Chapter Summaries

# Chapter 3 – Strategic marketing decisions, choices, and mistakes

## Introduction

There is a common agreement between marketing scholars and practitioners that marketing strategy consists of firms’ decisions and actions focused on creating value for stakeholders by building sustainable differential advantage relative to competitors (Morgan et al. 2019; Sridhar and Fang 2019, Palmatier and Sridhar 2017). Therefore, marketing strategy research has always been driven by a desire to help marketing managers make better decisions and choices to outperform competition (Rutz and Watson 2019). The last decade has seen marketing strategy evolve rapidly in three major directions: Digital, Data-Rich, and Developing Markets (Sridhar and Fang 2019). *Digital* refers to the growing emphasis on the integration of digital tools and platforms in the development and implementation of marketing strategies that create value for firms and customers. *Data-rich* encompasses the wide range of structured and unstructured data on firms and customer behaviour that provide marketing managers with powerful insights for action. The *Developing markets* element signals that marketing strategies incorporating digital tools and platforms, and informed by digital insights, are particularly critical when competing in emerging markets.

The primary thrust of this chapter is to discuss the second stage/area of the Strategic Marketing Management process (SMM), that is, strategic choice and decisions. *Strategic choice* involves understanding the bases and directions that guide the organization’s future strategy, generating various strategic options and alternatives, and choosing from them the most appropriate ones.

## Hierarchy of strategic choice and decisions

Marketing managers at different organizational levels are required to translate the outcome of strategic analyses into a number of strategic options and choose the most appropriate ones. Strategic decisions at the ***corporate level*** involve developing a mission statement, deciding on a directional strategy, and allocating resources. At the ***SBU level***, strategic managers have to choose a generic strategy (i.e., cost leadership, differentiation, focus) based on the unique competitive advantages the company has. Strategic choice and decisions taken at the ***functional level*** are related to the various functional areas within the organization (i.e., marketing, finance, R&D, production, etc.). Within the marketing area, strategists should consider such decisions as products to offer, market segment(s) to target, and market position strategies.

## Strategic choice and decisions at the corporate level

### Defining the corporate mission

An organization’s mission statement provides a brief description of the unique purpose of the organization. It distinguishes it from other companies, and specifies the boundaries of its operations as well as defining the primary direction and key foundations upon which objectives and strategies are based. Many marketers regard the creation of a mission statement as crucial to strategy development since it represents a vision of what the organization is or should attempt to be.

### Choosing the directional strategy

Every organization needs to decide its intention and orientation towards whether it wants to do it formally or not. Executives at the corporate level normally choose a directional strategy from three general orientations, often called ‘grand strategies’ (Wheelen and Hunger, 2012):

* *growth strategies:* expand the corporation’s activities
* *stability strategies:* make no change to the existing activities
* *retrenchment strategies:* reduce the corporation’s level of activities

***Allocating resources between the SBUs***

Large corporations with multiple products and/or strategic business units must decide how to allocate their resources (financial, human, time, and other resources) between SBUs to ensure the organization’s overall success. Portfolio analysis, which has had a colourful history in the business literature since the 1960s, is a key tool for assessing the strength of SBUs’ position in the market and allocating resources between them. Portfolio analysis takes two forms: (a) product portfolio analysis, and (b) business portfolio analysis. Some of the portfolio analysis models are:

* Boston Consulting Group (BCG) matrix, which focuses on market share and market growth.
* General Electric’s (GE) business screen, which places the SBUs in the nine cells matrix using the attractiveness of the industry and the position of business.
* Shell directional matrix, which uses two dimensions: prospects for section profitability and firm’s competitive capabilities.
* Abell and Hammond’s model, which is an expansion of the GE model and Shell directional matrix, evaluates SBUs using two dimensions: business position and market attractiveness.

It should be noted here that portfolio analysis has gained a wide adoption in practice because it offers some advantages. However, it has been subject to many criticisms:

* It is generally too simplistic in their structure, and may lead the company to place too much emphasis on market share growth and entry into high growth businesses, or to neglect its current businesses.
* Its practical value is based on developing an appropriate definition of the industry and market segments in which an SBU competes.
* It suggests a standard strategy for each competitive position, which in some cases seems impractical.
* It uses subjective judgments of top management, and therefore, its results are sensitive to the ratings and weights can be manipulated to produce a desired plot in the matrix.
* It is not always clear what makes an industry attractive or where a product is in its life cycle.

Another planning approach that has gained widespread adoption by large corporations is the use of business models. A **business model** describes the set of coordinated activities a company performs to deliver goods and services to customers in order to ensure overall success (Wheelen and Hunger, 2012). An approach to the development of business models that has become popular within the start-up community is the business model canvas (Mollick, 2019). The canvas is a strategic template that combines nine key strategic building blocks (Osterwalder, Pigneur, and Clark 2010). These building blocks represent important strategic decisions aimed at developing a business concept that is commercially viable.

## Strategic choice and decisions at SBU level

SBU is a single business or interrelated businesses that can plan separately from the rest of the corporation. An SBU competes in a specific industrial sector or marketplace. The key strategic decision taken at the SBU level relate to the choice of a generic strategy.

