Strategy Maps

What are they?

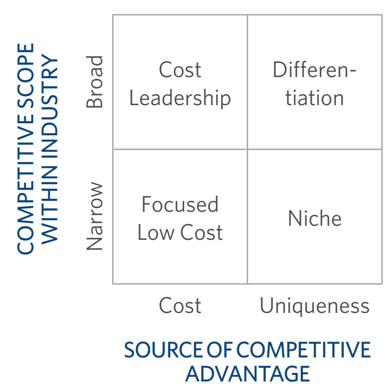
A strategy map, often referred to as a perceptual map in marketing, is a tool for visually displaying the position of a company or a line of business relative to competitors. Strategy maps generally place firms based on two or three dimensions that capture either critical elements driving consumer preferences or important attributes characterizing competition.

When do we use them?

Strategy maps find wide use in strategic analyses. They may be used as part of a broader competitor or industry analysis. In marketing, strategy maps are frequently used to highlight differences in consumers' perceptions across various product lines. Strategy maps are particularly useful for understanding and illustrating a company's competitive position relative to rivals and may be used to identify the generic strategies of firms (e.g., whether a firm is a low-cost competitor, a differentiated player, or a niche player within an industry).

Why do we use them?

Strategy maps are useful visual tools to quickly communicate a large amount of information on a collection of firms. They are a flexible tool that are fairly easy to generate and that appear in a number of different formats and for a number of different uses. One of the primary uses in a strategic analysis is to identify the "generic strategies" of firms (see matrix to the right). Arguably, there are four main ways a firm can position itself within a market, defined by the source of competitive advantage a firm pursues and the firm's competitive scope within an industry.



Broadly speaking, there are two types of competitive advantage a firm may pursue: low cost or uniqueness. A low-cost strategy is one in which the firm simply tries to have lower costs than the marginal producer in the industry. The marginal producer is that firm that is just viable in the marketplace—generating revenues at roughly its opportunity cost. A uniqueness strategy is one in which a firm tries to command a higher willingness to pay (i.e., prices, from customers). A uniqueness strategy usually entails offering products of higher quality or with more features than other products in the marketplace.

Firms may choose to target a broader or narrower segment of the market. Most markets can be segmented into smaller product markets defined by geography, buyer characteristics (e.g., age, race, income, and gender), and other product line characteristics. Broad-scope firms tend to deliver products and services that appeal to a wide number of these segments. They may do so by offering individual products and services with broad appeal or by offering a portfolio of products that cover the product space. For example, Henry Ford's Model T automobile was built with a broad target market in mind: people who wanted a simple, affordable car. Alternatively, General Mills offers a broad array of cereals to try to appeal to each market segment. Both are examples of broad-scope strategies. On the opposite end of the spectrum are narrow strategies that target one or a few market segments. Porsche manufactures and sells high-end sports cars to a narrow segment of affluent automobile owners. Nature's Path Organic sells healthy cereals to a narrower environmentally and socially conscious consumer base.

These two dimensions, broad versus narrow and low cost versus unique, define four generic strategies:

1. Broad-scope, low-cost players are referred to as *cost leaders*. Wal-Mart is a classic example of a company trying to appeal to a wide audience with the lowest-cost products. Others include Dell Computers, McDonald's Restaurants, and Nucor Steel. Cost leaders typically engage in aggressive cost-cutting, build market share to gain economies of scale, use low-cost inputs and labor, minimize overhead such as R&D, and invest in low-cost state-of-the-art operations and continuous improvement initiatives.
2. Broad-scope, unique players are referred to as *differentiated players*. The Target Corporation is illustrative of this strategy. A mass-market retailer, it offers higher-quality products in a more refined setting (and at higher prices) than Wal-Mart does. Other examples include Apple, Intel, and Goldman Sachs. Differentiators often invest heavily in advertising to build brand awareness, develop innovative capabilities so as to stay on the cutting edge, and invest heavily in human resources and other ancillary activities.
3. On the narrow side, we have both *focused, low-cost players* and *differentiated niche players*. In automobiles, Kia entered the U.S. market as a focused, low-cost auto manufacturer—offering a narrow line of low-cost cars to a limited market. On the flip side, Tesla is a new entry into the U.S. automobile market with an electric-powered sports car—a higher-end vehicle costing over $100K and appealing to a narrow set of environmentalists and technophiles (not to mention celebrities). In both cases, these firms try to deter rivalry by narrowly dividing the market. They may gain expertise and knowledge through their focus. In the case of niche players, their focus may increase their brand loyalty and allow them to achieve status as a prestige good.

