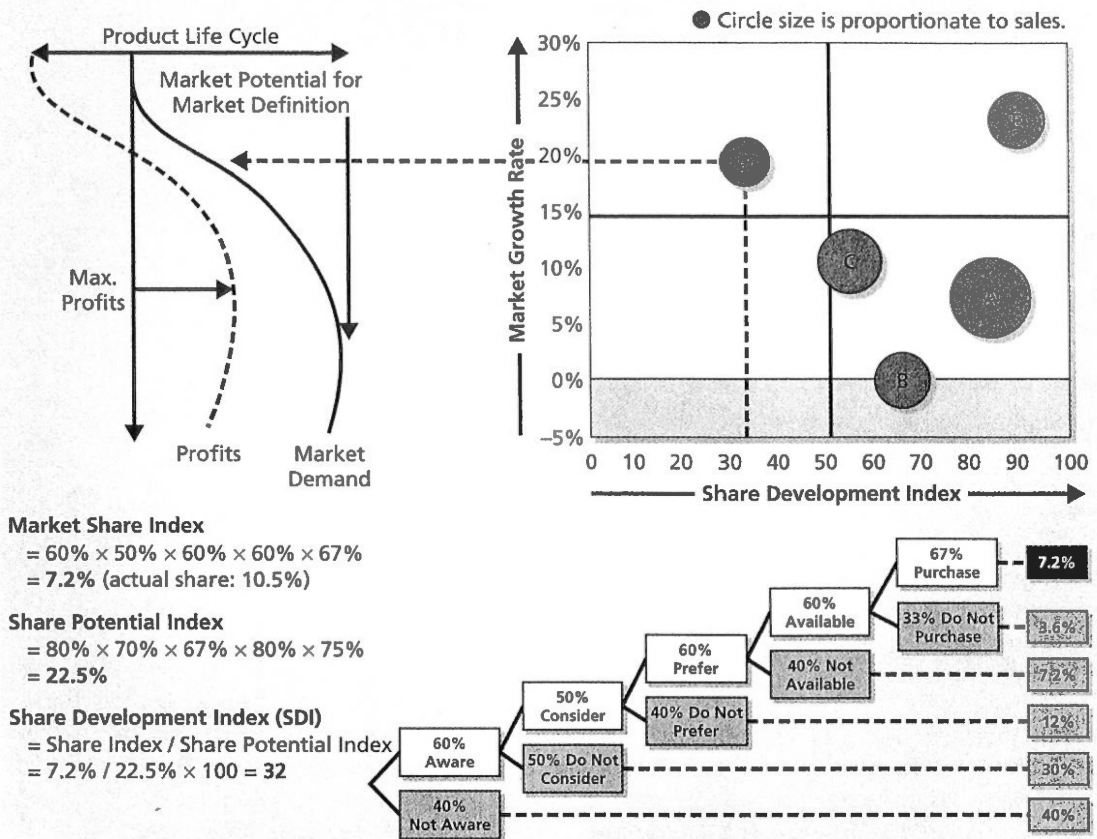
$$\begin{aligned}\text{NMC (Year 1)} &= \text{Market Demand} \times \text{Market Share} \times \left(\frac{\text{Unit Price}}{\text{Unit Cost}} \right) - \text{Marketing Expenses} \\ &= 1,200,000 \text{ units} \times 11\% \times (\$100 - \$60) - \$2 \text{ million} \\ &= \$5.28 \text{ million} - \$2 \text{ million} \\ &= \mathbf{\$3.28 \text{ million}}\end{aligned}$$

Had the business pursued a hold share strategy with no increase in the marketing budget, the net marketing contribution would have been \$3 million. A grow share strategy in a market growing 20 percent per year resulted in a marketing profit 9.3 percent higher than a hold share strategy would have produced.

But it is equally important to examine a situation where market share gains result in higher sales and higher market share but a lower marketing profit. Product A in Figures 11-3 and 11-6 is a good example. It is approaching the mature stage of its product life cycle and has achieved 84 percent of its share potential. Given a 5 percent rate of market growth and little price erosion, sales of product A can be expected to increase from \$100 million to \$105 million with a 20 percent market share.

$$\begin{aligned}\text{Sales (Current Year)} &= \text{Market Demand} \times \text{Market Share} \times \text{Price} \\ &= 10,000,000 \text{ units} \times 20\% \times \$50 \text{ per unit} \\ &= \mathbf{\$100 \text{ million}}\end{aligned}$$

$$\begin{aligned}\text{Sales (Year 1)} &= \text{Market Demand} \times \text{Market Share} \times \text{Price} \\ &= 10,500,000 \text{ units} \times 20\% \times \$50 \text{ per unit} \\ &= \mathbf{\$105 \text{ million}}\end{aligned}$$

FIGURE 11-6 PRODUCT LIFE CYCLE/SHARE DEVELOPMENT PORTFOLIO

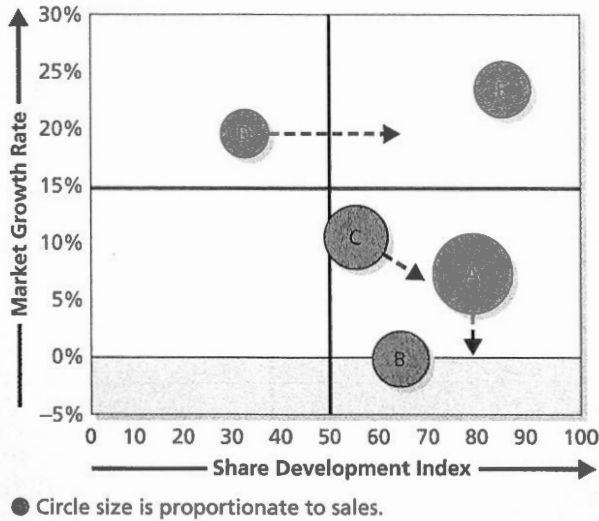
With sales of \$100 million for the current year, the marketing profit is \$10 million based on a 20 percent margin and marketing and sales expenses of 10 percent of sales.

$$\begin{aligned} \text{NMC (Current Year)} &= \text{Market Demand} \times \text{Market Share} \times (\text{Unit Price} - \text{Unit Cost}) - \text{Marketing Expenses} \\ &= 10,000,000 \text{ units} \times 20\% \times (\$50 - \$40) - \$10 \text{ million} \\ &= \$20 \text{ million} - \$10 \text{ million} \\ &= \$10 \text{ million} \end{aligned}$$

For year 1, a grow share strategy for product A calls for a price reduction of 5 percent. The product's price elasticity is -2.0 , and a 5 percent price decrease would lead to a 10 percent increase in volume sold. The expected outcome would be a 2 percent increase in the business's share of a market that is growing at 5 percent annually, resulting in a significant increase of \$9.7 million in sales over the current year.

$$\begin{aligned} \text{Sales (Year 1)} &= 10,500,000 \text{ units} \times (20\% \times 1.1) \times \$47.5 \\ &= \$109.7 \text{ million} \end{aligned}$$

FIGURE 11-7 PRODUCT PORTFOLIO PLAN



But would this grow share strategy be more profitable even when marketing and sales expenses are held at the current-year level of \$10 million?

$$\begin{aligned} \text{NMC (Year 1)} &= \text{Market Demand} \times \text{Market Share} \times \left(\text{Unit Price} - \text{Unit Cost} \right) - \text{Marketing Expenses} \\ &= 10,500,000 \text{ units} \times 22\% \times (\$47.5 - \$40) - \$10 \text{ million} \\ &= \$17.3 \text{ million} - \$10 \text{ million} \\ &= \$7.3 \text{ million} \end{aligned}$$

Despite the gains in market share and sales, the grow share strategy would reduce profits in year 1 by \$2.7 million even with the 5 percent growth in market demand and no increase in the marketing budget. The grow share strategy in this case is a good example of how a blind pursuit of greater market share and sales can lead to lower profits.

