

Strategic Management
Concepts & Cases
8th edition

Fred R. David

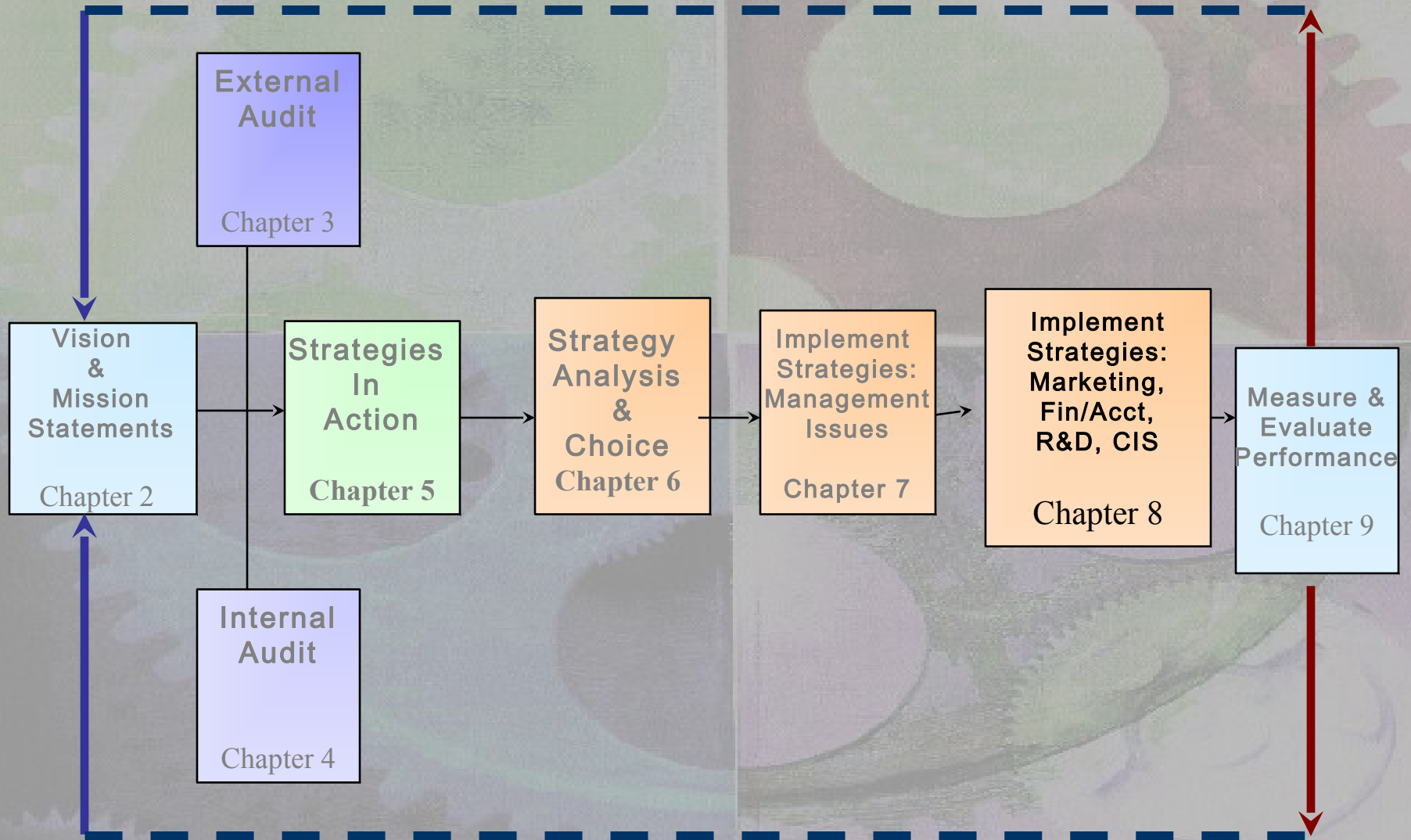
Chapter 8:
Implementing Strategies:
Marketing,
Finance/Accounting, R&D,
and CIS Issues

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Comprehensive Strategic Management Model



Implementing Strategies

“There is no “perfect” strategic decision. One always has to pay a price. One always has to balance conflicting objectives, conflicting opinions, and conflicting priorities. The best strategic decision is only an approximation—and a risk.”

