



**MARKETING & BUSINESS
STRATEGY**

LEWIE DIASZ



Marketing & Business
STRATEGY

Lewie Diasz

To Romaine, Jacqueline
&
Josh Diaz

Marketing and Business STRATEGY

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e-mail (for orders and customer service enquiries): lewie@strategy.lk

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Contents

CHAPTER 1

Strategic Marketing Planning 03

1.1	Marketing planning decision levels in an organization	3
1.2	The planning cycle	4
1.3	Approaches to marketing planning	4
1.4	The benefits of marketing planning	4
1.5	Key factors influencing the implementation of plans	5
1.6	The barriers to marketing planning	5
1.7	Structure of a strategic marketing plan	6
1.8	Developing integrated plans	7
1.9	Critical success factors and key performance indicators	11
1.10	The strategic planning gap	13
1.11	Internal marketing	15
1.12	The internal marketing plan	17
1.13	The internal marketing communication plan	22

Case Study 1: ODEL – The pride of Sri Lanka’s retailing landscape

CHAPTER 2

The Strategic Marketing Audit 31

2.1	The marketing environment	31
2.2	The strategic marketing audit	32
2.3	Stages of a audit	32
2.4	The marketing environment	35
2.5	Steps in scanning the MACRO environment	36
2.6	Types of forecasting	40
2.7	Micro (Task) environment analysis	47
2.8	Market maps	55
2.9	Techniques for analyzing competitors	56
2.10	Internal analysis	67
2.11	Portfolio analysis tools	82
2.12	The six step SWOT analysis	92
2.13	The McKinsey seven 'S' framework	95
2.14	Stakeholder analysis	99

Case Study 2: The Pulse of million’s of Sri Lankans - Dialog the Future, today!

CHAPTER 3

Creating a Strategy focused organization	113
3.1 Levels of strategy	113
3.2 Evaluating strategic options	120
3.3 Porters generic strategies	121
3.4 Igor Ansoff's growth and share matrix	133
3.5 Bowman's strategy clock	139
3.6 Blue ocean strategy	140
3.7 Attack versus defense strategies	144
3.8 Competitive stances for companies	146
3.9 Treacy and Wiersema's value disciplines	148
3.10 The five P's of strategy	152
3.11 The strategic triangle	152
3.12 Strategic lenses	153
3.13 Institutional growth strategies	156
3.14 Strategy as a process, content and context	160
3.15 Mintzberg's planned versus emergent strategies	162
3.16 Metaphors of strategy	167
3.17 Mintzberg's ten schools of strategy	168
3.18 The profit impact on marketing strategy	170
3.19 Strategic capabilities	171
2.20 Competitive advantage	177
3.21 The balanced scorecard	182
3.22 Strategic position and action evaluation matrix	185
3.23 The building blocks of strategy	187

Case Study 3: On a path to sustainable growth - Unilever Sri Lanka

CHAPTER 4

Market Segmentation	201
4.1 The market segmentation process	202
4.2 Consumer profiling	202
4.3 Criteria for effective segmentation	215
4.4 Segment ranking	216
4.5 Target marketing strategies	217
4.6 Brand positioning	218
4.7 Brand positioning process	219

Case Study 4: Commercial Bank - A dominating force and the benchmark private sector Bank in Sri Lanka

CHAPTER 5

Strategic Brand Management	237
5.1 What is a brand?	237
5.2 The history of branding	237
5.3 Types of brand names	239
5.4 Brand equity	240
5.5 Types of brand valuations	247
5.6 The brand architecture model	253
5.7 The brand planning process	258
5.8 Branding strategies	259
5.9 Keller's models on branding	268

Case Study 5: Cargill's the Pride of Sri Lanka.

CHAPTER 6

Tactical Marketing Strategy The Marketing Mix	285
6.1 The extended marketing mix	286
6.2 The elements of product management	287
6.3 The product onion (Levels of a product)	289
6.4 The new product development process	292
6.5 Product classifications	294
6.6 Product portfolio management	297
6.7 Packaging	298
6.8 Pricing	299
6.9 Pricing strategies or methods	301
6.10 Price elasticity of demand	303
6.11 Costing methods for pricing	304
6.12 Break even point (BEP) analysis	305
6.13 Place (Distribution strategy)	306
6.14 Distribution strategies	308
6.15 Levels of distribution	310
6.16 Physical evidence	312
6.17 People strategy	313
6.18 Process strategy	313

Case Study 6: Cinnamon Grand – The Indulgence Brand

CHAPTER 7

Marketing Communications Strategy	322
7.1 The communication process	322
7.2 Response hierarchy models	328
7.3 The unique selling proposition	331
7.4 The marketing communications mix	331
7.5 Advertising	331
7.6 Personal selling	346
7.7 Direct marketing	347
7.8 Sales promotion	349
7.9 The marketing communications plan	354
7.10 Measuring the communications mix	356

CHAPTER 8

Strategic Leadership	361
8.1 Defining strategic leadership	361
8.2 Leadership and management	362
8.3 Leadership theories	363
8.4 Trait, great man theory of leadership	364
8.5 Behavioural leadership theories	368
8.6 Contingency theories	376
8.7 Transactional versus transformational leadership	383
8.8 Entrepreneurial leadership	385
8.9 Servant, stewardship leadership	387
8.10 Emotional intelligence	388
8.11 Power, authority and influence	391
8.12 Responsibility, accountability and delegation	395
8.13 Thought leadership	396
8.14 The level 5 leadership hierarchy	396

CHAPTER 9

Strategic Change Management	401
9.1 Characteristics of successful change programs	401
9.2 The three-step change model	402
9.3 The change formula	403
9.4 Theory E & theory O	404
9.5 Rules of change	407
9.6 Phases of planned change model	408
9.7 Change adept organisations	409
9.8 Greiner's growth model (Organisational life phases)	411
9.9 The congruence model	412
9.10 Carnall's change management model	416
9.11 A process for change	417
9.12 Implementing strategic change (7 key questions of change)	419

CHAPTER 10

Organizational Culture	431
10.1 The components of culture	432
10.2 Cultural classifications	433
10.3 A framework for corporate culture	435
10.4 Cultures as competing values	435
10.5 The organization culture assessment instrument	438
10.6 Organisational rituals and culture change	439
10.7 The theory Z of Ouchi	440
10.8 The cultural iceberg of an organization	441
10.9 The levels of culture	442
10.10 The dynamics of paradigm change	443
10.11 The cultural web	444
10.12 The functional syndromes	446
10.13 Market orientation	448
10.14 Achieving organizational behavioural consistency through visions and missions	454
10.15 Stages in team development	465
10.16 Conflict management	472

CHAPTER 11

Marketing Research for Strategic Marketing	477
11.1 The classification of research paradigms	477
11.2 Types of marketing research	478
11.3 Deductive versus inductive research	479
11.4 The marketing research process	481
11.5 Format of a research brief (Prepared by the client)	484
11.6 The structure of a research proposal (Prepared by the agency)	485
11.7 In house versus external market research	486
11.8 Types of marketing research	487
11.9 The characteristics of qualitative versus quantitative techniques	490
11.10 Research paradigms	490
11.11 Qualitative research	492
11.12 Observation research	496
11.13 Experimental research	500
11.14 Questionnaire design	501
11.15 Quantitative research	507
11.16 Sampling	510
11.17 Triangulation	515
11.18 Analyzing qualitative data	516
11.19 Preparing quantitative data for statistical analysis	517

CHAPTER 12

Buyer Behaviour	525
12.1 Theories of consumer behaviour	526
12.2 The tri-component model of attitude	526
12.3 Attitude towards the object and behaviour theory	527
12.4 The theory of reasoned action model	528
12.5 The involvement theory	529
12.6 The black box model of buyer behaviour	530
12.7 The FCB Grid	530
12.8 The Howard-Sheath model of consumer behaviour	532
12.9 The consumer decision-making unit	533
12.10 The consumer decision making process	534
12.11 What influences consumer buying behavior?	536
12.12 Theories of attitude formation	538
12.13 The organizational decision making unit	541
12.14 Motivational theories	544

CHAPTER 13

International Marketing Strategy	561
13.1 The evolution of global marketing	561
13.2 The decision sequence in going global	562
13.3 Standardization Vs. adaptation	564
13.4 Methods of international market entry	565
13.5 Screening international markets	569
13.6 Globalization	573
13.7 Hofstede's cross-cultural analysis	574
13.8 The seven dimensional model	575
13.9 Cultural context	576
13.10 Factors affecting pricing in international markets	580
13.11 Constraints in international marketing communication	584
13.12 Criteria effecting distribution in international marketing	584
13.13 The country of origin effect	585
13.14 Porter's diamond of competitive advantage	589
13.15 Political risks	592
13.16 Different economic systems	592
13.17 Emerging markets	595
13.18 Bottom-of-the-pyramid markets	597

CHAPTER 14

Managing the Customer Experience	601
14.1 Managing moments of truth	601
14.2 The service profit chain	602
14.3 The customer ladder of loyalty	602
14.4 Customer loyalty model	603
14.5 The service balance scorecard	605
14.6 The service quality gaps model	605
14.7 The flower of service	608
14.8 Customer lifetime value	610
14.9 The Pareto policy	611
14.10 Customer life cycle management	613
14.11 Relationship marketing	616
14.12 The customer relationship life cycle	617
14.13 Gummesson on relationship marketing	618
14.14 The key mediating variables model (KMV)	620
14.15 The six markets model	622
14.16 Negotiation techniques	627

CHAPTER 15

Organisational Structures	633
15.1 The functions of a marketing department	633
15.2 Functional structures	635
15.3 Product or divisional (SBU) structures	636
15.4 Territory, geographic or market structures	636
15.5 The evolution of international organisational structures	637
15.6 Matrix structures	638
15.7 Mintzberg on organisational structure	642
15.8 Types of organizational structures	643

CHAPTER 16

Managing Big Data	653
16.1 What is big data?	653
16.2 The characteristics of big data	654
16.3 The knowledge model	655
16.4 Typical customer information held in a database	657
16.5 Database marketing	658
16.6 The data protection act	659
16.7 Benefits of database marketing	662
16.8 The marketing information system	664
16.9 The database development process	666
16.10 Customer relationship management	668

CHAPTER 17

Innovation and Entrepreneurship	669
17.1 Opportunities for innovation	669
17.2 The innovation gap	670
17.3 The innovation cycle	672
17.4 Disruptive innovation I	674
17.5 Innovation audit	677
17.6 Four dimensions of innovation space	681
17.7 The Gartner hype cycle	684
17.8 The EFQM model of innovation	686
17.9 Innovation strategies	688
17.10 Creativity techniques	689
17.11 Norms that promote creativity	690
17.12 Creativity for innovation	693
17.13 Lateral Thinking	694
17.14 Knowledge management	698
17.15 The learning organisation	702
17.16 Entrepreneurship	706
17.17 Entrepreneurial models	708
17.18 Lean management	709

CHAPTER 18

Corporate Reputation Management	715
18.1 Public relations	715
18.2 Steps in a public relations program	716
18.3 Strategic sponsorships	716
18.4 The triple bottom line	718
18.5 Crisis management	719
18.6 The issue lifecycle	720
18.7 Pressure groups	723
18.8 Consumerism	724
18.9 Corporate social responsibility	725
18.10 Green marketing	729
18.11 Corporate governance	730
18.12 The corporate identity mix	734
18.13 Managing corporate reputation	739
18.14 Risk management	741
18.15 Risk management cycle	741
18.16 The risk matrix	745

Subject index

753

Preface

Strategic Marketing: Marketing Strategies for Sri Lankan Business Entities launched in 2012, was the fastest selling management book in Sri Lanka with over 5,000 copies sold to date. It was the first of its kind in Sri Lanka, where theories were contextualized and explained using Sri Lankan businesses whilst simplifying complex marketing management theories.

Welcome to Marketing and Business STRATEGY: As a potential reader or an adopter of this text, you may ask: Why another book on this subject? The differences between the disciplines of strategic marketing management and strategic management are blurry. This book will attempt to uncover the increase in similarities between strategic marketing and business strategy and explore an exhaustive list of theories, conceptual frameworks, definitions and contradictions on the subject of business strategy. It may also serve as a valuable tool for teaching, learning and unlearning strategic marketing and business strategy.

Rather than try to convey all that theory has to say on a subject, the book seeks to translate what theory has to say into principles and practices that students need to know in order to accomplish their tasks. It reflects 17 years of experience in teaching strategic marketing and business strategy, to executives, MBA and undergraduate students and communicates in a straightforward way to students and executives alike.

The book aims at emphasizing Marketing's contribution to long-term shareholder value creation, which is a critical discussion today. For marketing professionals the book provides a practical introduction as to how strategic marketing can lead to an organisations sustainable competitive advantage. Students who use this book can benefit from the thought provoking, insightful Sri Lankan case studies and attempt to peruse theory when answering questions at the end of the chapter.

This book is intended for readers in the academic, professional and practitioner markets who are linked by the need for an up-to-date understanding of the meaning and scope of marketing and business strategy. The material covered will be of direct importance to students of marketing strategy in both postgraduate and undergraduate programmes as a business strategy textbook. It is also useful to those undertaking professional qualifications in marketing and business and need to build their understanding on strategic marketing issues. It will be of value to marketing practitioners who wish to explore new ways of looking at the marketing process, their target markets; with a view to managing marketing better as a route to gaining an edge over their competitors.

About the author

Lewie Diasz, a marketing evangelist was awarded the Fellow status by the prestigious Chartered Institute of Marketing and has been widely recognized for his teaching and research in Strategic Marketing and Business Strategy. As a Chartered marketer and a Senior tutor, Lewie has produced many world and Sri Lankan prize winning students for CIM examinations over the years. He is the author of the book Strategic Marketing, Marketing Strategies for Sri Lankan Business Entities, which sold over 5000 copies in its first edition. He was recognized by the Echelon Magazine as a Top Thought Leader in the 'Top 40 under 40 ranking' edition of the Magazine.

He is the joint Managing Director and founding partner of Strategy College of Business and Marketing which is a top ranking business school located at the heart of Colombo, Sri Lanka. In addition, he sits on the Board of Strategy Business Consulting, Imperial College of Business Studies and Disrupt Digital. He has been a mentor and has coached MBA, Post Graduate and Under Graduate students for over 17 years and is on the faculties of reputed universities and colleges as a senior tutor, examiner and research supervisor.

He has worked with top global brands such as American Express, Boston Consultancy Group (BCG) and local giants such as The John Keells Group and the Cargills Group. He holds an MBA as well as an Executive MSc in Finance and was the past Vice President of the Sri Lanka Institute of Marketing.

During his career, Lewie Diasz ran over 130 in house and public executive programs for senior managers throughout Sri Lanka and was voted 'Outstanding Teacher' on numerous university and corporate courses. He is a Certified Professional Marketer in the Asia Pacific Region and considers himself a student of social research whilst reading for his Doctorate at the University of Colombo.

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Lewie Diaz - June 2017

CHAPTER 1

Strategic Marketing Planning

- 1.1 Marketing planning decision levels in an organization
- 1.2 The planning cycle
- 1.3 Approaches to marketing planning
- 1.4 The benefits of marketing planning
- 1.5 Key factors influencing the implementation of plans
- 1.6 The barriers to marketing planning
- 1.7 Structure of a strategic marketing plan
- 1.8 Developing integrated plans
- 1.9 Critical success factors and key performance indicators
- 1.10 The strategic planning gap
- 1.11 Internal marketing
- 1.12 The internal marketing plan
- 1.13 The internal marketing communication plan

Case Study 1: ODEL – The pride of Sri Lanka’s retailing landscape



Strategic Marketing Planning

"The best way to predict the future is to create it." - Peter Drucker

In an earlier edition, strategic marketing was defined as the process of creating superior customer value, which will result in the creation of superior shareholder value and a sustainable competitive advantage. Isolating the management jargon, marketing can be simply understood as the integrated effort made to scientifically observe, evaluate and modify human behaviour in favour of a person or organization. It transcends beyond companies and customers and is more of a philosophy used to enhance, exchange and build mutually beneficial relationships.

Marketing is an intelligent and creative discipline and is where the science, art and craft meet. It involves finding authentic ways to arouse and inspire behaviours, employing innovative approaches to deliver quantum increase in value and adopting ruthless approaches to find, fix and finish opposing elements. The obvious route to modify human behaviour is to manage the respondent's perceptual stimuli and positively influence the way in which one organises, interprets and responds to these stimulations. Marketing planning is a systematic process, which involves analysing the marketing environment and formulating strategies and tactics to achieve marketing objectives.

1.1 Marketing planning decision levels in an organization

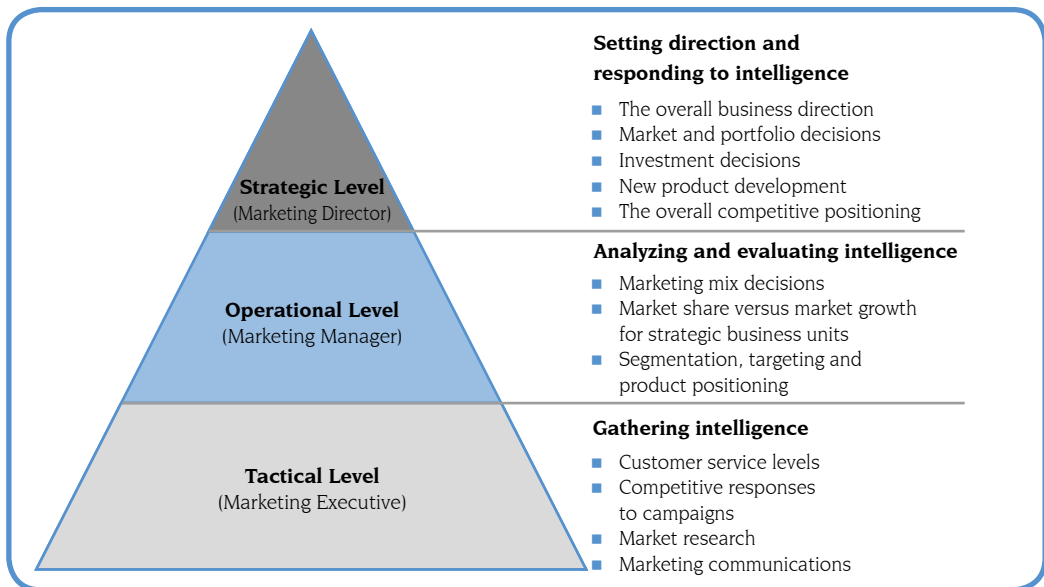


Figure 1.1: Levels of marketing planning

1.2 The planning cycle

The planning cycle has six stages which can be explained as follows;

- **Where are we now?** - Analysis and assessment, marketing audit, environmental analysis, situational analysis, what are the major themes and trends? SWOT.
- **Why are we here?** - Analyzing the assumptions and strategies of the past to determine what went right and wrong?
- **What do we have to be?** - Vision, mission and values, culture, corporate personality.
- **Where do we want to be?** - Objectives, goals, milestones.
- **How do we get there?** - Generating strategic alternatives, strategy selection, marketing mix, business model, portfolio decisions.
- **Are we getting there?** - Implementation and control, contingency plans, variance analysis.

Other famous planning frameworks include MOST (Mission, Objectives, strategy and tactics), APIC (Analysis, planning, implementation and control) and SOSTAC (Situation analysis, objectives, strategy, tactics, action and control).

Definition : Marketing planning is the logical sequence of events adopted by a company to define marketing objectives and draw up plans to achieve such objectives. It is a complex exercise, and companies invariably encounter many barriers during implementation.

1.3 Approaches to marketing planning

- **Top-down** - Senior management develop objectives and strategy which managers at an operational level then implement.
- **Bottom-up** - Senior management devolves authority and responsibility for the formulation and implementation of strategy. Senior management then monitors the agreed objectives.
- **Goals down plans up approach** - This is a hybrid of the two approaches above where the goals are set 'top-down' and the responsibility for formulating and implementing the plan is devolved.

1.4 The benefits of marketing planning

A marketing plan may help identify potential markets, set objectives and can be a useful road map to spell out growth strategies and execution programs. It can be used to mitigate threats from competitors and mitigate uncertainties in a turbulent external environment.

The planning process must be used to leverage the organizations capabilities to the fullest by specifying resources to be allocated and by developing core competencies to achieve a competitive advantage. It provides a framework to operate, monitor, control and integrate all the efforts of the organization ensuring all resources are allocated efficiently and effectively. The planning process must adopt a structured and organized approach in assessing the current context and ensuring all relevant options are considered and use the plan to gain ownership and motivate employees.

1.5 Key factors influencing the implementation of plans

- **Strong senior management commitment** - Sponsored by the senior management.
- **A market oriented culture** - High degree of customer orientation, competitor orientation and inter-functional coordination.
- **A structure to support strategy** - Balancing power and authority paradigms, get the right people in the right place.
- **Specifying the required resources and core competencies** - Financial, human, technical and other resources, acquiring new competencies and capabilities, execution skills.
- **Internal marketing** - Marketing plans to internal customers first.
- **Strong project management skills** - Effective budgetary control metrics and measurement systems, allocation of tasks, scheduling activities and review meetings.
- **Overcoming resistance to change** - Change management plan.

1.6 The barriers to marketing planning

- **A culture that does not support planning** - Power and politics, lack of senior management support, lack of delegation.
- **Too much analysis and no action** - The team possesses stronger analytical skills than planning skills.
- **Confusing over marketing tactics and strategy** - This acts as the biggest barrier for most organizations where there is poor understanding of the marketing planning process and pay too much emphasis on a one year time frame and lack long term vision.
- **Lack of marketing intelligence system** - Insufficient analysis of competitors, poor understanding of the environment and insufficient understanding of customer behavior.
- **Inadequate resources** - Lack of skills and knowledge and poor grasp of the marketing concept.
- **A volatile environment** - Rapid MACRO and industry volatility.

1.7 Structure of a strategic marketing plan

Executive summary - A 500 word summary of the entire plan.

Strategic intent

- Vision.
- Mission (Purpose).
- Values (Principles).
- Corporate long term goals (3 year strategic plan).
- Core strategy - Corporate strategies.

Environmental analysis

- Business, Market definition.
- MACRO or external analysis - PESTEEL Analysis.
- Scenario planning.
- Task environment analysis - Porters 5 forces, competitor analysis.
- Internal analysis - Portfolio analysis, Value chain analysis.
- Summary of insights from Marketing research.
- Situational analysis - SWOT/ TOWS.
- Gap analysis.
- Key issues.
- Critical success factors.
- Critical assumptions of the plan and constrains.
- Overall summary of the marketing audit insights.

Goals and objectives

- Financial objectives.
- Marketing objectives.
- Triple bottom line.

Strategic direction

- Market segmentation, targeting and positioning.
- Strategic capability - Resource requirements and core competencies.
- Marketing strategies - Growth strategies, competitive strategies.
- Competitive advantage.
- Organizational structure.
- Tactical marketing programmes - 7P's.

Monitoring performance measurement

- The schedule of key tasks, action plans - Who does what, when and status?
- Benchmarking.
- Resource plans - Financial, human, technical and other.
- Marketing budgets.
- Metric's - Key performance indicators, ratios, balance scorecard.
- Financial forecasts - Cash flow, profit and loss statement, balance sheet.
- Contingency plans.
- Future research requirements (Before the next planning cycle).

1.8 Developing integrated plans

Integrated plans can be classified as the sub marketing plans designed and used to support the overall strategic marketing plan. The plans can be decided upon based on the context and nature of the product sold by the organization.

- **Internal marketing plan** - Marketing the external plan to internal customers.
- **Stakeholder management plan** - This is a annual relationship marketing program.
- **Cultural and change management plan** - Change programs and initiatives .
- **Marketing communications plan** - Detailed schedules and programs which may include a integrated marketing communications plan.
- **Human resource plan** - This involves a skills audit, 360 degree survey's and succession management plan.
- **International marketing plan** - For organizations with an international agenda.
- **Brand plan** - Detailed brand development programs and initiatives.
- **Innovation, R & D plan** - Innovation auditing and programs.
- **Capacity planing** - Mainly used in manufacturing environments.
- **Scenario planing** - Developing alternative scenarios of the future.
- **Risk management plan** - Mainly used in the financial services industry.

The marketing plan is the holy grail of the organisation. It is at the center of all the strategic activities and is usually the basis for all forms of other functional planning. However, marketers must refrain from binding themselves to the marketing plan and enable flexible marketing planning which is a term used to describe the flexibility to change the hard coded plans when the environmental changes.

Marketing objectives

Objectives are the goals the firm desires to achieve. Good objectives should be SMART and refer to the following;

- **Specific** - The stated objective will have to be clearly expressed e.g. 'improve performance' is too vague; 'improve operating profit' is much more clear.
- **Measurable** - Deliver quantifiable results, e.g. increase operating profit to 20% of turnover.
- **Achievable** - They must be perceived as achievable by those being held responsible for achieving them, e.g. 'improve operating profit to 70% of turnover' probably will be impossible to achieve.
- **Relevant** - This means the objectives must be explicitly linked to the overall goals of the business, e.g. 'increase customer retention by 5%' is relevant to the overall goal to 'delight our customers'.
- **Time bound** - Time scales have to be set if the objective is ever to be achieved, e.g. 'by 31 December 2020'.

Objectives perform a number of functions

- **Planning** - Objectives provide the framework for planning. They are the targets, which the plan is supposed to reach.
- **Responsibility** - Objectives are given to the managers of divisions, departments and operations. This communicates to them the activities, projects or areas they are responsible for.
- **Integration** - Objectives should ensure goal congruence between managers of the various divisions of the business.

Financial objectives

Financial objectives are concerned with the overall long-term profitability of the business. For example;

- **To increase profitability** - Metric's to measure gross and net profit margins by product, region, channel, segment, strategic business unit or at the level of the overall company.
- **To manage shareholder returns** - Metric's to measure earnings per share, dividends, return on capital employed, return on investment, return on equity, debt to equity and returns measured by program, product or activity or economic value added.
- **Cash flow objectives** - Working capital cycle, short term (Quick ratio) and long term (Solvency) liquidity ratios.

- **Balance sheet related objectives** - Return on assets, balance sheet growth, return on risk weighted assets.
- **Managing costs, expenses, taxation.**
- **Risk Vs reward related objectives.**

Marketing objectives

Marketing objectives need to be developed to support the corporate objectives and to ensure the corporate objectives are achieved. These marketing objectives will be mainly concerned with products and markets. Therefore, it is likely that the typical marketing objectives will concentrate on:

- **Increase sales value and volume** - Metric's to measure sales results by product, region, channel, segment, strategic business unit or at the level of the overall company.
- **Overall market standing** - Business unit market growth and share.
- **Marketing communications, brand objectives** - Brand awareness, share of voice, brand recall, brand image equity scores and brand value.
- **Improve the product mix and innovation** - Venturing into new markets and new product.
- **Increase service quality and customer experience** - Mystery shopping scores, customer satisfaction index, the number of complaints.
- **Penetrate identified market segments** - Stimulating trial, switching, activating lapsed users.
- **Customer acquisition and anti attrition** - Awareness, preference, conversion, loyalty/retention, or anti churn.
- **Productivity** - Increase sales whilst maintaining the same number of sales staff.
- **Marketing research objectives.**

Functional objectives

Objectives are set for each functional area, operations, finance, human resources and marketing. Each functional objective developed for each function should be linked to the corporate objectives. Once the objectives have been developed, then strategies are developed to achieve these objectives. For example:

Human resources:

- To reduce staff turnover by 15% over the next 2 years.
- To increase training by 5%.

Operations:

- To increase labour productivity by 10% over the next two years.
- To increase machinery productivity by 10%.

Not for profit objectives (Societal objectives)

Public sector organisations and charities often have difficulty in using traditional private sector based approaches to objective setting and these may involve charities, councils, schools, hospitals and other organisations where profit is not the main objective. The 'NFP' discussion of objectives is likely to be problematic for the following reasons;

- The organization is more likely to have multiple objectives.
- It will be more difficult to measure objectives.
- There may be a equal balance of power between stakeholders.
- The people receiving the service are not necessarily those paying for it.

Types of not for profit objectives

- To improve public image.
- To reduce waste - Recycling, carbon foot print.
- To raise funds.
- To raise awareness.
- Controlling of costs related to funds raised.
- Number of clients supported.
- Targeting key influencers.

Planning time scale horizons

Long-term objectives are set for planning horizons of up to 5 years ahead. Shorter-term objectives are set which fit with the overall direction of the longer-term objectives. These short-term objectives are likely to be associated with driving operational activities. Targets and budgets will be set based on the short-term objectives for monitoring and control. It is essential that the short-term objectives and the operational targets and budgets be closely linked with the long-term objectives. In today's marketing environment, it is becoming increasingly difficult to have a predetermined plan for the long term. The changing economic environment, shortening of product life cycles and dramatic advances in technology have made long-term planning difficult. The planning time horizons are as follows;

- Short term objectives - Between 1- 3 years.
- Medium term objectives - Between 3- 5 years.
- Long term objectives - 5 years and above.

The trade off between goals and objectives

It is inevitable that organizations will have to make trade-offs between different types of objectives when developing their strategic direction. They are as follows;

- Short-term versus long-term.
- Profit margin versus competitive position.
- Marketing penetration versus market development.
- Related versus non-related growth.
- Profit versus non profit objectives.
- Growth versus stability.
- Risk avoidance versus risk taking.

1.9 Critical success factors (CSF's) and key performance indicators (KPI'S)

Critical success factors are the factors that a firm must excel in and are critical to succeed in an industry. They are the vital areas where 'things must go right' and where the business must outperform its competitors. Measured targets of CSFs are called key performance indicators. Analyzing the areas for success of market leaders (through an activity map) may be a useful technique to identify critical success. Factors that were critical for success in the past may not be the same factors that will deliver success in the future. Further the concept of Blue Ocean Strategies encourage businesses to venture into uncontested market spaces and offer a quantum leap in value innovation through a strategy canvass. This involves creating new factors that may be critical success factors of the future. One must avoid identifying factors such as service, low price, which are factors that are critical for every industry and identify industry specific critical success factors.

Critical success factors may be financial or non-financial, but they must be high-level. Each CSF must have a Key Performance Indicator (KPI) attached to it so as to allow measurement of progress towards the CSF. Performance indicators are low-level and detailed. They are measures of performance, which indicate whether the CSFs have been achieved or not. Things that are measured get done more often than things that are not measured. Each CSF should be measurable and associated with a target goal.

Critical success factors for major industries

- **The supermarket industry** - Location, lowest cost sourcing, central warehousing, backward integration, stock keeping unit and category management, merchandising.
- **The airline industry** - Load factor, the number of alliances, code share partners and destinations, on time arrivals and departures.
- **The banking industry** - Branch foot print, transactional convenience, low cost funds base, alternate channels, global best practices.

The advantages of identifying CSF's

- They are simple to understand.
- They help focus attention on major concerns.
- Easy to communicate to co-workers.
- Easy to monitor.
- They can be used alongside strategic planning methodologies.
- They keep people focused.

Types of critical success factors

- Industry CSFs resulting from specific industry characteristics.
- Strategy CSFs resulting from the chosen competitive strategy of the business.
- Environmental CSFs resulting from economic or technological changes.
- Temporal CSFs resulting from internal organisational needs and changes.

Key performance indicators

KPIs are quantitative but not necessarily financial metrics that can indicate progress towards a strategic objective. Key performance indicators are integral to the balanced scorecard and the process of creation is a participative one where managers will develop KPIs and monitor them.

It is important to note that target setting motivates staff and enables the entity to control its performance. The objectives set will apply to the entity as a whole, to each business unit, and also to each individual manager or employee. If the goals of the individual are derived from the goals of the business unit, and these are in turn derived from the goals of the entity, thus 'goal congruence' is said to exist. Attainment by individuals or units of their objectives will directly contribute towards the fulfilment of the company's objectives.

Goals are the intention behind an organisation's decisions or actions. Goals are frequently not achieved and may be incapable of being measured. Thus for example 'the highest possible standard of living to our employees' is a goal that will be difficult to measure and realise. Although goals are more specific than mission statements and have a shorter number of years in their timescale, they are not precise measures of performance. Goals can be corporate or based on the components of a marketing plan. Goals are intentions for action. Goals can be operational or non-operational. An example is given below;

- **Mission** - Deliver a superior customer service.
- **Goals** - Train staff to handle customers exceptionally well.
- **Objectives** - Ensure that praise and no complains are made by customers in the next 12 months.

Objectives are quantified statements of what the organisation determines to achieve over a decided period of time. Further, objectives are goals expressed in a form in which they can be measured. Thus an objective of 'profit before interest and tax to be not less than 20% of capital employed' is capable of being measured. Objectives help achieve the fulfilment of the organisation's, SBU's or the marketing plan component's Mission and Goals.

The link between mission, goals and objectives

The mission is normally an open-ended statement of the organisation's purpose and strategies, goals and objectives translate the mission into strategic milestones for the organisation's strategy to reach. Objectives generally possess four characteristics, which set it apart from a mission statement:

- A precise formulation of the attributes sought.
- An index or measure of progress towards the attribute.
- A target to be achieved.
- A time frame in which it is to be achieved.

1.10 The strategic planning gap

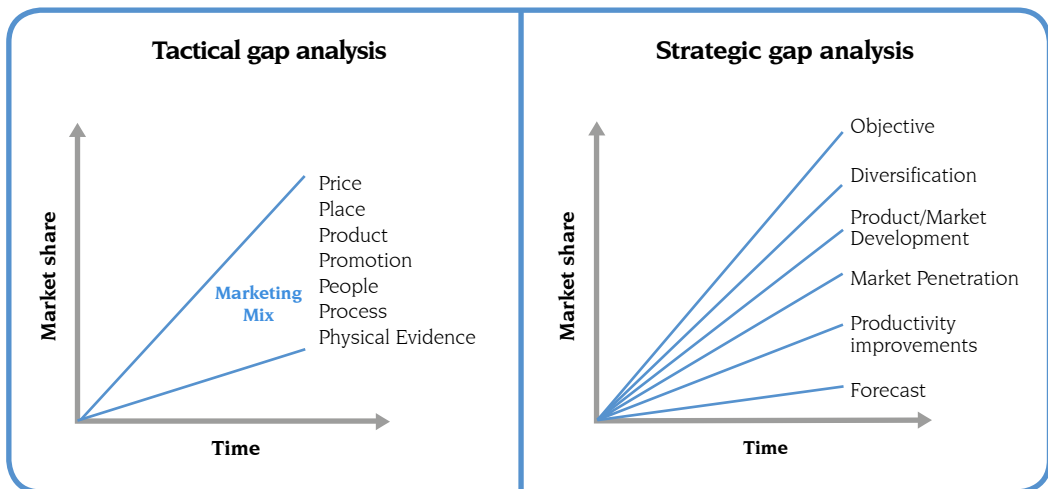


Figure 1.2: Gap analysis.

The first step is to decide on the sales or revenue objective the company wishes to achieve for a defined period. The next step is to extrapolate the current run rate and forecast sales and revenue. Can the firm increase productivity by considering a better product mix, a better customer mix, more sales calls, effective sales calls, increased price etc. Identify the remaining 'gap' where new strategies (Market penetration, product development, market development and diversification) will be needed to close this gap.

Gap analysis is a very useful tool to help marketing managers decide on marketing strategies and tactics. The first step is to decide how you are going to judge the gap over time. For example, by market share, by profit, by sales etc. The next step is to close the gap. Firstly decide whether you view this from a strategic or an operational/tactical perspective. If it is from a strategic perspective, you will be able to bridge the gap with Ansoffs growth strategies. If the gap is viewed from a tactical perspective then the marketing mix can be used to bridge the gap.

There are various schools of thought on what causes the gap between vision and execution and how the strategy gap might be avoided. Coveney et al (2003) argue that the main causes of the strategy gap could be grouped into three areas, each of which interacts with the others. These three areas are: the way management act to implement strategic initiatives (management induced gaps); traditional processes (for example: budgeting, forecasting; reporting) used to implement strategy (process induced gaps); and technology systems used to support those processes (technology induced gaps).

The hierarchy of objectives linking strategy and tactics

The whole idea of the hierarchy of objectives is that the organization integrates and works together as a whole with a degree of synergy if corporate goals are to be achieved. The hierarchy should ensure that objectives are developed at each level are consistent with the objectives at the level above. Drummond et al (2008) uses the fictitious Garden and Leisure group, 'Town and City Gardens', to illustrate the hierarchy of objectives as given below;

	Objective	Strategy
Corporate 2009-2012 (Over 3 years)	Increase operating profit by 25%.	By increasing market share to 20% in regional market.
Marketing 2009-2012 (Over 3 years)	Achieve 20% market share of regional garden and leisure market.	By providing best range of products to key market segments. By providing high service standards. Promote effectively.

Marketing mix

Product	Provide wide range of products for key market segments.	Upgrade center facilities with restaurants and advice booths.
Price	Create awareness of the garden and leisure centers.	Re-launch centers after refurbishment.
Physical evidence	Create an environment which conveys quality.	Develop display gardens and professional signage.
Service	Provide excellent service.	Retain staff.

Table 1.1: The hierarchy of objectives linking strategy and tactics.

1.1.1 Internal marketing

Definition : Internal marketing has the goal of developing a type of marketing programme aimed at the internal marketplace in the company that parallels and matches the marketing programme aimed at the external marketplace of customers and competitors.

Three types of marketing

Koller et al. (1999) identifies there are three types of marketing that occur within an organization. The success of external marketing lies in the ability of the organization to satisfy the needs of the customer. Therefore, successful internal marketing is increasingly being seen as a prerequisite for effective external marketing.

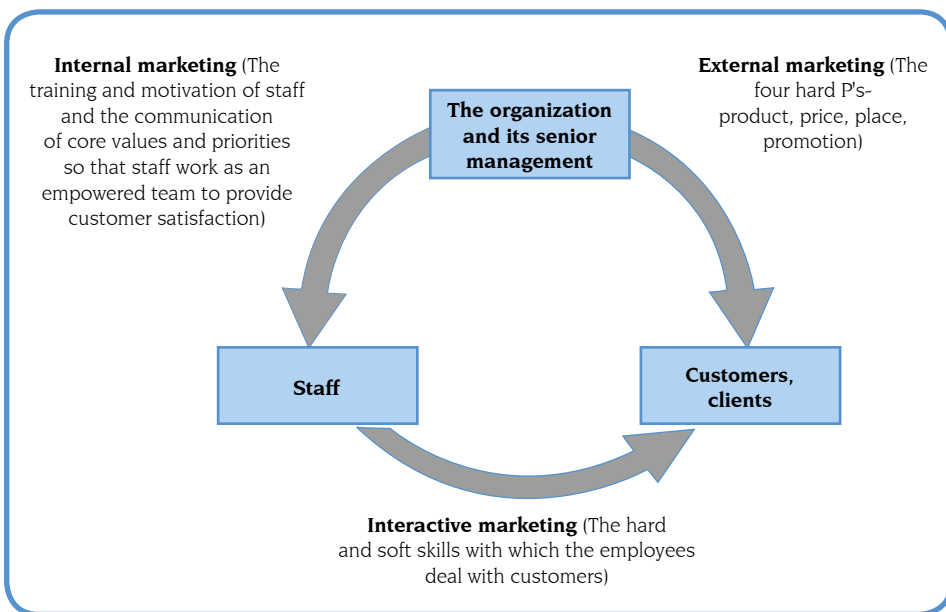


Figure 1.3: The three dimensions of marketing.

Gronroos (1990) identified two separate but integrated elements of internal marketing: attitude management and communications management. Attitude management is associated with motivating employees to buy into the organization's goals whilst communication management involves providing and managing the information which employees need to perform effectively. The notion of internal marketing traditionally evolved from the service sector where there was concern that contact employees were engaging in 'interactive marketing' and it was essential that they were responsive to customers needs. It was also apparent that it was insufficient to have customer conscious front-line staff but there also had to be effective co-ordination between contact staff and background support staff. Therefore, internal marketing is also seen as a means of integrating various functions of an organization.

According to Berry and Parasuraman (1991), the most important contribution the marketing department can make is to be exceptionally clever in getting everyone else in the organization to practice marketing. This is essentially what internal marketing is concerned with and it focuses on the relationship between the organization and its employees. They define the process in terms of viewing employees (or groups of employees) as internal customers.

Characteristics of internal marketing

Trying to communicate with internal customers using external campaigns will merely alienate them. Employee surveys alone will not engage staff. Employees need to be targeted as distinct audience. Internal communications should be part of corporate communications or marketing. Most companies would benefit from employing some form of internal communication specification that can draw both the disciplines of marketing and HR. If it is the responsibility of HR, it can become a vehicle for communicating only HR issues and therefore fail to deliver wider messages. Here are some key benefits of internal marketing;

Benefits of internal marketing

- The promotion of marketing orientation, and customer awareness, throughout the organisation.
- It is useful to gain acceptance, inform, educate, persuade, engage, align, motivate and integrate various functions of an organization and eliminate politics.
- Clarifies any misconceptions, minimizes any conflict and fosters understanding.
- It must include programmes of communication to develop responsiveness, open communication, honesty and trust and a unified sense or purpose among employees.
- It can be used to facilitate the change process and overcome resistance to change.
- Employees should be treated as internal customers, and marketing plans need to be 'marketed' internally to gain acceptance and to ensure that employees 'buy in' to the plan.
- It is an opportunity to train, develop, appraise and offer feedback to employees effectively.
- Get everyone else in the organization to practice marketing and unite the workforce behind the organisation's mission and strategy.
- Making sure that staff knows everything about your brand before the customers do.
- Helps in employee, employer branding that can translate into incremental sales and profits.
- Getting staff to act as brand ambassadors, brand champions and transfer employees themselves into a source of competitive advantage.

- Increase the employee brand loyalty and higher levels of employee job satisfaction.
- Encourage an atmosphere of pride - Employee of the year.

There is much debate as to where the responsibility for internal marketing lies in an organization. Many Human Resource specialists argue that HR should have sole responsibility for internal communications because it is about people, not brands. However, others argue that marketing cannot effectively market the brand to external customers without first recognizing the importance of the internal customers, that is the employees. Marketers can adapt the tools and techniques, they use to attract and retain external customers, to gain the commitment of staff. The marketing department has the necessary skills and is also well positioned to ensure that internal marketing matches external marketing. There will probably be no agreement as to who should be responsible for internal marketing.

1.12 The internal marketing plan

An internal marketing plan should take the same format as an external marketing plan with objectives, strategy, market segmentation, marketing mix programmes and evaluation. The planning process is as follows;

a) **Where are we now? (Analysis)**

Market research is a key part of any external marketing campaign. In contrast, companies seldom invest in research when conducting an internal marketing campaign. However, it can prove to be a valuable means of identifying the current situation with regard to employee's attitude towards the company. Companies can use many of the same tools as used for consumer research such as surveys, focus groups and in-depth interviews. The purpose of the research is to investigate issues such as attitude to the organization, training, working conditions, opportunities for promotion, recruitment policies etc. The research may also help identify various segments of employee resistance to change.

b) **Where do we want to be? (Objective setting)**

It is essential that organizations are clear about what they want the internal marketing campaign to achieve and that senior management is committed to the programme.

c) **Internal market segmentation**

Staff may be segmented by function, role, location, status, full time/part time or other segmentation variables. Each group has different concerns and may require different training from other staff groups delivered through the internal product, essential in delivering the overall strategy. It may be

useful to segment the internal market according to the extent to which people are likely to accept the proposed change. Jobber (2001) suggests three different segments;

- **Supporters** - Likely to gain from the change.
- **Neutrals** - Will neither gain nor lose.
- **Opposers** - Likely to lose from the change.

Robbins and Finley (1998) categorize people according to their attitude to change. On one end of the scale, there are those people who not only accept change readily but also are naturally proactive and seek out change. This group of people helps drive the organization forward because they embrace change willingly as well as initiate it. The classifications are as follows;

Internal market segments

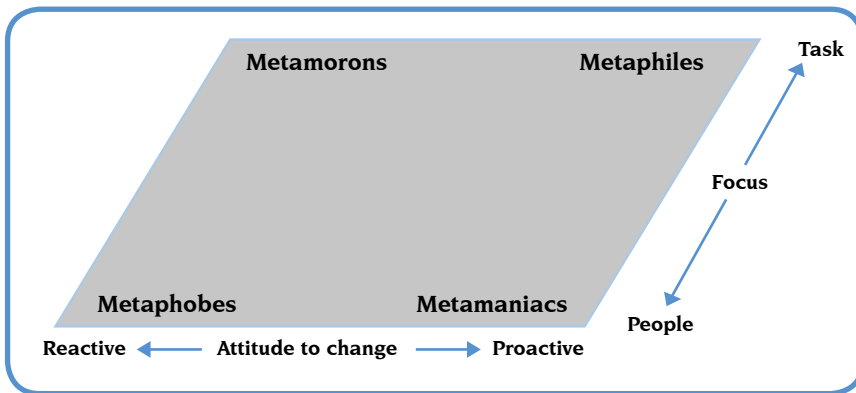


Figure 1.4: Internal market segmentation.

- **Metaphiles** - These people embrace change willingly, are natural leaders and focused on action. They are rather lacking in reflective skills but make up for this in their ability to get things done.
- **Metamaniacs** - Metamaniacs tend to be highly creative, have great imaginations and some have to be changing to function. Like Metaphiles they readily accept change, often initiating it, however they are not the most reliable people in terms of getting results because they are not task orientated.
- **Metaphobes** - These people are generally averse to change. They display excellent 'people, skills and are generally good at relationship whilst being natural diplomats. They may have great ideas and opinions but they are often reluctant to share these because of the change that may result.

- **Metamorons** - Like the Metaphobes these people resist change, but to an even greater degree, and they are natural gatekeepers, stopping entry to the unknown. They are trustworthy and display perfectionist tendencies; however, their change mode is one of denial. They fear the unknown and will resist any change with great favour.

Internal market positioning

This is to identify influential individuals that are opinion leaders and use them to modify the thinking of their followers.

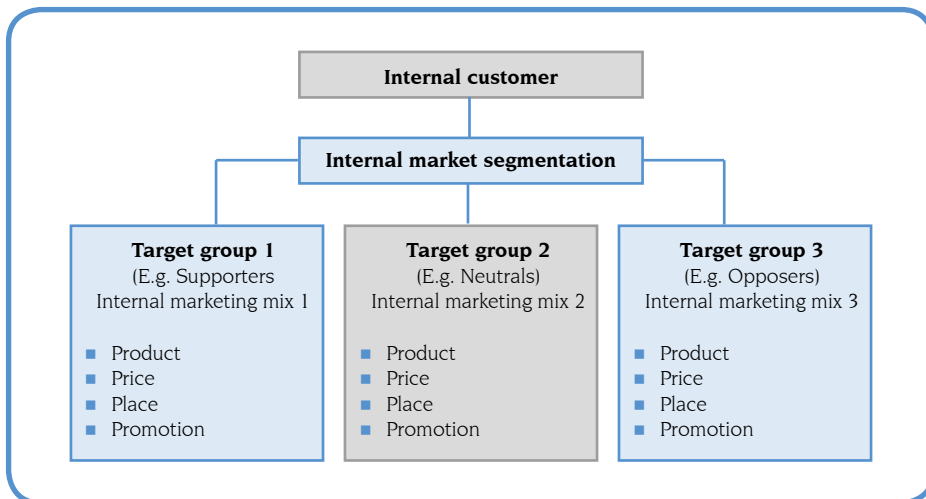


Figure 1.5: Selecting a marketing mix for each segment.

d) Internal marketing mix

Product

- At a strategic level - The change programme or marketing plan, or even the company itself.
- At a more tactical level - This can be in the form of new procedures, appraisal systems or new ways of managing customers.
- At a more fundamental level - The product can even be the individual's own job or function essential in delivering the overall strategy.

Place or distribution

- This refers to the places where the product and communications will be delivered to internal customers.
- Sources include discussion groups, briefings, presentations, workshops, newsletters, seminars, notice boards, meetings, informal conversations, company intranet etc.

- There is some overlap between distribution and communications mediums.

Promotion

- A new internal campaign must be developed stressing the benefits of the change or new strategy.
- Clear communication essential so that there is synergy in the message that is being transmitted.
- A key aspect of internal communications is that it is a two way process.
- It is important to include staff at the beginning rather than just telling them after it happens.
- The integration of external and internal messages.
- The internal campaign must create an emotional connection with the company.

Price

- Price relates to the price staff may have to pay as a result of accepting the plan and the new ways of working or new policies.
- This involves the psychological price, which includes the loss of status, change of job role, uncertainty, stress, change in work pattern, change in income, loss of productivity etc.
- The cost of change and the cost of the communications can be calculated.

Physical evidence

- This refers to environment in which the product is delivered.
- In the context of internal marketing this may include documentation such as memos, training manuals, e-mails etc.
- It also may include any conferences or training events that staff are asked to attend. These all send signals about senior management's level of commitment.

Process

- Processes can refer to the way in which changes are implemented. For example, is there any negotiation with unions or are the changes imposed?
- Process can also refer to the delivery method of the message such as video, presentation memos etc.

People

- People can refer to the way in which changes are implemented. E.g. someone of the right level of authority should deliver changes if they are to be achieved.

e) Internal marketing execution and implementation

The following factors must be considered before implementing the internal marketing plan.

- Gain the support of senior management and overcome the opposition of others.
- Gain the required resources such as people, time and budgets.
- Gain commitment of individuals and departments in the company who are involved in front-line.
- Gain the co-operation of other departments needed to implement the plan.

Jobber (2001) identified skills for successful execution of the internal plan as given below;

- **Persuasion** - Develop a persuasive argument, present a shared vision, sell the benefits, communicate and train, eliminate misconceptions, gain acceptance by association and support words with clear actions.
- **Negotiation** - Make the opening proposition high and allow room for negotiation.
- **Politics** - Building coalitions, identify sources of power, take incremental steps, invite the opposition in and control the agenda.

Motivation breeds productivity, which in turn generates profits. It might be prudent to develop a staff incentive scheme in order to motivate staff involved in implementing the plan. The best incentive schemes are a combination of rewards, recognition and real-time feedback.

f) Internal marketing evaluation

- Conducting regular surveys to monitor levels of staff motivation, acceptance of the marketing concept and perceptions of the organization.
- The levels of customer satisfaction and numbers of complaints may give an indication of the success of internal marketing programmes.
- The extent of support of key players.
- Employee satisfaction levels.

Internal customer needs using Maslow's hierarchy

Need	Description
Physiological needs	Fair salary, comfortable working environment, suitable working facilities and equipment.
Safety needs	Secure employment prospects, safe working environment, medical insurance, pension plans.
Love needs	Respect of management, deserved praise, group membership and feeling of belonging.
Esteem needs	Achievement and recognition of achievement, opportunity to acquire a good reputation, feeling of working for a well respected organization.
Aesthetic needs	Pleasant working environment, well designed working spaces, opportunities to participate in creative activities.
Self actualization needs	Opportunity to go on training courses, opportunities for promotion, opportunities to participate in the running of the organisation through participative decision making.

Table 1.2: Internal customer needs using Maslow's hierarchy.

1.13 The internal marketing communication plan

a) Communication audit

- Evaluation of recent communications - Newsletters, company magazines and notice board.
- Investigation of staff attitudes towards its communication - perceived image of the company reflects reality.
- Are the communications meaningful and understood by the intended audience?

b) Communication objectives

- Objectives may relate to awareness, perceptions, comprehension or knowledge, attributes towards and perceptions of the change programme.

c) Communications mix

- **Personal selling** - Formal presentations, workshops, discussion groups, conferences, out bound sessions and meetings.
- **Advertising** - Intranet, posters on notice boards, magazines, blogs, social media and in-house newsletters.
- **Sales promotions, incentives** - Bonuses, cash rewards, recognition schemes, prize draws and competitions.
- **Direct mail** - In the context of internal communications, this may include e-mails, memo's or letters sent directly to each member of staff.

- **Public relations** - Sponsoring the companies sports club, donations to employee charities and suggestion boxes.
- d) **Timing** - It is essential that internal communication precedes external communication to ensure that when new customers come into the company asking about the new service that front-line staff are informed and knowledgeable about the product.
- e) **Budgets** - Many companies are increasingly recognizing the importance of internal communications and are allocating more resources to this key area.
- f) **Evaluation** - Establish employee attitudes, perceptions and satisfaction surveys through research.

Potential problems with internal marketing

- Opposers create convincing arguments counter arguments.
- Insufficient time to implement effective internal plans.
- High staff turnover that causes problems in ensuring all staff is involved.
- Low-paid shop (font-line) staff which may result in a 'why should I bother?' attitude.
- Cost of internal marketing programmes can be very expensive and companies have to recognize that there may be diminishing returns on their investment in internal marketing. It is essential that they recognize the optimal level of investment.
- It is also important to recognize that internal marketing cannot alone solve all employee-related and customer satisfaction problems. In some cases solutions lie more in ensuring that they are adequately trained and motivated.
- The internal 'marketplace' is not an exact replica of the external one.

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ODEL – The pride of Sri Lanka's retailing landscape

ODEL

Enjoying its twenty second year and at the helm of the retail landscape in Colombo, ODEL has built its brand over the years on strong promotional principles that have kept ODEL at the top of its game. With its oversubscribed IPO a few years ago, the now public quoted company has branched out to 18 stores island wide; ODEL is a model example of a successful retail-clothing store that has branched out into various complementing categories and enjoyed success in almost every area of business.

The story of ODEL is not only famous in Sri Lanka but amongst everyone who visits this paradise island. From humble beginnings, CEO Otaru Gunewardene's determination backed by a huge surge of passion ensured her vision in a short period of time.

What has been ODEL's secret to success and its magic in consistently redefining its image and staying abreast with the turning of seasons and trends? Backed by an energetic team of over 900 individuals, Otaru leads her team with strategic foresight and clarity. Numerous foreign trips to

trade shows and shopping capitals influence and shape the inspiration in the product offering and promotions that ODEL formulates each year. With innovative campaigns every year, promoting different categories and its private brands within the main ODEL umbrella, there is always excitement brewing in the stores. ODEL's advertising campaigns are the benchmark of local retailers and have been quite a following amongst the youngsters in Colombo. ODEL's Christmas campaign is much awaited and is the only store that goes all out to decorate in the spirit of Christmas. Each year, throngs of shoppers visit the flagship store in Ward Place to catch a glimpse of what ODEL's theme is for the biggest shopping season.

ODEL has been at the forefront of influencing style choices and trends in the local industry and continue to do so with the aid of their effective advertising campaigns and irresistible visual merchandising techniques. Their advertising campaigns maintain an element of local charm yet aspire to the international markets that many Sri Lankans are exposed to. Winning several local



advertising campaign awards, ODEL's brand campaigns aren't just about using pretty faces and shooting at exotic locations; their campaigns have translated in to huge sales turnover and have consistently built its brand image to what it is today.

ODEL's brand is estimated to be worth USD 500,000 and keeps growing. What's more Otaras a business and style icon is also making waves in Colombo. Otaras has many self branded fashion lines such as Otaras Jewellery in collaboration with Colombo Jewellery Stores, Otaras Jeans that was launched at the HSBC Colombo Fashion Week 2012, O Tone – a personalized Gym and line of exercise gear and a cause that's closest to Otaras's heart – Embark. Embark is more than a CSR initiative that rescues and relocates street pooches and strays. Embark has grown in popularity as its endeavours and volunteer base has increased tenfold since its launch. Embark also has a fashionable line of clothes for women, men and kids in addition to essentials for pooches themselves.

With a dedicated buying team working concurrently with the visual merchandising team, ODEL ensures their products undergo a stringent quality test before they appear on the clothing racks at

any outlet. Women's, men's and kid's clothing are trend and season driven catering to both local and international shoppers. Despite, ODEL's majority of clientele being the local shopaholics, every tourist has ODEL on their itinerary of 'Places I Must Visit'.

ODEL does things differently and has no qualms about setting itself apart from the rest – this can be obviously attributed to their success as they ensure a high level of brand association, image and quality. ODEL associates and partners with other high calibre brands and services that complement their brand image. ODEL's buyers source from the best suppliers the world over and ensure garments are trendy, durable and complement the tropical weather of the country.

The experienced visual merchandising team has ensured that ODEL's shopping experience is casual, easy and enjoyable. Attractive displays ensure shoppers get to scan the shopping floors easily and find what they want – fast. Visual merchandising, one of ODEL's key drivers in promotion also ensures shoppers to buy on impulse and shop for complementing items in the same floor. For example, the newly refurbished Ladies wing will ensure that a shopper can easily pick up a top and find the perfect bottom to pair it with.



The culture and people at ODEL is purely an extension from within, of what we see from the outside; the same principles of maintaining quality and image stems from its people and culture. Team ODEL practises good work life balance, work ethics and possess a pride in working for the retail giant.

ODEL's brand ethos 'MIND, BODY & SOUL' is a 360° sensory experience for both shoppers and workers. ODEL's values and mission are ingrained in the hearts of all workers and they in turn strive to recreate this magical shopping experience in the stores. Every store is carefully chosen, as location is one of the key factors in the decision making process when outlets are being set up. With ODEL being its flagship store and the central hub of activity, the rest of the sixteen stores are scattered in strategic locations across the Island to give as many Sri Lankans the chance to experience ODEL. The company had to make a strategic decision a few years ago and decide whether it will be the Harrods or Marks and Spencer of Sri Lanka in terms of its distribution and product offering. ODEL made a conscious decision to use a Hub and spoke model of expansion where it became Harrods to the affluent consumers in the heart of Colombo with its flag ship store and operate the spoke model with its other urban outlets reaching

the mass affluent consumer.

The ODEL shopping experience has no parallels in the local industry and can be a sensory brand image on its own. The chilled out atmosphere, the laid back music, lighting, friendly service and amenities provided in the ODEL shopping experience have yet to be challenged in the retail space. This sensory stimulus is what lends a hand to the tangible product offering in store. This combination is the secret in ODEL's huge success as it offers its shoppers a conducive atmosphere to shop in. Shoppers want to be seen here and hold a high regard for the shopping experience at ODEL as opposed to any other retail space in the city.

Offering superior quality and a unique shopping experience doesn't come at a bargain! ODEL maintains its price points and ensures a certain standard on pricing. Quality certainly comes with a price tag and ODEL has ensured that shoppers get their moneys worth. ODEL recently launched its own loyalty card, offering special privileges and rewards schemes for ODEL cardholders and adding value to the shopping experience. ODEL has also opened its doors to related merchants such as Colombo Jewellery Stores, Alankara, Foot Rub, Exclusive Lines, Spa



Ceylon, Spice Island, Deli France, Dilmah Tea and a host of eateries that comprise the mini food court to haunt after a long day of shopping. Each related merchant fits into the overall shopping experience perfectly and grows along with the ODEL brand and the popularity it has created in the world of fashion.

Case Questions

Question 1.

Identify the critical success factors (CSF's) to succeed in the department store industry?

Question 2.

Explain ODEL's tactical marketing strategy using the Marketing mix (4 product P's and 3 Service P's)?

Question 3.

How will internal marketing benefit ODEL?

Sources : Interview with Ottara Gunawardane

CHAPTER 2

The Strategic Marketing Audit

- 2.1 The marketing environment
- 2.2 The strategic marketing audit
- 2.3 Stages of a audit
- 2.4 The marketing environment
- 2.5 Steps in scanning the MACRO environment
- 2.6 Types of forecasting
- 2.7 Micro (Task) environment analysis
- 2.8 Market maps
- 2.9 Techniques for analyzing competitors
- 2.10 Internal analysis
- 2.11 Portfolio analysis tools
- 2.12 The six step SWOT analysis
- 2.13 The McKinsey seven 'S' framework
- 2.14 Stakeholder analysis

Case Study 2: The Pulse of million's of Sri Lankans - Dialog the Future, today!

2

The Strategic Marketing Audit

"Man invented language to satisfy his deep need to complain." - Lily Tomlin

2.1 The marketing environment

The marketing environment refers to factors and forces that affect a firm's ability to build and maintain successful relationships with customers. Strategic marketing auditing involves a systematic analysis of a firm's Macro, Micro and Internal environments. According to Kotler (2001) a company's marketing environment consists of the factors and forces, external to the marketing management function of the firm, that impinge on the marketing management's ability to develop and maintain successful transactions with its target customers.

The internal environment consist of the forces within the company that affect its ability to serve its customers whilst the Microenvironment, represents the industry in which a company operates in. The Microenvironment consists of the PESTEEL factors. Whilst there are many tools to analyze these environments their effective use may depend on the marketer's ability to contextualize it effectively whilst taking note of any limitations in applying them.

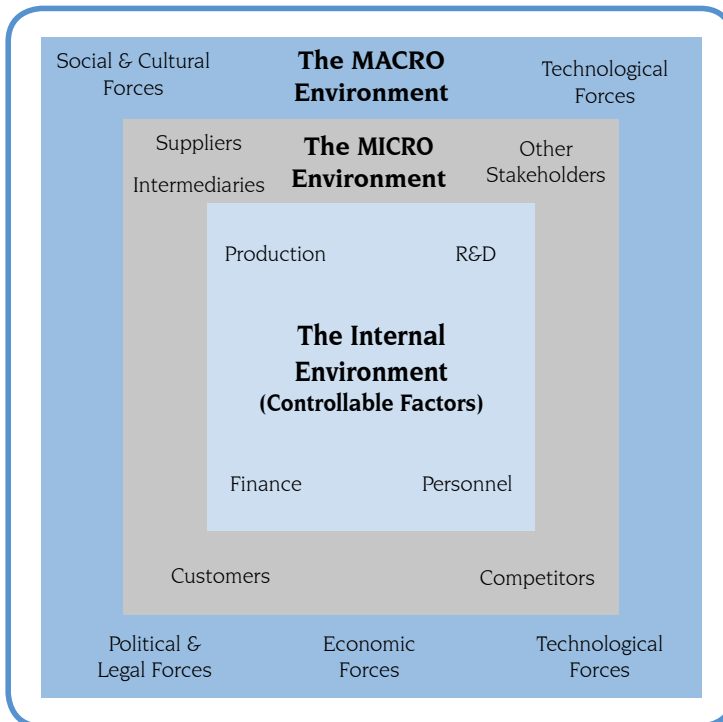


Figure 2.1 : The marketing environment.

2.2 The strategic marketing audit

Kotler and Keller (2005) describes a marketing audit as a comprehensive, systemic, independent and periodic examination of a company or business units marketing environment, objectives, strategies and activities with a view to determining problem areas opportunities and recommending a plan of action to improve the company's performance.

Wilson and Gilligan (2005) suggest that a marketing audit should identify the organisations current market position, understanding the environmental opportunities and threats it faces and clarify the organization's ability to cope with environment demands. The frequency of an audit will be determined by the nature of the business, rate of environmental change taking place and the duration or length of the organizations planning cycle.

2.3 Stages of a audit

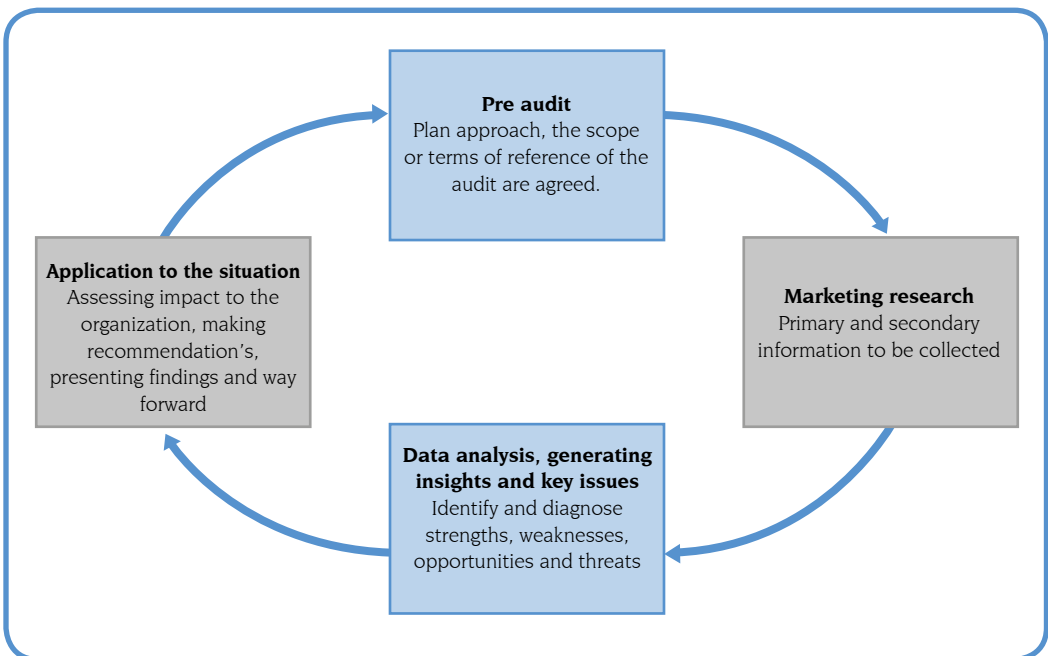


Figure 2.2 : Stages of a audit.

Kotler and Keller (2005) propose the following 6 steps in conducting a strategic marketing audit.

1. **Marketing environment audit** - MACRO and MICRO environment.
2. **Marketing strategy audit** - Strategic Stance, business and marketing strategies.
3. **Marketing organisation audit** - Structure and control systems.

4. **Marketing systems audit** - Marketing information system and the competitor intelligence system.
5. **Marketing productivity audit** - Efficiency metric's.
6. **Marketing functions audit** - Auditing the 7 P's.

Stages of a marketing audit

- a) **Marketing environment audit** - Analysis of the major Macroeconomic forces and trends together with factors in the Microenvironment including customers, competitors, distributors and suppliers amongst others.
- b) **Marketing strategy audit** - This section of the audit considers marketing objectives and strategy.
 - What are the organization's marketing objectives and how do they relate to overall objectives? Are the objectives consistent with the organization's position and capabilities in the market?
 - Is the mission statement clearly stated in a market-oriented manner? How realistic is the mission statement and is it compatible with the organizations and marketing objectives?
 - Is the core strategy sound and will it achieve the objectives? How clearly is the strategy stated? Are there adequate controls to ensure effective monitoring? Are the positioning, segmentation and targeting strategies clear and appropriate? Are there sufficient resources to implement the plan?
- c) **Marketing organization audit**
 - **Formal structure** - Is there a marketing director with the necessary authority for the company's marketing activities and customer satisfaction? How well is the marketing function structured and how is it structured? Are the current lines of authority adequate?
 - **Functional efficiency** - How good is the communication between marketing and sales? Any additional training PR controls needed?
 - **Interface efficiency** - Are there any identifiable problems between marketing and other functions?
 - **Does the organization have the structural capability to implement the plan?**
- d) **Marketing systems audit**
 - **Marketing information system** - How effective is the marketing information system, does it provide accurate and timely information? Can all key managers access the system easily? Is the information clear?

- **Marketing planning system** - Is the system well designed and effective? Is the system effective at forecasting sales and future trends?
- **Marketing control system** - Do the systems offer the organization a complete picture of efficiency and control? Are processes changed in the light of feedback or review?
- **New product development system** - Does the company have an effective NPD process to develop new ideas? Are new products effectively tested prior to market launch? Is the rate of new product development acceptable?
- **Controlling the plan** - What are the procedures for formulating marketing plans and management control of these plans? Are they satisfactory?

Marketing productivity audit

- **Profitability analysis** - Are all the company's products analyzed for profitability? Are there scenarios for entering new markets or withdrawing from non-profitable markets?
- **Cost-effective analysis** - Do any of the company's activities undertaken have excessive costs associated with them? Who has responsibility for monitoring costs?
- **Evaluating the individual components** - How well are the individual components of the marketing plan performing and how cost effective are they? Are alternative or more cost effective methods available?

Marketing function audit

- **Products and services** - What are the product line objectives? How appropriate are the objectives? Are there products, which should be phased out? How does the product line compare with its competition? What products should be added or withdrawn?
- **Pricing objectives** - Are the pricing objectives, prices and strategic clear? Are the pricing objectives appropriate? Is price promotion used effectively? How responsive is the market to price changes? Are competitor prices monitored and reviewed?
- **Distribution** - Are the distribution strategies and objectives clear? How effective are the various channel members? Where does the balance of power lie with the channel? How can the effectiveness of the channel be improved?
- **Promotional mix** - Are the organizations advertising objectives sound? Is the advertising effective? What research is conducted prior to advertising? How is the budget set? Is the Internet being used effectively? Are the various promotional mix budgets adequate?

- **Sales force** - Are the sales team's objectives clear? Is the team structured effectively? How effective is the sales team when compared to the competition? What is the rate of staff turnover? Where does staff move to? What do customers feel about the sales team? Are challenging targets set?

2.4 The marketing environment

Environment	Classification of tools	Tools
MACRO Environment	PESTEEL analysis	Broader context
MICRO Environment	Customer analysis	Customer profiling
		Market segmentation
		B2B versus B2C
		Needs, wants and demands
	Competitor analysis	Direct, indirect and potential competition
		Strategic group mapping
		Davidson's 7 step drill
		Competitor response profiling
		Competitor financial performance analysis
		Source of competitive advantage
		Competitor capability analysis
		Benchmarking
	Supplier, distributor analysis	Levels of distribution
	Porters 5 forces	Threat of substitutes and new entrants
		Bargaining power of the customers and suppliers
		Industry rivalry
Internal Environment	Performance management tools	The balanced score card
		Financial ratios
		Inter-brands brand equity model
		Innovation audit
		Mckenzy's 7 S's
		Value chain analysis
	Portfolio models	BCG matrix
		Shell DPM matrix
		GE matrix
		AD little matrix
		The Ashridge portfolio display
	Strategy tools	Porters generic strategies
		Ansoff's matrix
		Bowmans strategy clock
		Alries & Trout's positioning strategies
		Johnson & Scholes strategic management process
		Kotler & Singh's attack Vs. defense strategies
		Johnson & Scholes resources and competencies
		Perceptual mapping and Gap analysis

		Planned Vs. emergent approach to strategy
		Vision/ mission and values
		Neumann and Nash's Game theory
		Treacy and Wiersema's value disciplines
	Forecasting tools	Scenario planning
		Multiple regression analysis model
		Delphi technique
		Experience curves
	Other tools	SWOT/TOWS analysis
		Stakeholder analysis
		Product life cycle analysis
		Belbin's team roles
		Cultural web by Johnson & Scholes
		Doole & Lowe's 12 C's of going international
		Vrooms & McCarthy's 7 P's
		Servqual model
		Roger's diffusion curve
		Keller's POD VS POP
		Kotters change management process

Table 2.1: A classification of tools to analyze the Macro, Micro and Internal environment.

2.5 Steps in scanning the MACRO environment

1. Definition and scope of business

The first challenge is to carefully define the boundary of your business in the present context. It is useful to make this a collective effort and let minds meet on this within the organisation. Let us examine a few examples;

Example 1. American Express credit cards.

- Banking & finance business - Broad scope, many competitors.
- Payments business - Cash, traveller's cheques, debit and credit cards, electronic fund transfers, Mobile payments form competitors.
- Plastic Payment cards business - Narrow scope, credit, debit, prepaid and gift cards as competitors.
- Credit card business - Fewer number of competitors and narrowly defined.

Example 2. An example of a biscuit manufacturer.

- Food & beverage business.
- Confectionery business.
- Biscuit business.
- Chocolate biscuit business.

If American Express credit cards define it self to be in the business of payments, as opposed to the credit cards business, it widens its scope and may be mindful of other substitutes such as cash transactions, which has a large share than any other direct credit card issuer. Therefore by widening the scope of the business, the marketer may redefine the businesses competitive landscape.

2. Establishing MACRO drivers

Upon identifying the scope of the business, you can determine the PESTEEL factors that influence your business the most. It is imperative to qualify these drivers as higher order factors impacting the defined business and involve industry experts or a cross functional team within the organisation to reach consensus rather than picking an exhaustive laundry list of PESTEEL factors with little or no relevance. Hence, rather than just talking about 'the economy' it might be an appetite for consumer credit that might impact the payments business. There may be a number of factors in turn that may affect the availability of credit. Similarly you may have 'employment levels' as an economic factor, but the true factor influencing the business may be employment levels amongst 18-25 year olds. Figure 3.3 can be used to prioritize the MACRO drivers that affect the business. These then become key factors that you need to set up in terms of a monitoring process during the year.

Some analysts rearranged the mnemonic to SLEPT, PESTEL or PESTLE, which is popular in the United Kingdom. The model has been further extended to STEEPLE and STEEPLED, adding ethics and demographic factors. STEER analysis systematically considers socio-cultural, technological, economic, ecological, and regulatory factors.

Political	Political stability - Impact on security, unrest, riots and strikes, parliamentary majority and coalitions
Drivers	Political attitudes to industry - Policy issues, privatization, labour regulations, unionization
	Political attitudes to free and fair competition
	Climate for free trade
	Attitudes to foreign investors
	Various political party ideologies on social welfare and economic reforms
	Transparent governance - The level of corruption, independent judiciary system, media freedom
	Devolution - Central versus local government power
	External relations - Free trade, foreign policy, treaty's, trade agreements and conventions
	Allies - Pro western, anti African
	Political ideology - Communist, socialist, capitalist
	Political party views - Opposing forces
Economic	Business cycles - Demand and supply, boom, depression, recession, recovery
Drivers	Inflation rates - Global oil prices
	Interest, exchange rates
	Disposable, per capita income and upward consumer mobility, income disparity, ownership of consumer durables
	Wealth distribution
	Consumer spending, savings patterns - Consumer, business confidence
	Credit availability

	Employment and unemployment levels - Labour market
	Country ratings - Fitch, Moody's, Standard and poor index
	Balance of payment - Income versus expenses, country borrowings and debt, national income
	Taxation - Direct and indirect types
	Investment policies - Foreign direct investment, tariff and non tariff trade barriers, infrastructure development
	Sectorial growth and shifts in DGP
	Tourist arrivals - Travel advisories
	Import, export and trade deficits
	Bullish bearish capital markets
	Economic policy - Free, open market or hybrid, protectionism
Socio	Demographic composition - Income distribution, race and religion, urbanization, social class, occupational structure
Cultural	Life style shifts - Indulgences, changing social values, modernization, self service
Drivers	Cultures and sub cultures
	Attitude towards credit
	Healthy living, obesity and fitness trend
	The impact of war
	Population trends - Aging population, fertility, mortality rates, population pyramid
	Reference groups - Family friends, school, church, work place, country clubs
	Languages, literacy and level of education
	Family and household composition - Working women, dual income households, single parents, age of marriage, family size, gender structure, dependency ratio
	Interest in health and fitness
	Pressure groups - Gay rights, religious
	Consumerist movements
	Migration trends
Tech	Inventions and discoveries
Drivers	Information communication technologies
	Mobile, fixed line, broadband, e mail, internet and computer penetration
	Industry specific technology advancements
	Technology obsolescence - Type writer, telex machines
	New technologies - 3D printing, nano technology, artificial intelligence, near field communication, robotics
	New technology adoption cycles - Industry breakpoints, inflection points, diffusion of innovation
Eco	Resource depletion - Water, air
Drivers	Genetic diversity - Genetically modified products, cloning, artificial products
	Pollution concerns - Noise pollution, eye pollution, environmental pollution
	Pressure groups - Maintaining standards, consumerist movements, carbon foot print
	Green issues - Topography, forestation, fauna and flora, recycling
	Climate change and natural disasters - Tornados, tsunamis, volcano's, earthquakes, damaged ozone layer
	Renewable assets - Softwood and fish stocks
	Non renewable assets - Oil, minerals, corals, coal
	Wild life
Ethical	Moral principles - Values
Drivers	Business related rules of conduct - Restrictive practices, anti discriminatory practices
	Honesty and integrity - Trustworthiness and credibility, goodwill
	Social acceptance - Liquor, cigarettes, casinos
	Ethical competition - Trading methods

Legal	Taxation
Drivers	Intellectual property, anti dumping laws
	Consumer and trade protection laws
	Codes of monopolies, takeovers and merges
	Health and safety laws - Smoking in public
	Employment laws
	Environment laws
	Business code of conduct
	Regulatory authorities - Telecommunications, central bank, securities exchange commission
	Companies act
	Exchange control and fund transfer laws
	Type of law - Common law, sharia law
	Industry specific regulator interventions
	Consumer safety, packaging and marketing communication laws
	The data protection act
	Women's, children rights

Table 2.2 : The MACRO environment drivers.

3. How does each driver impact business?

The next step is to define the scope of the impact that driver may have on the business. You may need to evaluate a time series of data related to disposable income levels and establish a trend to forecast any bends and fads by projecting it into the future. This is an insightful evaluation and detailed explanation of how the trend may impact the business performance.

4. Opportunity (Reward) or threat (Risk) impact?

The next step is to identify whether the impact is an opportunity or a threat. Whilst any threats identified must be mitigated for with a risk-mitigating plan, this is also a useful exercise to identify any opportunities ranging from economic and social shifts to technological trends.

5. High, medium or low impact?

In an attempt to present the findings in a business like manner, it might be a useful exercise to classify and prioritize the opportunity or threat using either the high, medium or low options or by using a rating scale to establish a priority of the key issues to be dealt with in the marketing plan.

For example regulatory intervention may have a high impact in markets where the industry is less regulated and the volatility of economic variable such as inflation, interest rates, credit demand and exchange rates may have a high impact on the banking and finance industry as opposed to less significant economic variables such as unemployment levels.

6. Scenario Planning - Developing strategic foresight (Forecasting and predicting the future)

Conventionally, forecasting techniques can be used to predict demand in the short to medium-term. However, Hamel (2000) points out that organisations can very easily fall into the trap of coming to a single view of how the future will be and then plan for that single future. When things do not play out as forecasted the strategy fails. Instead, Hamel talks of organisations developing foresight, the notion of them trying to look ahead, being alert but not kidding themselves that they can see the future. Futurology is both an art and a science and some companies are taking it very seriously. It is based on putting forward possible and probable views of the future and it works not only with the patterns from trend analysis but also incorporates expert understanding and technology insights.

The evolution of strategic foresight

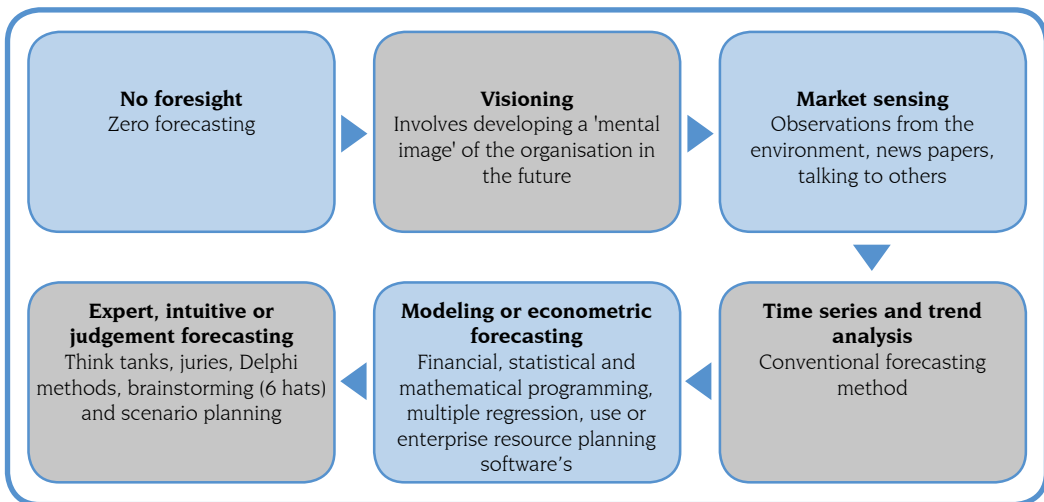


Figure 2.3 : Types of forecasting.

2.6 Types of forecasting

a) Market sensing

Market sensing is the result of your own observations and experiences in a market and environment you are familiar with. Your sense of these, similar trends and themes come simply from reading the papers, talking to friends and observing the behavior of others. This involves keeping your antennas open and is a technique you already use and indeed may be quite expert in without even recognizing it as a technique. Some market signals are hard to pick up, even though they may be of long-term significance. Managers thus need to be skilled in market sensing.

b) Time series and trend analysis

Whereas 'sensing' may start off as broadly qualitative and based on observation, trend analysis adds to it the qualification and evidence of a pattern over time. Trend analysis is a particularly useful tool for companies who have to forecast demand that is influenced by seasonal, cyclical fluctuations, or where demand is strongly influenced by the business cycle. But in reality many of these techniques are very crude and cannot predict demand with adequate certainty. A time series is a series of observations taken at regular intervals in time than used to forecast the future. A trend is the underlying long term movements of the series used to 'smooth' peaks and valleys. A time series analysis will follow the following three steps;

Step 1 - Plot a trend line using the line of best fit or based on the moving average.

Step 2 - Extrapolate the trend line outside the range of known data.

Step 3 - Adjusts forecast trends by the applicable average seasonal variation to obtain the forecast.

c) Modeling or econometric forecasting

If the series of data being analysed is very regular, a simple procedure such as exponential smoothing may be sufficient. On the other hand, more complex patterns may require techniques of regression analysis, risk analysis and multiple regressions. Some large firms seek to develop sophisticated programmes to model economic systems, market competition and so on. The difficulty lies in identifying all the variables and defining how they relate to each other. A number of software products are available to help with this. Most large accounting packages will include forecasting facilities, and Enterprise Resource Management (ERM) software generally includes facilities to model business processes. Statistical forecasts take past data and Endeavour to direct it to the future, by assuming that patterns of relationship, which held in the past will continue to do so in the future.

d) Expert, intuitive or judgement forecasts

Industry experts or academics base judgmental forecasts on hunches or educated guesses. Sometimes, these prove surprisingly accurate. At other times they are wide off the mark. What distinguishes intuitive techniques is the relative emphasis they place on judgement, and the value of such techniques lies not in their statistical sophistication but in the method of systematising expert knowledge. Intuitive forecasting techniques include the use of think tanks, juries, Delphi methods, brainstorming and scenario planning.

- **Jury's and think tanks** - This is a group of people who usually have the knowledge or experience of a sector or market and may consist of the management, suppliers or customers. The groups of experts are encouraged, in a relatively unstructured atmosphere, to speculate about future developments in particular areas and to identify possible course of action. They operate with independence for its members, enabling unpopular, unacceptable or novel ideas to surface and the absence of positional authority in the group enables free discussion and debate.

- **Delphi Oracle** - The Delphi Oracle addresses some of the shortcomings of jury forecasts. This method allows you to select a diverse group of 'experts' who do not meet, and so can come from different locations and sectors, disciplines and backgrounds. Because they do not meet a Delphi oracle group does not get easily dominated and individuals take responsibility for their responses. It usually utilizes a number of stages.

Stage 1 - This group agrees to take part in the process - A variety of participants.

Stage 2 - Each participant is sent a questionnaire to obtain their forecasts as well as any premises or qualifications for the forecasts.

Stage 3 - The results are consolidated and sent out to those involved, who are invited to comment, elaborate or amend their responses in light of the collective opinion. This stage can go on for a number of 'rounds' as the group moves towards a broad consensus.

- **Brainstorming** - This is a method of generating ideas by drawing from all levels of management and expertise to propose answers to questions posed by the session leader. Each person proposes something, no matter how absurd and no one is allowed to criticize or ridicule another person's idea. All ideas are listed and none are rejected at this initial stage. Rationality is not particularly important, but what is essential is that a wide range of ideas are provided ensuring these ideas are picked, developed, combined and reshaped. After the session, each idea is evaluated and screened against rational criteria for practicality. Brainstorming provides a forum for the interchange of ideas without erecting the normal cultural, behavioural and psychological barriers that so often inhibit the expression of ideas. Bono introduced the 6 Hats, which is a useful brainstorming tool.

e) Scenario planning

Scenario planning is a creative process to identify a diverse range of potential futures, understanding the impact of these driving forces and preparing plans to cope with it. Scenarios analysis accepts that uncertainties are in effect certain to occur, and uses these uncertainties to create description of the future. The senior management team, or an external group that has alternative perspectives, encourages knowledge exchange and can undertake this.

It is designed to help management see past their own blind spots and the goal is to craft a number of diverging stories by extrapolating uncertain and heavily influencing driving forces. Scenarios are not straight-line, extrapolations from historical or statistical data.

The idea is to bring together a wide range of perspectives in order to consider scenarios other than the widely accepted forecasts, which mean managers are called to envision extreme futures and develop strategies that work for all these extreme futures. Therefore managers will need to deliberate multiple current realities, strategies and alternate futures.

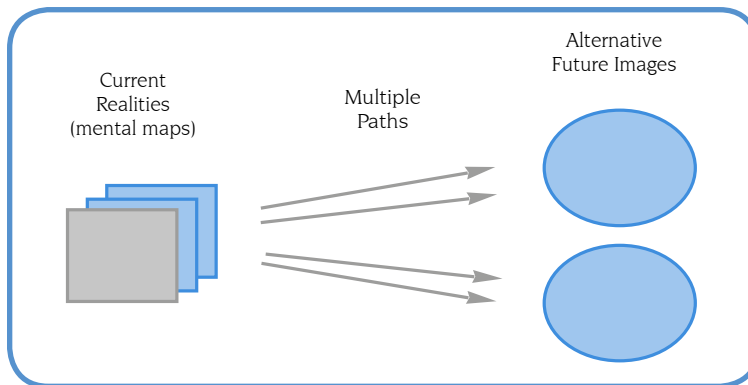
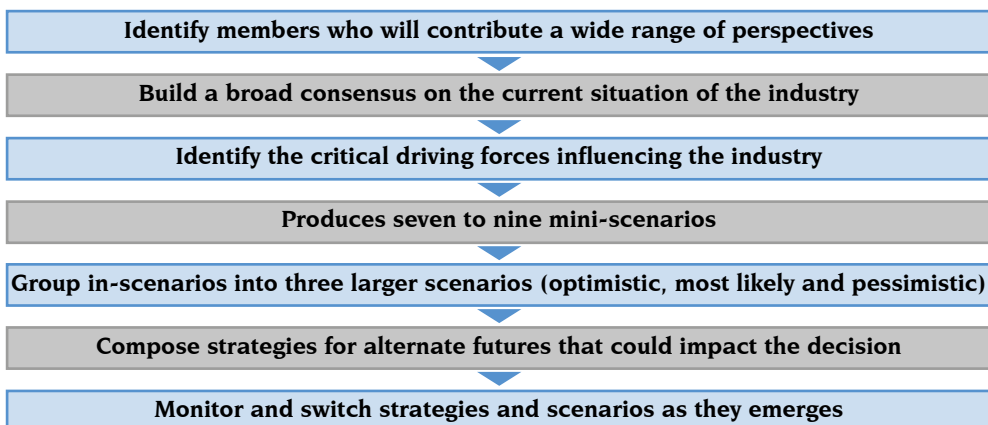


Figure 2.4 : Scenario planning.

Benefits of scenario planning

- It helps managers understand the critical issues and keeps the strategic issues on their radar.
- It prepares managers for discontinuities, uncertainties, emerging themes and pre-empt contingency planning for crisis management.
- Managers are forced to break out of their standard world view, exposing blind spots that might otherwise be overlooked in the generally accepted forecast.
- Encourages creative thinking, innovation, entrepreneurship, participation, communication and can be used to justify an expensive decision.
- It can be used to assess the risks associated with a key decision and help develop highly sophisticated models.
- The marketer can build scenarios on the PESTEEL analysis.

Steps in conducting a scenario plan



1. Identify members who will contribute a wide range of perspectives

- Experts in specific fields may be called upon to encourage a wide range of opinions and expertise.
- Brief participants on the scope and time-frames (Usually 5 - 10+ year outlook).

2. Build a broad consensus on the current situation of the industry

- Macro scenarios use macroeconomic or political factor, creating alternative views of the future environment (taking into account factor such as global economic growth, political changes, and interest rates) Macro scenarios developed because the activities of oil and resource companies (which are global and at one time were heavily influenced by political factors) needed technique to deal with uncertainties.
- Porter believes that the most appropriate use for scenario analysis is if it is restricted to an industry. An industry scenario is an internally consistent view of an industry's future structure. Different competitive strategies may be appropriate to different scenarios. The entire range, not the most likely 'future', is used to design a competitive strategy. The process for constructing industry scenarios is as follows.

3. Identify the critical driving forces influencing the industry

- Identify forces from the macro and micro environment driving industry change.
- Rank the driving forces by importance and the level of uncertainty. The degree of importance for the success of the decision or issue under consideration. The degree of uncertainty surrounding these factors and forces. The objective of this ranking is to identify the two or three factors or trends that are most important and most uncertain.

4. Produces seven to nine mini-scenarios

- Develop possible scenario stories as strings of events and build a detailed analysis to identify and assess future implications.
- This is the most creative and most important part of this process.
- Give each scenario a name.

5. Group scenarios into three larger scenarios

- Refine the scenarios and cluster them into three main scenarios classified into optimistic, most likely and pessimistic. Example;

- The market will quadruple in size over the next 5 years. (Optimistic).
- The market will show minimal growth. (Realistic).
- The market will decline by 5% over the next 5 years. (Pessimistic).
- Identify the impact and assigning a probability (likelihood) to each scenario on the organisation and the significance to the business if it does happen through the risk matrix.
- The factors that are significant to your forecast but are likely events require contingency plans. The unlikely, but very significant, factors can be the focus of scenario plans.

6. Compose strategies for alternate futures that could impact the decision

- Describe strategic options for each scenario identified.
- Determine skills and core competencies which would be required to be effective in these scenarios.

7. Monitor and switch scenarios and strategies as they emerge

- Monitor reality to see which scenario is unfolding and redeploy scenarios and strategic options as appropriate.
- Review scenarios that survived.
- Scenario planning should be an ongoing process and the jury will improve over time.

		Likely to happen		
		Very likely	Likely	Less likely
Significance to the business	Very significant	Plan	Contingency Plan	Scenario Plan
	Significant	Plan	Monitor	Reject
	Less significant	Monitor	Reject	Reject

Figure 2.5 : Scenario matrix.

Macro factors	Drivers	Impact to the organization	O / T	H/M/L
Political	Reduction in taxes	The reduction in taxes increases the opportunity for leasing and hire purchase therefore increasing the cash flow for the bank.	O	M
	War crime accusations	Since Sri Lanka has been under scrutiny for committing war crimes this will affect the foreign investor interest therefore foreign investors will be reluctant to invest in bank deposits, real estate and the stock market in Sri Lanka.	T	H
	Increase in development	The government has taken measures to develop the infrastructure in Sri Lanka this has opened up the opportunity for the company to increase its branch network in order to penetrate new markets.	O	M
Economic	Per Capita GDP market price USD 2,399 increasing	This factor will lead to increase in disposable income therefore increase in savings. People would want to save increasing the savings deposits in the bank. Domestic savings is 18.7% and National savings is 24.7%.	O	H
	Country's development also comes with a cost	Due to increase in development in the country there will also be unequal income distribution therefore the bank will have to segment the current products offered to suit the segments.	T	M
	Inflation rate @ 5% (reduced from 9.8%)	When the inflation rates come down the cost of living reduces therefore there will be more disposable income hence increase in savings.	O	M
	The Sri Lankan rupee depreciation (1 USD = 130.2 LKR)	The Sri Lankan rupee is depreciating against the main designated currencies and therefore that would discourage inward remittances and encourage outward remittances which can adversely affect the economy.	T	H
Social	Increase in living standards and sophisticated lifestyles	Since lifestyles are becoming more sophisticated there is an increase in the use of credit cards, housing loans and leasing.	O	M
	Society becoming more educated (increase in education facilities and facilities)	People are becoming more educated in terms of banking, trading in the stock market and real estate therefore they are more aware of different investment options and the bank can cater to their needs.	O	M
	Increase in migration	Most Sri Lankans have decided to migrate for work, study and permanent residencies. Therefore this increases the possibility of inward remittances if they want to send to their immediate families.	O	H
Technological	Increase in the use of Point of Sale machines	Due to the increase in POS machines doorstep banking has become more convenient to the customers.	O	M
	Introducing student savings units	This has ensured that students will become more aware of banking from an early age and also the bank can directly cater to the customer and identify their needs.	O	M
	Increase in remittance partners	Many commercial banks are tying up with various remittance partners in different countries therefore increases the possibility of customers sending their remittances via different remitting agents.	O	M

Table 2.3 : A simple format to analyse the MACRO environment.

PESTEEL analysis can be undertaken to assess the potential of a new market. The general rule is that the more negative forces are affecting that market the harder it is to do business in it. The difficulties that will have to be dealt with significantly reduce profit potential and the firm can simply decide not to engage in any activity in that market. Therefore, the aim of the analysis is to find out the current

external factors affecting an organization, identify the external factors that may change in the future and to exploit the opportunities or mitigate any threats better than competitors would do. The scenario matrix is a useful tool to prioritize plans based on their likelihood of the occurrence of an event as well as the significance or impact of the event. Most business plans prioritize key issues, which are very significant and have a greater likelihood to happen. However, business manager need to undertake contingency plans and detailed scenario plans for events which are less likely to materialize but will have a significant impact in the event they occurs.

2.7 Micro (Task) environment analysis

Definition : The microenvironment consists of key stakeholders such as customers, competitors, suppliers, distribution, dealers and the public who has a close, two-way operational relationship with the business.

Assessing the microenvironment is critical to developing competitive marketing strategy that takes account of consumer behavior, competitor activity and the role of intermediaries as well as suppliers and the general public as stakeholders in the markets that the organization is involved in as detailed below;

a) Customer analysis

- Identifying the direct customer and the indirect consumer decision making process as well as the decision making unit.
- What are the needs, wants and demands of target customers?
- Customer segmentation strategy - Profiling, targeting and competitive positioning.
- How many of them are there? Is that number growing or declining? Is the customer base static or changing? Are they profitable? (Customer life time value) levels of satisfaction?
- Who, apart from us, do they deal with? - Customer retention and loyalty.
- Acquisition, switching costs.

b) Competitors analysis

- Who are the direct, indirect and potential competitors - What is their product offering, goals and competitive advantage?
- Competition market share by segment, product, region and distribution channel.
- Competitor marketing mix analysis.
- What are their strategic capabilities - Resources and core competencies.

c) Analyzing intermediaries

- What are the levels or layers of distribution? - Agents, wholesalers, retailers, dealers and franchisees etc.
- Bargaining power of intermediaries - Commanding better trading terms and selling competing products.
- The level of dis-intermediation? - Manufacturers going direct to customers.
- Analysis of the capabilities of the channel - Transport, stock management, market knowledge, merchandising and display, together with after sales service which can impact product availability, timing, quality and price.
- Number of middle men - Adds to costs.

d) Suppliers

- Bargaining power of suppliers.
- The number of suppliers - Are new suppliers coming into the market or are the existing suppliers leaving?
- Sustainability of supply chain - Building long-term relationships and making them partners.
- Are they able to meet the "Just in time" philosophy.
- Number of middle men in the supply chain.
- Supplier capabilities - Availability, delivery times, costs and quality of the product are the key determinants.

e) Shareholders and creditors

- Shareholders provide the longer-term capital while creditors such as banks and other financial institutions provide short- and medium-term funds.
- They can affect the business through the sale of shares or withdrawal of credit.

Industry analysis using Porters five forces

The analysis is best completed at the strategic business unit level and understanding the forces at work in a given segment of the market enables the organization to decide whether to move into a particular segment. The profit potential of an industry will be determined by the balance of supply and demand for the product in the short run, and industry structure in the long run. Porter (2008) explains that by understanding how the five competitive forces influence profitability in your industry, a firm can develop a strategy for enhancing the company's long-term profits. It is imperative to assess the underlying

drivers of each competitive force to determine which forces are strong, which are weak and why. Two common pitfalls of conducting the analysis is to define the industry either too broadly or too narrowly and using the framework to declare an industry attractive or unattractive rather than using it to guide strategic choice.

Benefits of Porter's five forces

- It is a means of determining the attractiveness of an industry and its ultimate profit potential.
- It represents a framework for examining relationships in their microenvironment.
- It enables an evaluation of the probable degree of rivalry, now and in the future.
- It offers a justification for continuous monitoring of the microenvironment.
- It can represent the basis for formulating a strategy.

Lets us investigate each force in detail. It might be useful to rate each factor on a scale of high, medium or low and derive an overall rating for the force and then an overall rating for the rivalry within the industry.

1. Threat of new entrants

Barriers to entry

- Economies of scale.
- Product differentiation and brand identity.
- Capital requirements.
- Switching cost to buyers.
- Access to distribution channels.
- Government policies.

Absolute cost advantages

- Proprietary learning, experience curve effect.
- Proprietary technology.
- Access to the best raw material sources.
- Assets purchased at pre inflation prices.
- Government subsidies.
- Favourable locations.

- Proprietary low cost product design through patents, licenses.

Rivals retaliation

- Incumbents defense of market share through resources, excess cash, unused borrowing power, productive capacity, clout with distribution channels and customers.
- Slowing industry growth rate.

2. Threat of substitutes

- Relative price of substitute products.
- Relative quality of substitute products.
- Switching costs to buyers.
- Customer brand loyalty.
- Rate of substitution - Technology life cycles.

3. Bargaining power of customers

Bargaining leverage

- Buyers volume - Size of purchase.
- Switching costs to use other products relative to the firms switching costs.
- Buyer information and knowledge of the market.
- Existence of Substitutes - Buyer alternatives.
- Number of buyers relative to sellers.
- Buyers threat of backward integration and sellers threat of forward integration.

Price sensitivity

- Offering a standardized or a differentiated product.
- Buyers profit margins - If high then the buyers are likely to be less price sensitive.
- Decision makers incentives.
- Importance of product to the buyer.

4. Bargaining power of suppliers

- Supplier concentration - Dominated by a few suppliers, size of suppliers.
- Uniqueness of product - Differentiation, brand reputation.

- Buyers switching cost.
- Lack of substitutes.
- Supplier's threat of forward integration relative to the threat of backward integration by the buyer.
- Importance of suppliers input to buyer.
- Supplier customer fragmentation.

5. The industry rivalry

- Number of competitors.
- Relative size and power of competitors.
- Industry growth rate will trigger war for market share.
- The product lacks differentiation.
- Buyers low switching cost will prevent one player lock in.
- High fixed costs and perishable products offering strong temptation to cut prices when demand drops.
- Over capacity production disrupting the industry supply demand patterns leading to price cuts.
- High exit barriers.
- Diversity of competitors in terms of their strategies, origins and personality.
- Price competition.
- Product innovation.
- Advertising slug fests.
- What is at stake - If survival is threatened then companies will do what it takes.

After the analysis of current and potential future state of the five competitive forces, managers can search for options to influence these forces in their organization's interest. Although industry-specific business models will limit options, their own strategy can change the impact of competitive forces on the organization. The objective is to reduce the power of competitive forces. The following figure provides some examples. They are of general nature. Hence, they have to be adjusted to each organization's specific situation.

Putting it all together

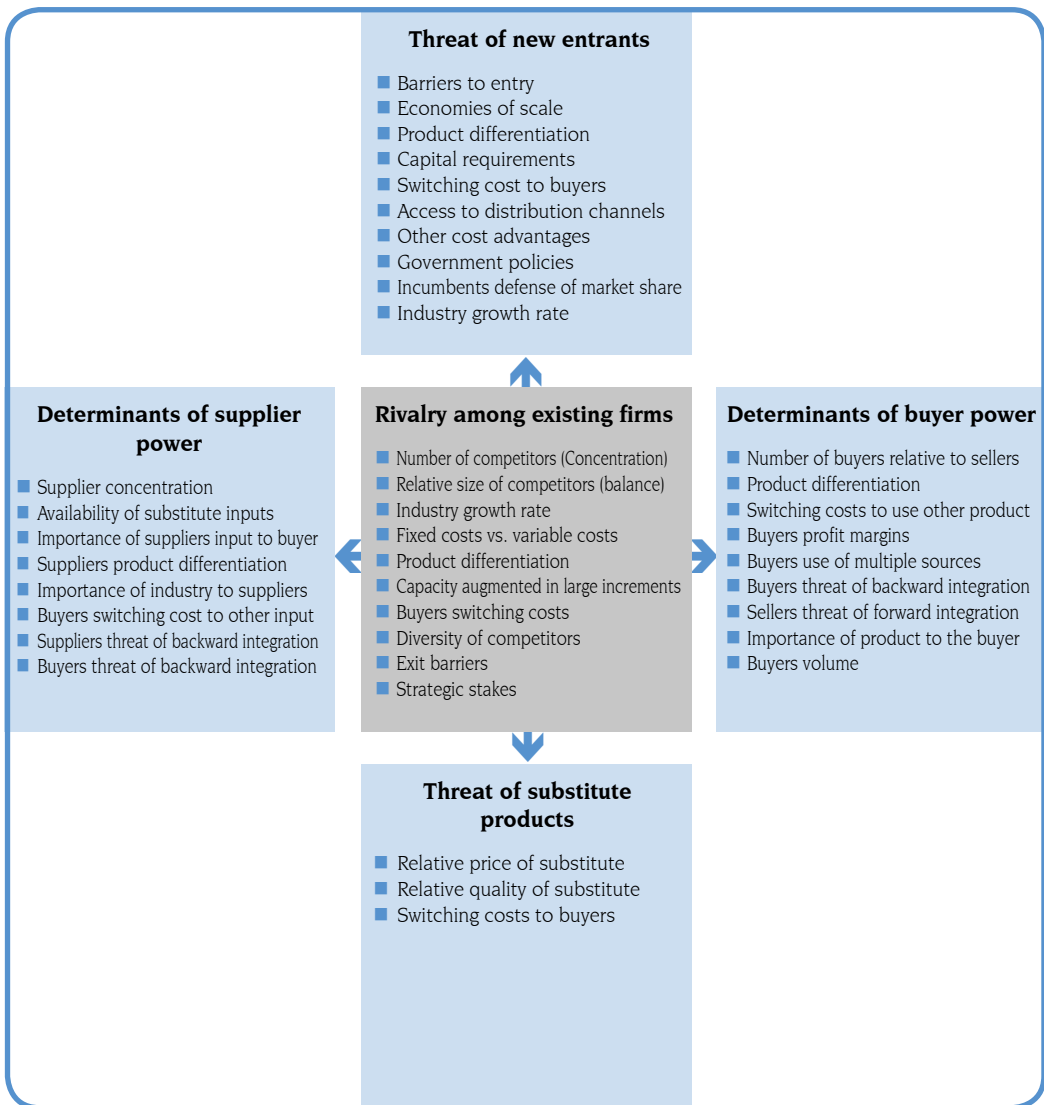


Figure 2.6: The five forces that shape industry competition by porter (1979).

If a company has diversified products in a few sectors or industries, a spider map can be drawn rating each industry on the five forces as illustrated in figure 2.7.

It is imperative to devise strategic initiatives for each force in order to reduce the bargaining power of customers and suppliers as well as initiatives to reduce the treat of new entrants and substitutes. The initiatives to reduce the competitive rivalry between existing players should be thought through as illustrated in table 2.4.

Strategic initiatives for each force

Initiatives to reduce bargaining power of suppliers	Initiatives to reduce bargaining power of customers
Partnering	Partnering
Supply chain management	Supply chain management
Supply chain training	Increase loyalty
Increase dependency	Increase incentives and value added
Build knowledge of supplier costs and methods	Move purchase decision away from price
Take over a supplier	Cut powerful intermediaries (Go directly to customer)
Initiatives to reduce the treat of new entrants	Initiatives to reduce the threat of substitutes
Increase minimum efficient scales of operations	Legal actions
Create a marketing, brand image (Loyalty as a barrier)	Increase switching costs
Patents, protection of intellectual property	Alliances
Alliances with linked products, services	Customer surveys to learn about their preferences
Tie up with suppliers	Enter substitute market and influence from within
Tie up with distributors	Accentuate differences (Real or perceived)
Retaliation tactics	
Initiatives to reduce the competitive rivalry between existing players	
Avoid price competition	
Differentiate your product	
Buy out competition	
Reduce industry over-capacity	
Focus on different segments	
Communicate with competitors	

Table 2.4: Strategic initiatives for each force.

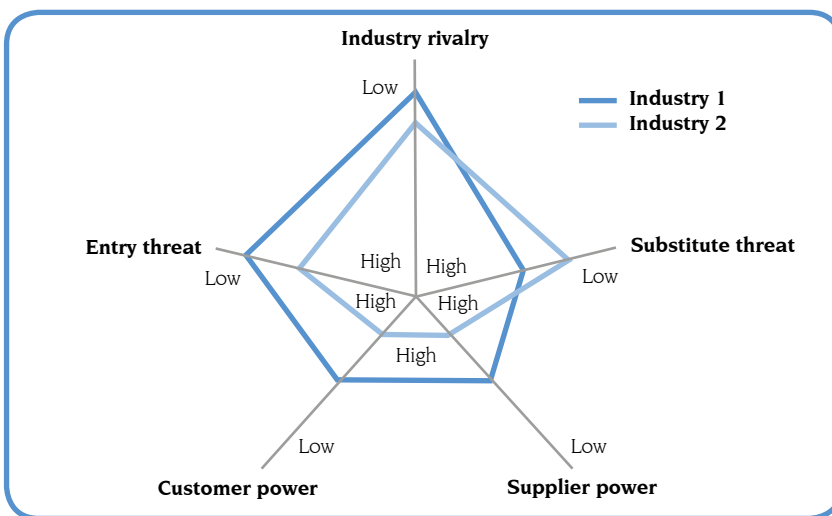


Figure 2.7: Comparative industry structure analysis spider map.

Threat of New entrants: LOW (Many high and moderate impact factors exist that reduce the threat of new entrants)			
	Impact		Impact
Governments unlikely to issue another mobile tele-com license.	High (-)	Distribution channel of existing firms is over 40,000 outlets. For a new entrant to reach that level will take a number of years,	Med (-)
To compete a firm may need to invest in the excess of \$250 mn. Investment recovery is low for a new firm given very low prices.	High (-)	Governments set Ex-Net minimum price is twice of On-Net price (Rs.2.0 Vs Rs1.0) customers using a new operator wont have the benefit of a large on-net base to call.	High (-)
Significant economies of scale as the number of subscribers increase (Die to significant fixed costs) New operators wont be able to match the price levels.	High (-)	Due to price competition, industry profitability has reduced. Therefore less likely to attract new investors.	High (-)
Existing operators have strong brands and customer loyalty. It will be difficult for a new competitor to match.	Med (-)	With SIM penetration reaching 85%, the voice market is reaching maturity, although further growth is expected from data and services segments.	Med (-)

Bargaining power of customers: HIGH (Many factors that increase consumer power)

	Impact
Many buyers, but buyers can shift operator easily if not satisfied with one operator.	High (+)
Service is almost homogenous. Customer has five service operators to choose from.	High (+)
The physical cost of switching is low (prepaid). Post-paid customers show a higher level of loyalty to the number.	High (+)
Exit barriers: operators have invested over \$ 200 mn each, due to low price level, opportunities to sell the company are low	Mid (+)
A large majority of customers are price sensitive.	Mid (+)
Customers are increasingly adopting VOIP products (Ex: Skype).	Low (+)

Industry Rivalry: INTENSE (Many high impact factors that increase the industry rivalry)

	Impact
Mobile penetration rate has reached 85% (Jun-2011). Sector growth is slowing down, causing increased competition for new customers.	High (+)
Experts expect the voice market to start growth stagnation within the decade.	High (+)
Fixed costs (CapEx) are high. Therefore operators need to achieve high volumes to reach profitability. Increases rivalry.	High (+)
Exit barriers: operators have invested over \$ 200 mn each, due to low price level, opportunities to sell the company are low.	Mid (+)
Switching costs are very low (Especially on prepaid) however possible loss of contacts and calls if the number is changed is a concern for many	Mid (+)
Informational complexity is low. The services are simple to use. Results in increased rivalry.	Mid (+)
For a significant portion of the consumers, brand identity is not an important criteria. Results in increased rivalry in the industry.	Mid (+)

Bargaining power of suppliers: LOW (Many high impact factors that reduce supplier power)

	Impact
Many international suppliers with similar products (Telecommunication equipment).	High (-)
Equipment specifications are standardized, inter-operable. Reduces supplier bargaining power.	High (-)
Supplier concentration is high (top 4 players control over 90% of equipment market) but product homogeneity limits their power.	Med (-)
R&D cost is significant. Therefore suppliers need large orders. Large scale Telco's have significant power over suppliers.	High (-)
In terms of total capital expenditure (CapEx), over 60% is telecommunications equipment. Therefore cost is large. But many suppliers can provide the same solution leading to significant price reductions to win bids.	High (-)
Forward integration and backward integration unlikely.	Med (-)

Threat of Substitutes: MODERATE (While some substitutes are reducing in importance, others are gaining ground)

	Impact		Impact
Competition from fixed lines (Declined in recent years which is a positive for the industry).	Low (+)	With GDP and per capita income expected to grow at 7-8% over the next 5 years, disposable income will rise resulting in an increase of personal computers and broadband connections. Increased substitution is expected.	Med (+)
Internet based products such as Skype are a considerable threat, especially for the international voice business	Med (+)		
Skype is free and if a fixed fee broadband connection is used, no additional costs on data.	Med (+)	With the computer penetration in the country increasing and broadband penetration increasing, buyer substitution is starting to occur (initially mostly in the urban areas).	Med (+)

Figure 2.8: Porters five forces applied in the context of the telecommunications industry.

2.8 Market maps

According to McDonald and Dunbar's (2004), a useful way of tackling the complex issue of market segmentation is to start by drawing up a market map as a precursor to a more detailed examination of 'who buys what'. It portrays the distribution or supply and value chains that link the supplier and the ultimate consumer or final user. It takes into account the various buying mechanisms found in the market, including the part played by 'influencers'. In general, if an organizations products or services go through the same channels to similar final users, then one composite market map can be drawn. However, if some products or services go through totally different channels and or to totally different markets, then more than one market map is needed to illustrate the full picture.

It is probably sensible to treat different business units individually, as their respective business value or volume justifies a specific focus. It is very important that the market map tracks the organizations products along with those of its competitors, all the way down the supply chain to the final user, even though the organization may not in fact sell to the final user directly. Further details that can be added to the market map such as individual purchasers and market shares by each seller and customer type. Mapping out the different transactions that take place throughout the company supply and distribution chain reveals how the individual transactions relate to one another. Quantifying these various 'routes' and determining each company's share along them has served to identify the most important supply routes and the progressive changes in the company's market position. An example is illustrated below;

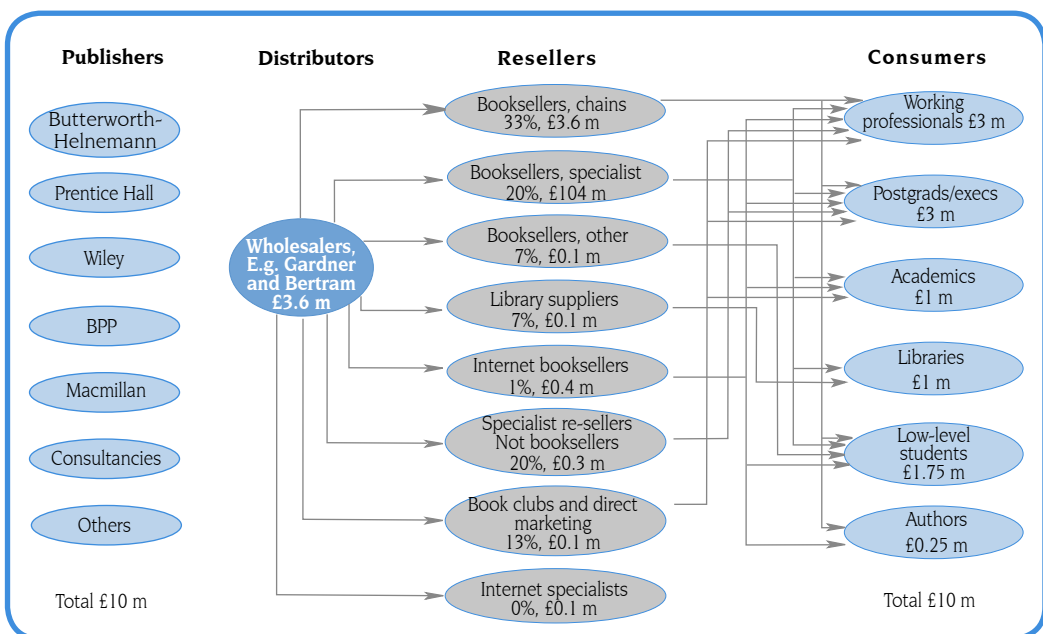


Figure 2.9: Market map for a book publisher by McDonald and Dunbar's (2004).

2.9 Techniques for analyzing competitors

Understanding the organizations that compete in the same market is an essential requirement. Competitor analysis is central to any marketing strategy many companies operate on intuition and place the firm at risk of dangerous competitive blind spots. Competitor analysis can be defined as the identification and quantification of the relative strengths and weaknesses (compared with competitors or potential competitors), which could be of significance in the development of a successful competitive advantage and strategy.

Direct, indirect and potential competition	Porter's competitor response profiling
Financial performance analysis	Benchmarking
Sources of competitive advantage	Lessons from game theory
The seven-step drill	Kotler's competitor response profiles
Competitor capability analysis	Level of competition
Strategic group mapping	Ten question about competitors

Table 2.5: Techniques for analyzing competitors.

1) Direct, indirect and potential competition

Direct competitors are competitors in the same sub category. E.g. Coke's direct competitor will be any other cola. Indirect competitors are those who fulfill the same want that Coke delivers, which is to quench your thirst. Therefore any beverage that quenches thirst may be classified as an indirect competitor. A potential competitor may enter the market and compete directly or indirectly in the foreseeable future.

2) Financial performance analysis

It is a good practice to collect competitor annual reports, secondary data from websites and any other intelligence to gather competitor financial metric's.

Asset utilization ratios	Profitability ratios	Investment ratios	Liquidity ratios
Stock turnover	Return on sales	Earnings per share (EPS)	Current ratio
Debtor payment period	Gross margin	Price to earnings ratio (P/E ratio)	Quick ratio (Acid test)
Creditor payment period	Operating margin	Dividend per share	Solvency ratios (Capital structures)
Net working capital as a % of sales	Net margin	Dividend cover	Gearing ratio
Fixed asset ratio	Return on capital employed (ROCE)	Dividend yield	Interest cover
Sales per unit of assets	Return on investment (ROI)	Dividend payout ratio	Debt ratio
Profit per unit of assets	Return on equity (ROE)		
Value added ratios	Profit after tax (PAT)		

Table 2.6: Financial performance analysis.

3) Davidson's sources of competitive advantage

Competitive advantage is achieved whenever the company does something better than competitors. If that something is important to consumers or if a number of small advantages can be combined, the firm has an exploitable competitive advantage. One or more competitive advantages are usually necessary in order to develop a winning strategy. This, in turn, should enable a company to achieve above-average growth and profits in its industry. Competitive advantages are the concrete expression of exploitable assets and competencies. Competitive advantages are worth having and they enable the company to develop winning strategies and apply pressure on competitors. The source of competitive advantage can be classified into the factors mentioned below and a firm would be able to analyze the companies' source of advantage versus its competitors.

Superior product benefit	Example
A perceived advantage	Through communication and branding
Low cost operations	Penetration pricing strategy
Global skills	Global distribution, production and sourcing
Superior competencies	Product design, engineering and warehousing
Superior assets	Tangible and intangible assets
A legal advantage	Patents, copyrights
Superior contacts or relationships	Access to important stakeholders
Superior knowledge	Customers and markets, science and technology
Scale advantages	Economies of scale
Offensive advantage	Competitive toughness and the will to win

Table 2.7: Davidson's sources of competitive advantage.

4) Davidson's seven-step drill

Davidson in his book, 'Even more offensive marketing' proposes seven questions about competitors which are used to coin the seven-step drill.

- Competitors - Where are they now? Where will they be in 5 years?
- What are their investment priorities, objectives & goals?
- What importance do they place in the market and what's their long-term commitment?
- What are their relative strengths and weaknesses?
- What weaknesses make them vulnerable? Factors that made an organization vulnerable.
- What are their likely changes in future strategies?
- What's their effect on the industry, market & you?

5) Competitor capability analysis

Piercy et al., (2008) in his book marketing strategy and competitive positioning describes how an organisation compares it self with competitors, using the industry’s critical success factors. In the example given below, the best performing competitor is 'competitor A' whilst 'competitor C' has the lowest net score and is the lowest in terms of performance. The scale can be compiled by a statistically valid sample of customers and non-customers of the company for it to be accurate. This quantitative approach can be a useful tool where the marketing manager can conduct the analysis every quarter in order to see the movement before and after a marketing campaign to address the weak areas highlighted.

- Quality of current products.
- The skills in product improvement.
- New product development (NPD) record.
- Balance, depth and breadth of production portfolio.
- Pricing strategy and tactics.
- Advertising skills.
- Use of promotional tools.
- Sales force effectiveness.
- Channel Management.

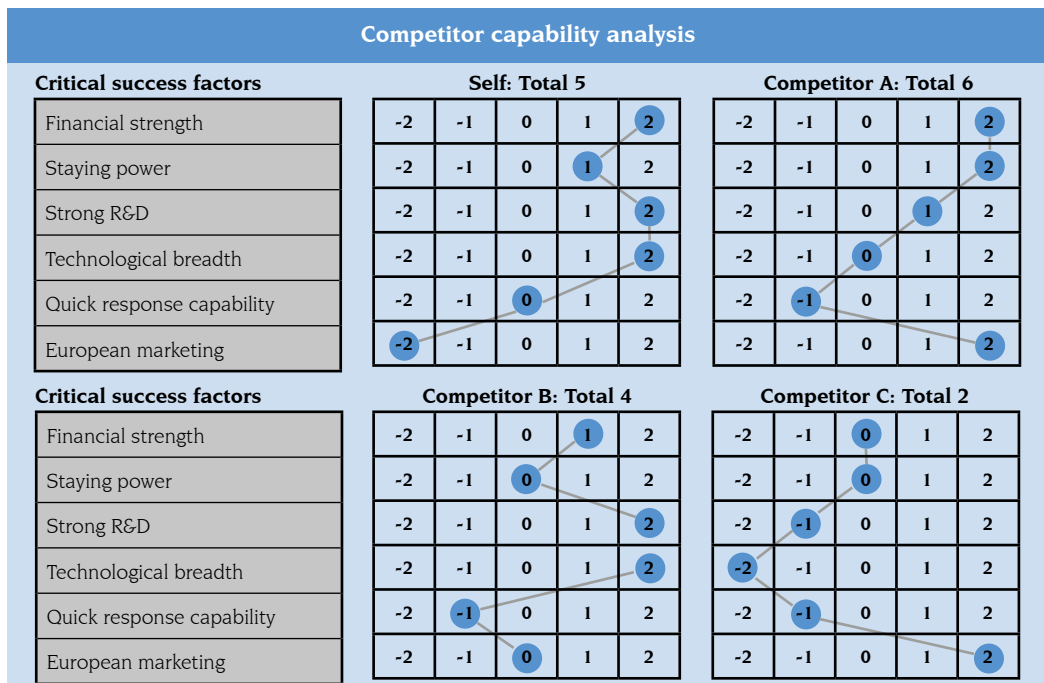


Figure 2.9: Competitor capability analysis by Hooley, Piercy, Nicoulaud (2008).

6) Strategic group mapping

Having identified and analyzed individual competitors in the market, it is then necessary to categories the competition based on the strategies they are pursuing. Strategic groups are organisations within an industry or sector with similar strategic characteristics, following similar strategies or competing on similar bases. Competitors can be clustered together to gauge the competitive groups and companies in different strategic groups may compete with each other.

Using the strategic groups model to analyze competitive structures

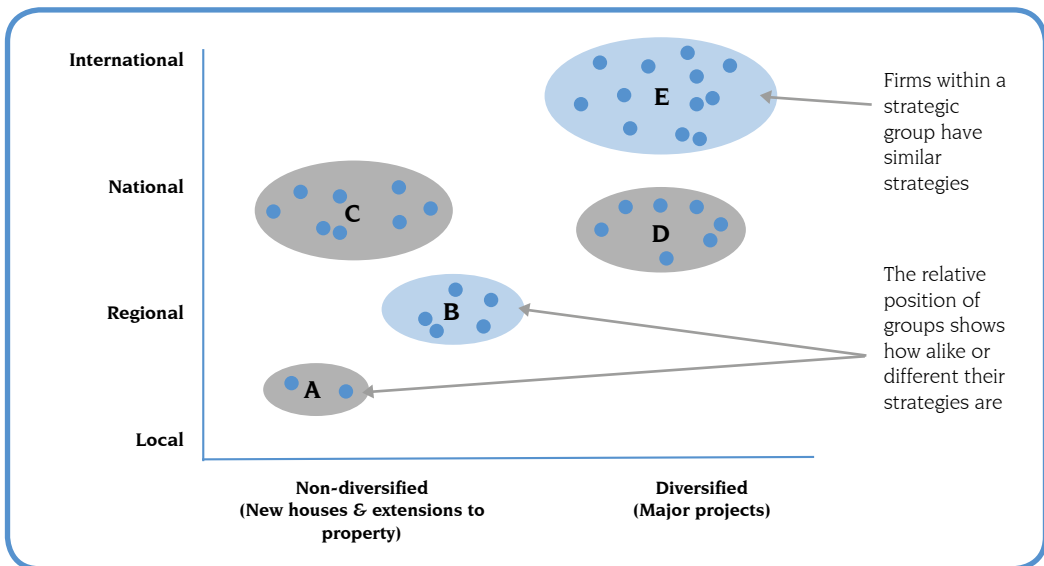


Figure 2.10: A strategic group map for the construction industry by Porter of 1985.

Characteristics of strategic groups	
Size and relative share	Market position
The extent of product or service diversity	Technical position (leader or follower)
The degree of geographic coverage	R&D capability
The number and type of market segments served	Performance
The type of distribution channels used	Cost structure and behavior
The branding philosophy	Patterns of ownership
Product or service quality	Organizational culture
Reputation	The degree of vertical integration

Table 2.8: Adapted from Johnson, Scholes & Whittington (2008).

Steps involves in developing strategic groups

- a) Identify two main critical success factors of the industry and use them as characteristics.
- b) Plot players in the industry based on their characteristics.
- c) Identify clusters of strategic groups.
- d) Name each strategic group.
- e) Identify mobility barriers of each strategic group - These are factors that distinguish the players in one cluster from another and the factors may prevent them from moving into another cluster.
- f) Identifying strategic spaces - These are unoccupied positions in the market place.

Here's an example adopted from Johnson and Scholes (2008).

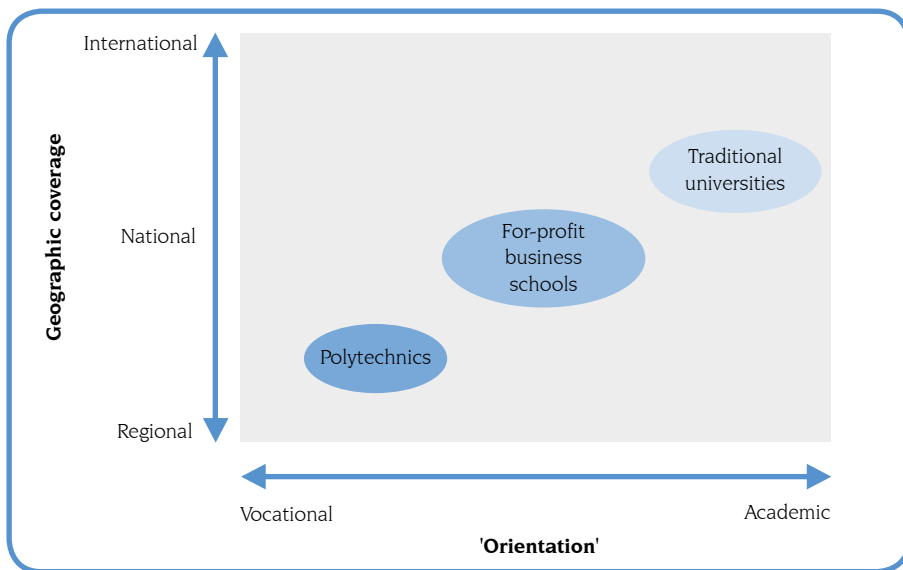


Figure 2.11: Strategic groups in MBA education in The Netherlands adapted from Johnson, Scholes & Whittington (2008).

The example used here is the MBA education market in the Netherlands and the main critical success factors differentiating players in the MBA education industry is the orientation and the geographic coverage. Three types of strategic clusters identified are polytechnics, for profit business schools and traditional universes (Figure 2.11). The number of players that represent the cluster and their respective revenue will make up the size of each cluster.

The next step is to identify mobility barriers (Figure 2.12) of each strategic group, what are the factors that distinguish the players in one cluster from another and the factors that may prevent them from

moving into another cluster. The next step involves identifying the strategic space or the positions, which are unoccupied in the market place (Figure 2.13). It might be useful to change the critical success factors on either side, draw up a few maps to gauge strategic groups and review the strategic space.

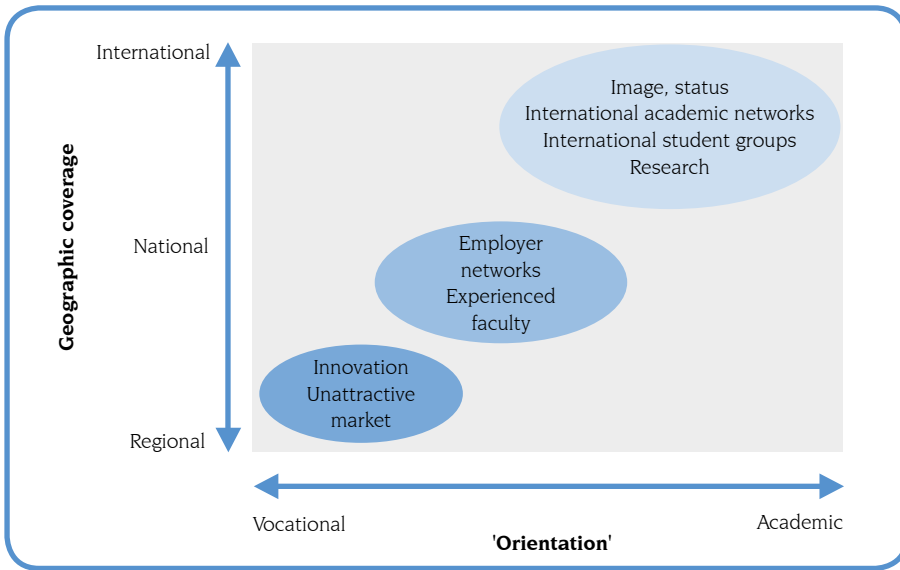


Figure 2.12: Mobility barriers adapted from Johnson, Scholes & Whittington (2008).

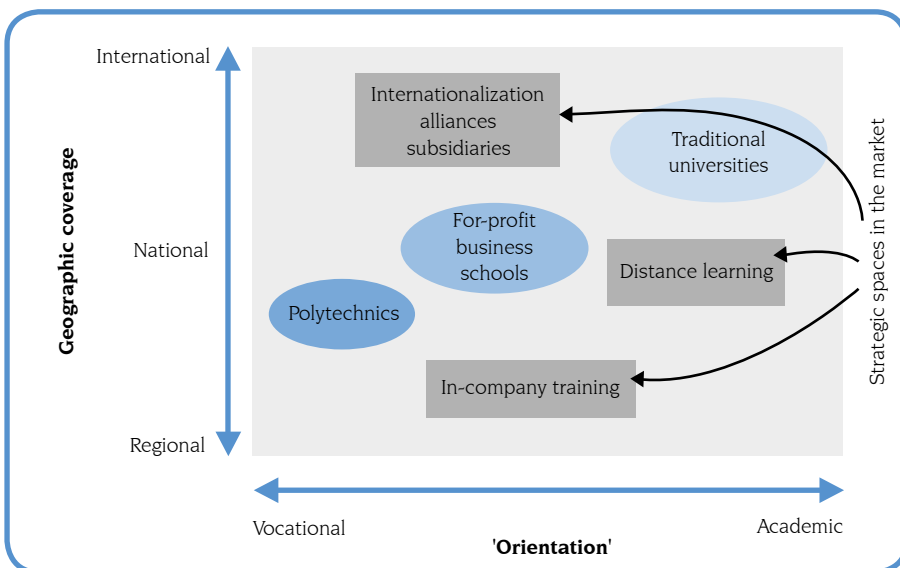


Figure 2.13: Strategic space adapted from Johnson, Scholes & Whittington (2008).

7) Competitor response profiling

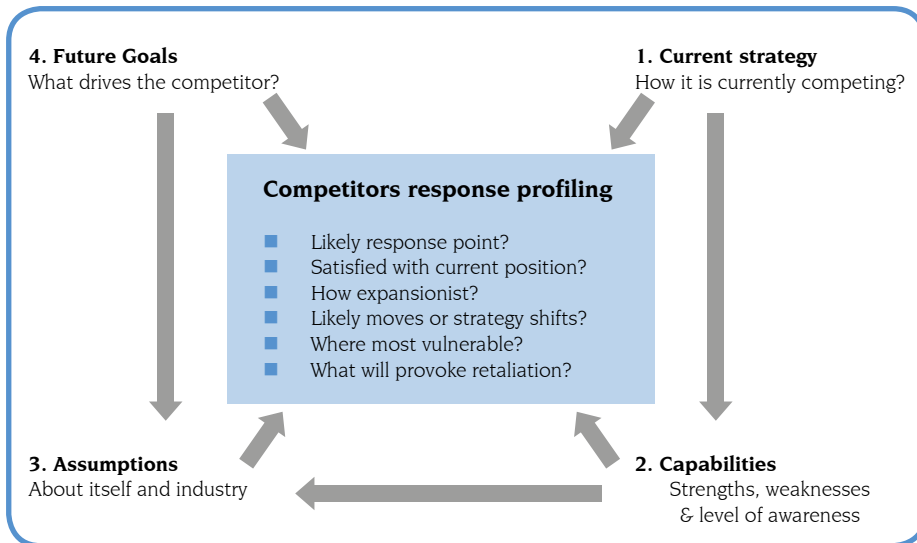


Figure 2.14: Competitor response profiling by Davidson (1997).

The objectives and assumptions are what drive the competitor, and strategy and capabilities are what the competitor is doing or is capable of doing. The result of this analysis should be an improved ability to predict the competitor's behaviour and to influence that behaviour to the firm's advantage. These components can be depicted as shown in the diagram below;

8) Benchmarking

Benchmarking is to use data to identify, compare, adapt and measure outstanding processes or performances of one organisation, department or activity with another best in class firm in order to make continuous improvement.

The benefits of benchmarking

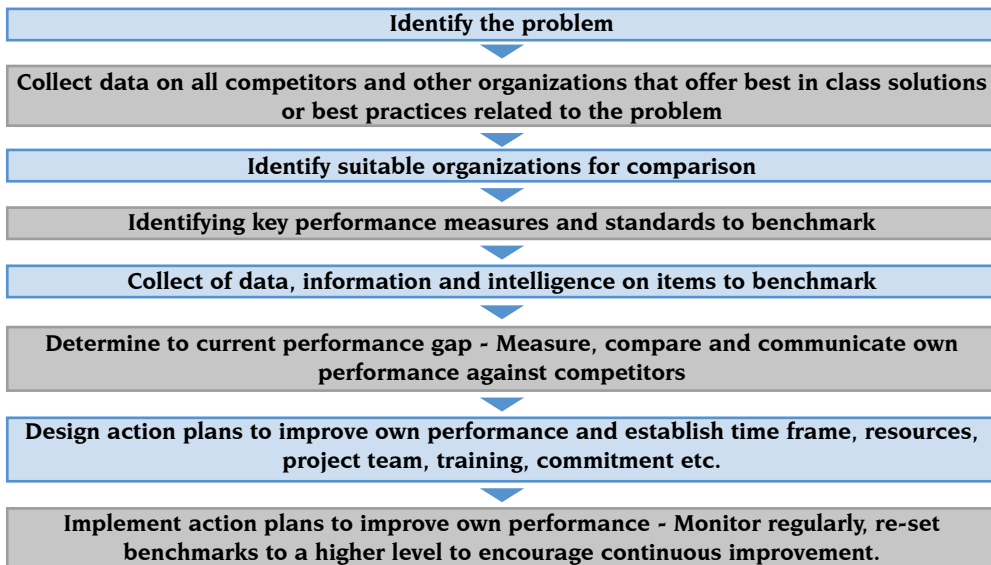
- To help management compare and review how well the firm is carrying out its critical activities against the best in class firms.
- Helps overcome paradigm blindness, which is "the way we do it is the best because this is the way we've always done it"
- It exposes the organization to new methods, ideas and tools to improve their effectiveness and deals with resistance to change.
- It can be helpful in setting targets or judging how well the organisation is performing.
- It creates a learning culture - Continuous adaptation and learning any lessons that those comparisons throw up.

- The process helps set up key performance indicators as an objective form of control.
- It is a systematic and on going process in pursuit of continuous improvement.

Types of benchmarking

- **Strategic benchmarking** - Organisations examine strategic factors, such as core competencies, strategic capabilities, business and corporate strategies etc.
- **Performance benchmarking or competitive benchmarking** - An organization's output compared with competitor offerings. Example. Sales, market share, number of customers, market segments, positioning etc.
- **Process benchmarking** - Compare critical processes and operations of practice. Example, Administrative and manufacturing processors, customer service levels, logistics and time to market.
- **Internal benchmarking** - This is the performance of departments within an organisation where another branch or department of the organisation is used as the benchmark, to ensure conformity.
- **External benchmarking** - Organisations are compared with external 'best in class' organisations.
- **International benchmarking** - Organisations are compared across countries and sometimes the best in class in the world.

Steps involved in benchmarking



Problems in benchmarking

- Companies with best practice may not be willing to share data.
- Opportunity cost in terms of time and financial resources.
- What is best today in a turbulent environment may not be the best tomorrow in a stable environment.
- Managers may become demotivated if they are compared against a better-resourced rival.
- Benchmarking is reactive rather than imitating a competitor, the firm can create a new competitive strategy.
- The firm should set itself targets that customer's value.
- Organisations are unique in their size, shape, aims, history, culture, skills, ambitions, appetite for risk, performance, etc., and so what works in one company may not necessarily work in another.

9) Lessons from game theory

Game theory is a branch of applied mathematics that studies strategic situations where players choose different actions in an attempt to maximize their returns. One frequently cited example of game theory is the prisoner's dilemma. It encourages an organisation to consider a competitor's likely move and the implications of these moves for its own strategy. How can a 'game' be transformed from a 'lose-lose' outcome to a 'win-win' result? When should a company be selfish, in an on going interaction with another company?

Two prisoners are suspected of having carried out a crime together. The maximum sentence for the crime is 20 years. The two suspects have been arrested separately, and each is offered the same deal. If he confesses that they both committed the crime and his accomplice remains silent, the charges against him will be dropped but his accomplice will have to serve the full 20 years. If both he and his accomplice remain silent, there will only be circumstantial evidence, which will none the less be enough to put both men behind bars for one year. But if both he and his accomplice confess to the crime, they will both be sentenced to five years in prison. The suspects cannot confer. Each prisoner must choose to betray the other or to remain silent. Each one is assured that the other would not know about the betrayal before the end of the investigation. How should they react under questioning?

A common application of this is price wars. Price wars between two evenly matched competitors usually results in lower profits for all concerned and no change in market share. No one wins, except the customer. "Nash Equilibrium" will be reached when the best responses of all players are in accordance with each other. Game Theory can be roughly divided into two broad areas: non-cooperative (Strategic) games and cooperative (Coalitional) games.

Game theory using the prisoners' dilemma

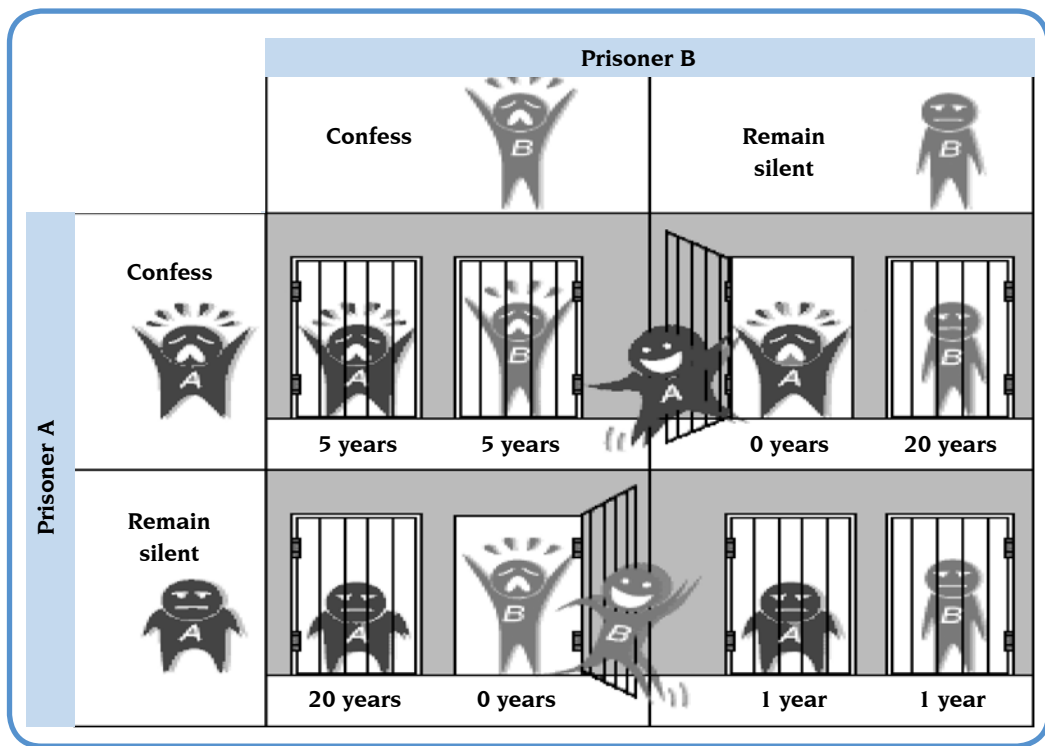


Figure 2.15: Prisoners dilemma

10) Competitor reactions and response profiles

Kotler (2008) suggested that competitors will respond to change in different ways and grouped the range of change options into four categories;

- **Laid-back competitor** - The laid-back competitor responds only slowly to change and may justify this on the basis of its loyal customer base, simply not recognizing the changes taking place. Alternatively while the changes taking place may be recognized it may be the case that the company does not have the resources to deal with the situation. In any event the rationale for this approach needs to be understood.
- **Selective competitor** - Organizations may respond selectively to certain situations. They may never respond to price changes or sales promotions, but may react when a new product is introduced or an advertising campaign is launched by a competitor.
- **Tiger competition** - The tiger competitor will respond quickly and aggressively to any organization which attempts to move on to its 'turf'. A supermarket will respond very quickly to another supermarket that enters its market.

- **Stochastic competition** - Stochastic competitors do not show a predictable response and will respond in different ways to different situations making it very difficult to predict their behavior and plan accordingly for it.

11) Levels of competition

Kotler (2008) identifies four levels of competition.

- a) **Brand competitors** - Firms who offer similar products to the same customers we serve and who have a similar size and structure of organisation as ourselves, for example Pepsi and Coca-Cola.
- b) **Industry competitors** - Suppliers who produce similar goods but who are not necessarily the same size or structure as us, or who compete in a more limited area or product range, for example British Airways and Singapore Airlines.
- c) **Form competitors** - Suppliers whose products satisfy the same needs as ours, although they are technically quite different, for example speedboats and sports cars.
- d) **Generic competitors** - Competitors who compete for the same income as the company, for example home improvements and golf clubs.

12) Competitive strategies for hypercompetitive conditions

Johnson and Scholes (2008) describe strategic options that can be pursued in hypercompetitive situations and they are as follows;

- Imitate.
- Strategic re-positioning.
- Blocking first mover advantage and overcoming barriers to entry - Shorter life cycles.
- Cannibalize your own bases of success.
- Disruption of the status Quo - Technology leap frogging.
- Be unpredictable.
- Mislead competition.

13) Twelve questions about Competitors

- Who are our competitors?
- What are their assumptions?
- What is their size, growth, share and profitability?

- What are their strategic capabilities? - Unique resources and core competencies
- What emphasis do they place on innovation?
- What are their goals and objectives?
- What is the competitors product portfolio and profit pool? - Cash cows and stars.
- Any opportunities to collaborate for mutual benefit?
- What strategies are being pursued to achieve competitive advantage?
- What are the strategic strengths and vulnerable weaknesses?
- How is competition likely to behave in response to an offensive move?
- What are their plans for the future?

2.10 Internal analysis

The internal marketing environment is equally as important as the external marketing environment and helps the organization to identify how effective the internal resources and structures are in achieving the organization's stated objectives. In this chapter, we will be reviewing the frameworks, which can be used for assessing the internal environment, examining the internal audit tools and considering the 'planning gap'. When undertaking an audit, a number of tools can be utilized to analyze the situation of an organization internally and provide information on which decisions relating to marketing strategy can be taken. We will consider a number of these separately below. A look at the internal environment of an organisation is the only way of identifying strengths and weaknesses. It therefore covers all aspects of the organisation, because the other functions of the organisation effectively act as constraints over what marketing personnel can achieve. A company needs to evaluate its ability to complete and satisfy customer needs. The firm's resources, once identified, must be harnessed to a market orientation to ensure that those resources are directed at satisfying needs. There are a number of approaches to be taken with regard to corporate capability. In this chapter we conduct an overview of resources in the context of organizational effectiveness. The key issues are what resources the organisation has and how they are deployed. The resource audit covers technical resources, financial resources, managerial skills, the organisation and its information.

Resources are deployed as competences, which support a competitive position. A distinctive resource is hard to imitate. Resources are of no value unless they are organised into systems, and so a resource audit should go on to consider how well or how badly resources have been utilized, and wherever the organization's systems are effective and efficient in meeting customer needs profitably.

Value chain analysis

This idea was built upon the insight that an organization is more than a random compilation of machinery, equipment people and money. Only if these things are arranged into systems and systematic activities, will it become possible to produce something for which customers are willing to pay a price. Porter (1985) argues that the ability to perform particular activities and to manage the linkages between these activities is a source of competitive advantage. Primary activities are directly concerned with the creation or delivery of a product or service. Each of these primary activities is linked to support activities, which help improve their effectiveness or efficiency. The term 'margin' implies that a organization profit margins depends on their ability to manage the linkages between all activities in the value chain.

The value chain is a data driven tool and the accountant can help allocate the organisations direct and indirect costs into each primary and support activity which will enable the marketer to identify where margins are stuck and what are the most costly activities which needs to be re-engineered. The marketer may need to wear a lean management lens and make recommendations to improve efficiency and productivity. The value chain model and a description of each activity is provided below;

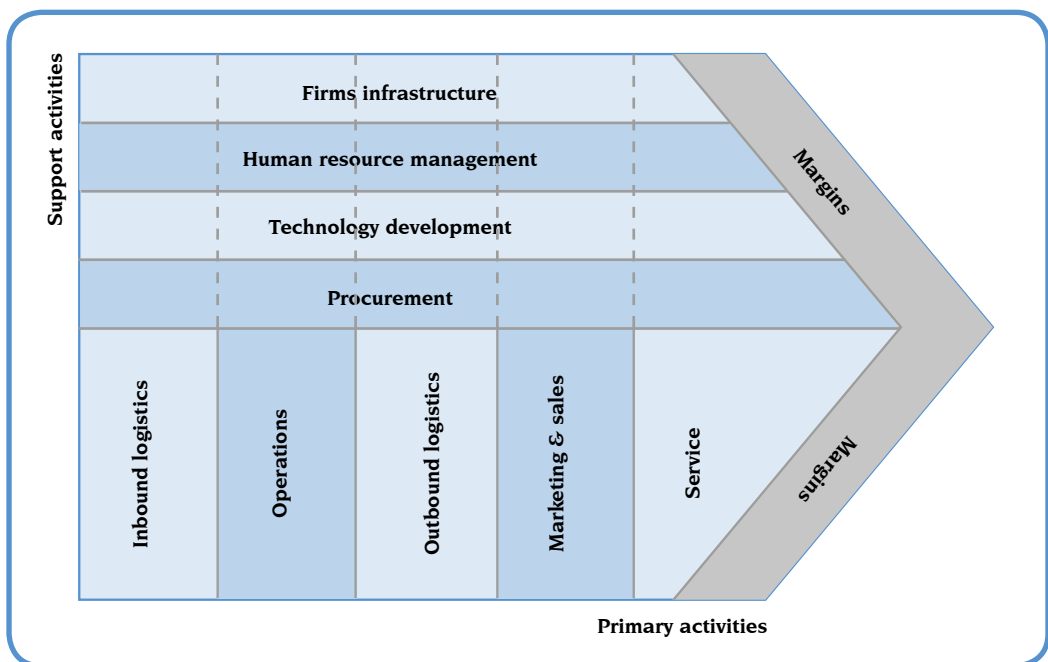


Figure 2.16: Porters value chain (1985)

Some firms may posses many Strategic business units. Here the primary activities may take on the businesses whilst the support activities will be the centralized functions. Therefore, the primary and support activities may need to be adopted to fit the context of the organization. A firm may specialize

Primary activities directly add value to the final product/service	
Inbound logistics	Includes receiving, storing, inventory control, warehousing and transportation planning.
Operations	Includes matching, packaging, assembly, equipment maintenance, testing and all other value creating activities that transform the input into the final project
Outbound logistics	The activities required to get the finished product at the customers: warehousing, order fulfilment, transportation, and distribution management.
Marketing & sales	The activities associated with getting buyers to purchase the product. Including: channel selection, advertising, promotion, selling, pricing, retail management, etc.
Service	The activities that maintain and enhance the product value. Including: customer support, repair services, installation, training, spare parts management, upgrading, etc.
Secondary activities are those activities that support the efficient operation of the primary activities	
Firms infrastructure	Includes general management, planning management, legal, finance, accounting, public affairs, quality management, etc.
Human resource management	The activities associated with recruiting, development (education), retention and compensation of employees and managers.
Technology development	Includes technology development to support the value chain activities. Such as: research and development, process automation, design, re-design
Procurement	Procurement of raw materials, servicing, spare parts, building, machines, etc.

Figure 2.17: Porters value chain (1985).

Firms infrastructure - 3 Factory buildings with 21 machine lines for producing and packing of tea, IT infrastructure					Margins
HRM - Qualified permanent staff, contractual laborers, trainee induction programs, bonus schemes, annual employee appraisals.					
Technology development - Company intranet, NPD project management software (Hornet), Order Processing, online distributor order entering and tracking software (Proteus), Latest high tech. tea manufacturing machinery and equipment.					
Procurement - 95% of teas purchased are Sri Lankan except for a few teas (green teas from China). POSM items differ from local to foreign suppliers. All material used goes through a quality assurance process. On orders purchasing teas for freshness.					
Inbound logistics Ceylon tea board Auction. Packing material & POSMs international and local suppliers (lead time increase by 4-6 weeks for international suppliers). Colombo raw material warehouse.	Operations Single Factory in Colombo for global supplying. Factory A blending and mixing of tea. Factory B & C tea bags/pots and loose leaf tea. Factory C has 75% manual labour.	Outbound logistics Finish good warehouse 1&2 factory A. Warehouse 4 Colombo. Trucking. Distribution - distributors, food service, t-bars, retail online.	Sales & marketing Branding and sales team. Research and development team (MIS). Distributor marketing strategy input.	Services Customer services, attention to detail, Knowledgeable, Trained staff & distribution team.	Margins

Figure 2.18: A value chain example of a Tea manufacturing company.

in one or more value chain activities and decide to out source the rest. The extent to which a firm performs upstream and downstream activities is described by its degree of vertical integration. It is imperative to also look through the lens of cost leadership and differentiation strategies proposed by Porter and understand the importance of the role the value chain may play if you intend on delivering either strategy. A cost leader may not have too much fat in its primary and support activities and may be extremely lean where as the differentiation strategy will warrant each value creating activity in the value chain to compliment differentiation. The examples above depict how the value chain can be used in practice for a tea manufacturing and a telecommunications company.

Mapping the social impact of the value chain

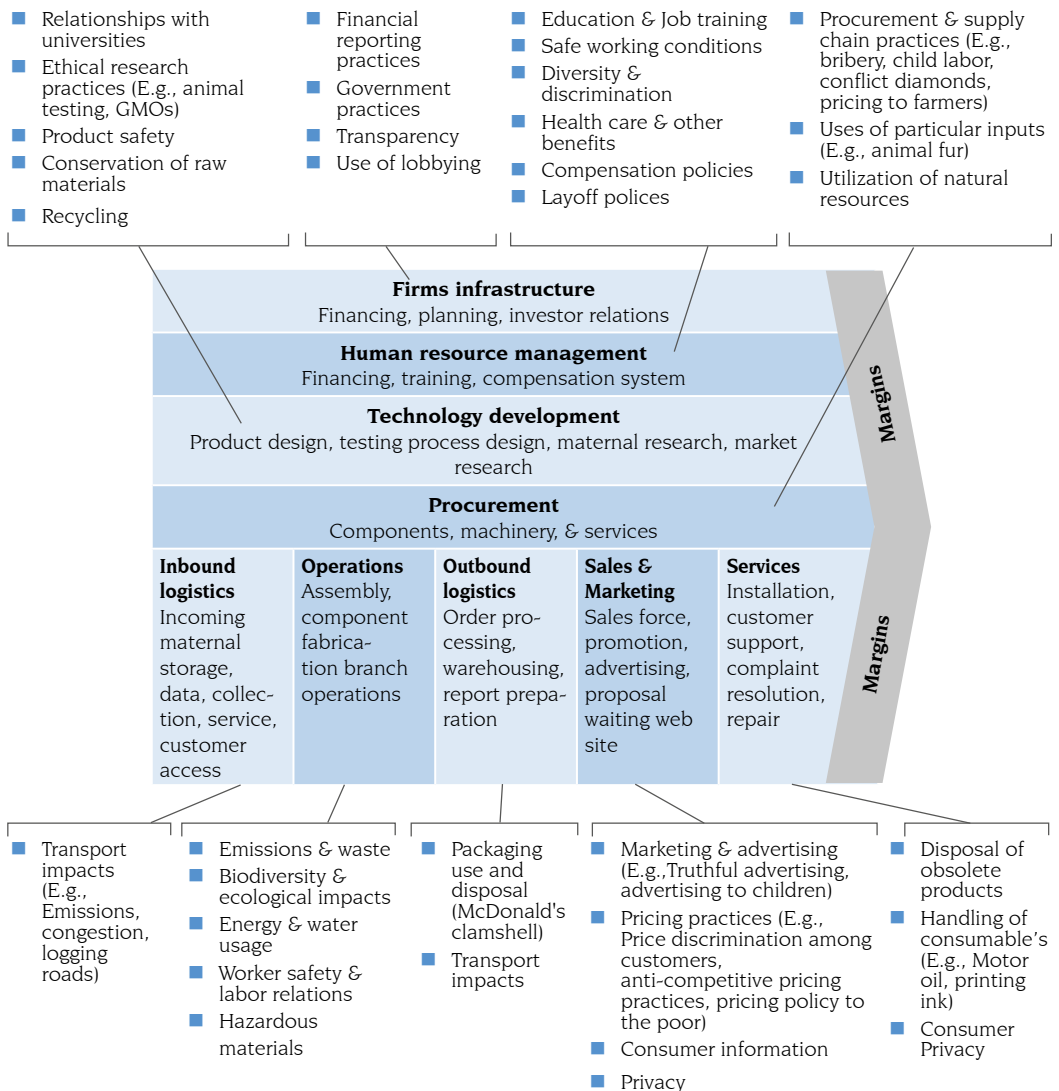


Figure 2.19: An example of the social impact of the value chain adopted from Porter (1985).

Porter (1985) argues that CSR is about creating shared value as suggests the value chain be used to analyze the social impact of the value chain. It can be used as a tool to build a sustainable strategy for a non-profit organization or to build a CSR strategy for a commercial entity.

The value system

A firm's value chain is a part of a larger system that includes the value chains of upstream suppliers and downstream channels and customers. Linkages exist not only in the firm's value chain, but also between industry value chains. Whilst a company exhibiting a high degree of vertical integration is poised to better coordinate upstream and downstream activities, a firm having a lesser degree of vertical integration nonetheless can forge agreements with suppliers and channel partners to achieve better coordination. Within the whole value system, there is only a certain value of profit margin available.

This is the difference of the final price the customer pays and the sum of all costs incurred with the production and delivery of the product. The margin spreads across the suppliers, producers, distributors, customers, and other elements of the value system. Each member of the system will use its market position and negotiating power to get a higher proportion of this margin. Nevertheless, members of a value system can cooperate to improve their efficiency and to reduce their costs in order to achieve a higher total margin to the benefit of all of them. Porter calls this series of value chains the value system, shown conceptually below;

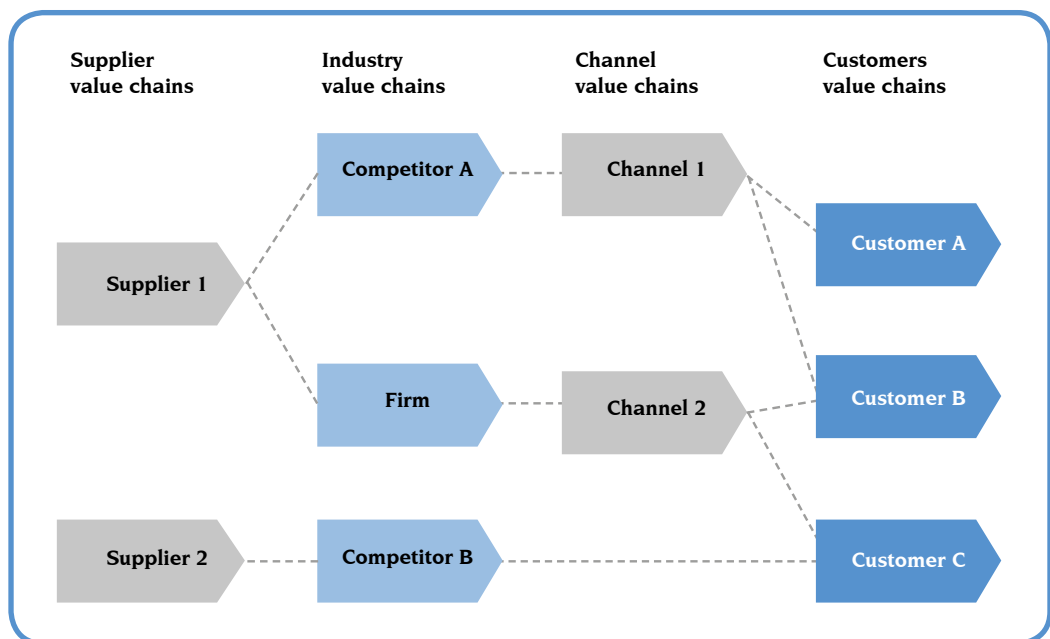


Figure 2.20: Linkages between industry value chains adopted from Porter (1985).

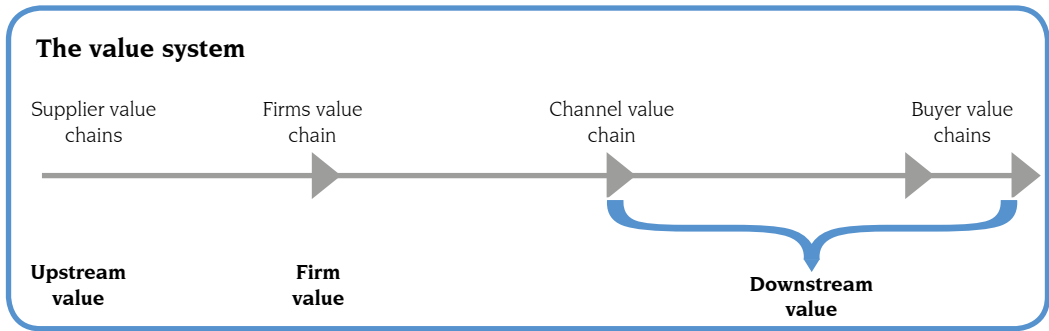


Figure 2.21: The value system.

Key questions of the value system

- Establish where are costs are concentrated and where value is created?
- Which activities are strategic activities to the organisation where the firm needs to retain direct control of these core capabilities.
- Outsource less important activities to improve efficiency.
- Where are the profit pools? - Potential profits at different parts of the value network.
- The availability of competencies to compete in these areas.
- Who are the best partners? - What kinds of relationships are required?

The steps involved in the value chain analysis

- a. **Define the firm's value chain and assign costs to activities** - Here is an example of the allocation of operating costs and assets.

Allocation of operating costs			Allocation of assets			
Firm infrastructure	4%	Margin 9%	Firm infrastructure	3%		
Human resource management	3%		Human resource management	1%		
Technology development	8%		Technology development	3%		
Procurement	3%		Procurement	1%		
Operations	59%		Inbound logistics	8%	Operations	18%
Marketing & sales	14%		Outbound logistics	5%	Marketing & sales	61%

Figure 2.22: The apportionment of costs and assets in the value chain.

- b. Investigate cost drivers regulating each value activity. Porter (1985) identified 10 cost drivers related to value chain activities** - Economies of scale, learning, capacity utilization, linkages among activities, interrelationships among business units, degree of vertical integration, timing of market entry, firm's policy of cost or differentiation, geographic location, institutional factors (regulation, union activity, taxes, etc.).
- c. Examine possibilities to build sustainable competitive advantage either through controlling cost driver or by reconfiguring the value chain** - A differential advantage can arise by reconfiguring any part of the value chain - procurement of inputs that are unique, distribution channels that offer high service levels. The drivers of differentiation are new process technologies, new distribution channels etc.
- d. Map the value system** - Upstream and down stream value chains.
- e. Building initiatives into the competitive strategies** - Architect the company's competitive advantage through the value chain. A firm can secure competitive advantage by:
 - Inventing new or better ways to do activities.
 - Combining activities in new or better ways.
 - Managing the linkages in its own value chain.
 - Managing the linkages in the value system.
 - Using information technology at each stage in the value chain - Automate and improve physical tasks, provides information about operational processes, virtual warehousing of stocks actually held at suppliers.

Limitations of the value chain model

- **Non-availability of data** - Internal data on costs, revenues and assets used for value chain analysis are derived from financial information of a single period.
- **Identification of stages** - Identifying stages in an industry's value chain is limited by the ability to locate at least one firm that specializes in a specific stage.
- **Ascertainment of costs, revenues and assets** - Finding the costs, revenues and assets for each value chain activity gives rise to serious difficulties and may take a considerable amount of time.
- **Identification of cost drivers** - Isolating cost drivers for each value-creating activity, identifying value chain linkage across activities and computing supplier and customer profit margins present serious challenges.

- **Resistance from employees** - Value chain analysis is not easily understood by all employees and hence may face resistance from employees as well as managers.
- **Science Vs. Art** - Value chain analysis is not an exact science. It is more an 'art' than preparing precise accounting reports. Certain judgment and factors of analysis are purely subjective and differ from person to person.
- **It is more suited to a manufacturing company** - It needs to be adapted to be used in a service organisation.

Portfolio analysis tools

Product life cycle	Little's strategic-conditioning model
Boston consultancy framework	Rodgers diffusion curve
The McKinsey, General Electric matrix	The Ashridge portfolio display
Schell directional policy matrix	

The product life cycle

Products are considered to have a finite life and the concept helps marketers monitor each stage of the cycle and launch strategies to extend the life of a product and generate maximum profit in order to recover the cost of development. The product life cycle conceptual framework must be data driven to make optimum use of strategic implications as given below;

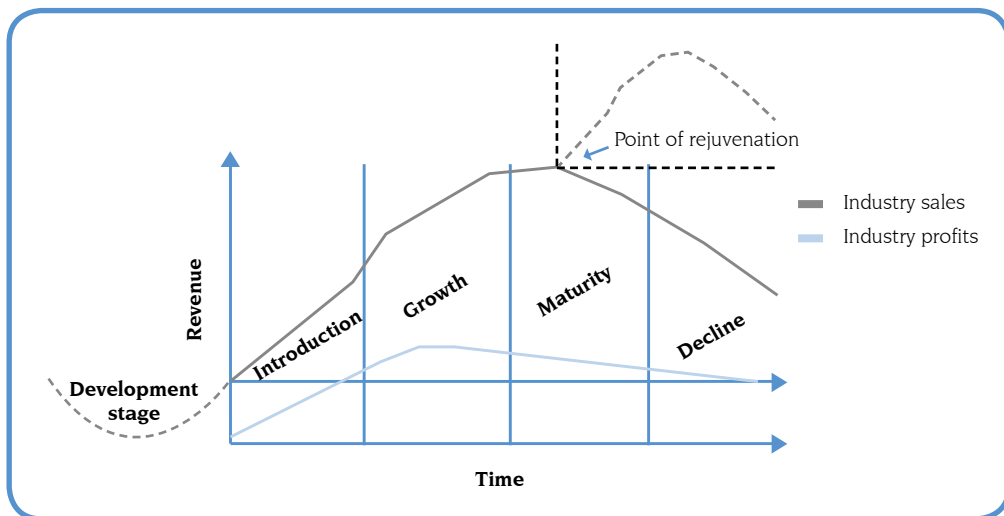


Figure 2.23: Stages in a product life cycle.

The product life cycle may take the form of the following shapes.

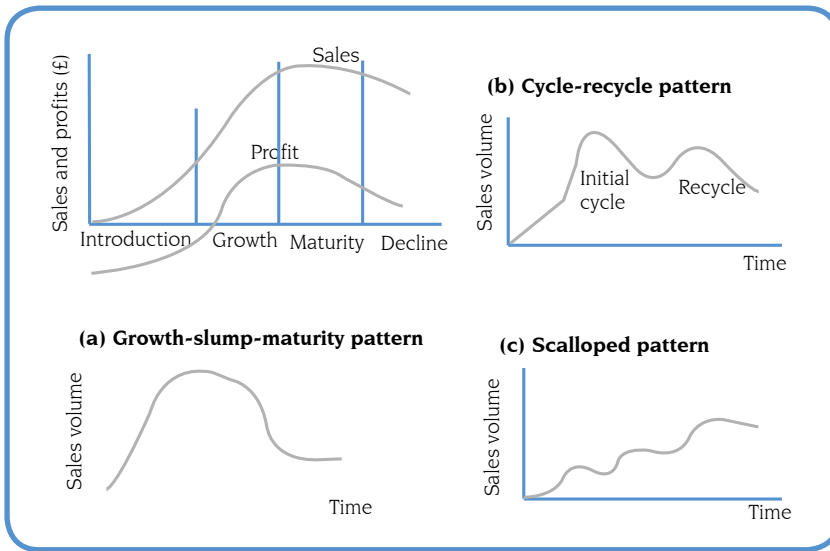


Figure 2.24: The patterns of the product life cycle.

Product life cycle and marketing mix stages

	Product	Price	Place	Promotion
Introductory stage	Basic	Skim or to penetrate (Mostly Skim)	Securing initial channels of distribution Ensure stock availability (own outlets)	High spend focus is to create awareness and interest Innovative products, need to educate
Growth stage	Improved quality special features	Prices will be reduced	New channels of distribution (Agents, internet)	Heavy spending Focus is differentiation
Maturity stage	Further features and alternative product variations	May be less price elastic owing to brand loyalty	Low cost distribution (internet)	Trying to maintain market share Focus is to remind
Decline stage	Reducing the number of product features	Prices and company margins may be cut to maintain sales and dealer loyalty	Unprofitable, marginal outlets will be phased out (Such as large, own outlets)	Minimum levels

Figure 2.25: Product life cycle and marketing mix stages.

Strategic implications of the BCG & PLC

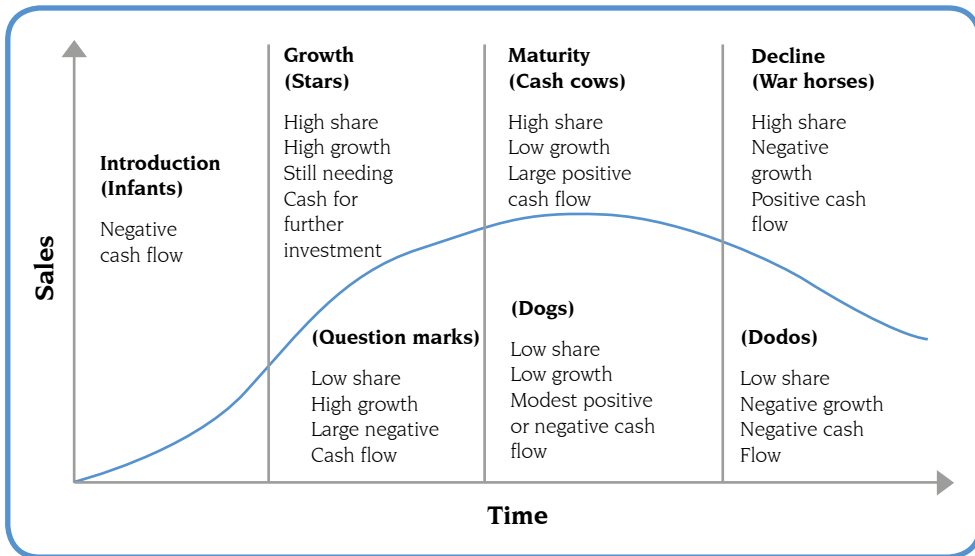


Figure 2.26: Strategic Implications of the BCG & PLC.

It is essential that firms plan their portfolio of products to ensure that new products are generating positive cash flow before existing 'earners' enter the decline stage. The product life cycle concept can be added to a market share/market growth classification of products, as follows.

Characteristics of the stages of the product life cycle

Development stage

- Money will be spent on market research and product development.
- Cash flows are negative and there is a high business risk.
- Research needs - Market research into size and demand.

Introduction stage - Companies can choose between two business models to operate here.

Companies can choose between two business models to operate. The first business model is characterized by the organisations attempt to make its products widely available in terms of distribution, coverage and affordability, which reflects the wide spectrum of the market served. This business model is initiated with the ultimate aim of building market share and penetrating the market. The alternative model is to segment the market and target specified segments with a unique marketing mix and attempt to differentiate the companies offering among target segments.

Model to build market share	Model to recover investments
(Characterizing affordability and availability)	(Characterized by market segmentation and differentiation)
The marketing mix encouraging trial	Build marketing mix to capitalize on the first mover advantage
Communication mix optimized to create maximum awareness	Price skimming strategy
Extensive distribution	Encourage more innovators as customers
Penetration pricing strategy	Selective or exclusive distribution
Reach the critical mass of customer adoption in less time	Target few segments or stay within a niche
Target Mass market and attempt to reach full market coverage	Communication mix to position brand in within the target segment
High launch and marketing costs	Low launch and marketing costs
High production volumes and costs	Low production volumes and costs
High competitive retaliation	Low competitive retaliation
Low cost per customer	High cost per customer
Negative profits - High cash flow, thin margins	Profits - Break even early, big margins

Table 2.9: Characteristics of the introduction stage.

Growth stage

- Initiatives to build brand loyalty.
- Expand points of distribution to support strategy and cater to demand.
- Price points stabilized and adjusted to support elasticity of demand and desired market share.
- New competitors, attracted to challenge the pioneer.
- New segments may be developed targeting early adopters and early majority of customers.
- Increased competitive retaliation.
- Profits rise - Sales and cash flow increases, drop in average cost per customer.
- Promotional mix to push, pull and profile.
- Insufficient manufacturing capacity.
- Low business risk.
- The original product may be improved through the addition of new features to compete more effectively.

Maturity stage

- Demand reaches saturation and attempts to earn market share from competitors.
- The product may need to be rejuvenated, re-launched or re-branded.
- Promotional mix focuses on differentiating the brand.
- Saturated points of distribution.
- Pricing to maintain market share and reach economies of scale.
- Improve on standardization or compete by adding more points of differentiation.
- Hyper competition.
- Market fragmentation - Move into a niche.
- Low cost per customer.
- Maximize profits - Sales growth slowed down, margins declining, falling prices.
- Target early and late majority customers.
- Optimum manufacturing capacity.
- Customer life cycle management - Customer retention, in active activation.

Decline stage

- Rapidly declining sales and profits.
- Marketing activity and investment may be scaled back.
- The product may need to be re-positioned to a profitable niche.
- Big discounts may be offers - Players compete on price.
- Marketing communications might encourage switching.
- Competition reduces as players leave.
- Reaching a decision to harvest or divest.
- Lowest cost per customer.
- Laggards as customers - Sophisticated buyer.
- Over-capacity of production.
- Product less differentiated and the bargaining power of customers increase.
- Distribution channels dwindling.

Strategic implications of the PLC

- Offer a range of products at various stages of the life-cycle, mature products will fund the development of new products.
- Develop new competencies - At the early stages, creativity and innovation are key whilst at later stages efficiencies and low costs become important.
- Management anticipation of decline can cause decline! Reduction in investment and advertising can cause the appropriate market response.
- SWOT varies across the life cycle - Strategies will need to change as the organisation progresses through the life cycle.

Criticisms of the product life cycle concept

- Accuracy - Turning points are very hard to predict, the traditional curve of a product life cycle does not always occur in practice. Some products have no maturity phase, and go straight from growth to decline. Some never decline if they are marketed competitively.
- The concept has been denounced as promoting product orientation at the expense of market orientation.

Industry life cycle

The industry life cycle will include the collective behaviour of all the products within the industry. Therefore the performance and evaluation of the PLC must be studied in the context of the industry life cycle in order to make any strategic recommendations. The industry product life cycle is a concept linking the intensity of competition in a particular market to a company's product performance. Product managers must foresee industry breakpoints, which are new offerings to the market that is so superior in terms of customer value that it disrupts the rules of the competitive game. These industry breakpoints can be classified into:

- **Divergent breakpoints** - Associated with the sharply increasing variety in the competitive offerings and consequently higher value for the customer.
- **Convergent breakpoints** - The result of improvements in systems and processes resulting in lower delivered costs.

Stages in the industry life cycle

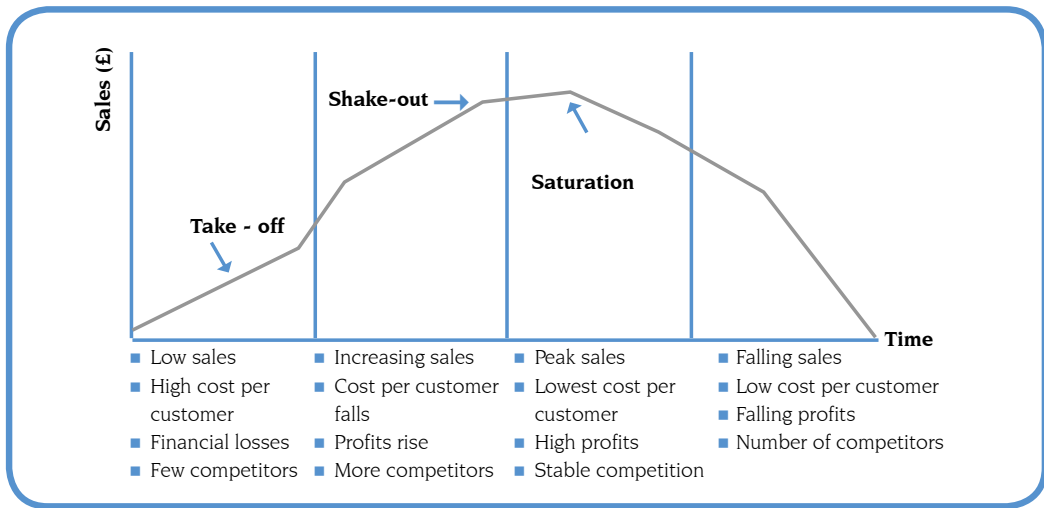


Figure 2.27: The product characteristics & stages in a industry life cycle.

- **Dormant** - With low numbers of competitors enjoying high monopoly profits.
- **Take off** - With many firms entering the market and leaving it.
- **High turnover** - With soaring entry and virtually non-existent exit from the market.
- **Shake out** - With mass exit via merges, bankruptcies.
- **Stabilization** - Stabilization stage during which a stable oligopoly emerges.

Types of industry structures

Structure characteristics	Monopoly	Oligopoly	Monopolistic competition	Perfect competition
Number of firms	One	A few large organisations	Larger, medium and small firms	Many firms of a similar size
Sustain competitive advantage	Total	Longer term	Possible	None
Degree of competition	Low	Low, medium	Medium	High
Marketplace stability	High	High, medium	Low, medium	Low
Typical strategic stance	Defensive	Defensive	Aggressive	Aggressive
Pricing implications	Carte blanche on pricing (but usually regulated by governments)	Strategic pricing possible - determined by responses from other players	Some discretion with pricing	Firms must take market price
Examples	Utilities, Railways	Commercial aircraft, Supermarkets, Banking	Beauty therapists, Restaurants, Dentists	Commodity industries such as wheat, oil, milk etc.

Table 2.10: Types of industry structures.

Characteristics of the industry life cycle

Industry maturity				
Descriptors	Embryonic	Growth	Mature	Aging
Growth rate	Accelerating: Meaningful rate cannot be calculated because the base is too small	Faster than GMP, but constant or decelerating	Equal to or slower than GNP: Cyclical	Industry volume cycles but declines over long term
Industry potential	Usually difficult to determine	Substantially exceeds the industry volume, but is subject to unforeseen developments	Well-known: Primary markets approach saturation industry volume	Saturation is reached: No potential remains.
Product lines	Basic product line established	Rapid proliferation as product lines are extended	Product turnover, but little or no change in breadth	Shrinking
Number of participants	Increasing rapidly	Increasing to peak: Followed by shakeout and consolidation	Stable	Declines: But business may break up into many small regional suppliers
Share of distribution	Volatile	A few firms have major shares: Ranking can change, but those with minor shares are unlikely to gain major shares	Firms with major shares are entrenched	Concentration increases as marginal firms drop out; or shares are dispersed along small local firms
Customer loyalty	Little or none	Some: Buyers are aggressive	Suppliers are well known: buying patterns are established	Strong; Number of alternatives decreases
Entry	Usually easy. But opportunity may not be apparent	Usually easy: The presence of competitors is offset by vigorous growth	Difficult: Competitors are entrenched, and growth is slowing	Difficult; Little incentive
Technology	Concept development and product engineering	Product line refinement and extension	Process and materials refinement. New product line development to renew growth	Role is minimal.

Table 2.11: Characteristics of the industry life cycle.

Boston consultancy matrix

The main aim of the matrix is to help analyze, plan and create a balanced portfolio. The model can be applied at a corporate, strategic business unit or product level in order to develop specific strategic options and aid in performance measurement. It can also be used as a tool to benchmark best in class companies and the matrix ensures that there are enough cash generating products to match the cash-using products. The Matrix indicates the market growth rate on one axis and the relative market share on the other.

- **Relative market share** - The ratio of SBU market share to that of largest rival in the market sector. BCG suggests that market share gives a company cost advantages from economies of scale and learning effects.
- **Market growth rate** - Represents the growth rate of the market sector concerned. High growth industries offer a more favourable competitive environment and better long-term prospects than slow-growth industries.

2.11 BCG matrix

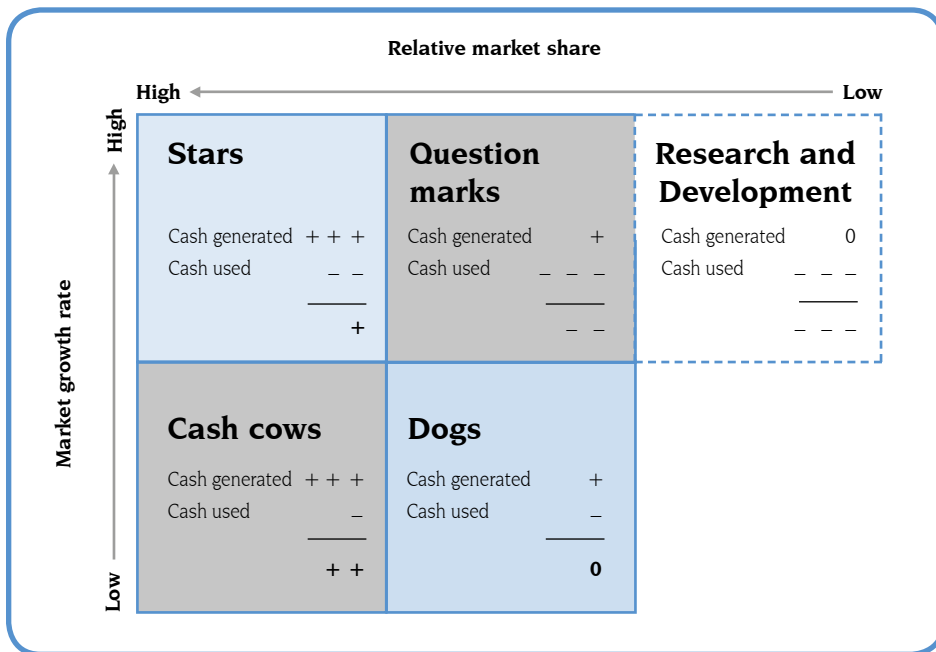


Figure 2.29: BCG Matrix.

The Boston Consulting Group (BCG) matrix provides a graphic representation for an organisation to examine different businesses in its portfolio on the basis of their related market share and industry growth rates.

- **Stars** - Stars represent business units having large market share in a fast growing industry.
- **Cash Cows** - Cash cows represents business units having a large market share in a mature, slow growing industry.
- **Question marks** - Question marks represent business units having low relative market share and located in a high growth industry.
- **Dogs** - Dogs represent businesses having weak market shares in low-growth markets.

Strategic implications for each quadrant

Cash cows - Hold, build or harvest

- This is a cash generator, which is very profitable.
- Often cost leaders possessing economies of scale or a declining star.
- Low market growth implies a lack of opportunity and therefore the capital requirements are low.
- Profits from this area can be used to support other products in their development stage.
- Holds large market share in a mature, slow growth industry.
- Well-established product with a high degree of consumer loyalty.
- Product development cost is low and the marketing campaign is well established.

Star - Hold, divest or build

- Usually market leader and may one day become a cash cow.
- Requires large investment to defend against competitor attacks.
- Stars are good investments for the future.

Question marks or problem child - Build, harvest or divest

- Opportunity and uncertainty exists.
- May need to invest heavily to secure market share.
- Could potentially become a star if nurtured.
- May require substantial management time.
- Weak uncertain question marks should be divested to reduce demands on cash.

Dogs - Harvest, divest or niched

- To cultivate would require substantial investment and would be risky.
- Could it be turned into a 'niche' product?
- They are often divested or carried as a loss leader.
- May require investment just to keep product in portfolio.
- Well established product.

The extended BCG matrix

The two additions to reflect negative market growth.

- **Warhorse** - This product commands a high market share but shows negative growth within a shrinking market. They may still be profitable in the short-term, but the company needs to decide whether it is in irreversible decline or it is worth developing it to revive it into another market.
- **Dodo** - A product with a low share of negative market growth within a shrinking market, it is best discontinued and will in any case eventually disappear along with its market.

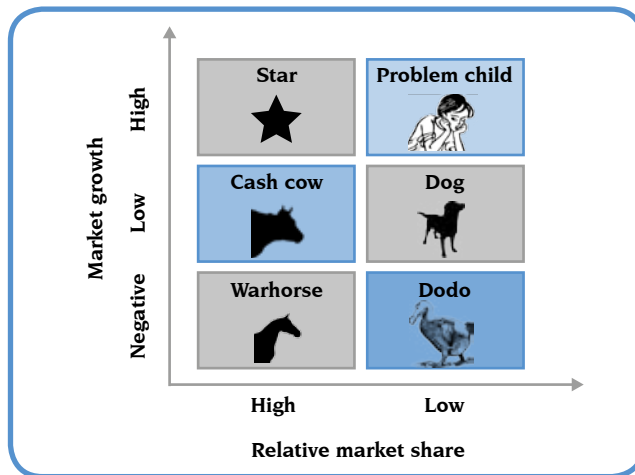


Figure 2.30: The extended BCG matrix.

Limitations of the BCG model

- **Simplistic** - It only considers two variables.
- **The connection between market share and cost savings** - Companies with low market share use low-share technology and have lower production costs.
- **Cash cows do not always generate cash.**
- **Factors besides market share and sales growth affect cash flow and profit.**
- **In the right conditions a firm can profit from a low share in a low-growth market.**
- **The techniques do not tell you how to generate new businesses.**
- **Fail to consider value creation** - The management of a diverse portfolio can create value by sharing competencies across SBUs, sharing resources to reap economies of scale - diverting investment away from cash cows and dogs fails to consider the benefit of offering the full range.

The ADL strategic condition matrix

The ADL matrix introduces strategic implications using two dimensions, which are stage in the industry life cycle and the competitive position of the company. The product or service which it markets, and the accesses it has to a range of geographically dispersed markets that are what makes up an organisations competitive position. The model puts forward strategic implications for organizations in terms of market share, profitability and cash flow.

Strategic positioning in terms of market share

Competitive position	Industry life cycle stage			
	Embryonic	Growth	Mature	Aging
Dominant	All out push for share; Hold Position	Hold position; Hold Share	Hold position; grow with industry	Hold position
Strong	Attempt to improve positions; All out push for share	Attempt to improve position: push for share	Hold position; growth with industry	Hold position or harvest
Favorable	Selective or all out push for share; selectively	Attempt to improve position; selective push for share	Custodial or maintenance; find niche and attempt to protect it	Harvest or phased out withdrawal
Tenable	Selectively push for position	Find niche and protect it	Find niche and hand on, or phased out withdrawal	Phased out withdrawal, or abandon
Weak	Up or out	Turnaround	Turnaround, orphaned out withdrawal	Abandon

Table 2.12: Strategic positioning in terms of market share.

Strategic positioning in terms of profitability and cash flow

	Embryonic	Growth	Mature	Aging
Dominant	Probably profitable, But not necessary a net cash borrower	Profitable, Probably net cash producer (But not necessary)	Profitable, Net cash producer	Profitable, Net cash producer
Strong	May be unprofitable, Net cash borrower	Probably profitable, Probably net cash borrower	Profitable, Net cash producer	Profitable, Net cash producer
Favorable	Probably unprofitable, Net cash borrower	Marginally profitable, Net cash borrower	Moderately profitable, Net cash producer	Moderately profitable, Cash flow balance
Tenable	Unprofitable, Net cash borrower	Unprofitable, Net cash borrower or cash flow balance	Minimally profitable, Cash flow balance	Minimally profitable, Cash flow balance
Weak	Unprofitable, Net cash borrower	Unprofitable, Net cash borrower or cash flow balance	Unprofitable, Possibly net cash borrower or net cash producer	Unprofitable (Write off)

Table 2.13: Strategic positioning in terms of profitability and cash flow.

The Rogers innovation adoption curve

Rogers (1962) classified adopters of innovations into various categories, based on the idea that certain individuals are inevitably more open to adaptation than others. The model is also called the diffusion of innovations theory and reminds the marketer that trying too quickly to convince the mass market of a new controversial idea may not work well. The model argues that it makes more sense in these circumstances to start with convincing innovators and early adopters first. The categories and percentages can also be used to estimate target groups for communication purposes and marketing mix purposes.

- **Innovators** - Brave people, pulling the change. Innovators are very important communicators.
- **Early adopters** - Respectable people, opinion leaders, try out new ideas, but in a careful way.
- **Early majority** - Thoughtful people, careful but accepting change more quickly than the average.
- **Late majority** - Skeptical people will use new ideas or products only when majority is using it.
- **Laggards** - Traditional people, caring for the 'old ways', are critical towards new ideas and will only accept it if the new idea has become mainstream or even tradition.

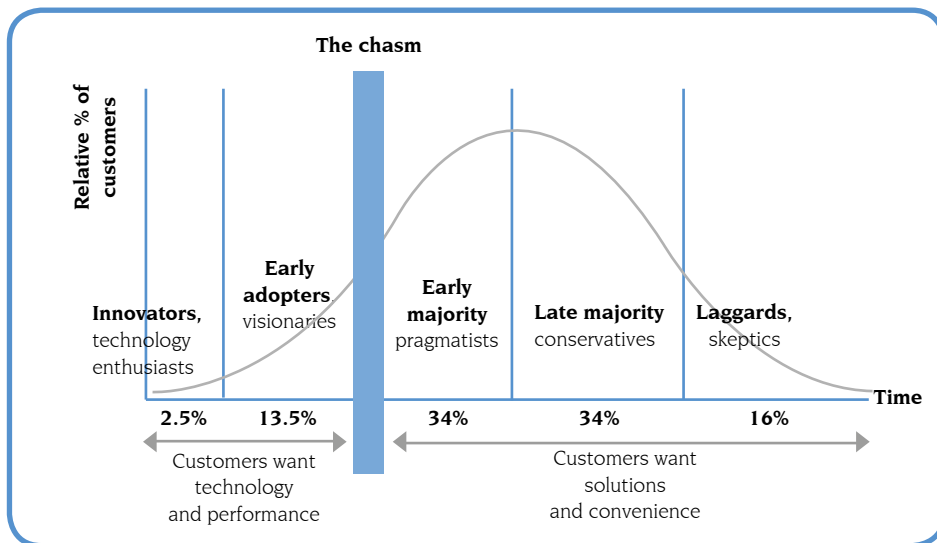


Figure 2.31: The Rogers innovation adoption curve

Separate marketing mix for each stage

Moore (2001) spoke of crossing the chasm, which states that dividing the world into a bell curve of innovators, early adopters, early majority, late majority, and laggards is useful, but misses a crucial 'chasm' that exists between early adopters and early majority. The gap exists for many reasons, but the major one is that what innovators and adopters value and expect (Expressiveness, learning something new) differs from what the majority values and expects (Ease of use).

Diffusion research focuses on five elements

- The characteristics of an innovation which may influence its adoption.
- The decision making process that occurs when individuals consider adopting a new idea, product or practice.
- The characteristics of individuals that make them likely to adopt innovation.
- The consequences for individuals and society for adopting an innovation.
- The marketing mix and the communication channels used in the adoption process.

The McKinsey, General Electric business screen matrix

The Matrix overcomes a number of disadvantages in the BCG matrix. Firstly, market attractiveness replaces market growth as the dimension of industry attractiveness, and includes a broader range of factors other than just the market growth rate. Secondly, competitive strength replaces market share as the dimension by which the competitive position of each SBU is assessed. A major assumption behind the GE-McKinsey matrix is that it can operate when the economies of scale are achievable in production and distribution. Unless the same holds true, the concept of leveraging the competencies of the firm and the SBU falls flat. Also some of the factors of competitive strength and market competitiveness may be extremely important for a particular instance, whilst in another instance may even require other factors. The top management of the organisation should decide upon these factors very carefully as there is no generic set of factors with which all SBUs may be evaluated. It examines a company's competencies in market sector, without reference to individual products.

Determinants of industry, market attractiveness	Determinants of business strengths
Market factors (e.g. size, growth, profitability)	Product quality and range
Competitive intensity or rivalry	Distribution strength
Overall risk of returns in the industry	Brand reputation
Price elasticity	Proprietary technology
Segmentation	Production capacity
PEST factors	Management skills
Bargaining power of buyers	Market share
Distribution structure	Perceived differentiation
Opportunity to differentiate products	Assets and competencies
	Customer loyalty

Table 2.14: The McKinsey, General Electric business screen matrix.

These factors can then be scored and weighted. For example, a market with a low size and intense competition based on price might receive a lower weighting than a market with high growth and limited competition.

		SBU strengths		
		Strong	Average	Weak
Industry attractiveness	High	Invest for growth	Invest for growth	Invest selectively for growth
	Medium	Invest for growth	Invest selectively for growth	Harvest, withdraw
	Low	Invest selectively for growth	Harvest, withdraw	Divest

Figure 2.32: GE multifactor matrix.

		SBU strengths		
		Strong	Average	Weak
Industry attractiveness	High	Protect position, invest for growth <ul style="list-style-type: none"> Invest to grow at maximum digestible rate Concentrate effort on maintaining strength 	Invest selectively for growth <ul style="list-style-type: none"> Challenge for leadership Build selectively on strengths Reinforce vulnerable areas 	Build selectively <ul style="list-style-type: none"> Specialize around limited strengths Seek ways to overcome weaknesses Withdraw if indications of sustainable growth are lacking
	Medium	Build selectively <ul style="list-style-type: none"> Invest heavily in most attractive segments Build up ability to counter competition Emphasize profitability by raising productivity 	Selectivity, manage for earnings <ul style="list-style-type: none"> Protect existing program Concentrate investments in segments where profitability is good and risk in relatively low 	Limited expansion or harvest <ul style="list-style-type: none"> Look for ways to expand without high risk; otherwise, minimize investment and nationalize investment
	Low	Protect and refocus <ul style="list-style-type: none"> Manage for current earnings Concentrate on attractive strengths Defend strengths 	Manage for earnings <ul style="list-style-type: none"> Protect position in most profitable segments Upgrade product line Minimize investment 	Divest <ul style="list-style-type: none"> Sell at time that will maximize cash value Cut fixed costs and avoid investment meanwhile

Figure 2.33: The strategic implications of the GE multifactor matrix.

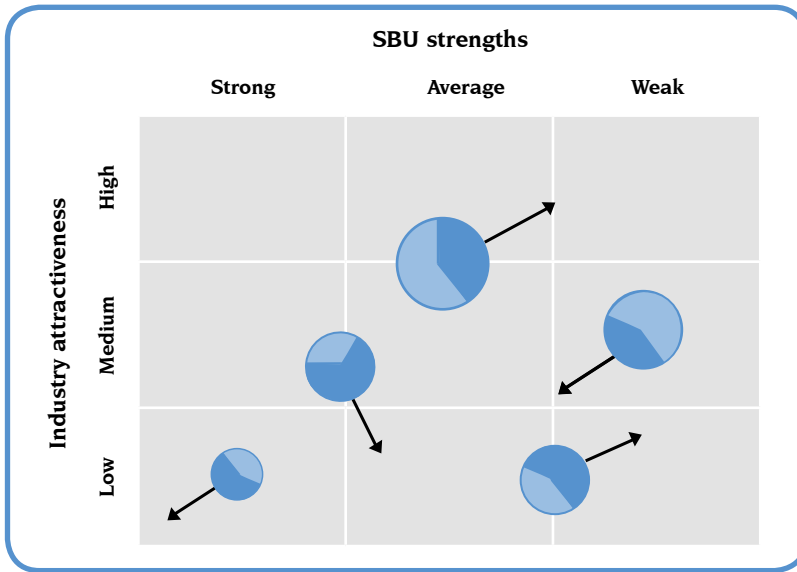


Figure 2.34: GE multifactor matrix.

Each business unit can be portrayed as a circle plotted on the matrix, with the information conveyed as follows;

- Market size is represented by the size of the circle.
- Market share is shown by using the circle as a pie chart.
- The expected future position of the circle is portrayed by means of an arrow.

Strategic implications

- Each SBU can be plotted in one of the cells and the appropriate management approach adopted.
- It is possible that SBUs might move around the matrix. Changes in PEST (Political, economic, social, technological) factors may change industry/markets attractiveness.
- The matrix ignores the possibility of knowledge generation and competence sharing between SBUs.

Shell directional policy matrix

The directional policy matrix is a useful tool since it captures many aspects of the portfolio strategy in one diagram and has strategic implications proposed for each quadrant. The matrix is based on prospects for sector profitability and the enterprise's competitive capabilities.

		Prospects for sector profitability		
		Unattractive	Average	Attractive
Enterprise competitive capabilities	Weak	Disinvest	Phased withdrawal	Double or quit
	Average	Phased withdrawal	Custodial growth	Try harder
	Strong	Cash Generator	Growth Leader	Leader

Figure 2.35: Shell directional policy matrix.

Strategic implications

- **Disinvest** - Liquidate or move these assets on a fast as you can.
- **Phased withdrawal** - Move cash to SBU's with greater potential.
- **Double or quit** - Gamble on potential major SBU's for the future.
- **Custodial growth** - Just like a cash cow, milk it and do not commit any more resources.
- **Try harder** - Could be vulnerable over a longer period of time, but fine for now.
- **Cash generator** - Even more like a cash cow, milk here for expansion elsewhere.
- **Growth leader** - Grow the market by focusing just enough resources here.
- **Leader** - Major resources are focused upon the SBU.

The Ashridge portfolio display

The model takes account of the fact that the value creating potential of a business within a company's business portfolio depends not just upon the characteristics of the business but also on the characteristics of the parent. The focus, therefore, is on the fit between a business and its parent company. The matrix is used to evaluate the attractiveness of potential acquisition target or existing business to the parent. The horizontal and vertical axis denotes;

- **The parent's potential for creating value and opportunities to help the business unit ("Benefit" to the business unit)** - By applying corporate-management capabilities, sharing resources, core competencies, strategic capabilities.
- **The measure of the potential for value destruction by the parent ("Feel" is the misfit between the business units CSF's and the parents strategic capability)** - Apportionment of the costs of the corporate overhead, mismatch between the management needs, systems and style of the parent, bureaucratic rigidity, incompatibility with the top management mind set, politicization of decision-making and the risks of inappropriate strategic guidance.

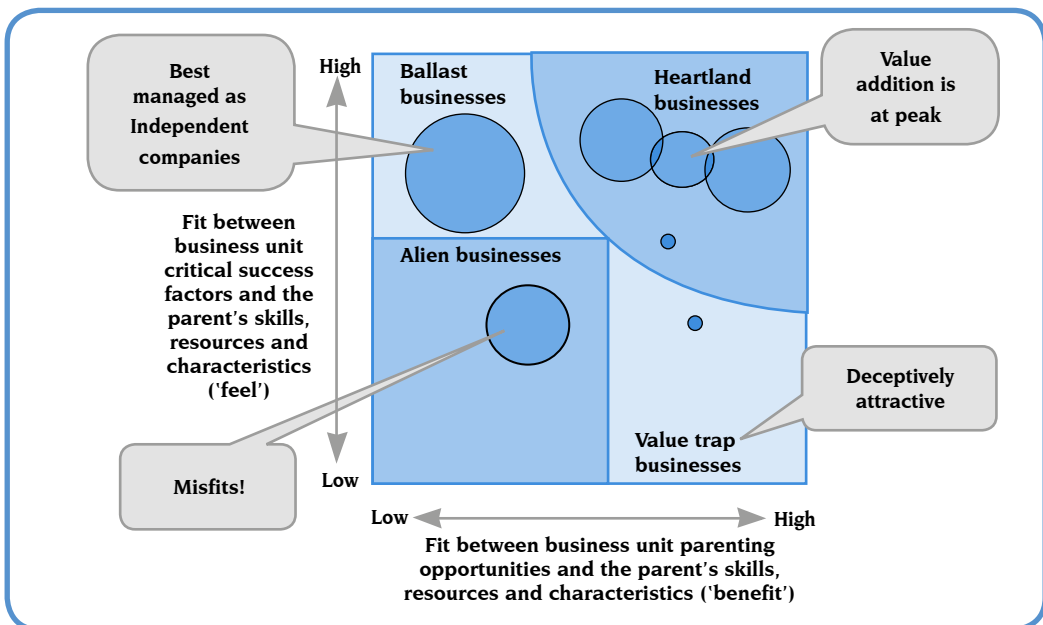


Figure 2.36: The Ashridge portfolio display.

Strategic implications

- **Alien businesses** - These are the business outside the industry of the business considering takeover or merger proposal, so business has no knowledge of internal and external factors affecting the business operating in that industry, needed to make it successful. It can be said that it has low "feel". There are no opportunities for the parent to add value by helping it because the potential business has the skills necessary for its success. It can be said that it has low benefits.
- **Value trap businesses** - These are the business outside the industry of the business considering takeover or merger proposal. It can be said that it has low "feel". There are opportunities for the parent to add value by helping it because the parent possesses resources and capabilities to help the potential acquisition target. It can be said that it has high "benefits".

- **Ballast businesses** - These are the business inside the industry of the business considering takeover or merger proposal. It can be said that it has high "feel". There are no opportunities for the parent to add value by helping it because potential acquisition target has the skills necessary for its success. It can be said that it has low "benefits".
- **Heartland businesses** - These are the business inside the industry of the business considering takeover or merger proposal. It can be said that it has high "feel". There are opportunities for the parent to add value by helping it because the potential business lacks the skills necessary for its success. It can be said that it has high "benefits".