Product Life Cycle/Market Share Portfolio

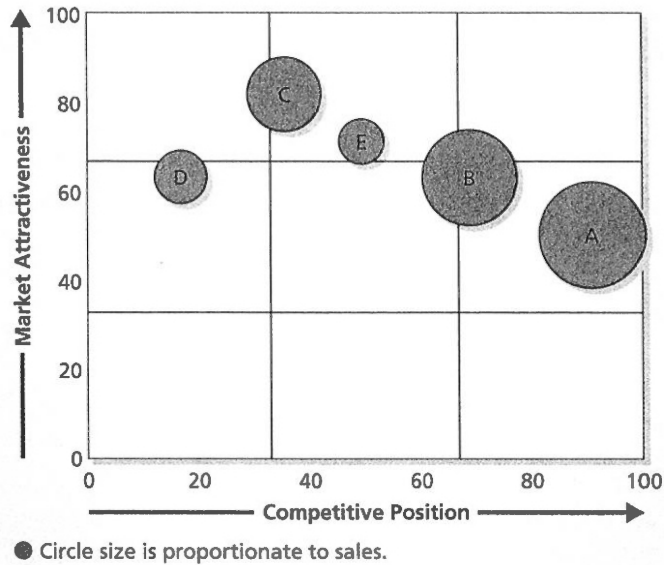
The product portfolio plan in Figure 11-7 incorporates all three elements a business uses in the market planning process: business performance, market attractiveness, and competitive position. Performance is represented by the size of each product’s circle, which is proportionate to the current-year sales revenue the product generates. The vertical axis represents the market growth rate, a major factor in determining market attractiveness. The market growth rate corresponds to the stages of the product life cycle presented in Figure 11-1. And the horizontal axis is a scale for the share development index, our measure of competitive position. With this portfolio we can assess the five products with an eye toward selecting the kind of strategic market plan that would be most effective for each one, given the attractiveness of its market, its competitive position, and its present sales performance and potential for improved performance.

- **Product A**—The portfolio position of product A in Figure 11-6 is in the mature stage of its product life cycle. Market demand, however, is still growing at 5 percent annually, and the product's share development index of 84 indicates a strong competitive position. The combination of these factors suggests the product is well worth protecting. This is the time to carefully manage the profit that the product produces, with the knowledge that any large investment in marketing and sales expenses would only draw down marketing profits. Product A is a key source of profitability for the business, and it supports the business's other products and the development of new ones.
- **Product B**—Like product A, product B is also in the mature stage of its product life cycle, but market demand is no longer growing. The business sees some room to grow the product's market share, but a grow share strategy with price cuts would result in about the same level of profit. Product B's future is limited, yet it is still an important part of the business's overall profitability. Eventually margins and marketing profits will fall below performance benchmarks, and then a harvest strategy will be the best approach to take for product B. But the business, as it incrementally raises prices while harvesting, should be on the lookout for the possible formation of a profitable niche market for this product.
- **Product C**—As product C approaches the late-growth phase of the product life cycle, it needs an investment in marketing expenses that will enable it to maintain market share in a growing market. An even larger marketing budget would be required for a strategy to grow share at this stage of the product life cycle. From both strategic and long-run profit perspectives, it is important to grow share before the product enters the mature stage of its life cycle. Product C will be a major contributor to the portfolio's sales and profits as it moves into late market growth (maximum profits) and eventually the mature stage of the product life cycle.
- **Product D**—Now in the early growth stage of its product life cycle, product D needs marketing resources to take advantage of the rapid growth in demand. Its low share development index of 32 also suggests the business needs an effective strategy for achieving more of the product's share potential at this stage of its product life cycle. Strategically, because it is just entering the growth phase of its life cycle, product D will be in a rapidly growing market for some time. Gaining market share now is critical and would make product D a valuable source of profits until market demand reaches its full potential, which is a long ways off.
- **Product E**—As product E moves from the emerging market stage of the product life cycle to early growth stage, it is in a very strong competitive position with a share development index of 90. Product E requires continued investment to hold its excellent share position in a market that's growing 25 percent annually. An inadequate marketing budget at this point would result in share slippage and greatly reduced future profits.

GE/McKinsey Portfolio Analysis

Market attractiveness and competitive position cannot always be fairly represented by a single factor. Many factors can contribute to market attractiveness. The product life cycle, the market's growth rate, and the market development index are certainly important considerations, but so are the size of the market its competitive environment, and the ease or difficulty of accessing the market.

FIGURE 11-8 GE/McKINSEY PORTFOLIO



Likewise, competitive position could include more than a business’s relative market share or its share development index. A strong brand, high product performance, outstanding service quality, high awareness, and high net promoter index are also important in shaping competitive position.

For these reasons, General Electric and McKinsey Consulting have developed a portfolio matrix that uses multiple factors to index market attractiveness and competitive position. The multi-factor indexes create a scale that varies from 0 to 100, and a portfolio divided into nine strategic positions, as shown in Figure 11-8. Based on these assessments, the overall portfolio position of product A is average in market attractiveness but very strong in competitive position. A business would likely consider a strategic market plan to protect this product position. But before we go further into portfolio analysis and strategic market planning, let’s take a close look at how these market attractiveness and competitive position indexes are constructed.

MARKET ATTRACTIVENESS

The long-run direction that a business’s managers want their strategic market plan to reflect serves as the basis for developing performance objectives and a tactical marketing mix strategy. This important step in the strategic market planning process requires an in-depth examination of *market attractiveness*. In comparing the relative attractiveness of different product-markets, a business uses a common set of attractiveness criteria for each one. To facilitate this step in the strategic market planning process, we need a systematic way to assess market attractiveness.

In assessing and indexing the attractiveness of a product-market, a business must ask itself, “*What factors make a market attractive or unattractive?*” Factors that typically

shape market attractiveness are market size, market growth, competition, margin potential, market access, and a “good fit” with the company’s core capabilities. These factors can be meaningfully grouped into three dimensions of market attractiveness: market forces, competitive environment, and market access, as shown in Figure 11-9.

To create a measure of market attractiveness, each of these three dimensions can be weighted to reflect its importance in relation to the others. In the example presented in Figure 11-10, market forces and market access are both weighted at 30 percent of the total importance, whereas competitive environment is weighted a little more heavily at 40 percent. Each dimension is further broken down into several factors that contribute to that particular dimension of market attractiveness, and each of these factors is also weighted to represent its relative importance within its respective dimension of market attractiveness.

By rating the attractiveness of each factor within each dimension, we can calculate an index for overall market attractiveness, as illustrated in Figure 11-10. The industry forces that influence market attractiveness differ from one industry to another, so for a particular business the factors appropriate for analysis in each dimension may be different than the ones listed in Figure 11-10. Special care should be taken to ensure that all factors that shape a particular market’s attractiveness are represented, on the basis of market and profit performance.⁵

For the product-market in Figure 11-10, each individual market attractiveness factor is rated from “very unattractive” (0) to “very attractive” (100). This rating is multiplied by the relative importance of that factor to obtain a weighted individual factor attractiveness score. For each dimension, its individual factor scores are totaled and multiplied by the importance given that dimension.

For example, market size is given a rating of 80 for attractiveness and is assigned a relative importance of 40 percent within the market forces dimension. This method of indexing market attractiveness results in a score of 32 (80×0.4) for the market size factor. This score is added to the scores of the other factors in this dimension to arrive at a total factor-weighted score of 62. This score is then multiplied by 0.3, the relative importance weight assigned to the market forces dimension, to produce a weighted score of 18.6 for market forces. When this process is completed for all the market attractiveness factors and dimensions, the result is an overall market attractiveness index of 70 (rounded).