4. Some firms pursue generic strategies that cross these boundaries. Toyota is a classic example of a company that has simultaneously attempted to be both low cost and high quality (i.e., unique). Southwest Airlines is another company that has successfully pursued a low-cost strategy while also differentiating itself in terms of service. Michael Porter and others argue that firms do so at their own risk, however. Rare is the firm that can successfully pursue low cost and differentiation at the same time. More often than not, firms that do get "stuck in the middle"—being neither the lowest-cost player or all that differentiated in the market.

How do we do it?

Step 1. Select dimensions.

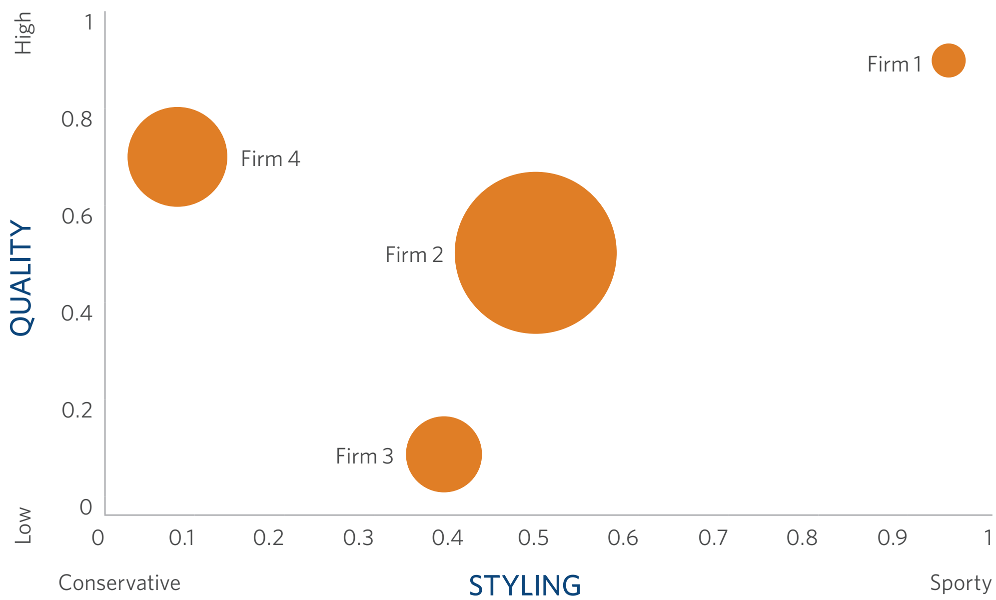
The first step in generating a strategy map is to determine the dimensions. Dimensions can be any factors that help define competition within an industry. These may be based on product styling, such as "conservative versus sporty" in automobiles or "luxury versus mass market" in leather goods. They may be based on price, in other words, "low versus high." They may be based on capabilities or technologies common in the industry, such as "microbrews versus mass produced" in beer or "mini-mills versus integrated mills" in steel. Dimensions that capture basic competitive indicators may be used, for example, revenues, market share, or earnings.

Step 2. Assess dimensions.

The second step is to assess a firm or one of its product lines on each dimension. In the best case, this can be done quantitatively. For example, price is a dimension that is relatively straightforward to map. Other dimensions may require customer surveys or expert opinions to quantify and map. For example, customer perceptions on quality or customers' loyalty ratings may be used. As a last resort, the analyst may elect to assess firms and businesses based on their intuition or knowledge of the industry.

Step 3. Create map.

The final step is to place firms on the map based on these assessments. Creating two-dimensional maps is straightforward. One can create three-dimensional maps by using circles to represent the third dimension—the larger the circle, the greater the value on that dimension. The template on the next page gives an example of a three-dimensional map of the auto industry. The two main dimensions for analysis are the degree to which a car model is conservative versus sporty and the quality of the vehicle as measured by defects. The third dimension is represented by the size of the circle and captures the revenues for each car model.



This map conveys some valuable information. For example, we can identify the competitive position of the various firms and their apparent strategy. "Firm 1" is relatively small and has positioned itself to sell high-quality, sporty vehicles—a classic niche strategy. "Firm 2" is the market leader selling large numbers of vehicles to a presumably broad audience. "Firm 3" seems to be pursuing a low-cost strategy, selling average-quality vehicles. "Firm 4" may be pursuing a differentiated strategy, perhaps targeting an older consumer base, selling higher-quality vehicles with conservative styling.

FURTHER READING

Chapters 8 and 9 of R. Grant, *Contemporary Strategic Analysis* (Blackwell Publishers, 2008).