

GLOBAL
EDITION



Strategic Management

*A Competitive Advantage Approach,
Concepts and Cases*

SIXTEENTH EDITION

Fred R. David • Forest R. David



Strategy Implementation

Chapter Nine

Learning Objectives

1. Identify and describe strategic marketing issues vital for strategy implementation.
2. Explain why social media marketing is an important strategy-implementation tool.
3. Explain why market segmentation is an important strategy-implementation tool.
4. Explain how to use product positioning (perceptual mapping) as a strategy-implementation tool.
5. Identify and describe strategic finance/accounting issues vital for strategy implementation.
6. Perform EPS/EBIT analysis to evaluate the attractiveness of debt versus stock as a source of capital to implement strategies.

Learning Objectives (cont.)

7. Develop projected financial statements to reveal the impact of strategy recommendations.
8. Determine the cash value of any business using four corporate evaluation methods.
9. Discuss IPOs, keeping cash offshore, and issuing corporate bonds as strategic decisions that face many firms.
10. Discuss the nature and role of research and development (R&D) in strategy implementation.
11. Explain how management information systems (MISs) impact strategy-implementation efforts.

Comprehensive Strategic-Management Model

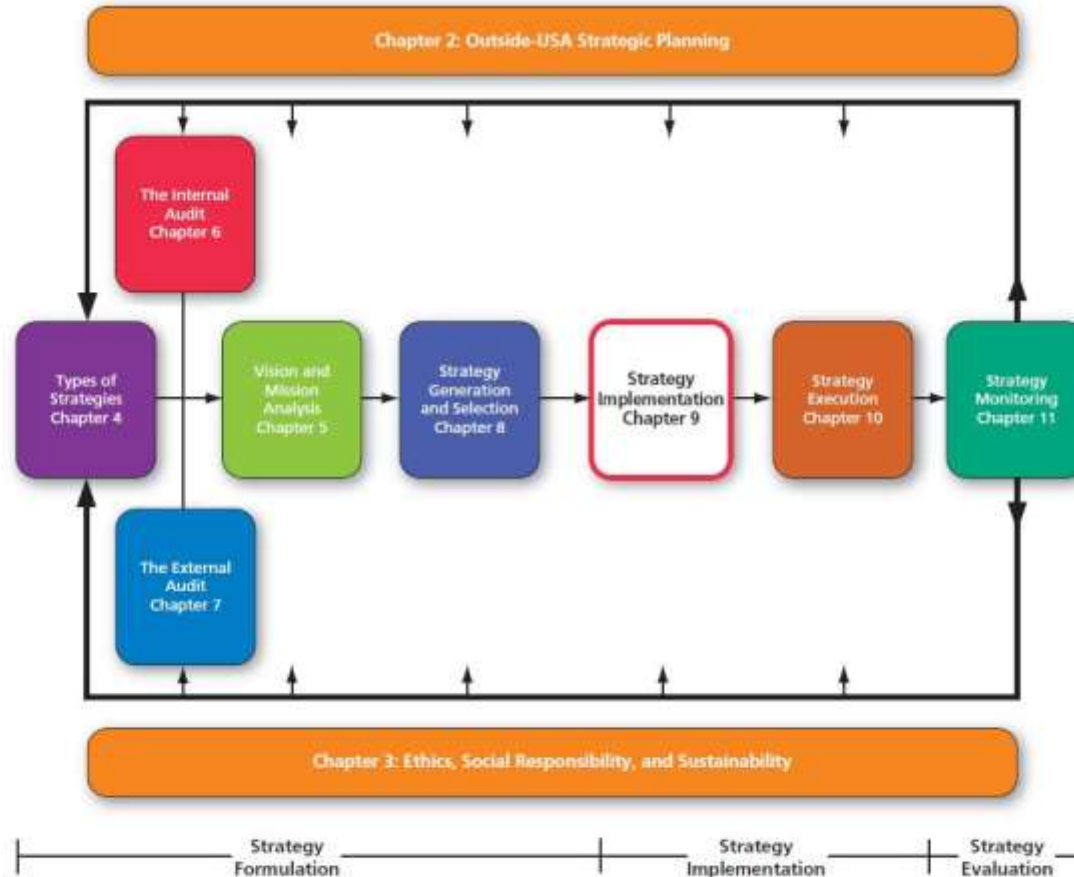


FIGURE 9-1
A Comprehensive Strategic-Management Model

Source: Fred R. David, adapted from "How Companies Define Their Mission," *Long Range Planning* 22, no. 3 (June 1988): 40. © Fred R. David.

