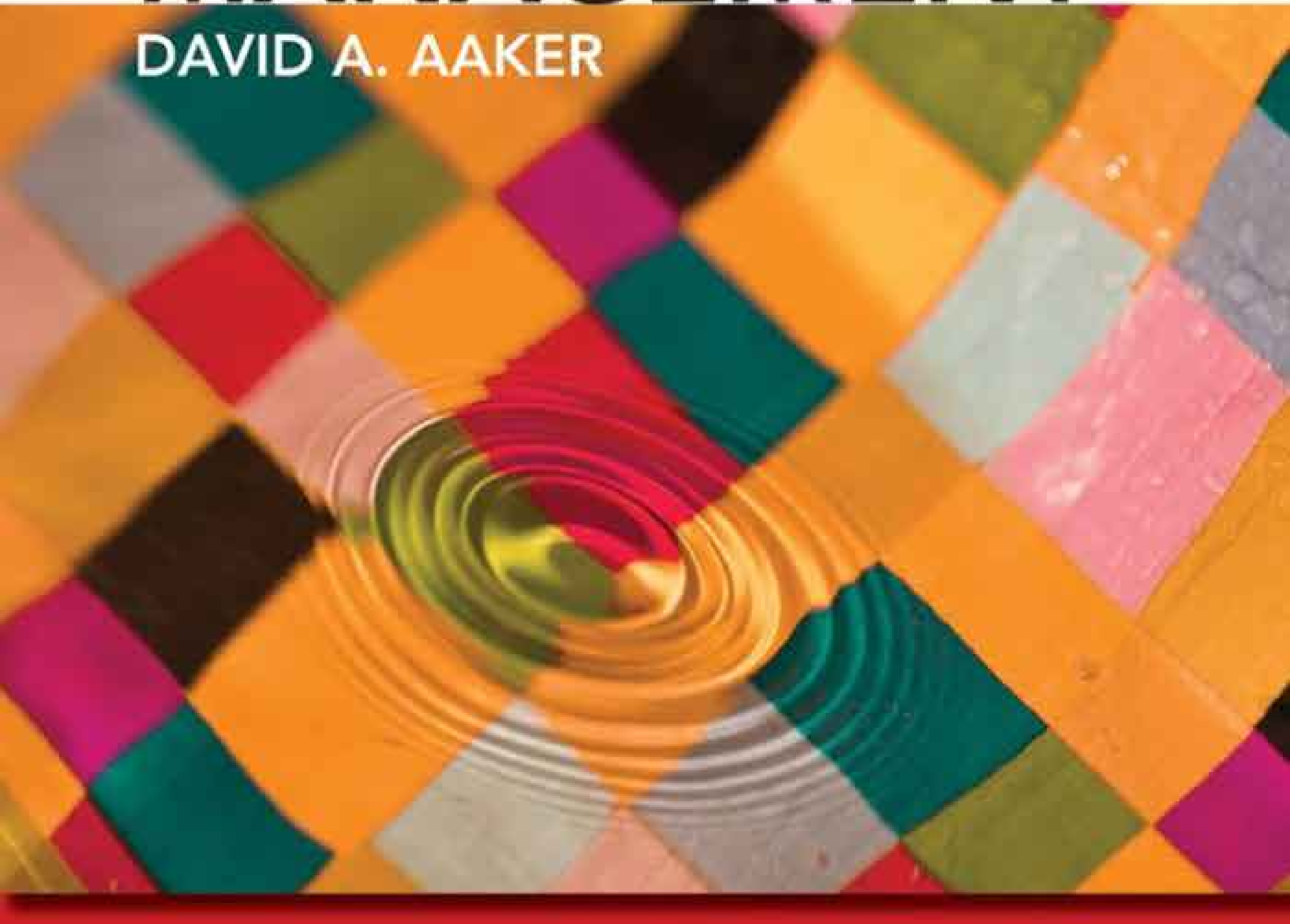
TENTH EDITION

STRATEGIC MARKET MANAGEMENT

DAVID A. AAKER



WILEY

TENTH EDITION

STRATEGIC MARKET MANAGEMENT

David A. Aaker
Vice-Chairman, Prophet
Professor Emeritus, University of California, Berkeley

