Strategic Management

Lecture 10

Strategy Implementation

Learning Objectives

- Identify and describe strategic marketing issues vital for strategy implementation
- Explain why social media marketing is an important strategy-implementation tool
- Explain why market segmentation is an important strategy-implementation tool
- Explain how to use product positioning (perceptual mapping) as a strategy implementation tool
- Identify and describe strategic finance/accounting issues vital for strategy implementation
- Appreciate how EPS/EBIT analysis is used to evaluate the attractiveness of debt versus stock as a source of capital to implement strategies
- Understand how four corporate evaluation methods can be used to estimate the cash value of any business
- Discuss the nature and role of research and development (R&D) in strategy implementation

Topics

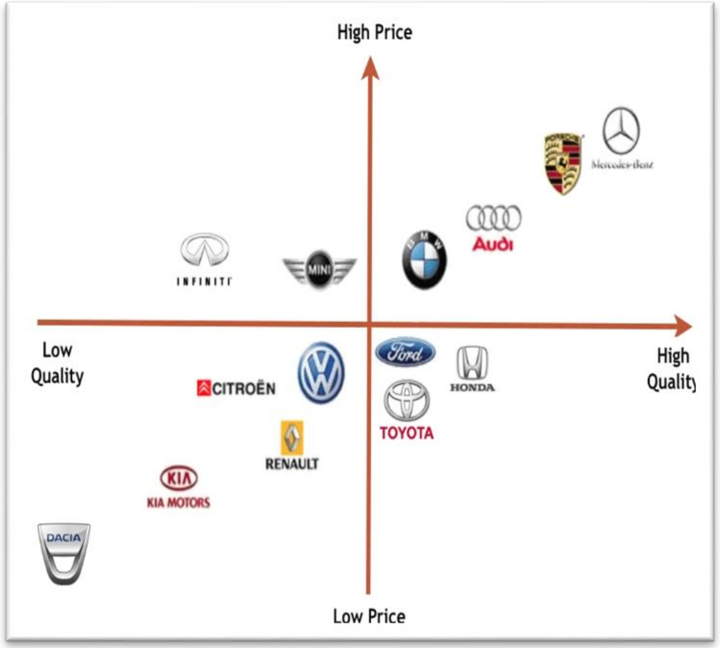
- ❑ Strategic Marketing Issues
- ❑ Social Media Marketing
- ❑ Market Segmentation
- ❑ Product Positioning and Perceptual Mapping
- ❑ Strategic Finance/Accounting Issues
- ❑ EPS/EBIT Analysis: Acquire Needed Capital
- ❑ Corporate Valuation
- ❑ Strategic Research and Development (R&D) Issues

Strategic Marketing Issues

- Key enablers for successful implementation of strategies include:
  - ✓ Effective marketing of goods and services
  - ✓ Raising the needed working capital
- This lecture looks into marketing, finance/accounting, research and development (R&D) issues that are central to effective strategy implementation
- Some strategic marketing issues or decisions are as follows:
  1. How to make advertisements more interactive to be more effective
  2. How to 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
  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, commission, or a combination salary and commission

Strategic Marketing Issues …

- Three marketing activities especially important in strategy implementation are listed below and then discussed:
  1. Engage customers in social media
  2. Segment markets effectively
  3. Develop and use product-positioning/perceptual maps



Social Media Marketing

- Social media marketing has become an important strategic issue. Marketing has evolved to be more about building a two-way relationship with consumers than just informing consumers about a product or service
- Marketers increasingly must get customers involved in the company website and solicit suggestions in terms of product development, customer service, and ideas
- The company website should enable customers to interact with the firm on the following social media networks (listed along with the estimated number of users in millions at the time of publishing the 16th edition of the textbook):
    - ✓ Facebook (1,200)
    - ✓ Google Plus (500) *It's to be mentioned that it was shutdown in 2019*
    - ✓ Twitter (400)
    - ✓ LinkedIn (300)
    - ✓ Instagram (200)
    - ✓ Pinterest (100)
    - ✓ Foursquare (50)

Social Media Marketing …

- To manage this process, larger companies have hired a social media manager(s) to be the voice of the company on social and digital media sites
- The manager(s) responds to comments and problems, track negative or misleading statements, manage the online discussion about a firm, and gather valuable information about opinions and desires—all of which can be vital for monitoring strategy implementation progress and making appropriate changes
- The online community of customers increasingly mirrors the offline community but is much quicker, cheaper, and effective to reach than traditional focus groups and surveys
- Successful strategy implementation requires a firm to know what people are saying about it and its products
- Customers are talking about and creating valuable content around every brand through blog posts, tweets, e-mails, and conversations with family and friends
- Instead of ignoring or trying to quash “amateur content,” or trying to drown it out with “professional advertisements,” the best firms today embrace amateurs’ opinions, desires, and feelings—because they are the firms’ customers
- They learn from and leverage amateur content to improve the authenticity of their marketing communication

