Marketing Analytics II

Chapter 5A. Business Strategy

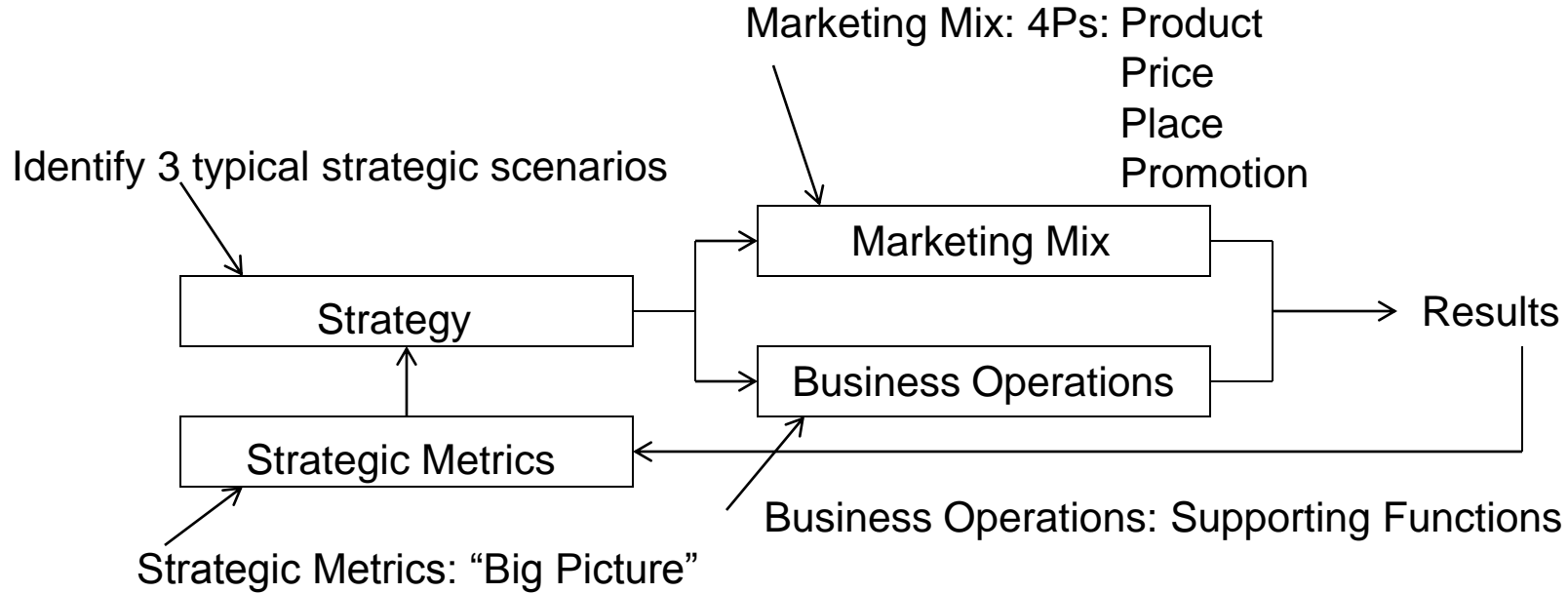## Stephan Sorger
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Outline/ Learning Objectives

Topic	Description
Strategic Scenarios	Identifying strategic options
Strategic Decision Models	Selecting the most effective strategic option
Strategic Metrics	Evaluating performance based on KPIs

Analytics Approach to Strategy

Marketing Mix: 4Ps: Product
Price
Place
Promotion

Identify 3 typical strategic scenarios

Marketing Mix

Strategy

Business Operations

Results

Strategic Metrics

Strategic Metrics: "Big Picture"

Business Operations: Supporting Functions

Strategic Scenarios

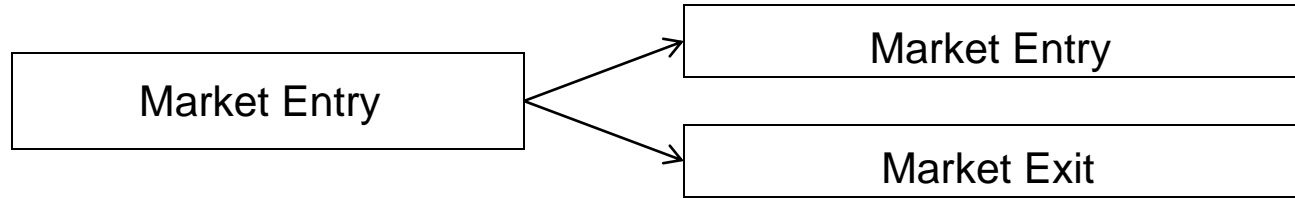| Market Entry	→	Market Approach	→	Market Growth

