UNIT 2: STRATEGIC MARKETING PLANNING

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1.0 AIMS AND OBJECTIVES

After studying this unit, the you must be able to :

- explain strategic planning and its nature
- define the basic planning concepts
- identify the different planning processes at strategic level and

- explain the different strategy formulations.

2.1 INTRODUCTION

All companies must look ahead and develop long – term strategies to meet the changing conditions in their industries. No one strategy is best for all companies. Each company must find the game plan that makes the most sense given its specific situation, opportunities, objectives, and resources. The hard task of selecting an overall company strategy for long – run survival and growth is called strategic planning.

Marketing plays an important role in strategic planning. It provides information and other inputs to help prepare the strategic plan. In turn, strategic planning defines marketing's role in the organization. Guided by the strategic plan, marketing works with other departments in the organization to achieve overall strategic objectives.

Many companies operate without formal plan. In new companies, managers are sometimes thinking that only large corporations need formal planning. In a mature company, managers argue that they have done well without formal planning, and that therefore it cannot be too important. They may argue that the market place changes too fast for a plan to be useful – that it would end up collecting dust.

Yet formal planning can yield many benefits for all types of companies, large and small, new and mature. It forces the company to sharpen its objectives and prices, leads to better coordination of company efforts, and provides clearer performance standards for control.

Companies usually prepare annual plans, long range plans, and strategic plans. The annual plan is a short – term marketing plan that describes the current marketing situation, company objectives, and the marketing strategy for the year, the action program, budgets and control. The long-range plan describes the major factors and forces affecting the organization

during the next several years. It includes the long-term objectives, the major marketing strategies that will be used to attain them, and the resources required. This long-range plan is reviewed and updated each year so that the company always has a current long-range plan.

Whereas the company's annual and long-range plans deal with current business and how to keep them going, the strategic plan involves adapting the firm to take advantage of opportunities in its constantly changing environment.
We define strategic planning as the process of developing and maintaining a strategic fit between the organizations goals and capabilities and its changing marketing opportunities.

Strategic planning set the stages for the rest of the planning in the firm. It relies on developing a clear company mission supporting objectives, around business portfolio, and coordinated functional strategies. At the corporate level, the company first determines, its overall purpose and mission. This mission then is turned into detailed supporting objectives that guide the whole company. Next, head quarter decides what portfolio of businesses and products is best for the company and how much support to give each one. In turn, each business and product unit must develop detailed marketing and other departmental plans that support the company wide plan. Thus, marketing planning occurs at the Prices –unit, product, and market levels. It supports company strategic planning with more detailed planning for specific marketing opportunities.

2.2 MEANING OF STRATEGIC PLANNING

Strategic marketing planning is the managerial process of developing and maintaining a viable fit between the organization's objectives, sill, and resources and its changing market opportunities. The aim of strategic planning is to shape and reshape the company's businesses and products so that they yield target profits and growth.

Establishing Strategic Business Units

Most companies operate several businesses. However companies too often define their business in terms of products. They are in the “auto business” or the “Slide role business”. A business must be viewed as a customer satisfying process, not a goods – producing process. Products are transient, but basic needs and consumer groups endure forever.

A business can be defined in terms of three dimensions; customer groups, customer needs, and technology. For example, a small company that defines its business as designing incandescent lighting systems for televisions studios, its customer group is television studios; the customer need is lighting; and the technology is incandescent lighting.

In short, An SBU has three characteristics:

1. It is a single business or collection of related business that can be planned separately from the rest of the company.
2. It has its own set of competitions
3. It has a manager who is responsible for strategic planning and profit performance and who controls most of the factors affecting profits.

Assigning Resources to Each SBU

The purpose of identifying the company’s strategic business units is to develop separate strategies and assign appropriate funding. Senior management knows that its portfolio of business usually includes a numbers of “Yesterday’s has – been" as well as tomorrow’s breadwinners.” But it cannot rely just on impressions; it needs analytical tools for classifying its business by profit potential.