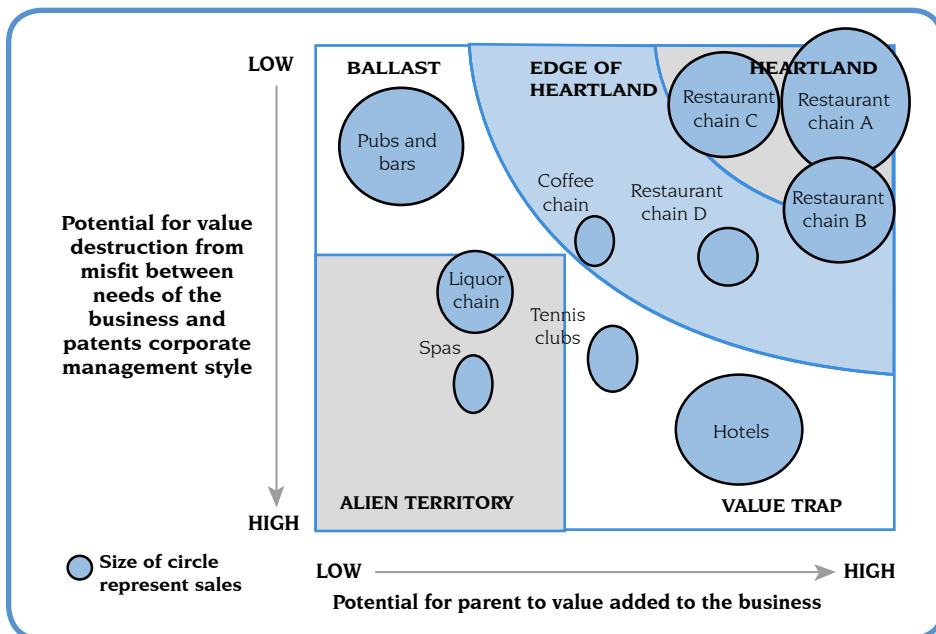


Figure 2.37: The Ashridge portfolio display.

2.12 The six step SWOT analysis

This is the most fundamental tool in marketing and a fully blown SWOT can be helpful to exhaust your thoughts before embarking on a marketing audit and plan. The SWOT steps are as follows;

Step 1 (Analysis) - List the businesses/ strategic business unit's strengths and weaknesses that are internal to the organisation and opportunities and threats, which are external to the organization. One must exhaust your thoughts here and not take on a defensive role. An example is provided below;

Step 2 (Converting) - Take each weakness and discuss plans as to how that can be converted to a strength. E.g. Lack of marketing expertise is an internal weakness, however, this can be overcome by recruiting these skills before starting the marketing plan thus filling the gaps. Further, all threats can

Strengths	Weaknesses
<ul style="list-style-type: none"> ■ Specialist marketing expertise ■ Exclusive access to natural resources ■ Patents ■ New, innovative products or services ■ Location of your business ■ Cost advantage through proprietary know-how ■ Quality processes and procedures ■ Strong brand or reputation 	<ul style="list-style-type: none"> ■ Lack of marketing expertise ■ Undifferentiated products and service (i.e. in relation to your competitors) ■ Location of your business ■ Competitors have superior access to distribution channels ■ Poor quality goods or services ■ Damaged reputations
Opportunities	Threats
<ul style="list-style-type: none"> ■ Developing market (The internet) ■ Mergers, joint ventures or strategic alliances ■ Moving into new attractive market segments ■ A new international market ■ Loosening of regulations ■ Removal of international trade barriers ■ A market led by a weak competitor 	<ul style="list-style-type: none"> ■ A new competitor in your home market ■ Price wars ■ Competitor has a new, innovative substitute product or service ■ New regulations ■ Increased trade barriers ■ Taxation may be introduced in your product or service

Figure 2.38: An example of a SWOT analysis.

also be converted into opportunities. E.g. A competitor launch of a new product might also suggest improvements to your existing product or may give you the opportunity to launch a new product to counter your competitor.

Step 3 (Matching) - All strengths must be matched with corresponding opportunities. E.g. If you received a patent for a product, then it is a strength and can be used to exploit the opportunity of launching new products. Upon matching each strength with listed opportunities you would notice that the company possesses some strengths without any corresponding opportunity to match or vice versa where you have some opportunities but no identified strengths to match. These miss-matches are very important insights and must be addressed in your marketing plan.

Step 4 (Generating key issues) - Key issues are the basis of a good marketing plan and these are the critical issues a company must address or overcome. A plan usually addresses 4-5 key issues. These are the issues, which act as limiting factors for the company to grow exponentially. The key issues are derived from the main weaknesses, opportunities and threats in the SWOT analysis. After compiling the exhaustive list, the marketer must pick the most vulnerable weaknesses, the most perennial threats and the biggest opportunities and prioritize them as 4-5 key issues.

Step 5 (Strategic strengths versus critical success factors) - Here, the marketer must list the critical success factors of the industry. E.g. The critical success factors in the airline industry may be classified as on time arrivals and departures, code shares, load factor and number of destinations. For the supermarket industry critical success factors may include central warehousing, category

management and merchandising, location and backward integration. Similarly the marketer needs to list the industry’s CSF’s. After completing this exercise, a comparison of the industry’s CSF’s and the company’s strengths will be useful. For instance, if the CSF is identified as central warehousing and the super market has identified it as a strength it becomes a strategic strength and must be leveraged to its fullest potential.

Step 6 (Leverage, overcome, exploit and mitigate) – The final step is to go through each item in the SWOT and brainstorm as to how all the strengths can be leveraged, overcome weaknesses, exploit opportunities and mitigate threats.

The TOWS matrix

The TOWS Matrix by Wehrich (1993) introduces strategic implications for each quadrant in the SWOT and they are as follows;

Internal elements External elements	Organizational strengths	Organizational weaknesses
Strategic options		
Environmental opportunities (and risks)	S-O: strengths can be used to capitalize or build upon existing or emerging opportunities	W-O: the strategies developed need to overcome organizational weaknesses if existing or emerging opportunities are to be exploited.
Environmental threats	S-T: strengths in the organization can be used to minimize existing or emerging threats	W-T: the strategies pursued must minimize or overcome weaknesses and as far as possible cope with threats

Figure 2.39: The TOWS Matrix by Wehrich (1993).

The TOWS analysis identifies strategic alternatives that address the following additional questions;

- **Strengths and opportunities (SO)** - How can you use your strengths to take advantage of the opportunities?
- **Strengths and threats (ST)** - How can you take advantage of your strengths to avoid real and potential threats?
- **Weaknesses and opportunities (WO)** - How can you use your opportunities to overcome the weaknesses you are experiencing?
- **Weaknesses and threats (WT)** - How can you minimize your weaknesses and avoid threats?

Internal elements External elements	Internal strengths 1. Cash position 2. Luxury car image 3. New car models 4. Location close to suppliers 5. Engineering & technology	Internal weaknesses 1. High costs 2. Venturing into unrelated business 3. Organizational diversity 4. Reliance on past successes and bureaucracy 5. Relatively weak position in Japan
	External opportunities 1. Demand for luxury cars 2. Eastern Europe, especially East Germany 3. Prosperity through EC 1992 4. Electronics technology	S-O strategy 1. Develop new models (using high-tech) and charge 2. Use financial resources to acquire other companies or increased production capacity
External threats 1. Decrease in defense needs because of easing East-West tensions 2. BMW, Volvo, Jaguar, Lexus, Infinity in Europe 3. BMW in Japan 4. Diesel emissions 5. Renault/Volvo cooperation 6. Political instability in south Africa	S-T strategy 1. Transform defense sector to consumer sector 2. Develop new models to compete especially in Europe	W-T strategy 1. Retrench in South Africa 2. Form strategic alliance with Mitsubishi to penetrate the Japanese

Figure 2.40: TOWS analysis for Daimler-Benz's Mercedes-Benz car division by Weirich (1993).

2.13 The McKinsey seven 'S' framework

Tom Peters and Robert Waterman, who were two consultants working at the McKinsey & Company consulting firm developed this model in the early 1980's. The basic premise of the model is that there are seven internal aspects of an organization that need to be aligned if it is to be successful. The 7'S model can be used in a wide variety of situations, which are;

- To improve the performance of a company.
- To analyze the current situation and a proposed future situation.
- To examine the likely effects of future changes within a company.
- To align departments and processes during a merger or acquisition.
- To determine how best to implement a proposed strategy.

The McKinsey 7S model involves seven interdependent factors, which are categorized as either 'hard' or 'soft' elements:

Hard elements	Soft elements
Strategy	Shared Values
Structure	Skills
Systems	Style
Staff	

- **'Hard' elements** - Are easier to define or identify and management can directly influence them.
- **'Soft' elements** - Are on the other hand, can be more difficult to describe, and are less tangible and more influenced by culture.

Placing shared Values in the middle of the model emphasizes that these values are central to the development of all the other critical elements and the connectivity between each variable depicts the interdependency of the elements and indicates how a change in one affects all the others. The model is based on the theory that, for an organization to perform well, these seven elements need to be aligned and mutually reinforcing. The model can also be used to analyze the current situation, a proposed future situation and to identify gaps and inconsistencies between them. It's then a question of adjusting and tuning the elements of to ensure that the organization works effectively. The model is as follows;

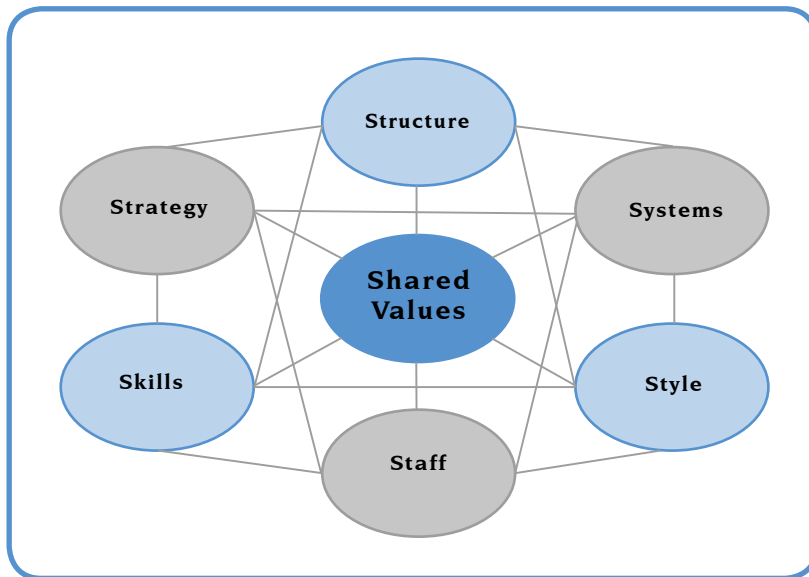


Figure 2.41: The McKinsey seven 'S' framework.

- **Strategy** - Is the set of plans outlining how the organisation is going to achieve its objectives.
- **Shared values** - Are guiding principles, which lead the organisation into behaving in a particular way.
- **Structure** - Refers to how the organisation is structured functionally, i.e. who reports to whom.
- **Skills** - Are the capabilities that the organisation has as a whole.
- **Systems** - Are the processes and procedures which the organisation uses to meet customer needs.
- **Style** - Is the management approach collectively used.
- **Staff** - Are the people who constitute the organisation.

The seven 'S' checklist

Here are some of the questions that will need to be explored to understand the situation. Use the questions to analyze the current situation first, and then repeat the exercise for the proposed situation.

Strategy

- What is our strategy?
- How do we intend to achieve our objectives?
- How do we deal with competitive pressure?
- How are changes in customer demands dealt with?
- How is strategy adjusted for environmental issues?

Structure

- How is the company team divided?
- What is the hierarchy?
- How do the various departments coordinate activities?
- How do the team members organize and align themselves?
- Is decision making and controlling centralized or decentralized? Is this as it should be, given what we're doing?
- Where are the lines of communication? Explicit and implicit?

Systems

- What are the main systems that run the organization? Consider financial, HR systems as well as communications and document storage.

- Where are the controls and how are they monitored and evaluated?
- What internal rules and processes does the team use to keep on track?

Shared Values

- What are the core values?
- What is the corporate, team culture?
- How strong are the values?
- What are the fundamental values that the company, team was built on?

Style

- How participative is the management, leadership style?
- How effective is that leadership?
- Do employees, team members tend to be competitive or cooperative?
- Are there real teams functioning within the organization or are they just nominal groups?

Staff

- What positions or specializations are represented within the team?
- What positions need to be filled?
- Are there gaps in required competencies?

Skills

- What are the strongest skills represented within the company's team?
- Are there any skill gaps?
- What is the company's team known for doing well?
- Do the current employees, team members have the ability to do the job?
- How are skills monitored and assessed?

Using the information derived from the questions above, examine the gaps and inconsistencies between elements in the current state and the desired future state. The McKinsey 7S Worksheet contains a matrix that can be used to gauge the alignment between each of the elements. Start with the Shared Values: Are they consistent with your strategy, structure, systems, style, staff and skills? If not, what needs to change?

	Shared Values	Strategy	Structure	Systems	Style	Staff	Skill
Shared Values							
Strategy							
Structure							
Systems							
Style							
Staff							
Skills							

Figure 2.42: The McKinsey seven 'S' framework

The 6 C's framework

The following C's framework can be used to identify and diagnose business issues.

- Customers and the market.
- Competitive position.
- Core competencies and assets.
- Chances and opportunities.
- Critical success factors (CSFs) or problem to overcome.
- Constraints.

2.14 Stakeholder analysis

Johnson and Scholes (1999) define stakeholders as those individuals or groups who depend on an organisation to fulfill their own goals and on whom, in turn; the organisation depends to fulfill its goals.

A process for stakeholder management

- Audit the types of stakeholders of the business.
- Cluster stakeholders using the Freeman theory or the direct, indirect or potential stakeholder classification.
- Analyze the expectations of each stakeholder.
- Plot stakeholders on the power and interest matrix (Mandelo matrix).
- Draw up an annual plan to manage and communicate with key stakeholders.

Definition : Freeman (1984) defines a stakeholder as an individual or a group that has a legitimate interest in aspects of the organization's activities and has either the power to affect the firm's performance or has a stake in the firm's performance.

The two types of stakeholders are as follows;

- **The strategic stakeholder** - The ones who can affect a firm and their interests and must be dealt with carefully so that the firm may still achieve its objectives.
- **The moral stakeholder** - The one who is affected by the firm.

Freeman's stakeholder map

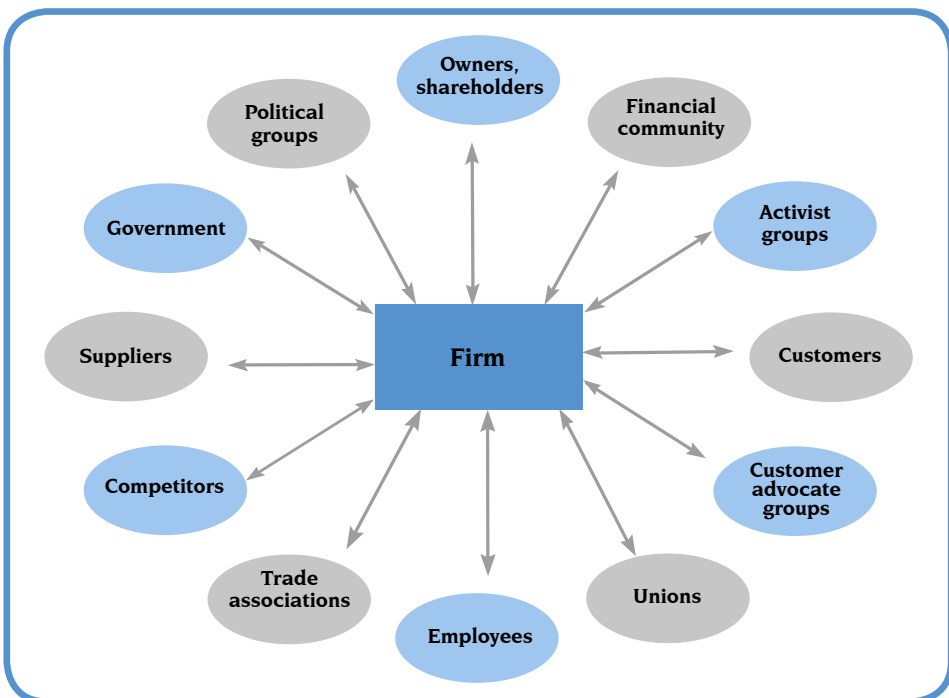


Figure 2.43: R.E. Freeman, strategic management: A stakeholder approach, Pitman 1984.

The three classifications of stakeholders

- **Internal stakeholders** - Are stakeholders inside the organization. E.g. Employees, internal shareholders, directors, senior management, unions.
- **Connected stakeholders** - Are stakeholders that are external but deal with the organization on a regular basis. E.g. External shareholders, consultants, advertising agencies, research agencies, lending institutions, suppliers, distributors, customers, brand ambassadors.

- **External stakeholders** - Pressure groups, trade associations, consumerist movements, central or local government, media and the public at large.

Analyzing stakeholder expectations

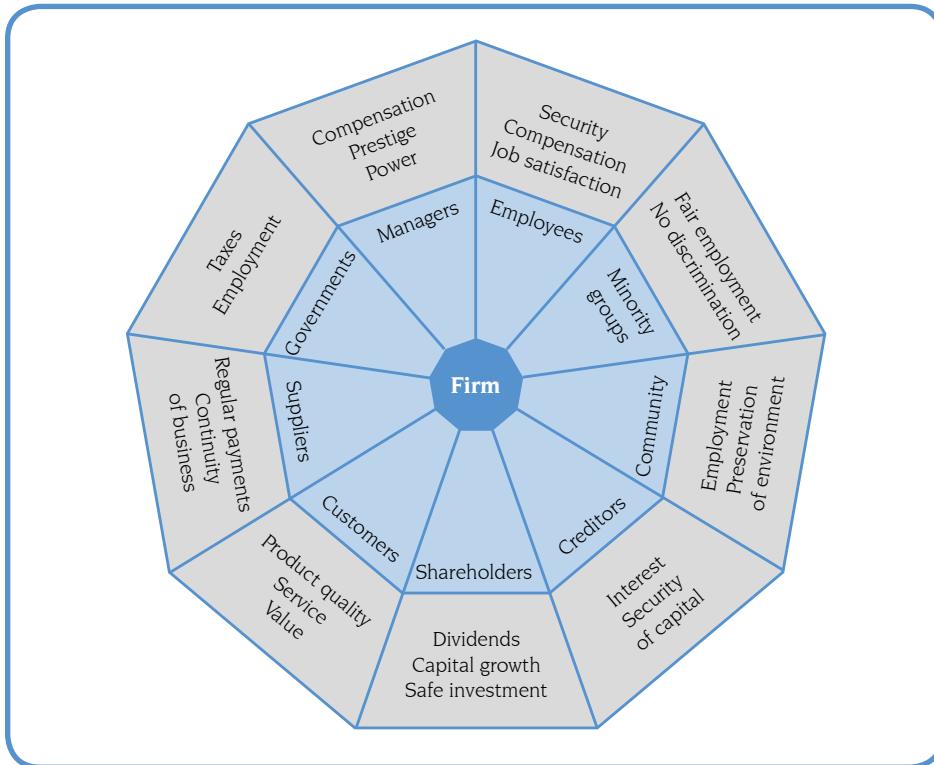


Figure 2.44: Analyzing stakeholder expectations.

Managing stakeholders using the power and interest matrix

There is a considerable potential for conflict of interest between the primary stakeholder groups. Higher wages for employees may conflict with shareholder profits or result in higher prices that upset customers. Local community concerns for health and safety may increase costs, reduce competitiveness and jeopardize jobs. If any stakeholder considers they are not receiving sufficient return, they may withdraw their contribution to the organization. If customers no longer feel a product is offering value for money they will buy elsewhere. If workers consider their remuneration too low, they will change jobs and their contribution, expertise and experience will be lost. Balancing these conflicting stakeholder expectations while achieving growth, market share and profitability is a challenge. The matrix is useful to prioritize which stakeholders the company needs to engage and have on going dialog with throughout the year.

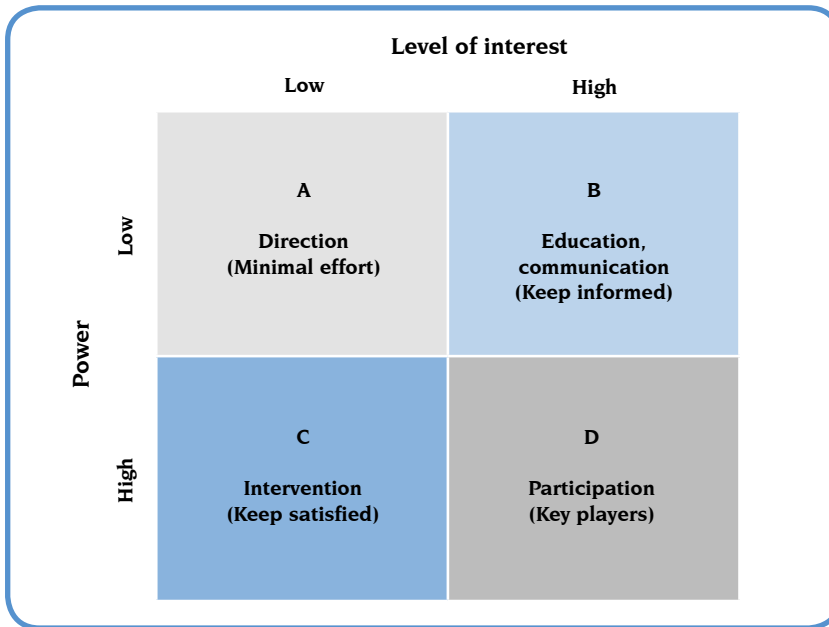


Figure 2.45: The power, interest matrix based on Eden and Ackerman (1998).

Strategies to deal with stakeholders

The following strategies can be adopted to deal with stakeholders depending on their level of power and interest.

- **Low interest, low power (Direction)** - Their lack of interest and power makes them open to influence. They are more likely than others to accept what they are told and follow instructions.
- **High interest, low power (Education, communication)** - These stakeholders are interested in the strategy but lack the power to do anything. Management need to convince opponents to the strategy that the plans are justified; otherwise they will try to gain power by joining with parties in boxes C and D.
- **Low interest, high power (Intervention)** - The key here is to keep these stakeholders satisfied to avoid them gaining interest and moving to box D. This could involve reassuring them of the outcomes of the strategy well in advance.
- **High interest, high power (Participation)** - These stakeholders are the major drivers of change and could stop management plan if not satisfied. Management therefore need to communicate plans to them and then discuss implementation issues.

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The Pulse of million's of Sri Lankans Dialog the Future, today!



Dialog Axiata PLC, operates 2.5G, 3/3.5G and 4G mobile communication networks supporting the very latest in multimedia and mobile internet services and most recently obtained the necessary spectrum to launch mobile 4G LTE services in Sri Lanka. Dialog has the distinction of being the first 3G and HSPA+ service operator in South Asia and is an ISO 9001 certified company. Its local coverage spans all provinces of Sri Lanka, whilst international roaming is provided in over 200 destinations. The company is also the largest and fastest growing cellular service provider in Sri Lanka, which operates Dialog television a direct-to-home satellite TV service and Dialog broadband network providing backbone and transmission infrastructure facilities, and data communication services, serving a subscriber base in excess of 7.8 million Sri Lankans.

With over Rs. 56,345 million in revenue (Year ended 31st December 2012), market capitalization of Rs.67.6 billion (2012), with prepaid customers of 6,827,000 and postpaid customers of 900,200, Dialog Axiata is the largest mobile telecommunication company in Sri Lanka. The company's vision is to be the undisputed leader

in the provision of multi-sensory connectivity resulting always in the empowerment and enrichment of Sri Lankan lives and enterprises. The mission of the organisation, is to lead in the provision of technology enabled connectivity touching multiple human sensors and faculties through committed adherence, customer driven, responsive, flexible business processes, through the delivery of quality service and leading edge technology unparalleled by any other, spurred by an empowered set of dedicated individuals who are driven by an irrepressible desire to work as one towards a common goal in the truest sense of team spirit. The company firmly believes that values and ethics form the strong foundation upon which the organisation has built itself. Their values are total commitment to their customers, dynamic and human-centered leadership, commitment to task & excellence, uncompromising integrity, professionalism and accountability, teamwork and foremost respect for concern & care.

The parent company Axiata is one of the largest telecommunication companies in Asia with the fastest growing asian footprint and a vision of becoming a regional champion. Advancing



in asia is Axiata's goal and they aim to achieve this through bringing affordable connectivity, innovative technology and world-class talent to the entire region. AXIATA, previously TMI, is one of the largest asian telecommunication companies; focused on high growth, low penetration emerging markets. AXIATA has a controlling interest in Malaysia, Indonesia, Sri Lanka, Bangladesh and Cambodia with significant strategic stakes in India and Singapore. India and Indonesia are some of the fastest growing markets in the world. In addition, the Malaysian grown holding company has assets in telecommunication operations in Thailand, Pakistan and Iran. The Group's mobile subsidiaries and associates operate under the brand name 'Celcom' in Malaysia, 'XL' in Indonesia, 'Dialog' in Sri Lanka, 'AKTEL' in Bangladesh, 'HELLO' in Cambodia, 'Idea' and 'Spice' in India, 'MI' in Singapore and 'MTCE' in Iran (Esfahan).

Since the late 90's Dialog Mobile spearheaded the exponential growth of the country's mobile telecommunication sector, propelling it to a status on par with the developed world. Dialog operates on 2.5G, 3.5G and 4 G communications network that support the very latest in multimedia and mobile internet and in April 2013, the company secured the distinction of becoming

the first service provider in South Asia to launch mobile 4G FD-LTE services. With a customer base of over 7.8 million, Dialog provides the best in mobile coverage, with over 2,500 base stations (2G) and 1,740 3G base station sites spanning all provinces. In addition, customers are linked to over 200 global destinations via international roaming, including 3G services.

Dialog Television (Private) Limited (DTV) operates Dialog Satellite TV, a direct-to-home satellite entertainment service. Bringing the best of international content, DTV's offering includes CNN, BBC, HBO, Cinemax, AXN, ESPN, Discovery, MTV (Music Television) and Cartoon Network, amply demonstrating the diversity of its entertainment. This is in addition to a wide portfolio of Sri Lankan channels such as Citi Hitz, Channel C and The Buddhist. Currently, Dialog television has a subscriber base of 100,000 island-wide.

Dialog Broadband Networks (Private) Limited (DBN) is a key player in the provision of broadband internet, fixed-telephony, data networks and converged solutions in Sri Lanka. Dialog CDMA combines affordability and connectivity, offering subscribers the best spectrum and a network free of congestion. Dialog CDMA also provides subscribers with a host of other benefits such as



call holding/waiting, SMS, CLI, call transfer, call forward, voice mail, fax, three-way calling and call conferencing facilities. DBN also provides broadband internet, powered by 4G WiMAX technologies, featuring pre-packaged high-speed Internet solutions, together with unlimited usage for a fixed monthly subscription. DBN has positioned itself as the best value for money service provider.

DBN is Sri Lanka's second largest fixed telecommunications provider. DBN serves residential and enterprise customers with voice, broadband, leased lines and customized telecommunication services. DBN has the distinction of being the first telecommunications operator in Sri Lanka to launch 4th Generation LTE High Speed Broadband Services. DBN is also a leading provider of Radio and Optical Fibre based transmission infrastructure facilities. DTV operates a Direct-to-Home (DTH) Digital Satellite TV service and is the market leader in Sri Lanka's Pay TV sector. DTV supports a broad array of international and local content in both Standard Definition (SD) and High Definition (HD) formats alongside a wide portfolio of Sri Lankan television channels and delivers high quality infotainment to a viewer base in excess of DTV subscriber base 264,000 Sri Lankan households.

Dialog Global, the international arm of Dialog provides a rich portfolio of international services with access to major submarine cable systems, satellite earth stations and state-of-the-art gateway facilities. Networked globally through its parent company, Axiata, and its partnership with 'Tier-1' international carriers, plus the domestic support of Dialog Broadband Networks, Dialog Global, is positioned to play an integral part in meeting the demands of retail and wholesale international voice and data services.

The company also provides a comprehensive suite of international roaming services across a global footprint comprising of more than 200 countries and operates a wide portfolio of international telecommunication services, including but not limited to retail and wholesale international voice and data services. Dialog also recently entered into an agreement with the Bay of Bengal Gateway (BBG) consortium as part of the organisation's plans to boost the delivery of international bandwidth to Sri Lanka via a submarine cable to be landed in South Colombo, triggering the single largest infusion of international bandwidth to Sri Lanka by 4th Quarter of 2014.

Dialog Tele-Infrastructures (DTI) is Sri Lanka's leading provider of telecommunication



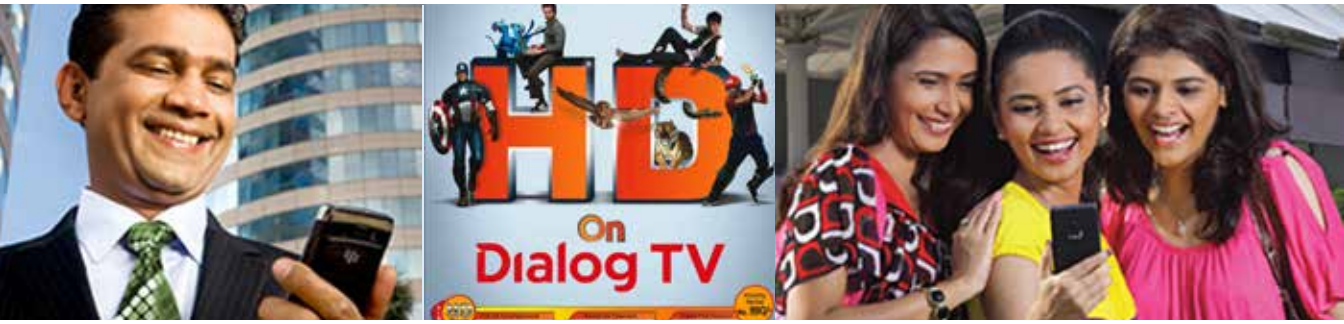
infrastructure, providing state-of-the-art transmission and co-location facilities to licensed operators. DTI's vision is to develop and maintain an advanced universal infrastructure for operators of all kinds.

Delivering world-class customer service to approximately 8Mn subscribers, Dialog's state-of-the-art Customer Contact Centre is the country's largest and most modern Contact Management Facility powered by a dedicated staff of over 1,000 service professionals. Dialog's service agents are available round the clock via person-to-person interaction, web-based chat or email to support the growing customer base.

Dialog's service team continuously evolves to maximize potential in terms of knowledge, technology know-how, efficient customer contact and transaction processing. This dedication to frontline service has resulted in a host of accolades and international recognition for world-class service. Dialog has received numerous local and international awards including the National Quality Award, Sri Lanka Business Excellence Award, and 3 successive GSM World Awards. Dialog was the first South Asian company to receive Customer Service Quality Standard (CSQS) certification by the Asia Pacific Customer

Service Consortium (APCSC), in recognition of its achievements and high level of compliance to CSQS – Level III standards in Contact Management. Dialog received the 'Service Centre of The Year 2006' award and was recognized as 'Best in Class for Proactive Service Management' at the Customer Relationship Excellence Awards, held in Hong Kong 2007. The company was also honored at the annual GCCRM Customer Management Awards 2007, held in China, with awards for Customer Management Strategy Award – Asia Pacific, Customer Management Technology Award – Asia Pacific and the Retail Customer Experience Award – Asia Pacific.

More recent international accolades include the World Summit Awards – Mobile in 2010 for Tradenet under the category of mobile inclusion. The company has also earned the distinction of retaining the No. 1 position on Sri Lanka's Corporate Accountability Ratings over the past 3 years as well as being consistently placed in the top 5 among Sri Lanka's Most Respected Corporate Entities along with being regularly featured amongst the top 10 Most Valuable Brands in Sri Lanka. The Dialog brand has been voted as the winner of Sri Lanka's Peoples Award for the most preferred telecommunications brand, Sri Lanka's most valuable brand of the year by Brand



Finance as well as being recognised as the SLIM-Nielsen Peoples Service Brand of the year, joint winner of Youth Brand of the Year in 2012 and Telecom Brand of the Year two years in succession while receiving the accolade of Internet Service Brand of the Year in its inaugural year of award.

Dialog Enterprise Contact Management (ECM) is the Business Process Outsourcing (BPO) venture of Dialog, offering their clients the best in customer service contact technology and processes; channeling Dialog's expertise in customer service into enhancing client performance. ECM's in-depth knowledge of end-to-end customer requirement is founded on the customer centricity that has made Dialog the leading communications service provider in Sri Lanka.

The company prides itself in its commitment to, and achievement trail in research, development and technology-innovation. Dialog Mobile has the distinction of placing Sri Lanka as the first in the region and amongst the first 40 countries in the world to support High Speed Packet-Based Mobile Data Services with the launch of GPRS (General Packet Radio Service) in 2001. GPRS is a key element of 2.5G and 3G technology, offering higher data speeds, packet based data communications and end-to-end IP (Internet Protocol) based connectivity. Dialog Mobile extended its regional

leadership in mobile technology with the introduction of Multi-Media Messaging (MMS) in 2002 placing itself among the first 35 networks in the world to support this break.

In addition, the company was instrumental in extending the scope of mobile telephony to mobile data and a host of value-added applications within the first few years of operation. Dialog was the first operator to offer SMS, MMS, Mobile-commerce, mobile email, information on demand services well ahead of regional networks. The company has also added many other value added services such as color SMS, MMS morphing, song catcher, background music, phone backup, Dialog messenger, news alerts and a host of 3G services including video calls, IDD video calls, video conferencing, 3G roaming, mobile surveillance and 3G portal.

Dialog unveiled eZ Pay, South Asia's first mCommerce (Mobile Commerce) initiative in August 2007. eZ pay is a revolutionary service that allows consumers to purchase goods, pay bills, transfer money and perform banking transactions via their mobile phones. Dialog Broadband Networks became the first operator in Sri Lanka to introduce WiMAX based Broadband Wireless Access services in November 2007.



Dialog 3G services include video calls, IDD video calls, TV on the phone, high speed internet connections for Web browsing, 3D phone games and video streaming for music videos and movie trailers. The Star Points network, which is the main loyalty program of the company, consists of over 400 partner merchants with more than 20,000 partner outlets island-wide. They cover a variety of multiple retail sectors expanding to household-items, electronics, grocery, clothing chains, food and beverage, cosmetics, healthcare, domestic and international travel. This is the first and only mobile-based loyalty network in the country. With no registration fee, all Dialog Mobile customers can earn Star Points, which are redeemable at a constant face value of Rs. 1 per Point across the entire network. Dialog operates over 2000 2G and over 1000 3G base station sites distributed across all 9 provinces of Sri Lanka with a network covering approximately 82% of the country's land mass and 96% of Sri Lanka's population, inclusive of newly liberated areas.

The Dialog Group has also been aggressive in its pursuit of a leadership position in the provision of digital services. Dialog Axiata PLC has the distinction of being the first mobile operator in Sri Lanka to be awarded a Mobile Payments License by the Central Bank of Sri Lanka, based on which

it operates eZ Cash, the country's pioneering mobile money service. The Dialog Group also established a position of strength in Sri Lanka's Digital Commerce space through a joint venture (Digital Commerce Lanka) encompassing Sri Lanka's leading Daily Deals site Anything.lk and the incumbent e-commerce properties of the Dialog Group wow.lk, ibuy.lk and tradenet.lk.

Dialog remains Sri Lanka's largest Foreign Direct Investor (FDI) with investments totalling to over USD 1 billion.

Case Questions

Question 1.

Conduct the six step SWOT analysis for Dialog Axiata.

Question 2.

Comment on Dialog's vision, mission and values.

Question 3.

Analyze Dialog's product portfolio using PLC, BCG, SHELL directional policy matrix, ADL portfolio model and the General Electric matrix?

Source : Interview with Dr. Hans Wijayasuriya

CHAPTER 3

Creating a Strategy focused organization

- 3.1 Levels of strategy
- 3.2 Evaluating strategic options
- 3.3 Porters generic strategies
- 3.4 Igor Ansoff's growth and share matrix
- 3.5 Bowman's strategy clock
- 3.6 Blue ocean strategy
- 3.7 Attack versus defense strategies
- 3.8 Competitive stances for companies
- 3.9 Treacy and Wiersema's value disciplines
- 3.10 The five P's of strategy
- 3.11 The strategic triangle
- 3.12 Strategic lenses
- 3.13 Institutional growth strategies
- 3.14 Strategy as a process, content and context
- 3.15 Mintzberg's planned versus emergent strategies
- 3.16 Metaphors of strategy
- 3.17 Mintzberg's ten schools of strategy
- 3.18 The profit impact on marketing strategy
- 3.19 Strategic capabilities
- 2.20 Competitive advantage
- 3.21 The balanced scorecard
- 3.22 Strategic position and action evaluation matrix
- 3.23 The building blocks of strategy

Case Study 3: On a path to sustainable growth - Unilever Sri Lanka

3

Creating a strategy focused organization

"Give me six hours to chop down a tree and I will spend the first four sharpening the axe" - Abraham Lincoln

The word 'strategy' was borrowed from the military with other words such as mission, consolidation, defensive, withdrawal etc. Almost all definitions involve an integration of the past and present to create the future. Strategy implies active participation in the creation of a future that we desire and is derived from the Greek work 'strategos' and the related Greek verb 'stratego', which means to plan the destruction of one's enemies through the effective use of resources.

Definition : Strategy is a course of action to achieve long-term goals and objectives, which involves specifying resources in order to achieve a competitive advantage.

Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of the organisational goals and objectives and thereby achieving the organisational vision. The best course of action is chosen after considering organisational goals, organisational strengths, potential, limitations as well as external opportunities.

Corporate and marketing strategy

In some instances you might find it difficult to distinguish between corporate and marketing strategy. Corporate strategy will ultimately involve decisions and direction for all functions of the operation. Corporate strategy focuses on the corporate objectives and has an organization wide impact. It is the over arching strategy and is determined before functional strategies.

Marketing strategy incorporates decisions relating to the positioning of the marketing mix to exploit and develop product and market opportunities. The focus is on the marketing objectives and it feeds into and fuels corporate strategy.

3.1 Levels of strategy

The strategic management process is multi-layered and the different levels of strategy should be consistent with the strategies at the next level. Hofer and Schendel (1978) refer to three levels of strategy which are corporate, business or operational strategies. This distinction between corporate and business strategy arises because of the development of the divisionalised business organisation, which typically has a corporate center and a number of strategic business units.

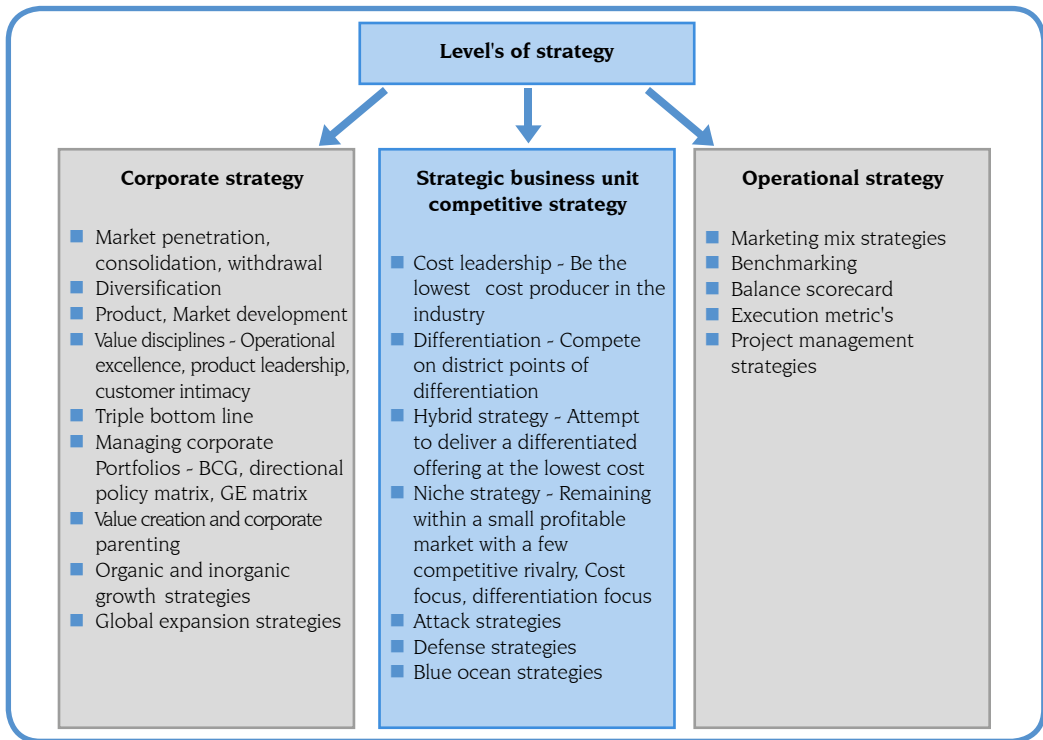


Figure 3.1: Level's of strategy.

a) Corporate strategy

This is the overall plan for the company and specifies what business to be in, its scope and how the businesses should be managed. This may involve the decision to enter new markets (Local or international) or embrace new technologies, acquisitions, diversifications, mergers, sell-offs and the closure of business units. It is concerned with the overall purpose and scope of the organization and how value will be added to the different parts of the organization and changing the strategic capability to fit with the changing environment. Corporate strategy makes decisions on the number of strategic business units (balanced portfolio) and which businesses the company will be in. Corporate relations with key external stakeholders such as investors, the government and regulatory bodies as well as the development of corporate policies on issues such as public image, employment practices are a part of the overall corporate strategy. Decisions at this level tend to be complex and non-routine in nature because they often involve a high degree of uncertainty based on what might happen in the future.

What does it mean to think strategically? - This involves evaluating various options based on objective and subjective criteria and consider their current and future impact and take decisions that strengthens the competitive position of the company. In simple, strategic thinking is about analyzing opportunities and problems from a broad perspective and understanding the potential impact your actions may have

on others. Strategic thinkers visualize what might or could be and take a holistic approach to day-to-day issues and challenges. It might also be difficult to distinguish between corporate strategy and marketing strategy. Corporate strategy will ultimately involve decisions and direction for all functions of the organization. Marketing strategy incorporates decisions related to the positioning of the marketing mix to exploit and develop products and market opportunities.

Characteristics of corporate strategies

- Institutionalizing internal behavioural consistencies - Vision and values.
- Institutional growth strategies - Acquisition, diversification, decision to enter new markets.
- The mission and longevity of the business - Envisioning the future.
- Changing strategic capability to fit with the changing environment.
- Strategic alignment to the environment - Reacting to business scenarios of the future.
- The allocation of resources and strategic acquisition of core competencies.
- Managing change receptivity.
- Managing corporate relations and image.
- Determination of the authority structure - Centralization versus decentralization.

According to Johnson, Scholes and Whittington (2008) corporate level strategy will be segregated into business scope related strategic decisions and value creating strategic decisions as explained below;

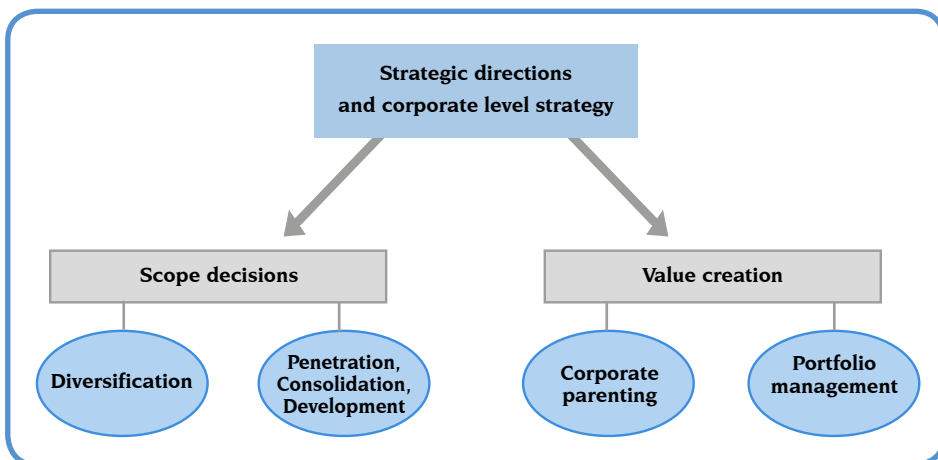


Figure 3.2: Corporate level strategy.

Corporate Parenting - This is to create value by 'Parenting' the business you own. Value may be created when the parent skills and resources equal the needs and opportunities of the business.

Corporate value creation

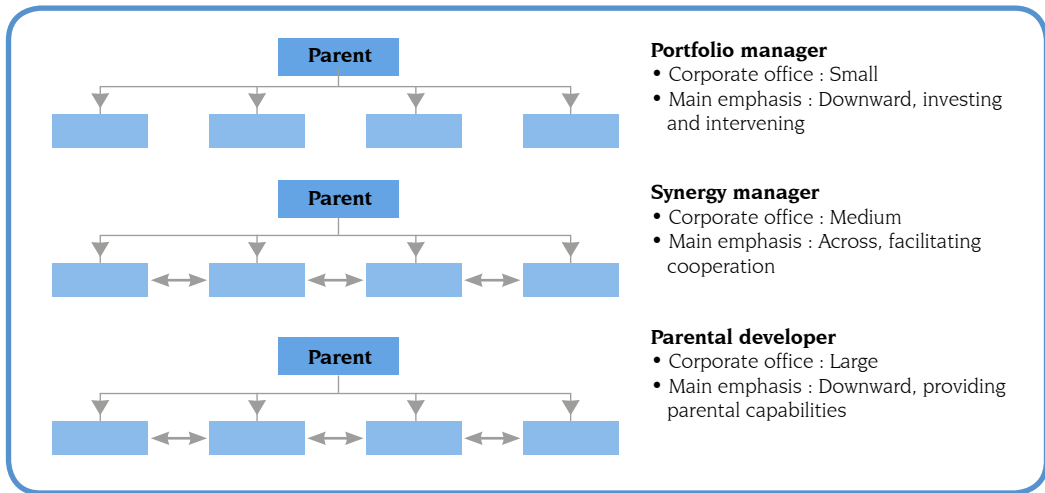


Figure 3.3: Corporate value creation.

Portfolio managers, synergy managers and parental developers

	Portfolio managers	Synergy managers	Parental developers
Logic	<ul style="list-style-type: none"> ■ 'Agent' for financial markets ■ Value creation at SBU level limited 	<ul style="list-style-type: none"> ■ The achievement of synergistic benefits 	<ul style="list-style-type: none"> ■ Central competencies can be used to create value in SBUs
Strategic requirements	<ul style="list-style-type: none"> ■ Identifying and acquiring undervalued assets ■ Divesting low- performing SBUs quickly and good performers at a premium ■ Low level strategic role at SBU level 	<ul style="list-style-type: none"> ■ Sharing activities/re sources or transferring skills/ competencies to enhance competitive advantage of SBUs ■ Identification of appropriate bases transferring ■ Identification of benefits which outweigh costs 	<ul style="list-style-type: none"> ■ SBUs not fulfilling their potential (a parenting opportunity) ■ The parent has clear and relevant resources or capabilities to enhance SBU potential ■ The portfolio is suited to parent's expertise
Organisational requirements	<ul style="list-style-type: none"> ■ Autonomous SBUs ■ Small, low cost corporate staff ■ Incentives based on SBU results 	<ul style="list-style-type: none"> ■ Collaborative SBUs ■ Corporate staff as Integrators ■ Overcoming SBU resistance to sharing or transferring ■ Incentives affected by corporate results 	<ul style="list-style-type: none"> ■ Corporate managers understand SBUs ('sufficient feel') ■ Effective structural and control linkages from parent to SBUs ■ SBUs may be autonomous unless collaboration is required ■ Incentives based on SBU performance

Table 3.1: Portfolio managers, synergy managers and parental developers.

Corporate parents do not generally have direct contact with customers or suppliers but instead their main function is to manage business units within the organisation. An important step in developing a corporate-level strategy is to decide how closely the parent organization fits with the businesses in the portfolio. That involves documenting the characteristics of the parent organization, then comparing them with the critical success factors and parenting opportunities in each of the businesses. The issue for corporate parents is whether they:

- Add value to the organisation and give business units advantages that they would not otherwise have.
- Add cost and so destroy the value that the business units have created.

Value adding activities

There are a number of ways in which the corporate parent can add value.

- By providing resources which the business units would not otherwise have access to, such as investment and expertise in different markets.
- By providing access to central services such as information technology and human resources that can be made available in a cost effective manner on an organisation-wide basis due to economies of scale.
- By providing access to markets, suppliers and sources of finance that would not be available to individual units.
- By improving performance through monitoring performance against targets and taking corrective action.
- Sharing expertise, knowledge and training across business units.
- Facilitating co-operation and collaboration between business units.
- Providing strategic direction to the business and clarity of purpose to business units and external stakeholders such as shareholders.
- By helping business units develop either through assisting with specific strategic developments or by enhancing the management expertise.

Value destroying activities

It is not uncommon for corporate parents to be criticized for destroying value such that business units would fare better on their own. There are a number of ways in which this can happen:

- The high administrative cost of the centre may exceed the benefits provided to business units.

- The added bureaucracy resulting from the organisational structure may slow down decision-making and limit the organisation's flexibility and speed of response to customers and environmental changes.
- If organisations become very complex, this can prevent clarity and make it difficult for managers within the organisation and external stakeholders to understand the strategic direction.

b) Strategic business unit competitive strategy

The focus here is on the growth and profitability of the strategic business units or profit pools. Each SBU's competitive strategy (achieving a competitive advantage) will be carefully formulated. The business strategy in turn provides the framework for functional or operational strategies in terms of which products should be developed. How should it be priced and promoted? Which segments should we target, etc. SBU strategy is characterised by theories such as the Porters generic strategies, Bowmans strategy clock, Blue ocean strategies and Kotlers attack versus defense strategies. A SBU may choose from one of the following strategic options:

- Cost leadership (Be the lowest cost producer in the industry).
- Differentiation - Compete on distinct points of differentiation.
- Hybrid strategy - Attempt to deliver a differentiated offering at the lowest cost.
- Niche or focus strategy - Remaining within a small profitable market with a few competitive rivalry.
- Attack strategies.
- Defense strategies.
- Blue ocean strategies.

The strategic agenda of strategic business units (SBU's)

A strategic business unit is a section, usually a division, within a larger organisation, that has a significant degree of autonomy, typically being responsible for developing and marketing its own products or services. It may take on the form of a single business or a collection of related businesses, which may have its own distinctive competitors. Each SBU should be lead by a business manager accountable for profits who will manage SBU strategies. This also allows large corporations to vary their business strategies according to the different needs of external markets and encourage accountability for its own costs, revenues and profits.

c) Operational strategy

This is concerned with how resources, people and processes are pulled together to form the strategic architecture, which will effectively deliver the overall strategic direction. Functional strategy is concerned with the main business functions such as human resources, marketing, finance, operations and IT strategy. These could be unique to the SBU and benefit from being individually focused or the corporate unit may seek to centralize them and so benefit from synergy.

Categories of strategic choice

- **The competitive strategies** - Are the strategies an organization will pursue to gain a competitive advantage for each strategic business unit. (How you compete?)
- **Product-market strategies** - Determine where you should compete and the direction of growth. (Which markets, products, SBUs should be a part of our portfolio?)
- **Institutional strategies** - Determine the method of growth. Suppose an attractive new market has been identified. (Should the organisation enter the market via organic growth, acquisition or some form of joint expansion method, such as franchising?)

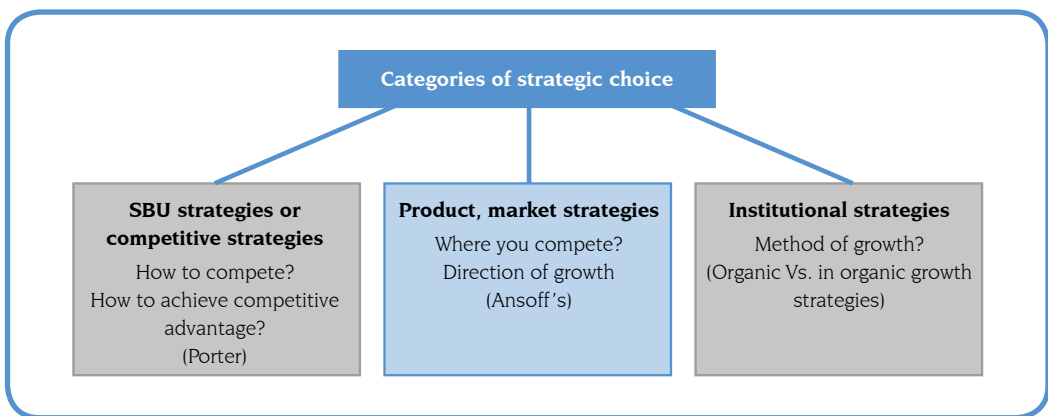


Figure 3.4: Categories of strategic choice.

The strategic choices available to a company are not unlimited; rather, they depend upon the company's capabilities and its position in the marketplace. A well-formulated strategy helps to marshal and allocate an organization's resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment, and contingent moves by intelligent opponents. Traditional approaches to strategy development have been criticized for being too rigid, inflexible, and authoritative. As a result, new approaches have emerged that no longer relegate strategy to top management. Instead, the strategy formulation process involves all individuals in an organization, particularly those who are in direct contact with customers.

All types of businesses require some sort of strategy in order to be successful, otherwise their efforts and resources will be spent haphazardly and likely be wasted. Strategies should attempt to build a strong yet flexible position for the company so that it may achieve its goals whatever the reaction of external forces. Strategic decisions are those that determine the overall direction of an enterprise and its ultimate viability in light of the predictable, the unpredictable, and the unknowable changes that may occur in its most important surrounding environments.

Selecting strategic options

Having developed a range of strategic options, they need to be evaluated before making a decision about which direction to pursue. Evaluating a strategy is like testing a scientific hypothesis. It is far easier to prove that it is false and does not work, than to prove that it is true and will work. It is impossible to guarantee that a strategy is definitely the right one.

3.2 Evaluating strategic options

a) Suitability (Based on the firms current situation)

- Does it fit the firm over the longer term?
- Fit with the current strategic position?
- Is it in line with the environment - Strategic fit?
- Can it be used to exploit opportunities, unique resources, core competencies and points of differences over time?
- Involve an acceptable level of risk.
- Is it consistent with opportunities and threats?
- Does it exploit/enhance our competitive advantage? Does it create a new source of advantage? Is the advantage sustainable?
- Will it build on our strengths?
- Validity - Are the assumptions realistic? Are they based on reliable and valid information?
- Consistency - Are the elements of the strategy consistent? Do they meet the objectives?

b) Feasibility

- Can the strategy be implemented given the resources and competencies?
- Financial analysis - Cash flow, break even analysis, capital infusion, pay back period and net present value analysis, cost benefit analysis.
- Feasibility research - Experimental, technical research, design studies, performance specification, timing, costs, market research, demand analysis, competition, buying motives, pricing etc.
- Commercial potential - Will the strategies meet objectives and increase shareholder value? - Profitability, growth, earnings per share.
- Potential - Do the projected outcomes meet the objectives for the business? Are they acceptable to the shareholders?

c) Acceptability

- What are the expected performance outcomes? Risk versus reward?
- Is it acceptable to the stakeholders of the organisation?
- Undertaking a pilot test - The degree of potential resistance, timescales.
- Does it build the companies sustainable competitive advantage? The ability to sustain the strategy over the long term?
- Vulnerability - Are projected outcomes based on sound data and assumptions? Are the risks of failure acceptable? Contingency plans?

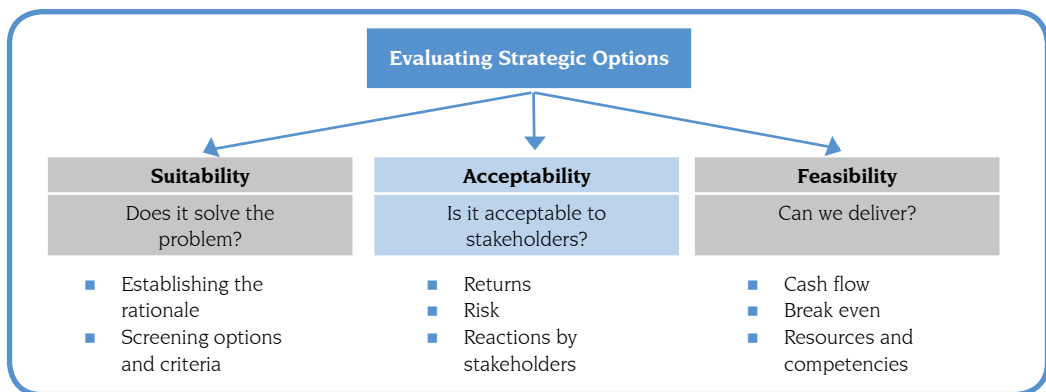


Figure 3.5: Evaluating strategic options.

3.3 Porters generic strategies

According to Porter (1985) each strategic business unit within a business may have two types of competitive advantages to choose from and they are cost leadership or differentiation. Upon selecting one of these ways in which the company may compete, the next step would be to define its market scope in terms of whether it is narrow or broad. According to Porter (1985) a company must select one position out of the four positions in the grid as a strategic business unit competitive strategy. This idea that a successful strategy demands a single minded focus and if the organization tries to occupy more than one position, it would be 'stuck in the middle' strategically which must be avoided at all costs. The Generic strategies are best viewed as a framework within which to think about the strategic possibilities for your organization. Firms also need to take into account both supply and demand factors. Using the demand perspective, a firm may find one or more segments that offer profitable opportunities, but it may also have to serve less profitable segments. In many markets, the premium sector can be highly profitable, but manufacturers may also have to serve the price-sensitive standard economy segment, so that they can offer a complete range.

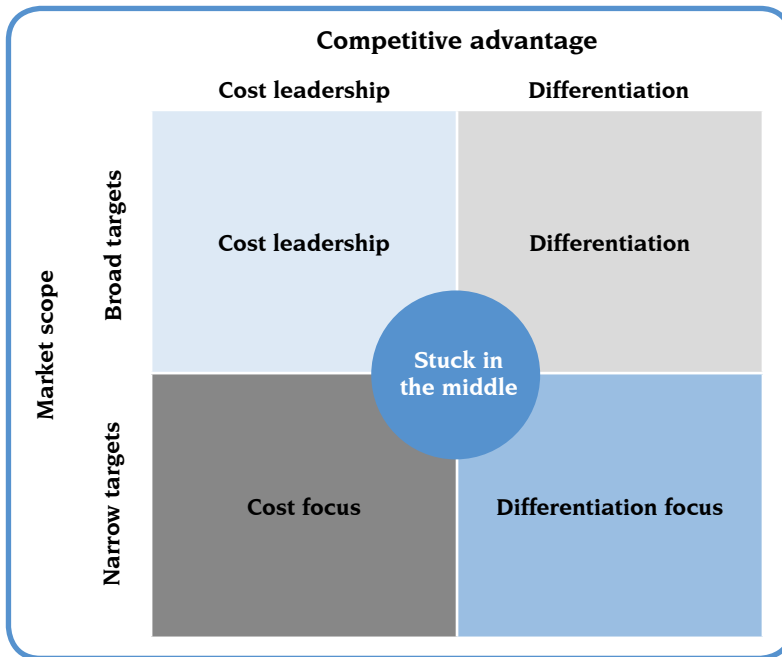


Figure 3.6: Porters generic strategies.

Porter (1985) suggests that managers must separate strategy from goals, objectives, issues and tactics. These are a series of steps or initiatives that a company undertakes in running the business every day and cannot be classified as strategy. Therefore, a production process or the decision to go international or to launch a new product is not a strategy. Instead, strategy is a position the company will reach at the end of the day with all the cumulative activities in the organisation and the positions are one of the four options put forward in the generic strategies. Strategy is; what unique (distinctive) position will we be able to achieve? Porter adds "a competitive strategy is about deliberately choosing to be different by selecting a distinctive position". What's the organizations sustainable competitive advantage? And this may require you to make 'trade-offs' (to chose what not to do). Let us now investigate each strategic position.

a) Characteristics of the cost leadership strategy

- A cost leadership strategy seeks to achieve the position of lowest-cost producer in the industry, which acts as a great entry barrier.
- Compete on price - By producing at the lowest cost, the manufactures can compete on price (penetration pricing) with every other producer and substitutes within the industry. However, low cost does not always lead to low price. Producers could price at competitive parity, exploiting the benefits of a bigger margin than competitors. E.g. Toyota produces high quality cars at a low cost and uses a premium pricing policy and so is able to under cut competitors where demand is elastic.
- Invest in propriety and emerging technologies to enhance productivity and efficiency.

- Get favorable access to raw materials, labour and other sources of supply; relocate to cheaper areas and minimize overheads.
- Setting up production facilities in order to peruse economies of scale - Intense supervision of labour and tight cost control.
- Exploit the learning and experience curve effect.
- Backward integration - Invest in stake in key suppliers in order to reduce their bargaining power.
- Avoid middle men - Buy directly from suppliers and go directly to customers.
- Build a business model (money making model) to maximize profits though shorter working capital cycles; high sales volumes and market share; thin margins and high stock turnover; and sustained capital investment.
- Offer standardized 'no frills' products whilst avoiding variety and delivering a basic service cycle.
- Lean management philosophy - Eliminate all waste and non-value adding activities. Challenge and re-engineer conventional processes whilst striving to achieve quality conformance.
- Staying power - Many firms will leave the market rather than compete with a low cost producer and a cost leader must have the bandwidth to go on until competitors exit.
- Re-engineer the entire value chain to deliver cost leadership - Integrate primary and support activities and centralized operations where the best skills are at the core of the organization and mapping activity systems to achieve cost leadership.
- Product push marketing may not be required - Low price will pull consumers thus saving marketing costs.
- Linkage between all of the above.

Problems with the cost leadership concept

- Internal focus - Cost refers to internal measures, rather than the market demand. It is the market share that is important, not cost leadership as such.
- Only one firm - Although cost leadership applies cross the whole industry, only one firm will pursue this strategy successfully.
- Higher margins can be used for differentiation - E.g. Toyota, IKEA.
- Entry of better low cost producers.
- Reduction in flexibility - Low production costs normally mean an investment in production capabilities and hence the company is likely to become fixed in one method of servicing the market.

Using the value chain to deliver competitive advantage through cost leadership

The value chain analysis is central to identifying where cost savings can be made at various stages in the value chain. An example is illustrated below;

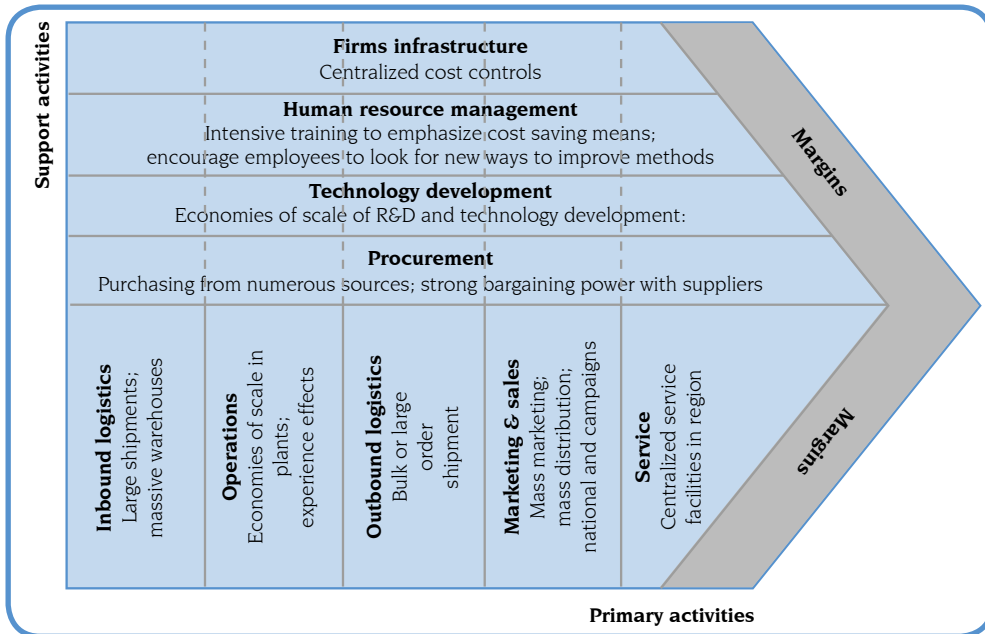


Figure 3.7: Using the value chain to deliver competitive advantage through cost leadership.

The learning and experience curve effect

The learning curve effect and the closely related experience curve effect express the relationship between experience and efficiency. As individuals or organizations get more experienced at a task, they usually become more efficient at them and 'practice makes perfect'. The learning curve effect states that the more often a task is performed, the less time will be required on each iteration. This relationship was first quantified in 1925 at Wright-Patterson air force base in the United States, where it was determined that every time aircraft production doubled, the required labour time decreased by 10 to 15 percent.

The experience curve effect is broader in scope than the learning curve effect encompassing far more than just labour time. It states that the more often a task is performed, the lower the cost of doing it. The task can be the production of any good or service. Each time cumulative volume doubles, value added costs (including administration, marketing, distribution, and manufacturing) fall by a constant and predictable percentage. Research by BCG in the 1970s observed experience curve effects for

various industries that ranged from 10 to 25 percent. These effects are often expressed graphically. The curve is plotted with cumulative units produced on the horizontal axis and unit cost on the vertical axis. A curve that depicts a 10% cost reduction for every doubling of output is called a '90% experience curve', indicating that unit costs drop to 90% of their original level.

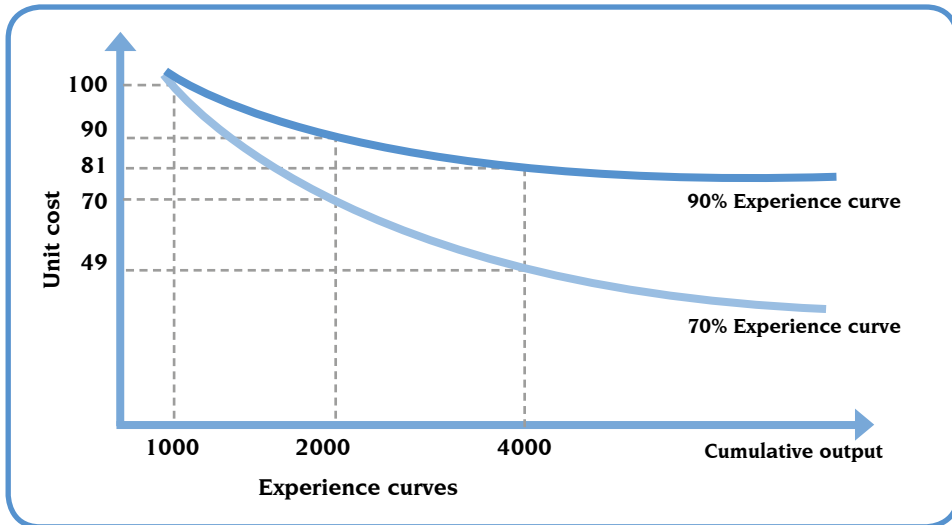


Figure 3.8: The learning and experience curve effect.

NASA has calculated the following experience curves

- Aerospace 85%.
- Shipbuilding 80%.
- Complex machine tools for new models 75%.
- Repetitive electronics manufacturing 95%.
- Repetitive machining or punch-press operations 90%.
- Repetitive electrical operations 75%.
- Repetitive welding operations 90%.
- Raw materials 93%.
- Purchased parts 88%.

Reasons for the effect - There are a number of reasons why the experience curve and learning curve apply in most situations. They include;

- **Labour efficiency** - Workers become physically more dexterous. They become mentally more confident and spend less time hesitating, learning, experimenting, or making mistakes. Over time we learn short cuts and improvements. This applies to all employees and managers, not just those directly involved in production.
- **Standardization, specialization, and methods of improvement** - As processes, parts, and products become more standardized, efficiency tends to increase. When employees specialize in a limited set of tasks, they gain more experience with these tasks and operate at a faster rate.

- **Technology-driven learning** - Automated production technology and information technology can introduce efficiencies as they are implemented and people learn how to use them efficiently and effectively.
- **Changes in the resource mix** - As a company acquires experience, it can alter its mix of inputs and thereby become more efficient.
- **Product redesign** - As consumers have more experience with the product, they can suggest improvements. This filters through to the manufacturing process.
- **Value chain effects** - Experience curve effects are not limited to your company. Suppliers and distributors will also ride down the learning curve, making the whole value chain more efficient.
- **Shared experience effects** - Experience curve effects are reinforced when two or more products share a common activity or resource. Any efficiency learned from one product can be applied to the other products.

Experience curve discontinuities - The experience curve effect can on occasion come to an abrupt stop. Graphically, the curve is truncated. Existing processes become obsolete and the firm must upgrade to remain competitive. The upgrade will mean a new one will replace the old experience curve. This occurs when competitors introduce new products or processes that you must respond to. Technological change requires you or your suppliers to change processes. The experience curve strategies must be re-evaluated because these are leading to price wars and they are not producing a marketing mix that the market values.

Strategic consequences of the effect - The BCG strategists examined the consequences of the experience effect for businesses. They concluded that because relatively low cost of operations is a very powerful strategic advantage, firms should capitalize on these learning and experience effects. The reasoning is, increased activity leads to increased learning, which leads to lower costs, which can lead to lower prices, which can lead to increased market share, which can lead to increased profitability and market dominance. According to BCG, the most effective business strategy was one striving for market dominance in this way.

This was particularly true when a firm had an early leadership in market share. One consequence of the experience curve effect is cost savings should be passed on as price decreases rather than kept as profit margin increases. The BCG strategists felt that maintaining a relatively high price, although very profitable in the short run, spelled disaster for the strategy in the long run. They felt that it encouraged competitors to enter the market, triggering a steep price decline and a competitive shakeout. If prices were reduced as unit costs fell (due to experience curve effects), then competitive entry would be discouraged and one's market share maintained. Using this strategy, you could always stay one step ahead of new or existing rivals.

Criticisms of the effects

- It is impossible to quantify the effects in most organizations.
- Experience effects are so closely intertwined with economies of scale that it is impossible to separate the two. In theory we can say that economies of scale are those efficiencies that arise from an increased scale of production, and that experience effects are those efficiencies that arise from the learning and experience gained from repeated activities, but in practice the two mirror each other.
- Growth of experience coincides with increased production.
- Economies of scale should be considered one of the reasons why experience effects exist. Likewise, experience effects are one of the reasons why economies of scale exist. This makes assigning a numerical value to either of them difficult.
- It is a mistake to see either learning curve effects or experience curve effects as a given. Costs, if not managed will tend to rise. Any experience effects that have been achieved, results from a concerted effort by all those involved.

The concepts of 'lean and agile' - According to Womack and Jones (2003) 'Lean', means developing a value stream to eliminate all waste, promote innovation and enable a level schedule. 'Agile' means using market knowledge and a responsive supply network to exploit profitable opportunities in the marketplace.

The five principles of lean management

- Specify value from the standpoint of the end customer by product family.
- Identify all the steps in the value stream for each product family, eliminating whenever possible those steps that do not create value.
- Make the value-creating steps occur in tight sequence so that the product will flow smoothly toward the customer.
- As flow is introduced, let customers pull value from the next upstream activity.
- As value is specified; value streams are identified; unwanted steps are removed; and flow and pull are introduced, begin the process again and continue it until a state of perfection is reached in which perfect value is created with no waste.

Mapping activity systems to achieve cost leadership

Activity system maps show how a company's strategic position is contained in a set of tailored activities designed to deliver it. In companies with a clear strategic position, a number of higher order strategic themes (in dark circles) can be identified and implemented through clusters of tightly linked activities (in light circles). Here are two examples;

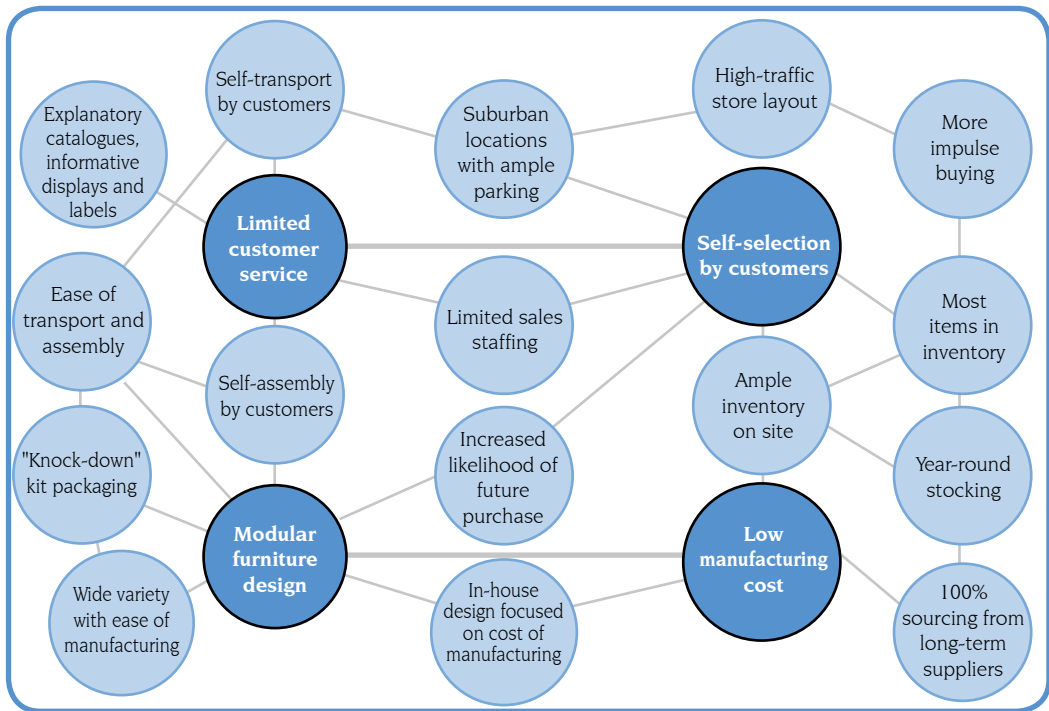


Figure 3.9: Mapping activity systems to achieve cost leadership.

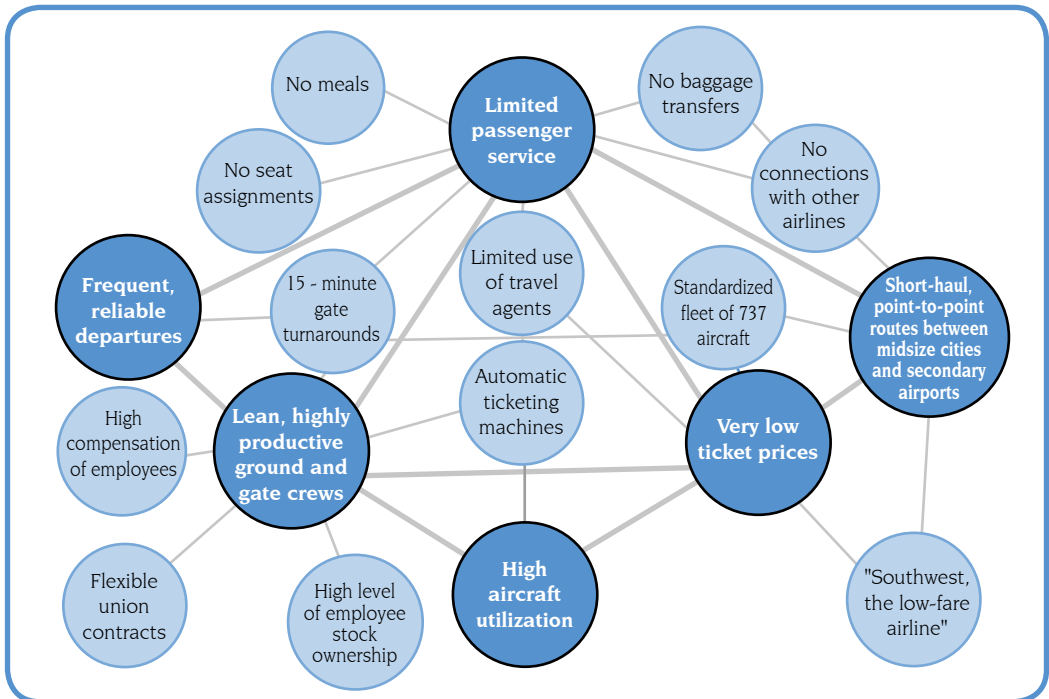


Figure 3.10: Mapping activity systems to achieve cost leadership.

b) Characteristics of the differentiation strategy

- **Creating unique features and benefits, which are future driven** - Creating new wants for the product, which are valued by customers and highlighting customer needs.
- **Serving many market segments** - A variety of differentiated products with varied value propositions.
- **Product augmentation** - Increasing the number of benefits through the introduction of new product or process attributes, out of the box mind set.
- **Reduced price sensitivity** - A premium price charged, tends to lead to higher profit margins.
- **Competitive positioning through branding** - The craft of altering consumer perception or image by getting into the mind first through superior quality, innovation, style or design, value added services or heritage positioning.
- **Intangible and tangible value (Superior product performance)** - Attempting to tangibilise an intangible product and in-tangibilise a tangible service.
- **Pass down supplier costs increases to consumers** - Consumers cannot find substitute products easily.
- **Reflecting the personality, values, character and aspirations of target audience** - Customer life time value mind set.
- **Processors and mind set that's supports innovation** - A quantum leap in value, creative flare.

Differentiation as a strategy has a number of advantages

- **Reduced bargaining power of consumers** - The differentiation between products may mean that they are not directly comparable and substitutes may be less attractive.
- **Reduced competition** - Differentiation creates a series of monopolistic sub markets.
- **Market skimming** - The ability to skim the market with a premium pricing strategy.
- **Reduced price elasticity** - Price wars are avoided.
- **Extended life cycle** - May create high barriers to entry.

Problems with the differentiation concept

- **Differentiated products as a lower price?** - Porter (1985) assumes that differentiated products will always be sold at a higher price. However, a differentiated product can be sold at the same price as competing products in order to increase market share.
- **Choice of competitor** - Differentiation from whom? Who are the competitors? Do they serve other market segments? Do they compete on the same basis?
- **Source of differentiation** - Includes all aspects of the firm's offer and not just one feature or benefit.

Using the value chain to deliver competitive advantage through differentiation

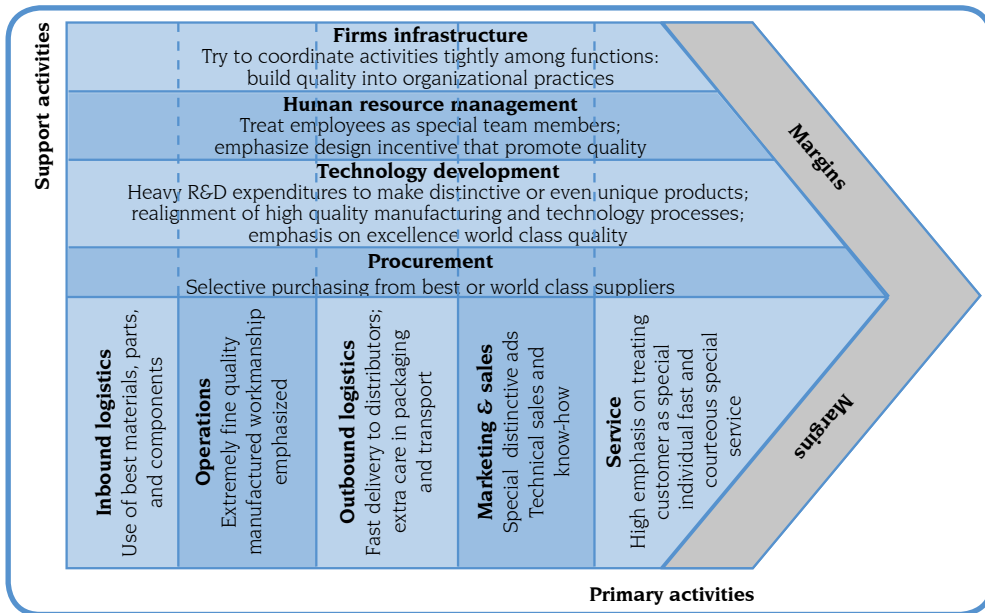


Figure 3.11: Using the value chain to deliver competitive advantage through differentiation.

Unique selling proposition by Reeves

Predecessor to differentiation was USP (Unique selling proposition), which was introduced by Reeves (1960) a Chairman of an advertising agency. His hypothesis was that each advertisement must make a proposition to the consumer. Not just words, not just product puffery and not just show window advertising. Each advertisement must say to each reader, 'Buy this product, and you will get this specific benefit'. The proposition must be one that competitors either cannot, or does not, offer. It must be unique and must be so strong that it can move the mass market.

Differentiate or die by Trout

Trout (2002) in his best seller differentiate or die state, 'choosing among multiple options is always based on differences, implicit or explicit. Psychologists point out those vividly differentiated differences that are anchored to a product can enhance memory because they can be appreciated intellectually. In other words, if you're advertising a product, you ought to give the consumer a reason to choose that product. If you can entertain at the same time, that's great".

Classification of products

Trout (2004) explains three fundamental ways in which a company can differentiate their products, which are:

- **Breakthrough products** - Offering a radical performance advantages over competition, perhaps at a drastically lower price.

- **Improved products** - Which are not radically different from their competition but are obviously superior in terms of better performance for a similar price.
- **Competitive products** - Which derive their appeal from a particular compromise of cost and performance. E.g. cars compete with each other by trying to offer a more attractive compromise than rival models.

Variables for differentiation

Kotler (2003) offers five differentiation variables.

- **Product** - Differentiate using form, features, performance, conformance, durability, reliability, repair-ability, style and design.
- **Services** - Differentiate using ordering ease, delivery, installation, customer training, customer consulting, maintenance and repair.
- **Personnel** - Differentiate with competence, courtesy, credibility, reliability, responsiveness and communication.
- **Channels** - Differentiate with coverage, expertise, performance.
- **Image** - Differentiate with symbols, media, atmosphere and events.

Keller (1998) suggests that the points-of-difference (POD) are the strong, favorable, unique brand associations, attributes or benefits consumers strongly associate with a brand. Examples in the automobile market are Volvo (safety), Toyota (quality and dependability), and Mercedes-Benz (quality and prestige). The delivery of POD's may depend on how desirable, deliverable, differentiating they are in the eyes of the customer. The points-of-parity (POP) are associations that are not necessarily unique to the brand but may in fact be shared with other brands.

C) Characteristics of the focus or niche strategy

- **Specialization** - The firm specializes or concentrates on a certain segment or few segments with homogenous needs. They may specialize on a particular customer, product feature, geographical area, channel of distribution or stage in the production process.
- **This is a popular strategic option for small and medium sized enterprises.**
- **Competitive rivalry** - Might be secure and of negligible interest to major competitors and substitutes. However, larger manufacturers may be attracted into it once they gauge profit potential.
- **Profitability** - Shorter pay back period and must be large enough in terms of potential buyers and growth.

- **Offer better service** - The firm is better able to serve a limited segment more efficiently than serve a broader range of customers.
- **Geographic segmentation** - Production is based on the needs of the local market.
- **End-user focus** - Here the focus is on the specific needs of the end-user.
- **Cost focus strategy** - Here a firm seeks to be the lowest producer of goods in a narrow market. E.g. Wal-Mart started in small towns in the South and Midwest with a cost focus strategy.
- **Differentiation focus strategy** - A firm seeks to distinguish it self through augmented offerings in a narrow market. E.g. Luxury goods VIRTU phones.

The disadvantages of the focus strategy

- The firm sacrifices economies of scale, which would be gained by serving a wider market.
- Over dependency and concentration risk.
- The segment's needs may eventually become less distinct from the main market.

Stuck in the middle

This is when a firm neither adopts a cost leadership nor a differentiation strategy. Although there is a risk with any of the generic strategies, Porter argues that a firm must pursue one of them. A stuck-in-the-middle strategy is almost certain to make only low profits and therefore what many companies actually pursue quite successfully until the business needs to be wound up.

Criticisms of generic strategies

- What matters is value for money in the eyes of the customer as opposed to the company achieving cost leadership or differentiation. The generic strategic options are derived from the company's point of view and not the customer's point of view.
- Can't a customer get the best of both worlds, a differentiated product at a bargain price?
- Managers pursuing cost leadership may be pre-occupation with low cost and detracting themselves away from market realities.
- Is consumer prepared to pay a premium price to adopt differentiation?
- The target segment may disappear in the focus strategy.

- Some companies are successful while combining supposedly incompatible strategies.
- Increasingly, low cost has become an absolute essential rather than an option.
- In many markets, the premium sector can be highly profitable, but manufacturers may also have to serve the price-sensitive standard economy segment too, so that they can offer a complete range.
- Profit is obviously the differential between price and cost, so above-average profit can be earned either by charging a premium price or by keeping costs low. These two extremes can be viewed as the two ends of a spectrum, with companies occupying positions along it.
- Some companies have been successful adopting the stuck in the middle strategy.

3.4 Igor Ansoff's growth and share matrix

Igor Ansoff (1956) who was primarily a mathematician for the insurance industry defined strategy through a product and market growth matrix to gauge risk versus reward. All strategic options carry an element of risk, as the future is uncertain.

The Ansoff's matrix can be used to determine the general level of risk of a strategy. Continuing, in existing markets is likely to offer the lowest level of risk since the organisation is familiar with both the market and the technology. Market development and new product development adds to the risk by adding newness; the first in terms of customer base and the second in terms of technology. The unknown always carries risk. The fourth option within the Ansoff's classification is diversification, which is generally accepted as the most risky as it involves a leap in the unknown in terms of marketing and technological knowledge. Although Ansoff offers a useful backdrop and enables an assessment of background risk, it does not drill down into the detail of individual scenarios. Since scenarios are based on assumptions, we need to think about the impact on the organisation if those assumptions are flawed.

It may make sense to carry out a sensitivity analysis which tests the effect that changing assumptions may have on the outcome of a strategy. This sort of 'what if' analysis allows us to develop a better understanding of the risks inherent in an option should the future differ from our projections. All options are re-evaluated for each possible change and these recalculated outcomes will give us an indication of the sensitivity of the strategies to each assumption. Lynch (2012) explains that the matrix can be used to evaluate corporate strategic options for growth. Thus, linking it to corporate strategy and at the same time using it inside a strategic business unit to explore options for growth. Unlike the generic strategies, all four options of the matrix can be used bearing the relative risk in mind.

Classification of markets

- **Existing markets** - Competitors already supply the market and market entry will be difficult unless the company has a superior product or new concept.
- **Latent markets** - Potential customers exist whose needs are not being met. No competition allowing for easier market entry.
- **Incipient markets** - Markets, which may emerge in the future but, do not exist at present. The nature of the product offered can be analysed in a similar way also categorizing in three ways.

Types of products

- **Competitive products** - This is broadly similar to those already in the marketplace.
- **Improved products** - A product, which offers some improvement in its value proposition.
- **Breakthrough products** - Products disrupting existing status quo.

Ansoff's growth matrix

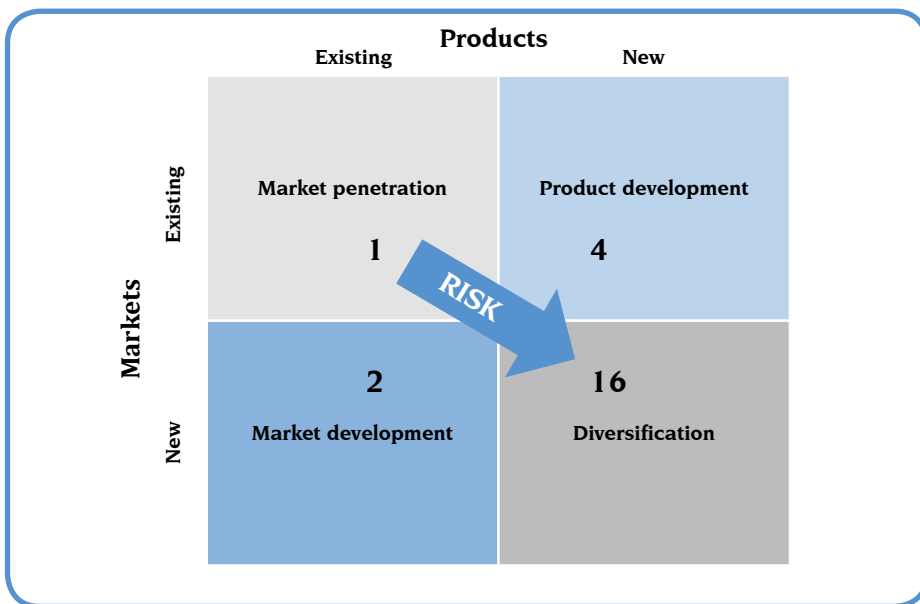


Figure 3.12: Ansoff's growth matrix.

The next step is to determine the combination of sub strategies, which will be used based on internal factors such as the organizations strengths, resources and risk apatite whereas external factors such as the strategic position in the market and competitor strategies must be considered.

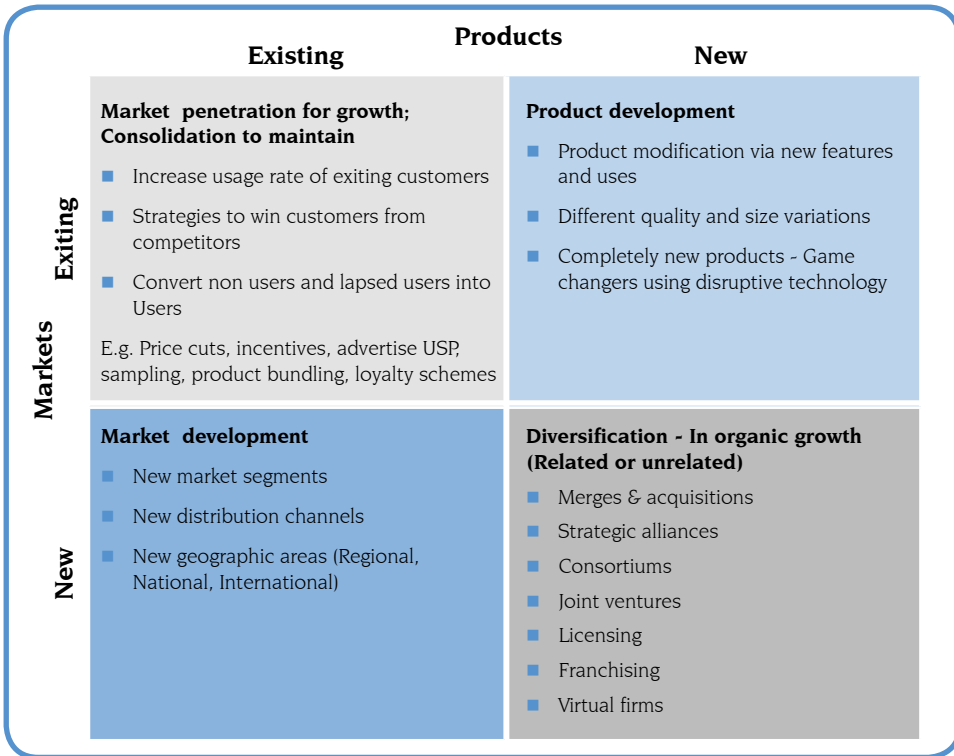


Figure 3.13: Ansoff's growth matrix sub strategies.

Characteristics of market penetration or consolidation

- This is offering the existing market the existing products.
- Do what you do best, better; and dominate growing market - The marketing mix needs to be enhanced E.g. Penetration pricing, extensive distribution.
- The existing market offers growth potential and is unsaturated.
- Increase usage from existing, loyal customers - Introduce a strong loyalty scheme, product bundling, cross selling, up selling and suggestive selling.
- The ability to entice customers to switch from weak competitors.
- This strategy requires a relatively lower level of investment and senior management involvement.
- Spare production capacity exists and quantity discounts can be offered through economies of scale - Seek efficiency gains.
- Creating consumer push and distributor pull to attempt to attract non users to sample - Heavy advertising and sales promotion.

- Strong brand presence and business capability, established reputation.
- Market penetration for growth or consolidation to maintain position (do not expand, instead strengthen the current base position or scaling back).

Characteristics of market development

- This is to take existing products into new markets - It is usually the market leaders job to grow the market if the existing market is contracting or saturated, the marketing mix need to be enhanced.
- Venture into new segments - May require new competencies.
- Expand to overseas markets with a standardized product.
- Add regional and national geographic areas into territory.
- New distribution channels - Unconventional channels.
- Increase customer switching costs.
- Existing products are superior to competitors may not need modification.

Characteristics of product development

- This is to stay within the same market and offer new products - Market leaders may need to identify industry breakpoints or technology inflection points and proactively pursue game changing innovation.
- Brand reputation is high and the brand is extendable.
- The organisation structure may be based on product divisions.
- Strong research and development capabilities exist to introduce completely new products to meet sophisticated customer requirements - Might be expensive and risky, invest in disruptive technologies.
- Product modification and introduce new features and benefits - The company deals with a known customer.
- Create different quality versions.

According to Kotler (2005) a firm may develop new product features by attempting to;

- a) **Adapt** - To other ideas and developments.
- b) **Modify** - Change colour, motion, sound, odor, form or shape.

- c) **Magnify** - Stronger, longer, thicker or extra value.
- d) **Substitute** - Other ingredients, process, power.
- e) **Rearrange** - Other patterns, layout, sequence and components.
- f) **Reverse** - Inside out.
- g) **Combine exiting features** - Blend, assortment, ensemble, combine units, purposes, appeals and ideas.

Characteristics of the diversification strategy

- This involves venturing into new markets with new products - High risk versus reward.
- A strong brand will reduce risk of failure in un-chanted territory - The brand should be extendible.
- Significant resources may be required in order to build new competencies.
- Strong research and development capabilities.
- Appropriate when existing markets are saturated or when products have reached the maturity stage in life cycle.
- The company may need to undertake a multistage screening process for the new products and markets and ensure they are in line with the organizations capabilities.

Types of diversification

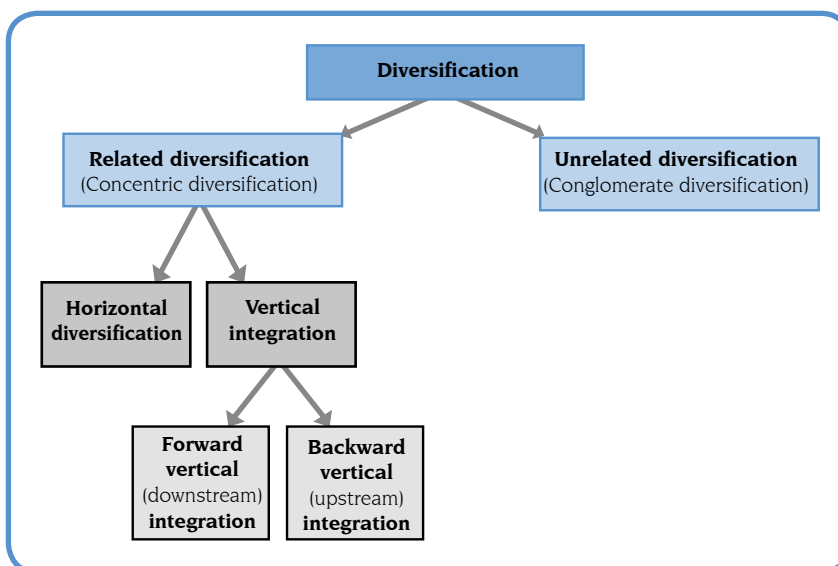


Figure 3.14: Types of diversification.

- i) **Related (Concentric) diversification** - Is the development beyond the present product market, but still within the broad confines of the industry. It is to build on the activities and assets, which the firm has already developed. It takes the form of vertical or horizontal integration.
 - a) **Horizontal diversification strategy** - Refers to development of activities, which are competitive with or directly complementary to a company’s present activities. E.g. Sony, for example, started to compete in computer games, is building its presence in consumer electronics.
 - b) **Vertical integration** - Occurs when a company becomes its own supplier of raw materials, components or service.
 - **Backward vertical (upstream) integration** - Would occur where a milk producer acquires its own dairy farm.
 - **Forward vertical (downstream) integration** - Is where manufactures of synthetic yarn begins to produce shirts from the yarn instead of selling it to other shirt manufactures or a brewery establishing its own chain of pubs.
- ii) **Unrelated (conglomerate) diversification** - Is the development beyond the present industry boundary into completely new products or markets. Here, the company would spread the risk and choose to extend its corporate brand into an umbrella branding strategy or venture in with solo brands. E.g. Virgin, TATA.

The extended Ansoff's matrix

Markets	New	Market development	Partial diversification	Diversification
	Expanded	Market expansion	Limited diversification	Partial diversification
	Existing	Market penetration	Product extension	Product development
		Existing	Modified	New
		Products		

Figure 3.15: The extended Ansoff's matrix.

The nine-box grid can be used for a more sophisticated analysis by adding 'modified' products between existing and new ones (for example, a different flavor of your existing pasta sauce rather than launching a soup), and 'expanded' markets between existing and new ones (for example, opening another store in a nearby town, rather than going into online sales). This is useful as it shows the difference between product extension and true product development, and also between market expansion and venturing into genuinely new markets. The limited and partial diversification strategies must be used with some caution as they involve doing two things at once without the one benefit of a true diversification strategy.

3.5 Bowman's strategy clock

Bowman (1996) identified a few limitations in Porter's generic strategies and introduced a diagrammatic representation of the relationship between customer value and prices. This method expands Porter's ideas into eight strategic options for businesses to follow and introduces the 'Hybrid' strategy, which is a strategic option where the price is low and the perceived user value or benefit is high. In other words, it is a hybrid of the cost leadership and differentiation strategies which is termed as "stuck in the middle" by Porter. Ikea offers their customers a high quality product with high-perceived user value and at a low cost.

The generic strategies were often criticized for having an inside out view of strategy where cost leadership or differentiation is something that the company wished to deliver. However, perceived user value is an outside in view of the company where it gauges how the customer perceives a company.

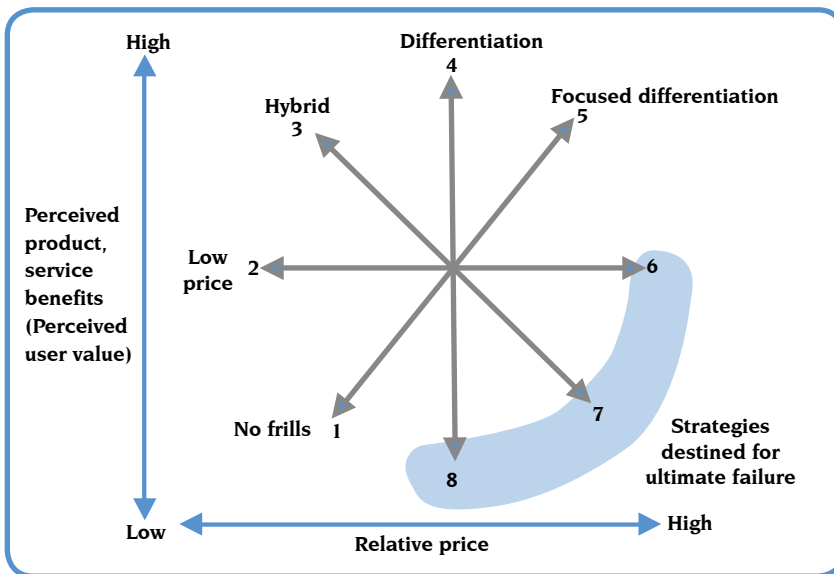


Figure 3.16: Bowman's strategy clock.

The following strategic options are put forward by the strategy clock;

Strategic options	Strategic implications
1. No frills	Likely to be segment specific
2. Low price	Risk of price war and low
3. Hybrid	Low cost base and reinvestment in low price and differentiation
4. Differentiation	
(a) Without price premium	Perceived added value by user, yielding market share benefits
(b) With price premium	Perceived added values sufficient to bear price premium
5. Focused differentiation	Perceived added value to a particular segment, warranting price premium
6. Increased price, standard value	Higher margins if competitors do not follow; risk of losing market share
7. Increased price, low value	Only feasible in monopoly markets
8. Low value, standard price	Loss of market share

Table 3.2: Cliff Bowman and David Faulkner’s strategy clock explained (1996).

3.6 Blue ocean strategy

The blue ocean strategies put forward by Kim and Mauborgne (2005) introduces how a company may achieve a quantum leap in value through “Value innovation”. This concept involves the simultaneous pursuit of differentiation, low cost as well as key analytical tools, frameworks such as the strategy canvas, the four actions framework and finally using the eliminate-reduce-raise-create grid.

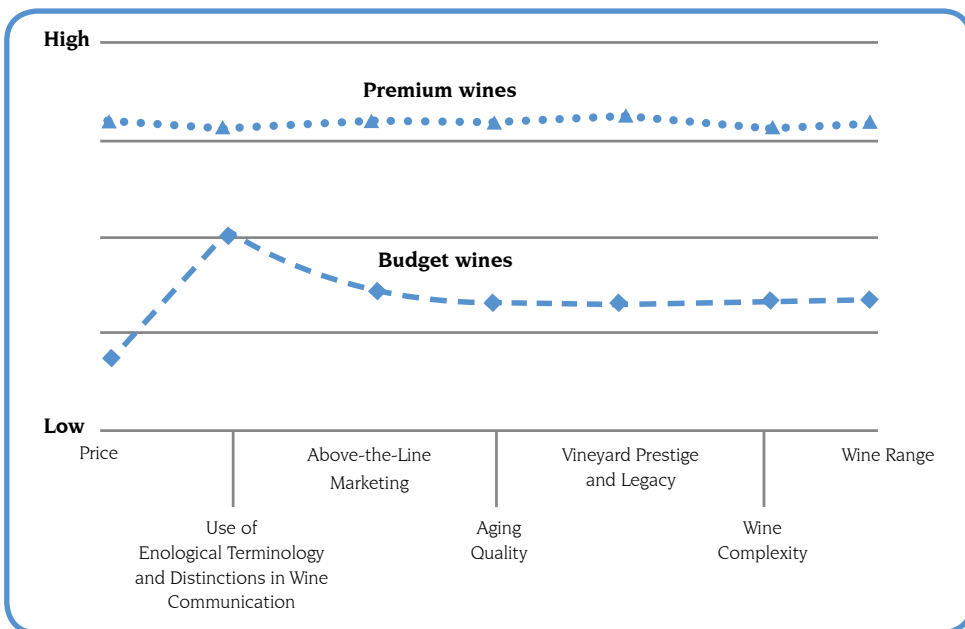


Figure 3.17: Blue ocean strategy.

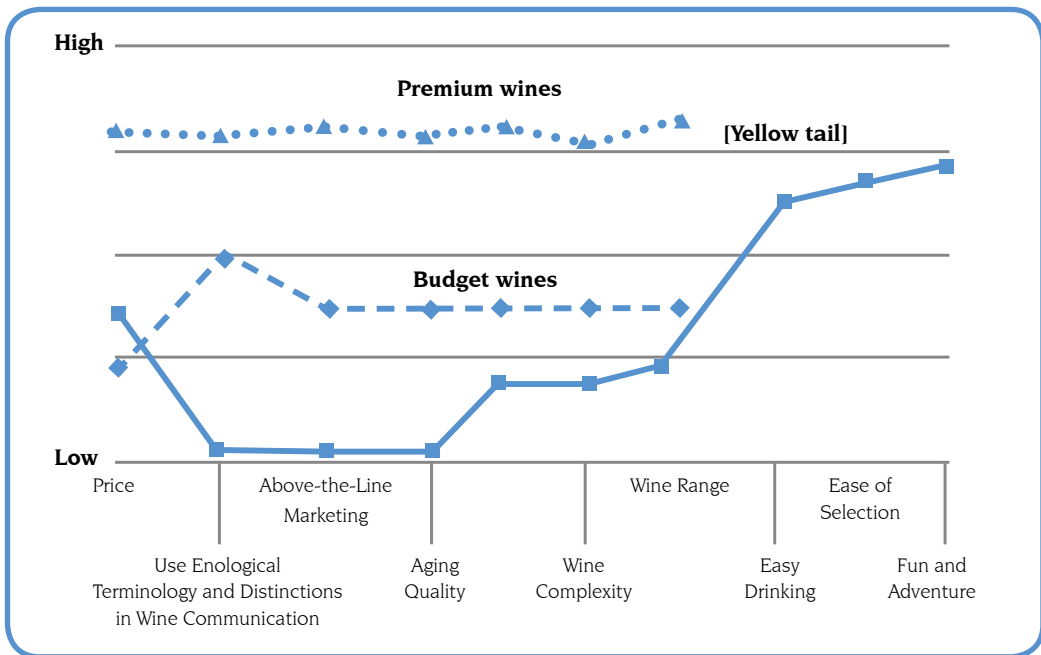


Figure 3.18: The strategy canvas (Yellow tail).

The concept also describe how to formulate strategy by creating a uncontested market space and reconstructing market boundaries, focusing on the big picture, reaching beyond existing demand and getting the strategic sequence right.

The four actions framework

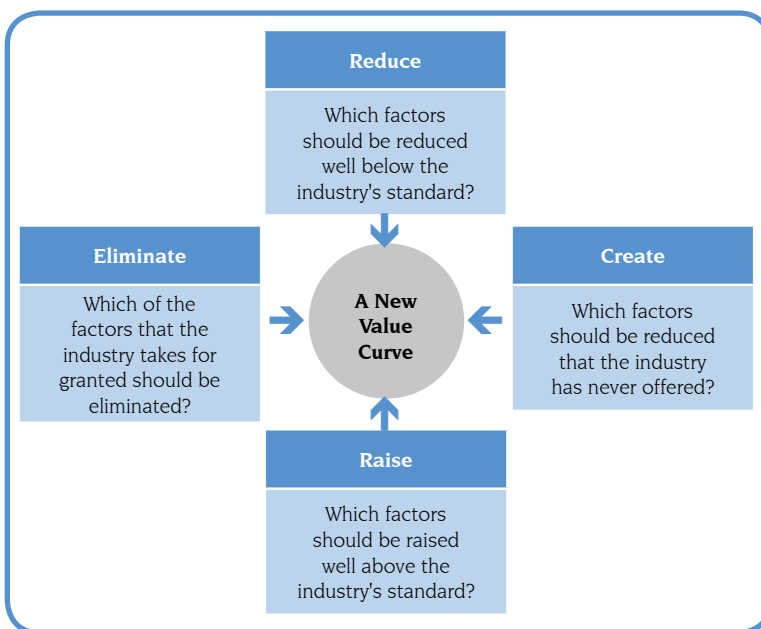


Figure 3.19: Eliminate-Reduce-Raise-Create grid for the case of (Yellow tail).

These four formulation principles address, as to how an organisation can create blue oceans by looking across the six conventional boundaries of competition; (Six Paths Framework) reduce their planning risk by following the four steps of visualizing strategy, create new demand by unlocking the three tiers of non-customers; launch a commercially-viable blue ocean idea by aligning unprecedented utility of an offering with strategic pricing, target costing, and by overcoming adoption hurdles.

Eliminate-reduce-raise-create grid for the case of (Yellow tail)

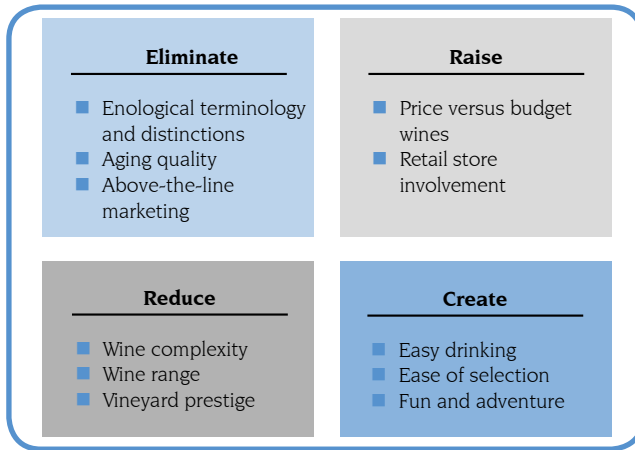


Figure 3.20: Eliminate-Reduce-Raise-Create grid for the case of (Yellow tail).

This book uses many examples across industries to demonstrate how to break out of a traditional competitive (structuralist) strategic thinking and to grow demand and profits for the company and the industry by using blue ocean (re-constructionist) strategic thinking. The third and final part describes the two key implementation principles of blue ocean strategy including tipping point leadership and fair process. These implementation principles are essential for leaders to overcome the four key organizational hurdles that can prevent even the best strategies from being executed. The four key hurdles comprise the cognitive, resource, motivational and political hurdles that prevent people involved in strategy execution from understanding the need to break off from status quo, finding the resources to implement the new strategic shift, keeping your people committed to implementing the new strategy, and from overcoming the powerful vested interests that may block the change.

Kim and Mauborgne (2005) draw the attention of their readers toward the correlation of success stories across industries and the formulation of strategies that provide a solid base, create unconventional success strategy termed as "Blue Ocean Strategy". Unlike the "Red Ocean Strategy", the conventional approach to business of beating competition derived from the military organization, the "Blue Ocean Strategy" tries to align innovation with utility, price and cost positions. This book mocks the phenomena of conventional choice between product/service differentiation and lower cost, but rather suggests that both differentiation and lower costs are achievable simultaneously.

Kim and Mauborgne (2005) ask readers "What is the best unit of analysis of profitable growth? Company? Industry?" a fundamental question without which any strategy for profitable growth is not worthwhile.

The authors justify with original and practical ideas that neither the company nor the industry is the best unit of analysis of profitable growth; rather it is the strategic move that creates "Blue Ocean" and sustained high performance.

The book examines the experience of companies in areas as diverse as watches, wine, cement, computers, automobiles, textiles, coffee makers, airlines, retailers, and even the circus, to answer this fundamental question and builds upon the argument about "Value Innovation" being the cornerstone of a blue ocean strategy.

According to Kim and Mauborgne (2005), value innovation is necessary for the alignment of innovation with utility, price and cost positions. This creates uncontested market space and makes competition irrelevant. The metaphor of red and blue oceans describes the market universe.

Red oceans are all the industries in existence today the known market space. In the red oceans, industry boundaries are defined and accepted, and the competitive rules of the game are known. Here companies try to outperform their rivals to grab a greater share of product or service demand. As the market space gets crowded, prospects for profits and growth are reduced. Products become commodities or niche, and cutthroat competition turns the ocean bloody. Hence, the term red oceans.

Blue oceans, in contrast, denote all the industries not in existence today the unknown market space, untainted by competition. In blue oceans, demand is created rather than fought over. There is ample opportunity for growth that is both profitable and rapid. In blue oceans, competition is irrelevant because the rules of the game are waiting to be set. Blue Ocean is an analogy to describe the wider, deeper potential of market space that is not yet explored.

The cornerstone of blue ocean strategy is 'value innovation'. A blue ocean is created when a company achieves value innovation that creates value simultaneously for both the buyer and the company. The innovation (in product, service, or delivery) must raise and create value for the market, whilst simultaneously reducing or eliminating features or services that are less valued by the current or future market. The authors criticize Michael Porters idea that successful businesses are either low-cost providers or niche-players. Instead, they propose finding value that crosses conventional market segmentation and offering value and lower cost. Educator Charles W. L. Hill proposed this idea in 1988 and claimed that Porter's model was flawed because differentiation can be a means for firms to achieve low cost. He proposed that a combination of differentiation and low cost might be necessary for firms to achieve a sustainable competitive advantage.

Red ocean versus blue ocean strategy

According to Kim and Mauborgne (2005), the imperatives for red ocean and blue ocean strategies are starkly different.

Red ocean strategy	Blue ocean strategy
Compete in existing market space.	Create uncontested market space.
Beat the competition.	Make the competition irrelevant.
Exploit existing demand.	Create and capture new demand.
Make the value/cost trade-off.	Break the value/cost trade-off.
Align the whole system of a company's activities with its strategic choice of differentiation or low cost.	Align the whole system of a company's activities in pursuit of differentiation and low cost

Table 3.3: Red ocean versus blue ocean strategy.

3.7 Attack versus defense strategies

The Kotler and Singh (1981) attack versus defense strategies are inspired by military strategies and can be used to win marketing battles in the marketplace. The attack strategies are as follows;

Offensive strategies (Attack)

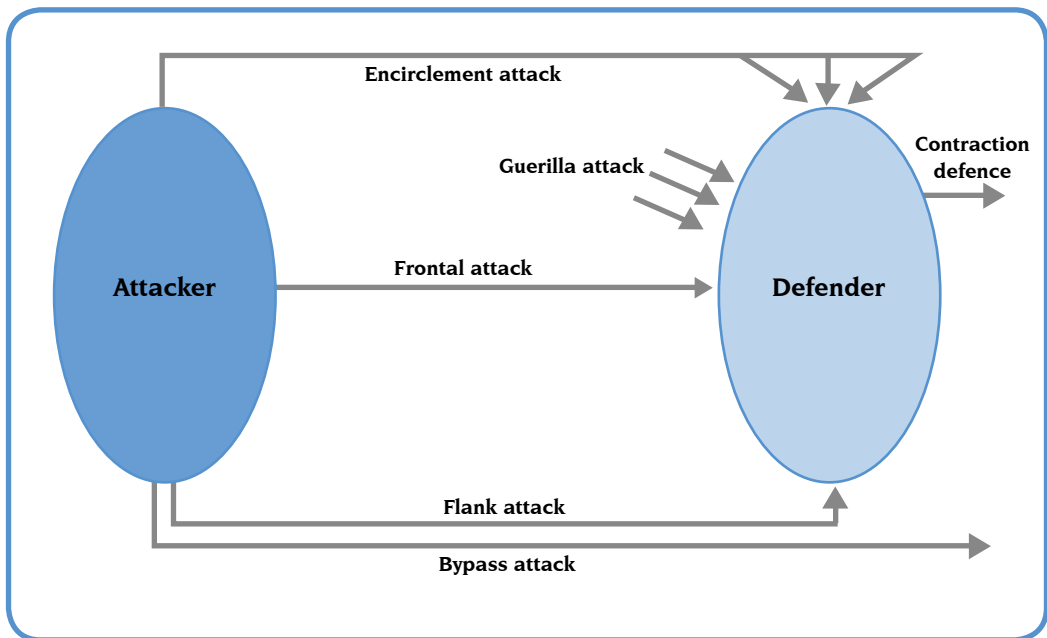


Figure 3.21: Kotler and Singh attack strategies (1981).

- **Frontal attack** - This is the direct, head on attack meeting competitors with the same product line, price, promotion, etc. Because this attack is on the enemy's strengths rather than weakness it is considered the most risky and least advised strategy.
- **Flanking attack** - The aim here is to engage competitors in those product markets where they are weak or have no presence at all. Its overreaching goal is to build a position from which to launch an attack on the battlefield later.
- **Encirclement attack** - Multi pronged attacks aimed at diluting the defenders ability to retaliate in strength. The attacker stands ready to block the competitor no matter which way he turns in the product market. Product proliferation supplying different types of the same product to the market. Market encirclement consists of expanding the products into all segments and distribution channels.
- **Bypass attack** - This is the most indirect form of competitive strategy as it avoids confrontation by moving into new and as yet uncontested fields. Three type of bypass are possible; develop new products, diversify into unrelated products or diversify into new geographical markets.
- **Guerilla warfare** - Less ambitious in scope, this involves making small attacks in different locations whilst remaining mobile. Such attacks take several forms. The aim is to destabilize the competitor by small attacks.

Defence strategies

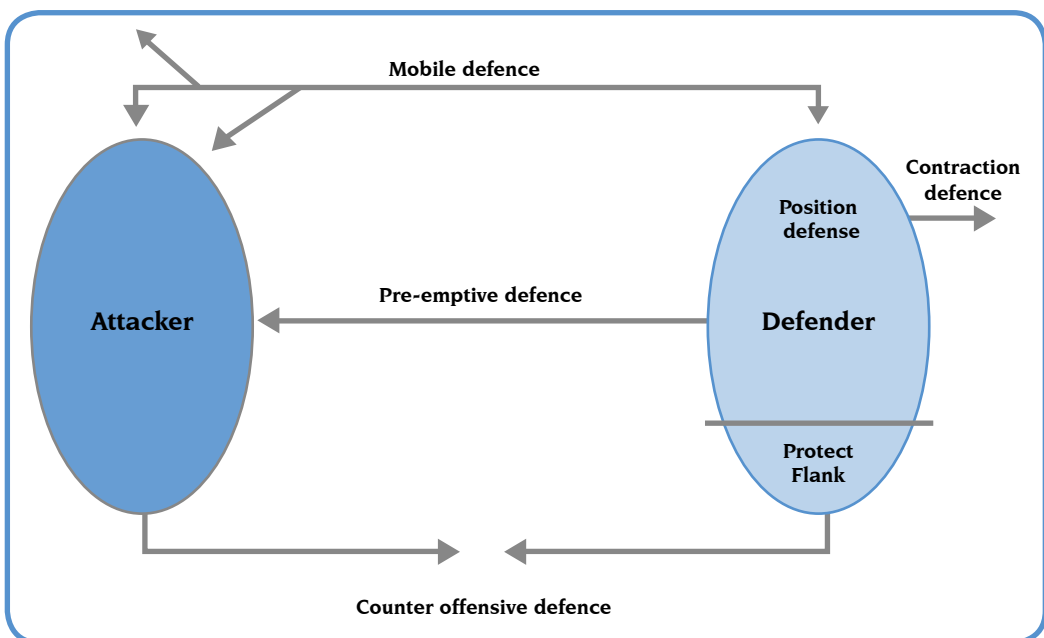


Figure 3.22: Kotler and Singh defence strategies (1981).

- **Position defense** - Static defense of a current position and retaining current product markets by consolidating resources within existing areas. Exclusive reliance on a position defense effectively means that a business is a sitting target for competition.
- **Mobile defense** - A high degree of mobility prevents the attackers chance of localizing the defense and accumulating its forces for a decisive battle. A business should seek market development, product development and diversification to create a stronger base.
- **Pre-emptive defense** - Attack is the best form of defense. Pre-emptive defense is launched in a segment where an attack is anticipated instead of moving into related or new segments.
- **Flank position defense** - This is used to occupy a position of potential future importance in order to deny that position to an opponent. Leaders need to develop and hold secondary markets to prevent competitors from using them as a springboard into the primary market.
- **Counter offensive defense** - This is attacking where the company is being attacked. This requires immediate response to any competitor entering a segment or initiating new moves.
- **Strategic withdrawal** - Fight other battles.

3.8 Competitive stances for companies

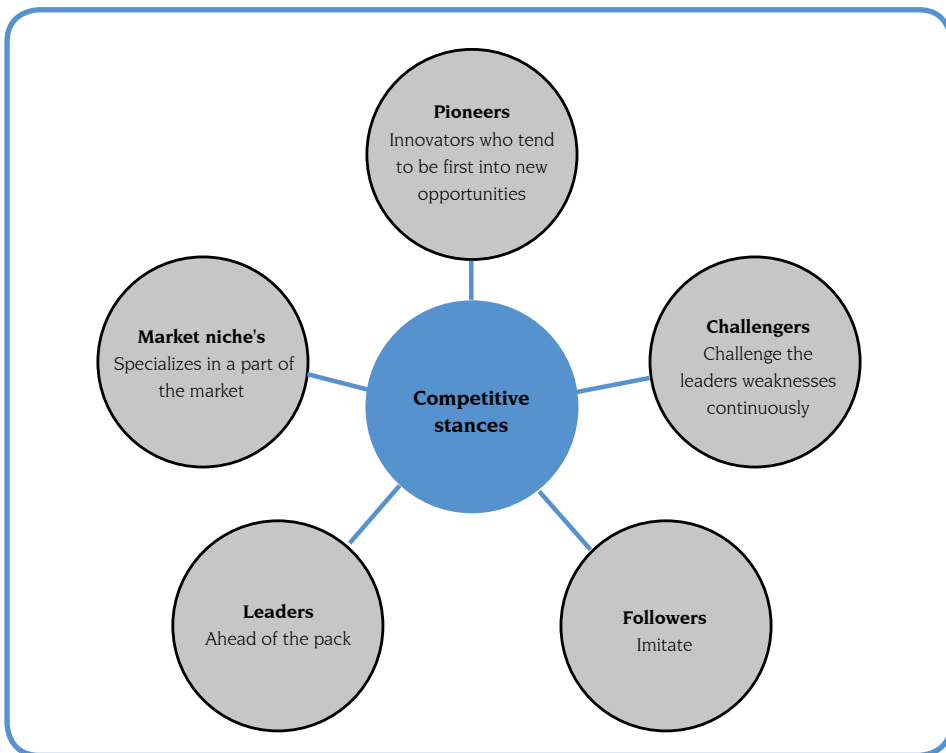


Figure 3.23: Competitive stances for companies.

a) Strategies for pioneers

- Position defense.
- Mobile defense.
- Flanking defense.
- Contraction defense or withdrawal.
- Preemptive defense.
- Counter-offence.

b) Strategies for challengers - Challengers can attack leaders, accept the status quo, or try and win market share from other smaller companies in the market. This is a firm that has smaller market share, which adopts an aggressive stance and seeks to attack other firms including the leader. Marketing strategies tend to be confrontational and there is a continuous search for new ideas. There is a tendency to look for 'first mover advantage' in the developing market place. Strategies that he may use are;

- Frontal attack.
- Flank attack.
- Encirclement attack.
- By pass attack.
- Guerilla attack.

c) Strategies for followers - These are less aggressive firms who attempt to succeed by imitating leaders. They forego the risk area of the search for first mover advantage in return for the safety of the follower. Followers can follow;

- **Closely** - By imitating the market mix and targeting similar segments.
- **At a glance** - With more differentiating factors.
- **Selectively** - To avoid direct competition.

Kotler (2003) makes the important point that 'followership is not the same as being passive or a carbon copy of the leader'. The follower has to define a path that does not invite competitive retaliation. He identifies three broad followership strategies.

- **Cloner** - This is a parasite that lives off the investment made by the leader in the market mix. The counterfeiter is an extreme version of the cloner, who produces fakes of the original.
- **Imitator** - This strategy copies some elements but differentiates on others such as packaging.
- **Adapter** - This involves taking leaders products and adapting or even improving them. The adapter may grow to challenge the leader.

d) Strategies for market niches - Many industries have a series of small firms who specialize in parts of the market, which are too limited in size and potential to be of any real interest to larger firms. This is associated with the focus strategy and relies on segmentation and specialization. The nicher's success stems from their ability to build up specialist knowledge about a particular segment whilst being able to avoid the high costs of head-on fights with leaders and challengers.

There are several specialist roles open to market nichers's are;

- **End user specialist** - Specializing in one type of customer.
- **Vertical level specialist** - Specializing at one particular point of the production distribution chain.
- **Specific customer specialist** - Limiting sales to one or just a few customers.
- **Geographic specialist** - Selling to one locality.
- **Product or service specialist** - Offering specialized services not available from other firms.
- **Quality price specialist** - Operating at the low or high end of the market.
- **Channel specialist** - Concentrating on just one channel of distribution.

e) Strategies for Market leaders - This is the most dominant firm in the industry with the largest market share, significant market moves such as pricing, new product and advertising (Top of mind recall) as well as the benchmark for others. Market leaders usually dominate the mainstream market and avoids specialist ends (Upmarket or budget) and posses multiple retaliations by the market challenger, market followers, and market nichers. The leader must expand the total market (Market development) rather than attempt to increase in market share within the existing market (Market penetration) and as a result may pursue both defensive and offensive strategies to protect and enhance their leadership status. A market leader may also have gone through the learning curve effect and use its resources and scale advantages to be the lowest cost producer in the market in an attempt to make the product affordable and available. Market leaders must attempt to create strong entry barriers and may pursue a multi branding, multi product strategy, which severely limits the retail shelf space available to competing brands.

3.9 Treacy and Wiersema's value disciplines

Company cannot succeed by trying to be all things to all people. It must instead find the unique value that it alone can deliver to a chosen market. Treacy and Wiersema (1995) describe three values disciplines and suggest that a company must choose one of these value disciplines and act upon it consistently and vigorously. Today's market leaders understand the battle they're in. They know they have to redefine value by raising customer expectations in the one component of value they choose to highlight. Choosing one discipline to master does not mean that a company abandons the other two, only that it picks a dimension of value on which to stake its market reputation over the long term.

a) Operational excellence strategy

An operational excellence strategy provides the customer with reliable products or services at competitive prices, delivered with minimal difficulty or inconvenience. Operationally excellent companies deliver a combination of quality, price, and ease of purchase that no one else in the market can match. They are not product or service innovators, nor do they cultivate one-to-one relationships with the customers. However, They execute extraordinarily well, and their proposition to customers is guaranteed low price, hassle-free service or both. Wal-Mart, Costco and Dell Computers epitomize this kind of company.

Operating model of operational excellence

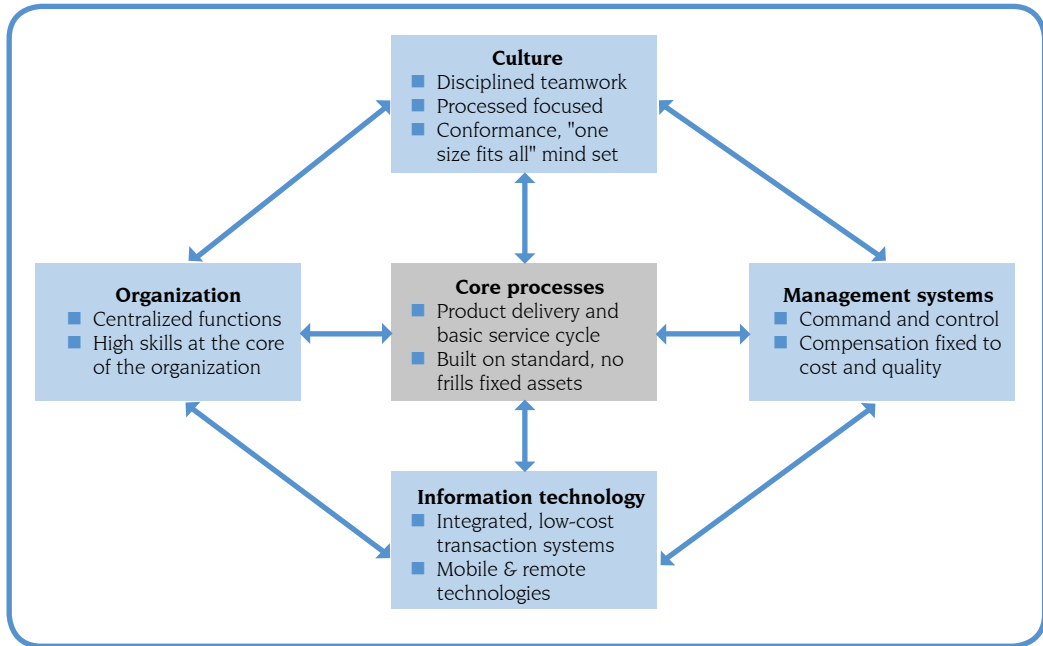


Figure 3.24: Implementing operational excellence by Treacy and Wiersema (1993)

The features of an operationally excellent company may include, processes for end-to-end product supply and basic service that are optimized and streamlined to minimize costs and hassle whilst valuing operations that are standardized, simplified, tightly controlled, and centrally planned, leaving few decisions to the discretion of rank-file employees. To be operationally excellent the company may need to possess management systems that focus on integrated, reliable, high-speed transactions and compliance to norms as well as a culture that abhors waste and rewards efficiency.

b) Product leadership strategy

This involves providing continuous state of the art products. A company pursuing product leadership continually pushes its products into the realm of the unknown, the untried, or the highly desirable. A product leader consistently strives to provide its market with leading-edge products or useful new applications of existing products or services. This kind of company will thrive with creativity, commercialize ideas quickly and relentlessly pursue ways to leapfrog the latest product or service.

In order to be a leader the company must focus on the core processes of invention, product development, and market exploitation. A business structure that is loosely knit, ad hoc, and ever-changing to adjust to the entrepreneurial initiatives and directions that characterize working in unexplored territories. The company will need good management systems that are results-driven, that measure and reward new products success, and that don't punish the experimentation needed to get there whilst a culture that

Operating model of product leadership

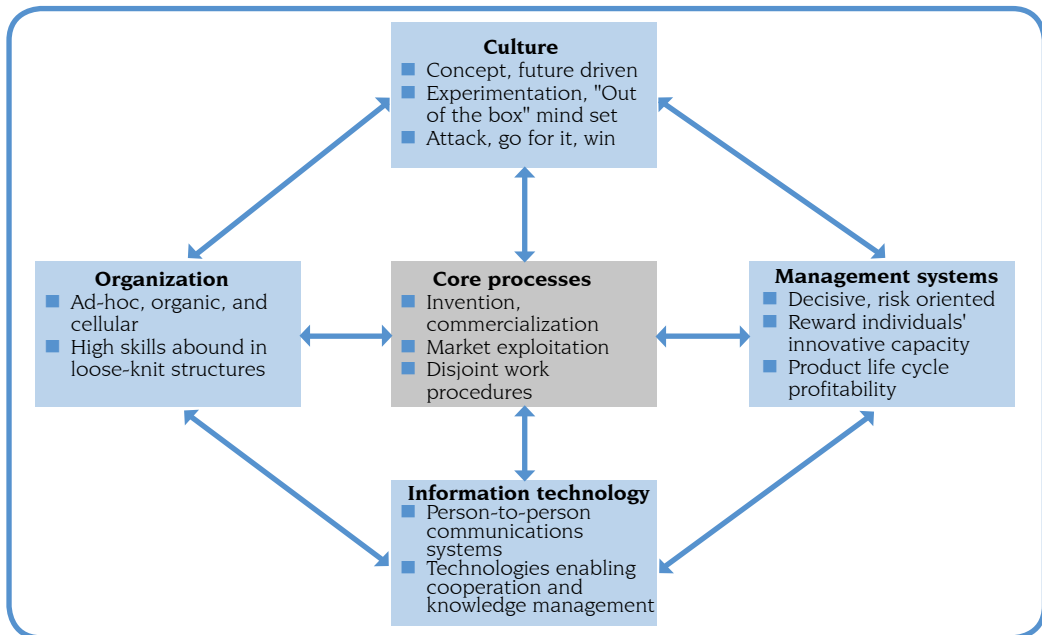


Figure 3.25 Implementing product leadership by Treacy and Wiersema (1993).

encourage individual imagination, accomplishment, out-of-the-box thinking, and a mind-set driven by the desire to create the future.

Johnson & Johnson, for instance, is a product leader in the medical equipment field. With Nike, the superior value does not reside just in its athletic footwear, but also in the comfort customers can take from knowing that whatever product they buy from Nike will represent the hottest style and technology on the market. For these product leaders, competition is not about price or customer service (though those can't be ignored), it's about product performance.

c) Customer intimacy

This involves selling the customer a total solution, not just a product or service. This is a company that delivers value via customer intimacy like those between good neighbors and does not deliver what the market wants, but what a specific customer wants and tailor the products and services. The overarching slogan is "We take care of you and all your needs" or "we get you the best total solution".

The company may also save a lot of resources since customers don't have to be resold through expensive advertising and promotions. Customer-intimate companies don't pursue transactions, but cultivates relationships. However, these companies will need to have an obsession with the core processes of solution development, results management, and relationship management whilst modifying the business structure that delegate's decision-making to employees who are close to the customer.

Operating model of customer intimacy

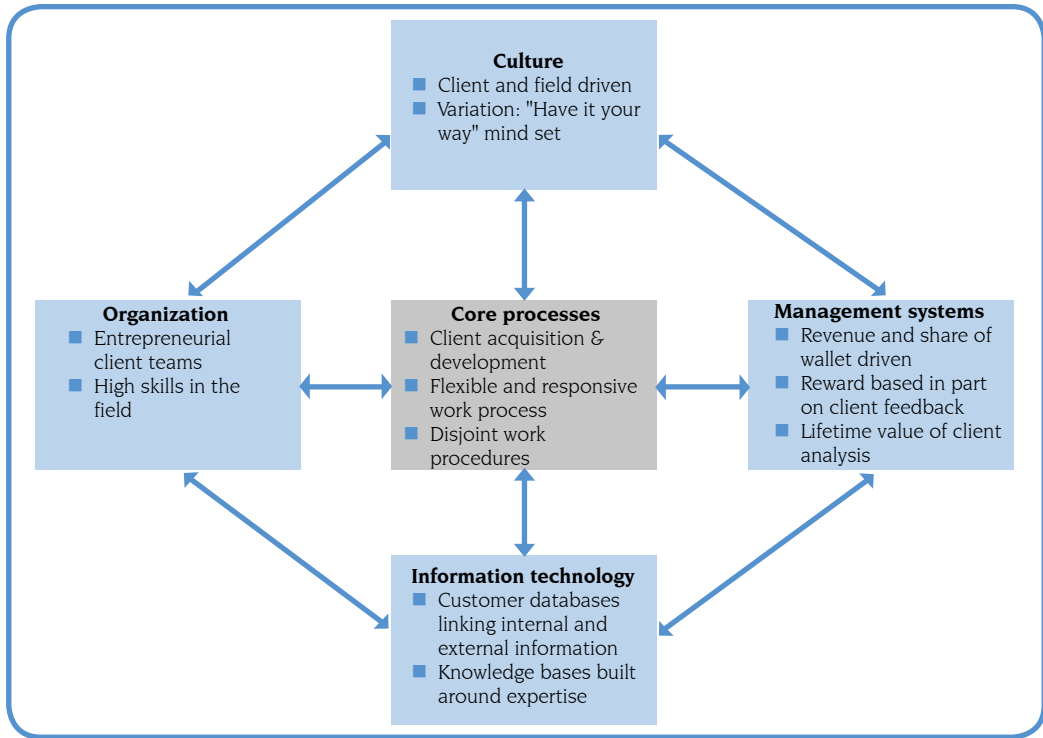


Figure 3.26: Implementing customer intimacy by Treacy and Wiersema (1993).

The outcomes of the value disciplines at a glance

	Operational excellence	Product leadership	Customer intimacy
Value proposition	<ul style="list-style-type: none"> Best total cost 	<ul style="list-style-type: none"> Best Product 	<ul style="list-style-type: none"> Best total solution
Golden rule	<ul style="list-style-type: none"> Variety Kills efficiency 	<ul style="list-style-type: none"> Cannibalize your success with breakthroughs 	<ul style="list-style-type: none"> Solve the client's broader problem
Core processes	<ul style="list-style-type: none"> End-to-end product delivery Customer service cycle 	<ul style="list-style-type: none"> Invention Commercialization Market exploitation 	<ul style="list-style-type: none"> Client acquisition & development Solution development
Improvement levers	<ul style="list-style-type: none"> Process redesign Continuous improvement 	<ul style="list-style-type: none"> Product technology R&D cycle time 	<ul style="list-style-type: none"> Problem expertise Service customisation
Major improvement, challenges	<ul style="list-style-type: none"> Shift to new asset base 	<ul style="list-style-type: none"> Jump to new technology 	<ul style="list-style-type: none"> Total change in solution paradigm

Table 3.4: Outcomes of the three disciplines by Treacy and Wiersema (1993).

Their adherents focus on delivering not what the market wants but what specific customers want. Customer-intimate companies do not pursue one-time transactions; they cultivate relationships. They specialize in satisfying unique needs, which often only they recognize, through a close relationship with and intimate knowledge of the customer.

3.10 Perspective of strategy (The 5 Ps of strategy)

In his book 'The rise and fall of strategic planning' Mintzberg (1987) outlines five perspectives of strategy.

- **Strategy as a plan** - A direction, a guide or a consciously intended course of action into the future or a path to get from here to there.
- **Strategy as a pattern** - This outlines Mintzberg's ideas of emergent strategies that result from unintended decisions assuming consistent behaviour over time.
- **Strategy as a position** - Strategy is a competitive position the company will reach at the end of the day and the positions are one of the four options put forward in Porters generic strategies.
- **Strategy as a perspective** - Strategy may be explained through a perspective or a unique way. Ohmes Strategic triangle puts forward a perspective of strategy as the interplay of the three Cs.
- **Strategy as a ploy** - Which is a specific manoeuvre intended to outwit a competitor. E.g. Kotlers attack versus defense strategies.

3.11 The strategic triangle

In his book 'the mind strategist, Kenichi Ohmae (1982) argues that formal strategic planning processes have withered strategic thinking and advocates that strategy is essentially a creative process. Successful strategists have an idiosyncratic mode of thinking in which the company, the customer and competition merge in a dynamic interaction and out of which a comprehensive set of objectives and plans for action will get eventually crystallized. The author claims that Successful business strategies do not come out from rigorous analysis but from a particular state of mind. Strategic thinking as an intuitive process and a strategist should be able to see beyond the present. Ohmae (1982) introduced 'the Strategic Triangle' or the three C's and suggested that successful strategy can be characterized through the interplay of the three C's. A **company** must develop and use it's strengths to differentiate themselves from **competitors** and better satisfy **customer** needs.

Ohmae (1982) defined competitive advantage as delivering a superior value advantage to your target customers relative to your competitors or delivering equivalent customer value to your target customers relative to your competitors but at a lower cost.

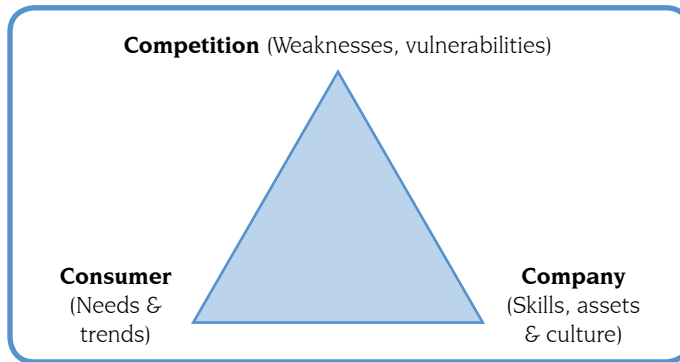


Figure 3.27: The strategic triangle

- **Customer related questions attempts to answer questions such as** - Who are our current customers and potential customers? Are there any special segments that we dominate? Why do customers buy from us? What do our customers really want?
- **Competitor related questions are those such as** - Who are our competitors? What are the main factors in the market that influence competition? How intense is competition? How can the organization beat or at least survive against competition? What resources and customers do competitors have that make them successful? How does the competitors organization compare to ours in terms of price, quality etc. Does the organization have a stronger distributive network than its competitors? What is necessary to achieve market superiority?
- **Corporation related questions are those such as** - What special resources does the company itself possess and how do they compare with competitors? How does the company compare costs with their rivals? Technologies? Skills? Organisational ability? Marketing? What is the orientation of the organisation? The company's aim to satisfy customer needs? Innovate? Differentiate?

3.12 Strategic lenses

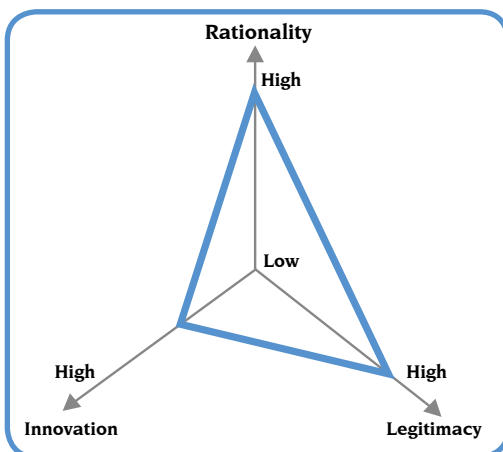


Figure 3.28: Strategy as design.

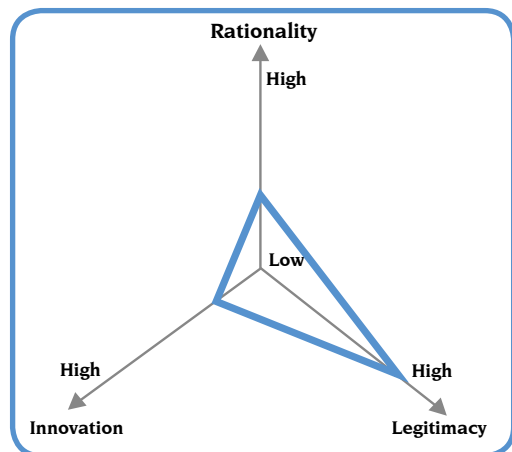


Figure 3.29: Strategy as experience.

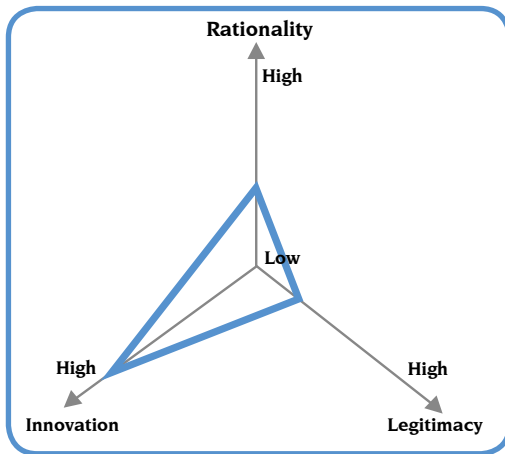


Figure 3.30: Strategy as ideas.

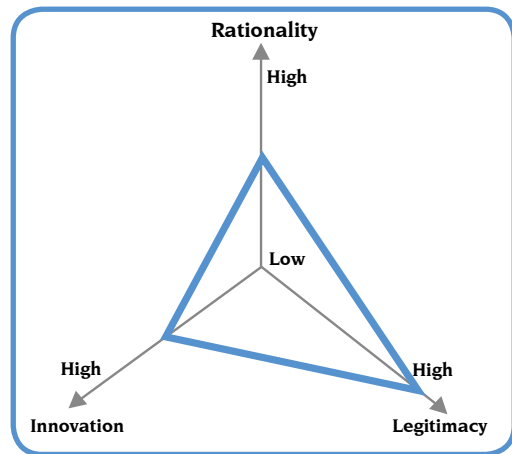


Figure 3.31: Strategy as discourse.

According to Johnson, Scholes and Whittington (2008) strategic lenses are four angles from which strategy can be viewed and implemented at a corporate level. The four viewpoints are:

a) Strategy as design

- This lens views strategy development as a process of logical determinism.
- Through careful evaluation of the firm's industry, environment and available resources, the optimal strategy and clear direction can be determined.
- This strategic process thus follows an analysis-selection-implementation process.
- Fundamental to this view is that the responsibility of strategy development is top-management driven and that they are capable of choosing the optimal strategy for the business.
- Also known as the classic, prescriptive, deliberate, planned or rational approach.
- Exemplified by authors such as Ansoff and Porter and involves rational analysis using matrices in an attempt to match the organization's capabilities to the environment.
- Favoured by management because it is neat, self contained, tangible, looks like a technique and favoured by lenders and investors because it gives the impression of providing 'answers' about the future.

b) Strategy as experience

- Many proponents of the view of strategy as experience, such as Henry Mintzberg would argue that top-level executives are too distant from daily developments of the organisation.
- According to Mintzberg, strategic development should be adaptive and he divides it into intended, realized and emergent strategies.
- In this model, strategic development is the continuous adaptation of past strategies based on experience.

- In this view strategy is greatly influenced by 'taken for granted' assumptions and involves large levels of bargaining and negotiation. Strategy as experience carries with it a risk of the effect known as strategic drift, which is a result of failing to act upon environmental changes by being too 'path dependent' on past activity.

c) Strategy as ideas

- The ideas lens sees organizations as evolutionary systems where the organization's survival rests on the innovation process. New ideas must be given breathing space otherwise they will die.
- This view interprets strategy as a process coming from within an organisation and influenced by the environment around it.
- It's a 'bottom up' approach and requires an organisational culture, which allows all employees to feel able to express their ideas. Some companies such as 3M, actively encourage employees to generate ideas with specifically allotted time to do so.

d) Strategy as discourse

This is how the 'language' of strategy influences organizations - The way in which we talk about strategy as well as the way in which we analyze particular actions that we categorize as strategic have political implications. It sees strategy development in terms of language as a "resource" for managers by which strategy is communicated, explained and sustained and through which managers gain influence, power and establish their legitimacy as strategists.

Summary of strategic lenses

	Design	Experience	Ideas	Discourse
Overview, summary	Deliberate positioning through rational processes to optimize economic performance	Incremental development as the outcome of individual and collective experience and the taken for granted	Emergence of order and innovation through variety, in and around the organization	The language and concepts of strategy used as a basis for establishing identity and gaining influence, power and legitimacy
Assumptions about organisations	Mechanistic, hierarchical, rational systems	Cultures based on experience, legitimacy and past success	Complex and potentially diverse organic systems	Arenas of power and influence
Role of top management	Strategic decision makers	Enactors of their experience	'Coaches', creators of context and pattern recognizes	Exercising or gaining power and influence over others
Underpinning theories	Economics; decision sciences	Institutional theory, theories of culture; psychology	Complexity and evolutionary theories	Discourse theory, critical management theory

Table 3.5: Summary of strategic lenses.

3.13 Institutional growth strategies

A business may broadly pursue a sustainable growth strategy through organic growth, which is less costly and risky or choose to venture into a quantum leap of growth via acquisitions or merges. The institutional growth strategies are as follows;

- **Merges and acquisitions** - These allow expeditious entry to new markets by buying into new product range, technology, skills and resources. This is also a useful way to obtain tax advantages and spread risks. These strategies may be more expensive than organic growth and the company can gain synergy by bringing together complementary resources such as brands. An acquisition may be the only way to enter a market where the competitive structure will not admit a new member or the barriers to entry are too high. There is bound to be a cultural mismatch between the organisations and a lack of 'fit' can be significant in knowledge-based companies, where the value of the business resides in individuals.
- **Strategic alliances and consortia** - This is a coalition of two or more organisations who would agree to achieve strategically significant goals that are mutually beneficial. They operate with a degree of autonomy and flexibility and tend to start on a narrow basis and broaden over time. They may combine resources, technology or knowledge by pooling to gain operational economies and build complementary resource capabilities. Consortia form when there are more than two players in the alliance.
- **Joint ventures** - Two companies get-together and form a third company which is co-owned where they will share resources and leverage each other's strengths. The venture may be based on technological know-how, access to distribution networks, shared product development and reduced capital. Although the investment is high it offers a higher returns and control over the operations. This method can be used to overcome any government restrictions on sole foreign ownership.
- **Licensing** - Confers the right and transfers the knowledge to utilize a specific patent, brand, trademark, copyrights, product or process for an agreed fee, in a given country, over a prescribed time span. This is most suitable for economically unstable, politically sensitive markets where there is high risk and tariff barriers are prohibitive or government regulations forbid company control in the market. Whilst this may be attractive to small and large firms alike it enables quick multi market penetration, establish long-term relationships and useful for products with short life cycles. This strategy requires a low level of investment, cost savings and access to local distribution.
- **Franchising** - This is an arrangement whereby the franchiser gives the franchisee the right to use the franchiser's business concept and product trade name in exchange for royalty payments. This is similar to licensing but is more complex and requires more management commitment and expertise as the Franchiser makes the total production, operational and marketing program

available. Generally franchisers involve a service element and well known examples include KFC, McDonalds, and Pizza Hut. The franchisee pays in to the franchise and the capital out lay is reduced and the financial risk lies mainly with the franchisee. For the franchisee the arrangements enables small and independent, entrepreneurial individuals to enjoy the benefits to belonging to a large organization with all its power of economies of scale and marketing expertise.

The 40/30/20 rule of futuristic thinking

According to Hamel and Prahalad (1994) managers spent very little time predicting the future. According to the 40/30/20 rule, it is suggested that 40% of a senior executive's time is devoted to looking outward (external). Out of this time, 30% is typically spent on focusing on the future. Out of this time spent looking forward, no more than 20% is devoted to building a collective view of the future. Thus, on average, senior managers devote less than 3% (40% x 30% x 20%) of their time to building a collective, corporate perspective of the future. In some companies, the figure is less than 1% as indicated in figure 3.33 below.

The authors believe that senior managers should spend 20 to 50 percent of its time contemplating the future and during this time they must be willing to develop and adapt their perspectives. Most often, the urgent drive out the important and the future goes largely unexplored and the capacity to act, rather than the capacity to think and imagine, becomes the sole measure of leadership.

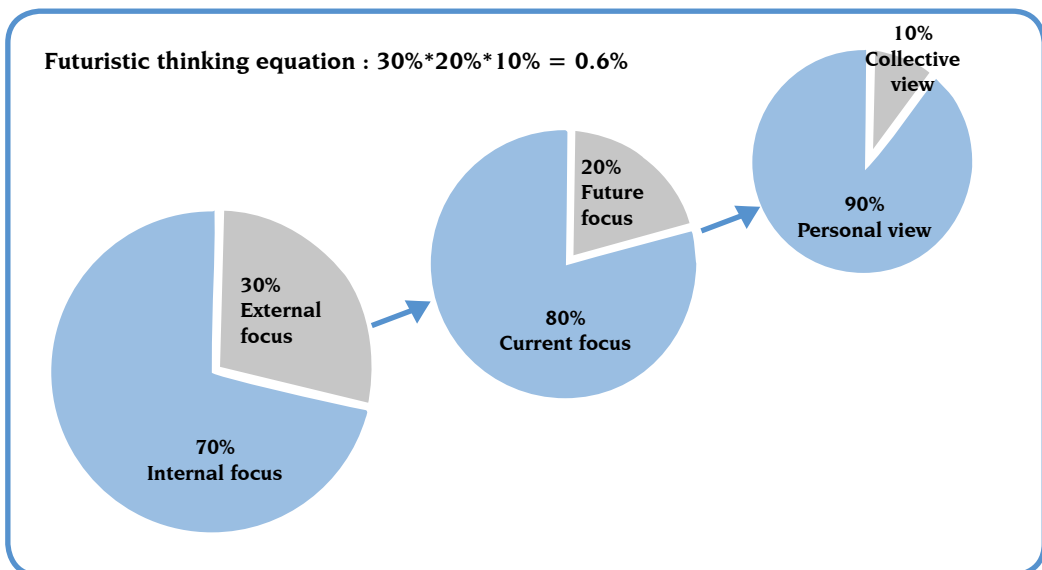


Figure 3.32: Adopted from Hamel & Prahalad (1994).

Johnson, Scholes and Whittington's view on strategy

The authors define strategy as the direction and scope of an organization over the long term, which achieves a competitive advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations.

According to the authors strategic decisions are concerned with;

- The long-term direction and consequences.
- The overall scope of a organization's activities.
- Using the organization's internal resources and competencies effectively.
- Delivering value to the people who depend on the firm (various stakeholders).
- Achieving a competitive advantage.
- Matching the activities and meeting the challenges from the firm's external environment in which it operates.

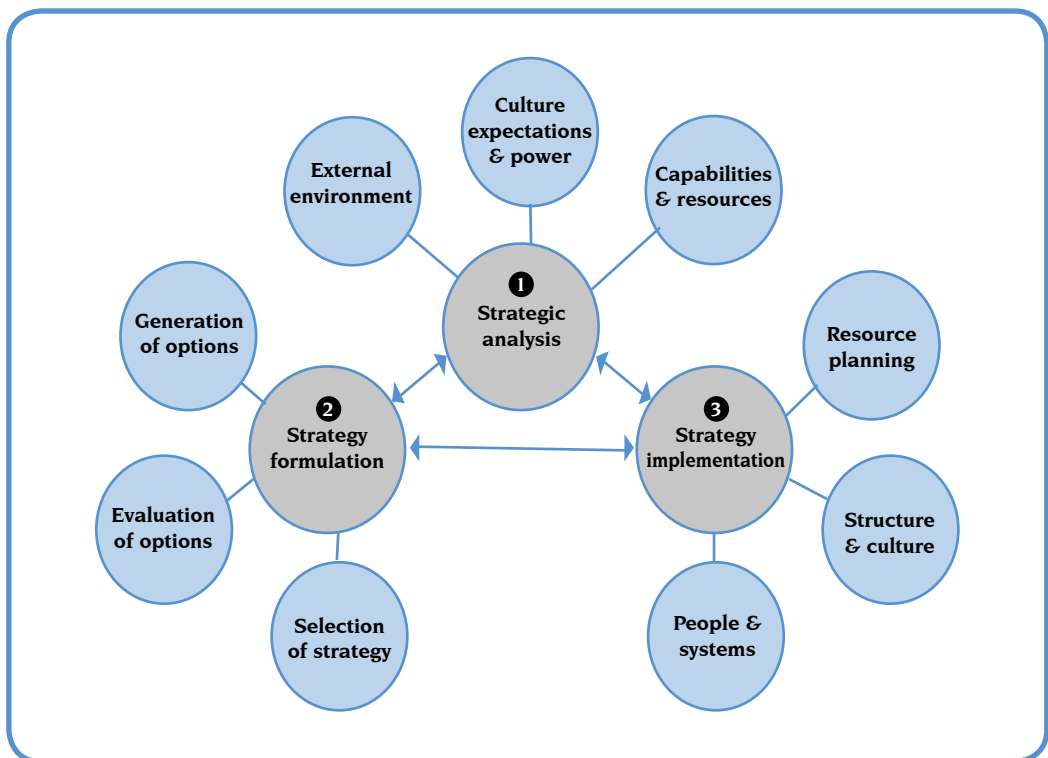


Figure 3.33: Johnson, Scholes and Whittington's view on strategy 2008.

Whilst definitions and descriptions of the levels of strategy are useful, the focus is on what it is, rather than what it does. A number of frameworks are available to help us understand the nature of strategy as a managerial process. After establishing the characteristics of strategic decisions, the authors outline a model of the elements of strategic management, which underpin the structure of their textbook. The model of strategic planning is a modern development of the rational planning model and consists of three elements (analysis, choice, implementation) but instead of presenting these linearly, it recognizes interdependences. For example, it might only be at the strategy into action (implementation) stage that an organisation discovers something new that sheds light on its strategic position. The other key difference is that Johnson, Scholes and Whittington argue that strategic planning can begin at any point. For example, firms might decide that they will launch an Internet sales division without first carrying out any strategic analysis or choosing how the new strategy might compete. The authors articulate the elements of strategic management as follows;

- a) **Strategic analysis (Situational & gap analysis)** - Understanding the strategic position of the organization involves an assessment of how the environment affects the organization; understanding the strategic capability of the organization, based on its resources and competencies; and understanding the organization's purpose and the expectations of key stakeholders as well as external analysis to identify critical success factors (CFSs) in markets.
- b) **Strategic formulation or direction** - This involves the formulation, direction, evaluation and selection of the potential courses of action. The process will involve;
 - **Identifying the bases of choice** - Particularly how the firm creates an advantage, how it balances its activities, and what are its aspirations for the future.
 - **Generating options** - The directions in which the organization could move and by what methods. E.g. Increase market share, International growth, concentration core competencies, acquisition.
 - **Evaluating and selecting options** - The extent to which options meet tests of suitability, feasibility and acceptability. Alternative strategies are developed and each is then examined on its merits.
 - **Strategy selection** - Competitive strategy is the generic strategy determining how you compete, product-market strategy determines where you compete and institutional strategies determine the method of growth.
- c) **Strategic implementation** - The strategy sets the broad direction and methods for the business to reach its objectives. However, none of it will happen without more detailed implementation. The strategy implementation stage involves drawing up the detailed initiatives, policies and programmes necessary to make the strategy come alive. It will also involve obtaining the necessary

resources and committing them to the strategy. It is how strategy is translated into action and involves the consideration of issues such as organizational structure, resource planning and the management of strategic change. These are commonly called tactical or operational decisions and examples include developing new products, recruitment or downsizing of staff or investing in new production capacity. Conventional budgetary control is an important factor in controlling these matters. Gantt charts and project management tools will be helpful at this stage to set KPIs for each CSF. Control systems are used to assess performance.

3.14 Strategy as a process, content and context

Whilst the analysis-choice-implementation model can provide useful insights into the elements of strategic management, it is not the only framework, which is useful in this regard but De Wit and Meyer (2010) points to an alternative model of the dimensions of strategy as a process, content and context. The key features of this framework are illustrated below;

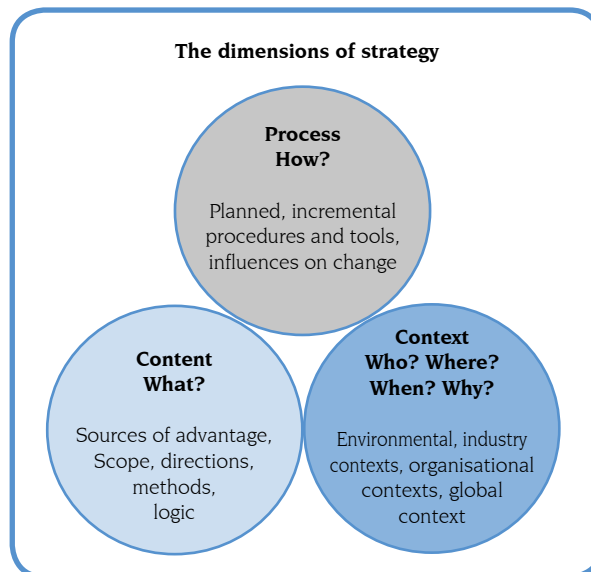


Figure 3.34: Strategy as a process, content and context.

- **Strategy process** - This refers to the process by which organisations develop, formulate strategies, take strategic decisions and ensure strategic change is a key dimension of strategic management. At one level, it provides a link back to Johnson and Scholes framework of the elements of strategic management. Johnson and Scholes' emphasis, that their model does not assume a linear form of three sequential stages, raises the central debate about strategy process the extent to which strategy is a planned or incremental process.
- **Strategy content** - This describes the "what" of the strategy in terms of the content. This involves the scope of the organization's activities, the directions and methods of development, and the

way it achieves synergy and manages the connections between different business units, are all aspects of corporate strategy. The analysis of strategy content tends to concentrate upon issues of rationality: does the strategy make sense?

- **Strategy context** - If process is the 'how' and content the 'what' the context can be seen to be the 'where, when, who and why' of strategic management. For many organisations, the growing internationalization of the industries and markets are having a significant effect on their strategy.

Strategic drift

Strategic drift is a management concept by Johnson and Scholes (2008), which explains that an organisations response to the changing environment is often within the parameters of the organisations culture. Culture is traditionally seen as opposition to change, which stifles innovation and results in a momentum of strategy that can lead to strategic drift.

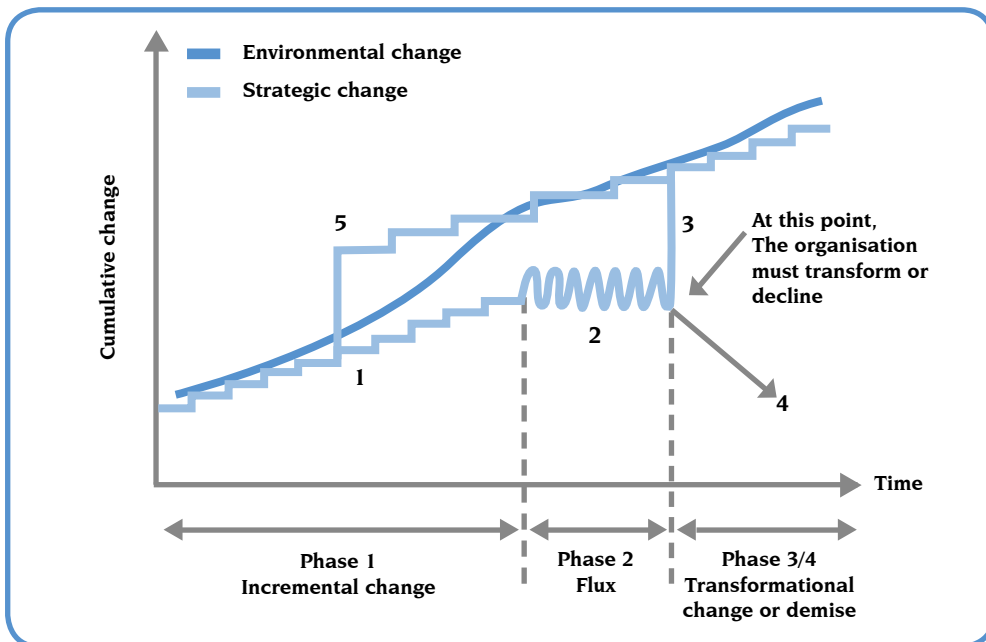


Figure 3.35: Strategic drift.

- **Incremental change to avoid strategic drift** - This is where the management attempts to make gradual changes in aligning the organizations progress with the environmental change. The approach where the strategists make incremental changes built on a successful formula is termed as Logical Incrementalism.
- **A period of flux** - As performance declines and the organisation loses track of the environment, a period of flux occurs typified by, strategies that constantly change, no clear direction, top management conflict and regular managerial changes, backward culture, high resistance to

change, chaos and internal disagreement, declining business performance, low team morale and customers becoming alienated.

- **The transformational change or death stage** - As performance continues to deteriorate the outcome is likely to take the organization towards bankruptcy (death), a takeover triggering radically changes by the new management or transformational change where multiple, rapid and revolutionary changes will be made.

3.15 Mintzberg's planned versus emergent strategies

Should organizations have a strategy at all? Mintzberg (1998) states "strategies are to organizations what blinders are to horses: they keep them going in a straight line but hardly encourage peripheral vision". Mintzberg has defined three components of strategy. Intended strategy (a plan for action), an emergent strategy (a process) and the realized strategy (the outcome). He argues that strategy is not confined to Porters positions explained in the generic strategies. Those plans or aspects of plans, which are actually realized, are called deliberate strategies.

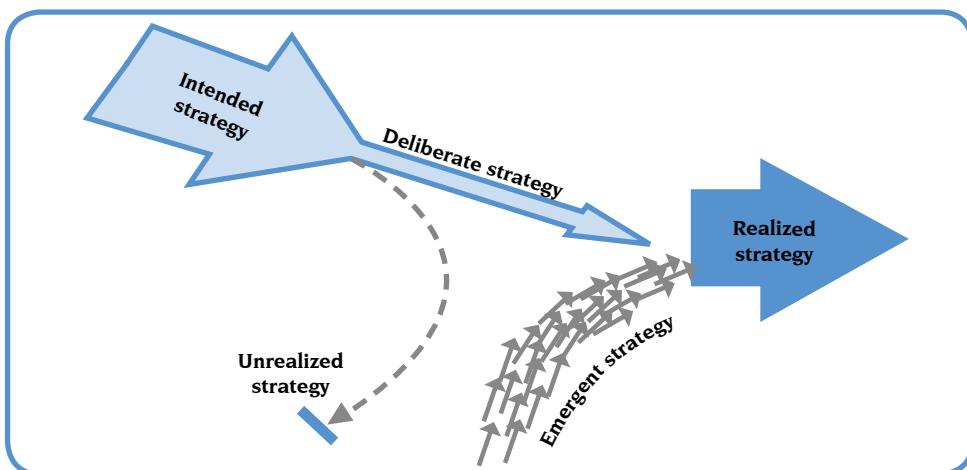


Figure 3.36: Mintzberg's planned versus emergent strategies.

The planned approach to strategy

The planned approach or intended strategy is the rational or formal approach to achieving a stated objective. Is it top-down planning and therefore likely to be ponderous. It involves the careful and deliberate formulation, evaluation and selection of strategies for the purpose of preparing a cohesive long-term course of action to attain objectives. This is characterized by the word 'formulated' strategy and moves from the theoretical to practical and may be appropriate in a stable environments. This is when the plan is clearly documented (written down) and a result of a formal, systematized process

for planning with a start and end point. According to Mintzberg it is also determined or endorsed by senior managers, with little direct involvement from operational managers, although they may be consulted. The rational approach fails to identify emergent strategies, or allow for them and is practiced in traditional, hierarchical organizations. The rational strategic planning process model is based on rational behaviour, whereby planners, management and organisations are expected to behave logically. First defining the mission and objectives of the organisation and then selecting the means to achieve the causes and effects are viewed as naturally linked and is assumed to have a strong element of predictability.

Benefits of the planned approach to strategy formulation

- **Long-term view** - It avoids organisations focusing on short-term results.
- **Identifies key strategic issues** - It makes management more proactive.
- **Goal congruence** - It ensures that the whole of the organisation is working towards the same goals.
- **Communicates responsibility** - Everyone within the organisation can be made aware of what is required from them.
- **Co-ordinates SBU's** - It helps business units to work together.
- **Security for stakeholders** - It demonstrates to stakeholders that the organisation has a clear idea of where it is going.
- **Basis for strategic control** - Clear targets and reports enabling success of the strategy to be reviewed.

The problems of the planned approach to strategy formulation

- **Inappropriate in dynamic environments** - A new strategy may only be established say every five years, which may quickly become inappropriate if the environment changes.
- **Bureaucratic and inflexible** - Radical ideas are often rejected and new opportunities, which present themselves, may not be able to be taken.
- **Difficulty getting the necessary participation to implement the strategy** - Successful implementation requires the support of middle and junior management and the nature of the rational approach may alienate these levels of management.

- **Impossible in uncertain environments** - It is impossible to carry out the required analysis in uncertain business environments.
- **Stifles innovation and creativity** - The rational approach encourages conformity among managers.
- **Complex and costly** - For small businesses with informal structures and systems.

The emergent approach to strategy

The emergent approach to strategy or emergent strategies are those that develop out of patterns of behavior and are suitable when doing business in volatile environments. Emergent strategies do not arise out of conscious strategic planning but as a result of a number of ad hoc choices, perhaps made lower down the hierarchy, which may not be recognized at the time as being of strategic importance. These strategies are evolving, continuous and incremental. The role of strategic management is to control and shape these emergent strategies as they develop. It is imperative to create a structure and cultivate a culture that supports the emergent approach because it may lead to chaos. The operation level staff can be a source of strategic change and since emergent strategies arise out of patterns of behavior they are not the result of the conscious intentions of senior managers. These have to be shaped or crafted and the emergent strategies are characterized by the term "formed" strategy as opposed to "formulated" or planned strategy.

Mintzberg (1998) suggested that a manager must exhibit the following skills when adopting the emergent approach to strategy;

- **Manage stability** - Managers should be able to master the details of running their business and not feel compelled to constantly rethink the business's strategic future.
- **Detect discontinuity** - This is the ability to detect the subtle environmental changes that may affect the business and be able to assess their potential impact on its future performance. The key to this is that managers must 'know the business'. Formal strategy systems can distance managers from their business and they can subsequently lack the knowledge they need to run it.
- **Manage patterns** - Management should encourage strategic initiatives to grow throughout the business and watch to see how they develop and intervene once this is clear.
- **Reconcile change and continuity** - Managers must realize that radical changes and new patterns of strategy will create resistance and instability in the firm. They must keep radical departures in check, while preparing the ground for their introduction.

No realized strategy will be wholly deliberate or wholly emergent. The line between deliberate and emergent elements within each strategy will be part influenced by organisation structure and culture. A few related concepts in the evolution of the emergent strategy are as follows;

Implicit or explicit strategies - Entrepreneurs have a theory of a business, which they may or may not be document. Implicit strategy may exist only in the chief executive's head. Explicit strategies are properly documented.

Bounded rationality - Simon (1970) suggested that managers do not optimize (get the best possible solution) but instead only satisfy. Managers are limited by time, by the information they have and by their own skills, habit and reflexes. They do not in practice evaluate all the possible options open to them in a given situation, but choose between relatively few alternatives. This approach Herbert Simon characterized as bounded rationality.

Incrementalism and freewheeling opportunism – Lindblom (1959) did not believe in the rational model of decision-making as he suggested that it was not used in the real world. He suggested that strategy making tends to involve small-scale extensions of past policy 'incrementals' rather than radical shifts following a comprehensive search. Lindblom believed these would be more successful as it was likely to be more acceptable since consultation, compromise and accommodation were built into the process. He believed that comprehensive rational planning was impossible and likely to result in disaster if actively pursued.

The 'freewheeling opportunism' concept - Is an approach that suggests a firm should not bother with strategic plans and should exploit opportunities as they arise and judge on their individual merits and not within the rigid structure of an overall corporate structure. Freewheeling opportunists do not like planning. They prefer to see and take opportunities as they arise. Intellectually, this is justified by saying that planning takes too much time and is too constraining. It is probable that the approach is adopted more for psychological reasons, as some people simply do not like planning.

Logical incrementalism - Quinn (1978) takes a more positive view of incrementalism than Lindblom and asserts that a manager must map where he or she wants the organisation to go and then proceed towards it in small steps, being prepared to adapt if the environment changes or if support is not forthcoming. Strategy is an incremental, step-by-step, learning process. Here, managers consciously keep their decisions small and flexible.

'Execution excellence' as strategy

If you were appointed as a CEO of a new company, would you rather choose to have a management team with excellent skill in strategy but poor execution or implementation skills or a management team with absolutely no sense of strategy but a team that can deliver flawless execution? This dichotomy has been debated for decades and the chances are you would not find a management team that has the ideal balance of cognitive skills.

Authors such as Mintzberg, Simon, Quinn and Lindblom explain that an organization will continuously tweak and adjust its small scale initiatives into a logical, incremental pattern of work and go through a learning, experience curve over time. Even if a wrong strategy is pursued a management team with flawless execution skills may be able to make some changes expeditiously and adjust its course of direction.

Management teams with strong execution skills are extremely rare. Thousands of small wheels keep turning in an organization at the front end, which ensures the progress of the organization. Consider the example of a trim-tab on a ship which is a small rudder that turns a bigger rudder that changes the course of the entire ship. Covey (1998) explains that such employees move themselves and their team or department in such a way that it positively affects the entire organization. Consider the example of a Swan that gracefully moves in a lake. A close look beneath the water will indicate that a swan's feet act as flaps that are used to peddle with power in order to ensure a graceful journey.



The hippo and the eagle

An eagle represents the senior management team of the organization that flies above the clouds and may have a 360-degree view of the environment. They are agile and are quick to see any opportunities or threats in order to adjust their course of actions. They may sometimes move faster than usual to leverage their unique capabilities. A hippo will represent frontline staff that executes and implements daily initiatives identified by the senior management. They move slowly on the ground and may take a while to change their direction and may be a part of a large herd. They may not be as agile and may have a clear aerial vision of the environment. However, the Hippo may possess a sound understanding of what is taking place on the ground.

The senior management of a company will need to understand the abilities and limitations of hippos and the front line staff of the company, while the hippos will need to understand that the senior management can see the broader picture and will make constant adjustments to strategic initiatives based on the changes in the environment.



3.16 Metaphors of strategy

Metaphors are a useful approach to give meaning to and understand strategy. These projective techniques will help a firm to effectively communicate the chosen strategies internally.

- **The sniper versus machine gun metaphor** - Precision versus carpet bombing.
- **The boxing versus judo metaphor** - Power versus technique.
- **The jazz ensemble versus marching band metaphor** - Improvisation versus liner systems.
- **The ship versus submarine metaphor** - Direct versus submerged attack.
- **The hippo and the eagle metaphor** - Front line staff versus leaders.
- **The trim tab rudder and the swan metaphor** - Execution excellence.



3.17 Mintzberg's ten schools of strategy

One of the difficulties of learning about strategy is that it can be quite a tenuous subject to grasp, meaning different things to different people. This problem is addressed by Mintzberg, Ahlstrand and Lampel (2002) in their book *Strategy Safari*. According to them the "10 Schools" categorization arose from an extensive study of management literature and tries to put each school in context and provide a critique. According to the authors, individual definitions of strategy fail to capture the "strategy beast" in its entirety. "The beast" can only be grasped if the ten key parts of the "beast" are recognized. The schools of thought are as follows;

- i. **The design school** - Which sees strategic management as a process of attaining a fit between the internal capabilities and external possibilities of an organisation.
- ii. **The planning school** - Which extols the virtues of formal strategic planning and arms itself with SWOT analyses and checklists.
- iii. **The positioning school** - Heavily influenced by the ideas of Porter, which stresses that strategy depends on the positioning of the firm in the market and within its industry.
- iv. **The entrepreneurial school** - Which emphasizes the central role played by the leader.
- v. **The cognitive school** - Which looks inwards into the minds of strategists.
- vi. **The learning school** - Which sees strategy as an emergent process and as people come to learn about a situation as well as their organization's capability of dealing with it.
- vii. **The power school** - Which views strategy emerging out of power games within the organisation and outside it.
- viii. **The cultural school** - Which views strategy formation as a process rooted in the social force of culture.
- ix. **The environmental school** - Which believes that a firm's strategy depends on events in the environment and the company's reaction to them.
- x. **The configuration school** - Which views strategy as a process of transforming the organisation it describes the relative stability of strategy, interrupted by occasional and dramatic leaps to new ones.

Strategy Vs execution

Burton (1995) suggested that the various combinations of these factors would lead to four alternative business outcomes, as illustrated below;

- **Success** - This is the most desirable situation where an effective strategy is well implemented.

- **Rescue** - In this situation the strategy is weak. However, if the strategy was well implemented, there could be a chance that it will be successful.
- **Trouble** - A strong strategy has been developed but is poorly executed, resulting in problems. It is interesting to note from this model that it is probably better to have an inappropriate strategy that is effectively implemented than a good strategy that is poorly implemented.
- **Failure** - This is the least desirable outcome-a strategy is neither appropriate nor effectively implemented.

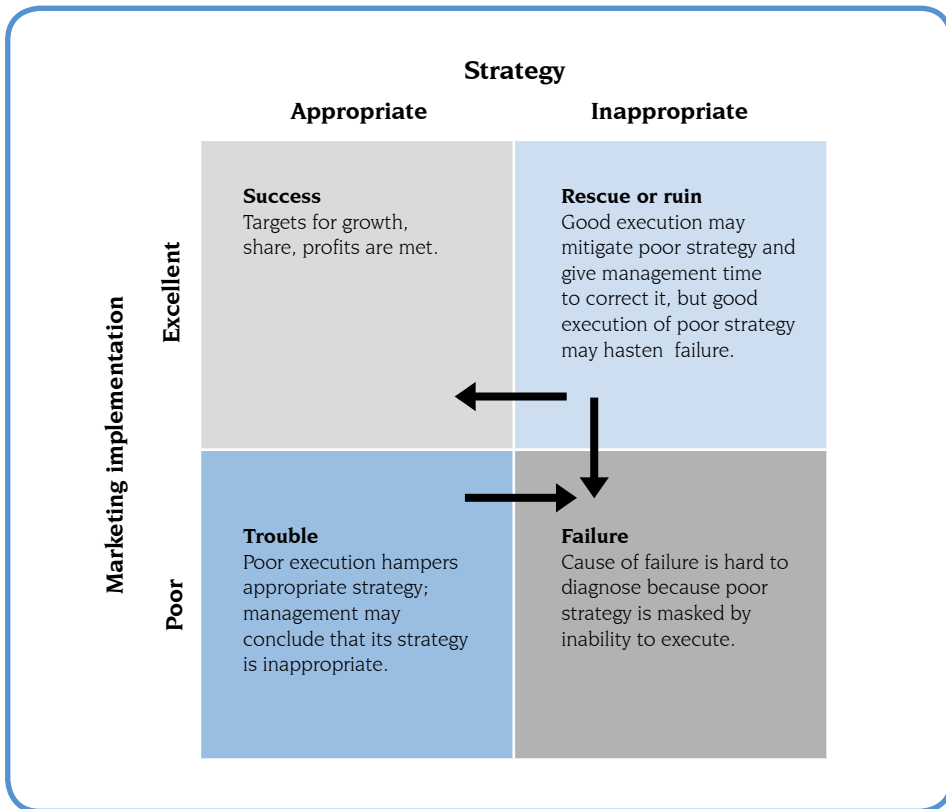


Figure 3.37: Burton J, Composite strategy: The combination of collaboration and completion; Journal of General Management, 1995

Strategic collaboration

Collaboration between competitors and with other stakeholders has been growing rapidly over the last decade. Burton (1995) emphasizes the co-operative rather than competitive arrangements between industry participants and describes collaborative advantage as a foundation of superior business performance. The five sources of collaborative advantage are:

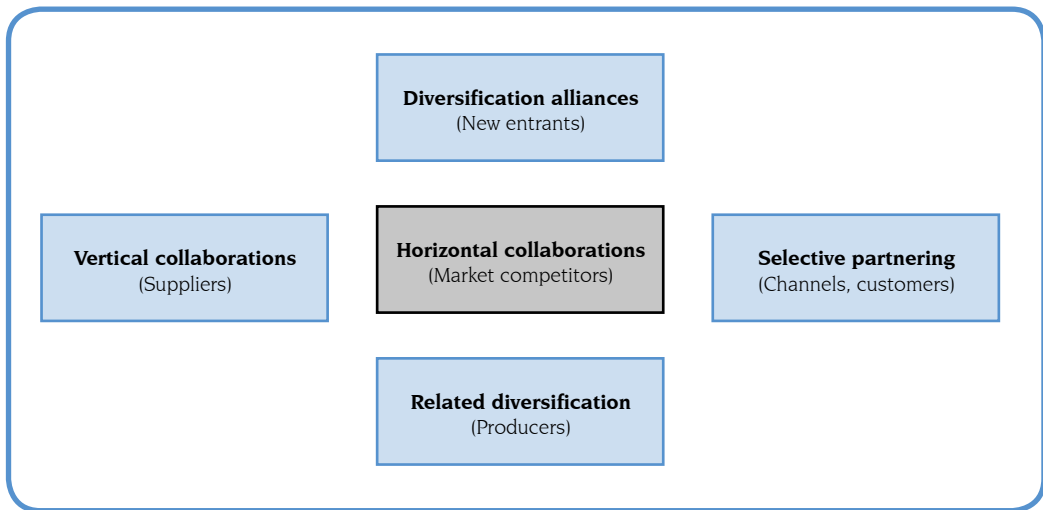


Figure 3.38: Strategic collaborations by Burton, 1995.

- **Horizontal collaboration** - With other enterprises operating at same stage of product, process, producing the same group of closely related products.
- **Vertical collaborations** - With suppliers of components or services.
- **Selective partnering** - Arrangements with specific channels or customers.
- **Related diversification** - Alliances with producers of both complementary and substitutes.
- **Diversification alliances** - With firms based in previous unrelated sectors but between which a blurring of industry borders is potentially occurring.

3.18 The profit impact on marketing strategy - PIMS

When examining market share, a distinction is needed between volume (units) and value (revenue). Each tells a different story and their interaction is important. Is current market share a good predictor of future share? Does profits increase in line with market share? The profit impact in Market strategy database managed by the Strategic Planning Institute (SPI) is useful in this regard. PIMS began as an appraisal technique in the American General Electric Company in the late 1960s, but has developed into a major longitudinal research and evaluation programme based at Harvard University.

The comprehensive profiles of over 3,000 strategic experiences constitute this unique data pool and the data covers the important characteristics of the market environment, the state of competition, the strategy pursued by each business and the results obtained. The years of research on the PIMS

database and on other cross-sectional databases of business units show quite clearly that profitability is strongly linked to strategic position. Those businesses that position themselves to win the strategy game through a sustainable advantage also win the performance game. The PIMS database is available for a monthly subscription price. SPI defines PIMS database as "a collection of statistically documented experiences drawn from thousands of businesses, designed to help understand what kinds of strategies (E.g., quality, pricing, vertical integration, innovation, advertising) work best in what kinds of business environments. The data constitute a key resource for such critical management tasks as evaluating business performance, analyzing new business opportunities, evaluating and reality testing new strategies, and screening business portfolios."

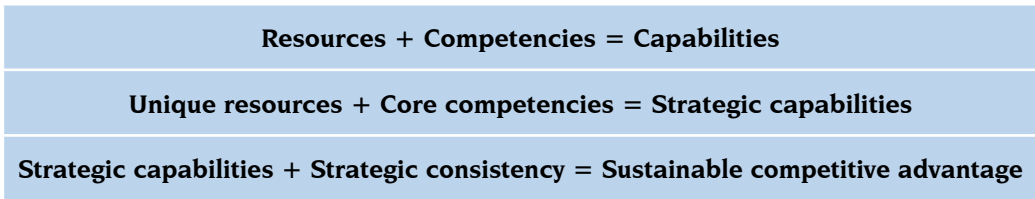
Application of the PIMS database

- The database comprising business strategies can be used to generate benchmarks and identify winning strategies.
- Help managers understand and react to their business environment.
- The set of data can be used to guide strategic thinking and strategic measurement.
- It is a methodology for diagnosing business problems and opportunities, and for measuring the profit potential of a business.
- It spells out the relationship between business actions and business results.
- It can be used to predict a business's future direction, a competitor or a potential acquisition can be evaluated and benchmark performance levels can be measured.
- Highlight the relationship between a business's key strategic decisions and its results.

3.19 Strategic capabilities

A capability is one's ability to perform a task. The accomplishment of the task may vary depending on the ability (level of competency) of a person or organization. The purpose of organizational capabilities is to improve the productivity of other resources possessed by the firm.

Capabilities can be bought and acquired at a very high price and risk of non-meeting expectations. Instead, a firm's capability can be nurtured and built over a period of time to suit the organization's requirement. A firm's strategic capability must contribute to its competitive advantage and result in superior performance. It is imperative to diagnose these strategic capabilities that an organization possesses and wish to possess in the future and embark on a plan to build and nurture them.



Criteria of strategic capabilities

- **Valuable** - They must be able to exploit opportunities or neutralize threats in the firm's environment. Do capabilities exist that are valued by customers and provide potential competitive advantage?
- **Rare** - Competitors must not have them too; otherwise they cannot be a source of relative advantage.
- **Inimitability** - Competitors must not be able to imitate capabilities.
- **Non-Substitutability** - It must not be possible for a rival to find a substitute for this resource.

The classification of a firm's resources

Resources are the assets that organisations have and combined together to achieve a competence. Superior profitability depends on the firm's possession of unique resources.

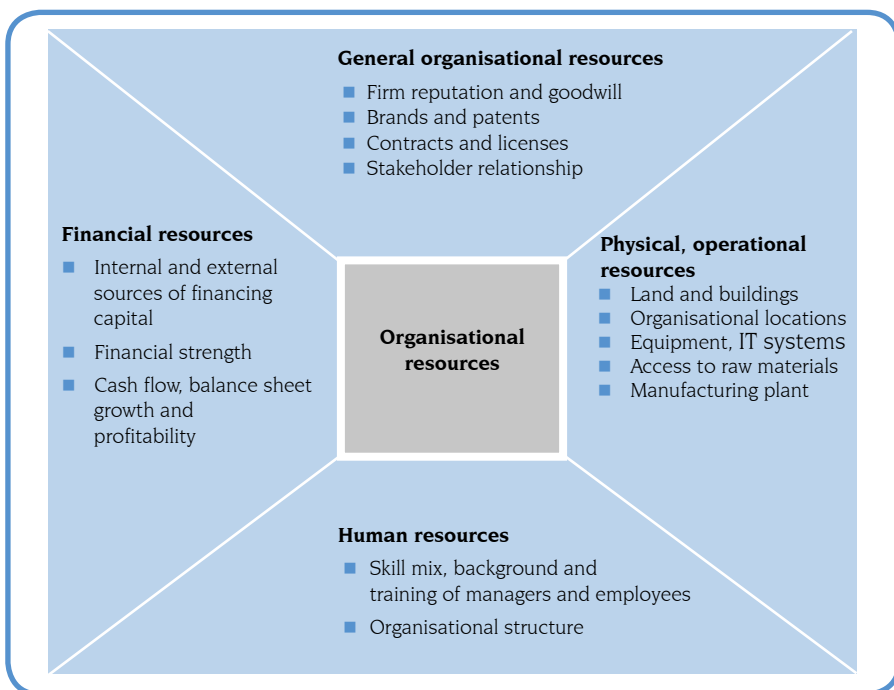


Figure 3.39: Types of resources.

- Basic resources are similar to those of competitors and will be easy to obtain or copy.
- Unique resources will be different from competitors and difficult to attain. The more unique resources an organisation has, the stronger its competitive position will be.

Resource auditing

The resources audit identifies the resources that are available to an organisation and seeks to start the process of identifying competencies. It attempts to assess the relative strength of the resource base, the quantity of resources available, the nature of those resources and the extent to which those resources are unique and their difficulty to imitate. The model below suggests a way in which resources can be classified.

M's model

- **Manpower (human resources)** - The human assets of the firm, their skills and morale.
- **Money** - The company's cash position, gearing, investment plans, short and long-term finance, etc.
- **Management** - The quality, expertise and experience of the top team. Is the firm well managed and does it have the skills and vision needed to progress?
- **Machinery** - The physical assets of the business, their flexibility, relative costs and the quality of what they produce.
- **Markets** - The products and the markets the company currently operates in. The quality and position of the products.
- **Materials** - The relationship between the company and its suppliers. Cost, quality and future availability of materials.
- **Methods** - The processes adopted by the business - Outsourcing, JIT, etc.
- **Management information** - Quality and timeliness of information provided to managers.
- **Make-up** - The culture and structure of the organisation, branding and other intangibles.

Resource imitability ladder

Collins and Montgomery (1997) proposed the use of the resource imitability ladder that consists of four levels as described below. The ladder may be used to evaluate the uniqueness of company’s resources and to evaluate the ease in which competitors may imitate. According to the authors, resources that are unique to the organization may be imitated as well in the long term and competitors may find ways of acquiring or appropriating critical resources.

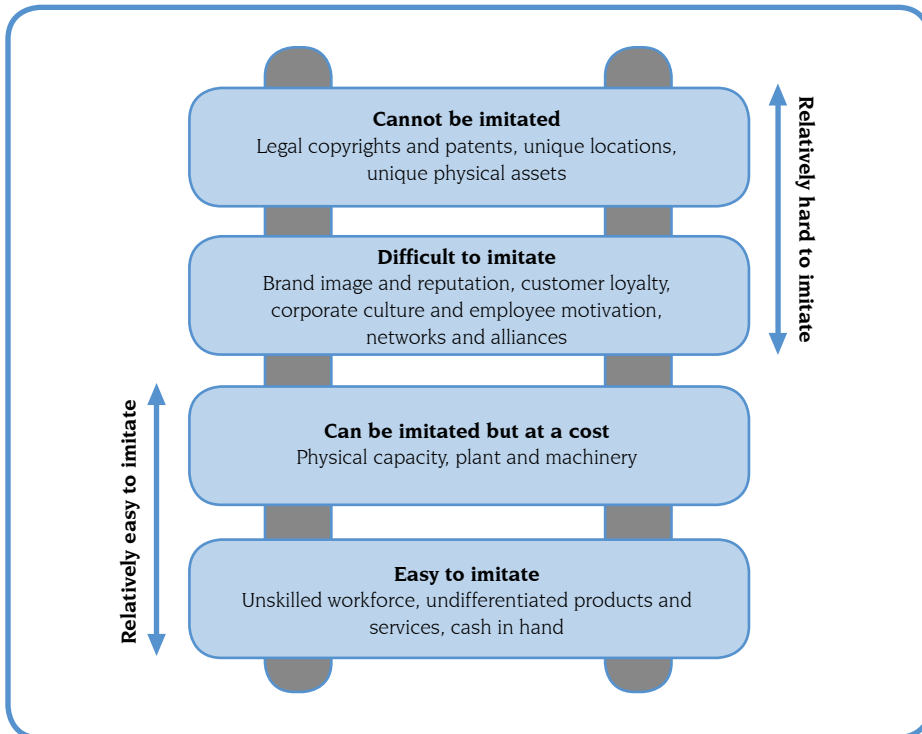


Figure 3.40: Adapted from Collis and Montgomery (1997).

Competencies

They are the ways in which a companies assets are used or deployed effectively, that is, “what we do well’.

	Resources: What we have	Competencies: What we do well
Physical	Machines, buildings, raw materials, products, patents, data bases, computer systems.	Ways of achieving utilisation of plant, efficiency, productivity, flexibility, marketing.
Financial	Balance sheet, cash flow, suppliers of funds.	Ability to raise funds and manage cash flows, debtors, creditors etc.
Human	Managers, employees, partners, suppliers, customers.	How people gain and use experience, skills, knowledge, build relationships, motivate others and innovate.

Table 3.6: Classification of resources and competencies.

The characteristics of core competencies

- Core competencies are the set of skills, activities and resources that, together deliver customer value, differentiate a business from its competitors and can be extended and develop as markets change or new opportunities arise.
- It is something what the company does or possesses which gives it an edge over its competitors and that are difficult to imitate.
- It is built through a process of continuous improvement and enhancement that may span as long as a decade.
- Whilst all core competencies are sources of competitive advantage, not all competitive advantages derive from core competencies. Some may stem from history, a particular location and preferential access to materials or labour etc.
- Unlike physical assets, which deteriorate over time, competencies are enhanced as they are applied and shared.
- Core competencies needs to be nurtured and protected.

Prahalad and Hamel (1990) describe competence as 'the glue that binds existing businesses' and 'the engine of new business development. 'Patterns of diversification are guided by them, not just by the attractiveness of markets. Bear in mind that relying on a competence is no substitute for a strategy. However, a core competence can form a basis for strategy. A Corporate Competence is difficult to learn and unlearn. It is important to distinguish between what has made you successful in the past and what will make you successful in the future. Doing things badly or a special incompetence, perhaps, or competitive disadvantage offers opportunities for other firms to gain a competitive advantage.

Types of competencies

- **Strategic** - The management and strategic focus of the organization.
- **Functional** - The functional areas which manage the various activities (Finance, marketing, human resources, etc.) of the business.
- **Operational** - Responsible for the day-to-day operations of the organization.
- **Individual** - The individual skills and competencies which employees have.
- **Team competencies** - How teams work together both within and across business functions.
- **Corporate-level competencies** - Skills which apply to the whole organisation.

Dimensions of competencies for superior competitive performance

- **Speed** - More able to incorporate new ideas and technologies into its products.
- **Consistency** - All its innovations satisfy the customer.
- **Acuity** - Ability to see its environment clearly and forecast changing needs.
- **Agility** - Ability to adapt on many fronts simultaneously.
- **Innovativeness** - Ability to generate and combine business ideas in novel ways.

The core competency model

The basic premise of the model is to explain that resources are required to form competencies. Threshold (a level of) resources will deliver threshold competencies. These are the same competencies competitors possess and are easy to imitate or replicate. Unique resources will result in core competencies, which is better than competitors and difficult to imitate.

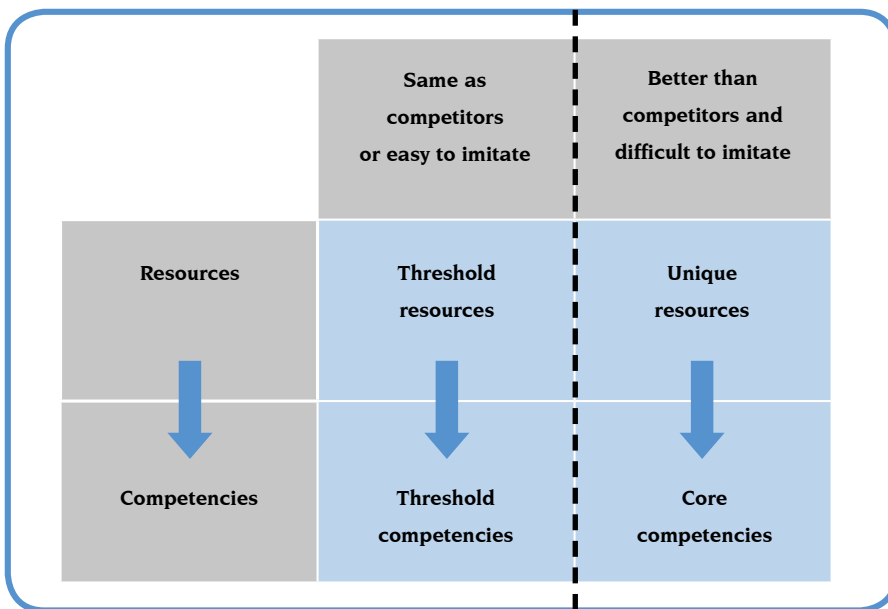


Figure 3.41: A resource based view of strategy - Hamel & Prahalad (1990).

Competencies can also be classified into two types;

- **Threshold competencies** - Attainment avoids competitive disadvantage. It represents those processes, procedures and product characteristics that are necessary to enter a particular market. They are those actions and processes that you must be good at just to be considered as a potential supplier to a customer. If these are not satisfied, you will not even get a chance to be considered by the buyer. These are 'the order qualifiers'.

- **Core competencies** - Attainment gives the basis for competitive advantage over others within that market, or to change the competitive forces in that market to the companies' advantage. Core competencies can become threshold competencies overtime as customer expectations develop and organisations battle for competitive advantage. Core competencies are things that you are able to do that are very difficult for your competitors to emulate. They form the basis for competitive advantage and they are referred to as 'the order winners'.

Identifying core competencies

- **Customer value** - A core competence must make a disproportionate contribution to customer-perceived value.
- **Competitive differentiation** - A core competence should be difficult for competitors to imitate.
- **Extensibility** - The core competence must provide potential access to a wide array of new products and markets.

2.20 Competitive advantage

The marketer is the architect of competitive advantage since a sustainable competitive advantage exists only if customers recognize it. Those who can adopt best or fastest will gain an advantage over their competitors. This is much like the law of the jungle where your survival will depend on the speed at which you adapt to the environment. Hamel and Prahalad (1989) suggest a firm should not search for a sustainable competitive advantage; instead it should learn how to create new advantages to achieve global leadership.

Hall (1980) further explained that a firm's success might depend on whether they offer the lowest cost relative to competition or the most differentiated position compared to competition. Porter (1985) introduces the generic strategies with low cost and differentiation positions as routes to competitive advantage. He then introduces the value chain as the basis for analyzing and delivering a competitive advantage where companies will create effective links with buyers, suppliers and distributors and then links the five forces to analyze the rivalry within an industry. Put in more simplistic terms it is how an organisation or a person will have an edge over rivals, over the long term. The problem with competitive advantage is that competitors have a irritating habit of copying it.

What is competitive advantage?

Definition : Diasz (2013) defines competitive advantage as the means by which a company will use its core competencies and leverage its strategic strengths whilst investing and sustaining a long-term strategy to outperform its rivals and earn higher than average profits.

The competitive advantage diamond

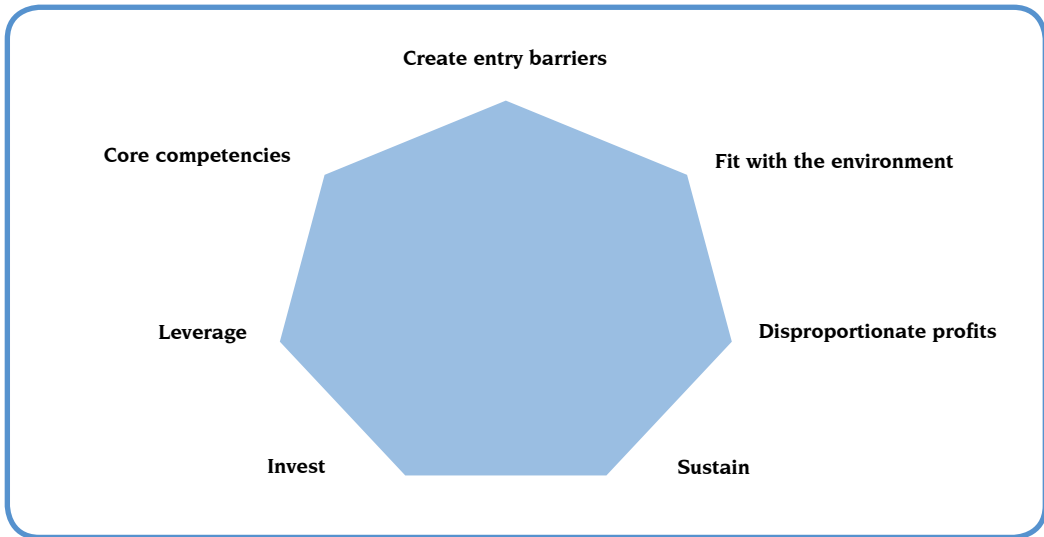


Figure 3.42: Characteristics of competitive advantage Diasz (2012).