### Identifying a generic competitive strategy

A generic strategy specifies the fundamental approach to the competitive advantage a firm is pursuing and provides the context for the decisions to be taken in each functional area. An appropriate selection and formulation of a generic competitive strategy will best position the company’s offerings against competitors’ offerings and give the company the strongest possible competitive advantage within its industry. In the strategy literature, different typologies of generic strategy have been suggested (Utterback and Abernathy, 1975; Miles and Snow, 1978; Porter, 1980). However, Porter’s typology is still the one that has received wide acceptance and appreciation from both academics and practitioners. Porter’s generic strategy typology of ***low-cost, differentiation, and focus*** form the backdrop to the discussion in every chapter in this book, despite the fact they have received many criticisms for the concept and its application.

Bowman and Faulkner (1997) developed “Bowman's Strategy Clock”, which extends Porter's three generic strategies to eight, and identifies the likelihood of success for each strategy. Gans, Scott, and Stern (2018) also propose the Entrepreneurial Strategy Compass that outlines generic go-to market strategies particularly suited for companies that attempt to bring innovative products or services to the market. The framework categorizes strategic alternatives on two dimensions: attitude towards existing players in the market (collaborate versus compete) and attitude towards the innovation brought to market (tight control or “build a moat” versus speeding up commercialization of “storm a hill”).

## Strategic choice and decisions at functional level

The development of the functional strategies and the coordination between them play a major role in creating and sustaining a firm’s competitive advantage. The key strategic decisions taken within the marketing department include: marketing objectives to support corporate strategy, products to offer, market segments to target, and market position strategies.

### Setting the marketing objectives

Most companies will have a mixture of marketing objectives including sales growth, market share, innovativeness, customer satisfaction, reputation, and brand loyalty. It is the pursuit of these marketing objectives that should provide the framework both for planning and control processes. The marketing manager at the functional level must be particularly concerned with the development of the organization’s positioning strategy and the marketing mix programmes.

### Choices of products to offer and markets to target

The development of marketing strategy has been discussed extensively in the marketing literature. And it was noted that the principal focus of *marketing strategy* is issues relating to “how to compete,” and that of *market strategy* is issues relating to “where to compete” (Varadarajan 2019). Ansoff’s 2X2 matrix is a useful framework that is frequently used to guide the marketing managers in making these strategic decisions. This matrix illustrates the four possible options available to any organization in relation to product/market strategy. It should be noted here that the choice between the four strategic options will be influenced by a number of external and internal factors. External factors include the state of competition in the market and the critical success factors in the industry, while internal factors include the product life cycle and the range of the company’s product offerings.

### Choices of competitive tactics for marketing strategy implementation

A tactic is a specific operating action specifying ‘how’, ‘when’, and ‘where’ a strategy is to be implemented. Compared to strategies, tactics are narrower in scope and shorter in time horizon. Competitive position tactics can be chosen and pursued by an organization based on its position in the market. ***Market leader*** organizations will pursue different set of competitive tactics than those used by the ***market challengers***, ***market followers***, or ***nichers***. The detailed tactics pursued by each of these are discussed in greater details in this chapter.

## Marketing plan and its link to strategy

A marketing plan is simply a set of detailed actions that should be based on a solid strategic foundation and a well-designed marketing strategy. If the aim of a strategy is to set a long-term direction for the business and define the key strategic goals to proceed in that direction, the marketing plan then aims to translate this organizational direction into shorter-term detailed action plans. Without solid strategic bases, a marketing plan may fail to contribute to the organization’s overall goals and objectives. A typical marketing plan includes the following:

* Executive Summary
* Situational Analysis; including customer and competitor analysis
* Marketing Objectives
* Marketing Strategy, including targeting and positioning strategy
* Action Programs (the 4Ps / 7Ps operational marketing plans)
* Budgeting and Financial Forecast
* Evaluation and Controls

## Strategic mistakes and organizational failure

Mistakes and failure are fact of life that most organizations cannot escape. Cannon and Edmondson (2005) defined failure as the deviation from expected and desired results. Taking a strategic choice perspective, one might argue that organizational failure is a product of repeated strategic mistakes and unsuccessful interactions between the firm’s management and its external environment. If strategy is defined as a means that helps to marshal and allocate organization’s resources based on anticipated changes in the environment, failing to evaluate the environment properly represents the most fundamental strategic mistake managers can make. Inaccurate or improper evaluation of the environment in which the organization operates might lead to poor strategy formulation and implementation. There is no doubt that economic, social, and technological environments do change and these changes sometimes punish firms that fail to adapt/adjust their strategies accordingly. To prevent strategic mistakes and failure recurring, or to initiate corrective actions to minimize the damage incurred while navigating through failure, Sheppard and Chowdhury (2005) produced a list of ‘what to do’ in the form of strategic advice to managers to avoid strategy and organizational failure.

## Conclusion

Drawing upon the strategic analysis of the organization’s internal and external environment, strategic managers have to evaluate several alternatives available to them and make strategic decisions that will define the future direction of their organization. The task is to generate a well-justified set of strategic choices and select from them the ones that will strengthen the future position of the organization in the market/s in which it has elected to compete.

## Summary

This chapter has discussed in more detail the second stage/area of the Strategic Marketing Management process (SMM), namely strategic choice and decisions. Managers, at this stage, aim to understand the underlying bases guiding future strategy, generating strategic options, and selecting from among them. Many strategic choices and decisions are taken to contribute to the achievement of the overall corporate goals and objectives.