Social Media Marketing …

- Firms benefit immensely by providing incentives to customers to share their thoughts, opinions, and experiences on the company website
- Encourage customers to network among themselves on topics of their choosing on the company website
- The company website must not be just about the company—it must be all about the customer too. Perhaps offer points, discounts, or coupons on the website for customers who provide ideas, suggestions, or feedback
- Drive traffic to the company website, and then keep customers at the website for as long as possible with daily new material, updates, excitement, and offers
- Encourage and promote customer participation and interaction. Customers trust other customers' opinions more than a company's marketing pitch, and the more they talk freely, the more the firm can learn how to improve its product, service, and marketing
- Marketers should monitor blogs daily to determine, evaluate, and influence opinions being formed by customers
- Customers must not feel like they are a captive audience for advertising at a firm's website

Social Media 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.

Social Media Marketing …

- Although the exponential increase in social networking has created huge opportunities for marketers, it also has produced some severe threats. Perhaps the greatest threat is that any kind of negative publicity travels fast online
- Seemingly minor ethical and questionable actions can catapult these days into huge public relations problems for companies as a result of the monumental online social and business communications

Market Segmentation

- Market segmentation and product positioning rank as marketing’s most important contributions to strategic management
- Market segmentation can be defined as the subdividing of a market into distinct subsets of customers according to needs and buying habits
- Market segmentation is important in strategy implementation for at least three major reasons
  - ✓ First, strategies such as market development, product development, market penetration, and diversification require increased sales through new markets and products. To implement these strategies successfully, new or improved market-segmentation approaches are required
  - ✓ Second, market segmentation allows a firm to operate with limited resources because mass production, mass distribution, and mass advertising are not required. Market segmentation enables a small firm to compete successfully with a large firm by maximizing per-unit profits and per- segment sales
  - ✓ And third, market segmentation decisions directly affect marketing mix variables: product, place, promotion, and price

Market Segmentation …

- Segmentation is a key to matching supply and demand, which is one of the thorniest problems in customer service. Segmentation often reveals that large, random fluctuations in demand actually consist of several small, predictable, and manageable patterns
- Matching supply and demand allows factories to produce desirable levels without extra shifts, overtime, and subcontracting
- Matching supply and demand also minimizes the number and severity of stock-outs
- The demand for hotel rooms, for example, can be dependent on foreign tourists, businesspersons, and vacationers. Focusing separately on these three market segments, however, can allow hotel firms to more effectively predict overall supply and demand

Market Segmentation …

- To aid in segmenting markets and targeting specific groups of customers, companies commonly tag each of their active customers with three "retention" values:
- Tag 1: Is this customer at high risk of canceling the company's service? One of the most common indicators of high-risk customers is a drop off in usage of the company's service. *For example, in the credit card industry this could be signaled through a customer's decline in spending on his or her card*
- Tag 2: Is this customer worth retaining? This determination boils down to whether the post retention profit generated from the customer is predicted to be greater than the cost incurred to retain the customer. *Customers need to be managed as investments*
- Tag 3: What retention tactics should be used to retain this customer? For customers who are deemed "save-worthy," it is essential for the company to know which save tactics are most likely to be successful. *Tactics commonly used range from providing "special" customer discounts to sending customers communications that reinforce the value proposition of the given service*

Market Segmentation …

Segmenting by Geography

Region	Pacific, Mountain, West North Central, West South Central, East North Central, East South Central, South Atlantic, Middle Atlantic, New England
County Size	A, B, C, D
City Size	Under 5,000; 5,000–20,000; 20,001–50,000; 50,001–100,000; 100,001–250,000; 250,001–500,000; 500,001–1,000,000; 1,000,001–4,000,000; 4,000,001 or over
Density	Urban, suburban, rural
Climate	Northern, southern