Two of the best-known business portfolio evaluation models are the Boston Consulting Groups model and the General Electric Model.

The management process as applied to marketing consists basically of:

1. Planning a marketing program
2. Implementing it, and
3. Evaluating its performance

The planning stages include setting goals and designing strategies and tactics to each these goals.

The implementation stage entails forming and staffing the marketing organization and directing the actual operation of the organization according to the plan.

The evaluation stage consists of analyzing past performance in relation to organizational goal.

Planning is a predetermined goal. It is deciding now what to do later, including how, and when we are going to do it.

In strategic planning, managers match organizations resources with its market opportunities over the long run.

The intent of planning is to seize the opportunities and to avoid the threats associated with changing markets. Formal strategic planning was recognized as an effective management tool to do this.

2.3 KEY PLANNING CONCEPTS

The concepts of mission, objectives, strategies, and tactics each raise and impart questions that must be answered by an organization seeking success in business or, more specifically in marketing. An organization must ask: the following questions:

1. What business are we in? – ***Mission***
2. What do we want to accomplish? – ***Objectives***
3. In general terms, how are we going to get the job done? – ***Strategies***

4. In specific terms, how are we going to get the done? – ***Tactics.***

2.3.1 Mission

The organization's mission states what customer it serves, what need it satisfies, and what types of products it offers. A mission statement indicates in general terms the boundaries for an organization's activities.

A mission statement should be neither too broad nor vague nor too narrow and specific.
Traditionally companies stated this mission in production- oriented terms. Today, firms following the marketing concept express their mission in customer-oriented terms.

i.e.1. Production-oriented mission statements
   a) We operate a long distance telephone company
   b) We make blue leans.

i.e.2. Marketing oriented mission statement
   a) We provide multiple forms of reliable, efficient and inexpensive telecommunication services.
   b) We offer comfort, fashion, and durability in wearing apparel.

2.3.2 Objectives and Goals

Objectives and goals used interchangeably. An objective is simply a desired outcome. Effective planning must begin with a set of objectives that are to be achieved by carrying out plans.

To be worthwhile and workable, objective should be:

1. Clear and specific
2. Stated in writing
3. Ambitious, but realistic
4. Consistent with one another

5. Quantitatively Measurable wherever necessary
6. Tied to a particular period.

i.e. To general (weak)

a) Increase our market share

b) Improve our company's public image

Specific workable:-

a) Increase our market share to 25% next year from present 20% level.
b) Receive favorable recognition awards next year from at least three consumer or environmental groups.

2.3.3 Strategies

The term strategy originally applied to the art of military generalship. A strategy is a broad plan of action by which an organization intends to reach its objectives.

i.e objectives

- Increase sales next year by 10% over this year figure

Possible strategies

- Intensify marketing efforts in domestic markets
- Expand into foreign markets.

2.3.4 Tactic

A tactic is a means by which a strategy is implemented. A tactic is a more specific detailed course of action plan than is a strategy.

Also, tactics generally cover shorter time periods than strategies.