WILEY

There is a tide in the affairs of men,
Which, taken at the flood, leads on to fortune;
Omitted, all the voyage of their life
Is bound in shallows and in miseries.
On such a full sea are we now afloat,
And we must take the current when it serves,
Or lose our ventures.
—*William Shakespeare, from Julius Caesar*

VICE PRESIDENT & EXECUTIVE PUBLISHER	George Hoffman
SENIOR EDITOR	Franny Kelly
PROJECT EDITOR	Brian Baker
EDITORIAL ASSISTANT	Jacqueline Hughes
DIRECTOR OF MARKETING	Amy Scholz
SENIOR MARKETING MANAGER	Kelly Simmons
MARKETING ASSISTANT	Marissa Carroll
DESIGN DIRECTOR	Harry Nolan
SENIOR DESIGNER	Maureen Eide
PRODUCT DESIGNER	Allison Morris
SENIOR PRODUCTION MANAGER	Janis Soo
ASSOCIATE PRODUCTION MANAGER	Joel Balbin
PRODUCTION EDITOR	Eugenia Lee
COVER DESIGNER	Kenji Ngieng
COVER PHOTO	© Mimo Khair Photography/Getty Images

This book was set in 10/12 New Caledonia by Thomson Digital and printed and bound by Edwards Brothers Malloy. The cover was printed by Edwards Brothers Malloy.

This book is printed on acid-free paper.

Founded in 1807, John Wiley & Sons, Inc. has been a valued source of knowledge and understanding for more than 200 years, helping people around the world meet their needs and fulfill their aspirations. Our company is built on a foundation of principles that include responsibility to the communities we serve and where we live and work. In 2008, we launched a Corporate Citizenship Initiative, a global effort to address the environmental, social, economic, and ethical challenges we face in our business. Among the issues we are addressing are carbon impact, paper specifi cations and procurement, ethical conduct within our business and among our vendors, and community and charitable support. For more information, please visit our website: www.wiley.com/go/citizenship.

Library of Congress Cataloging-in-Publication Data

Aaker, David A.
Strategic market management / David A. Aaker, Vice-Chairman, Prophet Professor Emeritus, University of California, at Berkeley. – Tenth edition.
pages cm
Includes index.
ISBN 978-1-118-58286-2 (pbk.)
1. Marketing—Management. 2. Strategic planning. I. Title.
HF5415.13.A23 2014
658.8–dc23

2013028806

Printed in the United States of America
10 9 8 7 6 5 4 3 2 1

PREFACE

The thrust of this tenth edition of Strategic Marketing Managements book is to develop business, brand, and marketing strategies that lead to enduring competitive advantage, a task that has become more daunting over the years. In most markets, competitors are reaching parity on basic functional benefits, so marshaling and protecting innovation is more important than ever and requires a strong organization and system to make happen.

Developing and implementing strategies is now very different than it was only a few decades ago when the business environments were more stable and simpler. Every market can now be described as dynamic. As a result, firms need to be able to adapt strategies in order to stay relevant. It is a challenging but exciting time, full of opportunities as well as threats.

The unique aspects of the book remain its inclusion of:

- A business strategy definition that includes product/market scope, value proposition, assets and competencies, and functional area strategies. Too often the business strategy concept is vague and ill-defined, leading to a diffused focus and weak communication.
- A structured strategic analysis, including a detailed customer, competitor, market, environmental, and internal analysis leading to understanding of market dynamics that is supported by a summary flow diagram, a set of agendas to help start the process, and a set of planning forms
- Concepts of strategic commitment, opportunism, and adaptability and how they can and should be blended together
- Growing the business by energizing the business, leveraging the business, creating new business, and going global. Each option has its own risks and rewards and all should be on the table.
- Bases of a value proposition and strong brands. A strategy without a compelling value proposition will not be market driven or successful. Brand assets that will support a business strategy need to be developed.
- Creating synergetic marketing with silo organizations defined by products or countries. All organizations have multiple products and markets, and creating cooperation and communication instead of competition and isolation is becoming an imperative.