Characteristics of competitive advantage

1. Leverage your unique points of differentiation

Here, the manager must clearly understand the unique points of differentiation of the company and the first step is to gauge whether these points are being put to use or leveraged. The first step is to identify the points of differentiation and it is good to have a competitive frame of reference. Keller (2008) in his book strategic brand management argues that there are points of differentiation and points of parity (equal). He further explains that a competitive frame of reference is to list your competitors with which you will compare your performance.

2. **Identifying core competencies** - A number of core competencies that collectively deliver a competitive advantage.

3. Sustaining your competitive advantage

A competitive advantage must be delivered passionately and the sustainability is based on how easily assets can be substituted or imitated. A successful competitive advantage is sustainable, not transitory. It should not be easily copied because the company wants to hold on to it in the long term. To some extent, the idea of a sustainable competitive advantage is an ideal for which we should strive but in reality is often hard to attain.

4. Fit with the external environment

A competitive advantage derives not only from a competitor's weaknesses (and therefore your strengths) but also from the market and their conditions. Environmental dynamics can throw up

threats and opportunities over time. A well thought out SWOT analysis is invaluable here. The changes in the environment will happen anyway and there is nothing you can do to stop them. The trick is to be prepared for them and to adapt them to your advantage.

5. Route to above-average profits

The purpose of developing a competitive advantage is to earn above-average (for the industry) profits. By creating imperfect competition, attacking competitors' weaknesses and adapting to changes in the environment, the company gains an advantage in the market in which it operates. Competitive advantage has an underlying assumption that the advantage is the result of past and present activity, and that it delivers (potentially at least) superior profits. However, competitors will be striving constantly to match and overtake the advantage. Hence, superior profits must be reinvested in the business to stay ahead.

6. Investing in a competitive advantage

Upon identifying your edge, an organisation must deploy significant resources and build on its edge. The investment in terms of money/ capital and more importantly in time and energy so that it is cultivated and nurtured.

7. Creating entry barriers

Economists describe many entry barriers (economies of scale, high capital investment, patents etc.), but in fact the two most common barriers to entry are brands and core competencies based on organizational effectiveness (Doyle, 1994). These two are linked. This is easier said than done and is very difficult to achieve in practice. Or is it? In the pharmaceutical industry companies apply for patents and trademarks for their years of research and development work. Can an idea be patented? Marketers might need to check this with legal experts since many ideas can be patented. However, the adrenalin rush will provoke the marketer to launch the product without thinking about creating an entry barrier resulting in others copying the idea. In some instances those who copy the idea deliver it much more effectively than the architect.

Types of market entry barriers

- Patents and licenses
- Established brands
- Established distribution networks
- Exclusive rights to resources
- Government regulations and laws
- Achieved economies of scale
- Superior business tactics
- High switching costs
- High capital investment requirements
- High research and development costs

Johnson and Scholes (2008) introduces three sources of sustainable competitive advantage. Price based strategies and differentiation are similar to Porters generic strategies. However, they propose that a company should strategically lock in its customers using 4 sub strategies given in the diagram below. These are in essence entry barriers to increase the switching cost of the consumer.

Sustaining competitive advantage

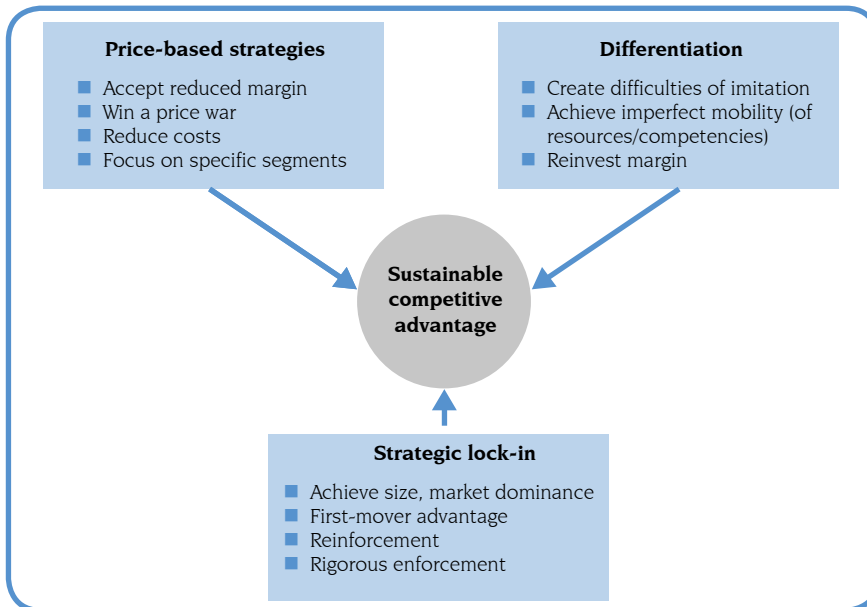


Figure 3.43: Sources of sustainable competitive advantage by Johnson, Scholes & Whittington (2008).

Strategic lock-in is where users become dependent on a supplier and are unable to use another supplier without substantial switching costs. Lock-in can be achieved in two main ways. Controlling complementary products or services (Cheap razors that only work with one type of blade) and creating a proprietary industry standard (Microsoft with its Windows operating system).

The source- position- performance (SPP) model

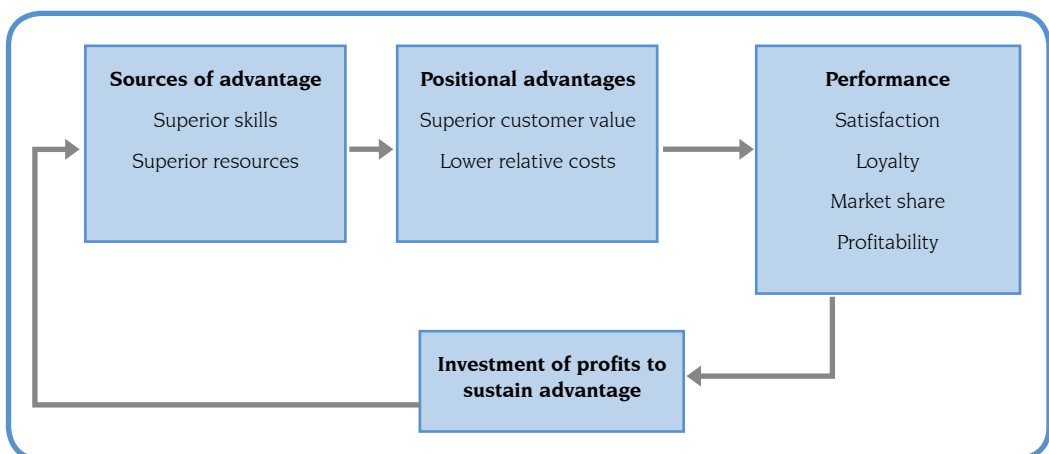


Figure 3.44: Day and Wensley SPP model (1988).

Routes to competitive advantage

Resource-based view versus positioning view

The positioning view focuses on an analysis of competitors and markets before objectives are set and strategies developed. It is an outside-in view, the essence of this view is ensuring that the organisation has a good "fit" with its environment. The idea is to look ahead at the market and predict changes to enable the organisation to control change rather than having to react to it. The main problem with the positioning view is that it relies on predicting the future of the market. Some markets are volatile and make estimating future changes impossible in the longer term.

The resource-based view focuses on looking at what the organisation is good at. It is an inside-out view. The essence of this view is for the organisation to identify its core competencies and build strategies around what they do best, and what competitors find hard to copy.

1. **Sources of advantage** - The ability of a company to do things better than its direct competitors arise from superior skills or superior resources.
 - **Superior skills** - This assumes a generalized capability that does not depend on single individuals, and that can be maintained over time. Many Japanese firms have superior skills in manufacturing, such that they can produce good-quality products very efficiently. Singapore Airlines' skill at recruiting, selecting, training and managing cabin staff enables it to deliver superior personal service.
 - **Superior resources** - A strong brand may be a superior resource, perhaps for marketing people the major one. We may think of Sony whose name on a product immediately suggests quality and reliability; this is a competitive advantage when launching new products.
2. **Positions of advantage** - Positional advantage is delivered by the sources, and may be either superior customer value or lower relative costs. Both can be understood within the framework of the value chain popularized by Porter (1985). Porter's generic strategies of differentiation and low cost mirror the two categories of advantage.
 - **Superior customer value** - A customers will buy the best value as they see it. This is to differentiate your product using unique points of differentiation.
 - **Low relative costs** - Price and costs of ownership form barriers to purchase. Companies need to focus on reducing these and achieve the lowest cost manufacturer status in the industry.

According to McDonald (1990) a competitive advantage may be derived from a superior market position, a superior relationship or knowledge base or a superior resource base as described below;

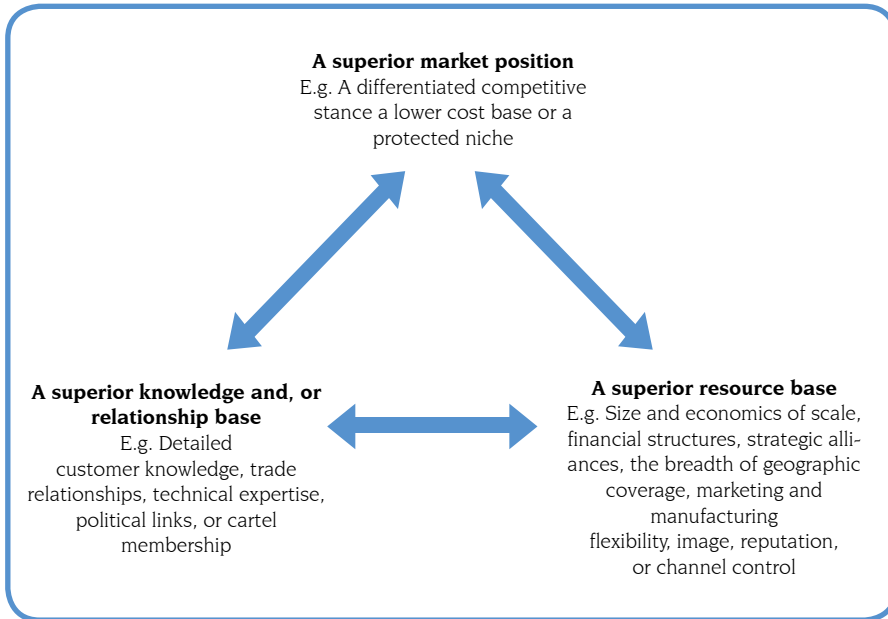


Figure 3.45: Sources of competitive advantage adapted from McDonald (1990).

3.21 The balanced scorecard

The balanced scorecard is a strategy performance management tool that can be used by managers to monitor the progress of strategic initiatives. Since its introduction in the early 1990's by Kaplan and Norton (2008) as a performance measurement tool, the balanced scorecard has evolved to become an effective strategy execution framework. It provides a foundation to build a holistic strategy execution process that, besides helping organizations articulate strategy in actionable terms, provides a road map for strategy execution, for mobilizing and aligning executives and employees, and for making strategy a continual process.

The balanced scorecard also gives light to the company's vision and mission. The design of a balanced scorecard ultimately is about the identification of a small number of financial and non-financial measures and attaching targets to them, so that when they are reviewed it is possible to determine whether current performance 'meets expectations'. The idea behind this is that by alerting managers to areas where performance deviates from expectations, they can be encouraged to focus their attention on these areas, and hopefully as a result trigger improved performance within the part of the organization they lead.

The balanced perspectives

- **Customer perspective** - How customer view a company is of obvious importance. They will be concerned with issues such as quality and customer service.
- **Financial perspective** - This is often the area with which many organizations become preoccupied. This represents the view of the shareholders and relates to the financial performance of the company.
- **Internal perspective** - This identifies the internal processes that lead to external customer satisfaction. For example, employees' attitudes and performance.
- **Innovation and learning** - This relates to an organization's ability to continually innovate and learn.

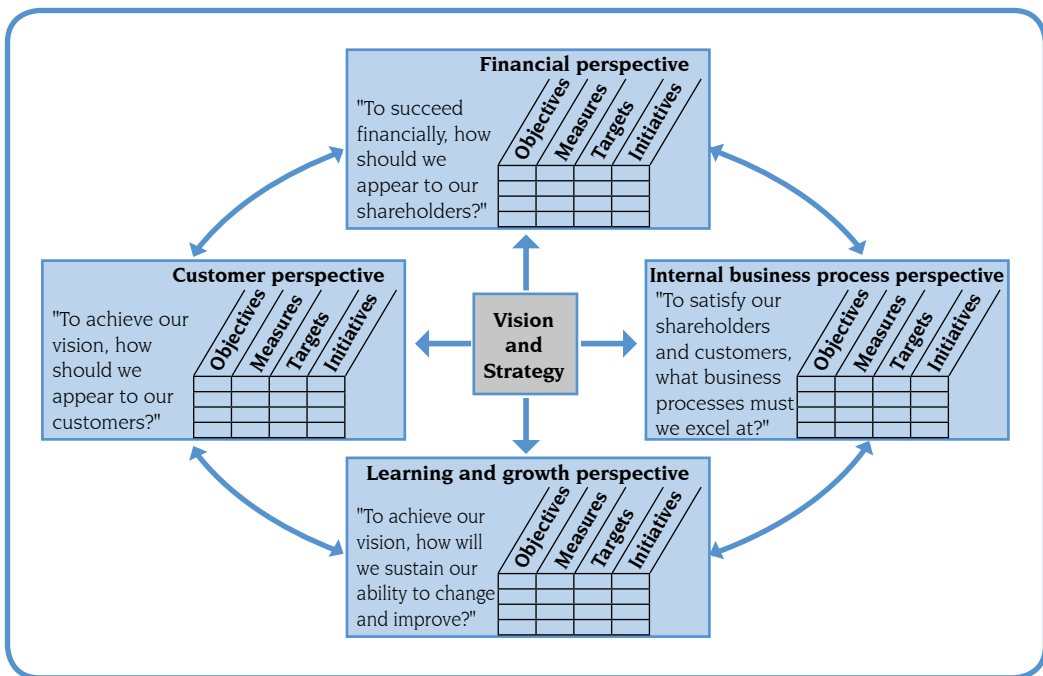


Figure 3.46: The four perspectives of the scorecard by Kaplan and Norton (1990).

The main uses of the balance scorecard

- Clarifying and updating strategy.
- Communicating strategy throughout the company.
- Aligning unit and individual goals with the strategy.
- Linking strategic objectives to long-term targets and annual budgets.
- Identifying and aligning strategic initiatives.
- Conducting periodic performance reviews to learn about and improve strategy.

Constructing the scorecard

	Strategic Priorities	Measures	Targets	Initiatives
Financial	Profitability	Net margin	11%	Manage sales mix
	Revenue growth	Increase market share	7%	Market development
	Cost management	Cost to income ratio	45%	Improve productivity
Customer	Increase customer loyalty	Customer retention ratio	85%	Loyalty card
	Customer satisfaction	Satisfaction rating	95%	Mystery shopping program
	Customer profitability	Profit per customer	25%	Up sell, cross sell
Process	Process innovation	Process time	15%	Process re-engineering
	On time delivery	Delivery time	48 Hrs	Upgrade tracking system
	Quality of production	Number of defects	1%	Quality circles
Learning & Growth	Employee motivation	Staff turnover	4%	Outbound training
	Succession planning	Internal recruitment	95%	Mentor program
	Product innovation	New product profitability	50%	Research and development

Table 3.7: The application of a balanced scorecard.

Benefits of the balanced scorecard

- It avoids management reliance on short-termist or incomplete financial measures.
- By identifying the non-financial measures, managers may be able to identify problems earlier. For example, managers may be measuring customer satisfaction directly as part of the balanced scorecard. If this changes, steps can be taken to improve it again before customers leave and it starts to impact on the company's finances.
- It can ensure that divisions develop success measures that are related to the overall corporate goals of the organisation.
- It can assist stakeholders in evaluating the firms if measures that are communicated externally.

Drawbacks of the balanced scorecard

- It does not provide a single overall view of performance. Measures like ROCE are popular because they conveniently summarise 'how things are going' into one convenient measure.
- There is no clear relation between the balanced scorecard and shareholder analysis.
- Measures may give conflicting signals and confuse management. For instance, if customer satisfaction is falling along with one of the financial indicators, which should management sacrifice?
- It often involves a substantial shift in corporate culture in order to implement it.

3.22 Strategic position and action evaluation matrix (SPACE Analysis)

Rowe et al (1989) introduced the space matrix, which looks at 4 dimensions to determine the general theme of a company’s strategy. IA, ES are external and FS, CA are internal and the ratings are awarded for each dimension, and by combining these on the matrix, it can drive a company’s strategic agenda, based on four strategic postures, which are competitive, aggressive, conservative or defensive.

Factors to consider in SPACE analysis

External (Industry) dimensions	Internal (Company) dimensions
Factors determining industry attractiveness	Factors determining financial strength
Growth potential	Return on investment
Profit potential	Leverage (Debt to equity)
Financial stability (Within the sector)	Liquidity (Cash held)
Technological know how (Required for the sector)	Capital required, capital available
Resource utilisation	Cash flow
Capital intensity (Required to operate in sector)	Ease of exit from the market
Ease of entry into sector	Risk involved in the business
Level of productivity and capacity utilisation	Other relevant factors
Other relevant factors	
Average =	Average -6 =
Factors determining environmental stability	Factors determining competitive advantage
Technological changes	Market share
Rate of inflation	Product, service quality (Compared to competitors)
Variability of demand	Product life cycle stage (For range of products)
Price range of competing products	Product/service replacement cycle
Barriers to entry into the market	Customer loyalty
Competitive pressure	Utilisation of capacity by competitors
Price elasticity of demand	Technological knowledge and competence
Other relevant factors	Degree of vertical integration
	Other relevant factors
Average =	Average -6 =

Table 3.8: Factors to consider in SPACE analysis.

Each factor is rated, with a score from 0 to 6 where '0' is low and '6' is high. An average score for the factors in each quadrant is then calculated. (E.g the total score for 8 factors relating to industry attractiveness was 40, then the average for industry attractiveness is 5) FS and IA are strengths while CA and ES could be potential weaknesses and so could be negative. The financial strength is needed to compensate for environment instability while industry attractiveness and competitive advantage are alternative sources of sustainable profits.

SPACE matrix

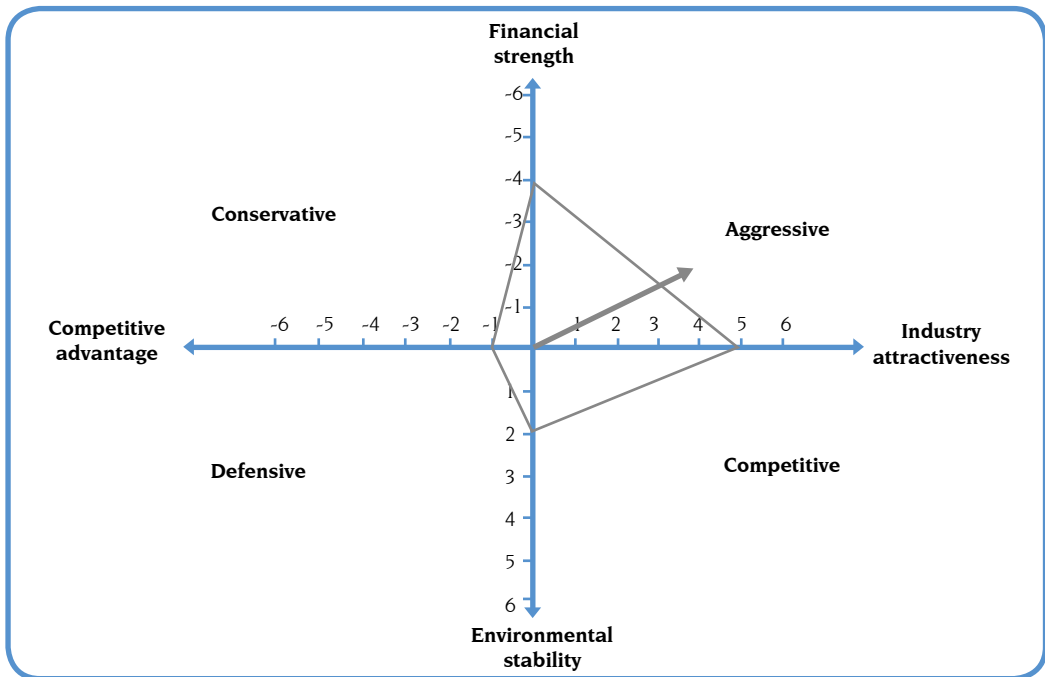


Figure 3.47: SPACE matrix.

Four strategic postures using SPACE

The net space score for the horizontal axis is 4 whilst the net space score for the vertical axis is 2. The arrow indicating the strategy, which the company should peruse, which can then be drawn using the result. In the example the company should use the aggressive strategy.

- Aggressive strategy** - Firms that find themselves in the aggressive quadrant are likely to enjoy significant advantages yet are likely to face threats from new competitors. The implicit strategy is for the firm to try to grow its business, raising the stakes for all the competitors. The chief danger is complacency, which could prevent firms from strengthening their market by developing products with a competitive edge. However, the firms financial strength should make it attractive for them to seek acquisitions.
- Competitive posture** - This suggests a firm has established a competitive advantage in an attractive industry. However, the firm does not have sufficient financial strength to overcome the environmental instability it faces. Such firms needs more financial resources to maintain their competitive position. In the longer term this could be achieved by improving efficiency and productivity, but their position suggests they are also likely to need to raise capital or merge with a cash rich company.

- **Conservative strategy** - This is typical of financially strong companies in mature markets, where the lack of need for investment has generated financial surpluses. The lack of investment could mean that the companies compete at a disadvantage while the lack of opportunities in their exiting markets could make them vulnerable in the longer term. Therefore such companies need to defend their existing positions while looking for new opportunities in more attractive markets.
- **Defensive strategy** - A company in this position has scored poorly in all respects and so is clearly vulnerable, and could be heading for failure unless the external environment becomes more favourable. Because it has little residual strength, it should retreat from all but its strongest segments and then concentrate its limited resources on defending its position there. However, it could still only be a matter of time before the firm succumbs to its competitors.

3.23 The building blocks of strategy

There are many factors, which may need to work together in order to ensure a strategy is consistently delivered. These are termed as the building blocks of strategy (Figure 3.48). Consequently, a strategy-focused organization will need to work on five broad areas as specified in figure 3.49;

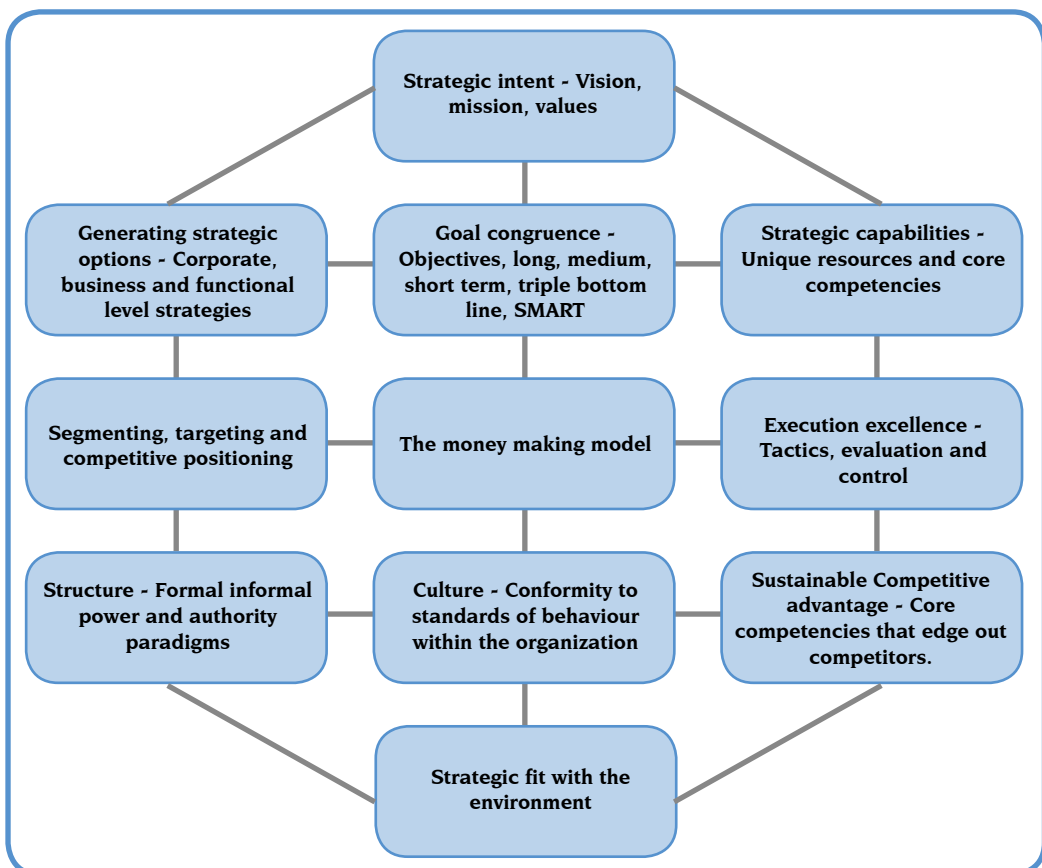


Figure 3.48: The building blocks of strategy.

Characteristics of a strategy focused organizations

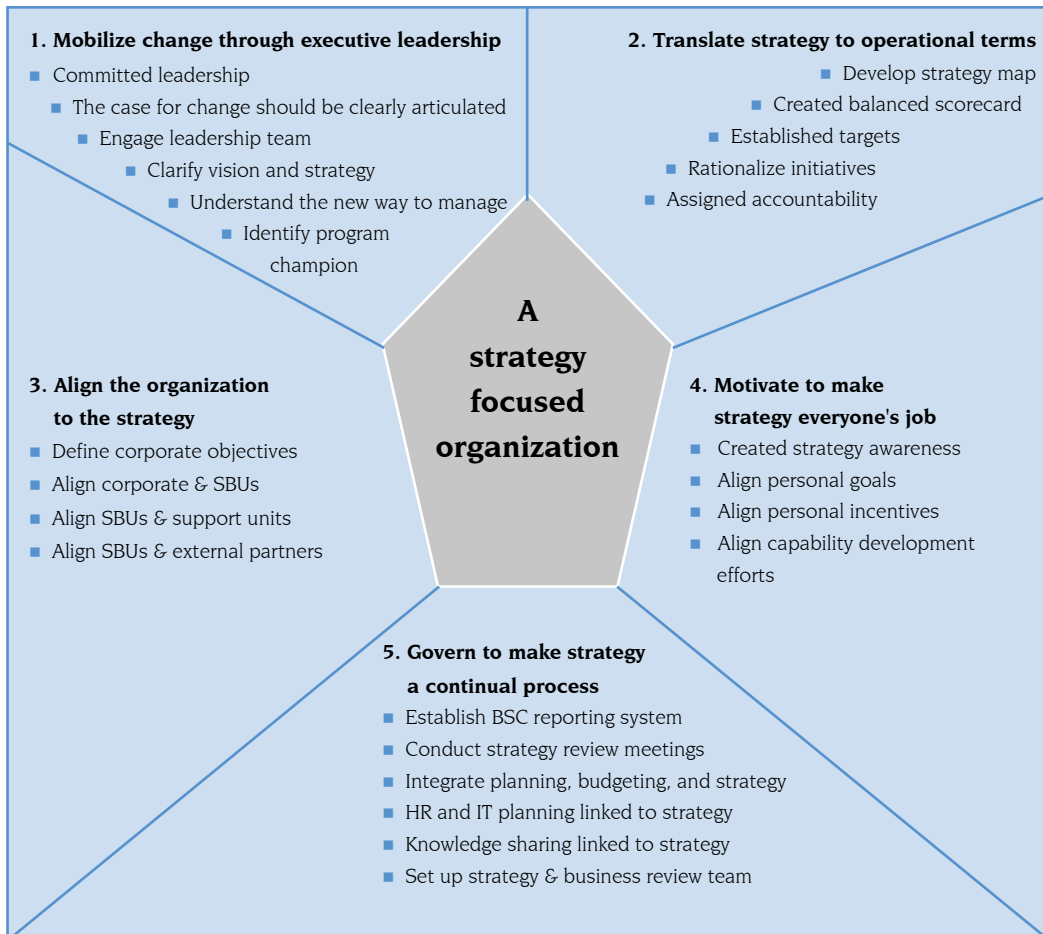


Figure 3.49: Characteristics of a strategy focused organizations.

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On a path to sustainable growth - Unilever Sri Lanka



Unilever

Unilever is one of the largest FMCG companies in the world. On any given day, two billion people use Unilever products to look good, feel good and get more out of life.

With more than 400 brands focused on health and well-being, no company touches so many lives in so many different ways.

The company's global portfolio ranges from nutritionally balanced foods to indulgent ice creams, affordable soaps, luxurious shampoos and everyday household care products. The Company's world-leading brands include Lipton, Knorr, Dove, Axe, Lux and Surf, alongside trusted local names such as Astra, Pureit and Laojee.

With sales in 190 countries and operations in over 100 countries, Unilever has ambitious growth plans. However, Unilever believes that growth at any cost is not viable. They recognize that in order to live within the natural limits of the planet, they will have to decouple growth from environmental impact. According to Unilever CEO Paul Polman "We have to develop new ways of doing business

which will increase the positive social benefits arising from Unilever's activities while at the same time reducing our environmental impacts. We want to be a sustainable business in every sense of the word."

In 2009, the Company launched the Compass – Unilever's strategy for sustainable growth. It sets out a clear and compelling vision of their future, in which their brands and services reach and inspire people across the world, helping them double the size of the business while reducing the environmental footprint and increasing their positive social impact.

The Company believes that businesses that address both the direct concerns of citizens and the needs of the environment will prosper over the long term. This means sustainable growth is the only acceptable model of growth for business. This thinking lies at the heart of the Unilever Sustainable Living Plan. In November 2010, Unilever set out the Unilever Sustainable Living



Plan, committing to a ten year journey towards sustainable growth. There are three distinct features that make the Unilever Sustainable Living Plan different from sustainability strategies in other companies.

First it spans all the Company's brands in all the countries where they are sold, not just a few specialist niche products.

Second, when it comes to the environment, the Company takes responsibility not just for the direct impacts of their factories but across the lifecycle – from the sourcing of raw materials all the way through to the energy and water needed by people to cook, clean and wash with their products.

Third, for Unilever, sustainability isn't just about the environment. There are social and economic dimensions too. Their products make a difference to people's health and well-being and the supply chain supports the livelihoods of millions.

Underpinning the Plan is over 50 targets. The Plan has three big goals that they seek to achieve by 2020:

- Help more than a billion people to improve their health and well-being.

- Halve the environmental footprint of the products.
- Source 100% agricultural raw materials sustainably and enhance the livelihoods of people across the value chain.

As Unilever implements the Plan, they recognize that the business case for embedding sustainability into their business and brands is strong.

1. Consumers want it. A small but growing number of consumers around the world are seeking the assurance that the products they buy are ethically sourced and responsibly made. A more sustainable brand is often a more desirable brand.
2. Retailers want it. Many retailers have sustainability goals of their own and need the support of suppliers like Unilever to implement them. This collaboration is deepening the relationships Unilever has with its retail customers.
3. It fuels innovation. Sustainability is a fertile area for both product and packaging innovation. It allows the Company to deliver new products with new consumer benefits.

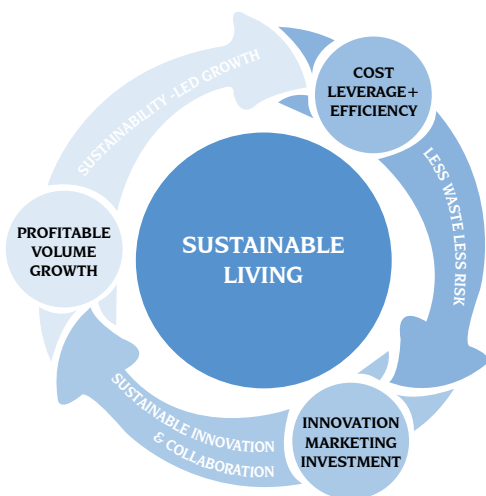


4. It helps develop new markets. Over half Unilever's sales are in developing countries, which often face the greatest sustainability challenges. New products that help people adapt to the changing world will drive growth.
5. It saves money. Managing operations sustainably reduces energy, minimises packaging and drives out waste. It not only generates cost savings, it can also save the consumer money.
6. It inspires people. Unilever's vision to create a sustainable, growing business is motivating for employees and appealing to people who are considering joining Unilever.

By focusing on sustainable living needs, Unilever can build brands with a significant purpose. By reducing waste, the Company creates efficiencies and reduces costs, which helps to improve margins. By taking a long-term view, Unilever can reduce risk, for example securing raw material supply through sustainable sourcing. And once a company starts looking at product development, sourcing and manufacturing through a sustainable lens, it opens up great opportunities for innovation.

Only by embedding sustainability into business will Unilever succeed in reaching their targets. They are doing this by:

- Including sustainability into business strategy
- Measuring progress: Unilever's brand and functional teams all have sustainability scorecards. These are reviewed quarterly by the Unilever Leadership Executive.
- Linking progress to reward. An increasing number of managers, from the CEO downward, have sustainability goals as part of their compensation.
- Building sustainability into innovation.





- Appointing sustainability champions. The Company has appointed 65 sustainability champions to cover every key function, category and country across the business.
- Building expertise in behavior change.

Global issues such as deforestation, water scarcity and under-nutrition are too complex for any single organisation to tackle alone. Unilever is engaging with governments to create an environment in which the big sustainability challenges can be tackled.

Unilever is working with organisations and initiatives such as the Consumer Goods Forum, the World Business Council for Sustainable Development, the World Economic Forum, the Tropical Forest Alliance 2020, Refrigerants, Naturally!, the Global Green Growth Forum and the UN's Zero Hunger Challenge and Scaling Up Nutrition initiatives. Unilever's CEO Paul Polman is also on the UN Secretary General's High Level Panel to review the Post-2015 Development Agenda.

As a business Unilever is not choosing between growth and sustainability. The Unilever Sustainable Living Plan is helping drive both growth and profitability.

Brands that are starting to put their sustainable living ambition at the heart of their proposition not surprisingly enjoyed strong growth. Lifebuoy soap delivered another year of double-digit growth while scaling up its handwashing campaigns.

The company's Brush Day and Night oral health campaign, which encourages parents and children to adopt good brushing habits, reached 49 million people and has helped its Signal brand grow by 22% since 2008.

The eco-efficiency programmes in the factories have delivered savings. The efforts to reduce the amount of packaging has also cut costs.

In 2011 Unilever's underlying sales growth was 6.5%, its market shares improved and its operating margin was broadly stable.

Unilever believes that as a business they have a responsibility to the consumers and to the communities in which they operate. In Sri Lanka, through their operations and brands, Unilever Sri Lanka (USL) plans to address the needs and priorities of the country while contributing to the global sustainability targets. In 2012, USL adopted the Unilever Sustainable Living Plan as a way of business. The company committed to targets aligned to the Global Plan.



In order to reduce the incidence of diarrhea, USL and Lifebuoy educates people about the importance of washing their hands with soap. The Company is conducting a hand wash awareness campaign and school contact programme to educate people about the importance of washing their hands with soap. The programme will be aimed mainly at rural school children between the ages of 6-12 and pre schools. In 2012, USL signed an MOU with the Ministry of Health to create hygiene awareness among and pregnant and new mothers. Through the programme, the Company aims to touch eight million people by 2015.

Through the Signal Brand, USL conducts oral health improvement programmes to encourage children and their parents to brush day and night. With the help of the Sri Lanka Dental Association (SLDA) and the Ministry of Health, Signal aims to create awareness among its consumers on the importance of fluoride tooth paste.

30 years ago, Signal became one of the first brands in Sri Lanka to conduct Medical outreach programmes. In 2004, Signal Launched "Sin Bo Wewa" (SBW), a combination of a school dental programme and community dental camps, in collaboration with the SLDA and the Ministry of Health. Between 2005 and 2012 Signal conducted

16 camps, touching over 730,000 people, visiting 1015 schools and delivered 60,449 free oral treatments.

In Sri Lanka, Pureit was launched in 2011, to make safe drinking water available and affordable. The device is capable of purifying ordinary tap water in to water that is "As Safe as Boiled Water" without the use of electricity or gas. Pureit renders water micro-biologically safe, clear, odourless and good-tasting. It does not leave any residual chlorine in the output water, and assures protection from all water-borne diseases like jaundice, diarrhea, typhoid and cholera.

Pureit, not only saves the consumer the hassle of boiling drinking water, it also reduces household energy consumption and reduces the household expenditure incurred for purification of water. The device itself is made of 100% recyclable plastic. Pureit is also SGS Certified in Sri Lanka.

By the end of 2012 Pureit was available in 9000+ households, providing as safe as boiled water to over 36,000 people.

Pears, one of Sri Lanka's leading baby toiletries brand runs the Pears Safe Hands project in collaboration with the Sri Lanka College of



Paediatricians. The initiative aims to improve the paediatric and child care facilities of government hospitals in Sri Lanka. It seeks to create a safer and healthier environment for infants, children and pregnant mothers, particularly those from low income families in rural areas.

25 cents from the sale of every Pears product goes into funding the initiative which was established on World Children's Day in 2002. Since then, it has invested LKR 32 million (€186,000) and benefited the lives of over 300,000 children through 18 projects.

The latest is the renovation of the maternity and children's wards at the hospital in Welikanda in 2012. During the country's civil war, the hospital, which used to provide security for its patients, was seriously damaged. The project transformed the facility, building new wards that can accommodate more patients and constructing a children's play area.

In association with the Sri Lanka Paediatric Association, Pears is setting up lactation centres across the island to educate new mothers on the importance of breast feeding.

Unilever has already made significant progress in improving the nutritional quality of its products.

Unilever has significantly reduced salt levels in its products. By the end of 2012, 75% of its savoury portfolio in Sri Lanka meets the recommended level of 6g of salt per day.

Unilever is committed to improving the fat composition of its products by reducing saturated fat and increase levels of essential fats. In Sri Lanka, Flora and Astra Gold contain less than 33% saturated fat as a proportion of total fats. Their spreads are also virtually trans fat free.

The Flora and Astra Gold fat spreads provide at least 15% of the essential fatty acids recommended by the international dietary guidelines. Astra is fortified with Vitamin A, D & E. It provides 33% of the recommended daily requirement of Vitamin A, D & E.

Unilever provides healthy eating information to consumers by declaring the big 8 nutrients on the pack. i.e Energy, Protein, Carbohydrates, Sugars, Fats, Saturated fats, Fibre and Sodium. The company is working with healthcare professionals to increase nutrition education among Sri Lankans. The Company will be working closely with the Non Communicable Disease unit of Sri Lanka Government in their NCD preventing programme.



At the end of 2011, USL had reduced CO₂ emissions per tonne of production by 59% compared to 2008. In 2013 a biomass boiler was installed at the Company's Horana factory. The Company aims to further bring down its CO₂ emissions by installing a biomass boiler in factory at Agarapatna in 2014.

By the end of 2011, USL had reduced water usage per tonne of production by 41% when compared to its 2008 baseline. In 2012, the company set up a pilot plant for rainwater harvesting, at its factory in Horana. This will help reduce the factory's water consumption from ground water/ municipal sources. By 2015, the Horana factory aims to be 100% water positive.

Through a combination of waste reduction and waste reusing, USL has reduced total waste per tonne of production. By the end of 2011, the Company had reduced waste per tonne of production by 19% compared to the 2008 baseline. The sites in Sri Lanka, at Horana and Agarapatna are both zero effluent sites.

No waste from USL operations goes into landfill. Waste from the sites are either reused, or used to fuel cement kilns. Waste from canteen operations are sent for composting or to a local piggery to be used as feed.

70% of tea in Sri Lanka is grown by tea smallholder farmers, who usually own less than an acre of land. USL is partnering with the Rainforest Alliance Certification programme for sustainable agriculture, to help these smallholder tea farmers get sustainable certification. They have already helped 5000 farmers by the end of 2012. This initiative has led to an increase in Sustainable Certified tea available in Sri Lanka to 23000 metric tons.

Initiated in 2003, the Project Saubhagya was implemented in rural Sri Lanka to empower underprivileged women. Project Saubhagya, meaning "prosperity", was initiated after the success of Project Shakti in India. This micro enterprise project provides women entrepreneurs a sustainable source of income from selling Unilever products house to house in their villages. In 2011 there were 3000 Saubhagya entrepreneurs, and the Company aims to have 5000 entrepreneurs by 2015.

Unilever also offers scholarships to the most deserving children of Saubhagya entrepreneurs. These Saubhagya scholarships are awarded to students who have excelled in academics, the arts, drama and sports on a district and regional level.



Unilever has over 173,000 employees around the world, and is seen as a preferred employer in all its markets. In Sri Lanka the Company has 1500 direct employees, and creates employment for a further 11,000 people through its supply chain. One of the key contributors to Unilever's success is its focus on growing talent and leadership. The Company's 24 month Management Trainee programme is focused on building long term leadership capability. Over the years Unilever has hired, groomed and developed leaders for itself, the industry and for the society. Many of USL's locally recruited talent have gone on to pursue successful careers with Unilever around the world. 20% of USL's middle to senior management have been sent on international assignments, to learn, grow and bring the learning back into the country. Through initiatives like the Unilever Students' Network, and partnerships with AEISEC Sri Lanka, Employers Federation and the Sri Lanka Federation for University Women, USL aims to groom potential talent in the country.

In reviewing the progress of the Unilever Sustainable Living Plan, Paul Polman says "In Unilever we believe that business must be part of the solution. But to be so, business will have to change... it will have to recognize that the needs

of citizens and communities carry the same weight as the demands of shareholders. We believe that in the future this will become the only acceptable mode of business"

Two years in, Unilever's Sustainable Living Plan has helped the company take huge strides on the path to sustainable growth. Unilever is the only company to lead the Dow Jones Sustainability Index for its sector for 12 years in a row. However, the challenges still remain. The Company continues to work in partnership with suppliers, retail customers, governments, NGOs, health organisations to find creative and long term solutions to today's challenges.

Unilever sees 2020 as the first milestone of a longer plan and the Unilever Sustainable Living Plan will change and evolve over time.



Case Questions

Question 1.

Describe the internal, Connected and external stakeholders of Unilever Sri Lanka.

Question 2.

Using the Mandelo matrix, analyze the power and interest levels of stakeholders.

Question 3.

Explain how the concept of triple bottom line can be applied to Unilever Sri Lanka.

Question 4.

Comment on the overall CSR, sustainability strategy of the company.

Sources : www.unilever.com.lk
The Unilever sustainability report
Interview with the Chairman Mr. Amal Cabraal

CHAPTER 4

Market Segmentation

- 4.1 The market segmentation process
- 4.2 Consumer profiling
- 4.3 Criteria for effective segmentation
- 4.4 Segment ranking
- 4.5 Target marketing strategies
- 4.6 Brand positioning
- 4.7 Brand positioning process

Case Study 4: Commercial Bank - A dominating force and the benchmark private sector Bank in Sri Lanka

4

Market Segmentation

"If you always do what you always did, you will always get what you always got." - Einstein

A market may have many meanings. It may be a location where a set of consumers and suppliers come into contact in meeting the requirement of each and the ability, willingness and authority to purchase such products. The term 'markets' may in some cases also refer to various groups of customers. It may also be referred to as a particular geographical area or a relationship between supply and demand of a specific product. Markets can be divided into two broad categories:

- **Consumer markets (B2C)** - This is where the consumer purchases products for personal consumption without an intention of making further profits. Products such as food, clothing and furniture are examples of consumer products.
- **Industrial or business-to-business markets (B2B)** - Industrial markets constitute of buyers who would purchase products or services either to resell, further reprocess or to use in daily operations. Petroleum products, raw materials are examples of industrial products.

A SME is defined as a category of micro, small and medium-sized enterprises (SMEs), which are made up of enterprises which employ fewer than 250 persons and have an annual turnover not exceeding Rs.600 million annual turn over.

Characteristic	B2C	B2B
Purchase motivation	Individual or family need	Multiple buying influences
Time effects	Short term relationship	Long term relationship
Products	Lower technical detail	Technically sophisticated
Price decisions	Price generally fixed. Discounts important	Price determined before purchase
Place decisions	Large number of small buyers	Limited number of large buyers
Customer service	Less important	Critical for success
Legal factors	Contracts only on major purchases	Contractual arrangements
Environmental arrangements	Direct demand	Derived demand

Table 4.1 : Characteristics of B2C vs B2B markets.

What is market segmentation?

Definition : Market Segmentation is a process by which a group of individuals or organizations are clustered into homogenous sub groups of buyers with similar needs.

4.1 The market segmentation process

- a) **Context analysis** - Identify an organization's current position, capabilities, objectives, constraints, market map & competitive landscape.
- b) **Customer profiling** - Generate an exhaustive list of profiles and cluster the market into homogenous strata using the bases of segmentation and profiling tools.
- c) **Selecting market segments** - Evaluate and prioritize segments using segment ranking.
- c) **Targeting strategy** - Target marketing strategy.
- d) **Positioning strategy** - Identifying, selecting and communicating the chosen positioning concept to each segment.
- e) **Develop a marketing mix for each segment** - Define the competitive value proposition for each segment.
- d) **The segment canvas** - Putting it all together to obtain a holistic view.

4.2 Consumer profiling

Customer profiling or customer type classification is a way to create a portrait of your customers (Customer personas) and involves breaking down customers into groups sharing similar goals and characteristics. Each group may be represented with a photo and a detail description of their demographic, psychographic attitudes and behaviors. The profiles represent the typical user of a product and are used to help marketing teams and advertising agencies clearly identify the customer without any confusion. The following profiling tools may help a brand manager:

Consumer bases of segmentation	Charlotte Buhler's five phases of working life
Organizational bases of segmentation	ACRON UK-Geo-demographic classifications by CACI
Personification of segments using cartoons & metaphors	The family life cycle
The socio-economic classification of UK & SL	The Warner index of status characteristics
VALS framework	Mccrindle's generation profiles
LOHAS by the natural marketing institute	Target group index

Table 4.2 : Consumer profiling tools.

a) Consumer bases of segmentation

Geographic variables

- **Region** - Continents, nations, states, province.
- **Country size** - Population, area.

- **City** - Municipality, local town council, neighborhoods, post code.
- **Density** - Urban, suburban, rural villages.
- **Climate** - Dry zone, wet zone.

Geo-demographic segmentation

This combines demographic and geographic variables and is an analysis of where people live. It combines lifestyle data with local data (Post code data). ACORN is a geo-demographic tool used to identify and understand the UK population and the demand for products and services. Businesses use this information to improve their understanding of customers, target markets and determine where to locate operations. Information decisions can be made on where direct marketing and advertising campaigns will be most effective; where branches should be opened or closed.

Demographic variables

- **Age** - Infant, toddler, child, teenager, young adult, adult or senior citizen.
- **Gender** - Male, female, title.
- **Monthly household income** - Income range.
- **Family size or type** - Nucleus, small extended, large extended, marital status.
- **Family life cycle** - Bachelor, newly wed, full nest, empty nest or solitary survivor.
- **Occupation** - Professional, academic, student, housewife, proprietors, civil service.
- **Education** - Primary, secondary, diploma, graduate, postgraduate.
- **Religion** - Buddhist, Christian, Islam, Hindu.
- **Race** - Sinhalese, Tamil, Muslim, Burgher.
- **Nationality** - Sri Lankan, Indian, Japanese, Maldivian.

Psychographic variables

- **Social class** - Mass market, emerging mass, mass affluent, affluent or super affluent.
- **Life-style** - Achievers, believers, strivers or aspirers, club membership, leisure & pleasure activities.
- **Personality** - Generous, introverted, extroverted, authoritarian, ambitious, compulsive, aggressive or assertive.

Behavioral variables

- **Purchase occasion** - Wedding, tea time, new year or birthday.
- **Benefit sought** - Economy, convenience, prestige or easy to use.
- **User status** - Nonuser, ex-user, potential user, first time user or regular user.
- **Usage rate** - Light, medium or heavy users.
- **Loyalty status** - None, medium, strong or absolute.
- **Readiness stage** - Unaware, aware, informed, interested, desirous or intending to buy.
- **Attitude towards the product** - Enthusiastic, positive, indifferent, negative or hostile.
- **Media consumed** - Electronic, print & other.

	Mass Market	Mass affluent market	Affluent market	Corporate Banking
Geographic				
Region	Central, western, southern provinces	Western & central provinces	Mostly western provinces	Western & central province
Population density	Rural, suburban	Urban, suburban	Mostly urban	Urban
Demographic				
Age	Age 18 and above	Age 25 and above	Age 35 and above	
Gender	Male & female	Male & female	Mostly male	Male & female
Occupation	Housewives, students	Housewives, students	Wealthy professionals, retired, housewives	Corporate bodies
Nationality	Sri Lankans	Sri Lankans, foreign nationals	Sri Lankans, foreign nationals	National & international
Family life cycle	Young and old, married, unmarried	Young and old, married, unmarried	Young and old, married, unmarried	
Monthly household Income	LKR 10,000 and above	LKR 25,000 and above	LKR 250,000 and above	
Psychographic				
Social class	Lower middle class	Upper middle class	Upper class	
Lifestyle	Strivers, achievers	Achievers	Achievers	
Personality	Ambitious	Ambitious	Aggressive and authoritarian	
Behavioural				
Benefits	Economy	Convenience	Convenience	
User status	Regular user	Regular user	Regular user	
Readiness stage	Aware	Aware and interested	Informed and interested	

Table 4.3: An example of customer profiling in a Bank.

	Segment name	Worrier	Sociable	Sensory	Independent
Profile	Demographic	C1, C2 25-40 Large families	B, C1, C2 Teens Young smokers	C1, C2, D Children	A, B 35-40 Male
	Psychographic	Conservative: hypochondriacs	High sociability: active	High self- Involvement: hedonists	High autonomy: value - orientated
What is bought, where, when and how	Product examples	Signal, Mentadent	Macleans, Ultradrite	Colgate, Aquafresh	Own label
	Product features	Large canisters	Large tubes	Medium tubes	Small tubes
	Health properties	Whitening properties	Flavouring		
	Outlet	Supermarket	Supermarket	Supermarket	Independent
	Purchase frequency	Weekly	Monthly	Monthly	Quarterly
Why it is bought	Benefits sought	Stop decay	Attract attention	Taste	Functionality
	Price paid	Medium	High	Medium	Low
	Percentage of market	50%	30%	15%	5%
Potential for growth		Low	High	Medium	Nil

Table 4.4: An example of customer profiling in the toothpaste industry by McDonald (2004).

b) Organizational bases of segmentation

According to Kotler (2001) the following business to business bases of segmentation can be identified.

Demographic

- **Industry** - Which industry should we serve?
- **Company size** - What size of companies should we serve?
- **Location** - What geographical areas should we serve?

Operating variables

- **Technology** - What customer technology should we focus on?
- **User or nonuser status** - Should we serve heavy users, medium users, light users, or nonusers?
- **Customer capabilities** - Should we serve customers needing many or few services?

Purchasing approaches

- **Purchasing organization** - Should we serve companies with highly centralized or decentralized purchasing organisations?
- **Power structure** - Should we serve companies that are engineering dominated, financially dominated or so on?

- **Nature of existing relationships** - Should we serve companies with which we have strong relationships or simply go after the most desirable companies?
- **General purchase policies** - Should we serve companies that prefer leasing, service contracts, system purchases, or sealed bidding?
- **Purchasing criteria** - Should we serve companies that are seeking quality, service, or price?

Situational factors

- **Urgency** - Should we serve companies that need quick and sudden delivery or service?
- **Specific application** - Should we focus on certain applications of our product?
- **Size of orders** - Should we focus on large or small orders?

Personal characteristics

- **Buyer-seller similarity** - Should we serve companies whose people and values are similar to ours?
- **Attitudes towards risk** - Should we serve risk-taking or risk-avoiding customers?
- **Loyalty** - Should we serve companies that show high loyalty to their suppliers?

c) Personification of segments using cartoons, drawings & metaphors







Segment	Description
 Koala bears	Preserve their assets (However small) and use, for example an extended warranty to give them cover. Won't do anything themselves. Prefer to curl-up and wait for someone to come and fix it. Small offices (In small and big companies). 28% of the market
 Teddy bears	Lots of account management and love required from a single preferred supplier. Will pay a premium for training and attention. Larger companies. 17% of the market
 Polar bears	Like Teddy bears except colder! Will shop around for cheapest service supplier, whoever that may be. Full third party approach. Larger companies. 29% of the market
 Yogi bears	A 'wise' Teddy or Polar bear working long hours. Will use trained staff to fix problems if possible. Needs skilled product specialist at end of phone, not a clerk who books appointments. Wants different service levels to match the criticality of the product to their business process. Large and small companies. 11% of the market
 Grizzly bears	Trash them! Cheaper to replace than maintain. Besides, they are so reliable that they are probably obsolete when they bust. Expensive items will be fixed on a pay-as-when basis, if worth it. Not small companies. 6% of the market
 Andropov big bears	My business is totally dependent on your products. I know more about your products than you do! You will do as you are told. You will be here now! Not small or very large companies. 9% of the market

Figure 4.1: Global Tech's segments by McDonald (2004).

Personas are semi-fictional characters that represent different influencers, decision makers, buyers or users of a company’s products or services. A persona represents a group of people with similar values with respect to the use of a particular product or service. There could be (and likely are) several different personas within a single market segment depending on the complexity of the buying process and your product offering. Below is an example of a customer persona within the clinical laboratory market. This “personification” helps bring the profile to life and allows marketers to envision the person behind the profile.

Supervisor Natasha

Company : Hospital, Laboratory

Title, role :


- Lab supervisor, manager
- Responsible for multiple disciplines including quality control.
- Mid level manager reports to Lab director

Challenges, pain points:

- Cost control
- Quality

Trusted information sources:

- Peer recommendations
- Trade journals
- Internet
- Conferences and events



Demographics:

- 80% female/ 20% male
- 40+
- Educated in a British university

Vendor experience preferences

- Expect responsive service and cannot afford to be down.
- I only want to see someone when I need them.
- Need to have good reference materials, training and support.

Values, goals:

- Quality is essential
- Efficient use of lab resources

Day in the life:

- Main concern is getting each days samples processed
- Supervising direct reports
- Lots of meetings, lots of paperwork

Common objections:

- Added cost of new products
- Changing well established procedures and protocols

Figure 4.2 : An example of a persona profile.

Persona profiles are valuable because they help you uncover deeper insights about customers and reveal opportunities to delight them. From a marketing and branding perspective, persona's help set the tone for developing emotional brands and communications that resonate with their intended audience.

Creating personas also provides you with means of communications to your team (Both internal and external) and obtain a deeper understanding of the customers psyche. Once the team can empathize with the challenges and goals of the persona they are in a much better position to spot ways they can add value be it through product development, marketing content or communications.

d) The socio-economic classification of UK by JICNARS

Class name	Social status	Occupational head of household	% of UK population
A	Upper middle class	Higher managerial, administrative or professional positions E.g. Lawyers, directors	3
B	Middle class	Middle managers, administrative or professional positions E.g. Teachers, managers, computer operators	14
C1	Lower middle class	Supervisory or clerical, junior managerial administrative or professional positions E.g. Foreman, shop assistants	27
C2	Skilled working class	Skilled manual workers E.g. Carpenters, mechanics, electricians	25
D	Unskilled worker	Semi-skilled and un-skilled manual labourers E.g. Machine operators, cleaning, waiting tables	19
E	Those at lowest level of subsistence	State pensioners or widows, casual workers, daily paid workers, labourers	12

Table 4.5: The socio-economic classification of UK by JICNARS.

Socio economic classification of Sri Lanka

Occupation of chief wage earner		Education level of chief wage earner				
		Illiterate 1	Up to Grade 5 2	Grade 6-9 3	GCE O/L – A/L 4/5	Graduate Professional 6
1	Unskilled worker	E2	E2	E1	D	-
2	Skilled worker – 1 (Blue)	E2	E1	D	C	B2
3	Skilled worker – 2 (White)	E1	D	C	B2	B1
4	Small trader/small Businessman	E2	E1	D	C	B2
5	Clerk/Salesman	-	D	C	B2	B1
6	Supervisor	-	C	B2	B1	A2
7	Junior Executive	-	C	B2	B1	A2
8	Professional/ Senior Executive	-	B1	B1	A2	A1
Businessman/Industrialist						
9	Number of Employees 1-4	E1	D	C	B2	B1
10	Number of Employees 5-10	C	B2	B1	A2	A1
11	Number of Employees 10+	B1	B1	A2	A1	A1
12	Agricultural Worker	E2	E2	E1	D	-
13	Tenant Cultivator	E2	E2	E1	D	C
Farmer owning land						
14	< 1/2 acre	E2	E2	E1	D	C
15	< 1/2 – 2 acre	E2	E1	D	C	B2
16	2-5 acre	E1	D	C	B2	B1
17	5+ acre	C	B2	B1	A2	A1

Table 4.6: Socio economic classification of Sri Lanka.

e) VALS framework - SRI consultant's business intelligence

VALS segments US adults into eight distinct type or mind sets using a specific set of psychological traits and key demographics that drive consumer behavior. The US framework, a graphic representation of VALS, illustrates the eight types and two critical concepts for understanding a consumer's primary motivation and resources. The combination of motivations and resources determine how a person will express himself or herself in the marketplace as a consumer. VALS assigns individuals a VALS type based on their responses to questions in the VALS survey. Using VALS provides clients with a fresh perspective by effectively putting them inside the head of their customers.

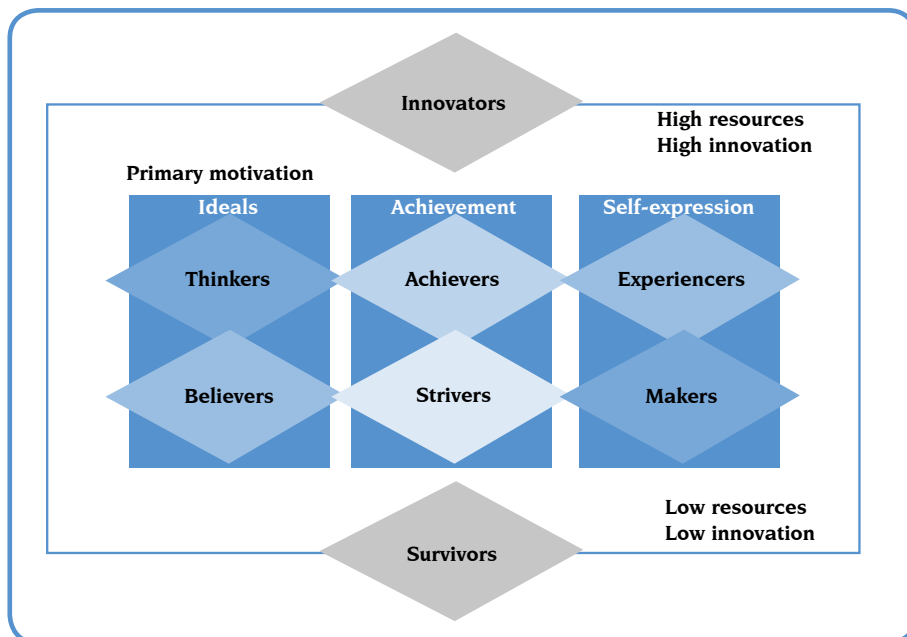


Figure 4.3: VALS framework.

Primary motivation: Ideals, achievement and self-expression - The concept of primary motivation explains consumer attitudes and anticipates behavior. Consumers who are primarily motivated by ideals are guided by knowledge and principles. Consumers who are primarily motivated by achievement look for products and services that demonstrate success to their peers. Consumers who are primarily motivated by self-expression desire social or physical activity, variety and risk. These motivations provide the necessary basis for communication with the VALS type and for a variety of strategic applications.

Resources - A person's tendency to consume goods and services extend beyond age, income, and education. Energy, self-confidence, intellectualism, novelty seeking, innovativeness, impulsiveness, leadership, and vanity play a critical role. These psychological traits in conjunction with key demographics determine an individual's resources. Various levels of resources enhance or constrain a person's expression of his or her primary motivation.

Innovators	Innovators are successful, sophisticated and they are take-charge people with high self-esteem.
Thinkers	Thinkers are motivated by ideals. They are mature, satisfied and comfortable.
Achievers	Achievers are motivated by the desire for achievement and have goal-oriented lifestyles, a deep commitment to career and family.
Experiencers	Experiencers are motivated by self-expression. They are young, enthusiastic and impulsive consumers.
Believers	Like thinkers, believers are motivated by ideals. They are conservative.
Strivers	Strivers are trendy and fun loving because they are motivated by achievement, strivers are concerned about the opinions and approval of others.
Makers	Like experiencers, makers are motivated by self-expression. They express themselves and experience the world by working on it.
Survivors	Survivors live narrowly focused lives with few resources with which to cope.

Table 4.7: VALS framework profiles.

f) Characteristics of segmentation by the natural marketing institute

The natural marketing institute (NMI) has conducted primary consumer research on the LOHAS (Lifestyle of health and sustainability) consumer and the objective of the research is to quantify and understand the portion of the U.S. population for whom environmental, social, and healthy lifestyle values play an important role in purchase decisions. Based on an annual, nationally projectable consumer research study, NMI's LOHAS consumer trends database (LCTD) has allowed NMI to generate a unique perspective on the evolution of consumer attitudes, and more specifically, how marketers can better understand these consumers, identify them, and communicate with them.

LOHAS 16%	LOHAS consumers are dedicated to personal and planetary health. Not only do they make environmentally friendly purchases, they also take action—they buy green products, support advocacy programs, and are active stewards of the environments.
Naturalites 25%	Focused on natural and organic consumer packaged goods. They are not politically committed to the environmental movement, nor are they driven to green and eco-friendly durable goods.
Drifters 23%	This segment has good intentions, but when it comes to behavior, other factors influence their decision more than the environment. Somewhat price sensitive (and trendy), they are full of reasons why they do not make environmentally friendly choices.
Conventionals 23%	This very practical segment does not have "green attitudes", but they do have some "municipal" environmental behaviors such as recycling and energy conservation.
Unconcerned 14%	The environment and society are not priorities to this segment. They are not concerned, and show no environmentally-responsible behavior.

Table 4.8: NMI survey profiles.

g) Charlotte Buhler's five phases of working life

Age:	Phase :
17-28 years old	Exploratory phase - Examining the possibilities work presents
28-43 years old	Selective phase - The individual adopts a sustenance-driven perspective and focuses on establishing their place in professional life
43-49 years old	Re assessment phase - The individual assesses his or her career to date and re evaluates prospects for future success
49-64 years old	Indulgency phase - The individual focuses more on self actualization
64 years and older	Completion - The individual looks back at past achievements

Table 4.9: Five phases of working life.

h) ACORN UK Geo-demographic classifications by CACI

ACORN, developed by CACI London, is a segmentation tool, which categorises the United Kingdom's population into demographic profiles. It has been built by analysing significant social factors and population behaviour to provide precise information and in-depth understanding of the different types of people and communities across the UK. ACORN segments households, postcodes and neighbourhoods into 6 categories, 18 groups and 62 types as given below;

Category	Group	Type
Affluent achievers	Lavish lifestyles	<ul style="list-style-type: none"> ■ Exclusive enclaves ■ Metropolitan money ■ Large house luxury
	Executive wealth	<ul style="list-style-type: none"> ■ Asset rich families ■ Wealthy countryside commuters ■ Financially comfortable families ■ Affluent professionals ■ Prosperous suburban families ■ Well-off edge of towners
	Mature money	<ul style="list-style-type: none"> ■ Better-off villagers ■ Settled suburbia, older people ■ Retired and empty nesters ■ Upmarket downsizers
Rising prosperity	City sophisticates	<ul style="list-style-type: none"> ■ Townhouse cosmopolitans ■ Younger professionals in smaller flats ■ Metropolitan professionals ■ Socializing young renters
	Career climbers	<ul style="list-style-type: none"> ■ Career driven young families ■ First time buyers in small, modern homes ■ Mixed metropolitan areas

Comfortable communities	Countryside communities	<ul style="list-style-type: none"> ■ Farms and cottages ■ Larger families in rural areas ■ Owner occupiers in small towns and villages
	Successful suburbs	<ul style="list-style-type: none"> ■ Comfortably-off families in modern housing ■ Larger family homes, multi-ethnic areas ■ Semi-professional families, owner occupied neighbourhoods
	Steady neighbourhoods	<ul style="list-style-type: none"> ■ Suburban semis, conventional attitudes ■ Owner occupied terraces, average income ■ Established suburbs, older families
	Comfortable seniors	<ul style="list-style-type: none"> ■ Older people, neat and tidy neighbourhoods ■ Elderly singles in purpose-built accommodation
	Starting out	<ul style="list-style-type: none"> ■ Educated families in terraces, young children ■ Smaller houses and starter homes
Financially stretched	Student life	<ul style="list-style-type: none"> ■ Student flats and halls of residence ■ Term-time terraces ■ Educated young people in flats and tenements
	Modest means	<ul style="list-style-type: none"> ■ Low cost flats in suburban areas ■ Semi-skilled workers in traditional neighbourhoods ■ Fading owner occupied terraces ■ High occupancy terraces, many Asian families
	Striving families	<ul style="list-style-type: none"> ■ Labouring semi-rural estates ■ Struggling young families in post-war terraces ■ Families in right-to-buy estates ■ Post-war estates, limited means
	Poorer pensioners	<ul style="list-style-type: none"> ■ Pensioners in social housing, semis and terraces ■ Elderly people in social rented flats ■ Low income older people in smaller semis ■ Pensioners and singles in social rented flats
Urban adversity	Young hardship	<ul style="list-style-type: none"> ■ Young families in low cost private flats ■ Struggling younger people in mixed tenure ■ Young people in small, low cost terraces
	Struggling estates	<ul style="list-style-type: none"> ■ Poorer families, many children, terraced housing ■ Low income terraces ■ Multi-ethnic, purpose built estates ■ Deprived and ethnically diverse in flats ■ Low income large families in social rented semis
	Difficult circumstances	<ul style="list-style-type: none"> ■ Social rented flats, families and single parents ■ Singles and young families, some receiving benefits ■ Deprived areas and high-rise flats
Not private households		<ul style="list-style-type: none"> ■ Active communal population ■ Inactive communal population ■ Without resident population

Table 4.10: Geo-demographic classifications by CACI updated as at June 2014.

Geodemographic segmentation is based on two simple principles. First, people who live in the same neighborhood are more likely to have similar characteristics than two people chosen at random. Secondly, neighborhoods can be categorized in terms of the characteristics of the population, which they contain. Any two neighborhoods can be placed in the same category, i.e., they contain similar types of people, even though they are widely separated. Famous geodemographic segmentation systems are Claritas Prizm (US), Tapestry (US), CAMEO (UK), ACORN (UK) and MOSAIC (UK) system.

i) The family life cycle

Bachelor stage	Young, single not living at home, few financial burdens fashion opinion leaders. Recreation oriented, buy: basic home equipment, furniture, cars, equipment for the mating game, vacations.
Newly married couples	Young, no children. Highest purchase rate and highest average purchase of durables: cars, appliances, furniture, vacations.
Full nest i	Youngest child under six. Home purchasing at peak. Liquid assets low. Interested in new products, advertised products and may buy washers, dryers, TV, baby food, chest rubs and cough medicines, vitamins, dolls, wagons, sleds, stakes.
Full nest ii	Youngest child six or over. Financial position better. Less influenced by advertising. Buy: many foods, cleaning materials, bicycles, music lessons.
Full nest iii	Older married couples with dependent children, financial position still better. Some children get jobs. Hard to influence with advertising. High average purchase of durables: new, more tasteful furniture auto travel unnecessary appliances, boats, dental services magazines.
Empty nest i	Older married couples, no children living with them, head of household in labor force. Home ownership at peak. Most satisfied with financial position and money saved. Interested in travel, recreation, self education. Make gifts and contributions not interested in new products. Buy: vacations, luxuries, home improvements.
Empty nest ii	Older married. No children living at home head of household retired. Drastic cut in income. Keep home, buy: medical appliances, medical-care products.
Solitary survivor i	In labor force. Income still good but likely to sell home.
Solitary survivor ii	Retired: same medical and product needs as other retired group; drastic cut in income. Special need for attention, affection and security.

Table 4.11: The family life cycle - Wells & Gubar, 1966.

j) The Warner index of status characteristics

Class name	Description	Consumption characteristics
Upper-upper	Elite social class with inherited social position	Expensive, irrelevant, but purchase decisions not meant to impress; conservative
Lower-upper	Nouveau riche; highly successful business and professional; position acquired through wealth	Conspicuous consumption to demonstrate wealth, luxury cars, large estates, etc.
Upper-middle	Successful business and professional	Purchases directed at projecting
Lower-middle	White-collar workers, small businesspeople	Concerned with social approval; purchase decisions conservative; home and family oriented
Upper-lower	Blue-collar workers, technicians, skilled workers	Satisfaction of family roles
Lower-lower	Unskilled labour, poorly educated, poorly off	Attraction to cheap, 'flashy', low-quality items; heavy exposure to TV

Table 4.12: The Warner index of status characteristics, 1960.

k) Generations defined

Understanding the profiles of the various generations will help business leaders observe and understand the changing times. When it comes to keeping up with the trends and preparing for the future, the focus tends to be on technological shifts. Clearly the ever-changing technologies in business and in life are redefining our world. Yet interestingly, it is the sociological and demographical changes that have more profound implications on our future than even the massive technological ones. The key to business success therefore is to understand these human traits, attitude shifts, social trends and the mindset of the ever-changing customer and employees as explained below;

	Builders 1925-1945 Aged 70s - 80s	Baby Boomers 1946-1964 Aged 50s - 60s	Generation X 1965-1979 Aged 30s - 40s	Generation Y 1980-1994 Aged 20s - early 30s	Generation Z 1995-2010 Aged kids - teens
Iconic Technology	Radio (wireless) Motor Vehicle Aircraft	TV Audio Cassette Transistor radio	VCR Walkman IBM PC	Internet, Email, SMS DVD Playstation, Xbox, iPod	MacBook, iPad Google, Facebook, Twitter Wii, PS3, Android
Music	Jazz Swing Glen Miller Frank Sinatra	Elvis Beatles Rolling Stones Johnny O'Keefe	INXS Nirvana Madonna Midnight Oil	Eminem Britney Spears Puff Daddy Jennifer Lopez	Kanye West Rihanna Justin Bieber Taylor Swift
TV & Movies	Gone With the Wind Clark Gable Advent of TV	Easy Rider The Graduate Colour TV	ET Hey Hey It's Saturday MTV	Titanic Reality TV Pay TV	Avatar 3D Movies Smart TV
Popular Culture	Flair Jeans Roller Skates Mickey Mouse	Roller Blades Mini Skirts Barbi®/Frisbees	Body Piercing Hyper Colour Torn Jeans	Baseball Caps Men's Cosmetics Havaianas	Skinny Jeans V-necks RipSticks
Social Markers/ Landmark Events	Great Depression Communism World War II Darwin Bombing Charles Kingsford Smith	Decimal Currency Neil Armstrong Vietnam War Cyclone Tracy National Anthem	Challenger Explodes Haley's Comet Stock Market Crash Berlin Wall Newcastle Earthquake	Thredbo Disaster Columbine Shooting New Millenium September 11 Bali Bombing	Iraq / Afghanistan war Asian Tsunami GFC (08) WikiLeaks Arab Spring
Influencers	Authority Officials	Evidential Experts	Pragmatic Practitioners	Experiential Peers	User-generated Forums
Training Focus	Traditional On-the-job Top-down	Technical Data Evidence	Practical Case studies Applications	Emotional Stories Participative	Multi-modal eLearning Interactive
Learning Format	Formal Instructive	Relaxed Structured	Spontaneous Interactive	Multi-sensory Visual	Student-centric Kinesthetic
Learning Environment	Military style Didactic & disciplined	Classroom style Quiet atmosphere	Round-table style Relaxed ambience	Cafe-Style Music & Multi-modal	Lounge room style Multi-stimulus
Sales & Marketing	Print & radio Persuasive	Mass / Traditional media Above-the-line	Direct / Targeted media Below-the-line	Viral / Electronic Media Through Friends	Interactive campaigns Positive brand association
Purchase Influences	Brand emergence Telling	Brand-loyal Authorities	Brand switches Experts	No Brand Loyalty Friends	Brand evangelism Trends
Financial Values	Long-term saving Cash No credit	Long-term needs Cash Credit	Medium-term Goals Credit savvy Life-stage debt	Short-term wants Credit dependent Life-style debt	Impulse purchases E-Stores Life-long debt
Ideal Leaders	Authoritarian Commanders	Commanding Thinkers	Co-ordinating Doers	Empowering Collaborators	Inspiring Co-creators

Table 4.13: Adopted from generations defined by Mccrindle.

4.3 Criteria for effective segmentation

Companies need to avoid customer confusion in, over segmented markets and therefore need to establish a clear rationale for choosing segments.

- **Accessibility** - The chosen segment must be accessible and easily served.
- **Substantiality** - The chosen segment must be large enough in terms of size and growth to make a profit on investment at present and in the future.
- **Measurability** - The purchasing power, and profile of the segments should be measurable.
- **Actionability** - The degree to which effective programs can be designed for attracting and serving the segments.
- **Differentiability** - Segments should be conceptually distinguishable and respond differently to a different marketing-mix, elements and programs.
- **Longevity** - Some attractive segments could be dismissed because they are not in line with the company’s long-term objectives and resource commitments.

Segment attractiveness and resource strength framework



Figure 4.4: Segment attractiveness and resource strength framework by Hooley et al (2008).

It is important to assess the attractiveness of each segment before deciding which market to target. Sizing the market and evaluating its profit potential is a very important exercise. The process involves using a wide variety of secondary market research sources which includes databases and synthesize results from previously published research. Typically, the start would involve a quick “back of the

envelope” market size estimate that can provide marketers with enough information to decide if further investments in product development even make sense. A second pass at the market sizing question involves much more granular analysis.

Factors effecting market segment attractiveness

Market factors	Size, growth rate, life cycle, predictability, price elasticity, bargaining power of buyers, cycle of demand.
Economic & technological factors	Barriers to entry and exit, bargaining power of suppliers, technology utilisation, investment required, margins.
Competitive factors	Intensity, quality, threat of substitution, degree of differentiation.
Business environment factors	Economic fluctuations, political and legal, regulation, social, physical environment.
Internal factors	The company objectives, resources and competencies.

Table 4.14: Factors effecting market segment attractiveness.

4.4 Segment ranking

Hooly et al (2008) proposed the segment attractiveness and resource strength framework highlighting the best and worst segment prospects. (Figure 4.4) It is imperative to identify both internal and external factors (Table 4.13) effecting segment attractiveness and rank them to determine the best segments. (Table 4.14) This sets priority target markets where the firm wishes to concentrate and where it will deploy its resources. Markets change over time and an un-attractive segment may appear to be the most lucrative segment, which means segment sizing and ranking must be undertaken annually.

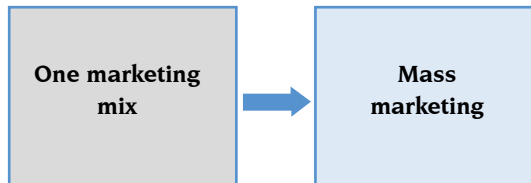
Segment	A	B	C	D	E
Profitability	8	6	5	4	5
Size and growth of segment	3	5	5	8	4
Cost of reach and response	6	4	7	3	7
Objectives and resources	9	7	4	4	1
Competitive rivalry in segment	7	1	1	1	4
Total score	33	23	22	20	21

Table 4.15: Segment ranking.

4.5 Target marketing strategies

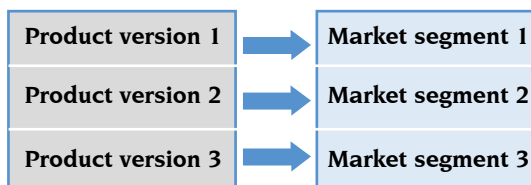
Having profiled and evaluated different segments, a marketer must decide on how many segments to serve. Since each market has a unique requirement, a separate marketing mix needs to be designed for each chosen strategy.

■ Undifferentiated marketing - mass marketing or full market coverage



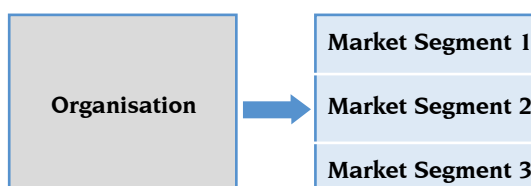
Here the firm ignores market segment differences and presents the whole mass market with one marketing mix whilst focusing on what is common in the needs of buyers (homogenous) rather than on what is different. The undifferentiated strategy brings about cost economies and is seen as the marketing counterpart to standardization and mass production in manufacturing. The narrow mass product line keeps down product inventory, advertising and transportation costs. The company can thus turn this lower cost into lower prices to win the price-sensitive segment of the market.

■ Differentiated marketing - multiple segment marketing



Here the firm operates in several market segments and design different programs for each segment. With its diversified product line the differentiated strategy typically creates more total sales than undifferentiated marketing. However, it increases the cost of doing business such as product modification costs, manufacturing costs, administrative costs, inventory costs or promotion costs. Airlines offer a differentiated proposition and appeal to different classes of travelers from economy to economy plus, through to business and first class.

■ Concentrated marketing - niche Marketing



This is where the company concentrates on offering the ideal product/s to a specific target market/s or niche market without spreading its resources too thinly. It is an ideal strategy for a new entrant to the market who possesses special expertise and a detailed knowledge of the niche market since the major segments of the market are dominated by large organizations and competing with them might be a challenge at the start. Segments are large identifiable customer groups within a market whereas a niche is a more narrowly defined market that may seek a special combination of benefits. A niche market in essence is a segment within a segment and is a small market whose needs are not well served. Marketer's breakdown segments into sub segments or narrowly defined groups when competition becomes intense in the primary segment. Whilst market segments attract many competitors, a niche market will maintain a duopoly or oligopoly market structure.

Further, consumers may see the organization as the leader in this niche and the marketing mix will be highly focused and relevant. The major disadvantage of concentrated marketing is the business risk associated with relying on a single segment of a single market. On the other hand, specialization in a particular market segment will help the firm gain a deep knowledge of the segment and can give a firm a profitable, although perhaps temporary, competitive edge over rival firms.

■ **Micro marketing or mass customization**

The extreme form of differentiated marketing is micro-marketing and refers to the practice of tailoring a marketing mix to meet individual requirements. This is about seeing an individual in every customer and not a customer in every individual. This has become a reality with the advent of e-commerce and digital media. A great example is the Tesco club card, which is a world-leading loyalty card scheme, with 15 million active cardholders. Information provided by the club card enables Tesco to better understand their customers and say 'thank you' for shopping with them. There are over 8 million unique coupon variations with each club card mailing making sure that everyone receives the kind of offer that is appropriate for them.

4.6 Brand positioning

Positioning is the act of designing the company's offering and to occupy a distinctive place in the minds of the target market. Successful brands own a distinct position in the consumers mind and positioning should be consumer centered. According to Al Ries and Jack Trout: to find a unique position you must ignore conventional logic. Conventional logic says you find a concept inside the product; this is not true. What you must do is study the prospects mind. A brands positioning may depend on its consumers perception.

Perception is vivid, in that it differs from person to person and may depend on the stimuli or signals that reach their mind about the product. If the product is not well positioned it will lose its brand image. Brand image is the result of positioning and refers to the set of beliefs that customers hold about a particular brand.

Is the Envoy brand by Hameedia an Indian, English or a US brand? The answer will startle you. It's a homegrown Sri Lankan brand positioned as a foreign brand in the minds of consumers. Why do young females purchase Lux whilst older females purchase Rexona? Lux portrays young film stars to create a youthful image in the customer's mind whilst Rexona portrays brand communications targeting a mature audience. At the functional level both products are toilet soaps but positioned differently. Unilever achieves this by modifying its products, distribution channels, packaging and advertising to create an image of the brand in the customer's mind. The first brand to occupy a vacant slot in the customer's mind tends to be remembered for a long time. Celltel, Q Tex, Jeep, Bata and Signal were all early movers in their respective categories in Sri Lanka and thus have taken on the name of the category as a result. Positioning starts with the quality of the product, level of service, credibility of the company and the sales person offering the product.

4.7 Brand positioning process



i. Establish the target market and competitive landscape

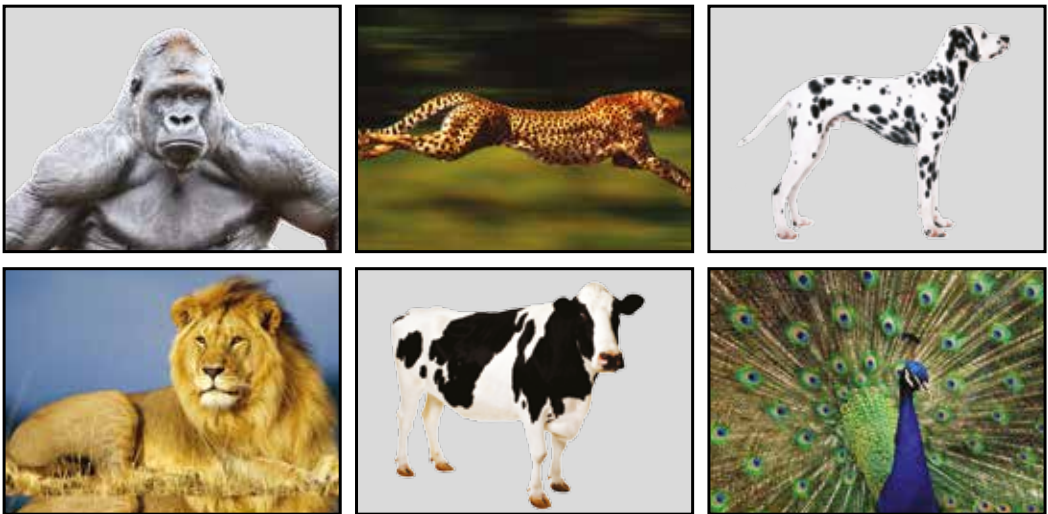
This involves defining the ideal profile of the core target consumer and consumer-profiling tools may be used to establish the ideal profile. Subsequently, the competitors who are directly competing with the brand must be identified.

ii. Audit current positioning (Using projective techniques)

A marketer may use projective techniques such as word or picture association to gauge consumer perception through qualitative consumer research. In the example below a sample of customers are shown pictures of various vehicles of transportation and requested to assign a brand to each picture. Which picture would a Keells super, Cargills supermarket, Arpico supermarket or Laughs supermarket customer represent?



Consumers prefer to assign a picture to a brand and then explain as to why they selected the brand to represent the picture. The insights can be recorded and a researcher may probe into some feelings projected to understand deeper perceptions and attitudes towards the brand. The researcher may also establish whether the consumer has a positive or negative association with the brand when analyzing comments.



Here's another example to understand the preferred telecommunications provider in Sri Lanka, by the use of animals. Respondents are requested to project their feelings by assigning an animal to brands such as Dialog Axiata, Etisalat, Mobitel, Airtel and Hutch.

Perception

Definition : Perception is the process of recognizing, organizing and interpreting sensory stimuli.

Perceptions vary from person to person. Different people perceive different things about the same situation. But more than that, we assign different meanings to what we perceive. And the meanings might change for a certain person. One might change one's perspective or simply make things mean something else. Information inputs are the sensations received through sight, taste, hearing, smell and touch. Interpreting information is based on what is already familiar, on knowledge that is stored in the memory. Perception can be classified into three types as given below.

- **Selective exposure** - This is to select inputs that are to be exposed and are more likely if it is linked to an event and satisfies the current needs.
- **Selective distortion** - The involves twisting the current information and advertisers use comparative advertisements pitching one product against another.
- **Selective retention** - Remembers inputs that support beliefs and forgets those that don't. An average supermarket shopper is exposed to thousands of products in a shopping visit and exposed to 1,500 advertisements per day.

Subliminal perception

It is widely described in literature and scientific experiments that people can be motivated below their level of conscious awareness. It means people can perceive stimuli without being consciously aware of it. Stimuli that are too weak or too brief to be consciously seen or heard may nevertheless be strong enough to be perceived by one or more receptor cells. This process is called 'subliminal perception'. In 1957, a famous experiment was conducted in New Jersey, USA, when researchers used a drive in movie for the experiment, with the words 'Drink Coke' and 'Eat Popcorn' were flashed whilst the movie was on the screen in 1/100th of a second. The exposure times were so short that viewers were unaware of seeing this message. It was subsequently reported that after a six-week period the popcorn sales increased by 58% and Coca Cola sales increased by 18%. Marketers include subliminal references to sex, power, happiness, hunger or wealth in their print, online and television ads. For example, one print ad for Coca Cola featured frost that some argued was subtly shaped in the image of a naked woman on the top of a can. Presumably, that image would shift the perception of the drink and make it more attractive to the target market. The SFX sci-fi magazine that began in 1995 focuses on sci-fi and fantasy news and some subliminal messaging. Many sites have reported that the SFX logo often appears different when women are on the cover, making the reader view the title as 'SEX' How much does sex sell? SFX has a circulation of about 26,000 goods and services.

Perceptual illusions

Perception is vivid and varied. Consumers may perceive a products' positioning differently and this may be based on the perceptual stimuli that has reached or not reached the consumers mind. Here are some examples of perceptual illusions and products that possess similar challenges.



Old woman or young girl?



A face of a native American or an Eskimo?



Man playing horn or woman silhouette?

iii. Perceptual mapping (Positioning maps)

The following steps are involved in constructing a perceptual or positioning map.

- a) Identify an industry, then compile an exhaustive list of all its competitors and determine the critical success factors of the industry. These are factors critical to succeed and excel in order to be a leading player in the industry. Some examples are;
 - **The airline industry** - Load factor, number of destinations and code shares, on time arrivals and departures.
 - **The supermarket industry** - Central warehousing, category management and strategic location.
 - **The beverage industry** - Availability, price, thirst quenching and nutritiousness.
- b) Using two variables from the identified critical success factors draw a perceptual map as seen below and plot each competitor based on your perception. You may also do this in a team internally in order to meet minds on the proposed positioning or use research to plot this based on customer perceptions. You may be required to draw a few maps by changing variables to identify new positions.
- c) Identify any gaps for new products and rank them in order of their relative size.
- d) You may be required to reposition the brand in the future and plot the direction of the new position in the map.

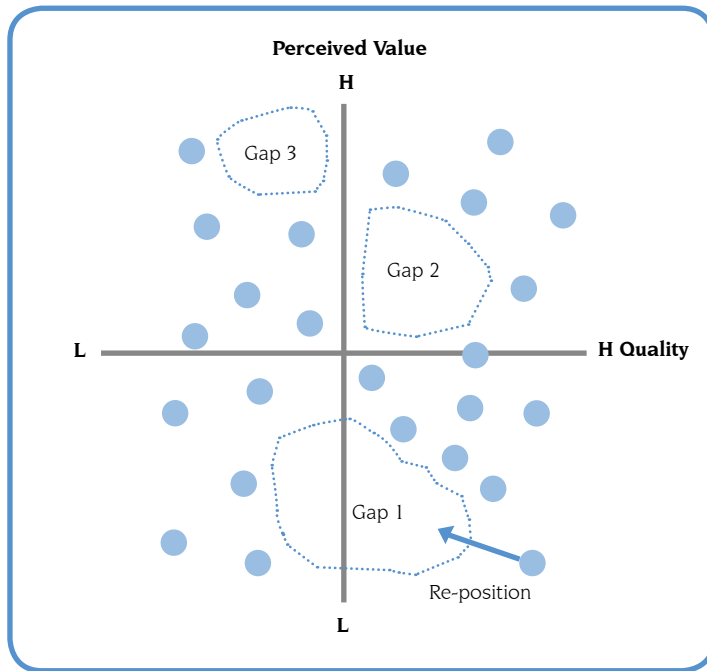


Figure 4.5: A sample perceptual map, gap analysis and repositioning map.

Repositioning is aimed at changing the perception of consumers in order to increase market share. This is a difficult and expensive process, since it requires the extensive remolding of customer’s perceptions. The danger is that the outcome will be confusion in the minds of the customer and failure to impress the selected new segments. Repositioning may also involve changing the identity of a product, relative to the identity of competing products, in the collective minds of the target market. The marketer must also attempt to identify any unoccupied positioning in the minds of consumers.

Types of repositioning

Real repositioning	Relates to actual product features and design
Psychological repositioning	Changes the buyer’s beliefs about the brand
Competitive repositioning	Alter beliefs about competing brands
Change emphasis	The emphasis in advertising can change over time

Problems with positioning

A single positioning is usually the best and helps gain positioning intensity. If you are not the market leader then strengthen your current position, grab an unoccupied position, deposition or reposition competition or achieve the largest size within a segment. There are 4 types of problems when designing a products positioning.

- **Under positioning** - The brand does not have a clear identity in the eyes of the customer.
- **Over positioning** - Buyers may have a narrow image of a brand.
- **Confused positioning** - Too many claims might be made for a brand.
- **Doubtful positioning** - The positioning may not be credible in the eyes of the buyer.

iv. Choose a brand positioning strategy (Establish competitive positioning).

- **Product feature or attribute driven (Functional positioning)** - Dual air bags.
- **Benefit driven** - Peace of mind, safety, durability.
- **Price driven** - Every day, low prices by Wal-Mart, value for money.
- **Quality driven** - Luxury brands.
- **Competitor driven** - Avis Vs. Hertz.
- **Positioning by application or use** - Shampoo + conditioner by Garnier.
- **User or personality driven** - Porsche: For sports enthusiasts.
- **Brand positioning by product class or category** - Shangri La hotel, the other botanic garden.
- **Problem solution positioning** - Insurance companies.
- **Emotional positioning** - Love, fear, joy.
- **Aspirational positioning** - Premium brands.
- **Occasion driven** - Summertime, teatime.
- **Activity driven** - Sport or relaxation.
- **Country of origin** - Made in Sri Lanka.
- **Symbolic positioning** - Nike's swoosh.
- **First mover positioning** - Positioning as the leader.

Establishing a competitive positioning

The organization will want to develop and build a competitive (differential) advantage through a unique competitive positioning. Kotler and Keller (2006) has defined competitive positioning as the act of designing the company's offer and image so that they occupy a meaningful and distinctive position in the target customer's mind.

To be successful, today's organizations need to be market oriented which requires them to strike a balance between customer and competitor focus. No longer can an organization simply monitor the

competition and then develop a response. Focus needs to be on understanding the needs of the customer and building profitable and longer-lasting relationships through innovative strategies, which will deliver greater customer value than the competition is able to offer.

According to Doyle et al (1994), the properties of a winning value proposition should;

- **Provide a customer benefit** - Customers must see value to them in their own terms.
- **Be unique** - Customers must recognize the benefits as being different.
- **Be profitable** - The company has to be able to deliver a profit.
- **Be sustainable** - The advantage should be difficult to copy.

Piercy et al (2008) states that the key to creating sustainable positioning is to ensure that it is built on marketing assets and competencies of the firm and offer the following basic positioning options.

Basic positioning options

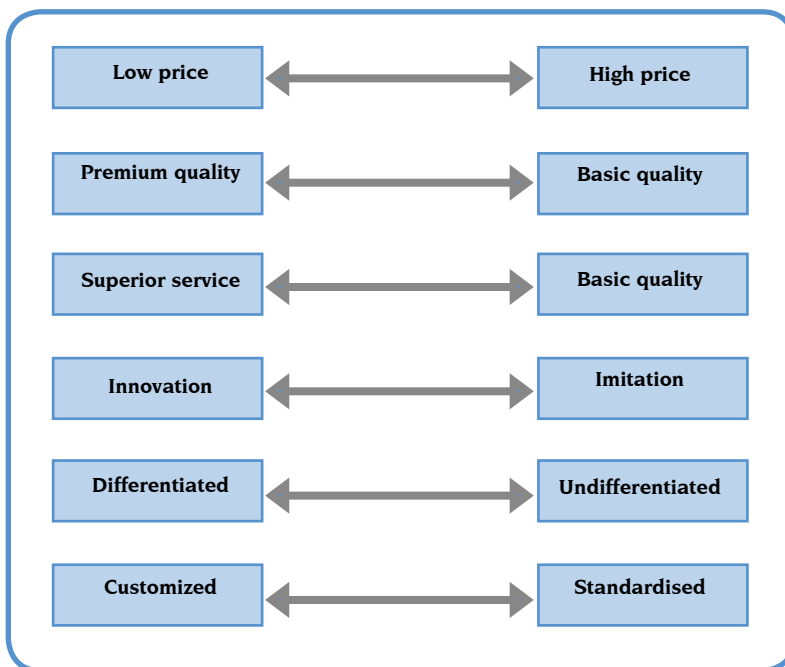


Figure 4.6: Basic positioning options by Hooley G, Piercy N and Nicoulaud B, 2008.

Each positioning option must be evaluated in terms of type of customer, strategic focus of the positioning chosen and resource requirements to deliver the positioning consistently. The options are as follows:

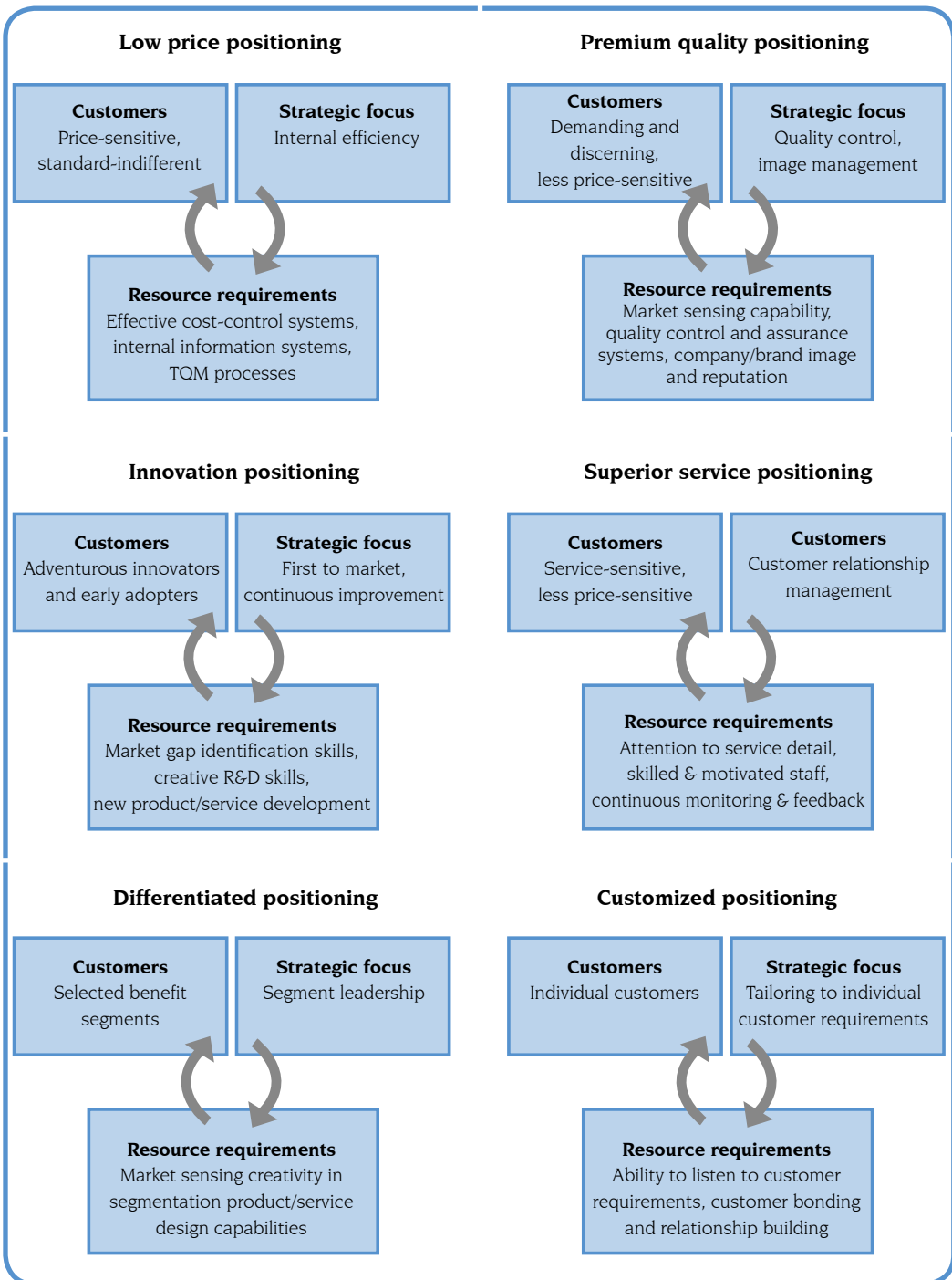


Figure 4.7: A business model to support the competitive positioning by Hooley G, Piercy N and Nicolaud B, 2008.

The competitive value proposition

A customer value proposition is the perceived functional, emotional, social, or self-expressive benefit or promise that is provided by the organization's offering. One or more value propositions need to be relevant and meaningful to the customer, and should be reflected in the position of a product or service. To support a successful strategy, the proposition should be sustainable overtime and differentiate the offering from its competition. Examples of value propositions include: superior customer service, product differentiation, low cost and operational efficiency.

v. Own a word (Dominant thought or top of mind recall).

- **Pizza Hut** - Delivery.
- **FedEx** - Overnight.
- **Wal-Mart** - Low prices.
- **3M** - Innovation.
- **Volvo** - Safety.
- **Starbucks** - Experience.

vi. Develop a positioning statement and a brand pay off line.

It is imperative that each brand develops a unique positioning statement and establishes a brand pay off line (strap line). A positioning statement may need to include the target audience, brand name, the category and the principle benefit offered to the consumer. The brand manager may use the following format and fill in the four areas. The corresponding examples are given below:

To **(target audience)**, **(brand name)** is the brand of **(category)** that offers **(benefit)**.

- To (weight conscious adults), (diet Coke) is the brand of (diet Cola) that offers the (best taste).
- For (those who do creative things with computers), (Apple) is the brand of desktop computers that is (user friendly).

Pay-off lines that are recognized by many and mostly linked to the correct brands are successful, provided they are reinforcing the desired perceptions about the brands they herald. Good pay off lines should;

- **Tell you what the brand does** - The world's favorite cookie.
- **Evoke positive feelings** - Life's great, my life my card.
- **Deliver a clear promise** - Do more, feel better, live longer.
- **Use popular figures of speech** - I'm Lovin' it.
- **Use repetition, alliteration or rhyme** - Snap, crackle and pop, have a break have a Kitkat.

vii. Integrating the 4P's and positioning strategy.

Product

- Are the features and benefits still relevant or do they need to be changed?
- Does the branding reflect the products position in the market?
- Do the products packaging and presentation reflect the other aspects of the marketing mix?
- Are there new products in the pipeline?

Price

- Is the price competitive and does it reflect the quality and desirability of the product?
- Does the price reflect value for money?

Promotion

- Does the promotion reflect the positioning and pricing of the product?
- Are the right communication channels being used?

Place

- Are the right distribution channels being used and do they reflect well on the product?
- Is the channel structure right?

viii. Test new positioning or unique selling proposition among target groups.

ix. The segment canvas.

	Customer segments A	Customer segment B	Customer segment C
Product 1	Benefit sought by the segment Product offering Positioning	Benefit sought by the segment Product offering Positioning	Benefit sought by the segment Product offering Positioning
Product 2	Benefit sought by the segment Product offering Positioning	Benefit sought by the segment Product offering Positioning	Benefit sought by the segment Product offering Positioning
Product 3	Benefit sought by the segment Product offering Positioning	Benefit sought by the segment Product offering Positioning	Benefit sought by the segment Product offering Positioning

Table 4.16: The segment canvas.

The segment canvas (Table 4.15) attempts to consolidate the overall segment and product offering by specifying the benefit sought by the segment, product offering and positioning. A company with a large product portfolio would need to ensure distinctive segments are offered differentiated products supported by the most appropriate competitive positioning as shown in table 4. 16.

Name of segment	Description of the segment	Benefit sought by the segment	Product offering	Positioning
Residents of Riga	Latvian prosperity through DIV	People in Riga	Good linkages between the two cities	We support Latvia
Investors	Sound investment climate, favourable fiscal policy	EU Businesses and other foreign businesses	Good infrastructure, favorable trading and fare transfer of funds	A safe heaven for investors
The land 'i was born at'	Peace end prosperity, quality of living	People living in Divgupils	Safe, calm, comfortable and dynamic place to live	Proud to be Latvian
'Coming Home'	Save my country and be acknowledged	Latvians living aboard	Good facilities, good pay, security, safety	My home sweet home
'Interactive plus'	Fun, knowledge and learning	Visitors from EU and other EU Countries	Historical sights architecture special monuments	Experience
Land of blue lakes	Relaxation, beauty,fun and adventure Same	Visitors from EU and other EU Countries	Serenity and beauty, calm slow trouble free life	A land like other
Special interests	Sports, health and education	Visitors from EU and other EU Countries	Good facilities, variety, quality, excellent standards	Serve my needs

Table 4.17: An example of a segment canvas.

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Commercial Bank - A dominating force and the benchmark private sector Bank in Sri Lanka



Commercial Bank (Combank) is always in the news for the right reasons. They not only continue to win awards but also the hearts of the people who matter the most. Combank makes no fancy claims. Neither do they add glamorous frills nor statements that aren't factual. By judging their stellar performance and the consecutive awards they win; Combank is definitely the people's choice in Commercial Banking and has dominated the market through a disciplined approach of execution excellence.

With its formation dating back to the 1920's, this local Bank has come a long way since its humble beginnings. In 1920, The Eastern Bank opened a branch at Chatham Street, Colombo, little realizing they were laying the foundation to what was to become, a byword in Banking! As business became good with the Donourmore Constitutional reforms, they moved to the heart of the premier business area at 57, Sir Baron Jayatilleke Mawatha, Colombo in 1939. After independence in 1948, trade flourished in Sri Lanka and consequently the share capital of Eastern Bank Ltd was acquired by the Chartered Bank in 1957.

A decade later in 1969, Commercial Bank of Ceylon was duly incorporated in Sri Lanka, with The Eastern Bank holding 40% of its equity. Commercial Bank acquired Credit Agricole Indosuez (CAI) operations in Bangladesh in 2003. Since then, the Bank's operations in Bangladesh have grown to 18 outlets. Currently, Commercial Bank is the 3rd largest foreign bank in Bangladesh whilst being a top international financial institution in the country. Hence, it is no wonder that Commercial Bank is reigning at the 'Top of the Banking Business'.

The Banking giant has got the secret ingredient to make things right, by redefining value for customers in their respective markets. Among its accolades and achievements, Combank has been adjudged Sri Lanka's Best Bank by Global Finance Magazine, giving the Bank the distinctive honour of winning this prestigious award for 15 years successfully. The Bank has been rated AA (lka) by Fitch Ratings Lanka Ltd, and AA+ from RAM Ratings. This is in recognition of its strong franchise, superior profitability and sound asset quality and capitalization. Additionally,



Commercial Bank has been adjudged Sri Lanka's 'Bank of the Year' for almost a decade since 2001, by the prestigious UK-based 'The Banker' Magazine and is the only Sri Lankan Bank amongst the top 1000 Banks worldwide, for the second successive year. Commercial Bank was also awarded 'Best Bank in Sri Lanka' by Finance Asia and Euromoney magazines and the Bank has also won the overall award for the Best Annual Report across all sectors of business in Sri Lanka for the year 2010.

These local and international awards, the highest of ratings and accreditations / certifications are attributed to the paramount efficiency of banking operations and an in depth knowledge about the customer in branch localities enabling branch managers to offer a personalized service to their customers. Being the first Bank to open an account, for many customers the relationship built there upon has continued and strengthened over the years. It is with such exemplary practices that the Bank has come to be known as the Benchmark Private Bank in Sri Lanka.

The fact that companies achieve the greatest success by 'selling' value is not new. What is new is how customers 'define' value in many markets. Traditionally, banking customers judge the value of a product or service by combining

quality with price. However, customers in the banking industry in Sri Lanka seek value through convenience, simplified solutions, competitive prices, customisation, after sales service, dependability, etc. Over the years, Commercial Bank has operated with a clear vision and high service standards, creating a brand identity and forging a unique trend in banking that has reaped the fruits of success and recognition year on year. Commercial Bank currently enjoys the top spot with 14% market share within the private banking sector and has the single largest ATM network in the country. Combank ATM network has the furthestmost reach supported by over 230 branches spread across the island, a staunch network consisting of stand-alone branches, supermarket banking counters and outlets at other high footfall locations. Its ATM network boasts of almost zero downtime, strategic placement in prime locations, operational efficiency and world renowned state-of-the-art-technology. Combank ATMs are the most patronized ATMs in the country whilst their debit cards portray the highest market share in terms of usage as confirmed by studies carried out by independent research companies. It's superlative range of products and services, powered by state-of-the-art technological supremacy and peopled by a dynamic, highly motivated workforce have



contributed to the tag of 'the most progressive Bank in Sri Lanka. Overall, Commercial Bank has earned a reputation for the highest form of reliability in Information Technology with automated solutions and is looking towards exploiting opportunities on mobile and other remote technological endeavours that can make banking more accessible even to the bottom of the pyramid segments of customers.

Combank can be well on its way to achieving its vision of being 'the most technologically advanced, innovative and customer friendly financial services organisation in Sri Lanka, with plans for further expansion into South Asia. Combank currently operates in Bangladesh, its first operation out of home soil. Pride combined with a passion for excellence has forged in a unique brand of banking for Combank and their service to loyal customers; shareholders; partners and employees possess a level of commitment that has set Combank apart from its peers.

Over the years, the Bank has reached operational excellence by providing customers with standardized, simplified, reliable products and services at competitive prices, delivered consistently with minimal difficulty or inconvenience. The efficacy of its banking

operations is partly attributed to selecting the correct target customer groups. Combank endows its customers the assurance of devising unique core processes that really tick! Over the years they have built powerful, cohesive business systems that could deliver more customer value than their competitors. By doing this they have managed to raise customer expectations beyond the competitor's reach. The customers who bank with Combank can be seen as a mix of high wage earners and middle, upper middle banking clients whilst it also caters to the majority of the mass market in Sri Lanka; making Combank the number one Bank that has one of the highest per capita wealth per customer.

Over the years they have developed the bottom of the pyramid customers to a higher level of living standards and financial management. Although they do not operate in a narrow market segment, Combank combines detailed customer knowledge with operational flexibility so they respond quickly to almost any need; from customising a product to fulfilling special requests. As a result they have gained tremendous customer loyalty. The Bank has aligned its entire operating model, that is, the company's culture, business processes, integrated management information systems, and computer



platforms to reinforce execution excellence where competitor banks have found it hard to catch up!

Instead of merely striving to produce a continuous stream of banking products and services and at the same time attempting to commercialize their ideas rapidly, Combank has prudently opted to shine in operational excellence and seek ways to minimize overhead costs, eliminate tedious processes, reduce transaction time and other “friction” costs and optimize business processes across functional and organisational boundaries. The business process re-engineering concepts within the Bank compels the instigation on regular and continuous audit functions and processors and investigates any overlaps and focuses on making recommendations to improve efficacy levels by institutionalizing lean management thinking. The objective is to re-design processes wherever necessary and reduce waste whilst ensuring continuous improvement and automation.

For instance a key metric, which is monitored frequently, is the cost of processing transactions by type of channel and reviewing this regularly to ensure optimum efficiency. Therefore, Commercial Bank’s operating model attempts to synchronise core processors in the value

chain, business structure, management systems and a unique culture that delivers excellence.

Combank generally offers mass market banking solutions with certain exceptions for unique customised solutions. It is perceived to be offering a competitive price and convenience through their island wide branch footprint. The human resources of the bank, functions on a ‘one Bank one Family’ platform; which also contributes to their excellence in service offering and smooth flow of operations. Whilst some functions such as HR, marketing, IT and finance are centralised, the bank has decentralized credit risk and operations to a certain extent to encourage empowered decision making at SBU/ branch level where every branch is considered a profit centre. The Bank anticipated what Sri Lankan banking customers valued most and how they wish it to be delivered by a bank through service excellence. Over the years, the bank has met regulatory and industry standards with regard to its products and services offered. However, it has exceeded consumer expectations with its operational effectiveness with a focus on measuring and monitoring processors to deliver rigorous quality and cost control.

Looking ahead, the banking giant consciously focuses on building equity through customer



lifetime value where it has little regard for initial costs when designing customer solutions. The focus is long-term customer retention (relationship marketing) and profitability as opposed to short-term transactional marketing. Additionally, the 4000 plus staff strength at Combank is a unique asset that can be leveraged. The management systems and a strong operational backend ensures that the business focus is integrated and reliable where, Management Information is readily available to expedite business transactions and take on more business volumes whilst ensuring compliance to Central Bank's regulatory norms at the same time. The organization's unique culture fosters employee loyalty and a strong sense of belonging whilst it abhors waste and rewards efficiency coupled with disciplined cross-functional teamwork on projects.

Case Questions

Question 01. What are the unique resources and core competencies contributing to the banking giant's success?

Question 02. Using Tracy and Wiersma's Value disciplines for Market leaders, Explain Commercial banks route to competitive advantage and Market leadership?

Question 3. Com bank has used a tried and tested formula to get its millions of existing customers and new customers to adopt to the operationally excellent company's way of doing business. Looking into the future, will the banking giant be able to replicate this recipe for success in other markets? Explain.

Sources : Interview with Mr. Hasrath Munasinghe
DGM - Marketing, Commercial Bank

CHAPTER 5

Strategic Brand Management

- 5.1 What is a brand?
- 5.2 The history of branding
- 5.3 Types of brand names
- 5.4 Brand equity
- 5.5 Types of brand valuations
- 5.6 The brand architecture model
- 5.7 The brand planning process
- 5.8 Branding strategies
- 5.9 Keller's models on branding

Case Study 5: Cargill's the Pride of Sri Lanka.

5

Strategic Brand Management

"Your brand is what people say about you when you're not in the room"
- Jeff Bezos

5.1 What is a brand?

Definition : A brand is an intangible asset which is used to identify, influence, differentiate and augment a seller's promise consistently through the combination of a name, term, logo, colour, feature or design symbolized by a trademark. Diaz (2013).

A brand can be a product, service, category, destination, location, company, person, sensory appeal, concept or idea. Businesses that invest in and sustain brands prosper whereas those that fail are left to fight for the lower profits in commodity markets. Generics (non branded goods) such as sugar, bricks, sand, fruits, vegetables, coconuts, and fish are examples of products which are yet to be effectively branded and offers a first mover advantage. Chiquita bananas in Ecuador offers consistency and is premium priced. In effect there is no such thing as a commodity. All tangible goods and intangible services can be differentiated and branded. A great example is the sensory appeal that Singapore Airlines maintains through it's in flight fragrance or a new BMW which is protected through copyrights and attempts to perceptually modify consumer sub conscience.

Conventionally significant investment in advertising helps build brands. However, a sizable advertising and marketing budget will not always be required to build a great brand. Consider the case of global brands such as Body Shop and Starbucks that never advertises above the line.

A product is made in a factory but a brand is bought by a customer. A competitor may copy a product; however, a brand is unique. A product may be outdated but a successful brand is timeless. Great Brands have a declared point of view of the world and forms a unique value proposition as well as acts as a driving force of a successful marketing strategy. A strategic approach to branding requires a long-term view but unfortunately most marketing departments are engaged in tactical brand maintenance (milking the brand with tactical push or pull based promotions) instead of brand building (brand nourishment through brand profiling).

5.2 The history of branding

The word brand is derived from the age-old word brandr, which means, 'to burn' as brands were and still are the means by which owners of livestock mark their animals to identify them. A farmer with a particularly good reputation for the quality of his animals would find his brand much sought after, whilst the brands of farmers with a lesser reputation were to be avoided or treated with caution.

Some of the manufactured goods in mass production were clay pots; the remains of which can be found in great abundance in Greece and Rome. A potter would identify his pots by putting his thumb print into the wet clay on the bottom of the pot or by making his mark; a fish, a star or cross. From this we can safely say that symbols were the earliest visual form of brands.

Why brand a product?

- To reinforce and instill a seller's service, quality or promise.
- Helps differentiate product and offer a distinct value proposition.
- To identify, choose, recall and build associations easily.
- To add value and modify perceptual appeal to a naked commodity.
- To help promote a segmented offering.
- To attract high quality, like-minded employees.
- Encourages consumer pull.
- To win consumer mind, heart, wallet and market share.
- Helps boost share price and is a valuable asset.
- Helps integrate marketing communications and maximize impact.
- Builds corporate image and reputation.
- A brand can be a source of innovation.
- Helps command a premium price and reduces the psychological risk.
- Creates appeal, loyalty and augments an offering.

The art of naming brands

Brand names should be chosen carefully since the name conveys a lot of information to a customer. Advertising guru, David Ogilvy is often quoted to say "any damn fool can put on a deal, but it takes a genius, faith and perseverance to create a brand". Some brands have unusual reasons for their name selection. E.g. Nike and Milo was named after Greek Gods, Ford & Wal-Mart was named after its founder whilst Mercedes is named after a friend's daughter.

A good brand name should;

- Evoke positive associations and reflect dominant thought - Coke.
- Be easy to pronounce and remember - Hermes.
- Suggest product benefits - Schweppes.
- Be distinctive - Dilmah.
- Modern, stylish and relevant to the times - Blackberry.

- Not infringe existing registered brand names.
- Keep it short and simple - Virgin.
- Own a colour or colours - easyJet owns the colour orange.
- Be easy to pronounce, recognize and remember - Apple.
- Be acceptable in all markets, both linguistically and culturally.
- Be meaningful - Strategy college.

A brand manager may need to develop a unique skill set and possess complimentary personality traits in order to effectively function as a strategic brand manager. In other words, there must be a good fit between the personal values and personality of the brand and brand manager. A brand manager may need to possess entrepreneurial instincts and be a visionary, an insightful analyst, a meticulous planner, a creative repository, a change agent, a frontline presenter, a chairman of meetings and an ambassador of the brand above all.

The function of brand management can be defined as a set of marketing activities, which aim to both protect and grow the brand and ultimately lead to the organization achieving its desired positioning for the brand. Typically, this will involve monitoring changes in the organization's marketing environment, especially competitor brands, and deploying an appropriate communications mix to support the brand.

5.3 Types of brand names

- **Initialism** - A name made of initials such as UPS or IBM.
- **Descriptive** - Names that describe a product benefit or function, such as Whole Foods or Airbus.
- **Alliteration and rhyme** - Names that are fun to say and stick in the mind, such as Reese's Pieces or Dunkin' Donuts.
- **Evocative** - Names that evoke a relevant vivid image, such as Amazon or Crest.
- **Neologisms** - Completely made-up words, such as Wii or Kodak.
- **Foreign word** - Adoption of a word from another language, such as Volvo or Samsung.
- **Founders' names** - Using the names of real people, (especially a founder's name), such as Hewlett-Packard, Dell or Disney.
- **Geography** - Many brands are named for regions and landmarks, such as Cisco and Fuji Film.
- **Personification** - Many brands take their names from myths, such as Nike or from the minds of ad execs, such as Betty Crocker.

5.4 Brand equity

Definition : Brand equity is the monetary value of the brand measured by the strength of the awareness, performance and preference of the brand in the marketplace; which is calculated using the net present value of future cash flows attributable to the brand name.

Brand equity arises from the trust that customers place in the company's brand. These intangible assets can be classified into four types;

- **Technological assets** - Patents, copyrights or special know how in the application of technology.
- **Strategic assets** - Licenses, monopolies.
- **Reputational assets** - Goodwill, corporate or product brands.
- **Human resources** - Knowledge assets.

Some of the most important intangible assets of a company and are not accounted for in balance sheets in most companies. Prof. McDonald suggests that there are two sides in a balance sheet, the left side and the right side. On the left side, there is nothing right, and on the right side, there is nothing left. A brand may account for more than half of the brand value on the balance sheet and almost 70% of the market capitalization of brands such as Nike and Prada lie in its intangibles, especially the brand.

Coke is classified as one of the most valuable brands in the world and boasts of high market capitalization where as more than 40% of its market cap is attributed to brand value. The former chairman of Quaker Oats was quoted; "If the business were to split up, I would take the brands, trademarks, and goodwill; and you could have all the bricks and mortar and I would fare better than you."

USA dominates the global brand ranking with most of its brands in the top 100 whilst China is driving a focused strategy to build a brand from each of its provinces instead of conventional contract manufacturing for US companies. The Chinese government has a dedicated member of parliament that looks after the responsibility of developing home grown brands.

Destination or country branding is essential and it is imperative to consider the dominant thought of the destination when attempting to position a destination brand. Hong Kong positions itself as Asia's world city and Singapore as uniquely Singapore. India uses Incredible India whilst Malaysia positions it self as Malaysia truly Asia. Sri Lanka has positioned it self as the Wonder of Asia.

Brands are key intangibles in most businesses and brands are estimated to represent at least 20% of the intangible value of businesses. Brands combine with other tangible and intangible assets to create value. Since the 1980s, brands have been increasingly regarded as assets to be valued in the same way that we might value plant and machinery. Early proponents who spearheaded the valuation of brands were Rupert Murdoch and the News Corporation in 1984, Reckitt and Colman in 1985 (£56 million for

Airwick) and Grand Metropolitan in 1988 (£558 million for Smirnoff). The objective was to significantly strengthen their balance sheets. Most organizations however are reluctant, realizing that fluctuations in the valuation of their brands can have major repercussions on their share value.

The valuation of an intangible asset such as a brand is more problematic especially since there are no established and widely accepted rules for depreciation. However, a series of high profile takeover starting with Nestle's purchase of Rowntree Mackintosh (purchased for £2.5 billion against an asset base of £300 million) has led to companies viewing brands as assets and hence making them work harder.

Several accounting standards such as the International Accounting Standard (IAS) 36 and 38; US GAAP; FASB 141; UK, FRS 10 allow and/or require the recognition of acquired goodwill including brands on the balance sheet. The standards clearly identify brands as intangible assets with an infinite economic life. This means that unlike other intangible assets (E.g. patents, databases) or goodwill (e.g. training, workforce) brand value does not have to be amortized through the income statement. However, they are subject to an annual impairment test and their carrying value needs to be reduced if the value has declined. The technique is consistent with the way in which Interbrand has assessed brands for balance sheet inclusion though of course using more extensive and proprietary data.

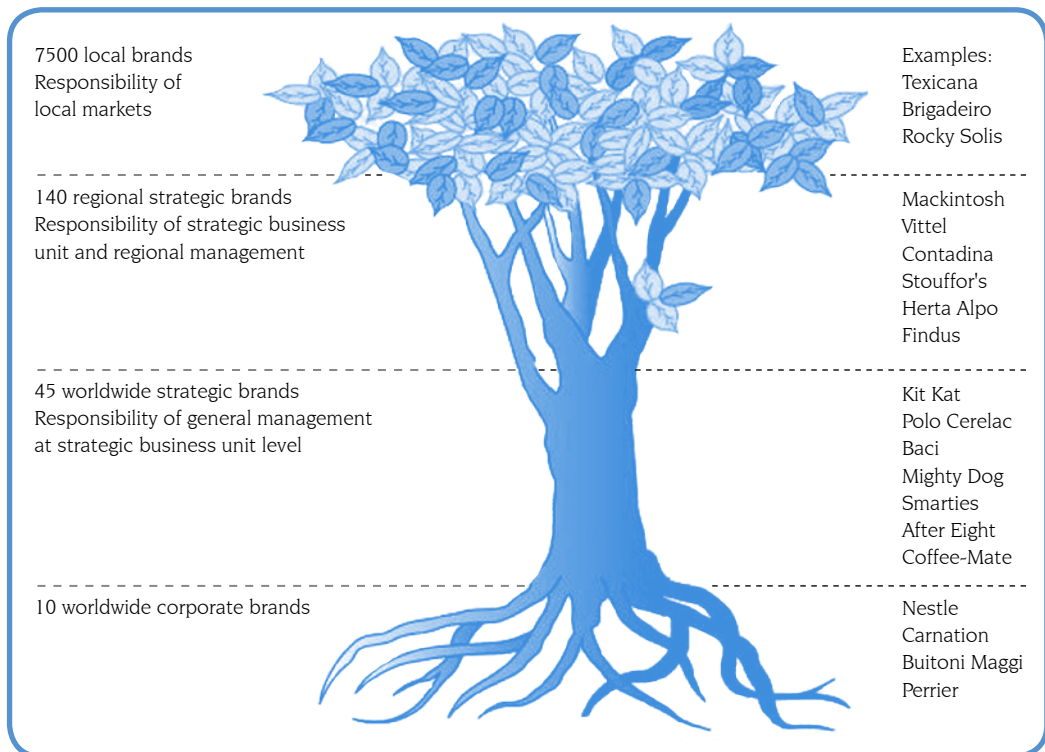


Figure 5.1: The Nestle brand tree the Mckinsey quarterly, 1996.

As a result we have seen a proliferation of line and category extensions as companies try to leverage their brands to the maximum. Although companies are right to be cautious about valuing brands, there are some considerable advantages to be weighted against the considerable risk. Broadly speaking these benefits fall in to five categories relating to the balance sheet, financial markets, separability, management information and internal management.

Balance sheet asset decomposition in developed markets

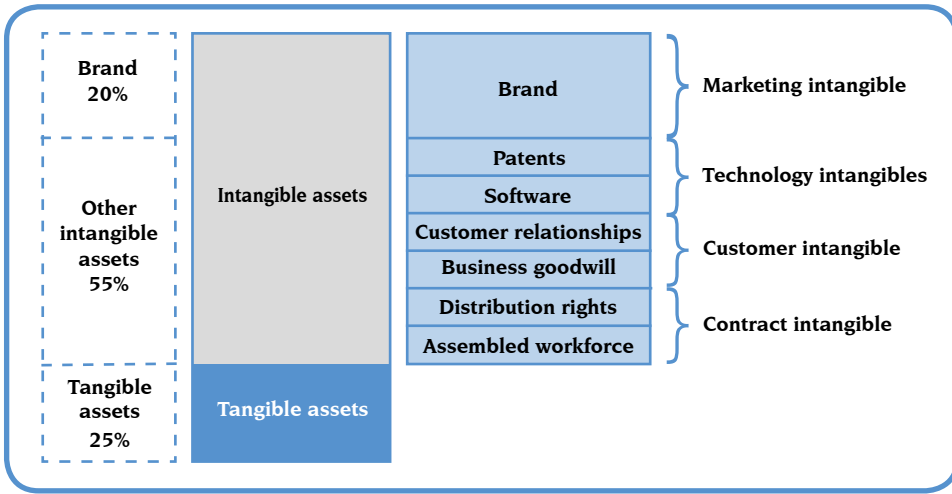


Figure 5.2: Source : Brand finance.

Equity Engine model by Research International

Research International (RI) is a research agency whose Equity Engine model identifies brand equity as being a function of the inter-relationship between affinity and performance. These dimensions represent the emotional and functional benefits of a brand to its customers. These result in customers being prepared to pay a price premium and create brand value for the brand owner.

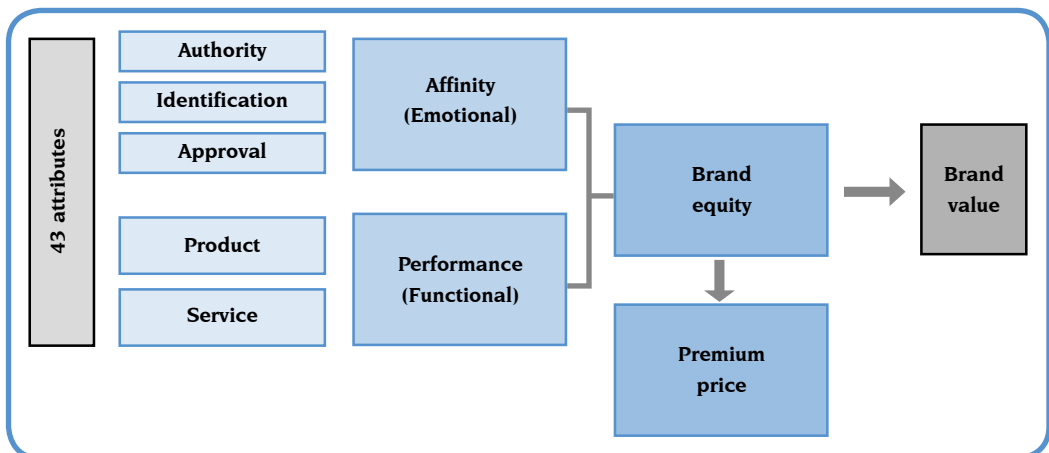


Figure 5.3: Equity engine model by Research International.

In this model, affinity is defined as ‘the “closeness” of a brand to a person (consumer). This is measured using traditional brand survey approaches across three basic dimensions:

- **Authority** - Includes the brand heritage and trust in brand innovation (i.e. whether it is at the forefront of new developments).
- **Identification** - Looks at the emotional bond that consumers have, whether the brand is caring (i.e. Understands the consumer) or nostalgia with happy personal memories.
- **Approval** - The extent to which the brand is viewed as being prestigious, how acceptable the brand is (in terms of peer views) and its endorsement by reference groups of opinion leaders.

Performance relates to functionality, and identifies core and augmented product features, relevant to the category.

Young & Rubicam (Y&R) brand asset valuator

The Y&R brand asset valuator shows realistic prospects for brands. This is because the Y&R brand asset valuator measures the value of a brand where it is created, in people’s hearts and minds. The BAV is the world’s largest study on brands and their relationship to people. More than 700,000 people in 49 countries have been surveyed with more than 44,000 brands. The brand strength and brand stature are the brand asset.

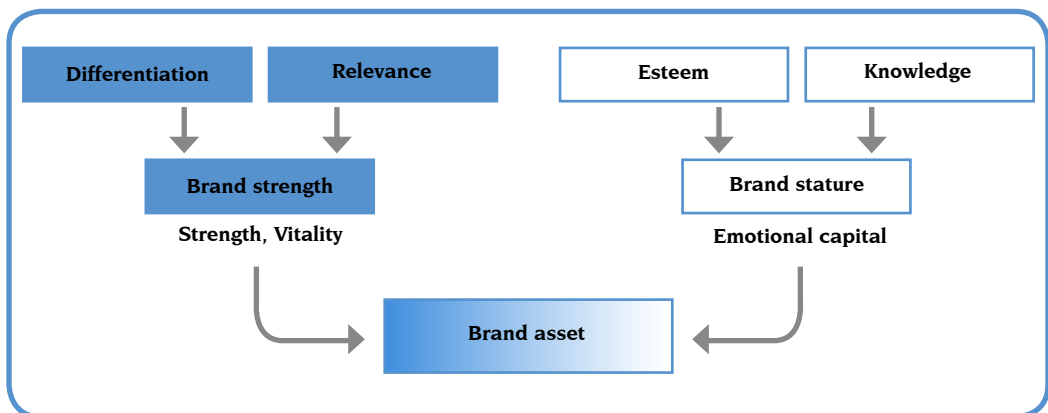


Figure 5.4: Young & Rubicam (Y&R) brand asset valuator.

- **Brand strength** - The relationship between a brand’s differentiation and relevance factors is the yardstick for a brand’s growth potential. A ‘relevant differentiation’ is the vital prerequisite for dynamic and successful brand building.
- **Brand stature** - Esteem and knowledge indicate the involvement with a brand and is the decisive gauge of the good will, which a brand enjoys. Properly managing these relationships are the key to successful brand building and to retention of brand value.

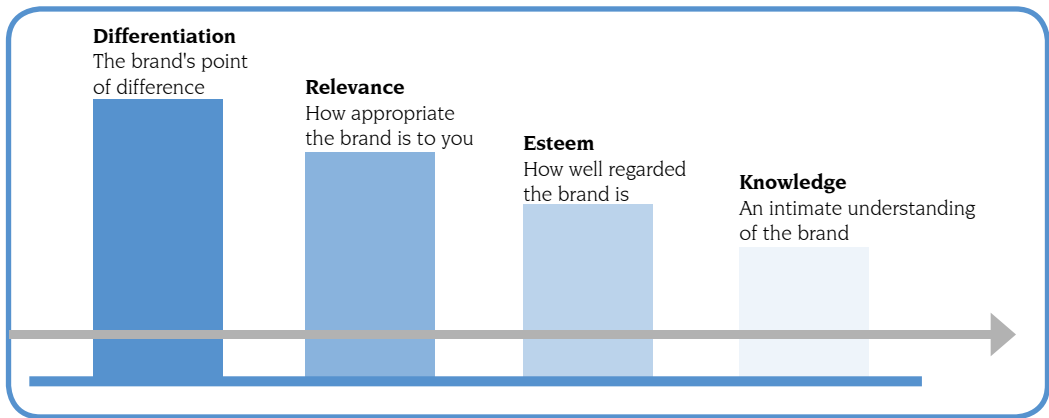


Figure 5.5: Young & Rubicam (Y&R) brand asset valuator.

The BAV extensively analyzes the brand landscape, thus breaking through the conventional, often one-dimensional view of brands within their own category environment. The BAV proves that successful brands regardless of their category develop systematically by a specific pattern. The Power Grid shows the status of your brand. With the help of the Power Grid, a brand's strengths and weaknesses as well as its growth prospects can be mapped out. Based on these findings, it can be predicted whether a brand is able to establish itself as a strong power brand, or whether erosion is causing it to lose ground.

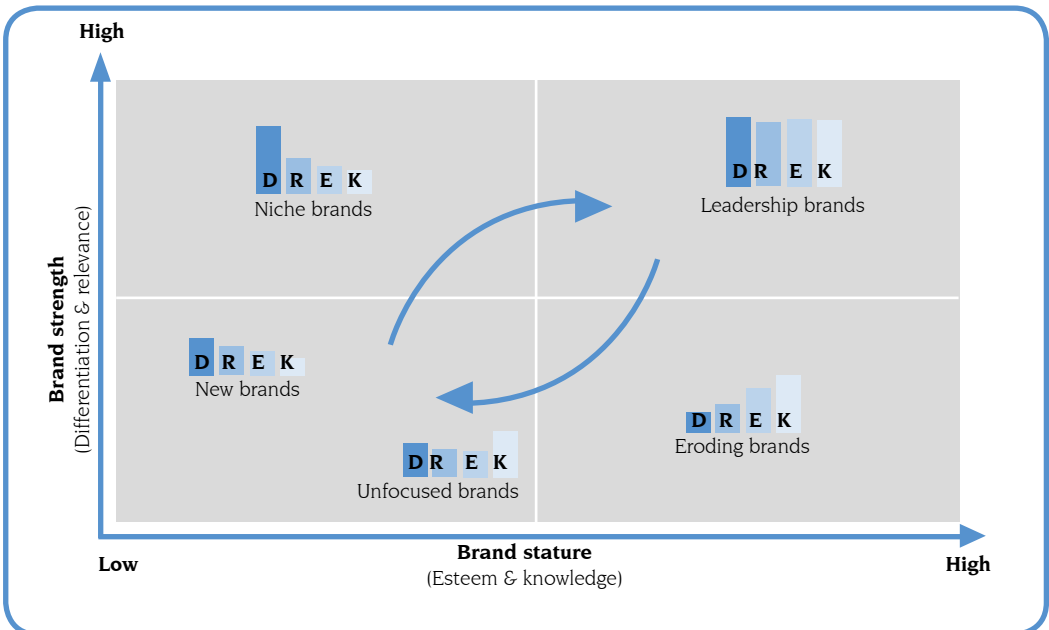


Figure 5.6: Young & Rubicam power grid.

Millward Brown’s loyalty and brand dynamics pyramid

Brand dynamics pyramid is an approach to understanding brand equity and is based on ROI on past brand marketing investment. The MB pyramid forms the basis of illustrating the strength of relationships between consumers and brands. MB’s experience encompasses measuring brand equity in over 60 countries across 240 categories covering more than 50,000 brands. The pyramid shows how many consumers have a relationship with the brand at five key stages. From simple awareness (Presence) through personal (Relevance) and good enough (Performance), to the proportion recognising a clear competitive edge (Advantage) and finally those who are closely connected (Bonded) with the brand. Importantly, the most loyal customers typically spend much more of their total category expenditure on your brand than those at lower levels of the pyramid. Hence you are able to see at a glance not just how many loyal customers you have, but also who they are and what their value is to you.

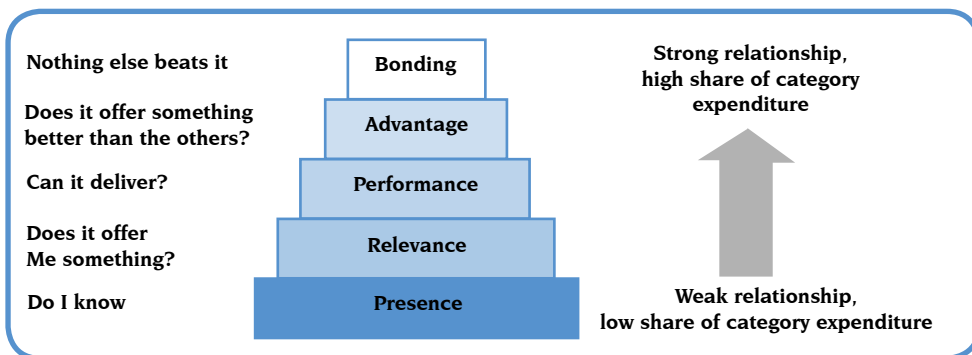


Figure 5.7: Millward Brown’s loyalty and brand dynamics pyramid.

To build a stronger brand, a brand manager needs to know more than the size and shape of a customer base. It is important to understand how well a brand is performing in terms of winning loyalty (Bonding). MB’s brand signature metric indicates whether a brand is doing better or worse than its competitors in converting customers at each level of the pyramid. Further, it identifies the competitive strengths and weaknesses that may either help or hinder a brand in the battle for increased loyalty.

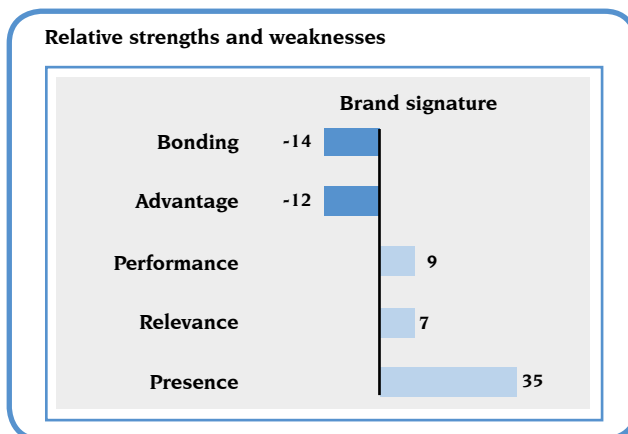


Figure 5.8: Millward Brown’s loyalty and brand dynamics pyramid.

For example, the brand in the above chart shows scores well in terms of presence but lacks a point of difference to give it a competitive advantage that could encourage people to bond with it. In terms of determining the marketing strategy and tactics, the value of brand dynamics is clear. With an accurate picture of the brand's strengths and weaknesses and of the make up of the number of customers at each stage of the loyalty journey, the company can identify exactly what issues marketing needs to focus on and which segments of customers need to be targeted. MB's brand voltage measure determines the brand's growth potential and how successfully your brand converts people to loyalty and resilience to competitive pressures. As the chart shows, the higher your brand voltage score, the better your brand's chances of a growing market share.

Strong brands are more likely to grow

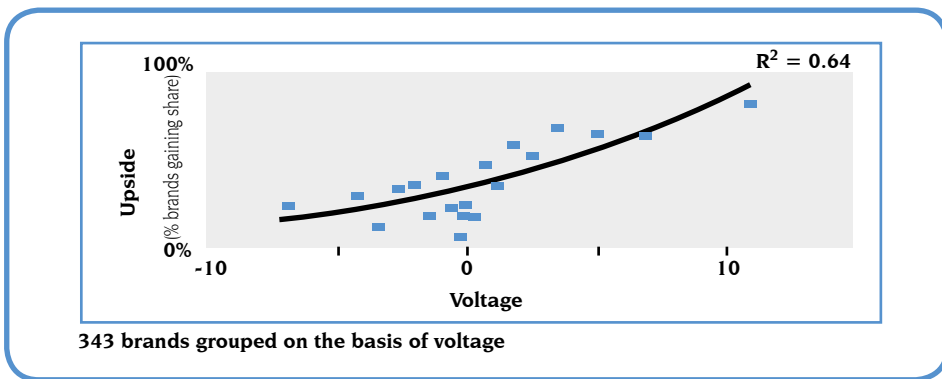


Figure 5.9: Millward Brown's loyalty and brand dynamics map.

Finally, the company needs to decide on a strategy and understand competitors and where the organizations brand stands in relation to them. Unlike some other brand equity models, Brand Dynamics is able to diagnose consumer relationships with rival brands highlighting their key strengths and weaknesses by looking at research results from over 50,000 brands around the world. Eight broad types of brand clusters are identified, each of which face similar challenges as well as where the company's brand and competitors are placed relative to the company on the Brand Dynamics map.

Brand dynamics map

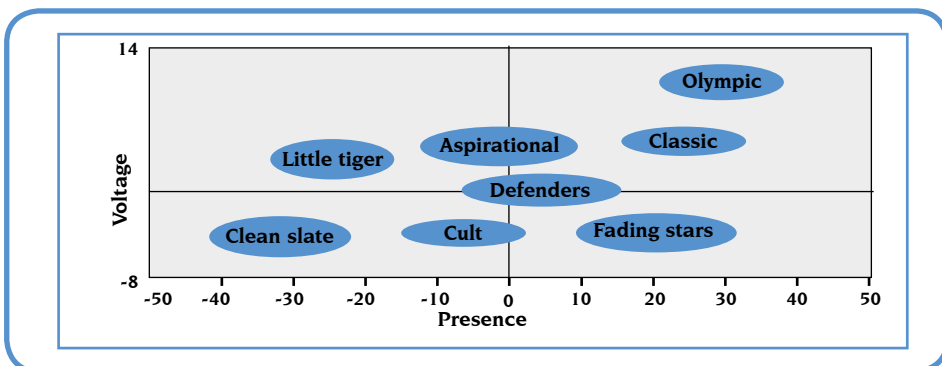


Figure 5.10: Millward Brown's loyalty and brand dynamics map.

The typology will indicate whether the company manages an up and coming little tiger or a fading star. Further MB would be able to share their consultancy insights on what it takes to successfully manage each of these types of brands.

The typologies of the brands

- **Clean slate** - Unknown to most consumers.
- **Little tiger** - Relatively unknown but with a strong core following.
- **Cult** - Not widely known, and not for everyone, but with a fanatical core following.
- **Aspirational** - Relatively well known, but not suitable for a mass audience.
- **Classic** - Well known and well loved.
- **Olympic** - Well known and well loved, and part of popular culture: 'a household name'.
- **Defenders** - Good balance of performance and price, however no real emotional or rational advantages.
- **Fading stars** - Previously well-known and liked, but has lost appeal.

Benefits of valuing brands

- Balance sheet benefits.
- Financial markets.
- Separability.
- Management information.
- Internal management benefits.
- Branding will become a strategic function rather than a tactical one.

5.5 Types of brand valuations

Historic cost value	This is all historic investments incurred for brand development.
Current or replacement cost value	This is the price that a third party would pay for a brand, which is theoretically at least the same as it would cost to establish a totally new brand.
Future earnings potential value	This is where the current earnings are extrapolated and discounted to a present value and this is probably the most appropriate method.
Price premium valuation	This is the price premium commanded over unbranded products and is used as the basis for brand valuation.
The stock price movement method	This calculates the brand value as the part of the company stock value that is derived from it. The value obtained is then equated to the value of advertising expenses, time in market and present and past advertising share.

Table 5.1: Types of brand valuations

The Interbrand brand ranking 2016











2013 Rank	Brand	Brand name	Brand value (\$m)	Change in brand value
1		Apple	170,276	43%
2		Google	120,314	12%
3		Coke	78,423	-4%
4		Microsoft	67,670	11%
5		IBM	65,095	-10%
6		Toyota	49,048	16%
7		Samsung	45,297	0%
8		GE	42,267	-7%
9		McDonalds	39,809	-6%
10		Amazon	37,948	29%

Figure 5.11: The Interbrand brand ranking 2016 (Source www.interbrand.com).

The Interbrand brand valuation methodology

Components of brand strength	Weighting (%)	Description
Market (Preference)	10	Brands in the market where consumer preference are enduring would score higher, e.g. a detergent brand would score higher than a perfume or clothing brand, because these latter categories are more susceptible to fluctuations in consumer preference.
Stability	15	Long established brands in any market would normally score higher because of the depth of loyalty they command, e.g. Rolls Royce would score higher than Lexus.
Leadership	25	A market leader is more valuable. It is a dominant force and its relative market position gives it power, E.g. Coca-Cola would outperform Pepsi on a global market basis.
Profit trend	10	The long-term profit performance can be viewed as measures of a brand's ability to remain contemporary and relevant to consumers.
Support	10	Brands which receive consistent investment and focused support usually enjoy a stronger franchise. However, it is important to note that the quality of the support is as important as the quantity.
Geographic spread	25	Brands that have proven international acceptance and appeal are inherently stronger than regional or national brands as they are less susceptible to competitive attacks and hence are more stable assets.
Protection	5	Securing full copyright protection for the brand under international trademark and copyright law allows greater stability and encourages investment in the brand.

Table 5.2: The Interbrand brand valuation methodology (Source www.interbrand.com).

As with any model this does have its weaknesses. For example, this does favour older brands and may therefore undervalue new ones such as easyJet, Starbucks and Amazon. The outcome of this approach is a brand strength score, which can be used to determine an earning multiplier. Interbrand takes earning to be a three-year weighted average of post-tax profits. The higher the score, the higher the multiplier to be applied to earnings. According to Murphy (1991), the relationship between the brand and the multiplier is an S-curve. The perfect brand would score 100 and operate in a risk-free environment. According to Interbrand, this notional perfect brand would be valued at twenty times average annual brand-related earnings. Sadly of course it does not exist and the average brand would be valued substantially lower than this. Birkin (1994) gives the following example of how four brands would be valued using the Interbrand methodology.

Brand A - This is a leading international toiletries brand operating in a mainstream and stable market sector. The brand has been established for many years and is a brand leader or strong number two in all its major international markets.

Brand B - This is a leading food brand that operates in a traditional and stable market, but one where tastes are slowly changing, with a move away from traditional products and towards convenience products. The brand has limited export sales, and its trademark protection, though quite strong, is based mainly on common law rather than registered rights.

Brand C - This is a secondary but aspiring national soft drink brand launched just five years ago. The market is very dynamic and growing stronger. The brand has been very heavily supported and a lot has been achieved. It is however, still in its early days. Even though export sales are still very small, the brand name, 'get up' and positioning have all been developed with international markets in mind. The brand name still has some trademark registration problems in its home market.

Brand D - This is an established but quite regional brand in a highly fragmented yet stable market.

Based on these profiles, the following scores might be given by Interbrand on the seven strength factors.

The application of Interbrand valuation methodology

Factors	Maximum score	Brand A	Brand B	Brand C	Brand D
Leadership	25	18	19	9	6
Stability	15	11	10	7	11
Market	10	7	6	8	6
International	25	17	5	2	0
Trend	10	6	6	7	5
Support	10	8	7	7	4
Protection	5	5	3	4	3
Total	100	72	56	44	35

Table 5.3: The application of Interbrand valuation methodology.

As we can see from the example of brands A to D above, the final composite score is a percentage, known as the "Brand strength score". This score can be converted into an earnings multiple to be used against the brands profits to derive a valuation.

Roger J Best (2012), Emeritus Professor of Marketing from the University of Oregon, views brand equity as the analog to the owner's equity in the balance sheet, except that brand equity is determined by subtracting brand liabilities from brand assets. He suggests two useful scorecards; one measures brand assets and the other measures brand liabilities.

Brand assets

Best sees brands as comprised of five primary assets;

- **Brand awareness** - How aware are consumers of your company and, or its products?
- **Market leadership** - What is your market share?
- **Reputation for quality** - Are you perceived as offering superior quality?
- **Brand relevance** - Are your products relevant to the consumers you target?
- **Brand loyalty** - Do customers stay with your products over time?

He suggests that companies compare their brand to that of an average brand in their market by scoring each of the five brand asset categories using a 20 point scale with a maximum possible score of 100. Marketers can assess their brand relative to the average competitor and derive a score that indicates the relative strength of the brand.

The brand asset scorecard

Brand assets	Below average (0)	Somewhat below (5)	Above average (10)	Somewhat above (15)	Top performer (20)	Brand asset score
Brand awareness						
Market leadership						
Reputation for quality						
Brand relevance						
Brand loyalty						
Total brand assets						

Table 5.4: The brand asset scorecard

Brand liabilities

To complete the analysis, Best offers a similar framework with five liabilities:

- **Customer dissatisfaction** - How high are customer complaint levels?
- **Environmental problems** - Are your environmental practices poor?
- **Product or service failures** - Is product quality low?
- **Lawsuits and boycotts** - Is your company facing legal problems?
- **Questionable business practices** - Are there ethical lapses?

The brand liability scorecard

Brand liabilities	Below average (0)	Somewhat below (5)	Above average (10)	Somewhat below (15)	Top performer (20)	Brand liability Score
Customer dissatisfaction						
Environment						
Product						
Lawsuits						
Questionable practices						
Total brand liabilities						

Table 5.5: The brand liability scorecard

The final step is to subtract brand liabilities from brand assets. The difference is brand equity. Best, provides a useful diagram to illustrate the methodology:

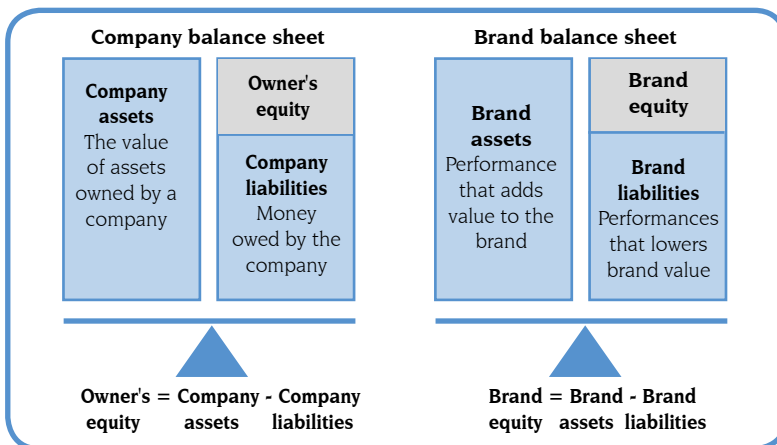


Figure 5.12: Measuring brand equity.

Brand Finance global brand ranking 2017











	Logo	Name	Brand value (USD \$ M)	Last year
1		Google	109,470	2
2		Apple	107,141	1
3		Amazon.com	106,396	3
4		AT&T	87,016	6
5		Microsoft	76,265	4
6		Samsung Group	66,219	7
7		Verizon	65,875	5
8		Wallmart	62,211	8
9		Facebook	61,988	17
10		ICBC	47,832	13

Figure 5.13: Brand Finance global brand ranking 2017.

Brand Finance brand ranking 2016 (Sri Lanka)

Rank 2013	Rank 2013	Brand	Company	Industry sector	Brand value (Rs.M)	Brand rating	Enterprise value (Rs.M)	Brand vs enterprise Value (%)
1	1	BOC	Bank of Ceylon	Banking	41,418	AA+	-	-
2	2	People's Bank	People's Bank	Banking	30,953	AA	-	-
3	3	NSB	National Savings Bank	Banking	26,461	AA+	-	-
4	7	Dialog	Dialog Axiata	Telecommunications	26,098	AAA-	99,299	26%
5	5	Commercial Bank	Commercial Bank of Ceylon	Banking	24,021	AA	111,944	21%
6	6	Lion Beer	Lion Brewery Ceylon	Beverages	21,107	A+	48,025	44%
7	8	Nestle	Nestle Lanka	Food	19,320	AA	107,463	18%
8	4	Sri Lankan	Sri Lankan Airlines	Airlines	18,813	AA-		
9	9	HNB	Hatton National Bank	Banking	18,640	AA	77,547	24%
10	11	Cargills Food City	Cargills (Ceylon)	Supermarkets (Retail)	14,568	AA+	46,809	31%
11	-	Sampath Bank	Sampath Bank	Banking	13,838	AA	40,528	34%
12	16	Singer	Singer (Sri Lanka)	Retail	9,858	AA+	27,583	36%
13	12	SLT	Sri Lanka Telecom	Telecommunications	8,885	AA-	61,897	14%
14	10	DCSL	Distilleries Company of Sri Lanka	Beverages	8,366	A	73,193	11%
15	14	PLC	People's Leasing & Finance	Financial services (Leasing)	1,588	AA	55,736	14%

Table 5.6: Brand Finance brand ranking 2016 (Sri Lanka).

5.6 The brand architecture model

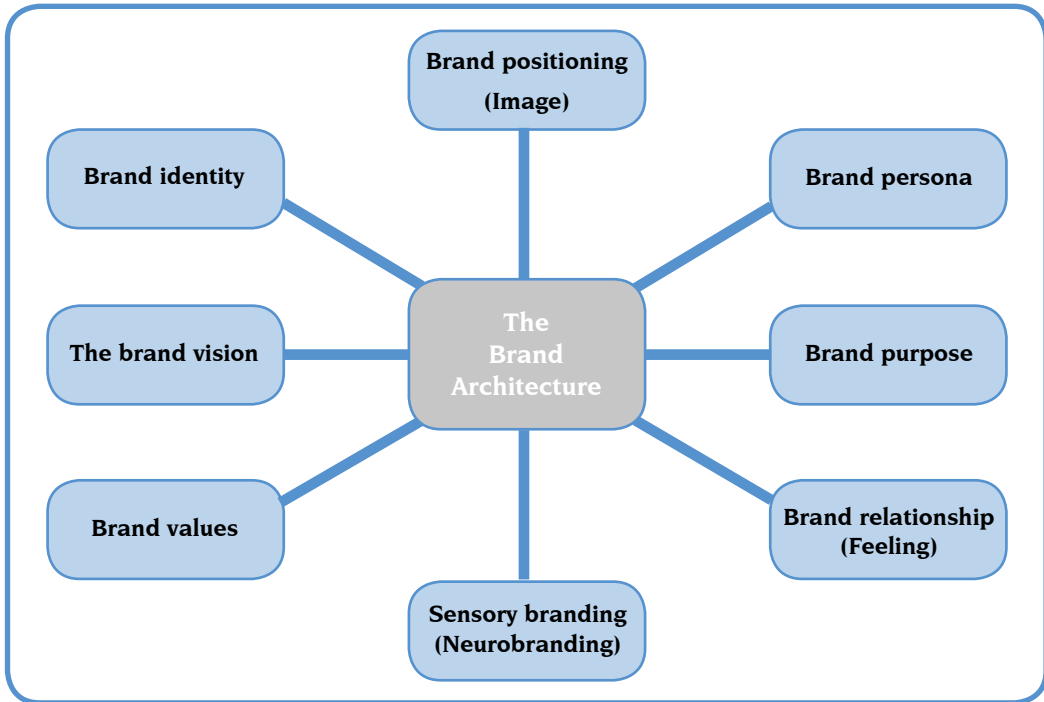


Figure 5.14: The brand architecture model.

- a) **Brand identity** - This is the message sent out by the brand through its product form; name, logo, symbols, graphic content, icons or a theme that represent the brand. The McDonalds brand icons are the golden arches, Ronald McDonald and red and yellow colors.
- b) **Brand positioning or brand image** - Brand image refers to the set of beliefs that customers hold about a particular brand. At its simplest, positioning is the act of designing the company's offering and image to occupy a distinctive place in the minds of the target market. Successful brands own a distinct position in the consumer black box or mind and positioning should be consumer centered. As branding guru Trout puts it; branding is not a battle of products in the market place, instead it is the battle of positioning your product in the consumers mind. (Refer the brand positioning process in chapter 4).
- c) **Brand personality or brand persona's** - This is the way in which the brand communicates or the expression of the brand. It covers the tone of voice, appearance, style and relationships or the way in which the brand interacts with the target market. If the brand were a person, an animal or an object, what would come to mind? This is to personify the brand projective techniques using projective techniques. E.g. the brand persona of Marlboro cowboy projects a free spirited, masculine, rugged, American persona and for McDonalds it would be American, family oriented, Ronald McDonald. (Refer chapter 4).

Measuring brand personality - The US social psychologist and marketing professor Jennifer Aaker (1997) developed a framework for measuring brand personality, which she broke down into five core dimensions. These five core dimensions all have a number of different traits associated with them. Marketers can decide where they want to position their particular brand and devise brand strategies accordingly. They are;

- **Sincerity** - Down-to-earth, honest, wholesome, cheerful.
- **Excitement** - Daring, spirited, imaginative, up-to-date.
- **Competence** - Reliable, intelligent, successful.
- **Sophistication** - Upper class, charming.
- **Ruggedness** - 'Outdoorsy', tough.

d) The brand vision (Envisioning the future of the brand) - Developing a brand vision can engender more committed employees if they have been involved in some of the brand visioning workshops. Brand visioning is typically a team-based activity and a process of amending drafts through a combination of analytical thinking and dreaming. It should result in a statement that is simple to understand and can be easily communicated. If a brand vision is to thrive, the visionaries should have a stretching vision of what the future should be like. Having a successful, visionary leader may help a brands performance. The leader's equity will rub off on the company and vice versa.

For example an office removal company might envision a future environment in which far more managers' work from home, in which offices become smaller and the frequency of office moves diminishes. Whilst such a negative scenario may worry some, for others it presents an opportunity to consider how one can embrace the opportunities of more people needing to set up offices at home. The brand manager must periodically audit and review the political, economical, social, technological and ecological environments since the changes may affect the brand in the future. Microsoft envisions its future as a world in which a PC will be on every desk and Microsoft's task is to overcome all barriers in order to get PC's on desks.

e) The brand purpose - This is articulated in the form of a purpose statement and a brands purpose is the purpose of being and how the brand can go about a better world. How is the world going to be a better place as a consequence of the brand and will this inspire and guide staff?

This must be captured in a statement. A few examples of purpose statements include;

- Profit is not the objective of my business! It is providing a product and a service that's good enough that people give you a profit for providing it - Anita Roddick, founder of the body shop.
- To alleviate pain and disease - Johnson and Johnson.
- To make people happy - Walt Disney.
- To experience the emotion of competing, winning and crushing competitors - Nike.

- To make cleanliness a common place; to lessen work for women; to foster health and contribute to personal attractiveness, so that life may be more enjoyable and rewarding for the people who use our products - Unilever.

f) **Brand values** - A brand can be regarded as a cluster of values and ultimately shape the brands destiny and influence the behavior of customers as well staff. Identifying a set of values help staff understand how they should behave and helps customer's better experience the brands promise. Particularly in the case of service brands where staff are the brand; by understanding their brands values staff would have a better feel for the types of behavior they should adopt to reinforce and live the brand.

One of the principles of effective branding is that there should be a lower number of values underpinning the brand; typically no more than five. As the number of values rise it becomes more difficult for staff to recall all the values and the task of devising and sustaining a clear unique promise becomes more difficult. A further advantage of lowering the number of values is to encourage specific types of staff behavior so that there is less scope for internal confusion and thus there's a greater likelihood of behavioral consistency amongst staff. Some examples of brand values include;

- **Virgin atlantic** - Fun, value for money, sense of challenge, innovation and quality.
- **British airways** - Safety and secure, responsible and honest, innovative and team spirit and finally global and caring.
- **The Red Cross** - Humanity, unity and independence.
- **Body shop** - Social responsibility, environmental protection and animal protection.
- **Nike** - Authenticity, performance, inspirational.

Core and periphery values - A brand may have core values (deep) and periphery values (outward). It is rare for a brands core values to change, rather it is the brands peripheral values that can be easily altered or changed. Core values must be changed over a period of time, or else the brand may loose its relevance. These are at the heart of the brand, forming the basis of the brand differentiation.

g) **Sensory branding or neurobranding** - Much of today's branding relies overwhelmingly on sight. Other opportunities include;

- **Sound** - Is there a distinctive sound associated with your brand? (Intel).
- **Smell** - Do customers link a smell to your brand? (Rolls Royce).
- **Taste** - Does your brand evoke a taste? (Colgate, Listerine).
- **Touch** - Can you identify the brand with your fingers? (Apple's ergonomics).

Sensory utilization

Rank	Brand	Sensory leverage (%)
1	Singapore Airlines	96.3
2	Apple	91.3
3	Disney	87.6
4	Mercedes Benz	78.8
5	Marlboro	75.0
6	Tiffany	73.8
7	Louis Vuitton	72.5
8	Bang & Olufsen	71.3
9	Nokia	70.0
10	Harley-Davidson	68.8
11	Nike	67.5
12	Absolut Vodka	65.0
13	Coca-Cola	63.8
14	Gillette	62.5
15	Pepsi	61.3
16	Starbucks	60.0
17	Prada	58.8
18	Caterpillar	57.5
19	Guinness	56.3
20	Rolls-Royce	55.0

Table 5.7: Source: Milward Brown.

As marketing is now integrated with multi touch points it is paramount to consider all senses and their response to marketing stimuli. Our subconscious thoughts, feelings and desires drive our everyday purchase decisions and brands need to create strong memories using all senses; so that customers become loyal advocates.

All clothes smell the same at the Abercrombie & Fitch store. The fragrance is consistent and fresh and aims to alter the subconscious mind of the shopper. You walk past a store and you would be curious to find out about their products. Sony's flagship store pumps the smell of melon into it, and this is the tested and winning combination that has made customers stay calm and apparently buy more. The Hyatt hotel chains spray lobbies and rooms with their own signature smell, so no matter which one you are in you are welcomed with their unique and familiar fragrance.

A study conducted in 2006 concluded that robberies dropped by 33%, assaults on staff dropped by 25% and vandalism dropped by 27%, when classical music is played in the Victoria Line at the London Underground. Super marketers play different types of music to make shoppers walk and shop quicker, or influence their buying. Pump in French music to the wine section and sales of French wine will go up. Do the same with German music and German wine will sell.

h) Brand relationship - This is the emotional relationship, feeling or boldness the brand creates with its customers and is the spirit and soul of the brand. The product functional attributes spell out the utility value of a product whilst the emotional benefits satisfy psychological requirements of the buyer. Differentiation in functionality between products may be minimal. Hence, attaching an emotional benefit to a brand is critical to induce hard-etched loyalty. Businesses that build their brand platforms on emotionally engaging customers may need to build a business model around customer lifetime value.

The brand adoption process

- **Brand awareness, recognition** - The first step would be to make the consumer recognize a brand. In doing this the brand will have to be promoted by several communication mediums and re-enforced through product packaging.
- **Brand acceptance** - The next step would be to get consumers to accept the brand of the company. The acceptance of the brand will be the function of the product, meeting the requirements of the consumer.
- **Brand preference** - This is where the consumer will desire a specific brand against another. In other words, consumers will prefer the brand to any other brand.
- **Brand loyalty** - This would be the ultimate aim of any marketer. Brand loyalty relates to a regular purchase of a product because of satisfaction with its performance.

The brand onion

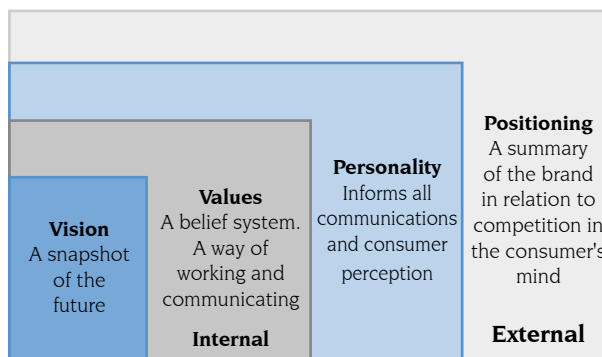


Figure 5.15: The brand onion adapted from Interbrand, 2002

The model starts with the vision of what the brand should be and the 'Brand Onion' reveals the heart, the core, of the marketing offer, along with the layers that make it up, including brand values (such as the emotional content), 'personality' and desired position in the market place. Personality is agreed to be a highly important aspect of a brand, because research has shown that consumers' perceptions and expectations about brand are not limited to their functional characteristics and advantages.

5.7 The brand planning process

- 1) **Auditing the category health** - This involves analyzing the stability of the market, usage habits, user profiles and segments served by the industry, competitive intensity, category trends and price points and elasticity.

- 2) **Evaluation of the brand architecture**
 - What is the status of the brand right now.
 - Awareness and recall.
 - Perception and brand associations.
 - Brand attributes.
 - Positioning.
 - Promise.
 - Undertake a brand equity study.
 - Equity attributed.
 - Brand unique selling proposition (Explicit testable claim).
 - Brand image.

- 3) **Brand objectives** - SMART, short, medium and long term objectives
 - Move the positive brand image score in the family’s soap category from 31% to 40%.
 - Increase brand awareness and unprompted recall score by 10% among ABC target audience for XYZ products.
 - Extend the brand to 2 new segments.
 - Line extension to 5 new variants.
 - Increase Brand equity score by 15%.
 - Climb up the LMD brand finance ranking by 5 notches.

- 4) **Branding strategy** - Line extension, brand extension, multi branding & new brands (Refer to the next page).

- 5) **Brand communications (Internal & external)** - Communication mix; media mix and channel choice; integrated communications. (Refer chapter 7)

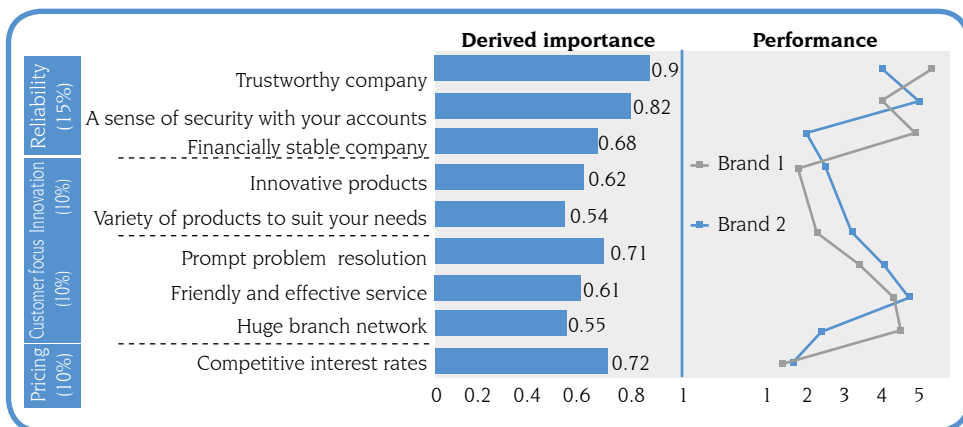


Figure 5.16: An example of a brand tracker.

- 6) **Brand tracking** - Systematic tracking of brand performance is essential in the process of brand building and there are many metric's such as brand salience measures, advertising saliency measures, brand perceptions, brand imagery & brand communication messages which will form the overall brand scorecard which should be monitored every quarter.

5.8 Branding strategies

A company has five choices when it comes to selecting a brand strategy:

1. **Line extension** - Occurs when a company introduces additional items in the same product category, under the same brand name such as; new flavors, forms, colours, variants, package sizes etc. This is quite common as it is low cost and generally low risk. Examples include
 - **Coke** - Diet, regular, new, cherry coke, classic.
 - **Kist Jams** - Mango, mixed fruit, strawberry, passion fruit.
 - **Sunsilk** - Normal, dry, oily hair.
 - **Anchor** - Full cream, non fat, flavored milk.
 - **Rin** - 250g, 400g, 1 Kg, 2Kg.
2. **Brand extension or brand stretching** - A company may use a successful existing brand name to launch new products in new product categories.
 - **TATA** - Insurance, automobiles, consultancy services, tea & salt.
 - **Honda** - Automobiles, motorcycles, snow blowers, lawnmowers, marine engines & jets ski's.
 - **Virgin** - Music, cola, airlines, radio, credit cards, radio.
3. **Multi branding** - A company may introduce more than one brand in the same product category to lock up distributor shelf space and protect the major brand by setting up fighter brands and appeal to different segments. The objective of a multi branding strategy is to seek growth and avoid competitive threats to a single brand.

British airways brand

- **Concorde** - Supersonic transatlantic service.
- **World Traveler** - Long haul economy.
- **First Class** - Intercontinental deluxe service.
- **Club Europe** - Business class within Europe.
- **Club World** - Inter continental business class.
- **Euro Traveler** - Europe economy.
- **Shuttle** - Flights within UK cities.

An example of the watch market for Seiko

Segment	Competitors	Seiko brands
Luxury Brands	Rolex, Piaget, Cartier	Lassale
Up-Market Brands	Omega, Longines	Credor, Seiko
Mid-Price Brands	Bulova, Tissot, Citizen	Seiko, Pulsar
Mass-Market Brands	Swatch, Timex	Pulsar, Lorus

4. **New brands** - When a company launches a new brand in a new category it may find that none of its current brand names are appropriate. Sometimes an existing brand will not fit in a new product category.
5. **Co-branding** - Two or more well-known brands are combined in an offer. E.g.: Intel and Pentium 4 or American Express co-branded credit cards with British Airways.
6. **Individual product branding** - This is when each product line has its own brand name. Example: Unilever products such as Sunlight, Lux, Rexona & Rinso.
7. **An umbrella brand or blanket family branding** - This is where a group of products possesses the same brand name. Different products that have different images are put together under one major brand or parent brand and are marketed by the firm. Umbrella branding does not mean that the whole product portfolio of a firm will fall under one brand name, as the company can go for different approaches of branding for different product lines. E.g. Heinz, GE and LG.
8. **Company trade name combined with individual brand names** - The company name is extended with the product category. For Example: Nissan Sunny, Nissan Bluebird etc.

Product versus corporate branding

Dimension	Corporate brand	Product brand
Underpinning	Multi-disciplinary	Marketing
Formation	Medium, long-Term	Short
Source	Corporate Identity	Product identity
Values	Corporate	Synthetic
Brand custodian	CEO	Brand managers
Commitment, responsibility	All personnel	Brand managers
Relevant stakeholder	All	Customers
Communication platform	Corporate communications	Marketing communications
Legal ownership	One or more entities	One or more entities
Emotional ownership	Stakeholder communities	Customer communities

Table 5.8: Product versus corporate branding.

9. **Private manufacturer vs. own label brands** - Boots, Sainsbury's are examples of manufacturer brands created by producers and bear their chosen brand name. The producer is responsible for marketing the brand and the producer owns the brand.

By building their brand names, manufacturers can gain widespread distribution. Own-label brands are created and owned by businesses that operate in the distribution channel and the retailer may mix own-labels and manufacturers brands in a store. E.g. Tesco, ASDA, Sainsbury.

10. **Ingredient branding or in branding** - This is a brand within a brand and examples include - Intel & Milkmaid.

11. **Rebranding, repositioning or brand revitalization** - This is when an existing brand in the market is either repositioned or changed completely to gain market share. This can be an expensive exercise and might be undertaken to rejuvenate the brand, or to appeal to a new or wider audience. It may happen where the original brand is perceived negatively or when a merger or acquisition has taken place. Musicians and sometimes politicians rebrand themselves to project a new image. Brand revitalization means increasing sales volume by entering new markets (overseas), new segments, and increased usage (encouraging people to eat breakfast cereals as a snack during the day).



Armando Christian Perez (Pitbull) Wannakuwatta Mitiwaduge Don Albert Perera (W.D. Amaradewa)

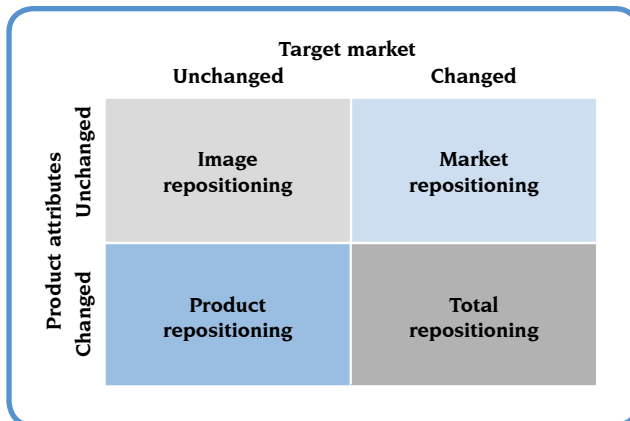


Figure 5.17: Brand repositioning strategies.

13. **First mover advantage** - This is when a brand moves into a market first to create a clear positioning in the minds of target customers before the competition enters the market. Think of leading consumer product brands like Gillette, Coca Cola and cello-tape that, in many ways, defined the markets they operate in and continue to lead. However, being first into a market does not necessarily guarantee long-term success. Competitors drawn to the high growth and profit potential demonstrated by the market mover will enter the market and copy the best elements of the leader's brand. A good example is the way in which Body Shop developed the ethical personal care market but faced stiff competition soon after from the major high street cosmetic retailers.

Brand fingerprinting model

Brands, according to Vyse (1999), need to be up to date and must speak the “current language” in order to be successful. Brand fingerprinting is about developing a single document that can be used by everyone involved with the brand development process. Brand fingerprinting allows for continuity when brand managers move on in their careers and help focus on the consumer and relationship maintenance whilst sharing best practices. The elements of brand fingerprinting are as follows;

- **Target** - A description of the target market.
- **Insight** - A statement-summarizing consumer needs being served when buying the brand.
- **Competition** - From the consumers’ perspective, the competitors they consider and the relative competitors value propositions.
- **Benefits** - A statement of the functional and emotional benefits motivating the purchase of the brand.
- **Proposition** - The compelling reason why consumers would buy the brand.
- **Values** - What the brand stands for and believes.
- **Reason to believe** - The proof an organization can use to substantiate the brand positioning.
- **Essence** - The distillation of the brand’s genetic code into a clear thought.
- **Properties** - The tangible things, which would evoke the recall of the brand. E.g. shape, size.

Brand works by research business international

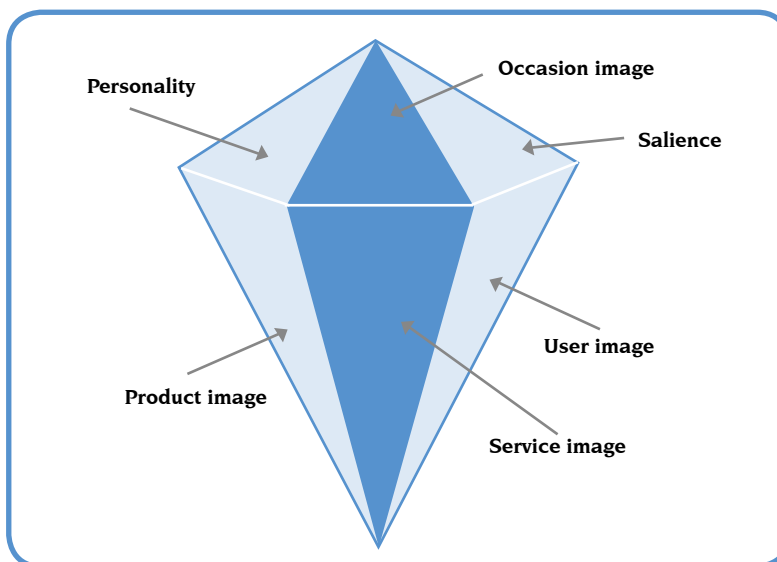


Figure 5.18: Brand works by research business international.

By evaluating the 6 proposed dimensions one can have a better understanding of how the brand works in the minds of the target audience.

- **User image facet** - This is related to customer perceptions of the likely user of the brand. A strong brand is likely to be one where customers equate themselves with the user image. It is worth spending time to differentiate between whether the customers feel part of the user group or aspire to be part of the user group.
- **The product image facet** - The product image facet throws light upon a customer's perception of the functional attributes of the brand. Issues that surface here relate to look, feel, taste, smell, sound, size and other functional attributes.
- **Service image facet** - The service image facet enables perceptions to be explored about how the brand is delivered and how it performs. This is mainly the way in which interactions between customers and staff affect perceptions.
- **Occasion image facet** - The context within which brands are used to influence perceptions. Hence, it is important to understand the occasions at which the brand is used. E.g. Cream crackers, E.G.B.
- **Personality facet** - The personality facet focuses on the emotional and rational values of the brand, and helps understand the relationship the customer has with the brand.
- **Salience facet** - Salience binds together, the other 5 facets through the concept of emotional closeness or distance. People's feelings about a brand result from previous, current and anticipated experiences. Brand salience is the emotional distance between a customer and a brand over time.

The brand blueprint

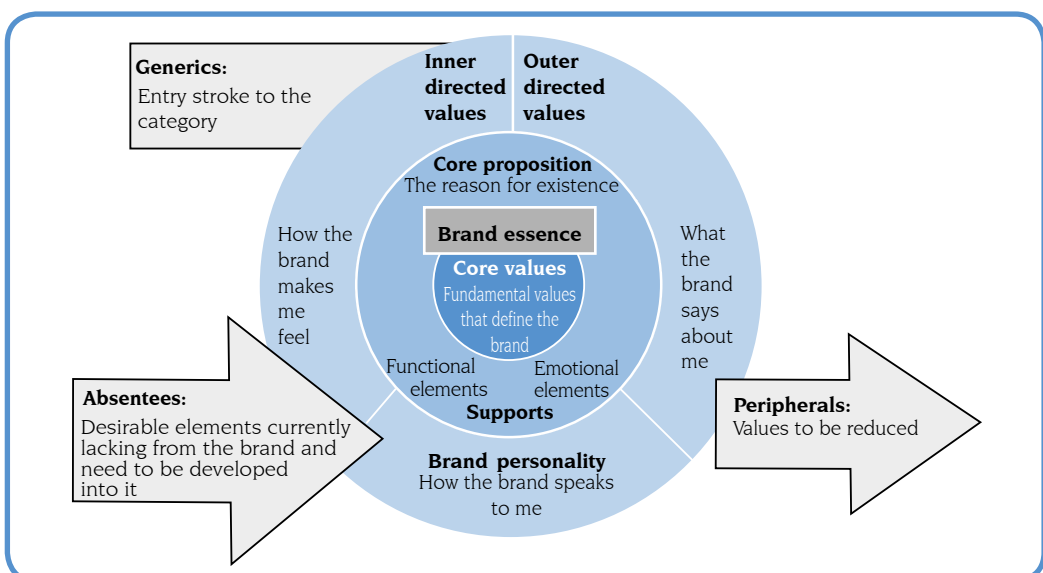


Figure 5.19: Source: Interbrand Newell and Sorrell.

Based on customer research and internal management workshops the brand blueprint helps identify and explore the whole range of values that characterize the brand. Once these values are identified they are sorted according to the following categories;

- **Core values** - The values that lie at the brands heart and define the brands emotional and rational reason for being and differentiate it from competition.
- **Absentee values** - Are values the brand lacks but wishes to acquire.
- **Peripheral values** - Are those values, which are inappropriate or negative and should be shaken off.
- **Generic values** - The entry requirements, which enable the brand to enter the category and compete effectively.

In addition to helping define and categorize the brands values, the brand blueprint process can provide important diagnostic information on how the brand can be developed. This comprises of:

- **Key brand supports** - These are the emotional and functional elements of the brand which underpin the core brand values.
- **Core brand proposition** - The core brand promise that the brand owns in the consumers mind.
- **Brand essence** - The distillation of the brand proposition and values: the ultimate promise to the customer.
- **Brand personality** - How the brand would be expressed: should it have human characteristics?
- **Brand tone of voice** - How the brand speak to its stakeholder audience.

4D Branding model

Thomas Gads 4D branding offers a revolutionary four-dimensional framework to understand a brands strengths and weaknesses. It can just as easily be used to create a new brand or analyze the strategic options for established brands. The model enables companies to create their own unique 'brand code' or 'mind-space'. The brand code represents an organization's unique corporate DNA, which can be used to drive every aspect of the business from product innovation to recruitment.

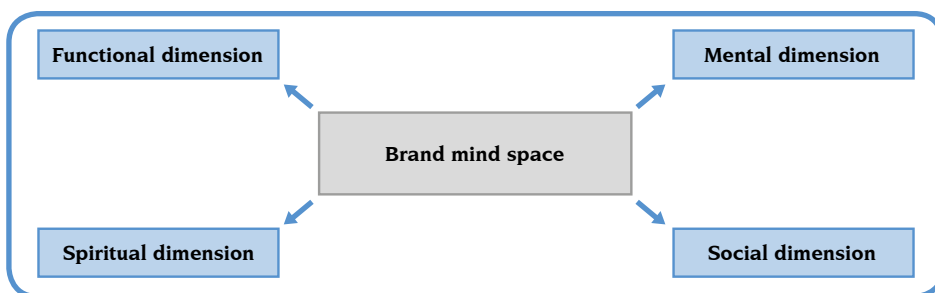


Figure 5.20: 4D Branding model, 2000.

Gad (2000) argues that in an era of transparent markets, branding has four dimensions;

- **The functional dimension** - This concerns the functional performance such as quality, taste, style and efficiency. Depend too heavily on this dimension and you run the risk of copycats stealing your market. E.g. Sony Triniton.
- **The social dimension** - This involves the ability to be identified with a social group and is based on what they feel best conveys or portrays their social identity. With growing instability, brands are increasingly powerful definers of social standing. E.g. Jaguar the achievers car.
- **The mental dimension** - Every human being has the inner landscape of mental programming and the mental dimension is the ability to touch the consumer's soul and support the individual mentally.
- **The spiritual dimension** - This is the perception of global or local responsibility of the brand. E.g. IKEA - To create a better everyday life for a majority of people.



Figure 5.21: The Nike brand mind space.

Kapferers brand identity prism

Kapferer (2008) identifies six aspects to identify a brand. These six aspects are divided into two dimensions;

- a) **The constructed source vs. the constructed receiver** - A well-presented brand has to be able to be seen as a person (constructed source: Physique and Personality) and also as the stereotypical user (constructed receiver: reflection and self image).
- b) **Externalization vs. internalization** - A brand has social aspects that define its external expression (Externalization: physique, relationship and reflection) and aspects that are incorporated into the brand itself (Internalization: personality, culture and self image).

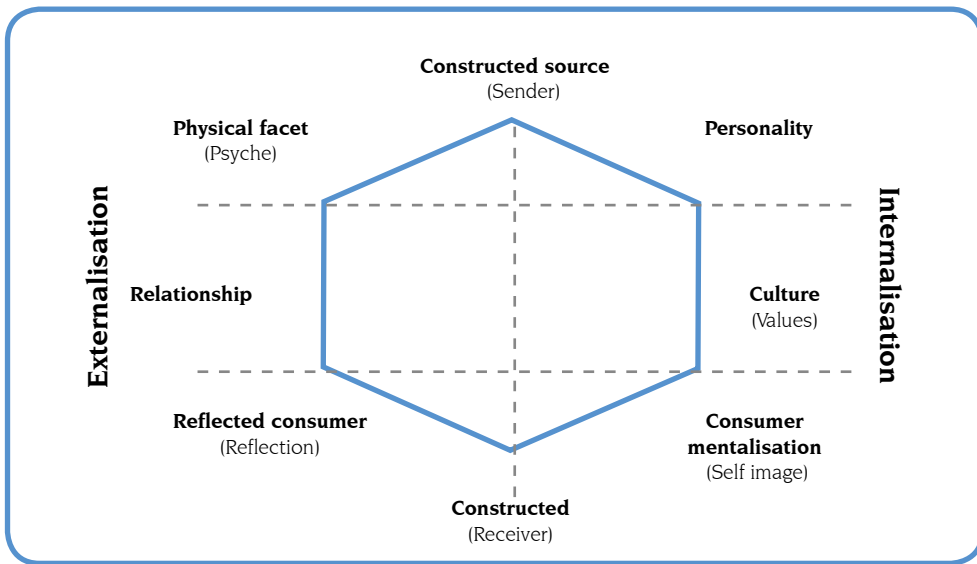


Figure 5.22: Kapferer's brand identity prism.

Kapferer (2008) states that these aspects can only come to life when the brand communicates with the consumer. Strong brands are, according to Kapferer, capable of weaving all aspects into an effective whole, as a way of coming to a concise, clear and appealing brand identity. Below are the six aspects in detail:

- **Physique** - This is the set of the brand's physical features such as a logo, color, special icons; which are evoked in people's minds when the brand name is mentioned. What does the brand look like? What can a consumer do with it in terms of functionality? And how can it be recognized? Orangina uses a round orange textured bottle and has managed to create a recognizable and differentiable market position for the brand.
- **Personality** - This is to personify the brand and to reflect the brand's character or human characteristics and attitudes associated with a brand. Some brands use brand ambassador endorsements to boost the personality of the brand.
- **Culture** - The value system, principles on which the brand has to base its behavior and many associations in this area are linked to the country of origin. E.g. Harley Davidson, Coke and McDonalds appeals to American values, Mercedes Benz to German ones.
- **Relationship** - Brands thrive through relationships they form with customers and the relationship can symbolize a certain belief, relationship or association (A mother and child for instance in the case of Anchor). This aspect requires a brand manager to express the relationship his/ her brand stands for.

- **Reflection of the consumer** - Is the consumer's perception of what the brand stands for and the brand provides a basis for the customer reflecting externally something about themselves. (Consumers reflection of the brand to others) E.g. Jaguar reflects success to others.
- **Self-image** - The brand enables the user to make a private statement to themselves. (The brands reflection to the consumer) E.g. Lacoste users see themselves as members of a sporty club even if they do not actively play any sport. If reflection is the consumers outward mirror of (who they are), self image is the target owners internal mirror (I am, what I feel).

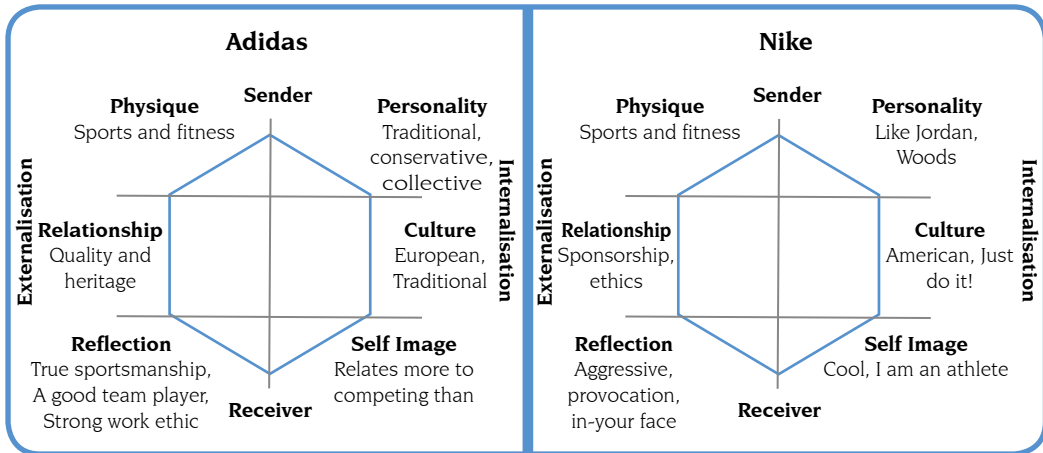


Figure 5.23: An example of the Kapferers brand identity prism.

The relationship is, according to Kapferer, externalizing the brand from the company outwards, and the culture is an aid for internalizing the brand in the organization. The culture is the strongest dimension in the prism and it represents the difference between one brand and another.

Assessing the brands essence through the brand pyramid

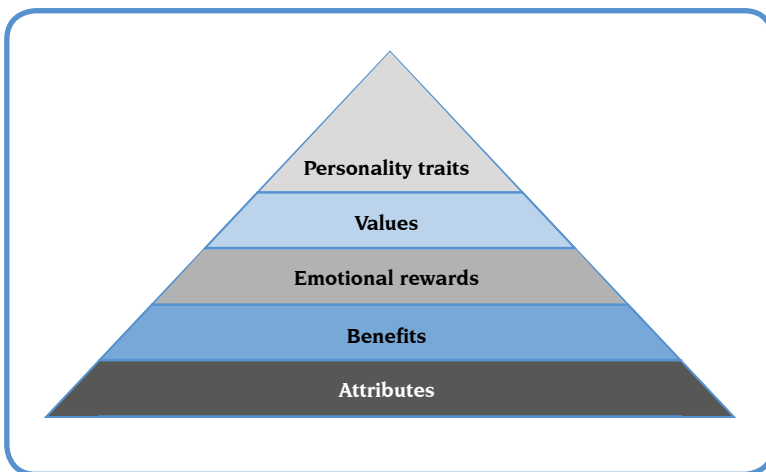


Figure 5.24: Assessing the brands essence through the brand pyramid.

Managers are called upon to find unexploited gaps within the market and leverage core competencies to form a brand that delivers unique attributes to its buyers. Consumers are less concerned with attributes and are more attentive to the benefits from these attributes. With experience, consumers begin to understand the brand better and the benefits lead to emotional rewards. If the emotional benefit is to be appreciated it has to be aligned to a value that is appreciated by the customer. Brand values will shape the destiny of the brand and will be explicit as to what the brand really stands for. At the top of the pyramid is a personality representing the traits associated with the values of the brand. If the brand was a person what personality traits would it have is answered.

Application of the pyramid to a car brand

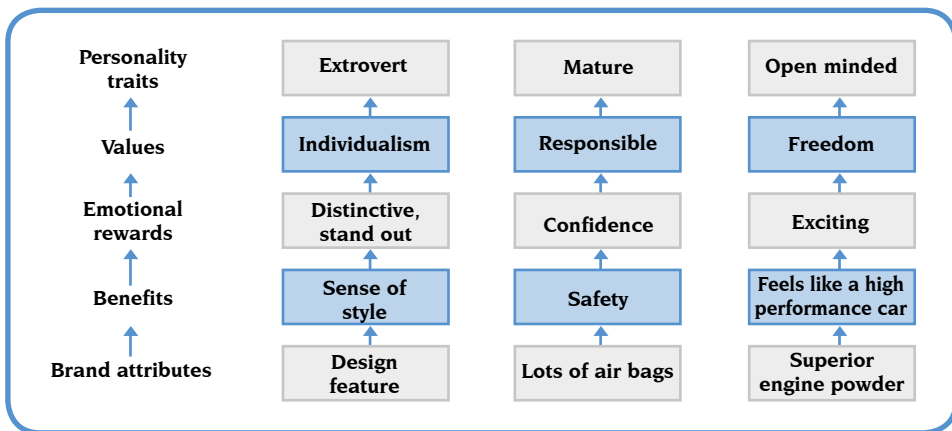


Figure 5.25: Application of the pyramid to a car brand.

5.9 Keller's models on branding

Keller (1998) describes the following theories;

1. **The brand positioning model** - This describes how to establish competitive advantages in the minds of customers in the marketplace through competitive positioning. There are 4 components to superior competitive positioning;
 - **A competitive frame of reference** - In terms of the target market, nature of competition and defines which other brands a brand competes with and therefore which brands should be the focus of analysis and study.
 - **The points-of-difference (POD)** - In terms of strong, favorable, unique brand associations, attributes or benefits consumers strongly associate with a brand. Examples in the automobile market are Volvo (Safety), Toyota (Quality and dependability), and Mercedes-Benz (Quality and prestige). The delivery of POD's may depend on how desirable, deliverable, differentiating they are in the eyes of the customer.

- **The points-of-parity (POP)** - Are associations that are not necessarily unique to the brand but may in fact be shared with other brands.
 - **The brand mantra** - Is the spirit and soul of the brand and summarizes the essence or the core brand promise in 3-5 words. Their purpose is to ensure that all employees within the organization and all external marketing partners understand what the brand fundamentally represents with consumers so that they can adjust their actions accordingly. For Nike it would be "authentic, athletic performance". A brand mantra will inspire the external brand slogan but it is not necessarily the same as the slogan used in advertising. Its main focus is for internal use and the brand manager must communicate, simplify and inspire all using the mantra.
2. **The brand resonance pyramid** - Describes how to create intense, activity loyalty relationships with customers. One important point reinforced by the model is that a strong brand has a duality in that it appeals to both the head and the heart. Strong brands blend product performance and imagery to create a rich, varied, but a complementary set of consumer responses to the brand.

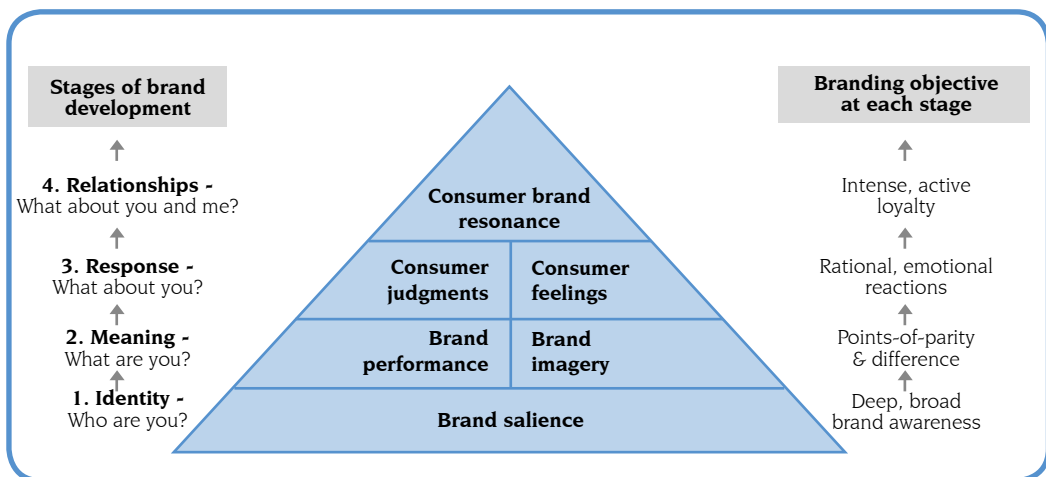


Figure 5.26: Assessing the brands essence through the brand pyramid

- a) **Brand identity or salience dimension** - This is to establish the brand identity (Who are you?) through the depth of brand awareness (ease of recognition, recall and the strength and clarity of category membership) and the breadth of brand awareness (Purchase and consumption considerations) E.g. How often and easily the brand is evoked under various situations or circumstances.
- b) **Brand meaning** - Is made up of two major categories of brand associations that exist in customers minds related to performance and imagery, with a set of specific subcategories within each. These brand associations can be formed directly (From a customer's own

experiences and contact with the brand) or indirectly (through the depiction of the brand in advertising or by some other source of information, such as word of mouth). These associations serve as the basis for the positioning of the brand and its points-of-parity and points-of-difference. Creating strong, favorable, and unique associations and the desired points-of-parity and points-of difference can be difficult for marketers, but essential in terms of building brand resonance. Strong brands typically have firmly established favorable and unique brand associations with consumers.

Performance dimension	Imagery dimension
Primary characteristics and supplementary features	User profiles - Demographic and psychographic characteristics, actual or aspirational, group perceptions (Popularity)
Product reliability, durability, and service ability	Purchase and usage situations - Type of channel, specific stores, ease of purchase, time (Day, week, month, year, etc.), location and context of usage.
Service effectiveness, efficiency, and empathy	Personality and values - Sincerity, excitement, competence, sophistication, and ruggedness.
Style and design	History, heritage, and experiences - Nostalgia & memories

Table 5.9: Performance and imagery dimensions.

- c) **Brand responses** - Refer to how customers respond to the brand and all its marketing activity and other sources of information; that is, what customers think or feel about the brand. Brand responses can be distinguished according to brand judgments and brand feelings; that is, in terms of whether they arise from the "head" or from the "heart." Brand judgment focuses on a customer's personal opinion and evaluation with regard to the brand. Brand judgments involve how customers put together all the different performance and imagery associations of the brand to form different kinds of opinions. Brand feelings are customers' emotional responses and reactions with respect to the brand. Brand feelings also relate to the feelings that are evoked by the marketing program for the brand or by other means.

Judgment dimensions

- **Brand quality** - Value and satisfaction.
- **Brand credibility** - Expertise, trustworthiness and likeability.
- **Brand consideration** - Relevance.
- **Brand superiority** - Differentiation.

Feelings dimensions - Warmth, fun, excitement, security, social approval, self-respect.

- d) **Brand resonance** - Refers to the nature of this relationship and the extent to which customers feel that they connect with a brand and feel "in sync" with it. With true brand resonance, customers have a high degree of loyalty marked by a close relationship with the brand such that customers actively seek means to interact with the brand and share their experiences with others. Examples of brands, which have had high resonance, include Harley-Davidson, Apple, and eBay. Their resonance dimensions are;
- **Behavioral loyalty** - Frequency and amount of repeat purchases.
 - **Attitudinal attachment** - Love brand (Favorite possessions; 'a little pleasure'), proud of brand.
 - **Sense of community** - Affiliation.
 - **Active engagement** - Seek information, join club, visit website, chat rooms.

Sub-dimensions of CBBE pyramid

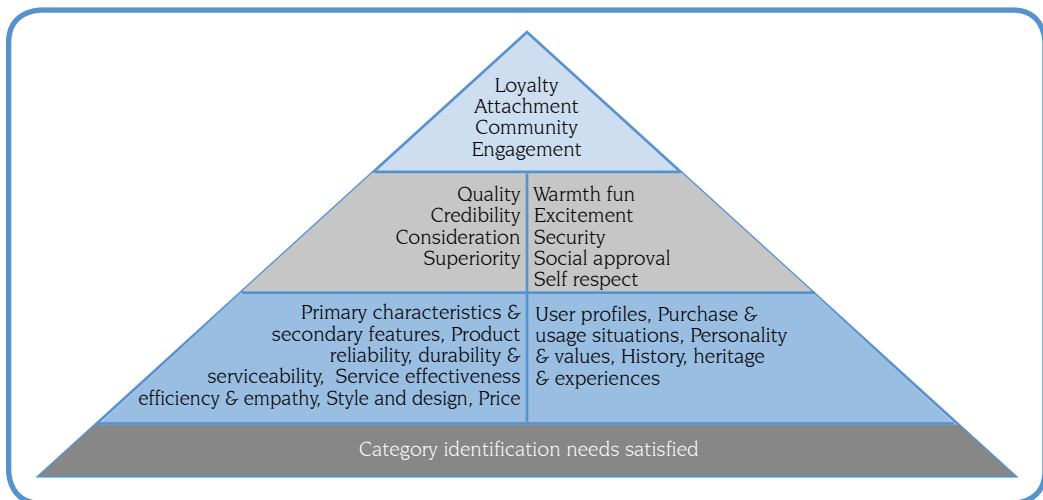


Figure 5.27: Sub-dimensions of CBBE pyramid.

3. **The brand value chain model** - Describes how to trace the value creation process to better understand the financial impact of marketing expenditures and investments. The brand value chain is a structured approach to assessing the sources and outcomes of brand equity and the manner by which marketing activities create brand value. The brand value chain has several basic premises. Fundamentally, it assumes that the value of a brand ultimately resides with customers. Based on this insight, the model next assumes that the brand value creation process begins when the firm invests in a marketing program targeting actual or potential customers. The marketing activity associated with the program then affects the customer's mind set with respect to the brand. This mind set, across a broad group of customers, then results in certain outcomes for the brand in terms of how it performs in the marketplace.

The brand value chain

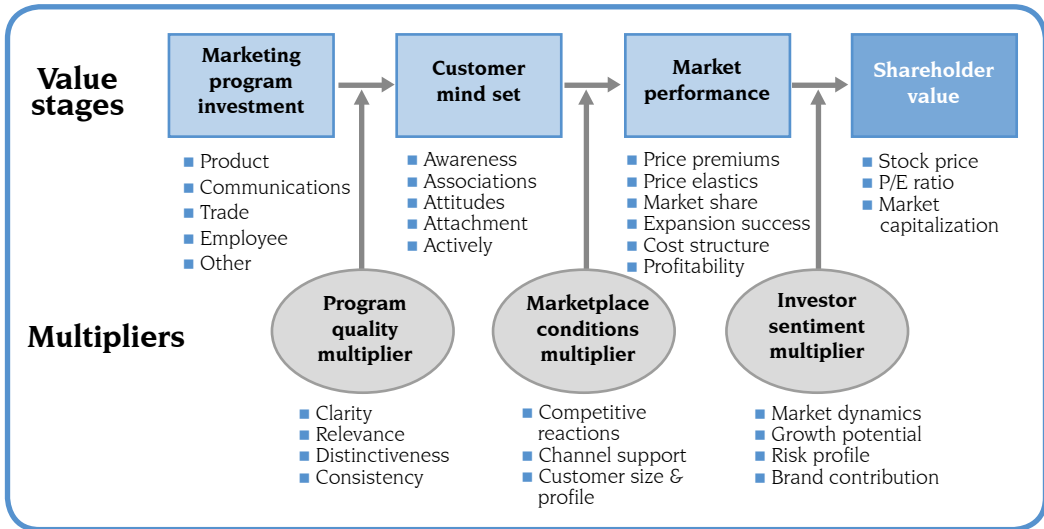


Figure 5.28: The brand value chain.

