MARKET DRIVEN STRATEGIC PLANNING

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ABSTRACT

All business organizations must base their strategies on three sets of factors: market needs, environmental and competitive constraints, and the firm's own corporate objectives. International expansion of markets and intensification of competition in the global economy has made it necessary to give special importance to market considerations as the basis of developing marketing objectives and planning corporate strategies.

Many conceptual models have been developed to assist the task of strategic planning. However, often they have severe limitations on their ability to take into account all important factors and to develop a full spectrum of strategic alternatives. Moreover, in the case of many models, it is not very clear as to when they should be used in practice and how.

This paper reviews some of the more popular strategic planning models for their strengths, weaknesses, and usefulness in practice. Further, it presents an exploratory market driven strategy development model that can produce a full spectrum of marketing strategies available for marketers to evaluate, prioritize, and choose from. The model sets clear boundaries as to what it wants to accomplish and has necessary depth to provide a complete set of strategic planning guidelines within those boundaries.

INTRODUCTION

International expansion of markets and intensification of competition in the global economy has made it necessary to give special importance to market considerations as the basis of developing marketing objectives and planning corporate strategies.

Consequently, corporate planners now must use the marketing philosophy of customer orientation as the very basis of organizing, planning, and controlling all corporate strategies. In other words, there is a need to integrate marketing into the corporate strategy planning processes and apply the litmus test of market orientation to strategic decisions at every stage of planning.

The principal purpose of strategic planning is to provide guidelines for all important corporate decisions. Strategic decisions constitute the continuum starting from defining the corporate mission through setting goals, selecting strategies and tactics, and establishing an efficient and self-monitoring system for their implementation and control. All strategic decisions must take into consideration three sets of factors: (1) market considerations, (2) environmental and (3) competitive considerations, and (4) the firm's own corporate considerations (Ohmae 1982).

It is not surprising that no single strategic planning model is sufficient to deal with the full spectrum of decisions and considerations involved in this process. Instead, several models have been developed to assist the task of strategic planning, each presenting a creative way to integrate some of the decision factors and help some of the decisions involved in corporate strategy planning.

This paper reviews some of the more popular strategic planning models and discusses their strengths, weaknesses, and overlaps from the viewpoint of a corporate planner. Further, the paper presents an exploratory customer-driven marketing strategy development model with clear boundaries as to what it wants to accomplish and necessary depth to provide a complete set of strategic planning guidelines within those boundaries.

LITERATURE REVIEW

Boston Consulting Group's (BCG) Business/Product Portfolio Analysis Model

(Armstrong and Kotler 2009; www.bcg.com January 2015.)

Among some of the popular strategic planning models is the Boston Consulting Group's (BCG) Business/Product Portfolio Analysis Model. Using the twin dimensions of "market growth rate" and the firm's "relative market share" in a product category, the model classifies a firm's multiple strategic business units into four quadrants of a growth-share matrix. Each product is represented by a circle in the appropriate quadrant with the area of the circle being proportional to the dollar sales volume of the product.

Such mapping of the company's product folio helps evaluate the collective balance—or the lack of it--in a firm's product lines from the viewpoint of cash flows. A balanced distribution of the products in all four quadrants means that the company has enough successful products that generate positive cash flows, and these are being fruitfully used to support new emerging product lines until they grow to become net positive cash generators in the future. Clearly, the model uses market growth rate as an indicator to assess the environmental opportunities and threats, and the firm's relative market share as a measure of the firm's competitive strengths. Thus, the BCG model incorporates three of the four important considerations in strategic planning, namely, competition, environment, and the corporation's strengths, and provides marketers with a tool to evaluate their present product portfolios from the viewpoint of cash flow balance.

General Electric/McKinsey Company's Business Unit Screening Grid

Another popular strategic planning model is the General Electric/ McKinsey Company's "Business Unit Screening Grid." Conceptually, this is an expanded version of the BCG's product portfolio matrix. The GE grid classifies a firm's strategic business units on the dimensions of industry attractiveness and business strength. The classification is supposed to help determine the desirability of a strategic business unit. Therefore, the model can be used as a screening device for present as well as proposed product portfolios. The model uses industry attractiveness as a composite measure of market size, market growth rate, profitability etcetera to assess the environmental opportunities and threats. Similarly, it uses business strength as a composite measure of relative market share, price competitiveness, sales effectiveness etc. to assess the firm's competitive strengths. Thus, this model too incorporates three of the four important considerations in strategic planning, namely, competition, environment, and the corporation's strengths, and provides a tool to evaluate the desirability of the present product portfolio as well as a screening device for new marketing opportunities.