Typical Major Strategic Decisions for Most Companies:

-Market Entry: Should I enter this market?
-Market Approach: How should I engage with this market?
-Market Growth: How can I grow within the market?

Strategic Scenario: Market Entry

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┌─────────────────────┐              ┌───────────────────────────┐
│                     │         ┌───→ │      Market Entry         │
│    Market Entry     │─────────┤     └───────────────────────────┘
│                     │         └───→ ┌───────────────────────────┐
└─────────────────────┘              │      Market Exit           │
                                     └───────────────────────────┘
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Market Entry: Apply competitive advantages to characteristics of market
Example: Diaspora (and many others) entering social networking market
　Organic growth: Entering markets by growing internal process and product/service line
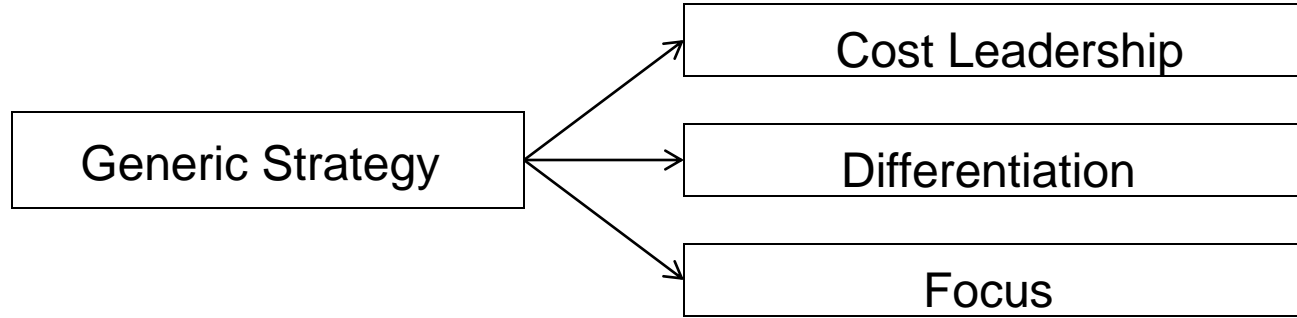　Acquisition-driven growth: Entering markets by acquiring companies already in the market
Market Exit: Leave flat or shrinking markets, or those suffering from intense competition
Example: Siemens exiting radiation therapy market (against competitor Varian Medical)

Strategic Options for Market Entry and Exit

Strategy	Description	Example
Enter/ exit market based on demand	Market sizing models (see Chapter 2)	Diaspora: Entered lucrative social networking market
Enter/exit market based on competition	Competitive analysis models (see Chapter 3)	Siemens: Exited radiation therapy market