Market Segmentation …

Segmenting by Demographics

Demographic	
Age	Under 6, 6–11, 12–19, 20–34, 35–49, 50–64, 65+
Gender	Male, female
Family Size	1–2, 3–4, 5+
Family Life Cycle	Young, single; young, married, no children; young, married, youngest child under 6; young, married, youngest child 6 or over; older, married, with children; older, married, no children under 18; older, single; other
Income	Under \$10,000; \$10,001–\$15,000; \$15,001–\$20,000; \$20,001–\$30,000; \$30,001–\$50,000; \$50,001–\$70,000; \$70,001–\$100,000; over \$100,000
Occupation	Professional and technical; managers, officials, and proprietors; clerical and sales; craftspeople; foremen; operatives; farmers; retirees; students; housewives; unemployed
Education	Grade school or less; some high school; high school graduate; some college; college graduate
Religion	Catholic, Protestant, Jewish, Islamic, other
Race	White, Asian, Hispanic, African American
Nationality	American, British, French, German, Scandinavian, Italian, Latin American, Middle Eastern, Japanese

Market Segmentation …

Segmenting by Psychographic and Behavioral Characteristics

Psychographic	
Social Class	Lower lowers, upper lowers, lower middles, upper middles, lower uppers, upper uppers
Personality	Compulsive, gregarious, authoritarian, ambitious
Behavioral	
Use Occasion	Regular occasion, special occasion
Benefits Sought	Quality, service, economy
User Status	Nonuser, ex-user, potential user, first-time user, regular user
Usage Rate	Light user, medium user, heavy user
Loyalty Status	None, medium, strong, absolute
Readiness Stage	Unaware, aware, informed, interested, desirous, intending to buy
Attitude toward Product	Enthusiastic, positive, indifferent, negative, hostile

Product Positioning and Perceptual Mapping

- Product positioning (sometimes called perceptual mapping) entails developing schematic representations that reflect how products or services compare to those of the competitors on dimensions most important to success in the industry. Product positioning is widely used for deciding how to meet the needs and wants of particular consumer groups
- The technique can be summarized in five 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
  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

Product Positioning and Perceptual Mapping …

- Because just two criteria can be examined on a single product-positioning (perceptual) map, multiple maps are often developed to assess various approaches to strategy implementation
- Some rules for using product positioning as a strategy-implementation tool are the following:
  1. Look for the hole or vacant niche, which is a segment of the market currently not being served
  2. Do not serve two segments with the same strategy. Usually, a strategy successful with one segment cannot be directly transferred to another segment
  3. Do not position yourself in the middle of the map. The middle usually indicates a strategy that is not clearly perceived to have any distinguishing characteristics. This rule can vary with the number of competitors
- 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

  Firms need to inform customers about what to expect and then exceed the promise. Underpromise and overdeliver! That is a key for excellent strategy implementation.

