### CHAPTER INSTRUCTOR NOTES

### Chapter 1 – Strategic Market Management – An Introduction and Overview

**Content of Chapter 1**

1. Strategy development needs to reflect the fact that markets are dynamic. There are implications to this reality. You need to be good at strategic analysis, innovation, managing multiple businesses, creating SCAs (sustainable competitive advantages), and developing growth platforms in the context of dynamic markets.

2. A business strategy is defined by the product-market investment, a value proposition, assets/competencies, and functional strategies.

3. The book systematically covers external analysis and the development of strategies—Figure 1.3 summarizes the elements of external and internal analysis plus the outputs of strategic analysis.

4. Marketing’s role at the strategy table follows from the definition of a business strategy.

**Dynamic markets**

Ask the class if it can think of any industries that are not dynamic. As industries come up, ask if anyone sees any dynamics. In all industries it will be easy to identify areas of dynamics—there will be emerging submarkets, opportunities, threats, new competitors, changing faces of existing competitors, global realities, etc.

Follow that up with questions about the implications for strategy of a dynamic market. This discussion should lead to the importance of the six tasks discussed on pages 2 and 3—strategic analysis, customer value, innovation, multiple business (to participate in emerging new markets and submarkets), SCAs (that work in dynamic times), and the need for growth platforms (that work in dynamic environments).

**Business strategy definition**

Logically, if business managers are to develop strategy, they should know what it means. It turns out that it is not so simple. Ask the class the simple question— “What is Strategy?” Students will come up with concepts like strategy is a plan, a vision, planning, setting objectives, matching resources with objectives, or matching the 4Ps to your target market.

You might then consider discussing one or more of the following definitions.

* “Strategy is a framework which guides those choices that determine the nature and direction of an organization.”

- Benjamin B. Tregoe and John W. Zimmerman, *“Top Management Strategy”*

* “Strategy is the creation of a unique and valuable position, involving a different set of activities.”

-Michael Porter, *“What is Strategy?,” Harvard Business Review*

* “In terms of the three key players (competitors, customers, company) strategy is defined as the way in which a corporation endeavors to differentiate itself positively from its competitors, using its relative corporate strengths to better satisfy customer needs.”

-Kenichi Ohmae*, “The Mind of the Strategist”*

The concept of strategy is precisely defined in this chapter. The discussion should motivate the class to want a definitive answer. This chapter provides one. A business strategy is defined by four dimensions—the product-market investment strategy, the customer value proposition, assets and competencies, and functional strategies and programs. The first specifies *where* to compete, and the remaining three indicate *how* to compete to win.

* Product-market investment—it is important to emphasize that knowing which product markets your company does NOT serve is equally as important as knowing which product markets your company does serve. Otherwise your valuable resources may be used inefficiently.
* Customer value proposition—this concept of a strategy is market-driven and the value proposition is a central part of it—it also serves as an umbrella concept that summarizes the strategy.
* Assets and competencies—the key to a long-term investment perspective (vs. a short-term fixation).
* Functional strategies—needed to support and implement.

What differentiates a business strategy from a marketing strategy? A business strategy is more comprehensive and contains significant financial data. A marketing strategy has a narrow focus and is driven more by targeting a customer and developing a needs-satisfying marketing mix. This book, *Strategic Market Management*, has a point of view that is customer-driven.

The section entitled “The Foundation of Customer Value” ensures that students understand the criticality of customer value to marketing. It defines this concept and offers one way to measure it. The most important aspect of this discussion is that customer value is perceived by the customer.

It is useful to discuss at this point the acronym SCA. Ask students “What is a sustainable competitive advantage?” The discussion should get into the concepts of assets and competencies. Some examples could be discussed.

**Marketing and strategy**

A discussion can occur around the role (if any) of marketing and strategy. Should marketing have a seat at the table? Why or why not? Does it matter what company or what strategy? This book makes clear that given the definition of a strategy, marketing has a natural and key role. The question could be revisited in the context of each dimension.

**Discussion of opening quotes**

It may, in general, be interesting to discuss the opening quotes for each chapter with the class. However, for the purpose of this initial chapter, it may be particularly helpful given the ideas are very broad. The quotes are repeated and a few thoughts offered.

* “Plans are nothing, planning is everything”

- Dwight D. Eisenhower

The *process* is more important than the *plan.* The fact is that plans will need to be adapted and the process of making a plan will provide the ability to adjust it when submarkets, opportunities, and threats emerge. Note that one theme of the book is how to respond to dynamic markets.