Coping with a dynamic market requires customer-driven strategies and creativity. The book emphasizes a customer perspective and the fact that every strategy should have a value proposition that is meaningful to customers. It also details paths to break out of the momentum of the past to generate creative strategies and offerings.

THE TENTH EDITION

The tenth edition, which is again compact, retains the same chapter structure as the ninth edition. But there are significant additions and changes.

There is a new chapter on “Toward a Strong Brand Relationship.” A business strategy depends on creating sustainable competitive advantage based in part of relevant assets and competences. A loyal customer base is the ultimate competitive advantage because it is as asset that shields the business from competitors. It makes it easier and more economical to retain existing customers and to create new ones. Three routes to the creation of such a loyal base are presented in the chapter:

- **Touchpoint management.** A brand experience is created by brand touchpoints that occur any time a person interacts with the brand. Five steps to improve touchpoints are identifying current and desired touchpoints, internally evaluating their importance, having customers evaluate them, prioritizing, and developing a touchpoint plan.
- **Customer's sweet spot.** In developing a marketing programs and a strong relationship, connect to the customer's "sweet spot," a topic or activity that is related to what is important and involving to customers. A "sweet spot" program is more likely to stimulate a social network, create brand energy and interest, enhance brand liability and credibility, and form a relationship. To proceed, identify a "sweet spot" and then create or locate a program that the brand can be imbedded.
- **Go beyond functional benefits.** Broaden the brand concept to include emotional benefits (When I buy this brand, I feel __________), self-expressive benefits (When I buy or use this brand, I am __________), or social benefits (When I buy or sue this brand, the type of people I relate to are __________).

In addition to updating throughout, there is new or substantially revised material based on recent research and writings by influential thinkers. New topics include:

- Pitfalls in strategy development
- Digitally enabled customer research
- Big data
- Going green
- Social programs as a value proposition
- Getting brand credit for social programs
- Creating "must haves" that define new categories or subcategories
- Category exemplars
- Sourcing innovation in emerging markets
- What makes a good CMO change agent.

There are also new case studies to illustrate such as the revitalization of Lincoln, the Haas School's brand identity, P&G's "Thank You Mom" campaign, Pampers' Village, Red Bull events, Coca-Cola World Wildlife partnership, California Casualty's energizer programs, Whole Foods Markets, Panasonic's experience in China, and more.

AN OVERVIEW

This book begins with an introduction that defines a business strategy, followed by an overview of the book and a discussion of the CMO and strategy. Part I of the book, Chapters 2 to 6, covers strategic analysis, with individual chapters on customer, competitor, market, environmental, and internal analysis. Part II of the book, Chapters 7 to 16, covers the development and implementation of strategy. Chapter 7 discusses the concept of a sustainable competitive advantage (SCA) and introduces three strategy styles—strategic commitment, strategic opportunism, and strategic adaptability. Chapter 8 provides an overview of the scope of strategic choices by describing several value propositions. Chapter 9 shows how brand equity can be created and leveraged. Chapter 10 discusses how to develop a deep relationship with customers. The next four chapters discuss growth options: Chapter 11 covers energizing the business, Chapter 12 leveraging the business, Chapter 13 creating new businesses, and Chapter 14 global strategies. Chapter 15 discusses setting priorities and the disinvestment option. Finally, Chapter 16 introduces organizational dimensions and their role in supporting strategy and moving silo organization toward cooperation and communication.

THE AUDIENCE

This book is suitable for any course in a school of management or business that focuses on the management of strategies. In particular, it is aimed at:

- The marketing strategy course, which could be titled strategic market management, strategic market planning, strategic marketing, or marketing strategy
- The policy or entrepreneur course, which could be titled strategic management, strategic planning, business policy, entrepreneurship, or policy administration

The book is also designed to be used by managers who need to develop strategies in dynamic markets—those who have recently moved into general management positions or who run small businesses and want to improve their strategy development and planning processes. Another intended audience is general managers, top executives, and planning specialists who would like an overview of recent issues and methods in strategic market management.