Product Positioning and Perceptual Mapping …

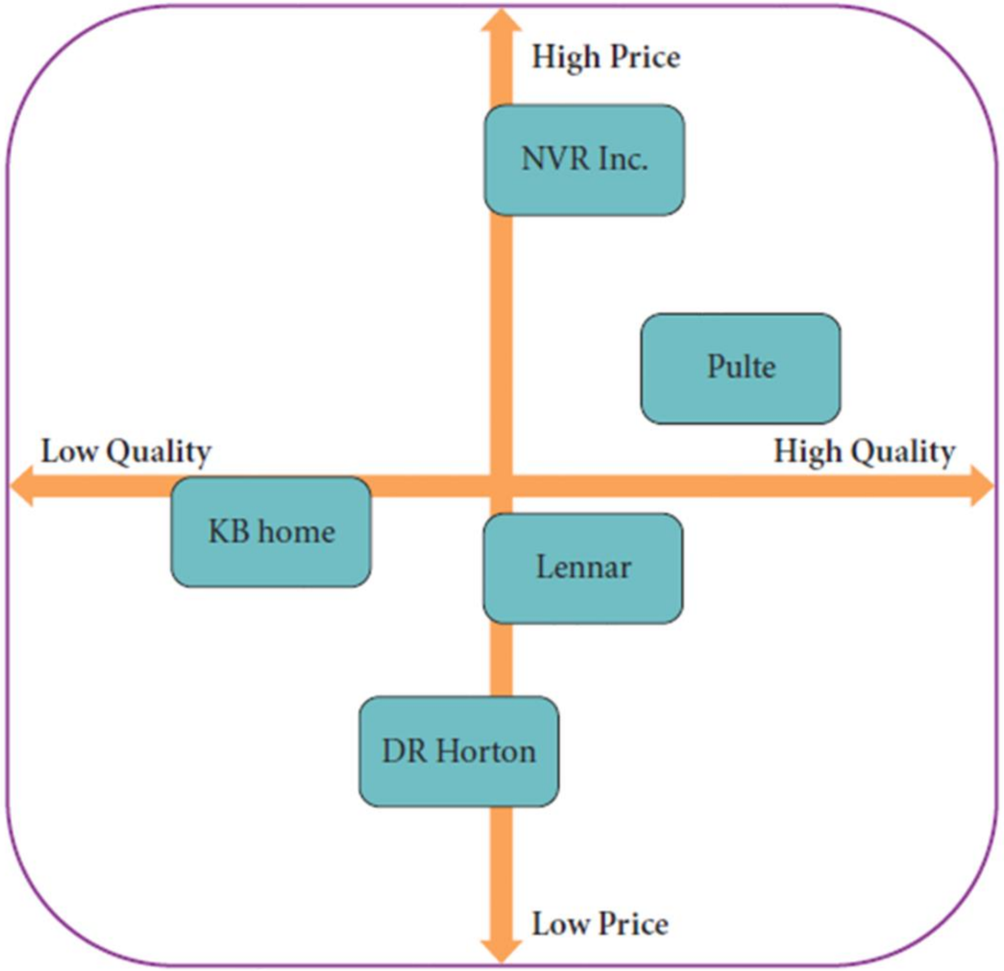


FIGURE 9-3
A DRH Perceptual Map—Price versus Quality

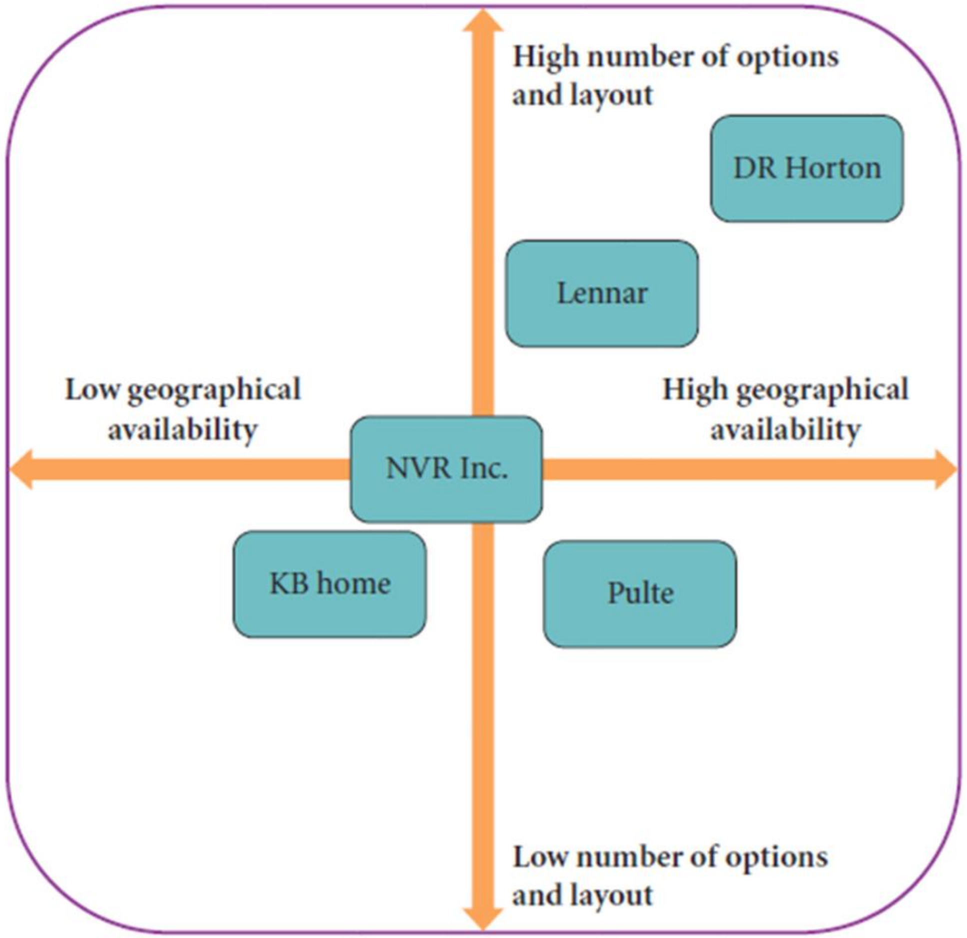


FIGURE 9-4
A DRH Perceptual Map—Number of Options/Layouts versus Geographical Availability

