Philip Kotler. Marketing Management
New Jersey: Prentice Hall (2000)

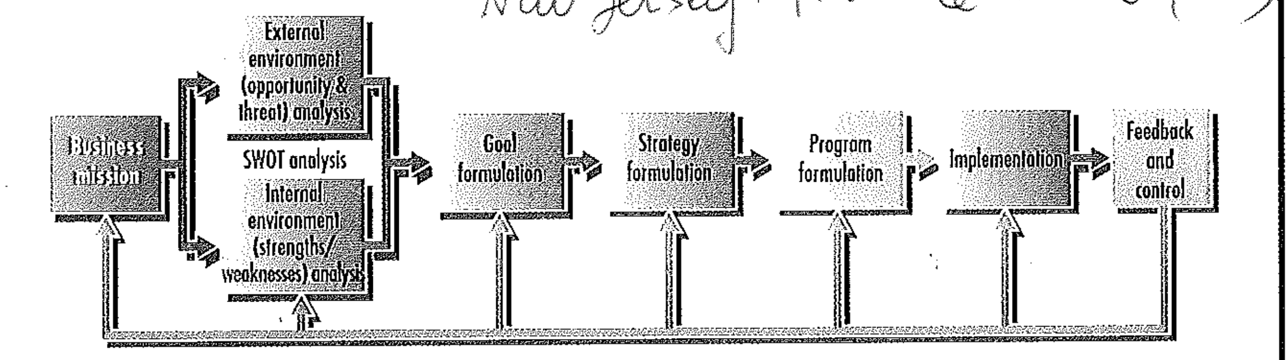

FIGURE 3.6

The Business Strategic-Planning Process

BUSINESS STRATEGIC PLANNING

The business unit strategic-planning process consists of the eight steps shown in Figure 3.6. We examine each step in the sections that follow.

BUSINESS MISSION

Each business unit needs to define its specific mission within the broader company mission. Thus, a television studio-lighting-equipment company might define its mission as "The company aims to target major television studios and become their vendor of choice for lighting technologies that represent the most advanced and reliable studio lighting arrangements." Notice that this mission does not attempt to win business from smaller television studios, win business by being lowest in price, or venture into nonlighting products.

Timeline: Around 1000 the barbarian invasions effectively separated Western Europe from its classical Roman and Greek past. That past would not be recovered until the Renaissance.

SWOT ANALYSIS

The overall evaluation of a company's strengths, weaknesses, opportunities, and threats is called *SWOT analysis.*

External Environment Analysis (Opportunity and Threat Analysis)

In general, a business unit has to monitor key *macroenvironment forces* (demographic-economic, technological, political-legal, and social-cultural) and significant *microenvironment actors* (customers, competitors, distributors, suppliers) that affect its ability to earn profits. The business unit should set up a *marketing intelligence system* to track trends and important developments. For each trend or development, management needs to identify the associated opportunities and threats.

A major purpose of environmental scanning is to discern new marketing opportunities.

- **A *marketing opportunity*** is an area of buyer need in which a company can perform profitably.

Opportunities can be classified according to their *attractiveness* and their *success probability*. The company's success probability depends on whether its business strengths not only match the key success requirements for operating in the target market but also exceed those of its competitors. Mere competence does not consti-

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tute a competitive advantage. The best-performing company will be the one that can generate the greatest customer value and sustain it over time.

In the opportunity matrix in Figure 3.7(a), the best marketing opportunities facing the TV-lighting-equipment company are listed in the upper-left cell (#1); management should pursue these opportunities. The opportunities in the lower-right cell (#4) are too minor to consider. The opportunities in the upper-right cell (#2) and lower-left cell (#3) should be monitored in the event that any improve in their attractiveness and success probability.

Some developments in the external environment represent threats.

- **An *environmental threat*** is a challenge posed by an unfavorable trend or development that would lead, in the absence of defensive marketing action, to deterioration in sales or profit.

Threats should be classified according to *seriousness* and *probability of occurrence.* Figure 3.7(b) illustrates the threat matrix facing the TV-lighting-equipment company. The threats in the upper-left cell are major threats, because they can seriously hurt the company and have a high probability of occurrence. To deal with these threats, the company needs to prepare contingency plans that spell out changes the company can make before or during the threat. The threats in the lower-right cell are very minor and can be ignored. The threats in the upper-right and lower-left cells do not require contingency planning but need to be monitored carefully in the event that they grow more serious.

Timeline: Around 1000, Cairo was built as the capital of the Fatimids, the major Islamic presence in the Mediterranean at that time.

Once management has identified the major threats and opportunities facing a specific business unit, it can characterize that business's overall attractiveness. Four outcomes are possible:

An *ideal business* is high in major opportunities and low in major threats.

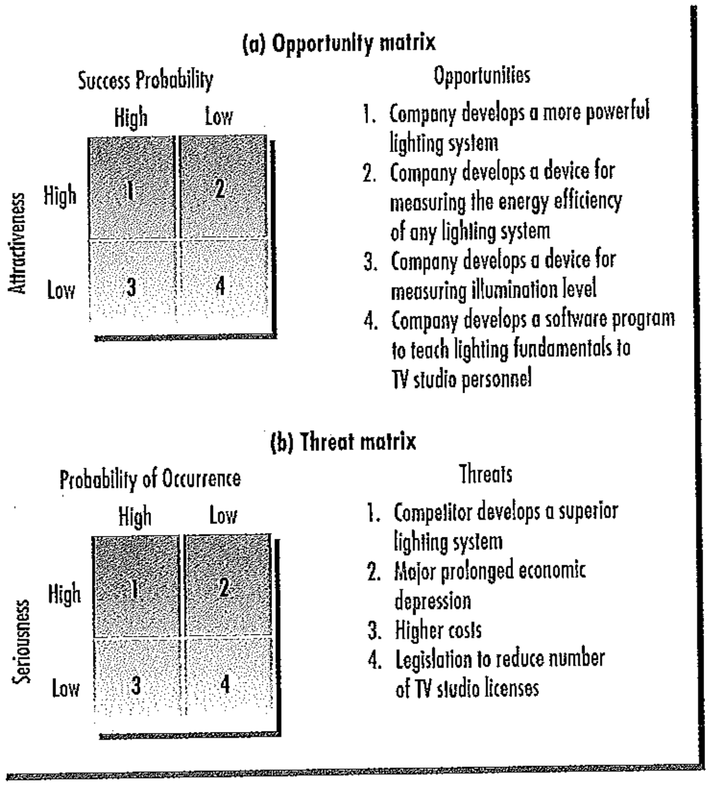
A *speculative business* is high in both major opportunities and threats.