A WORD TO INSTRUCTORS

The tenth edition is accompanied by a revision of the extensive instructor's resource guide authored by David Aaker and Jim Prost, which is located on the book's companion Web site at www.wiley.com/college/aaker. The resource guide has a PowerPoint presentation organized by chapter, a set of lecture suggestions for each chapter, a test bank, several course outlines, case notes, and three extra cases: Xerox, Samsung, and Intel.

ACKNOWLEDGMENTS

This book could not have been created without help from my friends, students, reviewers, and colleagues at the Haas School of Business and at Prophet. Their help and support are appreciated. Special thanks to the insightful reviewers—Gilbert Frisbie, Indiana University, and Jeffrey Stoltman, Wayne State University—who helped me make some major changes in this edition.

I am pleased to be associated with the publisher, John Wiley, a class organization, and its superb editors—Rich Esposito (who helped give birth to the first edition), John Woods, Tim Kent, Ellen Ford, Jeff Marshall, Judith Joseph, Jayme Heffler, and Franny Kelly (who guided this

as well as the last edition). It is a pleasure to be supported by competent, supportive professionals who are fun to be around. Eugenia Lee guided the manuscript through production with competence and good humor, and Brian Baker expertly coordinated the editorial and production process.

I owe a debt to some Nestlé people who helped with the pet food example used in the planning forms. Leah Porter, John Carmichael, and Mark Brodeur helped to develop the case study and updated it through several editions.

My thanks to my friend and colleague Jim Prost, a strategy teacher extraordinaire who made numerous suggestions about prior editions of the book and has helped me create a world-class teacher's resource manual.

This book is dedicated to the women in my life—my wife, Kay, and my three girls, Jennifer, Jan, and Jolyn, who all provide stimulation and support.

David A. Aaker
February 2013

CONTENTS

CHAPTER ONE

Strategic Market Management—An Introduction and Overview

Plans are nothing, planning is everything.
—Dwight D. Eisenhower

Even if you are on the right track, you'll get run over if you just sit there.
—Will Rodgers

If you don't know where you're going, you might end up somewhere else.
—Casey Stengel

All markets today are dynamic. Change is in the air everywhere, and change affects strategy. A winning strategy today may not prevail tomorrow. It might not even be relevant tomorrow.

There was a time, not too many decades ago, when the world held still long enough for strategies to be put into place and refined with patience and discipline. The annual strategic plan guided the firm. That simply is no longer the case. New products, product modifications, subcategories, technologies, applications, market niches, segments, media, channels, and on and on are emerging faster than ever in nearly all industries—from snacks to fast food to automobiles to financial services to software. Multiple forces feed these changes, including Internet technologies, the rise of China and India, trends in healthy living, energy crises, political instability, and more. The result is markets that are not only dynamic but risky, complex, and cluttered.

Such convoluted markets make strategy creation and implementation far more challenging. Strategy has to win not only in today's marketplace but also in tomorrow's, when the customer, the competitor set, and the market context may all be different. In environments shaped by this new reality, some firms are driving change. Others are adapting to it. Still others are fading in the face of change. How do you develop successful strategies in dynamic markets? How do you stay ahead of competition? How do you stay relevant?

The task is challenging. Strategists need new and refined perspectives, tools, and concepts. In particular, they need to develop competencies around five management tasks—strategic analysis, innovation, getting control of multiple business units, developing sustainable competitive advantages (SCAs), and developing growth platforms.

Strategic analysis. The need for information about customers, competitors, and trends affecting the market is now higher than ever. Further, the information needs to be continuous, not tied to a planning cycle, because a timely detection of threats, opportunities, strategic problems, or emerging weaknesses can be crucial to getting the response right. There is an enhanced premium on the ability to predict trends, project their impact, and distinguish them from mere fads. That means resources need to be invested and competencies created in terms of getting information, filtering it, and converting it into actionable analysis.

Innovation. The ability to innovate is one key to successfully winning in dynamic markets as numerous empirical studies have shown. Innovation, however, turns out to have a host of dimensions. There is the organizational challenge of creating a context that supports innovation. There is the brand portfolio challenge of making sure that the innovation is owned and not a short-lived market blip. There is the strategic challenge of developing the right mix of innovations that ranges from incremental to transformational. There is the execution challenge; it is necessary to turn innovations into offerings in the marketplace. There are too many examples of firms that owned an innovation and let others bring it to market.