Competitive Advantage and Corporate Strategy Model (Porter 1987)

The principal proposition of this model is that corporate strategy is in essence an effort to build and maintain competitive advantage. The model identifies suppliers, buyers, present and potential competitors, and substitute products as the four key forces that determine the competitive advantage a firm has in a given market. For each of the four factors, the model identifies several variables to evaluate its impact on the firm's competitiveness. Thus, the model incorporates three of the four important considerations in strategic planning, namely, customers, competition and some factors of the environment and provides a tool to evaluate the competitiveness of a firm in its present and future business activities.

Product Market Diversification Model (Ansoff 1957)

One model that provides a framework for identifying new marketing opportunities for future planning is the product market diversification model. The model identifies the products and the markets as the two critical dimensions that can be used to classify the various marketing opportunities a firm could potentially explore. Both, the products and the markets are divided into two categories each: present and new. The resultant 2x2 classification thus divides the marketing opportunities into four distinct categories:
Market Penetration i.e. Continuing to offer the present products to the present markets
Market Development i.e. Offering present products to new markets
Product Development i.e. Offering new products to present markets and
Diversification i.e. Offering new products to new markets

Thus, the model touches upon two of the four important considerations in strategic planning, namely, customers or the markets, and products which constitute one factor of the firm's own marketing mix. This model can be used as a tool to identify new marketing opportunities for a firm.

EVALUATION OF THE STRATEGIC PLANNING MODELS REVIEWED

In discussing the problems with Matrix Approaches, Armstrong and Kotler (2009) state that apart from being difficult, time consuming, and costly to implement, these models "focus on current business but provide little advice for future planning."

Such criticism is most aptly applicable to the first three models discussed above. They are essentially tools to evaluate the present product-market strategies of a firm, determine their deficiencies, and evaluate the suitability of new opportunities and initiatives on the important two strategic criteria of overcoming present strategic weaknesses and building new strengths. However, these models do not provide any assistance in developing new ideas or identifying new marketing opportunities.

One model that goes some distance in providing guidelines to future planning is the fourth "Product Market Diversification Model." This model is different in many ways. It provides some directions as to where to look for new marketing opportunities as strategic alternatives for a firm. For example, a firm currently using market penetration strategies focused on present products and markets can now explore new markets for existing products, offer new products to existing markets, or new products to new markets. Simply stated, the model suggests that a firm can first identify separately some new markets to serve, and some new products it can produce. Then combining the existing and new products and markets, it would have four strategic alternatives open for it.

However, while conceptually simple and apparently logical, the model has some critical limitations. First, the model oversimplifies the concept of a market into a unidimensional variable. Clearly, markets must be defined on minimum two dimensions: types of customers or specific customer segments you plan to serve, and the geographic location or area where the customers/markets are located. Defining markets by customer type is important because customers with diverse needs live in clusters and marketers must identify their target customers by their unique characteristics so as to be able to reach them. At the same time, defining markets by their geographical boundaries is important first, for simple administrative convenience of implementing the marketing strategies. Second, most political boundaries—of cities, counties, states, and countries—are defined by geography and they control many environmental constraints for the marketers as well as the markets.

The model uses the products as the second dimension for exploring strategic alternatives. This dimension has both conceptual as well as practical problems. First, conceptually, no firm can and would develop new products simply by randomly creating something—using its existing technological and production capabilities—and hope that there will be a market for it. Clearly, when looking to make new products the first thought must be “what is needed and therefore, will sell.” In other words, the thinking must begin by first identifying the unmet needs of potential customers or markets. The next step would be to examine if any of the existing products of the firm can be offered to meet those needs. And if, and only if, that cannot be done, then would a firm consider the creation of new products using available or attainable technology and production capabilities, to satisfy those needs. Thus, in principle the focus of strategy development exercise must be on market needs and not marketer’s products. The "'products" dimension of the model is inadequate for strategic planning.

Clearly, there is a need to go beyond simply developing creative conceptualizations that are attractive--but not ready to use—models, and construct simple planning models with clear objectives that are ready to use.