An example of a brand value chain

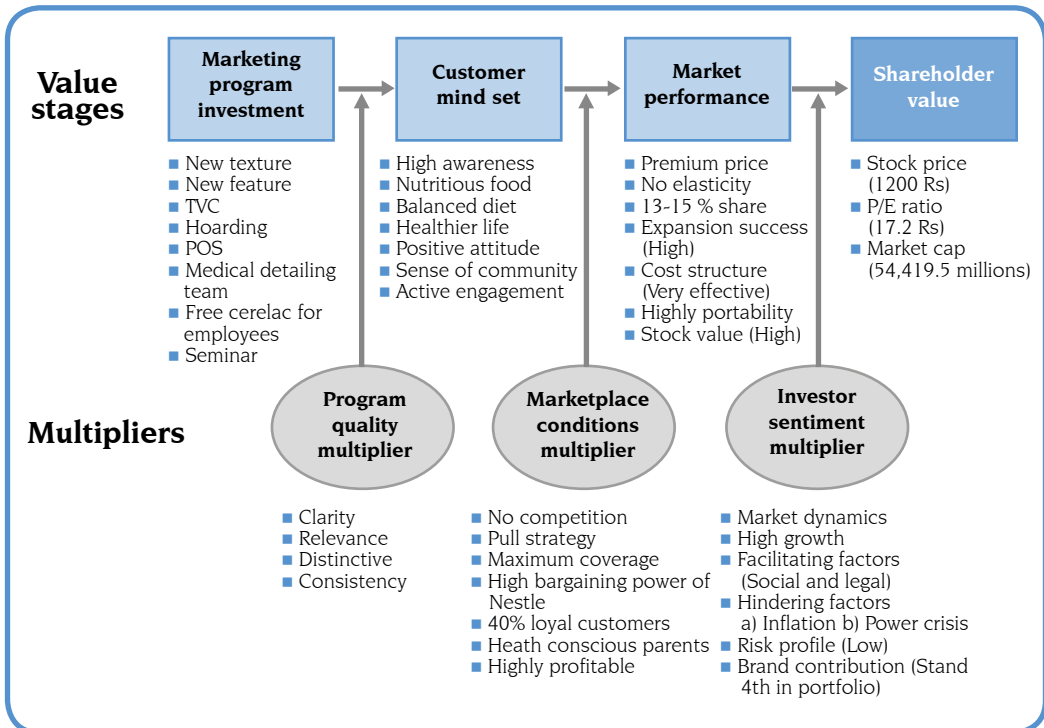


Figure 5.29: An example of a brand value chain.

Finally, the investment community considers this market performance and other factors such as replacement cost and purchase price in acquisitions to arrive at an assessment of shareholder value in general and a value of the brand in particular. The model also assumes that a number of linking factors intervene between these stages. These linking factors determine the extent to which value created at one-stage transfers or multiplies to the next stage.

According to the brand value chain, marketers create value first through shrewd investments in their marketing program and then by maximizing, as much as possible, the program, customer, and market multipliers that translate investment into bottom-line financial benefits. The brand value chain thus provides a structured mean for managers to understand where and how value is created and where to look to improve that process. Certain stages will be of greater interest to different members of the organization.

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Cargills, the Pride of Sri Lanka.



Cargills (Ceylon) PLC was established in 1844 and built on a strong foundation of values and ethics, guided by trusted leadership. It spearheads the sustainable development of the food industry in Sri Lanka. It's continuous investment in retail has made the Cargills retail arm, Cargills Food City the largest retailer in the island in all categories. Pursuing innovation and food safety, it's manufacturing brands Cargills Supremo and Cargills Finest (processed meats) Cargills Kist (processed fruits and vegetables) and Cargills Magic (ice cream and dairy products) lead sectorial growth. Its KFC franchise is the largest international restaurant chain in Sri Lanka. Through its marketing and distribution arm spread across the island Cargills distributes its manufactured brands as well as internationally renowned food and non-food brands.

In 1844, William Miller and David Sime Cargill commenced a general warehouse, import and wholesale business in Colombo, Fort. The establishment was named the 'House of Cargills. A successful bid by Sir Chittampalam A. Gardiner saw the House of Cargills being incorporated

as a Public Limited Liability Company on 1 March 1946. In 1981 Ceylon Theatres acquired controlling interest of the Company and Mr. Albert A. Page was appointed the Managing Director. Mr. Albert Page went on to become the Chairman of Cargills on 26 November 1982. Under the new management, Cargills explored the potential of innovating on its trading legacy. As a result, in 1983 Cargills established the first supermarket chain in Sri Lanka with the opening of its first outlet at Staple Street.

Cargills ventured into the production of processed meats in 1993 when the Company invested in its first manufacturing facility Cargills Quality Foods, in Mattakkuliya. In 1996 Cargills acquired the franchise license for KFC and innovated on its secret recipe to deliver products that suited the local palate.

Cargills began sourcing fruits and vegetables directly from farmers in 1999 when it established its first collection center in Hanguranketha. In 2002 it invested in a dairy processing plant and thereby expanded it's out grower network to



include dairy farmers. Cargills Magic ice cream was the outcome of this endeavor. In the same year Cargills diversified into agri-processing with Cargills Kist, which created further market opportunities for farmers. In 2008 Cargills acquired Millers Limited consolidating its marketing and distribution operation.

According to research, vegetable prices are one of the many criteria considered in choosing a supermarket. These include the quality of service, the range of non-produce items and convenience of location. In general, there were 'store-specific' factors, both positive and negative, that impacted choice.

Cargills Food City is rated the fourth most valuable Brand in Sri Lanka and the most valued Retail Brand in the island according to research conducted by Brand Finance Lanka. Cargills Food City has been recognized for its innovation in taking super marketing to the masses. It has also earned the highest Brand Equity in the Asia Pacific region, with NTUC Fair Price Singapore coming second according to the 2004 survey on Shopper Trends by ACNielsen. Being the only retail network with its own out-grower network Cargills Food City is proud of its ability to give the highest possible price to suppliers even as it provides nutritious

high quality goods to the consumer at the lowest possible price. The retail chain is geared with over 204 outlets spread across the island covering 23 districts. The Cargills agribusiness model has gained global recognition for linking farmers and entrepreneurs to the market through a sustainable and inclusive value creation process.

The Cargills business model is unique with the information supply and technical support networks which have been developed to benefit smallholders, consumers and Cargills alike. Under the leadership of CEO Ranjit Page, Cargills has embarked over the last decade on an innovative approach to building the capacity and profitability of the farming community in Sri Lanka. It purchases a wide variety of farm produce directly from small landholders. By eliminating middlemen, Cargills is able to minimize transaction costs. Resultant savings are passed on to farmers on the one end and consumers on the other. Its business model guarantees a minimum price that is at least 20% above the estimated production costs. By bringing markets to some 10,000 farmers, Cargills has contributed significantly in reducing distress sales during the time of glut. This has helped in alleviating rural poverty; reducing thereby general disenchantment to farming as an enterprise.



Cargills Food City, a chain of supermarkets in Sri Lanka, improves its competitive context by working closely with farmer communities that supply fruits, vegetables, spices, and rice to the chain. It typically pays 20% more than the market does, and importantly, guarantees a minimum, threshold price in order to cushion downward price movements in the market. Process inputs such as drip irrigation systems and collection centers are provided by Food City. Moreover, it underwrites loans granted by banks, and facilitates collaborative arrangements a number of NGOs have with the farmers, in setting up cleaning and packaging centers. Clearly, these CSR efforts benefit rural communities, as much as they help the company improve its competitive context.

The companies long standing strategy of linkages with producers and mechanisms to reduce wastage are the main reasons for relatively low prices. Whilst maintain a strong relationship with farmers Cargills employs a strategy to strengthen them, as farmers constitute a very important part of our internal vegetable supply chain. They work with farmers to make sure that they do not over-produce and make utmost efforts to reduce wastage, not only in farms, but also during transportation. Cargills, as a company, can do that because it has a direct relationship with farmers.

From a single seed in a farmer's field to a dinner table halfway across Sri Lanka, Cargills brings ideas together to help satisfy our nation's needs. To get there, the company collaborates with customers to create better products and services, streamline supply chains, save energy, reduce costs and move goods to every corner of Sri Lanka. They help farmers get higher yields from fewer acres, and store crops so they have greater flexibility in marketing their harvest. Cargills believes in the philosophy of giving back to the communities where they do business through continuous efforts to improve nutrition, health and education, and protect natural resources. Every day, Cargills nourishes people and ideas-in both expected and unexpected ways.

The sustainability strategy is making social responsibility an integral part of everything they do. It is a Company-wide commitment that channels our expertise and knowledge to create sustainable value for every direct and indirect stakeholder we touch. Three commitments anchor the many programmes, projects and initiatives that Cargills takes on with the objective of reducing the Cost of Living - Enhancing youth skills and Bridging regional disparity.



The company's vision "is to be a Global Corporate Role Model in Community Friendly National Development" and the mission "is to serve the Rural Community, our Customers and all other stakeholders through the core businesses, food with love and other related businesses, based on our three main principles of, reducing the cost of living, enhancing youth skills and bridging regional disparities by enhancing local and global markets. Cargills values are (C.A.R.G.I.L.L.S) Customer focused, Accountable, Respect, Green, Innovative, Love, Lead, Serve the nation.

Empowering farmers is a commitment that embodies the heart and soul of Cargills and stems from our commitment to bridging regional disparity. Providing nutrition to Sri Lankan's makes Cargills direct partners of the thousands of farmers across Sri Lanka. Each year, Cargills works directly with hundreds of thousands of farmers to help increase their productivity, thereby helping to raise their standard of living and our access to quality raw materials. Activities include training farmers on best practices in crop and animal agriculture; providing credit, inputs, transport and infrastructure for farmers and cooperatives; establishing fair and transparent pricing policies; and increasing access to markets.

The relationships established with farmers is a bond Cargills will have with the fields they sow, the families they nurture, the communities they live in and the schools where their children learn. Cargills has initiated a farmer community development fund where one rupee is given back to the village against kilogram of vegetables purchased from farmers. This fund is used to provide scholarships for needy children from the community, to provide resources for learning and advancement and to meet basic community needs such as utility connections. The focus is to engage the communities that work with Cargills to charter their own course of development.

"Enhancing Youth Skills" is one of the key principles of the Cargills business philosophy. It is incorporated into its mission statement as a commitment that the organization holds true to its heart. Not surprisingly as much as 70% of its work force is from rural Sri Lanka and 80% is below the age of 25.

Every single individual in our organization is welcome to give in new ideas and suggestions. The management entertains any new idea no matter how big or small it is. All ideas are carefully screened by a multi-disciplinary innovations team, which strives to deliver responsible business



results. All multiple manufacturing sites are equipped with state of the art R&D facilities, which constantly generate product innovations to delight customers.

Cargills ensures that the food purchased, processes or manufacturing meet the highest quality, safety, environmental and social standards. Cargills Quality Dairies and Cargills Quality Foods are accredited with all three ISO Certifications ISO 9001: 2000 for Quality Management, ISO 14001: 2004 for Environment Management and ISO 22000:2005 for Food Safety Quality Management. The manufacturing processes, which are automated, take place in a sterile environment. Equipped with anti-bacterial cold rooms, cold storage and manufacturing areas the Cargills Quality Dairies and Cargills Quality Foods plants are the most technologically advanced facilities in the region.

The Cargills Kist quality assurance process is a stringent one that kick starts from the farm. Fruits are purchased during the season and processed in the UHT plant minus the use of any preservatives, aseptically packed and stored for use all year around. The newly installed Retort machine is the only one of its kind in Sri Lanka and will produce a novel TV Diner range of Ready

to Eat products in cans and pouches. The Total Quality Management process used by our Kist facility, including SLS certifications, CODEX, standards ensure consistently high product and process quality.

Cargills always figured that putting people before products just made good common sense. So far, it's been working out for us. The company's relationships with farmers yield the highest quality of rice, milk, fruits and vegetables. The connections they make in communities create a loyal following, and the support provided to suppliers pays off everyday. Cargills has the ambition to take their business to the next level via its Green Business program as part of its larger corporate strategy. Through the "Green Business" programme Cargills is committed to minimizing its environmental impacts throughout the entire supply chain, from the farm to the trolley. Cargills is also committed to a role of environmental leadership in all facets of business.

The One Trust came into being from the very heart of Cargills out of compassion and empathy for our fellow Sri Lankans whose lives were devastated in the Boxing Day Tsunami of 2004. Today One Trust has expanded its vision to heal the spirits and hearts of children affected by war and restore



their ability to hope and dream. One Trust aims to build a sustainable support system by engaging multiple stakeholders towards strengthening and empowering children directly or indirectly affected by conflict.

Round-the-clock convenience Cargills has further driven the growth of convenience stores in Sri Lanka through its 15 Cargills express outlets, which are located at 24-hour fuel stations. Cargills Express caters especially to the pressures of modern lifestyles, which leave many with little time to shop for essentials. The round-the-clock convenience stores offer everything from snacks and drinks to canned, packed and frozen foods, as well over-the-counter drugs, magazines and other convenience items.

Made from fresh milk collected from local dairy farmers, Cargills Magic is a big part of the Cargills promise of bringing nutritious, quality food to consumers at an affordable price and is Sri Lanka's No #1 Dairy Ice cream. Around 5,000 dairy farmers located in Banduragoda, Hanguranketha and the coconut triangle directly supply fresh milk to Cargills Magic. The farmers are organized into cooperative style associations through which Cargills provides them a guaranteed market and a standard price, raw materials at subsidized

rates, technical inputs etc. The entire production process is automated with the high-tech plant able to churn out as much as 3,200 liters of ice cream per hour. The plant has the capacity to produce over 10 million liters of ice cream per annum. Cargills Magic is a trailer blazer being the first Ice Cream manufacturer to introduce fresh fruit, indigenous flavors and festive collections to its product portfolio.

One of Sri Lanka's most trusted food brands, Cargills Kist offers a range of delectable Juices, Jams, Sauces, Cordials & accompaniments made from fresh produce directly hand picked from orchards. Today's Sri Lankan generation has grown up with the Kist brand, and they have grown to trust it for its quality and taste. Cargills leverages its ability to source the freshest quality produce from farmers and suppliers directly to ensure that Kist products retain all their natural goodness and flavour. The Kist production plant employs state-of-the-art aseptic packing and processing facilities that conform to international food manufacturing standards.

Agribusiness, as is well known, involves trade of food production in all its aspects. From that angle it includes farming, seed supply, agri-chemicals, farm machinery, wholesaling and distribution,



processing, storing, marketing, trade and retailing. Currently, Cargills Agri-business focuses on direct produce purchase from the farmers, processing and retailing. Its future plans on agri-business will follow an end-to-end approach. Thus, means Cargills, besides facilitating direct market access to farmers, would also concentrate on the development of farmer and farming. In that pursuit Cargills will undertake up-skilled farmers' knowledge and know-how through training and would make certain supply of high quality seeds and agri-chemicals.

Case Questions

Question 1.

Analyze the unique resources and core competencies of Cargills?

Question 2.

Using Porters Generic strategies, comment on the strategic position of Cargills SBU strategies? Suggest how the Porters value chain, the Porters 5 forces and activity maps can be used to describe the Super market SBU strategy?

Question 3.

Explain the Cargills corporate strategy using the Ansoffs growth share Matrix?

Source : Interview with Mr. Ranjith Page

Deputy Chairman

Cargills Ceylon

CHAPTER 6

Tactical Marketing Strategy (The Marketing Mix)

- 6.1 The extended marketing mix
- 6.2 The elements of product management
- 6.3 The product onion (Levels of a product)
- 6.4 The new product development process
- 6.5 Product classifications
- 6.6 Product portfolio management
- 6.7 Packaging
- 6.8 Pricing
- 6.9 Pricing strategies or methods
- 6.10 Price elasticity of demand
- 6.11 Costing methods for pricing
- 6.12 Break even point (BEP) analysis
- 6.13 Place (Distribution strategy)
- 6.14 Distribution strategies
- 6.15 Levels of distribution
- 6.16 Physical evidence
- 6.17 People strategy
- 6.18 Process strategy

Case Study 6: Cinnamon Grand – The Sri Lankan indulgence brand

6

Tactical Marketing Strategy (The Marketing Mix)

**“Change cannot be given to you every time. You must bring the change”
- K Williams (Bus conductor)**

Borden (1953) introduced the term 'Marketing mix', in his American Marketing association presidential address and Culliton (1948) described the role of the marketing manager as a 'mixer of ingredients'; one who sometimes follows recipes prepared by others, sometimes prepares his own recipe as he goes along, sometimes adapts a recipe from immediately available ingredients, and at other times invents new ingredients no one else has tried. Vroom and McCarthy (1960) proposed the classification of 4 P's subsequently. Kotler (1999) later added the 3 extended services P's to the Marketing mix and it can be described as follows;

The customer focused marketing mix

Kotler et al (1999) argued that the marketing mix represented the firms view of marketing and argued that in a marketing oriented organisation, the 4P's should be viewed from the customers perspective, as 4P's. These have since been augmented to include the service mix as follows;

Producer, provider focused activity	Customer, consumer focused activity
Product - Plan product, service mix.	Choice - Consider how customers make choices: Differentiate to support the purchase decision.
Price - Consider all elements of the price mix.	Cost - Consider how customers perceive value for money.
Place - Manage distribution channels.	Convenience - Consider what customers find convenient.
Promotion - Persuade customer that the product meets their needs.	Communication - Enter into a dialogue with customers.
People - Select, train and manage staff in service delivery.	Care - Communicate and implement customer care values to all staff.
Processes - Organise, plan and control systems and operations.	Corporate Competence - Understand customer expectations and convey commitment to deliver.
Physical Evidence - Manage all physical evidence factors.	Consistency - Ensure all customer contacts and experiences are alike.

Table 6.1: The customer focused marketing mix by Kotler et al (1999).

6.1 The extended marketing mix

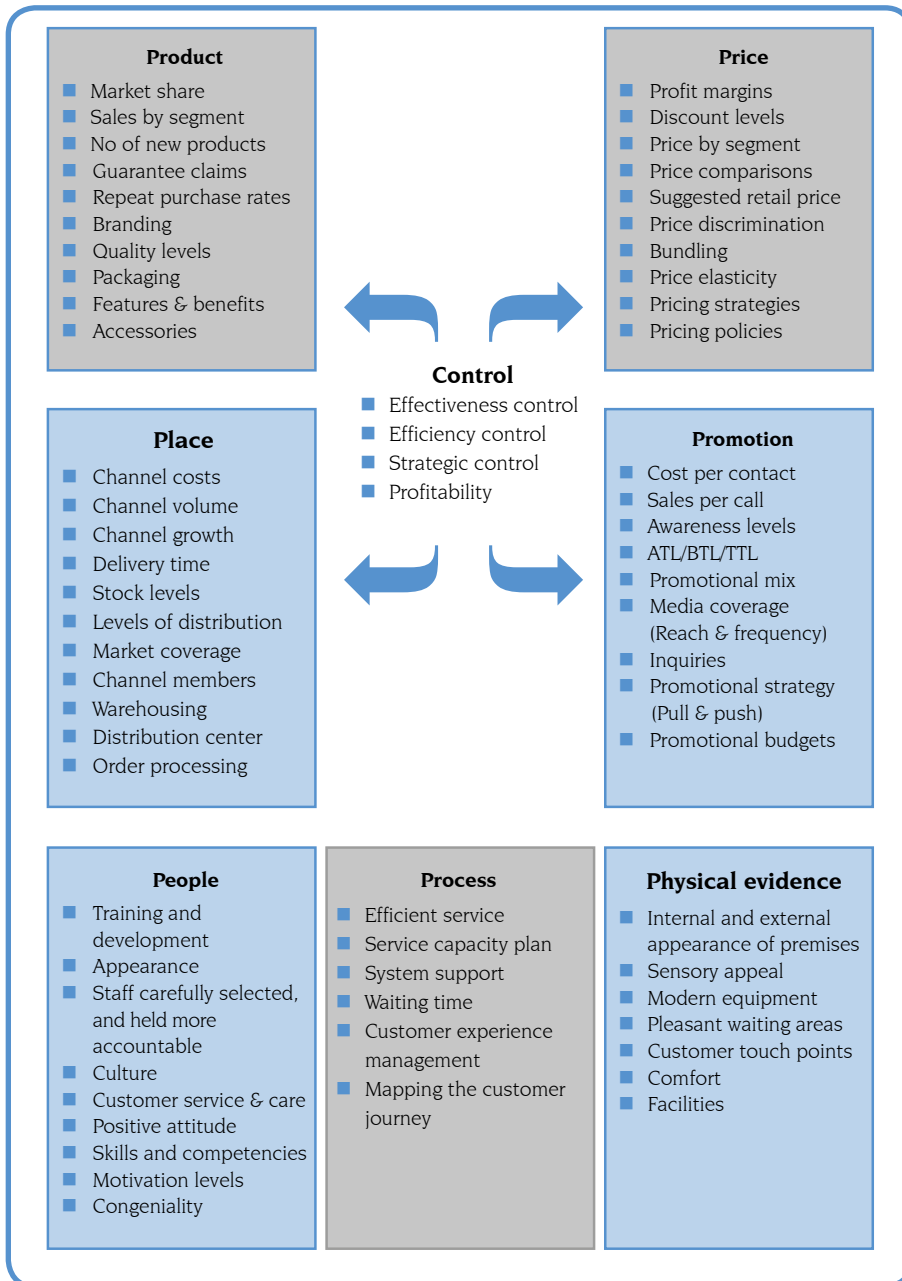


Figure 6.1: The extended marketing mix

The variables in the marketing mix are interdependent, which leads to the concept of integrated marketing. The mix aims at achieving marketing targets in terms of sales, profit and consumer satisfaction. It is rightly said that marketing mix is the marketing manager's instrument for attainment of marketing objectives and targets. It is not a rigid combination of four variables. It is in fact a flexible

combination of variables and may be necessary to adjust the variables in the mix from time to time as per the changes in the marketing environment. It is the continuous monitoring of the marketing mix, which facilitates appropriate changes in the mix. The marketing manager acts as a mixer of ingredients and has to achieve desired results through the skillful combination of four P's. He needs maturity, imagination and intelligence to appropriately blend the variables.

6.2 The elements of product management

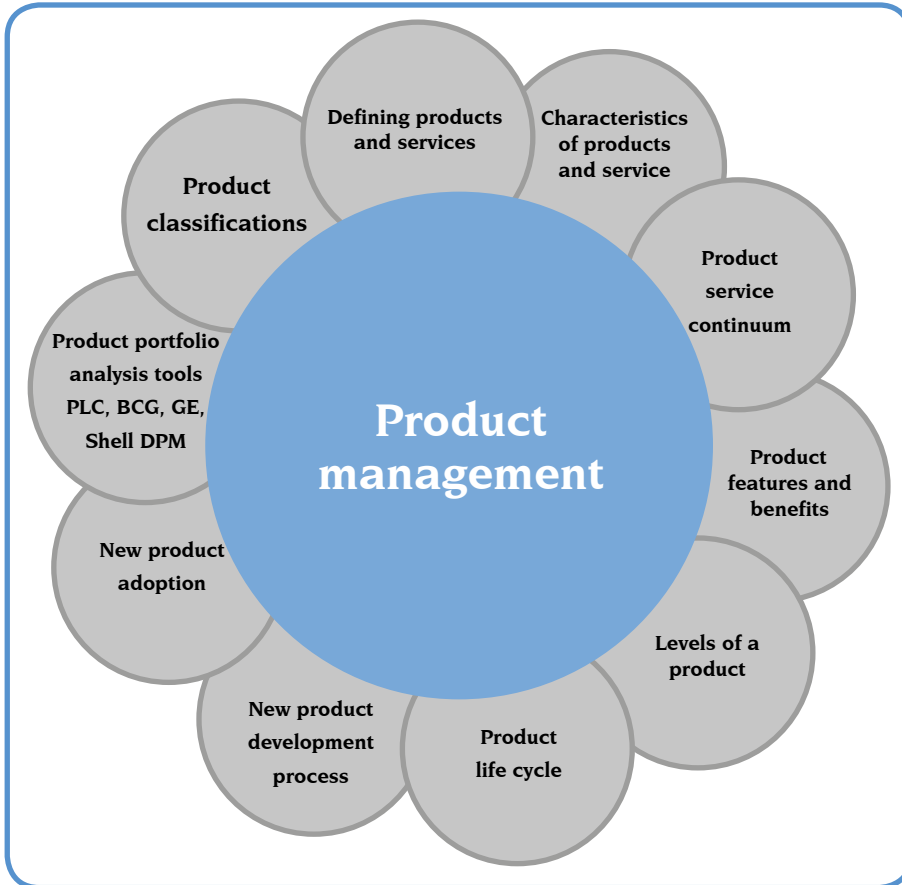


Figure 6.2: The elements of product management

Product management deals with planning, forecasting, production, or marketing of a product or products at all stages of the product lifecycle. The role consists of product development and product marketing, which are different (yet complementary) efforts, with the objective of maximizing sales revenues, market share, and profit margins. The product manager is often responsible for analyzing market conditions and defining features or functions of a product. The role of product management spans many activities from strategic to tactical and varies based on the organizational structure of the company. While involved with the entire product lifecycle, the product management's main focus is on driving new product development.

Defining products and services

Definition : A product is a bundle of tangible or intangible features or benefits that is offered to a market for consumption that might satisfy a want or need. A service is any experience (intangible) with variations that one party can offer another that is essentially intangible, perishable, inseparable and does not result in the ownership of anything.

Characteristics of a product	Characteristics of a service
Brand	Intangibility
Quality & durability	Inseparability
Design & range	Variability
Packaging	Perishability
Warranty and after sales service	People oriented
Features and benefits	Difficult to measure

Table 6.2: Characteristics of a products & services.

The product, service continuum

As indicated below, the majority of goods and services are at a point between tangible goods and intangible services. The supplier will need to be mindful to which extent his goods/services require a mix tangibility and intangibility for effective customer satisfaction. The Marketers task is to tangibilise an intangible service and intangiblaze a tangible product.

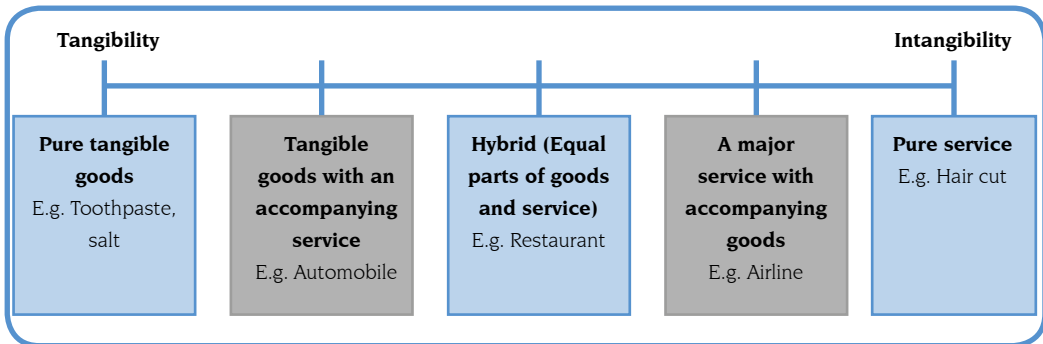


Figure 6.3: The product, service continuum.

Product features vs. product benefits

Product features refer to the physical attributes that are seen in the product. Product benefits refer to the benefit the consumer would experience in consuming the product. The marketers task is to sell the benefits to customers and not the features. The example of a car is given below;

Features	Benefits
Higher engine capacity	Thrill of speed
Power steering	Driving pleasure
Power mirrors, shutters	Convenience
Dual Air bags	Safety
Hybrid engine	Caring

Table 6.3 Product features vs. product benefits.

6.3 The product onion (Levels of a product)

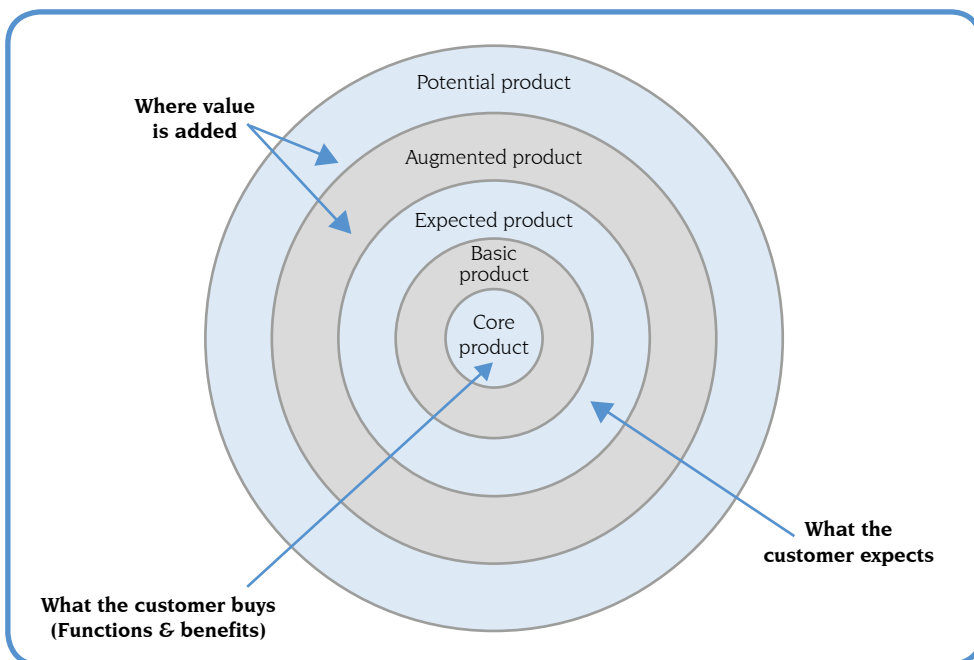


Figure 6.4: The product onion (Levels of a product).

The product onion or the levels of a product is a useful tool to gauge how the product value proposition is enhanced at each level.

- **Core product** - The marketer needs to think through the five levels of the product. Each level adds more customer value, and the five constitute a customer value hierarchy. The most fundamental level is the core benefit. This is the fundamental product or service benefit that the customer is really buying. E.g. A hotel guest is buying 'rest and sleep'. The purchaser of a drill is buying 'holes'. This is the core benefit offered.
- **Basic product** - At the second level, the marketer has to turn the core benefit into a basic product. Thus, a hotel room includes a bed, bathroom, towels, desk, dresser and closet etc.

- **Expected product** - At the third level, the marketer prepares an expected product, a set of attributes and conditions buyers normally expect when they purchase this product. Hotel guests expect a clean bed, fresh towels, working lamps, and a relative degree of quietness. Because most hotels can meet this minimum expectation, the traveller normally will settle for whichever hotel that's most convenient or least expensive.
- **Potential product** - At the fourth level, the marketer prepares an augmented product that exceeds customer expectations. A hotel can include a remote control television set, fresh flowers, rapid check in, express check out, fine dining and room service. Elmer Wheeler once observed, "Don't sell jelly – Sell the sizzle". Today's competition takes place at the product augmentation level. According to Harvard Professor Theodore Levitt, "The new competition is not between what the company produce in their factories, but between what they add to their factory output in the form of packaging, services, advertising, customer advice, financing, delivery arrangements and other things that people value" However, each augmentation adds costs. The marketer has to ask whether customers will pay enough to cover the extra cost. Augmentation benefits may also soon become expected benefits. E.g. Today's hotel guests expect a remote control television set in their hotel rooms.
- **Augmented product** - At the fifth level stands the potential product, which encompasses all the possible augmentation and transformations the product may undergo in the future. This stage is where companies search for new ways to satisfy customers and distinguish their offering. Successful companies add benefits to their offering that not only satisfy customers but also surprise and delight them. Delighting is a matter of exceeding expectations. E.g. The hotel guest finds candy on the pillow or a bowl of fruit waiting for him. Ritz Carlton hotels, example, remember individual guest preferences and prepare rooms with these preferences in mind.

New product development

New product development is a process, which runs throughout the organization and costs quite a lot of money. NPD should be carried out as a strategy and should be undertaken in methodical manner if the benefits of the new products are to be enjoyed and gain a competitive advantage.

The importance of new product development

- To satisfy the changing requirements, needs and wants of customers.
- To capitalize on new technological developments.
- NPD is essential step in maintaining market leadership.
- Companies need to develop new products to survive in the market place.
- Customers will see the NPD of company as a performance measurement against competitors.
- For portfolio management introduced will fade away anytime. Hence continuous NPD is vital.
- New products will offer high profits and sales.

Types of new products

There are several classifications for a new product.

- **Innovative products** - These are truly new to customers. They provide totally new alternatives to the existing products. One good example would be the mobile phone, which was a total new alternative to the existing telephone products available in the market.
- **Replacement products** - These are replacements to existing products. For example the Polaroid camera replaced the ordinary cameras, which required films to be developed independently of taking the picture. These are not wholly innovative products but an advancement of the existing products in the market.
- **Imitative products** - These are the products, which are new to the company but not new to the market place. These are also known as 'me too' products.

The role of new product development

- To avoid product obsolescence.
- To counter competition.
- Ensure the product matches the environment conditions.
- To fill excess capacity.
- Enable the organization to compete in the new and developing sectors.
- In order to achieve long term growth and profit.
- Reduce dependence on vulnerable product sectors.

The classification of new products

New products are not necessarily either new or not new: there are degrees of newness, and one of the commonest classifications proposed by Robertson (1967) is given below;

- **Continuous innovation** - This is a new product, which follows on from a previous version and is recognizably derived from its predecessor. Heavy-duty batteries, toothpaste with built in mouthwash are examples.
- **Dynamically continuous innovation** - These products are new ways of solving old problems, but they do not make radical changes to the way people live. For example DVD recorders do not change people's lives in the way that home video recorders did; they simply replaced the old technology with something which works better.
- **Discontinuous innovation** - These are genuine new to the world products that make radical change to people's lives. Home computers and the Internet have changed the ways in which people communicate, study and work. Mobile telephones have changed how people work and live. For earlier generations, the car, television, radio and airplanes revolutionized ordinary people's lives.

6.4 The new product development process

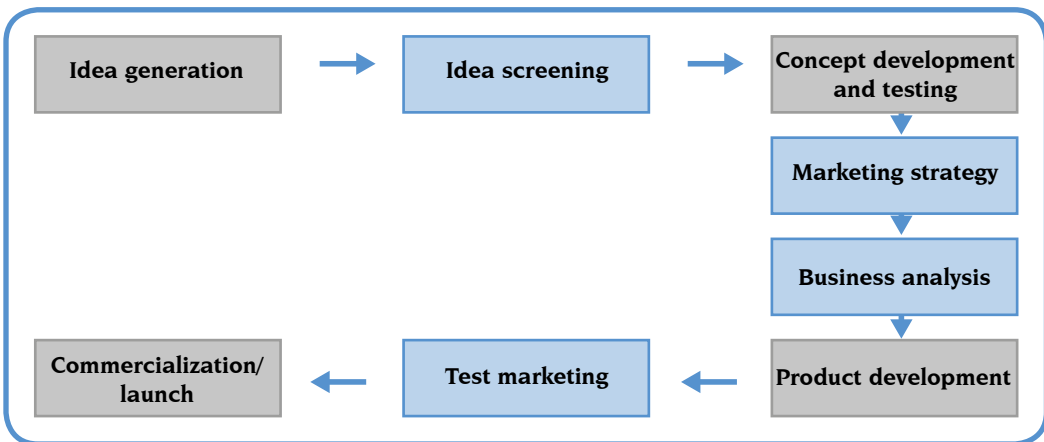


Figure 6.5: The new product development process.

- **Idea generation** - This would be the starting point of the new product development procedure. Idea generating is the systematic search for new product ideas. Idea generating should be guided from the new product development strategy. The top management should take responsibility for carefully defining what direction new products should be aimed at. Typical sources of new product ideas could be derived from internal sources such as sales personnel, internal production personnel, engineers, customers, competitors, distributors, suppliers and other source life trade magazines, shows, seminars, agencies, market research firms, consultant, universities etc.
- **Idea screening** - The objective of this is to pick good ideas and drop the poor ones. It is very important that correct ideas are picked, as the costs associated during the latter stages tend to be phenomenal. At this stage, rough estimates are made on the potential of the product in terms profitability, target markets, competition, the company's ability to exploit these new products etc. a product idea rating process is carried out to understand whether this idea will fit into the company's objectives, skills financial resources, channels of distribution, production capabilities etc. This process will systematically evaluate the new idea and screen the most potential ones to be continued.
- **Concept development and testing** - An idea selected to be pursued will have to be formulated into a concept. A concept would be detailed version of the idea stated in meaningful consumer terms. The developed concept will have to test among a sample group of the target market. This concept would be presented to the customers with words or pictures. A few questions could be asked to check whether there is an intention to buy.
- **Marketing strategy development** - As this stage it is important to develop the marketing strategy if the concept presented was successful.

- **Business analysis** - At this stage a full-scale business analysis ends to be done looking at the financial, production and marketing feasibility of the proposed new product. Detailed costs analysis profits projections, pay back periods, investment required are typical aspects that are looked into. Various scenario-planning exercises are also done at this stage to see the parameters of success and failure.
- **Product development** - This is where the major investment starts in the new product development process. The product concept is now transformed into a physical prototype of the product. R&D, Engineering will take charge at this stage and many functional test will be made to get it right. It is very important to keep in mind that in designing the prototypes, its commercial production viability has to be met.
- **Test marketing** - Test marketing is a situation where the product and its marketing programme are introduced into more realistic market settings. It allows the marketers to get experience marketing the new product, finding potential problems and learning where more information is needed, before going to the great exercise of full introduction.

Test marketing gives the management a good feel of the real life situation of the product if done in a representative unbiased way. This will increase the confidence of the management to go ahead with costly investments required to commercially launch the product. Test marketing is a very good indicator for competitors to find out that a new product has been launched. Therefore companies should not carry out test marketing for very long periods. Also the intensity of the test marketing that needs to be done, depends on the management's gut thinking and feeling as to which extent the new product will succeed in the market.

- **Commercialization and launch** - This would be the final step of the new product development process if all other stages indicate positive indicators to go ahead. In carrying out the launch, a marketer will have to raise the following issues.
 - **Timing of the launch** - When the launch should be carried out.
 - Whether the product should be launched in a single location, a region, and several regions, in a national market or in international markets.
 - **Target market prospect** - The diffusion of new products have various characteristics. The product should be targeted to early adopt within the target group. By this action the product will diffuse effectively into the market.
 - **Introductory market strategy** - This refer to the launch program. For example questions such as to what extent are you planning to launch this? Whether it would be soft launch or a full-scale launch and its logistics, are some of the maters, which have to be sorted out.

6.5 Product classifications

Products can be classified based on the 'nature of usage' of the product as given below;

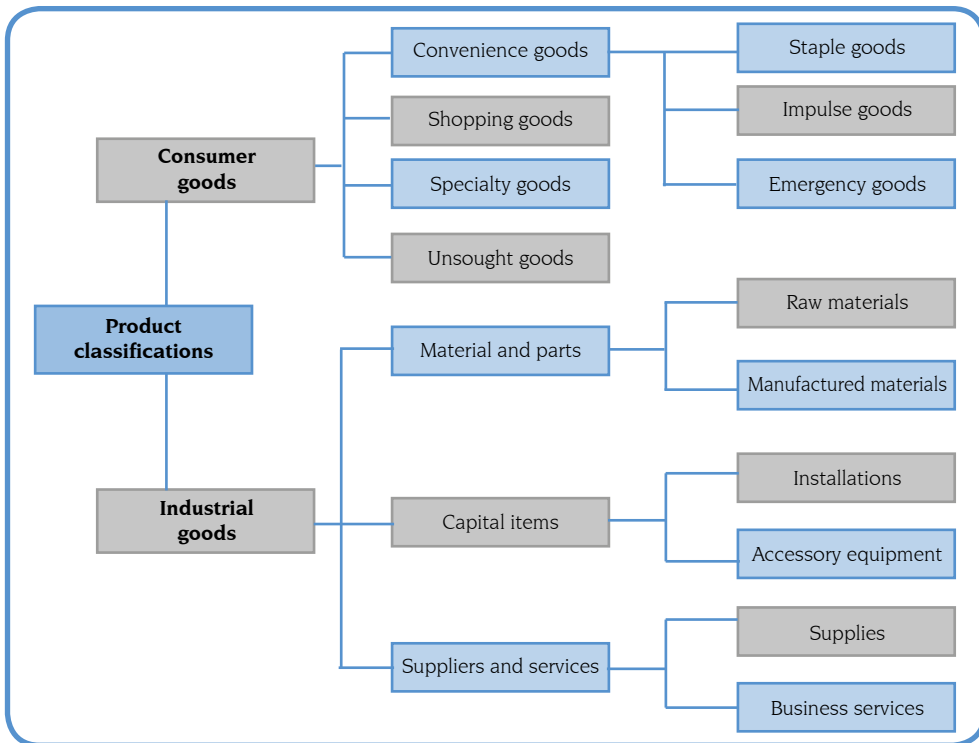


Figure 6.6: Product classifications.

1. **Consumer goods** - Goods that are purchased by final customers for their own consumption. They are further classified as follows.
 - 1.1 **Convenience goods (Also known as FMCG - Fast moving consumer goods)** - Consumer goods are what the customer buys frequently and with the minimum comparison and buying effort. There are generally low priced and are widely available. For example cigarettes, soap, newspapers and tooth paste. These are further classified as
 - 1.1.1 **Staple goods** - Goods purchased on a regular basis. E.g. Sugar, soap, bread, rice.
 - 1.1.2 **Impulse goods** - Good purchased without any planning, consumers are tempted to buy it through in-store advertising or by placing them near the cashier. E.g. Candy bars, chocolate.
 - 1.1.3 **Emergency goods** - Goods purchased when the need is urgent. E.g. Bandage, plaster, aspirin.

- 1.2 **Shopping goods** - This mainly includes durables and semi durable goods where the customer spends time gathering information and comparing prices, quality, services etc., E.g. appliances, used cars, furniture, computers etc.
 - 1.3 **Specialty goods** - These are products, which are characterized by the extensive search and lots of comparisons and discussion amongst family and close friends will take place before the final decision is made. The buyer will be reluctant to accept substitutes for those products. For example, brand new cars, men's suits and high priced photographic equipment, holiday packages.
 - 1.4 **Unsought goods** - These are goods that a customer does not normally think of buying until the need is critical. E.g. Insurance, burglar alarms, fixed deposits. Generally new products are unsought and require extensive use of personal selling. Unsought goods require a lot of advertising, personal selling and other marketing efforts.
2. **Industrial goods** - Goods bought by individuals or organizations for further processing or for use in conducting a business. The purpose of purchase will differentiate a consumer good from an industrial one, to a consumer. For example, a lawnmower bought by a consumer for his personal use will be consumer goods while if a landscaper purchased it then becomes an industrial good. Industrial goods could be further classified;
- 2.1 **Materials and parts** - These are industrial goods that enter the manufacturer's product completely. They fall into two classes.
 - 2.1.1 **Raw materials** - These are items, which are in raw form, which enters the manufacturer's products completely. Iron, timber, wheat, cotton are examples of raw materials.
 - 2.1.2 **Manufactured materials and parts** - These are items, which are semi processed, or fully manufactured which are included into the manufacturer's product completely. For example tires, nuts, steel, cement, wire etc.
 - 2.2 **Capital items** - Capital items are items of long-term investment to facilitate the manufacture of a finished product. They are broken into two groups.
 - 2.2.1 **Installations** - These consist of building, plant (Factories, office) and fixed equipment, machinery (computers, elevators). These are major purchases. They are usually bought from the producers directly.
 - 2.2.2 **Accessory equipment** - These include portable factory equipment and tools, (hand tools, Forklifts) and office equipment (Type writers, desks). These products do not become a part of the finished product but only support the production and the delivery process.

- 2.3 **Suppliers and business services** - These are industrial goods that do not enter the product but facilitate the process. They could also be classified as.
- 2.3.1 **Supplies** - These include operating supplies (lubricant, typing paper, pencils) and maintenance and repair items (paint, nails, brooms).
- 2.3.2 **Business services** - These are various support services required for an organization to carry out its normal operations. They can be classified into;
- **Maintenance and repair services** - Janitorial, plumbing.
 - **Business advisory services** - Legal, management consultation etc.

B2B marketing

The main difference between B2B and B2C is who the buyer of a product or service is. The purchasing process is different in both cases. For consumer brands the buyer is an individual. In B2B there are usually committees of people in an organization and each of the members may have different attitudes towards any brand. In addition, each party involved may have different reasons for buying or not buying a particular brand. Since there are more people involved in the decision-making process and technical details may have to be discussed in length, the decision-making process for B2B products is usually much longer than in B2C. Companies seek long-term relationships, as any experiment with a different brand will have impacts on the entire business. Brand loyalty is therefore much higher than in consumer goods markets. While consumer goods usually cost little in comparison to B2B goods, the selling process involves high costs. Not only is it required to meet the buyer numerous times, but also the buyer may ask for prototypes, samples and mock-ups. Such detailed assessment serves the purpose of eliminating the risk of buying the wrong product or service. One of the characteristics of a B2B product is that in many cases it is bought by a committee of buyers. It is important to understand what a brand means to these buyers. Buyers are usually well versed with costing levels and specifications. Also, due to constant monitoring of the market, these buyers would have excellent knowledge of the products too. In many cases the purchases are specification driven. As a result of this, it is vital that brands are clearly defined and target the appropriate segment.

Features of B2B marketing

- **Derived demand** - Demand for the product is derived from consumer demand.
- **Fewer buyers** - The number of buyers for an industrial good is generally smaller than for a consumer good.
- **High purchasing power** - Each industrial buyer tends to have a higher purchasing power than consumers.

- **Closer relationships between buyers and sellers** - This is because there are fewer buyers with higher purchasing power in B2B marketing compared to B2C marketing.
- **Technical complexity** - There is often a greater degree of technical complexity in B2B marketing.

Classification based on product benefits

- **Consumer durables** - Tangible goods used a few or many times, over a period of time. E.g. Cars, Hi Fi audio, computers, furniture.
- **Non-consumer durables (Consumables)** - Goods used over a short period. E.g. Food, toiletries, petrol.
- **Services** - These are intangible activities or benefits with only an experience. E.g. Insurance, travel, financial services, hairdressing.

6.6 Product portfolio management

A product portfolio is a collection of products or services an organization provides to its customers. After determining the main target markets and the type of products it will offer, the organization needs to determine the variety and assortment of those products. The following are the elements of a typical product portfolio:

- **Product item** - This is the individual product. E.g. A specific pack size of washing powder for Unilever.
- **Product line** - This is a collection of product items that are closely related to form a product category. E.g. Home care product line or category for Unilever.
- **Product mix** - This is the total range of product lines that a company has to offer. E.g. Unilever manufactures product lines such as detergents, cosmetics, laundry soap, toiletries, health products, personal care, margarine and oral care. There are four aspects in the product mix;
 - **The width, breath of the product mix** - Refers to the number of product lines of the company.
 - **Length of the product mix** - Refers to the number of products in the product line. Unilever manufactures several types of detergents in their detergent line.
 - **Depth of the product mix** - The number of product items within each product line. E.g. Apple sells a large variety of i pods.
 - **Consistency of the product mix** - Consistency of product mix refers to the closeness of the product lines. Consistency can provide operational economies when it comes to tactical issues such as the production process, distribution, promotion and logistics.

Marketing managers distinguish between product class, form and brand.

- (a) **Product class** - This is a broad category of product, such as cars, washing machines, news papers, also referred to as the generic product.
- (b) **Product form** - Within a product class there are different forms that products can take, for example five-door hatchback cars or two-seater sports cars, twin tub or front-loading automatic washing machines, national daily newspapers or weekly local papers etc.
- (c) **Brand** - The particular type of the product form (for example Ford Fiesta, Vauxhall Astra; Financial Times, Daily Mail, Sun).

6.7 Packaging

Packaging can be defined as all activities of designing and producing the container for a product.

Levels of packaging

- **Primary packaging** - For Old Spice aftershave lotion it is the bottle.
- **Secondary packaging** - The cardboard box, which holds the bottle.
- **Shipping package** - The corrugated box that carries dozens of items.

Key functions of packaging

Protection	Fresh, hygienic or undamaged.
Distribution	Transportation and storage.
User convenience	Aiding in handling, carrying, information and instructions for use.
Promotion	Response mechanisms, coupons, brand values, impulse purchase.
Compliance	Regulations in ingredients, standards and quality.
Differentiation	Innovative pack.

Table 6.4: Key functions of packaging.

Factors to be considered in packaging development

- Cost.
- Consistency.
- Promotional role.
- Consumer insights and safety.
- Legal requirements.
- Target audience.
- The needs of the resellers - Avoid damage, shelf life.
- Environmental Concerns - Recycling.

6.8 Pricing

Price can be defined as a measure of the value exchanged by a buyer and the value offered by the seller. Price is said to be the most important element in the marketing mix since this is the only element, which brings in revenue. Price is the amount of money charged for a product or service, or the sum of values that consumers exchange for the benefit of having or using the product or service. The distinctness of a product will be a key consideration in the formulation of a pricing policy.



Figure 6.7: Pricing.

Factors to consider when managing price

- Determining final selling, retail price.
- Price discrimination.
- Product bundling.
- Discounts and allowances.
- Trade margins.
- Price flexibility.
- The positioning strategy.
- The stage in the product life-cycle.
- The nature of the market and competition.
- Customer demand.
- Company objectives.
- The marketing mix.

Factors influencing pricing decisions

Internal pricing influences	External pricing influences
Marketing objectives.	Competition.
Marketing mix strategy.	Demand and price elasticity.
Cost structure.	Customer perceptions - Value for money.
Price-setting methodologies.	Suppliers and intermediaries expectations.
Product portfolio strategies.	Economic factors.
Positioning strategies.	Legal and regulatory factors - Taxation.
New product pricing.	Social, cultural factors.

Table 6.5: Factors influencing pricing decisions

Stages in establishing a price



Figure 6.8: Stages in establishing a price.

Pricing policies

- **Market skimming** - This involves changing a premium price usually when a new product is launched and as competitors enter the market the price is lowered. This strategy could be implemented when a product is distinctive and demand is inelastic.

Advantages of price skimming

- When a highly innovative product is launched, research and development costs are likely to be high, as are the costs of introducing the product to the market via promotion, advertising etc.

- By charging high prices initially, a company can build a high-quality image for its product. Charging initial high prices allows the firm the luxury of reducing them when the threat of competition arrives. By contrast, a lower initial price would be difficult to increase without risking the loss of sales volume.
- Skimming can be an effective strategy when segmenting the market.
- For 'conspicuous' or 'prestige goods', the practice of price skimming can be particularly successful, since the buyer tends to be more 'prestige' conscious than price conscious. E.g. Designer-label clothing, antiques.
- **Market penetration** - This is where a company sets a lower price in order to break into price sensitive market segments and attract a large number of consumers. The idea is to capture the market quickly by selling a larger volume and expanding one's market share. It is when demand is elastic, competition is fierce and product differentiation will not provide a lasting competitive edge.

Pricing objectives

Prevent new entry	Predatory pricing (Very low price), loss leader pricing.
Survival pricing	This involves pricing products to survive in the market.
Profit maximization	Early cash recovery, market skimming, ROI, ROCE.
Revenue maximization	Building market share, penetration pricing, promotional pricing.
Pricing to convey quality	Reflecting differentiation, prestige pricing, psychological pricing.
Demand led pricing	To stabilize the position in the market.
Competition led pricing	Pricing near or away from competition, to counter or prevent competition.

Table 6.6: Pricing objectives.

6.9 Pricing strategies or methods

Pricing strategies could be viewed from three perspectives. They are as follows.

1. **Customer oriented pricing** - Under customer oriented pricing the organization would price its products based on the customer and market conditions.
 - a) **Psychological pricing strategies** - Prices set to induce customers to purchases goods based on their emotional reactions. There are several pricing strategies used under this.
 - **Prestige or image pricing** - This is setting a high price to convey an image of high quality. E.g. Luxury products.

- **Odd, even pricing** - Odd pricing involves selling a product at 99 \$. Even prices are used to give a product an exclusive, high quality or up market image.
 - **Customary pricing** - Certain goods are priced primarily based on tradition.
- b) **Value based pricing strategy** - This is a situation where prices are set based on the customers perceived value of the product.
- **Product line pricing** - Setting price steps between products in a product line.
 - **Professional pricing** - Doctors, physicians charge their prices based on their skills and experience involved in treating a patient.
- c) **Promotional pricing strategies**
- **Loss leader pricing** - Products sold at a loss.
 - **Special event pricing** - Pricing to complement an event.
 - **Every day low pricing** - E.g. Wal-Mart.
 - **Experience curve pricing** - Economies of scale.
 - **Optional product pricing** - Accessories sold with the main product.
 - **Product bundle pricing** - The combination of several products and setting a discounted price.
 - **Quantity discounts** - Promotional pricing.
2. **Competitor oriented pricing strategies** - The company as a policy would look at the competitor prices in determining its own prices. There are several competitor-pricing strategies that could be followed.
- a) **Competitive bid pricing strategy** - This is a situation where pricing is done to purely match or better the prices quoted by the competitors to your customers.
- b) **Competitive advantage pricing strategy** - Under this method a marketer would offer more features in the product than what the competitor would be offering at the same price of the competitor product. One will continuously monitor the competitive prices and work back, adjusting profitability and costs.
3. **Internal oriented pricing** - This is a situation where you look at the costs that will be incurred in producing and marketing your product and to determine the profit margin you want and set the price.
- a) **Cost oriented approaches**
- **Full cost pricing** - Margins and mark ups.
 - **Marginal cost pricing**
- b) **Transfer pricing** - Transfer pricing results in the setting of prices among divisions within an enterprise.

6.10 Price elasticity of demand

Price elasticity also known as price sensitivity or the responsiveness of price indicates how much demand will stretch or how far a change in price will affect demand. In other words it is the relationship between price and demand. E.g. If prices went up by 10% would the quantity demanded fall by 5%, 20% or 50%? If demand is elastic, even a small change in price might have a dramatic impact on demand. However, where demand is inelastic the product is relatively insensitive to changes in price. Since the demand goes up when the prices fall, and goes down when prices rise, the elasticity has a negative value, but it is usual to ignore the minus sign. When elasticity is greater than '1' (elastic) a change in price (high or low) will lead to a significant change in total demand and thus increase or reduce revenue significantly. (E.g. Non essentials which may have substitute products). When elasticity is less than '1' (Inelastic) a firm may decide to raise price. E.g. Essentials - Petrol, Cigarettes.

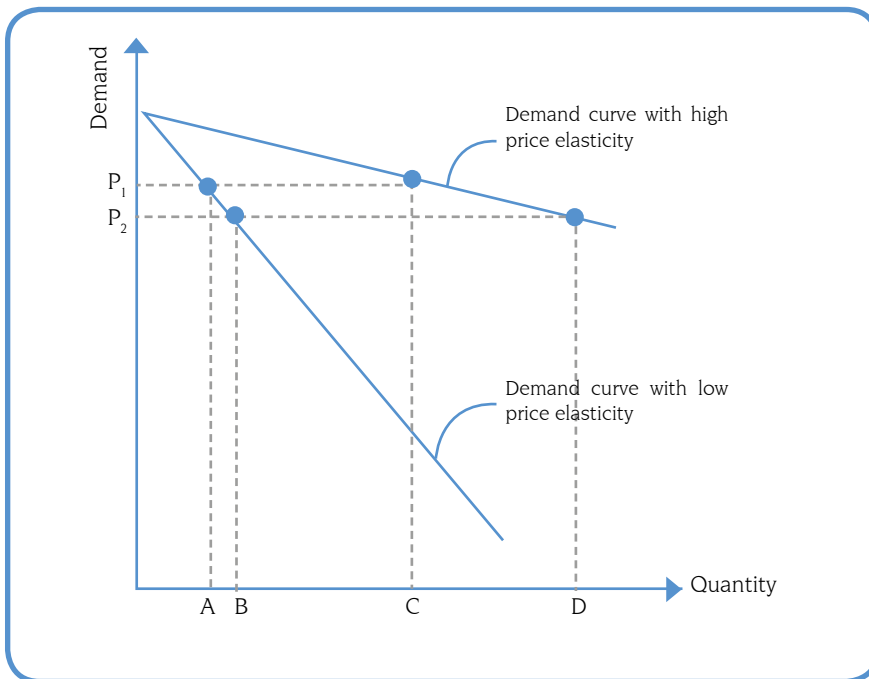


Figure 6.9: Price elasticity of demand.

$$\text{Price elasticity of demand formula} = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$$

Types of price elasticity

- **Elastic demand** - Is where small increases in price produces a large percentage decrease in demand.
- **Inelastic demand** - Is where a change in price causes a very small change in demand or none at all.
- **Unitary demand** - Is where the percentage change in price results in an identical change in demand.

6.1.1 Costing methods for pricing

a) Full cost method

Full costing is when a marketer arrives at the total cost per unit and then apply the profit margin or the mark up in arriving at the selling price.

The total cost of the product = Variable cost per unit + fixed cost per unit (Arrived through apportioning).

Selling price = Full cost per unit + profit.

Profits through mark up method

Profit through the mark up method is determined as; Total cost + Profit as % of full cost = Selling price (The total cost is equated to 100% on which the profit % is applied.)

Profit through margin method

Profit percentage is expressed as a % of the selling price, which is referred to as the profit margin. (The selling price is equated to 100% based on which the relevant calculations have to be made.)

Example: The variable cost per unit of an item is Rs. 20. The apportioned fixed cost per unit is Rs. 10.

- Calculate the selling price if the company expects a mark up of 20%.
- Calculate the selling price if the company expects a margin of 20%

Solution

Variable cost per unit	= Rs. 20
Fixed cost per unit	= Rs. 10
Full cost per unit	= Rs. 30

b) Mark up method

$$\begin{aligned} \text{Profit} &= 30 \times 20\% &&= \text{Rs. } 6; \text{ therefore selling price} \\ & &&= 30 + 6 \\ & &&= \text{Rs. } 36 \end{aligned}$$

c) Margin method

Selling price	= 100%
Profit margin	= 20%
Full cost per unit	= 80% on Selling price
	= Rs. 30
The selling price	= $[(30 / 80) \times 100]$
	= Rs. 37.50

You may note that when you calculate the selling price through the margin method, the rupee value of the selling price will be higher than the mark up method even through you use the same percentage.

d) Marginal costing method

In many situations arriving at the fixed cost per unit is difficult due to the complicated nature of organizations operations. In these situations marketers are forced to arrive at pricing based on variable costs (Which are mostly direct and clearly identifiable) and use the contribution per unit method and break-even analysis in arriving at a price.

Variable cost per unit = Rs. 20, mark-up is 40% based on the variable cost per unit.

Total fixed costs = Rs. 80,000

Variable cost per unit = Rs. 20

Mark-up @ 40% = Rs. 8

Selling price = Rs. 28

In this situation the company will be making a positive contribution of Rs. 8/= (Selling price Rs. 28 - Variable cost Rs. 20), which means after recovering the variable cost, the balance of Rs. 8 will contribute to recover the fixed costs until 10,000 units (BEP = 100,000/8) are sold.

6.12 Break even point (BEP) analysis

Definition : BEP is the point at which the company neither makes a profit or loss, which can be interpreted in units or sales revenue. It gauges the number of units that must be sold (break even quantity) in order to produce a profit of zero.

Contribution is the amount that a product or service contributes towards the fixed costs. It is the difference between sales and the variable costs of production.

Break-even analysis is a useful tool for assessing how much of a product or service must be sold to cover the total costs of producing and marketing it. It can be defined in terms of volume of sales or revenue. The analysis can also be used to calculate the effect of different prices on the break even point.

Break even point = Fixed cost / Contribution per unit

Break-even analysis depends on the following variables

- The fixed production costs for a product.
- The product's unit price.
- The variable production costs for a product.
- The product's expected unit sales.

Break even analysis chart

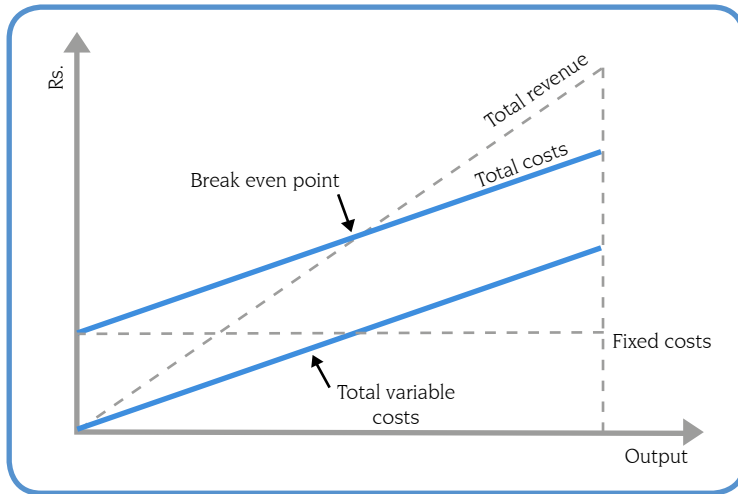


Figure 6.10: Break even analysis chart.

6.13 Place (Distribution strategy)

Place involves more than just the location of factories, offices or sales outlets. It is primarily all activities that relate to ensure that products are made available for customers to buy in the right place, right quantity, right time and in the right conditions. They could involve in selecting a channel of distribution and physical distribution such as storage, loading, transportation, unloading, transit storage, breaking bulk packs, display etc.

The parties who are involved between the manufacturing organization and the customer who facilitates this distribution process are known as distributors, middlemen or intermediaries. Disintermediation is the removal of intermediaries in a supply chain or cutting out the middleman. One important factor is a drop in the cost of servicing customers directly.

Types of distribution channels

- **Agents** - Agents arrange the sale between a manufacturer and a wholesaler, retailer, franchiser or a customer and does not purchase the manufacture's goods but only brings two parties together and gets a commission for this service. There are four types of agents;
 - **Manufacturers agent** - Sell similar lines for more than one manufacturer.
 - **Selling agent** - Has the ability to sell a manufacturer's entire range.
 - **Purchasing agent** - Buys goods, receive them and inspect them for quality.
 - **Commission merchants** - Possession of the goods is obtained, with payment by way of commission.

- **Distributors or dealers** - Appointed by the manufacturer the distributor would be exclusively working for the manufacturer and will not be carrying competing products. In addition to selling on the manufacture's product, distributors often promote the products and provide after-sales service. Their functions would include;
 - Collecting payment from the retailers and wholesalers.
 - Carrying out promotions for manufacturer brands.
 - Collecting market intelligence for the manufacturer.
 - Ordering goods from the manufacturer.
 - Storage.
 - Selling to wholesalers, retailers.
 - Transporting to buyers and breaking bulk.
- **Wholesalers** - Wholesalers stock a large range of products from several competing manufacturers and redistribute it to many retailers. Wholesalers do not interact with customers and obtain credit facilities from manufactures and roll cash when sold in bulk to retailers. Their functions would include;
 - Buying goods from distributor, manufacturer.
 - Storage.
 - Breaking bulk.
 - Selling to retailers.
- **Retailers** - In most cases retailers are the final channel that comes in to contact with the customer. They buy in smaller quantities and re-sell in even smaller quantities as required by customer. They may be classified as type of goods sold, types of services offered (self service), type of ownership, size of store and Location. Retailers generally stock a wide assortment of goods and the functions would include;
 - Buying goods from distributor, wholesaler.
 - Displaying of goods.
 - Acting as a vehicle for displaying company communications (Post, self strips).
 - Selling on cash basis.
 - Collection of feedback from customer.
- **Franchises** - They represent their parent company for a fee or a percentage of the profit and allowed to trade under the parents brand. The parent company allows them to use their brand name & provide the technology and know how where they carry out the business Examples - McDonald's, Pizza Hut, KFC.
- **Export, import houses** - These firms specialize in buying or selling goods from other countries. They may or may not take possession of the goods and in many cases; the goods are shipped directly from the producer to the foreign wholesaler.
- **Electronic retailing** - Online retailing is becoming more and more important as consumers become more Internet literate.

Functions of distributors

- **Information and intelligence** - The collection and distribution of the information about customer reactions, competitor's activities and other market developments.
- **Storage** - They also provide a valuable function where they buy in bulk from the manufacturer and sell in smaller quantities to the customer.
- **Physical distribution** - They will be responsible for breaking bulk will also be responsible for damage to product during the transport.
- **Promotion, presentation and display** - They either work with or without the manufacturer in designing promotional work and in persuading the customer to buy the goods.
- **Contact and order taking** - Finding and communicating with prospective buyers and take orders from customers and then pass it on to the manufacturer for production.
- **Matching and negotiation** - Providing advice and customer information, adjusting the offer to fit a buyer's needs, including grading, assembling and packaging and reaching agreement on price and other terms of the offer.
- **Financing** - Assessing each customers credit exposure, setting price, payment collection and financing working capital.
- **After sales service** - After sales service needs to be provided for certain products and the distributors agents will need to provide training to other intermediaries.
- **Risk taking** - Assuming some commercial risks by operating the channel.

6.14 Distribution strategies

Distribution strategies refer to how the organization would distribute its products to the final consumers. There are broadly three types of distribution strategies available for a company.

a) Intensive distribution strategy

- When the consumers need a great deal of location convenience it is important to offer greater intensity of distribution. This is a strategy where the company decides to distribute the product through all responsible and suitable wholesalers or retailers who will stock and sell the product.
- Intensive distribution is mostly suitable for convenience goods or FMCGs that has shorter buying cycle where consumers may buy frequently.
- There are high costs associated with this strategy and margins may be less. It should only be done based on the company's distribution objectives and on the consumers buying habits.

- Intensive distribution aims to provide saturation coverage of the market and is usually required where customers have a range of acceptable brands to choose. In other words, if one brand is not available, a customer will simply choose another.

b) Selective distribution strategy

- Selective distribution involves a producer using a limited number of outlets in a geographical area to sell products, which enables the producer to gain adequate market coverage with more control.
- This method will reduce competition among channel members and will allow each member a better chance of getting profits through trading. Also, due to the limited number of outlets, the manufacturer would be able to maintain a good relationship and the intermediaries.
- The strategy works well for shopping goods and specialty goods where the frequency of purchase is less than that of convenience products.

c) Exclusive distribution strategy

- Exclusive distribution is where goods are sold through a very limited number of intermediaries. In most situations one intermediary will be appointed for a particular geographical area.
- The organization may engage in this type of a distribution structure when it wants to exercise a great deal of control over the channels on service related issues. Most exclusive intermediaries are not allowed to carry competing brands.
- For this type of arrangement to work a great deal of partnership is required between the manufacturer & the intermediary. Exclusive distribution is generally used for goods of very high value and prestigious nature or where a high level of service is required.

Digital channels and disintermediation

The internet has provided many organisations with the opportunity to develop new businesses and distribution models that would not otherwise be possible. Some, like Amazon and eBay, have used the internet to provide a distribution channel for third parties.

Today we also need to consider (m-commerce) the use of mobile phones and tablets to purchase products and services and (s-commerce) social commerce in which social media is used for commercial transactions. Disintermediation is the term used for removing levels in a distribution channel and cutting out the middleman.

6.15 Levels of distribution

Consumer marketing channels

The producer and the final customer are part of every channel. Each level of distribution adds to costs and increases price. These levels are explained below;

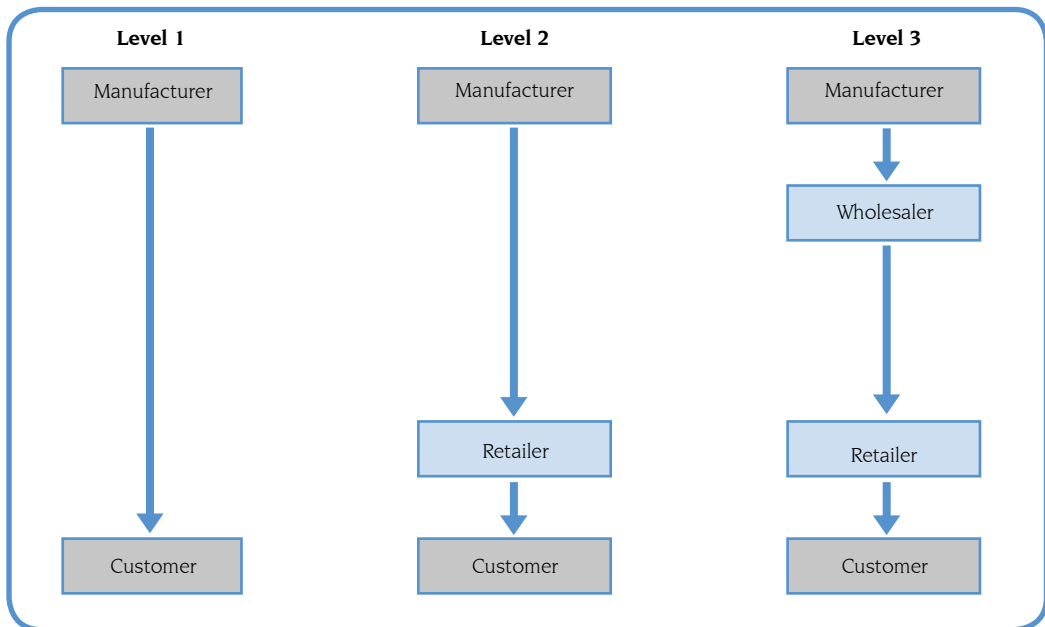


Figure 6.11: Consumer marketing channels.

- **Level 1 (Also called a direct-marketing channel)** - Consists of a manufacturer selling directly to the final customer. The major examples are door-to-door sales home parties, mail order, telemarketing, TV selling, internet selling, and manufacturer-owned stores. The remaining channels are 'indirect-marketing channels'.
- **Level 2-** This contains one selling intermediary and in consumer markets, this is typically a retailer.
- **Level 3** - In consumer markets, these are typically a wholesaler and a retailer. A wholesaler typically buys and stores large quantities of several producers' goods and then breaks into the bulk deliveries to supply retailers with smaller quantities. For small retailers with limited order quantities, the use of wholesalers makes economic sense. This arrangement tends to work best where the retail channel is fragmented. E.g. Not dominated by a small number of large, powerful retailers.

Industrial marketing channels

An industrial goods manufacturer can use its sales force to sell directly to industrial customers or it can sell to industrial distributors. Who sell to the industrial customers or can sell through manufacturer's representatives or their own sales branches directly to industrial customers or indirectly to industrial customers through industrial distributor.

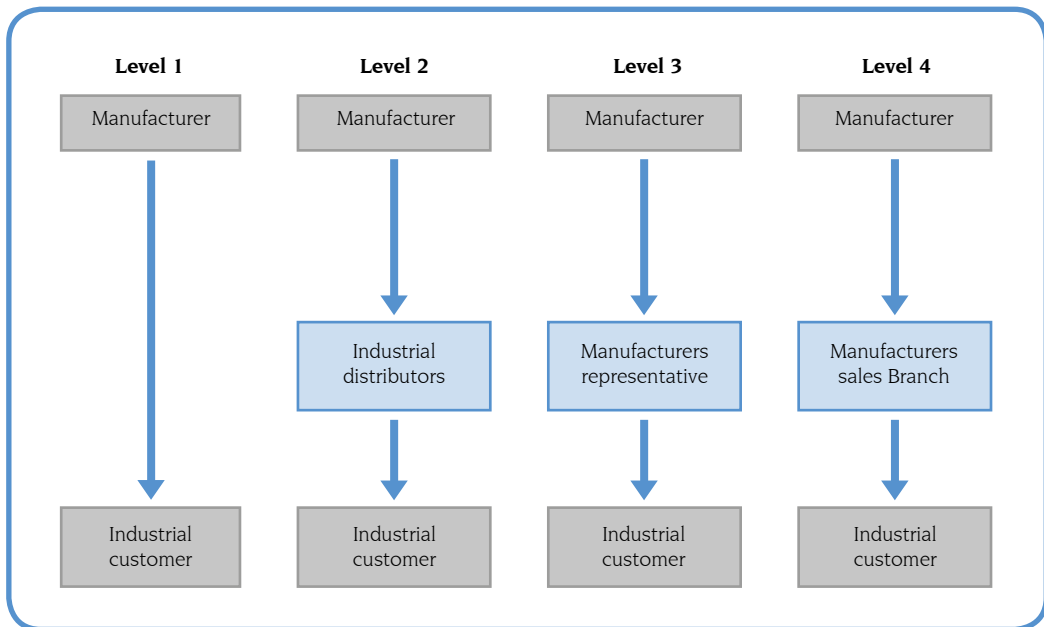


Figure 6.12: Industrial marketing channels.

Criteria for selecting the most appropriate channel

- **The objectives of the organization** - If the organization wants to achieve a high market share then the distribution will have to support it with intensive distribution in many situations.
- **The type of the market** - The availability of channels.
- **The nature of the product** - Perishability, level of after sales and technical service required, customisation.
- **Consumer buying habits** - How frequently does the buyer buy goods will determine channel length. E.g. Buying frequency of soap vs. buying a TV.
- **Availability and cost structure of channels** - For certain products many channels might not be available.
- **Stage in the product life cycle** - If you are in the growth stage, you may want to expand your distribution thus may require many channels.
- **Logistical support** - Warehousing and material handling, transportation and delivery, order processing, inventory management, fixed facility location management (Warehouse, staff, electricity etc.), ability to render the desired level of service.
- **Market coverage and density** - Channel member reach.

- **Power, alignment and control** - Different roles are played by retailers, wholesales and agents. E.g. If retailers are fragmented, wholesalers need to be considered as important.
- **Efficiency and effectiveness** - Efficient in stockholding, transportation and display and effective in terms of sales, acquiring new customers and the distributors knowledge about customers, core competencies, loyalty, trust and commitment.
- **The degree of cooperation, conflict and exclusivity** - Having shared values, culture and having the right fit, financial standing, position in the market.
- **Environmental forces** - Greening the supply chain, ethical stance and environmental sustainability.

6.16 Physical evidence

The physical evidence has two connotations.

- Tangible (Physical) evidence of purchase. E.g. Brochures, tickets, vouchers, packaging, appearance of staff and of the environment (Tangible an intangible service).
- The physical environmental factors which include finishing, décor, colour schemes, noise levels, background music, lighting, heating, fragrances and ambience which surrounds the purchase.

Characteristics of physical evidence

- This is particularly important in service industries because of the intangibility or lack of physical substance involved in service and the lack of ownership of service. These factors make it difficult for consumers to perceive, evaluate and compare the qualities of service provision, and may therefore dampen the incentive to consume.
- The company must facilitate a tangible symbol or representation of the service "product" or ownership, and the benefits it confers. For example, tickets, programmes and merchandise for entertainment, or certificates of attainment for educational services or customer loyalty or discount or credit cards are all 'cues' representing the service available and a history of past positive experience.
- Physical evidence may be incorporated into the design and specification of the service environment involving the building, location or atmosphere to achieve the following:
 - Convey the nature of the service involved.
 - Transmit messages and information.
 - Imply aesthetic qualities, moral values or other aspects of a corporate image.
 - Reinforce an existing image.
 - Reassure.
 - Engender an emotional reaction in the customer.

6.17 People strategy

The market itself consist of people, with different (or similar, within market segment) needs, values, attitudes and disposable income. The people strategy involves those individuals who work for an organization that provides a product to a customer.

Characteristics of the people strategy

- Inseparability of the service from the service provider.
- The 'creation' of the service and 'consumption' of the service generally happens at the same moment.
- In the case of some services, the physical presence of people actually performing the service is a vital aspect of customer satisfaction. E.g. Clerks in banks.
- Creating moments of truth.
- Policies of recruitment and selection - Skills and competencies, job design.
- Programmes of training and development - Professionalism, integrity and ethics, technical competence and people skills.
- Standard, consistent operational practices - Operational manuals.
- Effective motivational programmes - Encouraging positive attitude, commitment.
- Managerial appointments, progression and succession planning.
- Effective policies of staff rewards and remuneration.
- Relationship marketing - Customer relationship management, key account management, managing the customer journey and life cycle.

6.18 Process strategy

Processes are the systems through which services are delivered and marketing tasks are carried out. Efficient processes can become a competitive advantage and increases customer satisfaction. Effective process planning can avoid the variability of a service by establishing service standards. It can also change the dynamics of the service operation, reducing costs and increasing efficiency.

Issues to be considered include the following

- Policies and process manuals - Blueprinting procedures for efficiency and standardization.
- Automation - Computerization of processes.
- Queuing and waiting times.
- Information gathering, processing and communication times.
- Capacity management, matching supply to demand in a timely and cost-effective way.
- Accessibility of facilities, premises, personnel and services.
- Establishing service standards and objectives as far as possible.
- Coordinating staffing levels to smooth out fluctuations in demand.
- Managing customer contact points, to avoid unnecessary queuing and facilities information-giving.

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Cinnamon Grand The Indulgence Brand



Backtrack to the year 2003, a time when Sri Lanka was still engulfed in a domestic war and tourism was ebbing lower than ever before, the Keells Group of Hotels made a move that many at the time didn't see business sense in. Colombo Plaza or (previously known as the Oberoi Hotel) was purchased by the Keells Hotels group and was considered quite a bullish purchase considering the hotel was among the least desirable City Hotels and the tourism industry was increasingly flailing.

Many at the time didn't think it was the best move to make especially considering the fact that the war was a detrimental issue in the flow of tourists to the country and that there was no glimmer of hope of it ever ending. The property in itself wasn't among the top three city hotels and lacked the popularity to even draw local customers and guests to patronize the hotel. No one at the time could foresee the end of the war six years down the line and with the lack of experience the Keells Group had in managing City Hotels, there was the need to bring in someone with extensive experience both locally and internationally. This was the time when Rohan Karr was identified as

the ideal man to spearhead the re-branding of the property.

Rohan Karr possessed creative foresight, international experience and an amazing positive attitude. One of Mr. Karr's most admirable features was that he always found the silver lining on a cloudy day. This trait helped him in his task to take a faltering business model into a success story now made legendary in Colombo, Sri Lanka. His attitude of doing things differently has now grown to be the Cinnamon culture and is their secret to success.

At the initial assessment of the hotel, its people and its offering, Rohan Karr as the General Manager was able to relate to every employee since his career began with washing dishes. He was a man that rose from washing dishes to being a General Manager in a 14 year period. With this experience he was able to identify areas of improvement and areas that needed prepping and pruning. It was his brilliant leadership quality that led to a vision benefitting both the hotel as well as the worker and is proven to be successful to date.



Enjoying the Number one spot currently in the City, Cinnamon Grand has 501 rooms 26% of total room capacity in the country with 33% occupancy of the market, i.e. Cinnamon Grand enjoys a 30% premium against other hotels in the country; which means that more and more customers will pay a premium to stay at the Cinnamon Grand.

With the change of hands in management, there was the need for a name change. Future Brand was commissioned to do a global study and recommend a name that would be accepted the world over. Extensive research and studies were conducted to arrive at the name Cinnamon Grand that was found to have a strong and unique link to Sri Lanka. The name evoked strong sensorial pleasures and the aim of the management was to recreate their service offering in a manner that had never been attempted before. The aim of Cinnamon Grand began with the embryonic idea to please customers in the way they wanted and not in a rigid manner set out by the management. For example, residents of the hotel had the pleasure of having breakfast at any given time of the day, at any given location preferred by them. This level of flexibility was a key factor in winning the hearts of customers. Their launch campaign was apt to their service – asking the question, 'How may we indulge you?' Indulgence and luxury was the core of their

service offering, going the extra mile and serving customers in a unique and memorable manner. This they achieved by being creative in their approach to everything. Two things that set Cinnamon Grand apart from the others in the City; is their creative flair and software, i.e. Their peoples skills.

Cinnamon Grand also identified important touch points that made their customers stay memorable and focused on building value in these areas. For example, it's crucial for a traveller whether on business or leisure to have a good night's sleep. Identifying the need for comfort and soft pillows translated into Cinnamon Grand launching the 'Pillow Menu' – the first ever in the country to offer residents the choice of pillows to suit their individual requirement. When Cinnamon Grand launched this service, it started off by offering residents a choice of seven different pillows and attests to the promise of 'enjoying indulgence' the way you want it, when you want it and with what you want it.

Cinnamon Grand did not and does not believe in a standardized offering to their customers, dictating to them how they think customers might enjoy their stay. Instead, they offer their customers the choice of indulgence just the way they want to enjoy themselves. In the business of service,



Cinnamon Grand has identified and mastered the true spirit of customized service, truly catering to the customer's wants and needs. Value for money is another aspect that Cinnamon Grand ensures the customer receives. Staff is trained to ensure that not a single customer leaves the premises without feeling that he or she has gotten their money's worth.

As General Manager, one of his first initiatives was to launch the 'Cheers' Pub – taking inspiration from a typical British Pub, Mr. Karr utilized a loss making area within the property and converted it within months to a popular and bustling venue that both the young and the old frequented after work to catch the latest sporting matches on large screens over a keg of beer. Initiatives such as this quickly made the property grow in popularity.

Another initiative to increase footfall in the property was to make the coffee shop 'Coffee Stop' popular by introducing famous bands to play in the lobby and making the coffee shop accessible and affordable to a younger age group. Very soon, the empty lobby of the property began flooding in with people who wanted to relax and enjoy the hits of Misty and other popular artists at the time. From a hotel that operated only two restaurants, Cinnamon Grand opened its doors

to some of the City's most popular and sought after restaurants, yet to date. Restaurants such as the Lagoon, TAO, Chutney's, Breeze Bar and Nuga Gama were introduced at the property. Where each have contributed tremendously, both as a value addition and tourist attraction (especially Nuga Gama).

Ground breaking initiatives and service excellence standards such as this was what earned them the Gold Award at the Brand Excellence Awards in 2006. Cinnamon Grand soon began to gather an accolade of awards each year and steadily made their way to be the Number One City Hotel in Colombo. Cinnamon Grand is also ranked among the Top 50 Brands in Sri Lanka by Brand Finance. Reaching Number One wasn't enough for Cinnamon Grand. Service excellence is a daily ritual that they continuously outdo. Members from different parts of the organization make up the Cinnamon Grand 'Think Tank' – this group of individuals come together to think out of the box and have weekly brainstorming sessions to come up with innovative and unique ideas. Numerous feedback forms flow into Mr. Karr's office each morning to review and analyze for his attention, commendation or rectification.



The property aims at exceeding customer satisfaction and as per these feedback forms, customer satisfaction on the overall offering is running at 91%. With stringent quality control and service excellence Cinnamon Grand manages to keep an overall high rating across the service standards reviewed by their guests as they check out. The Marketing Team's motto is 'Give something to the customer, before they even realized they needed it'.

Cinnamon as a brand has enjoyed immense success and has seen the re-branding of Trans Asia Hotel to Cinnamon Lakeside. Thus, anticipating the re-branding of all Keells properties under the Cinnamon umbrella shortly.

With the ending of the war and increased tourist influx into the country, there is great need for Cinnamon Grand to poise themselves for competition from new entrants in the Hotel Industry, such as Shangri-La, Movenpick, Marriot, Sheraton and Hyatt Regency. The advent of international chains coming into Sri Lanka has spurred Cinnamon Grand further to be able to stay relevant in the changing market dynamics, identifying new areas of concentration and improvement. Cinnamon Grand now braces itself

to combat stiff competition from international Hotel chains that will soon vie for the same customers in the city.

Case Questions

Question 01. What are the Cinnamon Brand attributes?

Question 02. What suggestions will you make to improve the Cinnamon brand?

Question 03. Explain the POP Vs. POD of Cinnamon Grand?

Question 04. Identify the critical success factors and construct a perceptual map.

Sources : Interview with Mr. Rohan Karr
General Manager

CHAPTER 7

Marketing Communications Strategy

- 7.1 The communication process
- 7.2 Response hierarchy models
- 7.3 The unique selling proposition
- 7.4 The marketing communications mix
- 7.5 Advertising
- 7.6 Personal selling
- 7.7 Direct marketing
- 7.8 Sales promotion
- 7.9 The marketing communications plan
- 7.10 Measuring the communications mix

7

Marketing Communications Strategy

Logic will get you from A to B.

Imagination will take you everywhere - Einstein

The average consumer is exposed to over thousand brand stimulations everyday. Modern marketing calls for more than developing a good product, pricing and distributing it for the convenience of the consumer. Companies need to communicate with their present and potential customers and manage a complex marketing communications system. The company communicates with its middlemen, consumers and various publics. Its middlemen communicate with its customers and its customers engage in word of mouth communication with other customers and the public. In the process every group provides communication feedback to every other group.

Definition : Marketing communication is when you intentionally or unintentionally transmit an integrated set of stimuli (Signals) to a target audience through linguistic or nonlinguistic forms, with the aim of encouraging a desired response.

The purpose of any communication can be broken down into four main areas (DRIP). Most communication will have at least one of these four factors as their main objective and it can be useful to analyse which of these are required when putting a message together. These factors are;

- **Differentiate** - This is to highlight the key difference between the products you provide and those provided by competitor.
- **Remind** - A company may highlight or bring to surface any product attributes forgotten by consumers.
- **Inform** - This is to highlight any message details on what the product can provide and any action required by consumers.
- **Persuade** - Here, customers are targeted with persuasive messages using personal selling or sales promotions.

Definition : Promotion refers to total marketing communications program of an organization that intends to differentiate, remind, inform or persuade the company's offering among its target group.

Barriers to effective communication

- **Physical barriers** - Factors in the immediate environment that prevent people from communicating effectively.
- **Psychological barriers** - Emotions such as anger, aggressiveness and shyness.
- **Cultural barriers** - Values, norms, expectations and aspirations.
- **Semantics or language barriers** - Spelling, grammar, sentence structure. (Written and spoken)
- **Omission of information by the sender** - Incomplete or inaccurate.
- **Overload** - Communicating more than one can digest.
- **Wrong use of non-verbal signals** - Gestures, facial expressions, appearance, posture contradicting the verbal message.
- **Poor listening or reading skills** - Active listening, selective retention.
- **Using the incorrect channel or medium** - Media vehicle.
- **Failure to seek or offer feedback** - Or ignoring feedback offered.
- **Lack of credibility** - Poor preparation or presentation.

Methods to overcome communication barriers

- **Planning** - The purpose and objectives of the communication and understanding the needs, abilities, limitations and interests of the target audience.
- **Seeking and receiving feedback.**
- **Building relationships and trust.**
- **Careful selection of most appropriate mediums and channels.**
- **Training on interpersonal skills** such as listening, relationship building, conflict resolution, persuasion, telephone technique and presentation techniques.

7.1 The communication process

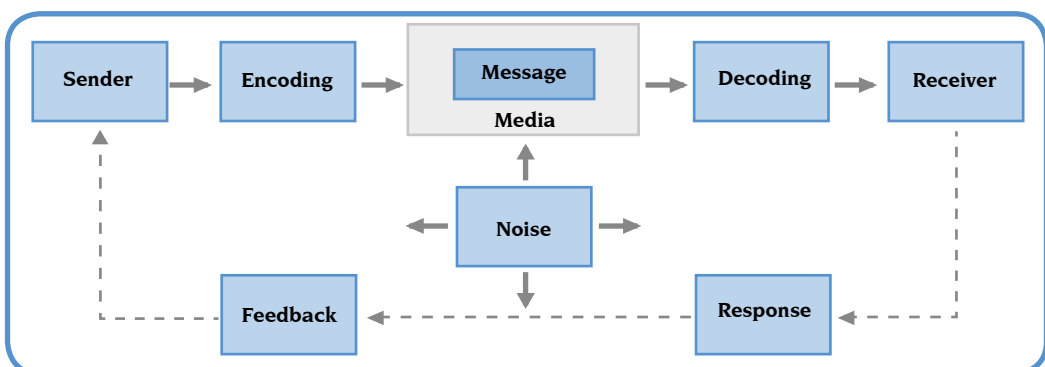


Figure 7.1: The communication process

Sender - This is the source of communication, which may be an individual, group or organization and the sender's task is to get his message through to the receiver. Therefore the sender would need to plan what and how to communicate the intended message.

Encoding - Encoding is a process of putting the sender's thoughts and intentions into a symbolic form and may consist of words, numbers, pictures, sounds or colors. Consumer perceptions may vary and marketers need to understand the various meanings that words and symbols take on and how they influence consumer's interpretation of products and messages. Marketers must avoid those signs that may have several meanings to the audience and consider the needs, beliefs, cultural background, attitudes and behavior of your target audience.

Message - This is the idea that is conveyed. The message may be verbal, nonverbal, oral, written or symbolic and must be put into a transmittable form that is appropriate to the channel of communication being used.

Media vehicle or channel - The channel through which the message is communicated. Here, the sender must consider the exposure of the medium to the target audience and the suitability and appropriateness of the medium. There are two types of channels. a) Personal or social channels consist of salespeople, friends, neighbors, associates; co-workers, reference groups or family and often represent word of mouth communication. b) Non-personal channels are the mass media vehicles, since the message is sent to many individuals at one time. E.g. Print or broadcast media.

Decoding - This relates to the interpretation or assigning a meaning to the symbols encoded by the receiver. This process is heavily influenced by the receiver's image, beliefs, impressions, experiences, perceptions, attitudes, skills, knowledge and values he or she brings to the communication situation.

Receiver - The recipient of the message may be a current or potential consumer user, decider or influencer. This could be an individual, a group of people or a company. The interpretation message by the receiver will depend on the environment in which it is received and the receiver's perception of the source and the medium used to transmit the message. Therefore, identifying specifics of the target audience such as demographic and psychographic profiles is the key for an effective communications campaign.

Response and feedback - Response is the reaction from the receiver after being exposed to the message, which indicates to the sender that the message has (or has not) been successfully received, understood or interpreted. The receiver may decide not to respond and or may respond with feedback. Positive feedback is usually not immediate and means the consumer will change his attitudes or buying behaviour.

Noise or distortion - These are the disturbances or distractions in the environment that interferes with the transmission of the message. Physical noise can be classified as people talking in a room,

the passing traffic, machinery etc., whilst technical noise involves failure in the channel or medium of communication while information is being transmitted such as a breakdown in a printer, a crackle on a telephone line. Distortion refers to the way in which the meaning of a communication is lost in handling. It occurs largely at the encoding and decoding stages of communication. Here, the intention of the sender is not translated accurately into the correct language, tone.

The AIDA framework

According to strong (1925) AIDA represents the stages in the personal selling process. A marketer may need to choose different components of the promotions mix to take the customer through this process.

Attention	This is where the marketer attempts to get the attention of a consumer towards the product or idea that is being promoted. Advertising, public relations and direct marketing activities can help marketers to get the attention of consumers.
Interest	Once attention is received the next step would be to generate interest towards the product. Advertising material is produced to create interest. (Publicity generated positively, interesting offers made through direct marketing can generate interest).
Desire	Desire would be the creation of a positive disposition towards the product. Sales promotional offers and sales presentations through personal selling would help create this.
Action	Action would be to get customers committed to the transaction closing techniques used in personal selling and sales promotional offers to be redeemed before a time frame would lead to action.

Table 7.1: The AIDA framework

The DAGMAR framework

Colley (1961) introduced the defining advertising goals for measuring advertising results model. The purpose of advertising is to cause a change in the consumers mind leading toward purchase, but it is rare for a single advertisement to have the power to move a prospect from complete unawareness to action. Effectiveness is judged by how far an advertisement moves people along the spectrum. Advertising goals or measures can be set at each point.

- **Unawareness to awareness** - The advertisement tries to make potential customers aware of the product's existence. E.g. 90% of the target market will be aware of the product.
- **Comprehension** - The customer recognizes the brand name, trademark and knows about the product and what it does.
- **Conviction** - The customer has a firm attitude, preferring a particular brand to all others. Preferences may be rational or emotional.
- **Action** - Some move is made towards purchase and is actively considered.

Hierarchy of effects model

Perhaps the best known of these response hierarchies is the model developed by Robert Lavidge and Gary Steiner (1961) as a paradigm for setting and measuring advertising objectives. Their hierarchy of effects model shows the process by which advertising works and assumes a consumer passes through a series of steps in sequential order from initial awareness of a product or service to actual purchase. The basic premise of this model is that advertising effects occur over a period of time. Advertising communication may not lead to immediate behavioral response or purchase; rather, a series of effects must occur, with each step fulfilled before the consumer can move to the next stage in the hierarchy. The model is explained below:

- **Awareness** - If most of the target audience is unaware of the activities or products of the organization, the communication strategies are designed to build awareness. This can be done, for example, through introducing the name and logo of the product through various appropriate communication channels.
- **Knowledge** - The target audience may be aware of the products, but does not possess details of the product. In this context, communication strategies are designed to provide the target audiences with deeper understanding of products.
- **Liking** - This is to increase the level of favorableness of the target audience. E.g. Consumers know the product well but have a negative opinion about it.
- **Preference** - The target audience may like the product but not prefer it to others. Here, the communicator must try to build consumer preference by promoting quality, value, performance or other features.
- **Conviction** - A target audience may like a particular product but not develop the conviction to buy or adopt it.
- **Purchase** - Here the communicator leads potential users to take the final step by offering special prices, guarantees and free trial or extended credit.

The information processing model

The information-processing model of advertising effects assumes that a receiver goes through a series of steps in being persuaded and this constitutes a response hierarchy. McGuire's (1976) model includes 'retention' which is a stage not found in the other model. This is the receiver's ability to retain comprehended information that he or she accepts as valid or relevant. This stage is important since most promotional campaigns are designed not to motivate consumers to take immediate action but

rather to provide information they will use later when making a purchasing decision. The steps are as follows;

- **Exposure** - This is the first crucial step of the consumer being exposed to the advertisement among thousands of media placements.
- **Perception** - Exposure may not guarantee attention or recall.
- **Comprehension** - This is when the receiver grasps the full meaning of the message.
- **Agreement** - The believability or agreement to the message may be influenced by the beliefs held previously or the perception of the source as being credible.
- **Retention** - A substantial amount of time may pass between the conveyance of the message and the actual moment a purchase decision is made. Remembering the accepted information is an important stage in the process.
- **Retrieval** - Closely tied to retention is the act of retrieval. This step refers to the ability to recall information from cognitive storage systems.
- **Decision making** - This is to get the consumer to actively consider the product from the choices available.
- **Action** - This step is especially important to those measuring advertising's effectiveness through increased sales.

Product life cycle and the communications mix

You may identify that depending on the stage in the PLC; a marketer may use a different promotional mix.

Stage	Promotional mix elements
Introduction	Advertising and public relations - for awareness building, sales promotions and direct marketing for trial
Growth	Advertising for brand building, personal selling for expanding distribution channels
Maturity	Heavy trade and consumer promotions, personal selling and advertising for reminder campaigns.
Decline	Personal selling to sell stocks, direct marketing to develop market niches.

Table 7.2: Product life cycle and the communications mix

The Rogers diffusion curve

- **Innovators** - These are technology enthusiasts and typically represent 2.5% of the population. Some people have a psychological predisposition to buy products and services that are 'new' to the market. This predisposition can be modeled with the use of a normal distribution curve. Certain people derive a great deal of pleasure from acquiring new products and being first in the market. Such people have high disposable income and a low level of perceived risk and in fact they

positively like the risk and excitement associated with the purchase of new, innovative products. Roger describes innovators as 'Venturesome' who are willing to try new ideas at some risk.

- **Early adopters** - This group accounts for approximately 13.5 % of the market. These are still highly adventurous, visionary purchasers with a low level of perceived risk but are slightly more risk adverse than the 'innovator' category. A business has reached its critical mass when this group adopts the product and it is important for a business to expeditiously reach this point in order to move in to the mass or majority market. Early adopters are guided by "Respect" which means they are opinion leaders in their community and adopt new ideas early but carefully. Marketers will have to target their products at innovators and early adopters appropriately if they are using opinion leadership to induce the diffusion process.
- **Early and late majority** - The next two groups, 'Early majority pragmatists' and 'Late majority conservatives' account for the bulk of the potential market, 64% in all. Most people fall in to one of these categories and can be referred to as the mass market. The early majority are said to be "Deliberate" where they adopt new ideas before the average person whilst the late majority are said to be "Skeptical" where they adopt an innovation only after a majority of people have tried it.
- **Laggards** - These are people who are not really infested in new product development and tend to purchase products only when their old product is worn out and stops working. The laggards are tradition bound who are suspicious of changes and only adopts when all options are exhausted.

The innovation adoption model

The innovation adoption model evolved from the Rodger's (2003) diffusion of innovation theory and represents the following five stages a customer passes through in adopting a new product or service.

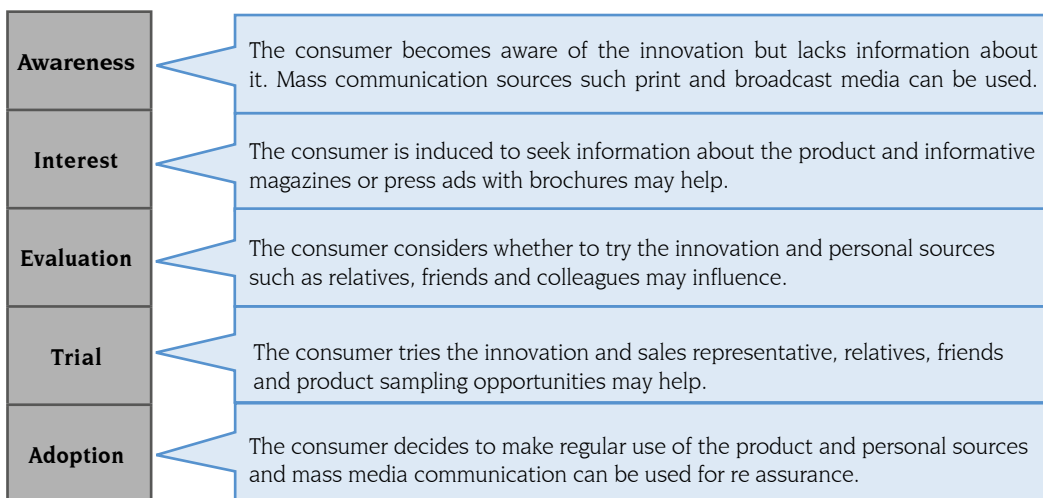


Figure 7.2: The innovation adoption model.

7.2 Response hierarchy models

The tri-component attitude model	AIDA model	Hierarchy of effects model	Innovation adoption model	Information processing model
The cognitive component (Beliefs)	Attention	Awareness Knowledge	Awareness	Presentation Attention Comprehension
The affective component (Feelings)	Interest Desire	Liking Preference Conviction	Interest Evaluation	Yielding Retention
The conative component (Actions)	Action	Purchase	Trial Adoption	Behavior

Figure 7.3: Response hierarchy models

The four models above view the response process as moving through the stages of the tri component of attitudes model.

- **The cognitive stage** - Represents what the receiver perceives or knows about the particular product or brand. This state includes awareness that the brand exists and knowledge, information or comprehension about its characteristics and benefits.
- **The affect stage** - Refers to the receiver's feelings or affect level for the particular brand in terms of the desire, preference and conviction.
- **The conative or behavioural stage** - Involves consumer action such as trial, purchase, adoption or rejection.

Communication models

It's difficult to prove exactly how advertising or any other form of promotional activity actually works, in the sense of being able to calculate an exact return on investment (ROI) for any given marketing activity. But there are various models and theories that can help marketers plan effective communication.

- **Market response models** - These measure the relationship between advertising and purchasing behavior by metrics as such as sales revenue, market share and brand choice. They also examine how long the effects of advertising last. Generally, if a campaign runs for no longer than three months, the effect dissipates and disappears completely within a year. It is not enough to make the customer aware of the product or service; they also need reminding before key purchasing periods.
- **Cognitive information models** - These assume that consumers make rational decisions and that advertising provides information that helps them to differentiate and position brands based on what they know. In reality, this is usually far from the truth.

- **Affective models** - These suggest that advertising works by appealing to our emotions.
- **Conative models** - These are related to behavior and are based on observations of how customers behave in certain given circumstances.
- **Hierarchy-of-effects models** - These models combine the cognitive and affective aspects of advertising in order to drive or influence behavior. The traditional 'hierarchical' models of advertising, referred to in the final bullet point, were based on three identified stages of customer behavior - cognition, affect and conation (Knowing, feeling and doing).
- The best known of these hierarchical models is **AIDA (Attention – Interest – Desire – Action)**, which was initially proposed as an aid to sales people by E. St.Elmo Lewis and then developed by Strong (1925). It remains a useful basic way to look at all promotion. The premise is that advertising works by first catching the attention of the target group, the generating interest in the message, the provoking some kind of want or need and, finally, prompting purchase.

Planning effective communications

PASS is a useful framework to remember when planning communications. It stands for;

- **Purpose** - What is the purpose of the communication?
- What are the main points you wish to get across?
- **Audience** - Who are they?
- What do they need to know?
- How can the message be transmitted to them?
- When do they need to know?
- **Structure** - How should the content be organised?
- How long should the message be?
- **Style** - How should the message be delivered?
- What language is appropriate?
- What format - Oral or written?

New forms of marketing communication

Three relatively new forms of marketing communication include viral, guerrilla and experiential marketing:

- **Viral marketing** - Encourages individuals to pass on a marketing message to others, so creating exponential growth in the message's exposure in the same way computer viruses grow. A good example of viral marketing is a Nike video of footballer Ronaldinho putting on a new pair of boots and then juggling a ball for three minutes. The video was posted on YouTube and to date over 30 million people have got to know about the video and so have been exposed to Nike's promotion of their products.

- **Guerrilla marketing** - Relies on well thought out, highly focused and often unconventional attacks on key targets. A good example of guerrilla marketing is when a leading men's magazine projected the image of the model Gail Porter on the Houses of Parliament in London. It was a stunt that was talked about by a huge number of people. It was an attempt to get people to vote for the magazine's 'world's sexiest women' poll and the results were outstanding. Other examples are street art and flyposting. Some of them are illegal, which means brands are taking a risk in getting involved.
- **Experiential marketing** - An interactive marketing experience aimed at stimulating all the senses, E.g. Road shows, street theatre, product trials. The next time the consumer sees the product, it should trigger a range of positive memories making it their first choice. Flashmobs are a part of experiential marketing where groups of people who suddenly assemble in a public place, perform an unusual and apparently pointless act for a brief time then quickly disperse. They are organized by text, social media or viral emails. E.g. T Mobile's 'Life is for sharing' and the 'Hallelujah' flashmob. (Watch them on Utube)
- **Ambush marketing** - This is effectively 'piggybacking' unofficially on another organization's sponsorship of an event. E.g. Budweiser was the official beer sponsor of the football world cup finals in 2010. A competing Dutch Beer company hired 36 models who were dressed in bright short orange dresses which drew considerable attention from the world media and attracted free publicity, much to the annoyance of the event organisers and of course, of Budweiser.

Customer value propositions

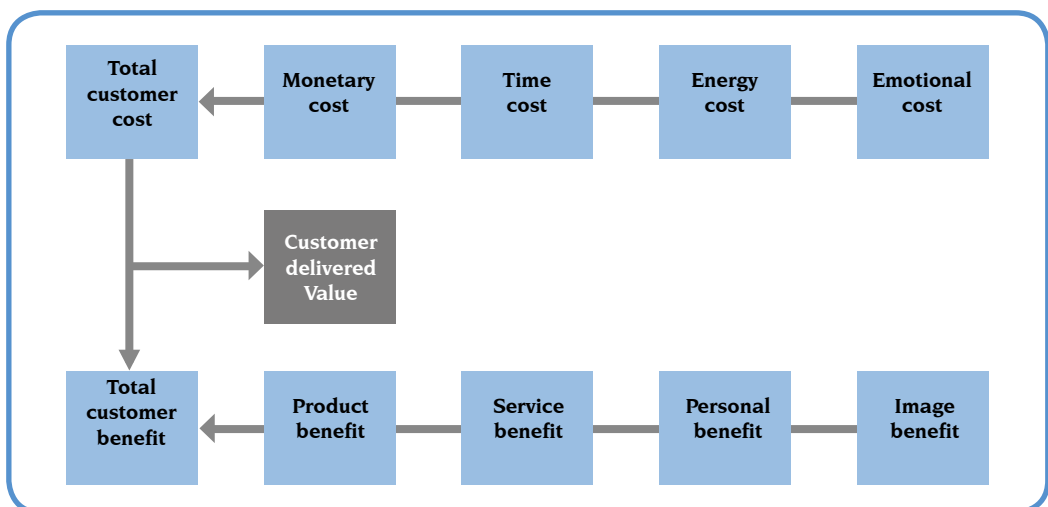


Figure 7.4: Customer value propositions

If they are to buy a product or service, customers need to understand the value or benefits ownership can deliver. Customer's perceived value (CPV) is the prospective customer's evaluation of all the benefits and costs of an offering compared with those of competitors. The equation for total customer 'total customer-delivered value' is the difference between the value the customer thinks they are getting, and what it costs them (in more than pure monetary terms) to get it. The figure below illustrates the different factors involved.

Some organizations seem to have an intuitive grasp of what their target group needs or wants. But most need to find out through market research or direct feedback from customers at the point of sale, via website surveys or in social media. A value proposition is short, succinct statement of the bundle of benefits that your product or service will deliver to its target audience. This must be very specific and focus on what your customer really wants and values. A useful approach is to place yourself in the shoes ask, "Why would I want to buy this product?"

7.3 The unique selling proposition

Reeves (1961) reported a principle on which his advertising agency operated for 30 years. This states that the consumer remembers one key element of an advertisement, which is a strong claim or concept that can be explicit or testable. This proposition must be one that competition does not offer, which will be recalled by the consumer at the appropriate time of purchase.

7.4 The marketing communications mix

The marketing communications mix is the specific mix of advertising, personal selling, sales promotion, public relations, and direct marketing a company uses to pursue its advertising and marketing objectives.

7.5 Advertising

Definition : Advertising involves using mass, non-personal, paid media, to create awareness or encourage product trial.

Advertising provides opportunities for 'amplified expressiveness' by dramatizing the company and its products through the artful use of print, sound and colour. There may be instances where the message could get diluted or misunderstood as a result of this expressiveness. The monologue nature of advertising results in the audience not feel obliged to pay attention or to respond to advertising, as it is impersonal.

Types of advertising agencies

- Full service agencies.
- Direct marketing agencies.
- Design studios.
- Public relations specialist.

- Creative hot shops.
- Sales promotion or brand activation agencies.
- Media buying houses.
- Digital, social media marketing agencies.
- Event management companies.

Ad agency selection process

Some companies manage their advertising programs through an in house graphics designer. Most companies employ a pitch in order to select an external advertising agency. This is where you brief a few agencies on the requirement and solicit their ideas via an advertising pitch. Upon selecting an agency the company may draw up an advertising contract. The steps in selecting an external ad agency are as follows;

- a) Prepare an advertising brief for a agency pitch.
- b) Short list a few agencies for the pitch base on the following criteria.
 - Industry knowledge.
 - How well was the brief addressed.
 - Media planning and buying and production capabilities.
 - Creative reputation and special awards to ascertain credentials.
 - Personal chemistry of the account management team.
 - Rate card.
 - Size and experience of the agency.
 - Conflict of interest and client retention rates.
 - Other services available.
- c) Undertake the pitch for a chose campaign and short list two agencies.
- d) Request client references and background checks from media companies for the short listed agencies.
- e) Select an agency and draw up contract - Agree on the remuneration method.

Tactics to motivate advertising agencies

- Sharing information - Be open and honest.
- Making them feel they are part of the internal marketing team.
- Setting goals - Assigning realistic, measurable goals.
- Taking the agency on field visits.

- Appreciation - Giving credit when its due.
- Performance reviews - Conducting annual performance reviews.

Typical functions in a full service ad agency

- The account management team - Font liners soliciting the brief and interfacing the client.
- The creative department - The glamour job.
- The media department - Media planning and buying.
- Studio.
- Audio video and print production department.
- Digital media department.
- Finance - Costing and billing.
- Public relations and events department.

Television

Television is a glamour medium and offers wide reach, coverage with high mass market exposure, audiovisual impact and is useful in creating awareness when launching new products. It is useful in motivating employees and supply chain partners and is measured through viewership figures. Even though TV ads are quite expensive the cost per contact is relatively low. A solitary advertisement can reach millions of viewers simultaneously. Television ads allow for a high degree of creativity with a catchy musical tune, attractive visual content, or motion can grab the viewer's attention.

Direct response TV advertising in which products can be demonstrated on has increasingly gained popularity in which the viewer is given a telephone number and invited to call for more information or to place an order. Cable television programming offers segmentation and provides a well-defined, homogeneous audience that matches more narrowly defined target markets. Most TV ads feature durable goods (washers, dryers, cars), staple items (detergent, soap, deodorant), general appeal products (snack food, beer, soft drinks), and various luxuries marketed to larger groups (cruise ships, theme parks, insurance, credit cards).

Clutter remains the primary problem and usually the messages at the beginning or near the end of the break have the best recall. Television commercials have short life spans where most ads last 15 or 30 seconds and come with high productions costs and a long lead-time to be produced. Channel zapping during programs and surfing or leaving the room during commercials are driving advertisers away from this medium and the remote control remains the greatest threat. Further, when television ads are shown frequently, they quickly lose the ability to attract the viewer's interest. Companies are forced to replace the ads with something new before consumers get tired of them and tune out, while at the same time trying to keep them long enough to recover some of the production costs involved.

Scheduling TV ads

The lowest cost per thousand is not necessarily the best schedule. It is usually recommended to purchase at least 250 - 300 TVRs, providing 70% coverage and a minimum of 4 OTS, in order to make a TV campaign worthwhile. A big draw back in TV measurement is that it counts 'pairs of eyes' exposed to the sport and not the responsiveness to ads. Repetition of ads increases TARPs, but is subject to the law of diminishing returns. It is essential for the message to sink in, but people easily become habitual and cease to notice or be motivated by the ad. One strategy is to have a set of related ads, which can be rotated, reinforcing but varying the message.

Radio

Although not as glamorous as television, radio offers wide reach and is a personal and intimate medium, which encourages listenership and trust. Listeners can develop closeness to DJs and other radio personalities. The bond or intimacy level gives the radio personality a higher level of credibility and an edge to products and services the radio celebrity endorses. It is a very good background medium (listened to whilst doing something else) and since it is mobile, it could be heard to while driving, jogging or working be it whether it is at home, work or on the move. Radio does not offer a visual element and this makes it difficult to prepare ads. However, various sound effects, use of dialogue, mood, drama, humour, curiosity and lively memorable tunes assist in this process. Although it offers a short exposure of the ad, repetition will help the consumer move the ad from short term to long-term memory. Radio stations tend to have definable target markets based on their formats. Radio stations offer considerable flexibility since the ads can be changed quickly and produced in a short lead-time.

Print Media

Press advertisements are ideal for smaller firms to reach the mass market at a low cost. Media research into 'traffic per page' suggests that the early pages are read more than late pages the right-hand pages have higher noting scores than left-hand pages whilst pages opposite relevant or popular editorial content do better than pages opposite other advertising and less read editorial content. Cover space is particularly sought after because of its high visibility, and since the covers are printed on better quality paper for colour production.

Types of press ads

- **Classified advertising** - Small space and limited number of words or pictures.
- **Display advertising** - Offers opportunity for creativity.
- **Advertorials** - The are advertisements presented as edited copy.
- **Loose inserts or 'drop outs'**.

Magazines

The glamour of television has overshadowed magazines for a long time and it offers a high level of market segmentation and audience interest. Readers linger over an ad for a longer period of time because they read magazines in waiting situations (During a flight, a visit to a Doctor) or during leisure time. Long lead times are a major disadvantage of magazines, because advertisements must be submitted as much as one month in advance of the issue. Magazines offer high-quality color and reproduction and a long advertising life, lasting beyond the immediate issue because subscribers read and reread them. However, there is a steep decline in the number of Gen Y readers who prefer search engines and blogs.

Outdoor media

These include posters, billboard sites and walls, digital screens, hologram pop ups, bus shelters, and other creative use of advertising on Taxis, trucks, buses, trains, floats, blimps and hot air balloons etc. These mediums offer low cost per impression, longer life and to effectively target local audiences. However it offers limited opportunities for creativity and the message must be extremely brief to cut through the clutter.

Ambient advertising

Advertising outside the home using non-traditional media, such as beer mats, the backs of supermarket till receipts and trolleys, car park receptionists, images projected onto buildings, interactive billboards, litter bins and petrol pumps and panels in toilets.

Product placement

Careful placement of brands in films or TV shows. E.g. Omega watches and Aston Martin cars appeared in the James Bond movie Skyfall.

Cinema

Cinema advertising takes advantage of high audio-visual impact and a captive audience but still requires a high quality and entertainment value. The low cost per insertion makes it feasible for small and medium advertisers to use this medium, which is ideal for local advertisers such as restaurants, supermarkets in the vicinity, which can obtain an immediate response. However the drawbacks are the high cost of production and the short exposure time.

Managing advertising media

Marketers find it increasingly difficult to reach their target market due to media inflation, proliferation, fragmentation, convergence, clutter and rapid shifts in consumer lifestyle. A good rule of thumb is

called the 75-15-10 breakdown. That is, 75 percent of the money buys media time or space. 15 percent goes to the agency for the creative work, and 10 percent is spent on the actual production of the ad.

Media planning begins with a careful analysis of the target consumer profile where it will be approached from the customer's viewpoint by mapping the customer experience through the course of a typical day. Media planners need to analyze media statistics and work on getting the best bang for the buck by providing details on where and when to place ads in order to secure the highest impact.

The media buyers function is to negotiate rates, times and schedules and by space for the ads. Larger agencies have the clout to dictate lower prices from media and buyers may need to maintain an exceptional relationship with media suppliers and possess good knowledge about rates, special deals and schedules.

If the advertisement is jammed with too much information, the message is easily lost. Consequently, almost every kind of ad must be framed with some type of white space. White space is the absence of copy in a printed text and the absence of music or sound in a radio or television ad or the white space around the area in the pictures and words on a billboard. A key issue facing advertisers is how many times a person must be exposed to an ad before it has an impact on the consumer.

The recency theory notes that advertising is a waste of money when ads reach individuals who are not part of the target market. The media multiplier effect suggests the increased impact of using two or more media with a combined impact is stronger than using either medium alone. The key is to find effective combinations of media when designing a media mix.

Digital media

The advent of digital marketing has been accompanied by greater measurement of marketing activity. This is partly because it is relatively easy to measure online marketing, and partly to do with the broader issue of growing market accountability. Examples include advertising on Social Media such as Facebook, LinkedIn, Banner ads on internet websites, pop-ups, online films, search engine optimization etc. The number of metrics available for measuring online marketing has raised awareness generally of the need to measure marketing, and digital measures have become drivers for wider marketing metrics, which has helped to align online and offline measures. The key digital metrics are as follows:

- **Page impressions** - This measures the number of visitors to the website, often broken down into new visitors and repeat visitors. Numbers of visitors to a website is an indication of the interest consumers have in the organization and its products, because whereas a customer may see an offline ad as whether they want to or not, a visit to a website is a deliberate action.
- **Total clicks** - Many organizations see communication and engagement with customers on social media as beneficial itself, but the real measure of success is the number of people who then go on to visit the website. Total clicks measures this in relation to the word-of-mouth generated from

social media activity. High total clicks indicate that the customer is not just talking about the organization, but engaging positively with it.

- **Cost per order** - Whether companies use 'pay per click' or banner advertising they incur a cost in promoting themselves. Cost per order measures the value of orders generated online against the promotional cost required to generate them.
- **Cost per click** - Not all enquires become orders, and the cost per click measures the visits to the website against the advertising costs incurred to encourage them there.
- **Social media activity** - Social media sites such as Facebook, Twitter and LinkedIn may generate number of followers (or the equivalent) for the organization but not all of these flowers engage with it in any meaningful way. However, customer activity in itself is a measure of their interest. Understanding social media activity helps an organization to understand whether its products and services are relevant to customers. Companies can measure the number of active 'members' that is, those who engage with the company through social media as a proportion of total members (followers).
- **Bounce rates** - A key measure for websites, the bounce rate is the number of visitors to a website who leave after visiting just one page. A high bounce rate may indicate that the web page doesn't meet customers' requirements there's nothing on the site that makes them want to explore further. Bounce rate tends to be a standard feature of web analytics. Improving the bounce rate is a priority for digital marketers, who want to encourage visitors to explore more and move to the later stages of the sales funnel.
- **Downloads** - If a visitor downloads something from a website it indicates an interest in the organization's offer, so is an important metric of engagement. Download can be measures as the percentage of visitors to the site who download additional information, hopefully providing contact information when they do so.

Media selection

For each medium you plan to use, you may need to take into account;

Cost	Can we afford it?
Receptiveness	How will it be received? Will it be suitable?
Environment	Competitive media campaigns?
Audience	Will the message be understood? Size?
Time	Appropriateness of time?
Estimating responses	What's the required frequency to generate feedback or sales?

Table 7.3: Terminology used in managing media

Media planing measures

When putting a media plan together it is important to select media that are effective in conveying the message and efficient in reaching the target audience.

- **Impact** - The qualitative value of a message through a given medium. Often the combination of audio and visual maximizes impact.
- **Opportunity to see (OTS) or media impressions** - Although an individual may be exposed to a vehicle, they may have not seen the advert. OTS measures the opportunity.
- **Duplication** - The member of the target exposed to two or more adverts carrying the same message.
- **TV ratings (TVR)** - The size of the television audience for a given programme measured in rating points.
- **Reach** - The size of the audience, which is exposed to an advertisement.
- **Effective reach** - The percentage of an audience that must be exposed to a particular message to achieve a specific objective.
- **Opportunity to hear (OTH) or frequency** - This is the average number of times the ad reached an individual or a household.
- **Effective frequency** - Refers to the number of times a target audience must be exposed to a message to achieve a particular objective.
- **Gross rating points (GRP's)** - Is a measure of the impact or intensity of a media plan and is calculated by multiplying a media vehicle's rating by the frequency or number of insertions of an ad. ($GRP = \text{Vehicle rating} \times \text{Frequency}$).
- **Target audience rating points (TARP's)** - Measure reach and frequency against specific demographic audiences. (How many times did the ad reach SEC A customers).
- **TSA** - Total survey area is the area covered by a stations signal.
- **(CPT) Cost per thousand** - Is the rupee cost of reaching 1000 people of the chosen media vehicle's audience. $CPT = (\text{Cost of media buy} / \text{Total audience}) \times 1,000$.
- **Cost per inquiry** - The cost of prompting one person to inquire about your product or service.
- **Cost per rating point (CPRP)** - The cost to buy one rating point. $CPRP = \text{Cost of media Buy} / \text{Media vehicle rating points}$.
- **Circulation** - Number of newspapers that are printed and sold by the publisher.

- **Readership** - Number of people who will be reading the paper.
- **Share of voice (SOV)** - GRP's for a particular brand expressed as a percentage of the GRPs for the defined category.
- **Share of spends (SOS)** - Share of spend for a particular brand expressed as a percentage of spend for the category.

Strategies for advertising spend (The SOV/SOM matrix)

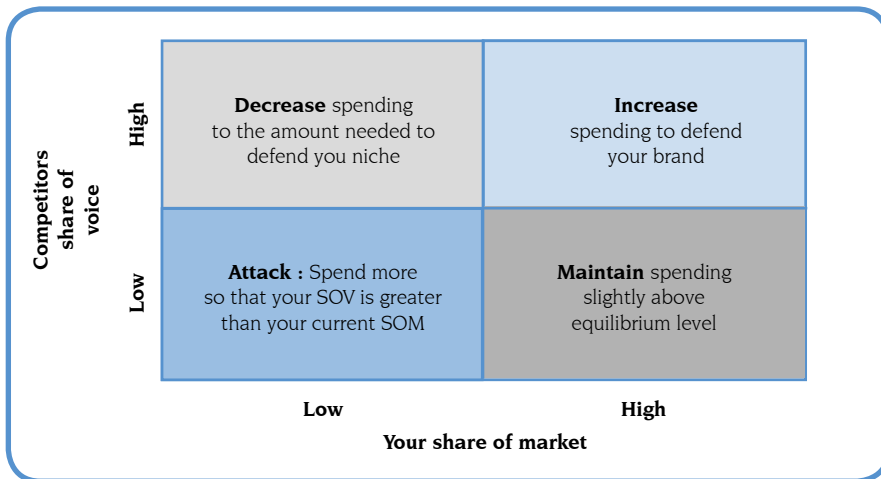


Figure 7.5 : The SOV/SOM matrix by Schroer, (1990)

Rather than challenge competitors in markets where it is weak and they are the leaders, as is commonly the case, the company does best by picking its shots and targeting markets where competitors are under spending. In those, the upstart will spend at a significant share of voice premium to try to grow share. Merely matching the competition's spending in those markets is unlikely to do the attacker much good, unless its objective is only to hold its position.

Before marketers decide to aim for leadership in a particular market, they should consider if they are ready for a long war and indeed whether they want one. To start one, they need a high ad budget backed by large volume and a low cost structure. They may be better off modifying their ambitions and looking for market niches outside the spending wars.

You can calculate share of voice by adding up the investments all relevant competitors have made in their brand or company, and working out how much you have spent on your brand or company as a percentage of the whole. This rather rough-and-ready method of budgeting effectively means brands base their marketing communications spend on what their competitors appear to be spending, which makes no allowance for the skills of media planners, buyers or creative people in generating the best return of their client's investment.

Organizations may decide to maintain marketing communications spending (their SOV) at a level in line with their share of the market (SOM) or they may decide on a different level. If your company wants to grow aggressively, you would do well to pitch your marketing communications spend (SOV) substantially higher than your share of market – maybe even twice as high. You can see why brands that need or want to grow their market share are tempted to 'buy' share by simply outspending the competition that is, by increasing the marketing communications budget. This approach may well be encouraged by agencies, but it is a subject on which marketing and finance directors may not see eye-to-eye.

Classification of advertising media

- **Above the line promotion (ATL)** - Is advertising placed in paid for media, such as press, radio, TV, cinema and outdoor sites. The 'Line' is one in an advertising agency's accounts, above which are shown its earnings on a commission basis, (Generally 15%) from the buying of media space for clients.
- **Below the line promotion (BTL)** - Such as brochures, leaflets, ambient related, direct mail, sales promotions, launch events, exhibitions and trade shows etc., which are non-commissionable marketing communication activities where the agency earnings are on a fee basis.
- **Through the line promotion (TTL)** - Is mostly web, interactive, digital or social media related.

The media planning process

Brand briefing	The client uses a media brief to brief the agency
Competitor analysis	Analyzing the share of voice and media channels used by competing brands
Media objectives	Reach target audience, geographic scope of placement, message weight
Media strategy	Media mix, efficiency (CPT, CPRP), reach and frequency, audience duplication, length and size of ads, burst, flighting
Media negotiations	Buying and scheduling
Campaign evaluation	Evaluate against media objectives

Table 7.4 : The media planning process

Media scheduling strategies

Once the media planners have selected the media for a campaign, they will have to consider how and when to use it over time. They typically schedule the media with the highest coverage and impact at the start of the campaign to create awareness quickly, follow it up with more cost-effective media to build frequency and then, over time, adjust the frequency in order to keep costs down whilst retaining interest. Media planners make expert decisions regarding the best use of particular medium, but there are a number of established scheduling patterns.

- **Continuous advertising** - This scheduling involves advertising the message evenly throughout a given period. For example, if company wants 48 television/radio spots, it will advertise 4 times in a month or once in a week, or on every Monday.
- **Concentrated advertising** - This scheduling involves giving all the advertisement in a single period. Thus, the concentrated advertising means to spend the entire advertising budget within one flight. It is applicable when the product is sold in one season, event, festival or holiday. For example the company advertises 48 spots within four days during Diwali festivals, 12 times a day.
- **Fighting advertising** - This scheduling involves giving advertisement at specific intervals. Company advertises for some period, followed by break of no advertisement, followed by the second flight of advertisement and likewise. Company with seasonal, cyclical, or infrequently purchase products follows such scheduling. Company with a limited fund prefers to advertise during a specific season or festival only.
- **Pulsing advertising** - This scheduling is the combination of both continuous and fighting advertisements. It includes continuous advertising at low-weight level, reinforced periodically by waves of heavier activity. In other words, the company spends certain portion of advertising fund for continuous advertising, and the remaining fund for fighting advertisement. For example, the company may advertise once in a day with a brief advertisement message. And, its detail advertisement appears for a week regularly after every three months. This timing is preferred by the financially sound companies.

Factors affecting advertising scheduling

The allocation of advertising expenditure or frequency over time depends on advertising objectives, nature of product, type of target customers, distribution channel, and other relevant marketing factors. But, mostly, following five factors are considered to decide on the timing pattern.

- **Buyer turnover** - It shows the rate at which new buyers enter the market. The rule is, the higher the rate of buyer turnover, the more continuous the advertisement should be.
- **Purchase frequency** - It shows the number of times during the specific period that the average buyer buys the product. The common rule is, the higher the purchase frequency, the more continuous the advertisement should be.
- **Forgetting rate** - It shows the rate at which the buyer forgets the brand. The rule is, the higher the forgetting rate, the more continuous the advertisement should be.
- **Financial condition of company** - It shows an ability of a company to spend for advertisement. The rule is, the more is the ability to spend, the more continuous the advertisement will be.
- **Level of competition** - Company facing a severe market competition will opt for more continuous advertisement through multiple media. The rule is, the more is the intensity of competition, the higher the frequency of advertisement will be.

The structure of an advertising brief

a) Overview of the company

- Corporate history.
- Company performance.
- Strengths and weaknesses.
- Overview of the competitive environment.

b) Information about the product

- Unique features and benefits (USP).
- About the brand - The essence, positioning, personality.
- Pricing strategy.
- Previous communications campaigns.
- Distribution channels.
- Other features that might inspire the agency.

c) Marketing communication objectives

- To increase brand awareness.
- To build brand image.
- To Induce purchase.
- To increase customer traffic.
- To increase retailer or wholesaler orders.
- To increase inquiries from end users and channel members.
- To provide information.
- To change perceptions.
- To achieve the desired positioning or repositioning.
- To improve customer retention and satisfaction.
- To launch a new product.

d) Target audience profile - This involves a detailed profile of the primary, secondary target audiences. The following profiling tools may be used;

- Socio economic classification.
- Family life cycle.
- Bases of segmentation.
- Generations.

e) Marketing insight - An insight is something that is in sight but not noticed or seen for a long time.

- f) **The message theme** - This is the outline of key idea(s) that the advertising program is supposed to convey. E.g. The message theme for an automobile could be oriented towards luxury, safety, fun, fuel efficiency or driving thrill. The message theme should match the target audience and the medium selected.
- f) **The support facts** - Support takes the form of the facts that substantiate the message theme. An exercise machine advertisement claiming to reduce weight may support this point by noting independent medical findings or testimonials from people with success stories using the machine.
- g) **The constrains or mandatories** - These are any legal, regulatory or ethical restrictions, brand identity standards.
- h) **Deadlines** - Launch date.
- i) **Budgets** - ATL, BTL, TTL split.

Advertising message strategies

- **Fear** - Advertisers use fear to sell a variety of products because they work. E.g. Life insurance.
- **Humour** - Humour has proven to be one of the best techniques for cutting through clutter.
- **Sex** - Advertisers use sex appeal, nudity, sensuality, romance, love and other sexual approaches explicitly to arouse and stimulate the viewer's imagination.
- **Musical appeal** - A known tune or song can link emotions; memories and other experiences tie the product to the music.
- **Rational** - Automobile ads display information about gas mileage, warranties and other features.
- **Scarcity** - When there is limited supply of a product, the value of that product increases.
- **Generic or informative advertising** - Direct promotion of product or service attributes and benefits without any claim of superiority.
- **Unique selling proposition (USP)** - Is an explicit, testable claim of uniqueness or superiority that can be supported in some manner.
- **Comparative advertising** - This is when an advertiser directly or indirectly compares a product or service to the competition it is the comparative method.
- **Resonance advertising** - Attempts to connect a product with a consumer's experiences to develop stronger ties between the product and the consumer.

- **Emotional advertising** - Attempts to elicit powerful emotions that eventually lead to recall and choice. E.g. Emotions such as trust, reliability, friendship, happiness, security, glamour, luxury, serenity, pleasure, romance and passion.
- **Brand user strategies** - Focus on the type of individuals that use a particular brand.
- **Corporate advertising strategy** - Promotes the corporate name and image rather than the individual's brand.
- **Animation** - In recent years animation in advertising has increased, due primarily to the greater sophistication of computer graphics programs.
- **Dramatization** - Dramatization uses a higher level of excitement and suspense to tell the story. A dramatization story normally builds a crisis point.
- **Testimonials** - This is when a customer in an ad tells about a positive experience with a product.
- **Demonstration** - These ads show how the product works. Thus, consumers can see how to use the product and are able to observe its advantages at the same time.
- **Fantasy** - Fantasy executions are designed to lift the audience beyond the real world to a make believe experience.

Assessing advertising effectiveness

- **Concept testing** - Testing the visuals, choice of media and advertising appeal.
- **Focus groups** - A group of 6 - 9 customers who would share their views.
- **Consumer juries or panels** - Setting up a fixed panel of consumers for continuous tracking.
- **Readability tests** - Testing the understand of advertising copy.
- **Theatre tests** - Ads that run in between movies to gauge recall.
- **Physiological measures** - Altering perceptions.
- **Inquiry tests** - Number of inquiries generated by the campaign.
- **Recognition tests** - To gauge the recall rate.
- **Sales tests** - Gauging pre versus post sales quantity and revenue.
- **Tracking studies** - Continuous research.
- **Financial analysis** - Profitability of the campaign.
- **Likeability** - Using projective techniques.

The benefits of media channels

Broadcast television	<ul style="list-style-type: none"> ■ Dynamic message. ■ Highly persuasive (Sound and vision). ■ Broad geographic network coverage. ■ Local emphasis of station coverage. ■ Program selection controls audience composition.
Radio	<ul style="list-style-type: none"> ■ Audience selectivity through programming format. ■ Low cost, efficient audience delivery. ■ Considerable availability. ■ Reach customers who are on the move. ■ Broad geographic network coverage. ■ Local emphasis of station coverage. ■ Immediacy.
Newspapers	<ul style="list-style-type: none"> ■ Immediacy. ■ Local emphasis. ■ Geographic flexibility. ■ Broad reach. ■ Selective audience through titles. ■ Shopping guides.
Outdoor	<ul style="list-style-type: none"> ■ Broad local coverage. ■ Neighborhood selectivity. ■ High frequency. ■ Large message size. ■ Geographic flexibility. ■ Production flexibility. ■ Seasonal impact of non-illuminated posters. ■ Extended visibility of illuminated posters. ■ Low cost-per-thousand impressions.
Magazines	<ul style="list-style-type: none"> ■ Selective audience. ■ Geographic editions. ■ High-fidelity color reproduction. ■ Long issue life. ■ Pass-along audience (included in readership estimates). ■ Controlled circulation of many business magazines.
Internet	<ul style="list-style-type: none"> ■ Capture audience in the act of shopping (Search engines). ■ Narrowly select target by site appeal. ■ Instant interaction in order taking. ■ Instant copy change. ■ Customer relationship building. ■ Target customer - Deliver ad variant based on customer profile or past action.
Direct mail	<ul style="list-style-type: none"> ■ Highly selective as well as broad audience lists. ■ Ability to measure responses. ■ Ability to personalize messages. ■ Geographic flexibility. ■ Piggy-back other mailings.

Table 7.5: The benefits of media channels

7.6 Personal selling

Definition : Personal selling is the direct, face-to-face interaction and personal presentation of products and associated persuasive communication to clients by sales representatives.

Distinctive features of personal selling

- **Response** - Immediate feedback and an obligation to respond.
- **Messaging can be adjusted or customized** - Can be dealt with any customer objections and a large amount of technical and complex information can be presented.
- **High relative cost** - A single customer can be served.
- **Personal confrontation** - Interactive relationship and ability to demonstrate products.
- **Useful in complex, business to business markets** - A high level of customer attention and the ability to communicate large amounts of technical information.
- **Cultivation** - It helps build long-term relationships.
- **Prospecting can supported by** - Leads, contacts, competitor intelligence, information tools, brochures, presentation kits, advertising, public relations, sales promotion.
- **Persuasive communication skills can be employed** - Active listening, negotiation skills, assertiveness, presentation skills, humour.

The selling process

- **Pre sales preparation** - This involves prospecting and finding new sales leads.
- **Making contact** - Making an appointment to meet the customer.
- **Identify customer needs** - Rational emotional needs and wants.
- **Gain customer confidence** - Be professional.
- **Offer a solution to the customer** - Sell benefits and not features.
- **Gain customer agreement** - Identify common ground and deal with any objections.
- **Gain preference and establish priority** - There may be more than one solution to the customers need and you may be required to enter into a negotiation.
- **Close the sale** - Look for signs of readiness before you pop the big question.
- **Post sales activity** - Reassure the customer that he made the right decision, provide after sales service.

7.7 Direct marketing

Definition : Direct marketing is an interactive approach that is technology enabled and uses direct contact tools to bypass intermediaries and communicate or sell customized products using a database.

Characteristics of direct marketing

- **Non-public or personal** - The message is usually addressed to a specific person and does not reach others.
- **Customized** - The message will be customized to appeal to individual requirements.
- **Interactivity** - Direct marketing is a two-way dialogue.
- **Immediate response** - Response mechanisms such as coupons, a toll free number, a hot line or web site can be used.
- **Recording and analysis** - Response data will be collected and analyzed so that customer needs and wants can be more effectively and efficiently targeted.
- **Building relationships** - An ongoing personalized offering to the customer will ensure life long relationships.
- **Technology enabled** - Involves recording, analysis and tracking of data used to inform the targeting, execution and control of actions using a database.
- **Measurable response** - The cost per response (CPR) and cost per sale (CPS) can be used to measure the immediate results of marketing expenditure.
- **Continuity** - This is to maximize the gearing on the customer acquisition investment by doing more business with the customer for a longer period.
- **Cost reduction** - Since products are directly marketed and sold to end consumers, intermediary incentives, commissions and margins can be reduced so that the benefits are passed on to the end user.

Direct marketing techniques

- a) **Direct response advertising** - This is to use specially designed advertisements, usually in magazines, interactive TV or newspapers, to evoke a direct response, such as a coupon-response press ad or providing a call center number or website response details.

Over the years direct marketing has developed a bad reputation for cluttering up peoples mailboxes with junk mail or generating spam. Many companies engage in opt in or permission marketing, which limits their mailing or e mailing to only those willing to receive it.

- b) **Catalogue marketing** - Catalogues are printed on attractive glossy art paper and viewed at ones leisure and are low-pressure offers that can have an impact for a longer period of time as opposed to telemarketing or direct mailers. It is usually passed down to family members, friends and work colleagues and in the business-to-business context. These promotional catalogues are passed down to other members of the buying center or decision making unit for future use. Catalogues are smaller and less costly and can be integrated with sales promotions where special discount coupons, competitions, prizes can be included in order to trigger purchases. A comprehensive database is essential and companies are moving away from printed catalogues to virtual 3D catalogues, which are easier to maintain.
- c) **Telemarketing** - Database geodemographic information, increased ownership of telephones and improved targeting efforts makes it possible for callers to contact the best prospects in order to sell merchandise. It is a personal, interactive tool that can be used to gather research data, promote products, generating sales leads and making appointments, account servicing and relationship marketing. Companies need to be aware of the data protection act since telemarketing can be seen as invading customer privacy as sales calls are made haphazardly and this may result in non-response from potential customers. It is imperative to cleanse and update databases and the caller must possess excellent communication skills and qualities such as politeness and patience because of the inability to identify the mood and the body language of the respondent. Although it allows two-way communication, the success rate of telemarketing is something like one or two sales orders for 100 sales calls and the telemarketer has to put immense effort to achieve a sale.
- e) **Direct e mailers and web marketing** - Special Internet software's that analyses consumer purchases, click stream behaviour and other consumer interactions to form a database and suggest goods the consumer is most likely to consider the next time he is on line. Direct e-mailers are fast, cost-effective regardless of distance and delivers customized messages coupled with multi media attachments to enhance the impact and encourage a very high response. A big draw back is the user resistance to spam.
- f) **Mobile strategy (SMS and MMS)** - This is an effective form of direct marketing and is extremely fast. However, mobile phone companies are restricted to offer numbers to unauthorized persons for marketing purposes and recipients must opt in or opt out to the service.
- g) **Direct mail** - Involves using mail merge to personalize sales letters, envelope designs, leaflets and other response mechanisms such as discount vouchers, application forms, coupons etc. As postage rates continue to increase the costs of direct mail, large mailings tend to clutter post office boxes during key seasons, such as Christmas and perceived as junk mail.

7.8 Sales promotion

Definition : Sales promotion is to use diverse collection of incentive tools to increase short-term sales volume and encourage product trial or repeat purchases from the consumer or trade within a stated time frame.

Sales promotional objectives

- To gain attention and increase product awareness or share of voice.
- To induce short term trial and adoption among new customers.
- To encourage customer switching.
- To get existing occasional users to use more frequently.
- To reward customer loyalty.
- To smoothen seasonal sales dips.
- To generate a customer database.

Advertising offers a reason to buy, whereas sales promotion offers an incentive to buy enabling manufacturers to adjust to short-term variations in supply and demand. However, promotional offers are unlikely to turn customers into loyal users. Sales promotion, with its incessant prices off, coupons, deals, and premiums, may devalue the product offering in buyer's minds. Buyers perceive that the list price is fictitious and the firm may need to distinguish between price promotions and added-value promotions, which can enhance brand image. However, when a brand is price promoted too often, the consumer begins to devalue it and buy it mostly when it goes on sale. It decreases brand loyalty, increases consumer price-sensitivity, and dilutes the brand image whilst the focus is mainly on short-run marketing planning.

Types of promotional strategies

- **Pull strategy** - Aims to encourage customers to pull products through the channel.
- **Push strategy**- Aims to communicate with members of the channel to encourage them to push products through the channel.
- **The profile strategy** - Aims to build corporate reputation, image and lasting stakeholder relationships.

Consumer and trade sales promotions

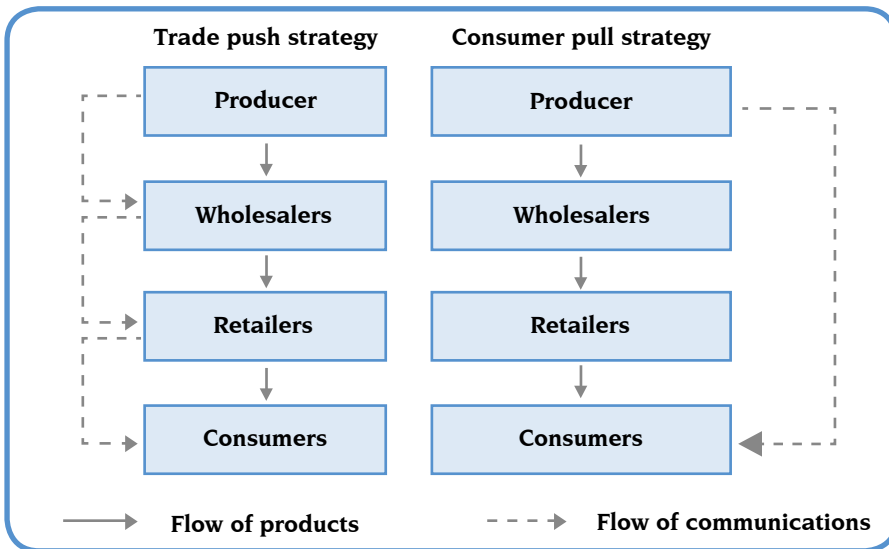


Figure 7.6: Consumer and trade sales promotions

Consumer sales (Pull) promotional strategies

These are promotional activities directed to the end consumer encouraging them to pull the products from the retailer's shelves. The types are as follows;

- Coupons or vouchers** - This is an effective tool to stimulate customer trial and it can be distributed through print media, direct mail, packaging, in store, the Internet or sales staff. It may take the form of a price reduction or an offer to a consumer and the typical redemption rate is around 5-10%, which may increase with the attractiveness of the offer. Instant redemption coupons are offered to customers in store triggered by the scanner or on the pack encouraging cross selling, whilst in pack coupons are meant to be redeemed at the next visit. If not managed carefully, coupons may erode profits through mis redemptions and fraud, which may lead to a revenue loss.
- Premiums** - Premiums are gifts or other special offers consumers receive when purchasing products. When a company offers a premium the consumer pays the full price for the product or service in contrast to coupons, which are price reductions. Pack premiums are small gifts, such as toys in cereal boxes or attached to the pack itself where as store or manufacturer premiums are gifts by either the retail store or the manufacturer when the customer purchases a product. Premiums tend to have short life spans and needs to be continuously changed to be attractive and may also be extremely costly and eat into product margins.
- Contests and sweepstakes** - Desirable prizes are the primary factor in the success of this type of appeal and these contests or wheels of fortune may normally require the participant to answer

questions or make a purchase to enter. Consumer indifference may prevail since they are exposed to many contests and there may also be legal requirements governing sweepstakes where the probability of winning must clearly be stated.

- d) **Refunds and rebates** - These are cash returns when consumers pay the full price. Refunds are extremely common in services where customers mail in some type of proof of purchase and the manufacturer refunds a portion of the purchase price. Rebates attract low redemption rates since there may be a lot of paperwork involved.
- e) **Sampling** - One method of encouraging consumers to try new products is sampling where a small quantity of the product is provided free of charge in a small pack size. The following try before you buy techniques may be used.

In store distribution	Through demonstration or sampling assistants.
Direct sampling	Samples are mailed or delivered door to door to consumers.
Response sampling	Made available to consumers who respond to advertising.
Cross sell sampling	Provides samples of one product in another.
Media sampling	Sampling through advertising media
Professional sampling	Are delivered by professionals, such as when doctors provide patients with free drug samples.
Selective sampling	Distributed at a particular event or site such as a hospital, restaurant or sporting event and may tie in the product sampled with the event.

Table 7.6: Sampling strategies

- f) **Bonus packs or product bundling** - This is when an additional or extra number of items (twin packs) are placed or bundled together. When customers stockpile a quantity of a particular brand it discourages purchasing from a competitor however, research indicates that consumers are skeptical of bonus pack offers.
- g) **Price offs, discounts or sale prices** - A price off is a temporary reduction in price of a product to the consumer. This form of promotion is easy to implement and can have a sudden impact on sales. This can also be devastating for profit margins. A relationship between the discount offered and the increase in sales must be compared over a period of time to effectively make use of this method for profitably.
- h) **Frequent user (loyalty) incentives** - These include special loyalty programs such as air miles programs or retail loyalty cards offering points. Coalition loyalty programs with instant redemptions have proven to be successful.
- i) **Cause related marketing** - Some companies have chosen to contribute a percentage of sales towards a charitable cause.

Trade promotional (Push) strategies

These are temporary promotions encouraging retailers, distributors, wholesalers, brokers or agents to stock more items resulting in a push effect of stocks to the channel.

Trade promotional objectives

- To persuading retailers to carry new products.
- Increase order size or build higher levels of inventory.
- Encouraging off-season buying.
- Encouraging stocking of related items from the manufacturer.
- Offsetting competitive promotions.
- Gaining entry into new retail outlets.
- To obtain prime retail shelf space.
- Enhance relationships and motivate Retailers.

Trade promotion techniques (Push strategy)

- a) **Trade allowances** - These are monetary allowances such as discounts, fees to stock a new product or rebates off the invoice.
- b) **Trade contests, incentives and awards** - These may include contests, prize rewards such as a foreign trip, gifts or special awards offered to the staff of distributors for achieving a specific target.
- c) **Training programs** - Manufacturers often provide training programs and advice to the members of the sales staff since retailers may sell multiple brands. Training makes them more likely to push the manufacturers brand instead of a competitor's product.
- d) **Vendor support programmes** - The two most frequently used vendor support programs are billbacks and joint advertising or sponsorships. In a billback program the manufacturer pays the retailer for special product displays, advertisements or price cuts. The retailer may bill the manufacturer after the promotion is completed, thus the term billback. Joint advertising is when the manufacturer reimburses the retailer a certain percentage of the advertising costs, listing of the dealers name in ads or collaborative campaigns and promotions. Sponsorships of dealer events demonstrate corporate hospitality may build affinity.

- e) **Promotional gift giveaways** - Gift items include pens, coffee mugs, calendars, diaries and organizers, wristwatches, desktop material, key chains etc. These can have the name of the firm, brand, logo, or tag line printed on them.
- f) **Special trading terms or deferred invoicing** - This involves increasing or extended credit facilities or operating on any other flexible payments terms.
- g) **Consumer promotions demonstrating aggressive pull strategy** - A high level of share of voice in the market may encourage the trader stock more products of the manufacturer.
- h) **Point of sale and merchandising support** - Two thirds of purchases are estimated to result from in store decisions. Attractive and informative in store displays and promotional material are therefore a key part of sales promotion. Effective point of sale material must grab attention instantly, be easy to assemble and not obstruct aisles or take up too much floor or counter space, must be compatible with the retailers store design or display, be durable and add to store appeal. Merchandising is the employment of various methods to manipulate shop traffic flow by making changes to the store layout, allocation of shelf space and displays. Types of point of sales material include;
- Stickers and shelf strips or shelf tags.
 - Product housing or display casing racks.
 - Flashing electric signs or mechanical devices.
 - Posters or self standing cut outs.
 - The pack containing the product itself.
 - Carousals, mobiles, wobblers or dangles.
 - Counter standing leaflet dispensers.
 - Store layout and merchandising strategies.
 - Shelf arrangements (Stacking).
 - Atmosphere and ambience.

Integrated marketing communications

Definition : Ensuring that all communications, the brand positioning, propositions, reputation development, brand personality and messages are delivered coherently or synergistically across every element of communication and are derived from a single, consistent strategy.

All elements of communication need to be unified or integrated for the communications strategy to work effectively and for the message to be delivered to the target audience. This is to ensure that each medium complement each other in terms of achieving the said promotional objectives and the must be repeatedly exposed to the message. Integration will avoid any contradictory or confusing messages and provide greater direction, synergy, efficiency and accountability. Consumers may respond better and the increased effectiveness and consistency will result in a high degree of brand recall.

The overriding goal of integrated marketing communications is to create the most effective and efficient communication program possible.

The following six criteria may impact this;

- **Coverage** - The proportion of target customers reached by each marketing communications option.
- **Contribution** - The ability of a form of marketing communication to create the desired response in isolation of any other communication option.
- **Commonality** - The common associations that exist and are reinforced in communication options, that is the extent to which meaning is shared in different marketing communications.
- **Complementarily** - The extent to which communications options can show, emphasize or develop different associations.
- **Robustness** - The extent to which forms of marketing communication are effective for different consumers, being in mind the different levels of prior experience and exposure.
- **Cost** - These criteria should be considered in the context of cost.

7.9 The marketing communications plan

a) Communications audit

- **Identifying the target audience** - Using profiling tools.
- **Customer behavioural insights** - Decision making unit, decision making process.
- **Competitive communications landscape** - Relative media spends.
- **Current positioning** - Perceptual mapping.

b) Developing communication objectives

Communication objectives must be derived from the overall marketing objectives such as sales volumes, market share, return on marketing investments and profits. Use a consumer response model such as the tri component model of attitudes, AIDA, DAGMAR, DRIP may be used to set communication objectives. E.g. Create 65% prompted awareness in the ABC1, male 30-40 year old age group and those earning Rs. 25,000 in 2013.

c) Developing communication strategies

- **Pull strategies** - This is a promotional strategy that requires a great amount of spending on advertising and consumer promotions to build up demand for the product or service. If this

strategy is successful, consumers would be demanding the product or service and therefore, it will be pulled from the manufactures to the consumers through the various intermediaries. What this essentially means is that it's a strategy used by companies to encourage consumers to buy more products hence, pull products from the company.

- **Push strategies** - This is a strategy where the manufacturer would direct promotional activities to intermediaries.
 - **Profile strategies** - The aim of this strategy is create a unique corporate identity and personality, which will result in a favourable image, sustainable relationships and corporate reputation with stakeholders.
- d) **Developing the message strategy** - The content of the message is derived from the overall theme, idea or the USP (Unique selling proposition). Furthermore, identifying the customer benefits and what they expect from the product/service can be of great importance. E.g. Rational, emotional, musical, humour, fear, sex and scarcity appeal.
- e) **Integrated communication mix** - Consider the relative strengths and weaknesses of each communication mix element whilst creating an integrated approach to be successful.
- f) **Communications activity schedules** - This is the synchronization, budgets and timing of all the promotional activities selected by the organization. A Gantt chart may be used as suggested below;

Promotional schedule for campaign Period - January 2016 to June 2016							
Activity	Jan	Feb	Mar	Apr	May	June	Budget
Advertising							Rs.
Television							2,000,000
Radio							500,000
Press							750,000
Outdoor							250,000
Sales promotions							
Trade promotion							500,000
Consumer promotion							1,000,000
Public relations							500,000
Launching the campaign							250,000
Sponsorships							500,000
Personal selling drive							
House to house calls							250,000
Total budget							6,000,000

Table 7.7: Communications activity schedules

g) **Setting the communications budget**

This is the decision on how much should be spent for promotional activities and the methods of setting a communications budget include the following:

- **The percentage sales (or percentage of profit) method** - The budget allocated to the communications activity is usually a percentage of the planned revenue. This percentage allocated will depend on marketing objectives and the level of competition in the market. In consumer markets, communications budgets are typically between 1-5% of expected sales.
- **The traditional spend** - The budget is round about 'what we always spend'. This can be decided in arbitrary manner or based on gut feel.
- **The 'me-too' approach (or 'competitive parity')** - The budget is determined by a similar percentage of sales to competitors. Neither this nor the previous method correspond to the organization's current objectives, which is clearly a drawback.
- **All you can afford** - The projected 'bottom line' determines everything.
- **The objective and task approach** - You calculate how much money you will need to achieve you marketing objectives and tasks. This method involves setting specific objectives, deciding what tasks need to be completed to achieve those objectives and calculating how much money it will cost to complete the task list.
- **The share of market, share of voice (SOM, SOV) method** - Based on current and desired 'share of market' and links this with what has happened and is happening in the marketplace.

h) **Measuring communication results** - Post track research studies includes measuring levels of unprompted recall (Campaign and information), perceptual mapping to gauge new positioning, sales and conversion rates, the credibility of the source, message and medium.

7.10 Measuring the communications mix

- **Inquiry tests** - This is to measure the response to a sales promotion campaign.
- **Recall tests** - Tests how much the viewer of the ad remembers the message.
- **Recognition tests** - Tests in which audience members are asked if they recognize an ad.
- **Tracking studies** - Studies that document the effect of advertising over time.
- **Media evaluation** - Choice of media mix.
- **Stakeholder satisfaction surveys** - This is under taken as a part of the annual sustainability report.

Implications for each promotional mix tool

Promotional mix	Advertising	Sales promotion	Public relations	Personal selling	Direct marketing
Ability to deliver a personal message	Low	Low	Low	High	High
Ability to reach a large audience	High	Medium	Medium	Low	Medium
Level of interaction	Low	Low	Low	High	High
Credibility given by target audience	Low	Medium	High	Medium	Medium
Absolute costs	High	Medium	Low	High	Medium
Cost per contact	Low	Medium	Low	Low	High
Wastage	High	Medium	High	High	Low
Size of investment	High	Medium	Low	High	Medium
Ability to target particular audiences	Medium	High	Low	Medium	High
The management's ability to adapt quickly as circumstances change	Medium	High	Low	Medium	High

Table 7.8: Implications for each promotional mix tool

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CHAPTER 8

Strategic Leadership

- 8.1 Defining strategic leadership
- 8.2 Leadership and management
- 8.3 Leadership theories
- 8.4 Trait, great man theory of leadership
- 8.5 Behavioural leadership theories
- 8.6 Contingency theories
- 8.7 Transactional versus transformational leadership
- 8.8 Entrepreneurial leadership
- 8.9 Servant, stewardship leadership
- 8.10 Emotional intelligence
- 8.11 Power, authority and influence
- 8.12 Responsibility, accountability and delegation
- 8.13 Thought leadership
- 8.14 The level 5 leadership hierarchy

8

Strategic Leadership

"To handle yourself, use your head; to handle others, use your heart." -Eleanor Roosevelt

The concept of leadership continues to develop as the needs of organizations change. As such, it is difficult to generalize leadership. Until the 1930's, there was not much academic interest in the area of leadership. Taylor in the late 1800's researched scientific management (Time, motion studies of productivity), Webber's (1922) writings on bureaucracy in which he states a leader possessed power by virtue of his position and Follett's (1926) participatory management in "Power with" as opposed to "Power over" are early concepts of leadership.

Leadership outlines what needs to be done by creating and identifying new ideas and establishing a vision and a clear direction. A leadership style is a leader's style of providing direction, implementing plans, and motivating people. It is imperative for a leader to know his or her blind spots. This represents what is known by others but unknown by you and can be referred to as relationship ignorance. It includes issues that others are deliberately withholding from you and is not an effective or a productive space to work with others in.

8.1 Defining strategic leadership

Definition : Strategic leadership is a relationship through which a person would use power and authority to influence the behaviour of subordinates and persuade them to follow a particular course of action.

The journey and evolution of leadership styles



Figure 8.1: The journey and evolution of leadership styles.

The idea of leadership has evolved from being directive and controlling to being more participative, visionary and collaborative. Much has been written on leadership styles over the last six decades and

many schools of thought have emerged. Leadership styles are the outward expression of the belief, values and assumptions held by an individual that lead to typical attitudes and behaviours towards others and influence approaches to leading and managing people.

Characteristics of leadership

According to Kouzes and Posner (2003) the characteristics of leadership are as follows;

- **Challenging the process** - Encourage others to develop ideas and take calculated risks.
- **Inspire a shared vision about the future.**
- **Enabling others to act** - Encourage collaboration, cooperation, building teams and empowering others.
- **Modeling the way** - Planning, reviewing process and taking corrective action.
- **Encourage the heart** - In every winning team, the members need to share in the rewards of their efforts, so leaders celebrate accomplishments. They make people feel like heroes.

8.2 Leadership and management

Kotter (2001) makes a distinction between leadership and management. Management is about coping with complexity by planning and budgeting (Usually for one month/ year ahead) whilst leadership, by contrast, is about coping with change by setting a direction through visions and strategy as given below.

	Managing (Coping with complexity)	Leading, leadership (Coping with change)
Complexity	<ul style="list-style-type: none"> ■ Managed through planning and budgeting ■ Establishing detailed approaches to achieving the plan 	<ul style="list-style-type: none"> ■ Setting direction through visions and strategies
Developing the capacity to achieve the plan, vision	<ul style="list-style-type: none"> ■ Organizing ■ Staffing ■ Creating organisation structure and job roles ■ Suitable recruitment ■ Communicating the plan ■ Delegation 	<ul style="list-style-type: none"> ■ Communicating the vision/ new direction ■ Selecting the appropriate people to whom the vision should be communicated who can create the groups of like minded people to commit to its achievement
Ensuring that the plan or vision is achieved	<ul style="list-style-type: none"> ■ Controlling. ■ Problem solving. ■ Monitoring ■ Setting formal and informal targets 	<ul style="list-style-type: none"> ■ Motivating and inspiring people to achieve success

Table 8.1: Based on the ideas from Kotter.

8.3 Leadership theories

- **Trait or the great man theory** - ('Who leaders are?' nature).
- **Behavioural theories** - ('What leaders do?' nurture).
 - Ohio state studies.
 - University of Michigan studies.
 - Managerial, leadership grid by Blake and Mouton.
 - Lewin's classification of leadership styles.
 - McGregor's theory X and theory Y.
 - Likert's four systems of leadership.
 - Tannenbaum and Schmidt's continuum of leadership behaviours.
- **Situational leadership or contingency theories (Leadership styles in organizational situations)**
 - Fiedler contingency model.
 - Leadership styles by House.
 - Hersey and Blanchard situational leadership model.
 - John Adair's action centered leadership model.
 - Path goal theory.
- **Transactional, transformational leadership theory.**
- **Servant, stewardship leadership theory.**
- **Entrepreneurial leadership theory.**

8.4 Trait, great man theory of leadership (**'Leaders are born and not made'** - nature)

The first approach to leadership is the traits or qualities approach. Traits refer to distinguishing personal characteristics, such as intelligence, values and appearance according to Daft (2003). Hence, these theories identify certain traits or features that differentiate leaders from non leaders. The theory is based on the belief that leaders are born and not made.

The trait theory identified four main personal characteristics or traits inherent within leaders which are as follows;

- **Physical traits** - Over 6 feet tall, weigh over 175 Lbs., physical attractiveness, vitality, physical stamina, muscular body shape, drive and energy.
- **Social traits** - Empathy, patience, status, emotional maturity, cooperation, tact, courtesy and sociability.
- **Personality traits** - Dominance, aggressiveness, extroversion, self esteem integrity, self confidence, adaptability and enthusiasm.
- **Personal traits** - Verbal skills, judgment, intellectual capacity, achievement oriented, capacity to work hard, responsible, above-average intelligence, motivation, imagination, determination, courage, integrity, faith and virility.

Stodgill's leadership traits and skills

Leadership traits	Leadership skills
Confidence	Fluent
Tolerance	Social
Ambitious	Organized
Decisive	Conceptual
Adaptable	Diplomatic
Humility	Inspirational
Cooperative	Intelligent
Determination	Creativity
Responsible	Persuasive
Dependable	Tactful
Dominant	Clever
Energetic	Visionary
Assertive	Listening
Persistent	Focus

Table 8.2: Stodgill's leadership traits and skills (1974).

Personality

The big 5 dimensions of personality

McCrae and John (1992) identified five basic groups of traits, which could be considered as some of the basic building blocks of personality. These are not "types" of personalities, but dimensions of personality. Therefore, someone's personality is the combination of each of his or her Big Five personality characteristics. Generally positive values on all factors are found in leaders, except 'neuroticism, where low levels are desirable.

- **Openness to experience** - (Inventive/curious vs. consistent/cautious) Appreciation for art, emotion, adventure, unusual ideas, curiosity, and variety of experience. Openness reflects the degree of intellectual curiosity, creativity and a preference for novelty and variety a person has. It is also described as the extent to which a person is imaginative or independent, and depicts a personal preference for a variety of activities over a strict routine.
- **Conscientiousness** - (Efficient/organized vs. easy-going/careless) a tendency to be organized and dependable, show self-discipline, act dutifully, aim for achievement, and prefer planned rather than spontaneous behavior.
- **Extraversion** - (Outgoing/energetic vs. solitary/reserved) Energy, positive emotions, urgency, assertiveness, sociability and the tendency to seek stimulation in the company of others, and talkativeness.
- **Agreeableness** - (Friendly/compassionate vs. analytical/detached). A tendency to be compassionate and cooperative rather than suspicious and antagonistic towards others. It is also a measure of one's trusting and helpful nature, and whether a person is generally well tempered or not.
- **Neuroticism** - (Sensitive/nervous vs. secure/confident). The tendency to experience unpleasant emotions easily, such as anger, anxiety, depression, and vulnerability. Neuroticism also refers to the degree of emotional stability and impulse control.

Personality types using Myers-Briggs type indicator (MBTI)

MBTI is a personality test that taps four characteristics and classifies people into 1 of 16 personality types. Use the questions on the outside of the chart to determine the four letters of your MBI type. For each pair of letter choose the side that seems most natural to you, even if you don't agree with every description.

1. Are you outwardly or inwardly focused? If you:		2. How do you prefer to take in information? If you:	
<ul style="list-style-type: none"> • Could be described as talkative, outgoing • Like to be in a fast-paced environment • Tend to work out ideas with others, think out loud • Enjoy being the center of attention <p style="text-align: center;">Then you prefer</p> <p style="text-align: center;">E</p> <p style="text-align: center;">Extraversion</p>	<ul style="list-style-type: none"> • Could be described as reserved, private • Prefer a slower pace with time for contemplation • Tend to think things through inside your head • Would rather observe than be the center of attention <p style="text-align: center;">Then you prefer</p> <p style="text-align: center;">I</p> <p style="text-align: center;">Introversion</p>	<ul style="list-style-type: none"> • Focus on the reality of how things are • Pay attention to concrete facts and details • Prefer ideas that have practical applications • Like to describe things in a specific, literal way <p style="text-align: center;">Then you prefer</p> <p style="text-align: center;">S</p> <p style="text-align: center;">Sensing</p>	<ul style="list-style-type: none"> • Imagine the possibilities of how things could be • Notice the big picture, see how everything connects • Enjoy ideas and concepts for their own sake • Like to describe things in a figurative, poetic way <p style="text-align: center;">Then you prefer</p> <p style="text-align: center;">N</p> <p style="text-align: center;">Sensing</p>

1. How do you prefer to make decisions? If you:		2. How do you prefer to live your outer life? If you:	
<ul style="list-style-type: none"> • Make decisions in an impersonal way, using logical reasoning • Value justice, fairness • Enjoy finding the flaws in an argument • Could be described as reasonable, level headed <p>Then you prefer</p> <p>T</p> <p>Thinking</p>	<ul style="list-style-type: none"> • Base your decisions on personal values and how your actions affect others • Value harmony, forgiveness • Like to please others and point out the best in people • Could be described as warm, empathetic <p>Then you prefer</p> <p>F</p> <p>Feeling</p>	<ul style="list-style-type: none"> • Prefer to have matters settled • Think rules and deadlines should be respected • Prefer to have detailed, step-by-step instructions • Make plans, want to know what you're getting into <p>Then you prefer</p> <p>J</p> <p>Judging</p>	<ul style="list-style-type: none"> • Prefer to leave your options open • See rules and deadlines as flexible • Like to improvise and make things up as you go • Are spontaneous, enjoy surprises and new situations <p>Then you prefer</p> <p>P</p> <p>Perceiving</p>

ISTJ
Responsible, sincere, analytical, reserved, realistic, systematic. Hardworking and trustworthy with sound practical judgment.

ISFJ
Warm, considerate, gentle, responsible, pragmatic, thorough. Devoted caretakers who enjoy being helpful to others.

INFJ
Idealistic, organized, insightful, dependable, compassionate, gentle. Seek harmony and cooperation, enjoy intellectual stimulation.

INTJ
Innovative, independent, strategic, logical, reserved, insightful. Driven by their own original ideas to achieve improvements.

ISTP
Action-oriented, logical, analytical, spontaneous, reserved, independent. Enjoy adventure, skilled at understanding how mechanical things work.

ISFP
Gentle, sensitive, nurturing, helpful, flexible, realistic. Seek to create a personal environment that is both beautiful and practical.

INFP
Sensitive, creative, idealistic, perceptive, caring, loyal. Value inner harmony and personal growth, focus on dreams and possibilities.

INTP
Intellectual, logical, precise, reserved, flexible, imaginative. Original thinkers who enjoy speculation and creative problem solving.

ESTP
Outgoing, realistic, action-oriented, curious, versatile, spontaneous. Pragmatic problem solvers and skillful negotiators.

ESFP
Playful, enthusiastic, friendly, spontaneous, tactful, flexible. Have strong common sense, enjoy helping people in tangible ways.

ENFP
Enthusiastic, creative, spontaneous, optimistic, supportive, playful. Value inspiration, enjoy starting new projects, see potential in others.

ENTP
Inventive, enthusiastic, strategic, enterprising, inquisitive, versatile. Enjoy new ideas and challenges, value inspiration.

ESTJ
Efficient, outgoing, analytical, systematic, dependable, realistic. Like to run the show and get things done in an orderly fashion.

ESFJ
Friendly, outgoing, reliable, conscientious, organized, practical. Seek to be helpful and please others, enjoy being active and productive.

ENFJ
Caring, enthusiastic, idealistic, organized, diplomatic, responsible. Skilled communicators who value connection with people.

ENTJ
Strategic, logical, efficient, outgoing, ambitious, independent. Effective organizers of people and long-range planners.

Figure 8.2 : Personality types using Myers-Briggs type indicator (MBTI)

The outcome can be used for self-awareness and career guidance however it should not be used as a selection tool since it has not been related to job performance.

Personality types: Type A and B

Type A's are

- Are always moving, walking, and eating rapidly.
- Feel impatient with the rate at which most events take place.
- Strive to think or do two or more things at once.
- Cannot cope with leisure time.
- Are obsessed with numbers, measuring their success in terms of how many or how much of everything they acquire.

Type B's are

- Do not suffer from a sense of time urgency with its accompanying impatience.
- Feel no need to display or discuss either their achievements or accomplishments.
- Play for fun and relaxation, rather than to exhibit their superiority at any cost.
- Can relax without guilt.

The traits theory of leadership proved to have shortcomings when it came to defining leadership not least that leaders are not necessarily born but can be made. Focusing on ideal leadership traits exposed that people with these traits did not always make good leaders and not having all these traits early on did not always stop people from becoming successful leaders. In particular it was recognized that successful leaders are not just intelligent and technically skilled. Increasingly emotional intelligence is seen as essential to good leadership.

Limitations of the trait theory of leadership

- There are no universal traits that predict leadership in all instances.
- It is generally thought that traits predict behaviour more in 'weak' rather than in 'strong' situations.
- There is very little clear evidence in separating cause from effect. For example, 'Are leaders self-confident, or does the success of a leader build self confidence?'
- The approach is generally criticized for paying more attention on predicting the appearance of leadership rather than distinguishing between effective and ineffective leaders.

8.5 Behavioural leadership theories (Leaders are not born, they can be made - nurture)

The focus of research under this approach was towards the behaviour of successful leaders rather than on personality traits of the leader. The approach states that leadership could be taught, and therefore, the leader can be developed, as opposed to the trait theory's argument that leaders are born. Some of the important research programs done on leadership behaviour were;

- a) Ohio state studies** - Researchers worked on identifying various dimensions of leader behaviour and this was narrowed down to two major categories of leadership behaviour.
- **Initiating structure** - This refers to the extent to which a leader is likely to define and structure his or her role and roles of subordinates in the search for goal attainment. A leader characterized as high in initiating structure, would be described as someone who assigns group members to particular tasks, expects workers to maintain definite standards of performance, and emphasizes the meeting of dead lines. In essence, such leaders would be task focused and goal oriented.
 - **Consideration** - This refers to the extent to which a leader is likely to have job relationships characterized by mutual trust, respect for subordinates ideas, and regard for their feelings. A leader characterized as high in consideration could be described as one who helps employees with personal problems, is friendly and approachable, and treats all employees as equals. Such a leader achieves acceptance among his followers through the use of referent and charismatic powers rather than coercive and legitimate power.

Typical behavior of an initiating structure leader includes:	Typical behaviors of a considerate leader include:
Assigning employees to particular tasks	Expressing appreciation when employees do a good job
Establishing standards of performance	Not demanding more than employees can achieve
Informing employees of job requirements	Helping employees with their personal problems
Scheduling work to be done by team members	Being friendly and accessible
Encouraging the use of uniform procedures	Rewarding employees for jobs well done

Table 8.3: Ohio state study outcomes

The consideration style of leadership is usually readily accepted rather than the initiating structure style of leadership. This is because this style generates good will and leads to high job satisfaction on the part of the team members. Benefits of this type of style include closer cooperation between leaders and subordinates, increased motivation of subordinates, more productive work groups, and low turnover and grievance rates. However, research found that leaders high in both initiating structure and consideration (a 'high-high' leader) tended to achieve a combination of high

employee performance and satisfaction more frequently than those who were rated low either on consideration or initiating structure, or both. In conclusion, the Ohio state studies suggested that the 'high-high' style generally resulted in positive outcomes, but enough exceptions were found to highlight the fact that situational factors need to be considered and much depends on these variables too.

b) University of Michigan studies - The purpose of this research was the same as those of the Ohio state studies. That is, to locate behavioral characteristics of leaders that distinguished leaders from non-leaders. Similar to The Ohio state studies, this too identified two dimensions of leadership behaviour:

- **The employee oriented leader** - Such a leader is one who emphasizes interpersonal relations. He or she takes a personal interest in the needs of his or her employees and accepts individual differences among members. This type of leader is very similar to the considerate type of leader identified in the Ohio state studies.
- **The production oriented leader** - This refers to the type of leader who tends to emphasize the technical or task aspects of the job. His or her main concern is in accomplishing their group's goals, and the group members are considered a means to an end. As found in the Ohio state studies, conclusions favored employee oriented leadership behaviour. This is because such leaders were associated with increased group productivity and improved motivation and morale. In contrast, production oriented leaders tended to be associated with low group productivity and lower job satisfaction.

c) The managerial, leadership grid by Blake and Mouton

This is a graphic illustration of a two dimensional view of leadership styles that was developed by Blake and Mouton (1964). The concern for production defines the manager's attitude towards procedures, processes, work efficiency, and volume of output. Concern for people includes personal commitment, sustaining the esteem and trust of the group, maintaining interpersonal relationships and ensuring good working conditions. They recognized that it was possible for concern for production to be independent of concern for people. It was therefore possible for a leader to be strong on one and weak on the other, strong on both, weak on both or any variation in between.

The grid shown above has nine possible positions along each axis, thus creating 81 possible positions in which the leader's style may fall. The highlighted coordinates are five extreme styles that are discussed below in detail.

- **(1.1) Impoverished style** - This style is characterized by a low concern for both production and people. The primary purpose of managers having this style is to stay out of trouble. They delegate or pass orders along to employees, go with the flow and make sure they will not be

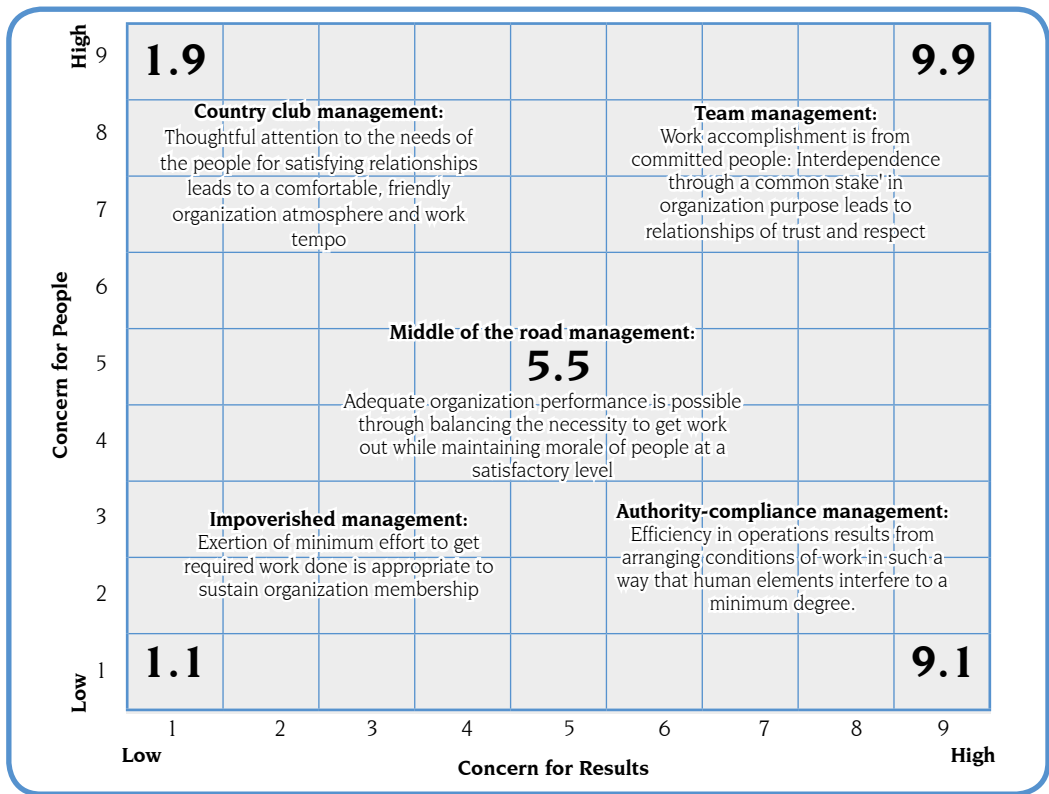


Figure 8.3: The managerial/ Leadership grid by Blake and Mouton (1964).

held accountable for mistakes. They exert the minimum effort required to get the work done and avoid being fired or demoted.

- **(1.9) Country club style** - These managers have high concern for people and low concern for production. Managers who use this style try to create a 'secure and comfortable' atmosphere and trust that their subordinates possess competence and will respond productively. High level of attention paid on the need for satisfying relationships leads to a friendly work environment. However, the over emphasis on relationships may create a negative situation where accomplishment of operational and overall corporate goals are overlooked.
- **(9.1) Authority-compliance style** - Managers of this type have a contrasting character to that of a country club manager. That is, such managers place importance for production and have low concern for people. Leaders following this style are of the view that team member's personal needs are irrelevant in achieving organization's objectives. They meet production quotas through the use of coercive and legitimate powers. As such, they believe that operational. Efficiency could be achieved by organizing the work so that employees merely have to follow orders.

- **(5.5) Middle of the road style** - Leaders who follow this style seek a balance between the needs of workers and the organization's goals in terms of task accomplishment. Adequate performance is hence achieved, because employee morale is motivated at a level sufficient to get work done.
- **(9.9) Team style** - This style is the ideal style that leaders should follow. This is because such leaders show a high level of concern for both production and people. Leaders who follow this style attempt to establish cohesive work groups and reinforce feelings of commitment among workers. The result of following such a style being, high rates of both production and job satisfaction. The leader builds relationships of trust and respect by introducing a 'common stake' in the organization's purpose.

Limitations of behavioural theories

- They have little success in identifying consistent relationships between these behaviours and the performance of the group.
- They also fail to take account contingencies (Situational factors), which significantly influence leadership success or failure. Certain behaviours identified may not be appropriate in all situations.

Lewin's classification of leadership styles

Lewin (1930) focused attention on the different effects created by three different leadership styles.

- **The authoritarian style** - The focus of power and the decision-making authority (to determine policy, procedures, control of rewards or punishment) resides with the manager.
- **The democratic style** - The focus of power is with the group and the function of leadership will be shared with the subordinates and the manager is part of a team. The views of the group members are considered before decisions are made or policies determined. This style is more likely to encourage innovation and creativity.
- **The laissez faire style (French word for no interference)** - This is where the manager observes that group members are working well on their own. The manager makes a decision and passes the power to the group members to act on their own in a way that they think is best and does not interfere in the way the subordinates carry out a particular task. However, he or she is readily available if the subordinates require any help. The word 'genuine' describes this style.

Lewin (1930) and his researchers were using experimental groups in these studies and the criteria they used were measures of productivity and task satisfaction. In terms of productivity and satisfaction, it was the democratic style that was the most productive and satisfying. The laissez-faire style was next in productivity but not in satisfaction as group members were not at all satisfied with it. The authoritarian style was the least productive of all and carried with it lots of frustration and instances of aggression among group members.

Belbin's solo leader and team leader

- **The solo leader** - This is an individual who does not like to pass on responsibility. In times of crisis, such leaders have been effective because of making and implementing quick decisions. However, solo leaders are discarded if they fail.
- **The team leader** - The team leader, on the other hand, deliberately limits his role and allows subordinate participation in leadership functions. Such a leader builds trust in subordinates and recognizes their strengths and skills and delegates to those who are potential and hold competence.

Belbin (2010) suggests that the solo leadership is more familiar because such a leadership style commands faith in the leader. However, the growing uncertainties within and outside an organization in today's competitive world, has made team leadership quite popular.

McGregor's theory X and theory Y

McGregor's (1960) theory X and theory Y argued managers' attitudes to, and assumptions about, employees lead them to manage in a particular way and offered two opposing views on these assumptions.

Assumptions of theory X

- The average human being has an inherent dislike of work and will avoid it if they can.
- People work mostly for money, status and rewards.
- Because of the characteristics of dislike for work most people must be coerced, controlled, directed and or threatened to get them to put adequate effort into achieving organisation goals.
- The average human being prefers to be directed, wishes to avoid responsibility, has relatively little ambition and wants security above all else.
- Such assumptions are likely to lead to a more directive and autocratic, even bullying, style and leadership and a 'carrot and stick' approach to rewarding good or bad behaviour.
- The assumption is that people will not take initiative and the best that can be achieved is to push people hard and often only provide money as a reward.

Assumptions of theory Y

- The expenditures and physical and mental effort in work is as natural as play or rest.
- External control and the threat of reprisals are not the only means of encouraging commitment to organisation objectives. People exercise self-direction and control on the service of objectives and commitment to objectives is a function of the rewards associated with their achievement.
- The average human learns under proper conditions to accept and also to seek responsibility.
- The capacity to exercise a high degree of imagination, ingenuity and creativity in the solution of organisational problems is widely, not narrowly, distributed in the population.
- Intellectual potential of the average person is only partially utilised in the conditions of modern life.
- Theory Y assumptions lead to a more democratic style of leadership and tapping into people's desire for work and for achievement is the route to success. If the right conditions are created people will take initiative, are prepared to solve problems and can be motivated by a range of factors other than money.

Likert's four systems of leadership

Likert (1932) examined different departments in an attempt to explain good or bad performance by identifying conditions for motivation. He found that poor performing departments tended to be under the command of 'job centered' managers. These tended to concentrate on keeping their subordinates busily engaged in going through a specific work cycle in a prescribed way and at a satisfactory rate. The best performance was under the 'employee centered' managers who tended to focus their attention on the human aspects of their subordinates problems, and on building effective work groups, which were set demanding goals. Likert concluded that the key to high performance is an employee-centered environment with general supervision, emphasis on targets, high performance goals, scope for input from the employee and a capacity to participate in the decision-making processes. The author observed the following systems of leadership;

- **System 1 (Exploitive authoritative)** - Which relies on fear and threats. Communication is downward only and superiors and subordinates are psychologically far apart, with the decision-making process concentrated at the top of the organisation. There are certain organisations that have no choice other than to exert exploitive authoritative leadership, such as the church, civil service and armed forces, where there must be little room for questioning commands, for procedural, doctrinal or strategic reasons.

- **System 2 (Benevolent authoritative type)** - This is a step beyond system 1. There is a limited element of reward, but communication is restricted. The policy is made at the top but there is some restricted delegation within rigidly defined procedures. Here, the leader believes that they are acting in the interest of the followers in giving them instructions to obey since they are incapable of deciding for themselves the right way to act.
- **System 3 (Consultative)** - Here rewards are used along with occasional punishment, and some involvement is sought. Communication is both up and down, but upward communication remains rather limited. The leader asks followers for their opinions and shows some regard to their views, but does not feel obliged to act upon them.
- **System 4 (Participative)** - Management give economic rewards, rather than mere 'pats on the head', utilize full group participation, and involve teams in goal setting, improving work methods, and communication flows up and down. Decision-making is permitted at all levels of the organisation. Leaders are often expected to justify their decisions to followers.

Likert recognized that each style is relevant in some situations; for example, in a crisis, a system 1 approach is usually required. Alternatively when introducing a new system of work, system 4 would be most effective. His findings suggest that effective managers are those that adopt a system 3 or a system 4 style of leadership. Both are seen as being based on trust and paying attention to the needs of both the organisation and employees.

Tannenbaum and Schmidt continuum of leadership behaviours

Tannenbaum and Schmidt (1958) expanded on Lewin, Lippitt, and White's (1939), three leadership styles by extending them to seven styles ranging from 'boss centered' to 'employee centered' in a continuum. The boss-centered leadership style is associated with an authoritarian approach and the employee-centered style suggests a democratic or participative approach. Tannenbaum and Schmidt developed their continuum of possible leadership styles illustrating the degree of control exercised by leaders and the extent of freedom for subordinates to participate. They concluded that the leadership style adopted depends on three forces:

- **Forces in the manager** - Values, attitudes, personality, behaviour.
- **Forces in subordinates** - Personality, need to independence, willing to take responsibility.
- **Forces in the situation** - Environmental factors such as internal (Organisational, the problem, time) and external factors (Challenges).

The continuum is based on the degree of authority used by a manager and the degree of freedom for the subordinates, as shown below:

The continuum of leadership behaviors

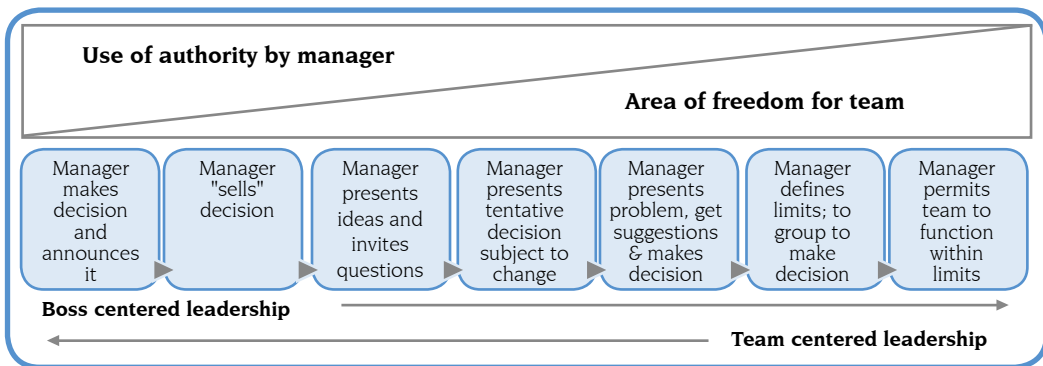


Figure 8.4: The continuum of leadership behaviors

Notice that as you go from left to right, it moves from manager oriented decision making to subordinate oriented decision making, thus the team's freedom increases while the manager's authority decreases. Depending upon the present level of your team's experience and skills, you select a starting point and as the team develops, you move from it to the next one:

1. **Manager makes decision and announces it** - The team has no role in the decision-making role. Coercion may or may not be used or implied.
2. **Manager 'sells' decision** - Rather than just tell, the manager needs to sell the decision, as there is a possibility of some resistance from team members.
3. **Manager presents ideas and invites questions** - This allows the team to get a fuller explanation so they can better understand of what she is trying to accomplish.
4. **Manager presents a tentative decision that is subject to change** - This action invites the team to have some influence regarding the decision; thus, it can be changed based on the team's input.
5. **Manager presents the problem, gets suggestions, and then makes the decision** - Up to this point the manager has always presented the decision, although the last one did allow it to change based upon the team's input. Now the team is free to come up with options, however, the manager still decides on those options.
6. **Manager defines limits, and requests the team to make a decision** - The manager delegates the decision making to the team; but still instills specific limits on the team's solution.
7. **Manager allows team to function within limits** - Now the team does the decision-making, however, the manager's superior may have placed certain limits on the options they can make. If the manager sits in on the decision-making, he or she attempts to do so with no more authority than the other members do.

Basically the first two styles or behaviors are similar the authoritarian style, the next three are similar to the participative style, while the last two are similar to the delegate style. This approach gives the leader more options that can be refined to specific situations or environments.

Paternalistic style of Leadership - This is a system under which an authority undertakes to supply needs or regulate conduct of those under its control in matters affecting them as individuals as well as in their relationships to authority and to each other. Thus, paternalism supplies needs for those under its protection or control, while leadership gets things done. The first is directed inwards, while the latter is directed outwards.

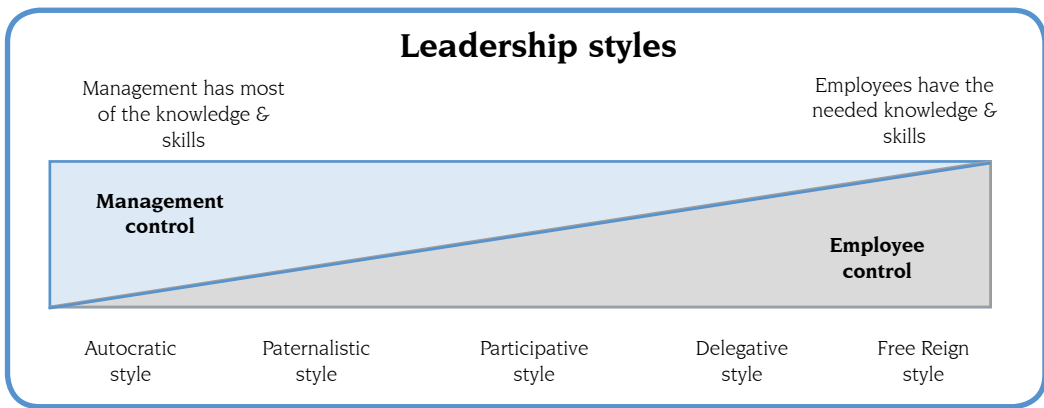


Figure 8.5: Paternalistic style of Leadership

8.6 Situational leadership (Contingency theories)

Contingency approaches refer to those models of leadership that describe the relationship between leadership styles and specific organizational situations.

3.1 Fiedler's contingency theory

Fiedler (1967) was the first to combine leadership style and organizational situation into a comprehensive contingency model. He determined that leadership could be broadly categorized into task oriented and relationship oriented styles. The next step in the model involves matching the leader with the situation. This involves defining the situation. Fiedler (1967) identified three dimensions or contingencies that define factors that determine leadership effectiveness.

Criticisms of the Fiedler's contingency theory

- It is assumed that the basic leadership style of a person is fixed.
- It takes only two styles into account.
- The validity and reliability of the questionnaire.

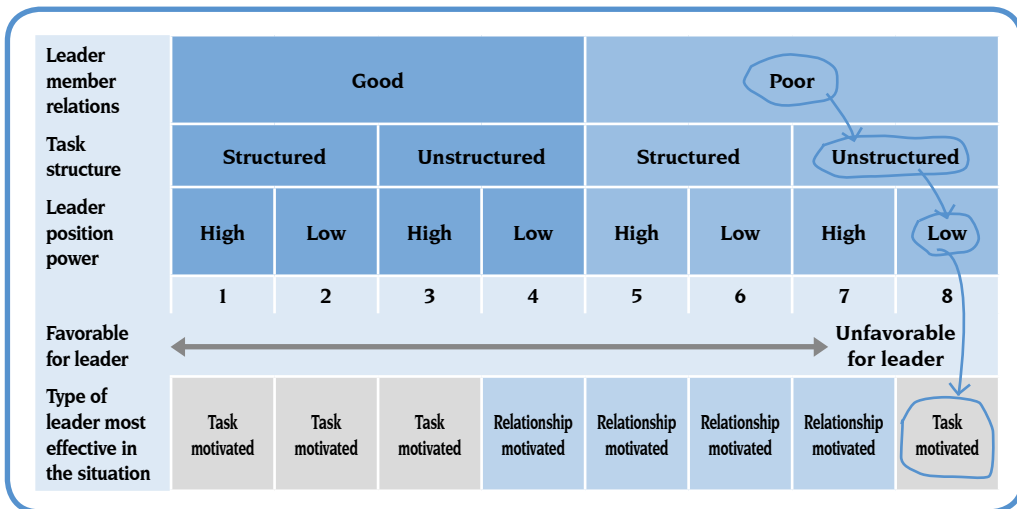


Figure 8.6: Criticisms of the Fiedler's contingency theory.

Relationship-oriented managers most effective in 4, 5,6,7 Task-oriented managers most effective in 1,2,3 or 8.

- **Leader - member relations** - This refers to the degree of confidence and trust subordinates have in their leader. Does the leader use formal or informal authority?
- **Task structure** - Are the tasks simple or complex? A routine task is one in which performance goals are clearly defined. Such a task will also have detailed instructions on how to perform the task. In such situations, managers will hold a great deal of authority because there are clear performance indicators by which to measure subordinate performance. On the other hand, if the task is complex or non- routine, such tasks are considered to have a low degree of task structure. Some managers do not have clear guidelines by which to assess workers performance and on how best to proceed with a particular task. In such a situation, members of a group can disagree with or contradict leader's instructions. Therefore, when the task structure is high (highly defined and specified task), the situation is favorable to the leader; when low, the leader is considered to be in an unfavorable situation.
- **Leader position power** - This refers to the extent to which a leader holds coercive, reward or legitimate power to influence power variables such as hiring, firing, discipline, promotions and salary increases. High position power would make the manager's job simpler than if his position power were low.

The greatest contribution of the model is that managers cannot be labeled as either good or poor. Instead, it is important to recognize that leader effectiveness depends on situational variables. That is, a leader who is not successful in a particular situation may be very effective if he was in a situation that fitted his basic style of leadership. Leadership effectiveness, therefore, depends more on situational variables than on leadership style.

The situational leadership model

Unlike Fiedler’s model, the situational theory assumes that leadership style can be varied and is not fixed. Hence, successful leadership is achieved by selecting the right leadership style, which, according to Hersey and Blanchard (1969), depends on the level of the follower’s readiness. The most effective style depends on the readiness level of the followers.

Hersey and Blanchard’s theory is based on three factors;

- **Task behaviour** - Refers to the extent to which the leader guides, defines roles, sets targets and direct subordinates.
- **Relationship behaviour** - Refers to the extent to which the leader supports, encourages, recognizes and engages in two-way communication with subordinates.
- **Follower readiness (Level of maturity)** - The ability (Knowledge, experience and skill) and the willingness (Confidence, commitment and motivation) of the followers to take responsibility for directing their own behaviour.

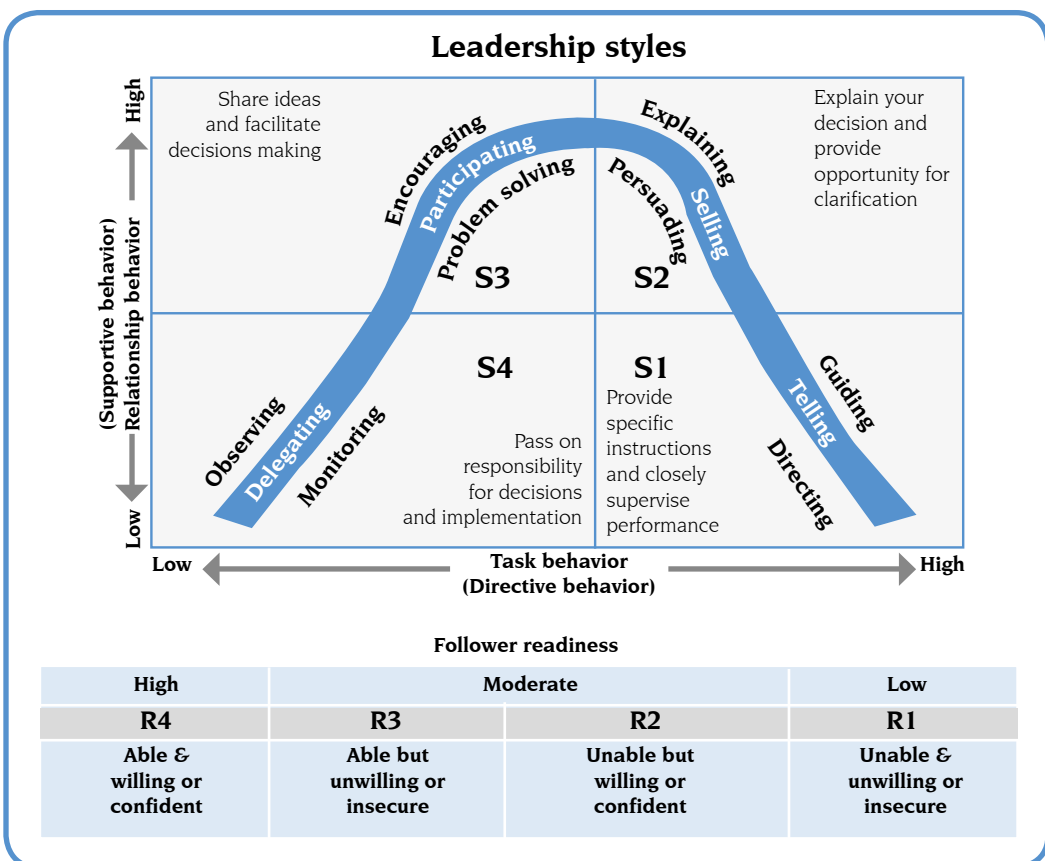


Figure 8.7: Hersey and Blanchard’s situational model.

Four leadership styles are derived from the combination of these dimensions. The most effective leadership style corresponds with the readiness of the followers.

(R = Readiness level of the follower)

R1- Low follower readiness - Refers to followers who are both unable and unwilling and who lack commitment and motivation; or who are unable and insecure. The leader will need to provide specific and clear directions on how to perform a task.

R2- Low to moderate follower readiness - Refers to followers who are unable but willing, and who lack ability but are motivated to make an effort, or who are unable but confident. The leader needs to be task oriented to get followers to buy into the leader's desires.

R3- Moderate to high follower readiness - Refers to followers who are able but unwilling, and who have the ability and commitment to perform but are unwilling to apply their ability or who are able but insecure. The leader will need to adopt a participative and supportive style of leadership.

R4- High follower readiness - Refers to followers who are both able and willing and who have the ability and commitment to perform; or who are able and confident. The leader is able to delegate the responsibility and authority to followers.

Leadership styles

1. **S1- Telling style** - This amounts to high amount of task guidance but a low level of relationship behaviour. The followers are clearly instructed and directed by the leader. This style is most effective when the follower readiness is low (R1).
2. **S2- Selling style** - This emphasizes on high amounts of task behaviour and relationship behaviour. This style is most effective for low to moderate follower readiness (R2). This refers to a situation in which followers learn their tasks and a selling style is most appropriate because employees are not completely ready to accept total responsibility for getting the job done. However, the leader will need to be supportive in order to build confidence among the employees and maintain a high level of enthusiasm. This style encourages interaction between the leader and the followers and thus, improves confidence and motivation on the part of the employee, although the leader still holds ultimate responsibility and controls decision-making.
3. **S3- Participating style** - This focuses on a high amount of two way communications and relationship behaviour for moderate to high follower readiness (R3). Once the group members are confident performing the tasks, the leader no longer needs to be directive. Decision-making and policy determination are shared between the leader and the subordinates.

4. **S4- Delegating Style** - Both task behaviours and relationship behaviours are low and hence little direction or support is required from the leader. This style is most appropriate for high follower readiness (R4) because employees are competent as well as motivated to take full responsibility. The employees are allowed to decide on how, when and where the task is to be done.

The model has significantly contributed in the area of leadership in that it has adequately recognized the followers. Further, it states that leaders can compensate for ability and motivational limitations in their followers. In other words, if the leadership style is appropriate, then the maturity levels of the followers should be improved over time. Hence, as leader helps employees move high up his maturity level, his or her leadership style needs to evolve as well. As the maturity of the follower increases, the leader should reduce the task behaviour and increase the relationship behaviour. Of these, no one style is considered optimal for all leaders to use all the time. Effective leaders need to be flexible, and must adapt themselves according to the situation. When leader behaviour is used appropriately with its corresponding level of readiness, it is termed a High Probability match. The following are descriptions that can be useful when using situational leadership for specified applications.

S1	S2	S3	S4
Telling	Selling	Participating	Delegating
Guiding	Explaining, coaching	Encouraging, Supporting	Observing
Directing	Clarifying	Collaborating	Monitoring
Establishing	Persuading	Committing	Fulfilling

Table 8.4: Leadership styles

Limitations of the situational Model

- Are situations so clear-cut so that managers can actually choose a leadership style appropriate for that situation? Certain people can adapt to situations more quickly than others.
- Certain factors such as personality traits and power base of the leader are ignored. Such factors may have a significant impact on the leader's choice of style.
- Usually, managers lead a team and not an individual. This team may contain members of different maturity levels. In such a case, what would be the best style to adopt?