FIGURE 11-9 FACTORS THAT SHAPE MARKET ATTRACTIVENESS

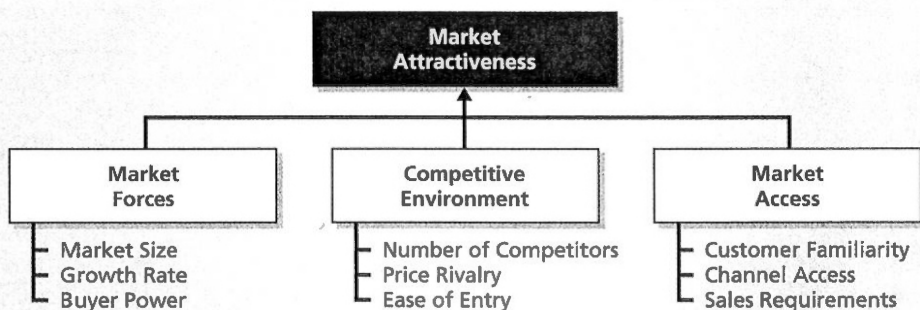
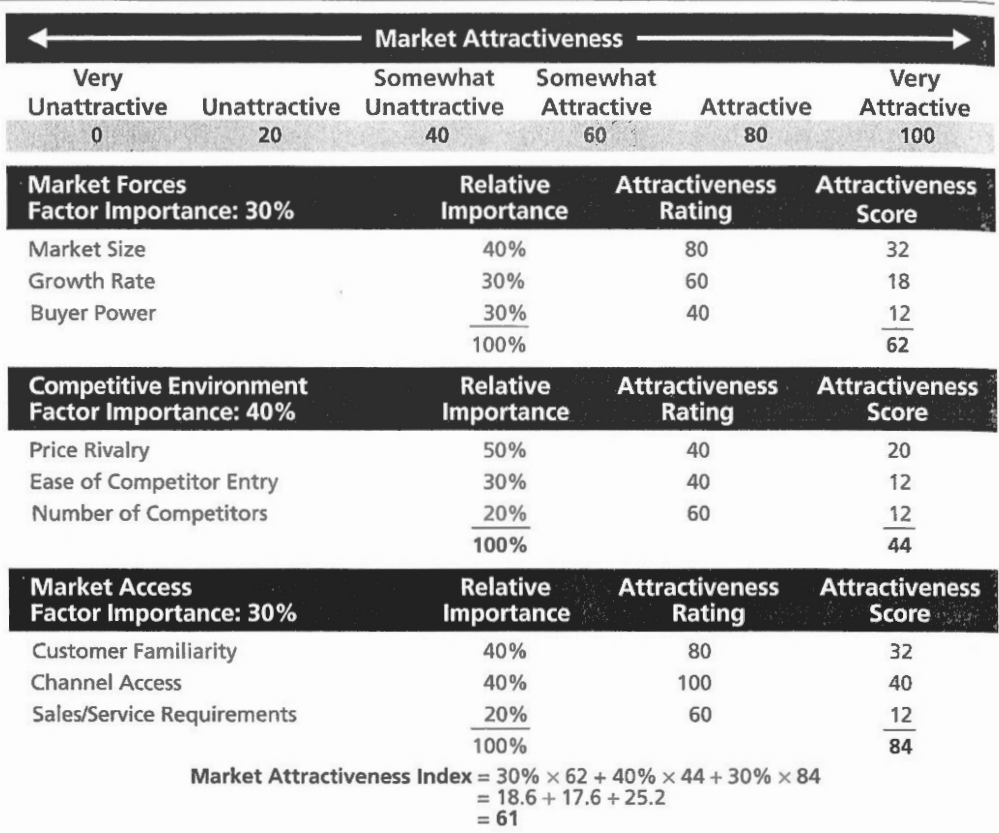


FIGURE 11-10 MARKET ATTRACTIVENESS INDEX



COMPETITIVE POSITION

The process of developing a competitive position index is similar to computing the market attractiveness index. The first question is, “What makes one business strong, with respect to competitive position, and another weak?” In answering this question, many businesses will arrive at a list of factors that determine competitive position. These factors, as we saw

FIGURE 11-11 FACTORS THAT INFLUENCE COMPETITIVE POSITION

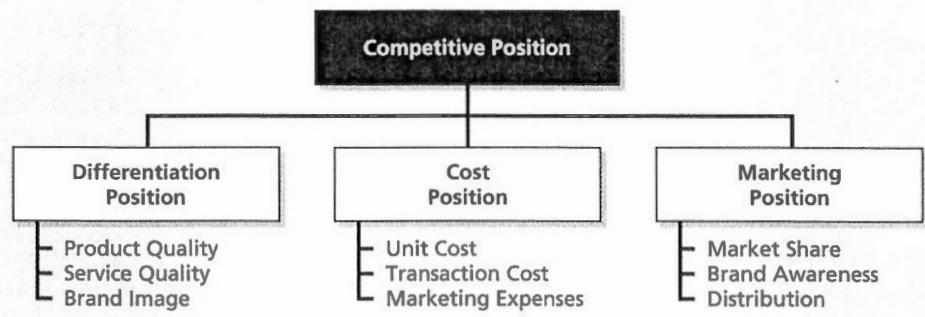


FIGURE 11-12 COMPETITIVE POSITION INDEX

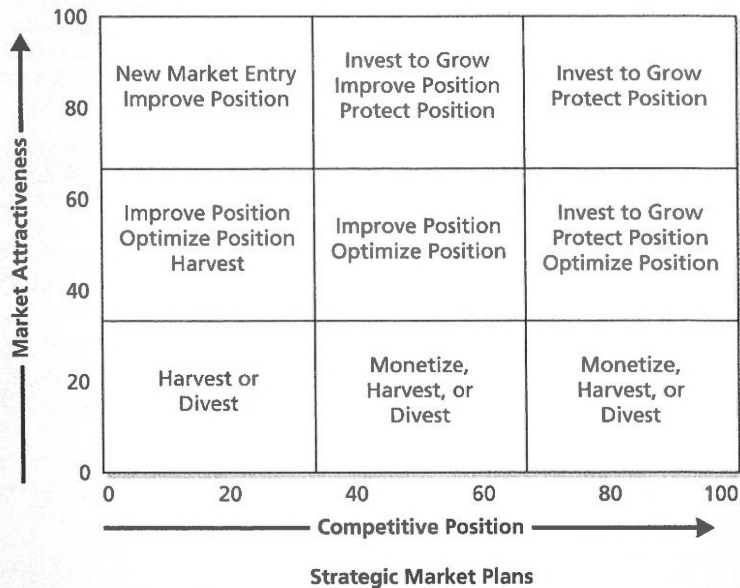
Competitive Position					
Considerably Behind	Clearly Behind	Somewhat Behind	Somewhat Ahead	Clearly Ahead	Considerably Ahead
0	2	40	60	80	100
Differentiation Advantage Factor Importance: 40%			Relative Importance	Attractiveness Rating	Attractiveness Score
Product Quality			40%	80	32
Service Quality			30%	60	18
Brand Image/Reputation			30%	80	24
			100%		74
Cost Advantage Factor Importance: 40%			Relative Importance	Attractiveness Rating	Attractiveness Score
Cost of Goods Sold			70%	40	28
Marketing and Sales Expenses			20%	60	12
Overhead Expenses			10%	60	6
			100%		46
Marketing Advantage Factor Importance: 20%			Relative Importance	Attractiveness Rating	Attractiveness Score
Market Share			40%	40	16
Brand Awareness			30%	40	12
Distribution			30%	20	6
			100%		34
Competitive Position Index = $40\% \times 74 + 40\% \times 46 + 20\% \times 34$ = $29.6 + 18.4 + 6.8$ = 55					

in Chapter 6, can be categorized into three dimensions of competitive position: a differentiation position, a cost position, and a marketing position. All three drivers of competitive position also have underlying forces that shape the business's competitive position,⁶ as shown in Figure 11-11.