Strategic Marketing Issues

1. How to make advertisements more interactive to be more effective
2. How to best take advantage of Facebook and Twitter conversations about the company and industry
3. To use exclusive dealerships or multiple channels of distribution
4. To use heavy, light, or no TV advertising versus online advertising

Strategic Marketing Issues

5. To limit (or not) the share of business done with a single customer
6. To be a price leader or a price follower
7. To offer a complete or limited warranty
8. To reward salespeople based on straight salary, straight commission, or a combination salary/commission

Social Media Marketing

- ❖ Marketers must get customers involved in the company website and solicit suggestions in terms of product development, customer service, and ideas.
- ❖ The company should enable customers to interact with the firm on the following social media networks:
 - ❖ Facebook
 - ❖ Google Plus
 - ❖ Twitter
 - ❖ LinkedIn
 - ❖ Instagram
 - ❖ Pinterest
 - ❖ Foursquare

The New Principles of Marketing

TABLE 9-1 The New Principles of Marketing

1. Do not just talk at consumers—work with them throughout the marketing process.
 2. Give consumers a reason to participate.
 3. Listen to—and join—the conversation outside your company’s website.
 4. Resist the temptation to sell, sell, sell. Instead attract, attract, attract.
 5. Do not control online conversations; let it flow freely.
 6. Find a “marketing technologist,” a person who has three excellent skill sets (marketing, technology, and social interaction).
 7. Embrace instant messaging and chatting.
-

Source: Based on Salvatore Parise, Patricia Guinan, and Bruce Weinberg, “The Secrets of Marketing in a Web 2.0 World,” *Wall Street Journal*, December 15, 2008, R1.

Market Segmentation

❖ **Market Segmentation**

- ❖ subdividing of a market into distinct subsets of customers according to needs and buying habits
- ❖ widely used in implementing strategies

Market Segmentation

- ❖ Strategies such as market development, product development, market penetration, and diversification require increased sales through new markets and products.
- ❖ Market segmentation allows a firm to operate with limited resources because mass production, mass distribution, and mass advertising are not required.

Market Segmentation

- ❖ Market segmentation decisions directly affect the *marketing mix variables*:

Product

Place

Promotion

Price

The Marketing Mix Component Variables

TABLE 9-2 The Marketing Mix Component Variables

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

Retention-Based Segmentation

Tag #1: Is this customer at high risk of canceling the company's service?

Tag #2: Is this customer worth retaining?

Tag #3: What retention tactics should be used to retain this customer?

Alternative Bases for Market Segmentation

- ❖ Geographic
 - ❖ Region, country size, city size, density, climate
- ❖ Demographic
 - ❖ Age, gender, family size, family life cycle, income, occupation, education, religion, race, nationality
- ❖ Psychographic
 - ❖ Social class, personality
- ❖ Behavioral
 - ❖ Use occasion, benefits sought, user status, usage rate, loyalty status, readiness stage, attitude toward product

Product Positioning

❖ **Product Positioning**

- ❖ entails developing schematic representations that reflect how your products or services compare to competitors' on dimensions most important to success in the industry
- ❖ Also called perceptual mapping

Product Positioning Steps

1. Select key criteria that effectively differentiate products or services in the industry.
2. Diagram a two-dimensional product-positioning map with specified criteria on each axis.
3. Plot major competitors' products or services in the resultant four-quadrant matrix.

Product Positioning Steps

4. Identify areas in the positioning map where the company's products or services could be most competitive in the given target market. Look for vacant areas (niches).
5. Develop a marketing plan to position the company's products or services appropriately.

Rules for Using Product Positioning as a Strategy-Implementation Tool

1. Look for the hole or *vacant niche*.
2. Don't serve two segments with the same strategy.
3. Don't position yourself in the middle of the map.