The action centered leadership model

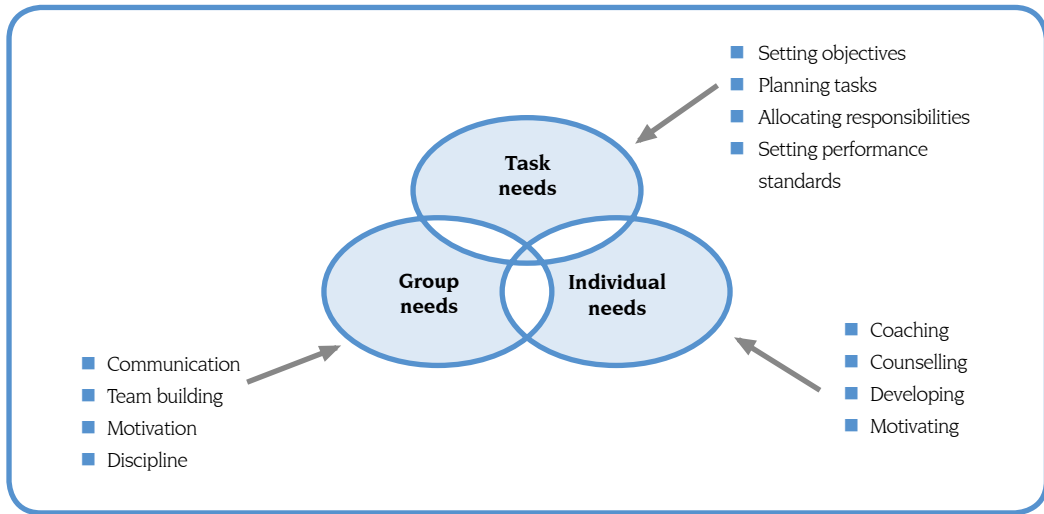


Figure 8.8: John Adair’s action centered leadership model.

Adair’s (1983) put forward a model of action centered leadership, which is based on the premise that effective leadership requires a bringing together of task, team and individual needs. Adair’s action-centered leadership takes Blake and Mouton’s ideas one step further, by suggesting that effective leadership regards not only task and group needs as important, but also those of the individual subordinates making up the group.

Task needs	Team needs	Individual needs
Setting objectives	Communication	Coaching
Planning tasks	Team Building	Counseling
Allocating responsibilities	Motivation	Developing
Setting performance standards	Discipline	Motivating
Initiating	Encouraging	Feedback
Information seeking	Peace Keeping	
Evaluating	Standard seeking	

Table 8.5: John Adair’s action centered leadership implications.

The model stresses that effective leadership lies in what the leader does to meet the needs of task, group and individuals. Task achievement is obviously important for efficiency and effectiveness, but it can also be valuable for motivating people by creating a sense of achievement. Effective teams generate synergy out of the different skills and knowledge of individuals. Where individuals feel that they have opportunities to satisfy their needs and develop, they are more likely to contribute to efficiency and effectiveness.

Core functions of leadership

Adair (1983) sets out the core functions of leadership that are central to the action centered leadership model.

- **Planning** - Seeking information, defining and allocating tasks, setting aims, initiating, briefing and setting standards.
- **Controlling** - Maintaining standards, ensuring progress and ongoing decision-making.
- **Supporting** - Individuals' contributions, encouraging team spirit, reconciling and morale.
- **Informing** - Clarifying tasks and plans, updating, receiving feedback and interpreting.
- **Evaluating** - The feasibility of ideas, performance and enabling self-assessment.

The path - goal theory

Another model that highlights the argument that situation is critical in determining the best leadership style is the path goal theory developed by Robert House (1996). The theory states that the responsibility of a leader is to enhance follower's motivation by reducing the roadblocks for task accomplishment. In simple terms, the job of a leader is to 'pave the path' for subordinates to achieve their tasks and thus attain both job satisfaction and high performance. The path goal model does not specify the best way to lead. Instead, it stresses that an effective leader should select a leadership style out of the four styles, which is most appropriate to a particular situation and the needs of the group members. The following diagram illustrates the path goal theory process.

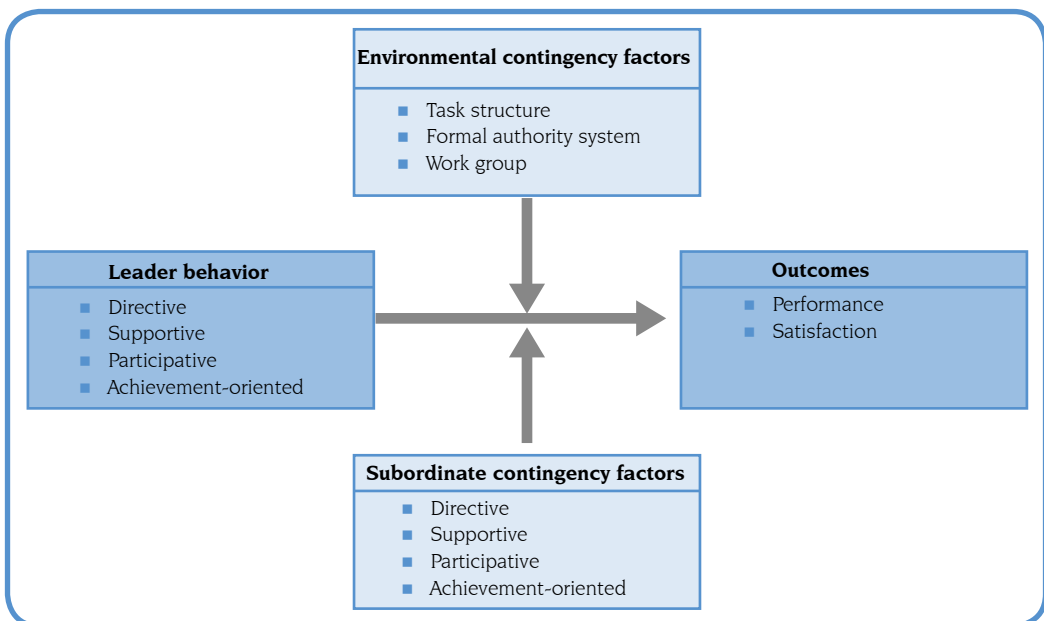


Figure 8.9: The path - goal theory.

House (1996) suggests that the appropriate leadership style depends on the characteristics of the subordinates and the work environment, which is explained below;

- **Directive style** - Letting people know exactly, what is expected and giving specific direction. People are expected to follow rules. More suitable when the task is ambiguous and staff lack flexibility.
- **Supportive style** - Friendly, approachable, concerned for needs and the welfare of employees. More suitable when tasks are repetitive, frustrating or unpleasant.
- **Participative style** - Consulting and evaluating opinions and suggestions from employees and stakeholders. More suitable when non-repetitive tasks are performed and staff are confident in their ability to do the work.
- **Achievement-oriented style** - Setting challenging goals, seeking improvement in performance and confident that subordinates that have the ability will perform well. More suitable when non-repetitive, sometimes ambiguous, challenging tasks and encouragement to raise performance.

The following two contingency factors will influence the leadership style and the outcome.

- **Employee characteristics (Subordinate contingency factors)** - This refers to aspects such as locus of control (the extent to which individuals believe that they can control events that affect them), experience and the perceived ability of the employees. According to the model, subordinates will accept a particular leadership style if they view it as an immediate source of satisfaction or as necessary for future satisfaction.
- **Task Characteristics (Environmental contingency factors)** - This refers to the nature of the task, and includes factors such as the task structure, formal authority system and the work group.

Employee performance and satisfaction are likely to be positively influenced when the leader adopts one of the four styles that are most appropriate in the context of employee or task characteristics. The path goal model suggests that the leader should make way for employees to perform their tasks and assist them, if necessary, so as to ensure that activities fall in line with overall corporate objectives.

8.7 Transactional versus transformational leadership

- **Characteristics of transactional leadership** - Transactional leaders create clear, well-understood work structures where the task requirements, rewards and punishments are clearly laid out. It's a transactional exchange where the subordinate is given a salary and other benefits, and the company gets authority over the subordinate. Subordinates must follow a clear chain of

command and the leader explains what the followers need to do as their part of a transaction to receive a reward or avoid punishment that is dependent on completion of the transaction. In the leadership versus management spectrum transactional leadership is very much towards the management end of the scale.

- **Characteristics of transformational leadership** - Transformational leadership is based on transforming organisations performance (Revolutionary change) and such leaders are willing to make changes where necessary to improve and achieve the organization's goals. The focus of the transformational leader is to create a vision that appeals to the values of followers and in doing so create a feeling of justice, loyalty and trust. Transformational leadership can be democratic but the leader expects to shape and change events rather than adapt to changing events, which can result in a more autocratic style. They are focused on strategic issues and believe charisma; intellectual stimulation, inspiration and using motivation will get things done.

Learning and developing is a key driving force and leaders emphasizes on vision, shared values and relationships to foster creativity and innovation. Transformation leaders need to identify subordinates needs and concerns, making them look at old problems in new ways, and encouraging them to question the status quo. Leaders must learn the ability to motivate, excite, inspire, energize and arouse individuals to put increased effort for task accomplishment. They achieve a position in which followers respect, admire, and trust the leader and emulate his or her behaviour and well as assume his or her values. The leader acts as a mentor giving personal attention, listening to others concerns and providing feedback, advice, support and encouragement. Adaptability is a key characteristic of the transformational organisation and people will follow the leader who inspires them.

Bass (1990) puts forward key characteristics of transformational leaders;

- **Charismatic, idealized influence** - Provides vision and a sense of mission, gains respect and trust, instills pride, Leaders become role models for their followers, admired, respected and trusted.
- **Individualized consideration** - Gives personal attention, coaches and treats each person individually.
- **Intellectually stimulating** - Promotes learning, encourages rationality and uses careful problem solving.
- **Inspirational motivation** - Communicates high performance expectations, uses symbols to focus efforts and distills essential purposes.

Transactional versus transformational leadership

Transactional leaders	Transformational leaders
Do what is required	Go the extra mile
Leaders adapt to various situations	Organisation adapts, focus on consistency
Focus in on day-to-day activities	Strategic emphasis, vision
Exchange rewards for effective performance	Growth and development of individuals
Create clear, well-understood work structures, task requirements, rewards and punishments	Transforming organisations performance (revolutionary change)
Transactional exchange (Pays Salary for authority over the subordinate)	Create a vision that appeals to the values of followers
Avoids change, manages status quo	Encourages change, thinking outside the box, challenge the status quo
Concerned with processes over ideas	Concerned with ideas over processes

Table 8.6: Transactional versus transformational leadership.

8.8 Entrepreneurial leadership

The fundamental difference between transformational leadership and entrepreneurial leadership is focus. Transformational leadership tries to change the existing order, entrepreneurial create a new order. Creativity and innovation feature high on the list of entrepreneurial characteristics. The ability and willingness to challenge current thinking and ways of doing things and come up with new ideas is part of the entrepreneur’s makeup. Leaders should not see themselves as the only people who can be entrepreneurial but be prepared to lead and facilitate entrepreneurship. This means giving up control and being willing for others to take risks and make mistakes. Entrepreneurial leaders often lose interest when they have achieved their goal and unless they are in an environment where they can activate their vision for the next goal they will move on to new challenges elsewhere. For the entrepreneur it is about new beginnings, risk and change.

Thornberry’s ten qualities of the entrepreneurial mind set

- **Internal locus of control** - Most entrepreneurs have strong internal locus of control to determine their own fate.
- **Tolerance for ambiguity** - Chaos, uncertainty and disorder comes with the territory.
- **Willingness to hire smart people** - Accept personal limitations and seek to balance.
- **Consistent drive to create, build or change** - Driven by challenge rather than money.

- **Passion** - Obsessed enthusiasm.
- **Optimism** - Glass half full.
- **Sense of urgency** - Impatience, don't waste time, miss the boat.
- **Perseverance** - Not sidetracked or derailed.
- **Resilience** - Accept mistakes, learn, bounce back.
- **Sense of humour about oneself** - Being prepared to accept flaws.

Thornberry (2006) distinguishes between transformational and entrepreneurial leadership as follows:

Transformational leaders	Entrepreneurial leaders
Focus on the organization	Focus on the opportunity
Changing attitudes	Finding like-minded people
Focus on change	Focus on building/creating
Passion	Passion
A stake in the ground	A moving stake
Creative rearrangement	Creative destruction/rearrangement
Committed investment	Staged investment
Symbolic communications	Intimate, personal communications
Long-term, stay the course	Medium term, exit strategy

Table 8.7 : Similarities and differences between transformational and entrepreneurial leadership.

Corporate entrepreneurship behaviors	
■ Efficiently gets proposed actions through bureaucratic red tape and into practice	■ Devotes time to helping others find ways to improve our products and services
■ Displays an enthusiasm for acquiring skills	■ Goes to bat for the good ideas of others
■ Quickly changes course of action when results aren't being achieved	■ Boldly moves ahead with a promising new approach when others might be more cautious
■ Encourages others to take the initiative for their own ideas	■ Vividly describes how things could be in the future and what is needed to get us there
■ Inspires others to think about their work in new and stimulating ways	■ Gets people to rally together to meet a challenge
■ Creates an environment where people get excited about making improvements	

Table 8.8 : Entrepreneurial leadership qualities identified in a research study.

8.9 Servant, stewardship leadership

Servant leadership goes back thousands of years, with the idea of the leader of a kingdom serving his or her people and it can also be found in teaching of various religions. The idea of servant leadership in the modern organisation first emerged in the 1970's following an essay by Robert Greenleaf on, the subject of 'The servant as leader' where he explained that servant leadership requires a belief that as a leader your role is to serve others first, prioritises the needs of others before focusing on personal needs. The essence of this leadership style is the collaboration and the ethical use of power.

Greenleaf's eleven characteristics of the servant leader

- Calling to serve in the interests of others and put that interest before self interest.
- Listening with commitment to others and to oneself.
- Empathy to understand others in order to better understand their individual concerns and needs.
- Healing oneself and others in times of change or crisis.
- Awareness of self and others.
- Persuasion rather than authority or coercion.
- Conceptualization to cultivate dreams and rise above day-to-day tasks.
- Foresight based on learning from the past, comprehend the present and visualize the future.
- Stewardship looking after something with intention of passing it on to others.
- Growth of people through formal and informal encouragement and development.
- Building community within the organisation and harmonizing relationship.

The advantages of servant leadership include nurturing a collaborative and supportive culture that encourages personal and organisation growth that facilitates transformation. Its main disadvantage is that such a culture requires time and the commitment of everyone and can lead to a lack of decision.

Stewardship is very similar with more of an emphasis on passing something on that is as good or in better condition than when the leader took over therefore a much long-term perspective and it protects continuity. A leader is the guardian of the organisation during their leadership and has a duty to at least maintain, but ideally improve, the strength and performance of the organisation during their stewardship. Stewardship goes beyond fiscal performance and requires attention to broader economic impact, community responsibilities and social inclusion and governance. These issues are currently addressed by some organisations perusing the goal of corporate responsibility. Pivotal to stewardship is accountability and stakeholders of many organisations would benefit from leaders being

more accountable beyond share price or financial performance. Public sector organisations, charities, institutions and religious organisations have embraced servant and stewardship leadership. For many small-to-medium-sized organisations, particularly family run business, servant stewardship leadership can be automatic with a desire to see their business thrive and continue, whether passed on to the next generation of family or to managers.

8.10 Emotional intelligence

Emotional intelligence is the ability to monitor own and others feelings, emotions, to discriminate among them and use this information to guide thinking and actions. It is ability to acquire and apply knowledge from your emotions and the emotions of others in order to be more successful and lead a more fulfilling life. Appraising emotional intelligence is best undertaken through a combination of methods including self-assessment, peer assessment, manager assessment and subordinate assessment. This should produce a well-rounded perspective and help identify areas of improvement.

Key factors of emotional intelligence

Mayer and Salovey (1990) described four key factors of EI.

- **Identify emotions** - The ability to perceive emotions in oneself, other, and in objects, art and events.
- **Use emotions** - The ability to generate, use and feel emotion to communicate feelings, or employ them in thinking or creating.
- **Understand emotions** - The ability to understand emotional information, how emotion combine and progress, and to reason about such emotional meanings.
- **Manage emotions** - The ability to regulate emotions in oneself and others to promote personal understanding and growth.

Goleman on emotional intelligence

Goleman (1995) introduced personal competence and social competence as two main competences of emotional intelligence. He then goes on to expand these into four categories mentioned below. The author believes that emotional intelligence competences are not innate skills but rather they are abilities that can be learned. He also suggests that you cannot teach emotional competence using traditional methods designed for cognitive learning. Emotional learning involves thinking and acting in ways that are fundamental to a person's identity and their personality. This will inevitably bring some people into conflict with their deep-rooted beliefs and attitudes and the need to change their behaviour.

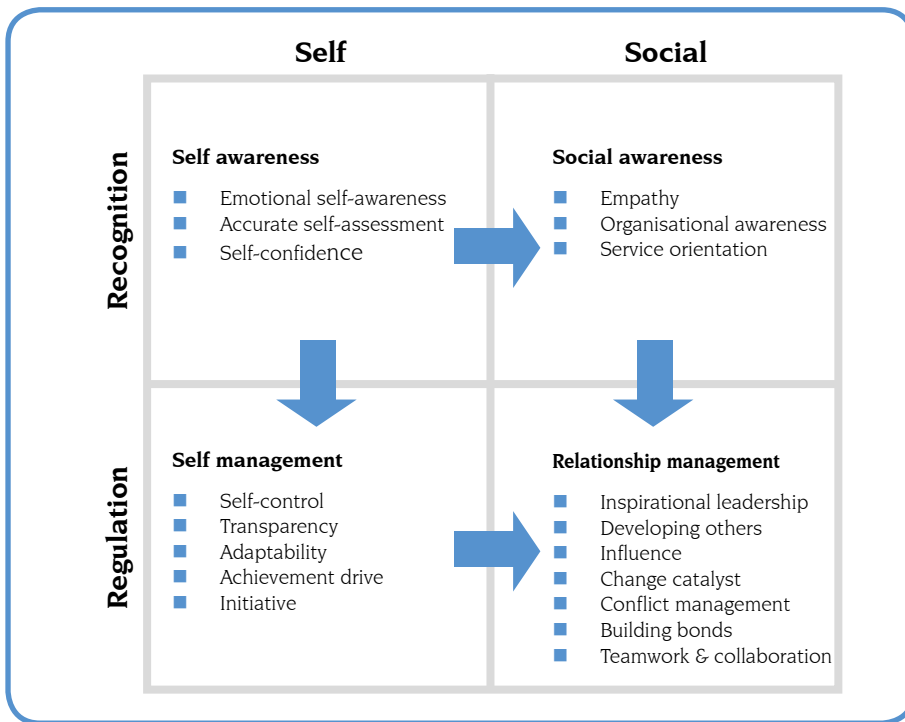


Figure 8.10: Goleman on emotional intelligence.

Personal competences

- **Self awareness** - Emotional self-awareness, accurate self-assessment, self-confidence.
- **Self management** - Emotional self-control, transparency, achievement orientation, initiative, optimism, conscientiousness, trustworthiness, adaptability, innovativeness, drive and self motivation, commitment, resilience, self fulfillment.

Social competences

- **Social awareness** - Empathy, organisational awareness, understanding the environment, diversity, political awareness, service orientation.
- **Relationship management (Social skills)** - Inspirational leadership, influence, developing others, change catalyst, conflict management, building bonds, teamwork, collaboration and cooperation, communication.

The theory of EQ only dates back to 1985. Wayne Payne proposed the theory in his doctoral thesis 'A study of emotion: Developing emotional intelligence'. The idea of EQ became more widely known with Daniel Goleman's 1995 book emotional intelligence: Why it can matter more than IQ.

Leadership styles impacting organizational climate

Goleman (2014) introduced six leadership styles; each derived from different emotional intelligence competencies, which works best in particular situations and affects the organizational climate in different ways;

- **The coercive style** - 'Do what I say' approach, demands immediate compliance.
- **The authoritative style** - 'Come with me' approach, mobilizes people toward a vision.
- **The affiliative style** - 'People come first' approach, creates harmony and builds emotional bonds.
- **The democratic style** - 'What do you think?' approach, forges consensus through participation.
- **The pace-setting style** - 'Do as I do, now' approach, setting high standards for performance.
- **The coaching style** - 'Try this' approach, develops people for the future.

The more styles a leader has mastered, the better. In particular, being able to switch among the authoritative, affiliative, democratic and coaching styles as conditions dictate creates the best organizational climate and optimizes business performance.

Components of emotional intelligence by Higgs and Dulewicz's

- **Drivers** - Motivation and decisiveness (Energizing and driving towards goal achievement).
- **Constrainers** - Conscientiousness and integrity (The fit between principles, values and behaviour).
- **Enablers** - Sensitivity, influence and self awareness (Performance traits which contribute to success).

EQ Vs. IQ

The intellectual quotient (IQ) measures concepts such as logical reasoning, word knowledge and math skills and many feel this is not adequate in measuring creative abilities or emotional abilities. The emotional quotient (EQ) is one of the ways to measure a person's ability to be successful in life and asserts that emotional quotient or emotional intelligence is as valuable as intellectual quotient. A high emotional quotient means someone is self confident, self aware and able to navigate through trying emotional times. EQ is often tied directly to the degree of success one may have in the workplace and in personal relationships.

8.1.1 Power, authority and influence

Daft (2003) defines power as the potential ability to influence others behaviour. Management power comes from the position a person holds within an organization. In contrast, leadership power comes from personal sources and these necessarily do not have to be invested in an organization. Hence, management power will focus on promoting stability and problem solving within an organizational structure while leadership power promotes vision, creativity and change within an organization.

Authority

Authority is the right to use power. It refers to the relationship between people in an enterprise and the discretion that a person has to make decisions. Authority is the right to exercise power such as hiring and firing or buying and selling on behalf of the organisation; the right that an individual has to require certain actions of others; the right to do or act. Max Weber proposed that authority legitimizes the exercise of power within the structure and rules of the organisation. Hence, it allows individuals within an organisation to issue instructions for others to follow. Weber defined three bases for such authority as follows;

- **Charismatic authority** - Here the individual has some special quality of personality, which sets the leader apart. Because the charismatic power in the organisation is so dependent on the leader, difficulties arise when he or she has to be replaced. Unless someone else is available, who also possesses the necessary charisma, the organisation either decays or survives in one of the other two forms.
- **Traditional authority** - This authority is based upon custom and practice. The personality of the leader is irrelevant: he or she inherits the status of leader because of the long-standing belief in the natural right to 'rule', which is sometimes handed down.
- **Rational-legal authority** - This is Weber's classic bureaucracy. Power comes from the individual's position in the organisation chart. The ability to perform particular functions and their operations is based on following a set of written rules. This authority is not personal but is vested, impersonally, in the position held.

Organisation culture and leadership style strongly influence the nature, source and use of authority, power and influence in an organisation. If the organisation is hierarchical, the culture subservient and leadership style autocratic and source of power may be from status or seniority and position held. Power will typically be used to dictate and control. In some organisation, particularly where a high level of expertise is required power may reside, for example with technicians or scientist, by virtue of their expertise. Employees have become more powerful partly as a result of changing attitudes and employment laws. In many industries where a high level of skills are required knowledge workers command a high degree of bargaining power. Whilst authority, power and influence may seem to be similar they can be distinguished as follows;

- **Authority** - Infers a notion of legitimacy usually from status or position and is therefore seen as a right to try to change or direct others. Authority is dependent on and often constrained by position.
- **Power** - Is the ability to change the behaviour of others and perform actions that they might not otherwise perform. Power is dependent on particular sources.
- **Influence** - Tends to be subtler, broader and more general than power and while it also is the ability to change behaviour it is less reliable and weaker than power. Influence is dependent on particular tactics.

Source of power

Different types of power were identified by French and Raven (1959).

- a) **Position power** - This refers to the type of power that comes from the organization and as defined by the organization structure and is categorized into three types.
 - **Legitimate power** - Comes with authority as it is based in holding a formal position. People who accept this legitimate power will comply and actively seek direction and guidance from such a source of power.
 - **Reward power** - Is based on giving something of value to someone in exchange for particular behaviour. These rewards may be financial, for example a bonus or non-financial, for example an award for achievement.
 - **Coercive power** - Stems from the threat of punishment, the most obvious being no salary increases or bonus, no promotion and dismissal. Less obvious, and potentially more damaging are bullying and social exclusion. In the real world we know there are some people who just do not want to work or work well for variety of reasons. However coercive power, while suggested by some as an acceptable form of power, is a last resort. With current legislation quite apart from the potential to pitch and organisation into an unpleasant, expensive and time consuming tribunal and use of coercive power can suggest a failure in leadership and people management. This does not mean we would tolerate poor performance or paralyse ourselves with political correctness. If a person is not responding to every opportunity to improve, disciplinary action or dismissals are necessary.
- b) **Personal power** - Personal power comes from internal sources and includes factors such as special knowledge or personality characteristics, which can be classified into two types.
 - **Expert power** - Comes from knowledge and experience and being seen as talented, gifted, the best in the business. It is usually narrow in its ability to exert power constrained by the nature of the expertise.

- **Referent power** - Come from people with, for example special qualities, poise, great personality, ability to inspire and interpersonal skills, charisma. People acquiesce to this power because they admire, respect or identify with the qualities this person has.

Politics and power

Politics is part of human nature and leaders need to use and cultivate the more positive and productive forms of politicking and be very clear that negative politicking may be destructive. Organizational politics may take on many forms which includes;

- **Networking and coalitions (Positive)** - Building contact and nurturing relationships across the organisation and externally to advance group and organisational goals. Negative E.g. To identify potential competitors (individuals) and allies to recruit in order to destroy those seen as being in competition.
- **Ingratiation (Negative)** - Using compliments, flattery, agreeing with someone considered important regardless of the right or wrong or truth, are all designed to create a favourable impression and win approval and support.
- **Personal promotion (Positive)** - Establishing credibility to sway and influence decisions in order to secure desired outcomes for the organisation or group. Negative egotistical promoting of often-exaggerated achievements no matter how small or relevant for reasons such as self-importance.
- **Information (Positive)** - Used to convince, persuade and provide evidence for a particular argument or justify a particular point of view. Negative 'information is power' syndrome and information can be used to the other forms of politics mentioned.
- **Upstaging (Negative)** - Publicly criticising a subordinate, peer or manager, bragging about "what you have done" or "how you would have done it". Taking credit for the ideas and achievements of others.

Usually the tactics employed, while having some self-interest, often have the interest of a task or project or department etc., as the goal. In these circumstances people are finding ways to get what they think are the right things done. They may be competing for resources or a project that is not necessarily a priority for others, particularly those in control. Politics become negative when all or some of these tactics are used purely for self-interest and often in conflict with the goals of others and the organisation. When political tactics cause others to be seen in a poor light or it damages performance it can be a destructive force in the organisation. How often have you wondered or heard others say they do not know how a decision got made as it seems irrational, did not appear to go through the formal decision-making process or channel etc. Politics will often be the reason behind what appear to be irrational decisions and leaders should never underestimate the power in the informal decision process. This process includes many more people than a formal decision process and they are not always easy

to identify. One of the reasons people engage in politics is because people have different perspectives, agendas and interpret needs and decisions differently. This can bring people into conflict and result in negative politicking.

Influence

Leaders with authority and power still need to be able to influence, particularly today in organisations where employees are technically skilled or are knowledge workers or in organisations where equality is emphasised or workers are volunteers. Influence often results in people conforming to particular decisions and behaviour. Herbert Kelman (1974) identifies three major types of social influence.

- **Compliance** - People will agree with each other to ensure they receive a positive response and avoid unfavourable reactions. Influence is exercised because of people's apprehension about the social consequences of agreeing or not agreeing with others who have the power to reward or punish.
- **Identification** - People will agree with others who they perceive as having qualities they value in order to establish or maintain a fulfilling relationship that re-enforces their self image. Influence is exercised because of a desire to promote goals associated with forming and maintaining a relationship, which is in harmony with their social identity.
- **Internalisation** - People will agree with others who they perceive as having attitudes that are credible and believable. Influence is exercised because the issues fit broadly with their own values and goals.

Two main types of influence used in organisations

- **Informational influence** - People can be manipulated by providing both accurate and inaccurate information to achieve a desired outcome. People look for information when what they have is ambiguous, when they want expert advice or when a problem or crisis occurs. If people giving the information believe the information may have a significant impact they are more likely to want to be accurate. The less important the outcome, the more likely people are to conform to the group rather than worry about accuracy of the information.
- **Normative influence** - Is about being liked therefore people will conform to the behaviour and decisions of the rest of the group. They may not necessarily agree with what others are doing or saying but will conform. The more people in the group the less influence one person has.

Use of power and influence

Much of what has been discussed under leadership styles provides clues to how leaders use power and influence and the organisation culture will determine how much people feel they must conform or have the freedom to disagree or be different. Leaders and employees in organisations are often trying to influence each other in different ways and for a variety of reasons. Typically we are:

- Convincing others through logical argument.
- Persuading others by presenting a compelling case.
- Negotiating with others to gain agreement and usually with the best of intentions and the interest of the group or organisation.

8.12 Responsibility, accountability and delegation

Responsibility involves the obligation of an individual who occupies a particular position in the organisation to perform certain duties, tasks or make certain decisions. Responsibility means the right to hold subordinates accountable for personal performance and achievement of the targets specified by the organization's plans. Accountability describes the need for individuals to explain and justify any failure to fulfill their responsibilities to their superiors in the hierarchy. It refers to being called to account for one's actions and results. Delegation is one of the main functions of effective management. Delegation is the process whereby a manager assigns part of his authority to a subordinate to fulfill his duties. However, delegation can only occur if the manager initially possesses the authority to delegate.

Methods of delegation

- **Abdication** - Leave issues without any formal delegation, which is very crude and usually an ineffective method.
- **Custom and practice** - An age-old system, the most junior member of staff opens the mail, gets the coffee and so on.
- **Explanation** - Manager's brief subordinates along the lines of how the task should be done, (Not too little and not too much - a fine balance that requires judgement).
- **Consultation** - Prior consultation is considered to be important and very effective. People, if organised, are immensely powerful; by contributing or withholding their cooperation they make the task a success or failure. Managers admit that sometimes-good ideas come from below. In fact the point of view of the person nearest the scene of action is more likely to be relevant.

8.13 Thought leadership

Forbes Magazine defines a thought leader as an individual or firm that prospects, clients, referral sources, intermediaries and even competitors recognize as one of the foremost authorities in selected areas of specialization, resulting in its being the go-to individual or organization for said expertise. The thought leader individual or firm must significantly profit from being recognized as such.

Wikipedia defines it as content that is recognized by others as innovative, covering trends and topics that influence an industry. Rasmus (2013) explains that thought leadership should be an entry point to a relationship. Thought leadership should intrigue, challenge, and inspire even when people are already familiar with something they wish to know more about. It should help start a relationship where none exists, and it should enhance existing relationships.

A thought leader may demonstrate creative thinking at any point in a meeting, casual discussion, solving a problem or heated debate. It is immediate and does not have to have a vision or journey. It is argued that thought leaders are more like artists and therefore do not need to worry about their interpersonal skills or ability to get on with people. Thought leaders include the mavericks and rebels in the organisation who cannot and will not conform, also known as 'The plant' in Belbin's team roles.

8.14 The level 5 leadership hierarchy

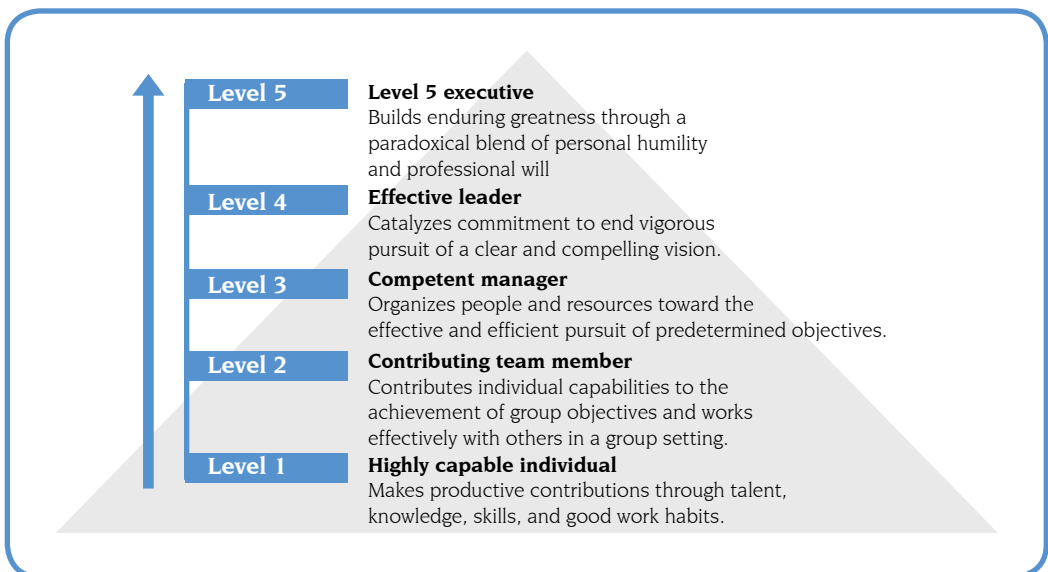


Figure 8.11: The level 5 leadership hierarchy.

Collins (2001) argues that level 5 leadership is a concept that is crucial in transforming companies from 'merely good to truly great organizations'. In his book 'Good to Great', he describes level 5 leadership as the highest level in a hierarchy of manager capabilities. The most important characteristic of level five leaders is that they completely lack ego and accept full responsibility for mistakes.

Here, leaders refuse to accept credit for the company's long-term success, citing their colleagues, subordinates and predecessors as the reason for their accomplishments. Although they are down to earth, level 5 leaders are determined in producing results for their organizations. They are ambitious for their organizations than for themselves. Such leaders develop other leaders throughout the organization and their retirement from the company will not affect the organization adversely. Instead, it can continue to prosper and grow even stronger. Therefore the organization will not be built around one significant individual.

Mentoring

Mentoring is quite simply a relationship where one person helps another to improve their knowledge, work or thinking. It is a very valuable development tool for both the person seeking support (the mentee) and the person giving the support (the mentor). Mentoring works alongside more formal control mechanisms, such as appraisals, and is intended to provide the employee with a forum to discuss development issues, which is relaxed and supportive. Mentors often discuss such issues as training, the choice of qualification, interpersonal problems and career goals.

The role of a mentor is to encourage and assist junior members of staff to analyse their performance in order to identify their strengths and weaknesses. The mentor should give honest but supportive feedback and guidance on how weaknesses can be eliminated or neutralized. The mentor could also act as a sounding board for ideas. The process should help junior staff to question and reflect on their experiences.

A mentoring system has both career-enhancing and psychological functions. The career function is concerned primarily with enhancing career advancement through exposure, visibility and sponsorship. The psychological function is more concerned with aspects of the relationship that primarily enhance competence and effectiveness in management roles. A mentoring system should help junior staff in expanding their network of contacts and gain greater exposure in the organisation. For a mentoring system to be successful, relationships should not be based on authority but rather a genuine wish by the mentors to share knowledge, advice and experience and should be one of mutual trust.

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CHAPTER 9

Strategic Change Management

- 9.1 Characteristics of successful change programs
- 9.2 The three-step change model
- 9.3 The change formula
- 9.4 Theory E & theory O
- 9.5 Rules of change
- 9.6 Phases of planned change model
- 9.7 Change adept organisations
- 9.8 Greiner's growth model (Organisational life phases)
- 9.9 The congruence model
- 9.10 Carnall's change management model
- 9.11 A process for change
- 9.12 Implementing strategic change (7 key questions of change)

9

Strategic Change Management

It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change. - Charles Darwin

In today's dynamic world it is vital for organizations to continuously change their operations in order to adapt to new situations. Change has become an inevitable part of an organization's life cycle and has direct consequences on its survival and performance. In fact, the need for organizational change is one of the few facts that remain unchanged in modern organizations.

The internal and external forces discussed above makes the management aware that there is a need for change within the organization. It is important that this need for change is communicated to all parts of the organization so that employees can readily see its necessity. The stage at which the organization realizes a need for change is vital in determining the effectiveness of the change and the overall intended objective. As marketing involves identifying, anticipating and satisfying customer needs, organizations must be alert to internal and external forces in order to successfully perceive the need for change. By doing so, organizations will be able to satisfy customer needs, ensure profitability and therefore achieve the overall corporate objective.

Definition : Change management is a process by which management attempts to improve the overall performance by designing and adapting to new ideas through the alteration of the organization's structure, processes, behaviour and technology.

9.1 Characteristics of successful change programs

- They take a systematic approach to the 'human side' of the change
- It must involve leaders in every layer of the organisation
- It requires long term commitment by all
- Win over the opinion leaders and the rest will follow
- Make change a habit or an attitude and not a ritual or event
- Anticipate and prepare responses for resistances
- Let success breed success
- Make it fun and rewarding
- Find creative ways to make everyone believe in the requirement for change
- Inspire the soul

9.2 The three-step change model

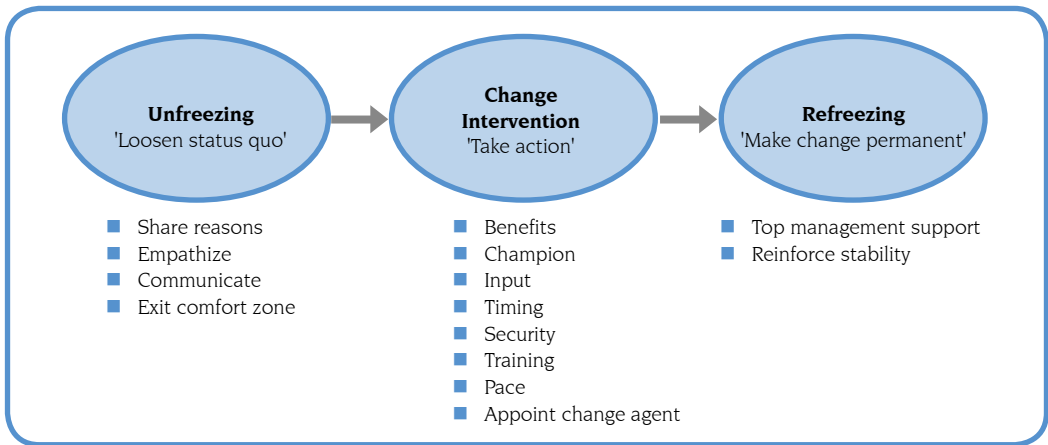


Figure 9.1 : The three-step change model.

Lewin (1958) suggested that in many cases change was very short lived and after a period of time, group behaviour reverted back to its previous pattern. The idea of the three-step model is that change is regarded as permanent. This model recognizes that for new behaviour to be accepted, old behaviour has to be discarded. This process includes unfreezing habits or standard operating procedures and changing to new patterns and refreezing to ensure lasting effects. The three steps include:

i. Unfreezing the present level - In this stage, managers need to make the need for change so obvious that most people can easily understand and accept it. Unfreezing also involves creating the initial motivation to change by convincing staff of the undesirability of the present situation. Ways of destabilizing the present stability could include:

- Identifying and exploiting existing areas of stress or dissatisfaction.
- Creating or introducing additional forces for change, such as tighter budgets and targets or new personnel in favour of the change.
- Increasing employee knowledge about markets, competitors and the need for change.

ii. Moving to the new level - The change process itself is mainly concerned with identifying the new behaviours or norms. It is vital that new information is communicated concerning the new attitudes, culture and concepts that the organisation wants to be adopted, so that employees internalize these. This will involve the following stages;

- Establishing new patterns of behaviour.
- Setting up new reporting relationships.
- Creating new reward, incentive schemes.
- Introducing a new style of management.

iii. Refreezing the new level - Refreezing or re-stabilizing the change involves ensuring people do not slip back into old ways. As such it involves reinforcement of the new pattern of work or behaviour by;

- Larger rewards (Salary, bonuses, promotion) for those employees who have fully embraced the new culture.
- Publicity of success stories and new 'heroes' - E.g. Through employee of the month.

Criticisms of Lewin's three step model

- Too simplistic.
- The model is based on the assumptions that organisations are stable and static.
- Change is multi-directional and it happens in all directions simultaneously and is often a continuous process.

9.3 The change formula

According to Beckhard and Harris (1977) the change formula is a mathematical representation of the change process. The basic notion is that, for change to occur, the costs of change must be outweighed by dissatisfaction with the status quo, the desirability of the proposed change and the practicality of the change. There will be resistance to change if people are not dissatisfied with the current state of the organization, or if the changes are not seen as an improvement, if the change cannot be done in a feasible way, or the cost is far too high. The formula is as follows;

$$C = D \times V \times F > R$$

Change equals Dissatisfaction X Vision X First steps that is greater than the Resistance

The idea is that if you are seeking some significant, system-wide change there are several core elements that needs attention. We need a critical mass of the organization to:

- i. Be **dissatisfied (D)** with the way things are (In relation to the proposed change). This often doesn't come until some force from outside the organization creates a crisis for the organization.
- ii. To have a **vision (V)**, an image or an idea of what improvement would look like, that is grounded in the hopes and dreams of employees or members. An old saying among leaders is "Being right is only one-quarter of the battle". It's not uncommon for leaders to have a vision of what improvements are needed. The problem is that just communicating the vision (Or mission, or strategic plan) will not bring change.

iii. With a clear sense of what needs to be done as **first steps (F)**. This means having a picture of what we can do differently in the short term that will move us toward that vision. Four major factors for leaders to take into account are: i). What competencies need to be developed or strengthened for people to be able to function in the changed situation? People don't like to feel incompetent and change often creates that feeling. ii). People are often hesitant to accept and implement the change because they fear losing friends and colleagues who are in opposition. iii). Having the needed resources to make the change. iv). Beginning to create an alignment of structures, process and practices that will be in harmony with the new way.

Resistance (R) is likely to be present in all change efforts. The combined weight of the dissatisfaction, vision and first steps needs to be able to overcome that resistance. This means if any of those elements (D, V, F) is '0', the change will not be possible.

The ADKAR model

Managing organizational change starts with understanding how to manage change with a single person. Among the tools available to drive individual change, the ADKAR model developed by Prosci, the world leader in change management research and content creation, is commonly used. It is an effective tool for planning change management activities, diagnosing gaps, developing corrective action, and supporting managers and supervisors. In principle, to make a change successfully an individual needs:

- Awareness of the need for change
- Desire to participate and support the change
- Knowledge on how to change
- Ability to implement required skills and behaviors
- Reinforcement to sustain the change

9.4 Theory E & theory O

Beer and Nohria (2000) identified that a large proportion of all business change initiatives fail. They believed that this was caused by managers becoming overwhelmed by the detail of the change management process and failing to focus on the overall goals of the change itself. Beer and Nohria identified that every organisational change conforms to a variant of either:

- **Theory E strategies** - These are based on measures where shareholder value is the main concern. It is planned, programmatic change, based on formal structure and systems, driven from the top with the help of external consultants and financial incentives. Change usually involves incentives, layoffs, downsizing and restructuring.
- **Theory O strategies** - These are 'softer' approaches to change, often involving cultural adjustment or enhancing employee capabilities through individual and organisational learning. Here change is continuous and emergent and is a participative process which relies less on consultants and incentives. This involves changing, obtaining feedback, reflecting and then making further changes. This requires involving employees in the change process.

Quality	Theory E	Theory O
Purpose	Maximize economic value	Develop organizational capabilities
Leadership	Top-down	Participative
Focus	Structure & systems	Culture & values
Planning	Programmatic	Emergent
Motivation	Incentives lead (Extrinsic)	Incentives lag (Intrinsic)
Consultants	Large, knowledge-driven	Small, process-driven
Analogy	Anatomy	Physiology
Planetary type	Mars (Heroic)	Venus (Nurturing)
Gesture	Linear - straight	Curved - round
Perspective	Mechanical universe	Living system
Attempt to	Control	Enable or allow

Table 9.1 : Theory E & theory O.

Limitations of the model

Theory E approach tends to ignore the feelings and attitudes of their employees, which will often lead to a loss of motivation and commitment from staff members. This can damage the competitive advantage of the organisation. Theory O organisations, on the other hand, will often fail to take the 'tough' decisions that may be needed. To solve these problems, Beer and Nohria recommended that organisations should implement both Theory E and Theory O approaches simultaneously and try to balance the associated tensions. This could, for example, involve some restructuring as well as a development of remaining employees. This would still need careful management as it would be easy to get the 'worst of all worlds' where staff are demotivated by the job losses while investors feel the cost cuts have not gone far enough. Balance is needed.

Why does change fail?

As stated previously, up to 80 per cent of change strategies fail. Robbins and Finley (1998) suggest a number of reasons as to why change initiatives fail;

- **It is the wrong idea** - No matter how well implemented, it is not going to succeed because it is inappropriate.
- **It is the right idea but the wrong time** - Maybe too soon after a failed change initiative, too few available resources, lack of top management support.
- **You are doing for the wrong reasons** - Usually money. For example, companies initiate change as a means of increasing efficiencies and saving money.

- **It lacks authenticity** - Some companies are led to change not because it is inherently necessary but because it is in vogue, that is everyone else is doing it.
- **Your reality contradicts your change** - For example, a company may announce a flattening of the organizational structure to encourage a more egalitarian culture. However, the reality is far from that- the old practices such as separate dining rooms for managers and workers send out stronger messages that in fact nothing has changed. This often leads to cynicism and distrust in the organization.
- **You have the wrong leader** - One cannot underplay the role of a strong leader that inspires and motivates staff. It is essential that the leader is compatible with the culture of the company or else this may result in conflict.
- **Change for change's sake** - Senior management initiate change to alleviate the boredom of everyday life. They thrive on creating turmoil and even gain personal satisfaction from this turmoil.
- **People are not prepared or convinced** - In the short term this suggests the need for training and communication to encourage people to buy the new ideas. In the long term it is probably more of an issue of corporate culture.
- **Bad luck** - Contingencies that are not planned for. For example, terrorist attacks and natural disasters.
- **There is nothing you can do** - In some cases there may be nothing anyone can do to stem the rising tide of failure.

Beer et al. (1990) suggest that for successful corporate change there are three interrelated factors. They believe that many company-side change programmes fail because they do not address all the three factors. Companies can try and avoid the problems associated with pragmatic change by adopting a 'task alignment' perspective, that is, 'by focusing on reorganizing employees' roles, responsibilities and relationships to specific business problems'. This in turn will shape new attitudes and ideas. The factors are as follows;

- **Co-ordination (Teamwork)** - Within and between departments.
- **Commitment** - High levels are required to ensure co-operation and co-ordination.
- **New competencies** - Such as analytical, interpersonal skills are essential.

According to Stewart and Ringas (2003), the success of change programmes depends on;

- An appropriate change model.
- Effective leadership.
- Sufficient resources.
- Attention to communication.

Approaches to overcome change resistance

According to Kotter and Schlesinger (1979), there are four reasons as to why people resist change.

- **Self-interest** - Concerned about the implications of change to themselves.
- **Misunderstanding** - Inadequate information and communication.
- **Low tolerance to change** - Seek high security and stability at work.
- **Different assessments of the situation** - Disagree with the reasons for change.

The model suggests that leaders need to adopt an appropriate style of management depending on the circumstances. Here are the six styles of managing strategic change;

Styles of managing strategic change

Approach, style	Situations used	Advantages	Disadvantages
Education + Communication	Where there is a lack of or inaccurate information and analysis.	If persuaded, people will help with the implementation of change.	Can be time consuming if many people are involved.
Participation + Involvement (Collaboration)	Where initiators do not have all information to design change, and where others have power to resist.	Participants are committed to implementing change including their relevant contribution.	Can be very time consuming with possibly inappropriate changes made.
Facilitation + Support	Where resistance comes from adjustment problems.	Best approach for adjustment issues.	Can be time consuming, expensive and still fail.
Negotiation + Agreement	Where one group will lose out and has power to resist.	Can be an easy way to avoid major resistance.	Can be too expensive if it leads to general compliance.
Manipulation + Cooperation (Direction)	Where other tactics won't work or are too costly.	Can be a relatively quick and inexpensive solution to resistance.	Can lead to future problems if people feel they have been manipulated.
Explicit + Implicit Coercion	Where speed is essential, and the change initiators possess considerable power.	It is speedy and can overcome any kind resistance.	Can be risky if it leaves people angry at the initiators.

Table 9.2 : Styles of managing strategic change.

9.5 Rules of change

According to Robbins and Finely (1998) the rules of change are as follows;

- People do what they perceive to be in their best interest, thinking as rationally as possible, which is referred to as the law of 'push'.
- People are not inherently anti-change. Most will embrace change if it has a positive meaning for them, which are referred to as the law of the 'pull'.

- People thrive under creative challenge, but wilt under negative stress.
- People are different and no one-solution will satisfy everybody.
- Actions speak louder than words.
- The way to make effective long-term change is to first visualize what you want to achieve and then live this vision until it comes true.
- Change is an act of imagination. Until one's imagination is engaged, no important change can take place.

9.6 Phases of planned change model

Bullock and Battern (1958) derived their ideas from project management and they recommend using exploration, planning, action, and integration for planned change. They analyzed over 30 models of change management and arrived at their own 4-phase model of programmed change management, which can be applied to almost any circumstance. The model is useful in that it distinguishes between the 'phases' of change, which the organization passes through as it implements change, and the 'processes' of change, i.e. the methods applied to get the organization to the desired state. The model progresses as follows:

Exploration phase - The organization has to make decision on the need for change;

- Explore and decide on the need for change.
- Identify what changes are required.
- Identify resources required.

Planning phase - Understanding the problem;

- Diagnosis of the problem.
- Clarify goals and objectives.
- Identify specific activities required to undertake change.
- Agree changes with stakeholders.
- Identify support required enabling change to occur.

Action phase - Changes identified are agreed and implemented;

- Support for change is explicit.
- Changes are monitored and evaluated.
- Results are communicated and acted upon.
- Adjustments and refinements are made where necessary.

Integration phase - Stabilizing and embedding change;

- Changes supported and reinforced.
- Results and outcomes from change communicated throughout the organization.
- Continuous development of employees through training, education.
- On going monitoring and evaluation.

9.7 Change adept organisations

Rosabeth Moss Kanter (1992) looked at the characteristics of organisations that managed change successfully (Change-adept organizations), and the qualities of their leaders and managers. The author suggested that change-adept organisations share three key attributes;

- **The imagination to innovate** - Effective leaders help to develop new concepts, which are a requirement for successful change.
- **The professionalism to perform** - Leaders provide both personal competence and competence in the organisation as a whole, which is supported by workforce training and development. This enables the organisation to perform strongly and deliver value to ever-more-demanding customers.
- **The openness to collaborate** - Leaders in change-adept organisations make connections with 'partners' outside the organisation, who can extend the organization's reach, enhance its products and services, and 'energize its practices'. 'Partners' will include suppliers working in close collaboration, joint venture partners, and so on.

Kanter (1992) argued that change should be accepted naturally by organisations, as a natural part of their existence. Change that is compelled by a crisis is usually seen as a threat, rather than as an opportunity for successful development. Mastering change means being the first with the best service or products, anticipating and then meeting customer requirements (Which continually change) and applying new technology. This requires organisations to be 'fast, agile, intuitive and innovative'.

Power skills required by change agents

Kanter (1992) identified seven 'power skills' that change agents require to enable them to overcome apathy or resistance to change, and introduce new ideas:

- Ability to work independently - Without management hierarchy behind them.
- Collaborating skills.
- Ability to develop high trust relations, with high ethical standards.
- Possession of self-confidence mixed with humility.

- Respectful of both the process and content of change.
- Ability to work across business functions.
- Willing to stake rewards on results, and obtain satisfaction from results.

Skills for leaders in change-adept organisations

- **Tuning in to the environment** - A leader can actively gather information that might suggest new approaches, by tuning in to what is happening in the environment. Leaders can create a network of 'Listening posts', such as satellite offices and joint ventures.
- **Challenging the prevailing organisational wisdom** - Leaders should be able to look at matters from a different perspective, and should not necessarily accept the current view of what is right or appropriate.
- **Communicating a compelling aspiration** - Leaders should have a clear vision of what they want to achieve, and should communicate it with conviction to the people they deal with. A manager cannot 'sell' change to other people without genuine conviction, because there is usually too much resistance to overcome. Without the conviction, a manager will not have the strength of leadership to persuade others.
- **Building coalitions** - Change leaders need the support and involvement of other individuals who have the resources, knowledge or 'political clout' to make things happen. There are usually individuals within the organisation who have the ability to influence others - 'opinion shapers', 'values leaders' and experts in the field. Getting the support of these individuals' calls for an understanding of the politics of change in organisations.
- **Transferring ownership to the work team** - Leaders cannot introduce change on their own. At some stage, the responsibility for introducing change will be handed to others. Kanter (1992) suggested that a successful leader, having created a coalition in favour of the change, should enlist a team of other people to introduce the change.
- **Learning to persevere** - Something will probably go wrong, and there will be setbacks. Change leaders should not give up too quickly, but should persevere with the change.
- **Making everyone a hero** - A successful leader recognizes, rewards and celebrates the accomplishments of others who have helped to introduce a change successfully. Making others feel appreciated for their contribution helps to sustain their motivation, and their willingness to attempt further changes in the future.

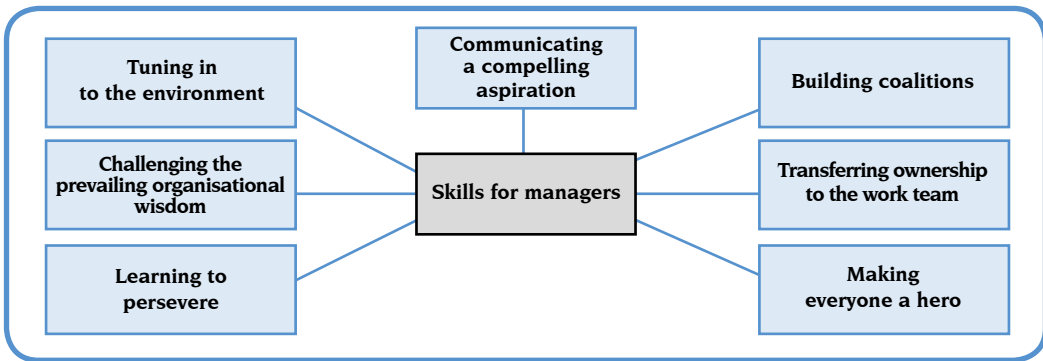


Figure 9.2 : Skills for leaders in change-adept organisations.

9.8 Greiner's growth model (Organisational life phases)

Greiner's organisational growth model (1972) provides a framework for organisations to grow through an evolutionary process punctuated by periods of crisis. The model assumes that as an organisation ages it grows in size. This growth is characterized by:

- **Evolution** - There is a distinctive factor that drives organisational growth.
- **Revolution** - There is a distinctive factor that creates crisis marring the ability to change.

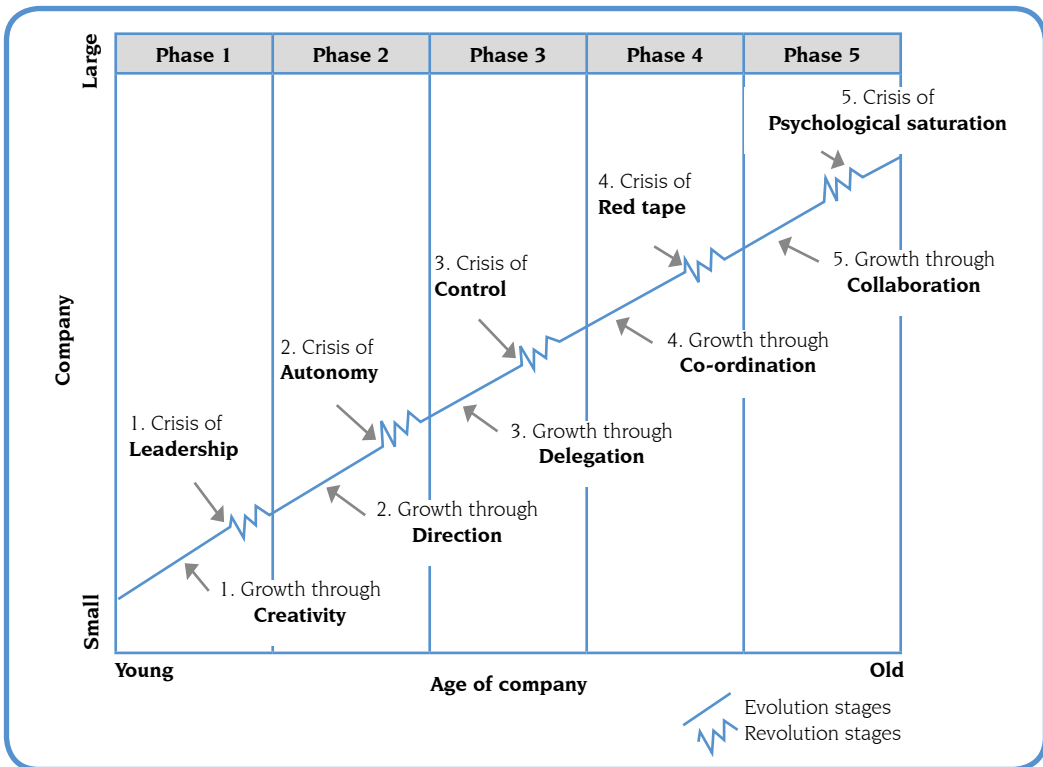


Figure 9.3 : Greiner's growth model (Organisational life phases).

Phase 1	<ul style="list-style-type: none"> ■ Growth through creativity - The goal is survival for the small dynamically-led organisation. ■ Crisis of leadership - A need for distinct management skills emerges beyond the abilities of one person.
Phase 2	<ul style="list-style-type: none"> ■ Growth through direction - Professionalization leads to structure and direction of activity. ■ Crisis of autonomy - Employees resent the loss of autonomy, senior management find delegation difficult.
Phase 3	<ul style="list-style-type: none"> ■ Growth through delegation - Decentralization of management and decision making is the basis for growth. ■ Crisis of control - Sub-optimal activity and problems of co-ordination and control.
Phase 4	<ul style="list-style-type: none"> ■ Growth through co-ordination - Internal systems for co-ordination and control to optimize use of resources. ■ Crisis of red tape - Over-zealous control aggravates grievances and restricts activity.
Phase 5	<ul style="list-style-type: none"> ■ Growth through collaboration - Increased informal collaboration, a cultural shift. ■ Crisis of psychological saturation - Exhaustion of teamwork and longing for new horizons.

Table 9.3 : Greiner’s growth model (Organisational life phases).

9.9 The congruence model

Nadler and Tushmans (1997) introduced the congruence model as a useful tool that helps leaders fully grasp the interplay of social and technical forces that shape the performance of an organization. It suggests that the starting point for analyzing organizational performance is to first understand the organization as a system. The organization consists of a basic set of elements: input, strategy, output, and the transformation process.

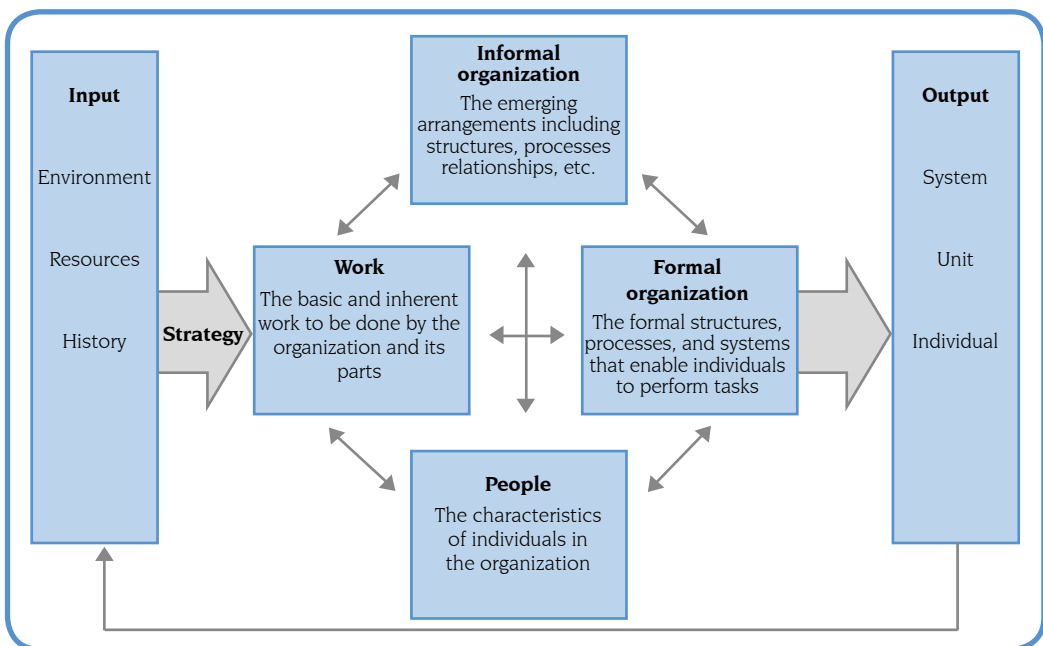


Figure 9.4 : The congruence model.

The change kaleidoscope

Balogun et al's (1998) is a useful guide to understand the contextual issues to be considered and it specifies the design choices available.

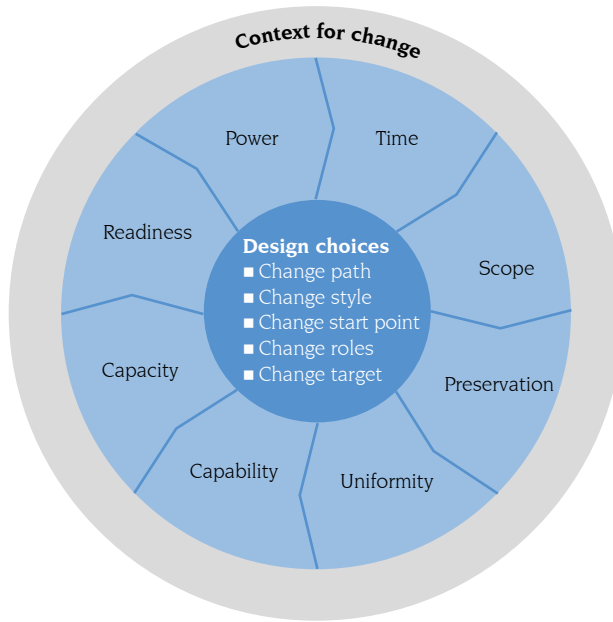


Figure 9.5 : The change kaleidoscope by Balogun et al's (1998).

To understand the context of the change marketers need to think about the following aspects;

- **Time** - The degree of urgency and the timing of the change.
- **Scope** - The extent of the change - how wide will it reach and is it likely to be incremental or transformational?
- **Preservation** - What needs to be kept from the existing situation?
- **Uniformity** - How similar or different are the groups that will be involved in and affected by the change, and how differentiated should your approach therefore be?
- **Capability** - Does the organization have the skills and abilities needed to ensure the change is successful?
- **Capacity** - Does it have the resources needed?
- **Readiness** - Have the organization and the teams involved in the change recognized that this is necessary or will the change need to be imposed?
- **Power** - Does the person leading the change have the authority to ensure the change is followed through?

Marketers can then design the change process by evaluating the following choices in the light of the context:

- **Change path** - Where should the change be located on the continuum between revolutionary and evolutionary?
- **Change style** - Should the change be top down and imposed or is there scope for an 'action learning' approach with mostly bottom-up initiatives?
- **Change start point** - Where should the change process start within the organization - with a project team, senior managers, or with an entirely new team?
- **Change roles** - Who will begin the change process, who will lead or manage it and who will out the change program into action?
- **Change target** - What is being changed? Is it products, processes, skills, systems, structures, culture, or a combination of all these elements?

Stakeholders in a change program

Egan (1994) divides stakeholders in a change program into nine distinct groups, in relation to a leader or agent of change.

Stakeholder	Position
Partners	Support the change agent.
Allies	Will support the change agent, given encouragement.
Fellow travellers	Passive supporters, who are committed to the agenda or need for change, but not to the change agent in particular.
Bedfellows	Those who support the agenda or need for change, but do not know or trust the change agent.
Fence sitters	Those whose allegiances are not year clear.
Loose cannons	Those who may vote either way on agendas in which they have no.
Opponents	Those who oppose the agenda, but not the change agent in particular.
Adversaries	Those who oppose the change agent and the agenda.
The voiceless	'Silent' stakeholders who are affected by the agenda, but lack advocates or power to influence decisions (E.g. Future generations, the environment).

Table 9.4 : Stakeholders in a change program.

Egan (1994) suggests that these groups require different communication strategies.

- **Supporters** - Must be encouraged and kept 'on side':
- **Partners** - May require little interaction, but the organisation cannot afford to be complacent: if dissatisfied, they may downgrade to less committed support.
- **Allies** - Require some encouragement, but infrequent contact is usually all that is required to maintain support.
- **Passive supporters (Fellow travellers and bedfellows)** - Require more intense rapport- and relationship-building contacts in order to mobilise commitment to the change agent.
- **Fence sitters** - May or may not have the potential to become valuable supporters or harmful opponents. The change agent will need to assess what value can be gained from gaining their allegiance, and this will determine the level and type of interaction invested in the attempt.
- **Opponents** - Need to be 'converted': persuaded of the merits of the agenda and have their reasons for resistance addressed. This will often require a formal, structured.

The context map

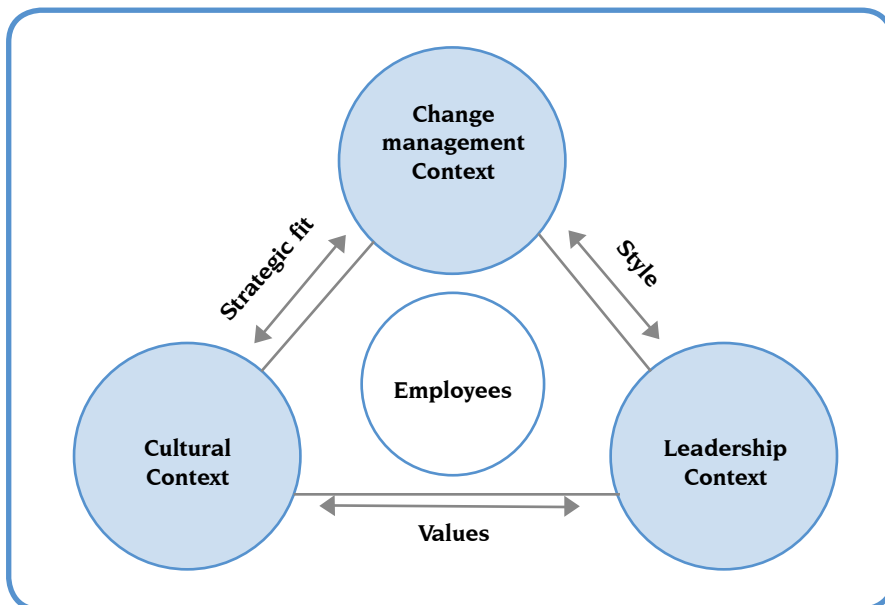


Figure 9.6 : The context map.

The three factors mentioned above in the context map will need to work hand in glove in order to effectively implement marketing plans. When carefully managed the interplay of these three factors will have a knock on effect on each other in order to deliver exponential results.

Determining the degree of fit

The organization’s performance rests upon the alignment of the components (Work, people, formal and informal organization). Tighter the ‘fit’ the greater the congruence which will result in a higher performance. It must be noted that the interaction between each set of organizational components is more important than the components themselves. The interplay of these factors and their issues are as follows;

Fit	The issues
Individual-formal organization	To what extent individual needs are met by the organizational arrangements; to what extent individuals hold clear or distorted perceptions of organizational structures; to what extent individual and organizational goals converge.
Individual-work	To what extent the needs of individuals are met by the work; to what extent individuals have skills and abilities to meet work demands.
Individual-informal organization	To what extent individual needs are met by the informal organization; to what extent the informal organization makes use of individuals’ resources, consistent with informal goals.
Work-formal organization	Whether the organisational arrangements are adequate to meet the demands of the work, whether organizational arrangements tend to motivate behavior consistent with work demands.
Work-informal organization	Whether the informal organization structure facilitates work performance; whether it hinders or promotes meeting the demands of the work.
Formal organization Informal organization	Whether the goals, rewards and structures of the informal organization are consistent with those of the formal organization.

Table 9.5 : Determining the degree of fit.

9.10 Carnall’s change management model



Figure 9.7 : Carnall’s change management model.

Carnall (1991) related that managerial skills affect the change process and the success rate of change implementation. The model describes that the level of managerial skills in areas, such as managing transition, organizational culture and organizational politics, are fundamental determinants of effective

management of change. These skills must be supported by creating of suitable environments for creativity, risk taking, learning, rebuilding self esteem and performance in order to achieve organizational change.

9.11 A process for change by Kotter

1. Establishing a sense of urgency

- Examining the market and competitive realities.
- Identifying and discussing a crisis, a potential crisis or major opportunities and threats.
- Inspire people to move, make real and relevant objectives.
- Develop scenarios as what could happen in the future.
- Start honest discussions, and give dynamic and convincing reasons to get people talking and thinking.

2. Creating a guiding coalition (Team)

- Identify the true leaders in your organization.
- Putting together a leadership team with enough power to lead change.
- Get the right people in place with the right emotional commitment, and the right mix of skills.
- Work on team building within your change coalition.
- Check your team for weak areas, and cross functional representations.

3. Developing a new vision and strategy (Strategic intent)

- Develop a shared vision of the desired change that is:
- Imaginable - Creates a mental picture.
- Desirable - Appeals to the long-term interest.
- Feasible - Realistic and attainable.
- Focused - Clearly articulated.
- Flexible - Allows for changing conditions.
- Communicable - Successfully explained in five minutes or less.
- Developing strategies to achieve the vision.
- Focus on emotional and creative aspects necessary to achieve vision.
- Determine the values that are central to the change.
- Develop a short summary (One or two sentences) that captures what you 'see' as the future of your organization.

4. Communicating the change vision

- Using effective channels (Technology) to communicate the change vision and strategies.
- Use role modelling to denote the expected behavioral standards.
- Keep it simple and avoid jargon
- Talk often about your change vision.
- Address peoples concerns and anxieties, openly and honestly.
- Apply your vision to all aspects of operations from training to performance reviews. Tie everything back to the vision.

5. Empowering broad based action

- Changing systems, structures, job descriptions that undermine the change vision.
- Remove obstacles, enable constructive feedback and support from leaders - Reward and recognize progress and achievements.
- Encouraging risk taking and nontraditional ideas, activities and actions.
- Sponsors (Senior management) - The driving force of change must 'walk the walk'.
- Develop, motivate, train and reinforce support.
- Identify, or hire, change leaders whose main roles are to deliver the change.
- Review compensation systems to ensure they're in line with your vision.
- Identify people who are resisting the change, and help them see what's needed.
- Take action to quickly remove barriers (Human or otherwise).

6. Generating short term wins

- Planning and creating visible improvements in performance or 'wins' - Set realistic short term milestones.
- Visibly recognizing and rewarding people who achieved these wins.
- Build momentum and deal with resistance.
- Thoroughly analyze the potential pros and cons of your targets. If you don't succeed with an early goal, it can hurt your entire change initiative.

7. Consolidating gains and producing more change (Success breeds success)

- Using increased credibility to change all systems, structures, and policies that don't fit together and support the vision.
- Hiring, promoting, and developing people who can implement change.
- Reinvigorating the process with new projects, themes and change agents - On going progress reporting.

- Foster and encourage determination and persistence - Highlight the achieved and future milestones.
- After every win, analyze what went right, and what needs improving.
- Practice kaizen or continuous improvement.
- Keep ideas fresh by bringing in new change agents and leaders for your change coalition.

8. Anchoring new approaches in the culture (Make it stick)

- Articulating connections between new behaviors and organizational success.
- Developing means to ensure leadership development and success.
- Reinforce the value of successful change via recruitment, promotion, new change leaders.
- Weave change into culture and maintain clear focus.
- Talk about progress every chance you get. Tell success stories about the change process, and repeat other stories that you hear.
- Include the change ideals and values when hiring and training new staff.
- Publicly recognize key members of your original change coalition, and make sure the rest of the staff (New and old) remembers their contributions.
- Create plans to replace key leaders of change as they move on. This will help ensure that their legacy is not lost or forgotten.

9.12 Implementing strategic change (7 key questions of change)

1. What are the forces and resistors of change?

This step involves establishing the need for change. Leaders must convey the dissatisfaction with the current set-up and demonstrate the desire for change. The need to change can be triggered by internal or external forces that act as drivers of change whilst there may also be many factors opposing the change program.

Force field analysis

Lewin (1951) explained that change occurs when change drivers collectively overcome restraining forces. Managers can identify possible drivers and restraining forces and apply weighting to provide an assessment of the change task and likelihood of success or failure. This process encourages managers to think through the issues and problems and plan the change accordingly. Change drivers are factors that justify the change initiative. Restraining forces are the various barriers that prevent change from being implemented.

Symptoms of active resistance	Symptoms of passive resistance
Being critical	Agreeing verbally but not following through.
Finding fault	Failing to implement change.
Ridiculing	Procrastinating or dragging one's feet.
Appealing to fear	Feigning ignorance.
Using facts selectively	Withholding information, suggestion, help or support.
Blaming or accusing	Standing by or allowing change to fail.

Table 9.7 : Active and passive resistance to change.

2. What requires to be changed?

- This involves deciding on the shape, scope and degree of the change required.
- Settling clear change objectives and decide on broad goals, time lines and resources.
- It might also be useful to spell out the resources required for the change program.
- Combine cross functional expertise and form a core change team.
- Encourage an entrepreneurial, innovative and creative ideas.

3. Establish the capacity of change?

- This involves understanding the current level of motivation of staff at different levels of the organization using an attitude survey.
- The capacity of change may involve the overall response and receptiveness of staff towards change.
- According to Egan (1994) the responsiveness of stakeholders are as follows;
 - **Partners** - Support the change agent.
 - **Allies** - Support the change agency given the encouragement.
 - **Fellow travellers** - Passive supporters.
 - **Bedfellows** - Those who support but do not trust the change agent.
 - **Fence sitters** - Those who are not clear of why the change is required.
 - **Loose cannons** - Those who may vote either way and who cannot be relied on.
 - **Opponents** - Those who oppose change but not the change agent.
 - **Adversaries** - Those who oppose the change agenda and the agenda.
 - **The voiceless** - Those who are silent and who are effected but lack the advocates of power to influence decisions.

- When embarking on a programme of change employees should be segmented according to their attitude and likely response.
 - **Initiators** - Those who have identified the need for change and are driving and/or encouraging change to happen.
 - **Opponents** - People who see the change as threatening and will resist. They either cannot see any justification for change or are simply not convinced. They may just want things to remain as they are.
 - **Campaigners** - People who can see the benefits or gain in some way and are therefore enthusiastic about the change. They will be keen on help drive the change through.
 - **Neutrals** - People who are yet to be convinced one way or the other. They do not feel strongly about the change and have not made up their mind whether the change is for the better or not.

The change transition curve

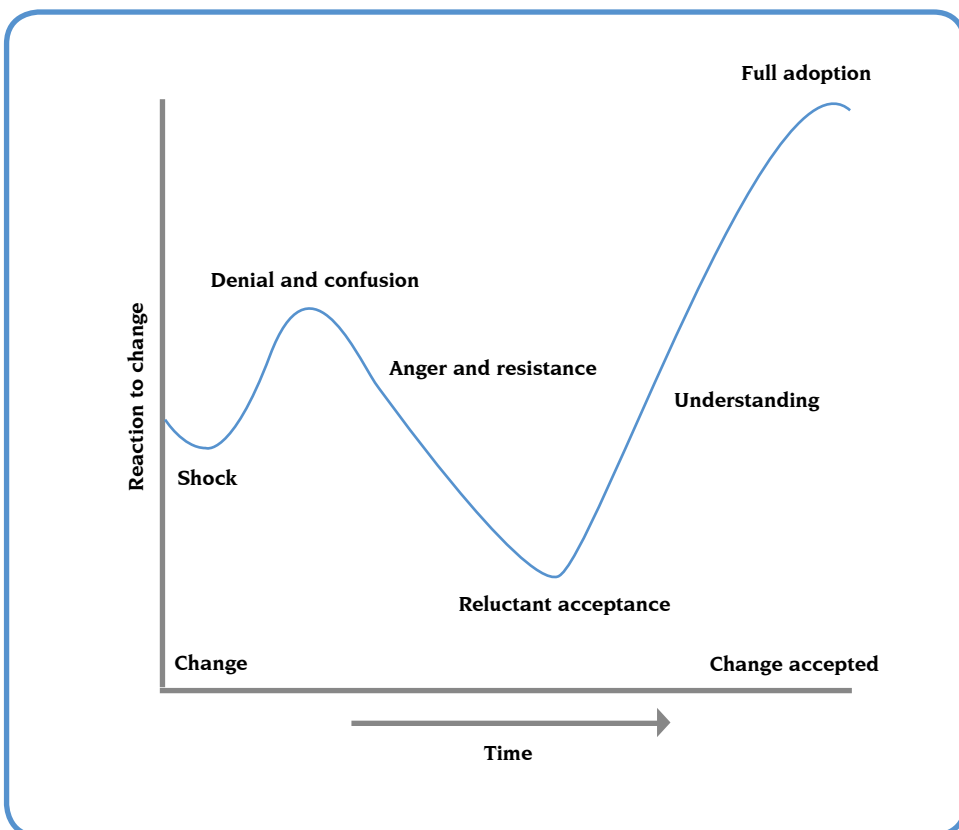


Figure 9.9 : Adopted from Wilson (1993).

The average human possesses a limited capacity to change and when this 'change space' is filled we prioritize the things we are prepared to change and dismiss the rest. E.g. An employee who is going through a personal crisis (A difficult divorce, financial problems, illness etc.) will find it very difficult to embrace change at work owing to the change he faces in his personal life. Therefore, a key task when initiating change is "to make space in others" for change. How can staff take on board new practices and new philosophies if they are currently fire fighting in their existing roles? Some organizational changes fail not because they are not worthwhile but because people in the organization are overwhelmed and distracted by other changes. They lose 'mind space' and fail to provide attention to the necessary change initiative. Alvin Toffler acknowledged that a man has a limited biological capacity for change. When this capacity is overwhelmed the capacity is in future shock. The task of managers and team leaders is to know and understand the people involved so that they can try to help balance each person's change load to leave room for organizational change to take place.

The development of a culture that embraces change is an essential ingredient in the successful implementation of marketing strategy. This model is useful because it illustrates that eventually people will internalize the new status quo (Or will leave the organization). Adapting to change can be a very painful process and the expression of anger and frustration is a natural part of this adaptation. The implication for marketers is that the acceptance of major changes in working practices and responsibilities may take time.

4. Which method of change should be used?

a) Evolutionary change

- Change is gentle or almost imperceptible.
- Continuous change can be rewarding and motivating and creates little resistance.
- Evolution is less disruptive and expensive.
- It becomes a way of life.
- It is likely to encourage learning and is a relatively slow process and time will be needed to experiment, reflect, discuss, test and internalize the changes.
- The current state is taken as the starting point and then constantly modifies aspects through extension and adaptation.

b) Revolutionary change

- Management wanting to 'shake things up' with radical change. The risk is that you shake things up for the worse not better.
- There has to be a goal and a clear statement on desired outcomes.

- Sometimes it is necessary to manage a revolution because externally some dramatic and unexpected change is forcing a fast and dramatic response.
- Sometimes a revolution is the result of management complacency or failure to identify trends leading to change.
- Revolution is only beneficial in particular circumstances when you have no choice.
- Managing continuous change as a revolution is a recipe for change fatigue and could possibly lead to losing good people as well as customers.
- Competitive pressure, regulatory pressure and to be the first mover are some common triggers for revolutionary change.
- Such an approach may be required when 'organisational rigidity' is so deep-rooted that smaller pushes do not bring the required movement.

Types of organisational change

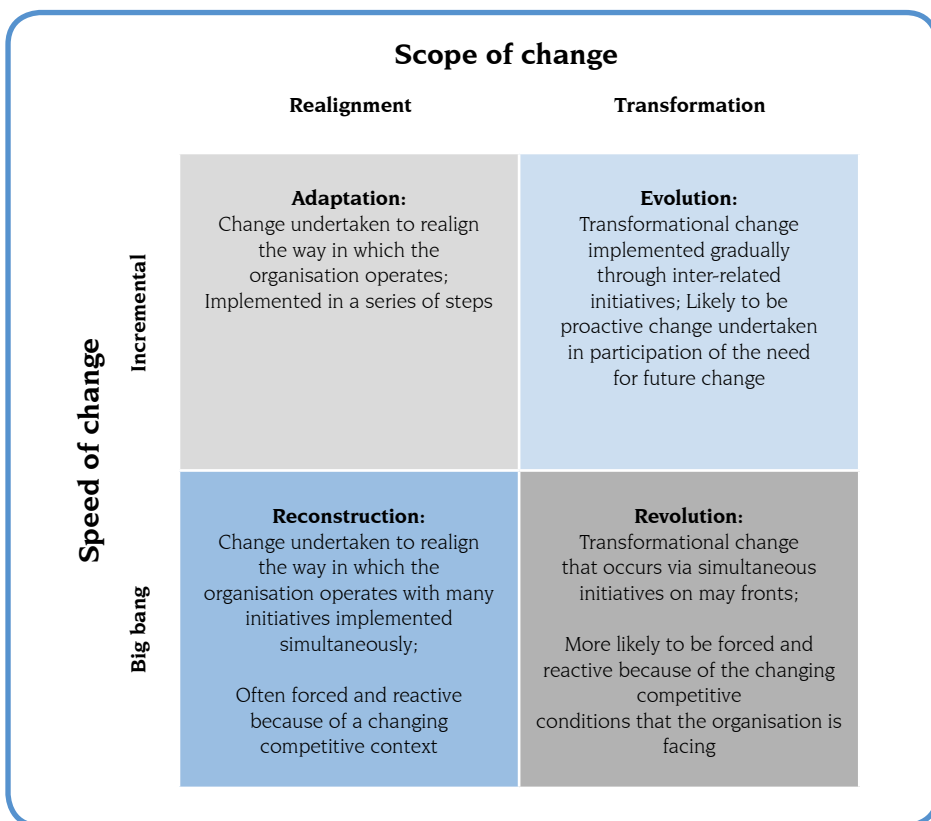


Figure 9.10 : Adapted from J. Balogun and V. Hope Hailey, (1999).

Change can be classified by the extent of the change required, and the speed with which the change is to be achieved;

- Incremental change is also known as 'continuous' change while 'discontinuous change' refers to the big bang above.
- Transformation entails changing an organization's culture. It is a fundamental change that cannot be handled within the existing organisational paradigm.
- Realignment does not involve a fundamental reappraisal of the central assumptions and beliefs.
- Evolution can take a long period of time, but results in a fundamentally different organisation once completed.
- Revolution is likely to be a forced, reactive transformation using simultaneous initiatives on many fronts, and often in a relatively short space of time. It is critical that this type of change is managed effectively.

5. How do you sell the benefits of change?

- This involves the announcement of change and employees should not become aware of plans for change via the grapevine, gossip and rumours. They should also not become aware of the intention to change after decisions have been made. Once the need for change has been established there should be a timely announcement as part of the planned communication that reduces the potential for shock.
- Employee participation is key and their role and contribution must be acknowledged.
- Many organisations seek to identify and reward change agents to encourage and facilitate change. They can play a major role in helping deal with resistance to change. Usually change agents are figures that are familiar and non-threatening to other people. The quality of the relationship between the change agent and key decision makers is very important, so the choice of change agent is critical. An effective change agent should;
 - Possess clarity of direction and vision.
 - Be sensitive to the context.
 - Adopt an appropriate style of managing change and establish new competencies.
 - Be able to use political or symbolic processes that provide levers and mechanisms for change
 - Select a change agent.
 - Transmit the learning process to others and the overall organisation.

- Communicating the change - Leaders must invite employees to become involved in the change process, new cultural values and the revised mission. Communication has a vital role in reducing perceptions of threat by informing, explaining and reassuring the benefits to staff of the proposed change program. The following diagram may be useful to determine the type of communication, which can be used.

Effective and ineffective communication of change

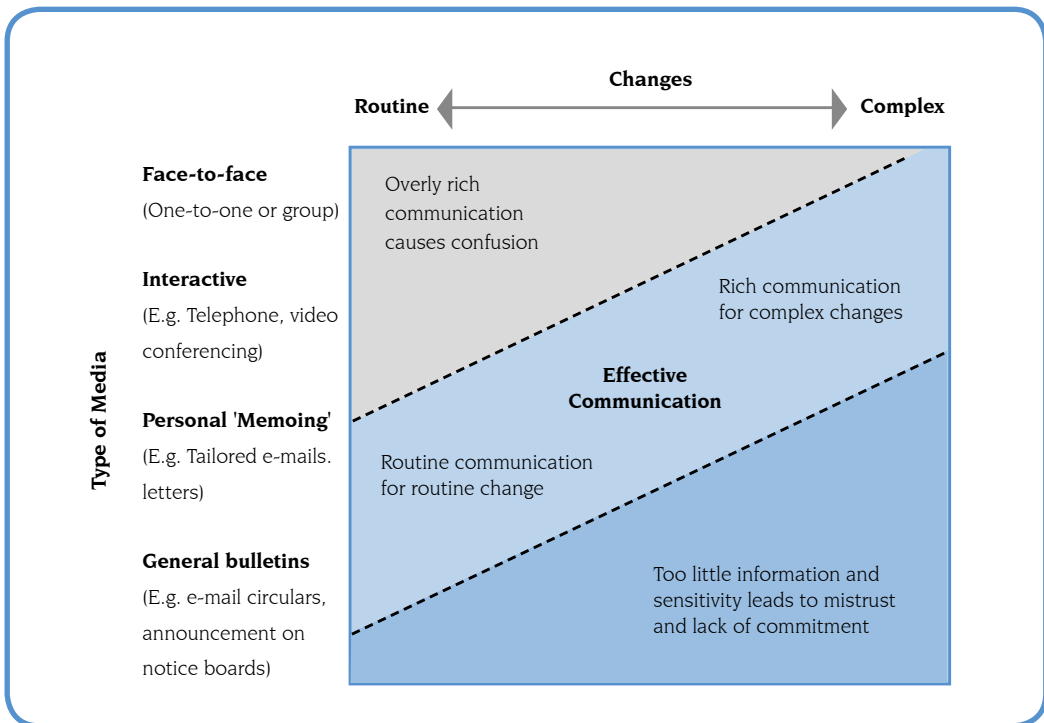


Figure 9.11 : Adapted from R.H. Lengel and R.L. Daft. (1998)

6. How do we implement the change programme?

- Tactical initiatives are translated into a project plan which should determine who is doing what, when, where and how?
- Establish milestones, budgets, schedules and measures to evaluate and control the change program.
- It is imperative to sustain the change momentum and celebrate any gains.
- Establish and institutionalize new policies.

Drummond and Ensor (2001) identifies the following factors to consider when implementing change programmes.

Factor	Implications
Leadership	A strong and effective leader who is able to motivate and build teams is an essential ingredient for successful implementation.
Culture	Culture refers to the shared values and beliefs. If a plan goes against the dominate culture, it is likely the plan will fail, unless support is gained via internal marketing.
Structure	Organizational structures not only denote levels of responsibility but also facilitates communication. Communication is a key aspect of implementation, and organizations must ensure that the structures do not act barriers to effective communication.
Resources	Appropriate levels of resources should be available – time, money and staff.
Control	Effective controls should be established to measure the progress and success of plans.
Skills	Skills necessary for successful implementation include technical/marketing skills, HRM skills and project management skills.
Strategy	An appropriate and strategy must be communicated to all participants.
Systems	Effective systems should be in place. For example, marketing information systems that generate relevant and timely information.

Table 9.8 : Factors to consider when implementing change programs.

9. How do we consolidate?

- Leaders must allow time for employees to become familiar with new work routines and practices.
- Feedback mechanisms and appraisals allow managers and employees to learn during the change and make any necessary adjustments and modifications.
- On going training, coaching or mentoring will be helpful to sustain momentum.
- Foster a learning culture.
- Celebrate success.
- Establish incentives and rewards.

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CHAPTER 10

Organizational Culture

- 10.1 The components of culture
- 10.2 Cultural classifications
- 10.3 A framework for corporate culture
- 10.4 Cultures as competing values
- 10.5 The organization culture assessment instrument
- 10.6 Organisational rituals and culture change
- 10.7 The theory Z of Ouchi
- 10.8 The cultural iceberg of an organization
- 10.9 The levels of culture
- 10.10 The dynamics of paradigm change
- 10.11 The cultural web
- 10.12 The functional syndromes
- 10.13 Market orientation
- 10.14 Achieving organizational behavioural consistency through visions and missions
- 10.15 Stages in team development
- 10.16 Conflict management

10

Organizational Culture

When it gets difficult is often right before you succeed. - Chris Carrett

The culture of an organization often develops over many years and it is a set of assumptions people simply accept without any question. According to Ouchi (1980), organisations function coherently as a result of the 'glue' provided by culture. In order to determine whether a plan is likely to be acceptable in cultural terms it is necessary to analyze peoples shared beliefs. Deal and Kennedy (1982) describe culture as 'How we do things around here'. Organization culture is amplified by the behaviours, shared beliefs, values and assumptions held by members of an organization.

Classifications of culture

- **National culture** - National culture impacts on dealings with foreign national governments and is reflected in the values on which laws and institutions are based.
- **Industry culture** - Culture impacts on negotiations within a specific industry and is reflected in the norms and laws that govern the activities performed in that industry.
- **Organisational culture** - Often referred to as corporate culture, organisational culture impacts on trade negotiations with overseas-based firms. It includes a code of ethics and attitudes towards employees.
- **Divisional or department culture** - The respective sub culture adopted at the strategic business unit level.

Definition : Organisation culture is defined as a collection of shared values, policies, symbols, beliefs, attitudes, customs and ways of thinking that sets the context and guides the norms of behaviour in an organization.

It is the culture of the organization, which extracts the best out of each team member. In a culture where management is very particular about the reporting system, the employees however busy they are would send their reports by end of the day. No one has to force anyone to work. The culture develops a habit in the individuals, which makes them successful at the workplace. The culture of the workplace also goes a long way in promoting healthy competition at the workplace. Employees try their level best to perform better than their fellow workers and earn recognition and appreciation of the superiors. It is the culture of the workplace, which actually motivates the employees to perform.

10.1 The components of culture

- **The climate or atmosphere** - Recurring patterns of behavior, interactions and feelings. It is fluid and often easier to assess and change.
- **Artifacts and behaviors** - These are the most visible and superficial expressions of culture. E.g. Organisation practices, structure, systems, stories, myths, jokes. Artifacts are easy to observe but difficult to decipher.
- **Beliefs, values and attitudes** - Beliefs are what people think is true or not true, what is important or not important. Values are what people hold to be right or wrong. Attitudes make the link between beliefs and values with feelings.
- **Underlying assumptions** - Are at the deepest level and the most difficult to reach. Deeply embedded assumptions guide perceptions, feelings and emotions that people share.
- **Symbols, legends and corporate myths** - Corporate logos are an example of symbols, but they are directed outwards. Within the organization, symbols can represent a model of a car, office size and access to facilities.
- **Rituals and routines** - This describes the routines and rituals in the organization E.g. How success is celebrated, a meeting culture.

Influences of organization culture

- The management and leadership style.
- The history of the organization.
- The type of industry.
- Location.
- The type of people employed and the involvement of a Union.
- The type of structure, size and diversity of the organization.
- The level of technology employed.
- The type of ownership.
- The tolerance of risk.
- The degree of integration between groups.
- The reward system.
- The degree of formality.
- Internal communication.

Dobson's 4 step process to change an organizations culture

- Step 1** Change the recruitment, selection and redundancy policies to reflect the new beliefs and values.
- Step 2** Change the balance of employees through promotions and job reviews to ensure that the most suited to the new culture occupy positions of influence.

Step 3 Use internal marketing to communicate the new values effectively.

Step 4 Change organizational systems and procedures, in particular those connected with staff appraisal and reward.

The cultural life cycle



As organisations develop and evolve, they tend to progress through a cultural life-cycle. Stacey (2003) suggests that cultural evolution goes hand in hand with structural evolution. Initially, a 'power' culture is appropriate when the organisation is in its infancy. It then becomes more appropriate for a 'role' culture to be implemented in order to operate a functional structure effectively. As the organisation grows and expands a divisional structure is used and in this context a 'task' culture is most appropriate.

10.2 Cultural classifications

- **Power culture** - This is when the manager acts with complete authority. Such people are risk takers and tend to see administrative processes and procedures as getting in the way. They are the source of power and an entrepreneurial organisation relies on trust, empathy and personal communication for its effectiveness. They do not encourage organisational systems and procedures that legitimize action as in larger, long-established organisations.
- **Role culture** - This is when the organisation is highly bureaucratic with people specializing on a functional basis. Order and hierarchy are important whilst functional specialists such as finance, purchasing and production dominate. The work of, and interaction between the specialists is controlled by procedures and rules, and coordinated at the top by a small band of senior managers.
- **Task cultures** - Here, the organization is highly focused on projects using a matrix organisational structure where highly motivated, highly skilled knowledge workers collaborate to accomplish carefully defined tasks or projects. Task culture seek to bring together the right resources, people, and uses the unifying power of the group. Influence is widely spread and is based more on expert power than on position or personal power.
- **Person cultures** - This is where personal goals, satisfaction and interest drive organisational behavior. This is most commonly manifested in organisational divisions where technical specialists predominate for example engineers, accountants, lawyers etc. They see their work as a vehicle for personal expression rather than simply getting the job done. Here the individual is the central focus and any structure exists to serve the individuals within it. When a group of people decide that it is in their own interests to share office space, equipment or clerical assistance the resulting organisation would have a person culture.

The strong culture theory

Deal and Kennedy (1992) identified four types of cultures based on the extent of risk connected with the activities of the organisation and the speed of feedback on the outcome of employee's decisions.

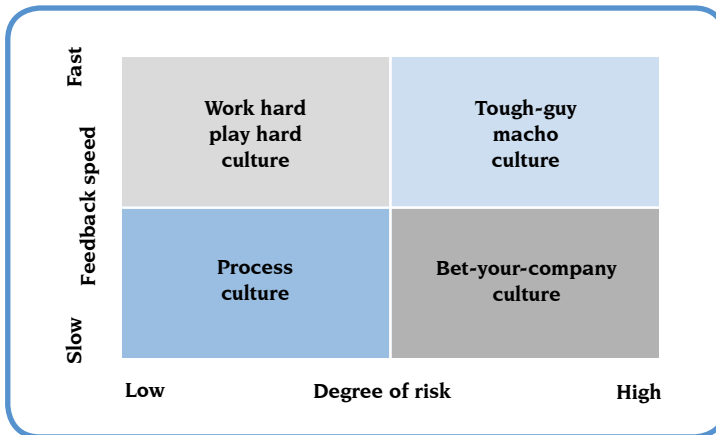


Figure 10.1 : Strong culture theory.

- a) **Work-hard, play-hard culture** - This has rapid feedback, reward and low risk, leading to;
 - Stress derived from quantity of work rather than uncertainty.
 - High-speed action leading to high-speed recreation.
E.g. Restaurants, software companies.

- b) **Tough-guy macho culture** - This has rapid feedback, reward and high risk, leading to;
 - Stress derived from high risk and potential loss/gain of reward.
 - This focus is on the present context rather than the longer-term future.
E.g. Police, surgeons, sports.

- c) **Process culture** - This has slow feedback, reward and low risk, leading to;
 - Low stress, plodding work, comfort and security. Stress may be derived from internal politics and flaws of the system.
 - The development of bureaucracies and other ways of maintaining the status quo.
 - The focus is on security of the future.
E.g. Banks, insurance companies.

- d) **Bet-the-company culture**
 - This has slow feedback, reward and high risk, leading to;
 - Stress derived from high risk and delay before knowing if actions have paid off.

- A long term view is taken, but then much work is put into making sure things happen as planned.
E.g. Aircraft manufacturers, oil companies.

10.3 A framework for corporate culture

In their work on the subject of culture, Deal and Kennedy (1982) suggested that the basis of corporate culture was an interlocking set of six cultural elements;

- **History** - A shared narrative of the past lays the foundation for corporate culture. The traditions of the past keep people anchored to the core values that the organization was built on.
- **Values and beliefs** - Cultural identity is formed around the shared beliefs of what is really important, and the values that determine what the organization stands for.
- **Rituals and ceremonies** - Ceremonies are the things that employees do every day that bring them together. Examples include Friday afternoon get-togethers or simply saying goodbye to everyone before you leave for the day.
- **Stories** - Corporate stories typically exemplify company values and allow employees to learn about what is expected of them.
- **Heroic figures** - Relates to the stories of employees and managers whose status is elevated because they embody organizational values.
- **The cultural network** - The informal network within an organization is often where the most important information is learned. Informal players include;
 - **Storytellers** - Who interpret what they see happening and create stories that can be passed on to initiate people to the culture.
 - **Gossipers** - Who put their own spin on current events and feed people a steady diet of interesting information. Employees know not to take the information at face value; however, they enjoy the entertainment value of a gossip's story.
 - **Whisperers (Spies)** - Who provide valuable information to top management, and let them, know what really happens on a daily basis.
 - **Priests and priestesses** - Who are the guardians of cultural values. They know the history of the company inside out, and can be relied on to interpret a current situation using the beliefs, values and past practices of the company.

10.4 Cultures as competing values

The competing values framework for cultural assessment was introduced by Quinn, Cameron and Rohrbaugh (1983) as shown in figure 10.2.

- **Horizontal: In, out** - The horizontal dimension maps the degree to which the organization focuses inwards or outwards. To the left, attention is primarily inwards, within the organization, whilst to the right, it is outwards, towards customers, suppliers and the external environment. An internal focus is valid in environments where competition or customer focus is not the most important thing, but in competitive climates or where external stakeholders hold sway, then this challenge must be met directly.
- **Vertical: Stability, flexibility** - The vertical axis determine who makes decisions. At the lower end, control is with management, whilst at the upper end, it is devolved to employees who have been empowered to decide for themselves.

Stability is a valid form when the business is stable and reliability and efficiency is paramount, but when environmental forces create a need for change, then flexibility becomes more important.

The competing values map

The four hierarchies are to some extent historical in their development and are presented in this order below.

- **Hierarchal culture** - The hierarchy has a traditional approach to structure and control that flows from a strict chain of command as in Max Weber's original view of bureaucracy. For many years, this was considered the only effective way of organizing and is still a basic element of the vast majority of organizations. Hierarchies have respect for position and power. They often have well-defined policies, processes and procedures. Hierarchical leaders are typically coordinators and organizers who keep a close eye on what is happening.
- **Market (Rational culture)** - The market organization also seeks control but does so by looking outward, and in particular taking note of transaction cost. Note that the market organization is not one, which is focused just on marketing, but one where all transactions, internal and external are viewed in market terms. Transactions are exchanges of value. In an efficient market organization, value flows between people and stakeholders with minimal cost and delay. Market cultures are outward looking and are particularly driven by results. Leaders in market cultures are often hard-driving competitors who seek always to deliver the goods.
- **Clan culture** - The clan organization has less focus on structure and control and a greater concern for flexibility. Rather than strict rules and procedures, people are driven through vision, shared goals, outputs and outcomes. In contrast to Hierarchies, clans often have flat organizations where people and teams act more autonomously. It has an inward focus and a sense of family and people work well together, strongly driven by loyalty to one another and the shared cause. Rules, although not necessarily documented, do still exist and are often communicated and inculcated socially. Clan leaders act in a facilitative, supportive way and may take on a parental role.
- **Adhocracy (Development culture)** - The adhocracy has even greater independence and flexibility than the clan, which is necessary in a rapidly changing business climate. Where market

success goes to those with the greatest speed and adaptability, the adhocracy will rapidly form teams to face new challenges. It will use prototyping and experimenting rather than long, big bang projects. These leaders in an adhocracy are visionary, innovative entrepreneurs who take calculated risks to make significant gains.

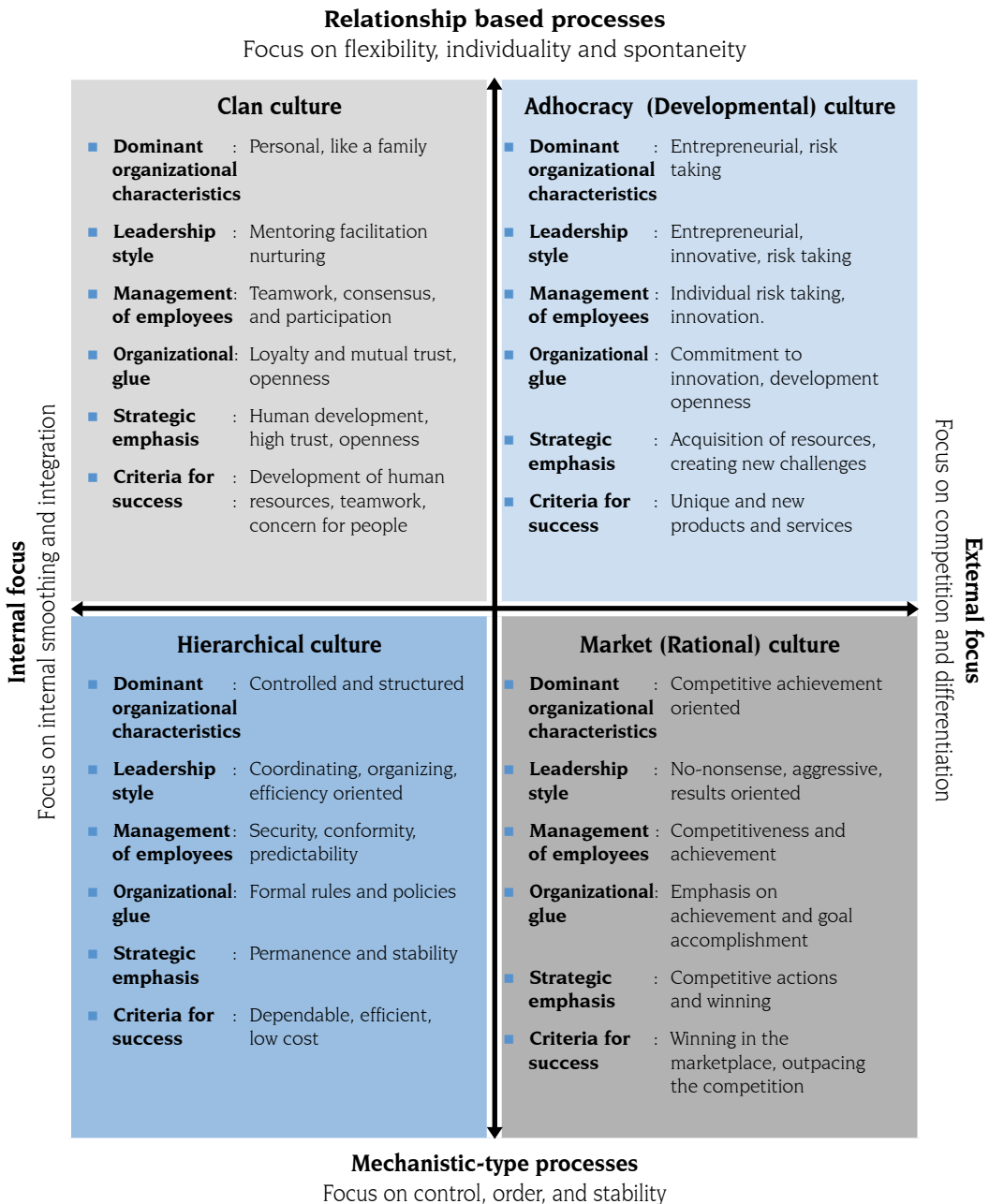


Figure 10.2 : The competing values map.

10.5 The organization culture assessment instrument (OCAI)

The OCAI is a simple questionnaire that has six categories in which you distribute 100 points between four sub-items for each that represent the four competing values where;

- i. Type A style indicates a clan culture.
- ii. Type B style indicates an adhocracy culture.
- iii. Type C style indicates a market culture.
- iv. Type D style indicates a hierarchy culture.

Category	Style
Dominant organizational characteristics	<ul style="list-style-type: none"> ■ Personal, like a family ■ Entrepreneurial, risk taking ■ Competitive, achievement oriented ■ Controlled and structured
Leadership style	<ul style="list-style-type: none"> ■ Mentoring, facilitating, nurturing ■ Entrepreneurial, innovative, risk taking ■ No-nonsense, aggressive, results oriented ■ Coordinating, organizing, efficiency oriented
Management of employees	<ul style="list-style-type: none"> ■ Teamwork, consensus, and participation ■ Individual risk taking, innovation, freedom, and uniqueness ■ Competitiveness and achievement ■ Security, conformity, predictability
Organizational glue	<ul style="list-style-type: none"> ■ Loyalty and mutual trust ■ Commitment to innovation, development ■ Emphasis on achievement and goal accomplishment ■ Formal rules and policies
Strategic emphasis	<ul style="list-style-type: none"> ■ Human development, high trust, openness ■ Acquisition of resources ■ Competitive actions and winning ■ Permanence and stability
Criteria for success	<ul style="list-style-type: none"> ■ Development of human resources, teamwork, concern for people ■ Unique and new products and services ■ Winning in the marketplace, outpacing the competition ■ Dependable, efficient, low cost

Table 10.1 : The organization culture assessment instrument.

This is done to assess the current situation and the preferred position for the future. The scoring is then summed across A, B, C and D for each category, to give axis scores, which is plotted on a chart that then shows the differences between 'now' and the 'preferred' culture and hence guides actions to close these gaps.

Many rituals of organizations are concerned with effecting or consolidating change. The table below identifies and gives examples of such rituals and suggests what role they might play in the change processes. New rituals can be introduced or old rituals done away with as ways of signaling or reinforcing change.

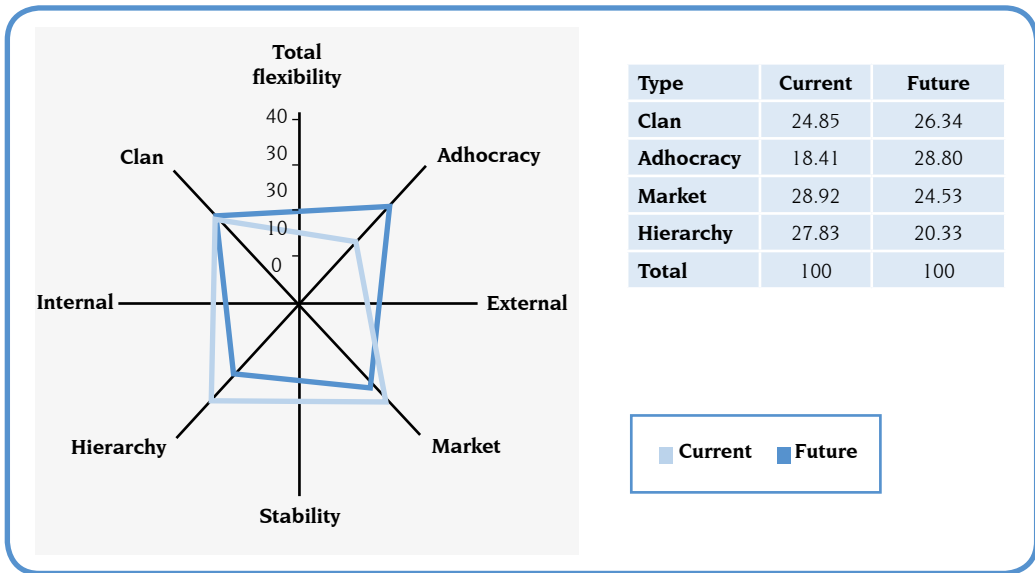


Figure 10.3 : The organization culture assessment instrument.

10.6 Organisational rituals and culture change

Types of ritual	Role	Examples
Rites of passage	Consolidate and promote social roles and Interaction	Induction programmes Training programmes
Rites of enhancement	Recognise effort benefiting organisation Similarly motivate others	Awards ceremonies, promotions
Rites of renewal	Reassure that something is being done Focus attention on Issues	Appointment of consultants, project teams
Rites of integration	Encourage shared commitment Reassert rightness of norms	Christmas parties
Rites of conflict reduction	Reduce conflict and aggression	Negotiating committees
Rites of degradation	Publicly acknowledge problems Dissolve, weaken social or political roles	Firing top executives, demotion or 'passing over'
Rites of sense making	Sharing of interpretations and sense making	Rumours Surveys to evaluate new practices
Rites of challenge	Throwing down the gauntlet	New CEO's different behaviour
Rites of counter-challenge	Resistance to new ways of doing things	Grumbling, working to the rule

Table 10.2 : Organisational rituals and culture change.

10.7 The theory Z of Ouchi

There are different views on the relationship between culture and organisational performance. A number of researchers believe that culture plays a major role in determining an organization's ability to implement strategies, contribute to organisational effectiveness and excellence and ultimately to overall competitive advantage. Ouchi (1981) suggested that there were a number of characteristics that differentiated American organisations from Japanese firms. He compared the American organisation culture (Theory A) with the Japanese approach (Theory J). By modifying their culture, he proposed, American firms could compete more effectively against Japanese organisations.

In the 1980s, Japanese companies seemed to be outperforming U.S. businesses and according to Ouchi (1981), one reason many U.S. companies choose a more flexible managerial style is to meet competition from firms in Japan, China, and the European Union. The author studied whether the reason was the way Japanese companies managed their workers (Type J), which included lifetime employment, consensual decision making, collective responsibility for the outcomes of decisions, slow evaluation and promotion, implied control mechanisms, non specialized career paths, and a holistic concern for employees. In contrast, the U.S. management approach, (Type A), relied on short-term employment, individual decision making, individual responsibility for the outcomes of decisions, rapid evaluation and promotion, explicit control mechanisms, specialized career paths, and segmented concern for employees. Type J firms are based on the culture of Japan, which includes a focus on trust and intimacy within the group and family. Conversely, type A firms are based on the American culture, which includes a focus on individual rights and achievements. Ouchi wanted to help U.S. firms adopt successful Japanese strategies, but he realized it wouldn't be practical to expect U.S. managers to accept an approach based on the culture of another country.

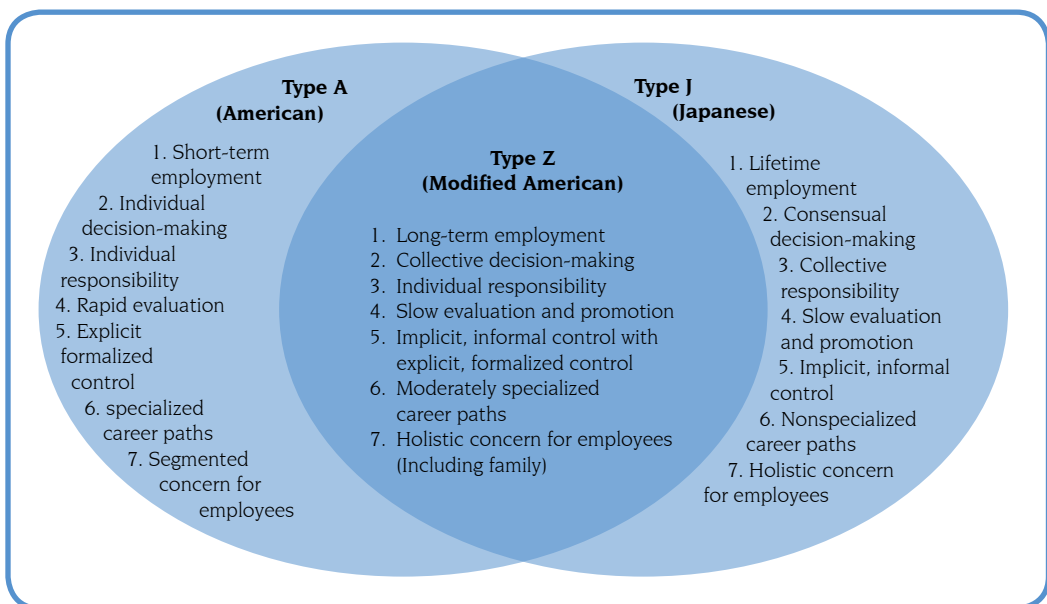


Figure 10.4 : The theory Z of Ouchi

Ouchi recommended a hybrid approach as a compromise with features of both American and Japanese firms with theory Z which includes long-term employment, collective decision making, individual responsibility for the outcomes of decisions, slow evaluation and promotion, moderately specialized career paths, and holistic concern for employees (Including family). The effects of the 2011 earthquake on Japanese businesses reinforced the need for change. They now need to become more dynamic and efficient in order to compete effectively. Electronics giant Hitachi was the first major Japanese company to quit requiring corporate calisthenics. Having everyone start the day with group exercises symbolized doing the same thing in the same way, and reinforced the cultural belief that employees should not take risks or think for themselves. Many managers think such conformity is what hurt Japanese business. Will Japanese managers move toward the hybrid theory Z in the future?

10.8 The cultural iceberg of an organization

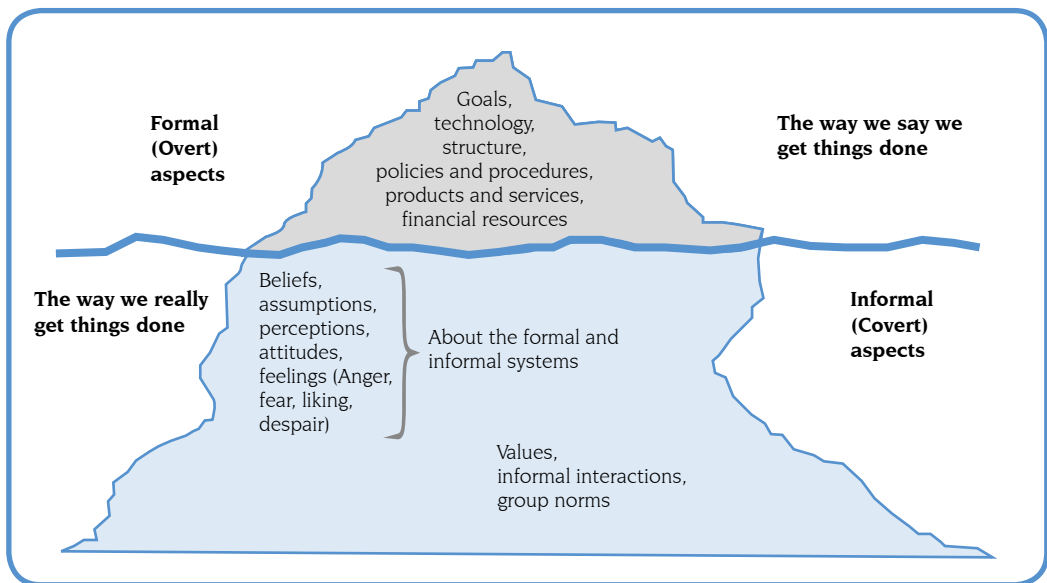


Figure 10.5 : Created by Stanley N. Herman of the TRW systems group, (1970)

The diagram depicts what the public, customers, suppliers and others outside the organisation see as only a small part of the picture. Much of what makes the organisation is intangible or hidden from their view. It suggests that it is only possible to fully understand the workings and culture of an organisation from within. The iceberg describes two levels at which culture operates;

- **Formal aspects (Visible)** - These are above the water and includes goals, technology, procedures, structure, skills.
- **Behavioural aspects (Hidden)** - These are below the water and represent the larger part of the iceberg, which include attitudes, style, communication patterns, values, feelings, and beliefs.

The cultural iceberg for a society

According to Hall (1976), nine-tenths of the iceberg is out of sight and below the water line and it is out of conscious awareness. This part of the culture has been termed the 'deep-culture'.

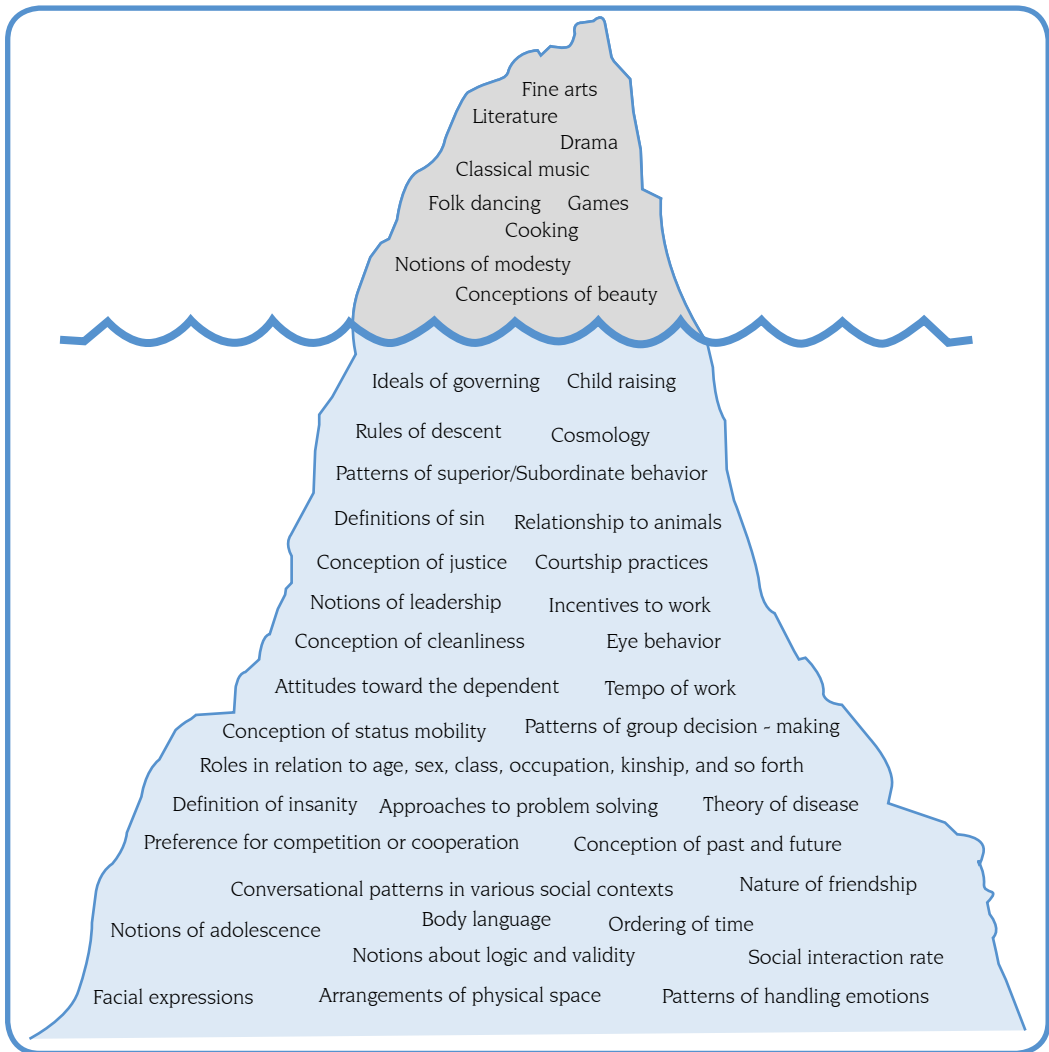


Figure 10.6 : The cultural iceberg for a society.

10.9 The levels of culture

According to Schein (1985) culture exists at a three of different levels;

- 1) **Artefacts and creations** - These are things that can be seen, heard and observed. This is largely the view of the organisation that the public may experience. It can include items such as dress codes, patterns of behaviour, physical symbols and the office layout etc.

- 2) **Values** - These can be identified from stories and the opinions of those within the organisation. It can include items such as language, behaviours and how people justify what they do.
- 3) **Basic assumptions** - These are the beliefs that are deeply embedded in a culture that members are no longer consciously aware of them. It may include beliefs on environmental issues, how people should be treated etc.

The first level (Artefacts) is what can be observed, the second level (Values) is what can be determined from what the organisation says and does, and the third level (Basic assumptions) are the deeply embedded beliefs of the people within the organisation. As you go through the levels, the elements become less visible and more ingrained. At the third level, those within the organisation may not even be aware of their beliefs as they have become so fundamentally part of their way of being. For an organisation, understanding this helps them anticipate problems with their culture and allows them to see how difficult it may be to change. Changing level one item's, such as dress codes or office layouts, is relatively easy, but changing values and beliefs can be very difficult. This may also lead to differences between levels, for example what the organisation says and does may be different to the how it is perceived by the outside world. The public may view certain acts as superficial and often do not believe that the underlying beliefs of the organisation have really changed.

10.10 The dynamics of paradigm change

The conservative influence of the paradigm (The frame of reference managers have built up over time consisting of their beliefs and assumptions about the nature of their business) and the way we do things around here are likely to have important implications for the development of strategy in organisations. The dynamics of paradigm change is given below;

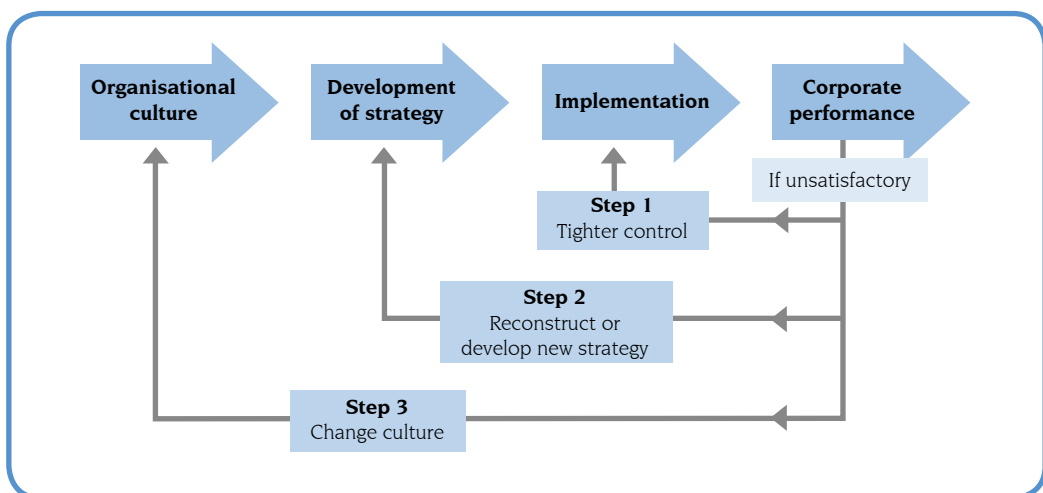


Figure 10.7 : Adapted from P. Grinyer and J-C. Spender (1979).

Faced with a stimulus for action (In this case declining performance) managers first seek for means to have tighter control and improving the implementation of existing strategy. If this is not effective, a change of strategy may occur, but still a change, which is in line with the existing paradigm. If the new strategy fails to deliver results then a completely new paradigm change is warranted where the organization will need to transform its culture and move towards market orientation.

10.11 The cultural web

Culture often becomes the focus of attention during periods of organisational change when company's merge and their cultures clash. In more static environments, cultural issues may be responsible for low morale, absenteeism or high staff turnover and productivity. Hence, for all its elusiveness, corporate culture can have a huge impact on an organization's work environment and output. This is why so much research has been done to pinpoint exactly what makes an effective corporate culture, and how to go about changing a culture that isn't working. The cultural web, developed by Johnson and Scholes (1992), provides one such approach for looking at and changing your organization's culture. The factors are as follows;

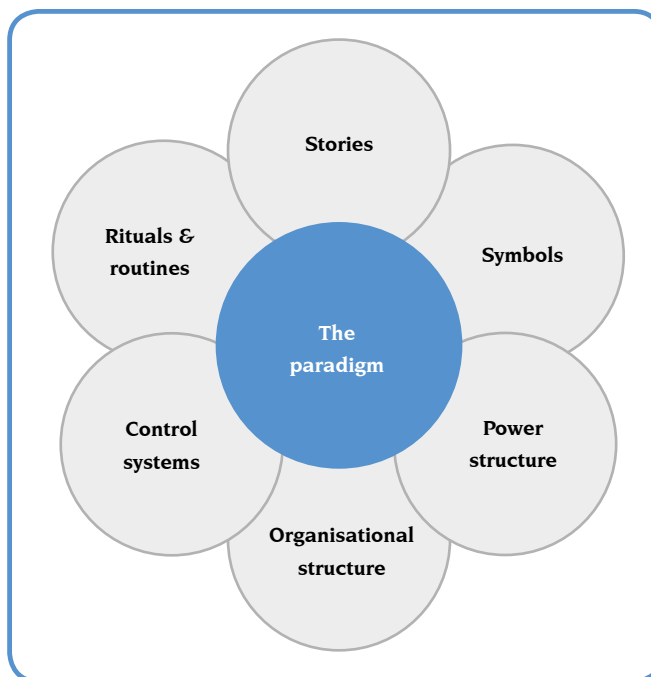


Figure 10.8 : Understanding an organisations culture through the cultural web.

- **The paradigm** - What the organisation is about; what it does; its mission and its values. The paradigm is influenced by the following six elements:
- **Control systems** - These are processes in place to monitor what is going on. E.g. Internal control systems, performance measurement and reward structures.

- **Organisational structure** - These include reporting lines, hierarchies, and the way work flows through the business. This includes both the formal structure defined by the organisation chart, and the informal lines of power and influence that indicate whose contributions are most valued.
- **Power structure** - This is characterized by who makes the decisions, scop of power and on what is power based? The real power in the company may involve one or two key senior executives, a whole group of executives, or even a department. The key is that these people have the greatest influence on decisions, operations, and strategic direction.
- **Symbols** - These include organisational logos and designs, and the formal or informal dress codes. This also extends to symbols of power such as parking spaces, or corner offices.
- **Rituals and routines** - The daily behaviour and actions of people that signal acceptable behaviour. This determines what is expected to happen in given situations, and what is valued by management. They could include routines such as an executive visiting the factory floor to speak to employees each week, or rituals, such as buying a cake when it's your birthday.
- **Stories and myths** - The past events and people talked about inside and outside the company. Who and what the company chooses to immortalize conveys a message about what is valued within the organisation.

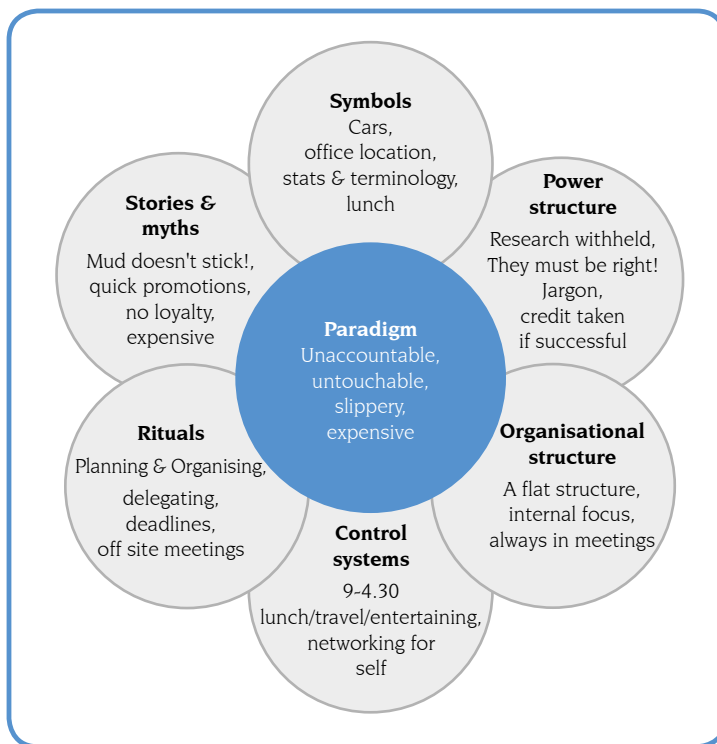


Figure 10.9 : The cultural web applied in context of a manufacturing company in Sri Lanka.

Using the cultural web to map change

The concept of the cultural web is a useful tool to map out change but its real worth is in the fact that we can identify which elements of culture need to change. The key questions to ask may include;

Stories	<ul style="list-style-type: none"> ■ What core belief do the stories reflect? ■ How pervasive are these beliefs? ■ Do stories relate to strengths or weaknesses, successes or failures, conformity or mavericks? Who are the heroes and villains? ■ What norms do the mavericks deviate from?
Routines and rituals	<ul style="list-style-type: none"> ■ What behaviour do routines encourage? Which would look odd if changed? ■ What are the key rituals? What core beliefs do they reflect? ■ What do training programmes emphasize? How easy are the rituals, routines to change?
Organisational structures	<ul style="list-style-type: none"> ■ How mechanistic, organic are the structures in my organisation? ■ How flat, hierarchical are the structures? How formal, informal are they? ■ Do structures encourage collaboration or competition? ■ What types of power structure do they support?
Control systems	<ul style="list-style-type: none"> ■ What is most closely monitored, controlled in my organisation? ■ Is the emphasis on reward or punishment? Are there many, few controls? ■ Are controls related to the historical or current strategies?
Power structures	<ul style="list-style-type: none"> ■ What are the core beliefs of leadership? ■ How strong are these beliefs? ■ How is power distributed in the organisation? ■ What are the main blockages to change?
Symbols	<ul style="list-style-type: none"> ■ What language or jargon is used? ■ What aspects of strategy are highlighted publicity? ■ What are the status symbols? ■ Do these particular symbols denote the organisation?

Table 10.3 : Using the cultural web to map change.

10.12 The functional syndromes

It is also imperative to understand the emphasis of the marketing department versus other departments in the organisation. These are typical signs and characteristics displayed by functional specialists which may sediment into norms of behavior. This phenomenon can be classified as departmental mind sets or syndromes, which must be managed so that it results in increased productivity.

- **The marketing syndrome** - Deliver customer value at any cost.
- **The finance syndrome** - The 'Annual report syndrome' focuses on having a perfect annual report and increase shareholder value at any cost.

- **The operations syndrome** - Simplify processes and increase productivity at any cost.
- **The HR syndrome** - Creating the most sort after employer brand at any cost.
- **The IT syndrome** - Be the gatekeeper of systems and information, technological advancements at any cost.

Department	Emphasis	Marketing departments emphasis
Production	Standard orders Long lead times Long runs	Customized orders Short lead times Frequent model changes
Inventory management	Economic stock level Fast moving terms Narrow stock range	Large stock levels Broad product range
Accounting	Standard transaction	Special terms and discounts
Finance	Firm budgets Price to cover total costs	Flexible budgets for changing needs Price for market growth
Credit	Lower credit risks Tough credit terms Tough collection procedures	Medium credit risks Easy credit terms Easy collection procedure

Table 10.4 : The emphasis of marketing versus other departments.

Types of business orientations

The strategic marketer may need to gauge the current orientation of the business by recognizing the characteristics and the contexts in which each orientation may thrive. As illustrated in figure 2.1 below there may be several business orientations.

Orientation	Characteristics	May be found in
Sales orientation	<ul style="list-style-type: none"> ■ Sell what is produced ■ Operational targets expressed as turnover not profit ■ Powerful sales function 	<ul style="list-style-type: none"> ■ Volume-driven markets with high fixed costs ■ Small, young organisations
Production, operations orientation	<ul style="list-style-type: none"> ■ Priorities determined by drive for efficiency and internal factors rather than customer needs ■ Operations function powerful 	<ul style="list-style-type: none"> ■ Manufacturing (Where investments and set-up times are high) ■ Not-for-profit-sectors
Technology orientation	<ul style="list-style-type: none"> ■ Products, services driven by what technology can deliver ■ Powerful technical function 	<ul style="list-style-type: none"> ■ Computer and hi-tech markets
Market orientation	<ul style="list-style-type: none"> ■ 5 key characteristics (Narver & Slater) 	<ul style="list-style-type: none"> ■ Service or competitive markets where customer preference counts

Table 10.5 : Types of business orientations.

10.13 Market orientation

Is marketing the core philosophy that everyone in the organization must be engaged in, or merely the marketing department or is it largely becoming a sales promotional and advertising discipline, with much of marketing's territory stolen by finance, operations and HR? Consider the 4 P's of marketing by Vrooms and McCarthy (1960) where most P's intended to be used and influenced by marketing are left to other departments. For example, most company CEO's or the R & D head in the central operations team engineers new products and re engineers the old with marketing involved in the promotional campaign development. Marketers generate pricing options but the finance department sets the policies, costing and margins. Distribution is a role increasingly controlled by the logistics or expansion teams in the operations department. However the function of managing the promotional mix is a dominant part of the marketing function and in most cases the only 'P' managed and influenced out of the 7 P's. Physical evidence is managed by the service, logistics or operations teams and all people related decisions are sphere headed by HR and processors are managed and re-engineered by the operations team.

Definition : Narver and Slater (1990) define market orientation, as a culture where beating competition through the creation of superior customer value is the paramount objective throughout the business.

Kohli and Jaworski (1990) put forward a behavioural definition which explains market orientation as the organisation wide generation of market intelligence, dissemination of its intelligence across departments, and organisation-wide response to it.

The concept of market orientation is broader in scope than marketing orientation. The marketing mindset is a business philosophy and must not be confined to a particular division within the company. Everyone's job is to be a part-time marketer and the full time marketers must play a strategic role and fuel corporate strategy. According to the authors a company that is market oriented must be customer oriented, competitor orientated, be responsive to changes, display a high degree of cooperation amongst functions and have an emphasis of profit rather than turnover in order to be classified as a market led organization.

Consequently, an organization is market led when the philosophy of marketing is practiced throughout the organization in all departments. However, this is easier said than done. Marketing orientation is usually confined to a vertical pillar in the business and the challenge to a market led CEO is to break this paradigm and encourage all functions in the organization to be part-time marketers. Piercy (1999) argues that in a truly market led organization the marketing department will disappear!

Why market orientation?

Strategic marketers must begin with the end in mind. This requires strategic foresight and the ability to envision the future and hold a set of credible assumptions. Most market-oriented firms appear to be performing better than those that lack such orientation. But there is more to this statement than a simple matter of performance. Market orientation is not just about the collection of information, it is about the dissemination of intelligence and soliciting the right response across the organization. It requires the whole organisation to pull through in the same direction so that the 'true north' is found. Piercy (1999) notes that, it is insufficient for senior management to merely make a commitment to market orientation. Marketing leadership within the organisation has to sell the idea of market responsiveness through every functional area of the business. The characteristics of market orientation is given below:

- Collective customer orientation.
- Alert to the competitive situation.
- A high degree of co-operation between functions.
- Emphasis on profit, not turnover.
- Expeditious responsiveness to changes.

Institutionalizing the above characteristics in an organisation may be a daunting challenge. One may overcome this challenge if the CEO that steers the ship is a strategic marketer. If the CEO emerges from the function of marketing then there is a greater chance for all functional heads to believe in the philosophy of marketing. Here are a few ways in which marketers may lead this process of change and institutionalize the factors that foster market orientation in an organisation.

- **Collective customer orientation** - Introduce a customer charter or credo.
- **Alert to the competitive situation** - Introduce a competitor intelligence system.
- **A high degree of co-operation between functions** - Team work.
- **Emphasis on profit, not turnover** - Practice entrepreneurial leadership.
- **Expeditious responsiveness to changes** - Reaching execution excellence.

Kohli and Jaworski's (1990) behavioral definition has three dimensions. The generation of market intelligence about the needs of customers and external environmental factors, the dissemination of such intelligence across organisational functions and the development of strategies in response to these intelligence.

The idea of market orientation traces back to the marketing concept since its articulation in the 1950's. According to Hunt (2003), the marketing concept maintains that, all areas of the firm should be customer oriented, all marketing activities should be integrated, and focus on profits, not just sales.

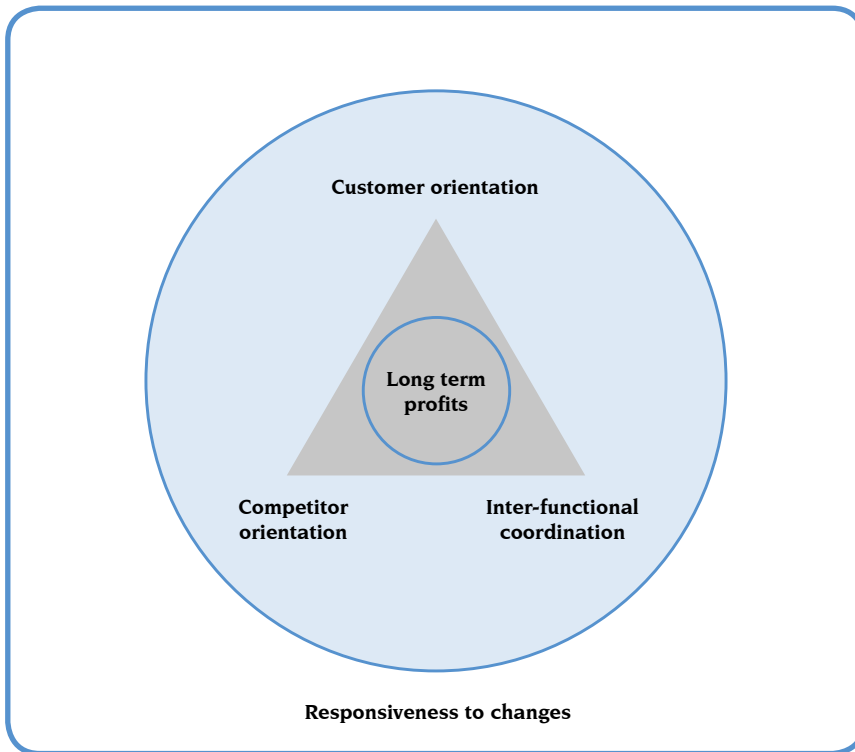


Figure 10.10 : Characteristics of market orientation.

Marketers and business professionals use the word market orientation and marketing orientation interchangeably. It is much like the use of terms market research and marketing research, which may be significantly different from each other. Therefore, one must be cautious and attempt to understand the meaning of market orientation, which is far more complex and difficult to achieve than marketing orientation. According to Piercy (1999) 'marketing led' is an outdated term implying that somehow the marketing department leads the organisational direction. However, being market-led is a process that is owned by everyone.

Piercy (1999) suggests, rather than marketing residing in a specialist department in the organisation, it should reside in everyone and in every place in the organisation, and has the status of a sort of organisational soul. Part of everyone's job is to be a part-time marketer, with the marketing specialists designated as 'full-time' marketers. Therefore, the task of ensuring stronger market orientation becomes organisation wide and consequently potentially far more problematic to achieve in practice. In a company that is market-oriented, all departments (Not just the marketing department) would be customer focused, and the aim of providing superior customer value would be seen as everybody's responsibility and that everybody is seen as a part-time marketer.

A market-led firm is one in which everyone puts the customer at the centre of decision-making. The marketing department does not own the customer. The aim of providing superior customer value

dominates all thinking, such as the scale and scope of the business, which markets to serve, which people to employ, etc. In market-led organisations, the marketing department is not in a world of its own. Customer value is designed and created by multi-functional product teams supporting all business functions.

Piercy (1999) advocates quite a fundamental change in thinking on what it is that marketing should deliver. Marketers still bring their knowledge and skills to the organisational table, just like accountants, engineers, general managers etc. However, he advocates a different context for marketers as a philosophy rather than as a functional discipline located within, and only in, a marketing department. It may be argued that marketing departments could disappear in a truly market-oriented organisation but marketing execution, which is the responsibility of the marketing department, will always endure.

A useful survey to gauge the current orientation of the organisation is proposed by Narver and Slater (1990) using the five characteristics of market orientation. The results of the survey may provide insights which may be used as the preliminary step in orienting an organisation towards a reinvigorated market orientation.

In an effort to understand what influences this unique market oriented culture Kohli and Jaworski (1993) proposed the antecedents and consequences of market orientation. The research focused on outcomes such as why are some organisations more market oriented than others? What effect does market orientation have on employees and business performance? The linkage between market orientation and business performances? etc.

The findings suggested that to be successful in introducing a market orientated culture to an organisation can relate to the top managements emphasis on the orientation, top management risk aversion, interdepartmental conflict and connectedness, centralization and reward system orientation. Finally, the linkage between market orientation and performance appears to be robust across environmental contents that are characterized by varying degrees of market turbulence, competitive intensity and technological turbulence.

Overcoming barriers to market orientation

- A organizational learning culture.
- Efficient systems.
- A structure that supports agility and responsiveness.
- The continuous creation of superior customer value.
- Change receptivity.
- The degree of senior management commitment and understanding.
- A system to generate, manage and respond to intelligence.

Antecedents and consequences of market orientation

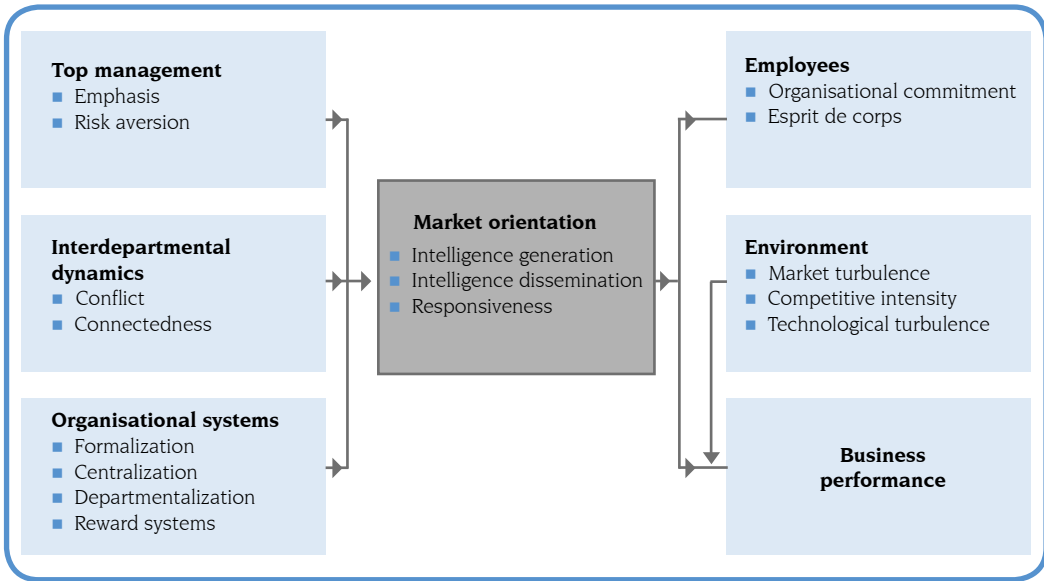


Figure 10.11 : Antecedents and consequences of market orientation.

Carr and Lopez (2007) blends the definitions of Narver and Slater and Kohli and Jaworski to create a more holistic model for market orientation as given below.

Market orientation as culture and conduct model

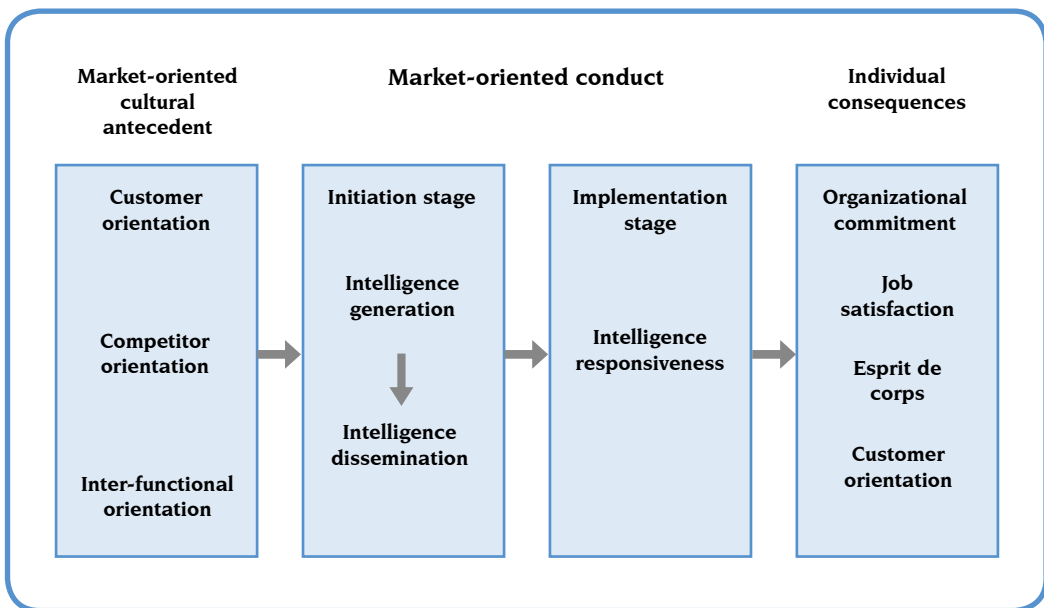


Figure 10.12 : Market orientation as culture and conduct model.

Challenges for the market led organisation

Today, CEOs are required to zero in from 30,000 feet above to 20 feet and zoom in on operations and go back to 30,000 feet and operate at a strategic level. They require a great deal of entrepreneurial instinct. Market orientation requires an external focus from all people in an organisation and an attitudinal change across the organization is key to successful implementation of market orientation. If employees perceive that their personal success within an organisation will come from sucking up to the CEO, working long hours and participating in political power games, then market orientation would simply be a distant dream. The first task in any strategy aiming for market orientation is to sell the concept to staff. They must believe that, a collective, less formal approach to business and a focus on the market as well as the customer will be mutually beneficial. Piercy (2001) explains that four broad issues arise for the market-led organisation.

Issue	Description
New customers	Rising expectations: Customers exposed to world class service will expect it everywhere Customer sophistication: Increased cynicism about marketing
New competitors	From overseas Reinventing business models
New types of organizations	Outsourcing arrangements Collaboration arrangements Alliances (E.g. Airlines) Stakeholder influences
New ways of doing business	Customer specific marketing Databases are used to develop profiles of individual customers to entice them into a relationship

Table 10.6 : Challenges for the market led organisation by Piercy (2001).

To promote a market-orientation among its staff, Harley-Davidson has developed a business culture that it describes as 'Harleyness'. Prospective employees are screened to determine if they have the cultural fit. The company encourages employees to own and use the same types of motorcycles used by the customer. Executives attend Harley-Davidson rallies to stay in touch with Harley-Davidson customers and enthusiast. Amazon.com is an example of a company with a high level of market orientation. This is seen in its efforts to personalize the shopping experience of prospective customers through its product recommendation system that relies on Web-based business intelligence gathered from customer browsing patterns and historical purchases. Amazon.com, like many other online trading companies, are effectively automating the market orientation process. DuPont's 'Adopt a customer' program developed illustrates one way to develop more meaningful employee-customer interaction. In the program, a blue-collar DuPont staff member visits a customer monthly and becomes the factory floor customer representative, providing the customer's perspective to other team members.

10.14 Achieving organizational behavioural consistency through visions and missions

Why do organizations need visions and missions? Is it a fashion statement for the company annual report or a statement which can be placed on a website or a wall in the company? It is obvious that most employees do not recall their company visions, missions and values. Try it next time you are in front of an audience and challenge someone to recall the vision and mission quotes and you would be amazed that less than 1% of staff will remember them. Hold on! Are we not supposed to live by them? How do we live by a set of principles if we cant remember them? Whose responsibility is it to make all staff remember and live the companies vision, mission and values? Is it the responsibility of the human resources manager or the CEO? None of this is true.

Leading the organization and defining the true north is the CEOs job! However, it is the strategic Marketers responsibility to create awareness and actively promote the company vision, mission and values through internal marketing communications. Covey (1989) implored us to 'begin with the end in mind' which meant that all employees must live the vision, mission and values.

Most companies rely on numerous external consultants to create effective visions and missions. The real purpose of a vision and mission is to encourage behavioural consistencies in the company where all staff subscribe to a common set of principles and are guided to progress in one direction. Although employees themselves possess different values, when they walk in through the doors of the company, they are called to subscribe to the organizations values and adjust their behaviours to be consistent to the norms set by the vision and mission of the organization. When executed well this concept is a powerful one which attempts to brain wash all employees to subscribe to the behaviours collectively defined by members of the organization.

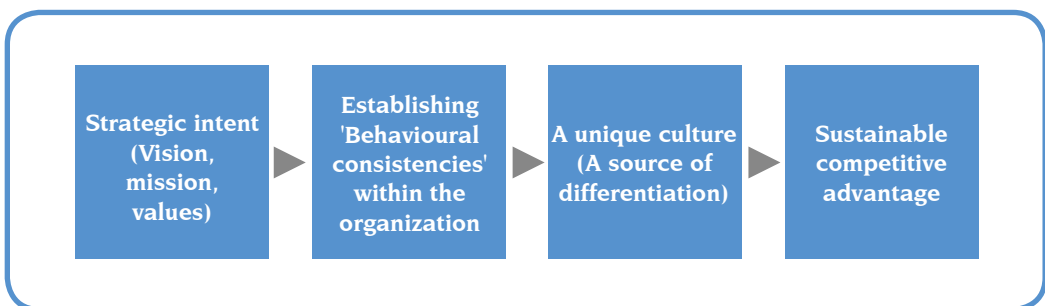


Figure 10.13 : Achieving organizational behavioural consistency through visions and missions.

What is a strategic vision?

Definition : A vision is concerned with the desired future state of the organisation and include aspirations that will enthuse, gain commitment, energize, ignite, help discover and stretch performance.

A vision is a realisable dream, aspiration or ambition. It is an art of seeing the invisible and a picture of what you want the future to be. It is not achieved but realized and is long term in nature. Hamel (1994) defines strategic intent as the desires, decisions and initial development of resources to achieve strategic goals. A vision should be crafted for at least a five year period. It should provide clarity, a sense of direction and answer the question: 'What do we want to achieve?' It's something that comes from the business owners heart and soul and spells out the destiny of the business at which the organization hopes to arrive.

The vision of Coca-Cola was outlined in 1927 by its chairman who contended that the product should always be within an arm's length of desire. By maintaining focus on its vision, Coca-Cola is now in the global top ten list of companies classified by market capitalization and is repeatedly quoted as being amongst the most well-known global brands. In 2007 Coca-Cola was placed first in the Interbrand ranking of global brands with a brand value of \$65,324 million. Another more recent but just as well-known vision is Bill Gates' idea of a PC with the Windows software on every desk. In 1999, it became the largest company in the world. In 2007 Microsoft was second in the Interbrand ranking of global brands with a brand value of \$58,709 million.

Building your company's vision

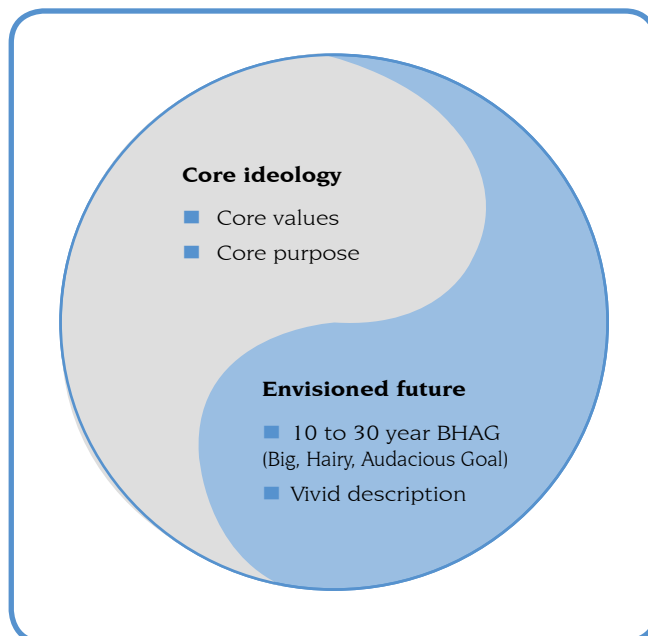


Figure 10.14 : By James C. Collins and Jerry I. Porras, Harvard Business Review (1996).

Collins and Porras (1996) introduced a model with two components to help build an organizations vision. The model is ranked as one of Harvard's best reads and splits the two components into four sub components as given below;

Here’s an example that puts it all together for Sony in the early 1950’s.

Core ideology	Envisioned future
<p>Core values</p> <ul style="list-style-type: none"> ■ Elevation of the Japanese culture and national status. ■ Being a pioneer-not following others; doing the impossible. ■ Encouraging individual ability and creativity. 	<p>BHAG</p> <p>Become the company most known for changing worldwide poor-quality image of Japanese products.</p>
<p>Core purpose</p> <p>To experience the sheer joy of innovation and the application of technology for the benefit and pleasure of the general public.</p>	<p>Vivid description</p> <p>We will create products that become pervasive around the world. We will be the first Japanese company to go into the U.S. market and distribute directly. We will succeed with innovations that U.S. companies have failed at-such as the transistor radio. Fifty years from now, our brand name will be as well known as any in the world and will signify innovation and quality that rival the most innovative companies anywhere. 'made in Japan' will mean something fine, not something shoddy.</p>

a) Core ideology

Core values

Sony's values	Walt Disney's values
<ul style="list-style-type: none"> ■ Elevation of the Japanese culture and national status. 	<ul style="list-style-type: none"> ■ No cynicism.
<ul style="list-style-type: none"> ■ Being a pioneer-not following others; doing the impossible. 	<ul style="list-style-type: none"> ■ Nurturing and promulgation of 'wholesome American values'.
<ul style="list-style-type: none"> ■ Encouraging individual ability and creativity. 	<ul style="list-style-type: none"> ■ Creativity, dreams, and imagination.

The core purpose (A company’s reason for existence)

- **3M** - To solve unsolved problems innovatively.
- **Hewlett-Packard** - To make technical contributions for the advancement and welfare of humanity.

- **McKinsey & Company** - To help leading corporations and governments be more successful.
- **Merck** - To preserve and improve human life.
- **Nike** - To experience the emotion of competition, winning, and crushing competitors.
- **Sony** - To experience the joy of advancing and applying technology for the benefit of the public.
- **Wal-Mart** - To give ordinary folk the chance to buy the same things as rich people.
- **Walt Disney** - To make people happy.

b) The envisioned future

Big, Hairy, Audacious Goals aid long-term vision (BHAGs can be quantitative or qualitative)

- Become a \$125 billion company by the year 2000 (Wal-Mart, 1990).
- Democratize the automobile (Ford Motor Company, early 1900's).
- Become the company most known for changing the worldwide poor quality image of Japanese products (Sony).
- Become the most powerful, the most serviceable, the most far-reaching world financial institution that has ever been (City Bank, predecessor to Citicorp, 1915).
- Become the dominant player in commercial aircraft and bring the world into the jet age (Boeing, 1950).

The characteristics of a vision

Here are some commonly shared characteristics for a vision statement.

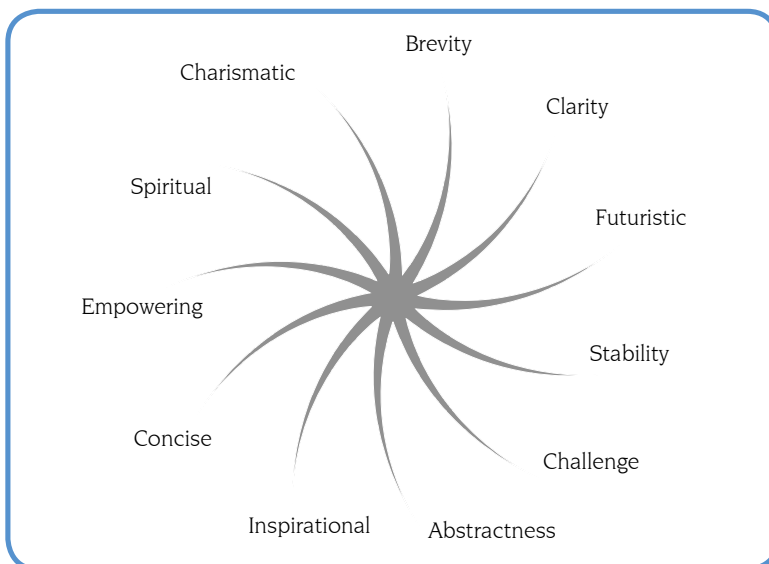


Figure 10.15 : The characteristics of a vision.

Vision and leadership

Wilson and Giligan (2005) put forward a model that linked the vision of an organization to inspiring commitments and leadership principles. The model forces the leader to lead with inspirational commitments and the vision in mind so that the vision is institutionalized in the company. An illustrative example is provided below:

The vision, inspiring commitments and leadership principles

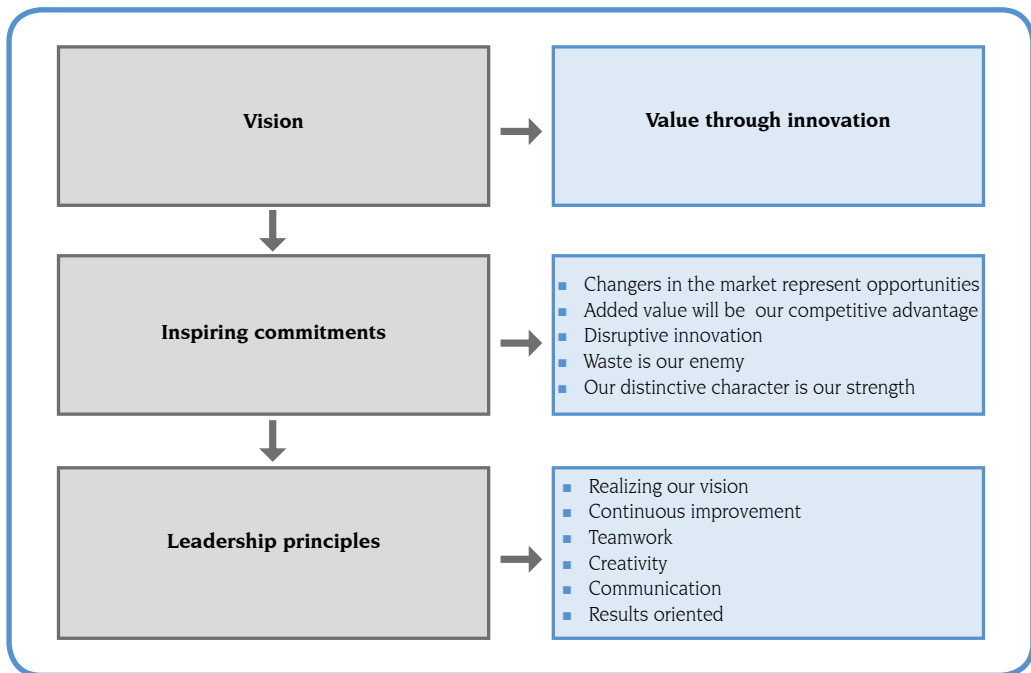


Figure 10.16 : The vision, inspiring commitments and leadership principles, Wilson & Gilligan (2005).

What is a Mission?

Definition : A mission statement aims to provide employees and stakeholders with clarity about the overriding purpose of the organisation.

A mission is a task, duty or purpose and is derived from the Latin word which means 'to send'. The mission should include a set of business principals creating an emotional bond with all its stakeholders. A mission statement should be brief, realistic, motivating and clear and should answer the following questions:

- **What business are we in?** - Market sectors, defining the boundary and the scope of the business.
- **How do we make a difference?** - Product and services offered, strategies employed.

- **What are we trying to accomplish?** - Broad goals, direction, change initiatives, aims and aspirations.
- **Why do we exist?** - Business purpose or the reason for existence.
- **Who do we serve?** - Broad target group and stakeholders, make a joint effort.
- **What's our business philosophy?** - Beliefs, values, behavioural standards and policies.
- **How are we unique?** - The organization's strategic capabilities and competitive edge.
- **How to communicate?** - Say it clearly, keep it short and simple, be honest, polish the language and revise if needed.

Problems in mission statements

- Too general or vague - Words such as best, major must be avoided.
- Ignored in practice - Employees are unaware of the mission.
- The actions of the organization contradicting the mission.
- It should not include commercial terms, such as profitability.
- It may be good if a time line is assigned.
- It should represent the actual values of the organisation.

The components of a mission model

Hooly, Piercy and Nicoulaud (2008) introduced a widely used model, which helps a company understand the components of its mission. The five components are as follows;

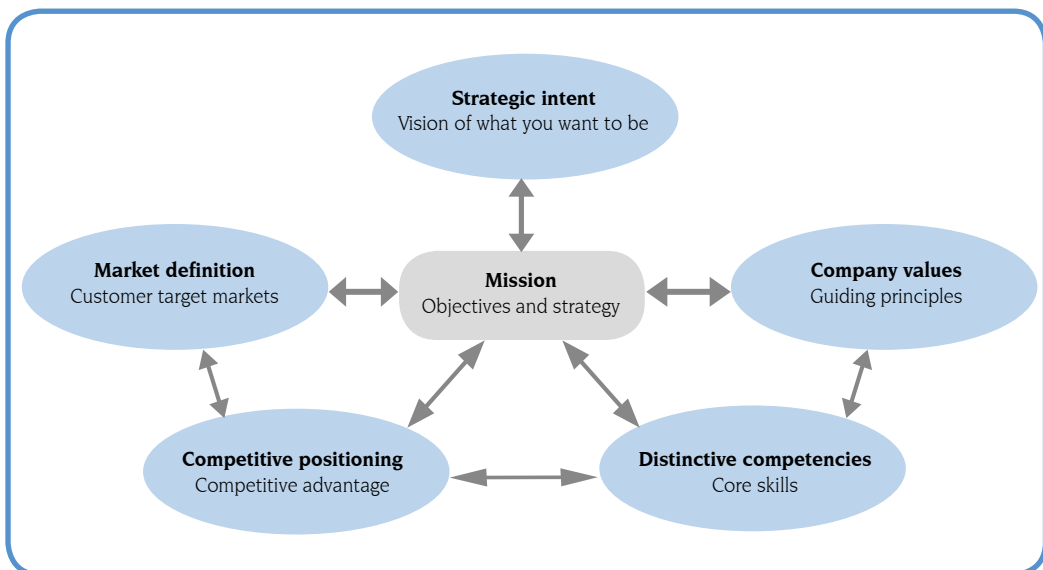


Figure 10.17 : Components of mission by Hooley, Piercy, Nicoulaud (2008).

The Ashridge mission model

The model by Yeung and Campbell (1991), which spells out four components of an effective mission. According to the authors, defining the company's mission is to determine its purpose, standards of behaviour, values and the company strategy which is translated into four questions as given below;

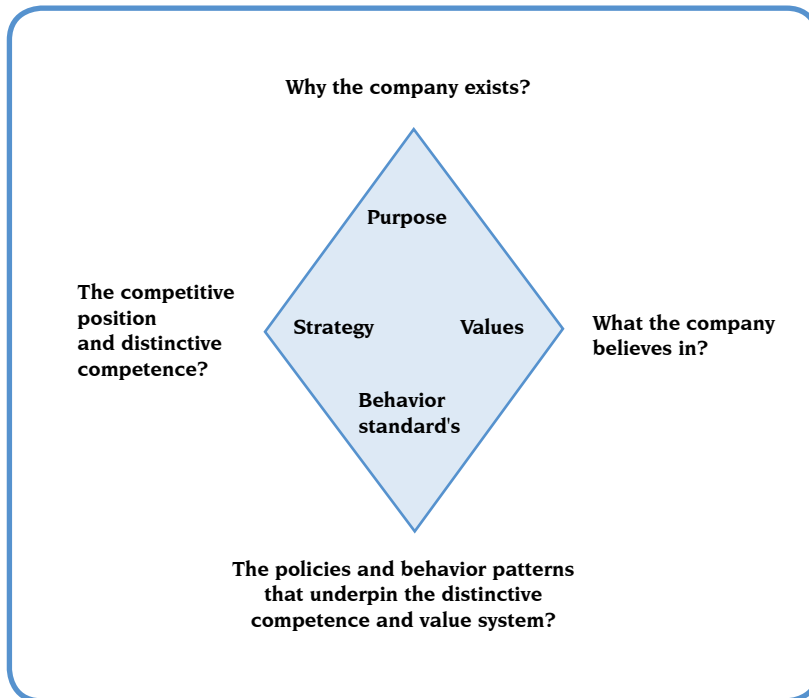


Figure 10.18 : The Ashridge mission model, Yeung and Campbell (1991).

Too often, mission statements bear little relation to a company's actual focus. And most elements of a mission statement have 'little to no impact' on a company's financial success. Mission statements may need to be updated or adapted at least during the annual planning cycle to reflect the current state. It should not turn out to be empty lip service to values that aren't lived every day by employees inside the organization. Therefore, the leader's task is to walk the talk of the mission statement.

Google's mission statement is 'to organize the world's information and make it universally accessible and useful'. Ever since its beginnings, the company has focused on developing its proprietary algorithms to maximize effectiveness and Google continues to focus on ensuring that people access the information they need. However, the current mission statement does not reflect the company's new diversified business lines such as Google Fiber and Google Glass.

Some large companies have managed to go without a mission statement. Nestlé, for one, publishes a lengthy statement of values on its corporate web site, but it has no mission statement.

Influencing an organizations mission and objectives

Johnson and Scholes (1999) introduce four components that influence a companies mission and objectives. The model describes corporate governance, stakeholders, the cultural context and business ethics as strong influencers on a companies mission and objectives as described below;

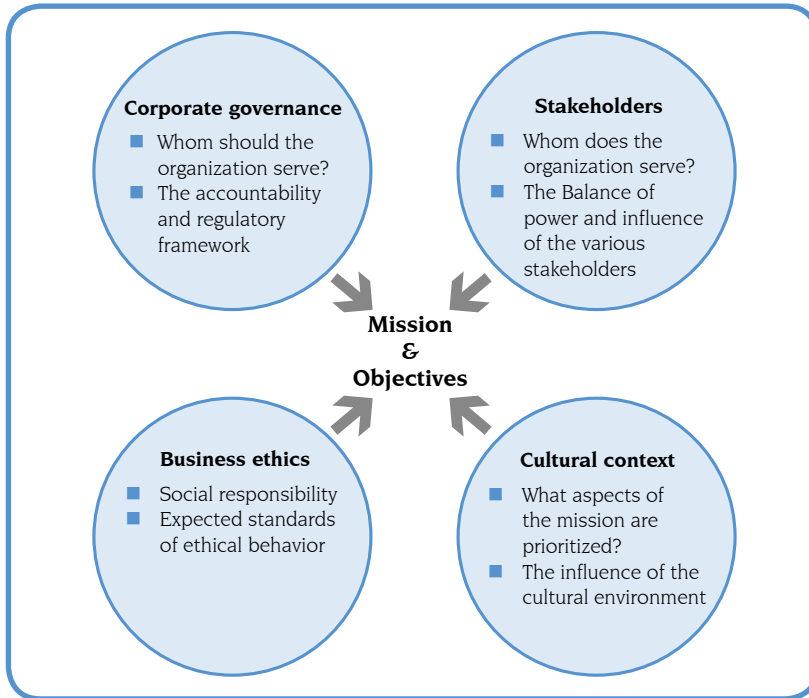


Figure 10.19 : Adapted from Johnson and Scholes, (1999).

Corporate values

Values relate to the organizations culture and the beliefs and principles that are embedded within the organization. Values are individual, and are derived from a process of socialization and up bringing and influenced by society. Therefore they might be contrastingly different from one another. However, when an employee joins an organization and walks through its doors every day, they are called to subscribe to and adjust to the companies value system so that there is some level of uniformity. An employee that joins the Red Cross for instance needs to modify behaviours to meet the company's values which are humanity, unity and independence and these drive its staff to go into disaster stricken areas to help others. Therefore values can motivate and inspire staff and help maintain behavioural consistencies.

Values can also be used to differentiate a company from that of its competitors. Virgin Atlantic's has its values as fun, value for money, sense of challenge, innovation and quality. By contrast British Airways

values encompass safety, security, responsibility, honesty, innovation, team spirit, global and caring. Now think of the different styles of behavior you can expect from the two airlines cabin crew. Strategy College uses the 5 Cs as its values, which is easy to remember. They are committed, competitive, curious, current and cool. Although they may be aligned the chief marketing officer needs to distinguish between corporate values and product brand values, which appeal to one strategic business unit and the market it serves.

Principles in setting effective values

- Make it inspirational, relevant, believable, emotional and unambiguous.
- Approach it with the behavioural consistencies that you wish to see in the company.
- Establish core and periphery values.
- Express each value with either one word or under three words.
- Make it memorable - 5 Cs or the 6 S's which makes it easy to recall.
- Polish the language.
- Reinforce the meaning through internal marketing regularly - Explain the meaning when inducting new employees and marginalize anyone who violates the values and acknowledge and reward someone who lives by the values to ensure consistency.
- Derive the companies values from the vision, mission and strategy.
- It must reinforce the company or product value proposition to the customer.

Developing strategic teams

Managers implement organizational strategy within the context of organizational structures. In the past they operated within highly regimented, hierarchical units. As layers have been stripped out of organizational hierarchies, rigid structures and work groups no longer exist. Flatter organizational structures have resulted in a greater degree of self-management. As structures have become flatter, people are forced to work in fluid teams.

To understand how strategy may be implemented effectively requires the study of management teams and team management. The complexity of the marketing environment means that work is undertaken and implemented by teams rather than by individuals. Teams must work effectively and they too must adapt to the changing requirements of the business environment.

The strategic choice theory suggests that the general strategy and direction of change adopted by an organisation is determined by a powerful individual or group that would design an organisational hierarchy in order to implement it. The structure they design is supposed to be largely a self-regulating one in which people are assigned roles and given objectives to achieve a given strategy. According to Stacey (2003) teams are formed, or exist, to solve organisational problems. They must have clear aims and objectives, comprise of a appropriate mix of individuals and be managed to ensure that they make an effective contribution. This does not happen automatically, but requires planning, performance evaluation and strategies to improve the performance of sub-optimal teams when this is diagnosed.

Definition : According to Katzenbach and Smith (1994) a team is a small number of people with complementary skills who are committed to a common purpose, performance goals, and approach for which they hold themselves mutually accountable.

Factors to consider when forming teams

- Recruitment and selection of the right mix of complimentary skills to fit the task - Recruit for attitude, train for skill, define team roles to match the cognitive skills.
- Establish clarity of mutual goals, aims, objectives and accountabilities.
- Setting the right context for the team to flourish.
- Remove any barriers that restrict the effective contribution from each member.
- Gain member goodwill and inspire their willing participation and obedience.
- Establish a process for conflict resolution.
- Allocate sufficient resources.
- Performance management - Establish performance appraisal systems, review achievement versus objectives and goals set, evaluate team and individual progress, don't slip into a blame culture approach.
- Provide recognition and praise where it is due - What are the lessons learnt? celebrate team success.
- Appoint a team leader and create a team vision.
- Ensure information flows freely to, from and between team members - Provide genuine freedom of speech.

- Create processors and working methods to encourage creative, innovative performance and conduct sessions specifically on addressing issues.
- Emotionally engage the team and provide psychological satisfaction for the contribution they make which goes beyond monetary benefits.
- Manage the stages of team development - Forming, storming, norming and performing.

Team diversity... Does it result in a team's success?

Belbin (1981) concludes that the impact of diversity within the team may result in the success of team functioning effectively. Such diversity issues concern demographic diversity and diversity in terms of functional specialism. Pelled et al. (1999), on reviewing the literature on diversity in-group performance, found that no conclusive influence was evident. Some studies linked diversity to successful performance while others have linked it to unsuccessful performance. The authors suggested that there could be an indirect influence on performance through conflict and described two types of conflicts that existed. They concluded that 'task conflict' and their resolution leads to enhanced performance, while emotional conflict tends to diminish performance.

- **Task conflict** - Is where group members disagree about task issues, including goals, procedures, key areas in which to focus for decision-making and appropriate choices for action. Factors that tend to reduce task conflict include repetitive, routine tasks as well as the length of time the group has been together.
- **Emotional conflict** - Describes the outcome rather than the causes of conflict in that it focuses on interpersonal clashes which are characterized by negative attributes such as anger, frustration etc.

Groups Vs. teams

Katzenbach and Smith (1994) suggest that a working group (Common in bureaucratic, hierarchical structures) linked to formal work roles is based preliminary on individual contributions. Performance is assessed by measuring each individual's contribution. There may still be a co-operative attitude in which individuals discuss issues and problems to improve individuals work.

Group performance is the sum contribution of individual members; however, team performance is synergistic. The team achieves more than what could be achieved with individuals working essentially on their own, with a co-operative spirit. The main difference is that teams include mutual accountability, in addition to individual accountability. On other dimensions, the differences between teams and groups will be when there is more information sharing, more joint task and target setting and performance review.

Problems with groups

Unfortunately groups can also have negative as well as positive effects. Subsequent research has identified a number of these negative effects, some of which are discussed below:

- **Conformity** - Individuals can be persuaded by group pressures to agree with decisions which are obviously wrong, and which the person must know to be wrong.
- **The abilene paradox** - This is a famous case, which demonstrates that the group can end up with an outcome that none of the members wanted. The story was written up as a case by a sociologist whose family all ended up in Abilene, Texas, driving 100 miles through desert heat, though none of them actually wanted to go. They all thought each other wanted to go, and no one wanted to disturb the 'consensus'.
- **Groupthink** - This is a word coined by Irving Janis to describe a common situation, which he observed to have occurred within tightly knit political groups. It occurs within deeply cohesive groups where the members try to minimise conflict and reach consensus without critically testing, analyzing, and evaluating ideas.
- **'Risky shift' or group polarisation** - This is the tendency for groups to take decisions, which are riskier than any that the individual members would take on their own. It now appears that there is also a tendency, under certain circumstances, for groups to take excessively cautious decisions.

10.15 Stages in team development

According to Tuckman (1965) team performance goes through four stages of development over time. He labeled them as forming, storming, norming and performing. Two factors are important in determining and describing the progression of a team through these stages. These are the resolution of interpersonal relationships and of task activities.

The Tuckman model is not the only model of team development and it does suffer from some limitations. Perhaps the most important is that not all teams progress through all stages. With that in mind it still provides very helpful means of considering team dynamics and the progression towards an ideal and a highly effective, team. According to Tuckman, teams typically pass through four stages of development: The stages are:

- **Forming** - At this initial stage, the team members are no more than a collection of individuals who are unsure of their roles and responsibilities until the project manager clearly defines the initial processes and procedures for team activities, including documentation, communication channels and the general project procedures. The project manager must then provide clear direction and structure to the team by communicating the project objectives, constraints, scope, schedules

and budget. Everyone in the embryonic team is yet to feel emotionally attached to it. Members tend to feel a certain degree of anxiety as roles and relationships within the team are established. Inevitably they will compare the new team with the former teams they have been members of.

- **Storming** - As tasks get underway, team members may try to test the project manager's authority, challenge any preconceptions whilst conflict and tensions may become evident. The conflict resolution skills and the leadership skills of the project manager are vital at this stage and he or she needs to be more flexible to allow team members to question and test their roles and responsibilities whilst getting involved in decision-making.

In this phase, people finally understand their function within the team and team relationships settle. Subgroups start to form and the potential for conflict can foment in this phase. Group members begin to know each other and there may be some conflict over leadership and also over how the leader will operate.

- **Norming** - This stage establishes the norms under which the team will operate and team relationships settle. Project procedures are refined and the project manager will begin to pass control and decision-making authority to team members. They will be operating as a cohesive team, with each person recognizing and appreciating the roles of the other team members. In this stage, group bonding, team spirit and cohesion develop. Their level of commitment to each other, and to the team, increases.
- **Performing** - Once this final stage has been reached the team is capable of operating at full potential. Progress is made towards the project objectives and the team feels confident and empowered. The project manager will concentrate on the performance of the project, in particular the scope, time scales, budgets, and will implement corrective action where necessary. Not all teams automatically follow these four stages in this sequence.

The team has fully committed to achieving its goals and they are flexible and collaborate freely and willingly. Now that people feel comfortable with each other and their work role, they can devote a substantial amount of emotional as well as physical energy to the project. This creates a wonderful environment in which creativity can thrive. This is the most effective in terms of task activity and interpersonal relationships.

Another stage?

Tuckman et al added another stage referred to as 'adjourning' in which the group works on finishing off the project. The project is disbanded and some emotional baggage will result. This may be highly positive, where group member's focus on the success of the team, or it may be negative, due to the loss of friendships and emotional work ties established during the term of the project.

Adair (1986), in his book 'Effective team building', termed the fifth stage as 'dorming' that can come after performing. This may be regarded as a stage of relative complacency, where people prefer to live on past successes rather than to devote their energies into further innovations and successes. In a sense team members become institutionalized within their own team and focus on processes rather than on outcomes. Each team stage has recognizable characteristics. Sometimes, problems arise during a team stage and at other times in the transition from one stage to another. These are described below;

The characteristics of each stage of team development

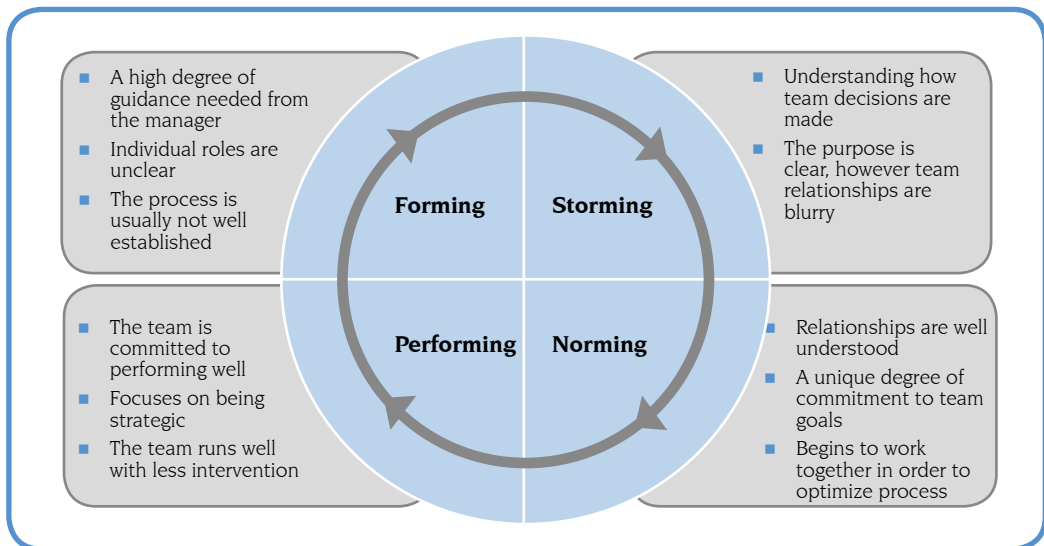


Figure 10.20 : The characteristics of each stage of team development.

	Team member behavior	Environment	Individual objective	Leadership challenge
Forming	Polite Mistrust	Stressful	Establish personal identity	Encourage interaction Avoid interference
Storming	Conflicts Ego clashes	Hostile Impatient	Individual interrelations Personal agendas	Keep it constructive Avoid destructive conflicts
Norming	Compromises Respect Relationships	Common Values, norms, practices	Common goal	Clarity of goals and roles Get team buy in
Performing	Flexibility	Trust	Team performance	Cheerleader harmonize efforts

Table 10.7 : Contextual functions at each stage of team development by Tuckman (1965).

Belbin's team roles

Team roles	Characteristics	Positive qualities	Allowable weaknesses
Company worker (Amended to 'Implementer')	Conservative, dutiful and predictable	Organising ability, common sense in practical work, hard-working and self-disciplined	Lacks flexibility, unresponsive to unproven ideas - tends to stick to the orthodox
Chairman (Amended to 'Coordinator')	Calm, self-confident and controlled	Accomplished in encouraging and obtaining contributions from team members without judgement.	No more than ordinary in terms of intellect or creative ability. Tends to take credit for the effort of the team.
Shaper	Outgoing, dynamic	Has great drive and a readiness to challenge inertia, ineffectiveness, complacency or self-deception	Prone to provocation, irritation and impatience
Plant	Individualistic, serious minded, unorthodox	Possesses 'genius', imagination, intellect and knowledge	Inclined to disregard practical details. Tends to be preoccupied with ideas and has a strong sense of ownership
Resource investigator	Extroverted, enthusiastic, curious, communicative	Good at developing contacts and exploring opportunities. Possesses an ability to respond to challenge	Liable to lose interest once the initial fascination passes
Monitor or evaluator	Sober, unemotional and prudent	Judgement, discretion and hardheadedness	Lacks inspiration or the ability to motivate others
Team worker	Socially orientated, rather mild-mannered and sensitive	Possesses an ability to respond to people and situations and to promote team spirit	Indecisive at moments of crisis
Completer or finisher	Painstaking, orderly, conscientious and anxious	A perfectionist with a capacity to follow through. Delivers on time	A tendency to worry about small things. A reluctance to 'let go' -perhaps somewhat obsessive

Table 10.8 : Belbin's team roles.

Belbin (1981) introduced the concept of team roles describing characteristics of each member in a team and the positive and negative qualities associated with each definition. The author suggests that the success of a group can depend significantly upon the balance of individual skills and personality types within the group. A well-balanced group should contain the following eight main types.

The roles can be clustered into three broad types. The thinking, action and people oriented roles are segregated as follows;

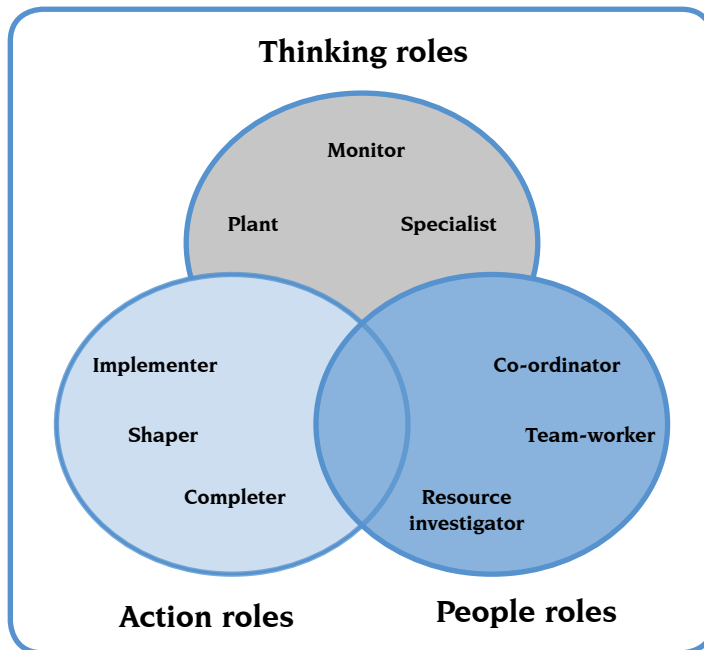


Figure 10.21 : Belbin's team roles.

Another role was later added to Belbin's original work. 'The expert or specialist' is a technical person, if needed, to solve technical problems. The description of Belbin's basic eight roles does not mean that a team cannot be effective with fewer than eight members. Members can adopt two or more roles if necessary. However, the absence of one of these functions can mean a reduction in the effectiveness of the team.

There are several terms associated with the role theory

- Role ambiguity arises when individuals are unsure what role they are to play, or others are unclear of that person's role and so hold back co-operation. For example this can arise when a new member joins an established group.
- Role conflict arises when individuals find a clash between differing roles that they have adopted. A company finance officer who uncovers fraud by senior management may feel a conflict between the roles of professional confidentiality and honest citizenship.
- Role incompatibility occurs when individuals experience expectations from outside groups about their role that are different from their own role expectations.
- Role signs are visible indications of the role. Style of dress and uniform are clear examples of role signs. These may be voluntary (A male accountant wearing a grey or blue suit and a tie) or mandatory (In military, police and hospital occupations).
- Role set describes the people who support a lead person in a major role, E.g. The clerk and junior barristers would form part of a senior barrister's role set.

Management roles

A manager may fulfill many different roles every day. From leading a team, to resolving conflict, negotiating new contracts, representing the department at board meetings, or approving a request for a new computer system. Put simply, the manager will be required to constantly switch roles as tasks, situations, and expectations change.

Mintzberg (1973) argued that there are ten primary roles or behaviors that can be used to categorize a manager's different functions. And the theory can be used as a frame of reference when thinking about developing one's own skills and knowledge. The authors' research concluded that managers adopt a variety of roles during the day, which consisted of a mass of fragmented activities, constant interruptions, pressure for immediate answers and reliance on word-of-mouth messages. Mintzberg found that the amount of time spent in each of the three main categories of roles varied with the level of the manager. For example, first-line supervisory positions are likely to have more decisional roles (At a day-to-day operational level). Senior managers spend more time on interpersonal roles. Middle managers tend to be more occupied with informational roles. The roles and indicative behaviours are explained as follows;

Rote category	Role	Indicative behavior
Interpersonal	Figurehead	Performs ceremonial and symbolic duties such as greeting visitors, signing legal documents.
	Leader	Sets the strategic direction of the organization, motivates managers.
	Liaison	Maintains information links both inside and outside the organization.
Informational	Monitor	Seeks and receives information, scans periodicals and reports, maintains personal contacts.
	Disseminator	Forwards information to other organization members, sends memos and reports.
	Spokesperson	Transmits information to outsiders through speeches and reports.
	Entrepreneur	Initiates improvement projects, identifies new ideas, delegates responsibility to others.
Decisional	Disturbance handler	Takes corrective action during disputes or crises, resolves conflicts among subordinates, adapts to environmental crises.
	Resource allocator	Decides who gets resources, scheduling, budgeting, sets priorities.
	Negotiator	Represents department during the negotiation of contracts, sales, purchases, budgets.

Table 10.9 : Mintzberg offered a view of management based on 'roles'.

Four categories of team problems

Irwin et al, (1974) suggest that teams encounter problems whether they are project teams or long-standing operational teams. They highlight four particular categories of problems that can result in conflict and poor performance. In their discussion of this topic, there is a sense that these four factors form a type of hierarchy of potential problems starting with the broadest directional issues to the detailed specific aspects of relationships between team members. This includes team leader-team member relationships and relationships between team members within the team and between teams. The four problems are as follows:

- **Goal problems** - Goals may exist; however, they may be unclear or misunderstood by team members. In the worst situations, goals may be poorly specified or may be impossible to measure. Vital that goals and priorities are established at the forming stage. However, the team leader may not have established his authority. In addition the team must construct their own goals and priorities. At this stage in development, team members may argue forcibly about these issues and it is vital that they are resolved.
- **Role problems** - If there is a lack of clarity about goals, how can there be any clarity about roles for individuals within the team? Once goals, or objectives, have been established, it is possible to clarify individual roles. Ideally the roles should be established by the time the team gets to the norming stage.
- **Process problems** - Meeting can be a very good indicator of performance problems. At the performing stage, team members listen actively to one another and exhibit a high degree of collaboration resulting in rapid decision-making. Process issues, especially with regard to meetings and decision-making should be determined and members will be open to continuous modification and improvement. However, prior to this stage, for example at the storming stage, team members may be prone to talk and not listen, time management may be poor with meeting time overruns and decision-making may be fairly crude.
- **Relationship problems** - Relationship issues may be considered as potentially the hardest to resolve as they operate at the most personal level. They may arise from a lack of mutual respect or trust in technical competence or judgement.

Types of teams

- **Multi disciplinary teams** - Multi-disciplinary teams bring together individuals from different functional specialisms, so that their competence can be pooled or exchanged. They are appropriate when a significant degree of technical expertise in divergent disciplines are required, as in most large technical projects.

- **Multi skilled teams** - Multi-skilled teams bring together a number of functionally versatile individuals, each of whom can perform any of the teams tasks: work can thus be allocated flexibly, according to who is best placed to do a given job when required.
- **Project teams** - Project teams may be set up to handle specific strategic developments, tasks relating to particular processes, tasks relating to particular investigations of procedures or improvement opportunities.
- **Virtual Teams** - It is no longer essential that teams have all their members in a single location. Virtual teams function via electronic links. The development of information and communications technology has enabled communication and collaboration among people at a diverse and far-flung range of locations, via teleconferencing and video conferencing, locally networked PCs and the Internet. Localized virtual teams have been used for some time in the form of tele working which is a process of working from home, or from a satellite office close to home.
- **Self-managed teams** - This is where a single formal leader does not exist. Self-managed teams collaborate to discharge most routine management functions themselves. The team leader is a member of the team, acting in the role of coach and facilitator. The leadership roles may be shared or rotated as appropriate.

10.16 Conflict management

Conflict is inevitable but it can be minimized diverted or resolved. Workplace conflict can lower morale and productivity, increase staff turnover and employee burnout. Some conflicts are good and some not so good. Conflict occurs naturally when people interact, and teams, organizations and even individuals can grow as a result of the new ideas and the new ways of thinking that can emerge through conflict.

Conflict mode instrument (TKI)

The Thomas-Kilmann Conflict Mode Instrument (TKI) is a tool for helping people understand how different conflict-handling styles affect interpersonal and group dynamics and for empowering them to choose the appropriate style for any situation. The TKI assesses an individual's typical behavior in conflict situations and describes it along the dimensions of assertiveness and cooperativeness. It provides detailed information about how an individual can effectively use five different conflict-handling modes, or styles.

Conflict management strategies

- **Collaborating** - Teamwork and co-operation helps everyone achieve their goals whilst maintaining relationships. Working through any differences will lead to creative solutions that will satisfy all parties concerned.

- **Compromising** - Winning something while losing a little is acceptable. Both ends are placed against the middle in an attempt to serve the common good while ensuring each person can maintain something of their original position.
- **Accommodating** - Working towards a common purpose is more important than any of the peripheral issues. This is to appease others by downplaying conflict, thus protecting the relationship.
- **Competing** - Associates 'winning' a conflict with competition. When goals are extremely important, one must sometimes use power to win.
- **Avoiding** - This isn't the right time or place to address this issue. This involves avoiding conflict by withdrawing, sidestepping or postponing.

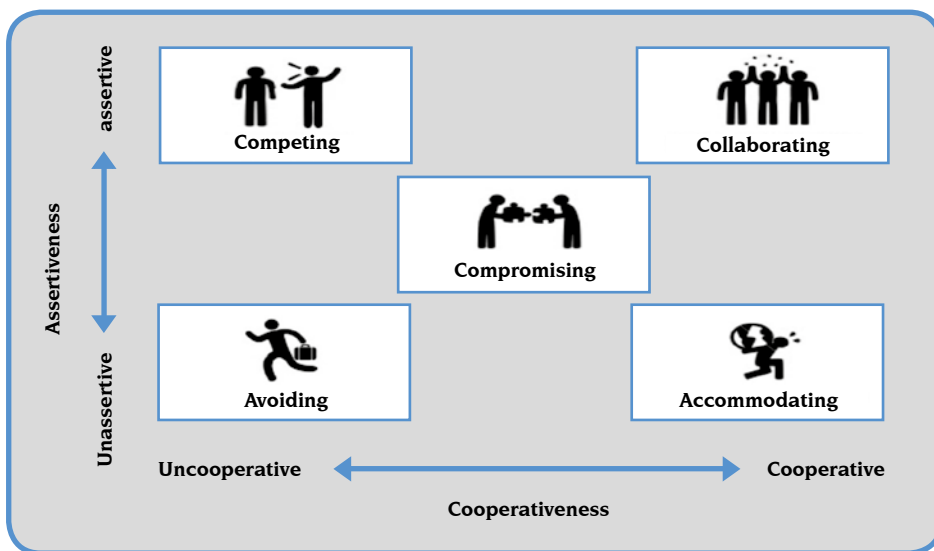


Figure 10.22 : Conflict management strategies.

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CHAPTER 11

Marketing Research for Strategic Marketing

- 11.1 The classification of research paradigms
- 11.2 Types of marketing research
- 11.3 Deductive versus inductive research
- 11.4 The marketing research process
- 11.5 Format of a research brief (Prepared by the client)
- 11.6 The structure of a research proposal (Prepared by the agency)
- 11.7 In house versus external market research
- 11.8 Types of marketing research
- 11.9 The characteristics of qualitative versus quantitative techniques
- 11.10 Research paradigms
- 11.11 Qualitative research
 - 11.12 Observation research
 - 11.13 Experimental research
 - 11.14 Questionnaire design
 - 11.15 Quantitative research
 - 11.16 Sampling
 - 11.17 Triangulation
 - 11.18 Analyzing qualitative data
 - 11.19 Preparing quantitative data for statistical analysis

11

Marketing Research for Strategic Marketing

If Thomas Edison had used a focus group he would have just invented a bigger candle. - From The Brand Show episode "The Science of Branding"

The task of marketing research is to provide relevant and comprehensive information, which is needed by the management to make marketing decisions. Marketing research is most often problem specific and aims to reduce business risk and provide valuable insights so that the company may prepare contingency plans. Research is an intellectual activity that is directed towards scientific inquiry into a problem with the view to analyzing and explaining the problem in terms of its causal factors so as to broaden one's understanding of the problem. It has a clear focus in order to address one or more questions by following a particular methodology. The process involves gathering and analyzing data to test a hypothesis and presents conclusions for management decision-making.

Definition : Marketing research is a process involving a systematic and objective form of collecting, recording, analyzing, interpreting and using insightful information to assist in marketing decision-making.

11.1 The classification of research paradigms

- **Pure or fundamental research** - This type of research is committed to the advancement of scientific knowledge.
- **Applied research** - Aims at finding solutions to practical problems. Involves application of prior knowledge, existing theories and models in the study of problems.
- **Exploratory research** - Involves exploring a problem without being guided by an existing theory or hypothesis.
- **Descriptive research** - This aims at describing a problem, its causes, implications and not adopt theory or hypothesis as means of explanation.
- **Analytical research** - Aims at analyzing a problem by dissecting it in to parts and looking for relationships between parts with the view to establishing causality. This involves the application of theory or a hypotheses as a framework of analysis.

11.2 Types of marketing research

Research type	Description
Market research	<ul style="list-style-type: none"> ■ Analysis of marketing potential for existing products. ■ Forecasting demand and sales for brands by segment. ■ Study of market trends, characteristics of a market. ■ Analyze market share, market size and competition. ■ Composition of the market.
Research on consumers	<ul style="list-style-type: none"> ■ Consumer habits, usage and attitude studies. ■ Studies on consumer trends. ■ Studies on consumer lifestyles. ■ Studies on consumer purchase habits. ■ Consumer profiling research.
Product research	<ul style="list-style-type: none"> ■ Comparison with competitor and substitute products and features. ■ Analysis of product packaging and design. ■ Test marketing. ■ Research into the development of a product line or brand extension. ■ Brand concept testing.
Price research	<ul style="list-style-type: none"> ■ Analysis of elasticity of demand. ■ Analysis of costs and profit margins. ■ Customer perception of price. ■ Optimum pricing strategy. ■ Competitor price analysis. ■ Effects of seasonal discounting.
Promotional research	<ul style="list-style-type: none"> ■ The effectiveness of thematic advertising campaigns. ■ Brand tracking studies. ■ Copy testing. ■ Media research. ■ Studies on premiums, coupons and other push based promotions. ■ Effectiveness of direct marketing techniques. ■ Corporate and brand reputation studies.
Distribution research	<ul style="list-style-type: none"> ■ Planning channels decisions and distribution strategy. ■ Analysis of packaging for transportation and shelving. ■ Dealer supply and advertising requirements. ■ Location comparison and channel coverage studies. ■ Cost benefit analysis of physical distribution systems. ■ Distribution expansion opportunity research. ■ In house versus outsourced logistics. ■ Import, export research.
Sales research	<ul style="list-style-type: none"> ■ Measurement of the effectiveness of a salesmen. ■ Evaluation of sales methods and incentives. ■ Retail audits. ■ Sales forecasting. ■ Sales force effectiveness.

Table 11.1: Types of marketing research.

There is a common misunderstanding between the terms 'Market' research and 'Marketing' research. Market research deals with carrying out research into a specific Market. This can be a geographical market or a market segment. Marketing research deals with research carried throughout the entire marketing process. This may involve market research as well as research into products, prices, promotional effectiveness, distribution gaps and many other factors. The following will elaborate different types of marketing research that a typical marketer may use.

Qualities of a good researcher	
■ Avoid jargon.	■ Objectivity or absence of bias.
■ Fulfill research objectives.	■ Probe deep in to issues.
■ Honesty.	■ Does not look for short-cuts.
■ Preserve confidentiality.	■ We rational and practical.
■ Time conscious.	■ Posses a analytical mind set.

Table 11.2: Qualities of a good researcher.

Limitations and constrains of marketing research

- Absence of responsibility.
- Customers are more sincere when spending rather than talking.
- Marketing research being led by marketers.
- Budgetary constraints.
- Time constraints.
- Reliability of data.
- Legal and ethical constraints.