i.e. strategy

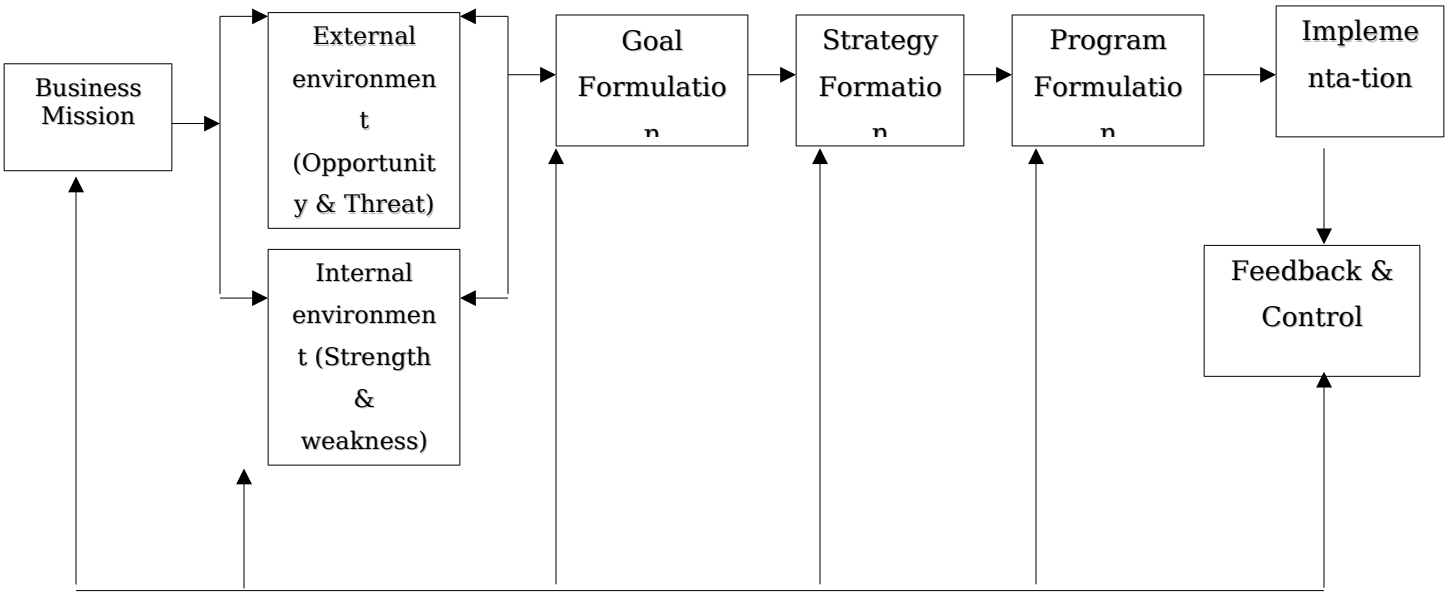
- Direct our promotion in male ages 25 – 40

Tactics

- Advertise in magazines read by this group of people
- Advertise on television program watched by this group.

To be effective, a tactic must coincide with and support the strategy with which it is related.

Strategic Planning Process



2.4 STRATEGIC PLANNING PROCESS

2.4.1 Business Mission

Each business unit needs to define its specific mission in this the broader company mission

eg. 1. We provide various types of safe and cost effective energy

2. We offer comfort, fashion, and durability in wearing appear

2.4.2 External Environment Analysis (Opportunity and Threat Analysis)

Once the business unit has formulated its mission statement, the business management knows the parts of the environment it needs to monitor to achieve goals.

In general, a business unit has to monitor key external macro environment forces (demographic, economic, technological, political, legal and social and cultural) and significant microenvironment factors (customers, distribution channels, suppliers) that affects its ability to earn profits. The business unit should set up a marketing intelligence system to track trends and important developments.

For each trend or development, management needs to identify the associated opportunities and threats.

a. Opportunities

A marketing opportunity is an area of buyer need in which a company can perform profitably.

Opportunity matrix can be classified according to their attractiveness and their success probability.

(a) Opportunity matrix

Success probability

Attractiveness

	High	Low
High	1	2
Low	3	4

The company's success probability depends on whether its business strength not only match the key success requirement for operating in the target market but also exceeds those of its competitions.

b. Threats:

An environment threat is a challenge posed by an unfavorable trend or development that would lead, in the absence of defensive marketing action, to deterioration in sales or profits.

Threats, should be classified according to their seriousness and probability of occurrence.

b) Threat matrix

Probability of occurrence

seriousness

	High	Low
High	1	2
Low	3	4

To deal with threats, the company needs to prepare contingency plans that spells out what changes the company can make before or, during the threat occurrence.

Once the management has identified the major opportunities and threats facing a specific business unit, it can characterize that business.
Overall attractiveness.