Product Positioning and Perceptual Mapping …

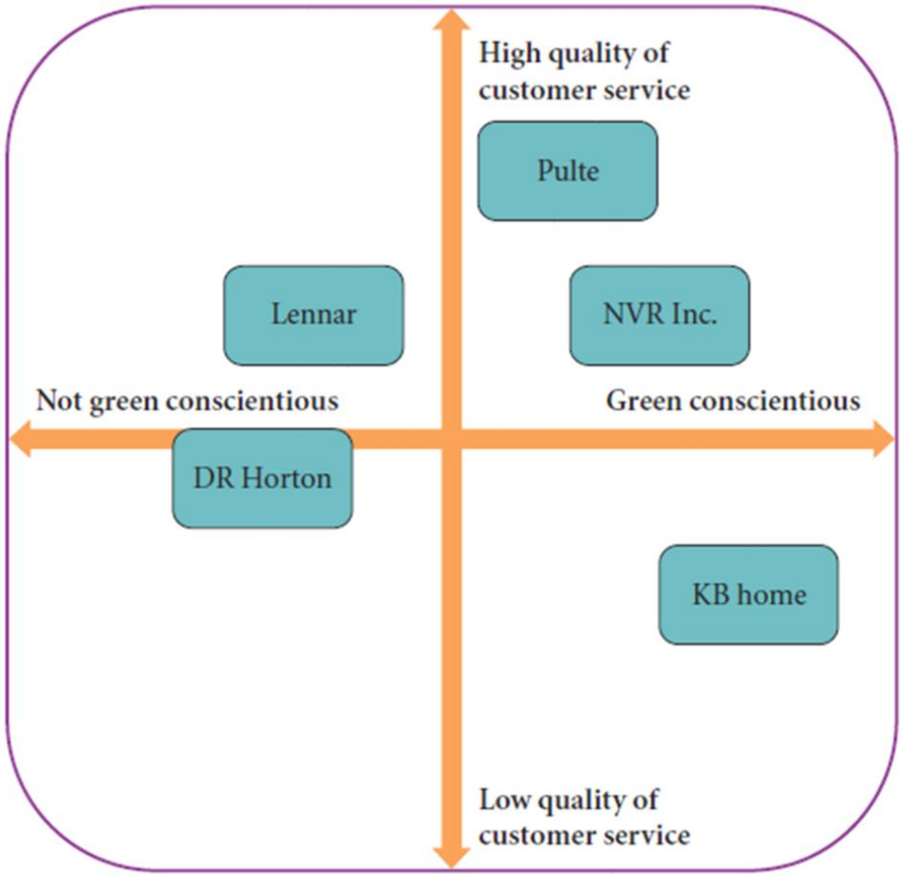


FIGURE 9-5
A DRH Perceptual Map—Quality of Customer Service versus Extent the Firm is Green Conscientious

- Consumers increasingly are concerned with what and from whom they are purchasing. Thus, **customer service** and **green conscientiousness** are often key factors considered by consumers
- After examining online ratings of the largest homebuilders and reviewing competitor's websites, it was determined that DRH has, at best, average customer service. There were numerous complaints at several websites, and not very many resolutions, or ways to find resolutions
- Furthermore, through a review of the competitors' websites, it appears that DRH is the least green conscientious builder among the major players

Strategic Finance/Accounting Issues

Some examples of decisions that may require finance and accounting policies are:

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 last-in, first-out (LIFO), first-in, first-out (FIFO), or a market-value accounting approach
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

Five especially important finance/accounting activities central to strategy implementation are:

1. Acquire needed capital to implement strategies; perform EPS/EBIT analysis
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

EPS/EBIT Analysis: Acquire Needed Capital

- Earnings per share/earnings before interest and taxes (EPS/EBIT) analysis is the most widely used technique for determining whether debt, stock, or a combination of the two is the best alternative for raising capital to implement strategies
- This technique involves an examination of the impact that debt versus stock financing has on earnings per share (EPS) under various expectations for EBIT, given specific recommendations (strategies to be implemented)
- EPS is earnings per share, which is net income divided by number of shares outstanding
- EBIT is earnings before interest and taxes, or as it is sometimes called, operating income
- The purpose of EPS/EBIT analysis is to determine whether all debt, all stock, or some combination of debt and stock yields the highest EPS values for the firm
- Earnings per share is perhaps the best measure of success of a company

EPS/EBIT Analysis: Acquire Needed Capital …

TABLE 9-4 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

Conclusion: The best financing alternative is 100% stock because the EPS values are largest; the worst financing alternative is 100% debt because the EPS values are lowest.