11.3 Deductive versus inductive research

The discipline of logic classifies two broad approaches of reasoning which can be described as follows;

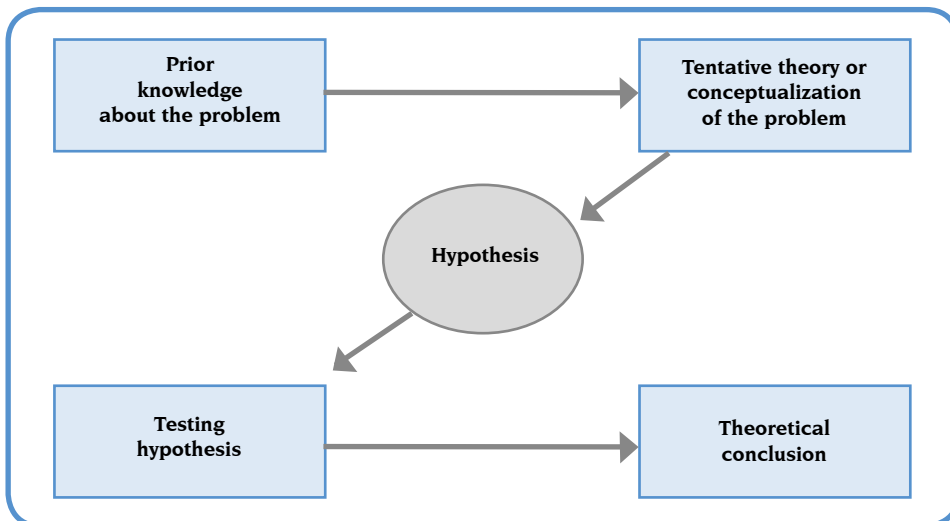


Figure 11.1: Deductive research.

- **Deductive research** - It is believed that reality exists independent of human cognition and the researcher's role is to discover important facts that constitute reality by going through a deductive process of reasoning. The characteristics of the deductive approach are given below;
 - Begin inquiry with a hypothesis based on initial conceptualization of the problem.
 - Apply standard procedures and techniques of data collection.
 - Test hypotheses in order to arrive at conclusions.
 - Measures are largely quantitative and include surveys using large samples with a structured questionnaire, systematic observation and controlled experiments.
 - Reliability and validity are established through clear definition of variables as well as application of statistical techniques.

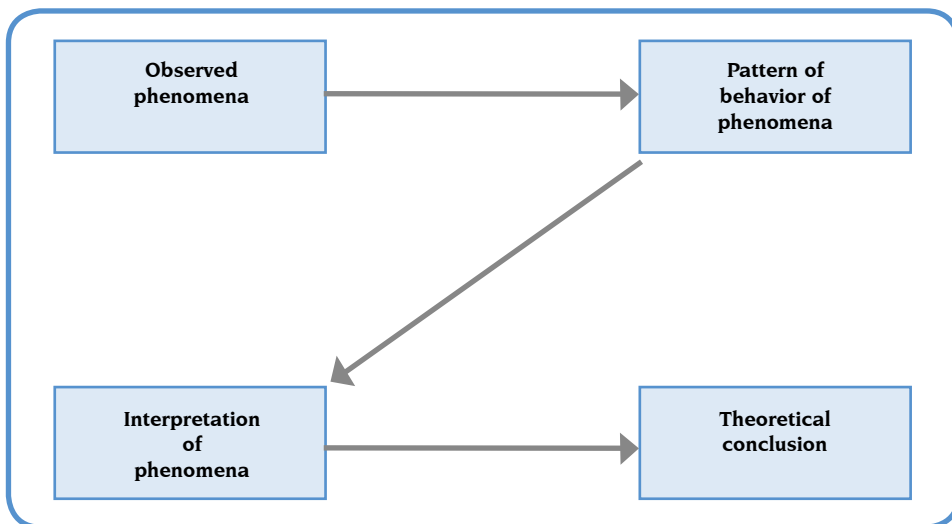


Figure 11.2: Inductive research.

- **Inductive research** - It is assumed that humans construct understandings of reality through their perceptual and interpretive faculties. Thus, the researcher's role is to capture the socially constructed reality in context specific settings. The characteristics of the inductive approach are given below;
 - Phenomenological, experience based approach.
 - Context specific and interpretative.
 - Does not start inquiry with an initial theory or hypothesis.
 - Measures are largely qualitative which includes in depth interviews, focus groups and projective techniques, case studies, unstructured observation, critical incidents, diaries and monographs.
 - Standard, replicable techniques are not applied for data collection.

11.4 The marketing research process

- i) **Problem statement** - A problem well defined is half solved. The nature of the problem will determine the type of research to be conducted and it must be refined and transformed into a precise statement. The identification of a research problem or opportunity will usually arise from the strategic marketing planning process. The research problem and research objectives have the same characteristics but they differ in form because the former is stated in interrogative or question form and the latter, in a declarative form.
- ii) **Investigate previous research** - Here, research that was carried out previously should be reviewed to gauge whether the problem has been dealt with elsewhere. It might be that the solution lies in work that has been done in other departments.
- iii) **Establish research objectives** - Research objectives should be closely related to the statement of the problem and summarise what you hope will be achieved by the study. For example, if the problem identified is a decline in sales, the general objectives of the study could be to identify the reasons for this low uptake, in order to find ways of improving it. Your objectives should be stated using action verbs that are specific enough to be measured. E.g. Compare, calculate, assess, determine, verify, calculate, describe, explain, etc. Avoid the use of vague non-active verbs such as: to appreciate, to understand, to believe, to study, etc., because it is difficult to evaluate whether they have been achieved.
- iv) **Prepare a research brief, obtain proposals, evaluate and select an agency** - The key to good research information, whether internal or external lies in the quality of the research brief. A research brief is prepared by the organisation commissioning research and it will act as a guideline for the preparation of the research proposal. It will specify research problem clearly and specific objectives for the research to be conducted.
- v) **Research design** - There are a number of alternatives for research design and the choice will largely depend on the objectives of the research. The alternatives are given below;

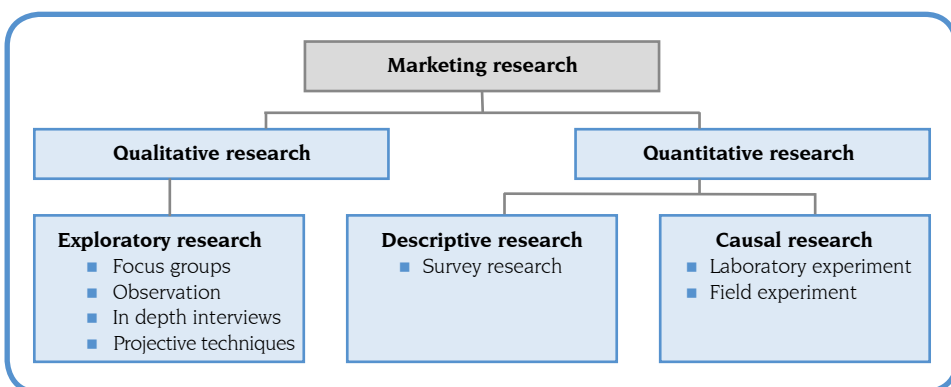
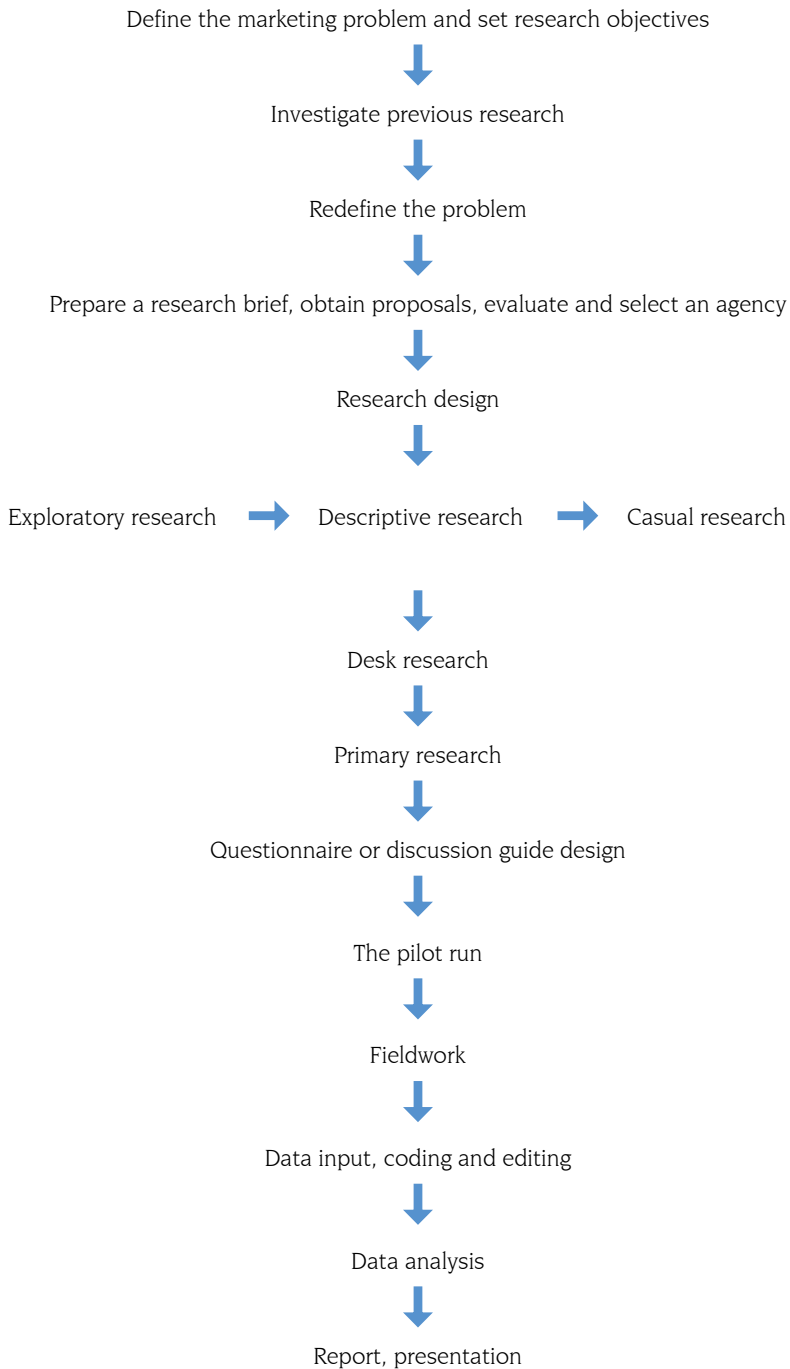


Figure 11.3: Research design.

- **Exploratory research** - This is a type of flexible research, which is useful to gather preliminary information and may not use a representative sample. It can be expeditiously undertaken, however, it may not be an accurate or a scientific form of research owing to the lack of a representative sample. The aim is to become immersed in the research problem and its potential solutions.
 - **Descriptive research** - Descriptive research is more scientific than exploratory research. Using a representative sample it will attempt to answer Who? What? When? Where? and How? questions.
 - **Casual research** - Casual research seeks to explore 'cause and effect' relationships between two or more variables. E.g. Would a 10% decrease in price for tuition at a private collage result in an enrolment increase sufficient to recover the reduced tuition price?
- vi) **Gathering desk research or secondary research** - In the research plan, desk research is carried out before primary research. This is because it is cheaper and may solve the problem without any need for expensive primary work.
- vii) **Gathering primary research** - This is data collected specifically to fulfill research objectives.
- viii) **Questionnaire or discussion guide design** - These are research instruments used to collect data. Qualitative research involves the creation of a topic guide (Discussion guide), whilst quantitative research is usually gathered and recorded via a questionnaire.
- ix) **The pilot run** - All primary research should be tested to ensure that the data collection methods are sound. Pilots will help structure and sequence questions whilst identifying areas of questioning that have not been considered.
- x) **Fieldwork** - Fieldwork is a generic term given to the collection of primary data. The administration of a major quantitative study may involve serious logistical considerations whilst qualitative work may involve highly qualified and skilled researchers. This stage is very important and failure to adhere to sound methodology at this stage may compromise the entire research project.
- xi) **Data input, coding and editing** - Data that is gathered from respondents must be recorded and edited to produce a set of data that is capable of being analyzed. In qualitative work, this may mean producing a transcript of the interview. In quantitative work, it means creating a set of data that the Computer can work with. Often data is sent straight into the computer via systems known as CATI (computer aided telephone interviewing), CAPI (Computer aided personal interviewing) and CAWI (Computer aided web interviewing).
- xii) **Data analysis** - This stage will involve using various statistical techniques and software (SPSS, SNAP) for quantitative data and other means of analysis and summary for qualitative data to present results.
- xiii) **Presenting the research report** - The final report is likely to take the form of a presentation to an audience and a detailed written report may follow summarizing the findings, with appendices of figures and tables etc.

The marketing research planning process



11.5 Format of a research brief (Prepared by the client)

- i) The background and identification details** - This covers relevant information about the company which include the products and services, company history, competitive landscape, scope of business, key markets served, future direction, market share, strengths and weaknesses etc. Identification details should include, the title, date, contract names etc.
- ii) Marketing and corporate objectives** - Share pertinent goals, which might help the research company think in context when administering the research.
- iii) Frame the research problem and research objectives** - The client may be able to provide the problem area and the research firm will frame it into a problem statement and set research objectives.
- iv) How will the results be used?** - The overall purpose and context for the research needs to be specified. How will the research be used and what other decisions might it inform in the future?
- v) Outline methodology** - The client should provide any specific indications as to the method in which it wants its information collected. This need only be an outline, setting out, for instance, the scale of the research so that the agency will be able to scope the project and determine the budget.
- vi) Sample details** - The client may wish to provide input on the sampling technique and to establish the population. The agency will need to recommend the sample size, which might depend on the budget allocation.
- vii) Previous research** - Any previously commissioned work that is relevant to the current study may be outlined or made available to the agencies pitching for the business.
- viii) Time scale** - This involves setting dead lines for the research project.
- ix) Budget** - In general the benefits of collecting information should be greater than the costs of collecting it for the company, but benefits in particular are not always easy to quantify.
- x) Deliverables, reporting structure** - This is the expected report structure with formats and contents and will detail as to how the final information will be presented. Considerations might include the style of reports, degree of summarization, use of charts and other graphics etc.
- xi) Terms and conditions** - Confidentiality that needs to be maintained and the contractual arrangements can be outlined here.
- xii) Key personnel names** - The request for CV's or credentials of all key staff involved in the project.

11.6 The structure of a research proposal (Prepared by the agency)

- i) **Identification details** - Key contact details, title and date on the cover of the proposal.
- ii) **Background or situational analysis** - This sets out the agency's understanding of the clients company, its products and services, market place as well as why the research is required.
- iii) **Research objectives** - These will probably be the same as those identified in the brief, although the agency's understanding of research techniques may have helped define them more precisely.
- iv) **Methodology and field work** - This details how the agency proposes to carry out the research, what methods will be used, sampling details, data collection methods etc.
- v) **Questionnaire or topic guide** - It is unreasonable to expect the final questionnaire but an indication of what the agency expects to see in the questionnaire or topic guide should be provided.
- vi) **Data handling and processing** - This involves specifying how the data would be captured, edited, coded and analyzed.
- vii) **Reporting** - This will detail as to how the final information will be presented and whether interim reports will be provided etc.
- viii) **Timing or activity schedule** - The agency must indicate as to how long the research will take and the break down of milestones in a Gantt chart.
- ix) **Budget, fees and expenses** - The agency will have to set out their professional fees and expenses that will be incurred. A example is provided below;

Activity	Cost (Rs.)
Secondary data collection and analysis	150,000
Quantitative surveys	
Telephone interviewing	300,000
Street interviewing	450,000
Web survey	100,000
Qualitative methods	
Focus group	500,000
In depth interviews	250,000
Analysis of data	150,000
Report printing and presentation	50,000
Total	1,950,000

- x) **Personal CV's** - This includes CV's and credentials of the main agency personnel who will be involved in the project.

- 11) **Relevant experience and references** - The agency may need to assure the client that it is capable of carrying out the research. Hence it will include information about similar projects undertaken in the past as well as reference details of previous clients who are willing to testify to the competency of the agency.
- 12) **Contractual details and ethical issues** - This will set out the agency's terms of trade, payment details, code of conduct, legal issues and clarify matters on ownership of the data collected. The data collected through marketing research should not be used for any purpose other than what it was collected for according to the ESOMAR code of conduct.

11.7 In house versus external market research

Larger organizations that have a regular need for marketing research are likely to set up their own marketing research department in house. The decision on whether to plan and carry out research in house or use an external specialist research agency depends on several factors.

Advantages of in house research	Disadvantages of in house research
Control of the research process rests with those who commissioned the work.	Lack of skills or methodological expertise
Awareness of the market or sector dynamics.	Researcher bias ness
Knowledge of both methodology and results resides within the organisation.	Company politics may interfere.
It may be cheaper to manage tasks in-house.	Lack of appropriate facilities - Focus groups, data analysis software.
It may be quicker to produce results since the data is readily available.	Opportunity costs.
The confidentiality of the research is assured.	May not provide a broad national or international coverage.

Table 11.3: In house versus external market research.

Types of research agencies

- 1) **Specialist agencies** - They concentrate on market sectors, regions or questionnaire design.
- 2) **Field agencies** - Field agencies possess specialized skills in conducting personal interviews or door to door interviewing with a work force to cover a large sample.

- 3) **Data analysis agencies** - Data analysis agencies can be employed to analyse information using state of the art hardware and software with highly specialized statistical packages.
- 4) **Independent research consultants** - Independent consultants will undertake research usually on a smaller scale and such consultants are typically ex employees of larger research organizations or have gained their expertise in related disciplines such as IT or librarianship.
- 5) **Syndicated research agencies** - A syndicated service is one that is not conducted for any specific client. Regular research is conducted into areas that the agency knows for certain that many organizations will be interested in and is then sold to anyone willing to pay the price.
- 6) **List brokers and profilers** - A list broker creates or acquires lists of potential consumers for the purpose of selling them to companies who are interested. Lists may be created from publicly available sources like the telephone book or yellow pages but will usually be organized for convenience and presented in formats that can be easily incorporated into clients systems.
- 7) **Full service agencies** - A full service agency will provide all of the above services. Therefore it will be able to conduct a research project from start to finish.
- 8) **Professional bodies and associations** - Some example include the European society for opinion and marketing research, The Chartered Institute of Marketing etc.

11.8 Types of marketing research

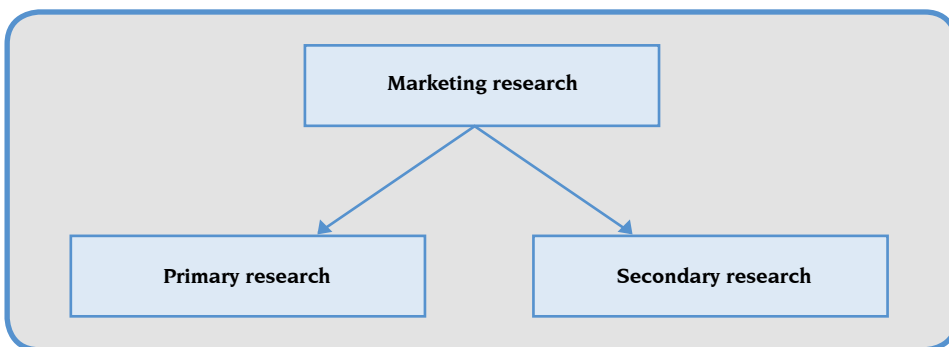


Figure 11.4: Types of marketing research.

Secondary research

'Secondary research' also known as 'desk research' refers to the collation of freely available, off the shelf information, which already exists and was gathered or published for some other unrelated purpose by someone else. The researcher is therefore a secondary user of existing data. Secondary research data can be segregated into two categories as stated below;

External secondary data	Internal secondary data sources
Government sources - Central bank reports, census and statistics information, import export statistics.	Accounting records - Budgets, profit and loss accounts, balance sheet, cash flow statement, annual reports.
Annual reports of Companies.	Sales reports - Market visit reports, invoices.
Academic journal repositories and conference papers - Ebsco, Emerald, Google scholar.	Previously conducted primary research.
Quality press - Print, radio and television.	Special management information system reports.
Search engines, social media, websites and blogs.	Marketing plans and audits.
Magazines, journals, digests or periodicals.	Human resource records.
On-line data service providers - Socialbakers.	Call centre and service records.
Directories and encyclopedias - Kompass.	Production and operations records.
Market research reports - Mintel, KeyNote.	Information technology records.
Computerized databases - ACRON, Mosaic, TGI.	
Professional bodies - Chambers of commerce, trade councils, industry associations, Libraries.	
Consumer and retail panels, Syndicated studies.	
Trade fairs and exhibitions.	
Embassies and trade missions.	
International organizations - OECD, IMF, WTO, UN.	

Table 11.4: Types secondary data

Advantages and disadvantages of secondary data

Advantages of secondary data	Disadvantages of secondary data
Relatively cheaper to collect	Availability
Relatively quicker to extract	Relevance
Does not require too much of an expertise	Accuracy
The availability of multiple sources	Sufficiency
The ability to observe trends	Methodology may be unknown
Can be used to back up primary research	Out dated information

Table 11.5: Advantages and disadvantages of secondary data

Primary research

This is data collected specifically for a particular purpose, directly from the relevant source. Methods of primary research include survey research (Quantitative), depth interviews and group discussions (Qualitative), experiments and observation research.

Advantages	Disadvantages
Targeted issues are addressed - The organization asking for the research has the complete control on the process and the research is streamlined as far as its objectives and scope is concerned.	High cost - Collecting data using primary research is a costly proposition as marketer has to be involved throughout and has to design everything.
Data interpretation is better - The collected data can be examined and interpreted by the marketers depending on their needs rather than relying on the interpretation made by collectors of secondary data.	Time consuming - Because of exhaustive nature of the exercise, the time required to do research accurately is very long as compared to secondary data, which can be collected in much lesser time duration.
Recency of data - Usually secondary data is not so recent and it may not be specific to the place or situation marketer is targeting.	May require more resources - Leaving aside cost and time, other resources like human resources and materials too are needed in larger quantity to undertake a survey and data collection.
Proprietary issues - Collector of primary data is the owner of that information and he need not share it with other companies and competitors.	Untruthful responses - These is an element of error in primary research, which can be negated by using observation techniques.

Classifying Qualitative versus Quantitative research questions

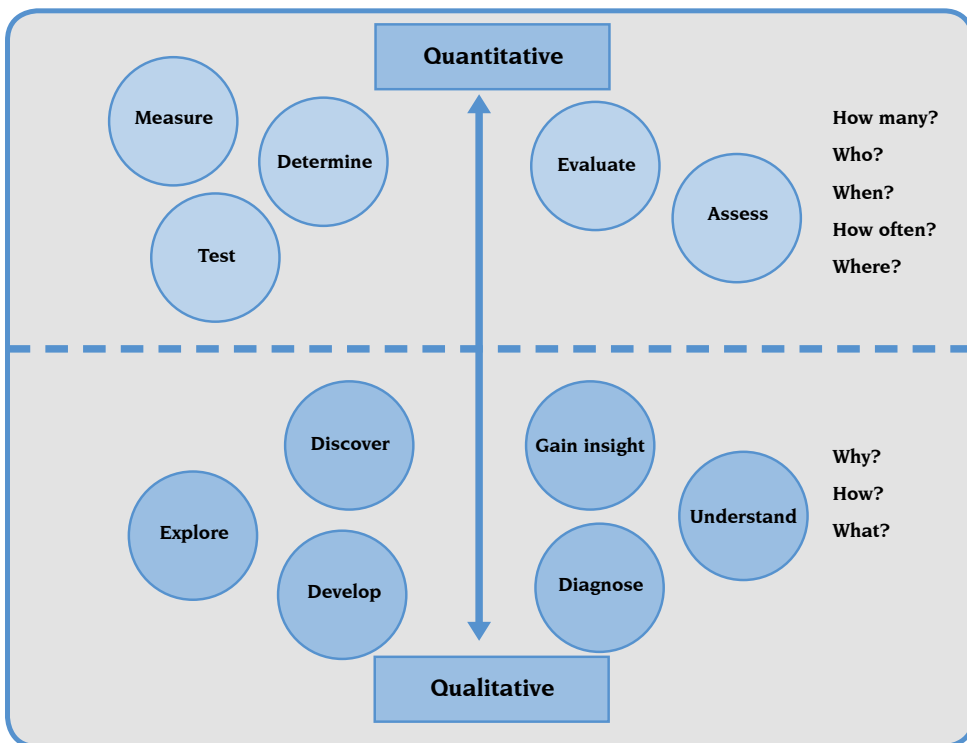


Figure 11.5: Qualitative versus quantitative research questions.

11.9 The characteristics of qualitative versus quantitative techniques

Comparative elements	Qualitative research	Quantitative research
Type of questions	Probing	Non-probing
Sample size	Small	Large
Information per respondent	Much	Varies
Management	Special skills	Fewer skills
Type of analysis	Subjective	Statistical
Ease of replication	Difficult	Easy
Type of research	Exploratory	Descriptive or casual
Research training needed	Psychology, sociology, consumer behavior marketing.	Decision models, computer programming, statistics.
Hardware needed	DVD recorders, web cams, digital voice recorders.	Computers PDA's, CATI systems.
	Describes and understands the consumer as an individual.	Tests and measures the consumer as a mass market.
	In depth interviews, Projective techniques.	Statistical tools and numerical measurement.
	Unstructured and flexible, dynamic, open minded Discussion guide.	A structured questionnaire will be used.
	Response orientated.	Question orientated.
	Relies on interpretation of the findings as an integral part.	Less dependent on research executive skills or orientation.

Table 11.6: The characteristics of qualitative versus quantitative techniques.

11.10 Research paradigms

According to Dash (2005) research paradigms determine the criteria for research and some key paradigms are outlined below;

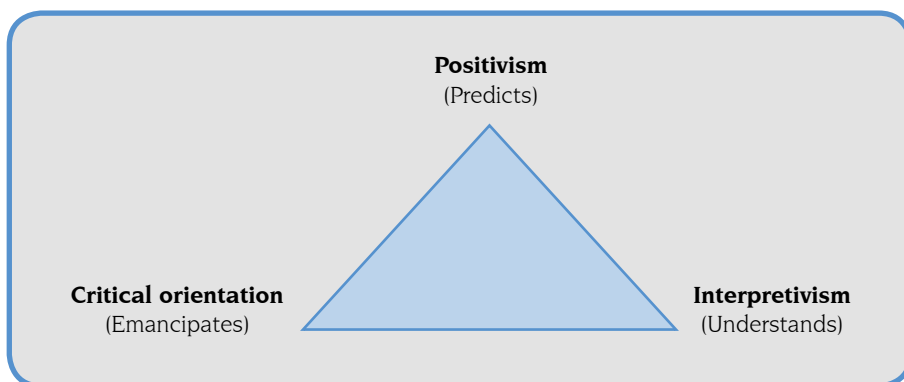


Figure 11.6: Research paradigms.

Research paradigms	Research approach	Research methods
Positivist	Quantitative	Surveys (Longitudinal, cross sectional), experimental or quasi-experimental
Interpretivist	Qualitative	Biographical Phenomenological Ethnographical Case studies
Critical theory	Critical and action oriented	Ideology critique, action research

Table 11.7: Research paradigms.

- **Positivism** - According to Mackenzie et al (2006), positivism or post positivism asserts a deterministic and empiricist philosophy, where causes determine effects, and aims to directly observe, quantitatively measure and objectively predict relationships between variables. Positivist research methods include experiments, surveys and tests, that is, particularly those methods that can be controlled, measured and used to support a hypothesis.
- **Interpretivism** - According to Hammersley et al (2000) researchers recognise that all participants involved, including the researcher, bring their own unique interpretations of the world or construction of the situation to the research and the researcher needs to be open to the attitudes and values of the participants or, more actively, suspend prior cultural assumptions. Interpretivist research methods include focus groups, depth interviews, ethnographic studies, case studies, research diaries, that is, particularly methods that allow for as many variables to be recorded as possible. One of the criticisms of interpretivism is that it does not allow for generalisations because it encourages the study of a small number of cases that do not apply to the whole population.
- **Critical research** - Georg Hegel, Karl Marx and Paulo Freire are influential figures who focused on eliminating injustice with the aim of transforming society and address the issue of inequality, particularly in relation to ethnicity, gender, sexual orientation, disability, and other parts of society that are marginalized. Critical researchers actively challenge interpretations and values in order to bring about change. This leads to a common criticism of critical research, that the aim is to support a political agenda. However, others argue that this is a necessary consequence because politics and inquiry are intertwined or inseparable and, by having an agenda of reform, all participants' lives can be transformed for the better and this is why the critical approach is sometimes known as the transformative paradigm. An example of research methodology that is in line with the critical paradigm is action research, interviews and group discussions. These are methods that allow for collaboration and can be carefully deployed in a way that avoids discrimination.

Poststructuralism

Poststructuralism is also interested in investigating individuals and social relations but focuses more on selves as constructs and how they are formed through language and gain meaning within specific relations of power according to Macdonald (2000). This relationship between meaning and power is embodied in the term discourse, which encapsulates not only what is said and thought but also who has the authority to speak. This means that in contemporary poststructuralist research, there is a strong emphasis on examining language, which provides indicators of power-knowledge relationships. An example of a research methodology will include observations and audio or visual recordings of interactions that focus on what is said or not said, how participants position themselves and the social and cultural consequences of the observations.

11.11 Qualitative research

The main purpose of qualitative information is to probe into their conscious and unconscious consumer interests, reactions, lifestyles, feelings and perceptions rather than to measure them. Qualitative research is research undertaken using an unstructured research approach with a small number of carefully selected individuals to produce non-quantifiable insights into behaviour, motivation and attitudes.

It is imperative to analyze non-verbal communication that convey attitudes or motives and the discussions are recorded and then a transcript is developed for further analysis. The discussions must be short enough to be interesting and long enough to cover subject matter. The respondents are usually provided with an incentive. Show material such as mock-ups, prototypes, storyboards or animatics can be used as stimulus material. The three types of qualitative research can be classified as depth interviews, focus groups and projective techniques.

The benefits of qualitative research

- It can be used to pre test marketing communications or generate new ideas.
- It is used for preliminary or exploratory research to verify a hunch.
- New products pose the disadvantage of not having existing data to measure out comes.
- It investigates more the why decisions rather than the what, where and when decisions.
- It is subjective and can be difficult and expensive to undertake.
- Brand perceptions, consumer motivation, attitudes and behaviours can be gauged.
- The questions are open-ended, probing questions may be used to stimulate respondents.

Characteristics of in-depth interviews

- Conducted one on one.
- It delivers diminishing marginal returns after a dozen respondents are interviewed.
- Can be structured (Using a topic guide) or unstructured.
- Highly skilled interviewer must conduct the interviewed.
- High profile respondents can be interviewed and confidential or embarrassing subject matter can be discussed.

Characteristics of focus groups

- A highly skilled moderator will be required.
- It is essential to control powerful personalities within the group.
- Typically 7-9 respondents may participate.
- The group may deliver diminishing marginal returns after a dozen groups.
- The composition of participants can be a homogenous or a cross section group.
- Can be structured (Using a discussion guide) or unstructured.
- The moderator must be mindful of group dynamics.
- Establish the objectives of the meeting in advance.

Types of focus groups

- **Mini groups** - This is a smaller group of around five respondents.
- **Paired groups** - This includes couples.
- **Extended groups** - These last for over three hours, and are used when complex tasks are performed or a large amount of stimulus material is used.
- **Creativity groups** - This is similar to a brainstorming session used to come up with innovative ideas.
- **Reconvened groups** - These groups meet at least twice whilst experiencing products in between meetings.

The format of a discussion or topic guide

The discussion guide is the document prepared by a depth interviewer or a qualified focus group moderator to guide the topics under discussion.

a) **Introductory phase (10 minutes)**

- Welcome the group.

- Ice breaker sessions introducing participants or getting them to do so themselves.
- Explain the objective of the meeting, topics that will be discussed and share agenda.
- Explain ground rules.
- Explain the means used to record the session.

b) Discussion phase (1 hour)

- Topic areas with thematic sub-phases for discussion.
- Product trial and stimulus material will be used.
- Projective techniques will be used.
- The moderator must ensure all respondents participate.

c) Conclusion phase (10 minutes)

- Summarize the discussion.
- Distribute tokens of appreciation and incentives.
- Wind up.

Projective techniques

Projective techniques are designed to uncover the underlying motives and unconscious thoughts of consumers and can be used as part of a focus group or in depth interviews. Respondents may be asked to complete, describe, or explain the meaning of various ambiguous stimuli. The stories they tell or the sentences they complete are actually projections of their inner thoughts. Thus, their responses are likely to reveal their underlying needs, wants, fears and motives irrespective of whether or not the respondents are fully aware of them.

Types of projective techniques

- **Third person** - The researcher asks the respondent to describe what someone else might do. For example 'If someone wanted to buy a house, what would they need to do? Can you describe the steps they need to take?'
- **Word association** - Is based on an assumption that if a question is answered quickly or spontaneously, the sub conscious thoughts of the respondent may reveal attitudes, perceptions and motivations of the individual. The person's conscious mind does not have time to think up on alternative responses. E.g. What immediately comes to your mind when you hear the word 'Protection'?

- **Sentence completion** - Hear the researcher may start a sentence and request the respondent to complete it. By doing so the underlying attitudes and opinions are revealed. E.g. Men who watch football are...? Women wear red to?
- **Thematic apperception tests** - TAT tests are when people are shown a picture and asked to describe what is happening in the picture. Is it believed that the descriptions reveal information about attitudes, beliefs, motives and opinions deeply stored in the sub conscious mind?
- **Story completion** - Here, the researcher will start a story and request the respondent to complete it.
- **Cartoon completion (Drawings)** - These are speech balloons, which need to be completed where comment may be filled in one and the other may be left blank for the respondent to fill in.



- **Psychodrama** - Consists of fantasy situations. Respondents are asked to imagine themselves as a product and describe their feelings about it being used. Sometimes respondents are asked to imagine themselves as a brand and to describe particular attributes. E.g. If a 'Channel' dress were a woman how would she differ from 'Dior'? What would she be like?
- **Mood boards** - Mood boards are collages of images that are cut from magazines and assembled, either glued or pinned on a board.
- **Brand personality tests or brand CV's** - Brand personality tests requires respondents to describe a brand as a person. Here, respondents are required to write a mock bio-data for the brand under consideration and this can be very useful in determining the accuracy of brand positioning in the market.
- **Brand mapping, perceptual mapping** - This it is an extension of the brand personality test that involves multiple brands. Respondents are required to identify key attributes or dimensions of a product sector and then position brands against those, relative to competition.

- **Photo sorts** - Here, images of different people are presented and classified in order to gauge what brands they would and would not use.
- **Role-plays** - Respondents are required to act out a scene. If used in groups, it is important that the group is well motivated and prepared to be fully engaged.

Problems associated with projective techniques

- Hard evidence of their validity is lacking.
- Since the sample selected is very small it may not be possible to generalize findings to the population as a whole.
- Analysis of projective test findings is highly subjective and prone to bias.
- Ethical problems with invasion of an individual's subconscious mind in conditions where he is often not made aware that he is exposing himself to such probing.
- The biggest drawback with projective techniques is that the answers require skilled analysis and interpretation. The techniques are most valuable in providing insights rather than answers to specific research questions.

Benefits of projective techniques

- It may help in developing new promotional messages which will appeal to deep, often unrecognized needs and wants.
- It allows to test brand values and advertising appeals to gauge positive, negative or irrelevant interpretations.
- It provides a clue, which can be tested on a larger, representative sample using a structured quantitative questionnaire.

11.12 Observation research

Interviews and questionnaires involves respondents answering questions on their behavior. However, it is sometimes better to observe behavior to get a more accurate record than seeking answers for questions. Observation can be open observation, which is also known as overt observation where the observer can be seen by the respondent or disguised observation also known as covert observation where the observer uses a physical disguise. Structured observation is when the researcher must know what is to be observed and unstructured observation is when the observation criteria is not predetermined.

Definition : Observation research is a non-verbal means of obtaining primary data, where the behaviour of respondents or objects are collected as an alternative to questioning.

Observation research is one of the fastest growing areas of marketing research. The use of CCTV's and video means the average consumer is caught on camera many times a day. This may raise many ethical considerations, which is a major draw back of this method. Observation can be used in numerous ways and is a good technique to be used for a sensitive research topic as well as to monitor traffic flows, studying consumers in a retail outlet, tracking competitor products at an exhibition and gauging product usage of a particular target audience etc.

Observation dichotomies

- **Open versus disguised observation** - This is where the open presence of the observer is likely to affect respondent behaviour and the observation process itself needs to be unobservable. E.g. By using a hidden camera, a one-way mirror or by acting as a disguised observer.
- **Direct versus indirect observation** - This is when a researcher observes respondents as behaviour occurs as opposed to examining evidence from past behaviours.
- **Human versus technological observation** - An example of the latter is a heart or temperature monitor, say, which measures a respondent's physiological reaction to stimuli.
- **Structured versus unstructured observation** - In the former approach the researcher knows what needs to be observed in advance. The unstructured approach records all actions, which seem to be relevant to the purpose of the research.
- **Neutral versus artificial observation** - Neutral observation involves observing real behaviour, such as shoppers in a supermarket where as the artificial observation of behaviour is when the researcher controls the experimental surroundings, E.g. Hall tests.

Advantages of observation research

- It is not dependent on the respondent's memory. It records exactly what happened and not what the respondent believes has happened.
- The potential for researcher influence or bias is reduced, as the researcher is the witness of behaviour.
- Mechanical recording of observed behaviour may reduce the chance of reporting errors.
- Observation does not rely on the verbal skills of a respondent to describe behaviour.
- It measures what happened, not what respondents say they will do in a certain situation.
- Observation can counter the high refusal rates in some markets.
- It can be used to monitor behaviour preceding an action.
- Observation does not interfere with the respondent's day-to-day life.

Disadvantages of observation research

- Observation does not measure the reasons for certain behaviour such as motivations and attitudes.
- Observation cannot measure the likelihood of repeat behaviour.
- Only public behaviour can be assessed.

Types of observation techniques

i) Ethnographic studies - Ethnography is a research technique that has been used in social science for some time and is increasingly used in marketing. Ethnographic research involves total immersion in the life of the subject and researchers may spend a considerable amount of time with the subject of the research. Results may be recorded or written down post experience. E.g. Ethnographic research has been used by researchers to investigate the problem of football hooliganism in the UK. Researchers travel with hooligans and later record their experiences. As you might imagine, other research techniques would be impossible to use to research this behavior.

ii) Mechanical observation

- **Phychogalvanometers** - This method is most often used to pre test advertising copy and measures the response by the perspiration rate, which tends to increase when the subject is exciting and arousing. It uses the same technique as a lie detector, measuring the electrical resistance of the skin.
- **Eye cameras** - Eye cameras are used to assess an advertisement, which attracts the most attention and those parts, which are neglected. It tracks the movement of the eye around an object. This method has also been used on websites to explore the navigation of sites and may be combined with a mechanical record of keystrokes or mouse movement.
- **Pupil meters** - Pupil meters measure the responses through a measurement of the movement of the pupil of the eye.
- **Video cameras in natural settings** - In such settings there is an increased chance of observing real behavior but the researcher might have to wait a long time until the behavior occurs.
- **Tachistoscopes** - Reveal the test material in microsecond bursts. The respondent's ability to recall small details will be measured. It is believed to predict advertising effectiveness amongst other uses.
- **Pressure mats or automatic sliding doors** - Retail stores may use these techniques to count the number of customers.

- iii) **Mystery shopping** - A mystery shopper is a researcher who visits a store as a shopper in disguise to obtain information on prices, promotions, service levels, ideas, new products, analyze front line staff, evaluate effectiveness of a process, etc. This may be done by companies assessing the activities of competitors in the market or by companies assessing the performance of their own sales staff.

Definition : The use of trained individuals to observe experiences and measure the customer service process, by acting as a prospective customer and undertaking a series of pre-determined tasks.

Mystery shoppers should present facts rather than opinions and these may include the shopping environment as well as interactions between the researcher and staff. The recruitment of mystery shoppers must be handled tactfully as staff may become familiar with them. The shopper needs to be natural and to make the experience as close to life as possible.

Types of mystery shopping exercises

- The actual visit by a person is the traditional form of mystery shopping.
- A hidden video camera or recording devices can be used to record settings.
- Telephone mystery shopping will be to call in disguise of a customer.
- Internet, e mail mystery shopping is faster to administer.

Steps in conducting a mystery shoppers exercise

- a) **Investigate key competitors to be researched and analyzed.**
- b) **Determine research objectives and make a list of information that is required, such as;**
- Prices comparisons.
 - Promotions at the point of sale.
 - Check quality of products and facilities.
 - Customer service levels and experienced.
- c) **Device strategy**
- How many will go? What time? What to question?
- d) **Maintain a record of the information and share it with management.**
- iv) **Online observation** - The Internet allows a lot of data to be captured through remote observation. The use of cookies allow the website owner or a social media platform to identify repeat visits. A cookie is a text file placed on the browser's computer that allows the browser's computer to be identified on subsequent visits.

11.13 Experimental research

This involves the manipulation of one or more variables by the experimenter in such a way that its effect on another variable can be determined. For example changing prices to see different types of responses from customers. Experimental research takes many forms and the following methods can be used by a researcher.

- a) **Laboratory experiments** - This is an artificial environment that is set up by the researcher and is most often used to measure the response to advertisements and evaluate package design. Laboratory test could take on several forms.
 - **Monadic and comparative experiments** - In a monadic test the respondents experience only one version of the product, package or advertisement where as in a comparative one they are required to compare two or more products.
 - **Hall tests** - Respondents are recruited from a public place and required to attend a hotel or other public area for a test.
 - **Van tests** - This is where a testing environment is set up in a mobile van, which can travel to a series of locations.
 - **Test centres** - A product, which is sensitive, large, complicated or expensive to dismantle, can be set up in one site and respondents will be transported over some distance to test it.
- b) **In-home or placement tests** - A sample of consumers try the product at home and report findings, usually by completing a questionnaire.
- c) **Store tests** - Retail outlets are used as the site for testing merchandising, packaging and point-of sale material. There should be a reasonable cross-section of stores, both by size and by region, and ideally a control group.
- d) **Test marketing** - In a field test or test market a product is tested in realistic surroundings where it will be bought or consumed. While the researcher has less control over external variables, field experiments provide a more realistic idea of future behaviour. Field tests are expensive since the product has to be made and marketed in small quantities and they are risky since the products are exposed to competitors.
- e) **Simulated test marketing** - Simulated test markets have replaced traditional test marketing. The process involves recruiting participants who are representative of the target market and they are exposed to marketing stimuli in a simulated environment.
- f) **Panel research** - Panels are a group of respondents that are subjected to continuous research. Panels are also known as audits, which can be segregated into two types;

- **Consumer panels** - A consumer panel will constitute of a representative sample of individuals and households whose buying activity in a defined area is monitored either continuously or at regular intervals, over a period of time. The TNS super panel consists of 8, 500 households, covering the purchase of some 28,000 individuals aged between 5 and 79, who are resident in domestic households across Great Britain. Data collection is through laser light pen connected to a digital phone, which is kept hooked on to a modem linked to the domestic power supply. The Target group index (TGI) describes the target groups of consumers and their exposure to the media and the extent to which they see or hear other communication mediums. Purchase behaviour and communication mediums that the message was received will be cross-tabulated whilst listening patterns to radio stations, cinema attendance and readership of over 170 magazines and newspapers in the UK market are some areas covered in the research. TGI is present in over 60 markets world wide.
- **Retail panels** - These can be described as retail trade audits, which are conducted among a panel of wholesalers and retailers where a research firm sends auditors to selected outlets at regular intervals to collect information. Nielsen was the first market research organization to establish continuous retail tracking operations in the UK. The Nielsen index monitors sales of ten separate product categories which measure over 600 stock keeping units and over 120,000 brands.

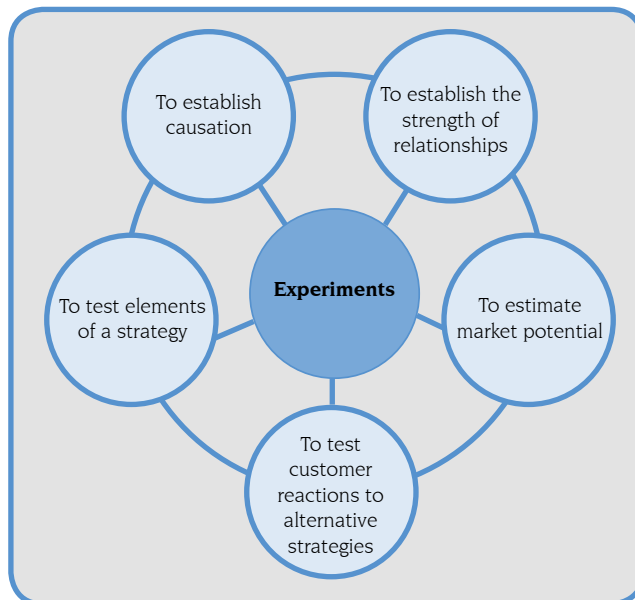


Figure 11.7: Experimental research.

11.14 Questionnaire design

A questionnaire is essentially a data-capturing instrument. It lists all the questions to which the researcher wants the respondent to answer and it records the response of the interviewee.

Funneling questions

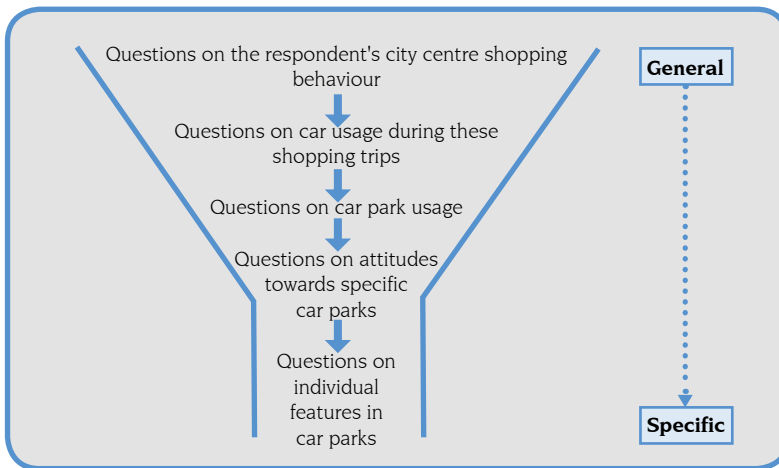


Figure 11.8: Funnel sequence of questioning by Wilson (2006).

Types of questionnaires

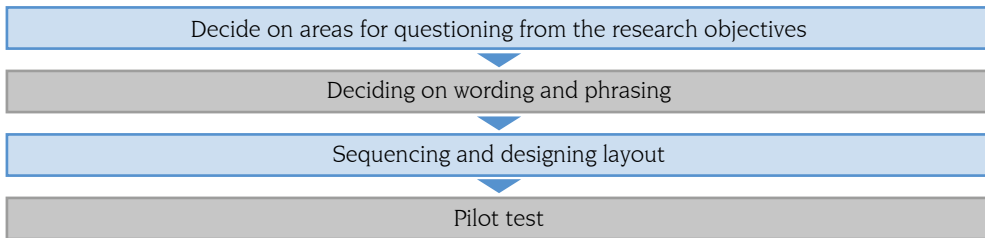
- **Structured questionnaires** - Here the respondent is given a set of options as answers and the questions are formed in a manner that the answers are amenable to quantification, easy to administer and consumes less time.
- **Semi- structured questionnaires** - A certain amount of flexibility is built in by combining open-ended questions with structured questions and the respondent is expected to write answers to open-ended questions. This is appropriate when the researcher personally handles the survey.
- **Unstructured questionnaires** - This contains mostly open-ended questions and the success rate in administering the questionnaire would be limited unless the researcher personally conducts the interview.

Factors to consider when developing a questionnaire

- **Reliability** - A questionnaire must be a reliable and provide consistent responses when administered at different intervals.
- **Validity** - A questionnaire must measure what it intends to investigate.
- **Relevance** - Questions must be relevant to the subject of the research.
- **Balance** - There should be a balance between questions where a particular aspect should not be over emphasized at the expense of other aspects.
- **Sensitivity** - Questions must be sensitive to the feelings and concerns of respondents.

- **Non-ambiguity** - Questions must be unambiguous and convey only one meaning.
- **Ease of response** - Questions should be easily responded to and be less intimidating by scooping it within the respondent's span of knowledge and information.
- **Simplicity** - Questions must be simple and clear and avoid the jargon must be avoided.

Steps in designing a questionnaire



Types of questions

There are two main ways in which questions can be phrased.

- **Closed, set choice questions (Structured responses)** - Provides respondents with a choice of predetermined answers or can simply be answered with a 'Yes', 'No', a tick in a box or a very short factual answer. The advantage is that you will get short, relevant answers that are easy to analyze. The disadvantage is that the choices may be too restricted to cover every possibility. Taking the above example 'Yes!, but don't call me during office hours' cannot be mentioned.

Coding of open-ended responses

Why did you choose to fly British Airways?

Category	Code
Executive club member	1
Time of flights	2
In-flight catering service	3
Price	4
Connections	5
Out of habit	6
No choice	7
Other	8
	9

- **Open ended questions (Unstructured response)** - Allows the respondent to provide a narrative answer with an explanation in their own words. Typically an open question begins with 'Why...?' Or 'How?' or a phrase like 'Could you describe...'. The advantage of this type of questioning is mainly the freedom of the respondent's expression without any restriction. The disadvantage on the other hand is that you may end up collecting a large amount of narrative data that may not be relevant.

Types of closed ended questions

- i) **Dichotomous** - This is a question with two possible answers E.g. 'Yes' or 'No' or with a neutral response 'Not sure'.
- ii) **Multiple choices** - This is a question with more than three answers.
- iii) **Likert scales** - This is a statement with, which the respondent shows the amount of agreement where a list of statements are prepared about the topic being researched from strong agreement to strong disagreement and a numerical value given to each response. An example is illustrated below;

Question : I would now like to find out about your attitudes towards this model of phone. Therefore, for each of the following statements, please tell me if you strongly agree, agree, neither agree nor disagree, disagree, or strongly disagree.

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
The phone is easy to use					
The design is stylish					
The keys are too small					
It is better than the one I currently use					
The functions are confusing					
I would look good with it					
It looks like it is built to last					
I don't need a phone like this					

Table 11.8: An example of Likert scale.

- iv) **Semantic differential scales** - This is a scale connecting two bipolar words where the respondent will select a point or a position of the object being researched on each continuum.

Question : Listed below are pairs of statements that could describe a sports brand. For each pair, mark an X between the two statements in a position that best reflects your view of the brand.

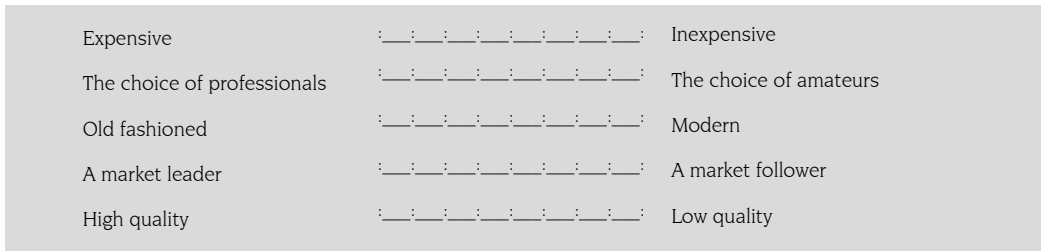


Figure 11.9: An example of a semantic differential scale by Wilson (2006).

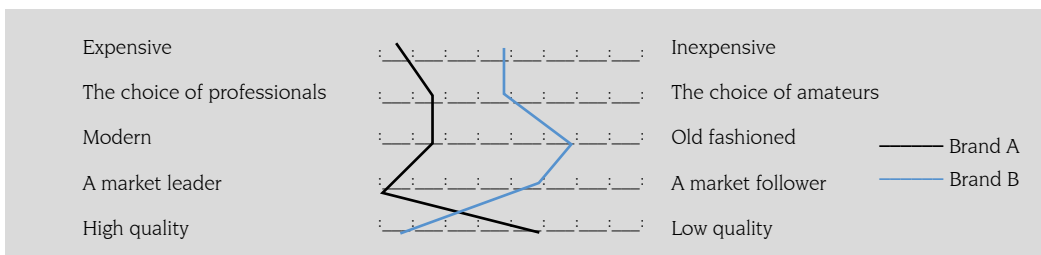


Figure 11.10: The application of a semantic differential scale by Wilson (2006).

- v) **Importance scales** - This is a scale that rates the importance of some attribute.
- vi) **Rating scales** - This is a scale that rates an attribute from 'poor' to 'excellent'
- vii) **Intention to buy scales** - This is a scale that describes the respondent's intention to buy.

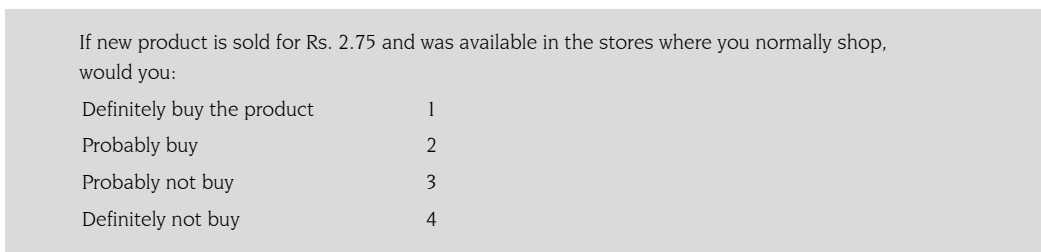


Figure 11.11: A purchase intent scale by Wilson (2006).

viii) **A staple scale**

For the following statements relating to freight transport, indicate with your first impression how accurately the statements on the left-hand side represent Railfreight. The more accurately you think the word describes Railfreight, the larger the plus number you should choose. The less accurately you think a phrase describes Railfreight, the larger the minus number you should choose. You can select any number from +5 for words you think are very accurate to - 5 for words you think are very inaccurate.

	+5		+5		+5		+5
	+4		+4		+4		+4
	+3		+3		+3		+3
Reliable	+2	Competitive	+2	Fast transit	+2	Good record for	+2
deliveries	+1	in price	+1	times	+1	loss and damage	+1
	-1		-1		-1		-1
	-2		-2		-2		-2
	-3		-3		-3		-3
	-4		-4		-4		-4
	-5		-5		-5		-5

Figure 11.12: A staple scale used for assessing attitudes towards Reilfreight by Wilson (2006).

ix) Constant sum scales

Question : Below are five characteristics of food processors. Please allocate 100 points among the characteristics in a manner that represents the importance of each characteristic to you. The more points you allocate to a characteristic, the more important it is to you. If a characteristic is totally unimportant, you should not allocate point to it. Please make sure the total points that you allocate add up to 100.

Characteristics of food processors	Number of points
Has many accessories	
Is made by a well-known manufacturer	
Is easy to clean	
Is stylish	
Is quite easy to operate	
Total	100 points

Table 11.9: An example of a constant sum scale by Wilson (2006).

Types of open ended questions

- **Completely unstructured** - A question that respondents can answer in an almost unlimited number of ways.
- **Word association** - Words are presented, one at a time, and respondents mention the first word that comes to mind.
- **Sentence completion** - An incomplete sentence is presented and respondents complete the sentence.
- **Story completion** - An incomplete story is presented, and respondents are requested to complete it.
- **Picture completion** - A picture of two characters are presented with one making a statement. Respondents are requested to fill in the empty balloon.
- **Thematic apperception tests (TAT)** - A picture is presented and respondents are requested to make up a story about what they think is happening or may happen in the picture.

11.15 Quantitative research

Quantitative research gathers statistically valid, numerically measurable data. Wilson (2003) defines quantitative research as research that is undertaken using a structured research approach with a sample of the population to produce quantifiable insights into behavior, motivations and attitudes.

Characteristics of quantitative research

- Structured data gathering.
- Involves larger samples.
- Responses can be quantified.
- Studies can be replicated and comparisons made.
- Involves statistical analysis.
- Answers the what, where and when questions.
- Also known as positivist research where an attempt is made to predict consumer behavior.
- The findings are descriptive, empirical, and collected randomly.
- The findings can be generalized to larger populations.

Definition : Surveys are defined by the MRS (2003) as a systematic collection, analysis and interpretation of information about some aspect of study.

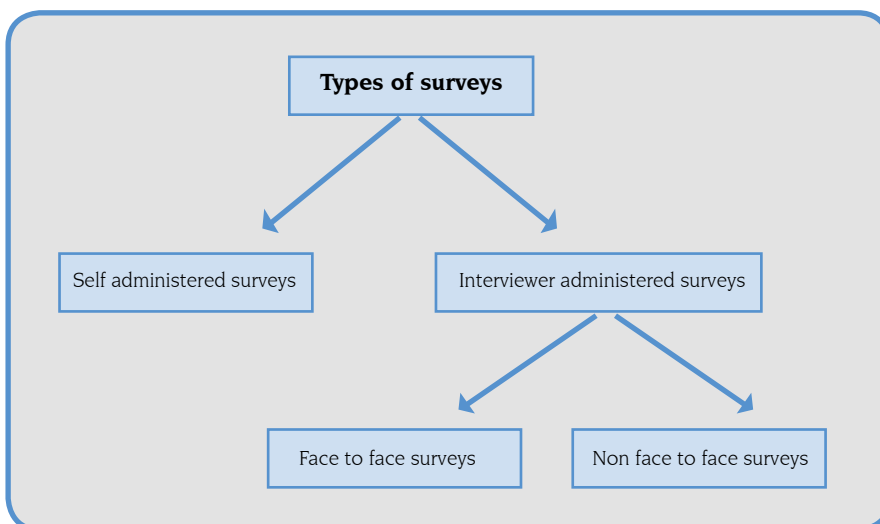


Figure 11.13: Types of surveys.

Types of surveys

1. Interviewer administered surveys.

1.1 Face to face interviewer administered surveys.

1.1.1 **Street interview surveys** - Takes place in a busy town center, with the interviewer approaching individuals as they pass by. They need to be brief and should not require too much concentration from the interviewers. A survey taking place in a shopping center requires the center managers permission, and a fee may be payable.

1.1.2 **In - home or doorstep interview surveys** - These are held at the interviewee's home or doorstep with the interviewer recruiting simply by knocking on doors. The respondent is at ease but generally this method is hard to manage.

1.1.3 **Executive, business interview surveys** - This takes place at the interviewee's business premises and are always pre arranged.

1.1.4 **Computer assisted personal interviewing (CAPI)** - CAPI is defined by the MRS as computer assisted personal interviewing, conducted face to face, usually employing lap top computers or personal digital assistants (PDA's)

1.2 Non face-to-face surveys

1.2.1 **Telephone interviewing** - This is where the questionnaire is conducted as an interview over the phone, and recorded by the interviewer which offers speedy, interactive responses over a wide geographical area. Questions will have to be short and simple since there is an absence of visual support.

1.2.2 **Web based surveys** - Web or e-mail surveys can be administered expeditiously although there may be security concerns. It is cheap and interactive. However, respondents may be skeptical about being targeted with junk mail if they respond to a web based questionnaire.

1.2.3 **Computer assisted telephone interviewing (CATI)** - It is defined by the MRS as computer assisted interviewing, over the telephone. CATI has the following features;

- The questionnaire can be customized and verbal comments can be recorded.
- Any inconsistencies can be immediately highlighted.
- Automated dialing allows efficient management of the interviewer.

2. Self administered surveys

Self-administered surveys are delivered to the respondents who then complete the questionnaire and return it.

- 2.1 **Postal surveys** - The questionnaire is sent out to the respondent to complete and return. This is a cost effective way of reaching a large sample and avoids the bias inherent in personal contact. Whilst it allows the respondent to complete the questionnaire at ease, there is no guarantee that the respondent may fill it by them selves and this can be avoided by providing the respondent an incentive to respond.
- 2.2 **Hand delivered surveys** - Questionnaires can be handed out or left for collection where as flight surveys are surveys that are left in bedrooms or given to diners in restaurants. These can achieve a high response rate and are cheap to administer but generally are hard to control and should be used carefully with the support of other methods.
- 2.3 **Fax surveys** - This method share similar strengths and weaknesses to postal surveys. A few years ago this method was very popular, today they are less so. The development of e-mail and the internet has replaced this technology that was used largely in B2B research.
- 2.4 **e-mail and web surveys** - This is a growing area of research in both B2B and consumer markets. The range of methods using e-mail and the Internet is expanding very quickly. e-mail surveys and web surveys are difficult to separate out as e mail surveys may contain a link through to a website survey or they may include the questionnaire as an attachment to the e mail or within the e mail itself.

The benefits of surveys

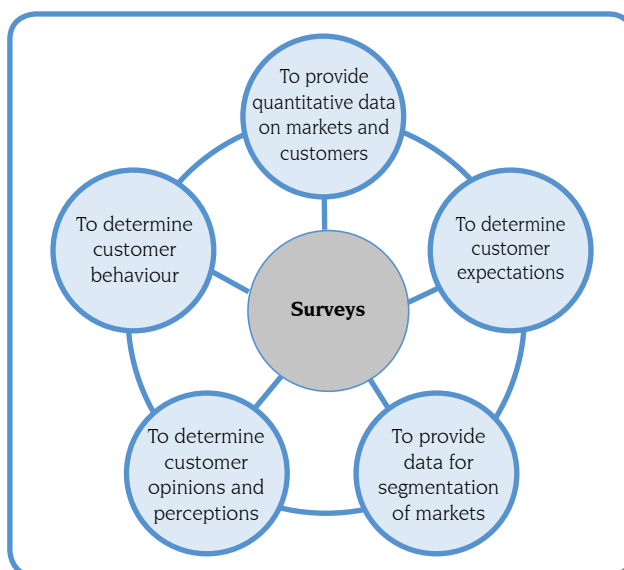


Figure 11.14: Uses of surveys

Omnibus surveys

An omnibus survey is a master questionnaire, which operates at a stated frequency and with a predetermined method, run by market research companies who sell space in the questionnaire to marketing organizations who need data. Because the market research companies undertake the sampling, administration, processing and analysis, and spread the cost over the organizations needing data, it is a cost-effective method of research for all concerned.

11.16 Sampling

A sample is a part of a whole to show what the rest is like. It is one of the most important tools of marketing research because in most practical situations a population will be far too large to carry out a complete survey. The researcher must consider the best sampling method for a given situation as well as the size of the sample that is selected. To determine whom to interview for a research study, the researcher should follow the sampling process in order to obtain the most accurate and representative results. According to Crouch and Housden (2003), a sample is a small number taken from a large group for testing and analysis, on the assumption that the sample is representative of the population as a whole whilst the market research society (2003) defines a sample as a part or subset of a population taken to be representative of the population as a whole for investigative purposes of research.

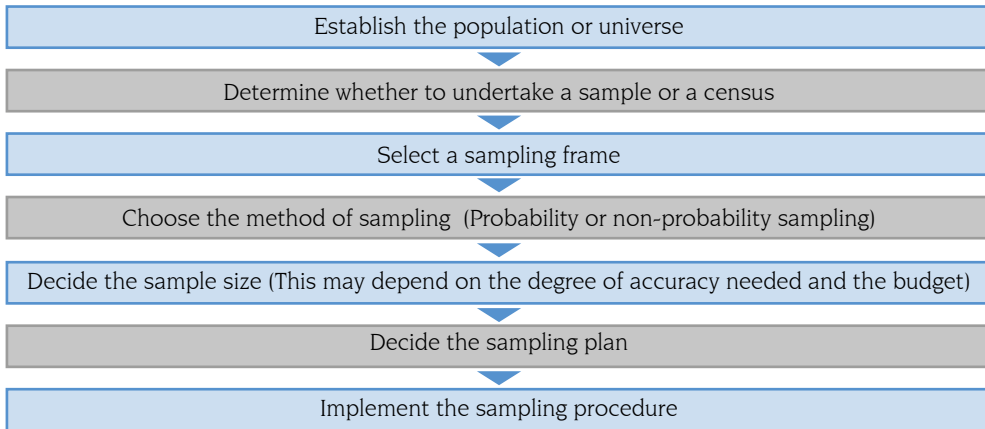
Benefits of sampling

- Saves costs.
- Saves time.
- Provides a high accuracy and precision.
- Provides a high statistical validity.
- Sampling is the best method for some studies given the destructive nature of elements E.g. Tomatoes.

Establishing a represented sample

The sample selected will need to be representative of the overall universe or population. Sample data must be complete or represented and must cover all aspects of the population, which is to be examined. If this requirement is not met then the sample will be misleading or biased. Therefore, careful attention must be given to the sampling method employed to produce the sample. E.g. A population of 500,000 residents can be broken down into 100,000 (20%) white-collar workers and 400,000 (80%) blue collar workers. The researcher may decide to pick a sample of 100,000 households to be researched for which 20,000 white-collar workers and 80,000 blue-collar workers must be representatively selected.

The sampling process



- 1) **Defining the population or universe?** - A population or universe in statistics simply means the set of individuals, items or data from which a statistical sample is undertaken. E.g. You may send a questionnaire to a sample of 100 people who are aged 30 to 40. In this case the population will be included as all people aged 30 to 40.
- 2) **Determine whether to undertake a sample or census** - In some instances the population is small enough for all items to be examined.
- 3) **Define the sampling frame for the chosen population** - The ESOMAR (2003) defines a sampling frame as 'a list of the population of interest that is used to draw the sample in a survey, for example a telephone directory or a list of members of a profession'. It is simply a numbered list of all the items in the population from which who is to take part in the survey is decided.
- 4) **Choose the method of sampling** - Sampling can be broadly classified into two types as stated below;
 - **Probability sampling (Random sampling)** - Is when the choice of selecting a respondent is truly random and every member of the population has a known, equal chance of being selected to the sample. This method is scientific, time consuming and therefore a higher investment may be required.
 - **Non-probability sampling (Non random sampling)** - Is when the choice of the respondent is not truly random and every member of the population does not have an equal chance of being selected to the sample. This involves low risk and investment as well as a shorter time compared to probability sampling.

Types of probability sampling

Probability sampling	Non probability sampling
Simple random sampling	Convenience sampling
Systematic sampling	Judgment sampling
Stratified random sampling	Quota sampling
Cluster sampling	Snow ball sampling
Multistage sampling	

- Simple random sampling** - A simple random sample is a sample selected in such a way that every item in the population has a known, equal chance of being selected. This requires the use of a table of random numbers and is the simplest method of probability sampling. E.g. Select a sample of 20 vehicles out of a fleet of 80 vehicles (Population). The process involves numbering all the items in the population from 01 - 80. Enter the table of random numbers at an arbitrary point and select numbers from left to right. Omit the previously selected numbers and numbers above the population.
- Systematic random sampling** - It works by selecting every n^{th} item after a random start. For example if it was decided to select a sample of 20 from a population of 800, then every 40th ($800 / 20$) item after a random start in the first 40 should be selected. The starting point could be found using the table of random numbers. If the 23rd item was chosen, then the sample would include the 23rd, 63rd, 103rd, 143rd, 183rd items. The gap of 40 is known as the sampling interval or skip interval.
- Stratified sampling** - In many situations stratified sampling is the best method of choosing a sample and it is used to ensure the sample size is representative of the larger population. The population must be divided into mutually exclusive groups or meaningful strata (Sub groups), and categories based on demographic characteristics such as age, gender, income, SEC, religion etc. Each stratum must be substantial and homogenous and a simple random sample is selected from each stratum to ensure that certain subgroups are adequately represented. Stratification requires the prior knowledge of each item in the population and this method has less sampling error and may increase precision. E.g. A sample of 10 must be selected from a class of 100 students (Population). The class can be stratified into 20 Muslims (Strata A) and 80 Christians (Strata B).

$$N = \text{Population size} \quad n = \text{Sample size}$$

$$\frac{n}{N} = \frac{10}{100} = 0.1 \text{ (Sampling fraction)}$$

Strata A must have $20 \times 0.1 = 2$ elements selected from the population using SRS

Strata B must have $80 \times 0.1 = 8$ elements selected from the population using SRS

- **Cluster sampling** - Cluster sampling is described by Wilson (2003) as a procedure in which clusters of population units are selected at random and then all or some of the units in the chosen clusters are studied. For example the population is divided into clusters of geographical boundaries (Provinces, districts, towns and blocks) and then simple random sampling will take place within the chosen geographic clusters. This is done when the population is too large to manage. Another example is to divide the students in to 3 clusters. Front rows, middle rows and the rows at the back. Conduct simple random sampling within the clusters. This method is prone to sampling error and the objective is to save time and money. Wilson (2003) identifies three approaches to cluster sampling.

Stage 1 - Clusters are selected randomly and data is gathered from all people in the clusters.

Stage 2 - Clusters are selected randomly and data is gathered for a random sample of people in the selected clusters.

Stage 3 - Area sampling - This is where geographical clusters are created and a random sample of individuals will be selected. This is much like the process in the second stage, however when it is concerned with a geographic boundary.

- **Multistage sampling** - Simple methods discussed above combined in a variety of ways in different stages and is normally used to cut down the number of investigators and the costs of obtaining a sample. E.g. Select a national sample 100 school children in Sri Lanka out of a population of 3,500,000 students.

Stage 1 - Cluster sample district schools and select 10,000 using simple random sampling.

Stages 2 - Within the 10,000 conduct a gender-stratified sample of 1000 males and 1000 females.

State 3 - Within the 2000 select 100 using simple random sampling.

Non-probability sampling

- **Convenient sampling** - The primary reason for conducting convenient sampling is for the 'convenience of the researcher'. This type is common in exploratory research and does not lead to any scientific conclusion. However, it is quick and inexpensive. Commonly used convenience samples are associates, friends, family members etc. Such samples are used in the pretest phase of study, such as pre-testing a questionnaire. E.g. If you want to find out about the most selling cordial, you walk into a convenient sample of supermarkets nearby and ask the manager about sales figures and take it as an answer.
- **Judgment sampling** - This is sampling based on an investigator's judgment, gut feeling or experience of the researcher. This is ideal for industrial product research. The degree of selection error present in a judgment sample depends upon the degree of expertise of the person making the selection. E.g. Samples of addresses taken by a municipal council to which questionnaires on bicycle riding habits were sent.

- **Quota sampling** - It is defined by ESOMAR (2007) as a type of non-probability sample where the required numbers of units with particular characteristics are specified. This is based on the idea that if known characteristics of the population are reproduced in the same proportion in the sample, it is representative of that population. E.g. Age, sex and social class can be used to select quotas. In quota sampling, randomness is forfeited for costs and administrative simplicity. Investigators are told to interview all the people they meet up to a certain quota. A large degree of bias could be introduced accidentally. The researcher starts the process with the preparation of a quota sheet. E.g. A researcher may be required to interview an equal split of men and women and a certain number of men of a certain age. The researcher selects respondents that comply with the quota laid down.

Quota Category	Required	Achieved
Male	100	
16-34	40	
35-54	40	
55+	20	
Socio economic category		
ABC1	40	
C2	35	
DE	25	

Table 11.10: Sample quota sheet.

- **Snowball sampling** - This technique is used in studies involving respondents who are rare to find. To start with, the researcher compiles a short list of sample units from various sources. Each of these respondents are contacted to provide names (Referrals) of other probable respondents.

The size of the sample

A researcher may rely on his experience from other studies to spell out the size of a sample. Several statistical measures are available to calculate the confidence level of the sample selected by calculating the standard error. If the confidence level is high and the level of error is acceptable then the sample will be undertaken.

Although a 10% sample may be a norm, sampling size is not necessarily decided in relation to the size of the population under observation. Generally the increase in sample size is proportionate to the increase in cost. There are a number of statistical methods that can be employed to determine a sample size.

Factors to consider when determining the sample size

- Degree of accuracy.
- Selecting a represented sample.
- Non response.
- The size of the population.
- Accessibility to the population.
- Research methodology.
- Cost considerations.
- Sub groups.
- Degree of precision required.
- Time scales.

Managing non response

It is becoming increasingly difficult to attract respondents to participate in marketing research and the response rates continue to fall.

Reasons for non-response	Managing non responses
Irrelevant subject matter	Careful selection of respondents
Units outside the population	Make it user friendly
Refusals	Training interviewers
Unsuitable (Language or mental illness)	Have a buffer sample
Out at time of call	Motivating respondents
Length of the interview or survey	Validate the population
Rise in crime (No response at the door)	Call at convenient times
No incentive	Get appointments fixed
Confusing questions	Pilot test
Sugging - Disguised tele-marketers	Build reputation

Table 11.11: Managing non response

Sampling and non-sampling error - When designing a research study, the researcher must consider potential errors and two sources of errors can be identified in sampling.

- **Sampling error** - The sample mean should match the population mean for the research to be 100% accurate and posses a represented sample of the population. A represented sample would not be achieved in all occasions and this variance is known as sampling error.
- **Non-sampling error** - These are those caused by untruthful responses, respondent bias ness, inappropriate questionnaires, data analysis errors or interviewer errors etc.

11.17 Triangulation

The concept of triangulation was originally used to establish a ship's position to measure a vessel's distance from more than one point on the shore in order to provide a more accurate reading of its location. Triangulation was first applied to research by Campbell and Fiske (1959) and developed by Webb (1966), who argued that researchers should employ more than one instrument to measure

variables. As this implies, triangulation was first associated with quantitative research but its relevance to qualitative methods was soon explored. Denzin (1970, 1978) was a major proponent of the use of triangulation by researchers working within the interpretivist paradigm. Denzin (1970) asks the reader to think of two researchers studying a psychiatric hospital. Each chooses different methods. One opts for a survey while the other uses participant observation. This leads to differences in the questions they ask and the observations they make. In addition, the findings are coloured by the researchers different personalities, biographies and biases, all of which influence the nature of their interactions with the social world. Each uncovers different aspects of what takes place in the hospital but neither can reveal all of it. Therefore, Denzin concludes, to get as full and as accurate a picture, researchers must use more than one strategy.

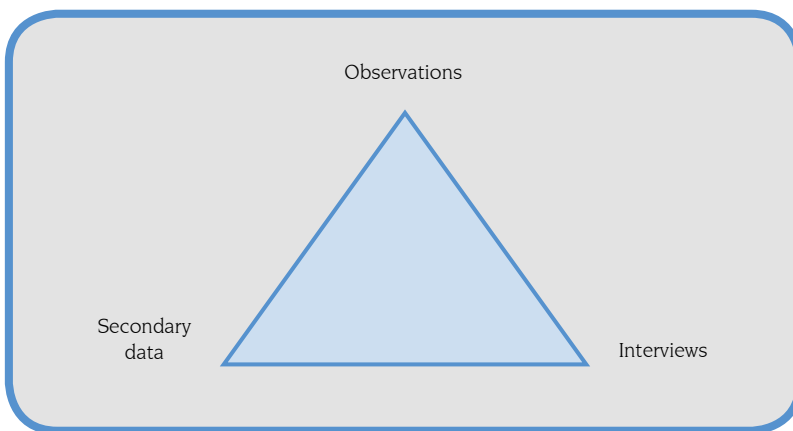


Figure 11.15: Triangulation.

Methods of triangulation

- **Data triangulation** - Which entails gathering data through several sampling strategies, so that slices of data at different times and social situations, as well as on a variety of people, are gathered.
- **Investigator triangulation** - Which refers to the use of more than one researcher in the field to gather and interpret data.
- **Theoretical triangulation** - Which refers to the use of more than one theoretical position in interpreting data.
- **Methodological triangulation** - Which refers to the use of more than one method for gathering data.

11.18 Analyzing qualitative data

The data collected from focus groups, depth interviews or projective techniques will be in the form of transcripts, tapes or interview notes etc. The techniques are as follows;

Tabulation	A table is created with columns for the different kinds of respondents and rows for the questions so that qualitative feedback will be in one standard format.
The cut and paste method	If the responses were recorded on a word processing package or a spreadsheet then the data can be simply shifted by the computer function 'cut and paste' from the original transcript, thereby preserving accuracy.
Spider diagrams or mind maps	The research issue is placed at the center of a sheet of paper and the key themes that emerge, relevant quotes and comments from the transcript responses are placed around it.
Annotation	This is when the researcher categorizes the items in a transcript by adding marginal comments, or perhaps using different coloured high lighter pens.
Computerized analysis	Some software applications can count the number of times a particular word or phrase appears and recognizes patterns and related concepts.

Table 11.12: Analyzing qualitative data.

11.19 Preparing quantitative data for statistical analysis

Before the computer can analyze quantitative data statistically it needs to be entered into the computer in some way if it was not collected in a digital form.

There are number of stages in the process of analyzing quantitative data

- i. **Data preparation** - Editing and coding data.
- ii. **Data entry** - The questionnaires must be checked for any errors or omissions.
- iii. **Data cleansing** - Cleaning data and removing anything that may distort the accuracy of results.
- iv. **Data processing** - Using SPSS or SNAP software for tabulation and analysis. There are three types of data that can be analyzed.
 - a) **Nominal data** - These refer to values that are given to objects that in themselves have no intrinsic numerical value. E.g. We assigned a value to gender. 1 for men and 2 for women. Applications - Count, create percentages, mode calculations etc.
 - b) **Ordinal data** - These data represent rank order data. They do not imply that there is an equal gap between items ranked and there is no other meaning to them other than rank order. E.g. Rank the following banks from 1- 5 in the order of their reputation for service where 1 is the bank which offers the best service and 5 is the bank that offers the worst service. Applications: Mode, median analysis

HNB Bank	2
NDB Bank	4
NTB Bank	1
Commercial Bank	3
Peoples Bank	5

- c) **Interval data** - This is rank order data in which the intervals between the data are equal. These are also known as interval scales. Interval scales rank elements relative to each other but not from any observable origin. This means that the data has its meaning only by virtue of the comparison between elements selected. E.g. Rank the following banks from 1- 5 in order of their reputation for service where 1 is the bank which offers the best service and 5 is the bank that offers the worst service. Applications: Averages, standard deviations

HNB Bank	1	2	3	4	5
NDB Bank	1	2	3	4	5
NTB Bank	1	2	3	4	5
Commercial Bank	1	2	3	4	5
Peoples Bank	1	2	3	4	5

- v. **Statistical analysis** - Correlation analysis, regression analysis, standard deviation and trends analysis.
- vi. **Presentation** - The analyzed data will then be presented in tables, charts and graphs.

Basic statistics for quantitative data analysis

i. Averages are broken down into three types.

- a) **Mean** - The mean (Or arithmetic mean to be more precise) can be defined as the value each item in the distribution would have if all the values were shared out equally among the items. In everyday life we use the word 'average' to denote the mean.
- b) **The median** - The median is the middle value of a set of numbers arranged in order of magnitude.
- c) **The mode** - The mode is the value in a given series, which arises more frequently than any other. Therefore to locate the mode we simply look for the most common values present in a set of data.

- ii. **Dispersion** - This is the variation of the spread or the scatter of distribution for which the most important measure is the standard deviation and the variance.

- iii. **The normal distribution** - It is a perfectly symmetrical bell shaped curve and the 'tails' of the distribution continually approach, but never touch, the horizontal axis. The mean, mode and the median pass through the peak of the curve and precisely bisect the area under the curve into two equal halves. An important feature of the normal distribution curve is the relationship of the area under the curve and the standard deviation of the distribution. This is a bell shaped, symmetrical curve therefore 50% of the values are greater than the mean value, and 50% less than the mean value. For any normal distribution, the dispersion of values around the mean can be measured in terms of the standard deviation.

Standard values calculated for the area under the normal distribution curve

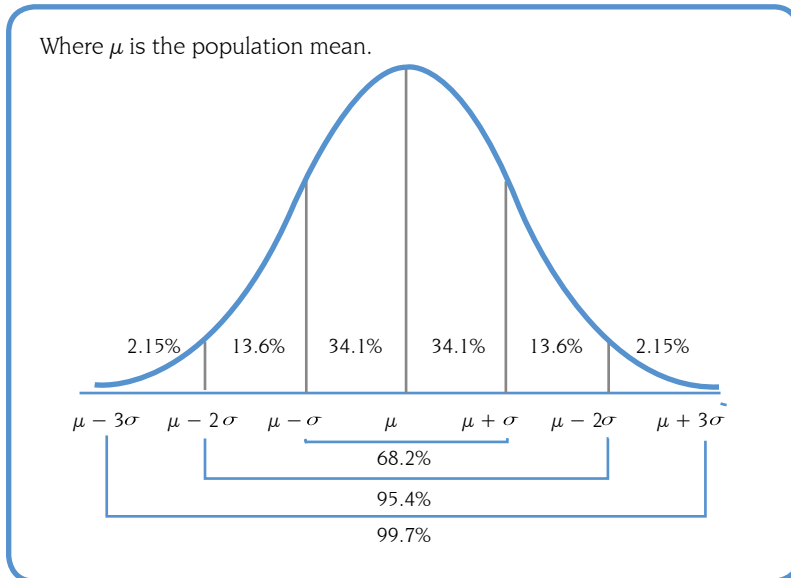


Figure 11.16: Standard values calculated for the area under the normal distribution curve.

Following are the most frequent values that occur under the normal curve:

- Mean + 1σ include 68.26% of the area
- Mean + 2σ include 95.44% of the area
- Mean + 3σ include 99.74% of the area

According to the probability table:

95% confidence level will offer a standard deviation of 1.96 and an error of 5%

99% confidence level will offer a standard deviation of 2.58 and an error of 1%

99.8% confidence level will offer a standard deviation of 3.09 and an error of 0.2%

iv. The concept of hypothesis testing - Hypothesis testing also known as significance testing is a testable claim; belief or opinion, which is statistically proved. It is an idea that is based on assumed facts and is used for reasoning or further investigation.

v. Correlation analysis - This is a technique to gauge the strength of association and relationship between two variables. E.g. Income and the number of foreign holidays. One way of showing the correlation between two related variables is on a scatter graph or a scatter diagram plotting pairs of data on the graph. The two variables can be one of the following:

- **Perfectly correlation or high correlation** - Perfect correlation occurs when a change in one variable is exactly matched by a change in the other variable. If both increase together it

is perfect positive correlation. If one decreases as the other increases, it is perfect negative correlation. All the pairs of values lie on a straight line and an exact linear (Line of best fit) relationship exists between the variables.

- **Partially correlated or low correlation** - Here there is no exact linear relationship between the two variables. This is also positive and negative where low values of X tend to be associated with low values of Y, and high values of X tend to be associated with high values of Y for partial positive correlation. Low values of x tend to be associated with high values of Y and low values of Y tend to be associated with high values of X is partial negative correlation.

- **Uncorrelated or zero correlation** - This is when the variables are unmatched and there is no relationship identified.

vi. Correlation coefficient - This is a statistical measure to calculate the degree of the relationship between two variables using an equation, which is given below;

- If the result is close to -1 then there is a perfect negative correlation between the variables.
- If the result is close to 0 then the variables are uncorrelated
- If the result is close to +1 then there is a perfect positive correlation between the variables.

vii. Regression analysis - If correlation analysis indicates which variables have a relevant association with say, sales volumes, simple regression analysis can be used to predict sales volume, given a set of decisions about marketing variables and assumptions about probable movements in external variables. Therefore the understanding of correlation is required before you conduct regression analysis. Multiple regression is when there is more than one independent variable being investigated.

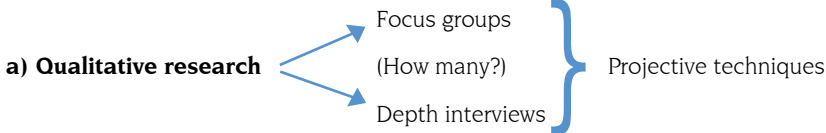
Research methodology at a glance

i) **Research design** - Exploratory, casual, descriptive

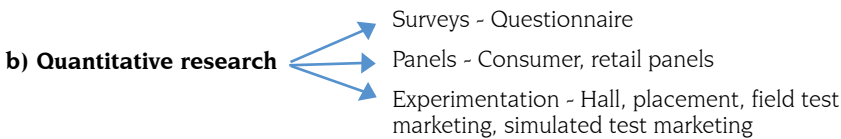
ii) **Desk research** (Secondary data)

- Types of secondary data - Internal, external
- Factors to consider when using secondary data

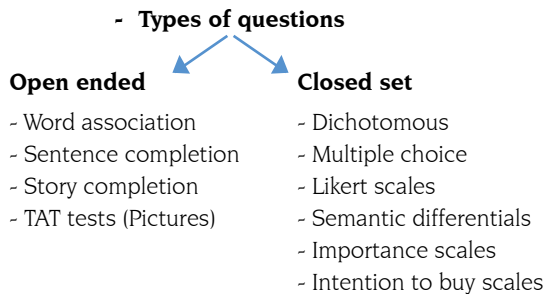
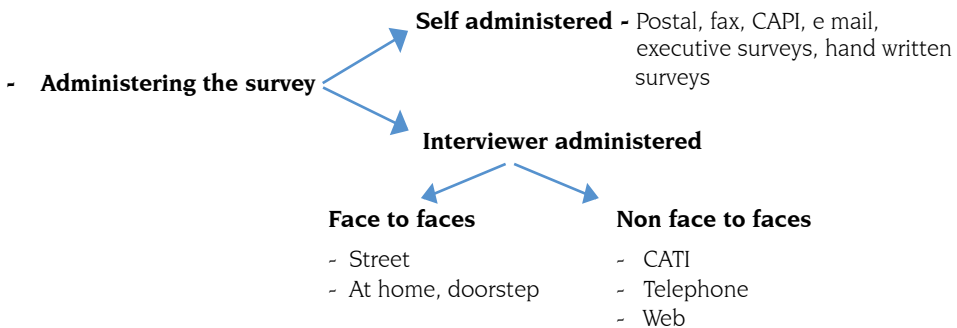
iii) **Primary research**



- Types of qualitative data analysis
- Qualitative data sampling
- Types of questions for qualitative research



- Sample size and method
- Quantitative data analysis - Regression analysis, co-relation, hypotheses tests, trend Analysis



iv) **Observation research**

- Audit and scanner based
- Media measurement
- Ethnography
- Mechanical
- Mystery shopping
- On line observation



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CHAPTER 12

Buyer Behaviour

- 12.1 Theories of consumer behaviour
- 12.2 The tri-component model of attitude
- 12.3 Attitude towards the object and behaviour theory
- 12.4 The theory of reasoned action model
- 12.5 The involvement theory
- 12.6 The black box model of buyer behaviour
- 12.7 The FCB Grid
- 12.8 The Howard-Sheath model of consumer behaviour
- 12.9 The consumer decision-making unit
- 12.10 The consumer decision making process
- 12.11 What influences consumer buying behavior?
- 12.12 Theories of attitude formation
- 12.13 The organizational decision making unit
- 12.14 Motivational theories

12

Buyer Behaviour

"Catch a man a fish, and you can sell it to him. Teach a man to fish, and you ruin a wonderful business opportunity." - Karl Marx

Marketers delve into the subject of 'Buyer behavior', in order to examine the buyers mind and understand how consumers choose one product or brand over another. A buyers mind and thinking patterns can be categorized into the conscious mind, that is what we already know and are conscious about and the unconscious mind which is a powerful force that plays a dominant role in determining human behavior.

Why study buyer behavior?

- The buyer's perceptions, judgement, choices and decisions will have a major impact on the survival and success of the organisation.
- It helps examine the main influences on what, where, why, when and how customers buy.
- By understanding the motives behind purchase, marketers will be able to plan effective marketing communications.
- The marketer can influence the stages in the consumer decision making process and expedite purchase.
- The marketer could reduce post purchase dissonance by providing reinforcing information.
- A marketer can direct various elements of communication at each stage of the purchasing process.
- To identify inhibitions which are factors such as the individual's income or any other factor, which may prevent purchase.

Definition : Consumer buyer behavior refers to the buying behavior of final consumers, those individuals and households who buy goods and services for personal consumption. Organisational buyer behavior refers to the buying behavior of organisations, whom of which buy goods and services to be used in the production of other products and services that are sold, rented or supplied to others.

The consumer buying process is a complex matter as many internal and external factors have an impact on the buying decisions of consumers. Companies need to think beyond buying behaviour and analyze the actual buying process. They must try hard to understand consumer experiences and expectations at every stage of the buying process.

Types of behaviours in making the decision to buy

- **Complex buying behavior** - This occurs when consumers are highly involved in a purchase and perceive significant differences among brands. Consumers may be highly involved when the product is expensive, risky, purchased infrequently, and highly self-expressive.
- **Dissonance-reducing buying behavior** - This is when consumers are highly involved with expensive, infrequent, risky purchases and see little differences among brands. After these purchases, it is common to experience post purchase dissonance when they notice certain disadvantages of the purchase or hear favorable things about brands not purchased. Counter dissonance occurs with after-sale communications to support claims and make consumers feel better about purchases.
- **Habitual buying behavior** - This occurs under conditions of low consumer involvement and little significant brand difference. In these cases, consumer behavior does not pass through the usual belief-attitude- behavior sequence. The consumer is on 'auto pilot' mode and this may result in impulsive buying.
- **Variety seeking buying behavior** - Consumers undertake variety-seeking buying behavior in situations characterized by low consumer involvement, but significant perceived brand differences. In such cases, consumers would do more than usual brand switching.

12.1 Theories of consumer behaviour

- The tri component model of attitude.
- The involvement theory.
- The attitude towards the object and behaviour theory.
- The FCB Grid.
- The theory of reasoned action model.
- Howard-Sheath model.
- The decision making unit.
- The decision making process.

12.2 The tri-component model of attitude

According to the tri-component model, attitude consists of three components: namely a cognitive, effective and a conative component.

- **The cognitive component (Think)** - This consists of the knowledge, awareness, belief, image and values, which form consumer perceptions.
- **The affective component (Feel)** - This depicts consumer emotions, pleasures, feelings (Positive, negative or mixed), which form consumer attitudes. Research indicates that emotional states such

as happiness, sadness, shame, disgust, anger, distress, guilt or surprise may enhance positive or negative experiences and that later recollections of such experiences may influence what comes to mind and how the individual acts.

- **The conative component (Do)** - Action relates to the decisions, which enables the consumer to make the decision to purchase and a strong intention to buy.

12.3 Attitude towards the object and behaviour theory

- **The attitude towards the object model** - The attitude toward object model is suitable for measuring attitudes towards a product or service category or specific brands. This model explains that the consumers attitude towards a product or a specific brand is a function of the presence or absence of certain product-specific beliefs or attributes. In other words, consumers generally have favorable attitudes towards those brands that they believe have an adequate level of attributes that they evaluate as positive, and they have unfavorable attitudes towards those brands they feel that do not have an adequate level of desired attributes or have too many negative or undesirable attributes.
- **The attitude toward behavior model** - This model is the individual's attitude toward the way an object is associated with certain behaviors or characteristics. The crux of the attitude towards behavior model is that it seems to correspond somewhat more closely to actual purchase behavior than the attitude toward object model. Hence, while you might say that you like BMWs, you might also feel that you are not ready to buy or drive one because you believe that you are too young (or maybe too old) to do so.

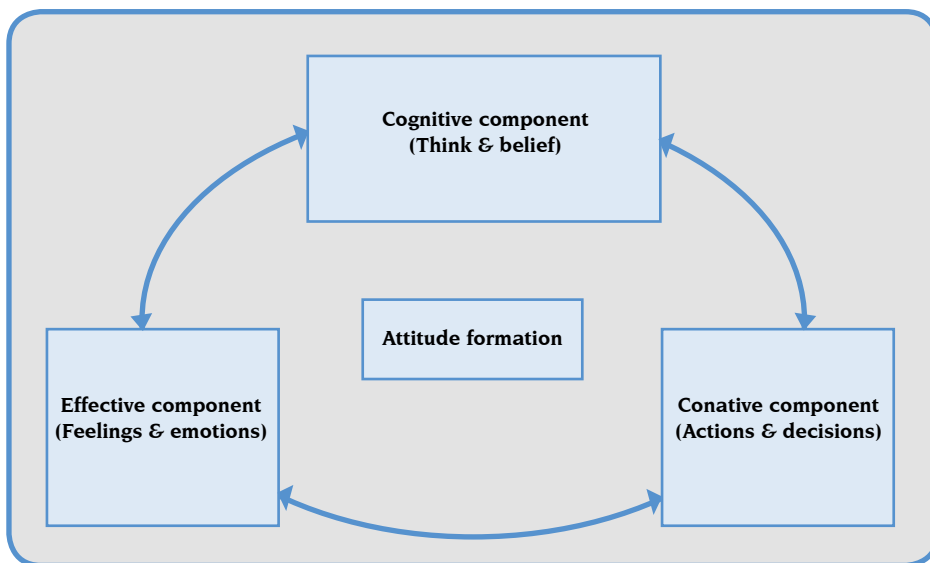


Figure 12.1: The tri-component model of attitude

12.4 The theory of reasoned action model

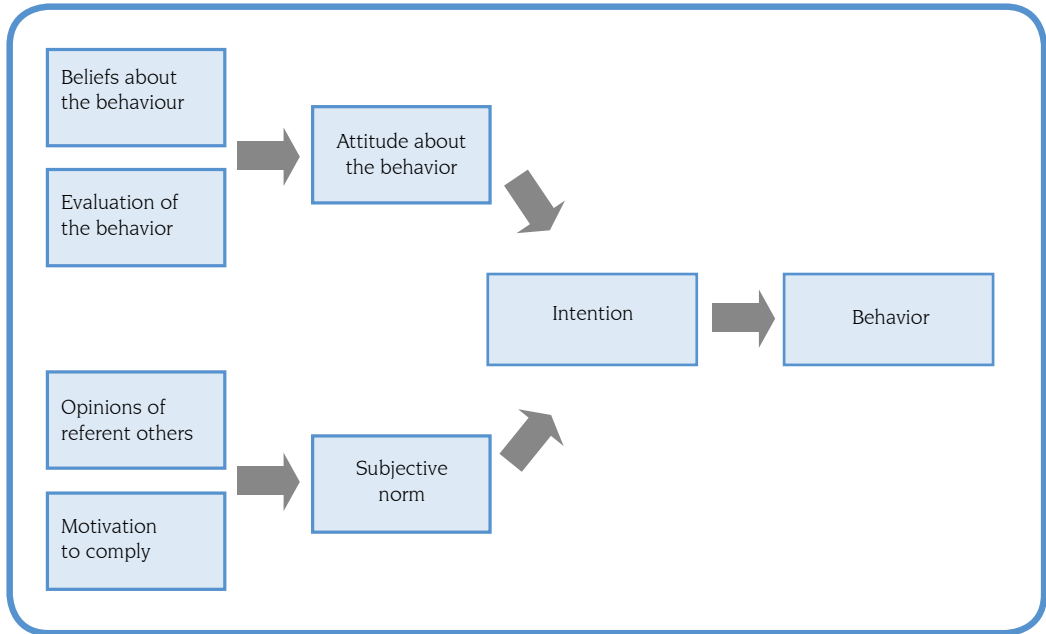


Figure 12.2: The theory of reasoned action model.

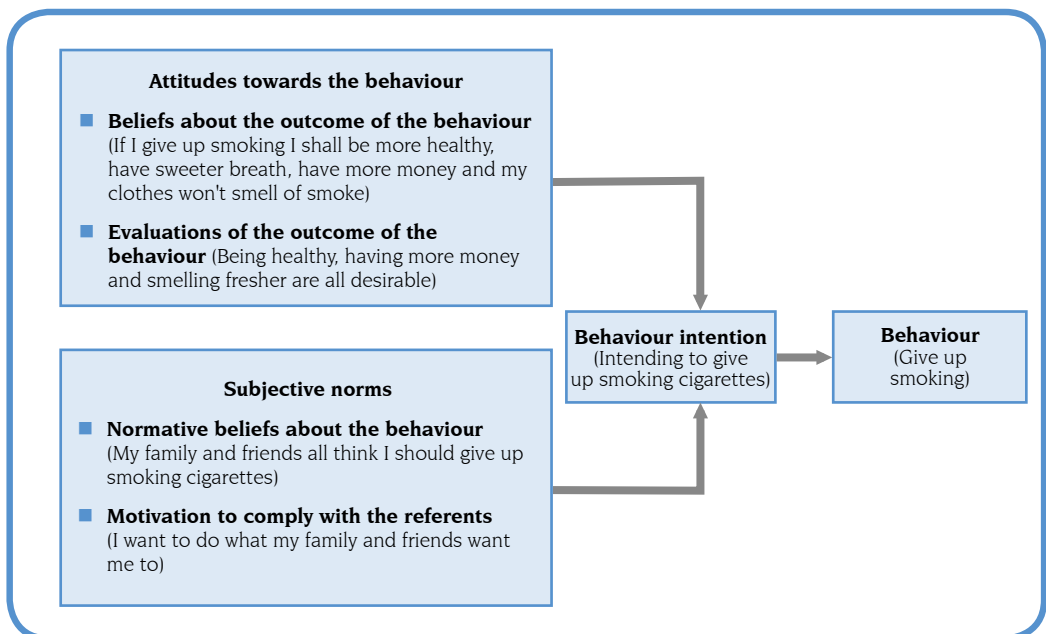


Figure 12.3: An example of the theory of reasoned action model.

The theory explains that a person's attitudes towards a particular behavior consists of a belief that that particular behavior leads to a certain outcome and an evaluation of the outcome of that behavior. If the outcome seems beneficial to the individual, he or she may then intend to or actually participate in a particular behavior. Also included in one's attitude toward a behavior is their concept of the subjective norm. The subjective norm is a person's perception of what others around them believe that the individual should do. In its purest essence, subjective norm is a type of peer pressure. Whether or not a person participates or intends to participate in any behavior is influenced strongly by the people around them. These people may include friends or a peer group, family, co-workers, community leaders and even celebrities.

People may also be inclined (Or not inclined) to participate in a behavior based upon their desire to comply with others. Laws or rules prohibiting a behavior may have an impact on one's attitude toward participating in a behavior. Ultimately, one's attitude toward a behavior can lead to an intention to act (Or not to act). This intention may or may not lead to a particular behavior.

12.5 The involvement theory

- **High involvement purchases** - Are those that are very important to the consumer and ranked high in terms of perceived risk. Consumers with high involvement purchases find fewer brands acceptable.
- **Low involvement purchases** - Are purchases that are not very important to the consumer and ranked low in terms of perceived risk. Consumers with low involvement purchases are likely to be receptive to a greater number of advertising messages.

Definition : Perceived risk is the uncertainty that consumers face when they cannot foresee the outcomes of their purchase decisions. The perception risk varies, depending on the customer, the product or brand, the culture and the situation of purchase.

Types of perceived risk

- **Functional risk** - This is when the product is not performing as expected.
- **Financial risk** - This occurs when you have paid a higher price than necessary.
- **Time risk** - This takes into account any time being wasted in the purchase.
- **Social risk** - The risk of social acceptance.
- **Psychological risk** - This is the pain of mind and cognitive dissonance caused.

12.6 The black box model of buyer behaviour

This model is concerned with how people respond to stimuli and as a result the model is often referred to as stimulus response model. The model does not attempt to explain the complexities of the consumers thought processes and the mind of the consumer is linked to a 'Black box'. The decision to purchase is triggered by a set of inputs such as the product, price, place and promotion, which are controlled by marketers and uncontrollable inputs, which are the forces in the MACRO and MICRO environment.

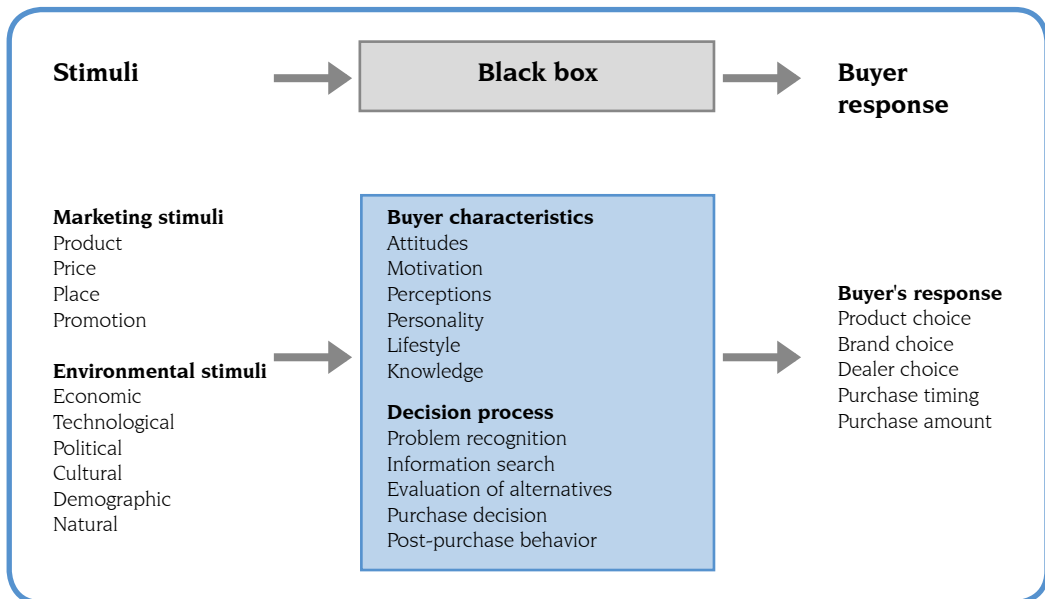


Figure 12.4: The black box model of buyer behaviour.

12.7 The FCB Grid

	Thinking (Rational)	Feeling (Emotional)
High involvement	<p>Expensive, Commitment products E.g. Cars, furnishers, etc.</p> <p>Informative appeals: Heavy copy, provide detailed information on the product, use two sided arguments and present the strongest argument last.</p>	<p>Appearance (affective) products E.g. Jewelry, cosmetics, fashion goods.</p> <p>Psychological appeals: Heavy imagery, little copy and vicarious emotional experiences.</p>
Low involvement	<p>Habitual products E.g. Food, household cleaning items, etc.</p> <p>Responsive appeals: Use one-sided arguments, present the strongest argument first, provide a conclusion for the consumer and use reminders to keep product at the top of mind.</p>	<p>Impulse, self-satisfaction products E.g. Cigarettes, liquor, candy, etc.</p> <p>Social appeals: Glitter, lights and everything showy, use attention-grabbing designs and arrangements.</p>

Table 12.1: The FCB Grid by Vaughn (1980).

The FCB Grid by Vaughn (1980) uses the level of involvement and the 'think and feel' dimensions to classify product categories. This classification suggests that some purchase decisions involve rational thinking whilst some others are involved with a feeling. In addition, different situations exist, resulting in the decision-making processes, which require either, more or less involvement. The quadrants summarize four substantially major goals for advertising strategy, which is to be informative, affective, habit forming or promote self-satisfaction. In response to questions about just how customers make purchase decisions, FCB produced this model based on three stages: Experience, affect and cognition. The FCB planning grid shows four types of decision-making. Each type requires a different advertising approach. 'Involvement' in this context is associated with the level of risk or the concern associated with the intended purchase and how that might affect the buyer's behavior.

Characteristics associated with high involvement

- When consumers perceive a high level of risk (Monetary or other) in an intended purchase, they are highly involved.
- They may have developed an attitude to the purchase before committing to it, or before trying it out or experimenting with it.
- A prolonged search for information results in product awareness, followed by the formulation of an attitude.

Characteristics associated with low involvements

- People perceive a low level of risk in the intended purchase.
- They seek little or no information (How many look at the ingredients on a can of Beans, for example?).
- They often try something before forming an attitude about it.

By combining the elements of thinking and feeling with the level of involvement, four advertising planning strategies emerge: Informative, Affective, Habitual, and Self-satisfied. Being able to plot where particular brands or products sit on this grid can yield significant insights on which to build communications campaigns that give customers the information and reassurance they need to guide them through the purchase-decision-making process.

The Learn - Feel - Do approach

Vaughn went on to develop the Learn - Feel - Do approach, which recognizes that customers can enter the purchase process at either the cognitive or affective stage depending on the product they are thinking about buying. Vaughn argued that the sequence is really a continuum or a circular process, and that the communications strategy should be targeted at the point that consumers enter the cycle.

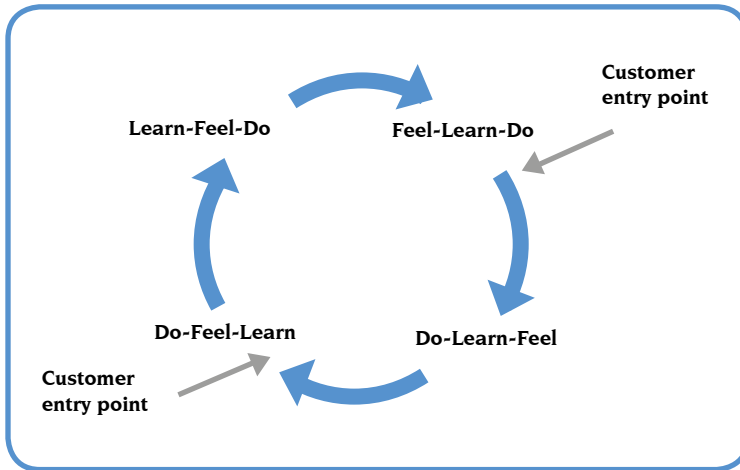


Figure 12.5: The Lean -Feel-Do cycle by Vaughn (1986).

12.8 The Howard-Sheath model of consumer behaviour

Howard-Sheath (1969) explained that customers are subject to a wide range of influences, including their own needs and attitudes. Emotional and rational influences intertwine and lead to purchase outcomes, which can seem illogical even to the buyer. Buyer behavior models help understand the buying process and select a marketing strategy, which is most applicable to the specific situation.

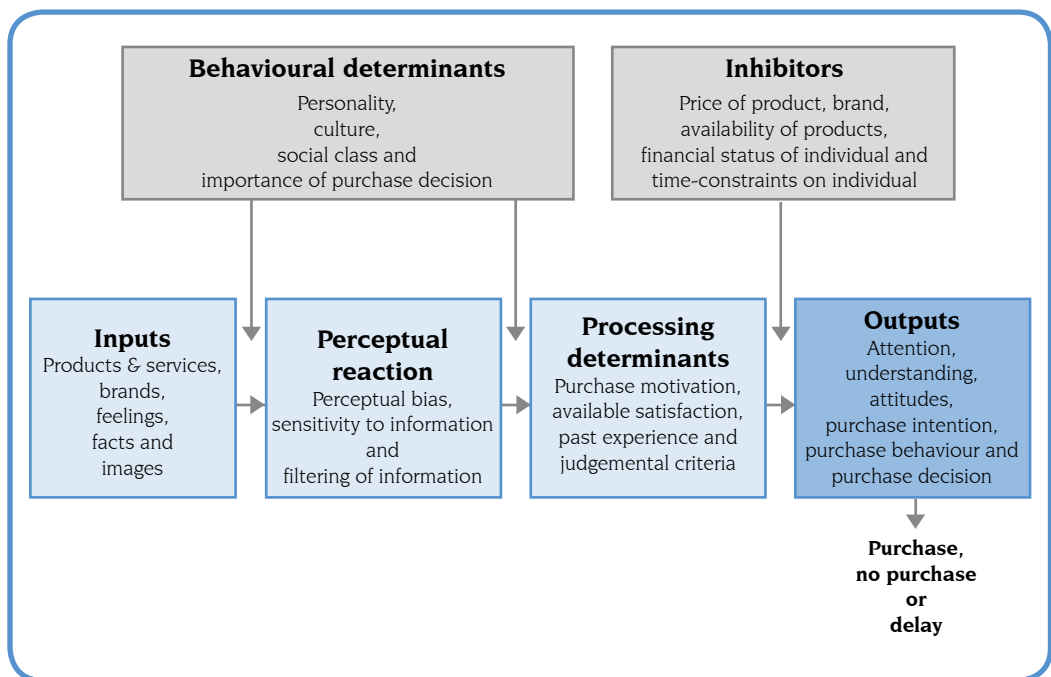


Figure 12.6: The Howard-Sheath model of consumer behaviour (1969).

Elements in the Howard Sheth model

- **Inputs** - Information inputs about the alternative services available include both rational and emotional elements.
- **Behavioural determinants** - These elements include the existing predispositions of the user, which have been influenced by culture, the socio-economic group, family and personality factors, amongst others. This element will have a larger role for significant purchase decisions.
- **Perceptual reaction** - Information from inputs are not accepted at face value and interpreted. For example, an individual is likely to value information more highly if it has been actively sought than if it has been passively received.
- **Processing determinants** - These are the factors that affect how the information gathered is evaluated.
- **Inhibitors** - There are external constraints on actual or potential purchase behaviour.
- **Outputs** - The outcome of the complex process of interacting elements may be a purchase decision, a decision not to buy or a decision to delay buying.

12.9 The consumer decision-making unit (DMU)

Purchase decisions often involve more than one person. Many organisations have purchasing or other decision-making units. The decision-making unit is a group of people who participate in or influence the purchase decision at any stage in the buying process and are referred to as a 'buying centre'.

Roles in a DMU

- **Gatekeepers** - Control the flow of information of the product or service. - E.g. Secretaries, security, switchboard operator, receptionists and front line staff.
- **Indicator or initiator** - Draws attention to the product or suggests the idea of buying it. Maybe triggered by information bringing the need of purchase to the fore.
- **Influencer** - Stimulates, informs or persuades at any stage of the buying process. Examples include children who urge their parents to buy, friends who recommend the product or the expert in a TV commercial.
- **Decider** - Makes the decision that the product should be bought.
- **Buyer** - Implements the purchase decision by ordering or purchasing the product or service.
- **Financier** - Sets the budget and authorizes or provides the funds for the purchase.
- **User** - Uses, consumes or benefits from the product or service.

Example - A father (Gatekeeper) browses the food section of the newspaper and recommends that there is a new brand of cereal in the market. The mother (Initiator) approves of its nutritional content and the younger child (Influencer) begs for the promotional toy that comes with it. The mother (Decider)

decides to try the cereal and determines that it is within the weekly budget (Financier) and purchases the cereal (Buyer). The children (Users) eat the cereal. As indicated in the example an individual may exercise one or more of these roles in a given purchasing process. The decider, buyer, financier, user for example may be the same person in a B2C context. However, in a B2B context each member may possess clearly defined roles.

Learnings from the DMU

Although the buyer may appear to be the 'customer' at the point of sale, the entire decision making unit can be identified as the target audience for the marketing messages. The marketer needs to understand the complexity of the DMU E.g. Whether a woman or the man in a household is the buyer or decision maker, whether a young or older person is the user, which gender or age group consumes which of the promotional ideas. This will determine how you will select the necessary media to communicate with them. The communication mix should aim to influence the purchase decision by reaching the most influential role with the least expenditure.

Application of the DMU

- Gatekeepers** - Identify the most effective information media to reach them in order to get their attention.
- Initiators** - Target them with messages that arouse their interest.
- Influences** - Target them with persuasive communication to arouse or reinforce desire.
- Deciders** - Educate them on the benefit of acting quickly and arouse their interests. Communicate the benefits of the product and how it meets your needs and wants.
- Buyers** - Target them with messages that will prompt action.
- Financiers** - Target them with information to help them justify expenditure.
- Users** - Target them with practical information, which will enable them to use the product safely and satisfyingly.

The decision-making unit of an organisation is called a buying center. As Kotler (1996) notes, the buying center concept presents a major marketing challenge. The business marketer must learn as to who participates in the process and each participant's relative influence in the decision.

12.10 The consumer decision making process

- **Problem recognition** - This is the beginning of the process where the consumer recognizes a need or the problem.
- **Information search** - The three areas of obtaining product information are;
 - a) **Personal sources (Word of mouth)** - Family, friends, neighbors, work and colleagues.
 - b) **Commercial and public sources** - Advertising, selling, packaging, point of sale and display, promotions, websites, exhibitions and mass media.

c) **Experiential** - Handling, examining and using the product.

Consumers generally receive most information from commercial sources. However, personal sources are the most effective because they endorse the product. Branding is important because the product or service is easily recognizable with its brand values.

- **Evaluation of alternatives** - This involves the way in which consumers process information that lead to the choice of a particular brand. It may involve the rational calculation and weighing up of benefits and costs and the comparison of competing brands. In some cases the purchase may be impulse with little or no logical evaluation. The marketer's task is to find out what attributes and benefits the consumer desires in a particular product (Positive evaluation) and include these in the product offering. E.g. - Supermarkets - Space, range, discounts or parking. The options that are found would be placed in one of three categories in the congruity theory (Evoked set, inert set or inept set) explainer later.
- **Purchase decision** - Here the consumer forms the intention to purchase the brand, which most readily promises to satisfy the need. The task of the marketer is to ensure availability and effective customer service at this stage.
- **Post purchase evaluation** - Having made the purchase the consumer will either be satisfied or dissatisfied with it depending on how his experience matches up to his expectations. The task of the marketer will be to manage cognitive dissonance.

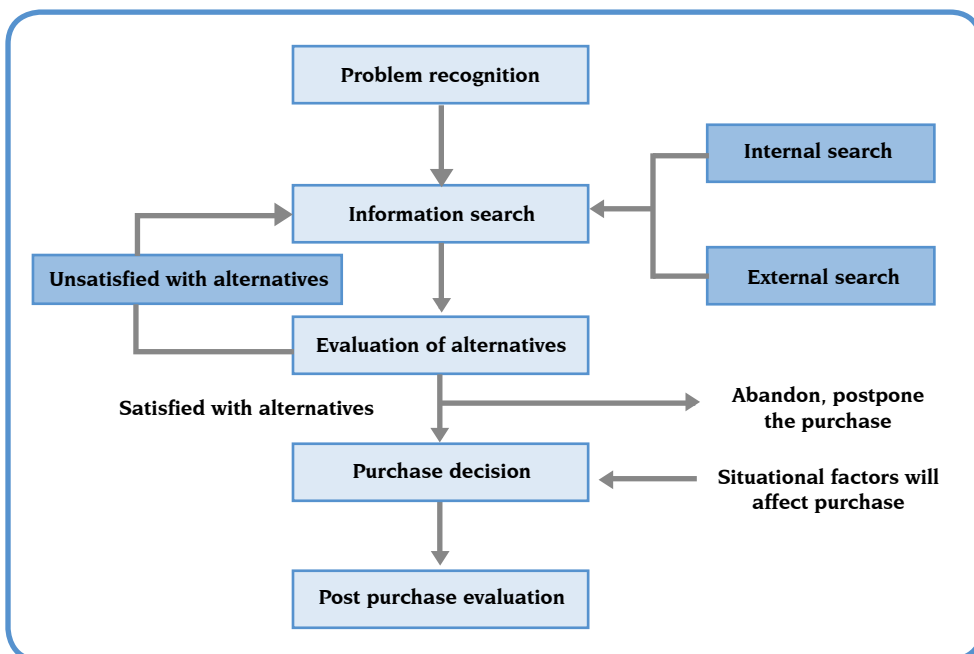


Figure 12.7: The consumer decision making process.

12.11 What influences consumer buying behavior?

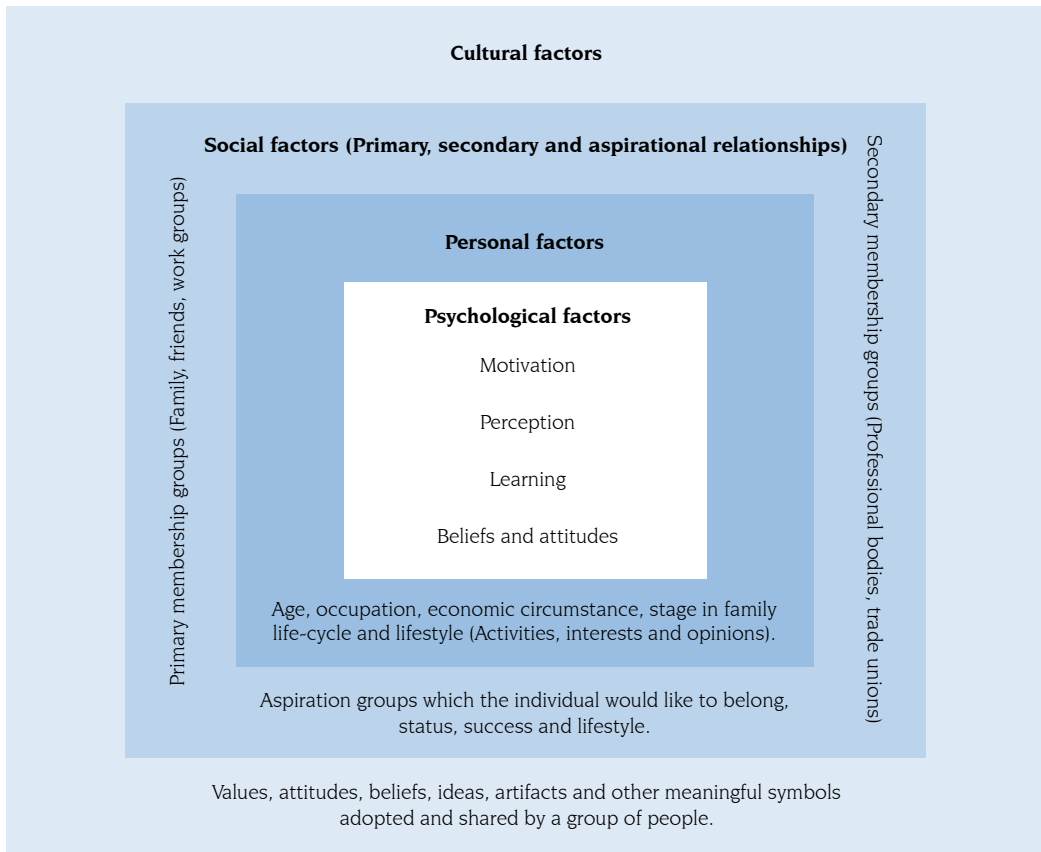


Figure 12.8: What influences consumer buying behavior?.

The consumer decision making process can be mainly influenced by a number of internal and external variables. These may be broadly classified as follows:

1. **Psychological factors** - These are factors in the mental process of the individual and include factors such as perception, learning, beliefs, motivation and attitudes.

(a) **Perception** - Perception has been defined as the process by which people select, organise and interpret sensory stimuli into a meaningful and coherent picture. Each individual's perception may be unique since individuals are exposed to different stimuli at different times from the environment. This results in a varied perception. There are two aspects of perception that are important for the marketer.

- **Selective attention** - Consumer do not give their attention to all messages they come into contact with.

- **Selective retention** - Consumers do not retain all messages they receive in their short-term memory.

A unique selling proposition (USP) is to formulate a benefit or any reason as to why the audience should think about the product. USP is defined as an explicit, testable claim of uniqueness or superiority that can be supported in some manner. E.g. Reebok claims that it is the only shoe that uses DMX technology, which provides a better fit.

- (b) **Learning** - Learning is the process whereby an individual's behavior is changed as a result of experience and a bad or disappointing experience makes a customer less likely to buy the product again. A positive experience encourages repeat purchases. Learning occurs through the interplay of drive, cues and positive reinforcement. The practical significance of the learning theory for marketers is that they can build up demand for a product by associating it with strong drives, using motivation cues, and providing positive reinforcement.

- **Strong drives** - A strong internal stimulus that calls for action.
- **Motivational cues** - These are minor impulse stimuli.
- **Positive reinforcement** - If the experience is rewarding, then the response is reinforced.

A belief is a descriptive thought that a person holds about something and may be based on real knowledge, opinion, or faith. Since beliefs make up product and brand images, they are important to marketers.

- (c) **Motivation** - This will be discussed in detail later.
- (D) **Attitudes** - Attitudes are a frame of mind that influences a person's favorable or unfavorable evaluations, thoughts, experiences and feelings which pre dispose the individual to respond in a certain way to objects. Attitudes put people into a frame of mind of liking or disliking things, moving toward or away from them and they are difficult to change. So why are attitudes hard etched? Why are consumers on auto pilot mode for certain products? A person's attitudes fit into a pattern and may sediment over a period of time and changing one attitude may require changing a host of others. Changing an attitude is a complicated process and involves changing how consumers organize and interpret sensory stimulations.

Strategies to change consumer attitudes

- Changing the basic motivational function - Make particular needs prominent.
- Associating the product with an admired group, event or cause.
- Altering beliefs when faced with multiple attributes - Use consumer attitude strategies to alter perception.
- Changing consumer beliefs about competitor brands.

12.12 Theories of attitude formation

Attitude formation theories help us understand how a person's attitude takes shape and why a person might have a particular attitude or how that attitude came to exist. Attitude formation is of particular interest to strategic marketing because attitudes often direct behavior.

- **The balanced theory** - The balanced theory conceptualises individuals concerned to be in an attitudinally-balanced state. Due to environmental activities the individual can experience unbalanced situations. In such situations individuals always tend to change the original attitudes to achieve some degree of attitudinal balance. This technique is used in personal selling.
- **The congruity theory** - This is used in advertising models. Brands could be segregated into the awareness set and unawareness set. The awareness set has three main types:
 - **The evoked set** - Will contain the alternatives that will be actively considered during the final choice.
 - **The inert set** - Alternatives to which the consumer is neutral will be placed here.
 - **Inept set** - Alternatives the consumer will reject will be placed here.

Depending on the attitude one has towards the brand, one could bring the brand to the most appealing levels by using marketing mix strategies. The congruity theory can be used as a method of improving negative disposition towards the brand by way of getting a personality to endorse the brand. This theory is effectively used in advertising in getting popular personalities to talk about products, which have a low attitudinal rating.

- **Cognitive dissonance theory** - According to the theory, psychological discomfort or dissonance occurs when a consumer holds conflicting thoughts about a belief or an attitude towards a product. E.g. When consumers have made a purchase by placing a down payment or placed an order for a product, especially an expensive one such as an automobile or a home, they often begin to feel cognitive dissonance when they think of the unique and positive qualities of the brands not selected. Since a purchase decision requires some form of compromise, post purchase dissonance is quite normal. It is likely to leave consumers with an uneasy feeling about their prior beliefs or actions and a feeling they tend to resolve by changing their attitudes to conform to their behaviour.

There is often a big gap between what we think and what we do: when we do something despite knowing it to be immoral, wrong or stupid, we have a bad conscience. The psychologist Leon Festinger used the term 'cognitive dissonance' to describe our state of mind when our actions are not consistent with our beliefs - for example when we smack a child, even though we condemn violence against children.

But why do we find it so difficult to recognise our mistakes? Why do we even go as far as defending our actions when we are confronted with their shortcomings? Rather than asking for forgiveness, we

embark on one of the more unlikeable human attributes, self-justification. This acts as a protective mechanism that enables us to sleep at night and frees us from self-doubt. We see only what we want to see, and ignore everything that contradicts our view. We look for arguments that reinforce our position.

But how can we overcome this dissonance? Either by changing our behaviour or our attitude. When a great man makes a mistake, he realizes it. Having realized it, he admits it. Having admitted it, he corrects it. He considers those who point out his faults as his most benevolent teachers.

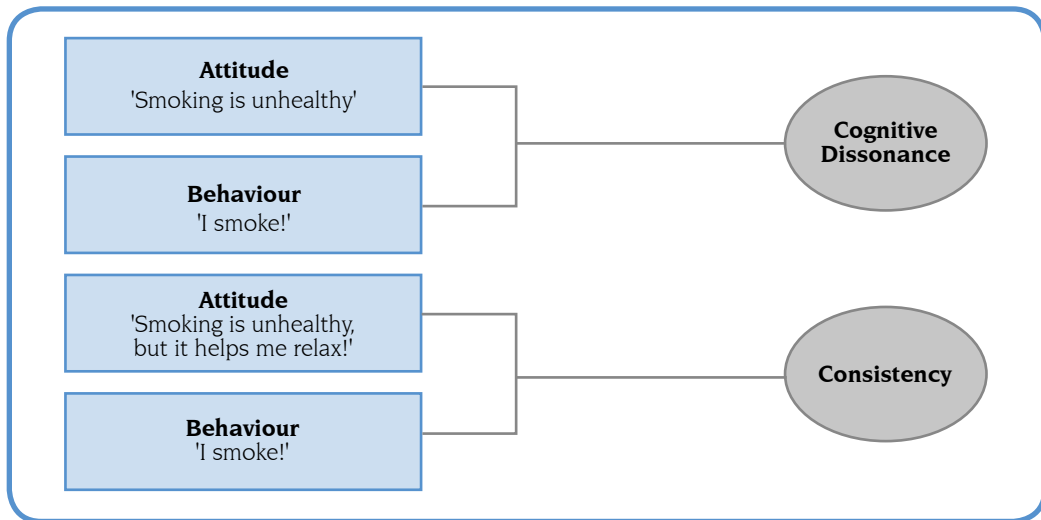


Figure 12.9: Cognitive dissonance theory.

Cognitive dissonance can be reduced by;

- Rationalizing the decision as being wise.
- Seeking out advertisements that support the original reason for choosing the product.
- Looking to known satisfied owners for reassurance.
- Reducing the impact of conflicting information.
- Devaluating the source of the information.
- Changing the attitude or belief.

2. **Personal factors** - Personal factors that would have an effect on behavior include the following;

- **Age** - This may influence brand associations.
- **Stage in the family life cycle** - Each stage may influence the choice of product and brands.
- **Occupation** - Income, status, interests and attitudes may influence behaviour.
- **Earnings** - Disposable income, savings, stability, borrowing power may influence behaviour.
- **Lifestyle** - Hobbies, sports, interests and opinions will drive buyer behaviour.
- **Personality** - All the internal traits and behaviours make a person unique. The uniqueness is

derived from a person's heredity and personal experience. Personality is the unique patterns of enduring thoughts, feelings, and actions that characterize a person. It refers to the unique pattern of psychological and behavioural characteristics by which each person can be compared and contrasted with other people.

According to Freud (1923) personality forms during the first few years of life, rooted in unresolved conflicts of early childhood. The psychosexual stages are as follows;

- i. **Oral (0-18 months)** - Centered on the mouth.
- ii. **Anal (18-36 months)** - Focus on bowel, bladder.
- iii. **Phallic (3-6 years)** - Focus on genitals (Identification and gender identity).
- iv. **Latency (6 years to puberty)** - Sexuality is dormant.
- v. **Genital (Puberty)** - Sexual feelings toward others.

3. **Social factors** - This includes factors such as social class or status, lifestyle and reference groups.

Lifestyle - This is defined as the patterns in which people live, spend time and money and are mainly a function of the individual's motivation, prior learning, class and personality. They are measured by analysts, using attitudes, interests and opinions alongside demographic factors to establish market segments with clusters of common characteristics. The central idea is to identify behavioral patterns to build a picture of how individuals interact with their environment. This will then allow marketers to segment the market more effectively and tailor campaigns designed to appeal to particular lifestyle types. The presumption is that these groups will respond to different marketing mixes that can then be exploited to the marketer's advantage.

Reference groups - They include the family, peer groups, work groups, shopping groups and special interest groups. The family is the primary social group and is a close and influential reference group. The reference group is the term given to groups with which an individual identifies and aspires to be a part of so much that he or she takes on many of the values, attitudes or behaviors of the group's members. Their influence may be based on expertise, knowledge or perhaps a charismatic personality. There are various other reference groups with whom the individual may have interactions and relationships. These include:

- **Ascribed versus acquired groups** - Ascribed groups are those to which an individual naturally belongs, E.g. Gender, family unit. Acquired groups are those to which an individual actively seeks membership, E.g. Health club.
- **Formal versus informal groups** - A formal group is well defined in terms of its structure and purpose, E.g. Parliament informal groups are less structured and exist primarily to fulfill a social function, E.g. A group of golf buddies.

- **Primary versus secondary groups** - Primary groups are usually small and associated with more personal contact, E.g. Close friends, colleagues at work. Secondary groups are usually larger group which are less personal, E.g. Colleges, large work groups.
 - **Aspirational or dissociative groups** - An individual would aspire or like to belong to a larger group. Aspirational buyer behavior is when consumers buy products to create an image of status, income, job position or lifestyle. Opinion leaders are influencers who would have a strong personality, recognition or fame. The society at large would like to follow them and aspire to associate them in order to project an image. Dissociative groups are groups which an individual actively avoids membership.
4. **Cultural factors** - Culture comprises of values, customs, rituals, language, attitudes, beliefs, ideas, artefacts and other meaningful symbols represented in the pattern of life adopted by people that help them interpret, evaluate and communicate as members of society. Culture can be used to explain an individual's behavior, values and perceptions, as it is adsorbed through upbringing, education and 'socialization' which is a process by which a person is taught to conform to the norms of a group. The study of international marketing opens up a whole new avenue of understanding how various people behave in different cultures. E.g. Vauxhall Nova cars were a failure in South America since 'No va' in Spanish meant, 'doesn't work', a silver tooth in Africa was a sign of prestige.

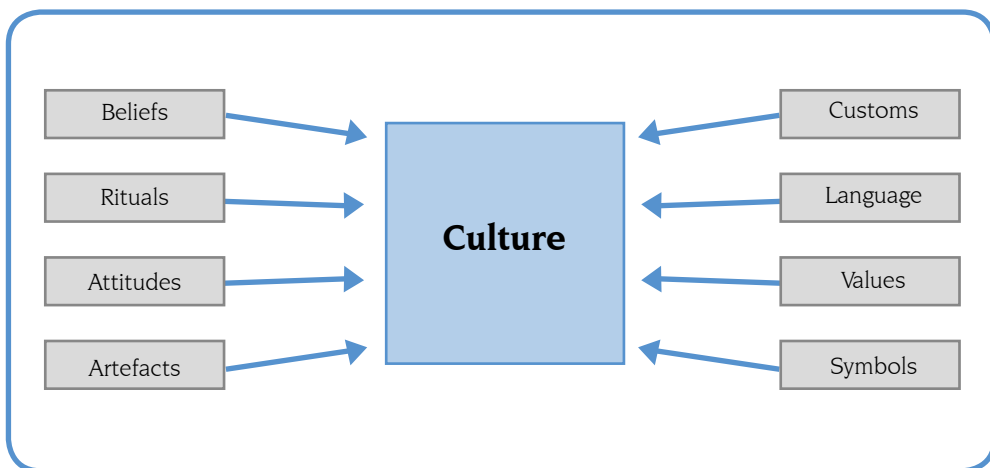


Figure 12.10: Components of culture.

12.13 The organizational decision making unit

A B2B purchase is when an organization buys goods and services to use in the production of other products and services that are sold, rented or supplied to others. Organizations make purchasing decisions as a team. These are referred to as buying centres and different members of the DMU's play

different roles in the buying process. Some members are involved in the purchasing function directly while others play an influential role. The final decision makers are also another important part of the process. The following are key members of the organizational DMU.

- **User** - Users of a product are often included in the DMU and their opinion is very important. For example before a photocopier is purchased, the opinion of secretaries may be sought since they would be the primary users of the product.
- **Influencer** - As the term implies, an influencer does not make a decision, but influences the decision making process. In the case of purchasing a photocopier, the influencers might include engineers. They would define the specifications the photocopier should meet and would evaluate various makes of photocopiers.
- **Buyer** - The buyer is the member of the buying center who negotiates the purchase. In many cases the buyer is the purchase agent or a member of the purchasing department. Buyers often initiate contact with potential suppliers, negotiate pricing and service contracts, set delivery dates and issue purchase orders.
- **Decision maker** - The decision maker is the member of the buying center who decides what is ordered and from whom. A decision maker may be a company CEO or the procurement manager.
- **Gatekeeper** - The gatekeeper is any member of the buying center who regulates the flow of information from suppliers to other members of the buying center. The purchasing agent who declines to identify or allow a sales representative's access to other members of the buying center is considered as a gatekeeper. Similarly, in the photocopier example a secretary who controls which suppliers would get appointments with the office manager is acting as a gatekeeper.

The organizational decision making process

- i. **Recognition of a problem or need** - A product or service may be needed for the organisation to function better.
- ii. **Diagnosis or description of the need** - The need is discussed with others in the organisation to further define the need.
- iii. **Product specification** - The exact requirements are specified, perhaps including elements such as objectives and the budget.
- iv. **Search for suppliers** - Potential suppliers are identified and reviewed.
- v. **Evaluation of suppliers** - Suppliers may submit proposals or bids. The purchasing organisation

may draw up a list of supplier criteria to aid in selection. Some of which will include the quality, on-time delivery, ethics and reputation, competitive pricing, after sales and performance history.

- vi. Selection of supplier** - Using the order criteria the bids are evaluated before the final decision is made.
- vii. Contract** - A contract containing terms and conditions may be drawn up for the work agreed.

Types of organisational buying

- **New task purchase** - The organisation is facing a need or a problem for the first time and the full organisational buying process will probably occur.
 - **Modified re buy purchase** - This is when something about the buying situation has changed, but a lot still remains the same.
 - **Straight re buy purchase** - Occurs when the buyer routinely purchases the same product under the same terms of sale.
- viii. Review** - The work carried out by the supplier is reviewed and monitored against initial objectives.

Characteristics of organizational buying

- They typically deal with fewer but larger buyers.
- Every buying organization has its own set objectives, policies, procedures, structure, and systems, which may affect buying decisions.
- They are more geographically concentrated.
- Business markets possess fluctuating demand.
- Large purchasing and bargaining power.
- Formal buying process, which may involve reports, detailed product specifications and purchase orders.
- Interlinked customer-supplier chain dependency and counter dependency.
- Each participant in the business-decision process brings in personal motives, perceptions, and preferences to the buying process.
- Interpersonal factors and group dynamics affect the buying process.

Factors that influence organizational buyer behaviour

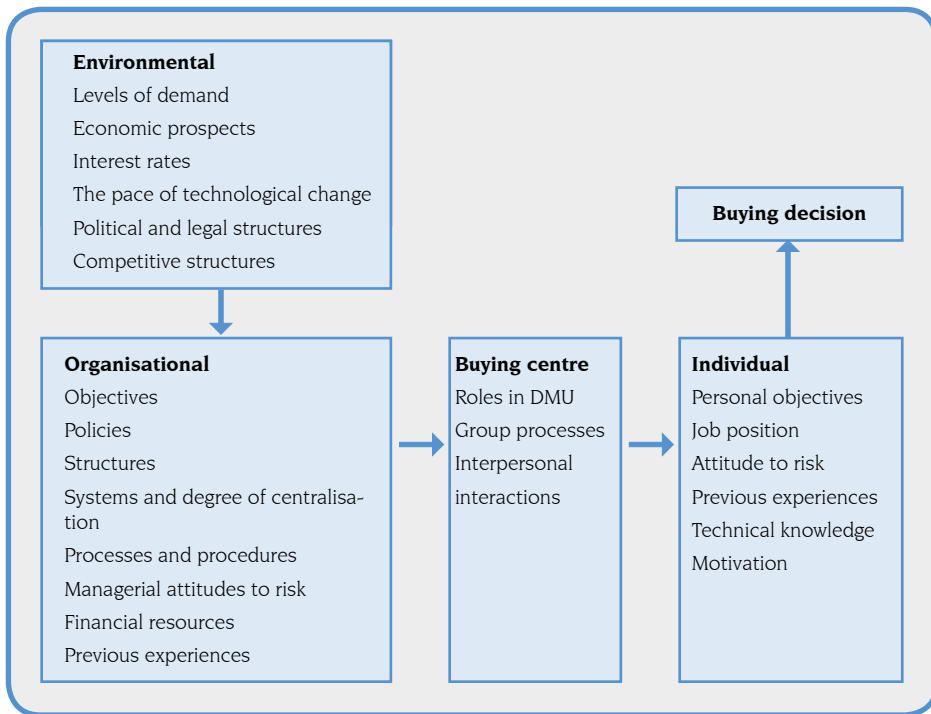


Figure 12.11 : Factors that influence organizational buyer behaviour by Webster and Wind (1972).

12.14 Motivational theories

The term motivation is derived from the Latin word 'movere', which means 'to move'. It primarily concerns the study of what energizes behavior, what directs or channels such behavior, and how this behavior is maintained or sustained. Human beings have certain innate needs and will choose to behave in ways that satisfy those needs.

Definition : Motivation is the desire, enthusiasm and persistence within individuals to initiate and direct behaviours, towards the fulfillment of a goal or expectation.

Motivation theories can be classified into content and process theories. Content theory deals with 'what' motivates people and is concerned with individual needs and goals. Maslow, Alderfer, Herzberg and McClelland studied motivation from a 'content' perspective.

Process theories deal with the 'process' of motivation and is concerned with 'how' motivation occurs. Vroom, Adams and Locke studied motivation from a 'process' perspective. There are many motivational theories and they are explained below:

Types of motivation theories

Process theories	Content theories
Expectancy theory	Maslow's hierarchy of needs
Goal theory	Alderfers ERG model
The equity theory	Hertzberg's two factor theory
The job characteristics model	McClelland's motivational theory
Taylor's scientific management	Theory X and theory Y
Mayo's Hawthorne experiments	
Handy's psychological contracts	
Schein's motivational categories	

Table 12.2 : Types of motivation theories.

Maslow's hierarchy of needs

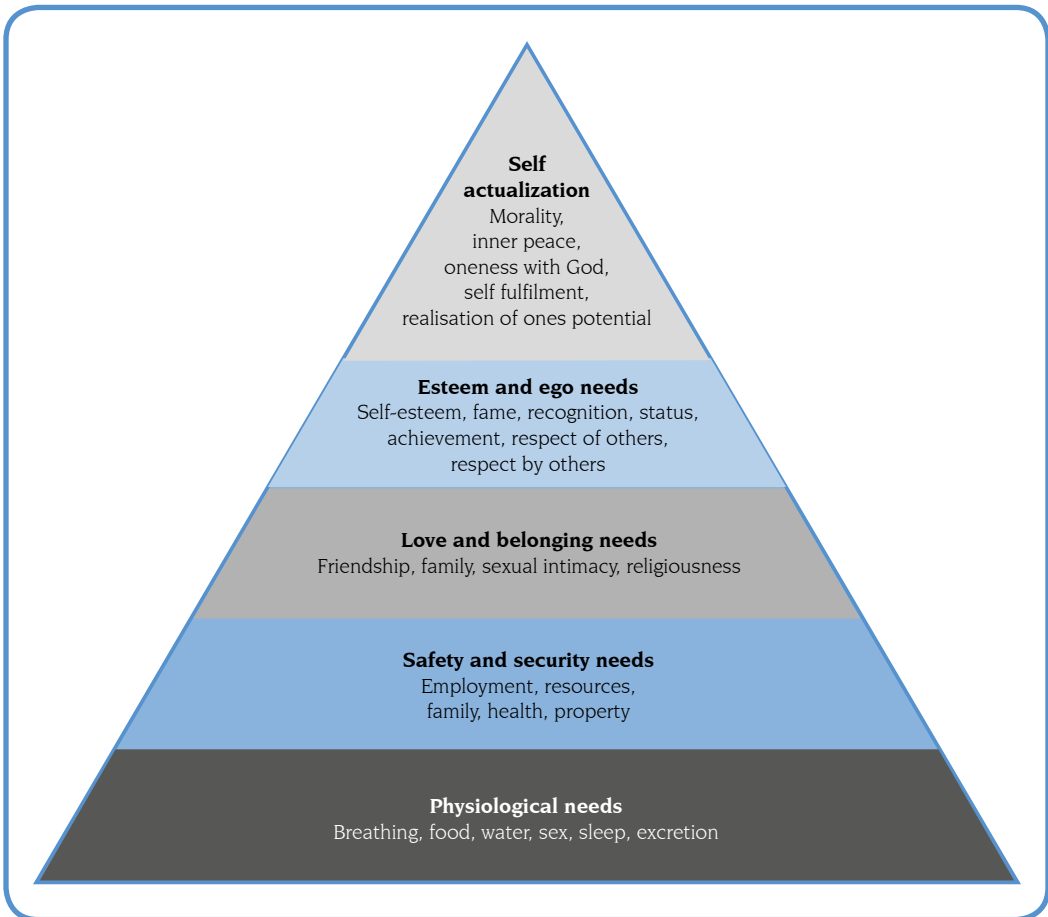


Figure 12.12: Maslow's hierarchy of needs.

Maslow (1954), in his influential needs theory, classified and arranged these in a hierarchy of importance or urgency. The application, assumptions and limitations are discussed below;

Assumptions underlining the hierarchy of needs

- A satisfied need is not a motivator. Once a need is satisfied, another emerges to take its place. Thus people are always striving to satisfy some need.
- The need network for most people is very complex. That is a number of different needs affect a person's behavior at any one time.
- Lower level needs must be satisfied before higher-level needs become strong enough to stimulate behavior.

The Maslow's Hierarchy of needs applied to a organization

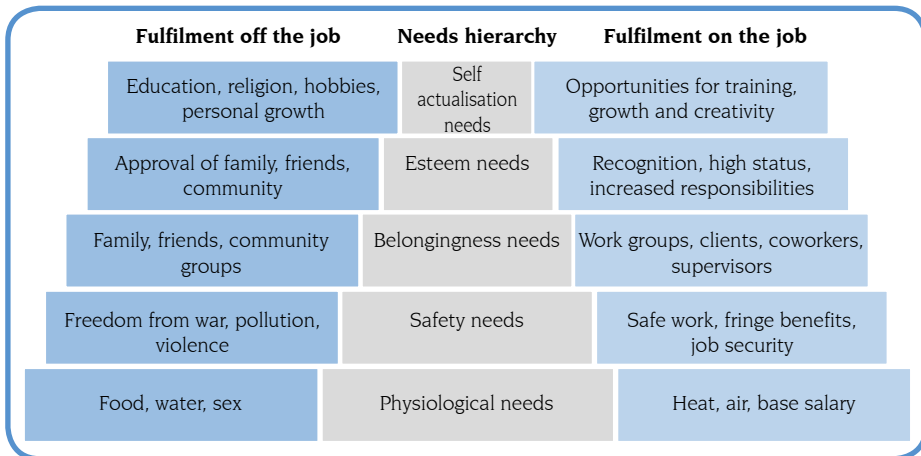


Figure 12.13: The Maslow's Hierarchy of needs applied to a organization.

Criticisms of the model

- The concept is too general.
- It unlikely that needs will always be fulfilled in the exact order specified by the hierarchy.
- The theory has not been tested empirically.
- The needs hierarchy appears to be very closely bound to the contemporary American culture.

Consumer needs, wants and demands

A consumer may perceive a gap between the current and desired state. This gap would essentially be defined as a need or a state of deprivation. When a need is not satisfied, a person will do one of two things. They would either look for means of satisfying the need (Try to bring the current state

to the desired level) or reduce the level of the desired state (Try to bring down the desired level to the current level). A need is an inner drive or desire that an individual holds, whereas a want is a instrument that enables an individual to fulfill the deprivation.

A want cannot exist without a need. Needs are not invented by marketers. They are in the fundamental composition of all humans. It is an inner force, which impels an individual to accomplish his or her yearning. The needs can be innate or acquired. A need is satisfied through a want. A want may be something tangible or intangible that will satisfy the individual's yearning.

Wants are the form taken by human needs as they are shaped by culture and individual personality. Human wants are unlimited. However the resources that we posses to fulfill these wants are limited. Demands are when wants are backed by purchasing power or the ability to purchase.

Alderfers existence, relatedness, and growth model

Maslow's needs	Alderfer's ERG theory
Self-actualization	Growth
Self-esteem needs	Relatedness
Social needs	
Safety needs	Existence
Physiological needs	

Table 12.3: Maslow's Hierarchy of needs.

In an attempt to line up Maslow's theory of needs with empirical studies, Alderfers (1969) ERG theory elicits three core requirements: existence, relatedness, and growth. This categorization is the result of earlier research on Maslow's hierarchy of needs that indicates some overlaps within the middle levels. According to Alderfer, the needs aren't in any order and any desire to fulfill a need can be activated at any point in time. The factors are as follows:

- **Existence** - Relates to a person's physical needs such as food, clothing, and shelter.
- **Relatedness** - Relates to a person's interpersonal needs within his personal as well as professional settings.
- **Growth** - Relates to a person's needs of personal development.

Criticisms of the theory

Critics claim that their are flaws in all need theories that are based on a number of human needs and the relationship between them. However, there is a consensus for the general concept proposed by the need theorists, where human behaviors are motivated by the desire to fulfill a human need.

McClelland's motivational theory

McClelland (1953), suggested that there are three types of motivational needs that are found to a varying degree in all workers and managers.

- **Achievement motivation** - The achievement orientation assumes that people with a strong achievement motivation make the best leaders although there is a tendency to demand too much of their staff in the belief that they too are highly achievement focused and results driven. McClelland suggested that for achievement-motivated people;
 - Achievement is more important than material or financial reward.
 - Achieving the aim or task gives greater personal satisfaction than receiving praise or recognition.
 - Financial reward is regarded as a measurement of success, not an end in itself.
 - Security is not the prime motivator, nor is status.
 - Feedback is essential, because it enables measurement of success, not for reasons of praise or recognition.
 - Achievement-motivated people constantly seek improvements and new ways of doing things.
 - Achievement-motivated people will favour jobs and responsibilities that naturally satisfy their needs.

- **Authority, power motivation** - This assumes that a person needs to be influential and effective to make an impact. There is a strong need to lead, for ideas to prevail and a need towards increasing personal status and prestige.

- **Affiliation motivation** - According to this a person may possess a need for friendly relationships and is motivated towards interacting with other people. The affiliation driver produces motivation. Such personalities are team players and exhibit a strong bias to a particular motivational need, which affects their behaviour and management style.

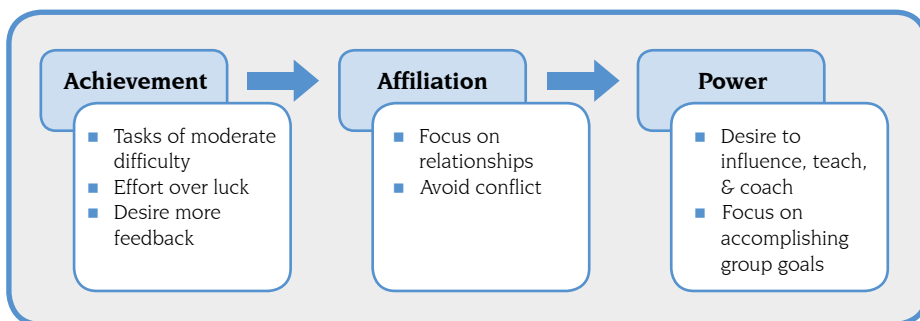


Figure 12.14: McClelland's motivational theory.

Herzberg's two-factor theory

Herzberg (1965) argued that sometimes people enjoyed some aspects of work and found others dissatisfying. Of the factors that emerged as influencing motivation, Herzberg identified what he called motivators (Or satisfier's) and hygiene (Or maintenance) factors.

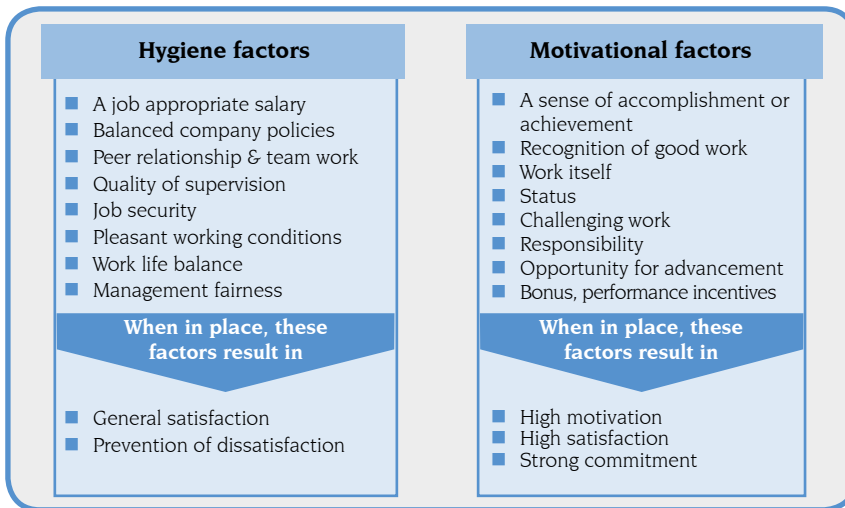


Figure 12.15: Herzberg's two-factor theory.

- **Hygiene factors were lower order needs** - They are maintenance factors that could cause dissatisfaction if they were missing or found wanting.
- **Motivators are intrinsic higher order needs** - These have the potential to provide sustainable satisfaction to individuals. If hygiene factors are causing dissatisfaction, for example low salary or poor working conditions and motivators such as recognition or responsibility will have limited success.

Herzberg went on to define three ways in which management can attempt to improve staff satisfaction and motivation.

- Job enrichment (Sometimes called 'vertical job enlargement')** - This is a deliberate, planned process to improve the responsibility, challenge and creativity of a job. Typical examples of job enrichment include delegation or problem solving. For instance, suppose an accountant's responsibilities for producing quarterly management reports ends at the stage of producing the figures, job enrichment could involve extending the responsibilities so that they included the preparation of figures and submitting them to senior management. This alteration in responsibilities could not only enrich the job but also increase the workload, leading to delegation of certain responsibilities to clerks within the department.
- Job enlargement (Sometimes called 'horizontal job enlargement')** - This involves widening the range of jobs, and developing a job away from narrow specialization.

iii) **Job rotation** - This involves the planned rotating of staff between jobs to alleviate monotony and to provide a fresh challenge.

The job characteristics model

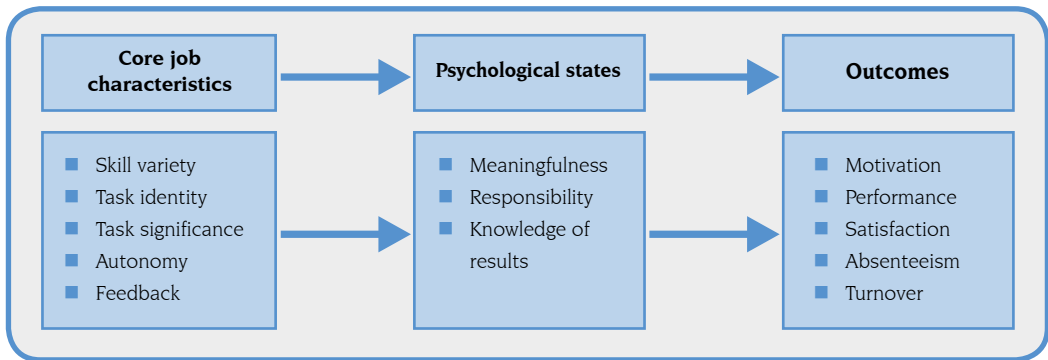


Figure 12.16: The job characteristics model.

Hackman and Oldham (1970) developed the model based on the idea that the task itself is key to employee motivation. Specifically, a boring and monotonous job stifles motivation to perform well, whereas a challenging job enhances motivation. This sets out the links between characteristics of jobs, the individual's experience of those characteristics, and the resultant outcomes in terms of motivation, satisfaction and performance.

The model also takes into account individual differences in the desire for personal growth and development (What Maslow called 'self-actualization'). At the heart of the model is the proposition that jobs can be analyzed in terms of five core dimensions which are as follows:

- **Skill variety** - The extent to which a job makes use of different skills and abilities.
- **Task identity** - The extent to which a job involves a 'whole' and meaningful piece of work.
- **Task significance** - The extent to which a job affects the work of other organization members or others in society.
- **Autonomy** - The extent to which a job gives the individual freedom, independence and discretion in carrying it out.
- **Feedback** - The extent to which information about the level of performance attained is related back to the individual.

These five core dimensions induce the three psychological states critical to high work motivation, job satisfaction and performance. These three states are defined as follows:

- **The meaningfulness of work** - The extent to which the individual considers the work to be meaningful, valuable and worthwhile.
- **The responsibility of work** - The extent to which the individual feels accountable for the work output.
- **The knowledge of outcomes** - The extent to which individuals know and understand how well they are performing.

Taylor's scientific management

Taylor (1856) put forward the idea that workers are motivated mainly by pay. His theory of scientific management argued the following:

- Work methods should be based on the scientific study of the task - They should be planned in a way to maximize productivity. This often involves breaking the work down into separate functions.
- Select, train and develop the most suitable person for each job - Scientific management of staff.
- Managers must provide detailed instructions to workers to ensure work is carried out in a scientific way.
- Divide work between managers and workers - Managers apply scientific principles to planning and supervising work and workers carry out the task.

Taylor's methods were widely adopted as businesses saw the benefits of increased productivity levels and lower unit costs. The most notable advocate was Henry Ford who used them to design the first ever production line. This was the start of the era of mass production. Taylor's approach has close links with the concept of an autocratic management style (Managers take all the decisions and simply give orders to those below them) and Macgregor's Theory X approach (Workers are viewed as lazy and will avoid responsibility). However workers soon came to dislike Taylor's approach as they were only given boring, repetitive tasks to carry out and were being treated a little better than human machines. Firms could also afford to lay off workers as productivity levels increased. This led to an increase in strikes and other forms of industrial action by dissatisfied workers.

Mayo's Hawthorne experiments

Mayo (1880) believed that workers are not just concerned with money but could be better motivated by having their social needs met whilst at work. He introduced the human relations school of thought, which focused on managers taking more interest in workers, treating them as people who have worthwhile opinions and realising that workers enjoy interacting together. Mayo conducted a series of experiments at the Hawthorne factory of the Western Electric Company in Chicago.

Over the course of five years, Mayo's team altered the female worker's working conditions and monitored how the change in working conditions affected the workers morale and productivity. The changes in working conditions included changes in working hours, rest breaks, lighting, humidity and temperature. The changes were explained to the workers prior to implementation.

At the end of the five-year period, the female worker's working conditions, reverted back to the conditions before the experiment began. Unexpectedly the workers morale and productivity rose to levels higher than before and during the experiments. The combination of results during and after the experiment (The increase in the workers productivity when they were returned to their original working conditions) led Mayo to conclude that workers were motivated by psychological conditions more than physical working condition.

Handy's psychological contracts

In his work, 'Understanding organisations', Charles Handy (1976), listed over sixty factors that influence the effectiveness of organisations. For Handy, work motivation is one of the key variables of organisational performance and he introduced the concept of 'motivation calculus'. His motivation formula contained three components:

- The strength of a person's need.
- The expectation that the effort, energy expended leads to a particular result.
- The instrumentality - The means to obtain that result and satisfy the given need.

The value of each of these factors are subjective and determined by the individual involved. If one of the factors are null, the formula's outcome is null. The calculation to reach a decision occurs unconsciously for the most part, and is based on precedent. Each decision is reached within the context of a psychological contract between the employee and the organisation. The contract encompasses a legal contract as well as the entire set of expectations. Organisations often choose a dominant type of psychological contract which can be classified as follows;

- **Coercive contracts** - No choice exists other than undertaking the task. The method of control is law and order (comply or be punished). Organisations that value conformity, value this type of contract.
- **Calculative contracts** - The contract is entered on a voluntary basis. The main consideration is personal gain or reward. If the organisation requires more effort, the employee expects a higher compensation, of which wages are only a factor.
- **Co-operative contracts** - The individual identifies with the organisation's goals and makes them his own. The worker prospers when the organisation prospers. Effort is based on the degree the individual has input in the company's goals.

A source of conflict arises when the organisation and the individual differ on the perception of the contract's content and causes a disconnect between the two parties. Managers tend to prefer a contract based on their worldview and past experience. Handy explored the boundaries of the three psychological contracts by describing the 'Contractual organisation'. When the rate of change from global competition overwhelms the bureaucratic component's ability to centrally control the organisation, the bureaucracy fractures and yields to dynamic employee networks. Organisational focus is required because management time is finite. Outsourcing non-critical functions is essential for companies and managers must remain agile. Under these conditions, organisations are forced to split their work force into three types of workers, as specified below;

- **The core** - Full-time, hard-working, highly paid professionals, technicians and executives who 'own' the organisational knowledge.
- **A contractual fringe** - Individuals and organisations who provide material and service inputs to the organisational core.
- **A flexible workforce** - Part-time or temporary workers employed to handle peak workloads.

The three groups each require different treatment, that is, a different contractual arrangement based on different sets of expectations.

The expectancy theory

The expectancy theory argues that humans act according to their conscious expectations that a particular behavior will lead to specific desirable goals. Vroom (1964) developed the expectancy theory producing a systematic explanatory theory of workplace motivation. The theory asserts that the motivation to behave in a particular way is determined by an individual's expectation that behaviour will lead to a particular outcome; multiplied by the preference or valence that person has for that outcome. The equation suggests that human behaviour is directed by subjective probability. The three components of expectancy theory are as follows:

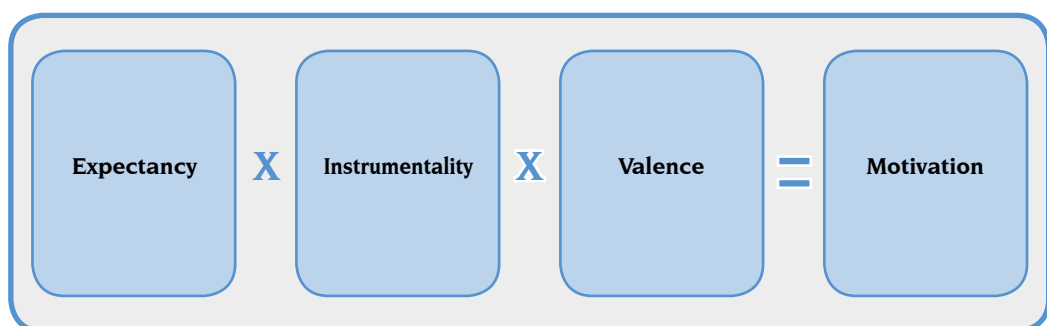


Figure 12.17: The expectancy theory.

- **Expectancy** - The belief of a person that his effort will result in the attainment of desired performance goals.
- **Instrumentality** - The belief of a person that he will receive a reward if the performance expectation is met.
- **Valence** - The value of the reward according to the person. E.g. Is the reward attractive to the person?

Goal theory

Locke (1968) introduced the goal theory, which proposes that motivation and performance will be high if individuals set specific goals which are challenging and where feedback is given on performance. The two most important findings of this theory are:

- Setting specific goals (E.g. I want to earn a million before I am 30) generates higher levels of performance than setting general goals (E.g. I want to earn a lot of money).
- Goals that are hard to achieve are linearly and positively connected to performance. The harder the goal, the more a person will work to reach it.

The equity theory

Adams (1963) suggested that if a individual perceives that any rewards received are equitable, that is, fair or just in comparison with those received by others in similar positions in or outside the organization, then the individual feels satisfied. Employees develop a view of what is fair by comparing their own situation with other people who they regard as 'referents'. Typical inputs might be effort, loyalty, hard work, commitment and skill. Typical outputs are obvious ones such as pay and expenses and also more intangible ones such as recognition, praise, responsibility, sense of achievement etc. Adams asserted that employees seek to maintain equity between inputs that they bring to a job and the outcomes that they receive from it against the perceived inputs and outcomes of others.

If people feel that their inputs outweigh the outputs then they may become de-motivated. In this situation, some people may switch off and do the minimum they can, or even become disruptive. Others aim to seek to improve the outputs by making pay claims or looking for other work.

The key aspect of the theory is that extrinsic rewards such as the level of pay are neither motivating nor de-motivating to themselves. Rather it is how fair we perceive them to be when we compare ourselves with significant others, such as, people who we feel should be paid less than or about the same as ourselves, or people whom we expect to be paid more than us. If we feel that inputs are fairly and adequately rewarded by outputs (The fairness benchmark being subjectively perceived from market norms and other comparable references), then we are happy and motivated to provide input at the same level.

Schein's motivational categories

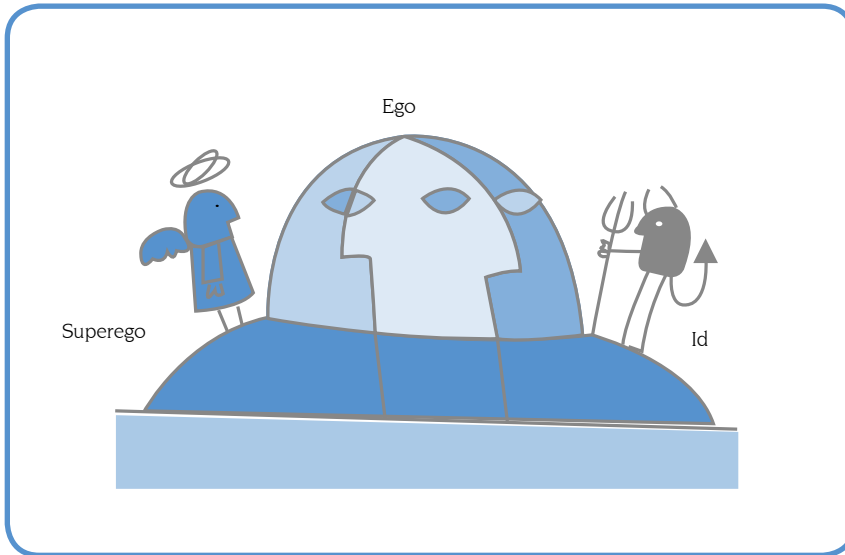
Schein (1988) identified four type of people. Each of these types depended on different sources of motivation. The four categories are as follows;

- **The rational economic man** - Stresses that a person would essentially seek to achieve economic needs which would act as a strong motivator. The worker is essentially passive, lazy, and unwilling to take responsibility, and must therefore be controlled by the manager. This is the basis of Taylor's approach to management, which is expounded by McGregor as theory X. This approach led to the proliferation of the mass-production industry but broke down when unions became powerful and jobs became more complex, requiring more of an employee than being just a pair of hands.
- **The social man** - This focuses on managers paying attention to employees social and psychological needs. It is developed from the awareness of the worker's needs to identity relationships with others, particularly the working group.
- **The self-actualizing man** - Self-fulfillment is seen as the prime driving force and as an alternative to money. The analysis of the clinical psychologist Abraham Maslow has been very influential here. He maintained that self-actualization (The realization of one's distinctive psychological potential) is the highest form of human need, going beyond economic and social fulfillment. The implications of this approach is developed for managers in McGregor's Theory Y and Herzberg's job enrichment.
- **The complex man** - The complex model, developed by Schein, maintains that earlier theories are based on conceptions that are too simplified and generalized. Human needs fall into many categories and vary according to a person's state of personal development and life situation. Thus, motives will vary from one person to another, one situation to another, and one time to another. Incentives can also vary in their impact: money, for example, usually satisfying basic economic needs, can also serve to satisfy self-actualization needs for some. What motivates millionaires to go on to make their second or fifth million? Employees are also capable of learning new motives through organizational experiences and can respond to different kinds of managerial strategies.

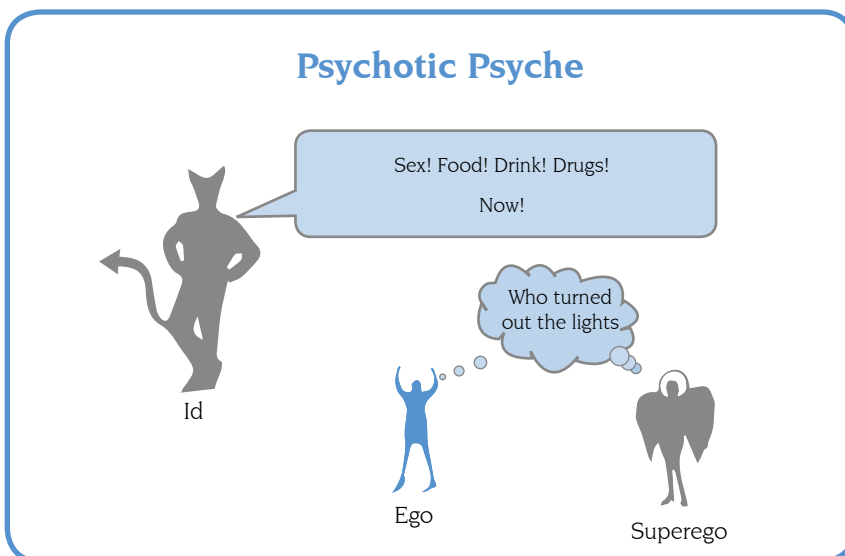
Freud's psychoanalytic theory

Freud assumed that people are largely unconscious about the real psychological forces shaping their behavior. A person does not fully understand his or her motivation according to Freud. Even though most of his ideas have been abandoned by modern psychology, his psychoanalytic theory formed the basis for many current psychodynamic theories. Freud was the first to discuss the unconscious mind and its role in human behaviour. Freud believed that there were three levels of consciousness. First is the unconscious mind, which exists outside of your awareness at all times. Next is the preconscious mind, which includes all information that you are not currently aware of but that can be recalled. Finally, the conscious mind is your current state of awareness.

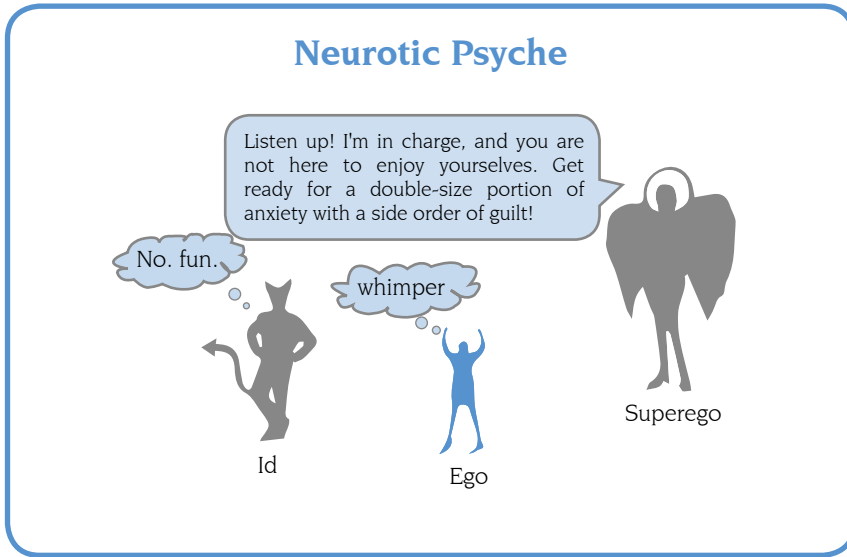
The id, superego and ego - Remember the cartoons you used to watch as a child? The main character is confronted with a choice. On his left shoulder is a little devil pushing him toward a bad choice. On his right shoulder, a little angel is encouraging him to make a good choice. He is stuck in the middle and forced to make a decision that will affect him.



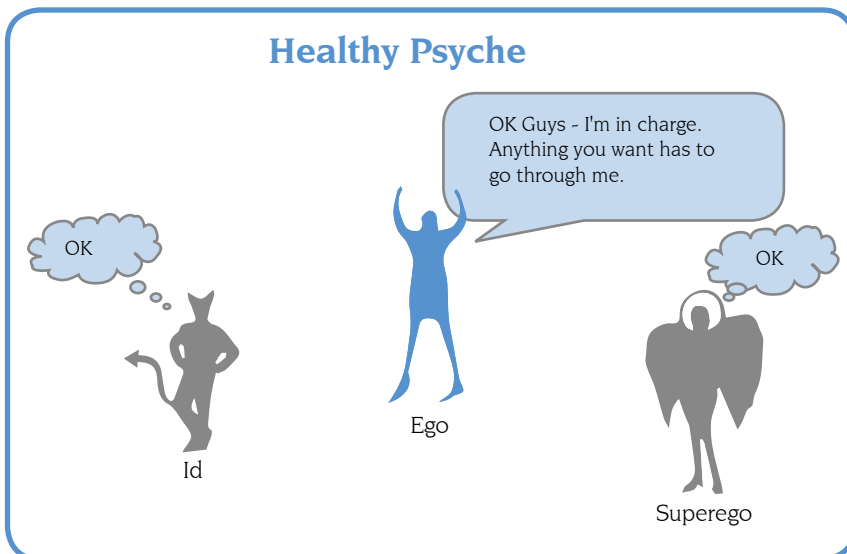
This scenario is much like Freud's theory of personality. There are three parts to the personality according to Sigmund Freud's psychoanalytic theory. These are the id, superego, and ego. The id is the first to develop, the ego is second, and the superego is the last to develop. The id is the biological component of the personality and includes your instincts. The id operates in our unconscious mind. It is like the little devil sitting on the cartoon character's shoulder that is always selfish and needy. It operates according to the pleasure principle. The pleasure principle is the idea that all of your needs should be met immediately.



Then there is the superego. The superego exists in all three levels of consciousness. The superego is like the little angel. It is always concerned with what is socially acceptable. The superego pushes you to obtain the ego ideal, or your view of what is right. It also represents your conscience, or your view of what is considered to be wrong.



Finally, we have the ego. The ego operates in your preconscious and conscious mind. Ego is the part of the personality that makes your decisions; this is like the cartoon character in the example. The ego is in the middle, makes the decision, and faces the consequences. The ego operates according to the reality principle. The reality principle is the idea that the desires of the id must be satisfied in a method that is both socially appropriate and realistic. The ego must mediate the demands of the id, the superego, and reality.



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CHAPTER 13

International Marketing Strategy

- 13.1 The evolution of global marketing
- 13.2 The decision sequence in going global
- 13.3 Standardization Vs. adaptation
- 13.4 Methods of international market entry
- 13.5 Screening international markets
- 13.6 Globalization
- 13.7 Hofstede's cross-cultural analysis
- 13.8 The seven dimensional model
- 13.9 Cultural context
- 13.10 Factors affecting pricing in international markets
- 13.11 Constraints in international marketing communication
- 13.12 Criteria effecting distribution in international marketing
- 13.13 The country of origin effect
- 13.14 Porter's diamond of competitive advantage
- 13.15 Political risks
- 13.16 Different economic systems
- 13.17 Emerging markets
- 13.18 Bottom-of-the-pyramid markets

13

International Marketing Strategy

Either write something worth reading or do something worth writing
- Benjamin Franklin

We live in an increasingly global market surrounded by products from around the world. There are over 250 countries in the world and almost all of which trade internationally. Although the key principles in domestic and international marketing remain the same, there are some factors that need to be taken into account when undertaking marketing planning in an international context.

Definition : International marketing involves planning and distributing a firm's product using a appropriate market entry method and marketing mix to access international borders.

13.1 The evolution of global marketing

- **Domestic extension** - This involves domestic market extension to the region seeking national coverage with an ethnocentric orientation.
- **Export or foreign marketing** - This is where an organization trades in goods or services across national boundaries. The two types are direct and indirect exporting with an ethnocentric orientation targeting the home country customers in overseas markets.
- **International marketing** - Products are marketed in many countries with a polycentric orientation.
- **Multinational marketing** - Is to operate in a range of different markets that poses a significant difference between markets with a regiocentric orientation and standardization within regions may take place.
- **Global marketing** - This is a more complex international operation which is an integrated global effort, which takes advantage of opportunities, exchange rates, different tax rates and labour markets. The geocentric orientation will push the company to adapt to global requirements and market global products with local variations.

The change in management orientation

- a) **Ethnocentric orientation** - This is the notion that one's own culture or company knows best how to do things. Overseas operations are viewed as secondary to domestic operations and plans for overseas markets are developed at home with little research. A standardized marketing mix will be applied with no real attention to different customer needs.

- b) **Polycentric orientation** - This reflects the approach that each country is different and that no country is necessarily inferior to another. Here, subsidiaries may be established with their own objectives, policies which are decentralized from the parent company and adaptation takes place in every market using different marketing mixes.
- c) **Regiocentric orientation** - This views the region as the market and integrated strategies are developed for the regions that take into account both the similarities and differences between the home market and the region.
- d) **Geocentric orientation (Hybrid strategy)** - The whole world is viewed as one market and standardization is used where possible, where as adaptation will be used only when necessary.

Porter (1986) divided the forces, that drive international marketing into currents and cross currents. The currents are essentially the emergent trends whilst the crosscurrents interact with the currents to disrupt their direction. The crosscurrents drive organizations to behave in new, innovative ways to change the basis of international competitive advantage.

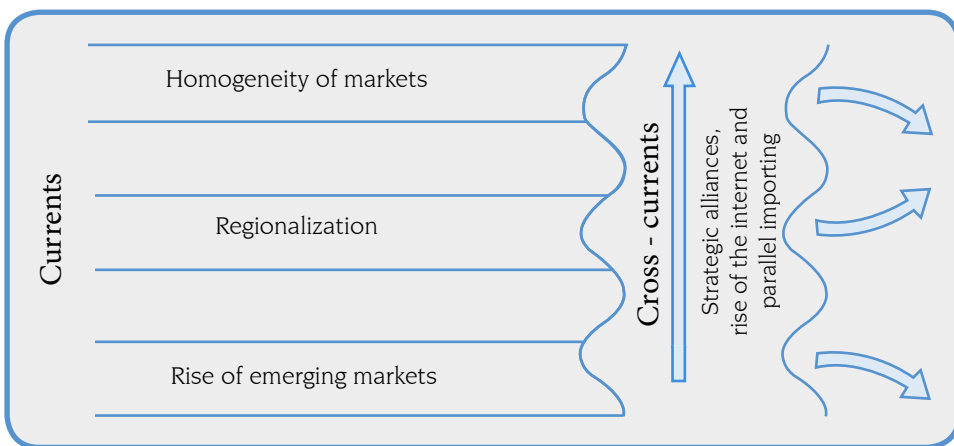


Figure 13.1: Currents and cross currents in international markets.

13.2 The decision sequence in going global

- **Whether to go global?** - The drivers and resisters of international marketing, currents and cross currents, management orientations.
- **Where to go?** - Evaluating country markets.
- **Management orientation?** - Ethnocentric, polycentric, regiocentric and geocentric orientations.
- **How to enter?** - Market entry strategies.
- **What to sell?** - Standardization vs. customisation.
- **Business model and strategy?**
- **How to organize?** - Organisation structure.
- **How to manage a global brand?**

International marketing forces

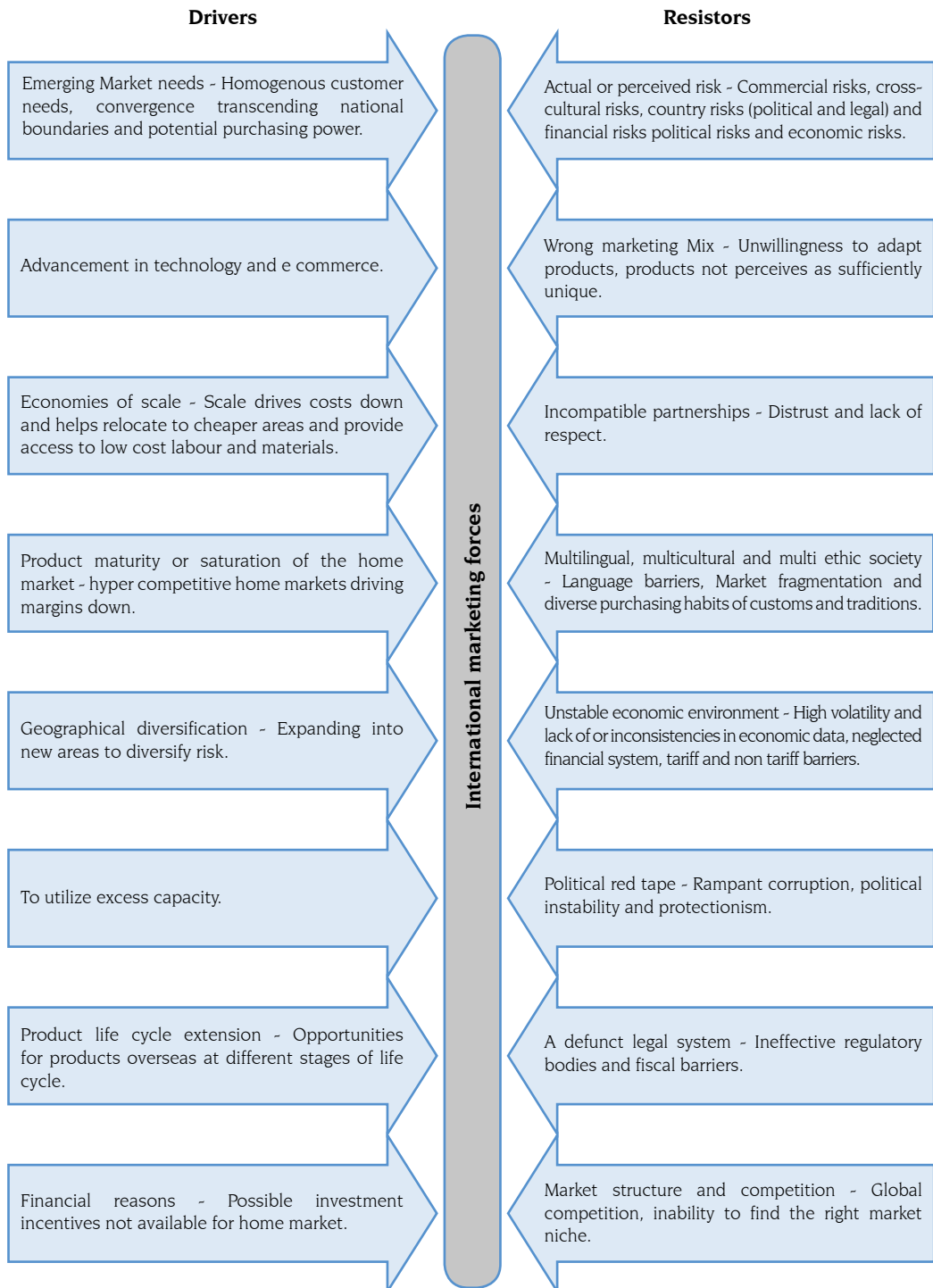


Figure 13.2: International marketing forces.

13.3 Standardization Vs. adaptation

- **Marketing mix standardization** - This involves offering a uniformed product worldwide, to exploit buyer similarities in homogeneous market. Common global customer needs will ensure the company maintains a consistent international positioning and image and this approach presents the marketer with a significant challenge, as it has no guarantee of success in all markets. Global standardization would offer economies of scale and greatly increase the profitability of a company's products whilst simplifying the task of the international marketing manager with easier management and control.

Whilst standardization offers faster speed to market, it may mostly involve products that are positioned at the high end of the spectrum in terms of price, prestige and scarcity. Manufacturing standards, technology, products and services, communications and distribution offer avenues for standardization.

- **Marketing mix adaptation** - This involves making small changes to a part or the whole marketing mix, to make it more relevant to the local market. Standardization may not be the most competitive option and is a company driven strategy whilst adapting or customizing the product to meet the local market needs is a market driven strategy. The ultimate decision to standardize or to adapt products must only be based on the knowledge and on a wide range of information about foreign market, its characteristics, culture, channels and it is imperative to ensure that the incremental adaptation costs does not exceed the incremental sales value.

Differing customer needs and motivations (Heterogeneous market), levels of purchasing power, varying levels of education and technical sophistication of customers may justify the adaptation strategy. In addition, economic and infrastructure variations (Duty structures), climate, socio cultural diversity (Language, values and beliefs, colour connotations, fashion and aesthetics), new political and legal conditions to comply with are some factors that may push a company to adapt to the home market needs.

Criteria for adaptation

■ Open tolerance	■ Curiosity, interest
■ Flexibility	■ Knowledge of the country
■ Humility	■ Liking for others
■ Justice, fairness	■ Ability to command respect
■ Adjustability to varying tempos	■ Ability to integrate oneself into the environment

Table 13.1: Criteria for adaptation by Cateora (1993).

A hybrid marketing mix strategy

The hybrid strategy attempts to strike a balance between standardization and adaptation without resorting to extremes of over standardization or full adaptation.

Global product and communication strategies

- **Product and communication extension (Dual extension)** - Market a standardized product using a uniformed communication message.
- **Product extension, communication adaptation** - Communication to address the differences in the cultural environment between the home and host markets.
- **Product adaptation, communication extension** - Adapt the product using a standardized communications strategy and marketing ideas can be transferred form one country to another.
- **Product and communications adaptation (Duel adaptation)** - Adapting to the difference in both the cultural and physical environment across countries.

13.4 Methods of international market entry

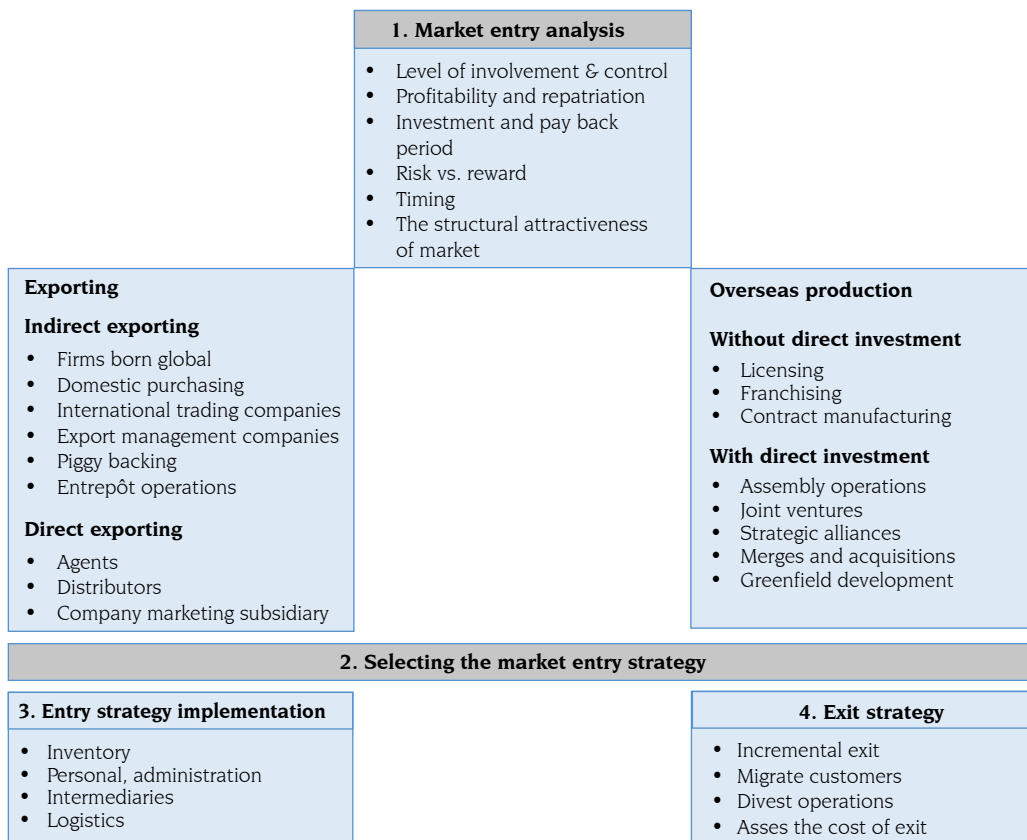


Figure 13.3: Methods of international market entry.

i. Exporting

- a) **Indirect exporting** - This deals with exports as if they were domestic sales and specific knowledge may not be required since others do a majority of the work.
- **Firms born global** - These are firms who, either from inception or shortly thereafter, begin trading in international markets. These companies are created by people who are entrepreneurial and have extensive international personal and business networks or may be selling a service over the Internet.
 - **Domestic purchasing** - This involves the presence of multinational procurement offices with buyers in domestic markets.
 - **International trading companies** - These are companies that stock a wide portfolio of products including competitor products and therefore may lead to conflict of interest. E.g. United Africa company or Sogo shosha.
 - **Export management companies** - EMCs provide the performance of an export department and generally allow the SME a degree of co-operation and control. The company may solicit orders from foreign buyers and will be paid on a commission basis and therefore be motivated to develop the business.
 - **Piggy backing or cooperative exporting** - This is a form of co-operation where one company uses its facilities to sell another product and saves infrastructure, warehousing, marketing and sales costs.
 - **Entrepôt operations** - An entrepôt is a trading post where merchandise can be imported and exported without paying import duties, often at a profit. This explains the reluctance of ships that are required to travel the entire length of a long trading route and encourages manufacturers to sell to an entrepôt instead. The entrepôt then sells the goods at a higher price to ships travelling the other segment of the route. In modern times customs areas have largely made such entrepôt operations obsolete.
- b) **Direct exporting** - This is when a company uses intermediaries located in foreign markets and in doing so the exporter becomes more involved and committed to the market place, adding investment, time and management expertise.
- **Agents** - Agents do not take title for goods (Paid by results) and represent the lowest level of involvement in direct exporting. The distinguishing feature is that they are country or territory bound and paid on a commission basis for orders obtained.
 - **Distributors** - Distributors take title for goods and differ from agents by buying goods themselves and selling them on usually, their own determined prices. Whilst this is a popular technique it is largely dependent on the performance of the chosen distributor.

- **Company marketing subsidiary** - Setting up overseas will provide technical back up and after sales service to distributors, contact manufactures and licensees.
- ii. **Overseas production** - This involves a high level of involvement and the market size, profit potential, reduced tariff and non-tariff barriers and the structural attractiveness of the market may justify this decision. This involves a high level of investment and in some cases may need to be backed by government support.
- a) **Overseas production without direct investment**

- **Licensing** - This confers the right and transfers the knowledge to utilize a specific patent, brand, trademark, copyrights, product or process for an agreed fee, in a given country, over a prescribed time span.

This is most suitable for economically unstable, politically sensitive markets where risk is high and tariff barriers are prohibitive or government regulations forbid company control in the market. Whilst this may be attractive to small and large firms alike it enables quick multi market penetration, whilst establishing long-term relationships useful for products with short life cycles. This strategy requires a low level of investment, cost savings and access to local distribution.

- **Franchising** - This is an arrangement whereby the franchiser gives the franchisee the right to use the franchiser's business concept and trade name in exchange for royalty payments. This is similar to licensing but is more complex and requires more management commitment and expertise as the franchiser makes the total production, operational and marketing program available.

Generally franchisers involve a service element and well known examples include KFC, McDonalds, and Pizza hut. As the franchisee pays in to the franchise and the capital out lay is reduced, the financial risk lies mainly with the franchisee. For the franchisee the arrangements enables small and independent, entrepreneurial individuals to enjoy the benefits of belonging to a large organization with all its power of economies of scale and marketing expertise.

- **Contact manufacturing or sub contracting** - A company appoints a local manufacturer to manufacture parts, or the whole product under a contract but retains control of marketing the product. This provides quick access to markets, avoids investment, labour issues, tax issues, allows access to cheaper raw materials and is therefore less risky and enables the company to claim the product as made locally. This is most suitable for markets with high tariffs, economic volatility and high political risk.

b) Foreign manufacture with direct investment

- **Assembly operations** - This typically involves the last stages of manufacturing of completely knocked down components and depends on the ready supply of components shipped from another overseas country. The components are made in highly automated plants and shipped to a common assembly point to take advantage of favourable manufacturing conditions in the market.
- **Joint ventures** - Two companies get-together and form a third company which is co-owned where they will share resources and leverage each other's strengths. The venture may exploit technological know-how, access to distribution networks, shared product development and reduced capital. Although the investment is high it offers higher returns and control over operations. This method can be used to overcome any government restrictions on sole foreign ownership.
- **Strategic alliances and consortia** - This is a coalition of two or more organisations who would agree to achieve strategically significant goals that is mutually beneficial. They operate with a degree of autonomy and flexibility and tend to start on a narrow basis and broaden over time.

They may combine resources, technology or knowledge by pooling them to gain operational economies and build complementary resource capabilities. Consortia are when there are more than two players in an alliance.

- **Mergers and acquisitions** - This involves entering an overseas country by purchasing a company in that country. The strategy could be used where speed to market entry or the company presence is important. Selecting the right company to acquire is difficult and involves high risk, requiring very careful research and due diligence.
- **Greenfield development** - This is building a factory plant on a green field site and requires substantial time spent on planning and investment. High growth is envisaged with greater control and higher profits.

Exit strategies - Exits are part of the contingency plan and are not uncommon when companies make sustained losses. This is an option a firm may take after contemplating and assessing all other options to salvage the foreign business.

The firm may decide to effect an incremental exit without damaging the corporate image and send a signal to other underperforming markets or migrate customers and dispose assets to reduce the cost of exit. Possible reasons to exit include, difficulty in cracking the market, market volatility, premature entry, ethical reasons, hyper competition or heavy resource reallocations.

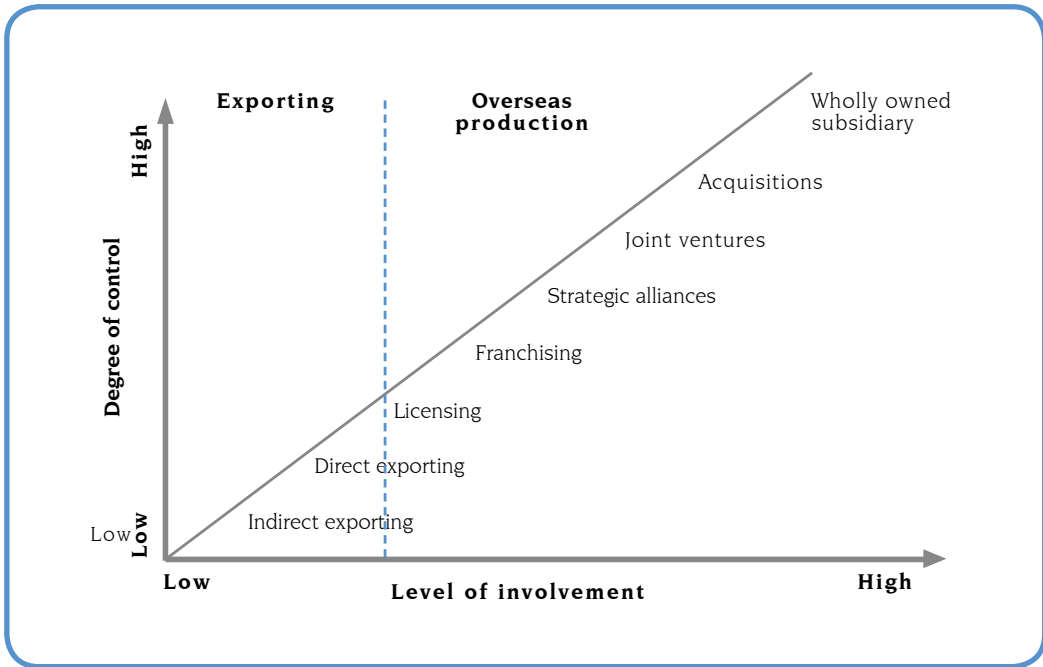


Figure 13.4: Foreign manufacture with direct investment.

Market entry costs

- Inventory costs.
- Costs of manufacturing, warehousing and distribution.
- Costs associated with physical facilities.
- Costs of recruiting and training distributors.
- Market development costs - Integrated marketing communication efforts.
- Preliminary market research.
- Market visits - Travel and opportunity costs.
- Legal fees.
- Site location and office set-up.
- Licenses.

13.5 Screening international markets

The purpose of screening is to arrive at a portfolio of attractive overseas markets from which a selection will be made. A progressive screening approach eliminates unsuitable markets according to market measurement criteria. The process of selecting an international market is often a multi-stage process as illustrated below.

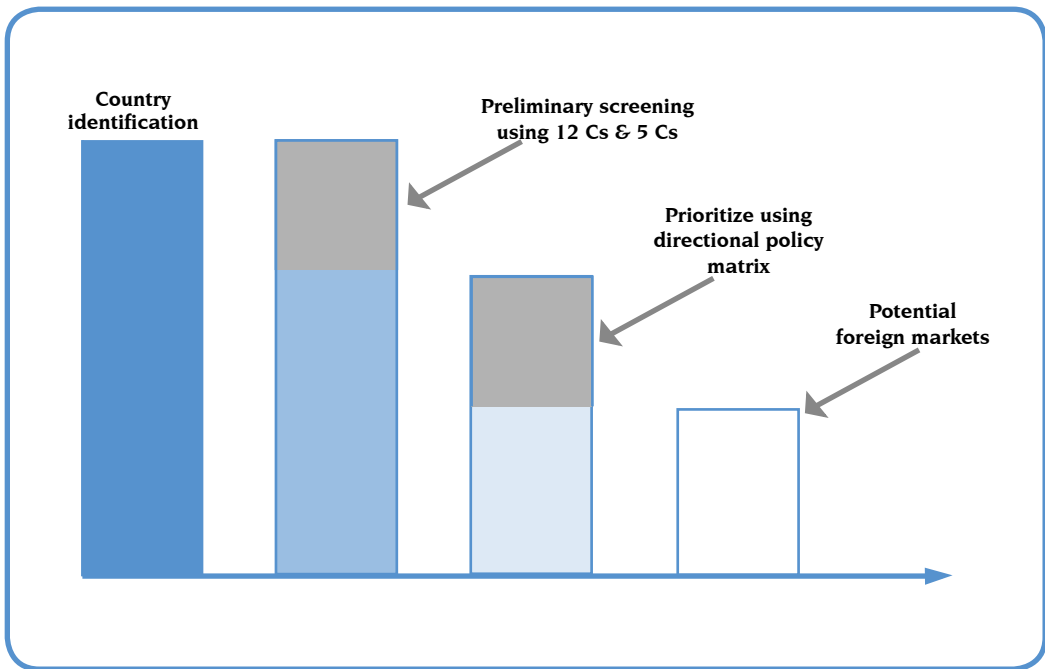


Figure 13.5: Screening international markets.

a) The 12 C framework

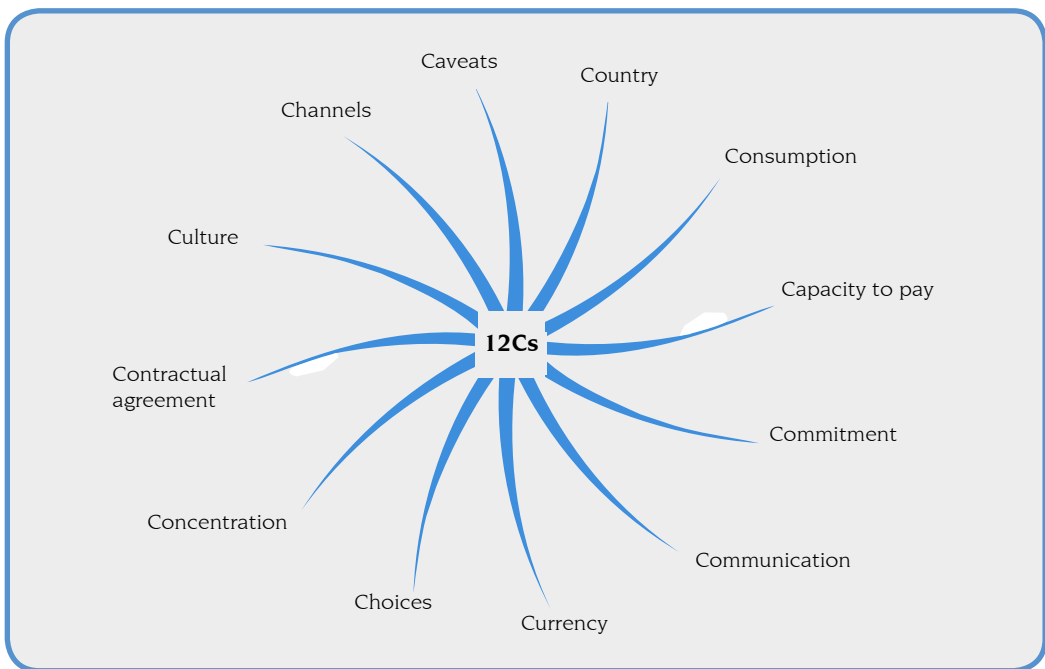


Figure 13.6: The 12 C framework by Doole and Lowe (2012).

- **Choices** - Analysis of supply, characteristics of competitors, import analysis, competitive strengths and weaknesses.
- **Concentration** - Structure of the market segments, geographical spread, competitive position.
- **Culture and consumer behaviour** - Characteristics of the country, diversity of cultural grouping, nature of decision-making, major influences of purchasing behaviour.
- **Consumption** - Demand and end use analysis of economic sectors that use the product, market share by sector, growth patterns of sectors, evaluation of the threat of substitute products.
- **Capacity to pay** - Pricing, extrapolation of pricing to examine trends, conditions of payment, insurance terms.
- **Currency** - Stability, restrictions, exchange controls.
- **Channels** - Purchasing behaviour, capabilities of intermediaries, coverage of distribution costs, physical distribution infrastructure.
- **Country** - General country information, PESTEEL data, impact of environmental dimensions.
- **Commitments** - Critical success factors, access to markets, trade incentives and barriers, custom tariffs, government regulations and regulations in market entry.
- **Communication** - Promotions, media infrastructure and availability, cost of promotion, common selling practices.
- **Contractual obligations** - Business practices, insurance, legal obligations.
- **Caveats** - Factors to aware of and constrains.

b) The 5 C's to evaluate international Marketing channels by Cateora (1993)

- **Coverage** - How well the channel performs in achieving sales, market share or penetration of the market.
- **Character** - The compatibility of the channel with the organizations desired positioning for the product.
- **Continuity** - The loyalty of channel members and the length of time they have been a part of the channel.
- **Control** - How well the organization is able to control marketing programmes within the channel.
- **Cost** - This will cover the cost of investment, variable costs and other expenditures.

c) Directional policy matrix (Multifactor model)

		Country attractiveness		
		High	Medium	Low
Company's compatibility with each country	High	Primary	Primary	Secondary
	Medium	Primary	Secondary	Reject
	Low	Secondary	Reject	Reject

Figure 13.7: Directional policy matrix.