MARKET DRIVEN STRATEGIC PLANNING MODEL

The fundamental mission of any business is to achieve its profit and growth objectives by satisfying the needs of its target customers through long-term exchange relationships. Marketing concept is the philosophy that customer orientation is essential to establish such successful, long-term exchange relationships with target markets. Therefore, all important marketing opportunities must originate from or relate to the target markets. Based on this thinking, a “Market Driven Strategic Planning” model is proposed that can be used by business organizations to identify a full spectrum of marketing strategies.

The model defines three fundamental characteristics defining the markets: the type of customers, their geographic location, and the basic need being served. The customer type identifies who the buyers and users are i.e. the target customer segments. The geographic or geopolitical location answers the question where the customers are. Finally, the basic need answers the question why the market wants to have the product.

Exhibit 1 presents the parameters of this model and the various alternative strategies that can be developed using the model. The strategies are numbered consistently with those in the following discussion.

EXHIBIT 1
MARKET DRIVEN STRATEGIC PLANNING: Exhaustive List of Strategic Alternatives Developed

		Market Need	
Market Location	Customer Type	Present	New
Present	Present	*** [1, 2, 3] Market Penetration**	**[6] Need Development**
	New	**[4] Market Development**	**[8] Need –cum-Market Development**
New	Present	**[5] Territorial Expansion**	**[9] Need-cum-Territorial Development**
	New	**[7] Market-cum-Territorial Development**	**[10] Need-market-Territorial Development**

* [1, 2, 3] Market Penetration Strategies
1. Increase the consumption rate of present brand-loyal customers
2. Convince customers of other brands to switch to the firm's own brand
3. Convert nonusers of the product category into users

The very first strategic alternative for a firm is to continue to serve the presently served need of the present type of customers in the presently served geographic area. The product-market strategy model (Ansoff 1957) calls it "market penetration" strategy.

A firm has three distinct strategic options available to pursue market penetration and achieve its growth and profit objectives:

1. It can increase the consumption rate of its present brand-loyal customers,
2. It can convince customers of other brands to switch to its own brand, and
3. It can convert nonusers of the product category into users.

Beyond “market penetration,” changing the three market characteristics just one at-a-time results into three new and unique marketing strategies. They are described below:
4. Market Development = Serving presently served need, <u>of new types of customers</u>, in the presently served geographic area
5. Territorial Development = Serving presently served need, of present types of customers, <u>in a new geographic area</u>
6. Need Development = <u>Serving a new need</u>, of present types of customers, in the presently served geographic area

In each case, the firm keeps two of the three market characteristics unchanged and uses its own experience and expertise in them as the strengths to venture into changing the third characteristic.

The above six strategies are unique and non-overlapping since each strategy is directed at a different subgroup of present or potential customers.

However, they are not mutually exclusive and therefore can be always used in combination. Changing any two of the three market characteristics simultaneously results into three new combination strategies described below.

7. Market-cum-Territorial Development = Serving presently served need, of new types of customers, in new geographic area
8. Need-cum-Market Development = Serving a new need, of new types of customers, in presently served geographic area
9. Need-cum-Territorial Development = Serving a new need, of present types of customers, in new geographic area

In each case, the firm keeps one of the three market characteristics unchanged and uses its own experience and expertise in that area as the strength to venture into changing two other characteristic. Clearly, such opportunities involve greater uncertainties and challenges than the opportunities generated by changing only one market characteristic at a time discussed earlier.

The final alternative before the firm is to change all three market characteristics as described below:

10. Need-cum-Market-cum-Territorial development = Serving new need, of new type of customers, in a new geographic area

Such a strategy would involve all three arrows originating from the apexes of the strategy triangle.

Clearly, such a strategy would be the most challenging of all as it amounts to entering a market that is new in every respect.

DISCUSSION AND CONCLUSION

The objective of this paper was to examine existing strategic planning models from the viewpoint of a business/nonbusiness organization and suggest changes to make the models more useful to the practitioners. The evaluation was to be based on the simple criteria of clarity of purpose and the ability of the model in achieving that purpose. The examination of four of the very popular strategic planning models shows that three of them provide a framework to evaluate present and future strategic opportunities but not develop alternative strategies. The fourth model does provide a framework for new marketing strategies. However, it mixes several market and firm considerations in a vague manner and does not provide a clear procedure to actually identify an exhaustive set of strategic opportunities.

It is hoped that the paper would highlight the need for and importance of a strategic planning model that is clear in its purpose, and thorough in accomplishing its objectives. All models must pass this simple test as it justifies their very existence and usefulness. Finally, the market driven strategic planning model presented here would demonstrate how a model can meet these expectations and be useful to practitioners.

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