EPS/EBIT Analysis: Acquire Needed Capital …

- All analytical tools have limitations and EPS/EBIT analysis is no exception. But unless you have a compelling reason to overturn the highest last row EPS values dictating the best financing option, then indeed those highest values along the bottom row should dictate the financing decision, because EPS is arguably the best measure of organizational performance, and thus is the best variable to examine in deciding which financing option is best
- Seven potential limitations of EPS/EBIT analysis are here:
  1. Flexibility is a limitation. As an organization's capital structure changes, so does its flexibility for considering future capital needs. Using all debt or all stock to raise capital in the present may impose fixed obligations, restrictive covenants, or other constraints that could severely reduce a firm's ability to raise additional capital in the future
  2. Control is a limitation. When additional stock is issued to finance strategy implementation, ownership and control of the enterprise are diluted. This can be a serious concern in today's business environment of hostile takeovers, mergers, and acquisitions. Dilution of ownership could be a problem, and if so, debt could be better than stock regardless of determined EPS values in the analysis
  3. Timing is a limitation. If interest rates are expected to rise, then debt could be better than stock, regardless of the determined EPS values in the analysis. In times of high stock prices, stock may prove to be the best alternative from both a cost and a demand standpoint
  4. Extent leveraged is a limitation. If the firm is already too highly leveraged versus industry average ratios, then stock may be best regardless of determined EPS values in the analysis
  5. Continuity is a limitation. The analysis assumes stock price, tax rate, and interest rates are constant during all economic conditions
  6. EBIT ranges are a limitation. The estimated EBIT low and high values are estimated based on the prior year, plus the impact of strategies to be implemented
  7. Dividends are a limitation. If EPS values are highest for the "all-stock scenario," and if the firm pays dividends, then more funds will leave the firm due to dividends if the all stock scenario is selected

Corporate Valuation

- Evaluating the worth of a business is central to strategy implementation because numerous strategies are often implemented by acquiring other firms. In addition, some strategies, such as retrenchment and divestiture, may result in the sale of a division of an organization or of the firm itself
- Four methods are often used to determine the monetary value of a company; these four methods are described below:
  1. The Net Worth Method = Total Shareholders' Equity (SE) − (Goodwill + Intangibles)
     After calculating total SE, subtract goodwill and intangibles if these items appear as assets on the firm's balance sheet. Whereas intangibles include copyrights, patents, and trademarks, goodwill arises only if a firm acquires another firm and pays more than the book value for that firm
  2. The Net Income Method = Net Income × Five
     A conservative rule of thumb is to establish a business's worth as five times the firm's current annual profit. A 5-year average profit level could also be used. When using this approach, remember that firms normally suppress earnings in their financial statements to minimize taxes
  3. Price-Earnings Ratio Method = (Stock Price ÷ EPS) × NI
     To use this method, divide the market price of the firm's common stock by the annual earnings per share (EPS) and multiply this number by the firm's average net income for the past five years
  4. Outstanding Shares Method = # of Shares Outstanding × Stock Price
     To use this method, simply multiply the number of shares outstanding (or issued) by the market price per share. If the purchase price is more than this amount, the additional dollars are called a premium

Strategic Research and Development (R&D) Issues

- Strategic R&D issues include the following:
  1. To emphasize product or process improvements
  2. To stress basic or applied research
  3. To be a leader or follower in R&D
  4. To develop robotics or use manual-type processes
  5. To spend a high, average, or low amount of money on R&D
  6. To perform R&D within the firm or contract R&D to outside firms
  7. To use university researchers or private-sector researchers
- Many firms wrestle with the decision to acquire R&D expertise from external firms or to develop R&D expertise internally. The following guidelines can be used to help make this decision:
  1. If the rate of technical progress is slow, the rate of market growth is moderate, and there are significant barriers to possible new entrants, then in-house R&D is the preferred solution. The reason is that R&D, if successful, will result in a temporary product or process monopoly that the company can exploit.
  2. If technology is changing rapidly and the market is growing slowly, then a major effort in R&D may be risky because it may lead to the development of an ultimately obsolete technology or one for which there is no market.
  3. If technology is changing slowly but the market is growing quickly, there generally is not enough time for in-house development. The prescribed approach is to obtain R&D expertise on an exclusive or nonexclusive basis from an outside firm.
  4. If both technical progress and market growth are fast, R&D expertise should be obtained through acquisition of a well-established firm in the industry

THANK YOU