Company strategy and product decisions

Product management course content

Lecture 1

Principal impacts of product strategy

- Company mission and company goals
- Competition strategy
- Market form and competition position
- State influence and state regulation
- Marketing goals and strategy

Corporate Mission

- The mission of the organization
  - defines its purpose, i.e., what it contributes to society
  - states the rationale for its existence
  - provides boundaries and focus
  - defines the concept(s) around which the company can rally
- Functional areas and business processes define their missions such that they support the overall corporate mission in a cooperative and synergistic manner.

Components of a Vision Statement

- Core ideology
  - Core Values - timeless guiding principles
  - Core Purpose - reason for being
- Envisioned future
  - Big Hairy Audacious Goals (BHAG) - clearly articulated goals
  - Vivid description - a graphic description of what success and the future will be like
- Recognition of service to stakeholders
  - Owners/creditors
  - Employees
  - Customers

3. Company mission

- Problems of setting
  - By corporation with width product portfolio can identification of core business difficult
  - Mission should be set so, that it corporation can trace it and fulfill it, but it can not set barriers to development and slide changes in strategy
  - To narrow mission restricts developmnet to broad mission makes decision about further development more difficult

Core Purpose: A Company's Reason for Being

- **3M: To solve problems innovatively.**
- **Hewlett-Packard: To make technical contributions for the advancement and welfare of humanity.**
- **Mary Kay Cosmetics: To give unlimited opportunity to women.**
- **Merck: To preserve and improve human life.**
- **Sony: To experience the joy of advancing and applying technology for the benefit of the public.**
- **Wal-Mart: To give ordinary folks the chance to buy the same things as rich people.**

Impact of vision on product decision

- Mission as criterion by:
  - Analysis of recent situation
  - Criterion by development and new activities
  - Criterion by mergers and acquisition

Long time strategic goals

- Represent results which is company streaming in next future
- Represent priorities and criteria in decision making process even by product related decision

Long time strategic goals

- Strategic goals are set in different areas for example:
  - Profitability (returns of investments, profit/share ratio)
    - Impact on product decision:
    - Example: HP computers
  - Productivity (improvement of processes)
    - Impact: movement of production in more productive countries
    - Example:
  - Competitive position (market share)
    - Impact: production of mass product, lower interest in market niches
    - Example: Carrefour
  - Employees development
  - Technological leadership
  - Corporate responsibility

Factors affecting Corporate Strategy

- External
  - Emerging strengths and weaknesses of competitors => new threats and opportunities, respectively
  - New industry entrants
  - Development of substitute products
  - Development of new technologies
  - Legal developments (e.g., environmental concerns and regulations)
  - Economic and political developments (e.g., new international agreements, political crises)
- Internal
  - Company politics and restructuring
  - Modified relationships with customers and suppliers
  - Product Life Cycle

Overall strategies of organization

- 1. Growth (a. concentration; b. diversification)
- 2. Retrenchment
- 3. Stability (status quo)
- 4. Combination (multiple strategies)

Growth through concentration – concentrating on your existing specialization

- market penetration – aggressively targetin current markets with existing product specialties
- market development/geographic expansion – expanding into new markets
- market segmentation – dividing existing markets
- product development – modify existing products, or develop new but related products

Growth through diversification – branching out into new areas

- Concentric diversification
  - Involves acquisition of businesses ***related*** to acquiring firm in terms of technology, markets, or products
  - horizontal integration – expanding across the general industry (e.g. Coke acquires Minutemaid).
  - Vertical integration – expanding into industries populated by suppliers/buyers (e.g. Ford buys steel plant).
- Conglomerate diversification
  - Involves acquisition of a business because it represents a promising ***investment opportunity***
  - Primary motivation is profit pattern of venture
- Difference between concentric the approaches
  - Concentric diversification emphasizes ***commonality*** whereas conglomerate diversification emphasizes ***profits*** for each individual unit

Retrenchment –

- Turnaround – downsizing existing company/divisions
  - **Involves a concerted effort over a period of time to fortify a firm's distinctive competencies, returning it to profitability**
- Divestiture – selling off existing divisions/ subdivisions
  - Involves selling a firm or a major component of a firm
  - Reasons for divestiture
    - Partial mismatches between acquired firm and parent firm
    - Corporate financial needs
    - Government antitrust action

Retrenchment –

- Liquidation strategy
  - Involves selling parts of a firm, usually for its tangible asset value and not as a going concern
- Two approaches
  - ***Liquidation*** - Involves complete distribution of a firm's assets to creditors, most of whom receive a small fraction of amount owed
  - ***Reorganization*** - Involves creditors temporarily freezing their claims while a firm reorganizes and rebuilds its operations more profitably
- ***Advantage*** of a ***reorganization*** bankruptcy
  - ***Proactive option*** offering maximum repayment of a firm's debt in the future if a recovery strategy is successful

Stability

- maintain status quo (e.g. continuous improvement)
- Suitable for stable mature markets with oligopoly or dominanat position

Combined strategy

- multiple use of strategies
- Most common for big multi- and trnasnationals corporations
- Joint venture
  - Involves establishing a ***third company*** (child), operated for the benefit of the co-owners (parents)
- Strategic alliance
  - Involves creating a ***partnership*** between two or more companies that contribute skills and expertise to a cooperative project
    - Exists for a defined period
    - Does not involve the exchange of equity
- Consortia, Keiretsus, and Chaebols
  - Defined as large ***interlocking relationships*** between businesses of an industry

Business level strategies

- Michael Porter's Competitive Strategies:
- low cost (e.g. Wal-Mart)
- differentiation (Volvo/Mercedes)
- focus (Penny's/Pea in a Pod)

Cost Leadership Strategy

- Firms that succeed in cost leadership often have the following internal strengths:
  - Access to the capital required to make a significant investment in production assets; this investment represents a barrier to entry that many firms may not overcome.
  - Skill in designing products for efficient manufacturing, for example, having a small component count to shorten the assembly process.
  - High level of expertise in manufacturing process engineering.
  - Efficient distribution channels.