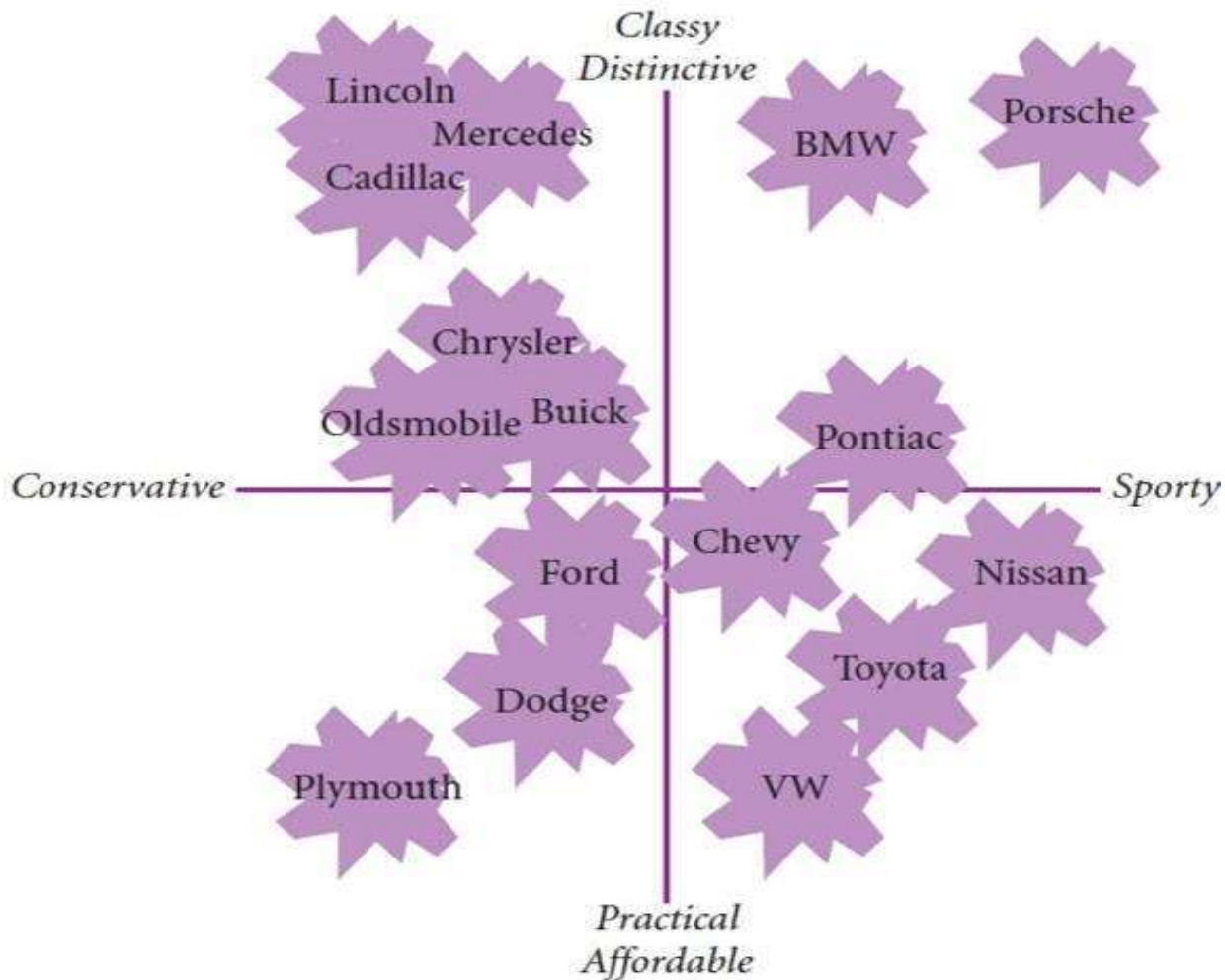
Product Positioning

An effective product positioning strategy meets two criteria:

- ❖ it uniquely distinguishes a company from the competition

- ❖ it leads customers to expect slightly less service than a company can deliver

Example of a Product-Positioning Map



Finance/Accounting Issues

1. To raise capital with short-term debt, long-term debt, preferred stock, or common stock
2. To lease or buy fixed assets
3. To determine an appropriate dividend payout ratio
4. To use LIFO (Last-in, First-out), FIFO (First-in, First-out), or a market-value accounting approach

Finance/Accounting Issues

5. To extend the time of accounts receivable
6. To establish a certain percentage discount on accounts within a specified period of time
7. To determine the amount of cash that should be kept on hand

Finance/Accounting Issues

1. Acquire needed capital to implement strategies.
2. Develop projected financial statements to show expected impact of strategies implemented.
3. Determine the firm's value (corporate valuation) in the event an offer is received.
4. Decide whether to go public with an Initial Public Offering (IPO).
5. Decide whether to keep cash offshore that was earned offshore.