Each of the three dimensions of competitive position is assigned a relative weight, just as we did in determining the market attractiveness index, and the relative importance for each of the underlying factors within the three dimensions is also rated, as illustrated in Figure 11-12. Each factor is assessed with respect to the competitive position of the business in its existing market or its potential position in new markets under consideration. When the score for each of the three dimensions of competitive position is weighted by its relative importance, and the three weighted scores are then added, the result is a competitive position index of 55 (rounded).

As shown in Figure 11-12, the competitive forces that shape a differentiation position for this business are relatively strong and make up more than half of the competitive position index. The business's weighted competitive position score with respect to a marketing advantage is a weak 6.8 (20% times 34) due to a lower dimension weighting and generally lower attractiveness ratings for the factors in that dimension. The business's index of 55 places its competitive position in the midrange.

FIGURE 11-13 PORTFOLIO STRATEGIES AND STRATEGIC MARKET PLANS



Offensive Strategies

- | | |
|-------------------------|---|
| Invest to Grow | Invest marketing resources to grow the market or market share |
| Improve Position | Invest to improve and/or strengthen competitive position |
| New Market Entry | Invest to enter new attractive markets or develop new product-markets |

Defensive Strategies

- | | |
|--------------------------|---|
| Protect Position | Invest to protect market share and competitive advantage |
| Optimize Position | Optimize price-volume and marketing resources to maximize profits |
| Monetize | Manage market position for maximum cash flow with limited marketing resources |
| Harvest/Divest | Manage the product for maximum short-run cash flow or minimum losses |

PORTFOLIO ANALYSIS AND STRATEGIC MARKET PLANS

A *portfolio analysis* is an evaluation of a business, product, or market with respect to market attractiveness and competitive position as an aid in identifying the kind of strategic plan that would be most appropriate. Figure 11-13 shows how this analysis uses the market attractiveness index and the competitive position index in combination with a portfolio of the different types of strategic plans. Product-markets with high indexes for both market attractiveness and competitive position have the strongest portfolio position and the best opportunities for profit performance.⁷ Having a product-market in this position usually leads to a strategic market plan to invest to protect the product-market’s attractive position. At any point where the two indexes may intersect, there is at least one

strategic market plan to be considered.⁸ The different kinds of strategic plans can be named based on their objectives:

- **Invest to Grow**—An offensive strategic market plan to invest marketing resources to grow the market or a product's position in a market. Dell, because of a strong portfolio position, has invested heavily over the past 20 years to grow both the personal computer market and its share of the market.
- **Invest to Improve Position**—An offensive strategic market plan that seeks to improve a business's competitive position in an attractive segment of the market. Toyota invested early to strengthen its competitive position in the hybrid segment of the automotive market. When Toyota first entered this segment, it was growing in market attractiveness, but many competing car companies were not entering it and afterward were slow to enter. As a result, Toyota built an early lead in an attractive market.
- **New Market Entry**—An offensive strategy to enter new attractive markets. Again, we can cite Toyota's entry into the hybrid market as an example of this strategy. The company now plans to strengthen its competitive position in this market by expanding its line of hybrid cars and stepping up production. New market strategies focus on developing the market and are required for most new product-markets, as was the case for flat-screen televisions, cellular phones, and DVD players. New market development strategies require a large investment in marketing resources and will operate at a loss until market volumes reach break-even levels.
- **Protect Position**—A defensive strategy to invest to protect an attractive market position in which the business dominates with respect to competitive position. Gatorade in the sports drink market and Red Bull in the energy drink market both have market shares of over 80 percent. Although these markets are attractive and growing, these products will come under increasing attack as new competitors enter the market.
- **Optimize Position**—Many businesses implement a defensive strategy in the late-growth stage or the mature stage of the product life cycle. When growth potential is limited and competitive position is set, businesses need to optimize the marketing mix to produce maximum marketing profits. This is the time in the product life cycle when volumes are nearly at full potential and margins are still somewhat attractive. Additions to marketing resources can be made at a slower rate because the product-market is mature or nearing maturity. A business using this defensive strategy undertakes a conscious effort to reduce its customer base in order to reach a more profitable level of business. Many banks, for example, have redefined their customer base by charging fees for small accounts that cannot be profitably served. As higher fees cause many customers to leave, these banks are able to grow profits with a smaller, more focused customer base. When managed correctly, optimizing position at the later stages of the product life cycle should allow the product to produce its maximum profits.
- **Monetize Strategy**—A defensive strategy used in less attractive markets in which a business has some level of competitive position. A monetize strategy manages prices and marketing resources in a way that maximizes cash flow without exiting the market. Businesses in the cash flow mode often place limits on payment terms, do not pay for shipping, and offer few customer services. Although price competitive, these businesses minimize investment in their products and strive for maximum cash flow from their market position.
- **Harvest Strategy**—A defensive strategy for maximizing profits and cash flow as a business slowly exits a product-market. Prices are increased to improve margins as

volumes decline. In the short run, the strategy produces a higher gross profit. Reductions in marketing expenses lower the cost of marketing. The business exits the market when no prospect for a short-run profit remains.

- **Divest Strategy**—A defensive strategy for exiting a market by selling or closing down the business or eliminating the product. Exiting a product-market is simply a way to cut losses quickly and reallocate marketing resources to more productive endeavors.

As shown in Figure 11-13, attractive product-markets usually warrant an offensive strategic market plan. The various kinds of offensive strategic market plans all take advantage, but in different ways, of favorable market conditions and a business's ability to profit in that market. The plan may map out a strategy for growing the market or growing the business's share, or it may present ways for improving competitive position. An offensive strategic market plan could also address entry into another existing market, or developing an entirely new product-market.

On the basis of a portfolio analysis and performance objectives, a business selects either an offensive or defensive strategic market plan. First, with respect to performance objectives, offensive strategic market plans are geared to deliver above-average performance in the areas of sales growth, share position, and long-run profit performance. Defensive strategic market plans, in contrast, are for protecting important share positions and producing short-run profit performance, while also contributing to long-run profit. Strategic market planning for a business with multiple product-markets often requires a careful balance of offensive and defensive strategic market plans. In this way, the business can meet short-run profit objectives and investor expectations, while investing to protect attractive strategic positions and simultaneously developing share positions in existing or new markets.

Offensive Portfolio Strategy

Because offensive strategic market plans are more growth oriented than defensive plans, they are more likely to be used in attractive markets.⁹ Consider a consumer electronics manufacturer whose sales in the base year of its strategic market plan were \$19.38 billion. The business's base-year market share was 10.2 percent of a market that was growing at 5 to 6 percent annually. Although industry margins were declining, this business, as the market's leader, maintained above-average margins and produced \$3.88 billion in gross profit in the base year. With an efficient marketing strategy, the business produced a net marketing contribution of \$2.23 billion in the base year. The results were a marketing ROS of 11.5 percent and a marketing ROI of 135 percent.

Actual Base-Year Performance

$$\begin{aligned}\text{Sales Revenues} &= \text{Market Demand} \times \text{Market Share} \\ &= \$190 \text{ billion} \times 10.2\% \\ &= \mathbf{\$19.38 \text{ billion}}\end{aligned}$$

$$\begin{aligned}\text{Gross Profit} &= \text{Sales Revenue} \times \text{Percent Margin} \\ &= \$19.38 \text{ billion} \times 20\% \\ &= \mathbf{\$3.88 \text{ billion}}\end{aligned}$$

$$\begin{aligned}\text{Net Marketing Contribution} &= \text{Gross Profit} - \text{Marketing \& Sales Expenses} \\ &= \$3.88 \text{ billion} - \$1.65 \text{ billion} \\ &= \mathbf{\$2.23 \text{ billion}}\end{aligned}$$

Figure 11-14 shows actual performance of this consumer electronics company, the estimated results of the company's offensive strategy, the estimated results of a possible defensive strategy, and the actual outcome for year 3 of the performance plan. The offensive strategy to continue growing share, from 10.2 to 15 percent, in an expanding market presented the greater strategic challenge. This strategic market plan would require the company to increase its marketing resources from \$1.6 billion in the base year to \$3.6 billion in year 3 of the plan. Based on market growth and market share assumptions, sales were projected to grow to \$39 billion.