—Peter Drucker—

Implementing Strategies

“As market windows open and close more quickly, it is important that R&D be tied more closely to corporate strategy.”

—William Spenser—

Implementing Strategies

“Most of the time, strategists should not be formulating strategy at all; they should be getting on with implementing strategies they already have.”

—Henry Mintzberg—

Implementing Strategies

Less than 10% of strategies formulated
are successfully implemented!

Implementing Strategies

Some reasons for low success rate

- Failing to segment markets appropriately
- Paying too much for a new acquisition
- Falling behind competition in R&D
- Not recognizing benefit of computers in managing information

Marketing Issues

Two Variables of Central Importance to Strategy Implementation:

- *Market Segmentation*
- *Product Positioning*

Marketing Issues

Decisions that may require policies:

- Use exclusive dealers or multiple channels of distribution
- Use heavy, light, or no TV advertising
- Be a price leader or price follower
- Offer a complete or limited warranty
- Salespersons reward structure

Marketing Issues

Current Issues:

- Tracking individual movements on the Internet
- Consumer “profiling”

Marketing Mix: Component Factors

Product	Place	Promotion	Price
Quality	Distribution channels	Advertising	Level
Features	Distribution coverage	Personal selling	Discounts & allowances
Style	Outlet location	Sales promotion	Payment terms
Brand name	Sales territories	Publicity	
Packaging	Inventory levels/locations		
Product line	Transportation carriers		
Warranty			
Service level			

Marketing Issues

Market Segmentation

Used in strategy implementation

- Particularly useful in small and specialized firms

Marketing Issues

Market Segmentation

Important because:

- Market and product development, market penetration, and diversification require increased sales through new markets or products

Marketing Issues

Market Segmentation

Important because:

- Firm can operate with limited resources. Enables a small firm by maximizing per-unit profits and per-segment sales.

Marketing Issues

Market Segmentation

Important because:

- Segmentation decisions directly affect marketing mix variables:
 - Product, place promotion, and price

Marketing Issues

Market Segmentation

Strategists evaluate potential:

- Characteristics & needs of consumers
- Consumer similarities and differences
- Consumer group profiles

Marketing Issues

Market Segmentation

Based on:

- Geographic variables
- Demographic variables
- Psychographic variables
- Behavioral variables

Marketing Issues

Product Positioning

- After segmenting the market, determine what customers want and expect
 - Analysis & research

Marketing Issues

Product Positioning

- Develop schematic representations of products
 - Compare to competitors on industry success dimensions