* “Even if you are on the right track, you’ll get run over if you just sit there.”

- Will Rogers

You need to continuously adjust. Does this always work? No. Sometimes you might want to be persistent and committed to a plan and avoid change.

* “If you don’t know where you are going, you might end up somewhere else.”

- Casey Stengel

As usual, Casey stumbles onto some truth. Goals and intentions drive behavior in critical ways and so it is important for companies to consider the business they are in and what they are trying to accomplish before moving forward with strategy.

**FOR DISCUSSION**

1. What is a business strategy? Do you agree with the definition proposed in this chapter? Illustrate your answer with examples.

This a good question during the first class before students read the first chapter. Definitions will be all over the map. Drive home the point that this should be easy for a business major or business executive, yet it is not. Getting to a solid answer provides a basis for strategy going forward, while having it vague is a recipe for drift. In the chapter, the business strategy is crisply defined to involve four dimensions: the product-market investment strategy, the customer value proposition, assets and competencies, and functional strategies and programs.

Consider one of the firms. Go to the firm’s website and annual report to gain an understanding of its business strategy. Look at elements such as the products and services offered, the history of the firm, and its values. What is the business strategy? What product markets does the firm serve? What are its value propositions? What assets and competencies are important to this strategy? What outstanding functional programs and strategies exist?

* 1. Dell
  2. Zappos
  3. Visa
  4. A firm of your choice

This discussion will make it clear that it is not easy to crystallize a business strategy. As the strategies are articulated, some students may want to expand the definition of a business strategy.

2. In question 1, identify any distinctive elements of each firm’s marketing strategy.

1. Dell Computer (<http://www.dell.com>)

Dell serves the worldwide market for customers to build their information-technology and Internet infrastructures. Dell’s value proposition is based on being standards-based (there is no proprietary software like Sun and Apple) which leads to lower prices and operating costs for customers and the advantages of the direct model. The direct model provides intense customer intimacy, customized systems, very competitive prices, and reliable and speedy delivery. Dell’s assets include a customer base, brand awareness, and operational ability to run the direct model.

1. Zappos (<http://www.zappos.com>)

Zappos serves the U.S. market for online retail with an emphasis on footwear. The value proposition is based around outstanding customer service, convenience, and painless returns. Zappos’ ecommerce format allows for wide selection and very competitive prices. The service-focused model ensures that customers aren’t sacrificing key aspects of the in-store experience (hands-on trial, friendly assistance) in the online context. Assets include a customer base, positive brand associations, and strong competencies in customer service and ecommerce.

1. Visa (<http://www.visa.com>)

Visa serves the global consumer credit and electronic payments markets. Visa’s value proposition is based on global availability, which enables consumers to rely on Visa as a primary payment method. The mass-market, no-fees consumer credit model with competitive pricing of transaction fees to retailers has allowed Visa to build massive networks of both cardholders and accepting businesses. These customer networks are among the company’s most substantial assets. Visa also has extremely high brand awareness and strong operational competencies.

3. Considering Gallo wine, are there any current wine companies for whom this strategy would not have worked? Why?

Gallo made the unusual move of entering the premium wine market using its existing brand name, which was extremely well-known and strongly associated with discount wines. This strategy succeeded due to Gallo’s key assets and competences, which include: access to vineyards in the respected wine region of Sonoma; a credible and charismatic third-generation winemaker heading the business; outstanding operational and distribution competencies; scale efficiencies; and clout with both suppliers and retailers. Gallo also undoubtedly benefited from the novelty of being the first lowbrow brand that wine experts could praise to make themselves seem open-minded and countercultural. This would not have likely worked for other companies given they lacked these assets and competencies

4. Apply Theodore Levitt’s marketing-myopia concept to print media, magazines, and newspapers. What are the implications?

The reader and advertising base is declining for newspapers and to a lesser extent for magazines. Expanding the vision of the business is one way to avoid sliding into oblivion. If a newspaper could be defined as a producer of current in-depth unbiased reporting, it would naturally be directed toward the Internet and text messaging devices. Calling yourself a newspaper is extremely limiting and self-defeating.

5. Which criteria to pick a strategy would you consider most important? Why? Name one company that failed because it did not follow your priority. What should it have done instead?

The point of this question is to get the class into the criteria and, in doing so, better understand the definition of strategy. You can make the argument that all five criteria are equally important. You can also argue that the ROI criterion is less important because it is more short-term oriented. You can also argue that the fit criterion will be of less importance for some firms or situations.