The business expected its margins would decrease as it incrementally lowered prices to attract more customers in an effort to grow market share. The year-3 margin was projected at 17.5 percent, resulting in a gross profit of \$6.8 billion. The offensive plan to grow share to 15 percent would produce an increase in net marketing contribution of \$1.1 billion. However, decreasing margins and increasing marketing and sales expenses would lead to declines in the year-3 marketing ROS (8.5 percent) and marketing ROI (94 percent).

Year 3: Offensive Strategy to Grow Share

$$\begin{aligned}\text{Sales Revenues} &= \text{Market Demand} \times \text{Market Share} \\ &= \$260 \text{ billion} \times 15\% \\ &= \mathbf{\$39 \text{ billion}}\end{aligned}$$

$$\begin{aligned}\text{Gross Profit} &= \text{Sales Revenue} \times \text{Percent Margin} \\ &= \$39 \text{ billion} \times 17.5\% \\ &= \mathbf{\$6.83 \text{ billion}}\end{aligned}$$

$$\begin{aligned}\text{Net Marketing Contribution} &= \text{Gross Profit} - \text{Marketing \& Sales Expenses} \\ &= \$6.83 \text{ billion} - \$3.51 \text{ billion} \\ &= \mathbf{\$3.32 \text{ billion}}\end{aligned}$$

Although the business's efficiency in producing marketing profits is projected to diminish, the investment to grow market share will increase marketing profits by approximately \$1.1 billion. This investment in market share will also have future benefits as this market approaches maturity and market share gains will be more difficult.

FIGURE 11-14 OFFENSIVE VERSUS DEFENSIVE PORTFOLIO STRATEGIES

3-Year Strategic Market Plan Consumer Electronics Business	Actual Base Year	Offensive Plan Grow Share	Defensive Plan Hold Share	Year-3 Actual
Market Demand (\$ millions)	\$190,000	\$260,000	\$260,000	\$280,000
Market Share	10.2%	15.0%	10.0%	14.5%
Sales Revenues (\$ millions)	\$19,380	\$39,000	\$26,000	\$40,600
Percent Margin	20.0%	17.5%	19.0%	17.5%
Gross Profit (\$ millions)	\$3,876	\$6,825	\$4,940	\$7,105
Marketing & Sales Expenses (%)	8.5%	9.0%	8.0%	8.8%
Marketing & Sales Expenses (\$ millions)	\$1,647	\$3,510	\$2,080	\$3,573
Net Marketing Contribution (\$ millions)	\$2,229	\$3,315	\$2,860	\$3,532
Marketing ROS	11.5%	8.5%	11.0%	8.7%
Marketing ROI	135%	94%	138%	99%

Defensive Portfolio Strategy

The purpose of defensive strategic market plans is to protect important strategic market positions and to add significantly to short-run cash flow and profit performance. As shown in Figure 11-13, defensive strategic market plans are most commonly implemented in attractive markets by businesses with a strong competitive position or in unattractive markets by businesses with a low competitive position index.

In Figure 11-13, one kind of defensive strategic market plan is for protecting market position within an existing market.¹⁰ Defensive strategic market plans can also involve monetizing for maximum cash flow, harvesting market share positions in existing markets, or divesting.¹¹ Monetizing and harvesting plans are not likely to generate significant sales revenue growth, and divesting disposes of a losing product-market, but defensive plans to protect (hold) share can greatly improve sales in a fast-growing market. All four types of defensive strategic market plans aim to improve short-run cash flow and profit performance, and, in many ways, they define the business's current level of share, sales, and profit performance.

Let's return to Figure 11-14 and look at an estimate for this company's 3-year performance using a defensive strategic market plan to protect market share in the growing market. Using the same assumptions already made for market growth, margin erosion, and marketing and sales expenses, the business's 3-year performance projections under a defensive strategic market plan are far less impressive than under the offensive plan.

Year 3: Defensive Strategy to Hold Share

$$\begin{aligned}\text{Sales Revenues} &= \text{Market Demand} \times \text{Market Share} \\ &= \$260 \text{ billion} \times 10\% \\ &= \mathbf{\$26 \text{ billion}}\end{aligned}$$

$$\begin{aligned}\text{Gross Profit} &= \text{Sales Revenue} \times \text{Percent Margin} \\ &= \$26 \text{ billion} \times 19\% \\ &= \mathbf{\$4.94 \text{ billion}}\end{aligned}$$

$$\begin{aligned}\text{Net Marketing Contribution} &= \text{Gross Profit} - \text{Marketing \& Sales Expenses} \\ &= \$4.94 \text{ billion} - \$2.08 \text{ billion} \\ &= \mathbf{\$2.86 \text{ billion}}\end{aligned}$$

A defensive strategic market plan to protect market share, then, might have yielded a \$6.6 billion increase in sales revenue and a \$630 million increase net marketing contribution. Although many factors could have kept these goals from being met, this strategy, if successfully implemented, would have protected share position, grown sales revenue, and produced a slightly higher net marketing contribution. But the projections for share, sales, gross profit, and net marketing contribution are well below these same projections under the offensive strategic market plan. The business naturally chose to pursue the offensive plan as the better option for profitable growth. The business's actual performance in year 3, it turns out, was better than the projected performance levels because of higher than expected growth in market demand. The net marketing contribution exceeded the year-3 projection by \$200 million. With the market now entering the late-growth stage of its product life cycle, the business may need to reconsider a defensive strategy to protect its market leadership position and remain profitable.

FIGURE 11-15 OFFENSIVE AND DEFENSIVE STRATEGIC MARKET PLANS

Figure 11-15 outlines the kinds of offensive and defensive strategic market plans we have been discussing. As we have seen, a portfolio analysis is a valuable aid in selecting the plan best suited for a particular product-market.

PORTFOLIO DIVERSIFICATION

Diversification across product-markets adds two important advantages to the overall performance of a business. First, it reduces dependence on a single product-market. Second, by diversifying, a business increases the likelihood of consistency in overall performance because adverse conditions in one product-market can be offset by favorable conditions in another.