Four possible outcomes: -

1. An ideal business in high is major opportunities and low in major threats.
2. A speculative business is high in both major opportunities and threats.
3. A mature business is low in major opportunities and low in threats.
4. A troubled business is low in opportunities and high in threats.

2.4.2 Internal Environment Analysis (Strength/Weakness)

Each business needs to evaluate its internal strength and weakness periodically. Management or an outside consultant reviews the business marketing, financial, manufacturing and organizational competencies and

rates each factor as a major strength, minor strength, neutral factor, minor weakness, or major weakness.

Check list for performing strength/weakness analysis

Performance

Major Strength	Minor Strength	Neutral	Minor Weakness	Major Weakness	Importance Neutral
H_1	med				low

Marketing

1. Company reputation
2. Market share
3. Product quality
4. Service quality
5. 4 P'S effectiveness
6. Sales force effect etc

Finance

1. Availability of capital
2. Cash flow
3. Financial stability etc.

Manufacturing

1. Facilities
2. Economies of scale
3. Capacity
4. Technical manufacturing skill

Organization

1. Leadership
2. Dedicated employees
3. Flexible / responsive

Today, strategic designers have been aided by a number of matrixes showing the relationship of critical variables.

2.4.4 Goal Formulation

The overall evaluation of a company's strength, weakness, opportunities and threat is called SWOT analysis. Once the company has performed its SWOT analysis, it can proceed to develop specific goals for the planning period. These stages of the business strategic planning process are called goal formulation.

There are certain principles of objectives

Objectives must be:

1. Hierarchically arranged
2. Should be stated quantitatively
3. It should be ambitious but realistic
4. It must be consistent etc.

Other important trade off includes short-term profit verses, long-term growth, deep penetration of existing market versus developing new markets, profit goals versus non-profit goals and high growth versus low risk. Each choice is this set of goals trade off calls for a different marketing strategy.

2.4.5 Strategies Formulation

The company's plans for its existing business allow it to protect total sales and profits. Often projected sales and profits are less than what corporate management wants them to be.

Goals indicate what a business unit wants to achieve. Strategy is a game plan for getting there. Every business must tailor a strategy for achieving its goals, consisting of a marketing strategy and compatible technology

strategy and sourcing strategy. Although many types of marketing strategies are available, we are going to present you the Michael porter strategy model, the Ansoft's product market expansion grid, and Boston consulting group.

1. Michael Porter. (Generic Strategies Model) Michael Porter, a Harvard business professor, advises firms to assess two factors; scope of target market and differential advantage and chose an appropriate strategy.

Porter's Generic model recommends three alternatives for consideration

1. Overall cost leadership

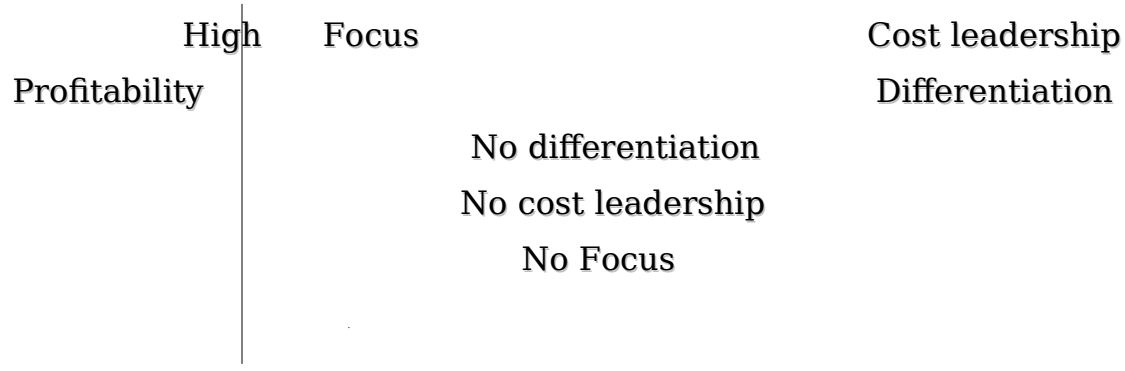
A company or an SBU, typically large, seeks to satisfy a broad market by producing a standard product at a low cost and then under pricing competitors.