Strategic Scenario: Market Approach

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                                    ┌─────────────────────────────┐
                               ┌───▶│      Cost Leadership        │
                               │    └─────────────────────────────┘
┌──────────────────┐          │     ┌─────────────────────────────┐
│ Generic Strategy │──────────┼───▶│      Differentiation         │
└──────────────────┘          │     └─────────────────────────────┘
                               │    ┌─────────────────────────────┐
                               └───▶│           Focus             │
                                    └─────────────────────────────┘
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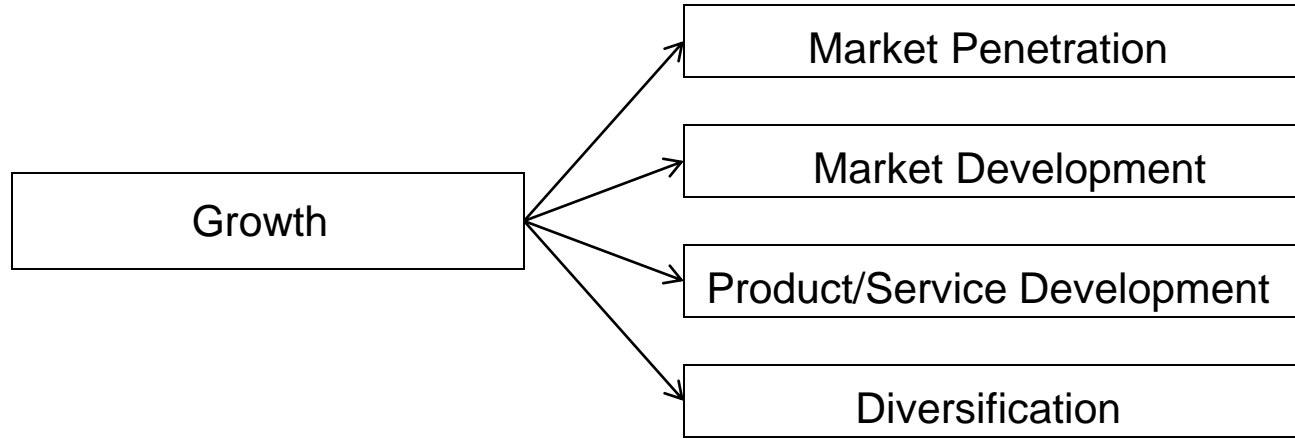
Generic Strategy: General approaches to market, as defined by Michael Porter

Strategic Options for Market Approach

Strategy	Description	Example
Increase profitability through cost leadership	Porter generic strategy: Cost Leadership	Southwest: Leverages low-cost operations to keep profits high
Increase profitability through differentiation	Porter generic strategy: Differentiation	New York Times: Commanding premium pricing thanks to its unique writing style
Increase profitability through focus	Porter generic strategy: Focus	Sunglass Hut: Emphasizes specialty in sunglasses only

Strategic Scenario: Growth

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                                    ┌─────────────────────────────────┐
                                    │      Market Penetration         │
                                    └─────────────────────────────────┘
                                    ┌─────────────────────────────────┐
                                    │      Market Development          │
┌──────────────────┐               └─────────────────────────────────┘
│      Growth       │──────────────┌─────────────────────────────────┐
└──────────────────┘               │  Product/Service Development     │
                                    └─────────────────────────────────┘
                                    ┌─────────────────────────────────┐
                                    │       Diversification            │
                                    └─────────────────────────────────┘
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<u>Market Penetration</u> Grow by increasing sales of existing products/services to existing market
                Target competitors; Target usage/frequency; Target revenue per order
<u>Market Development</u>: Grow by increasing sales of existing products/services to new markets
                New demographics; New geographics
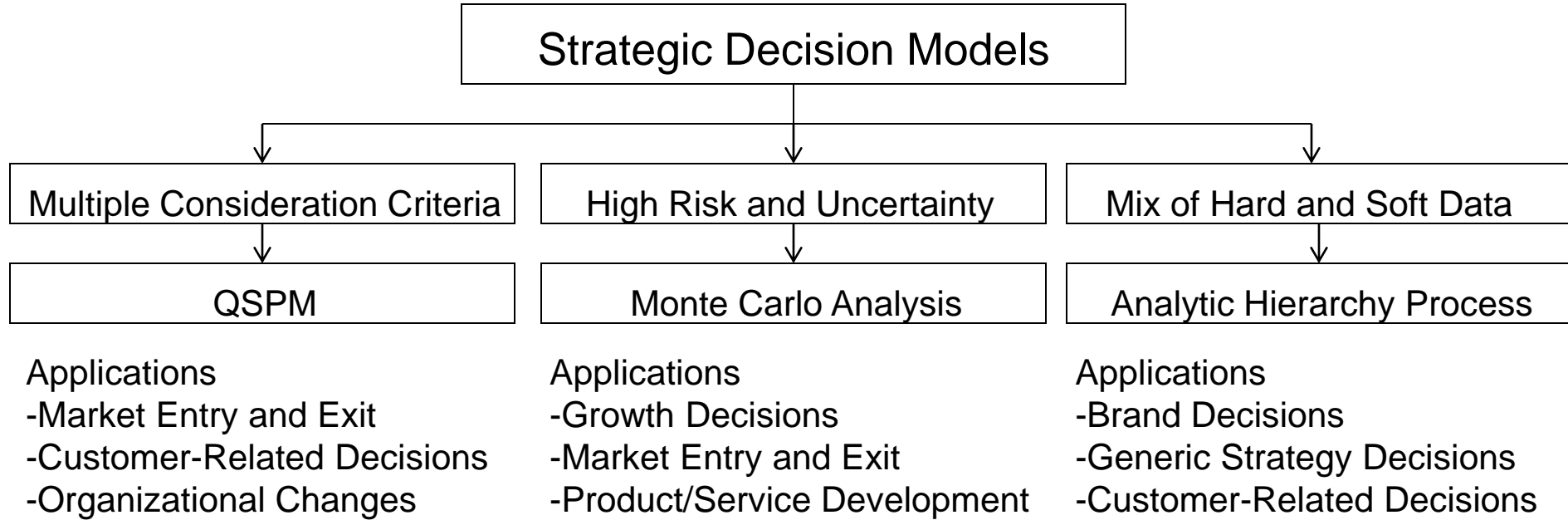<u>Product/Service Development</u>: Grow by increasing sales of new products and services
<u>Diversification</u>   Grow by increasing sales of new offerings to new markets