Cost Leadership Strategy

- Risks
  - other firms may be able to lower their costs as well.
  - As technology improves, the competition may be able to leapfrog the production capabilities, thus eliminating the competitive advantage.
  - Additionally, several firms following a focus strategy and targeting various narrow markets may be able to achieve an even lower cost within their segments
  - and as a group gain significant market share.

Differentiation Strategy

- Firms that succeed in a differentiation strategy often have the following internal strengths:
  - Access to leading scientific research.
  - Highly skilled and creative product development team.
  - Strong sales team with the ability to successfully communicate the perceived strengths of the product.
  - Corporate reputation for quality and innovation.

Differentiation Strategy

- Risks
  - include imitation by competitors and changes in customer tastes. Additionally, various firms pursuing focus strategies may be able to achieve even greater differentiation in their market segments.

Focus Strategy

- Concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation.
  - The premise is that the needs of the group can be better serviced by focusing entirely on it.
  - A firm using a focus strategy often enjoys a high degree of customer loyalty, and this entrenched loyalty discourages other firms from competing directly.
- Because of their narrow market focus, firms pursuing a focus strategy have lower volumes and therefore less bargaining power with their suppliers. However, firms pursuing a differentiation-focused strategy may be able to pass higher costs on to customers since close substitute products do not exist.

Focus Strategy

- Firms that succeed in a focus strategy are able to tailor a broad range of product development strengths to a relatively narrow market segment that they know very well.
- Risks
  - include imitation and changes in the target segments. Furthermore, it may be fairly easy for a broad-market cost leader to adapt its product in order to compete directly. Finally, other focusers may be able to carve out sub-segments that they can serve even better.

Stuck in the Middle?

- These generic strategies are not necessarily compatible with one another. If a firm attempts to achieve an advantage on all fronts, in this attempt it may achieve no advantage at all.
  - For example, if a firm differentiates itself by supplying very high quality products, it risks undermining that quality if it seeks to become a cost leader. Even if the quality did not suffer, the firm would risk projecting a confusing image.
- For this reason, Michael Porter argued that to be successful over the long-term, a firm must select only one of these three generic strategies. Otherwise, with more than one single generic strategy the firm will be "stuck in the middle" and will not achieve a competitive advantage.

Stuck in the Middle?

- Porter argued that firms that are able to succeed at multiple strategies often do so by creating separate business units for each strategy. By separating the strategies into different units having different policies and even different cultures, a corporation is less likely to become "stuck in the middle."
- However, there exists a viewpoint that a single generic strategy is not always best because within the same product customers often seek multi-dimensional satisfactions such as a combination of quality, style, convenience, and price.
  - There have been cases in which high quality producers faithfully followed a single strategy and then suffered greatly when another firm entered the market with a lower-quality product that better met the overall needs of the customers.

Criticisms of generic strategies

Michael Treacy and Fred Wiersema (1993) modified Porter's three strategies to describe three basic "value disciplines" that can create customer value and provide a competitive advantage. They are operational excellence, product innovation, and customer intimacy.

- Several commentators questioned the use of generic strategies claiming they lack specificity, lack flexibility, and are limiting. Trying to apply generic strategies is like trying to fit a round peg into one of three square holes: You might get the peg into one of the holes, but it will not be a good fit.
- In particular, Millar (1992) questions the notion of being "caught in the middle". He claims that there is a viable middle ground between strategies. Many companies, for example, have entered a market as a niche player and gradually expanded.
- According to Baden-Fuller and Stopford (1992) the most successful companies are the ones that can resolve what they call "the dilemma of opposites".
- From Wikipedia, the free encyclopedia.

Generic Strategies/Industry Forces

Industry Force	Generic Strategies		
	Cost Leadership	**Differentiation**	**Focus**
Entry Barriers	Ability to cut price in retaliation deters potential entrants.	Customer loyalty can discourage potential entrants.	Focusing develops core competencies that can act as an entry barrier.
Buyer Power	Ability to offer lower price to powerful buyers.	Large buyers have less power to negotiate -- few close alternatives.	Large buyers have less power to negotiate because of few alternatives.
Supplier Power	Better insulated from powerful suppliers.	Better able to pass on supplier price increases to customers.	Suppliers have power because of low volumes, but a differentiation-focused firm is better able to pass on supplier price increases.
Threat of Substitutes	Use low price to defend against substitutes.	Customers become attached to differentiating attributes, reducing threat of substitutes.	Specialized products & core competency protect against substitutes.
Rivalry	Better able to compete on price.	Brand loyalty to keep customers from rivals.	Rivals cannot meet differentiation-focused customer needs.