2. Differentiation: -

An organization creates a distinctive, perhaps even a unique, product through its unsurpassed quality, innovative design, or some other feature and, as a result, can change a higher than average price. This strategy may pressure either a broad or narrow target

3. Focus

A firm or an SBU concentrates on part of a market and tries to satisfy it with either a very low priced or highly distinctive product. The target market ordinarily is set apart by some factor such as geography or specialized needs.



Low

Narrow broad

Scope of target market

2.4.5.1 Ansoff's Matrix (Product/Market Expansion Grid)

Professor Ansoff has suggested that the firm while setting a strategy must consider the product and market. That is, the company first considers whether it could gain more market share with its current product in their current market (market penetration strategy). Next it considers whether it can find or develop new markets for its current products (market development strategy). Then it considers whether it can develop new products of potential interest to its current market (product development strategy). Later it will also review opportunities to develop new products for new market (diversification strategy).

Product market expansion grid

Anisoff Matrix

Market	Product: Current	Product: New
Current	Market penetration strategy	Product development strategy
New	Market development strategy	Diversification strategy

The four product-market strategies in detail are as follows: -

1. Market Penetration

A company tries to sell more of its present markets. Supporting tactics might include greatest spending on advertising or personal selling. Or a

company tries to become a single source of supply by offering preferential treatment to customers who will concentrate all their purchases with it

2. Market development

A firm continues to sell its present product but to a new market.

3. Product development

This strategy calls for a company to develop new product to sell to its existing markets.

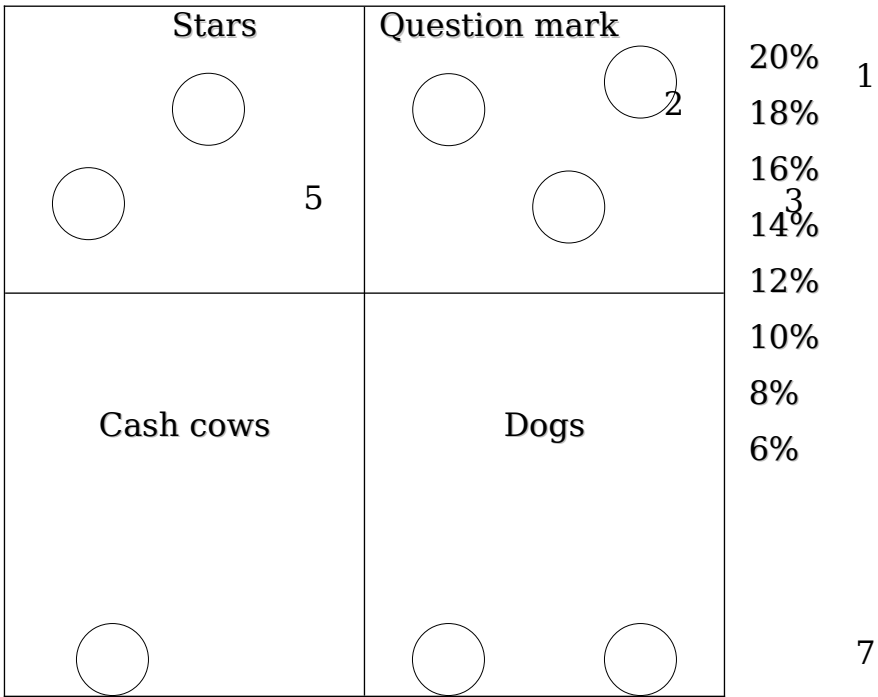
4. Diversification

A company develops new product to sell to new markets. This strategy is risky because it doesn't rely on either the company's successful products or its positions in established markets.

As market conditions change overtime, a company may shift product-market growth strategies. For example, when its present market is fully saturated, a company may have no choice other than to pursue new markets.