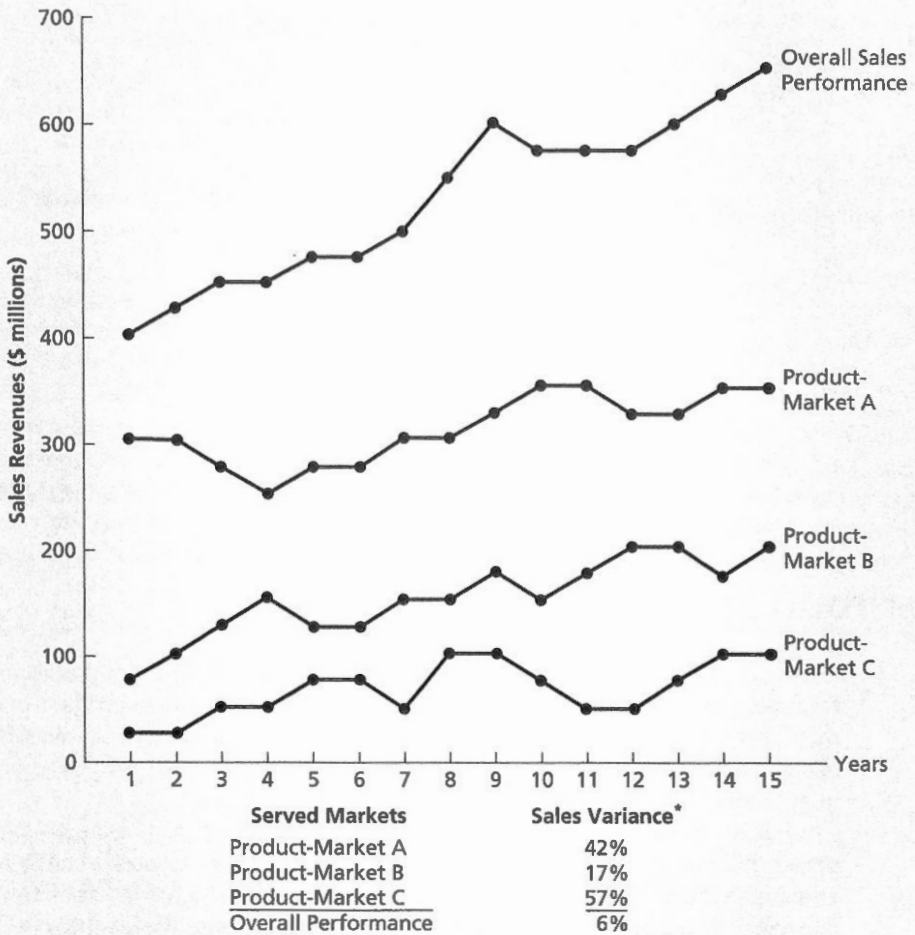
For example, Figure 11-16 illustrates the overall sales of a business that is diversified across different product-markets. In product-market A, the business's core market, sales are growing at an average rate of 1.5 percent annually, but this growth varies from year to year due to economic conditions and competitive forces. Because the business is also positioned in two other product-markets, it is able to take advantage of offsetting product life cycles and competitive forces. Product-market B is growing at 4 percent annually and product-market C at almost 15 percent. Although sales in each of these two markets are much less than in the business's core market, each contributes to overall sales growth and performance stability.

The unexplained sales variance over the time period shown for product-market A is 42 percent, and for product-markets B and C, 17 and 57 percent, respectively. When the sales performances of all three product-markets are combined, the offsetting effects created by different competitive conditions and product life cycles produce more consistent growth, with only a 6 percent unexplained variance in sales.

Two Levels of Diversification

Product diversification is one of two levels of diversification. Obviously, the less dependent a business is on a single product, the less vulnerable it is to a major change in performance. Coca-Cola, for instance, has a broad line of beverage products that serves virtually all world

FIGURE 11-16 PORTFOLIO DIVERSIFICATION AND SALES PERFORMANCE



*Sales variance is measured as the unexplained variance relative to the market trend.

markets. For Procter & Gamble, product diversification goes further, because it has developed product positions in widely diversified consumer household product-markets.

Market diversification provides another way to achieve growth and reduce risk. DuPont, for example, has diversified across many markets that range from carpets to swimsuits to cookware, using materials such as Nylon, Dacron, Teflon, Lycra, and Kevlar. By serving multiple markets and not being dependent on any one product or market, DuPont has grown to a \$50 billion company. In the early 1990s, US West split its company in two to better serve diverse markets. US West Communications remained in charge of the more mature core telecommunications businesses, while MediaOne Group was created to grow in high-technology markets. In the late 1990s, Hewlett-Packard pursued the same strategy when it split itself into two companies: an \$8 billion test and measurement business named Agilent Technologies, and a \$39 billion computer and imaging

business that kept the company's original name. This split enabled Hewlett-Packard to move faster in the emerging computer and imaging markets without abandoning its core product-markets in test and measurement.

Every product-market will experience performance swings, but it is unlikely all product-markets of a diversified business will experience the same conditions at the same time. This is why participation in several diversified product-markets contributes to performance stability. Product-markets that perform well offset those that do not, whether the poor performance is caused by product life-cycle influences, competitor moves, economic conditions, or some other factor.

MARKETING MIX STRATEGY AND PERFORMANCE PLAN

But to make a strategic market plan actionable, a business must develop a marketing mix strategy in accordance with the strategic market plan and the allocated resources. As the strategic market plan and a corresponding marketing mix strategy are rolled out over a planning horizon of 3 to 5 years, a performance plan outlines the targeted short- and long-run share position, sales growth, and profitability.¹² By examining certain aspects of the strategic market planning process, we will discover sound approaches to making short- and long-run projections for each area of business performance.

As we have seen, a strategic market plan is a long-term strategy with a 3- to 5-year time horizon and specific performance objectives. A marketing mix strategy is a short-term marketing strategy with a 1-year time horizon. A marketing mix strategy needs to be reviewed each year with respect to changing market conditions and adjusted accordingly to achieve the long-run performance objectives of a strategic market plan. In some instances, market conditions may change so dramatically or suddenly that the strategic market plan will need to be reassessed to determine its continued suitability as the best long-run plan to achieve the business's performance objectives in a particular product-market.

Marketing Mix Strategy

For any strategic market plan, a detailed tactical marketing strategy—or *marketing mix strategy*—needs to be developed with respect to product positioning, price, promotion, and place. The degree to which the performance objectives of a strategic market plan are achieved depends on the effectiveness of the tactical marketing strategy that supports this strategic market plan.

For example, Intel's strategic market plan to enter the low-end personal computer market required a different tactical marketing strategy than the one required by the company's strategic market plan to defend its high-share position in microprocessors. Each plan required different product positioning, pricing approaches, promotions, and sales outlets to achieve a position that would be attractive to target customers relative to competitors' product-price positions.

The strategic market plan sets the strategic direction and provides broad guidelines for resource allocation. However, the marketing mix strategy is the workhorse that has to succeed in order for the strategic market plan to achieve both its short- and long-run performance objectives. The right strategic market plan with the wrong marketing mix strategy normally will not produce the desired levels of performance.

FIGURE 11-17 ZI-TECH'S BASE-YEAR PORTFOLIO PERFORMANCE

Base-Year Portfolio Performance	Market M1	Market M2	Market M3	Market M4	Company Total
Market Growth Rate	3.0%	0.0%	15.0%	-5.0%	5.1%
Market Demand	\$400	\$400	\$500	\$200	\$1,500
Market Share	20.0%	25.0%	10.0%	10.0%	14.5%
Sales Revenues	\$80	\$100	\$50	\$20	\$250
Percent Margin	40.0%	30.0%	40.0%	10.0%	33.6%
Gross Profit	\$32	\$30	\$20	\$2	\$84
Marketing & Sales Expenses (%)	10.0%	10.0%	10.0%	10.0%	10.0%
Marketing & Sales Expenses (\$)	\$8	\$10	\$5	\$2	\$25
Net Marketing Contribution	\$24	\$20	\$15	\$0	\$59
Marketing ROS	30.0%	20.0%	30.0%	0.0%	23.6%
Marketing ROI	300%	200%	300%	0%	236%

Dollar figures are millions.

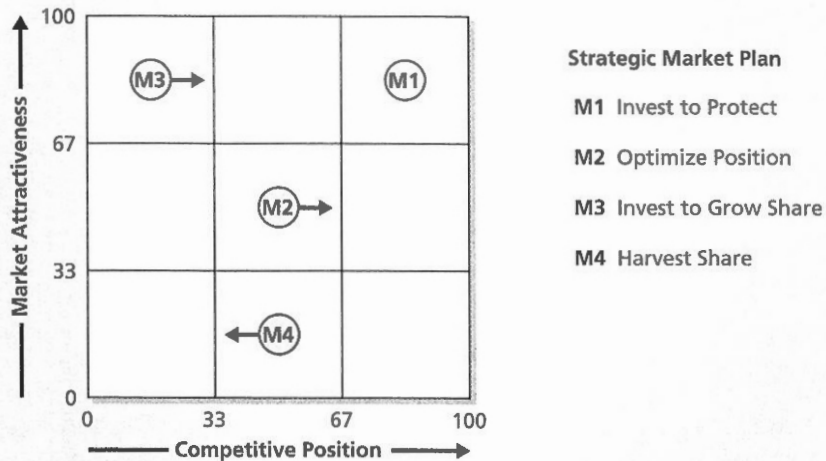
Performance Plan

We saw earlier that the performance objectives and conditions under which a business would use either an offensive or a defensive strategic market plan are very different. Offensive strategic market plans are geared to deliver above-average performance in the areas of sales growth, improved share position, and improved long-run profit. Defensive strategic market plans are important in producing short-run profit performance and protecting important share positions, while also contributing to long-run profit performance and strategic position.