Country attractiveness is evaluated by

- **Market related factors** - Market size, growth, profit potential, the structural attractiveness of the market, absence of barriers, competitive landscape, market entry opportunities, accessibility and responsiveness.
- **Economic factors** - Disposable income levels, currency stability, exchange rates, level of domestic consumption, doing business index and country risk index.
- **Political and legal factors** - Favourable domestic regulations, political red tape and bureaucracy.
- **Socio cultural factors** - Urbanization, cultural distance, language barriers and self reference criteria.
- **Commercial infrastructure** - Fixed, mobile phone, internet penetration and paved road density.
- **Trade barriers** - Tariff barriers, lack of export incentives and quotas.
- **Non tariff barriers** - Protectionism and domestication.
- **Logistical barriers** - Transportation, inadequate infrastructure and warehousing.
- **Direct experience by visiting the market.**

The company's compatibility will be evaluated by

- **Unique resources** - Human, financial, physical and technical resources.
- **Core competencies and business capabilities.**
- **Shareholder and senior management commitment** - Commitment, attitude, flexibility and degree of control.

- **The company objectives and strategic intent** - Competitive advantage, overall value proposition, firm specific experience in international markets, degree of adaptation, the impact on the other activities of the firm.
- **Profitability** - Business model, achieving critical mass, level of investment, pay back period, working capital cycle, defaults and differed payments by buyers.
- **Risk versus reward** - Associated risks versus returns and risk management.
- **Human resources** - Exorbitant labour rates and high staff turnover.
- **Marketing costs** - Marketing research and communication costs.

13.6 Globalization

Definition : Globalization is the integration and convergence of technological and economic forces across country markets that reduce costs and facilitate the mobility of products, services, people, knowledge and money across geographical borders.

The following diagram illustrates the drivers of globalization;

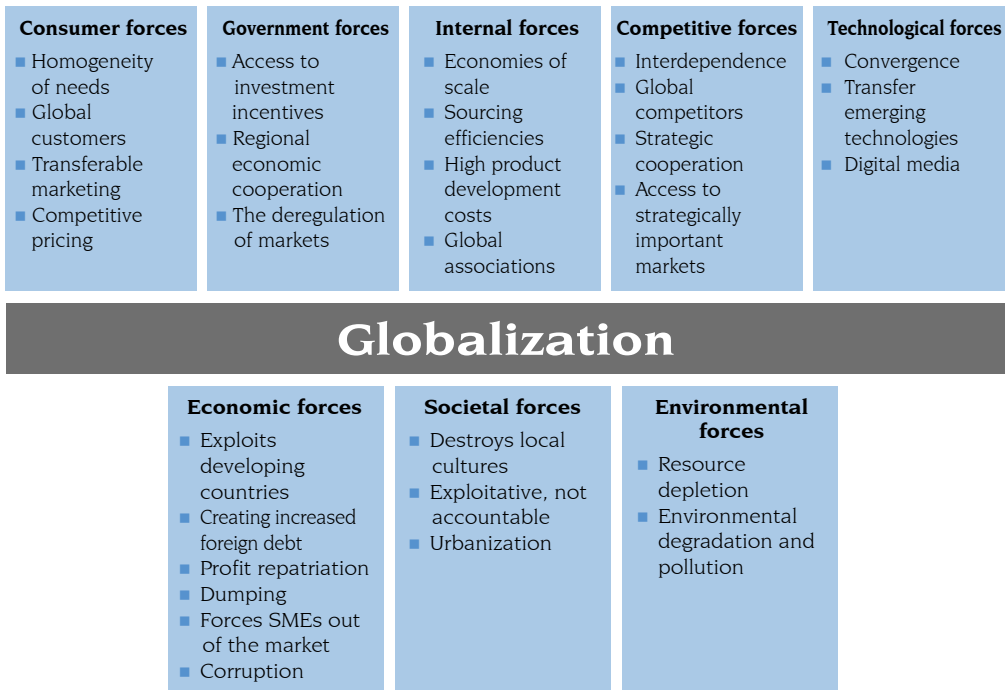


Figure 13.8: Drivers of globalization.

13.7 Hofstede's cross-cultural analysis

Hofstede (2010) researched the role of national culture within the organisation and identified five dimensions, which he argued largely accounted for cross-cultural differences in people's belief systems and values.

- **Individualism vs. collectivism index** - Is the individual the basis of society or does society give meaning to the individual? The United States is the best example of a society in which individualistic traits are most pronounced. E.g. The differences are admired and the cult of individuals prospers most. Perhaps in direct contrast is the Chinese culture, where society's rights and responsibilities are dominant and individual needs are subservient. Here conformity is generally considered the norm.
- **Masculinity versus femininity index** - Masculine cultures emphasize assertiveness, success, competitive drive and achievement which are dominant male values compared to nurturance, solidarity, quality of life for feminine cultures. High masculine societies, whether individualistic like United States or collectivist like Japan provide weaker people with, on average, less support whether from within the organisation or from society at large. People learn to admire the strong and to have a relatively negative view of the weak and dependent. E.g. Masculine = Japan, Italy/ Feminine = Denmark, Sweden.
- **Power distance index** - This measures the extent to which individuals (Society) tolerates an unequal distribution of power in organisations and in society as a whole. In high-power-distance organisations, superiors display their power and exercise it. In such cultures, it is not easy to talk with higher-ranking people and real power tends to be concentrated at the top. In low-power-distance societies, members of organisations, and of society, tend to feel equal and relatively close to each other at work. E.g. Low = Denmark, Austria; High = France, India.
- **Uncertainty avoidance index** - A society's tolerance for uncertainty and ambiguity. It reflects the extent to which members of a society attempt to cope with anxiety by minimizing uncertainty. People in cultures with high uncertainty avoidance tend to be more emotional. They try to minimize the occurrence of unknown and unusual circumstances and to proceed with careful changes by implementing rules, laws and regulations. In contrast, low uncertainty avoidance cultures accept and feel comfortable in unstructured situations or changeable environments and try to possess as few rules as possible. People in these cultures tend to be more pragmatic and are more tolerant of change. E.g. Low = Denmark, Sweden; High = Japan, France.
- **Long-term orientation vs. short term orientation index** - First called 'Confucian dynamism', it describes a society's time horizon. Long term-oriented societies attach more importance to the future. They foster pragmatic values oriented towards rewards, including persistence, saving and the capacity for adaptation. The values promoted in short term oriented societies are related to the past and the present, including steadiness, the respect for tradition, the preservation of one's face, reciprocation and fulfilling social obligations. E.g.: Short term = United States, Australia; Long term = China, Japan.

13.8 The seven dimensional model

Trompenaars and Hampden-Turner (1993) developed the 'Seven dimensions of culture model' to analyse cultural differences which provides managers with some insight into the complexity of managing international teams. The authors explain how reconciling cultural differences will lead to competitive advantage. The basic premise is that an understanding of the underlying values of different cultures lead to greater respect for diverse ways of operating and to the desire and skills for reconciling cultural differences to achieve business performance.

- 1. Universalist versus particularist** - In universalist societies, people follow the rules and assume that the standards they support are the correct ones. Here, written contracts are taken seriously and teams of lawyers are employed to make sure that a contract is correctly drafted, and once signed it must be policed to ensure it is kept. Particularist societies believe that particular circumstances are more important than general rules, and that people's responses depend on circumstances and on the particular people involved. Particularist countries think that the relationship is more important than the written contract, which is not always necessary, and the particular people and situation matter more than the universal rules.
- 2. Collectivism (Communitarianism) versus individualism** - Consideration of group orientation versus individual or self-orientation.
- 3. Neutral versus emotional (Affective)** - This reflects the range of emotions that people are able to express openly. This could have a considerable impact the way in which products are promoted and how relationships are established with customers and the organisations in which they operate.
- 4. Specific versus diffused** - Reflects how people will adjust their behaviour in different settings. However, diffused reflects the consistency of a person's relationships regardless of their situation.
- 5. Achievement versus ascription** - This relates to how status is accorded. Status is achieved via years of experience, service, education and age.
- 6. Sequential time versus synchronic time** - This is essentially the difference between a sequence of events or simultaneous events. It is a question of being able to juggle a lot of balls in respect to time or needing to operate in a sequence to differentiate activities.

Definition : Culture comprises of values, attitudes, beliefs, ideas, artefacts and other meaningful interrelated symbols represented in the pattern of life adopted, learnt and shared by people that help them interpret, evaluate and communicate as members of society.

13.9 Cultural context

- High context cultures** - High context cultures such as the Japanese, Arabs are at the other extreme where they may require more subtlety in interpretation and the way the question is answered is at least as important as the answer itself. These cultures interpret the elements surrounding the message and what is said conveys only a limited part of the meaning. Who said it, the context in which it was said, how it was said, body language etc. is equally important to decipher the meaning of a message. High-context behaviour will have a form of ritual behaviour in everyday life.
- Low context cultures** - Low context cultures such as Germany, Austria and Switzerland prefer straightforward responses to questions and communicate in a literal sense. That means what is said, or written, is what is meant and the messages are mostly explicit and the words carry most of the meaning in the communication message. Low context cultures will have little ritual behaviour and can generally cope with a number of events happening at any one time.

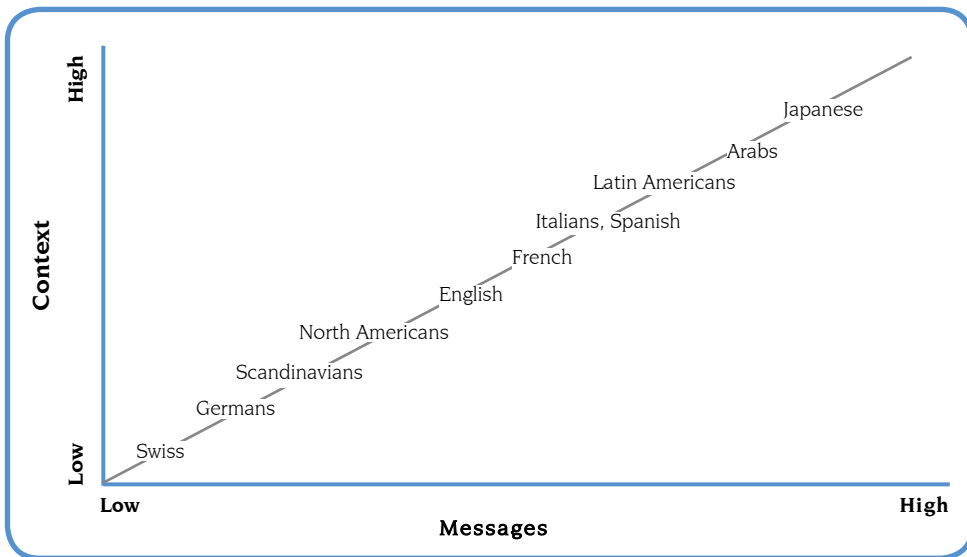


Figure 13.9: Cultural context.

High-context culture and the contrasting low-context cultures are concepts presented by the anthropologist Edward T. Hall in his 1976 book 'Beyond Culture'. They relate to a culture's tendency to use high-context messages over low-context messages in routine communication. This choice between speaking styles indicates whether a culture will cater to in-groups, an in-group being a group that has similar experiences and expectations, from which inferences are drawn. In a higher-context culture, many things are left unsaid, letting the culture explain. Words and word choice become very important in higher-context communication, since a few words can communicate a complex message very effectively to an in-group (but less effectively outside that group), while in a low-context culture, the communicator needs to be much more explicit and the value of a single word is less important.

Self-reference criterion

This is the unconscious reference to the domestic cultural values, experiences and knowledge as a basis to evaluate and compare a foreign culture and is the root cause of most problems. The following four-step process is designed to help organizations isolate and eliminate self-reference.

- Step 1** - Define the business problem or goal using the home country's cultural traits, habits and norms.
- Step 2** - Consult natives of the foreign country and define the business problem or goal through the eyes of the foreign cultural traits, habits and norms without making any judgment.
- Step 3** - Find the gap between cultures and identify how self-reference influences the problem.
- Step 4** - Redefine the problem without the influence of self-reference and bridge the gap between the cultures.

Levels of culture

- **National** - National culture impacts on dealings with foreign national governments and is reflected in the values on which laws and institutions are based.
- **Industry** - Culture impacts on negotiations within a specific industry and is reflected in the norms and laws that govern the activities performed in that industry.
- **Organisational** - Often referred to as corporate culture, organisational culture impacts on trade negotiations with overseas-based firms. It includes a code of ethics and attitudes towards employees.

Elements of culture

- **Values** - Norms governing attitudes and behaviours.
- **Customs, rituals and race** - Collective social conventions such as ceremonies, ways of greeting, heritage, history, traditions and ethnicity.
- **Language** - The spoken and silent language.
- **Symbols** - Words, gestures, objects, numbers or pictures.
- **Artifacts** - Tools or work of art that are of historical interest.
- **Religion** - Symbolic meanings and superstitious communal beliefs relating to a reality that cannot be verified empirically.
- **Education and social institutions** - The process of socialization, nuclear family, extended family, reference groups and aspirational groups.

- **Technology and material life** - Technologies that are used to produce, distribute and consume goods and services.
- **Aesthetics** - Art, music, drama, and dance, attitudes towards design and colour all of which play a role in interpreting symbolic meanings in each culture.
- **Time and time consciousness** - Monocronic versus policronic, past, present or future orientation.
- **Emotional associations** - Courtship, mourning, desire to look beautiful, gender roles, loyalty and factors cresting personal demeanor.
- **Heroes** - Persons who possess qualities who are looked up to.
- **Space** - Physical space refers to personal proximity as well as office location or city location. Abstract space refers to grouping of people according to common characteristics such as education, religion, or profession.
- **Familiarity** - The speed with which friendships are formed, openness.
- **Consumption patterns** - Material possessions, dress, appearance, food and eating habits.
- **Business customs** - Acceptable business practices, bribery, work habits, grapevine, leadership styles, corporate citizenship, negotiations.
- **Social sensitivity** - Conduct and behaviour and in social settings, self esteem, degree of formality, level of tolerance, empathy.
- **Climate** - Climate is the antecedent of cultural and genetic differences.

Origins, elements, and consequences of culture

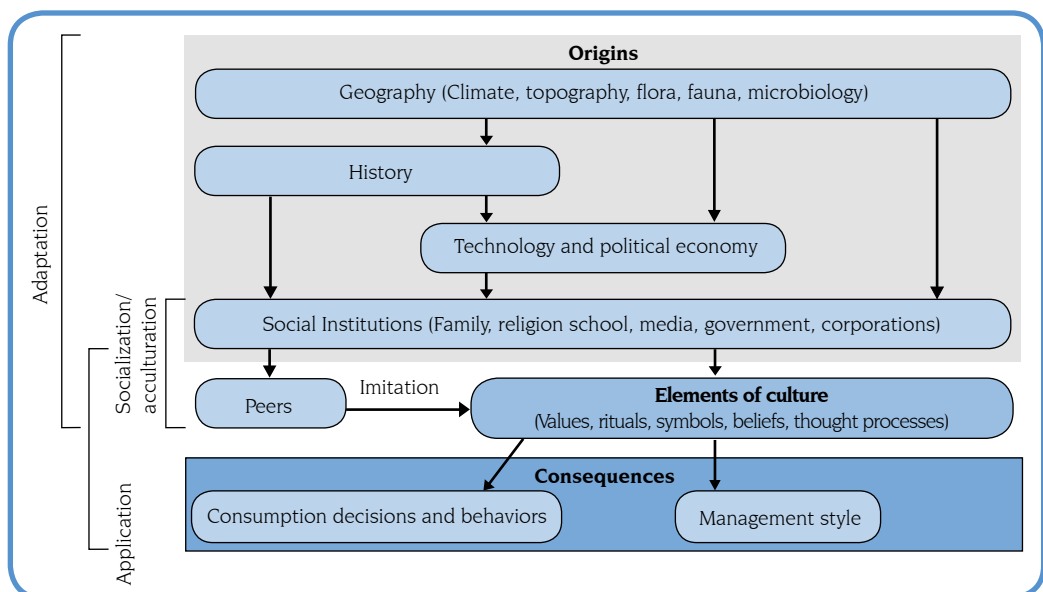


Figure 13.10: Origins, elements, and consequences of culture.

Advertising and translation mix-ups

- The Nova car was launched in Spain and it meant 'it won't go' in Spanish.
- Scandinavian vacuum manufacturer Electrolux used the following strap line in an American campaign 'Nothing sucks like an Electrolux'.
- Clairol introduced the 'Mist stick' a curling iron, into Germany only to find that 'mist' is slang for manure and meant 'Manure stick'.
- Puffs tissues introduced its product into Germany to find that puffs are a German colloquial term for a 'brothel' and in England it may be refers to a homosexual.
- When Gerber started selling baby food in Africa, they used the same packaging as in the U.S., with the smiling baby on the label. Later they learned that in Africa, companies put pictures on labels of what's inside, since most can't read. Gerber is the French word for vomiting.
- Colgate introduced a toothpaste in France called Cue, which was a name of a pornography magazine.
- An American T-shirt maker in Miami printed shirts for the Spanish market, which promoted the Pope's visit. Instead of 'I saw the Pope' (el Papa), the shirts read, 'I saw the potato' (La papa).
- Pepsi's 'Come alive. You're in the Pepsi generation' when translated into Chinese meant 'Pepsi brings your ancestors back from the grave'.
- The Coca-Cola name in China was first read as 'Kekekenla' meaning 'Bite the wax tadpole' or 'female horse stuffed with wax' depending on the dialect. Coke then researched 40,000 characters to find a phonetic equivalent 'kokou kole' translating into 'happiness in the mouth'.
- When Parker marketed a ballpoint pen in Mexico, its ads were supposed to have read, 'It won't leak in your pocket and embarrass you'. The company thought that the word 'embarazar' (To impregnate) meant to embarrass, and the ad read 'It won't leak in your pocket and make you pregnant'.
- When American airlines wanted to advertise its new leather first class seats in the Mexican market, it translated its "Fly in leather" campaign literally, which meant 'Fly naked' in Spanish.
- KFC's 'Finger licking good' came off in Chinese as 'Eat your fingers off'.
- In Italy, a campaign for 'Schweppes tonic water' translated the name into the much less thirst quenching 'Schweppes toilet water'.

Cultural electives and exclusives

Cultural electives relate to areas of behaviour or customs that cultural aliens may wish to conform to or participate in but are not required. E.g. The Japanese do not expect a westerner to bow and to understand the ritual. Cultural exclusives are those customs or behaviours reserved exclusively for locals from which the foreigner is barred. E.g. A non-Muslim acting like Muslim would be repugnant to a follower of Prophet Mohamed or a foreigner criticizing or joking about a country's politics, even though locals among themselves, criticize such issues.

P-time versus M-time (Time language)

- **Monocronic time** - This illustrates that people in low context cultures are prompt and tend to concentrate on one thing at a time whilst dividing time into small parts.
- **Polychronic time** - This is dominant in high-context cultures characterised by the simultaneous occurrences of many things.

13.10 Factors affecting pricing in international markets

Internal factors

- Different pricing objectives, pricing strategies and principles of costing are usually adopted for new products.
- Corporate goals and business strategies.
- Costs, margins of the delivery channel and the mode of transportation.
- Costs of market research, market visits and marketing communications.
- Cost of serving premium segments.
- Shorter product life cycles.

External factors

- Legal restrictions and price ceilings.
- The existence of trade barriers.
- The market entry strategy will determine whether the price is determined by intermediaries or the manufacturer.
- The climate may influence pricing with regards to packaging etc.
- Economic conditions such as high inflation and exchange rates.

- Competitor's actions and reactions.
- Local taxes in the exporting country.
- Culture plays a role in setting price with bargaining which is a norm in some countries.
- Location impacts price.
- Accelerating technological advances.

Terms of sale - The International chamber of commerce has codified the terms of sale to attain uniformity. The most common terms are:

- Ex-works (EXW).
- Free alongside ship (FAS).
- Free on board (FOB).
- Cost and freight (C&F).
- Cost, insurance and freight (CIF).
- Delivered duty paid (DDP) or delivered duty unpaid (DDU).

Terms of payment - Terms of payment impact on how payment is received and reflect the degree of risk the exporter is willing to assume and the terms of sales that are most preferred. Sometimes the terms of the payment are equally important as the final price of the product; The terms of payment include:

- Cash in advance.
- Open account.
- Letter of credit - Irrevocable or revocable, confirmed or unconfirmed, revolving or non-revolving.

Balanced trade and international countertrade

This is another alternative to free trade policies. With the intention of balancing trade, two countries may attempt to maintain a fairly even relationship between their respective imports and exports so that neither country runs a large trade deficit. International countertrade involves trading in goods and services across international borders in exchange for other goods and services with the absence of cash in the transaction.

International pricing policies and strategies

- **Price skimming** - This is to set a high price to establish the product's perceived quality in the international market and recover some of the production and marketing costs of the product.

- **Market pricing** - This involves matching international competitor prices to establish price stability. Products usually then compete on non-price factors such as quality.
- **Penetration pricing** - This is to set a relatively low price for the product in the international market to gain quick market share and consumer acceptance as well as to deter new entrants into the market.
- **Product line pricing** - This is where one product in a product line is sold at a affordable price in order to stimulate sales of a related item that is more profitable.
- **Full cost pricing** - This is to price the product to recover fixed and variable costs.
- **Marginal cost pricing** - This involves recovering variable costs associated with a specific international business transaction.
- **Cost-plus pricing** - This is simple to calculate and may be suitable if the product is a leading-edge technology product and has no competitors in the overseas market.
- **Optimal price setting** - Forces of demand and supply determine how much of a product is sold and at what price. This in turn determines the relative profit levels per unit sold. Firms need to establish a floor price and ceiling price for their product in each international market. From this the profit per unit can be established and the likely probability that the product will be sold at various price points between the floor and ceiling price.
- **Standard world prices** - This involves setting a standard world price at headquarters and applying it to all international markets ignoring the competitive environment in each country.
- **Market differentiated price** - This is to institutionalize a different price for each product in each country reflecting the political, legal, competitive and cultural factors found in each country.
- **Modified pricing policy** - This is a combination of the previous two approaches, which acknowledges the global strategic objectives of the firm as well as country differences when pricing goods and services.
- **Transfer pricing** - Refers to the practice of pricing products among units within the company to exploit tax advantages and create profit centers within the organisation.

Responding to price changes in international markets

- Maintain the current price.
- Reduce the price.
- Raise the price and justify the increase by offering a demonstrable product improvement.

- Reduce the price and enhance the perceived value.
- Reduce the number of intermediaries.
- Eliminate costly features.
- Reduce product quality or offer an 'economy' version.
- Ship and assemble components in the overseas market.
- Modify the product to make it eligible for lower tariff classifications.
- Reduce the basis of valuation - By switching from full to marginal costing.
- Manufacture the product overseas where costs are less.
- Allow 'grey markets' to develop if sales are declining.

Other pricing related factors in international marketing

- **Target costing** - The Japanese use a target cost determined in advance to ensure a price that will deliver market dominance. This target cost is then used to target engineers, designers, suppliers and sub-contractors.
- **Currency fluctuations** - Some countries may adopt a floating exchange rate system, which results in greater volatility in exchange rates. A firm may stabilize the effect of currency fluctuation by hedging against price changes or negotiate international trade transactions to be undertaken in a relatively stable currency.
- **Administered pricing** - This is when the foreign government dictates the prices that the international marketing firm can charge for its products in a certain country and control the price by prescribing floor prices, ceiling prices, and margins.
- **Dumping** - This refers to the practice of selling a product internationally at a price lower than the current domestic value in the country of origin. The types of dumping include predatory dumping, sporadic dumping and unintentional dumping. Anti-dumping measures can be used by establishing quotas, minimum prices or charging extra excise duties.
- **Inflation** - Inflation is an increase in the costs of goods and services over a given period of time. A nation's inflation may make some imported products unaffordable; hence a foreign nation's inflation rate needs constant monitoring by the exporting firm.
- **Government subsidies** - An enormous range of government subsidies and assistance is offered to exporters, such as export credit guarantees (Insurance against bad debt for overseas sales), financial help and assistance from governments in promoting and selling products.

13.11 Constraints in international marketing communication

- **Language differences** - Symbols, colours, numbers, endorsements, shapes and brand names needs to be used carefully to conform to certain cultural beliefs, norms and literacy levels.
- **Intermediary availability** - The availability of media buying groups, market researchers or advertising agency's.
- **Activities of competitors** - Competitor activities may require the increase or decrease of a firm's promotional effort.
- **Government controls** - Government regulations and censorship laws.
- **Education** - Visual messages are preferred to written words in nations with poor education standards.
- **Economic development** - The level of economic development impacts media choice.
- **Media infrastructure** - The availability, reach, cost and effectiveness of media.

13.12 Criteria effecting distribution in international marketing

- **Channel length** - This refers to the number of levels necessary in a distribution channel.
- **Channel width** - This is determined by the number and type of intermediaries in the channel.
- **Channel density** - Refers to the exposure or coverage desired for the product to achieve profitable penetration levels in an overseas market.
- **Channel alignment** - This refers to the extent of coordination between members in order to achieve a uniform and integrated approach in getting the product to the final consumer.
- **Logistics** - This refers to the requirements in transferring goods from a manufacturing plant to the consumer and may include warehousing, trucking, unloading, clearing etc.

Key documentation for distribution

- The export declaration.
- The bill of lading.
- Commercial invoices.
- The certificate of origin.

Offshoring, outsourcing and networked organizations

Offshoring is to relocate corporate activities such as call centers; IT enabled services (E.g. software development) and business process operations (E.g. Human resource management and payroll processing) to a foreign country. Outsourcing means contracting aspects of the work of the organization, previously done in-house to external providers. Network organisations are a series of strategic alliances that an organisation creates with suppliers, manufacturers and distributors to produce and market a product.

13.13 The country of origin effect

The country of origin effect refers to any influence that the country of manufacture, assembly or design has on a consumer's positive or negative perception of a product. Some products are produced in a variety of locations and they are promoted using whichever country that has the strongest country of origin image.

Product-country matches and mismatches: Examples and strategic implications

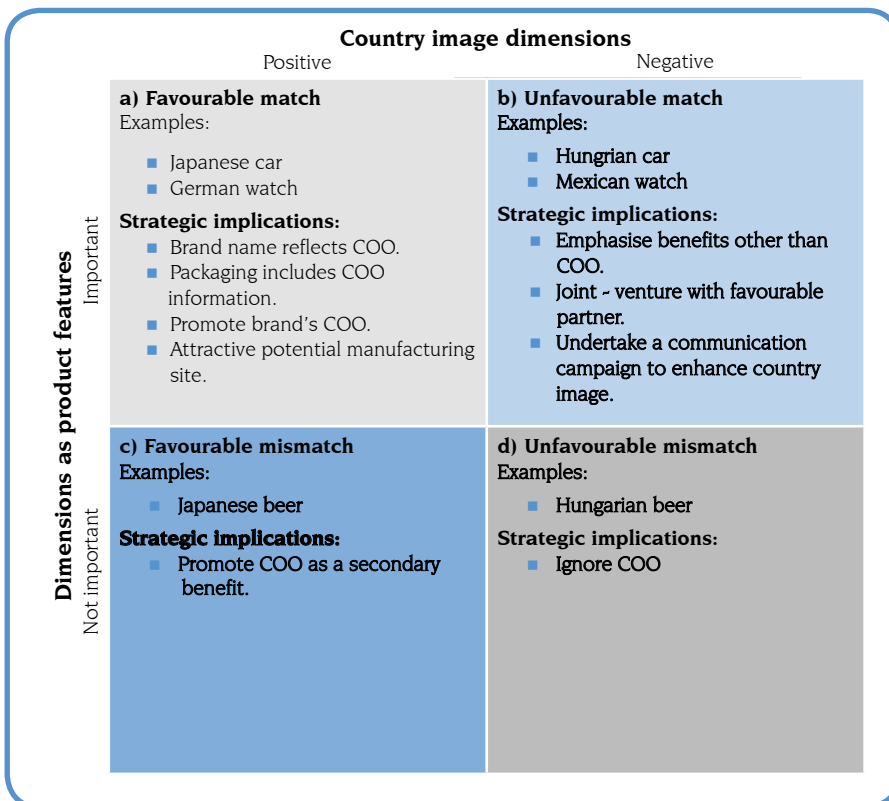


Figure 13.11: M.S. Roth J.B. Romeo, Matching product category and country image perceptions: A framework for managing country-of-origin effects, Journal of international business studies. (1992)

Managing global logistics

Logistics include the following factors;

- **Materials management** - The inflow of raw material, parts and supplies through the firm.
- **Physical distribution** - The movement of the firm's finished products to its customers, consisting of transportation, warehousing, inventory, customer service, order entry and administration.
- **Sourcing strategy** - This is an operational link between materials management and physical distribution, which deals with how companies manage R&D, operations and marketing activities.

Problems in conducting international primary market research

- **Costs** - These vary with the UK being one of the cheapest and Japan one of the most expensive.
- **Language** - In which language should the survey be conducted?
- **Sample** - Rural countries offer problems where respondents may be geographically scattered.
- **Geography** - Where do you conduct the study?
- **Respondent bias** - Japanese respondents tend to be falsely positive in an attempt to please the interviewer.
- **Social organization** - Family owned businesses may value secrecy about their operations and may be unwilling to divulge information.
- **Terminology** - This may differ from country to country. E.g. What do we mean by health food? Affluent? Middle age?

Grey markets

Grey markets are referred to as black markets which distribute a firm's product in international markets through unauthorized distribution channels. These can take three forms;

- **Parallel importation** - Parallel imports develop when importers buy products from distributors in one country and sell them in another to distributors who are not part of the manufacturer's regular distribution system.
- **Re-importation** - This is importing the product back into the home market.
- **Lateral importation** - This involves moving a product from one overseas market to another.

The following conditions may encourage the development of gray markets

- Trade barriers must be low.
- Price differentials among various markets must be great.
- Currency fluctuations.
- Differences in market demand.
- The high cost of litigation.

Strategies to combat gray market activities

Reactive strategies	Proactive strategies
Legal confrontation	Product differentiation
Reduce prices	Strategic pricing
Supply interference	Dealer development
Collaboration	Establishing legal precedence
Acquisitions	Lobbying

Table 13.2: Strategies to combat gray market activities.

Protectionism

Protectionism is to discourage imports by raising tariff barriers, imposing quotas etc., in order to favour local producers. Protectionism may be practiced to;

- Protect an infant industry.
- Protect the home market.
- Keep money in the home country and discourage repatriation of profits.
- Encourage foreign direct investment.
- Maintain the standard of living and real wages.
- Conservation of natural resources.
- Maintain employment and reduce unemployment.

Trade protection is the deliberate attempt to limit imports or promote exports by putting up barriers to trade. Despite the arguments in favour of free trade and increasing trade openness, protectionism is still widely practiced. Protection of domestic industries may allow a country to develop a comparative advantage. For example, domestic firms may expand when protected from competition and benefit from economies of scale. As firms grow they may invest in real and human capital and develop new capabilities and skills. Once these skills and capabilities are developed there is less need for trade protection, and barriers may be eventually removed.

Trade barriers

Trade barriers are used to encourage and protect a domestic industry.

- a) **Tariffs** - A tariff is a tax on imports that will enable the government to raise revenues. The types are as follows;
- **An ad valorem tariff** - Is a set percentage of the value of goods which is being imported.
 - **A specific tariff** - Is a tariff of a specific amount of money that does not vary with the price of the good.
 - **A revenue tariff** - Is a set of rates designed primarily to raise money for the government.
 - **A protective tariff** - Is intended to artificially inflate prices of imports and protect domestic industries from foreign competitors.
 - **A prohibitive tariff** - Is one so high that no one imports any of those items.
- b) **Quotas** - Import quotas are restrictions on the quantity of products allowed to be imported into a country. The restrictions can be imposed by import licenses or by granting the right to a few producers.
- c) **Voluntary export restraints** - This is a limit imposed by the government on the quantity of goods that can be exported out of a country during a specified period of time.
- d) **Boycotts and embargoes** - A boycott is a form of a consumer movement involving the act of voluntarily abstaining from using, buying or dealing with someone or some other organization as an expression of protest, usually for political reasons. An embargo is the prohibition of commerce and trade with a certain country, in order to isolate it and to put its government into a difficult internal situation.

Non-tariff barriers

Some countries initiate unofficial trade barriers perpetrated by the government. The types are as follows;

- Quality and inspection procedures for imported products.
- Rigorous packaging and labeling requirements.
- High safety and performance standards.
- Laborious documentation procedures.
- Restrictions over physical distribution.
- Toleration of anti-competitive practices.

13.14 Porter's diamond of competitive advantage

In his book, 'The competitive advantage of nations', Porter (1992) explored why some nations tend to produce firms with a sustainable competitive advantage and as to why some other nations were lagging behind. The model raises the following questions:

- Why does a nation become the home base for successful international competitors in an industry? E.g. Germany is a renowned manufacturer of automobiles whilst Japan is a leader in consumer electronics.
- Why are firms based in a particular nation able to create and sustain competitive advantage against the world's best competitors in a particular field?
- Why is one country often the home of so many of an industry's world leaders?
- Why do certain nations house so many successful international firms?
- How do they sustain superior performance in a global marketplace?
- What are the implications for government policy and strategy?
- The study suggests reasons as to why some nations are more competitive than others and why some Industries within nations are more competitive than others.

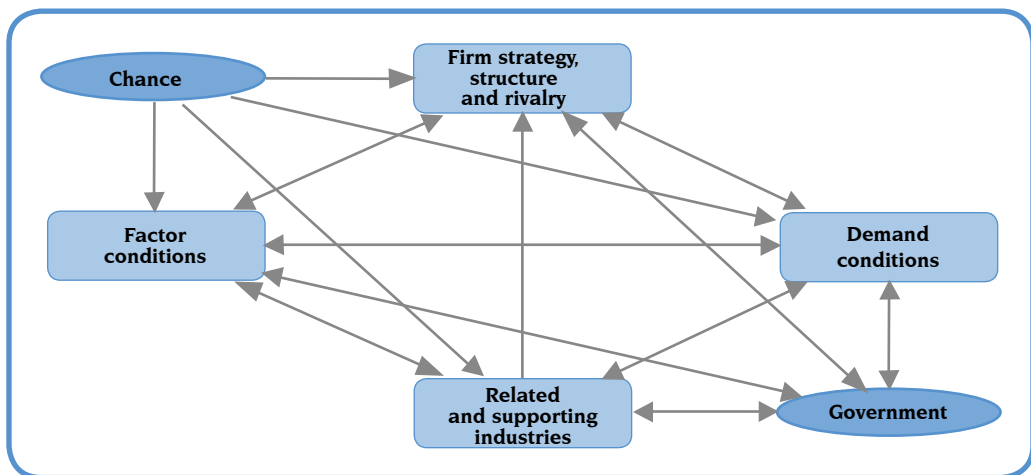


Figure 13.12: The determinants of national competitive advantage.

Porter (1985) called the answers to these questions the determinants of national competitive advantage and concluded that some nations do not pose a distinctive competitive advantage. Instead, he argues, it is specific industries or firms within them that seem able to use their national backgrounds to leverage world-class competitive advantages. Porter (1985) suggests that the determinants of national advantage for an industry are four fold:

- a) **Factor conditions** - These include the availability of land, labour, raw materials, natural resources, capital and suitable infrastructure. Basic factors are unsustainable as they are easily copied (Unskilled labour) whilst advanced factors can convey the advantage as they are less easy to emulate (Scientific expertise).
- b) **Demand conditions** - This is the level of home demand for a industry's products or services. Sophisticated home demand can lead to the company developing significant advantages in the global marketplace. Fussy consumers set high standards for products whilst the product's life cycle in the home market can provide valuable input to new strategic initiatives. Japanese customers have high expectations of their electronic products, which forces producers to provide a technically superior product for the global marketplace. They are so used to dealing with sophisticated customers that when they come across unsophisticated markets, they excel way beyond competition.
- c) **Related and supporting industries** - This is an industry's influence on the development of related and supporting industries. E.g. Italy has a substantial leatherwear industry, which is supported by leather-working plants and top fashion and design companies.
- d) **The firms strategy, structure, and rivalry** - If the home market is very competitive, a company is more likely to become world class. If a company is used to dealing with stiff competition, it may be able to fight them off. At the same time, decisions must be made as to the extent of the ethical variation that an organisation is prepared to involve itself in.
- e) **The government** - The government could influence each of the above four determinants of competitiveness. Clearly governments can influence the supply conditions of key production factors, demand conditions in the home market, and competition between firms. Government interventions can occur at local, regional or national levels.
- f) **Chance** - These are events or occurrences that are outside the control of a firm. They are important because they create discontinuities in which some gain or may loose competitive positions.

Criticisms of the Porter's diamond model

- **Companies versus countries** - By focusing on their country of origin Porter does not explain why a given country produces both stars and duds in the same industry. E.g. Toyota and Honda are both Japanese carmakers, which are a success. Nissan and Mazda are less successful and have been rescued by Renault and Ford, respectively.
- **The model ignores the target country** - Commercial success or failure will depend more on the environment in the target country than it will on the environment in the home country. Therefore it is necessary to analyse the target country as well.

- **Less applicable to service industries** - Porter's analysis focused on manufacturers, banks and management consultancy firms. Scholars have questioned its relevance to service-based companies such as McDonalds.
- **Limited to developed economies** - Porter developed the model by investigating ten developed countries. The model thus applies to developed economies and may be less relevant to others.
- **Empirical evidence** - Porter argues that inbound FDI does not increase domestic competition significantly since domestic firms lack the capability to defend their own markets and face a process of market-share erosion and decline. However, there seems to be little empirical evidence to support that claim.

The four elements of the competitive context

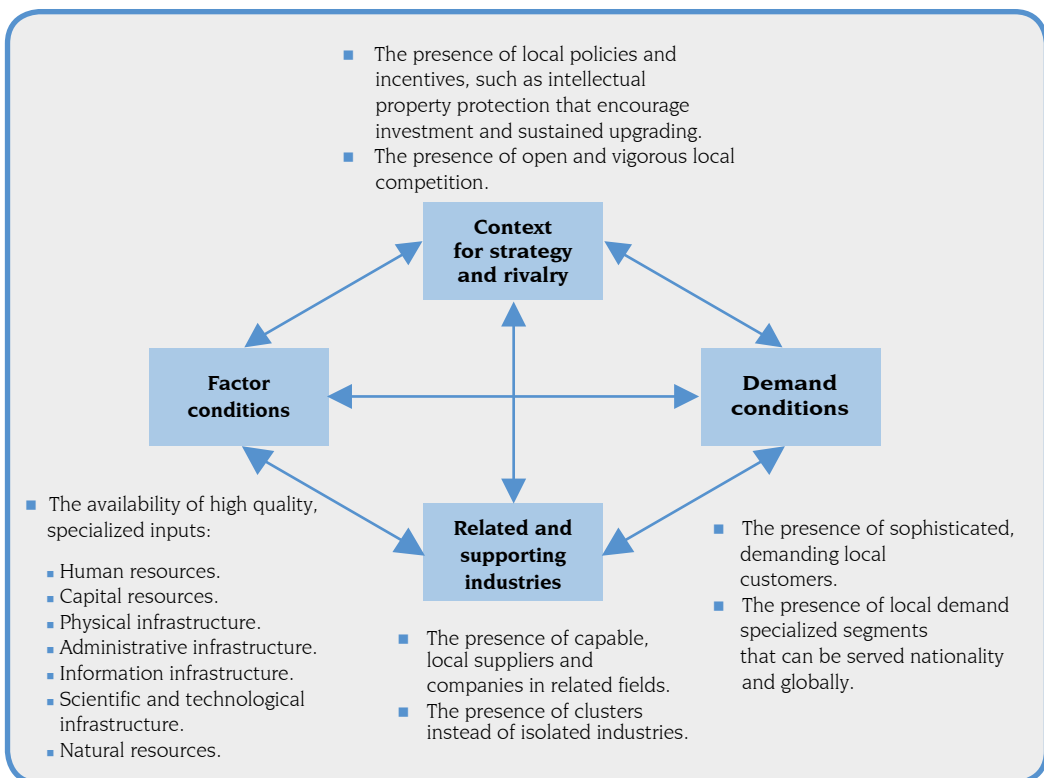


Figure 13.13: The four elements of the competitive context.

By using the diamond, business leaders may be able to analyze which competitive factors reside in their company's home country and which of these factors may be exploited to gain global competitive advantages. It can also be used effectively during the phase of internationalization, to gauge whether or not the home market factors support the process of internationalization and whether or not the conditions found in the home country are able to create competitive advantages on a global scale.

Types of national governments

- **Parliamentary governments** - This is a system where the government consults with its people at periodic intervals on matters related to national policy.
- **Absolutist governments** - These are dictatorship governments, which don't consider its citizens opinions and are often governments with a military involvement.
- **Monarchies** - These are governments that fall between the two extremes of parliamentary and absolutist governments.

Nationalism

Nationalism is an intense feeling of national pride and unity, an awakening of a nation's people to have pride in their country. National interest and security are more important than international relations. The more a country feels threatened by some outside force or as the domestic economy declines, the more nationalistic it becomes in protecting itself against intrusions. Nationalism comes and goes as conditions and attitudes change, and foreign companies that invest in the country today may be harassed tomorrow or vice versa.

13.15 Political risks

There are three types of political risks. They are;

- **Confiscation** - Which involves the seizing of a company's assets without payment.
- **Expropriation** - This is where the government seizes an investment but some reimbursement for its assets are undertaken.
- **Domestication** - This is when host countries cause the gradual transfer of foreign investments towards national ownership control through a series of government decrees. This is done by mandating the transfer of ownership to nationals, by promoting a large number of nationals into managerial positions, control of decision-making, mandating that the majority of the products must be locally produced or imposing specific export regulations for participation in world markets.

Political sanctions - This is when one nation or a group of nations may boycott another nation, thereby stopping all trade between the countries. It may also involve sanctions against the trade of specific products.

13.16 Different economic systems

- **Centrally planned economy** - The government owns all resources and makes decisions about their use on behalf of the population. The government fixes or controls the prices of goods and services.

- **Free market economic systems** - In a free market capitalist system, individuals decide how resources will be used, acting as producers and consumers of goods and services. There is a limited degree of government intervention in the provision of healthcare, education and welfare services and it is not considered immoral to use these resources for the attainment of private profit. E.g. USA, UK.
- **Mixed economic systems** - In a mixed economic system, resource allocation is undertaken partly by the government and partly by the private sector. The government may intervene to influence the behaviour of the private sector.
- **Transition economies** - A transition economy is an economy, which is changing from a centrally planned economy to a mixed (Or even free market) economy. The former Soviet Union and China can be classified as transition economies.



Figure 13.14: Different economic systems.

Capitalist and socialist societies

Capitalism is an economic system based on the private or corporate ownership of the production and distribution of goods. Smith (1776) in his book 'The wealth of nations' explains that capitalists favor a system of free enterprise which means the government should not interfere in the economy and that the laws of supply and demand will make sure that the economy runs most efficiently in meeting people's needs. Capitalism is characterized by competition in which there is rivalry in supplying or getting an economic service or goods. Sellers compete with other sellers, and buyers with other buyers. The buyers seek the best possible deal in purchasing goods and the sellers look to make the best possible sale allowing them the most profit. Socialism is an economic theory that the government or the state should be in charge of economic planning, production and the distribution of goods. This contrasts with capitalism where free markets predominate and property is privately owned. Socialism tends to favor cooperation whereas capitalism is characterized by competition. The theories of socialism first arose in the late eighteenth century in response to the industrial revolution where factory owners were becoming wealthy and the workers impoverished. Thus, workers wanted a greater share in the wealth that factories were making. Later a form of socialism called communism sprang up based on the writings of Karl Marx and Friedrich Engels. Communism advocates a struggle or a revolution to establish

a society of cooperation with strong government control. Communism predominated in the former Soviet Union and much of eastern Europe at one time. Today it predominates in China and Cuba, but its influence has lessened.

Different legal systems and jurisdictions

- **Common law** - This is derived from English law and is based on tradition, legal precedent, past practices and interpretation via court decision. If there is no precedent a new law is created. Common law is found in the United States, United Kingdom, Canada, Australia and New Zealand.
- **Code law** - Code law is derived from Roman law and is based on an inclusive system of written rules (Codes), that is a law that prevails for every situation. Code law has three sub-branches which are civil, commercial, and criminal law. Commercial law is given precedence over other codes when matters of business are involved.
- **Islamic law** - Islamic law is based on the doctrines contained within the Koran. It is applied by Islamic countries in varying degrees and defines a complete system for economic and social behaviour. Islamic law is often applied in conjunction with code or common law.
- **Marxist-socialist law** - This is derived from Marxist-socialist economies and may include tribal or indigenous laws or socialist laws based on the tenets of Marxism and most countries use a blend of these legal systems.

Contracts and dispute resolutions

There are a few ways in which disputes can be resolved in the case of international business. They are;

- **Conciliation** - Conciliation is based on mediation (Sometimes with third party involvement) between trading partners. It is the best approach since it opens the door for future business and is the preferred approach in some countries with Confucian values (E.g. China) where business is based on trust and relationships.
- **Arbitration** - Arbitration refers to the formal processes where the parties in a dispute present their cases to a panel of respected persons who will referee and pass judgement that both sides agree to honour. It is useful to establish arbitration in the contract negotiation stage as doing so speeds up the resolution process.
- **Litigation** - Litigation should only be used as a last resort since it is costly and time consuming. It further reduces any chance of further trade with the other party and may create a poor image of the firm, its brands and its international reputation.

Legal jurisdiction - A common issue in international business is to determine which country's law applies in the event of a dispute. This may depend on which country is nominated in the jurisdictional

clause in the contract, where the contract was entered into and where the provisions of the contract are to be carried out. Jurisdiction can be further complicated when the practice of international law conflicts with a nation's law, or when one nation endeavors to impose its laws on another. Legal disputes can arise in three situations. Between governments, between a company and a government or between two companies. The most clear-cut decisions can be made when the contracts or legal documents supporting a business transaction include a jurisdictional clause.

13.17 Emerging markets

Globalization and internal developments have lead the BRICS (Brazil, Russia, India, China and South Africa) as the world's largest emerging economies. An emerging market will be characterized by a large and rapid growth rate, a move towards a free market economy, relative political stability, availability of labour, low wage rates, improvements in education, availability of natural resources. By 2050, the combined BRICS economies are expected to outstrip the G6 economies (Germany, France, Italy, Japan, UK and the USA). Organizations in BRICS economies are moving from being recipients of foreign direct investment to actually investing in and even becoming owners of major western businesses. A second tier of emerging economies, which demonstrates some similar characteristics to those of the BRICS nations are Indonesia, Vietnam, Colombia and Ukraine.

Multinational market regions

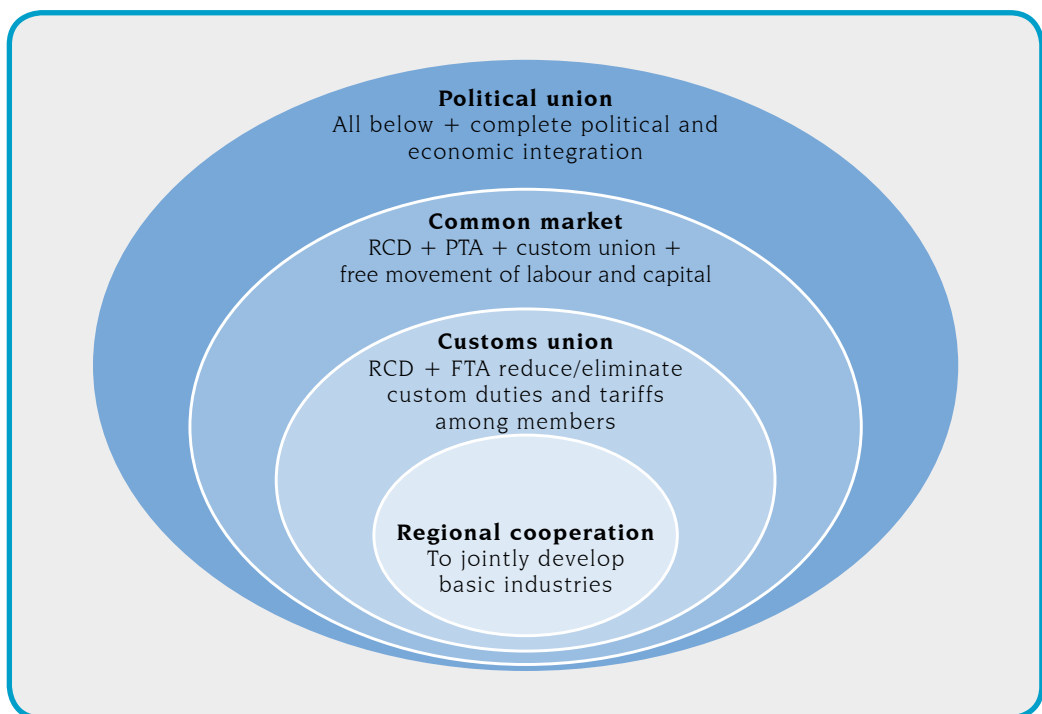


Figure 13.15: Multinational market regions by P. Ghauri & P. Graham.

These are groups of countries or regional trading blocs that seek mutual economic benefit by reducing trade and tariff barriers internally. A successful economic union requires a favourable economic, political, cultural and geographic factors.

- **Regional cooperation groups (RCD)** - Regional trading blocs promote trade between countries and governments agree to participate jointly to develop basic industries beneficial to each economy.
- **Free trade area (FTA)** - This is an agreement between two or more countries to reduce or eliminate customs duties and nontariff trade barriers among partner countries while members maintain individual tariff schedules for external countries. Members in these arrangements agree to lower barriers to trade amongst themselves. They enable free movements of goods and services and may limit factors of production in some instances. Free trade areas, which are a more formal version of the above are the loosest form of economic integration.
- **Customs union** - This involves a free trade area with reduced or eliminated internal tariffs and adds a common external tariff on products imported from countries outside the union. Customs unions provide the advantages of free trade areas and agree on a common policy on tariff and non-tariff barriers to external countries. Internally they attempt to align tariffs, taxes and duties amongst members.
- **Common market** - This eliminates all tariffs and other restrictions on internal trade and adopts a set of common external tariffs and removes all restrictions on the free flow of capital labour and factors of production among member nations.
- **Political union** - This involves complete political and economic integration which may either be voluntary or enforced. E.g. The Commonwealth of independent states (CIS) The European Union (EU).

Stages of economic development

- **Low-income countries (Third world countries)** - These are characterised by heavy dependence on agriculture with very basic manufacturing activity, high birth rates, heavy dependence on foreign aid, malnutrition, low literacy, very low GDP per capita, poor infrastructure development and political unrest E.g. Ethiopia, Sudan, Nicaragua.
- **Lower-middle income countries** - These are characterised by being at the early stage of industrialization, heavy reliance on primary industries such as mining, agriculture, forestry, fishing, low GDP per capita, developing infrastructure, growing domestic market, export standardized, labour intensive products and emergence of a middle class. E.g. Vietnam, Philippines.
- **Upper-middle income countries or newly industrialized countries (NIC's)** - These are industrializing countries where the percentage of population in agriculture is small as the workforce

moves to the industrial or service sectors, rising wages and literacy rates, export led economic growth, rapid economic expansion, industrialization, political stability, economic and legal reforms, entrepreneurship, factors of production and strategic industries targeted for growth. These countries must overcome the middle-income trap and move to the next level. E.g. Taiwan and South Korea.

- **High-income countries or post-industrial countries** - Industrialised countries with high per capita income, sophisticated infrastructure and sustained economic growth (Except for those oil-rich nations where the wealth is based on oil production). They possess a heavy dependence on services for income, information processing, the orientation towards a knowledge economy and new product development. E.g. USA, Japan, Sweden.

13.18 Bottom-of-the-pyramid markets

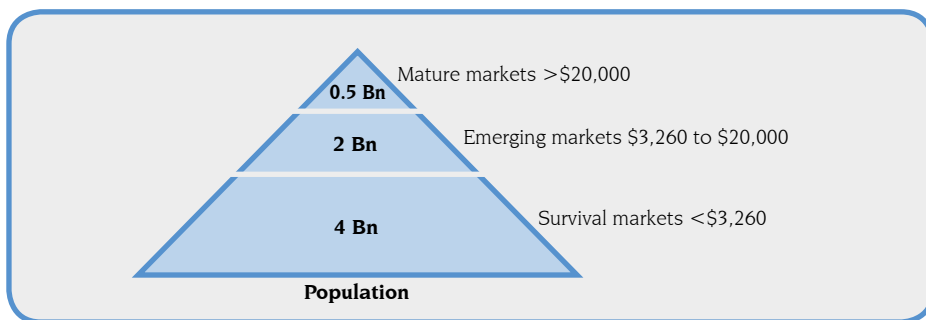


Figure 13.16: Individual annual income (2005 USD in purchasing power parity), World resources institute

Most companies focus on mature and emerging markets, while a huge market of 4 billion people living on less than \$3,260 a year goes largely untapped. BOPM consumers have been largely ignored by international marketers because of misconceptions about their level of resources and lack of appropriateness for products and services.

The world bank - The original purpose of the WTO was to help finance the reconstruction of economies damaged by war, however, it soon shifted the focus of its lending to countries of the developing world. The World Bank has approximately 150 members with a primary focus of project funding for economic and social infrastructure development.

The international monetary fund - The IMF is responsible to promote international co-operation among members on international monetary issues, to facilitate the balanced growth of international trade, to contribute to high levels of real income, employment and production, to promote exchange rate stability and orderly exchange arrangements, to avoid competitive currency devaluation, to foster a multilateral system of payments, eliminate exchange restrictions, to make financial resources available to members and to seek a reduction of imbalances in payments.

The world trade organisation - Formally known as GATT, the WTO accounts for in excess of 80% of world trade and adopts a policy where all members are treated the same way. They resolve trade disputes and attempt to prevent discriminatory trading practices between countries. The generalized scheme on preferences (GSP) by the WTO is where developed countries were authorized to reduce import duty's on goods from less developed countries.

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CHAPTER 14

Managing the Customer Experience

- 14.1 Managing moments of truth
- 14.2 The service profit chain
- 14.3 The customer ladder of loyalty
- 14.4 Customer loyalty model
- 14.5 The service balance scorecard
- 14.6 The service quality gaps model
- 14.7 The flower of service
- 14.8 Customer lifetime value
- 14.9 The Pareto policy
- 14.10 Customer life cycle management
- 14.11 Relationship marketing
- 14.12 The customer relationship life cycle
- 14.13 Gummesson on relationship marketing
- 14.14 The key mediating variables model (KMV)
- 14.15 The six markets model
- 14.16 Negotiation techniques

14 Managing the Customer Experience

Your most unhappy customers are your greatest source of learning - Bill Gates

Services sell intangibles, through expectations and promises of what is to come. The primary objective of customer service is to increase customer satisfaction, operational efficiency and customer loyalty. Customer service can be defined as a set of activities that support orders which includes dispensing advice, order processing and after sales interactions.

14.1 Managing moments of truth

Jan Carlton, the CEO at Scandinavian Airlines estimated that each year the airlines staff makes contact with over ten million customers at a average of five times for fifteen seconds. Thus, an SAS experience is created 50 Million times a year, 15 seconds at a time. These instant connections of service interactions and encounters are the moments of truth when the airline must prove to its customers that it is the best alternative. Typically, service experiences have many 'moments of truth', which may include different types of service interactions. Carlton built SAS into a profitable airline in the 1980s, through a commitment to the customer, empowering front-line employees, and a flatter, leaner organization.

A Disney theme park visitor has around 74 service encounters. Marriott hotels found that most factors with the largest effect on customer loyalty occur during the first 10 minutes of a guest's stay, and so they place attention on the check-in process. Cram's (2003) findings differ, stating that a strong final impression is critical, which is often ignored by providers. The last impression of a hotel guest can be waiting for a porter for baggage or the queue at the checkout.

Types of service encounters

Shostack (1985) identified three types of service encounters.

- **Remote encounters** - This is when customers contact with the organization is through impersonal means. This is often through a electronic interaction, such as people banking through ATMs or the internet.
- **Phone encounters** - These are for enquiries, orders accommodated through a call center.
- **Face-to-face encounters** - These are direct, personal contacts between customers and and an employee.

14.2 The service profit chain

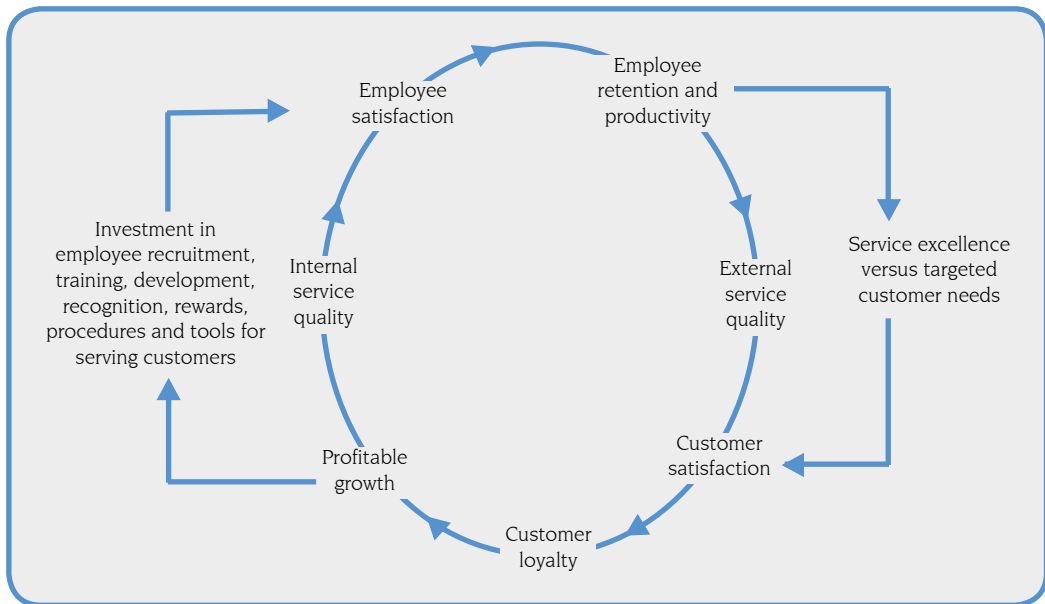


Figure 14.1: The service profit chain by Hesktt et al (1994).

The service profit chain by Hesktt et al (1994) describes that there is a direct financial link between superior service experiences, customer loyalty, and financial performance (Profit and growth). Profit and growth are stimulated primarily by customer loyalty. Loyalty is a direct result of very high customer satisfaction. Satisfaction is largely influenced by the value of services provided to customers. Satisfied, loyal and productive employees create value and employee satisfaction is a result of high-quality support services and policies that empower employees to serve customers well which also called internal quality. If you wish to influence the upper level (Growth and profit) you need to look at the levels at the bottom first which is internal quality.

14.3 The customer ladder of loyalty

Payne et al (1999) introduced the customer ladder of loyalty, which suggests that a customer progresses through a number of levels from a prospect, customer, client, supporter, advocate to a partner.

Initiatives to move customer up the ladder

- Be visible and get noticed.
- Delight the customer.
- Add value and solve problems.
- Offer special privileges.
- Loyalty programs.
- Create exit barriers.
- Relationship management.

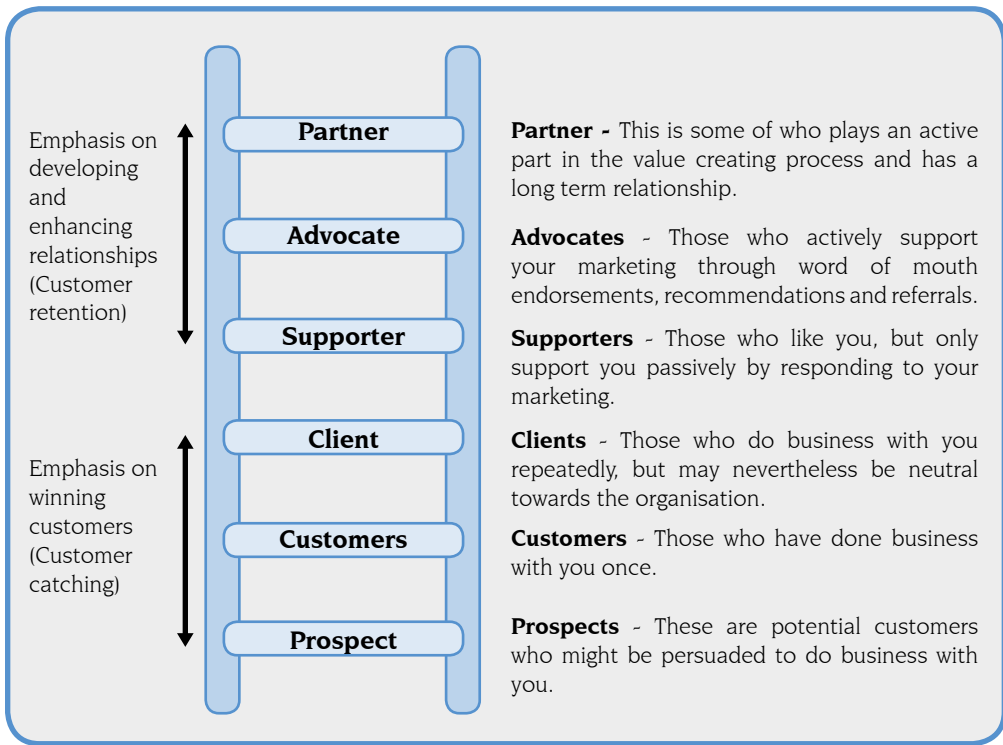


Figure 14.2: The customer ladder of loyalty by Payne et al (1999).

14.4 The customer loyalty model

Reichheld (1996) refers to loyalty as the litmus test of corporate performance. An increasingly important marketing measure is the degree of 'Churn' in and customer base. Why are loyal customers more profitable? The component bar chart below summarizes the potential sources of additional profit for a retained customer.

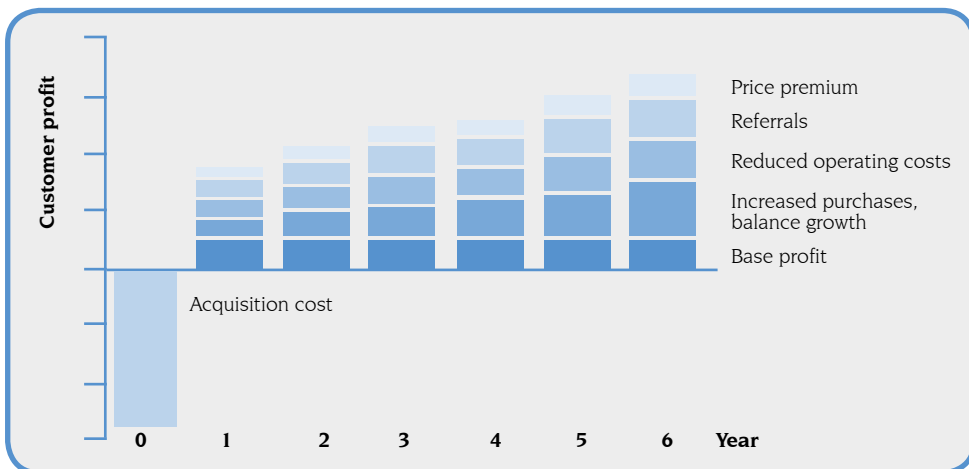


Figure 14.3: The customer loyalty model by Reichheld (1996).

Let us examine each of these factors in turn.

- **Acquisition cost** - This refers to the cost of getting a new customer. This may be advertising, personal selling, direct mail, the expense of opening a new store, the time invested in writing a proposal or making a pitch and so on. Some of these are obvious and some are hidden.
- **Base profit** - Customers pay a price for our product, which is in excess of the cost of producing it. The longer a customer stays with your organization, the longer it may continue to earn a base profit, which can be traded off against the initial acquisition costs.
- **Revenue growth** - In most industry sectors, customer spending tends to accelerate with time as customer familiarity grows with the brand. As the customer appreciates the range on offer from a retailer, they tend to extend their purchasing across categories.
- **Operating costs** - As a customer becomes familiar with the company and its portfolio, they become more efficient as buyers. They become less reliant on the organization as they become knowledgeable. They understand the extent of the portfolio and the processes of the organization and therefore the operating costs reduce.
- **Referrals** - Referrals occur when customers recommend your product to potential clients. According to Reichheld, the evidence on this is actually quite mixed depending on a product category. In some categories customers tend to refer more in the early stages when novelty encourages word of mouth.
- **Price premium** - Old customers effectively pay higher prices than new ones. They do not benefit from introductory offers or discounts, and may be less price sensitive. Their increased association creates their own personal barrier to exit.

Elements of loyalty strategy

Reichheld (1996) suggests the following rules for a firm to build customer loyalty.

- Build a superior customer value proposition.
- Find the right customers.
- Earn customer loyalty.
- Find the right employees.
- Earn employee loyalty.
- Gain cost advantage through superior productivity.
- Find the right investors.
- Earn investor loyalty.

Loyal customers provide firms a consistent source of revenue (Repeat and increased purchases) and cost reduction (less promotional expenses) that leads to increased profits. Customer loyalty is the result of successful marketing strategy in competitive markets that creates value for consumers. The customer loyalty model examines the mediating role of consumer perceived value in the marketing strategy-customer loyalty relationship.

14.5 The service balance scorecard

Here is an example of the critical performance indicators in a service business presented in the four perspectives of a balance scorecard.

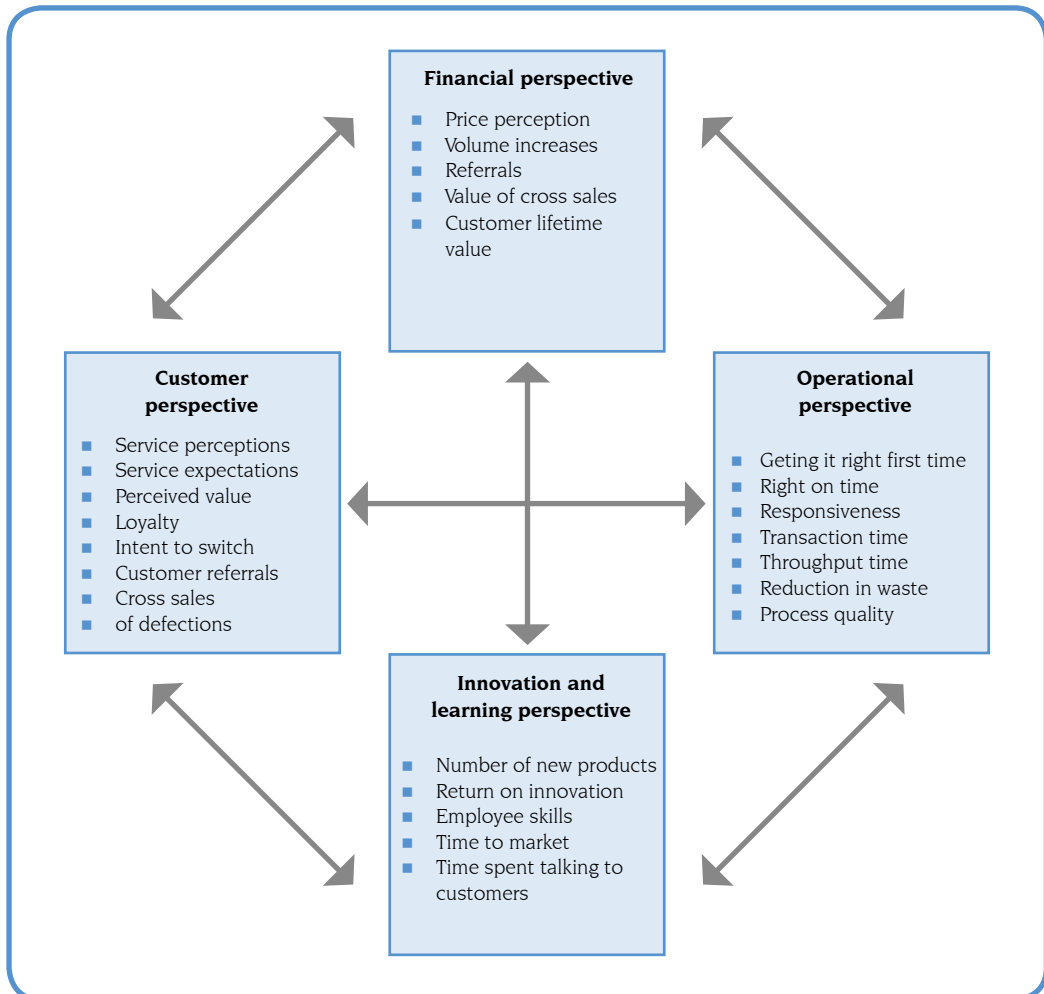


Figure 14.4: The service balance scorecard.

14.6 Service quality gaps model

Parasuraman Berry and Zeithaml (1991) introduced the service quality model and highlighted the main requirements for delivering a high level of service quality by identifying five gaps that can lead to the unsuccessful delivery of a service. Customers generally have a tendency to compare the service they experience with the service they expect to receive; thus, when the experience does not match the expectation, a gap arises. Here is an example of each gap.

The service quality gaps model

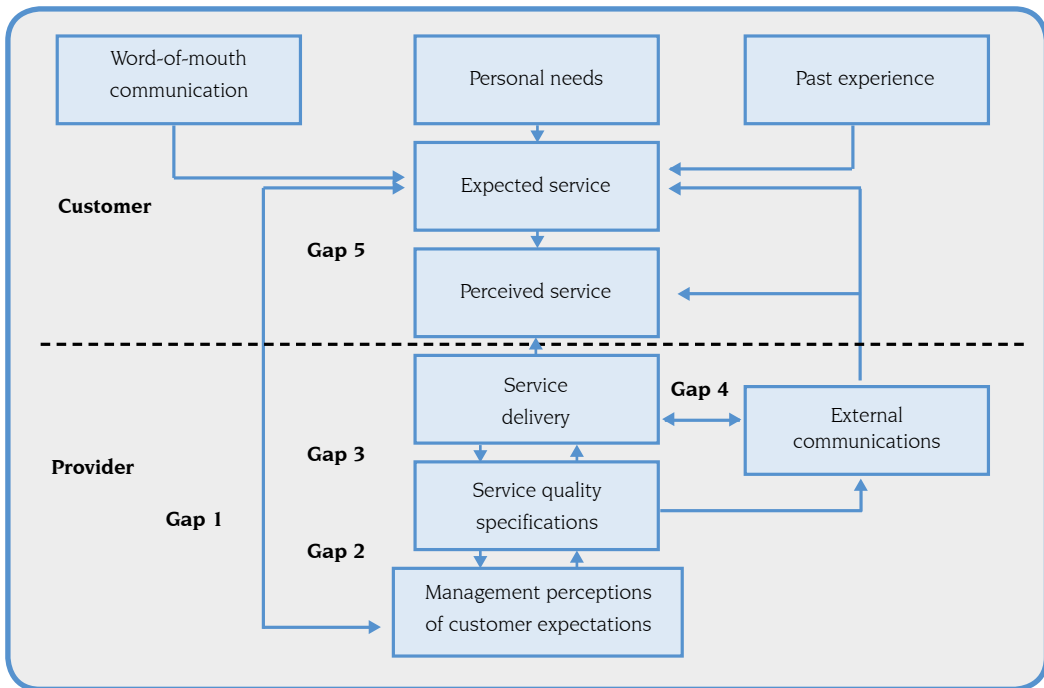


Figure 14.5: The service quality gaps model.

GAP 1: This is the gap between the consumers expectation of a service and the management perception of a service. This gap arises when a service provider does not correctly perceive what the customer wants or needs. For instance, hotel administrators may think guests want better food or an in-house restaurant facility, but guests may be more concerned with the responsiveness of staff or the cleanliness of their rooms.

GAP 2: This is the gap between the managements perception of a service and the service quality specification. This occurs when the service provider perceive what the customer wants, but may not set accurate service specifications. An example here would be that hospital administrators may tell the nurse to respond to a request 'fast', but may not specify 'how fast'.

GAP 3: This is the gap between the service quality specification and the actual service delivery. This gap may arise due to poor training, incapability or unwillingness to meet the set service standard. An example would be when a doctor's office has very specific standards of hygiene communicated but the hired staff may have been poorly trained on the need to follow these strict rules.

GAP 4: This is the gap between the service delivery and external customer communications. Consumer expectations are highly influenced by statements made by the company representatives and advertisements. The gap arises when these assumed expectations are not fulfilled at the time of delivery of the service. For

example a hospital brochure may state that it has clean and furnished rooms but in reality, it may be poorly maintained. In this case the patient's expectations are not met.

GAP 5: This is the, gap between the expected level of service and actual experienced of the service. This gap arises when the consumer misinterprets the service quality. E.g. A physician may keep visiting a patient to show he cares but the patient may interpret this as an indication that something is wrong.

Reasons for service quality gaps

Gap 1	Not knowing what customers expect.
Gap 2	The wrong service quality standards.
Gap 3	The service performance gap.
Gap 4	Promises do not match the actual delivery.
Gap 5	The difference between customer perceptions and expectations.

Dimensions of service quality

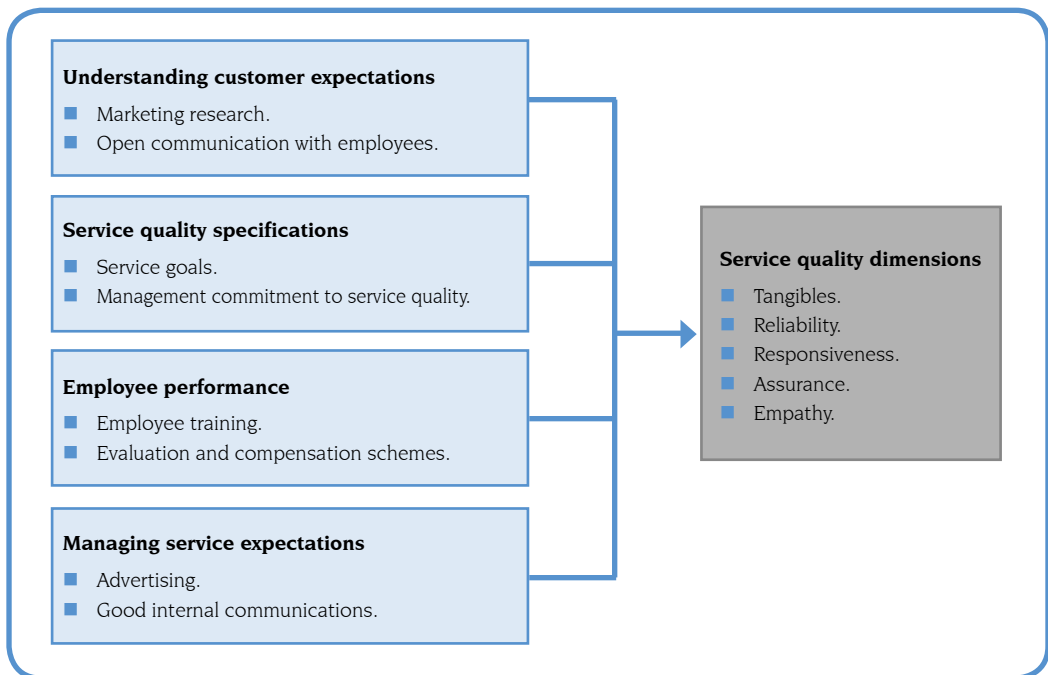


Figure 14.6: Parasuraman, Berry & Zeithaml, (1991).

- **Tangibles** - This includes the appearance of physical facilities (Carpeting, lighting), equipment, communications (Brochures, correspondences) and the appearance of staff.
- **Reliability** - This is the ability to provide a service dependably, accurately and consistently.

- **Responsiveness** - Responsiveness evaluates the willingness, readiness and preparedness of an employee to help customers provide a prompt service in a timely manner.
- **Assurance** - This is the knowledge, competency, credibility and courtesy of employees and their ability to inspire trust and confidence.
- **Empathy** - Empathy considers the individualized attention a firm gives its customers. It is the ability to experience another’s feeling as one’s own.

Service measures

Organizations may institutionalize performance measures or service metrics to manage service quality. These differ from standard measures of quality for tangible products. Customers measures should not focus on individual activities, but on the overall service offering. Managers need to be aware that effective KPIs drive behavior and therefore inappropriate performance measures can result in staff focusing on activities that do not add value.

Methods of monitoring customer service

Customer satisfaction surveys	Performance appraisals
Mystery shopper surveys	The service balanced score card
Evaluation of complaints	Observation of customers
Comment cards and suggestion boxes	Service performance index’s
Customer service tracking studies	Staff climate monitor

14.7 The flower of service

Lovelock and Wirtz’s (2004) introduced the ‘flower of service’ framework which shows the total offering to a customer as a flower, based around the core of a product. The petals represent key elements of service to the customer and identifies the following forms of opportunities for customer service:

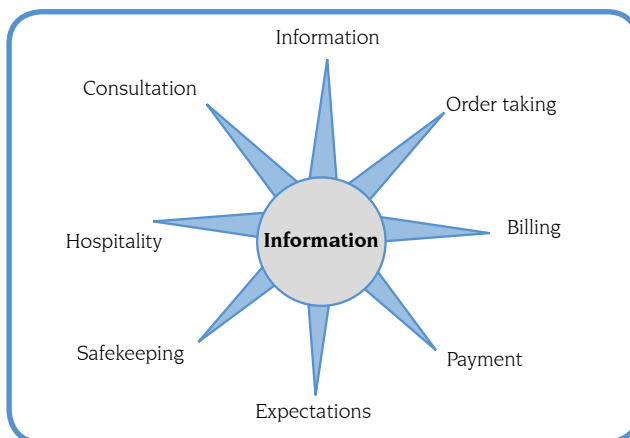


Figure 14.7: The flower of service.

Facilitating services

- **Information** - This is about how or where to buy or use a product which may include documents and manuals.
- **Order taking** - This is to record orders and give information pertaining to the availability and delivery.
- **Billing** - Customers want bills that are accurate and easy to understand as well as contact details.
- **Payment** - This is to offer payment options, such as annual, monthly or weekly payments and a mode of payment such as cash, credit cards or a direct bank payment.

Enhancing services

- **Consultation** - This involves providing advice and expertise.
- **Hospitality** - This involves welcoming customers who are making the time to contact a business and encourage repeat visits.
- **Safekeeping** - This involves reducing any risks and concerns through after sales service.
- **Expectations** - This is to provide flexibility, when things go wrong or in exceptional circumstances.

Service blueprinting

Shostack (1984) developed 'service system blueprinting' as a way of systematically designing or redesigning services. A service blueprint is a way of mapping customer contact points, physical evidence and the service process. It indicates a customer's experience of the entire service system, and the front-line staff as well as the systems required to deliver high service standards at various 'moments of truth'. This is presented as a map of services, incorporating:

- **Physical evidence** - This involves any tangibles at each point of contact with a customer.
- **Customer actions** - These are the steps, choices, activities or interactions that the customer performs in the process of purchasing, consuming and evaluating a services.
- **On stage employee actions** - These are any actions undertaken by employees directly interacting with or visible to customers.
- **Backstage contact employee actions** - This involves activities undertaken by front-line employees in preparation for their contact with customers
- **Support processes** - These are the enabling processes for a on stage employee to perform their work, such as maintenance, secretarial and administrative processes.

The service blueprint framework

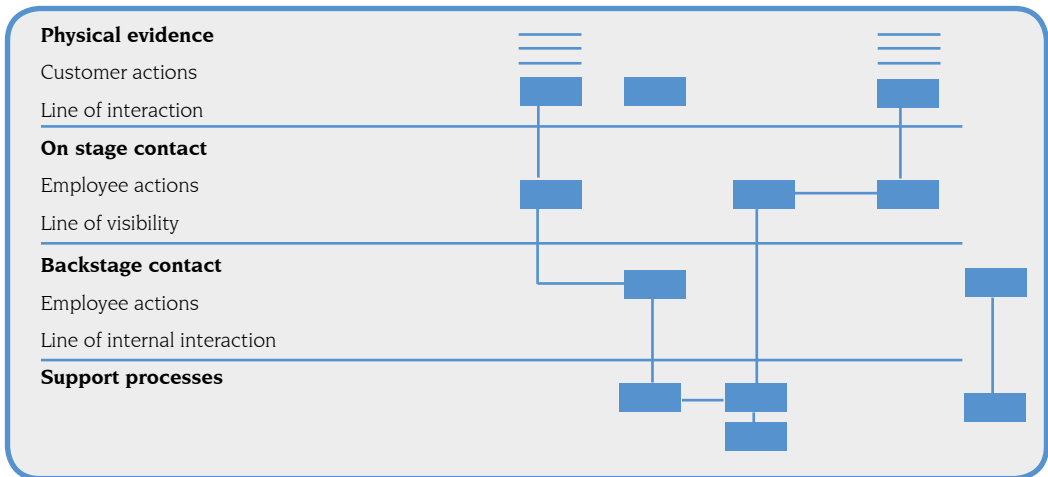


Figure 14.8: The service blueprint framework by Zeithaml, V.A. and Bitner, M. J. (2003).

14.8 Customer lifetime value

Customer loyalty and customer lifetime value (CLV) are often more strategic and long-term measures than customer satisfaction alone, so by combining these metrics marketers can measure the impact of both short-term customer satisfaction measures and more strategic longer-term relationship-building activities.

CLV is a forward-looking indicator that forecasts the value of the relationship between an organization and a customer and how much profit the organization will make out of that customer. It is the present value of the future cash flows attributed to the customer relationship. In essence, what this metric demonstrates is how much a customer is worth to the organization expressed as a lump sum in current money terms. It helps an organization to decide which customers are worth the most, based not on historical data, but on potential future income.

A simple metric formula used frequently by marketers to calculate CLV works as follows:

$$\text{CLV} = (\text{Average order value}) \times (\text{Number of repeat sales}) \times (\text{Average retention time})$$

For example, if a typical supermarket customer spends Rs.100 each time they visit, and visit one a week for 45 weeks of the year (Allowing for holidays and other time away from home) their annual spend is Rs.100 x 45 = Rs. 4,500. If we now assume that a customer remains loyal to a supermarket for ten years this would give a CLV of Rs.45,000 (Rs.4500 x 10). This is a quick calculation since a true CLV calculation should discount future sales to their 'net present value', but the relative value of each other customer broadly holds using this method.

Key account management

KAM involves the relationship management of customers, which are strategically important to the business. This is evident in business to business markets where there is a natural development of customer focus and relationship management for accounts that generate the highest profit or profit potential. Some other reasons to select key accounts may include technical expertise, image (the prestige of the account), geographic proximity or market expertise. Cheverton (2008) developed a matrix to classify customers and to attempt to identify key accounts. The matrix is also useful to classify the contact strategy for different customer groups.

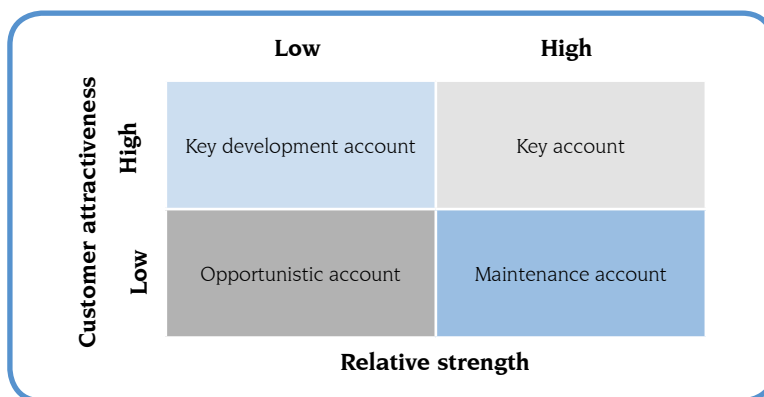


Figure 14.9: Key account management by Cheverton (2008)

Customer attractiveness is what makes the customer or potential customer appealing to the organisation. The relative strength is the attractiveness of the organisation to the customer relative to competition.

- **Key accounts** - These are the accounts identified as the ones to have a strategic relationship with.
- **Key development account** - Here, there is work to be done to develop the company's strengths and making it more attractive. Selected investment may be needed for the accounts in this category.
- **Maintenance account** - If the company does not want to drop the account it must be managed effectively so that scarce resources are not wasted.
- **Opportunistic account** - limited resources are invested and both parties will be happy to deal with each other on an ad hoc or transactional basis.

14.9 The Pareto policy

The Pareto law can be used to suggest that a smaller number of 'heavy users' of a product or service generate high proportions of sales. That is, the top 80% of customers generate 20% of business and 20% of customers give you 80% of business. It is important to note that the 20% of your top customers must be taken care of through dedicated relationship management using key account managers who must be devoted to maintain an on going, lasting relationship with these customers.

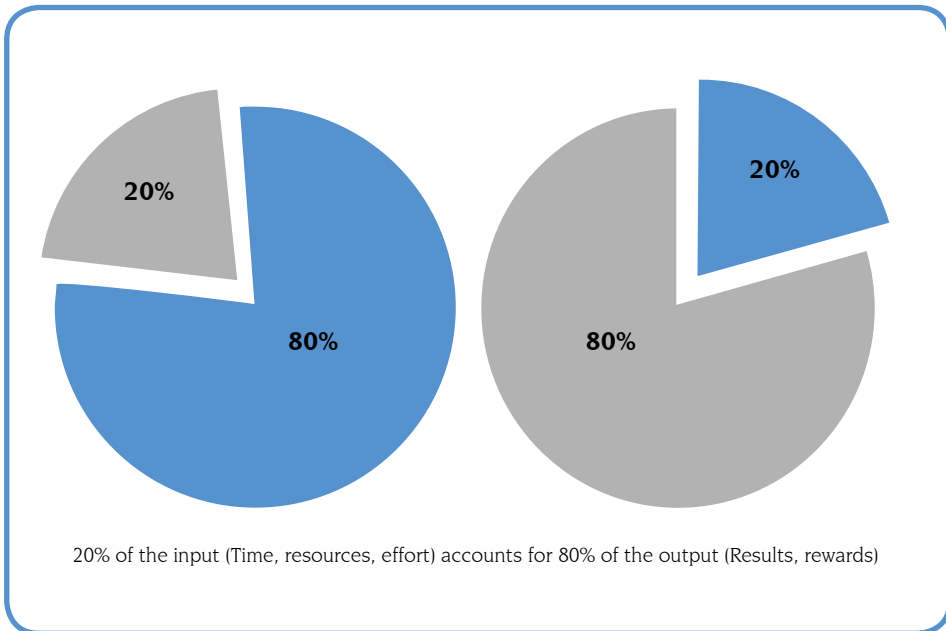


Figure 14.10: The Pareto policy.

Customer segmentation by revenue or profitability

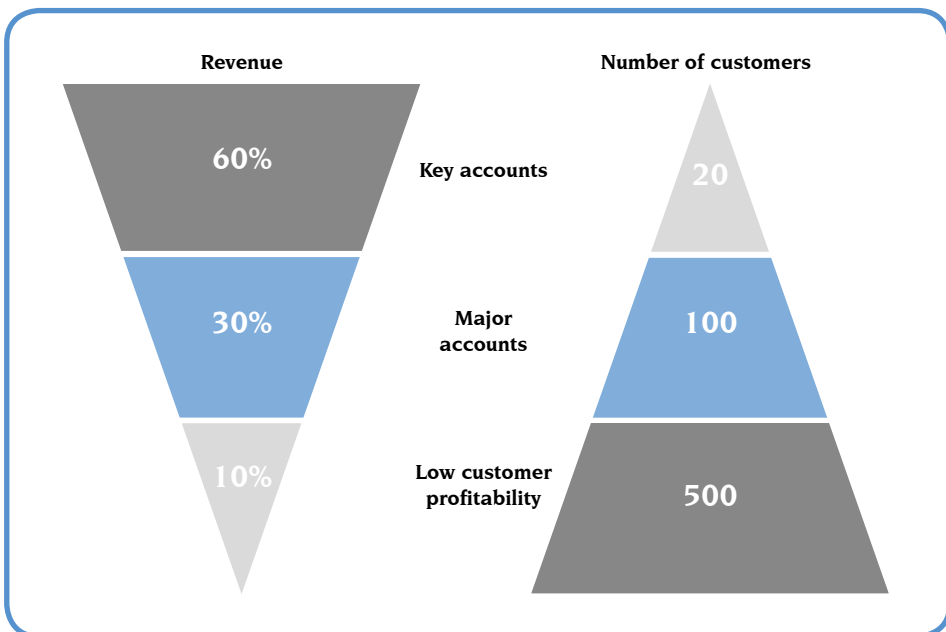


Figure 14.11: Customer segmentation by revenue or profitability.

Not all customers are created equal. Not all customers are profitable. Not all customers are top priority. Yet all customers can be treated well, just differently when treated according to their contribution to profit, potential for profit improvement and strategic importance. These profitability tradeoffs have been understood on the product, service side of the business for a long time, but only more recently have companies been proactive about customer profitability. Now new research suggests that understanding customer profitability is more important than product profitability for performance.

14.10 Customer life cycle management

Customer relationships are a continuum. The customer lifecycle is about maintaining, invigorating and constantly improving that continuum by taking customers on a journey from prospect to advocate that's mutually beneficial to both parties. The right customer insights are required to find the right customers. Customer onboarding is about cementing loyalty early and leveraging that critical honeymoon period in the relationship to build trust. Customer retention is about dealing with problems not just as they happen, but before they happen. It is imperative to let unprofitable customers go and to win profitable customers back. Research shows that up to 40% of so-called 'lost' customers can be coaxed back with the right messages, channels and contact frequency, especially if your competitors haven't perfected their own onboarding strategy.

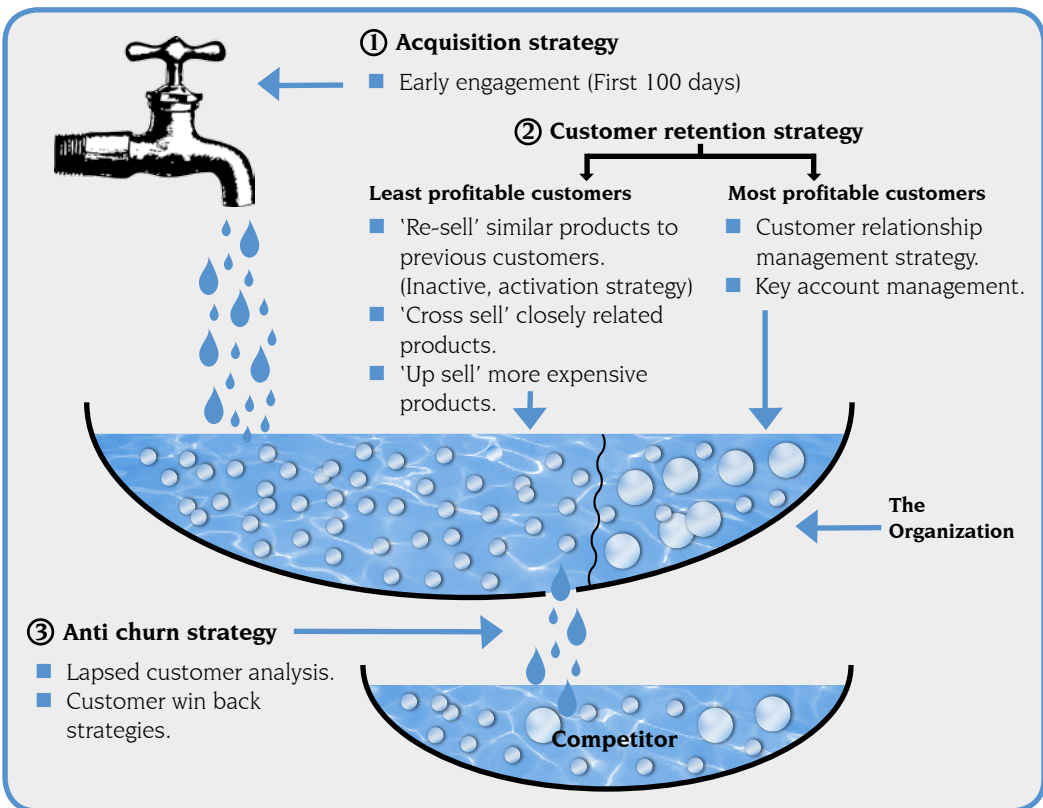


Figure 14.12: Customer life cycle management.

Monitoring service quality

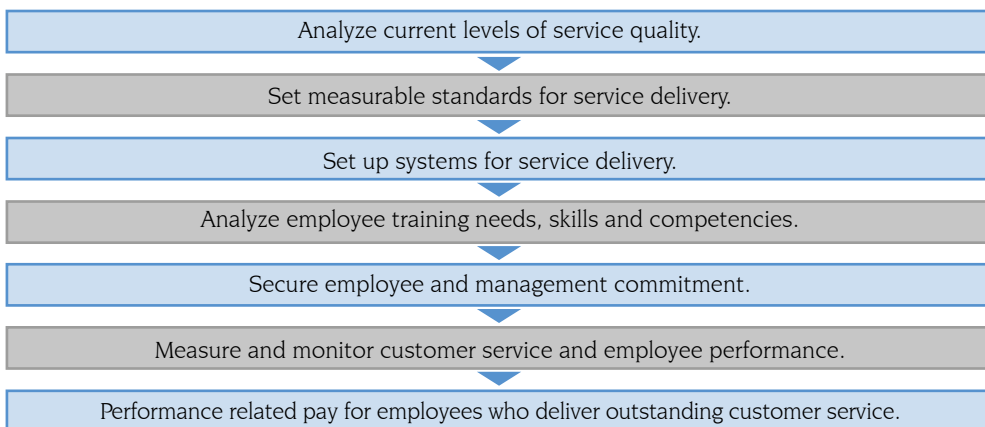
The following techniques can be used to monitor service quality.

- **Customer service tracking studies** - Research companies may undertake this.
- **Quality maintenance index** - The service environment needs to be monitored through the use of a checklist.
- **Mystery shopping** - A researcher disguised as a customer and measures the levels of service.
- **Staff climate monitor** - This measure looks at the customer service issue from the perspective of a member of staff and questions as to where they think service gaps exist?
- **Service standards review** - Key information needs to be analyzed and new service standards implemented, in order to match the organization with customer needs.
- **Exit surveys** - This is an interview with customers who are leaving. E.g. Closing a bank account.

Characteristics of a service

- **Intangibility** - Services cannot be touched, seen, tasted, heard or smelled before purchase.
- **Inseparability** - Services they cannot be separated from the provider.
- **Perishability** - Services cannot be stored. Therefore the demand for a service should be managed well.
- **Heterogeneity or variability** - The quality of the service is dependent on the person providing it.

The steps in a customer service plan



Customer satisfaction is the extent to which the perceived performance of a product or service meets customers' expectations. Piercy (2000) categorizes customers into four groups when it comes to satisfaction.

- **Satisfied stayers** - Will stay with the company through thick and thin, even when logic dictates otherwise.
- **Wanderers** - Are satisfied but fickle.
- **Hostages** - Stay, despite being dissatisfied, through habit, inertia or supply monopoly.
- **Dealers** - Are unhappy generally, shop around and may or may not return.

However, satisfied customers are the very least marketers should settle for, and many aspire to creating 'delighted' customers.

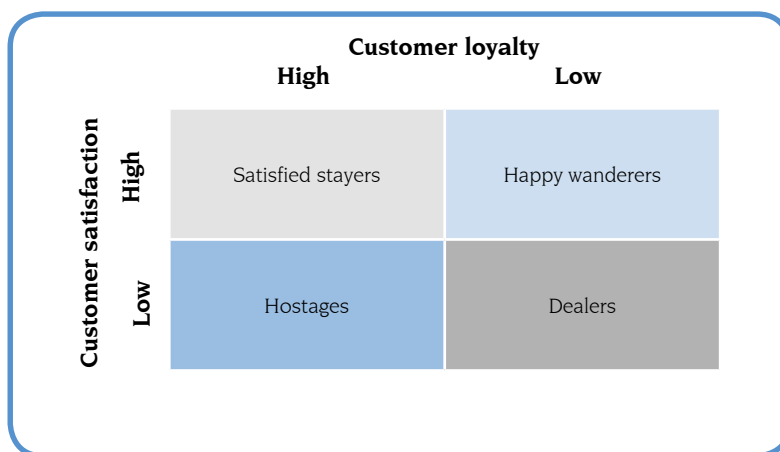


Figure 14.13: The customer satisfaction model by Piercy (2000).

The net promoter score (NPS)

This is a customer loyalty metric developed in 2003 by management consultant Frederick Reichheld of Bain and company, in collaboration with the company Satmetrix. It assesses to what extent someone would recommend a certain company, product or service to his or her friends, relatives or colleagues, using a scale of 0-10. The results divide customers into three groups:

- **Promoters** - Those willing to recommend the organization (Rating of 9 or 10).
- **Passives** - Satisfied but unenthusiastic (Rating of 7 or 8).
- **Detractors** - Unwilling to recommend the organization (Rating of 0 to 6).

A high net promoter score indicates the organization is doing well in terms of customer satisfaction.

14.11 Relationship marketing

A sales transaction is considered to be only the start of the organizations on going relationship with the customer. The emphasis has been increased on building and maintaining good long-term relationships with customers in recent times. Relationship marketing changes the focus from getting customers to keeping customers and creating customer loyalty. According to research it is five to seven times cheaper to retain than to attract new customers. It is necessary to develop an effective two-way communication process to turn a prospect into a lifetime advocate.

Relationship marketing is an interactive approach to marketing and relies on trust and commitment. The success of relationship marketing is therefore highly dependent on the attitudes, commitment and behaviour of employees. Levitt (1983) explained that in a great and increasing proportion of transactions, the relationship actually intensifies subsequent to the sale. This becomes a central factor in the buyer's choice of the seller during the next purchase. What is surprising is that researchers and businessmen have concentrated far more on how to attract customers than on retaining customers.

Definition : Gronroos (2000) defines the role of relationship marketing as to identify, establish, maintain and enhance relationships with customers and other stakeholders, at a profit, so that the objectives of all other parties involved are met; and that this is done by a mutual exchange and fulfillment of promises.

Characteristics of relationship marketing

- Long term orientation.
- Commitment.
- Lifetime loyalty value.
- Two way dialogue.
- Customization.
- Focus on retention.
- Regular contact.
- Differentiation.
- Key account management.
- Trust.
- Cooperation & collaboration.
- Mutuality.

According to Porter (1993), relationship marketing is the process whereby the buyer and the provider establish an effective, efficient, enjoyable, enthusiastic and ethical relationship. That is personally, professionally and profitably rewarding to both parties.

Transactional Vs. relationship marketing

Traditional transactional marketing involved the organisation focusing all of its marketing efforts to attract the customer for one off sales. Relationship marketing involves using methods and tactics to develop a long-term relationship with customers in order to retain them. The key characteristics are given below:

Transaction marketing	Scoring (1-10)										Relationship marketing
One-way communication										7	Two way communication
Focus on a single sale				4							Focus on customer retention
Product feature oriented				4							Product benefit oriented
Short time scale		2									Long time scale
Little customer service					5						High customer service
Limited customer commitment									7		High customer commitment
Moderate customer contact										8	High customer contact
Quality is the concern of production							6				Quality is the concern of all

Table 14.1: Transactional Vs. relationship marketing

Limitations of relationship marketing

- Relationship marketing is particularly relevant to industrial and business to business sectors.
- Not all customers in the consumer sector want a relationship.
- It should be genuine and not practiced simply to gather information.

14.12 The customer relationship life cycle

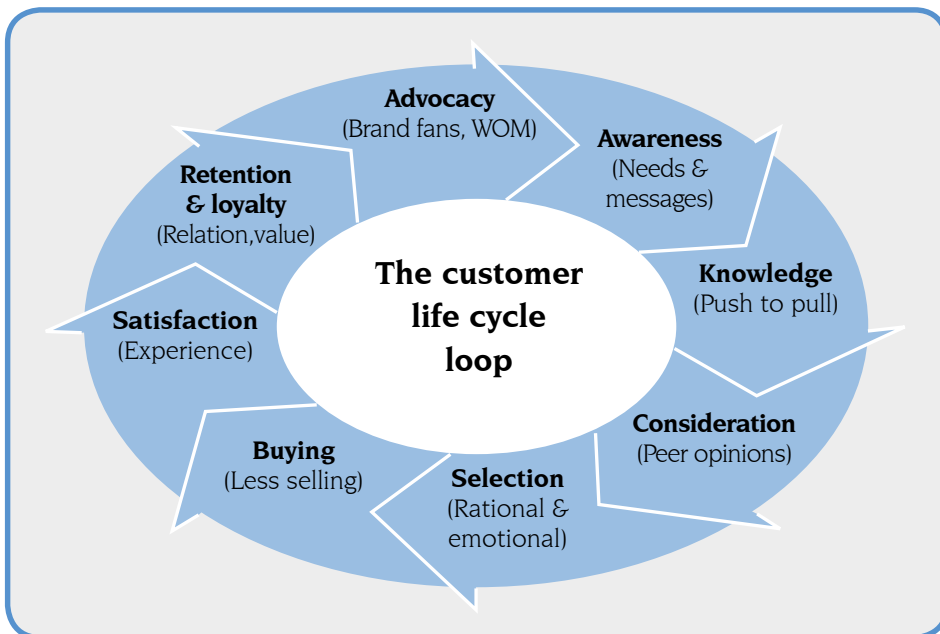


Figure 14.14: The customer relationship life cycle.

The stages in the customer relationship cycle are as follows;

- **Awareness** - The prospect becomes aware of the organization and its products, services.
- **Knowledge** - The prospect gathers information regarding the features and benefits of the product, service.
- **Consideration** - The prospect goes through a decision-making process, during which a decision is made whether or not to buy.
- **Selection** - The prospect decides to trial the product.
- **Buying** - The decision to purchase is made.
- **Satisfaction** - The customer is satisfied that the features and benefits did not disappoint.
- **Loyalty** - The customer re-purchases, or expresses loyalty in some other way (Perhaps by telling friends how good the product, service was).
- **Advocacy** - The customer becomes an active supporter and promoter of the organization and its products, services.

14.13 Gummesson on relationship marketing

Gummesson (2002) suggests that relationship orientation is a paradigm shift requiring a dramatic change in thinking and behavior modification rather than an add-on to traditional marketing. He suggest that the core of marketing should no longer be the 4P's and suggests the 30R's as factors that reflect the large number of complex relationships involved in business.

The 30 R's can be grouped into the following categories

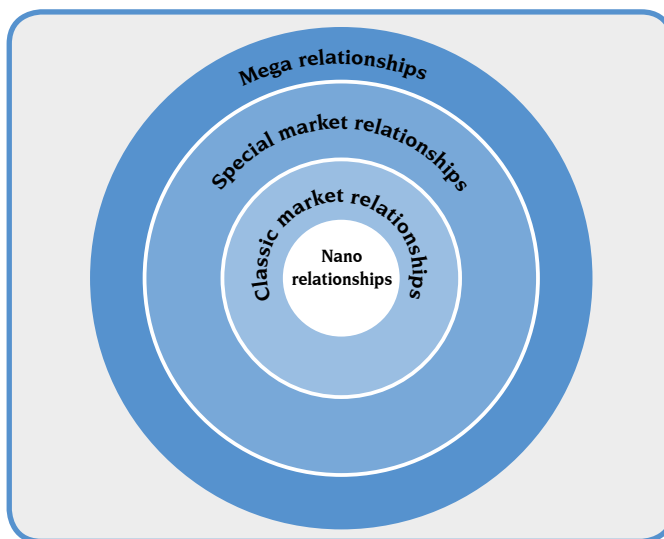


Figure 14.15: These four types of relationships by Gummesson (2002).

i. Market relationships

a) **Classic market relationships** - These are the core relationships of the org, which are;

- **The classic dyad** - This is the relationship between a supplier and a customer.
- **The classic triad** - This is the relationship between customers-suppliers and competitors.
- **The classic network** - These are relationships in the supply chain.

b) **Special market relationships**

These are relationships beyond the classical market and include;

- Relationships via full-time and part-time marketers.
- Service encounters.
- The relationship with the customer's customer.
- Distant relationships
- The relationship with dissatisfied customers.
- The monopoly relationship where the customer or a supplier is held a prisoner.
- Electronic relationships.
- The non-commercial relationships.
- Green relationships.
- Law-based relationships.
- Criminal network relationships.

ii. Non-market relationships

a) **Mega relationships** - These include big relationships beyond a market place which are as follows;

- Personal and social networks.
- Alliances that change the nature of the market.
- Knowledge relationships.
- Mega-alliances that change the basic nature of marketing.
- The mass media relationship.

b) **Nano relationships** - These relationships originate within the org and concerns the structure, culture and management.

- Market mechanisms brought inside the organization.
- Internal customer relationships.
- Quality, particularly between operations and marketing.
- Internal marketing relationships.
- The two-dimensional matrix relationships.
- The relationship with external providers of marketing services.
- The relationship with owners and financiers.

Factors influencing relationships

- The degree of collaboration between the partners.
- The degree of commitment and dependency of the partners.
- The degree of trust, risk and uncertainty in the relationship.
- The division of power between the partners.
- The longevity of the relationship.
- The frequency, regularity and intensity of the relationship.
- The closeness or remoteness of the parties.
- The formality, informality and openness of the relationship.
- The routinization of the relationship (Procedures that make it work).
- The content of the relationship (Economic or value creation).
- The personal and social properties of the partners.

14.14 The key mediating variables model (KMV)

Morgan and Hunt (1994) introduced the KMV model, which categorizes organizational relationships into four main types, which is explained below:

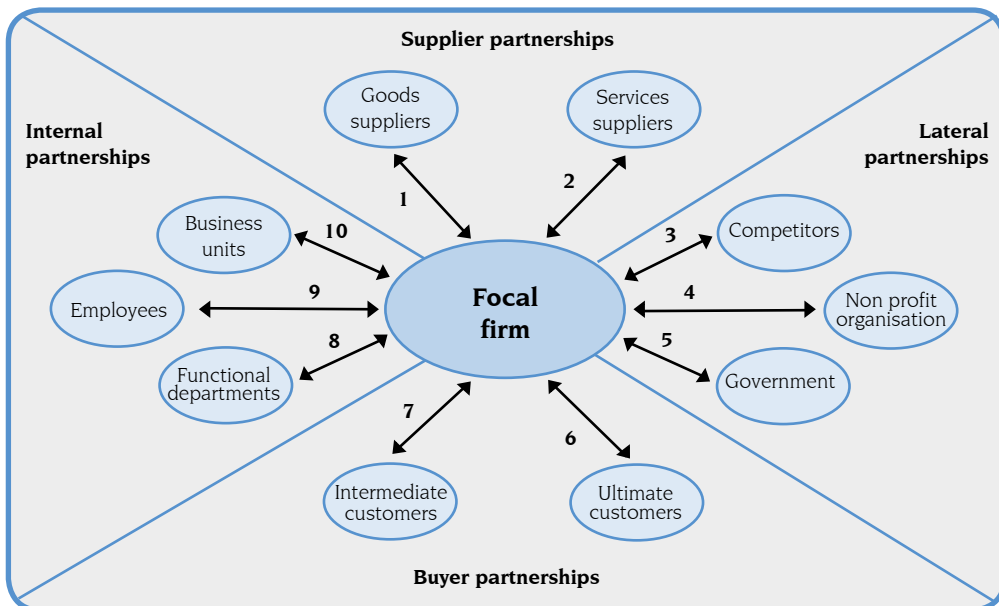


Figure 14.16: Key mediating variables model (KMV).

The key mediating variables theory then focuses on one party's relationship commitment and trust. It is hypothesized that relationship commitment and trust are the key contracts between partners to a relationship, and positioned as mediating variables between five important influences and five outcomes.

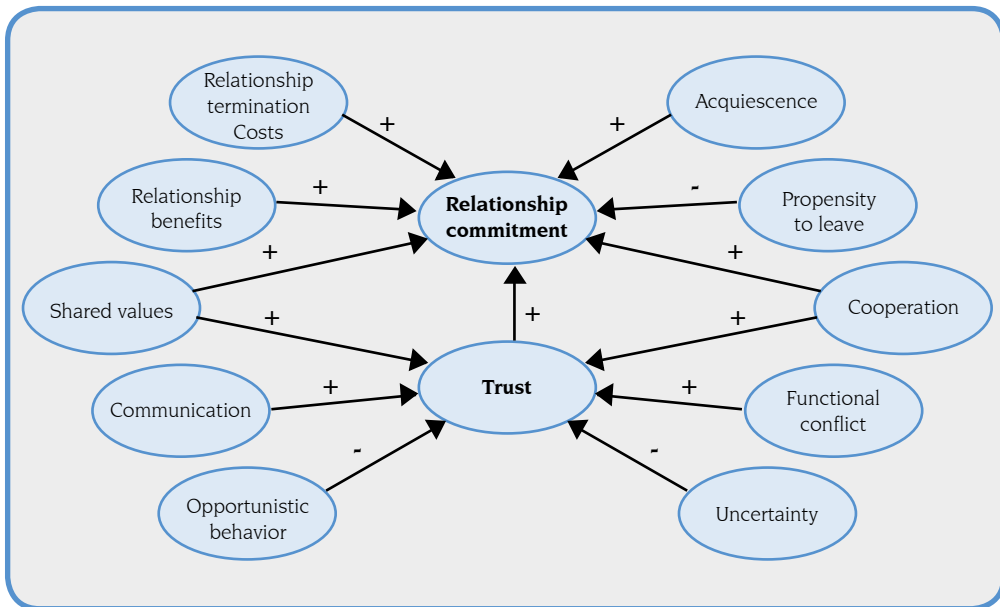


Figure 14.17: Key mediating variables model (KMV).

The factors influencing commitment and trust are;

- **Relationship termination costs** - As both parties benefit from a relationship, ending it becomes costly. These costs include the cost of not finding a satisfying relationship, and the actual switching cost in finding a new partner.
- **Relationship benefits** - These include increased profits, improved customer satisfaction and better product performance.
- **Shared values** - These include values, beliefs and policies.
- **Communication** - Of particular importance are the timeliness, quality and frequency of communication between partners.
- **Opportunistic behavior** - This is the only destructive influence, and includes any activity where a partner pursues self-interest to the detriment of the relationship.

The outcomes from commitment and trust are;

- **Acquiescence** - The degree to which a partner accepts or defers to a partner's wishes.

- **Propensity to leave** - The probability that a partner might leave the relationship in the near future.
- **Co-operation** - The degree to which the partners work together, towards shared goals.
- **Functional conflict** - The degree to which any conflict is resolved amicably, and therefore becomes a positive outcome.
- **Decision-making uncertainty** - The degree to which one partner mistrusts another.

14.15 The six markets model

The model helps an organization study stakeholder relationships through the analysis six key markets and gauge potential opportunities in each market. In order to visualize and understand each market's importance Christopher, Payne and Ballantyne (2002) analyses the six key markets as follows:

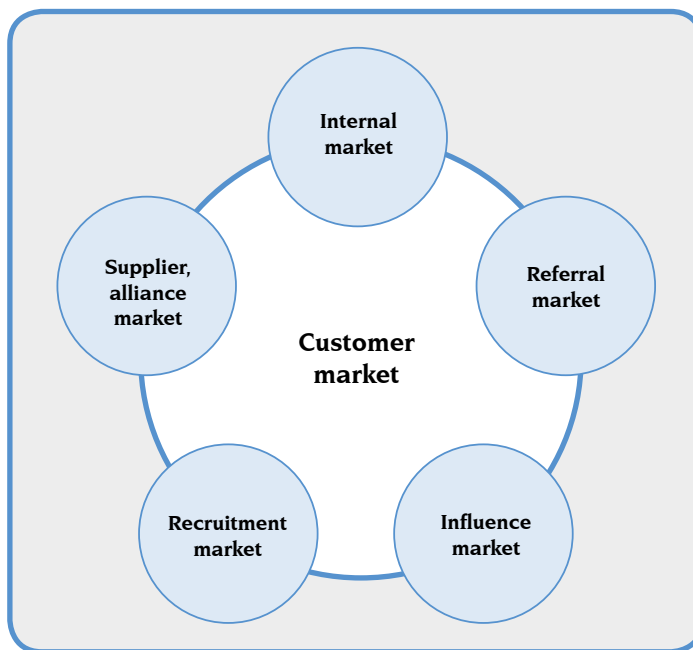


Figure 14.18: The six markets framework by Christopher, Payne and Ballantyne (2002).

- **Customer markets** - This includes existing and prospective customers as well as intermediaries such as retailers and wholesalers.
- **Referral markets** - This includes two main categories, which are existing customers who recommend their suppliers to others and referral sources, or 'multipliers', such as an accounting firm who may refer work to a law firm.

- **Influencer markets** - This includes financial analysts, shareholders, the business press, the government, and consumer groups.
- **Employee markets** - This concerns with attracting the right employees to the organization.
- **Supplier markets** - This includes traditional suppliers as well as organizations with which the firms have some form of strategic alliance.
- **Internal markets** - This refers to the internal departments and staff.

Here's an example of how the model can be applied in the context of Euro Disney. A spider diagram can be drawn to illustrate the exiting versus proposed emphasis.

The six market model analysis for Euro Disney

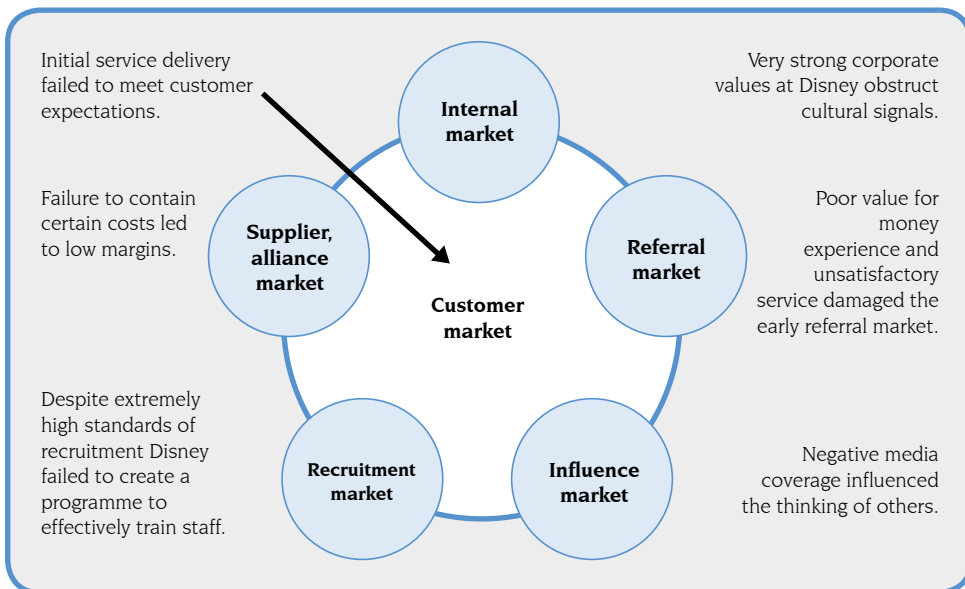


Figure 14.19: The six market model analysis for Euro Disney by Christopher, Payne and Ballantrine (2002).

The dimensions of relationship marketing

Relationship marketing creates a new level of social interaction between buyers and sellers. It is based on promises that go beyond the obvious assurances that potential customers expect. According to Payne et al (2002) the four dimensions of relationship marketing are bonding, empathy, reciprocity, and trust:

- **Bonding** - Two or more parties must be bonded to each other to develop a long-term relationship. Mutual interests or dependencies between the parties must be strong enough to tie them together.

- **Empathy** - This is the ability to see situations from the point of view of the other party. This is another key emotional link in the development of relationships.
- **Reciprocity** - Every long-term relationship includes some give-and-take between the parties. One makes allowances and grants favours to the other in exchange for the same treatment when its own need arises.
- **Trust** - Trust is ultimately the glue that holds a relationship together over the long haul. Trust reflects the extent of one party's confidence that it can rely on the other's integrity.

A relationship marketing network diagram

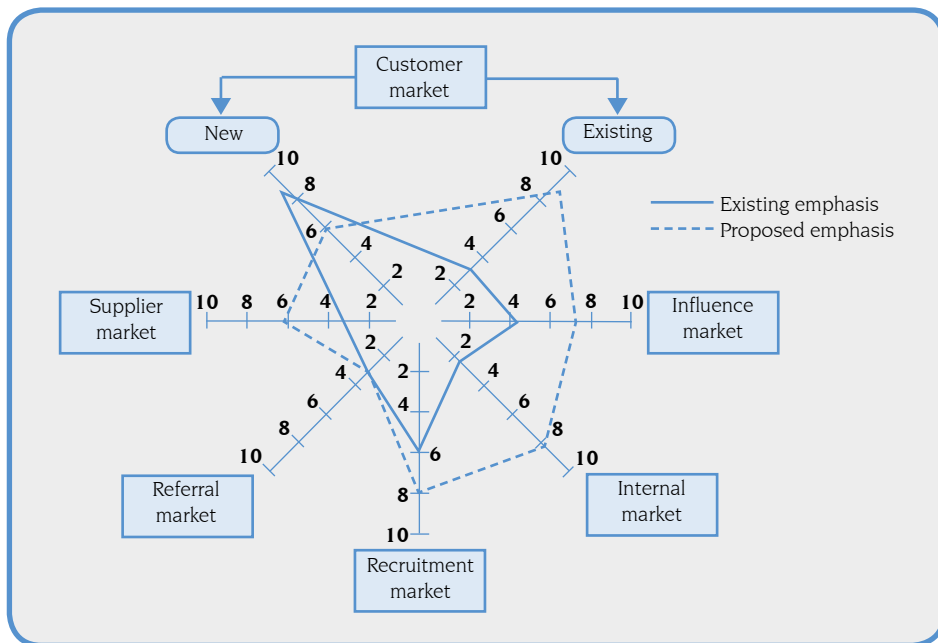


Figure 14.20: A relationship marketing network diagram by Christopher, Payne and Ballantrine (2002).

Types of relationships within the organization

- i) **Structural or interdepartmental relations** - The employee engaged in the marketing function would require to have superior coordination skills in dealing with departments and to get a job done on time. Kotler (1994) explains that this interdepartmental interface would most often result in conflict, rivalries or misunderstanding because of the difference of opinions and ideas. He suggests that the interdepartmental relationships can be improved through networking, internal marketing and a high degree of co-ordination among departments.

ii) **Interpersonal relationships** - Good structural relationship facilitates on going, satisfying interpersonal relations and through this the fulfillment of both individual and organizational objectives. The relationship described here is not only between employees and customers but also managing a good working relationship internally and with other stakeholders such as suppliers, banks, service providers etc. Elements may include, prompt and willingness to service, co-operation and co-ordination, team work, sharing knowledge, skills such as politeness, friendliness, trust, openness and being respectful. Interpersonal skills are skills required by an employee to have interpersonal relationships. Some of these skills include.

- Communication skills - Face to face and other oral mediums.
- Persuading skills or influencing skills.
- Rapport skills.
- Skills in gaining trust, confidence and cooperation.
- Listening skills.
- Friendship, support and encouragement skills.
- Skills involved in providing help and advice.
- The ability to resolve conflicts or disagreements.

iii) **Contractual and legal relationships** - Some aspects of work relationships are covered by a contract, law or regulations.

The Block matrix

Block (1991), author of 'The empowered manager', noted that the apparent power of those at the top is much less than absolute. What leaders can do from the top down depends on the will of those below. Block recommended that leaders analyze their relationship with each of their essential people by asking two questions:

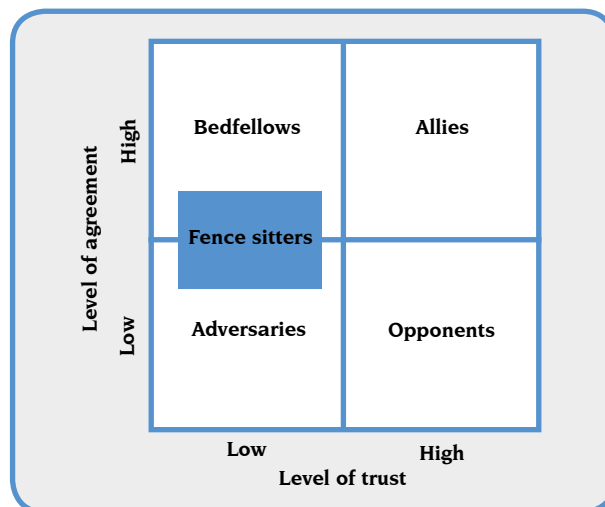


Figure 14.21: The Block matrix by Block (1991).

- How much do I trust them?
- How much do I agree with them?

Block (1991) then offered this grid to help leaders think about how to build support for change initiatives:

Allies

- Affirm agreement.
- Reaffirm the quality of the relationship.
- Acknowledge any doubts and vulnerabilities.
- Ask the ally for advice.

Bedfellows

- Reaffirm agreement on the project.
- Acknowledge the caution.
- Be clear about what is wanted.
- Try to reach agreement.
- Deliver on promises.

Fence-sitters

- State your position.
- Ask them where they stand.
- Apply gentle pressure.
- Express mild frustration.
- Encourage them to be transparent.
- Deliver on promises.

Opponents

- Reaffirm the quality of the relationship.
- State your position.
- State what you think their position is.
- Understand their position.
- Engage in a problem-solving process.

Adversaries

- State your position.
- State what you think their position is.
- Understand their position.

- State your contribution to the problem.
- End meetings with plans and action lists.
- Enlist a partly trusted to your adversary.
- Deliver on promises.
- Don't spend too much time obsessing about the relationship.

The ACURA model

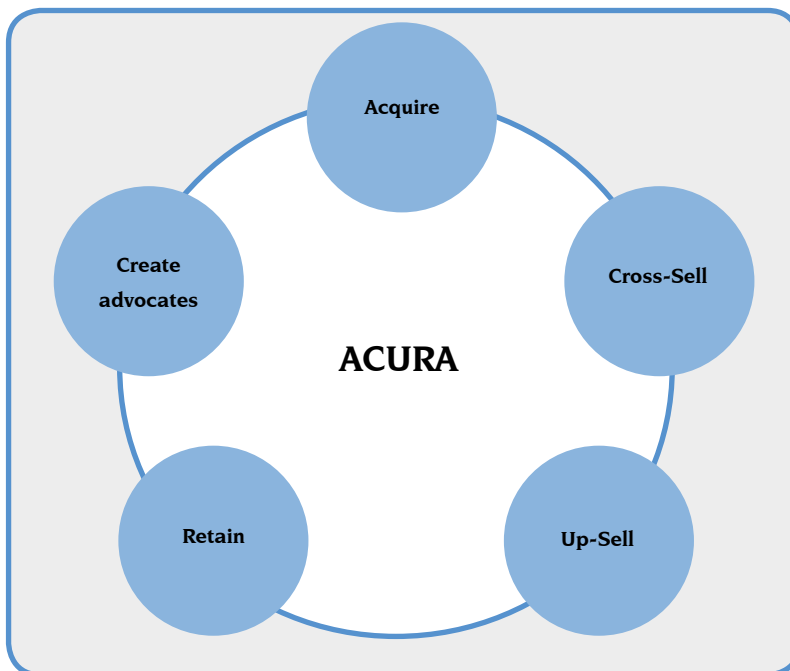


Figure 14.22: The ACURA model by Christopher, Payne and Ballantrayne (2002).

This framework will help review the full range of potential value or profit opportunities for an organisation. Which of these activities is the organisation doing, or doing well, for each customer segment or the stakeholder group? How profitable is each activity, and each strategy perused within each activity, for each customer segment?

14.16 Negotiation techniques

Effective negotiation techniques are useful in many everyday situations: in the workplace with colleagues, during a sales transaction or even within personal relationships. A negotiation is a bargaining process between two or more parties (each with its own aims, needs, and viewpoints) seeking to discover a common ground and reach an agreement to settle a matter of mutual concern or resolve a conflict.

The 'win win' model

Effective negotiation helps you to resolve situations where what you want conflicts with what someone else wants. The aim of win-win negotiation is to find a solution that is acceptable to both parties, and leaves both parties feeling that they've won, in some way, after the event.

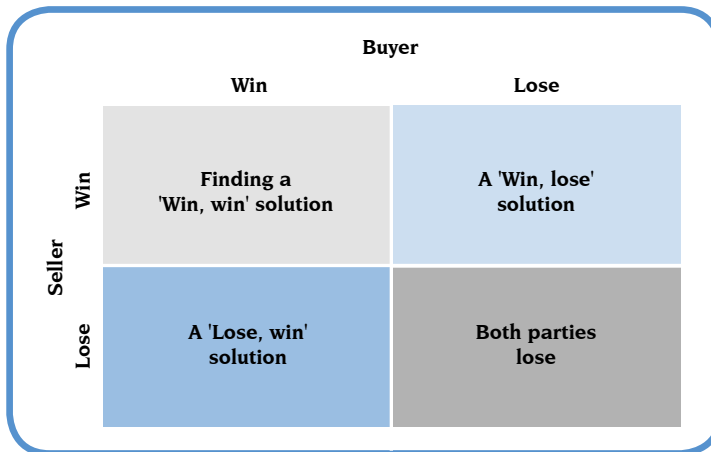


Figure 14.23: The 'win win' model.

The RADPAC model of negotiation

The RADPAC model of negotiation is a widely used model, which is described below;

- **Rapport** - As the name suggests, it signifies the relation between parties involved in negotiation. The parties involved in negotiation ideally should be comfortable with each other and share a good rapport with each other.
- **Analysis** - One party must understand the second party well. It is important that the individual understand each other's needs and interest. The shopkeeper must understand the customer's needs and pocket, in the same way the customer mustn't ignore the shopkeeper's profits as well. People must listen to each other attentively.
- **Debate** - Nothing can be achieved without discussions. This round includes discussing issues among the parties involved in negotiation. The pros and cons of an idea are evaluated in this round. People debate with each other and each one tries to convince the other. One must not lose his temper in this round but remain calm and composed.
- **Propose** - Each individual proposes his best idea in this round. Each one tries his level best to come up with the best possible idea and reach to a conclusion acceptable by all.
- **Agreement** - Individuals come to a conclusion at this stage and agree to the best possible alternative.
- **Close** - The negotiation is complete and individual's return back satisfied.

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CHAPTER 15

Organisational Structures

- 15.1 The functions of a marketing department
- 15.2 Functional structures
- 15.3 Product or divisional (SBU) structures
- 15.4 Territory, geographic or market structures
- 15.5 The evolution of international organisational structures
- 15.6 Matrix structures
- 15.7 Mintzberg on organisational structure
- 15.8 Types of organizational structures

15

Organisational Structures

"The best way to predict the future is to create it." - Peter Drucker

Definition : An organizations structure can be described as a pattern of relationships among members of the organization.

It involves clustering tasks and people into smaller groups. A structure facilitates a management process whilst creating a framework of order and command through which the activities of a organization can be planned, organized, directed and controlled. All organizations need at least some division of labour in order to function efficiently, requiring them to structure its members into smaller parts.

The organisational structure has a very important bearing on the way it would carry out its operations. A bureaucratic organization can be defined as a type of an organization that is characterized by a complex and hierarchical structure with formal channels of communication, high concentration on internal processes rather than outputs and a style that focuses on strict discipline and business continuity.

Every organization needs a structure in order to operate systematically. In most cases, organizations evolve through structures when they progress through and enhance their processes and manpower. One company may start as a pre-bureaucratic company and may evolve up to a matrix organization.

15.1 The functions of a marketing department

The chief marketing officer of the organisation is responsible for the overall strategic marketing function in the organisation. The strategic marketing function could be segregated into the following five vertices within the marketing department.

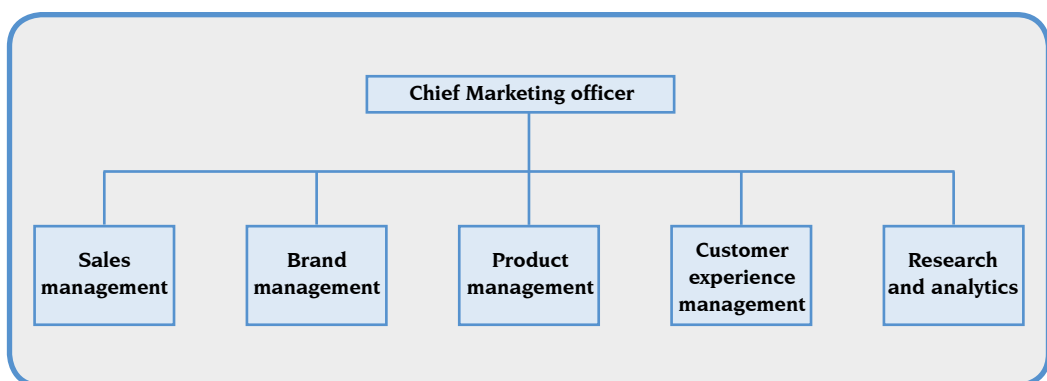


Figure 15.1: The functions of a marketing department.

Sales management	<ul style="list-style-type: none"> ■ Motivating sales force ■ Managing sales revenue, product mix ■ Planning and implementing sales strategies
Brand management	<ul style="list-style-type: none"> ■ Manages integrated communications ■ Improving brand equity ■ Internal marketing ■ Event management and sponsorships
Product management	<ul style="list-style-type: none"> ■ Incubating new products ■ Product life cycle management ■ Feasibility studies ■ Process improvement
Customer experience management	<ul style="list-style-type: none"> ■ Customer relationship management ■ Cross, up selling ■ Managing the customer journey ■ Service quality improvement
Research and analytics	<ul style="list-style-type: none"> ■ Managing information systems ■ Analyzing Big data ■ Providing business insights and monitoring KPI's ■ Generating market intelligence

Table 15.1: The functions of a marketing department.

The span of control has a major impact on organisational effectiveness. In general, over the last decade, it has become increasingly clear that through the forces of globalization, competition and demanding customers, the structures of many companies has become flatter, less hierarchical and fluid. The flat structure is common in small companies (Entrepreneurial start-ups) and as the company

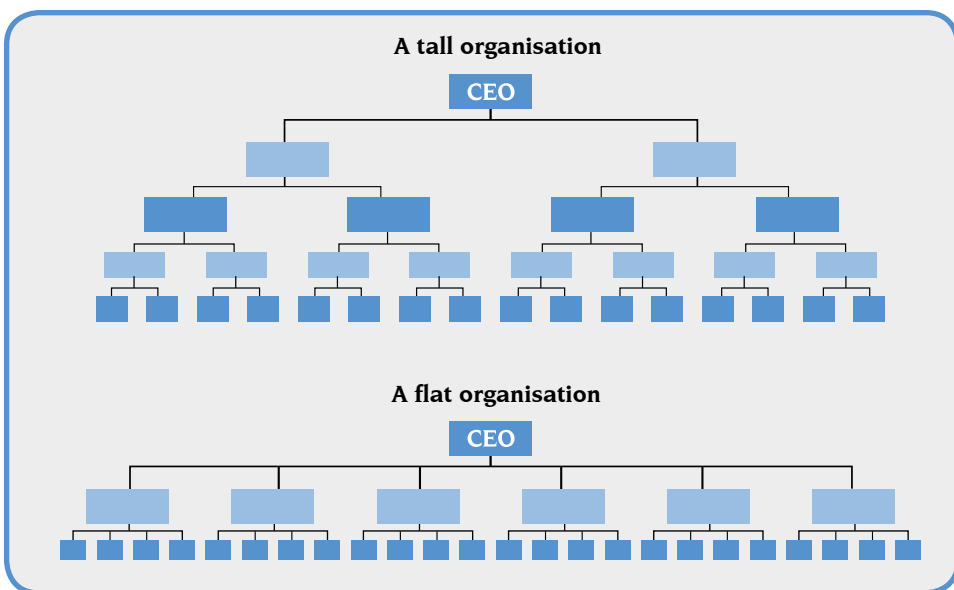


Figure 15.2: The span of control (Tall vs. flat organisations)

grows it becomes complex and hierarchical, which leads to an expanded structure, with more levels and departments. A tall structure may tend to encourage bureaucracy with its multiple levels of command which in turn may affect its efficiency.

Types of structures

- Functional structures.
- Product, divisional (SBU) structures.
- Territory, geographic or market structures.
- Matrix structures.
- Network structures (Virtual, boundaryless, flexible organizations).

15.2 Functional structures

There could be red tape and conflict between the horizontal flow and the vertical reporting structure as well as less focus towards the customer due to highly structured and specialised functional orientation. Functional structures are most suited for organisations with a single product or with a portfolio of very similar products. A silo mentality may develop where managers are more interested in pursuing their divisional objectives and vertical communication up and down the chain of command may be slow. Such structures tend to be inflexible and unresponsive to the changing external environment.

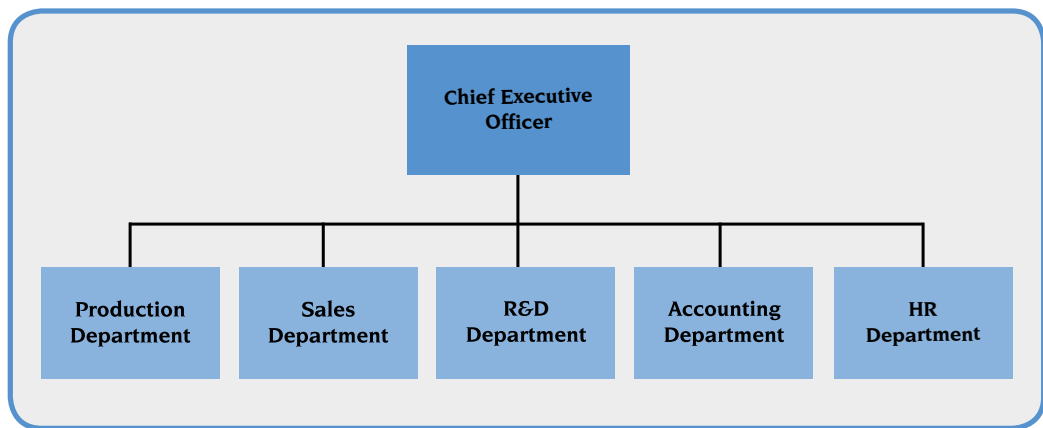


Figure 15.3: The functional organization structure.

Advantages

- The chief executive is in touch with all functions.
- Simplifies control mechanisms.
- Ensures clear definition of responsibilities.
- Specialists at senior and middle management levels.

Disadvantages

- Senior managers overburdened with routine matters.
- Senior managers neglect strategic issues.
- Difficult to cope with diversity.
- Coordination between functions will be difficult.
- Failure to adapt.

15.3 Product or divisional (SBU) structures

Structuring by product involves organising the business into departments, each of which focuses on a different product. Similarly a business may be divided by the type of customer each team targets. Employees too, regardless of the type of their duties, are also assigned according to the product or customer their work relates to.

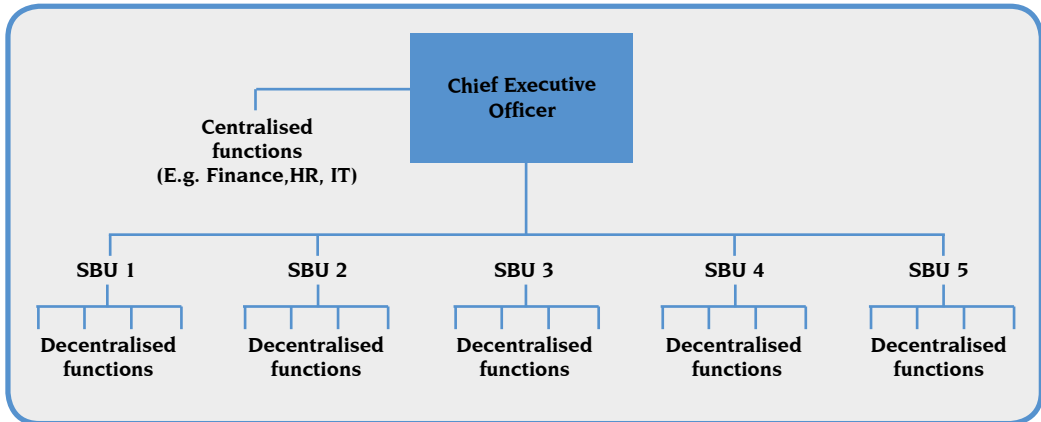


Figure 15.4: Product or divisional (SBU) structures.

Advantages

- A high focus on the business vertical.
- Facilitates measurement of the units performance.
- Ease of addition and divestment of units.
- Facilitates senior management's attention to strategy.
- Encourages general management development.

Disadvantages

- May encourage conflict between divisions.
- Transfer pricing between units.
- Costly to manage.
- Some divisions may grow too large.
- A complexity of co-operation may exist if there are too many divisions.

15.4 Territory, geographic or market structures

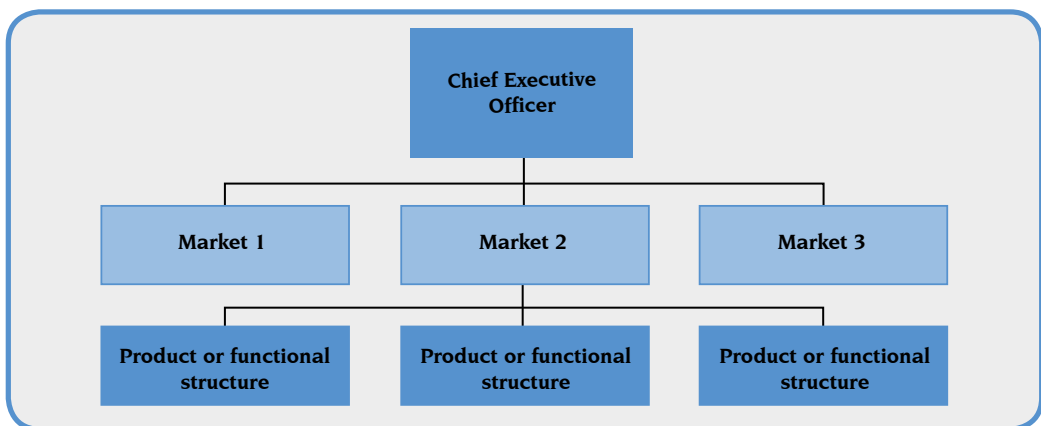


Figure 15.5: Territory, geographic or market structures.

This will be appropriate where the product may vary according to cultural preferences and a high degree of decentralisation of power will be required to increase regional autonomy. An appropriate organisational structure must balance the forces for local responsiveness against the forces for global integration. Alternatively, even with an undifferentiated product, a regional structure helps subdivide the market, allocate resources and responsibilities and drive up performance through the use of KPI's, internal competition and reward schemes.

Advantages

- Helps develop functional capabilities in each region.
- The timely adaptation of a firm's activities to local conditions.
- Places firms operations closer to suppliers and customers.
- Develops global managers.
- Provides flexibility.

Disadvantages

- Duplicates functional activities in each region.
- Potential conflict between regional managers and country market managers.
- Difficulty in setting standards of quality and image.

There are different business models a company may want to consider when operating in more than one country, which are summarized below;

- **A multinational organisation** - This is a decentralised organisation operating in several countries while retaining a significant level of activity in its domestic market.
- **A global organisation** - A centralised organisation spreading its activities on a global scale in order to achieve cost advantages.
- **A international organisation** - This is an organisation that builds upon its parent firm's technology or research and development.
- **A transnational organisation** - This is an organisation with a mix of the above business models.

15.5 The evolution of international organisational structures

According to Hollensen (2004), as an organisation gains more experience in international activity and commits more resources overseas, it is likely to develop from ad hoc arrangements (Stage 1) to a highly structured functional structure (Stage 2). Progressing further, as it extends its reach into multinational regions, the firm may form divisions on a geographical basis (Stage 3). With further advances in the scale and complexity of international operations, this develops even further into a focus on products and markets (Stage 4), enabling the business to cater to local preferences and build valuable, long-term relationships with its customers. At its most advanced, a multinational typically reaches a matrix structure (Stage 5) in an attempt to increase its flexibility and responsiveness to changing market conditions by sharing expertise and maximising the speed of communications and decision-making.

Structural evolution of international operations

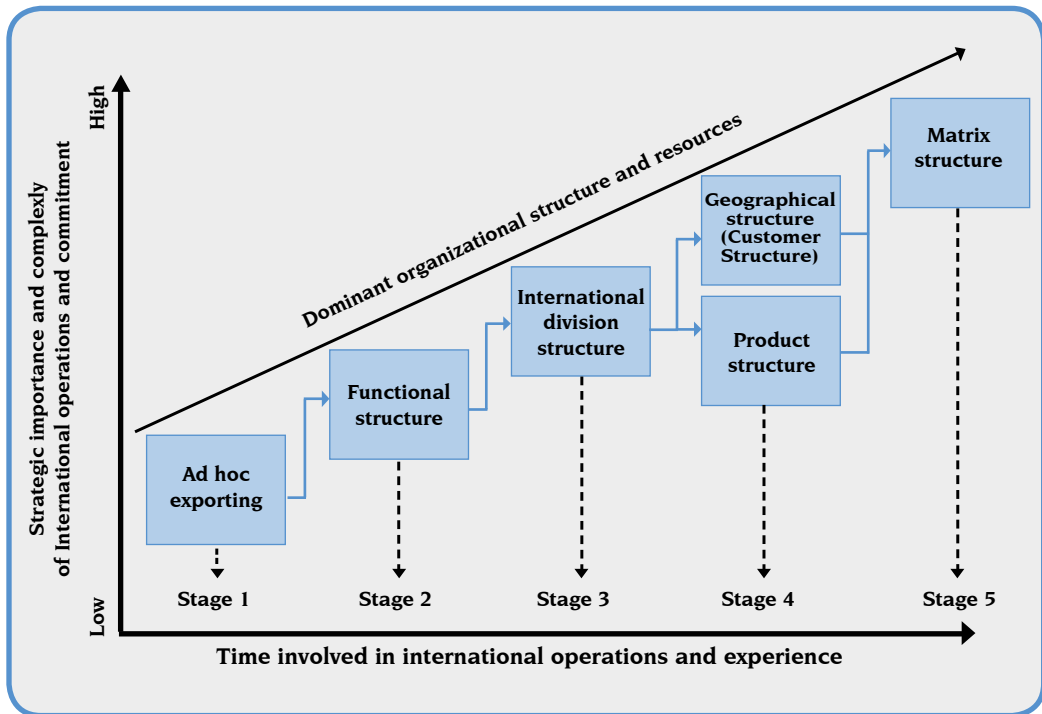


Figure 15.6 : Structural evolution of international operations, Hollensen, (2004).

15.6 Matrix structures

A matrix organizational structure is one of the most complicated reporting structures a company can implement. This is a company structure in which the reporting relationships are set up as a grid, or matrix, rather than in the traditional hierarchy. In other words, employees have dual reporting relationships, generally to both a functional manager and a project manager.

Advantages

- Resources can be used efficiently, since experts and equipment can be shared across projects.
- Products and projects are formally coordinated across functional departments.
- Information flows both across and up through the organization.
- Employees are in contact with many people, which helps with sharing of information and can speed the decision process.

Disadvantages

- Members of project teams may have divided loyalties as they report to two line managers. Equally, this scenario can put project team members under a heavy pressure of work.

- There may not be a clear line of accountability for project teams given the complex nature of matrix structures.
- It takes time for matrix team members to get used to working in this kind of structure.
- Team members may neglect their functional responsibilities.

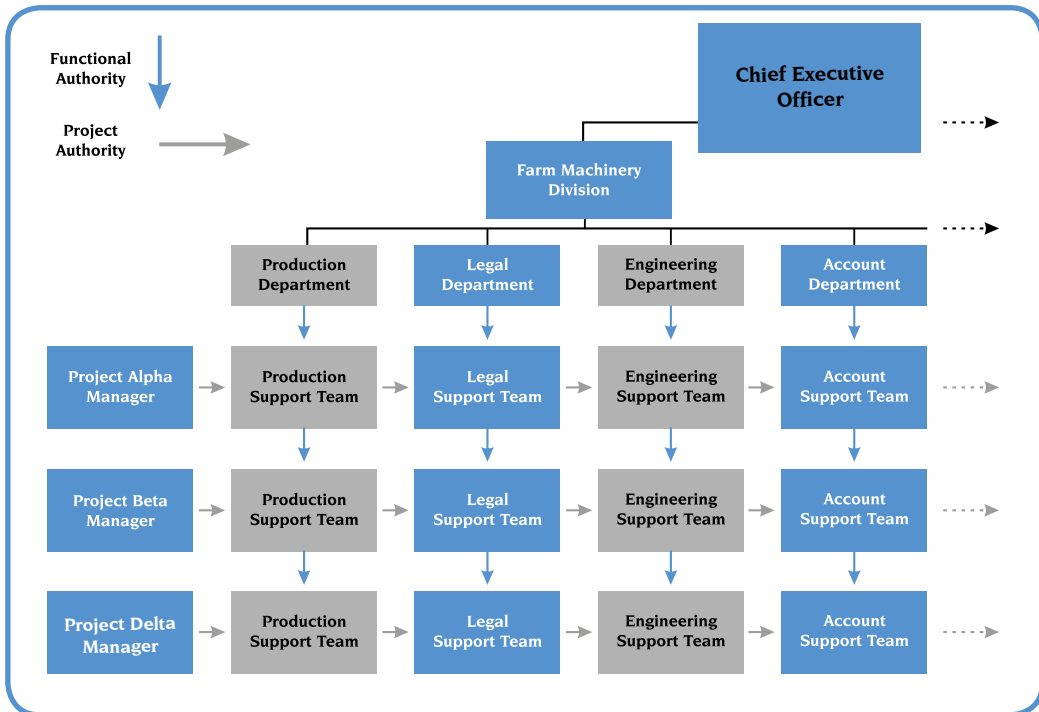


Figure 15.7 : A matrix structure.

Network structures

The network structure may mean that the firm subcontracts many of its major functions to separate companies and coordinates activities from its headquarters. The organization may be viewed as a central hub surrounded by a network of outside specialists. Rather than being housed under one roof, services such as accounting, design, manufacturing, and distribution are outsourced to separate organizations that are connected electronically to the central office computer systems and the internet enables organizations to exchange data and information so rapidly and smoothly that a loosely connected network of suppliers, manufacturers, assemblers, and distributors can look and act like one seamless company. The idea behind networks is that a company can concentrate on what it does best and contract out other activities to companies with distinctive competence in those specific areas. The concept of a virtual organisation provides an alternative approach for small organisations to overcome their lack of internal expertise and other strategic resources.

Many organisations allow their staff to work from home to improve the flexibility of the workforce. Here, organisations employ core staff for essential tasks, while the remaining business activities are outsourced or performed by self-employed contract staff. All organisations have external boundaries that separate them from suppliers and customers, and internal boundaries that provide demarcation of departments. This rigidity is removed in a boundaryless organisation, where the goal is to develop greater flexibility and responsiveness to change and to facilitate the free exchange of information and ideas.

Becoming boundaryless normally involves the creation of cross-functional teams, delayering, and empowerment of employees. Informality, fun and speed are encouraged, whereas managers should seek to eliminate bureaucracy. Flexible employment is characterized in the form of casual work, shorter hours, shift work, overtime and other approaches to deal with fluctuating activity. Tight labour markets, weaker trade unions, increased labour supply and changing work patterns in families are major influences. The need for flexibility generally arises from the need to remain competitive and adaptive in a dynamic globalized environment.

Advantages

- **Competitive on a global scale** - A network organization can draw on resources worldwide to achieve the best quality and price and can sell its products and service worldwide.
- **Workforce flexibility** - This may result in improved productivity.
- **Little supervision is required** - Large teams of staff specialists and administrators are not needed.

Disadvantages

- **Lack of hands-on control** - Managers do not have all operations under one roof and must rely on contracts, coordination, negotiations, and electronic linkages to hold things together.
- **Business continuity** - A high degree of uncertainty may prevail if a subcontractor fails to deliver or goes out of business.
- **Employee loyalty can weaken** - A cohesive corporate culture is less likely to develop and staff turnover may be higher because the emotional commitment between the organization and employees may not exist.

Numerical flexibility

This is the ability to shrink or enlarge the labour force of in response to fluctuations in demand. This may be done by using non-standard contract and subcontracted labour (Temporary, short contract or freelance workers), outsourcing functions to other organizations or introducing flexible working hours.

The shamrock organisation

Increasingly, services previously carried out in-house are being outsourced to free-lancers and consultancy companies. This raises the question of whether efforts to build teams, enthuse, motivate and encourage the workforce should extend beyond organizational boundaries. The consensus is that the employee brand should be extended to these external partners, who are, in essence, an extension of the workforce. Handy (1976) wrote about the 'shamrock' organization, where he divided the workforce into the flowing parts, which are known as the shamrock leaves or the four leaf clover.

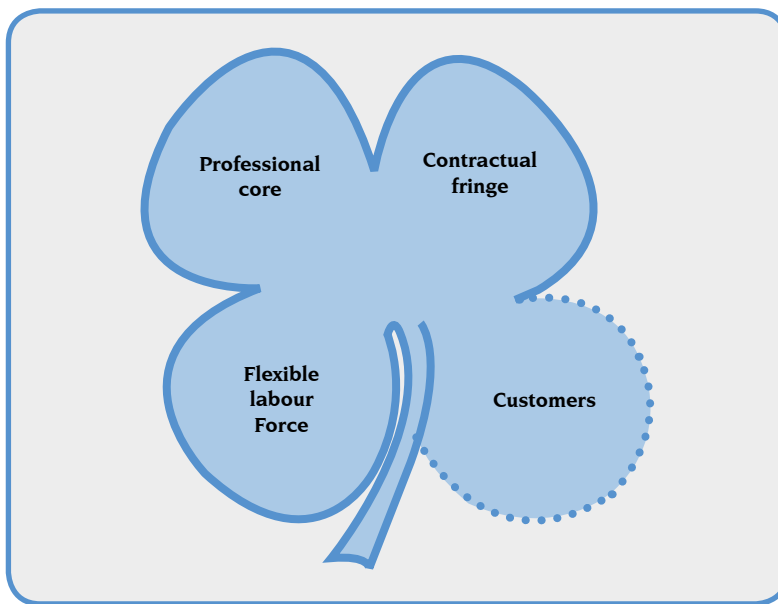


Figure 15.8 : The shamrock organisation by Handy (1976).

- **The professional core** - This consists of full time permanent labour that represent the distinctive knowledge and competencies of the firm.
- **The internal flexible labour force or the periphery** - This may include part time and temporary labour, which can be deployed flexibly according to workflow peaks.
- **The external contractual fringe** - They are external consultants and contractors who are able to undertake non-core activities and provide specialist services more economically than the firm could manager internally.
- **The lucky leaf** - This signifies the action of customers who participate in the production and delivery of the service or product. Examples include self-service petrol stations and self-scanning in supermarkets.

15.7 Mintzberg on organisational structure

Mintzberg (1980) explains that the organizational structure can be classified into five components as are given below;

- **The strategic apex** - This consists of people such as the board of directors, who will ensure that the organization serves its mission as well as the needs of those who control or otherwise have power over the organization.
- **The middle line** - The strategic apex is joined to the operating core by a chain of middle line managers with formal authority. Examples are supervisors and managers in production, marketing and distribution.
- **The operating core** - These are employees who perform work related to the production of goods and services, such as purchasers, machines operators etc.
- **Technostructure** - These are members who establish and maintain the administrative and technological controls, which standardize and specify activities, outputs and skills relevant to the operating core and middle lines. Includes industrial engineers, budget analysis and personnel specialists.
- **The support staff** - These will be those concerned with making the organization more self contained and less dependent on outside services (E.g. Legal counsel, industrial relations, mail room and cafeteria).

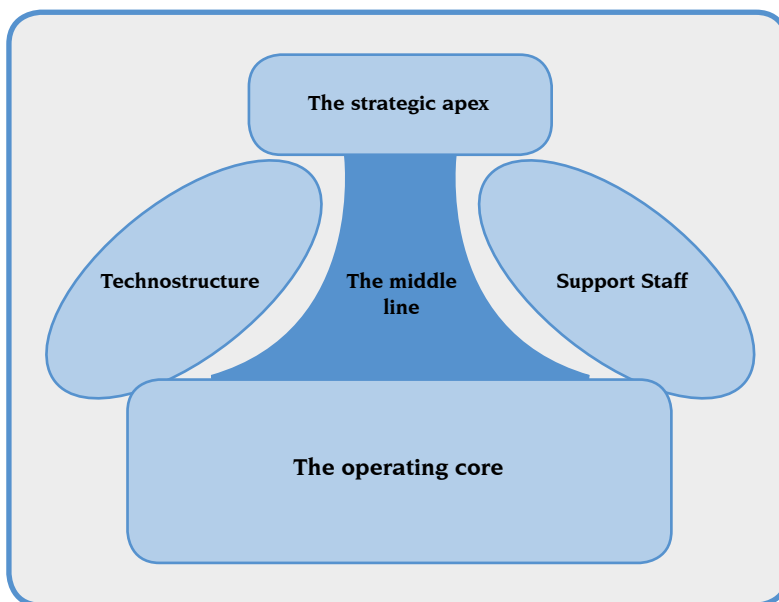


Figure 15.9 : The components of a organizational structure.

15.8 Types of organizational structures

Mintzberg's (1980) identifies the following main types of organizational structures;

- The entrepreneurial organization.
- The machine organization (Bureaucracy).
- The professional organization.
- The divisional (Diversified) organization.
- The innovative organization (Adhocracy).

The entrepreneurial organization

The entrepreneurial organization is fast, flexible, lean and is characterized by its simple and flat structure. It consists of one large unit with one or few top managers. The organization is relatively unstructured and informal compared with other types of organizations and the lack of standardized systems allow the organization to be flexible. A young company that's tightly controlled by the owner is the most common example of this type of organization. As the organization grows, this structure may be inadequate as the need to start sharing power and decision-making arises.

The machine organization (Bureaucracy)

The machine organization is defined by its level of standardization and clearly defined roles. Work is very formalized and there are many routines, procedures, central decision-making and tasks which are grouped by functional departments. The machine organization has a tight vertical structure where functional lines go all the way to the top, allowing top managers to maintain centralized control.

These organizations can be very efficient, and they rely heavily on economies of scale for their success. However, formalization leads to specialization and functional units may have conflicting goals that can be inconsistent with the overall corporate objectives.

The professional organization

According to Mintzberg (1980), the professional organization is also very bureaucratic. The key difference between this and a machine organization is that professional organizations rely on highly trained professionals who demand control of their own work.

While there's a high degree of specialization, decision-making is decentralized. This structure can be typically evidenced in an organization that contains a large number of knowledge workers and is common in places such as schools, universities and in accounting and law firms. The professional organization

is complex, and there are lots of rules and procedures which allows it to enjoy the efficiency benefits of a machine structure, even though the output is generated by highly trained professionals who have autonomy and considerable power.

Support staff within these organizations typically follow a machine structure. The clear disadvantage within a professional structure is the lack of control that senior executives can exercise, since authority and power are spread down through the hierarchy. This can make these organizations hard to change.

The divisional (Diversified) organization

If an organization has many different product lines and business units, you'll typically see a divisional structure in place. This is when a central headquarters supports a number of autonomous divisions that make their own decisions, and have their own unique structures. This type would be found in large and mature organizations that have a variety of brands, produce a wide range of products or operate in different geographical regions. Any of these can form the basis for an autonomous division.

The key benefit of a divisional structure is that it allows line managers to maintain more control and accountability than in a machine structure. With day-to-day decision-making decentralized, the central team can focus on the big picture. This allows them to ensure that the necessary support structures are in place for success and a significant weakness is the duplication of resources and activities that go with a divisional structure.

Divisions can result in conflict, since each division will need to compete for limited resource allocations from headquarters. These organizations can be inflexible, so they work best in industries that are stable and not too complex. If the company adopts a diversification strategy, this structure can work well, particularly when the company is too large for effective central decision-making.

The innovative organization (Adhocracy)

The structures discussed so far are best suited for traditional organizations and in some cases companies are required to innovate and function on an 'ad hoc' basis to survive. Filmmaking, consulting and pharmaceuticals are project-based industries that often use this structure. Here, companies typically bring in experts from a variety of areas to form a creative functional team. The decisions are decentralized and power is delegated to wherever it's needed. Therefore, controlling these types of organization may be difficult. A clear advantage of adhocracies is that they maintain a central pool of talent from which people can be drawn at any time to solve problems and work in a flexible way.

Workers typically move from team to team as projects are completed, and as new projects develop. Because of this, adhocracies can respond quickly to change, by bringing together skilled experts able to meet new challenges. There can be lots of conflict when authority and power are ambiguous. Dealing

with rapid change is stressful for workers, making it difficult to find and keep talent. Given the complex and dynamic state of most operating environments, adhocracy is a common structural choice, and it's popular with young organizations that need the flexibility it allows.

Does structure follow strategy?

The summary of Mintzberg's organisational configurations

Situational factors			Design parameters		
Configuration	Environment	Internal	Typical structure	Key processes	Typical relationships
The entrepreneurial organization	Simple, dynamic Hostile	Small Young Simple tasks	CEO centered	Direct supervision	Centralised
The machine organization (Bureaucracy)	Simple, static	Old Large Regulated tasks Technocrat control	Functional	Planning systems	Centralised Strategic planning
The professional organization	Complex, static	Simple systems Professional control	Functional	Cultural processes Self-control	Devolved
The divisional (Diversified) organization	Simple, static Diversity	Old, Very large Divisible tasks Middle-line control Often young	Multidivisional	Performance targets Markets	Devolved Financial or strategic control
The innovative organization (Adhocracy)	Complex, Dynamic	Complex tasks Expert control	Projects	Cultural processes Self-control	Devolved Networks and alliances

Table 15.2 : Organizational configurations by Mintzberg (1979).

In his landmark study of seventy large organizations, Alfred Chandler found that organization design follows strategy. The choice of organization design makes a difference because not all forms of design support a particular strategy equally well. This structure follows strategy theory is based on the idea that, like a plan, an organizations design should be a means to an end, not an end itself. The strategies of cost leadership versus differentiation typically require different structural approaches, so managers try to pick strategies and structures that are congruent.

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CHAPTER 16

Managing Big Data

- 16.1 What is big data?
- 16.2 The characteristics of big data
- 16.3 The knowledge model
- 16.4 Typical customer information held in a database
- 16.5 Database marketing
- 16.6 The data protection act
- 16.7 Benefits of database marketing
- 16.8 The marketing information system
- 16.9 The database development process
- 16.10 Customer relationship management

16

Managing Big Data

"Education is a progressive discovery of our own ignorance." - Will Durant

Data consists of raw numbers, figures, measures, letters, symbols, facts, events and transactions, which have been recorded but not yet processed into a form that is suitable for decision making. Information is data that has been processed in such a way that it has a meaning to the person who receives it, who may then use it to improve the quality of decision-making. Knowledge is a combination of information, experience and insight that may benefit the individual or the organisation. E.g. When crude oil prices go up by \$10 per barrel, it is likely that petrol prices will rise by 2p per liter.

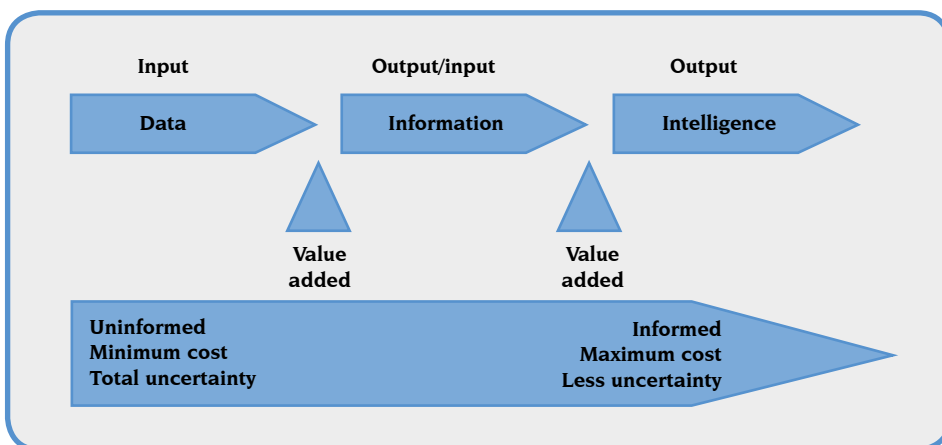


Figure 16.1: The difference between data, information and intelligence.

16.1 What is big data?

Big data is like teenage sex. Everyone talks about it and nobody really knows how to do it. Everyone thinks everyone else is doing it, so everyone claims they are doing it too. Gartner (2012) defines big data as high volume, high velocity and high variety information assets that require new forms of processing to enable enhanced decision making, insight discovery and process optimization.

Big data = Transactions + interactions + observations

Big data is a blanket term used for any collection of data sets so large and complex that it becomes difficult to process using on-hand data management tools or traditional data processing applications. The worlds technological per-capita capacity to store information has roughly doubled every 40 months and the challenge for large enterprises is to determine who should own big data initiatives that straddle

the entire organization. It is estimated that 5 Billion people will be connected, globally, by 2018. After all, Google may know you better than your wife.

What is considered 'big data' varies depending on the capabilities of the organization managing the set, and on the capabilities of the applications that are traditionally used to process and analyze the data set in its domain. For some organizations, facing hundreds of gigabytes of data for the first time may trigger a need to reconsider data management options. For others, it may take tens or hundreds of terabytes before data size becomes a significant consideration.

16.2 The characteristics of big data

Gartner (2012) identify the characteristics of big data using the five V's.

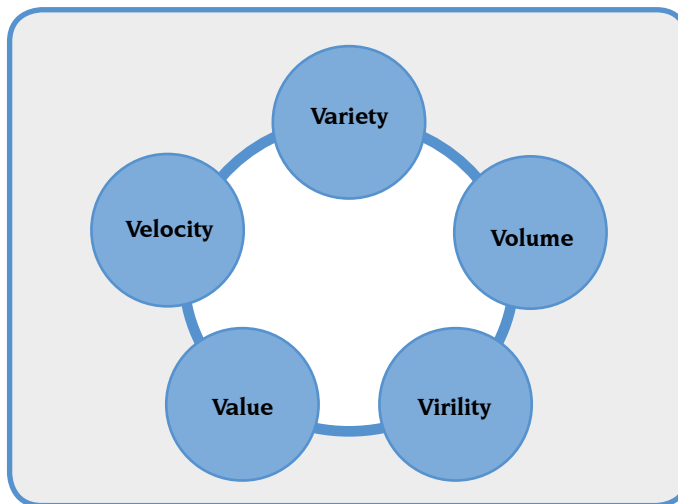


Figure 16.2: Gartner's 5V's of big data.

- **Velocity** - Velocity refers to the vast amounts of data generated every second. Just think of all the emails, twitter messages, photos, video clips, sensor data etc. we produce and share every second. We are not talking Terabytes but Zettabytes or Brontobytes. On Facebook alone we send 10 billion messages per day, click the 'like' button 4.5 billion times and upload 350 million new pictures each and every day. If we take all the data generated in the world between the beginning of time and 2008, the same amount of data will soon be generated every minute! This increasingly makes data sets too large to store and analyse using traditional database technology. With big data technology we can now store and use these data sets with the help of distributed systems, where parts of the data is stored in different locations and brought together by software.
- **Variety** - Variety refers to the speed at which new data is generated and the speed at which data moves around. Just think of social media messages going viral in seconds, the speed at which credit card transactions are checked for fraudulent activities, or the milliseconds it takes trading systems

to analyse social media networks to pick up signals that trigger decisions to buy or sell shares. Big data technology allows us now to analyse the data while it is being generated without ever putting it into databases.

- **Volume** - Variety refers to the different types of data we can now use. In the past we focused on structured data that neatly fits into tables or relational databases, such as financial data (E.g. Sales by product or region). In fact, 80% of the world's data is now unstructured, and therefore can't easily be put into tables (Think of photos, video sequences or social media updates). With big data technology we can now harness differed types of data (Structured and unstructured) including messages, social media conversations, photos, sensor data, video or voice recordings and bring them together with more traditional structured data.
- **Virility** - Veracity refers to the messiness or trustworthiness of the data. With many forms of big data, quality and accuracy are less controllable (Just think of Twitter posts with hash tags, abbreviations, typos and colloquial speech as well as the reliability and accuracy of content) but big data and analytics technology now allows us to work with these type of data. The volumes often make up for the lack of quality or accuracy.
- **Value** - It is all well and good having access to big data but unless we can turn it into value it is useless. So you can safely argue that 'value' is the most important V of big data. It is important that businesses make a business case for any attempt to collect and leverage big data. It is so easy to fall into the buzz trap and embark on big data initiatives without a clear understanding of costs and benefits.

16.3 The knowledge model

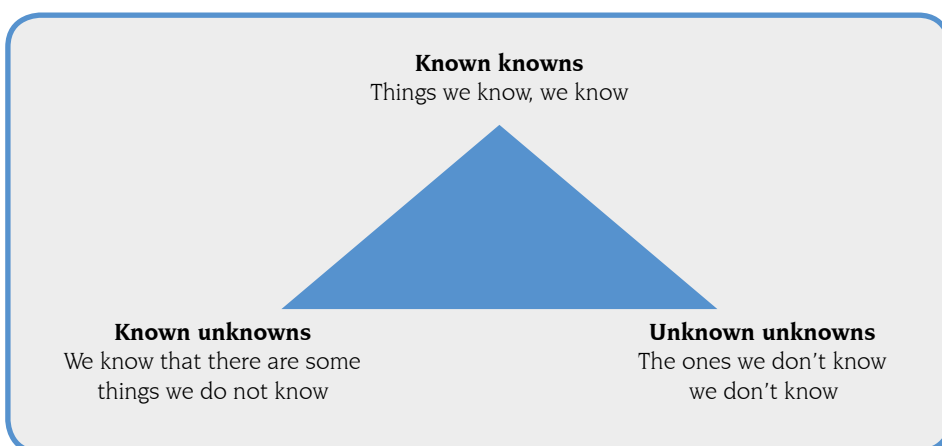


Figure 16.3: The knowledge model.

The marketing environment poses unknowns, or uncertainties. Known unknowns result from phenomena, which are recognized, but poorly understood. On the other hand, unknown unknowns are

phenomena, which cannot be expected because there has been no prior experience or theoretical basis for expecting the phenomena. Unknown unknowns (unexpected or unforeseeable conditions), which pose a potentially greater risk simply because they cannot be anticipated based on past experience or investigation.

Types of data

Wilson (2006) identifies four types of customer data:

Behavioural data	This is derived directly from the behavior of the customer.
Volunteered data	Data that is provided by the customer through for example registering on a website.
Profile data	This data is obtained by linking our database with other sources of information. They are linked by commonly held data for example, name, address or post code
Attributed data	This is data that is extrapolated from the result of market research. Although held anonymously, the result of research on a small sample of the database can be flagged against the entire database. For example, a survey that looked at attributes of age group should be used to group all customers into a relevant segment.

Table 16.1: Types of data.

The roles of marketing information

Wilson (2006) identifies four roles of marketing information.

- **Descriptive information** - Answers the 'what, where and when questions'.
- **Comparative information** - Answers the 'how' questions used for performance measurement.
- **Diagnostic information** - Answers the 'why' questions and provides explanations.
- **Predictive information** - Answers 'what would happen' type of questions and helps determine future trends.

Barriers in gathering information

- Language barriers.
- Confidentiality and ethical issues.
- Time and cost.
- Unable to locate.
- Non availability or outdated information.
- Legal barriers.
- Political red tape.

16.4 Typical customer information held in a database

Customer titles	Name, address, contact information.
Professional details	Company, job, designation, responsibilities.
Psychographic data	Lifestyle, personality, special interests, attitudes, aspirations.
Transaction history	Products services consumed, how often, what quantity? Why the product was selected? Date of first transaction.
Call, contact history	Sales calls made, queries received.
Credit, payment history	Credit worthiness, price sensitivity, profitability.
Behavioural data	Occasions, benefits, user status, user rate, loyalty status, readiness stage, attitudes towards a product, beliefs, values.
Current transaction details	Items currently on order, dates, prices, delivery.
Geographic information	Region, city or metro size, density, climate.
Demographic information	Name, age, contact details, stage in the family life cycle, family size, title, address, post code, e mail, gender, religion, race, nationality.

Table 16.2: Typical customer information held in a database

Characteristics of good information

Accurate	Sufficiently accurate to be relied upon.
Complete	Managers should be given all the information they need. However information should not be excessive.
Cost effective	The value of information should exceed the cost of producing it.
Understandable	Information needs to be clearly presented and displayed in an understandable form.
Relevant	The information should be relevant to its purpose.
Accessible	Information should be accessible in an appropriate way, E.g. By email, verbally or by a written report.
Timely	Information should be provided in sufficient time for decisions to be made.
Easy to use	The information should be clear and easy to use.

Table 16.3: Characteristics of good information.

16.5 Database marketing

Definition : Database marketing is a form of direct marketing using databases of customers or potential customers to generate personalized communications in order to promote a product or service for marketing purposes.

It is in essence the ability to use the vast potential of today's computer and telecommunication technology in driving customer oriented programmes in a personalized, cost-effective manner. Large-scale databases are created and stored on computer systems, using database application packages such as Microsoft access.

Functions of database marketing

- **Targeting** - Who are the targets for the offer?
- **Interaction** - How can we communicate and what should we communicate?
- **Control** - What is the return on investment?
- **Continuity** - How can we build relationship?

Principles of data protection

- Data should be processed fairly and lawfully.
- Data should be processed for limited purpose and not in any way that is incompatible with these purposes.
- Data must be adequate, relevant and not excessive.
- Data should be accurate.
- Data should be kept only as long as necessary.
- Data must be processed in line with individual's rights.
- Data must be kept secure.
- Data should not be transferred to other countries that cannot provide adequate data protection.

Consumer rights in the data protection law

- The right of access, such as to see information held on them.
- The right to prevent processing of data that can cause distress, such as revealing financial information to a third party without consent.

- The rights to prevent processing for direct marketing, such as preventing organizations from using data for direct-marketing purposes.
- The right to compensation for damage or distress resulting from inappropriate use of personal data, where the data controller cannot show reasonable care in complying with the act.
- The right to have data rectified, blocked, erased or destroyed.
- The right to prevent an organization from selling or passing on information without permission.
- The right to have personal data kept secure from unauthorized access.
- The right to have data that is important deleted from an organization's records.

16.6 The data protection act

The data protection legislation was introduced in the UK in the early 1980's in order to prevent the abuse of data. The act is concerned about the protection of personal data, which is information about living, identifiable individuals. The act gives individuals certain rights and it requires those who record and use personal information to be open about their use of that information and to follow sound practices. The individuals may have:

- The right to be informed of all the information held about them by an organization.
- The right to prevent the processing of their data for the purposes of direct marketing.
- The right for compensation if it has caused damage by any contravention of the act.
- The right to have any inaccurate data about them removed or corrected.

If the organization receives a written request it has the obligation to show the individual what data it holds about them, to obtain a copy of it, to be given an explanation of what it is used for or who it is given to. The organization must deal with the request promptly, and in any case within 40 days. The organization is entitled, if it wishes, to ask for a fee of not more than 10 pounds in the UK in which case the 40 days does not begin until this is received.

Storing sensitive data

The act identifies eight categories of sensitive personal data. If an organization holds personal data falling into these categories it is likely that it will need the explicit consent of the individual concerned. It will also need to ensure that its security is adequate for the protection of the following sensitive data.

- The racial or ethnic origin of data subjects.
- Political opinions.

- Religious beliefs or other beliefs of a similar nature.
- Whether they are a member of a trade union.
- Physical or mental health or conditions.
- Information on the customer's sexual life.
- The commission or alleged commission of any offence.
- Any details of court proceedings or sentences against them.

Terminology used in data storage

- **Data** - Is the raw components of information. E.g. Names, dates, item descriptions, prices, colours, addresses etc. Once processed, raw data is transformed into information.
- **Fields** - Are the labels given to types of data. E.g. A customer database might include fields such as; title (Mr), first name (Joseph).
- **Records** - Are the collections of fields relevant to one entry. E.g. All data fields for one customer make up one customer record.
- **Tables** - Are collections of records that describe similar data. E.g. All customer records for a particular product may be stored in such a file.
- **Databases** - Are collections of all the tables relating to a particular set of information.

Data → Fields → Records → Tables → Databases

Application of a database

The most valuable information in a customer-focused organization is its knowledge of its customers. The customer database has two uses in such an organization.

- Operational support or to process transactions** - Databases can be linked to program's, which control stocks, order confirmations, dispatch notes, invoices, statements and receipts. Another example of this would be a telephone banking employee checking whether the password given by a caller is correct before giving out details of the account.
- Analytical uses** - The analysis by a bank indicates top customers who regularly use the account and those who are not so frequent. Top customers can be analysed from the database and targeted with personal loans or other offers.

Marketing applications of a database

A database, in marketing terms, is a collection of data that can be organized to provide marketing information. There are many database-marketing programs that can be undertaken by a company. The sources of information in a customer database and the uses can be summarized in the diagram below;

Inputs and applications of a typical customer database

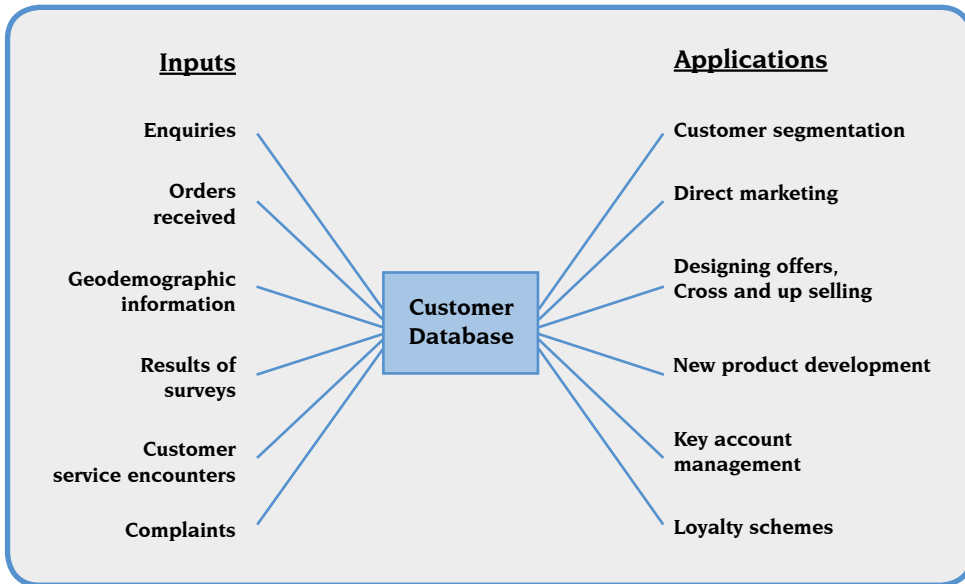


Figure 16.4: Inputs and outputs of typical customer database.

Types of computerized databases

There are two basic kinds of computerized database.

- **A flat file system** - This will lump all the data into a single file and is easy to build and maintain. E.g. A simple worksheet or spreadsheet.
- **A relational database system** - This allows greater flexibility and storage efficiency by splitting the data up into a number of tables, which are linked and can be integrated, as necessary. For example one table may contain customer names and another customers payment histories. A linking field such as a customer ID number would allow the user to interrogate both tables and generate an integrated report on a particular customers purchases and payments, or a list of customers who had made multiple purchases, or a list of those with a poor payment record.

16.7 Benefits of database marketing

- **Evaluating and rewarding top customers** - With the aim of retention and because they are brand ambassadors spreading positive 'word of mouth'.
- **Cross selling, up selling related products.**
- **Relationship marketing strategies** - Customer loyalty and rewards schemes, gauging customer lifetime value, key account management strategies, identify profitable and loyal customers.
- **Activating lost, disengaged customers** - Customer win back strategies, converting occasional users to regular users.
- **Market segmentation and profiling studies** - Targeting niche markets.
- **Direct marketing** - Direct mail, e mail or text message, telemarketing or catalogue marketing campaigns.
- **Marketing research and planning** - Used for surveys via questionnaires, secondary data.
- **Identifying marketing opportunities** - New product development, new markets, new strategies.
- **Identifying patterns** - Seasonal, demographic purchase patterns.

Methods of gathering customer information

- Manually typed in by hand from transaction documents - Order forms, invoices and customer accounting records.
- Scanned in from documents using a scanning machine.
- EPOS and EFTPOS machines - May be bar coded or magnetic stripped for 'swiping' or chip based.
- Imported from other systems in other parts of the organization.
- Purchased from an outside party or a result of a merger between two organizations.
- Details gathered by tele-marketers and response mechanisms. E.g. Coupons.
- Details provided by customers on customer care, feedback and market research forms or customer application forms, warranty cards.

Basic features of a database

Basic features of database packages enable you do many things. You may have to run a 'query' in obtaining the following data. A query is a command or a request you make in computer language.

- i. **Find** - A particular record using a data item you know.
- ii. **Sort records** - Alphabetically, numerically, by date or in ascending or descending order.
- iii. **Filter records** - To pull out and view a selection of records based on specified criteria.
- iv. **Interrogate records** - Generate a selection of records based on a complex set of criteria, from one or more linked tables or fields. E.g. All customer records residing in Colombo 07 who purchased a cake of soap from Jan 15th to 25th Jan.
- v. **Calculate and count** - The 'sum' sign can be used to add up all the values in a field.
- vi. **Format** - Selecting data for a variety of uses such as reports, forms, mailing labels, charts and diagrams.

Barriers to effective use of database systems

- The lack of motivation by key players.
- The high cost of the system.
- The limitation of software and hardware capability.
- Resistance to change.
- Problems with internal communications.
- Lack of business experience among IT specialists.

Information systems

Information systems refer to the provision and management of information to support the running of the organization. Information technology is the supporting equipment (hardware) that provides the infrastructure to run the information systems.

Types of systems

- **Transaction processing systems** - These major applications carry out essential, routine processing of day-to-day transactional data. E.g. Handling sales orders, purchase orders, payroll items and stock records.
- **Management information systems** - Provide middle managers with information to monitor and control the organization's activities and to report them to senior managers, E.g. Budgeting and control systems.
- **Expert systems** - Expert systems are computer programs, which allow non-experts to obtain support and benefit from expert knowledge, information and advice through a computer and software. Expert systems are also able to process very large amounts of interrelated data much more quickly and accurately than a human could, so experts will use them too.

- **Enterprise resource planning systems** - These provide senior managers with strategic information to help make strategic decisions.
- **Marketing decision support systems** - A marketing decision support system is a coordinated collection of data systems, tools and techniques with supporting software and hardware which is used for gathering and interpreting relevant information.

The stages of system development

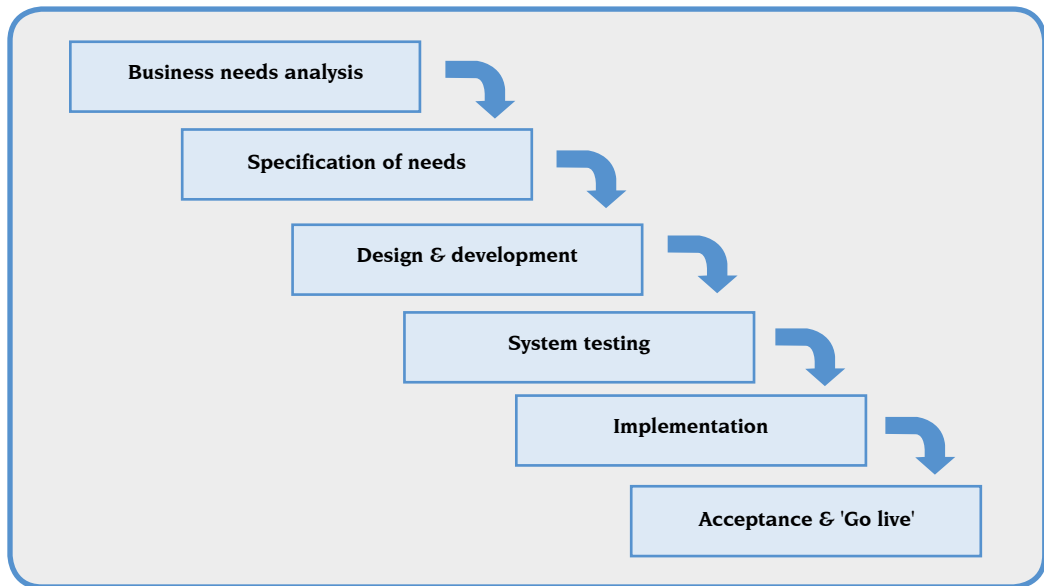


Figure 16.5: The stages of system development.

16.8 The marketing information system

Definition : The MKIS can be defined as a combination of human and computer based resources that result in the collection, storage, retrieval, communication and use of data for the purpose of business planning.

The MKIS can be a useful system in which marketing data is formally gathered, stored, analyzed and distributed to managers in accordance with their informational needs on a regular basis. Developing a MKIS system is becoming extremely important as the strength of economies rely on services and to better understand the specific needs of customers. The main benefit of MKIS systems is to integrate market-monitoring systems with strategy development and the strategic implementation of policies and processes that help capture and act on customer management applications with marketing decision support systems. This area constitute marketing intelligence that supports the analysis and market based activities that support customer relations and customer service with real time information with real time applications that support market based approaches.

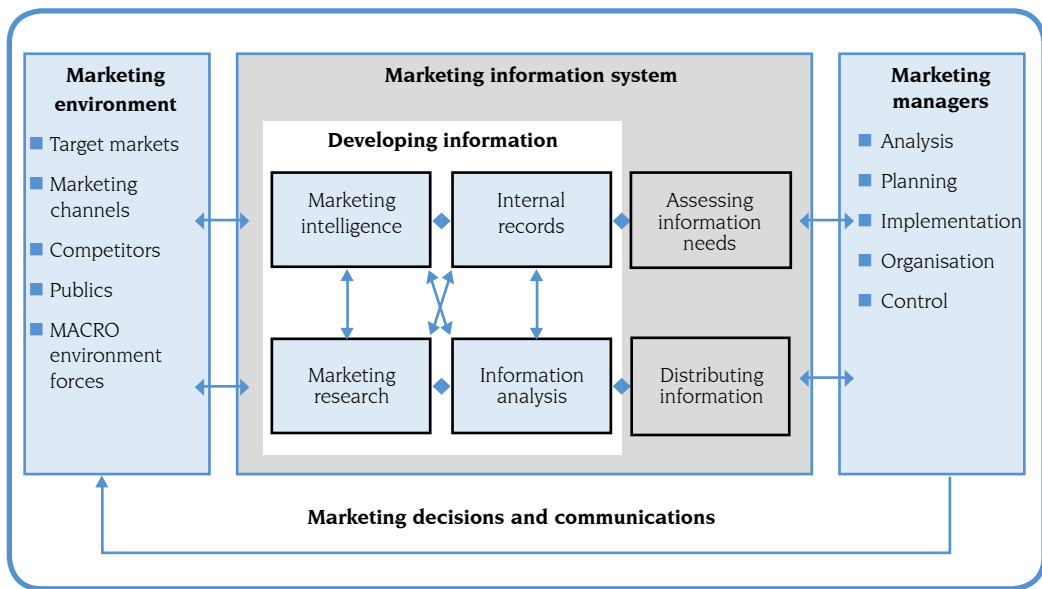


Figure 16.6: The marketing information system.

a) **The internal record system** - This involves collecting the following types of internal records in one repository.

- Invoices, sales and marketing data.
- Receipts and debtors collections.
- Payments made to creditors.
- Stock records, inventory, production, inbound and outbound logistics data.
- Customer inquiries and complaints.
- Financial statements.

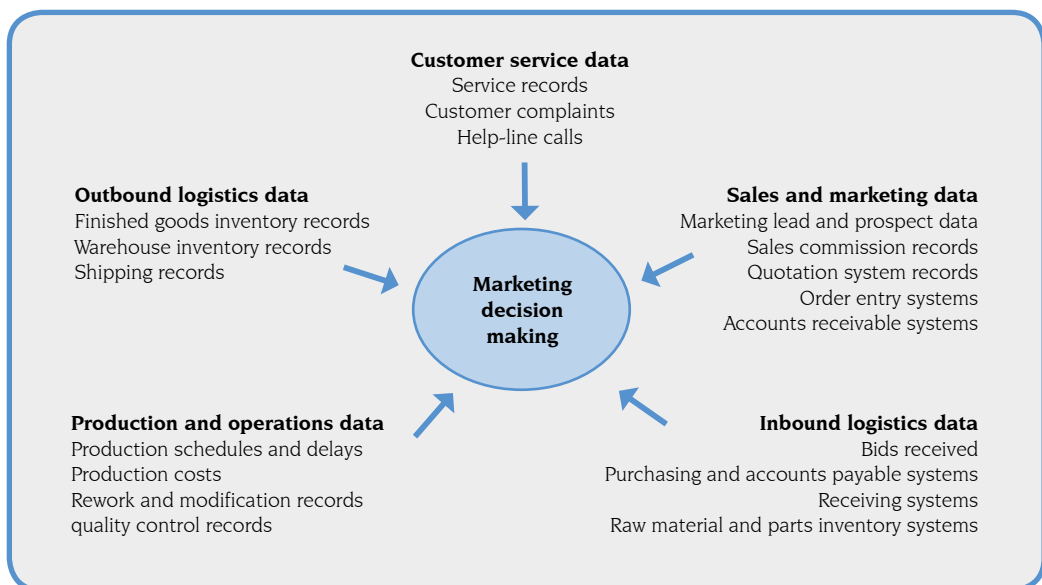


Figure 16.7: The Internal record system.

- b) **The marketing intelligence system** - The marketing intelligence system is a set of procedures and sources used by managers to obtain everyday information about developments in the marketing environment.
- c) **The decision support system** - DSS refers to the computer systems, tools and techniques with supporting software and hardware by which an organization simulates and interprets relevant information. The process involves creating a statistical bank and a model bank. A statistical bank will store programs for carrying out computations for sales forecasts, making advertising spending projections, calculating sales force productivity and so on and a model bank will store marketing models for planning and analysis.

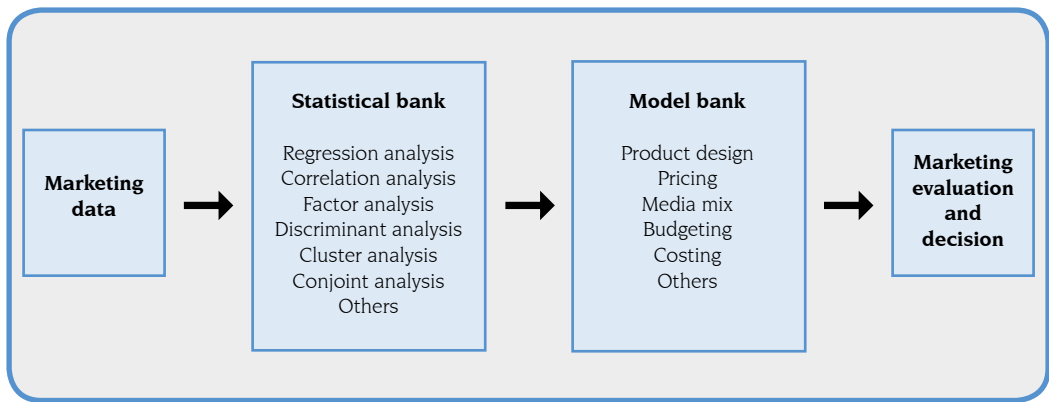


Figure 16.8: The decision support system.

Quantitative tools in a decision support system

- Multiple regression analysis.
- New product pre-test models.
- Mathematical programming.
- Scenario planning.
- Hypothesis testing.
- Conjoint analysis.
- Multidimensional scaling.
- Sales response models.
- Heuristics.

- d) **The marketing research system** - All sources of secondary information, which may include previously conducted qualitative or quantitative primary data will be stored here.

16.9 The database development process

- i. **Business review** - All business decisions should begin with an understanding of the strategic direction of the business.

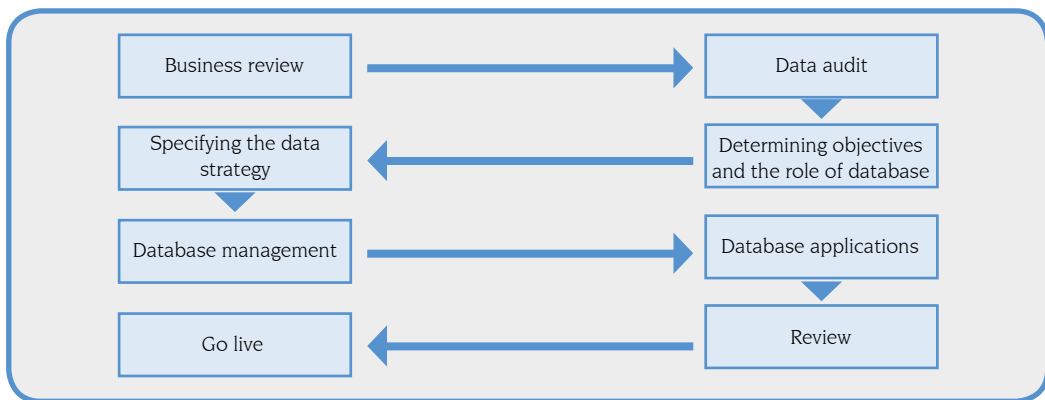


Figure 16.9: The database development process.

- ii. **The data audit** - This involves carrying out an in-depth data audit and finding answers to questions such as; what information requirements does the organization have now and in the future? Where is this information held currently? What unnecessary information is held? How is this information used?
- iii. **Determining objectives and the role of database** - Who will use this information? What kinds of data to be available? When or how often will the information be used? Where will the data be located or stored? How will the data be used?
- iv. **Specifying the data strategy** - The strategy should specify information required and what additional data is to be acquired and managed. E.g. Who and what departments are able to use and update data held in the database? How will the data be kept up to date and who is responsible for this? What data verification rules will be placed to ensure quality and completeness? What analysis systems will the database support?
- v. **Database management**
 - **Capturing data** - This is the process and system for gathering and recording data in a database.
 - **Data cleansing** - Data cleansing is the process of amending or removing data in a database that is incorrect, out of date, incomplete, improperly properly formatted or duplicated.
 - **Data security** - Direct marketing and marketing research are two separate entities and should not be amalgamated or mixed with each other. This is protected by the data protection act and the ESOMAR code of conduct. However with the consent of the respondent you could use data collected from research for direct marketing. 'opt in' or 'permission' marketing is a useful technique to adopt to ensure credibility.
 - **Data warehousing** - Data warehousing refers to the management of collecting, storing and retrieving data from one or more databases, often with the added capability of linking several

data sets. It involves a large amount of data collected and stored centrally that will be readily usable for data mining requirements.

- **Data mining** - Data mining is a term used to describe the techniques for identifying multiple sources, gathering them and extracting useful and relevant information. It involves selecting, exploring and modelling large amounts of data to uncover previously unknown relationships and patterns.

- **A data marts** - Holds a selection of the organisations data for a specific purpose. A data mart can be constructed more quickly and cheaply than a data warehouse.

- vi. **Database applications** - The marketing applications of the database can be summed up as:

- Finding
- Acquiring
- Keeping
- Cross-selling additional products
- Up-selling higher value products
- Prevent inactivity
- Renewing customers

- vii. **Review** - Regularly review the database and make improvements, UAT tests.

- viii. **Go live** - This involves populating data fields and launching the database.

16.10 Customer relationship management

Definition : CRM can be defined as the methodologies and information technology that enables the integration of data across multiple customer contact points to enable the development of offers tailored to specific customer needs.

A CRM program involves a conscious effort to manage the customer life cycle. It involves attracting profitable customers (acquisition strategy), retaining top customers (retention strategy), activate inactive customers (activation strategy), and an effort to save a good customer (customer anti attrition, churn strategies). CRM is an integrated system, enabled by IT systems and methodologies, and it covers the entire business process of marketing and sales. It brings together a number of marketing and customers-facing systems within one application, and allows marketers to manage customer information and customer relationships in an organized and profitable way.

Planning and implementing CRM is a major task, especially in a large organization. It is likely to be expensive and disruptive and, as with any change, meet resistance. So here, as with any change project, a board-level champion is invaluable in order to secure the financial, human and external resources necessary for it to succeed and to be embraced by all employees as a key element of how the company does business rather than being seen as a 'one-off' project.

Why CRM?

- In order to orient the business towards the concept of customer lifetime value.
- Repeat purchases are more profitable than initial ones.
- It is cheaper to retain customers than to attract new ones.
- To segment customers based on the Pareto principle.
- Differentiate service delivery and value based on customer profitability.
- In order to move towards mass customisation.
- To device loyalty schemes and rewards programs.

The interconnected CRM ecosystem

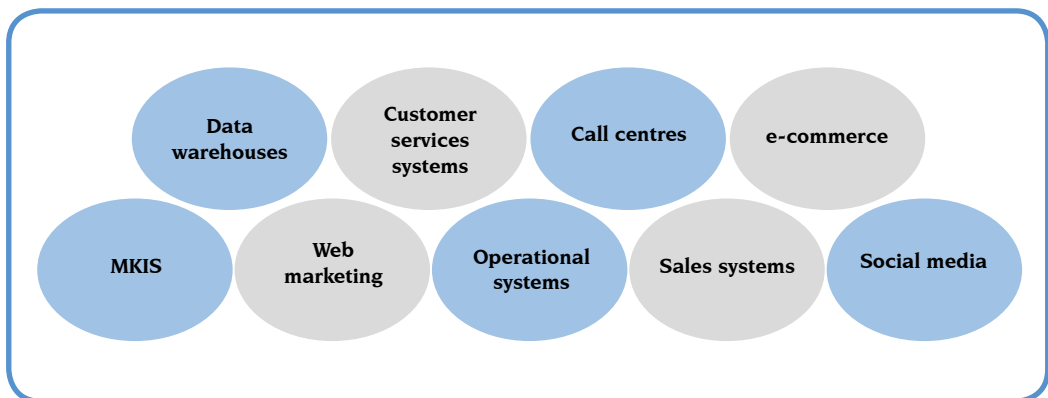


Figure 16.10: The interconnected CRM ecosystem.

Key account management

A key (strategic) account is a customer identified by the selling company as being of strategic importance and is usually an account with a high proportion of sales. The key account manager's role is to integrate the efforts of the various parts of the organization in order to deliver an enhanced service to key customers. It will be the key account manager's role to maintain communication with the customer and note any developments and deal with any problems arising in the relationship.

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CHAPTER 17

Innovation and Entrepreneurship

- 17.1 Opportunities for innovation
- 17.2 The innovation gap
- 17.3 The innovation cycle
- 17.4 Disruptive innovation
- 17.5 Innovation audit
- 17.6 Four dimensions of innovation space
- 17.7 The Gartner hype cycle
- 17.8 The EFQM model of innovation
- 17.9 Innovation strategies
- 17.10 Creativity techniques
- 17.11 Norms that promote creativity
- 17.12 Creativity for innovation
- 17.13 Lateral Thinking
- 17.14 Knowledge management
- 17.15 The learning organisation
- 17.16 Entrepreneurship
- 17.17 Entrepreneurial models
- 17.18 Lean management

17

Innovation and Entrepreneurship

"Why join the navy if you can be a pirate?" - Steve Jobs

Innovation is important to an organisation, especially in competitive markets, because maintaining an advantage very often depends upon responding to change expeditiously. The opportunities for innovation occur at every point. Innovation is the means by which enterprises create wealth. Trial-and-error is not an effective or efficient means of facilitating innovation. Enterprises that learn how to integrate innovation into strategy, and strategy into the process of innovation, will gain a competitive advantage and optimize the enterprise's creation of wealth. There are arguments stating innovations have to be disruptive to qualify; others argue that any change as long as it is measurable qualifies as innovation. Some people want innovations to be open and available to all as a means of challenging even more growth and ingenuity; others believe that new discoveries and paths need to be developed privately and secretly.