2.4.5.3 Boston Consulting Group Model

The Boston consulting Group (BCG) is a leading management consulting firm, developed and popularized the growth share matrix.



4%

2%

0

10 X 4X 2X 1.5 X 1X 0.5 X 0.4 X 0.3 ;

Relative Market Share

The eight circles represent the current sizes and positions of eight business units in a hypothetical company. The dollar volume size of each business is proportional to the circles area. Thus, the two largest businesses are 5 and 6. The location of each business unit indicates its market growth rate and relative market share.

Specifically, the market growth rate on the vertical axis indicates annual growth rate of the market in which the business operates. In the above illustration it ranges from 0% to 20%, although a larger range could be shown. A market growth rate above 10% is considered high. Relative market share, which is measured on the horizontal axis, refers to the SBU's market share, relative to that of its larger competitor. It saves as a measure of the company's strength in the relevant market. A relative market share of 0.1 means that the company's sales volume is only 10% of the leaders sales volume a relative share of 10 means that the company's SBU is the leader and has 10 times the sales of the next strongest competitor in that market. Relative market share is divided into high and low share using a 1.0 as a dividing line.

The growth-share matrix is divided into four cells, each indicating a different type of business

1. Question mark: -

Question marks are businesses that operate in high-growth markets but have low relative market shares. Most businesses start of as question marks as the company tries to enter a high-growth market in which there is already a market leader. A plants, requirement, and personnel to keep up with the fast-growing market and because it wants to overtake the leader.

2. Stars: - If the question-mark business is successful it becomes a star is the market leader in a high-growth market. A star does not necessarily produce a positive cash flow for the company. The company must spend substantial funds to keep up with the high market growth and fights of competitor's attacks.

3. Cash Cows: - When a market's annual growth rate falls to less than 10% the star becomes a cash cow if it still has the largest relative market share. A cash cow produces a lot of cash for the company. The company does not have to finance a lot of capacity expansion because the market growth rate has a slowed down. And since the business is the market leader, it enjoys economies of scale and higher profit margin.

4. Dogs: - Dogs are businesses that have make market share in low-growth markets. They typically generate low profits or losses, although they may generate some cash. The company should consider whether it is holding on to these dog business for good resource (Such as unexpected tern around in the market growth rate or a new chance at market leadership) or for sentimental reasons. Dogs often consume more management time than they are worth and need to be phased down or out.

After plotting its various businesses in the growth share matrix, a company must determine whether its portfolio is healthy. An unbalanced portfolio would have too many dogs or question marks and/or too few stars and cash cows.

The company next task is to determine what objective, strategy, and budget to assign to each SBU.

Four stages can be passed:

1. ***Build: -*** Here the objective is to increase the SBU's market share, even forgoing short term earnings to achieve this objective if necessary. Building is appropriate for question marks whose market share must grow if they are to become stars.
2. ***Hold: -*** Here the objective is to increase the SBU's market share. This strategy is appropriate for strong cash cows if they are to continue yielding a large positive cash flow.
3. ***Harvest: -*** Here the objective is to increase the SBU's short-term cash flow regardless of long term effect. Harvesting involves a decision to eventually withdraw from a business by implementing a program of continuous cost retirement. The company plans to cash in on its "Crop to milk its business". Harvesting generally involves eliminating R&D is expenditures, not replacing the physical plant as it wears out, not replacing sales people, reducing advertising expenditures, and so on.

   The hope is to reduce costs at a faster rate than any potential drop in sales, thus resulting in an increase in the company's positive cash flow.

   This strategy is appropriate for weak cash cows whose future is dim and from which more cash flow is needed. Harvesting can also be used with question marks and dogs. The company carrying at a harvesting strategy faces prickly social and ethical questions over how much information to share with various stockholders.

4. ***Divest: -*** Here the objective is to sell or liquidate the business because resources can be better used elsewhere. This strategy is appropriate for dogs and question marks that are acting as a drag on the company's profits.