Offensive strategic market plans require investment for growth, which limits short-run profit performance while building sales revenue and improving share position. In the long run, a growth-oriented market strategy will shift from an offensive strategic market plan to a defensive strategic market plan. Defensive strategic market plans promote short-run profit performance but are not that effective in growing sales revenue or improving the long-run share position.

Consider Zi-Tech Acoustics, a \$250 million business that engineers, manufactures, and markets a variety of acoustic products. Figure 11-17 specifies the market share, sales revenues, and net marketing contribution for Zi-Tech in each of the four product-markets it serves. A portfolio analysis based on market attractiveness and competitive position produced the product-market portfolio illustrated in Figure 11-18. Here is a summary of the strategic market plans for each of the company's product-markets:

- Market 1—Invest to Protect Market Share:** Market 1 is a mature market from which Zi-Tech derives a considerable 30 percent of its sales and an even more considerable 40 percent of the business's overall net marketing contribution. The intent of the strategic market plan is to protect share and profits. Everything will be done to hold margins while investment in marketing and sales expenses increases as sales increase and at the same rate. While growth is nominal (3%), this strategy should produce a modest increase in sales and marketing profits.

FIGURE 11-18 ZI-TECH'S PORTFOLIO ANALYSIS AND STRATEGIC MARKET PLAN

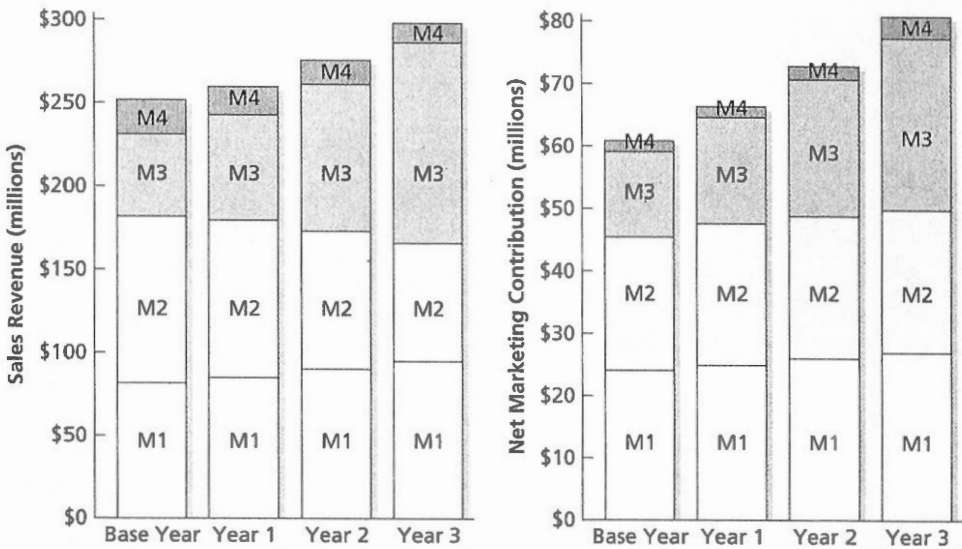
- **Market 2—Optimize Position:** Market 2 is a mature market with no opportunity for growth. Management believes now is the time to optimize market share to achieve greater profits. Market 2 is 40 percent of overall sales and 34 percent of overall marketing profits. The strategic intent is to increase prices and decrease marketing and sales expenses as a percent of sales, which will probably erode market share. But the goal is to find a more profitable combination of margin and market share, one that yields greater marketing profits.

FIGURE 11-19 ZI-TECH'S YEAR-3 PERFORMANCE PLAN

Portfolio Strategy:	Hold/Protect	Optimize	Invest to	Harvest	
Market:	Share	Position	Grow	Share	Company
	M1	M2	M3	M4	Total
Market Growth Rate	3.0%	0.0%	15.0%	-5.0%	6.7%
Market Demand	\$437	\$400	\$760	\$171	\$1,769
Market Share	20.0%	20.0%	15.0%	5.0%	14.5%
Sales Revenues	\$87	\$80	\$114	\$9	\$290
Percent Margin	40.0%	37.0%	37.0%	35.0%	37.8%
Gross Profit	\$35	\$30	\$42	\$3	\$110
Marketing & Sales Expenses (%)	10.0%	8.0%	12.5%	3.0%	10.2%
Marketing & Sales Expenses (\$)	\$9	\$6	\$14	\$0	\$30
Net Marketing Contribution	\$26	\$23	\$28	\$3	\$80
Marketing ROS	30.0%	29.0%	24.5%	32.0%	27.6%
Marketing ROI	300%	363%	196%	1011%	270%

Dollar figures are millions.

FIGURE 11-20 PERFORMANCE PLAN FOR ZI-TECH'S FOUR PRODUCT-MARKETS



- **Market 3—Invest to Grow Market Share:** Market 3 is an attractive and growing market. The strategic intent is to invest to grow market share during the growth stage of the product life cycle. Market 3 is 25 percent of overall sales and 25 percent of overall marketing profits. Implementation of this strategic market plan is likely to result in lower prices and margins, along with increases in marketing and sales expenses, but market share should grow from 10 to 15 percent in a market that is growing 15 percent annually.
- **Market 4—Harvest Share Position:** Market 4 is an unattractive market in decline with an average competitive position. This market is less than 10 percent of overall sales and produces a zero marketing profit. A harvest strategy is recommended, which would maximize short-run marketing profits over the next 3 years. The strategy would involve price increases to improve margins, along with reductions in marketing and sales expenses. Market share and sales are expected to decrease significantly, but profits should increase over the next 3 years.

Given this set of strategic market plans, Zi-Tech hopes to grow sales from \$250 million in the base year to \$290 million in 3 years. As shown in Figure 11-19, Market 3 will then be more important to overall portfolio performance in both sales and net marketing contribution. More importantly, the combination of strategic market plans promises to increase the net marketing contribution from \$59 million in the base year to \$80 million in year 3. This set of strategic market plans will also improve Zi-Tech's marketing ROS from 23.6 to 27.6 percent and marketing ROI from 236 percent to 270 percent.

Figure 11-20 illustrates Zi-Tech's 3-year path for profitable growth. Market 1 will grow modestly in sales and profits. Market 2 is projected to decline in sales but increase modestly in marketing profits. Market 3 is projected to increase in both sales and marketing profits. And market 4 is projected to decrease in sales but improve from

zero marketing profits to about \$3 million. If this set of strategic market plans is successful, Zi-Tech will have improved its strategic position in served markets while growing sales and profits over a 3-year period. In Chapter 16, we will look more closely at how strategic market plans translate into shareholder value. For now, we can safely assume a 16 percent increase in sales revenues and a 34 percent increase in net marketing contribution contribute positively to net profit and shareholder value.

■ Summary

Strategic market planning is a process. It involves assessing business performance with respect to market attractiveness and competitive position. The assessment is made for each of the business's product-markets and any new ones the business may be considering. The product life cycle serves as the basis for an important portfolio analysis whereby a business can display its product line over the product life cycle with respect to sales, sales growth, and profitability. A balanced product life-cycle portfolio will include a mix of early, growth, and mature markets.

Several measures of competitive position can be used in a portfolio analysis. One measure that corresponds to sales and profit performance is *relative market share*, which is the ratio of a business's market share to the total share of its three largest competitors. Another measure of competitive position, one that also considers sales and profit, is the *share development index*.