Multiple businesses. It is the rare firm now that does not operate multiple business units defined by channels and countries in addition to product categories and subcategories. Decentralization is a century-old organizational form that provides for accountability, a deep understanding of the product or service, being close to the customer, and fast response, all of which are good things. However, in its extreme form, autonomous business units can lead to the misallocation of resources, redundancies, a failure to capture cross-business potential synergies, and confused brands. A challenge, explored in Chapter 16, is to adapt the decentralization model so that it no longer inhibits strategy adaptation in dynamic markets.

Creating sustainable competitive advantages (SCAs). Creating strategic advantages that are truly sustainable in the context of dynamic markets and dispersed business units is challenging. Competitors all too quickly copy product and service improvements that are valued by customers. What leads to SCAs in dynamic markets? One possible cornerstone is the development of assets such as brands, distribution channels, or a customer base or competencies such as social technology skills or sponsorship expertise. Another is leveraging organizational synergy created by multiple business units, which is much more difficult to copy than a new product or service.

Developing growth platforms. Growth is imperative for the vitality and health of any organization. In a dynamic environment, stretching the organization in creative ways becomes an essential element of seizing opportunities and adapting to changing circumstances. Growth can come from revitalizing core businesses to make them growth platforms as well as by creating new business platforms.

This book is concerned with helping managers identify, select, implement, and adapt market-driven business strategies that will enjoy a sustainable advantage in dynamic markets, as well as create synergy and set priorities among business units. The intent is to provide concepts, methods, and procedures that will lead to competencies in these five crucial management tasks—and, ultimately, to high-quality strategic decision making and profitable growth.

The book emphasizes the customer because in a dynamic market, a customer orientation is likely to be successful. The current, emerging, and latent motivations and unmet needs of customers need to influence strategies. Because of this, every strategy needs to have a value proposition that is meaningful and relevant to customers.

This first chapter starts with a very basic but central concept, that of a business strategy. The goal is to lend structure and clarity to a term that is widely employed but seldom defined. It continues with an overview of the balance of the book, introducing and positioning many of the subjects, concepts, and tools to be covered. Finally, the role of marketing in business strategy will be discussed. There is a significant trend for marketing to have a seat at the strategy table and to see the chief marketing officer (CMO) as empowered to create growth initiatives.

WHAT IS A BUSINESS STRATEGY?

Before discussing the process of developing sound business strategies, it is fair to address two questions. What is a business? What is a business strategy? Having groups of managers provide answers to these basic questions shows that there is little consensus as to what these basic terms mean. Clarifying these concepts is a necessary start toward a winning, adaptable strategy.

A Business

A business is generally an organizational unit that has (or should have) a defined strategy and a manager with sales and profit responsibility. The organizational unit can be defined by a variety of dimensions, including product line, country, channels, or segments. An organization will thus have many business units that relate to each other horizontally and vertically.

There is an organizational and strategic trade-off in deciding how many businesses should be operated. On one hand, it can be compelling to have many units because then each business will be close to its market and potentially capable of developing an optimal strategy. Thus, a strategy for each country or each region or each major segment may have some benefits. Too many business units become inefficient, however, and result in programs that lack scale economies and fail to leverage the strategic skills of the best managers. As a result, there is pressure to aggregate businesses into larger entities.

Business units can be aggregated to create a critical mass, to recognize similarities in markets and strategies, and to gain synergies. Businesses that are too small to justify a strategy will need to be aggregated so that the management structure can be supportable. (Of course, two business units can share some elements of operations, such as a sales force or a facility, to gain economies without merging.) Businesses that have similar market contexts and business strategies will be candidates for aggregation to leverage shared knowledge. Another aggregation motivation is to encourage synergies among business units when the combination is more likely to realize savings in cost or investment or create a superior value proposition.