Companies must carefully decide whether harvesting or divesting is a better strategy for a weak business. Harvesting reduces the business future value

and therefore the price at which it could later be sold if divested. An early decision to divest, in contrast, is likely to produce fairly good bids if the business is in relatively good shape and of more value to another firm.

2.4.6 Program Formulation

Once the business but has developed its principal strategies, it must work out detailed supporting programs.

Thus, if the business has decided to attain technological leadership, it must plan programs to strengthen its R&D department, gather technological intelligence develop leading edge products, train the technical sales force, develop ads, to communicate its technological leadership and so on.

2.4.7 Implementation

A clear strategy and a well thought out supporting program may be useless if the firm fails to implement them carefully. Indeed, strategy is only one of seven elements, according to Mac Kinsey consulting firm, that the best-managed companies exhibit.

The Mac Kinsey framework for business success includes –Strategy, structure, and systems are considered the hardware of success. The next four –style, staff, skills and shared values are the software's.

The first soft elements, style means that company employees share a common way of thinking and behaving.

The second staff means that a company has hired able people, trained they well, and assigned them to the right jobs.

The third skill means that the employees have the skills needed to carry out the company strategy.

The fourth shared values, means that the employees share the same guiding values. When these soft elements are present, companies are usually more successful at strategy implementation.

2.4.8 Feed Back and Control

As it implements its strategy, the firm needs to track the results and monitor new development in the internal and external environments. The enrolment will eventually change. And when it does, the company will need to preview and revise its implementation programs, strategies, or even objectives.

Check Your Progress Exercise

1. Discuss the strategic planning process?

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2. Discuss the AnSoff product/market expansion grid?

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3. Discuss the porters generic strategic model.

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4. What is a strategic marketing planning? Discuss the strategies proposed by anSoff and Porter.

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5. Discuss the concept of mission, objectives strategies and tactics.

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2.5 SUMMARY

The management process consists of planning, implementation, and evaluation. Planning is deciding in advance what objective to pursue during the future time period, including when and how we are going to do it. Planning provides direction to an organization. Strategic planning is

intended to match an organizations resource with its market opportunities over the long run. Strategic marketing planning is an eight steps process:

- Define mission statement,
- Asses internal and external environment,
- Set objective,
- Set strategies,
- Formulate programs,
- Implement the program
- Feedback and control.

Management can rely on one or more of the following models for assistance with strategic planning. Boston consulting Group matrix. General electric business screen, porters generic strategic model, product market growth matrix. A planning models help management see how best to allocate its resources and to select effective marketing strategies.

2.6 ANSWER KEY TO CHECK YOUR PROGRESS EXERCISE

1. Refer to section 2.4
2. Refer to section 2.4.5.1
3. Refer to section 2.4.5.2
4. Refer to sections 2.2 and 2.4.5.1
5. Refer to sections 2.3.1 to 2.3.4

2.7 REVIEW QUESTIONS

Part I- Say True or False

1. A mission statement clearly dictates the boundaries of company operation.
2. Strategy is a broad course of action plan used to pursue tactics.
3. One of the principles of objectives states that objective should be ambitious and unrealistic.

4. Differentiation strategy works on a situation where scope of target market is wide and profitability is high.
5. Porters proposed firms to look for a product and market while setting their strategies.
6. Objective is a desired outcome.
7. Tactic is a detailed course of action plan used to pursue a strategy.
8. Planning is a predetermined goal.
9. Opportunity matrix could be assessed in terms of probability of occurrence and profitability.
10. Threat matrix could be assessed in terms success probability and attractiveness.

Part II. Fill in the Blanks

1. _____ is a challenge passed by an unfavorable situation that will lead to deterioration in profit or sales.
2. _____ is a strategy where it is being used in a situation where the scope of target market is wide and profitability is high by setting price lower to competition.
3. _____ an and result where other functions of management be it –organizing, staffing, leading and controlling aimed at.
4. _____ entering deep down in to the existing market by heavily advertising.
5. _____ is a complex of other plans where all activities are scheduled, resource allocated to be carried out in the future time period.