The GE/McKinsey portfolio model includes an index of several market attractiveness factors and an index of several competitive position factors. Separate ratings of importance and performance shape the overall performance of these two dimensions. Market attractiveness is indexed with respect to market forces (market size, growth, buyer power), competitive environment (price rivalry, ease of market entry, number of competitors), and market access (customer familiarity, channel access, sales requirements). Competitive position is indexed with respect to cost advantage (unit cost, transaction costs, marketing expenses), differentiation advantage (product quality, service quality, brand image), and marketing advantage (market share, brand awareness, distribution). The portfolio analysis identifies one or more possible strategic market plans for each product-market the business serves or may enter in the future, based on the product-market's position in the portfolio.

A strategic market plan is a long-run, 3- to 5-year strategic market objective that involves share position but has corresponding implications for short- and long-run sales revenue growth, and profit performance. Strategic market plans can be offensive or defensive. Offensive strategic market plans involve market penetration strategies to grow share position, sales, and long-run profitability. Offensive strategies include investing to grow, investing to improve position, entering another market, and developing a new market. Defensive strategies include protecting or optimizing position for maximum profits, monetizing for maximum cash flow, harvesting, and divesting. A combination of strategic market plans (one for each product-market) results in an overall view of how the business will grow with respect to share, sales, and profits.

Portfolio diversification in both products and markets is also an important aspect of strategic market planning. A portfolio too concentrated in one line of products or in one market is subject to more variance in sales and profits. Diversification into unrelated product-markets protects a business's overall performance against downward swings if

one product-market should encounter unfavorable conditions. Diversification adds stability to a business's overall performance.

Although the strategic market plan for a given product-market sets short-run and long-run goals with respect to market share, sales revenues, and profits, it does not specify how this performance will be achieved. Each strategic market plan, then, has a corresponding tactical marketing plan. The tactical marketing plan is a marketing mix strategy (product, price, place, promotion, and service) and resource allocation (marketing budget) that specifies the tactical details of how the objectives of a given strategic market plan will be achieved. A performance plan is developed based on these marketing tactics, the marketing budget, and a 3- to 5-year forecast of market share, sales revenues, and net marketing contribution.

■ Market-Based Strategic Thinking

- 1 Why is the product life cycle used in evaluating the current and future sales and profits of a business's portfolio of products?
- 2 What could be done with regard to Portfolio A in Figure 11-1 to make it a more balanced portfolio over the next 3 to 5 years? How would this impact short- and long-run sales and profits?
- 3 What is meant by the "strategic market planning process"?
- 4 What is the difference between market attractiveness and competitive position? Why are both used in many portfolio models?
- 5 Why is relative market share a better measure of competitive position than market share?
- 6 Why would a business elect to use the GE/McKinsey portfolio model over other portfolio models?
- 7 How is a strategic market plan different from a strategic market planning process?
- 8 How would you assess the attractiveness of a new consumer product-market for Procter & Gamble? Be specific as to those factors you would include in building an index of market attractiveness for a Procter & Gamble consumer market.
- 9 How would you assess the competitive position Procter & Gamble would have in a new consumer product-market? Be specific as to those factors you would include in building an index of competitive position for a Procter & Gamble consumer market.
- 10 Using the following information, create a portfolio analysis and specify a strategic market plan for a business that serves the three product-markets.

Product-Market	Share (%)	Sales (\$ millions)	Market Attractiveness	Competitive Position
A	10	\$20	20	40
B	33	\$50	75	80
C	5	\$10	85	15

- 11 Using the information presented in item 10 and the additional information that follows, create a 3-year performance plan with respect to market share and sales revenues for each product-market, given the strategic market plan specified. Also create a projection of overall sales for each year of the 3-year planning horizon.

Product-Market	Strategic Market Plan	Share Objective (%)	Market Demand (\$ millions)	Market Growth (%)
A	Optimize Position	5	\$200	5
B	Protect Share	33	\$150	7
C	Grow Share	10	\$200	20

- 12 Under what conditions would a business specify an offensive strategic market plan?
- 13 Under what conditions would a business specify a defensive strategic market plan?
- 14 What role do offensive and defensive strategic market plans play in the short- and long-run performance of a business?
- 15 How does the level of product-market diversification affect sales growth and performance consistency?
- 16 Why would the overall variation in sales revenues over a 10-year period be different when comparing General Electric and Dell?
- 17 How would the sales and profit performance over a 3-year period differ between a business with only defensive strategic market plans and a business with only offensive strategic market plans? Why is it important to have a balance of offensive and defensive plans?
- 18 Why is a tactical marketing plan for each strategic market plan an important part of the strategic market planning process?
- 19 How does a manager develop a tactical marketing plan and a marketing budget to achieve a specific strategic market plan?
- 20 How would the tactical marketing plan and marketing budget for a strategic market plan to grow market share (offensive) differ from those of an optimize position strategic market plan to reduce share?
- 21 How does a business create a forecast of its future performance based on the strategic market plans for each product-market it intends to serve over a given planning horizon?

Marketing Performance Tools

The three **Marketing Performance Tools** outlined here may be accessed online at www.rogerbest.com. These applied-learning exercises will improve your ability to use portfolio

analysis in selecting an appropriate strategic market plan. The instructions refer to the online examples, not the related Chapter 11 figures cited.

11.1 Product Life Cycle Portfolio (Figure 11-1)

- Using the data provided, adjust the proposed product lifecycle portfolio to the recommended percentage of sales and product life-cycle position. How will the revised portfolio perform in the future with respect to sales and profit?

11.2 Market Development–Share Development Portfolio (Figure 11-6)

- Using the data provided, adjust the portfolio position based on market

redefinition and efforts to improve share performance metrics. What is the potential impact for future sales and profits?

11.3 GE/McKinsey Portfolio (Figure 11-8)

- Using the data provided, alter the market attractiveness and competitive position ratings to create a revised portfolio. How will the revised portfolio perform with respect to sales and profits?

Notes

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3. Roger A. Kerin, Vijay Mahajan, and P. Rajan Varadarajan, *Strategic Market Planning* (Boston: Allyn and Bacon, 1990).
4. Robert Buzzell and Bradley Gale, *The PIMS Principles: Linking Strategy to Performance* (New York: Free Press, 1987).
5. Kasturi Rangan, Melvyn Menezes, and E. P. Maier, "Channel Selection for New Industrial Products: A Framework, Method and Application," *Journal of Marketing* (July 1992): 69–82.
6. L. W. Phillips, D. R. Chang, and R. D. Bussell, "Product Quality, Cost Position, and Business Performance: A Test of Some Key Hypotheses," *Journal of Marketing* 47 (January 1983): 26–43.
7. Michael E. Porter, *Competitive Advantage* (New York: Free Press, 1986).
8. David Aaker, "Formal Planning System," in *Strategic Market Management* (New York: Wiley, 1995): 341–353.
9. Thomas Powell, "Strategic Planning as Competitive Advantage," *Strategic Management Journal* 13 (1992): 551–558; Scott Armstrong, "The Value of Formal Planning for Strategic Decisions: Reply," *Strategic Management Journal* 7 (1986): 183–185; and Deepak Sinha, "The Contribution of Formal Planning to Decisions," *Strategic Management Journal* (October 1990): 479–492.
10. William K. Hall, "Survival Strategies in a Hostile Environment," *Harvard Business Review* (September–October 1980): 75–85.
11. Kathryn Rudie Harrigan, *Strategies for Declining Businesses* (Lexington, MA: Lexington Books, 1980); and Kathryn Rudie Harrigan and Michael E. Porter, "End-Game Strategies for Declining Industries," *Harvard Business Review* (July–August 1983): 111–120. Also see Kathryn Rudie Harrigan, *Managing Maturing Businesses* (Lexington, MA: Lexington Books, 1988).
12. Frances V. McCrory and Peter G. Gerstberger, "The New Math of Performance Measurements," *Journal of Business Strategy* (March–April 1992): 33–38.