Innovation is not invention, even if invention is the mother of necessity. An innovation is the extension of an invention. If an inventor discovers the 'next big thing' but is unable to find anyone to produce it, then the next big thing remains undiscovered to the world. 'Real' Innovation is accomplished consistently and systematically, given the true voice of the customer and a process for delivering solutions. In order to encourage innovation the management should create a more outward looking organisation. All employees must be encouraged to look for new products, markets, processes, designs and ways to innovation involves the creation, selection and efficient delivery of new ideas to allow companies to outperform their competitors by being the quickest and smartest to grasp new technological opportunities, create unique propositions and deliver compelling new products and services.

Definition : CRM can be defined as the methodologies and information technology that enables the integration of data across multiple customer contact points to enable the development of offers tailored to specific customer needs.

17.1 Opportunities for innovation

- New products.
- New processes.
- New approaches.
- New ideas.
- New channels.
- New suppliers.
- New quality levels.
- New partners.
- New working arrangements.
- New layouts.
- New markets.
- New services.

17.2 The innovation gap

According to Mullin (2002) the innovation gap is the difference between revenue from a company's current level of innovation and the revenue required from innovation to achieve growth. This is calculated in three steps, by assessing;

- **Basic factors** - This includes the company's current annual revenue, desired annual revenue growth and desired cost reductions.
- **Gap factors** - Review the growth required from new products or services, the amount of existing revenue at risk from failing to create new products (The revenue lost by failing to exploit new opportunities), savings attainable only through new methods of operating, and the likelihood of an unforeseen event and its impact on revenue.
- **Results** - Evaluate the projected revenue from gaps in growth, which may include failure to exploit opportunities, cost containment and disruptive changes to determine the revenue required from innovation. This is calculated as a percentage of next year's revenue goal, which is then compared with an estimated innovation capacity, which predicts what you may be able to deliver.

Establishing an innovative culture

Creating the right culture to simulate innovation requires managing the enabling conditions. Given below are the core aspects of an innovation culture. An innovation culture is where innovation is at the core of the actions, values and assumptions of an organization.

- Eliminate bureaucracy.
- Empower.
- Break some rules.
- Change the lens.
- Strategic competencies - Vigilance, adaptability.
- Systems and technology that supports collaboration.
- Growth orientation.
- Embed values such as freedom, sense of challenge in the culture.
- Cultivate the entrepreneurial instinct.
- Charismatic leadership.
- Relative advantage.
- Cohesive teams.
- Collect, exchange and respond to intelligence.
- Rewards and recognition.
- Unique resources.
- Manage the diffusion of innovation.
- Honest and open communication.
- Supportive processors.
- Tolerance of failure.
- Tolerance of a diversity of views.

The factors influencing innovation

- **Geographical competition** - Research shows that large economies (with strong competitors) encourage innovation through competitive rivalry.
- **Investment in innovation** - High investment in innovation is a valuable input, however, it does not guarantee success.
- **Company size** - Small companies are often close to their customers, and are more entrepreneurial. Increasingly, larger companies seek to create an entrepreneurial environment, often with self-managing project teams competing with other in-house teams.
- **Specialism** - Tends to improve innovation success. Organizations that target key market segments or have tight technological focus are often better at exploiting innovation.

Barriers to innovation

- Resistance to change.
- Old planning systems.
- Centralized control.
- Lack of intelligence.
- Poor internal communication.
- Insufficient rewards and motivation.
- Lack of resource.
- Internal bureaucracies.
- Skills and competencies.
- A backward culture.
- Lackadaisical leadership.

The first mover advantage

A 'first mover' is a form of competitive advantage that a company earns by being the first to enter a specific market or industry. Being the first allows a company to acquire superior brand recognition and customer loyalty. The company also has more time to perfect its products or services.

Advantages	Disadvantages
Pioneer reputation	Market development
Capture critical mass	Regulatory approval
Early learning curve	Demand uncertainty
Definition of standards	Low cost imitation
Establish entry barriers	Followers leap frog technology
Dominate supply and distribution	
Earn monopoly profits	

Table 17.1: First mover advantages and disadvantages.

17.3 The innovation cycle

The innovation cycle represents a framework for classifying the different stages related to the development of innovation. Prajogo and Ahmed (2006) examine the integration of the human and technological aspects of innovation management by modelling the innovation stimulus, innovation capacity relationship in determining innovation performance. The survey responses indicate that both the relationships between innovation stimulus and innovation capacity and between innovation capacity and innovation performance are significant and strong. However, innovation stimulus does not show any direct effect on innovation performance, suggesting that its effect is mediated through innovation capacity. The overall practical implication that can be drawn from the findings is that to achieve high innovation performance, organizations first need to develop the behavioural and cultural context and practices for innovation (Stimulus), and only within such conducive environments is it possible for organizations to develop innovative capacity in research and development and technology so as to more effectively deliver innovation outcomes and performance.

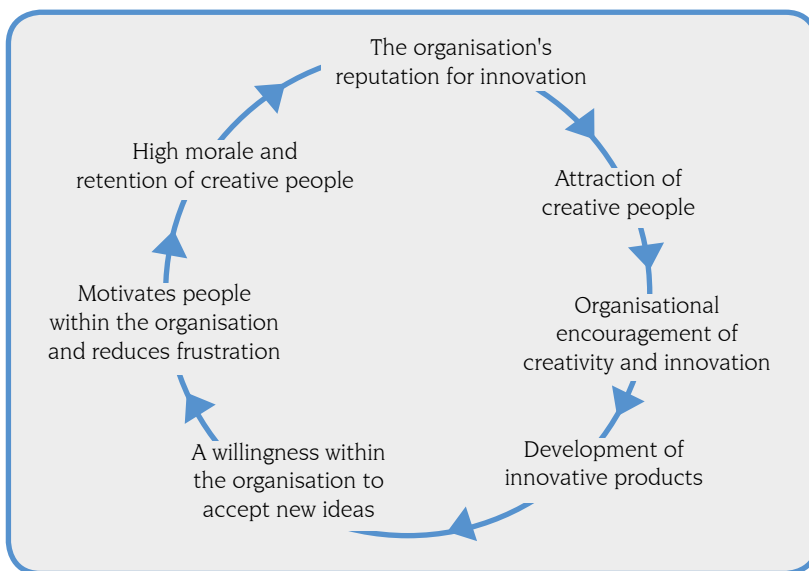


Figure 17.1: The innovation cycle by Prajogo and Ahmed (2006).

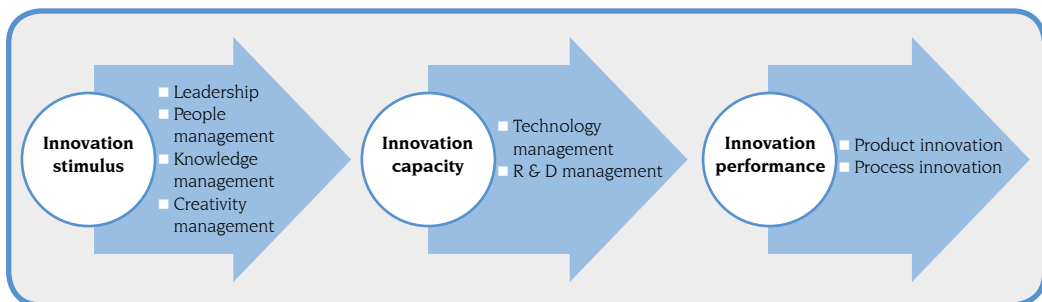


Figure 17.2: Innovation stimulus, capacity and performance.

Innovation management framework

In his book, Trott (2008) introduces the innovation management framework for an organisation and argues that innovation is a management process that continues to be at the forefront of economic and political debate about how to improve the competitiveness of economies and firms. The model explains that an organisation's knowledge base needs to be growing over time with inputs such as research and technology, the company's business strategies and marketing. The continued success for a company to introduce new products will depend on these external factors.

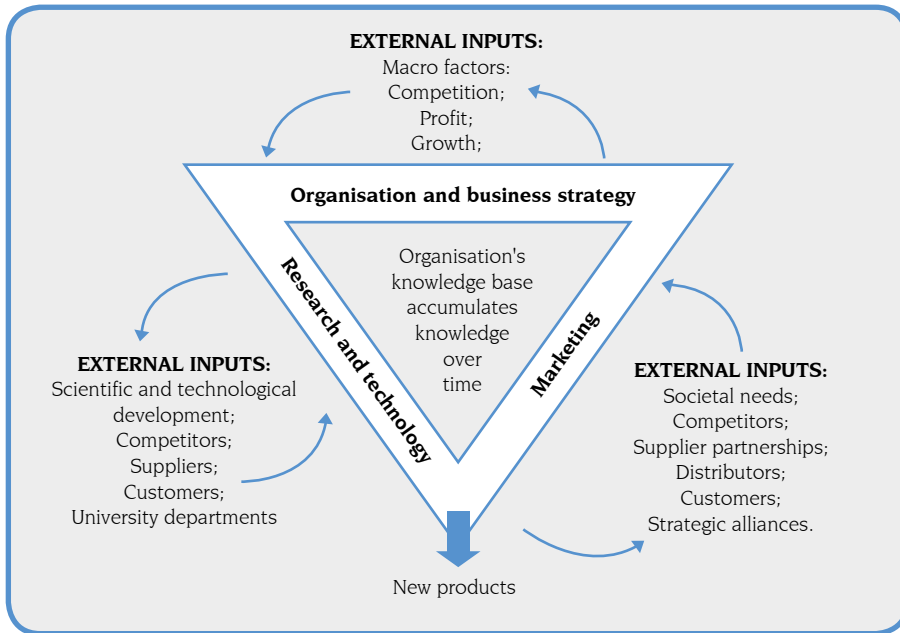


Figure 17.3: Innovation management framework by Trott (2008).

Outcomes of innovation

Innovation is a process that is best managed with a long-term perspective, not necessarily measured in long time increments (Months, years) but rather in completion of targeted goals. The outcomes of innovation need to be managed as mentioned below:

Item	Commitment
Customer productivity	Does the innovation save time and effort?
Simplicity	Does the innovation reduce the complexity a customer faces?
Convenience	Does innovation reduce the inconvenience the customer experiences? (E.g. Faster or automated check-ins)
Risk	Does the innovation reduce risk?
Fun image	Can the innovation be enjoyed?
Environmental friendliness	Is it responsible?

Table 17.2: Outcomes of innovation.

17.4 Disruptive innovation

A disruptive innovation is an innovation that helps create a new market and value network, and eventually disrupts an existing market and value network (over a few years or decades), displacing an earlier technology. The term is used in business and technology literature to describe innovations that improve a product or service in ways that the market does not expect. The term 'disruptive technology' has been widely used as a synonym of 'disruptive innovation', but the latter is now preferred, because market disruption has been found to be a function usually not of technology itself but rather of its changing application. In contrast to disruptive innovation, a sustaining innovation does not create new markets or value networks but rather only evolves existing ones with better value, allowing the firms within to compete against each other's sustaining improvements.

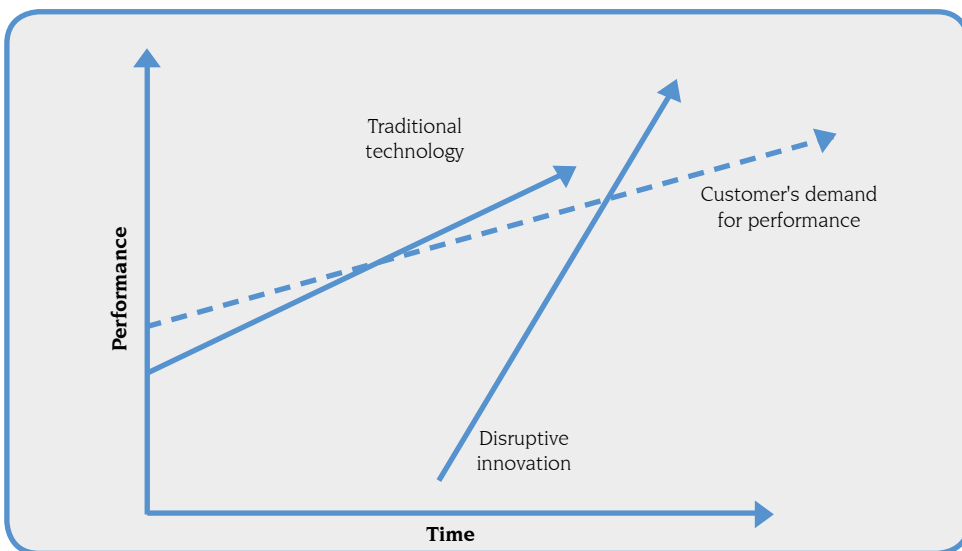


Figure 17.4: Disruptive innovation by Trott (2013).

Some misconceptions around great ideas

Misconception	Truth
Ideas just appear out of nowhere.	The most successful idea generators do so in a structured, systemic way.
There are no stupid ideas.	The most powerful ideas often are resoundingly bad, at first glance.
Customers will tell you what to do if you'll only listen.	Although customers can help identify unmet needs, there's much more involved with making an idea workable.
We can generate all the ideas we'll ever need if we just sit down at a meeting.	Great ideas are best shaped through an ongoing dialogue.
Getting ideas isn't the problem; implementing them is.	The problem is not carefully screening the ideas that are generated.

Table 17.3: Some misconceptions around great ideas by Coulter (2001).

The linear model of innovation

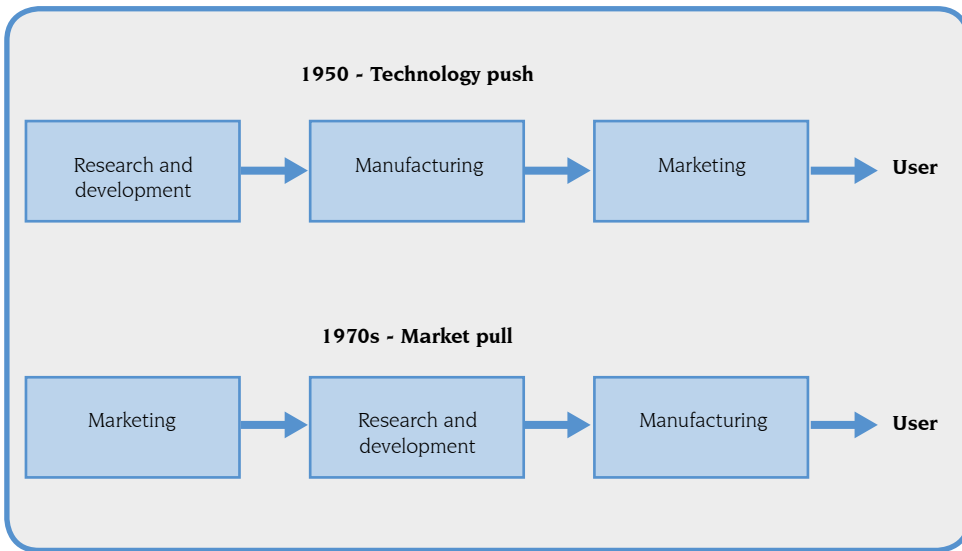


Figure 17.4: The linear model of innovation by Trott (2013).

The linear model of innovation by Trott (2013) considers innovation to be a linear sequence of activities that are either technology-driven (Technology-push) or market-driven (Market-pull). The technology-push view of innovation assumes a sequence of activities from the discovery of new ideas by scientists in R&D, application of the ideas to new products by manufacturing engineers and the promotion of the final product to customers by marketing personnel. In the technology-push model, product offerings by firms are based on assumed facts as opposed to well-known market needs. This model is only applicable in a few industries such as pharmaceuticals due to factors such as long lead times and high technical uncertainty.

Industry breakpoints

Major structural changes occur in markets from time to time and it is essential that companies are able to anticipate and respond rapidly to them. Breakpoints can be the result of:

- A technological breakthrough.
- An economic downturn.
- New sources of supply.
- Changes of government policy or legislation.
- Shifts in customer expectations.
- Changes in distribution channels.
- Declining revenues.
- New entrants.
- The identification of new opportunities by one company leading to new responses from competitors.

An industry breakpoint occurs when the market is presented with a new offering so superior in terms of customer value that it completely changes the rules of the competitive game. More and more frequently,

industries are being shaken by dramatic shifts in competitive behaviour that make the current strategies obsolete. Newcomers emerge out of nowhere to dislodge the established industry leaders. A new offering can cause a sharp shift in the industry's growth rate while the competitive response to the new business system results in a dramatic realignment of market shares. Strebler (1992) makes the important distinction between divergent and convergent break points. He describes the two forms of breakpoints as follows;

- **Divergent breakpoints** - Are associated with sharply increasing variety in competitive offerings, resulting in more value for the customer. Divergent breakpoints arise when a competitor discovers a new business opportunity and seeks to explore its boundaries, making new offerings.
- **Convergent breakpoints** - Are associated with sharp improvements in the systems and processes used to deliver offerings, resulting in lowered delivered cost. Convergent breakpoints arise when imitation of innovation by competitors has reached a point where it is impossible to differentiate offerings and offerings have converged; returns made on the original innovation have declined; businesses have exhausted improvements in total quality management, continual improvement and restructuring of the business system, in an attempt to cut costs and maintain market share; cost cutting and consolidation have run their course and it is now extremely difficult to squeeze further costs out; and businesses now seek new businesses opportunities.

The Japanese philosophy of innovation

Two leading Japanese business experts, Nonaka and Takeuchi (1995), are the first to tie the success of Japanese companies to their ability to create new knowledge and use it to produce successful products and technologies. They explored as to how Japanese companies have become world leaders in the automotive and electronics industries, among others and their secret of their success? The authors coined 'The knowledge creating company', where they provide an inside look at how Japanese companies go about creating this new knowledge organizationally. In addition, the authors show that, to create knowledge, the best management style is neither top-down nor bottom-up, but rather what they call 'middle-up-down', in which the middle managers form a bridge between the ideals of top management and the chaotic realities of the frontline. Outlined below is the Japanese versus western emphasis to learning and innovation.

The Japanese emphasis	The western emphasis
Is group based.	Is individual based.
Is oriented to tacit knowledge.	Is oriented to explicit knowledge.
Is strong on socialization and internalization.	Is strong on externalizing and combination.
Emphasizes experience.	Emphasizes analysis.
Leads to a danger of 'group think' and an over adaptation to past successes.	Leads to a danger of 'paralysis by analysis'.
Leads to ambiguous organizational intention.	Leads to clear organizational intention.

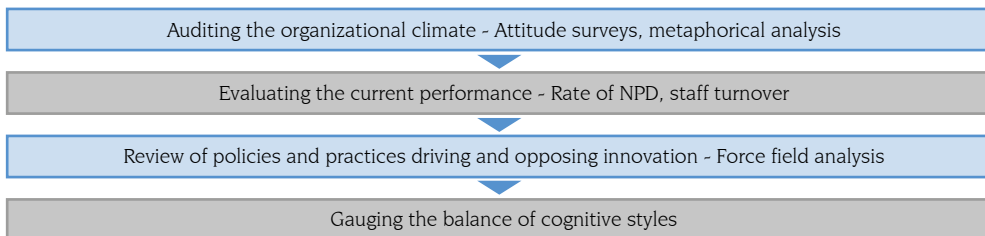
Table 17.4: The Japanese philosophy of innovation by Nonaka and Takeuchi (1995).

17.5 Innovation audit

An innovation audit is a critical assessment of the firm's innovations record, the internal obstacles to innovation and how performance can be enhanced. The purpose of an innovation audit is to help organisations improve their creative and entrepreneurial skills. It covers the organisation climate and culture, the value to the customer, policies to encourage innovation and the management team. It follows a structured process of identifying strengths and weaknesses through analysis, interviews, surveys and other techniques.

The audit should gauge how innovation is fostered within the organisation and identify inhibitors. It should help the organisation benchmark its approach to innovation against recognized best practices. The outcome of the audit may be a report of the findings together with recommendations for developing innovative capabilities further. This part of the auditing process reviews how effectively the organization is able to deliver the level of innovation necessary to create new products, new services, and new ways of understanding activities. Success in these activities is likely to depend on the company successfully harnessing the latent creativity in individuals at all levels in the organization.

The innovation audit process



a) The organizational climate

For an organization to be successful at innovation there needs to be climate that fosters creativity and innovation. An attitude survey and metaphorical analysis can be used to investigate an organizations climate.

Attitude surveys - The aim of this component of the audit, is to discover the current feelings of staff and the organizational climate. There are eight areas which support creativity and innovation. They are,

- **Teamwork** - Level of commitment, level of trust, willingness to help each other.
- **Resources** - Access to resources such as facilities, staff, finance etc.
- **Challenge** - The sense challenge at work. Is it enough?
- **Freedom** - The amount of control individuals have over their work and ideas.

- **Supervisor** - Managerial support in terms of morale, clear goals etc.
- **Creativity infrastructure** - Level of senior management support and encouragement for creativity.
- **Recognition** - Rewards for innovative ideas.
- **Unity and co-operation** - The amount of shared vision in the organization.
- **Productivity** - How productive is the organization perceived to be? Do we waste money and innovate or do we have money and innovate.

Factors that act as constraints on innovation in an organization include:

- **Insufficient time** - To consider alternatives.
- **Status quo** - Unwillingness to change the current way of doing things.
- **Political problems** - Lack of co-operation between different areas.
- **Evaluation pressure** - Evaluation or feedback systems are perceived to be inappropriate.

Metaphorical analysis

The second part of the evaluation of organizational climate uses the technique of metaphorical description. The power of the metaphor approach is that it can overcome the limitations of literal language and describe far more complex relationships and connections. Rather than asking individuals directly to describe their feelings about their organization, they are asked to describe their organization in terms of a metaphor. For example:

- This organization is like a supertanker; it takes a long time to change direction.
- This organization is like a steam train that makes a lot of noise and attracts a lot of interest but is not really relevant today.
- This company is like a Cheetah, fast and lean, or, this organization is like a dinosaur, slow, lumbering and destined for extinction.

These metaphors can then be analyzed. This method provides deeper insights than direct questioning and allows a more rounded perspective of the organization to be developed. They are likely to be either positive or negative observations based around seven organizational practices.

- Management skills.
- Organizational structure.
- Operations.
- Organizational life cycle.
- Strategic orientation.
- People orientation.
- Power orientation.

b) Current performance

There is a range of measures that can be reviewed to establish the current organizational performance in the areas of creativity and innovation and they are as follows;

Innovation	2017	2014
Number of new products launched in the last 3 years.	25	25
Number judged a success.	3	10
Percentage of total sales accounted for by new products.	15	30
Average annual sales per new product.	1	12
Average payback period (Years).	3	1
Average cost saving for innovation in process.	30	150
Customer satisfaction ratings.	8	2
Staff turnover.	30	56
Patent creation.	3	0
The amount of money spent on research and development.	50	5
Total shareholder returns.	100	19

Table 17.5: Current performance.

The innovation, value portfolio

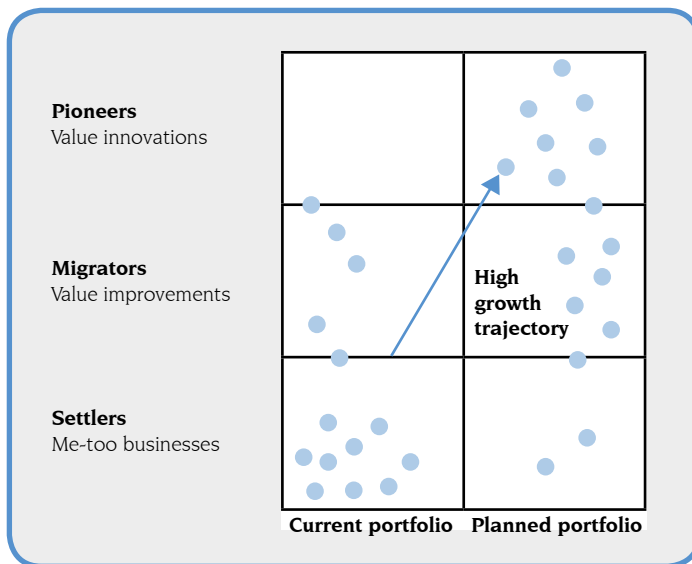


Figure 17.5: The innovation, value matrix by Kim and Mauborgne (1998).

This can be applied to a firm’s strategic business units or products to identify whether they are;

- **Settlers** - Businesses or products that offer the normal (me-too) market value.
- **Migrators** - Businesses or products that offer value improvements over competitors.
- **Pioneers** - Businesses or products that represent value innovations such as the Sony Walkman.

The results from this type of analysis can be very revealing. For example, if an organization discovers that most of their products are in the settler’s category, it could be concluded that they are paying insufficient attention to innovation.

c) Review of policies and practices driving and opposing innovation

This consists of identifying current policies that may be in place to support innovation. It would also review whether any structures or procedures have already been developed to facilitate creativity and innovation. For example, what processes are in place to ensure that promising new ideas see the light of day.

Some organizations offer employees a percentage of the cost savings gained if they can identify potential cost savings in a process. Others run schemes, which encourage the generation of new product ideas. Rewarding individuals for creativity is very important in promoting an innovation culture and encouraging individuals to put in additional effort. If schemes are not already in place to encourage employees to ‘think outside the box’, the company should think about putting them in place.

d) Balance of cognitive styles

Much work has been done on how our personality affects the way we work and manage. The innovation audit must evaluate the cognitive styles and behaviors of the management team. Although individuals have the capacity to make use of all their cognitive functions, one area tends to dominate.

It is important to have a mix of cognitive styles in the senior management team that will influence the business’s orientation towards creativity and innovation.

Cognitive style	Focuses on	Tends to be
Intuitive	Patterns, possibilities and ideas	Ingenious and Integrative
Sensing	Here and now	Adaptable and practical
Thinking	Logic and objectivity	Pragmatic
Feeling	People and values	Empathetic

Table 17.6: Balance of cognitive styles.

Simplified model of the innovation process

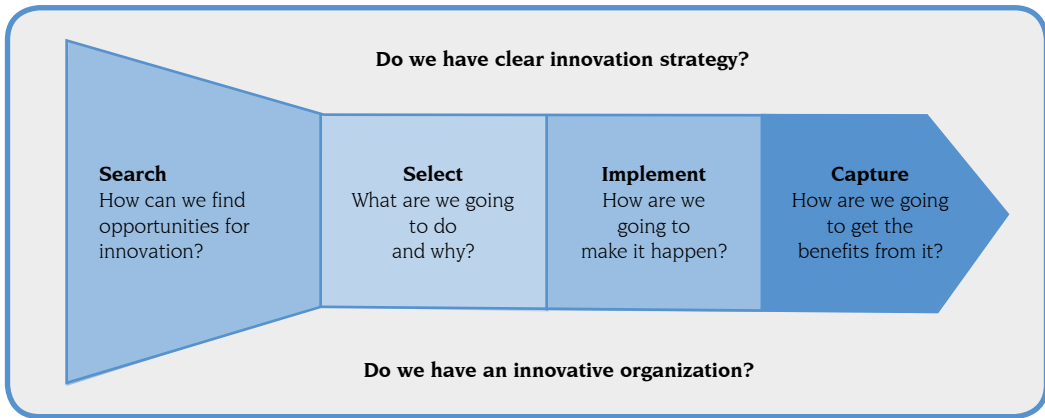


Figure 17.6: Simplified model of the innovation process.

Varying attempts have been made to articulate conceptual order on the innovation processes of organisations, in the form of innovation process models. The variety amongst the models is the consequence of a lack of consensus as to how an innovation process should look like, given the unique contexts, environments, and purposes for which they are developed. Tidd & Bessant (2005) introduced a simplified innovation process presented below to illustrate, at a high level the range of components reflected in innovation modelling.

17.6 Four dimensions of innovation space

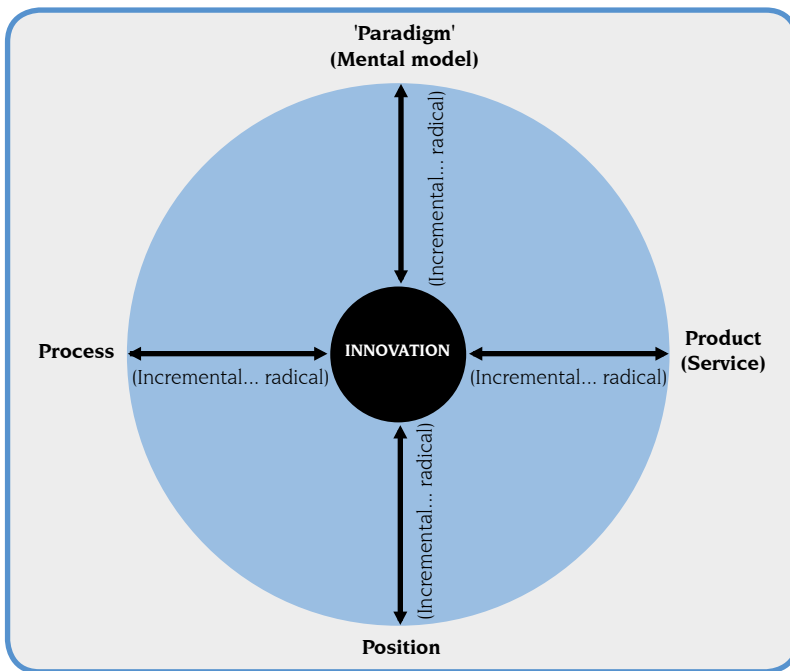


Figure 17.7: The 4Ps of innovation space by Tidd & Bessant (2005).

Innovation can take many forms but they can be reduced to four directions of change;

- **Product innovation** - Changes in the things (Products or services), which an organisation offers.
- **Process innovation** - Changes in the ways in which they are created and delivered.
- **Position innovation** - Changes in the context in which the products/ services are introduced.
- **Paradigm Innovation** - Changes in the underlying mental models which frame what the organisation does.

Within any of these dimensions innovations can be positioned on a spectrum from 'incremental to radical' innovation. The area indicated by the circle in the model is the potential innovation space within which an organisation can operate.

The 4Ps model of innovation applied in context

Innovation type	Incremental - do what we do but better	Radical - do something different
Product - What we offer the world	Windows 7 and 8 replacing Vista and XP essentially improving on existing software idea.	New to the world software - For example the first speech recognition program.
	New versions of established car models E.g. The VW Golf essentially improving on established car design.	Toyota Prius - Bringing a new concept hybrid engines.
Process - How we create and deliver that offering	CDs replacing records, essentially improving on the storage technology.	Spotify and other music streaming services - Changing the pattern from owning your own collection to renting a vast library of music.
	Improved fixed line telephone services.	Skype and other VoIP systems.
Position - Where we target that offering and the story we tell about it	Haagen Dazs changing the target market for ice cream from children to consenting adults.	Addressing under served markets for example the Tata Nano aimed at emerging but relatively poor Indian market with a car priced around \$2000.
	Airlines segmenting service offering for different passenger groups - Virgin upper class, BA premium economy, etc.	Low-cost airlines opening up air travel to those previously unable to afford it create new market and also disrupt the existing one.
Paradigm - How we frame what we do	Bausch and Lomb - Moved from 'eye wear' to eye care as their business model. effectively letting go of the old business of spectacles, sunglasses (Raybans) and contact lenses all of which were becoming commodity businesses. Instead they moved into newer high tech fields like laser surgery equipment, specialist optical devices and research in artificial eyesight.	Grameen Bank and other micro finance models - Rethinking the assumptions about credit and the poor.
		iTunes platform - A complete system of personalized entertainment.
		Cirque de Soleil - Redefining the circus experience.
Innovation type	Incremental - Do what we do but better	Radical - Do something different
	Rolls-Royce - From high quality aero engines to becoming a service company offering 'power by the hour'.	Linux, Mozilla, Apache - Moving from passive users to active communities of users co-creating new products and services.

Table 17.7: The 4Ps model of innovation applied in context.

Sources of innovation

It has long been assumed that new product innovations are typically developed by product manufacturers, an assumption that has inevitably had a major impact on innovation-related research and activities ranging from how firms organize their research and development to how governments measure innovation. However, innovation occurs in different places in different industries. Let us examine where do innovations come from.

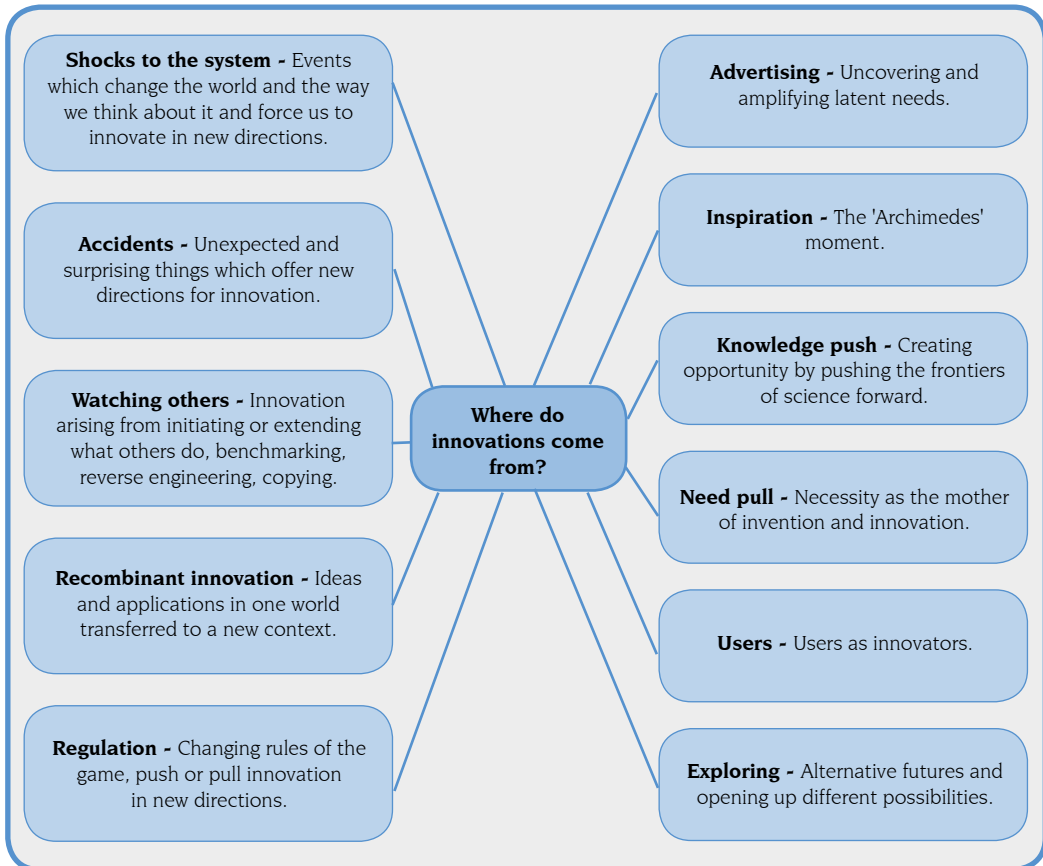


Figure 17.8: Sources of innovation by Tidd & Bessant (2005).

Innovation capability

This is the ability to come up, consistently, with novel ideas that deliver short and long term profits to an organization. The next question that follows is 'What gives the organization the ability to come up with ideas consistently?' It comes from the ability to link insights, concepts and facts in a new way. Here are some examples of innovative companies and a description of their innovative capability.

Innovative firm	Innovative capability
Apple	Innovative chief executive, design.
Google	Scientific freedom for employees.
Samsung	Speed of product development.
Procter & Gamble	Utilisation of external sources of technology.
IBM	Share patents with collaborators.
BMW	Design, experience.
Starbucks	In-depth understanding of customers and their cultures.
Toyota	Close co-operation with suppliers.

Table 17.8: Examples of innovative companies.

17.7 The Gartner hype cycle

Gartner (1995) has used hype cycles to characterize the over-enthusiasm or 'hype' and subsequent disappointment that typically happen with the introduction of new technologies. A hype cycle is a graphic representation of the maturity, adoption and business application of specific technologies.

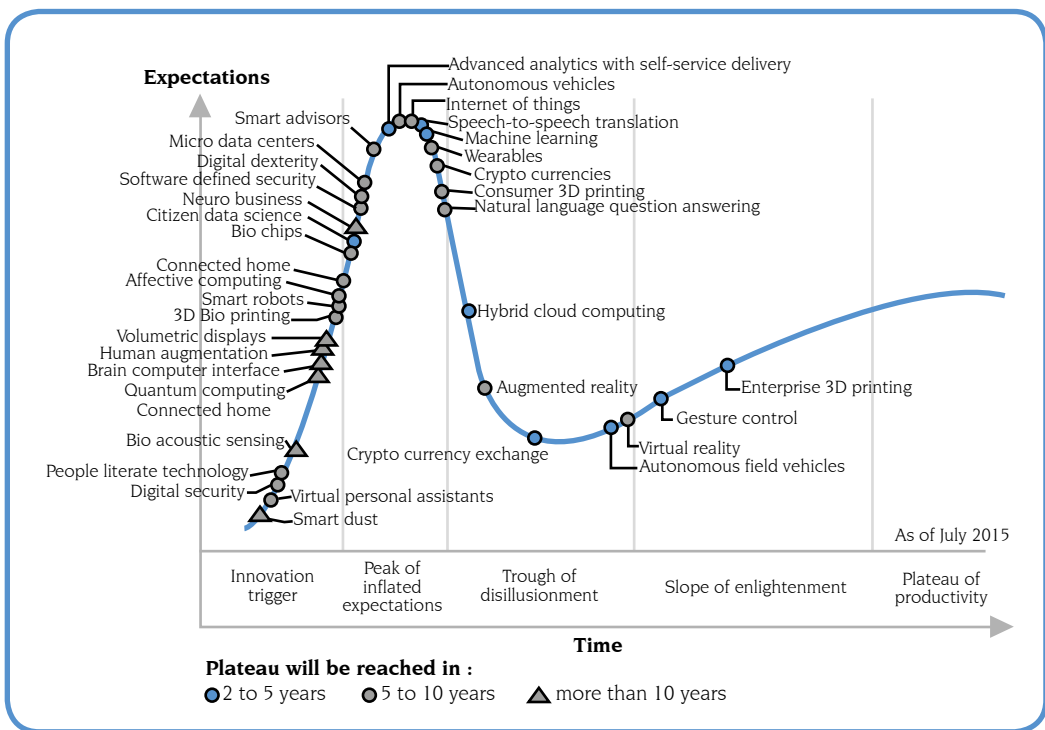


Figure 17.9: Hype cycle for emerging technologies, (2015).

The journey to digital business continues as the key theme of Gartner, Inc.'s 'Hype cycle for emerging technologies, 2015'. New to the hype cycle this year is the emergence of technologies that support what

Gartner defines as digital humanism 'the notion that people are the central focus in the manifestation of digital businesses and digital workplaces'. The hype cycle for emerging technologies report is the longest-running annual hype cycle, providing a cross-industry perspective on the technologies and trends that business strategists, chief innovation officers, R&D leaders, entrepreneurs, global market developers and emerging-technology teams should consider in developing emerging-technology portfolios.

Gartner distinguishes the following phases on the hype curve;

- **Technology trigger** - The first phase of a hype cycle is the 'technology trigger' or breakthrough, product launch or other event that generates significant press coverage and interest.
- **Peak of inflated expectations** - In the next phase, a frenzy of publicity typically generates over-enthusiasm and unrealistic expectations. There may be some successful applications of a technology, but there are typically more failures.
- **Trough of disillusionment** - Technologies enter the 'trough of disillusionment' because they fail to meet expectations and quickly become unfashionable. Consequently, the press usually abandons the topic and the technology.
- **Slope of enlightenment** - Although the press may have stopped covering the technology, some businesses continue through the 'slope of enlightenment' and experiment to understand the benefits and practical application of the technology.
- **Plateau of productivity** - A technology reaches the 'plateau of productivity' as the benefits of it become widely demonstrated and accepted. The technology becomes increasingly stable and evolves in second and third generations. The final height of the plateau varies according to whether the technology is broadly applicable or benefits only a niche market.

A checklist for evaluating innovation

Jones and Austin (2002) produced a useful checklist to evaluate the innovation performance record of a organisation.

- **Innovation performance** - The organization's effectiveness in innovation, such as whether it pioneers or imitates in its market, and how well it benchmark's its performance against others in the market.
- **Innovation strategy** - This involves the clarity of the organization's strategy for innovation, such as how well innovation focuses on the organization's key market segments and on delivering value.
- **Innovation process** - This will include the definition and use of the organization's culture to encourage new ideas, including identifying priority areas, evaluating and selecting ideas for development, and how ownership of ideas are managed.

- **Idea management** - This is the ability of the organization's culture to encourage new ideas, including identifying priority areas, evaluating and selecting ideas for development, and how ownership of ideas are managed.
- **Intellectual property (IP) strategy** - This involve the extent to which project teams know how to realize the greatest value from intellectual properties and how well the organization seeks to exploit them.
- **Organization for innovation** - This examines the structure and organization for supporting innovation, such as whether the company is entrepreneurial, whether employees are rewarded for innovation, how well failure is accepted as part of the innovation process. This aspect also evaluates change within the organization, such as the change in people and job roles.
- **Innovation teams** - This involves the use of cross-functional teams, customer involvement in innovation, contact between team members and the roles of external parties, such as suppliers, in innovation teams.
- **Leadership** - This examines the quality of leadership, such as the level of support for innovation (do all abroad members deem it critical?) and whether leaders listen to staff, are respected by staff and are role models for staff. This aspect also addresses the accountability (empowerment) given to project teams or individuals.
- **Customer insight** - This involves the extent of customer focus, including the organization's frequency and techniques for monitoring customer information and even the extent to which customers are partners in innovation.
- **Knowledge sharing** - This examines how the organization supports innovation activities through knowledge management, such as understanding the relationship between knowledge and growth, its recognition of knowledge sharing as a driver of success, and its ability to be a learning organization.

17.8 The EFQM model of innovation

The EFQM excellence model explains the cause and effect relationships between what their organisation does, the enablers, and the results it achieves. To achieve sustained success, an organisation needs strong leadership and clear strategic direction. The organization is required to develop and improve their people, partnerships and processes to deliver value-adding products and services to their customers. If the right approaches are effectively implemented, the organization will achieve the expected results. There are five enablers, pictured on the left-hand side of the model. These are the things an organisation needs to do to develop and implement the company strategy.

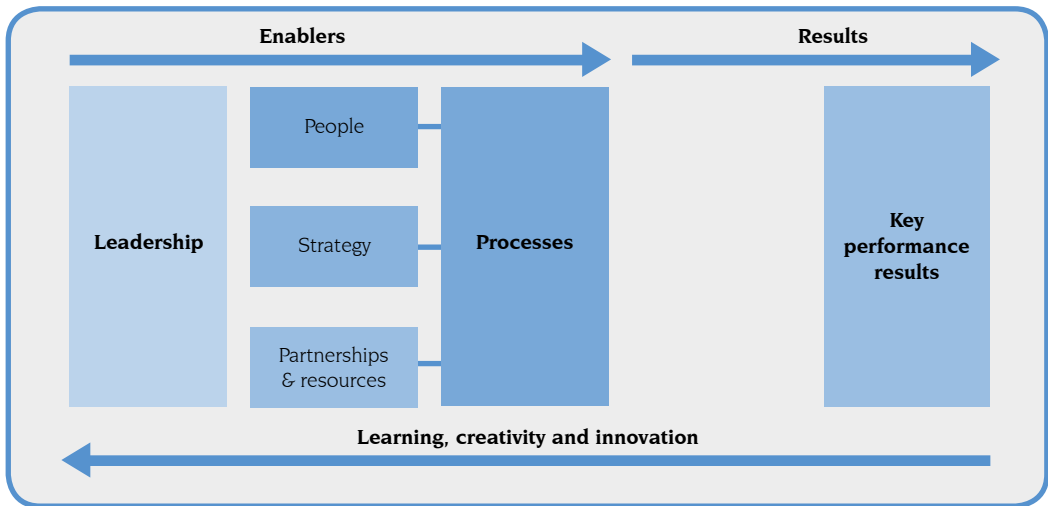


Figure 17.10 : The EFQM model of innovation.

- **Leadership** - Excellent organisations have leaders who create the company and shape its future, acting as role models for its values and ethics whilst inspiring trust at all times. They are flexible, enabling the organisation to anticipate and react in a timely manner to ensure the on-going success of the organisation.
- **Strategy** - Excellent organisations implement their mission and vision by developing a stakeholder focused strategy. Policies, plans, objectives and processes are developed to deliver the strategy.
- **People** - Excellent organisations value their people and create a culture that allow mutually beneficial achievement of organisational and personal goals. They develop the capabilities of their people and promote fairness and equality. They care for, communicate, reward and recognise, in a way that motivates people, builds commitment and enables them to use their skills and knowledge for the benefit of the organisation.
- **Partnerships and resources** - Excellent organisations plan and manage external partnerships, suppliers and internal resources in order to support strategy and policies and the effective operation of processes.
- **Processes** - Excellent organisations design, manage and improve processes to generate increasing value for customers and other stakeholders.

There are four result areas, shown on the right hand side of the model. These are the results an organisation achieves, in line with their strategic goals. In all four results areas, we find that excellent organisations;

- Develop a set of key performance indicators and related outcomes to determine the successful deployment of their strategy, based on the needs and expectations of the relevant stakeholder groups.
 - Set clear targets for key results, based on the needs and expectations of their business stakeholders, in line with their chosen strategy.
 - Segment results to understand the performance of specific areas of the organisation and the experience, needs and expectations of their stakeholders.
 - Demonstrate positive or sustained good business results over at least 3 years.
 - Clearly understand the underlying reasons and drivers of observed trends and the impact these results will have on other performance indicators and related outcomes.
 - Have confidence in their future performance and results based on their understanding of the cause and effect relationships established.
 - Understand how their key results compare to similar organisations and use this data, where relevant, for target setting.
-
- **Customer results** - What is the customers perception of the organisation and how good are the drivers of customer satisfaction?
 - **People results** - What are the employees perceptions of the organisation and how good are the drivers of employee satisfaction?
 - **Society results** - How does society and the local community perceives the organisation and what results have been achieved relating to community and environmental concerns?
 - **Key performance results** - What is the organisation achieving in relation to its planned performance?

17.9 Innovation strategies

There are seven basic innovation strategies and they are as follows;

- **Customer driven innovation** - An enterprise that is customer driven focuses its innovation efforts to meet the needs of its customers. Embedded in this trait is the assumption that the enterprise understands the needs of its customers, which is not always the case.
- **Competitor driven innovation** - Competitor driven enterprises are those that carefully track each move of their competitors and respond in like fashion. Their highest goal is to achieve the status of the 'fast second.' Enterprises that are competitor driven are initially reactive.

- **Technology driven innovation** - Technology-driven enterprises are caught up in the 'technology chase'. The innovation profile of a typical technology-driven enterprise would indicate a strong influence on breakthrough and distinctive innovations, mainly in the product area.
- **Stakeholder driven innovation** - The innovation profile of the stakeholder-driven enterprise is typically strongest in the procedural area looking at the interests of the stakeholders some times more than the interests of the customers.
- **Project driven innovation** - Enterprises that are project driven are dominated by the need to experience the sense of accomplishment that comes from the successful completion of projects. Their projects involve very large and complex systems that take on a life of their own.
- **Resource driven innovation** - Enterprises that are resource driven quite often view themselves as being constrained. Resources (money, people, facilities, intellectual property, and strategic relationships) accumulated from past accomplishments need not be 'boat anchors' to innovation. The innovation profile of the resource-driven enterprise shows predominately incremental process and product innovations. No large changes, which are associated with risks, are considered.
- **Culture driven innovation** - When the enterprise is culture driven, it is a slave to its past. It has painstakingly developed the culture through trial and error to find the formula for success, and that culture is very difficult to change.

What is creativity?

Definition : Creativity is defined as the tendency to generate or recognize ideas, alternatives or possibilities that may be useful in solving problems.

17.10 Creativity techniques

- Brainstorming.
- Mind mapping.
- Role plays.
- Metaphoric analysis.
- Six thinking hats.
- Six questions (Who, why, where, what, when, how).
- Lateral thinking.
- Scenario planning.
- Force field analysis.
- Concept circles.
- Fish bone diagrams.
- Three diagrams.

The right brain vs. left brain

This theory of the structure and functions of the mind suggests that the two different sides of the brain control two different 'modes' of thinking. It also suggests that each of us prefer one mode to the other.

Experiments have shown that the two different sides, or hemispheres, of the brain are responsible for different manners of thinking. The following table illustrates the differences between left-brain and right-brain thinking. In general, schools tend to favor left-brain modes of thinking, while down playing the right-brain ones. Left-brain scholastic subjects focus on logical thinking, analysis, and accuracy. Right-brained subjects, on the other hand, focus on aesthetics, feeling, and creativity.

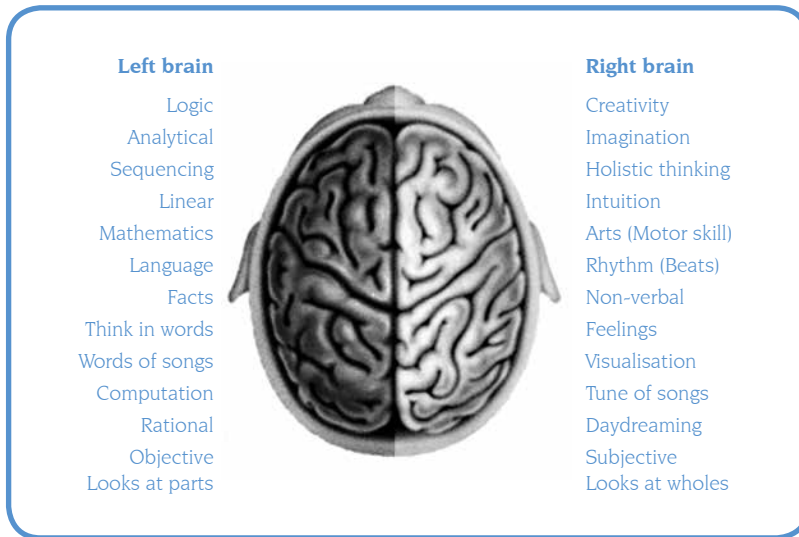


Figure 17.11: The three domains for creative action, Gundry et al., 1994.

Brainwaves are generally broken down into five main frequencies. Gamma waves involve 'higher processing' and are the waves we want to generate when learning new information or engaging in sports. Beta waves are similar to gamma waves, though they are somewhat less intensive when compared to gamma waves.

Alpha waves are the brainwaves likely present when you unwind with a book or get ready to fall asleep. Theta waves are associated with daydreaming sleep as well as during a trance, meditative or hypnotic states. Delta waves are the lowest frequency recorded in human beings and are associated with the deepest levels of sleep, as well as intensive meditation.

17.11 Norms that promote creativity

- i) **Freedom and risk-taking** - The degree to which the individuals are given latitude in defining and executing their own work. This involves;
 - The freedom to experiment.
 - Challenge the status quo.
 - The expectation that innovation is part of one's job.
 - The freedom to try things and fail.
 - The acceptance of mistakes.
 - Allow discussion of dumb ideas.
 - No punishment for mistakes.
- ii) **Dynamism and future orientation** - The degree to which the organisation is active and forward looking. This may include;

- Forgetting the past.
 - Willingness not to focus on the short term.
 - Drive to improve.
 - Positive attitudes towards change.
 - Positive attitudes towards the environment.
 - Empower people.
 - Emphasis on quality not quantity.
- iii) **External orientation** - The degree to which the organisation is sensitive to customers and the external environment. This may include:
- Adopt a customer perspective.
 - To build relationships with all external interfaces (Suppliers, distributors etc.).
- iv) **Trusts and openness** - The degree of emotional safety that employees experience in their working relationships. When there is high trust, new ideas surface easily. Some characteristics are;
- Open communication.
 - Listen better.
 - Open access.
 - Encourage lateral thinking.
 - Intellectual honesty.
- v) **Debate** - The degree to which employees feel free to debate issues actively, and the degree to which minority views are expressed readily and listened to with an open mind. This may include:
- To expect and accept conflict.
 - To accept criticism.
 - Avoiding being too sensitive.
- vi) **Cross-functional interaction and freedom** - The degree to which interaction across functions is facilitated and encouraged. This may include:
- Moving people around (Job rotation).
 - Teamwork.
 - Manage inter dependencies.
 - Flexibility in jobs, budgets and functional areas.
- vii) **Myths and stories** - The degree to which success stories are collected and celebrated. These include:
- Symbolism and action.
 - Building and disseminating stories and myths.

Barriers to fostering creativity

Ryde (2007) describes six standards thinking repertoires that can stifle creativity because they take the most direct route or a path already taken by others.

- **Deficit thinking** - Focuses on faults, shortcomings and weaknesses of the topic.
- **Rational thinking** - This is a logical, sequential approach to problems or ideas and fails to deal with feelings and emotions.

- **Sticky thinking** - Forms associations from one person's contribution to the next and conversations wander through associations from one subject to another, often avoiding the topic.
- **Commonsense thinking** - Applies general and inexperienced knowledge to find a solution and is not always fit for purpose.
- **Binary thinking** - Assumes solutions are one thing or another as opposing ends of a spectrum, (Black or white).
- **Equity thinking** - Uses fairness as its overriding principle and make comparisons to look for inconsistencies that support the view it is 'unfair' and seek to even things up.

The next step is to develop broader thinking skills. In a meeting or conversation when you recognise you are slipping into your thinking habit, try a different approach, deliberately think and say something different. Ryde (2007) recommends developing a broader repertoire by adopting what he calls the 'shadow side' of the dominant standard ways of thinking.

Dominant function	Shadow function
Deficit thinking.	Strengthen-based thinking.
Rational thinking.	Feeling thinking.
Commonsense thinking.	Insight thinking.
Equity thinking.	360 degree thinking.
Binary thinking.	Re-integrated thinking.
Sticky thinking.	Exit thinking.

Table 17.8: Rydes thinking repertoires (2007).

- **Strengthen-based thinking** - Searching for the positive side in a situation supported by evidence, which brings about a 'can do' mentality.
- **Feeling thinking** - Allows for emotions and feelings in a conversation and is not threatened or embarrassed by them. It does not mean events are overtaken by emotions but rather that we acknowledge likely reactions and emotions and we use good interpersonal skills to manage these feelings.
- **Insight thinking** - This involves drawing on experience, expertise whilst using this to inform ideas and possible solutions.
- **360 degree thinking** - This requires adopting multiple perspectives rather than a single perspective for a problem. Seeing ideas and problems from many perspectives and trying to understand how these different perspectives changes as a result.
- **Re-integrated thinking** - This is to avoid 'either, or' situations and looks to integrate, combine, adjust where it is appropriate to do so. It requires exploring, investigating and being prepared to work on ideas or solutions with a broader perspective.

- **Exit thinking** - This is to avoid slipping into conversations that go off topic and being prepared to refocus as well as to bring discussions to an end when they cease to add value or contribute something useful.

17.12 Creativity for innovation

Creativity is the quality that you bring to the activity you are doing. It is an attitude, an inner approach of how you look at things. Is there is a link between creativity and innovation? Do organisations that encourage creativity and therefore experience greater innovative changes than those organisations that do not encourage creativity? First and foremost, let us explore what a 'creative' organisation is and what it consists of through the three domains of creative action as mentioned in Gundry et al (1994).

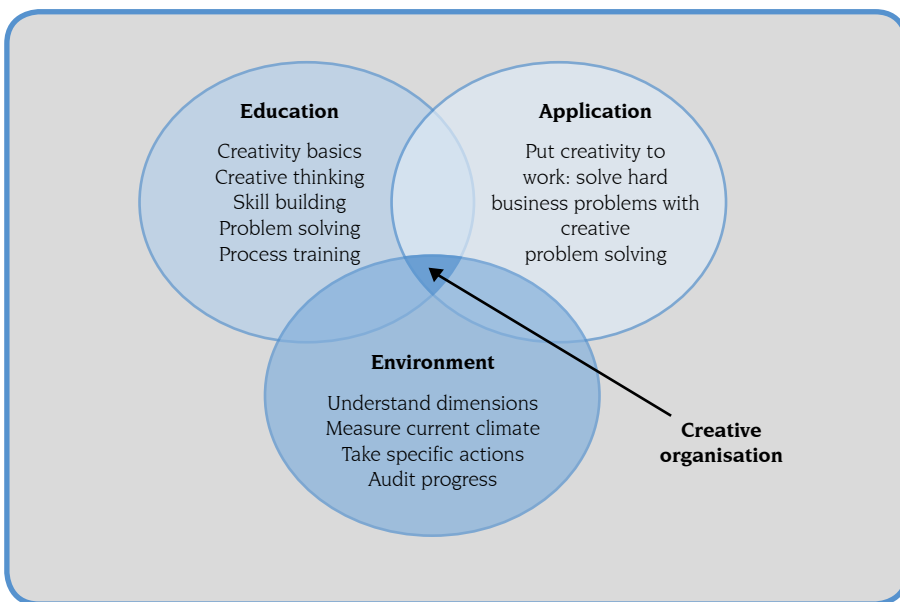


Figure 17.12: The three domains for creative action by Gundry et al (1994).

A creative organisation is one that consists of a combination of education, environment and application. Through education, staff members will, in theory, come up with new creative ways of solving problems, and environment which supports this will lead to the application of these creative ideas, leading to more innovative processes and ideas. The key issue here is that for this model to work, it requires all three key sectors to be implemented within an organisation. The company may comprise of well-educated workers who are trained in creative thinking, but if the work environment does not encourage them to apply their ideas then innovation will never occur.

However, in reality how realistic is this link between creativity and innovation? And also, just how does it impact on the company's success? The most obvious example to look at here would be internet search-engine giant 'Google'. According to the co founders, innovation and creativity at Google keeps

their projects changing and improving. The consistency comes from Googlers who are smart, amazing people who foster an environment of collaboration and fun. From this example, it is clear that Google is the epitome of what Gundry et al (1994) describes as being a 'creative organisation' and it combines the three key areas of education, environment and application.

Looking more in depth at Gundry's model and applying it to Google, it can be argued that the education, environment and application may simply not be enough to foster creativity. There may be other factors such as motivation, experience and skills that may also play a part in this as explained by Amabile's (1997) model as given below.

Componential theory of creativity and innovation

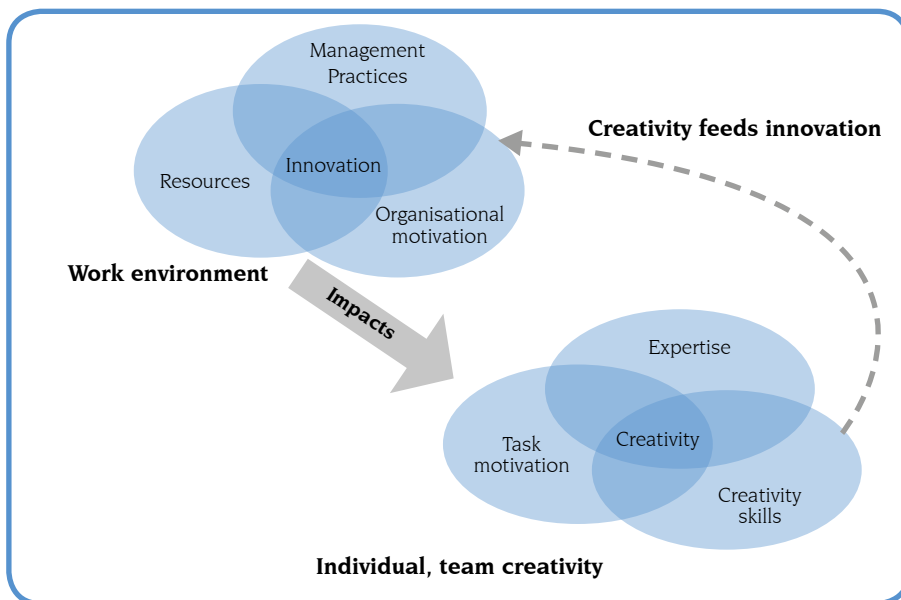


Figure 17.13: Componential theory of creativity and innovation, Amabile (1997).

Amabile (1997) argues that creativity and innovation have a positive relationship and education can be broken down into a combination of the team's motivation, expertise and creativity skills. In fact it is the collaboration between three components of the work environment and three components of a team or individual which in turn leads to innovation; all of which are interdependent upon each other.

17.13 Lateral Thinking

Vertical thinking tends not to come up with new ideas or different perspectives and follows trusted paths to deliver similar ideas and solutions. De Bono (1970) contrasted this with lateral thinking, which requires different ways of looking at things. Lateral thinking is about moving sideways when working on a problem to try different perceptions, different concepts and different points of entry. The term covers

a variety of methods including provocations to get us out of the usual line of thought. Lateral thinking is cutting across patterns in a self-organizing system, and has very much to do with perception. E.g. Granny is sitting knitting and three year old Susan is upsetting granny by playing with the wool. One parent suggests putting Susan into the playpen. The other parent suggests it might be a better idea to put granny in the playpen to protect her from Susan. A lateral answer! Lateral thinking should:

- Generate alternatives and never accept one or two solutions.
- The more unlikely the alternative the more promising the potential solutions for being different.
- Adopt a random approach and avoid following a logical order. Instead join up a number of disconnected themes and see what emerges.
- Deviate and avoid obvious paths.

Six thinking hats

Bono (1985) introduced the 'Six thinking hats', which is an important technique used to look at decisions from range of important perspectives. This forces you to move outside your habitual thinking style, and helps a manager solicit a holistic view of a situation.

Managers make rational decisions when faced with a problem and do not optimize. The thinking hats encourage an intuitive, creative approach to look at a problem from different angles, wearing different hats. The 'Six thinking hats' is an effective brainstorming tool, which can be used in meetings with a group of colleagues or on your own. Each 'thinking hat' is a different style of thinking which are explained below:

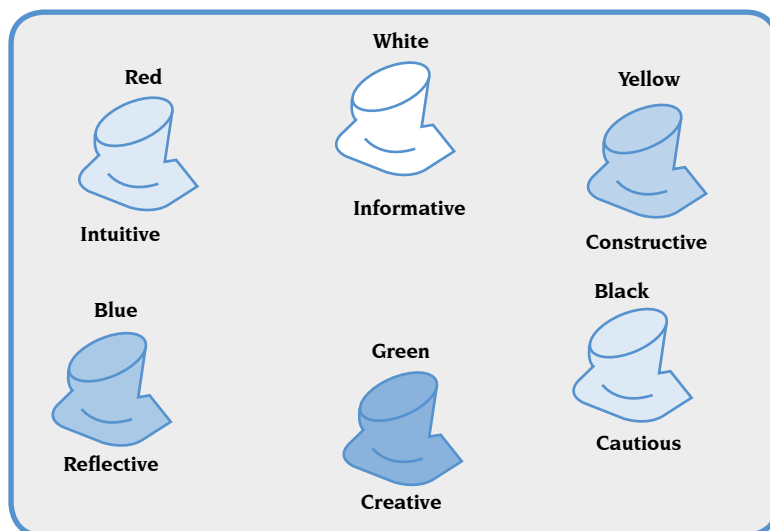


Figure 10.14 : Six thinking hats by Bono (1985).

- **White hat** - With this thinking hat you focus on the data available, look at the information you have, and see what you can learn from it. Look for gaps in your knowledge, and either try to fill them or take account of them. This is where you analyze past trends, and try to extrapolate historical data.
- **Red hat** - Wearing the red hat, you look at problems using intuition, gut reaction, and emotion. Also, try to think of how other people will react emotionally. Try to understand the responses of people who do not fully know your reasoning.
- **Black hat** - Using black hat thinking is looking at all the negative points of the decision. Look at it cautiously and defensively. Try to see why it might not work. This is important because it highlights the weak points in a plan. It allows you to eliminate them, alter them, or prepare contingency plans to counter them. Black hat thinking helps make your plans 'tougher' and more resilient. It can also help you spot fatal flaws and risks before you embark on a course of action. Black Hat thinking is one of the real benefits of this technique, as many successful people get so used to thinking positively that often they can't see problems in advance.
- **Yellow hat** - The yellow hat helps you think positively. It is the optimistic viewpoint that helps you see all the benefits of the decision and the value in it. Yellow hat thinking helps you keep going when everything looks gloomy and difficult.
- **Green hat** - The green hat stands for creativity. This is where you can develop creative solutions for a problem. It is a freewheeling way of thinking, in which there is little criticism of ideas. A whole range of creativity tools can help you here.
- **Blue hat** - The blue hat stands for process control. This is the hat worn by people chairing meetings. When running into difficulties because ideas are running dry, they may direct activity into green hat thinking. When contingency plans are needed, they will ask for black hat thinking, etc.

Mind mapping

Mind mapping, developed by Tony Buzan is also called 'spider diagrams' and represents ideas, notes and information. Software packages support mind-maps, making it easier to amend and reshuffle the map and hold notes and documents, etc. associated with the labels. Computer-based maps have the disadvantage of the small screen, and are less flexible than hand drawn versions (E.g. You cannot usually make cross-links). Radical tree diagrams, hierarchical tree diagrams and clustering methods (E.g. Snowball Technique, KJ-method, Highlighting) all use the same hierarchical logic. However, they have different optical impacts and dissimilar abilities to characterize derived connections, such as overlapping and cross-linking etc.

Steps in drawing a mind-map

- a) Layout a large sheet of paper in landscape and write a concise heading for the overall theme in the center of the page.

- b) For each major sub-topic or cluster of material, start a new major branch from the central theme, and label it.
- c) Each sub-sub-topic or sub-cluster forms a subordinate branch to the appropriate main branch.
- d) Carry on in this way to define finer, sub-branches.
- e) It may be appropriate to put an item in more than one place, cross-link it to several other items or show relationships between items on different branches. Coding the colour, type of writing etc.

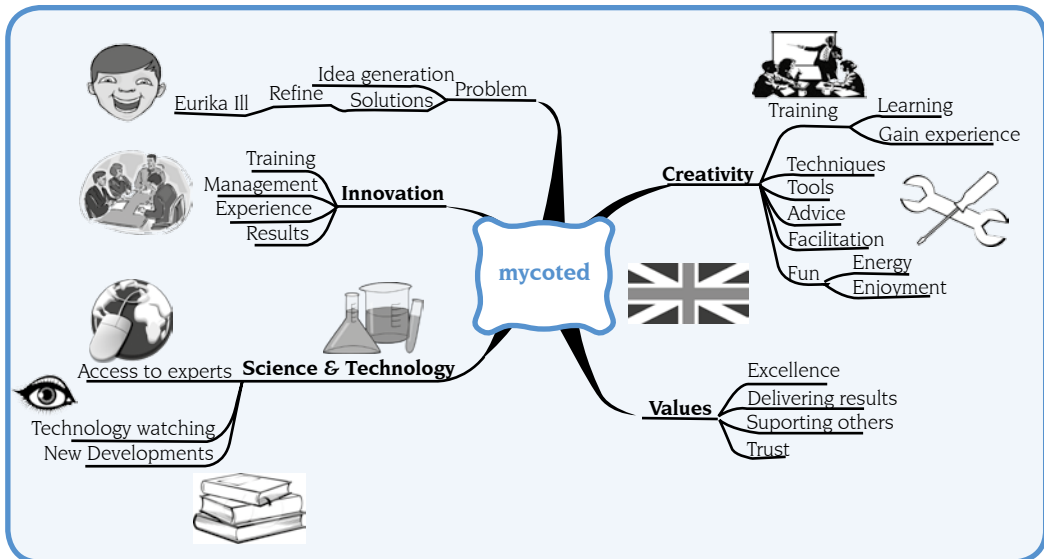


Figure 17.15: Mind mapping by Tony Buzan.

Fishbone diagram

The fishbone diagram was originally developed by Professor Kaoru Ishikawa and is often referred to as an Ishikawa Diagram. The technique can help structure the process of identifying possible causes of a problem. The diagram encourages the development of an in depth and objective representation ensuring all participants keep on track. It discourages partial or premature solutions, and shows the relative importance and inter-relationships between different parts of a problem.

The method is ideally organized over a number of meetings, enabling the team to become deeply immersed in the problem. Fresh suggestions regarding possible causes can arise during the break and members are more likely to forget who originated every idea, thus making subsequent discussions less inhibited. The procedure is as follows;

On a broad sheet of paper, draw a long arrow horizontally across the middle of the page pointing to the right, and label the arrowhead with the title of the issue to be explained. This is the 'backbone' of the 'fish'.

- Draw spurs coming off the 'backbone' at about 45 degrees, one for every likely cause of the problem that the group can think of; and label each at its outer end. Add sub-spurs to represent subsidiary causes. Highlight any causes that appear more than once they may be significant.
- The group considers each spur and sub-spur as taking the simplest first, partly for clarity but also because a good simple explanation may make more complex explanations unnecessary.
- Ideally, it is eventually re-drawn so that position along the backbone reflects the relative importance of the different parts of the problem, with the most important at the head end.
- Circle anything that seems to be a 'key' cause, so you can concentrate on it subsequently.

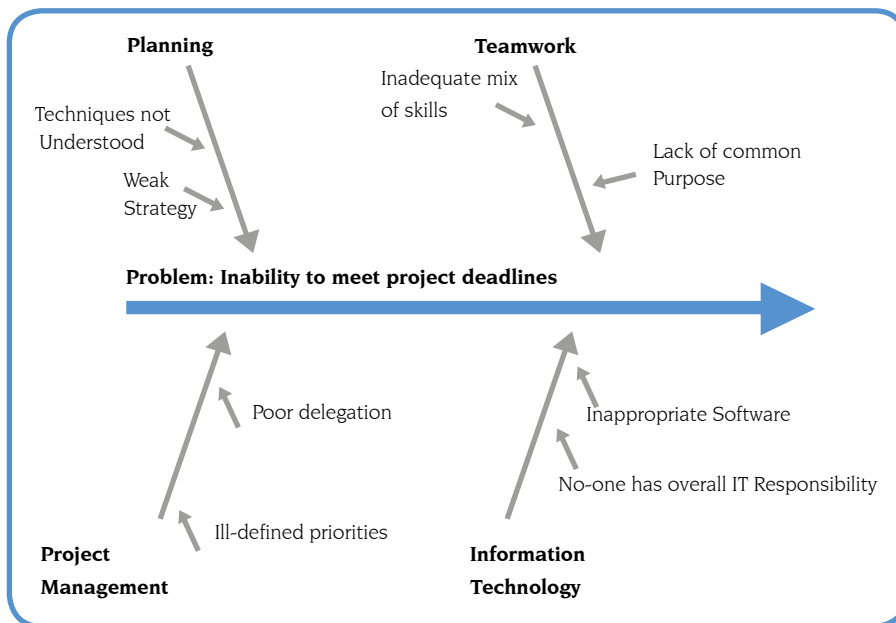


Figure 17.16 : The fishbone diagram by Kaoru Ishikawa.

17.14 Knowledge management

Definition : Knowledge management can be defined as the way in which organizations keep, develop, use and interface their 'intellectual capital'.

Lifelong learning involves a systematic and continuous renewal of knowledge in a rapidly changing world. Companies with a learning culture create an environment where knowledge is discovered, captured, shared, transferred and applied without resistance. Sharing best practices can unlock the potential of knowledge within each employee or department and aims to interface knowledge at all levels within the organization. A knowledge intensive firm employs a large numbers of knowledge workers who possesses a high degree of specialized skills who must be managed differently as opposed to workers in the traditional economy.

We live in a knowledge age where a huge volume of information is available and knowledge management attempts to convert all relevant knowledge, including personal tacit knowledge, into corporate knowledge assets that can be easily and widely shared throughout an organization.

Types of knowledge

- **Tacit knowledge** - This is expertise held by people within the organization that has not been formally documented. Tacit knowledge is invincible, intangible and cannot be easily shared or explained. It lies deep within ones self and can be surfaced at will. No one will know about your tacit knowledge and it can be kept a secret. E.g. A mechanic tuning the engine of a car with his tacit knowledge may not be able to explain how he does it. He may be doing it by listening to the engine of the car, which has been maintained over many years. The motivation to share hard won experience is low and individuals will be reluctant to loose a position of influence and respect by making it available to everyone.
- **Explicit knowledge** - This can be referred to as the formal, systematized and documented knowledge which includes facts, transactions and events that can be clearly stated and stored in management information systems for the general use of all employees.

The spiral of knowledge

Nonaka and Takeuchi (1995) published what is now one of the key texts on the creation of organisational knowledge.

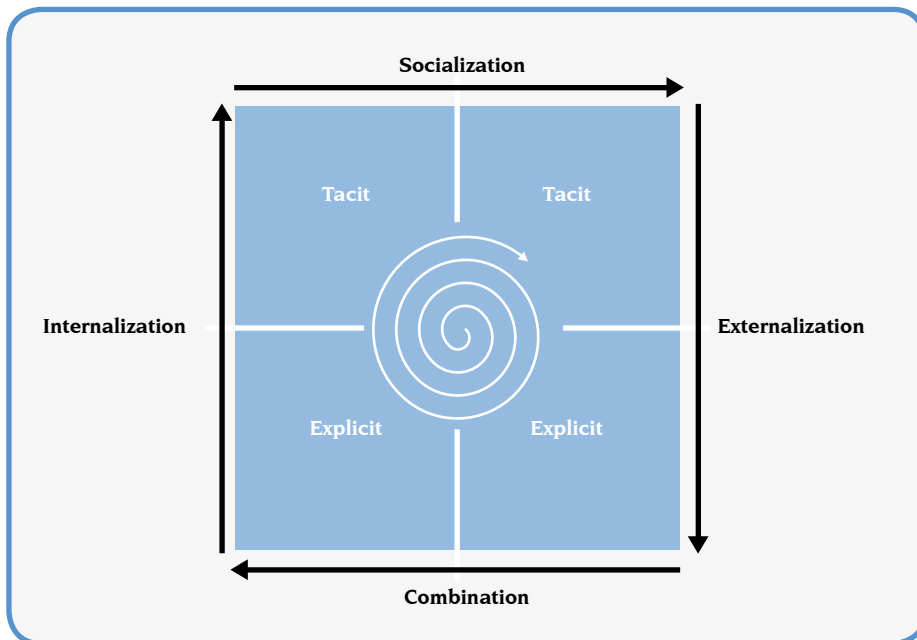


Figure 17.17: : Modes of knowledge generation by Nonaka and Takeuchi (1995).

In this model, knowledge is continuously converted and created as users practice and learn. The process should be seen as a continuous, dynamic, swirl of knowledge and describes how explicit and tacit knowledge is generated, transferred and recreated in organizations. Making personal knowledge available to others in the company is at the core of this knowledge management model. This type of knowledge creation process takes place continuously and it occurs at all levels of the organization. In many cases, the creation of knowledge occurs in an unexpected or unplanned way. There are four modes of knowledge conversion in the model as explained below;

- **Socialization (Tacit to tacit)** - Knowledge is passed on through practice, guidance, imitation, and observation.
- **Externalization (Tacit to explicit)** - This is deemed as a particularly difficult and often particularly important conversion mechanism. Tacit knowledge is codified into documents, manuals, etc., so that it can spread more easily through the organization. Since tacit knowledge can be virtually impossible to codify, the extent of this knowledge conversion mechanism is debatable. The use of metaphor is cited as an important externalization mechanism.
- **Combination (Explicit to explicit)** - This is the simplest form. Codified knowledge sources (E.g. Documents) are combined to create new knowledge.
- **Internalization (Explicit to tacit)** - As explicit sources are used and learned, the knowledge is internalized, modifying the user's existing tacit knowledge.

The components of knowledge management

The four components of knowledge management can be explained as given below;

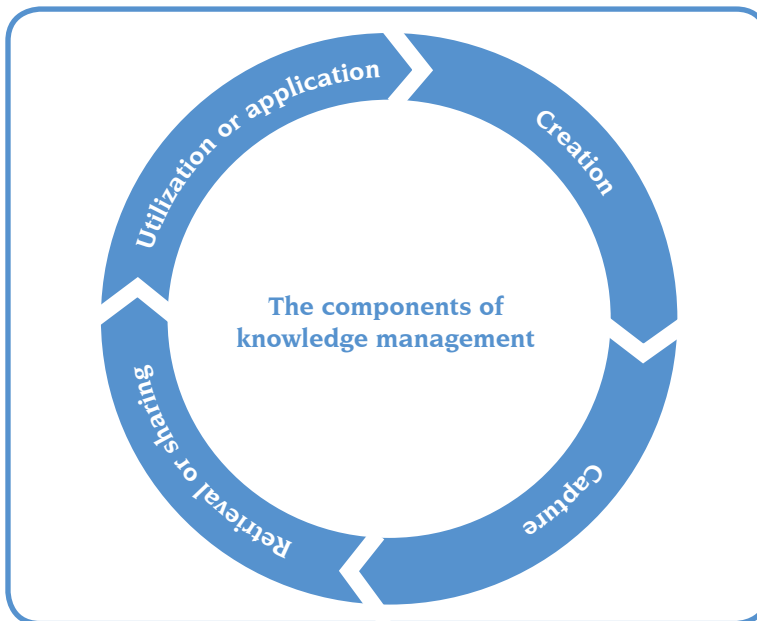


Figure 17.18: : The components of knowledge management by Nonaka and Takeuchi (1995).

A winning knowledge management program increases staff productivity, product and service quality, and deliverable consistency by capitalizing on intellectual and knowledge-based assets. Many organizations leap into a knowledge management solution (E.g. Document management, data mining, blogging, and community forums) without first considering the purpose or objectives they wish to fulfill or how the organization will adopt and follow best practices for managing its knowledge assets in the long term. A successful knowledge management program will consider more than just technology. An organization should also consider;

- **People** - They represent how you increase the ability of individuals within the organization to influence others with their knowledge.
- **Processes** - They involve how you establish best practices and governance for the efficient and accurate identification, management, and dissemination of knowledge.
- **Technology** - It addresses how you choose, configure, and utilize tools and automation to enable knowledge management.
- **Structure** - It directs how you transform organizational structures to facilitate and encourage cross-discipline awareness and expertise.
- **Culture** - It embodies how you establish and cultivate a knowledge-sharing, knowledge-driven culture.

The steps in implementing a knowledge management program

The following eight-step will be useful in implementing a knowledge management program. The early steps involve strategy, planning, and gathering requirements while the later steps focus on execution and continual improvement.

Step 1 - Establish knowledge management program objectives - Provide both short-term and long-term objectives that address the business problems and support the business drivers.

Step 2 - Prepare for change - One common cultural hurdle to increasing the sharing of knowledge is that companies primarily reward individual performance.

Step 3 - Define high level process - Specify knowledge management activities that include knowledge strategy, creation, identification, classification, capture, validation, transfer, maintenance, archival, measurement and reporting.

Step 4 - Determine and prioritize technology needs - With such a variety of knowledge management solutions, it is imperative to understand the cost and benefit of each type of technology.

Step 5 - Assess current state - The knowledge management assessment should cover all five-core knowledge management components: people, processes, technology, structure, and culture.

Step 6 - Build a road map - Before going too far, you should re-confirm senior leadership's support and commitment, as well as the funding to implement and maintain the knowledge management program.

Step 7 - Implementation - It's time for the rubber to meet the road.

Step 8 - Measure and improve the knowledge management program - Establish a knowledge management balanced scorecard that provides metrics in the areas of performance, quality, compliance, and value.

The knowledge brokering cycle

Hargadon and Sutton (2009) describe the 'Knowledge brokering cycle' that allows organisations to apply knowledge towards innovation. The companies and employees in their study use proven products, technologies and business practices, and recognize that old ideas can be the central source for new ideas. The four stages are as follows;

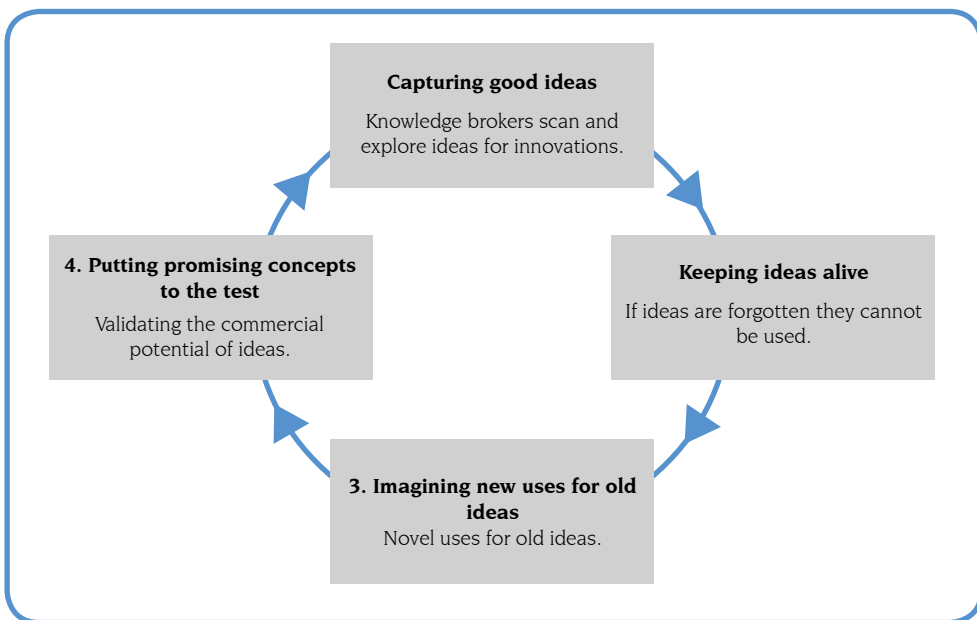


Figure 17.19: : The knowledge brokering cycle by Hargadon and Sutton (2009).

17.15 The learning organisation

Definition : A learning organization is skilled at creating, acquiring and transferring knowledge by modifying its behaviour to reflect new knowledge and insights.

Learning should be a way of life within the organization. A learning organisation is one that actively develops and encourages the development of all people in an organisation and integrates learning across all functions with the goal of improving performance. It is a place where people continually expand their capacity to create results they truly desire, new and expansive patterns of thinking are nurtured, collective aspiration is set free and where people are continually learning how to learn together. Such an organization values individual development, open communication and trust. It lends itself to flat, open and networked structures. Rather than occurring as separate and sometimes accidental activities, learning is a deliberate and central process in the learning organization. Organisational learning goes beyond sending people off on training courses or other development programmes. Learning should be a way of life, a belief, and a part of the organisation's culture.

Single loop and double loop learning model

The model developed by Argyris (1976) describes two ways that we can learn from our experiences and calls this single-loop and double-loop learning.

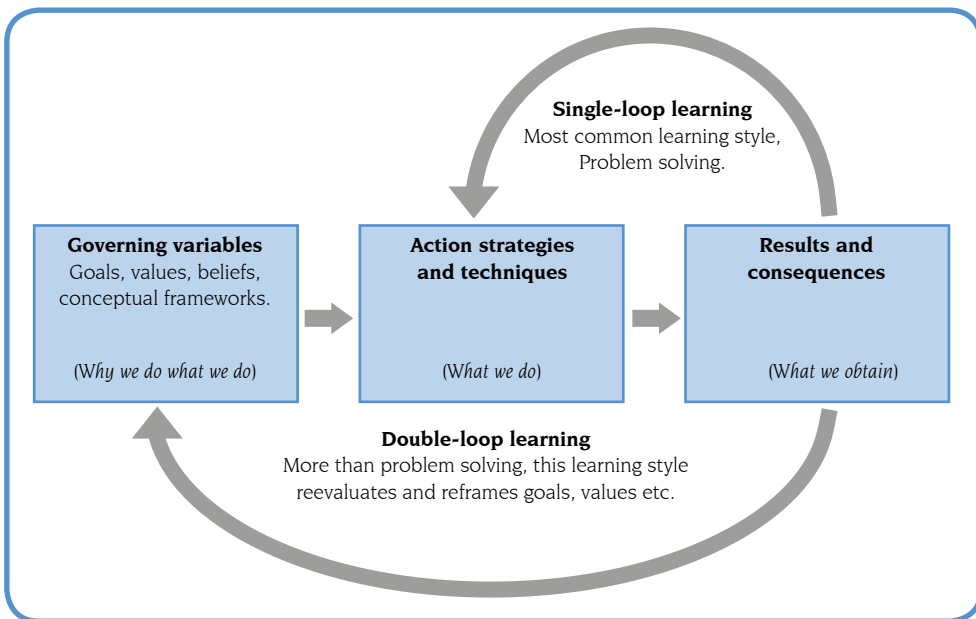


Figure 17.20: Adapted from interpretations of Argyris.

- **Single-loop learning** - This involves connecting a strategy for action with a result. For example, if an action we take yields results that are different to what we expected, through single-loop learning, we will observe the results, automatically take in feedback, and try a different approach.
- **Double loop learning** - In double-loop learning, the (Individuals, groups or organization) question the values, assumptions and policies that led to the actions in the first place. If they are able to view and modify those, then double-loop learning has taken place. Double loop learning may also

be referred to as 3R learning, since it incorporates the process of reflection, re-evaluation and response in order to bring about the necessary development and change within the organisation.

Kolb's cycle of experiential learning

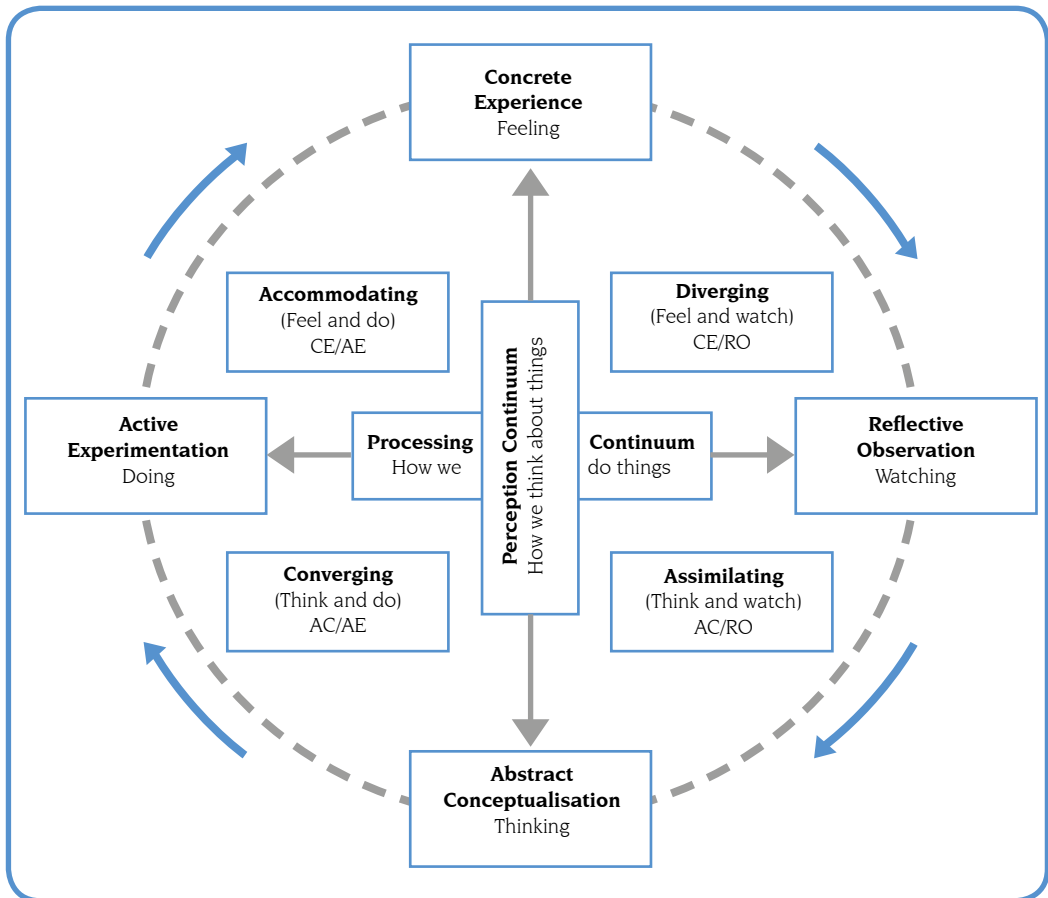


Figure 17.21: Kolb's cycle of experiential learning.

Kolb (1984) in his book 'experiential learning' sets out four distinct learning styles (or preferences), which are based on a four-stage learning cycle. In this respect Kolb's model is particularly elegant, since it offers both a way to understand individuals learning styles and also an explanation of a cycle of experiential learning that applies to us all. Kolb includes this 'cycle of learning' as a central principle in his experiential learning theory, typically expressed as a four-stage cycle of learning, in which 'immediate or concrete experiences' provide a basis for 'observations and reflections'. These 'observations and reflections' are assimilated and distilled into 'abstract concepts' producing new implications for action, which can be 'actively tested' in turn creating new experiences. Kolb's model therefore works in two levels;

- **A four-stage cycle** - Concrete experience (CE), reflective observation (RO), abstract conceptualization (AC), active experimentation (AE).
- **Four-types of learning styles** - Each representing the combination of two preferred styles, rather like a two-by-two matrix of the four-stage cycle for which Kolb used the terms, diverging (CE/RO), assimilating (AC/RO), converging (AC/AE), accommodating (CE/AE).

The characteristics of a learning organisation

According to Senge (1990) a learning organisation is where people continually expand their capacity to create results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning to see the whole together. The author introduced the following five disciplines of a learning organization;

- **Systems thinking** - People acting intelligently in a collectively manner (Collective intelligence), 'systems maps', will show the key elements of systems and how they connect. On the other hand, failure to understand system dynamics can lead into 'cycles of blaming and self-defense.
- **Personal mastery** - Organizations learn only through individuals who learn. Personal mastery is the discipline of continually clarifying and deepening our personal vision of focusing our energies and developing patience as well as seeing reality objectively.
- **Mental models** - These are 'deeply ingrained assumptions, generalizations, or even pictures and images that influence how we understand the world and how we take action'. The discipline of mental models starts with turning the mirror inward; learning to unearth our internal pictures of the world.
- **Building a shared vision** - Senge starts from the position that if any one idea about leadership has inspired organizations for thousands of years, 'it's the capacity to hold a shared picture of the future we seek to create'. Such a vision has the power to be uplifting and to encourage experimentation and innovation.
- **Team learning** - Such learning is viewed as 'the process of aligning and developing the capacities of a team to create the results its members truly desire'. When teams learn together, Senge suggests, not only can there be good results for the organization but also members will grow more rapidly than it could have occurred otherwise.

The action learning formula

Professor Revans pioneered the concept of action learning which defines learning as a function of programmed knowledge and questioning insight.

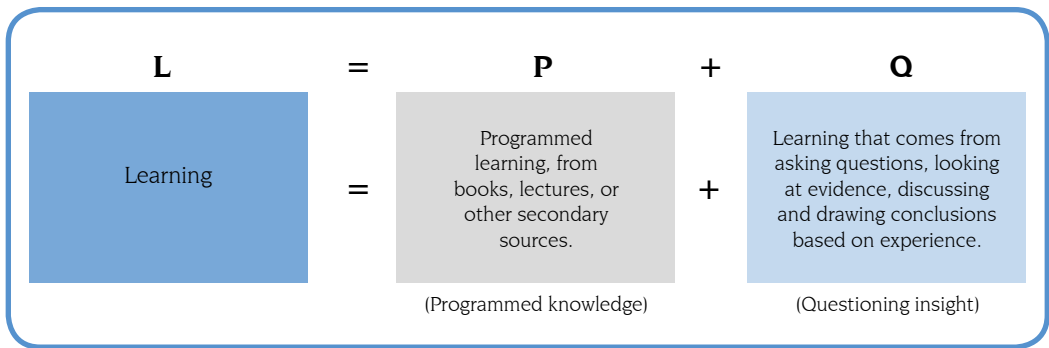


Figure 17.22: Revan's formula for learning.

17.16 Entrepreneurship

An entrepreneur is a person driven by a vision whilst assuming significant personal, financial risks and the responsibility to start or expand a business venture. It is the insane perseverance in the face of total rejection. It is to pursue opportunity through innovation, creativity and hard work and for many, entrepreneurship is about independence and working for ones self.

Entrepreneurial traits

- Acceptance of responsibility.
- Optimistic.
- Profit orientation.
- Embraces risk.
- Visionary.
- Passion.
- High level of EQ.
- Self confidence.
- Creative.
- Collaborates.

Urgent or important matrix

Important and urgent 1 Do	Important and non-urgent 2 Plan
Non - Important but urgent 3 Delegate	Non-Important and non-urgent 4 Eliminate

Figure 17.23: Urgent or important matrix.

As individuals, productivity will greatly improve if the tasks to be performed on a given day are written down in plain sight. Simply stated, if you have five tasks to accomplish in a given day, write it on a sticky note on your desk, and cross each one off as they are completed. It gives you a sense of accomplishment to complete each task, and there is no delay time in determining the next item to complete. To help determine which items should be on your task list, refer to the urgent and important matrix below.

A possible model to start up a business

A model, which describes and partly explains the start up of a new business is provided by Deakins and Whittam (2000) below;

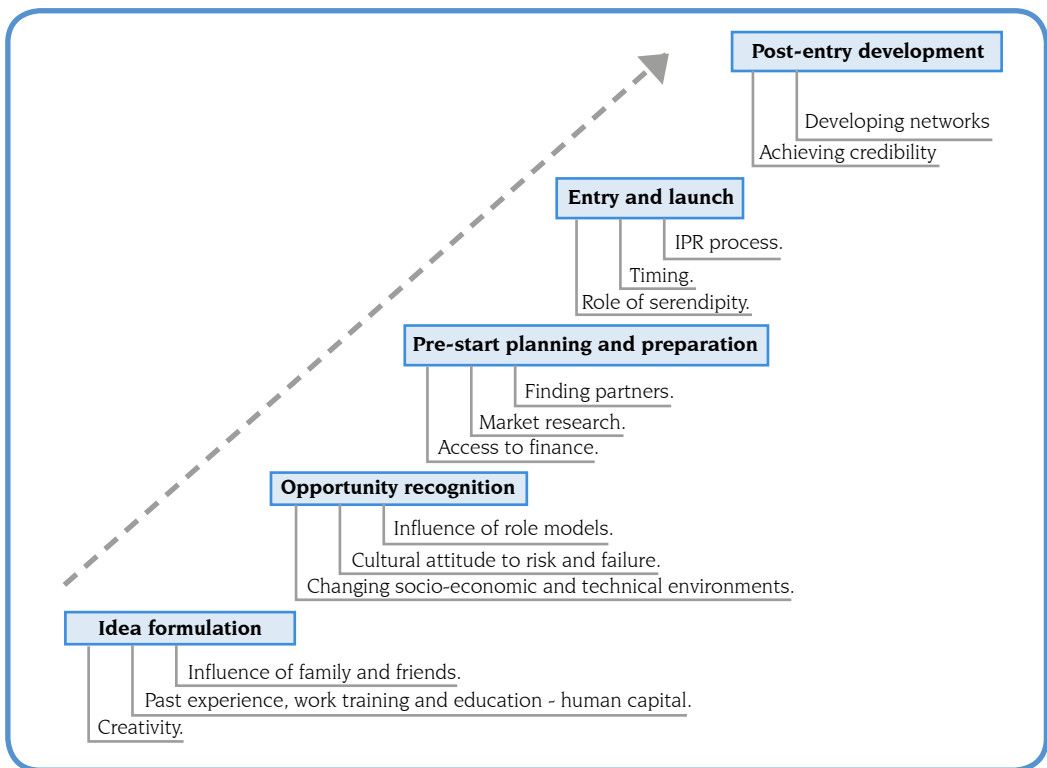


Figure 17.24: A possible model to start up a business by Deakins and Whittam (2000).

Diagnosing an organisations capacity to learn

The following questions can be used to diagnose an organizations learning capability.

- What is the degree of freedom and support for leaning?
- What is the staff capacity to learn? It is tapped at all levels?
- What is the availability of learning tools?

- What's the level of team spirit, shared purpose and collaboration?
- What's the level of risk aversion?
- What's the degree of honest and open communication?
- What's the current process to manage knowledge?
- How is decision making undertaken in the organisation?
- What are the creativity techniques used? - Mind maps, brainstorming, role plays, six thinking hats, force field analysis, concept circles, fish bone, metaphoric analysis.
- What's the level of bureaucracy, empowerment and diversity.
- What are the levels of strategic competencies that support creativity? - Vigilance, adoptability, agility, entrepreneurial instinct, etc.

17.17 Entrepreneurial models

Different entrepreneurial description models which are explained below;

The entrepreneurial model	Central focus or purpose	Assumption	Behaviour and skills	Situation
The 'Great person' school	The entrepreneur has an intuitive ability (a sixth sense) and traits and instincts with which he or she is born.	Without this 'inborn' intuition. the individual would be like the rest of us mortals, who lack what it takes'.	Intuition, vigour, energy, persistence, and self-esteem.	Start-up
The psychological characteristics schools	Entrepreneurs have unique values. attitudes. and needs that drive them.	People behave in accordance with their values; behaviour results from attempts to satisfy needs.	Personal values, risk-taking, need for achievement and others.	Start-up
The classical school	The central characteristic of entrepreneurial behaviour is innovation.	The critical aspect of entrepreneurship is in the process of doing rather than owning.	Innovation, creativity and discovery.	Start-up and early growth.
The management school	Entrepreneurs are organizers of an economic venture; they are people who organize, own and assume the risk.	Entrepreneurs can be developed or trained in the technical functions of management.	Production planning, people organizing, capitalization and budgeting.	Early growth and maturity.
The leadership school	Entrepreneurs are leaders of people; they have the ability to adapt their style to the needs of people.	An entrepreneur cannot accomplish his or her goals alone, but depends on others.	Motivating, directing and leading.	Early growth and maturity.
The entrepreneurship school	Entrepreneurial skills can be useful in complex organizations: entrepreneurship is the development of independent units to create, market and expand service.	Organizations need to adapt to survive: entrepreneurial activity leads to organization building and entrepreneurs becoming managers.	Alertness to opportunities, maximizing decisions.	Maturity and change.

Table 17.9: Entrepreneurial models by Cunningham and Lischeron (1991).

Factors influencing the decision to establish a new venture

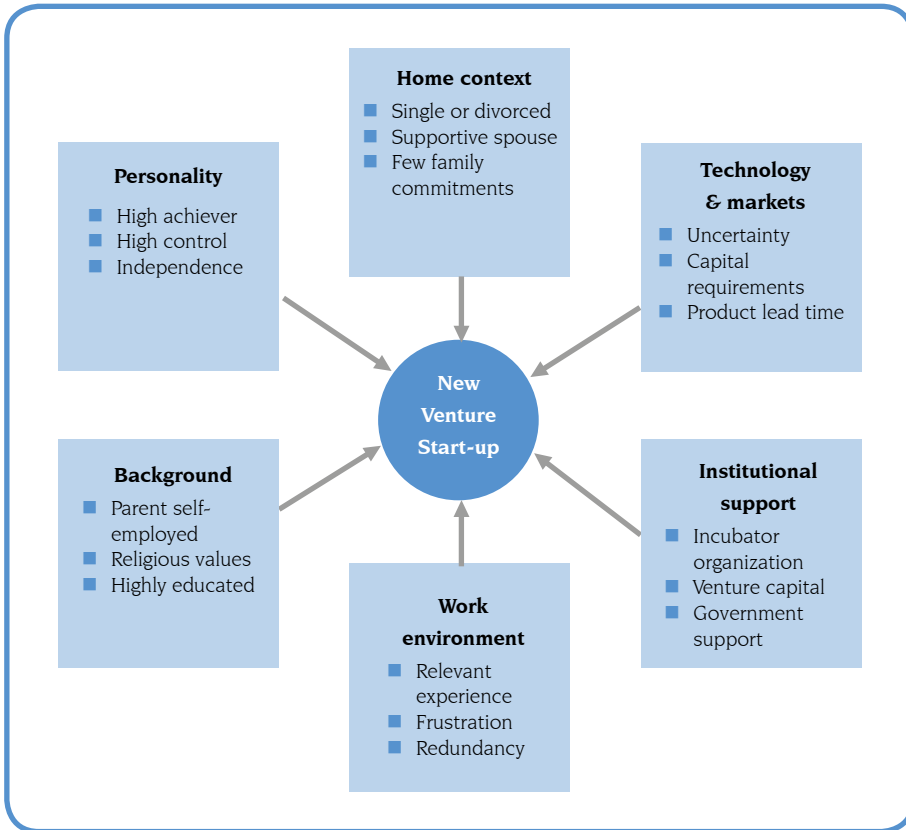


Figure 17.25: Factors influencing the decision to establish a new venture.

17.18 Lean management

Definition : Lean management is to maximize customer value while minimizing waste and creating more value for customers with fewer resources.

A lean organization understands customer value and focuses its key processes to continuously increase it. The ultimate goal is to provide perfect value to the customer through a perfect value creation process that has zero waste. To accomplish this, lean thinking changes the focus of management from optimizing separate technologies, assets, and vertical departments to optimizing the flow of products and services through entire value streams that flow horizontally across technologies, assets, and departments to customers.

Eliminating waste along entire value streams, instead of at isolated points, creates processes that need less human effort, less space, less capital, and less time to make products and services at far less

costs and with much fewer defects, compared with traditional business systems. Companies are able to respond to changing customer desires with high variety, high quality, low cost, and with very fast throughput times. Also, information management becomes much simpler and more accurate.

Lean for production and services

A popular misconception is that lean is suited only for manufacturing. Not true, lean applies in every business and every process. It is not a tactic or a cost reduction program, but a way of thinking and acting for an entire organization. Businesses in all industries and services, including healthcare and governments, are using lean principles as the way they think and do. Many organizations choose not to use the word lean, but to label what they do as their own system, such as the Toyota production system or the Danaher business system. Why? To drive home the point that lean is not a program or short term cost reduction program, but the way the company operates. The word transformation or lean transformation is often used to characterize a company moving from an old way of thinking to lean thinking. It requires a complete transformation on how a company conducts business. This takes a long-term perspective and perseverance. The term 'lean' was coined to describe Toyota's business during the late 1980s by a research team headed by Jim Womack, Ph.D., at MIT's international motor vehicle program.

The types of waste in lean manufacturing

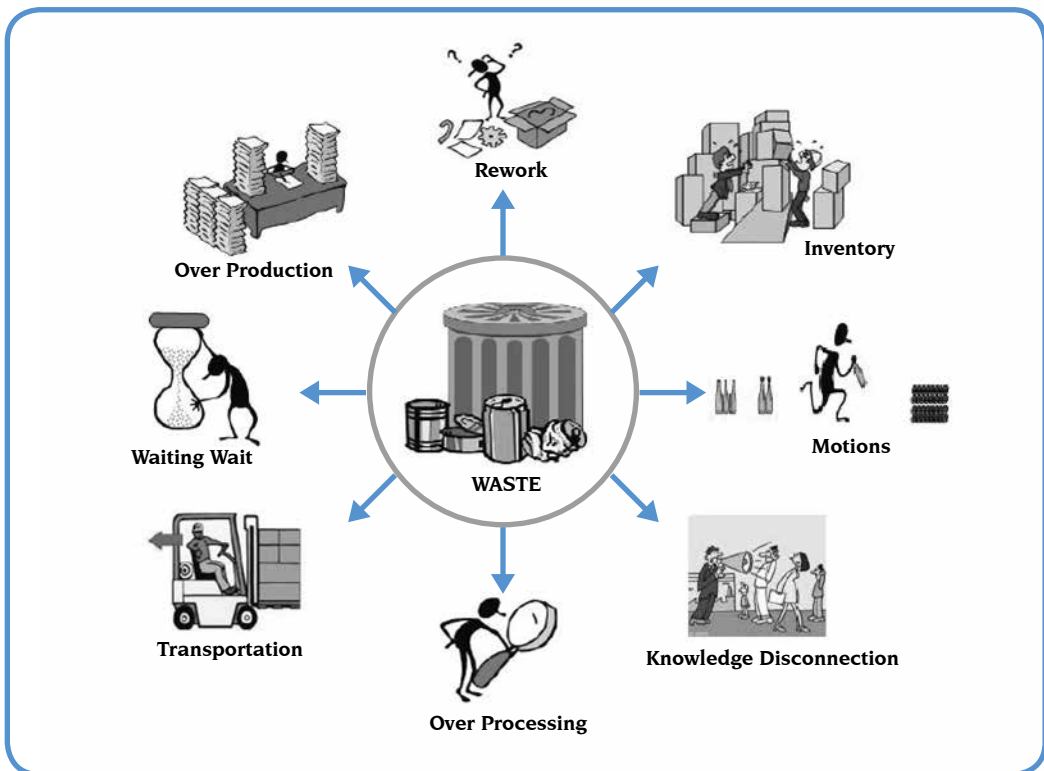


Figure 17.26 : The types of waste in lean manufacturing.

Womack and Jones (2003) recommend that managers and executives embarked on lean transformations think about three fundamental business issues that should guide the transformation of the entire organization;

- **Purpose** - What customer problems will the enterprise solve to achieve its own purpose of prospering?
- **Process** - How will the organization assess each major value stream to make sure each step is valuable, capable, available, adequate, flexible, and that all the steps are linked by flow, pull, and leveling?
- **People** - How can the organization ensure that every important process has someone responsible for continually evaluating that value stream in terms of business purpose and lean process? How can everyone touching the value stream be actively engaged in operating it correctly and continually improving it?

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CHAPTER 18

Corporate Reputation Management

- 18.1 Public relations
- 18.2 Steps in a public relations program
- 18.3 Strategic sponsorships
- 18.4 The triple bottom line
- 18.5 Crisis management
- 18.6 The issue lifecycle
- 18.7 Pressure groups
- 18.8 Consumerism
- 18.9 Corporate social responsibility
- 18.10 Green marketing
- 18.11 Corporate governance
- 18.12 The corporate identity mix
- 18.13 Managing corporate reputation
- 18.14 Risk management
- 18.15 Risk management cycle
- 18.16 The risk matrix

18 Corporate Reputation Management

At every word a reputation dies - Alexander Pope

18.1 Public relations

Definition : Public relations is the deliberate management activities that attempts to shape the attitudes and opinions held by an organisation’s stakeholders in order to generate goodwill, mutual understanding, confidence and trust. The related discipline of publicity involves disseminating planned messages through selected media without payment.

Characteristics of public relations

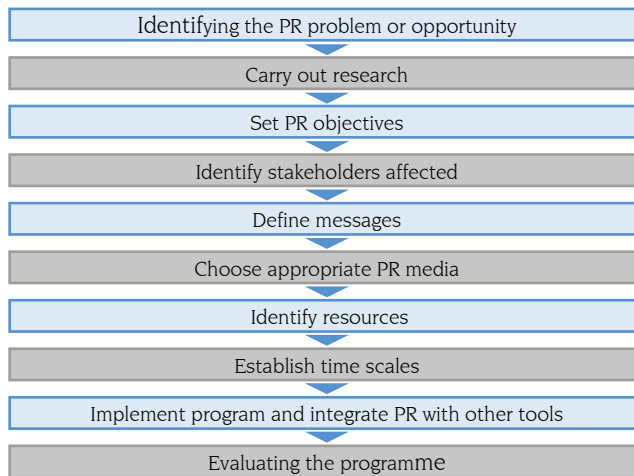
- Inexpensive.
- Offers high credibility.
- Low message control.
- An effective way to communicate with wider stakeholders.
- Develops goodwill and mutual understanding.
- Must be integrated to the corporate strategy.
- Builds corporate reputation and trust.
- Improves the company image through strategic positioning and profiling.
- It requires to be integrated with other communication tools for maximum effect.
- It attempts to shape attitudes and opinions.
- It is used in crisis management.
- It involves creating a unique corporate identity and image.

Public relations tools

Corporate material	Newsletters, brochures, annual reports, audio visual clips, logos, stationary, uniforms, company colours.
Internal communications	Bulletin boards, e-mail, memo’s, reports.
Press releases	Business and trade press.
Special networking events	Conferences, seminars, sponsorships, trade shows, exhibitions and fairs.
Corporate campaigns	Thematic advertising campaigns.
Community programmes and lobbying	Counseling, factory visits.

Table 18.1: Public relations tools.

18.2 Steps in a public relations program



18.3 Strategic sponsorships

Sponsorship is the association of the companies name on banners, press advertisements or what ever is agreed in order to improve the awareness and image of the company. Sponsorship generally plays a supporting or secondary role in marketing communications. The objective of the organization soliciting sponsorship is most often financial support or prizes as giveaways.

Developing a sponsorship programme

- i. **Analyze the current situation** - Check details about the present, previous sponsors and competitor sponsorships.
- ii. **Define sponsorship objectives**
- iii. **Define target audiences** - Different sports and events may reach a number of different audiences, based on your brand platform.
- iv. **Clarify strategy** - How does the sponsorship programme contribute to the overall corporate, marketing communication objectives?
- v. **Develop tactical plans** - How to associate the brand name? The package of benefits for the sponsorship, naming rights, advertising, facilities, media rights, endorsements.
- vi. **Budgets** - How much money? Can the campaign may profits in the long term?
- vii. **Post evaluation** - Measure objectives against outcomes to evaluate the effectiveness.

Drafting press releases

Press releases are brief news items, which are sent to journalists and are most commonly written down. However they can also be achieved orally or through a press conference. News releases must have the following four qualities.

- **Newsworthy** - Must be interesting and relevant to readers.
- **Credibility** - Truthful, without a absence of responsibility.
- **Safe** - Legal to publish, fair, honest and decent.
- **Easy to use** - Written in a suitable style, length and format.

Format of a press release

Press releases tend to follow a standard format as it makes it easier for readers to get the details they need in an efficient way. But before you can just churn one out, you need to do a little prep work. As you start to write your press release, come up with the creative angle first. Take off your sales hat and think about it from the reader's perspective: Why should I care, and what makes it special? Once you have your angle, then state the facts which support the news as objectively as possible. This will help give your press release the right tone and allow you to fit it more easily into the accepted format.

The standard press release format includes the following:

- i. **Headline** - A brief attention-grabbing statement summarizing the news.
- ii. **Subheadings** - These are secondary statements, which build on the headline and further fleshes out the message.
- iii. **Dateline** - This is the date of the release.
- iv. **Lead or introductory paragraph** - This is the first paragraph of the release which generally answers the who, what, when, where and why questions; in other words, the facts.
- v. **Body** - These are additional paragraphs, which provide supporting material and further details (E.g. Quotes, relevant background information, statistics, etc.) as well as the call to action (E.g. Download, learn more, purchase).
- vi. **Source** - It is appropriate to include a short paragraph giving information about the issuing company or organization.
- vii. **Media contact information** - At minimum, the name, phone number and e-mail address for the PR or media relations contact who can answer any questions about the release.

18.4 The triple bottom line

Elkington (1997) explained that cooperate sustainability could be achieved through the three dimensions of profit, people and planet, embodied in the concept of the triple bottom line as explained below:

- **People** - This refers to social sustainability and pertains to fair and beneficial business practices towards labour and the community, equal opportunity in employment, development of skills and promoting public health etc.
- **Planet** - This refers to sustainable environmental practices, which either benefit the natural environment or minimise harmful impacts upon it. E.g. Reducing pollution and waste, minimising or repairing environmental damage, using renewable or recyclable materials, reducing greenhouse gas emissions and 'carbon footprint' (Global warming), educating supply chains and customers to support environmental practices and investing in 'green' projects such as renewable energy, land reclamation and reforestation etc.
- **Profit** - This is the economic value created by the organization after deducting the cost of all inputs, including the cost of the capital tied up. It therefore differs from traditional accounting definitions of profit.

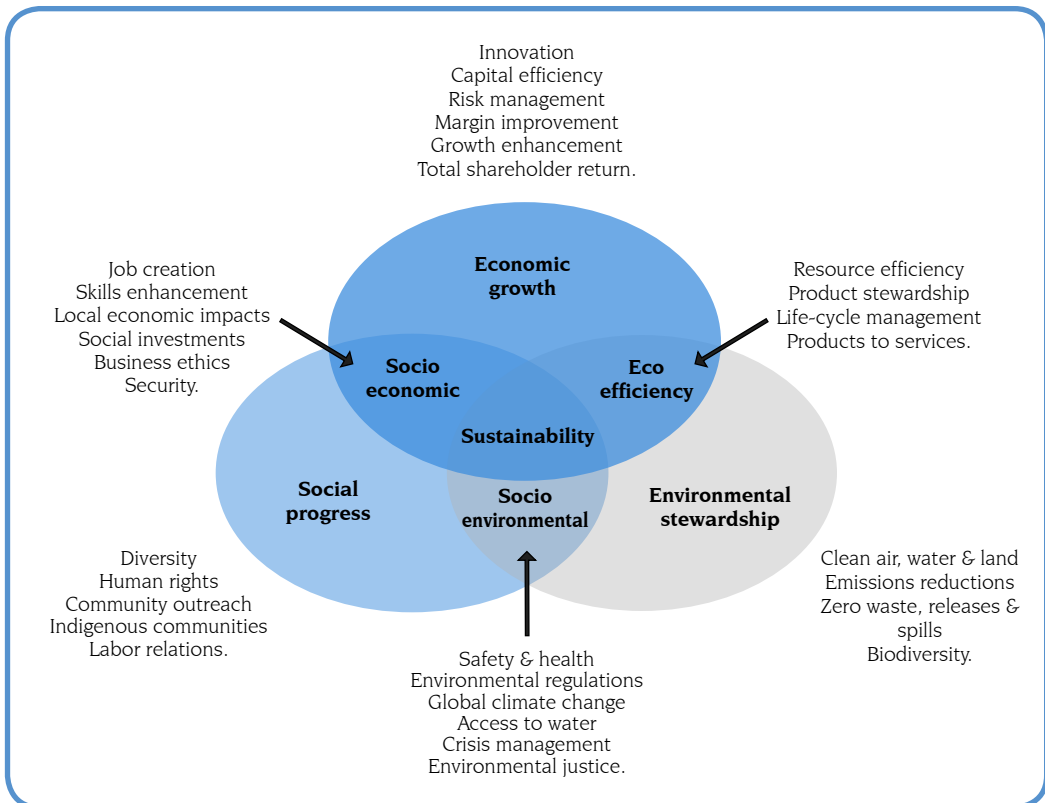


Figure 18.1: The triple bottom line applied in context by John Elkington in (1997).

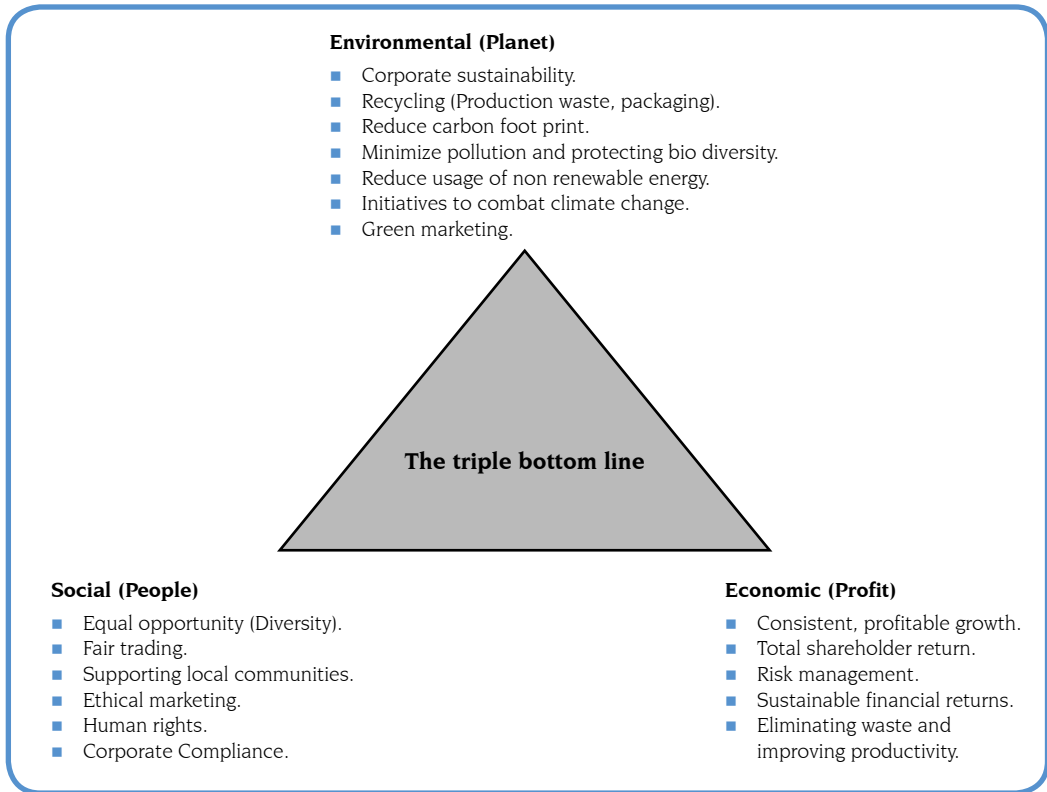


Figure 18.2: The triple bottom line applied in context by John Elkington in (1997).

18.5 Crisis management

Definition : A crisis may be defined as any event, revelation, allegation or series of events that can threaten the integrity and significantly damage a company's reputation or survival.

Managers must prevent a potential crisis before it turns into a catastrophic event, which may cause significant reputational, operational or financial harm. Here are some examples of such events.

- Exxon expensed \$13 billion as financial and reputational costs for the 'Valdez' oil tanker spill.
- In 2014, Facebook was accused of using consumer data carelessly.
- Questions were raised over the bidding process for the 2020 Qatar world cup, which saw intervention of US law authorities.
- Malaysian airlines suffered two of the biggest air disasters in history in a period of four months. MH370 (Which has yet to be found) and MH17 shot down by a missile over Ukraine by Russian backed separatists. Even before these twin disasters, the airline was suffering severe financial losses. Its crisis response to the disappearance of MH370 was one of the worst in history (With no cohesive communications plan and showing a lack of sympathy for the family members of the lost passengers).

Types of crises

Mitroff and Alspaslan (2003) identify three generic types of crisis:

- **Natural accidents** - These are outside the organization's control. E.g. Natural disasters.
- **Normal accidents** - These are those caused by unintentional human errors, which may be within the organization's control.
- **Abnormal accidents** - These are or external actions of evil intent, such as sabotage, kidnapping, theft, bombing etc.

Warning signals of a business crisis

A crisis signals risk, but also offers opportunities. The ability to gauge opportunities in chaos requires strong entrepreneurial instincts. Here are some examples of warning signals of a looming business crisis.

- Consumer boycotts.
- Industrial accidents.
- Sabotage or extortion.
- An issue escalating in intensity.
- Fraud and mismanagement.
- Product recalls.
- Deteriorating public image.
- Eroding financial performance.
- Technical, production failures.
- Increasing media and government scrutiny.
- Drastic external environmental change.
- Employee unrest.
- Damaged corporate relationships with suppliers, partners, distributors etc.

18.6 The issue lifecycle

An issue originates as an idea that has potential impact on an organisation or public and may result in action that brings about increased awareness or reaction on the part of other organisations or publics. Hainsworth & Meng (1988) describes this process as a 'life cycle' of an issue. Issues management encompasses the potential, emerging, and current stages of an issue's evolution before it reaches the crisis stage. Here is a summary of each stage of the issue life cycle;

Stage 1: A potential issue - This stage consists of a defined phenomenon that has the potential to become an issue of concern. A trend can be referred to as a potential issue. Ideas prompting potential organizational change can also be referred to as potential issues. These types of ideas have not yet captured public attention, even though some experts or key stakeholders may be aware of them.

Stage 2: An emerging issue - During this stage, an issue's level of intensity increase gradually. The increase is mainly because of the stakeholders advancing the issue. During this stage, stakeholders try to legitimize the issue and gain greater support from an expanded circle of influencers to strengthen

Steps in a crisis management program

i. Prepare for a crisis

- Monitor and scan environment for potential risks.
- Create an early warning system.
- Assemble a cross functional crisis team.
- Gauge costs of preventing crisis's.
- Embark on initiatives to avoid the crisis.
- Establish a risk management department.
- Internal systems and performance monitoring.
- Create a disaster recovery plan.
- Keep key stakeholders informed.
- Monitoring feedback.

ii. Analyzing the crisis

- Identification or detection.
- Prioritization.
- Damage containment measures.
- Monitor stakeholder reactions.

iii. Crisis strategy

- **Marshaling resources** - Demonstrate responsibility, willingness and transparency in investigating the problem and putting it right.
- **Rumour management** - Communicate with employees, acknowledging the emotional aspects of the crisis, empathize with any victims and engage stakeholders.
- **Crisis communications** - Setting the agenda, establish communication channels, return all calls from the media, identify spokesperson and provide regular updates.
- **Promote resolutions and improvements** - Add incentives to retain or win back stakeholders.

iv. Post crisis follow up

- Profiting from the crisis.
- Learning from experiences.
- Repairing reputations.
- Manage future risks.

Repairing reputations

Coombs (2007) proposes a range of strategies to repair reputations, which are given below;

- **Attack the accuser** - The crisis manager confronts the person or group claiming a problem with the organisation.
- **Denial** - The crisis manager asserts that there is no crisis.

- **Scapegoat** - The crisis manager blames external persons or groups for the crisis.
- **Excuse** - The crisis manager minimises organisational responsibility by denying intent to harm, by claiming good intentions or by claiming inability to control the events that triggered the crisis.
- **Justification** - The crisis manager minimises the perceived damage caused by the crisis.
- **Reminder** - The crisis manager tells stakeholders about the past good works of the organisation to highlight trust and goodwill.
- **Ingratiation** - The crisis manager praises stakeholders for their actions and responses.
- **Compensation** - The crisis manager offers money or other benefits to victims.
- **Apology** - The crisis manager indicates that the organisation takes full responsibility for the crisis, and asks stakeholders for their understanding and forgiveness.

18.7 Pressure groups

Definition : A pressure group (sometimes known as an advocacy group, a lobby group or a special interest group) is an organized collection of people who seek to influence political decisions and policy, without seeking election to public office.

In most cases, individual stakeholders may be unable to exercise influence over an organisation, whether as consumers, employees or members of the public at large, in relation to a particular issue or infringement of their rights. In these circumstances, they may seek to enhance their power by joining or supporting a pressure group.

Types of pressure groups

- **Sectional groups** - They represent the interests of their members. Business groups, such as the confederation of British industry, professional bodies, such as the British medical association trades unions, the marketing society, the law society and the chambers of commerce are examples.
- **Causal groups** - They seek to influence policy in a particular area, such as the environment (Greenpeace), gun laws (National rifle association), welfare (Fathers of justice, society for the protection of unborn children).
- **Fire brigade groups** - They may lobby on a specific issue such as the war in Iraq or the poll tax and they usually disband as soon as the issue has been resolved.

Methods used by pressure groups to wield influence

- Attempting to influence government policy.
- Raising awareness and influencing public opinion.
- Using their legitimate power to influence organisational decisions.
- Offering information and advice, to influence their decision-making and policy formation.
- Offering the opportunity to gain CSR or environmental credentials through association with the group, or through showing support for the issue.

Lobby groups

Definition : Lobbying is a direct attempt to influence legislative, decisions with a specialised public relations effort designed to build and maintain community and governmental relations.

Lobbying has been increasingly used increasingly by organisations in order to present their case to the government and groups of stakeholders. Lobbying is said to be either defensive (in that it is designed to get rid of or amend existing law) or offensive (geared towards pressurizing the authorities to develop a law). One of the most important aspects of lobbying is to be familiar with the legislative process in the country within which the lobbying is taking place.

Expected standards of behaviour of lobbyists

There is a certain expectation or standards of behaviour that are expected of professional and citizen lobbyists. All holders of public office should, according to the Nolan Committee Principles, cited by Yeoman & Tench (2009) expect to behave with:

- Selflessness.
- Integrity.
- Objectivity.
- Accountability.
- Openness.
- Honesty.
- Leadership.

18.8 Consumerism

Definition : Consumerism is a organised social movement seeking to argument the rights and powers of buyers in relation to sellers up to the point where the consumer is able to defend his interests.

It includes the formation of consumer groups, and the recognition by producers that consumer

satisfaction is the key to long-term profitability. The consumer rights day was introduced in 1983 by Consumers international and is observed every year on the 15th of March. This day is observed with a view to;

- Promoting the basic rights of all consumers.
- Demanding that those rights are respected and protected.
- Protesting market abuses and social injustices, which undermine them.

For many centuries the legal judgement between the buyer and seller were largely made on the basis of 'let the buyer beware'. Today the consumerist movements and legislation has changed this to 'let the seller beware'. American business firms have been the target of organized consumer movements on three occasions. The first consumer movement took place in the early 1900's. It was fuelled by rising prices in the meat industry and scandals in the drug industry.

The second consumer movement, in the mid 1930's was sparked by an upturn in consumer prices during the great depression and another drug scandal. The third movement began in the 1960's. Consumers had become better educated, products had become more complex and potentially hazardous and people were unhappy with American institutions. Ralph Nader appeared on the scene to force many issues, and other well-known writers accused big businesses of wasteful and unethical practices. Consumer desire for more information led to putting ingredients, nutrition and manufacturing information on product labels. Subsequently, President John F Kennedy's consumer's bill of rights in 1962 highlighted fundamental rights of the consumer, which is illustrated below;

The consumer bill of rights

- The right to safety.
- The right to satisfaction of basic needs.
- The right to be informed.
- The right to redress.
- The right to choose.
- The right to education.
- The right to be heard.
- The right to be health conscious.

18.9 Corporate social responsibility

Definition : CSR is defined as operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of a business.

The CSR pyramid

Carroll and Buchholtz (2000) argue that there are four main layers of corporate social responsibility.



Figure 18.4: The CSR pyramid by Carroll and Buchholtz (2000).

- **Economic responsibilities** - The firm must produce goods and services wanted by the market, profitably otherwise it cannot survive, and will not be able to fulfill any other obligations to stakeholders. Economic responsibilities include; operating efficiently and effectively, aiming for consistent levels of profitability and competing effectively in the market.
- **Legal responsibilities** - Economic goals must be pursued within the framework of the laws of society within which the firm operates. The news is full of examples of how business practices can fail to comply with contract, employment, consumer protection, health and safety, competition law, human rights law and so on.
- **Ethical responsibilities** - Ethical responsibilities comprise the expectations of society, over and above basic economic and legal requirements; honesty in business relationships, for example; not exploiting small suppliers and retailers or not marketing manipulatively to children.
- **Philanthropic responsibilities** - Above and beyond even ethical dealings, society increasingly expects that marketing organisations be good corporate citizens. That is, that they proactively and positively contribute to society in which they operate. Examples of philanthropy include corporations building community amenities, sponsoring local causes and events, donating money to charity, supporting local schools, promoting or campaigning on issues of concern, or offering grants and prizes for research, innovation of benefit to society.

Corporate sustainability reporting

A sustainability report is a report published by a company or organization about the economic, environmental and social impacts caused by its everyday activities. A sustainability report also presents the organization's values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy. Sustainability reporting can help organizations measure, understand and communicate their economic, environmental, social and governance performance, and then set goals, and manage change more effectively. A sustainability report is the key platform for communicating sustainability performance and impacts, whether positive or negative. Major providers of sustainability reporting guidance include;

- GRI (GRI's Sustainability Reporting Standards).
- The Organisation for Economic Co-operation and Development (OECD).
- The United Nations Global Compact.
- The International Organization for Standardization (ISO 26000, International Standard for social responsibility).

The societal marketing concept

This is a management orientation that determines the needs and wants of target markets and satisfies customer requirements more effectively and efficiently than its competitors in a way that preserves or enhances the consumers and society's well being. According to Kotler (2004) this is an enlarged version of the marketing concept. The concept is to create balanced marketing policies, customer satisfaction, profits and public interests.

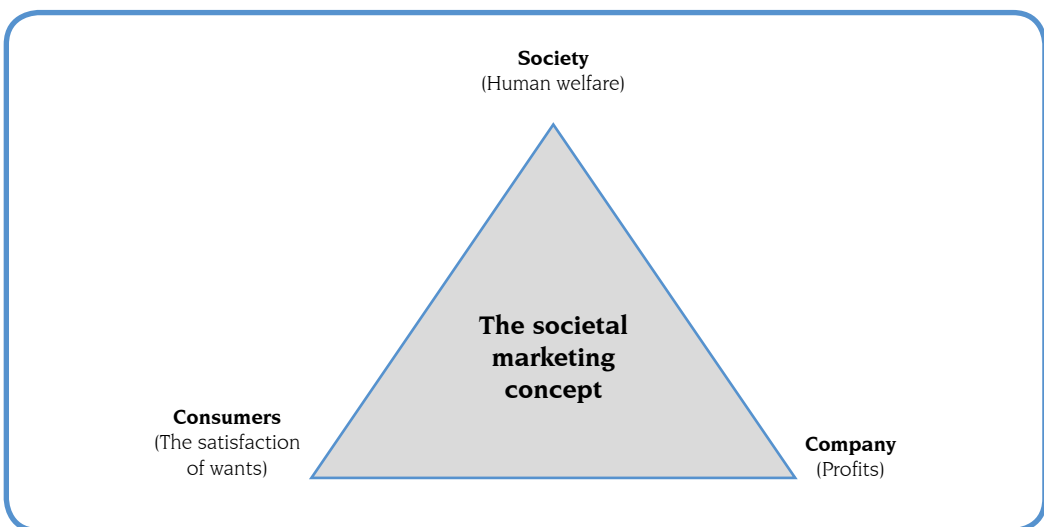


Figure 18.5: The societal marketing concept.

Benefits of CSR

- Win new business.
- Increase customer retention.
- Develop and enhance relationships with customers, suppliers and networks.
- Attract, retain and maintain a happy workforce and be an employer of choice.
- Save money on energy and operating costs and manage risk.
- Differentiate yourself from your competitors.
- Generate innovation and learning and enhance your influence.
- Improve your business reputation and standing.
- Provide access to investment and funding opportunities.
- Generate positive publicity and media opportunities due to media interest in ethical business activities.

Ethical marketing

Ethical marketing involves launching products that address the ethical, moral principles and sustainability issues. Companies choose to use some of its profits for environmental and social improvement, which is a strong source of differentiation and may be a profitable niche market. Ethics transcend legal boundaries and law abiding companies may not confirm to the highest standards of corporate ethics, since ethics are the unwritten rules of governance. It enhances the company's reputation and can be used to off set costs through increased productivity, efficiency and recycling. Further, ethical consumers are willing to pay a premium price and it strengthens relations with governments and regulatory bodies. Part of being ethical is to be environment friendly. Therefore a company may use some of the green marketing principles in its ethical marketing strategy. Here are some other examples of the application of ethical marketing;

- Communicating honest, credible messages to customers.
- Be transparent with all its dealings.
- Avoid overselling your brand.
- Initiatives to improve social welfare and uphold human rights.
- Animal rights.
- Permission marketing.
- Preservation.
- Create ethical brand values and behavioural consistencies that attract like minded staff.

Ethical stances

Johnson, Scholes and Whittington (2008) define a company's ethical stance with the following variables.

- **Short-term shareholder interest** - This ethical stance has a short-term focus in that it aims to maximise profits within the financial year. Organisations with this ethical stance believe that it is the role of governments to set the legal minimum standard and anything delivered above this would be to the detriment of their taxpayers.

- **Longer-term shareholder interest** - This ethical stance takes broadly the same approach as the short-term shareholder interest except that it takes a longer-term view. Hence, it may be appropriate to incur additional cost now so as to achieve higher returns in the future. An example could be a public service donating some funds to a charity in the belief that it will save the taxpayer the costs associated with providing the entire service should the charity cease to work. Hence this ethical stance is aware of other stakeholders and their impact on long-term profit or cost.
- **Multiple stakeholder obligations** - This ethical stance accepts that the organisation exists for more than simply making a profit, or providing services at a minimal cost to taxpayers. It takes the view that all organisations have a role to play in society and so they must take into account the interests of all stakeholders.
- **Shaper of society** - This ethical stance is ideologically driven and sees its vision as being the focus for all its actions. Financial and other stakeholder interests are secondary to the overriding purpose of the organisation.

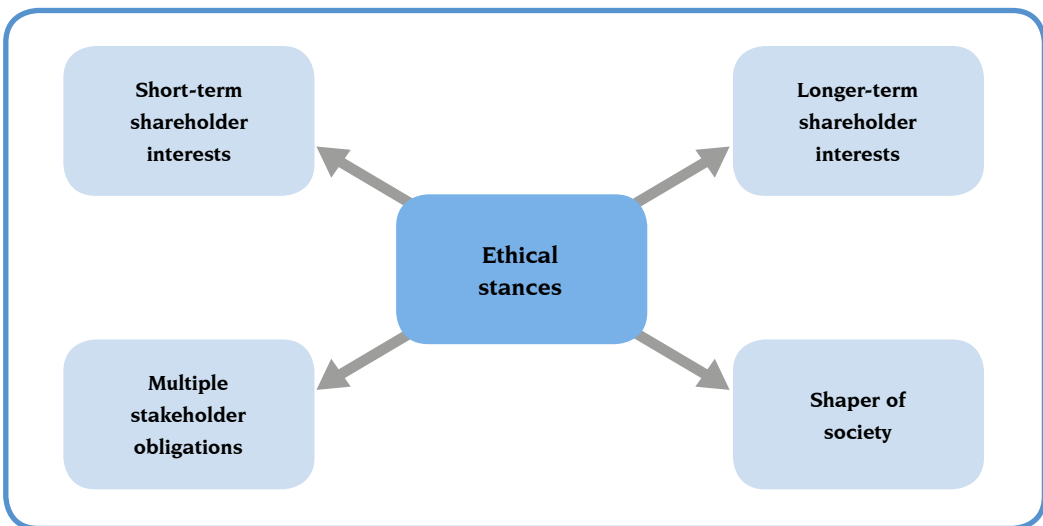


Figure 18.6: Ethical stances by Scholes and Whittington (2008).

18.10 Green marketing

Green marketing is a concept used to emphasize the development and promotion of products that are environmentally safe. This indicates support for companies selling biodegradable products such as laundry detergents, trash bags and endorse the reuse of all recyclables. Increasingly key stakeholders are examining organizations products and operations to evaluate their impact on the environment using standards such as ISO 14000, which involve environmental Auditing. Here are a few examples of the application of green marketing;

- Digitalize - Work towards a paperless environment.
- Introduce a biodegradable product and use recyclable packaging.
- Monitor the carbon footprint - Combat global warming, pollution, resource depletion, protect bio diversity and deforestation.
- Energy - Switching to solar power and electric cars.
- Make a public declaration.
- Work with suppliers that are compliant.
- Promote responsible consumption throughout the life cycle.

18.11 Corporate governance

Corporate governance is the set of processes and policies by which a company is directed, administered and controlled. It includes the appropriate role of the board of directors and the auditors of the company. It is concerned with the overall control and direction of a business so that all stakeholders achieve the business’s objectives in an acceptable manner.

Corporate reputation

Definition : Corporate reputation is a total meaning the corporate brand, which consists of all its associations, identity and image in the minds of its stakeholders.

Corporate reputation, once established, is constantly in danger of being eroded, undermined, damaged or destroyed. The recognition of reputational risk has been one of the main drivers behind the growth in importance of risk management as a discipline.

Corporate reputation framework

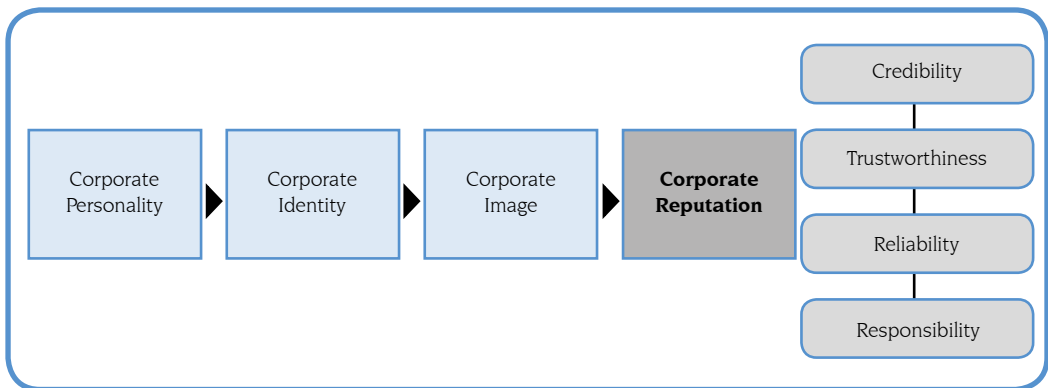


Figure 18.7: Corporate reputation framework by Frombrun (1996).

Organisations, like individuals, may project their personality as an ‘identity’ (or persona). Corporate identity is shaped by the spirit and commitment with which all members of an organisation embody

and articulate the corporate personality. The target audience's perception of these cues then forms the corporate image. Corporate reputation is a 'deeper set of images', based on stakeholders' reflections on the historical and accumulated impacts of identity cues or messages, reinforced or adjusted by actual transactional experiences. Images may be influenced quite quickly: reputation is more embedded, and takes longer to change. Frombrun (1996) identifies the following facets of corporate reputation.

Corporate personality

Bernstein (1984) states organisations may possess personalities, just as individuals. Corporate personality is the totality of the characteristics that identify an organisation. BBC's corporate personality is understood as to be a mature organisation where stability, security and reliability have long been regarded as important characteristics, which may act as impediments to progress and innovation. Contrastively, Channel 5's Personality is young and vibrant, where programme quality is measured differently to BBC and where innovation is seen as an important part of challenging the rules of standard broadcasting.

Corporate personality is embodied in the way the organisation carries out its business, the degree of persistence and aggression it displays in the markets in which it operates and the standards that are expected of all stakeholders. Corporate personality is what an organisation actually is.

One important point about this is that unlike image and reputation organisational personality or character is within the organisation's direct control. Organisations that behave and express themselves in line with character attributes that they, their employees and their external stakeholders value are more likely to benefit from: improved individual and team morale, improved productivity, enhanced profitability, improved service quality, lower staff absenteeism and turnover and health build long-term customer relationships.

Corporate personality thus describes the significant characteristics, which constitute the organisation's distinctive and consistent method of relating to its environment. According to Markwick and Fill (1997) corporate personalities are derived from two core factors, which are;

- **The organisation culture** - The core assumptions, values and beliefs of an organisation (or corporate philosophy), which manifest themselves in expressions, artefacts, symbols, rituals, structures and norms of behaviour. Culture leads to the formation of particular characteristics or traits.
- **The strategic purpose and strategic processes adopted by the organisation** - How the organisation pursues its mission via strategic objectives; how strategy is formulated (by formal long-range planning, incremental adjustments, emergence or opportunism); how vision and objectives 'flow down' through the organisation and how the organisation defines its desired relationships with its various stakeholders.

Tools for corporate personality profiling

a) **The corporate personality scale** - Davies et al (2003) classifies the dimensions and traits of corporate personality, using seven core dimensions, is shown in the following table. These traits are used as part of a measuring instrument to map various stakeholder images of an organisation.

Dimensions and traits of corporate personality

Agreeable	Warmth <ul style="list-style-type: none"> Friendly Pleasant 	Empathy <ul style="list-style-type: none"> Concerned Reassuring 	Integrity <ul style="list-style-type: none"> Honest Sincere
Enterprise	Modernity <ul style="list-style-type: none"> Cool Trendy 	Adventure <ul style="list-style-type: none"> Imaginative Up-to-date 	Boldness <ul style="list-style-type: none"> Extravert Daring
Competence	Conscientious <ul style="list-style-type: none"> Reliable Secure 	Drive <ul style="list-style-type: none"> Ambitious Achievement oriented 	Technocracy <ul style="list-style-type: none"> Technical Corporate
Chic	Elegance <ul style="list-style-type: none"> Charming Stylish 	Prestige <ul style="list-style-type: none"> Prestigious Exclusive 	Snobbery <ul style="list-style-type: none"> Snobby Elitist
Ruthlessness	Egotism <ul style="list-style-type: none"> Arrogant Aggressive 	Dominance <ul style="list-style-type: none"> Dominance Inward looking 	
Machismo	Masculine <ul style="list-style-type: none"> Tough Rugged 		
Informality	Casual <ul style="list-style-type: none"> Simple Easy going 		

Table 18.2: Dimensions and traits of corporate personality.

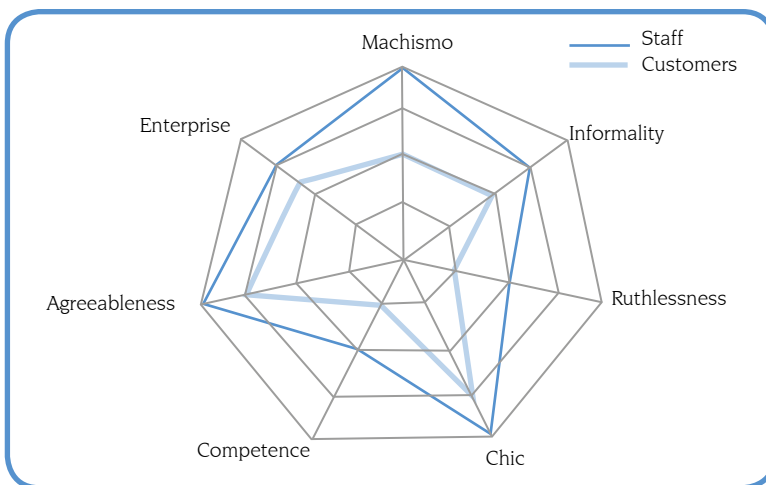


Figure 18.8: Dimensions and traits of corporate personality by Davies *et al* (2003).

The use of such profiling techniques and spider diagrams can stimulate management discussion about particular dimensions and traits; whether the current profile is compatible with the organisation's desired image and positioning; and what traits the organisation should seek to develop. It may also indicate any mismatch between identity (employee view) and image (customer view), if the employee view is more positive, it may improve the customer view over time or there may be a communication problem in failing to translate corporate identity into positive image.

b) Personality profile

Van Riel and Fombrun (1986) introduced the personality profile dimensions, which are as follows;

- **Needs** - The basic motivation for the organisation's actions (E.g. Growth, security, competition) and therefore central to the profile.
- **Competences** - Special skills, resources and sources of competitive advantage.
- **Attitude** - Core organisational philosophy or cultural values.
- **Constitution** - The physical, structural and legal context for operations (E.g. Core business, structure, locations, position in the value chain).
- **Temperament** - How the company operates (E.g. In terms of strength, intensity, emotional tone).
- **Origin (or heritage)** - Attributes which have shaped the organisation in the past.
- **Interests (or goal orientation)** - The future (medium and long-term) objectives of the company.

These dimensions will allow managers to organise personality data from employee interviews, archival material, stakeholder feedback and personal brainstorming. They can then map the personality of the organisation to stimulate a discussion about the future direction and positioning. The following example is a personality profile mind map for Lux.

A personality profile mind-map

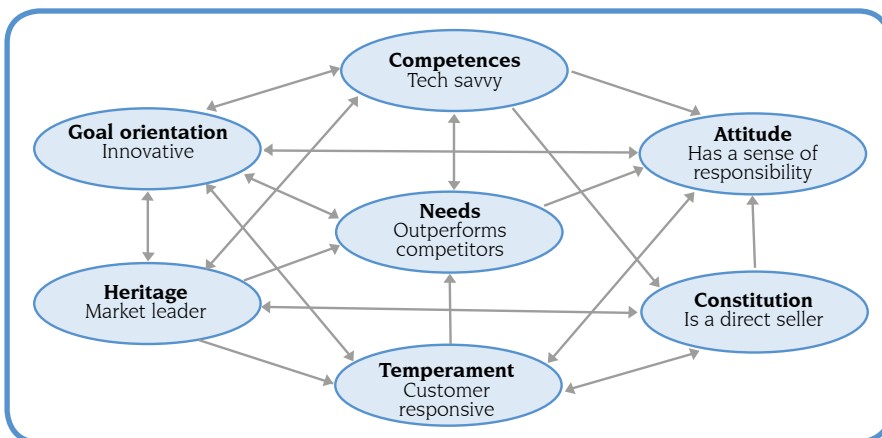


Figure 18.9: Personality profile for Lux by van Riel and Fombrun (2007).

Corporate identity

Definition : This is a set of meanings by which the company allows itself to be known and through which it allows people to describe and relate to it.

This is the formation of various signals and cues by which stakeholders are enabled to recognise, identify and understand an organisation. Identity management is a means by which an organisation determines how it wants to be seen and how it intends to be understood and differentiated from other organisations. Through time, accumulated images shape ideas about the reputation an individual attributes to an organisation. Indeed, the development of digital marketing and SEO in particular, has helped focus on attention on the need to manage how organisations are seen and how they can be found.

The components of corporate identity

Tangibles	Building design, refurbishment, colour schemes, furniture, uniforms, fleet.
Mood	Lighting, sound, smell, heating, working styles.
Training	Especially for customer-facing employees.
Communicating corporate values	Induction training, mission and vision, internal communication, external communication, jingles, artefacts.
Corporate visual identity	Logo, letterhead, signage, designs, major brands, symbols, packaging, slogans.
Culture management	Training for managers to express and model values and behaviours, use of HR systems to reinforce desired values and behaviours.
Characters	Key personalities, new employees.

Table 18.3: Attributes of corporate identity.

18.12 The corporate identity mix

Birkigt and Stadler (1988) suggest that the identity communicated through corporate communications needs to incorporate symbolism, behaviour and communications.

- **Symbolism** - The name, font, colour and external management orientated communication in a sales negotiation context.
- **Behaviour** - In terms of the way in which a product or service is delivered, in order to communicate an identity.
- **Communication** - Considers the balance, tone and integration of a variety of symbolic devices, plan and manage a range of communication activities and ensure that all customer facing employees and managers adopt a set of values and behaviours which serve to enhance the reputation of the organisation and cause others to spread positive word of mouth about the organisation.

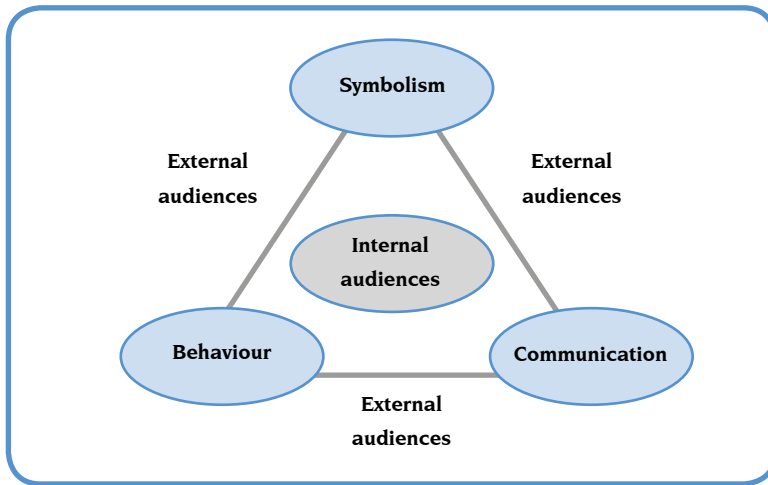


Figure 18.10: The corporate identity mix by Birkigt and Stadler (1988).

Balmer's AC²ID test model

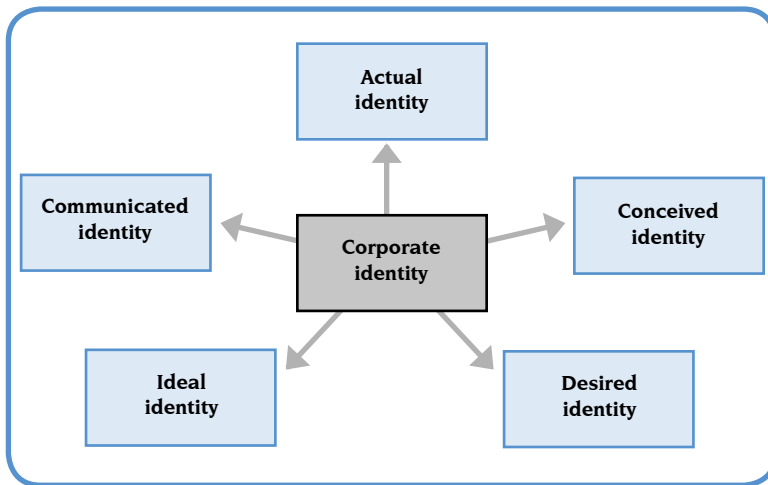


Figure 18.11: Balmer's AC²ID test model by Balmer and Soenen (2001).

The Balmer's AC²ID test model (2001) examines the different dimensions of corporate identity. .

- **Actual identity** - The reality of the organization.
- **Communicated identity** - Controllable identity is projected by programs such as advertising, PR, sponsorship and branding where as uncontrollable identity includes news coverage, word of mouth, lobbyists and internet communities.
- **Conceived identity** - Perceptions of the organization held by relevant stakeholders and therefore reflecting corporate reputation.
- **Ideal identity** - The optimum positioning for the organization.
- **Desired identity** - Top management's view of how the organization is to be seen.

Corporate image

This is the perception that different audiences have of an organisation and results from the audience's interpretation of the cues presented by an organisation. For an image to be sustainable, the identity cues upon which the image is fashioned must be based on reality and reflect the values and beliefs of the organisation. Images are prone to the halo effect, whereby stakeholders shape images based upon a small amount of information.

Dimensions of corporate image

Image dimension	Elements of perception
Relational dimension	Government, local community, employees, network members.
Management dimension	Corporate goals, decision-making, knowledge, understanding.
Product dimension	Product endorsement and support, promotional distinctiveness, competitive advantages.

- **The relational dimension** - This refers to the exchange of attitudes and perceptions with stakeholders of the organisation itself.
- **The management dimension** - Also benefits from corporate identity programmes as they encourage senior staff to reflect upon the organisation's sense of purpose and then provide a decision framework for the decisions that management and others follow.
- **The product dimension** - The final dimension refers to the advantages that a strong positive identity can give products and services. It is possible to develop more effective and efficient promotional programmes by focusing on the organisation's distinctiveness and then allow for the ripple to wash over the variety of offerings.

Corporate branding

The development of the corporate brand is a very strong source of differentiation and the characteristics of the corporate brand are embodied by the organisation's personality, values and culture. A corporate brand is a promise, which sets expectations for customers and stakeholders and failure to deliver on the brand promise leads to stakeholder disenchantment and a potential decline in the level of reputation.

The corporate marketing mix

Balmer (2008) introduced the following corporate marketing mix, which requires a broader than the traditional marketing mix.

- **Character ('What we are')** - This is the corporate identity or personality, which may also include the distinctive and defining characteristics of our organisation. E.g. Assets, markets served, strategies, structure, culture, history etc.

- **Culture ('What we feel we are')** - This is the collective perceptions and feelings of employees, which may include values, norms, which define the identity of members.
- **Constituencies ('Whom we seek to serve')** - Who are the important stakeholders, why are they important and are these relationships mutually beneficial?
- **Communication ('What we say we are')** - This includes the channels and messages the company use in corporate communications to engages its key stakeholders.
- **Conceptualization ('What we are seen to be')** - This is the corporate image and reputation of stakeholders developed over a period of time.
- **Covenant - ('What is promised and expected')** - This involves the corporate brand management process and include distinct components that underpin the corporate brand promise.

Differences between product and corporate brands

Although some argue that the two are intrinsically the same and it is only the implementation and context that differs, there is a generally held view that corporate and product brands are different. The table below is based on work by Dunnion and Knox (2005) and sets out the key differences.

Dimension	Product brand	Corporate brand
Attention focused on	The product	The organisation
Managed by	Brand manager	CEO
Targeted at	Customers	Multiple stakeholders
Delivered by	Marketing	Whole organisation
Communicated thought	Marketing communications	Corporate communication
Time scale	Short	Long
level of criticality	Tactical	Strategic
Values	Brand values	Company values

Table 18.4: Differences between product and corporate brands by Dunnion and Knox (2005).

Drivers for corporate branding

In order for corporate branding to be successfully implemented, there needs to be internal support among senior managers and employees, van Riel (2007) developed the following model to assess the willingness of managers to use the corporate brand in their communications. Brand drivers and measures are given below:

1. **Strategy drivers** - The term 'relatedness' is used to describe the extent to which different business units complement or add to the parent company's strategic objectives and overall corporate positioning. A consolidation of brands and businesses within a corporate brand enables a parent company effectively exploit relatedness, capitalise on potential synergies and leverage its investment in maintaining multiple product brands.

2. **Organisational drivers** - A corporate branding strategy is most likely to be supported by organisations with centralized control structures and centralized communications functions.
3. **Employee drivers** - A corporate branding strategy is likely to be more successful if supported by employees who strongly identify with the company as a whole as opposed to the strategic business unit or the function.
4. **Value drivers** - Support for the corporate brand depends on the unit managers perception that it will add value to their own activities, E.g. By enhancing product sales or by creating a stronger image or reputation in the market. The purpose of a corporate branding initiative is to use the corporate brand to cast a positive halo over the products and businesses of the company, and thereby generate favourable impressions of those products and businesses than they would have on their own'.

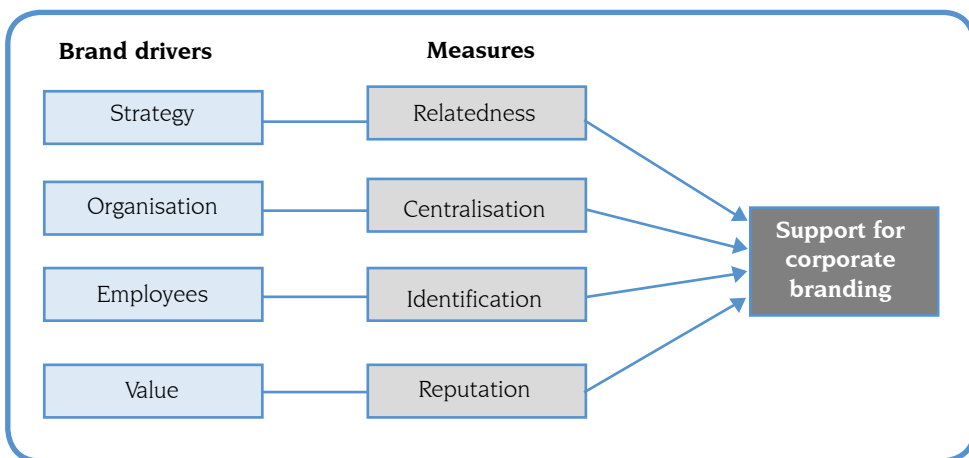


Figure 18.12: Drivers for corporate branding.

Typologies of corporate branding strategy

- i. Olins (1990) proposed the following typologies of corporate branding strategies.
 - **Monolithic strategy** - The whole company uses one visual style and symbols, for instant recognition. This suits companies, which developed as integrated entities within a relatively narrow field (E.g. Shell, Philips, BMW).
 - **Endorsed strategy** - Different subsidiaries or divisions have their own style, but the parent company is clearly identified and recognizable. This suits diversified companies whose divisions have a distinctive culture and brands (E.g. General Motors, L'Oreal, Kellogg's).
 - **Branded strategy** - Different subsidiaries or divisions have their own style, without a visible relationship to each other or to the parent, which is a company more or less invisible (E.g. Unilever).

ii. Kammerer (1988) categorizes the internal implementation of corporate branding strategies by four action types;

- **Financial orientation** - Subsidiaries are purely financial participants in the overall concern; they are more or less autonomous of the parent company and manage their own identities.
- **Organisation oriented corporate branding** - The parent company exercises influence over the culture and strategy of the subsidiaries (E.g. By setting policy and rules), but this is a form of internal corporate branding not directly visible to the outside world.
- **Communication-oriented corporate branding** - Advertising and visual identity clearly express the fact that the subsidiaries are part of the parent company supporting added value from its endorsement.
- **Single company corporate branding** - This is similar to monolithic branding, with the integration of action, messages and symbols across the whole concern.

18.13 Managing corporate reputation

Definition : Corporate reputation is a strategically important asset, which includes the total image of stakeholders of an organisation that is built over a period of time.

Corporate reputation is a strong source of differentiation when there is little difference at product level and well as a comfort during times of turbulence. It is a measure of corporate value and may be reflected in the effect of a company’s share price. Fombrun (1996) claims that in order to build a favourable reputation four attributes need to be developed which is explained in the following diagram.

The drivers of corporate reputation

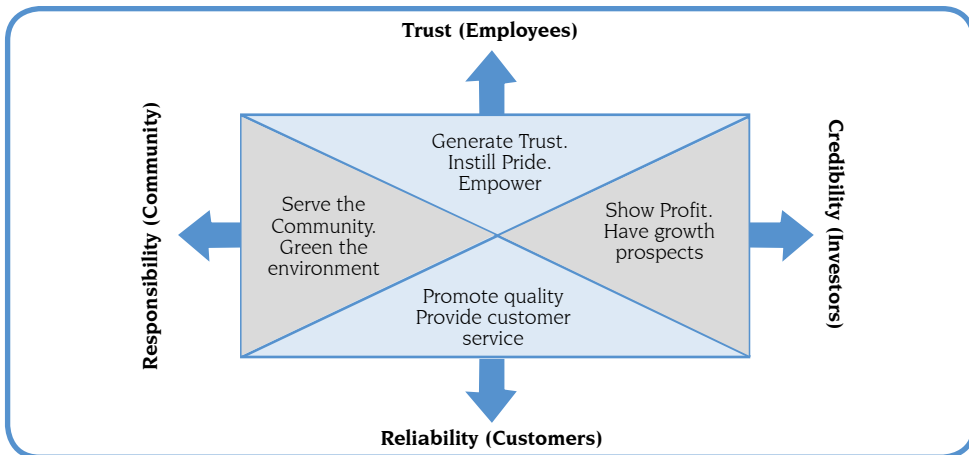


Figure 18.13: The drivers of corporate reputation by Fombrun (1996).

The reputation life cycle

Van Riel and Fombrun (2007) introduced the following reputation life cycle.

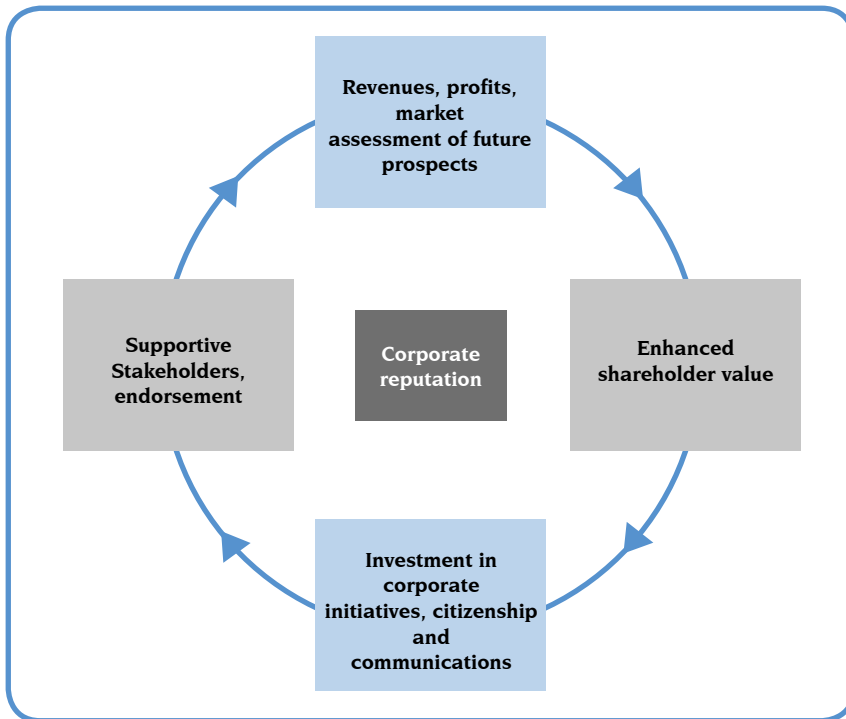


Figure 18.14: The reputation life cycle by Van Riel and Fombrun (2007).

Measuring the corporate brand reputation

The following tools and methodologies can be used to gauge corporate brand reputation.

- i. **The Fortune magazines annual ranking** - Ranking of the 'most admired companies in America'
- ii. **The brand asset valuator (BAV)** - Developed by Young & Rubicam, the BAV database is based on 260 studies in 51 countries over 16 years covering almost 640,000 consumers and 42,700 brands.
- iii. **BrandZ** - WPP group's research agency Millward Brown publishes the BrandZ top 100 most valuable global brand rankings.
- iv. **EquiTrend** - The annual EquiTrend tracking survey was developed by Harris interactive.
- v. **Reputation quotient** - Developed by Charles Fombrun and sponsored by the reputation institute.
- vi. **RepTrak** - This is a proprietary tool by the reputation institute to measure the corporate reputation across stakeholders, countries and industries with over 1,000 of the world's largest companies rated in 27 countries as part of the global plus project in 2008.

Corporate stories

A story may be a simple, narrative history or statement of what the company stands for and believes in and what it is trying to do or how it sees its future. This may be targeted at the key stakeholders and include the core strengths of the company and bind employees together whilst successfully positioning it against its competitors. Christopher Booker (2006) suggests seven basic plot lines.

- **Comedy** - Confusion resolved in a happy ending.
- **Tragedy** - Persevering through obstacles to arrive at an innovative breakthrough.
- **Rags to riches** - Starting small and becoming a global corporation.
- **Journey and return** - Diversifying and then returning to its roots.
- **The hero's quest** - Searching for something of great value.
- **Overcoming the monster** - Fighting off takeover, natural disasters or recession.
- **Rebirth** - Undergoing a paradigm shift and turning the business around.

18.14 Risk management

Definition : Risk management is the practice of using processes, methods and tools for managing the probability of an event and its consequences.

It is a process whereby organisations methodically address the risks attached to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities.

Risk management is about avoiding or reducing a negative or damaging impact or a potential crisis by anticipating likely events or threats in advance. Once you've identified sources of potential risk, you can then ask the following questions. How likely is it that this risk will show itself? Can we control or limit it in any way? What will happen if this risk occurs? How can we control it in the least damaging way?

18.15 Risk management cycle

a. Risk identification

Risk identification is the process of seeking to identify potential problems or areas of uncertainty. This should be an ongoing process, as the organisation's risk profile may continually change, presenting new risks. Risks impact the organization and its strategies, resources and plans. Hazards typically do harm or physical damage.

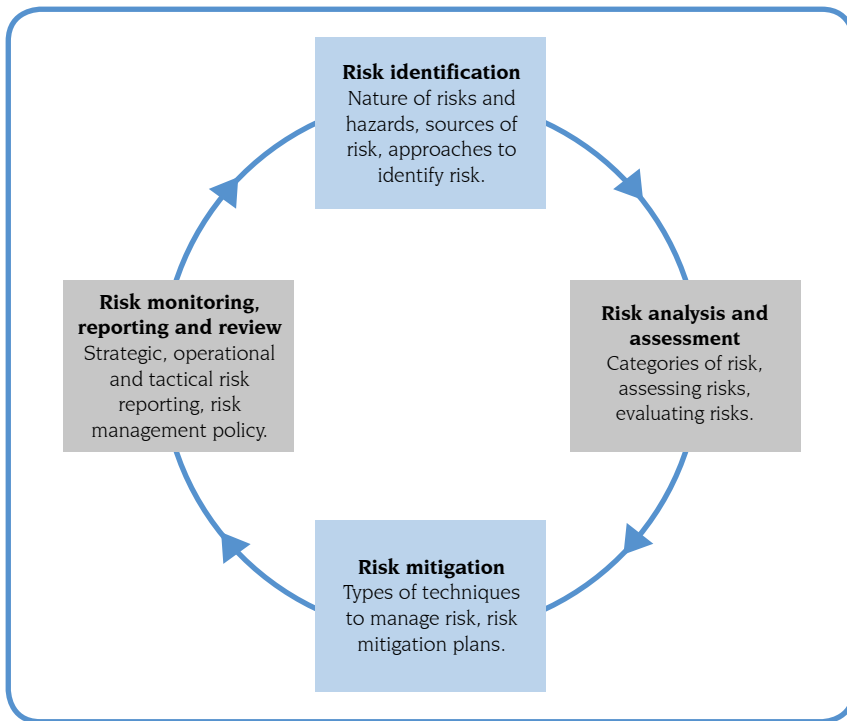


Figure 18.15: Risk management cycle.

Sources of risk

Internal sources of risk	External sources of risk
Leadership competence risk	Political/legal risk
Management competence risk	Economic risk
Employee competence risk	Social risk
Operational (Systems, processes) risk	Technological risk
Financial risk	Environmental risk
Customer risk	Competitive risk

Nature of risk and hazards

- **Legal and professional risks (compliance)** - Lack of compliance with laws and professional codes of conduct.
- **Financial risks** - Risks associated in investments, strategies, resources, cash flow, funding, debtors, interest rates and foreign exchange.
- **Health and safety risks** - These are risks associated with employees, customers and stakeholders.

- **Hostile action risks** - Examples include, Military forces or guerrilla groups, employee sabotage or pressure groups.
- **Third party risks** - This is when a risk associated with a third party stakeholder who deal with the organization.
- **Environmental risks** - Examples include, hazards such as earthquakes.

Scope of risk

It is also worth considering risk in terms of its scope, the extent of impact on them organisation and where the impact will occur. The scope of risk broadly covers:

- **Strategic (Corporate, organisation, leadership)** - This type of risk is likely to impact on the entire organisation and have serious consequences, possibly beyond the organisation. For example Mergers and acquisitions, significant changes in the industry.
- **Operational (System, processes, technology, management)** - Thus type of risk impacts on one or all of the organisation's operations. It may extend to specific areas of the value chain. Technology advances, materials and inventory management, transportation and fuel, sources of supply, privacy and data protection.
- **Tactical (Task, teams, individuals)** - This type of risk is more likely to be a hazard. For example ventilation, insufficient fire exits, sabotage.

Approaches to identifying risk

Setting out to identify risk can be a complex task. Having a suitable framework for identifying risks will be essential. Among approaches to identify risk are;

- **Objective-based risk identification** - Focuses on the objectives of the team, section or organisation and identifies anything that may jeopardise the achievement of those objectives. This approach has the potential to miss risks that are not directly linked to objectives.
- **Resources-based risk identification** - Focuses on the resources needed for planned projects and identifies issues that may limit or prevent those plans from succeeding. This has the same shortcoming as above.
- **Functional audit-based risk identification** - As audits are now increasingly a common practice in organisations and part of the audit process is to identify threats to the business. The process can be extended to identify specific functional risks. This approach has the potential to miss risks associated with strategies and plans.
- **Scenario planning** - This focuses on identifying the 'What if' events, which requires imagining alternative future states.

b. Risk analysis assessment

This is the appraisal of the probability and significance of potential risk events as a basis for formulating strategies to accept, avoid or mitigate the risk.

$$\text{Risk formula} = \text{Likelihood} \times \text{Impact}$$

Assessing risk can be difficult due to lack of information and the variability of information. Risk assessment can be a quantitative or qualitative exercise in terms of probability and the possible consequence. Many small to medium sized business effectively assess risks using a high, medium or low rating without the need for more complex methods. However some organisations require sophisticated programmes to measure risk, for example financial organisations and major construction companies.

Categories of risk

Categories of risk determine the extent of impact and whether or not the risk is within the control of the organisation or not.

Uncontrollable risks	Controllable risks
Product sabotage	Service failures
Competitive actions	Falling profits
Pressure group actions	Environmental damages
Natural disasters	Operational failures
Terrorist attacks	Employee accidents

Table 18.5: Categories of risk.

Statistical analysis of risks

Risks can be quantified in statistical terms. In decision trees, a variety of possible outcomes are developed. Each is given an expected value (EV), based on probabilities. The EV's at each decision point are then aggregated to produce an EV for the decision as a whole. However, the EVs do not deal in the relative riskiness of each project.

- Project A might offer profits of Rs. 1,000,000 and losses of Rs. 500,000. If the probability of each is 50:50 the EV is $(1,000,000 * 50\%) - (500,000 * 50\%) = \text{Rs.}250,000$.
- Project B offers a 75% probability of a Rs.300,000 profit and a 25% probability of a loss of Rs.100,000. The EV is thus Rs. 200,000 ie $(\text{Rs.}300,000 * 0.75\%) - (\text{Rs.}100,000 * 25\%)$

Project A would be favoured, on a basis of EV alone, which is Rs. 250,000. There is much higher prospect of large profits or large losses compared to project B. However, A is much more risky as the spread of outcomes is diverse.

Sensitivity analysis involves asking 'what if?' questions. By changing the value of different variables in the model. A number of different scenarios for the future will be produced. E.g. Price rises can be altered to 10% from 5% and demand for a product can be reduced from Rs. 100,000 to Rs. 80,000, the introduction of new processing equipment can be differed by six months, on the revised assumption that there will be delays, and so on. Sensitivity analysis can be formalized by identifying key variables in the model and then changing the value of each, perhaps in progressive steps. For example, prices might be increased in steps by 5%, 7½ %, 10%, 12 ½% and 15% and the effect on demand. Profits and cash flows under each of these assumptions can be tested.

18.16 The risk matrix

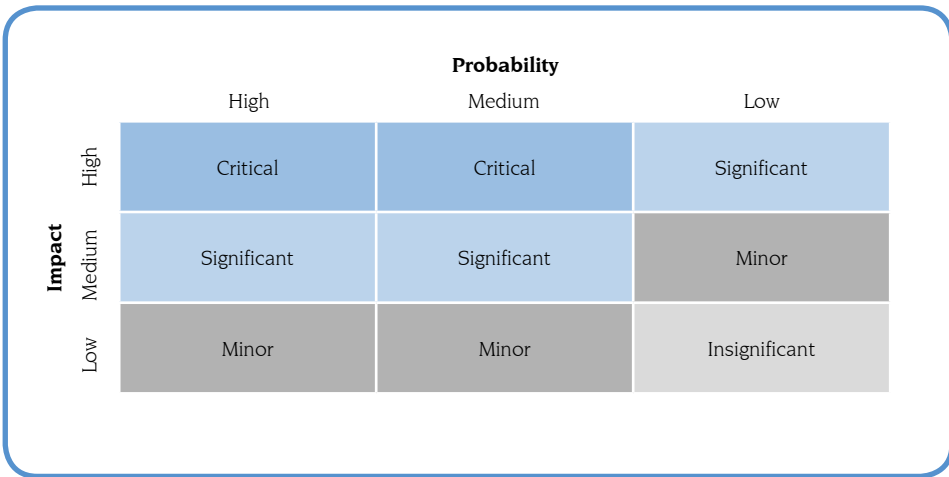


Figure 18.16: The risk matrix.

A spider diagram to analyze risk

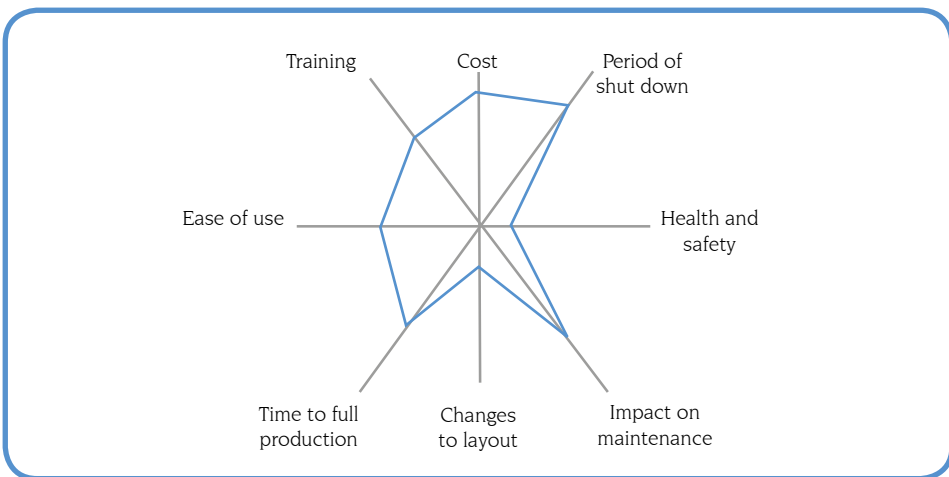


Figure 18.17: A customer's perception of performance on changing technology in a production line.

The risk radar

Risks can be plotted on a risk radar. The nearer a risk is to the middle of the radar the greater probability of the risk. The circles represent time scales, for example months or years. The severity of consequences can be represented by the size of filled in circles.



Figure 18.18: An example of a risk radar to identify risks.

c. Risk mitigation strategies

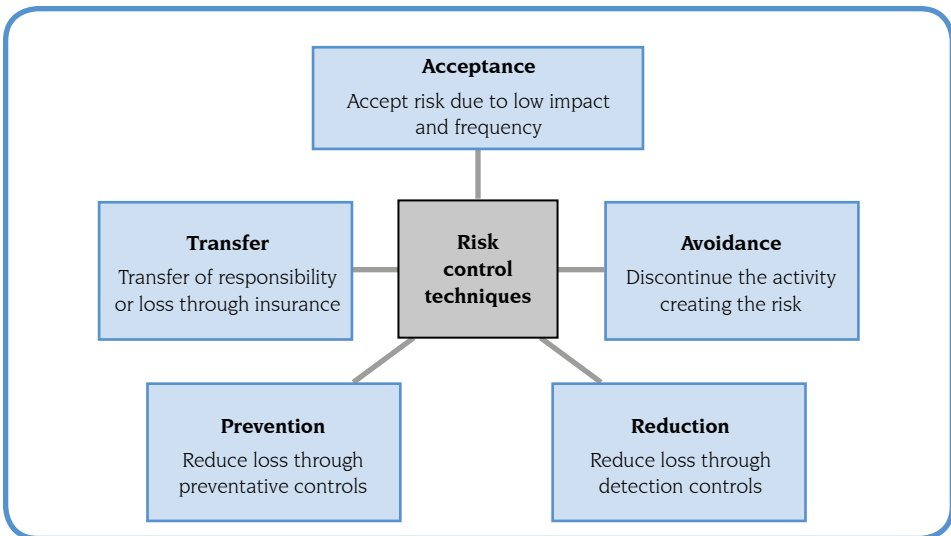


Figure 18.19: Risk mitigation strategies.

Risks mitigation controls

- **Preventive controls** - Designed to limit the possibility of a negative outcome E.g. Safety procedures, maintenance schedules, internal financial controls, monitoring of supplier ethics.
- **Directive controls** - Designed to ensure that a particular positive outcome is achieved E.g. Health and safety regulations, codes of conduct.
- **Detective controls** - Designed to identify and evaluate risk events for mitigation planning E.g. Accident reporting, supplier monitoring, critical incident reporting and analysis, gathering stakeholder feedback, media monitoring, issues management planning.
- **Corrective controls** - Designed to correct undesirable outcomes E.g. Contingency plans, crisis management and communication plans, business recovery plans.

d. Risk monitoring, reporting and review

The monitoring and reporting of risks and risk events is an important part of the risk management process. The process will ascertain whether the organisation's risk profile and exposure is changing and identify emerging risks as well as gain assurance that the organisation's risk management processes are effective.

Levels of risk reporting

- **Strategic, board level risks** - Senior management should be informed of significant risks facing the organisation and the possible impact on key stakeholders. They should be kept aware of risk issues and how they are being managed and alerted if problems arise.
- **Operational, unit, function level risks** - Managers should be aware of risks that fails within their area of responsibility and the possible impact and consequences including where these might affect other areas of the organisation. KPIs are established to monitor and assess risk and then to report to senior management, and individuals where appropriate.
- **Tactical, team, individuals level risks** - Employees should be aware of risks within their job and working space and take responsibility for risk assessment and avoidance. If problems arise they report to their line manager.

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Appendix 01 - A market orientation survey

1. Customer Orientation	Strongly agree	Agree	Neither	Disagree	Strongly disagree	Don't know
Information about customer needs and requirements is collected regularly	5	4	3	2	1	0
Our corporate objective and policies are aimed directly at creating satisfied customers	5	4	3	2	1	0
Levels of customer satisfaction are regularly assessed and action is taken to improve matters where necessary	5	4	3	2	1	0
We put major effort into building stronger relationships with key customers and customer groups	5	4	3	2	1	0
We recognise the existence of distinct groups or segments in our markets with different needs and we adapt our offerings accordingly	5	4	3	2	1	0
Total score for customer orientation (25%)						

2. Competitor Orientation	Strongly agree	Agree	Neither	Disagree	Strongly disagree	Don't know
Information about competitor is collected regularly	5	4	3	2	1	0
We conduct regular benchmarking against major competitor offerings	5	4	3	2	1	0
There is rapid response to major competitor actions	5	4	3	2	1	0
We put major emphasis on differentiating ourselves from the competition on factors important to customers	5	4	3	2	1	0
Total score for competitor orientation (20%)						

3. Long-Term Perspectives	Strongly agree	Agree	Neither	Disagree	Strongly disagree	Don't know
We place greater priority on long-term market share gain than short-run profits	5	4	3	2	1	0
We put greater emphasis on improving our market performance than on improving internal efficiencies	5	4	3	2	1	0
Decisions are guided by long-term considerations rather than short-run expediency	5	4	3	2	1	0
Total score for long-term perspectives (15%)						

4. Inter-functional Coordination	Strongly agree	Agree	Neither	Disagree	Strongly disagree	Don't know
Information about customers is widely circulated and communicated throughout the organisation	5	4	3	2	1	0
The different departments in the organisation work effectively together to serve customer needs	5	4	3	2	1	0
Tensions and rivalries between departments are not allowed to get in the way of serving customers effectively	5	4	3	2	1	0
Our organisation is flexible to enable opportunities to be seized effectively rather than hierarchically constrained	5	4	3	2	1	0
Total score for inter-functional coordination (20%)						

5. Organisational Culture	Strongly agree	Agree	Neither	Disagree	Strongly disagree	Don't know
All employees recognise their role in helping to create satisfied end customers	5	4	3	2	1	0
Reward structures are closely related to external market performance and customer satisfaction	5	4	3	2	1	0
Senior managements in all functional areas give top importance to creating satisfied customers	5	4	3	2	1	0
Senior management meetings give high priority to discussing issues that affect customer satisfaction	5	4	3	2	1	0
Total score for organisational culture (20%)						

Weightage

- Customer orientation (25%)
- Competitor orientation (20%)
- Long-term perspectives (15%)
- Inter-functional coordination (20%)
- Organisational culture (20%)
- Total score (100%)

Interpretation

- 80-100** Indicates a high level of market orientation.
- 60-80** Indicates moderate market orientation. Identify the areas where most improvement is needed.
- 40-60** Shows a long way to go in developing a market orientation. Identify the main gaps and set priorities to close them.
- 20-40** Indicates a mountain ahead of you! Start at the top and work your way through. Some factors will be more within your control than others, tackle those first.

Note: If you scored '0' on many of the scales you need to find out more about your own company!

Source : A market orientation survey by Hooley, Piercy, Nicoulaud (2008)

Appendix 2 - The leadership styles survey

Listed below are some statements about leadership behavior. Using the following scale, decide on the extent to which it actually applies to you. For best results, answer as truthfully as possible.

		Never		Sometimes	Always		
		1	2	3	4	5	
#	Question	1	2	3	4	5	
1	I always retain the final decision making authority within my department or team.	1	2	3	4	5	
2	I always try to include one or more employees in determining what to do and how to do it. However, I maintain the final decision making authority.	1	2	3	4	5	
3	My employees and I always vote whenever a major decision has to be made.	1	2	3	4	5	
4	I do not consider suggestions made by my employees, as I do not have the time for them.	1	2	3	4	5	
5	I ask for employee ideas and input on upcoming plans and projects.	1	2	3	4	5	
6	For a major decision to pass in my department, it must have the approval of each individual or the majority.	1	2	3	4	5	
7	I tell my employees what has to be done and how to do it.	1	2	3	4	5	
8	When things go wrong and I need to create a strategy to keep a project or process running on schedule, I call a meeting to get my employee's advice.	1	2	3	4	5	
9	To get information out, I send it by e-mail, memos, or voice mail; very rarely is a meeting called. My employees are then expected to act upon the information.	1	2	3	4	5	
10	When someone makes a mistake, I tell him or her not to ever do that again and make a note of it.	1	2	3	4	5	
11	I want to create an environment where the employees take ownership of the project. I allow them to participate in the decision making process.	1	2	3	4	5	
12	I allow my employees to determine what needs to be done and how to do it.	1	2	3	4	5	
13	New hires are not allowed to make any decisions unless I approve it first.	1	2	3	4	5	
14	I ask employees for their vision of where they see their jobs going and then use their vision where appropriate.	1	2	3	4	5	
15	My workers know more about their jobs than me, so I allow them to carry out the decisions to do their job.	1	2	3	4	5	
16	When something goes wrong, I tell my employees that a procedure is not working correctly and I establish a new one.	1	2	3	4	5	
17	I allow my employees to set priorities with my guidance.	1	2	3	4	5	
18	I delegate tasks in order to implement a new procedure or process.	1	2	3	4	5	
19	I closely monitor my employees to ensure they are performing correctly.	1	2	3	4	5	
20	When there are differences in role expectations, I work with them to resolve the differences.	1	2	3	4	5	
21	Each individual is responsible for defining his or her job.	1	2	3	4	5	
22	I like the power that my leadership position holds over subordinates.	1	2	3	4	5	
23	I like to use my leadership power to help subordinates grow.	1	2	3	4	5	

24	I like to share my leadership power with my subordinates.	1	2	3	4	5
25	Employees must be directed to threaten with punishment in order to get them to achieve the organisational objectives.	1	2	3	4	5
26	Employees with exercise self-direction if they are committed to the objectives.	1	2	3	4	5
27	Employees have the right to determine their own organisational objectives.	1	2	3	4	5
28	Employees seek mainly security.	1	2	3	4	5
29	Employees know how to use creativity and ingenuity to solve organisational problems.	1	2	3	4	5
30	My employees can lead themselves just as well as I can.	1	2	3	4	5

Item	Score	Item	Score	Item	Score
1	3	2	3	3	2
4	3	5	2	6	3
7	4	8	1	9	1
10	2	11	4	12	4
13	4	14	2	15	2
16	3	17	2	18	3
19	2	20	1	21	3
22	3	23	3	24	2
25	3	26	1	27	3
28	4	29	2	30	2
Total	31	Total	21	Total	25
	Authoritarian style		Participative style		Delegate style
	(Autocratic)		(Democratic)		(Free reign)

Appendix 3 - Classification of Financial Ratios

Ratio	Calculation	Interpretation
Profitability ratios		
Gross profit margin	$\frac{\text{Gross profit}}{\text{Sales}} \times 100$	Measures the gross profit earned on each rupee of sales
Operating profit margin	$\frac{\text{Profit before Interest}}{\text{Sales}} \times 100$	Reflects the company's pricing policy, cost control and profit earned on each rupee of sales.
Net profit margin	$\frac{\text{Net profit}}{\text{Sales}} \times 100$	Measures the PAT earned on each rupee of sales.
Return on capital employed (ROCE)	$\frac{\text{Profit before interest \& tax}}{\text{Capital employed}} \times 100$	Measures the return on all sources of long term capital
Return on equity (ROE)	$\frac{\text{PAT}}{\text{Equity}} \times 100$	Rate of return available to shareholders
Expense ratio	$\frac{\text{Particular expense}}{\text{Net sales}} \times 100$	Shows the relationship between an individual expense or group of expenses and sales
Liquidity ratios		
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	Measures the availability of Current Assets to meet Current Liabilities
Acid test ratio (or quick ratio)	$\frac{\text{Current assets - stocks}}{\text{Current liabilities}}$	A more conservative liquidity ratio which measures the immediate availability of current assets (Liquid assets) to meet current liabilities
Absolute liquid ratio	$\frac{\text{Absolute liquid assets}}{\text{Current liabilities}}$	Absolute liquid assets are equal to liquid assets minus accounts receivable and bills receivable.
Efficiency ratios		
Stock holding in days	$\frac{\text{Closing inventory}}{\text{Cost of sales}} \times 365$	Indicates the number of days inventory is being held before being sold
Debtors collection period	$\frac{\text{Accounts receivable}}{\text{Sales (Credit)}} \times 365$	Number of days taken to collect money from customers
Creditors payment period	$\frac{\text{Accounts payable}}{\text{Credit purchases}} \times 365$	Number of days taken to make payment to suppliers for purchases made
Asset turnover	$\frac{\text{Sales}}{\text{Capital employed}}$	The sales generated on each rupee of capital invested
Inventory turnover	$\frac{\text{Cost of goods sold}}{\text{Average inventory at cost}}$	Measures how many times a company has sold and replaced its inventory during a certain period of time.

Ratio	Calculation	Interpretation
Working capital turn over ratio	$\frac{\text{Net sales}}{\text{Average working capital}}$	Shows company's efficiency in generating sales revenue using total working capital available in the business during a particular period of time.
Fixed assets turnover ratio	$\frac{\text{Net sales}}{\text{Average fixed assets}}$	Measures the efficiency with which a company uses its fixed assets to generate its sales revenue
Gearing/Debt management ratios		
Debt ratio	$\frac{\text{Interest bearing loans}}{\text{Capital employed}} \times 100$	Total loans on which Interest is paid as a percentage of capital employed
Interest cover (Times interest earned)	$\frac{\text{Profit before interest and tax}}{\text{Interest cost}}$	Measures the debt service capacity of the company
Investor ratios		
Earnings per share (EPS)	$\frac{\text{Profit after tax}}{\text{Number of ordinary shares issued}}$	Measures the earning power of each ordinary share
P/E ratio	$\frac{\text{Market price per share}}{\text{EPS}}$	P/E ratio used to value shares traded on the stock market.
Dividend per share	$\frac{\text{Dividends paid}}{\text{Number of shares}}$	Dividend payment for each share held
Dividend cover	$\frac{\text{PAT}}{\text{Dividends paid}}$	Number of times dividends are covered by profit
Dividend payout ratio	$\frac{\text{Dividend}}{\text{PAT}} \times 100$	Shows the percentage of dividends paid out of the available profits (Profit after tax)
Dividend yield	$\frac{\text{Dividend}}{\text{Market price per share}} \times 100$	Rate of dividend return in relation to amount invested to purchase the share
Debt to equity ratio	$\frac{\text{Total liabilities}}{\text{Stockholders equity}}$	Shows the relation between the portion of assets financed by creditors and the portion of assets financed by stockholders.

Subject index

3 Step Change Model	402, 403	Blue Ocean Strategy	140, 144
4 Actions Framework	141	Boston Consultancy Matrix	81-84
4D Branding	264, 265	Bowman's Strategy Clock	139
4 P's of Innovation	681, 682	Brand	237, 238, 247
5 P's of Strategy	152	Branding	237, 268
6 C's Framework	99	Brand Architecture Model	253, 254, 255
6 Markets Model	622, 623	Brand Assets	250
6 Thinking Hats	695, 696	Brand Blueprint	263, 264
7 Dimensional Model	575	Brand Dynamics Map	246
12 C Framework	570-573	Brand Dynamics Pyramid	245
ACORN	211	Brand Equity	240, 251
Action Centered Leadership	381	Brand Fingerprinting	262, 263
Action Learning Formula	705	Brand Identity	265-267
ACURA Model	627	Brand Liability	251
Adaption	564	Brand Names	239
ADC Matrix	85	Brand Planning Process	258
ADKAR Model	404	Brand Pyramid	267-271
Advertising	331-340	Brand Strategies	259-261
AIDA Framework	324	Brand Valuations	247-249
Ansoff's Growth Matrix	133, 134, 138	Brand Value Chain	272
Ashridge Mission Model	460	Break Even Point	305
Ashridge Portfolio Display	90, 91	Capitalism	593
Authority	391	Carnall's Change Management Model	416-419
B2B Marketing	296	Change Formula	403
Balanced Scorecard	182-184	Change Kaleidoscope	413, 414
Balmer's AC2ID Test Model	735	Change Transition Curve	422-424
Belbin's Leadership Styles	372	Change Management	401
Belbin's Team Roles	468, 469	Crisis Management	719-723
Benchmarking	62-64	Critical Success Factors	11
Big Data	649-651	Cognitive Dissonance Theory	541-543
Black Box Model	530	Communication Model	328, 329
Block Matrix	625-627	Communication Process	322, 323

Competing Values Framework	435, 436	Customer Intimacy	150, 151
Competing Values Map	436, 437	Customer Ladder of Loyalty	602, 603
Competitive Advantage	57, 177-180	Customer Loyalty Model	603, 604
Competitor Capability Analysis	58	Customer Relationship Management	664, 665
Competitor Response Profiling	62	DAGMAR Framework	324
Computerized Databases	657	Database Development Process	663
Conflict Management	472	Database Marketing	654, 658
Conflict Management Strategies	472, 473	Data Projection Act	655
Conflict Mode Instrument	472	Decision Making Unit	533-535
Congruence Model	412	Decision Support System	662
Congruity Theory	538, 539	Defense Strategies	145
Consumer Buyer Behavior	525, 526	Differentiation Strategy	129-131
Consumer Profiling	202	Direct Marketing	347, 348
Consumerism	724, 725	Disintermediation	309
Context Map	415	Disruptive Innovation	674
Contingency Theories	376	Distribution	584, 585
Core Competencies	174-176	Distribution Channels	306, 307
Corporate Branding	736-739	Distribution Levels	310-312
Corporate Culture	435	Distribution Strategies	308, 309
Corporate Governance	730	Diversification	137
Corporate Identity	734	Economic Development	596
Corporate Image	736	EFQM Model of Innovation	686-688
Corporate Personality	731-733	Emotional Intelligence	388
Corporate Reputation	730, 739	Entrepreneurial Leadership	385, 386
Corporate Values	461, 462	Entrepreneurial Models	708
Creativity	689-694	Entrepreneurship	706-708
CRM	669	Equity Engine Model	242
CSR	725-728	Equity Theory	554
CSR Pyramid	726	Ethical Marketing	728
Culture	432, 575-580	Expectancy Theory	553
Cultural Classifications	433	Experimental Research	500, 501
Cultural Iceberg	441, 442	Family Life Cycle	213
Cultural Life Cycle	433	FCB Grid	530, 531
Cultural Web	444-446	Financial Objectives	08

Financial Performance Analysis	56	Innovation Management Framework	673
First Mover Advantage	671	Innovation Strategies	688, 689
Fishbone Diagram	697	Innovation Value Matrix	679-681
Flower of Service	608	Integrated Marketing Communications	353
Focus Groups	493	Internal Analysis	67
Forecasting	40	Internal Marketing	15
Franchising	156	Internal Marketing Plan	17
Freeman's Stakeholder Map	100	International Marketing	561
Freud's Psychoanalytic Theory	555-557	International Market Entry	565-569
Functional Objectives	09	Involvement Theory	529
Game Theory	64	Job Characteristics Model	550, 551
Gartner Hype Cycle	684-686	Johnson, Scholes & Whittington	158
Globalization	573	Joint Ventures	156
Global Marketing	561, 562	Key Account Management	611, 665
Goal Theory	554	KMV Model	620, 621
Green Marketing	729	Knowledge Management	698-702
Greiner's Growth Model	411, 412	Knowledge Model	651
Grey Markets	586, 587	Kolb's Cycle of Experimental Learning	704
Growth Strategies	156	Leadership	361
Gummesson	618	Leadership Hierarchy	396
Handy's Psychological Contracts	552, 553	Leadership Styles	361
Herzberg's Two factor Theory	549	Leadership Theory	363, 364
Hierarchy of Effects Model	325	Levels of Culture	442, 443
Hofstede's Cross-cultural Analysis	574	Lean Management	709, 710
Howard Sheath Model of Consumer Behavior	532	Learning & Experience Curve Effect	125-127
Hybrid strategies	565	Learning Organization	702-704
Industry Life Cycle	79-81	Lewin: Leadership Styles	371
Information Processing Model	325	Lobbying	724
Information Systems	659, 660	Licensing	156
Innovation	669	Likert: Systems of Leadership	373, 374
Innovation Adoption Model	327	Linear Model of Innovation	675
Innovation Audit	677-679	M's Model	173
Innovation Cycle	672	MACRO Environment	36, 46
Innovation Gap	670	Management Roles	470

Markets	201	New Product Development	290-293
Market Development	136	Observation Research	496-498
Market Maps	55	OCAI	438, 439
Market Segmentation	202-205, 215, 216	Operational Excellence	149
Marketing Communication	321, 329-331, 356	Operational Strategy	118
Marketing Communication Plans	354-356	Organizational Culture	431
Marketing Environment	31, 35	Organizational Structure	633, 643-645
Marketing Information System	660, 661	Packaging	298
Marketing Mix	75, 285, 286	Pareto Policy	611, 612
Marketing Objectives	08, 09	Path-Goal Theory	382, 383
Marketing Planning	03	People Strategy	313
Marketing Research	477, 478	Perceived Risk	529
Market Orientation	448-453	Perception	221, 222
Maslow's Hierarchy of Needs	22, 545, 546	Personality	364-367
Matrix Structures	638	Personal Selling	346
Mayo's Hawthorne Experiments	551, 552	Planned Change Model	408
McClelland's Motivational Theory	548	Porter's 5 Forces	48
McKinsey's 7 'S' Framework	95-97	Porter's Generic Strategies	121, 122
McKinsey's GE Matrix	7, 88, 89	Porter's Diamond Model	589-591
Media Channel	345	Porter's Value Chain	68, 69
Metamaniacs	18	Positioning	218, 219, 223-225
Metamorons	19	Post Structuralism	492
Metaphiles	18	Power	392, 393
Metaphobes	18	Pressure Groups	723, 724
Mentoring	397	Price Elasticity	303
Merger's & acquisitions	156	Pricing	299-302
Mind Mapping	696, 697	Pricing Methods	304
Mintzberg	162, 168, 169	Process Strategy	313
Mission	458, 459	Products	288, 291
Motivation	544	Product Development	136
Motivational Theories	544	Product Leadership	149, 150
Mystery Shopping/ Shoppers	499	Product Life Cycle	75, 326
Net Promoter Score	615	Product Management	287
Network Structures	639, 640	Product Onion	289, 290

Product Portfolio Management	297	Servant Leadership	387
Projective Techniques	494-496	Service Balance Scorecard	605
Promotion	321	Service Blueprinting	609, 610
Protectionism	587	Service Encounters	601
Public Relations	715	Service Profit Chain	602
		Service Quality Gaps Model	605-607
Qualitative Data	516-518	Shamrock Organization	641
Qualitative Research	492	Situational Leadership	378-380
Quantitative Data	518-520	Societal Marketing Concept	727
Quantitative Research	507	SPACE Analysis	185
Questionnaire	501-506	SPACE Matrix	186
RADPAC Model of Negotiation	628	SPP Model	180
Reasoned Action Model	528	Stakeholder Analysis	99, 100
Red Ocean Strategies	144	Standardization	564
Relationship Marketing	616, 617	Strategic Alliances	156
Repositioning	223	Strategic Collaboration	169
Reputation Life Cycle	740	Strategic Drift	161
Research Agencies	486	Strategic Leadership	361
Research Paradigms	490	Strategic Lenses	154, 155
Resource Auditing	173	Strategic Marketing Audit	32
Response Hierarchy Model	328	Strategic Marketing Plan	06
Risk Management	741-744	Strategic Triangle	152
Risk Matrix	745	Strategic Vision	454-457
Risk Radar	746	Strategy	113-115, 160, 187, 188
Risk Reporting	747	Surveys	508-510
Roger's Diffusion Curve	326	SWOT	92-94
Roger's Innovation Adoption Curve	86	Taylor's Scientific Management	551
Sales Promotion	349-353	Teams	463-467
Sampling	510-515	Theory Z of Ouchi	440, 441
SBU Structures	636	Thought Leadership	396
Scenario Matrix	45	TOWS Matrix	94
Scenario Planning	40, 42	Trade Barriers	588
Schein's Motivational Categories	555	Transactional Leadership	383, 385
Segment Canvas	228, 229	Transactional Marketing	616

Transformational Leadership	384-386
Tri-component Model	526, 527
Triple Bottom Line	718, 719
VALS Framework	209
Value Discipline	148
Value Chain	71-73, 124
Value Chain Analysis	68
Value System	71, 72
Warner Index	213
Win Win Model	628
Y & R Brand Asset Valuator	243, 244

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