Acquiring Capital to Implement Strategies

- ❖ Successful strategy implementation often requires additional capital.
- ❖ Besides net profit from operations and the sale of assets, two basic sources of capital for an organization are debt and equity.

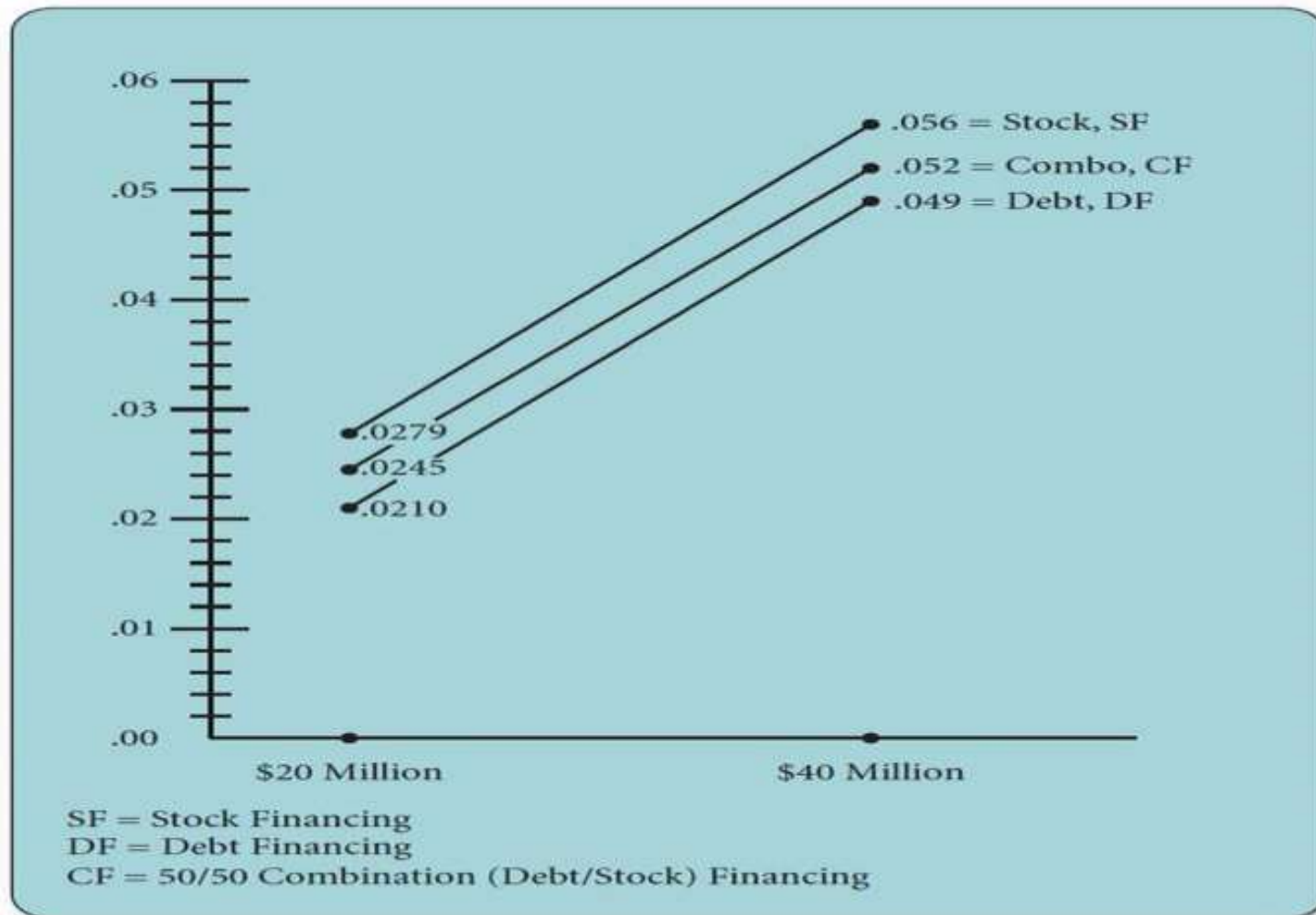
Acquiring Capital to Implement Strategies