Marketing Issues

Action Steps in Product Positioning

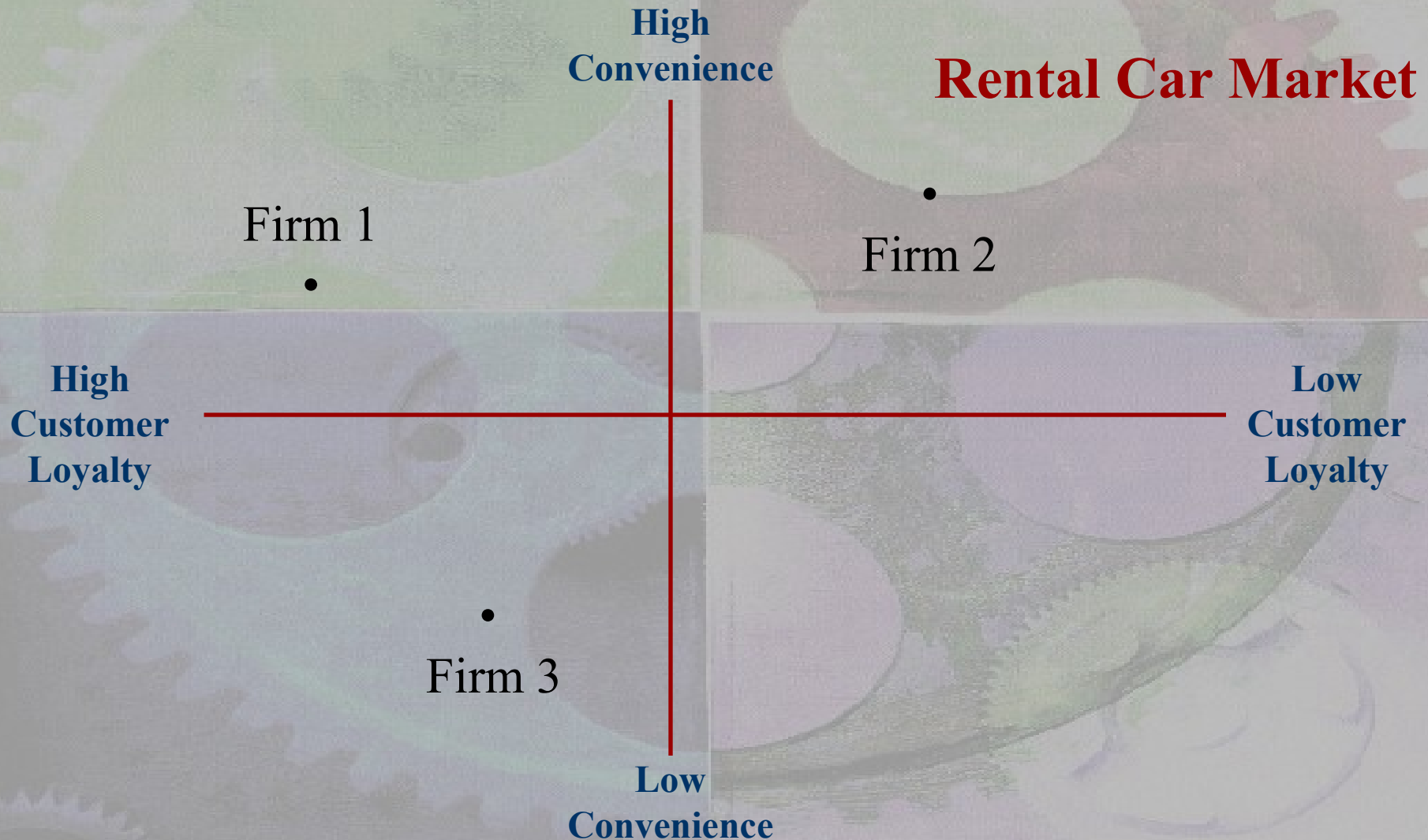
- Select key criteria that are differentiators in the industry.
- Diagram a two-dimensional product positioning map.
- Plot major competitors' products or services in the matrix.
- Identify areas in the positioning map where firm's products could be most competitive. Look for niches.
- Develop a marketing plan to position firm's products appropriately.

Marketing Issues

Product Positioning as a Strategy Implementation Tool

- Look for the “vacant niche.”
- Avoid suboptimization
- Don’t serve two segments with same strategy.
- Don’t position firm in the middle of the map.

Product Positioning Map



Finance/Accounting

Central to Strategy Implementation

- Capital acquisition
- Development of pro forma financial statements
- Financial budget preparation
- Business valuation

Finance/Accounting

Decisions that may require policies:

- Raise capital with short-term debt, long-term debt, preferred stock, or common stock
- Lease or buy fixed assets
- Determine dividend payout ration
- LIFO, FIFO, or market-value accounting approach

Finance/Accounting

Decisions that may require policies:

- Extend the time of accounts receivable
- Establish a certain percentage discount on accounts w/l specified period of time
- Determine the amount of cash on hand

Finance/Accounting

Capital Acquisition

Sources of capital:

- Net profit from operations
- Sale of assets
- Debt
- Equity

Finance/Accounting

Capital Acquisition

Earnings Per Share/Earnings Before Interest and Taxes (EPS/EBIT) Analysis

- Determination of debt, stock, or combination of debt & stock is best alternative for raising capital to implement strategies

Finance/Accounting

Pro Forma Financial Statements

- Allows the firm to examine the expected results of various actions and approaches

Finance/Accounting

Pro Forma Financial Statements

- Forecast impact of various implementation decisions
 - *Compute projected financial ratios under various strategy-implementation scenarios*

Finance/Accounting

Steps in Pro Forma Financial Analysis

- Prepare pro forma income statement. Forecast sales as accurately as possible.
- Use percentage-of-sales method to project cost of goods sold (CGS) and the expense items in the income statement.
- Calculate the projected net income.
- Subtract from net income any dividends to be paid. Add remaining net income to Retained Earnings. Retained earnings total on both income statement and balance sheet as this is the key link for the projected statements.

Finance/Accounting

Steps in Pro Forma Financial Analysis

- Project balance sheet items. Begin with Retained Earnings. Forecast in the following order: stockholders' equity, long-term liabilities, current liabilities, total liabilities, total assets, fixed assets, and current assets. Use cash account as the plug figure. Make appropriate adjustments.
- List comments (remarks) on the projected statements. Significant changes from prior years to projected year necessitate a remark. Remarks are necessary for meaningful pro formas.

Finance/Accounting

Financial Budgets

- Document that details how funds will be obtained and spent for a specified period of time.
 - Annual budgets most common
 - Not a tool for limiting expenditures
 - Method for obtaining the most productive and profitable use of firm's resources

Finance/Accounting

Financial Budgets

Types of Budgets:

- Cash budgets
- Operating budgets
- Sales budgets
- Profit budgets
- Factory budgets

Finance/Accounting

Financial Budgets

Types of Budgets:

- Capital budgets
- Expense budgets
- Divisional budgets
- Variable budgets
- Flexible budgets
- Fixed budgets

Finance/Accounting

Financial Budgets

Limitations:

- Can become too detailed; cumbersome and expensive
- Can become a substitute for objectives
- Can hide inefficiencies
- Can be used as instruments of tyranny

Finance/Accounting

Business Valuation

Main approaches:

- What a firm owns
- What a firm earns
- What a firm will bring in the market

Finance/Accounting

Business Valuation

- Determine net worth or stockholders' equity
 - Sum of common stock, additional paid in capital and retained earnings. Goodwill and under- or overvalued assets.
 - Provides estimate of firm's monetary value

Finance/Accounting

Business Valuation

- Future benefits derived through net profits
 - 5 X the firm's current annual profit or
 - Five-year average profit level

Finance/Accounting

Business Valuation

- Market determination
 - Selling price of similar company
 - Price-earnings ratio method
 - Outstanding shares method

R&D Issues

Research and Development (R&D)

- Development of new products and improvement of existing products
- Strategies of product development, market penetration, and concentric diversification require R&D

R&D Issues

Research and Development (R&D)

- R&D policies match market opportunities with internal capabilities

R&D Issues

Research and Development (R&D)

- Policies enhance strategy-implementation efforts:
 - Product or process improvements
 - Stress basic or applied research
 - Leaders or followers in R&D

R&D Issues

Research and Development (R&D)

- Policies enhance strategy-implementation efforts:
 - Develop robotics or manual processes
 - Spend high, average, or low on R&D
 - Perform R&D internal or outsource
 - Use university resources or private

R&D Issues

Three Major Approaches

- First mover in new technological products
- Innovative imitator of successful products
- Low-cost producer through mass production similar to recently introduced products

Key Terms & Concepts

- Cash budget
- Computer Information systems
- EPS/EBIT analysis
- Financial budget
- Market segmentation
- Marketing mix variables

- Outstanding shares method
- Price-earnings ratio
- Pro forma financial statement analysis
- product positioning
- Research and development
- Vacant niche