Strategic Options for Growth

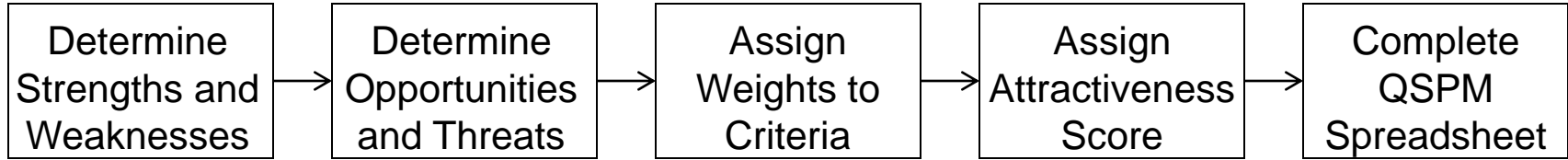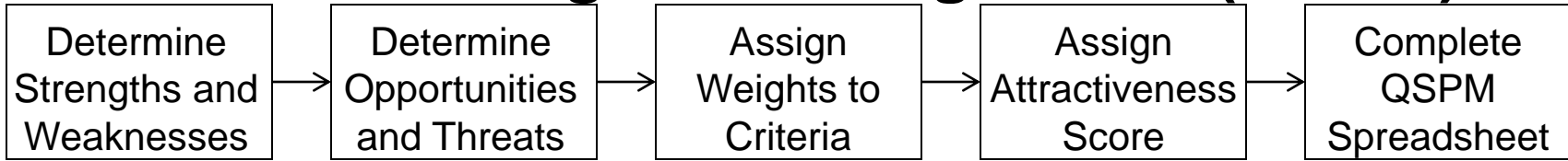| Strategy	Description	Example
Growth through market penetration	**Ansoff growth strategy: Market Penetration**	**Expedia:** Encourages shoppers to book airline and hotel together
Growth through market development	**Ansoff growth strategy: Market Development**	**Dunkin' Donuts:** Expanding geographically
Growth through product/ service development	**Ansoff growth strategy: Product/ Service Development**	**L'Oreal:** Markets multiple types of hair color products to customers
Growth through diversification	**Ansoff growth strategy: Diversification**	**GE:** Markets multiple products to multiple markets

Strategic Decision Models

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┌─────────────────────────────────┐
│    Strategic Decision Models    │
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Multiple Consideration Criteria	High Risk and Uncertainty	Mix of Hard and Soft Data
QSPM	Monte Carlo Analysis	Analytic Hierarchy Process

Applications
-Market Entry and Exit
-Customer-Related Decisions
-Organizational Changes

Applications
-Growth Decisions
-Market Entry and Exit
-Product/Service Development

Applications
-Brand Decisions
-Generic Strategy Decisions
-Customer-Related Decisions

Strategic Decision Models

Model	Description	Strategic Option Applications
Quantitative Strategic Planning Matrix (QSPM)	Systematic approach for evaluating alternative strategies	Entry/ Exit
Monte Carlo Simulation	Incorporates uncertainty in forecasting future results	Growth
Analytical Hierarchy Process (AHP)	Multi-criteria decision analysis framework, combining quantitative "hard" numbers with subjective "soft" criteria	Market Approach