- ❖ EPS = Earnings Per Share, which is Net Income divided by # of Shares Outstanding
- ❖ Another term for Shares Outstanding is Shares Issued
- ❖ EBIT = Earnings Before Interest and Taxes (also called operating income)
- ❖ EBT = Earnings Before Tax
- ❖ EAT = Earnings After Tax

EPS/EBIT Analysis for the XYZ Company

Input Data	The Number		How Determined			
\$ Amount of Capital Needed	\$100 million		Estimated \$ cost of recommendations			
EBIT Range	\$20 to \$40 million		Estimate based on prior year EBIT and recommendations for the coming year(s)			
Interest Rate	5 percent		Estimate based on cost of capital			
Tax Rate	30 percent		Use prior year %: taxes divided by income before taxes, as given on income statement			
Stock Price	\$50		Use most recent stock price			
# Shares Outstanding	500 million		For the debt columns, enter the existing # shares outstanding. For stock columns, use the existing # shares outstanding + the # new shares that must be issued to raise the needed capital (i.e., based on stock price). So divide the stock price into the \$ amount of capital needed.			
	100% Debt		100% Stock		50/50 Debt/Stock Combo	
\$ EBIT	20,000,000	40,000,000	20,000,000	40,000,000	20,000,000	40,000,000
\$ Interest	5,000,000	5,000,000	0	0	2,500,000	2,500,000
\$ EBT	15,000,000	35,000,000	20,000,000	40,000,000	17,500,000	37,500,000
\$ Taxes	4,500,000	10,500,000	6,000,000	12,000,000	5,250,000	11,250,000
\$ EAT	10,500,000	24,500,000	14,000,000	28,000,000	12,250,000	26,250,000
# Shares	500,000,000	500,000,000	502,000,000	502,000,000	501,000,000	501,000,000
\$ EPS	0.0210	0.049	0.0279	0.056	0.0245	0.0523

An EPS/EBIT Chart for the XYZ Company



Projected Financial Statements

❖ **Projected Financial Statements**

- ❖ allows an organization to examine the expected results of various actions and approaches
- ❖ allows an organization to compute projected financial ratios under various strategy-implementation decisions

Performing Projected Financial Analysis

1. Prepare the projected income statement before the balance sheet.
2. Use the percentage-of-sales method to project cost of goods sold (CGS) and the expense items in the income statement.
3. Calculate the projected net income.
4. Subtract from the net income any dividends to be paid for that year.

Performing Projected Financial Analysis

5. Project the balance sheet items, beginning with retained earnings and then forecasting stockholders' equity, long-term liabilities, current liabilities, total liabilities, total assets, fixed assets, and current assets (in that order).
6. Use the cash account as the plug figure.
7. List commentary (remarks) on the projected statements.

Corporate Valuation

Methods:

❖ The Net Worth Method

- ❖ Total Shareholders' Equity (SE) minus (Goodwill + Intangibles)

❖ The Net Income Method

- ❖ Net Income x Five

❖ Price-Earnings Ratio Method

- ❖ $(\text{Stock Price} / \text{EPS}) \times \text{NI}$

❖ Outstanding Shares Method

- ❖ $\# \text{ of Shares Outstanding} \times \text{Stock Price}$

IPOs, Cash Management, and Corporate Bonds

- ❖ Go public with an IPO?
- ❖ Keep cash offshore if earned offshore?
- ❖ Issue corporate bonds for what purpose?

Research and Development (R&D) Issues

1. Emphasize product or process improvements.
2. Stress basic or applied research.
3. Be leaders or followers in R&D.
4. Develop robotics or manual-type processes.
5. Spend a high, average, or low amount of money on R&D.
6. Perform R&D within the firm or contract R&D to outside firms.
7. Use university researchers or private-sector researchers.

R&D Approaches for Implementing Strategies

- ❖ Be the first firm to market new technological products.
- ❖ Be an innovative imitator of successful products, thus minimizing the risks and costs of start-up.
- ❖ Be a low-cost producer by mass-producing products similar to but less expensive than products recently introduced.

Management Information System (MIS) Issues

- ❖ Having an effective *management information system (MIS)* may be the most important factor in differentiating successful from unsuccessful firms.
- ❖ The process of strategic management is facilitated immensely in firms that have an effective information system.

Mobile Computing

- ❖ Mobile tracking of employees
- ❖ Mobile apps for customers