A *mature business* is low in major opportunities and low in threats.

A *troubled business* is low in opportunities and high in threats.

FIGURE 3.7

Opportunity and Threat Matrixes



MARKETING *memo*

Checklist for Performing Strengths/Weaknesses Analysis

	PERFORMANCE					IMPORTANCE		
	MAJOR STRENGTH	MINOR STRENGTH	NEUTRAL	MINOR WEAKNESS	MAJOR WEAKNESS	HI	MED	LOW
MARKETING								
1. Company reputation								
2. Market share								
3. Customer satisfaction								
4. Customer retention								
5. Product quality								
6. Service quality								
7. Pricing effectiveness								
8. Distribution effectiveness								
9. Promotion effectiveness								
10. Sales force effectiveness								
11. Innovation effectiveness								
12. Geographical coverage								
FINANCE								
13. Cost or availability of capital								
14. Cash flow								
15. Financial stability								
MANUFACTURING								
16. Facilities								
17. Economies of scale								
18. Capacity								
19. Able, dedicated workforce								
20. Ability to produce on time								
21. Technical manufacturing skill								
ORGANIZATION								
22. Visionary, capable leadership								
23. Dedicated employees								
24. Entrepreneurial orientation								
25. Flexible or responsive								

Internal Environment Analysis (Strengths/Weaknesses Analysis)

It is one thing to discern attractive opportunities and another to have the competencies to succeed in these opportunities. Each business needs to evaluate its internal strengths and weaknesses periodically. It can do so by using a form like the one shown in the Marketing Memo "Checklist for Performing Strengths/Weaknesses Analysis." Management—or an outside consultant—reviews marketing, financial, manufacturing, and organizational competencies and rates each factor as a major strength, minor strength, neutral factor, minor weakness, or major weakness.

Clearly, the business does not have to correct all its weaknesses, nor should it gloat about all its strengths. The big question is whether the business should limit itself to those opportunities where it possesses the required strengths or should consider better opportunities where it might have to acquire or develop certain strengths. For example, managers at Texas Instruments (TI) split between those who want TI to stick to industrial electronics (where it has clear strength) and those who want the company to continue introducing consumer electronic products (where it lacks some required marketing strengths).

Sometimes a business does poorly not because its departments lack the required strengths but because they do not work together as a team. In one major electronics company, the engineers look down on the salespeople as "engineers who couldn't make it," and the salespeople look down on the service people as "salespeople who couldn't make it." It is therefore critically important to assess interdepartmental working relationships as part of the internal environmental audit. Honeywell does exactly this:

- **Honeywell** Every year, Honeywell asks each department to rate its own strengths and weaknesses and those of the other departments with which it interacts. The notion is that each department is a "supplier" to some departments and a "customer" of other departments. Thus, if Honeywell engineers frequently underestimate the cost and completion time of new products, their "internal customers" (manufacturing, finance, and sales) will be hurt. Once each department's weaknesses are identified, work can be undertaken to correct them.

Timeline: By the eleventh century, there was a money economy in China. Silver and copper were used as cash, along with paper money and letters of credit.

George Stalk, a leading BCG consultant, suggests that winning companies are those that have achieved superior in-company capabilities, not just core competences.[14] Every company must manage some basic processes, such as new-product development, sales generation, and order fulfillment. Each process creates value and requires interdepartmental teamwork. Although each department may possess specific core competences, the challenge is to develop superior competitive capability in managing the company's key processes. Stalk calls this *capabilities-based competition.*

GOAL FORMULATION

Once the company has performed a SWOT analysis, it can proceed to develop specific goals for the planning period. This stage of the process is called *goal formulation.* Managers use the term *goals* to describe objectives that are specific with respect to magnitude and time. Turning objectives into measurable goals facilitates management planning, implementation, and control.

Timeline: Around 1000 in China, cities became the hubs of regional commercial networks supporting a prosperous, busy internal trade.

Very few businesses pursue only one objective. Most business units pursue a mix of objectives including profitability, sales growth, market-share improvement, risk containment, innovativeness, and reputation. The business unit sets these objectives and then *manages by objectives* (MBO). For an MBO system to work, the unit's various objectives must meet four criteria:

- Objectives must be arranged *hierarchically*, from the most to the least important. For example, the business unit's key objective for the period may be to increase the rate of return on investment. This can be accomplished by increasing the profit level and/or reducing the amount of invested capital. Profit itself can be increased by increasing revenue and/or reducing expenses. Revenue can be increased in turn by increasing market share and/or prices. By proceeding this way, the business can move from broad objectives to specific objectives for specific departments and individuals.
- Objectives should be stated *quantitatively* whenever possible. The objective "increase the return on investment (ROI)" is better stated as the goal "increase ROI to 15 percent within two years."
- Goals should be *realistic*. They should arise from an analysis of the business unit's opportunities and strengths, not from wishful thinking.