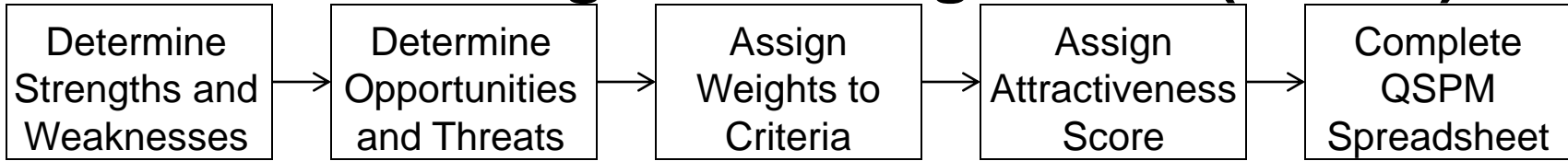# Quantitative Strategic Planning Matrix (QSPM)

Determine Strengths and Weaknesses	→	Determine Opportunities and Threats	→	Assign Weights to Criteria	→	Assign Attractiveness Score	→	Complete QSPM Spreadsheet

Quantitative Strategic Planning Matrix (QSPM)

Determine Strengths and Weaknesses	→	Determine Opportunities and Threats	→	Assign Weights to Criteria	→	Assign Attractiveness Score	→	Complete QSPM Spreadsheet

Criteria	Weight	Attractiveness Score	Total Attractiveness
Strengths			
Wide product line	15%	2	0.30
High product quality	30%	4	1.20
Weaknesses			
Low differentiation	35%	3	1.05
Operating expenses	20%	3	0.60
Weights Total	*100%*		
Opportunities			
Increasing demand	30%	4	1.20
Industry consolidation	15%	2	0.30
Threats			
Increasing costs	25%	3	0.75
New legislation	30%	2	0.60
Weights Total	*100%*		
Total Sum of Attractiveness Score			6.00

Organic Growth Option

Quantitative Strategic Planning Matrix (QSPM)

Determine Strengths and Weaknesses → Determine Opportunities and Threats → Assign Weights to Criteria → Assign Attractiveness Score → Complete QSPM Spreadsheet

Key Factors	Weight	Attractiveness Score	Total Attractiveness
Strengths			
Wide product line	15%	3	0.45
High product quality	30%	3	0.90
Weaknesses			
Low differentiation	35%	3	1.05
Operating expenses	20%	2	0.40
Weights Total	100%		
Opportunities			
Increasing demand	30%	4	1.20
Industry consolidation	15%	3	0.45
Threats			
Increasing costs	25%	2	0.50
New legislation	30%	2	0.60
Weights Total	100%		
Total Sum of Attractiveness Score			5.55

Acquisition Option

Monte Carlo Analysis: Technique
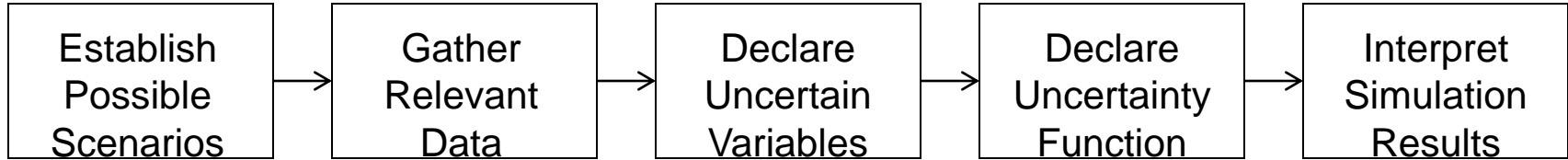
| Establish Possible Scenarios | → | Gather Relevant Data | → | Declare Uncertain Variables | → | Declare Uncertainty Function | → | Interpret Simulation Results |

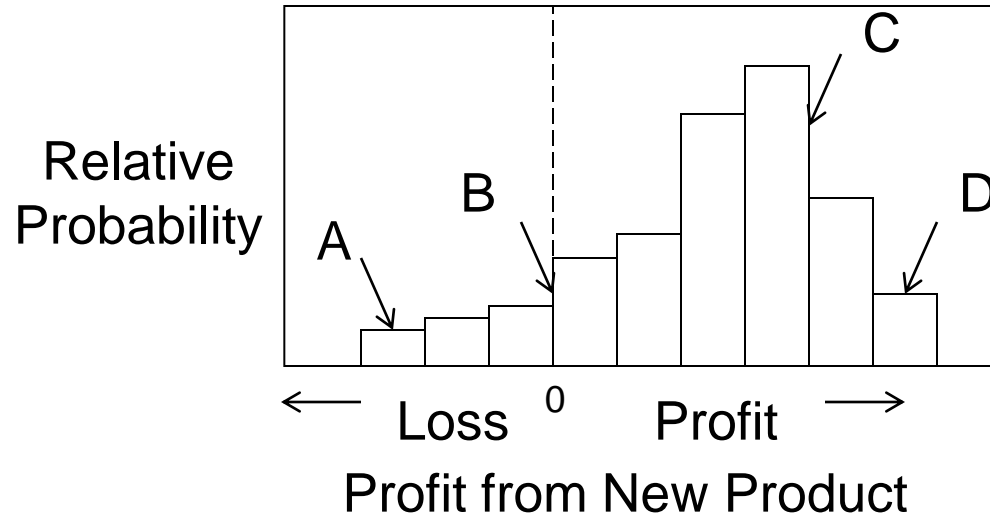| Step	Description
Scenarios	Weak Market: Economic Recession Typical Market: Average Conditions Strong Market: Economic Boom
Relevant Data	See data for each scenario on upcoming slide
Uncertain Variables	Fixed Costs certain Unit Price uncertain; depends on market condition Unit Cost uncertain; depends on manufacturing
Uncertainty Function	Profit = (Unit Sales) * (Unit Price – Unit Cost) – (Fixed Costs)
Simulation Results	See output plot on upcoming slide

Monte Carlo Analysis: Data Table

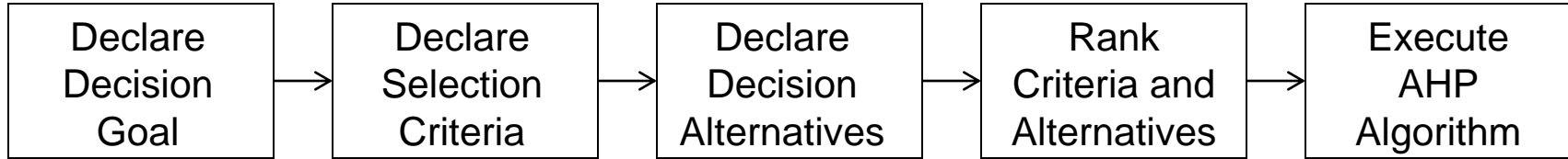| Variable	Weak Market	Typical Market	Strong Market
Unit Sales	40,000	50,000	60,000
Unit Price	$22.00/ unit	$20.00/ unit	$18.00/ unit
Unit Cost	$9.00 - $11.00/ unit	$9.00 - $11.00/ unit	$9.00 - $11.00/ unit
Fixed Costs	$100,000	$100,000	$100,000

Data for different scenarios

Monte Carlo Analysis: Output Plot

Typical Output Plot

Analytic Hierarchy Process: Technique

Declare Decision Goal	→	Declare Selection Criteria	→	Declare Decision Alternatives	→	Rank Criteria and Alternatives	→	Execute AHP Algorithm

Step	Description
Decision Goal	Example: Decide on generic strategy to apply to new market
Selection Criteria	Quantitative criteria: Potential profitability for each alternative Psychological criteria: Alignment of resources for each alternative
Decision Alternatives	Cost Leadership; Differentiation; Focus
Rank Criteria	Can declare that profitability is twice as important as alignment Value for quantitative criteria: Profitability in monetary terms Rating for psychological criteria: Alignment rating from 1 - 10
Execute AHP	Complex algorithm; Recommend use of statistical software SPSS; SAS; AHP Microsoft Excel templates

Check Your Understanding

Number	Question
1	**Strategic Scenarios:** Identifying strategic options from which to select
2	**Strategic Decision Models:** Selecting the most effective strategic option