There was a time when firms developed business strategies for decentralized business units defined by product, countries, or segments. These business strategies were then packaged or aggregated to create a firm strategy. That time has passed. There also now needs to be a firm strategy that identifies macro trends and strategy responses to these trends as a firm, allocates resources among business units, and recognizes synergy potentials. So there needs to be a strategy for the Ford company and perhaps the SUV group as well as the Ford Explorer, a major SUV brand.

A BUSINESS STRATEGY

Four dimensions define a business strategy: the product-market investment strategy, the customer value proposition, the assets and competencies, and the functional strategies and programs. The first specifies where to compete, and the remaining three indicate how to compete to win, as suggested by Figure 1.1.

The Product-Market Investment Strategy: Where to Compete

The scope of the business, and the dynamics within that scope, represent a very basic strategy dimension. Which sectors should receive investments in resources and management attention? Which should have resources withdrawn or withheld? Even for a small organization, the allocation decision is key to strategy.

The scope of a business is defined by the products it offers and chooses not to offer, by the markets it seeks to serve and not serve, by the competitors it chooses to compete with and to avoid, and by its level of vertical integration. Sometimes the most important business scope decision is what products or segments to avoid because such a decision, if followed by discipline, can conserve resources needed to compete successfully elsewhere. Peter Drucker, the management guru, challenged executives to specify—"What is our business and what should it be? What is not our business, and what should it not be?" Such a judgment can sometimes involve painful choices to divest or liquidate a business or avoid an apparently attractive opportunity. Chapter 15 discusses disinvestment judgments and why they are hard to make and easy to avoid.

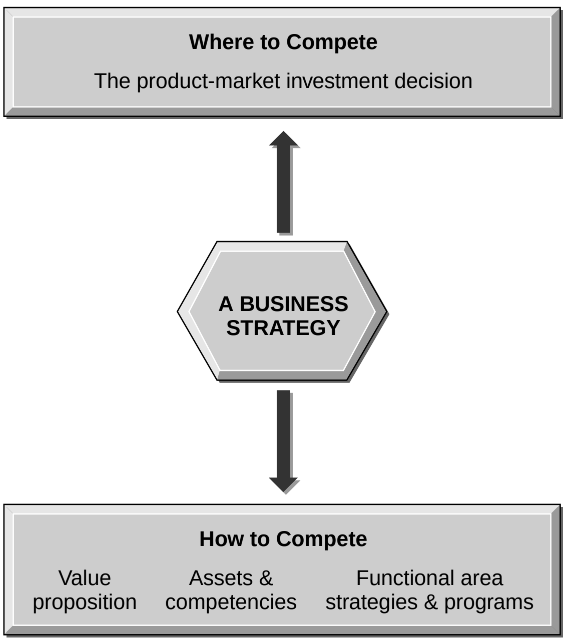


Figure 1.1 A Business Strategy

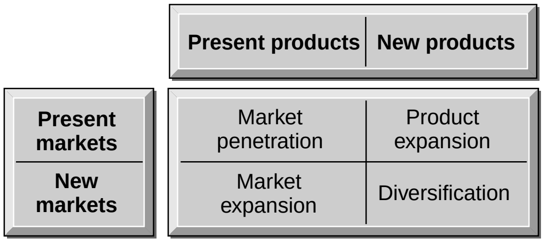


Figure 1.2 Product-Market Growth Directions

Many organizations have demonstrated the advantages of having a well-defined business scope. Williams-Sonoma offers products for the home and kitchen. IBM turned around its firm under the direction of Lou Gerstner in part by dialing up its service component and more recently by expanding its software footprint. P&G focuses on a broad spectrum of nonfood consumer goods with an emphasis on current or potential billion dollar brands such as Tide/Arial, Always/Whisper, Crest, Iams, Pampers, Charmin, Bounty, Pantene, Downy/Lenor, and Gillette. Wal-Mart and Amazon have a wide scope that generates both scale economies and a one-stop shopping value proposition.

More important than the scope is the scope dynamics. What product markets will be entered or exited in the coming years? As Figure 1.2 suggests, growth can be generated by bringing existing products to new markets (market expansion), bringing new products to existing markets (product expansion), or entering new product markets (diversification).

Expanding or changing the product-market mix can help the organization achieve growth and vitality and can be a lever to cope with the changing marketplace by seizing opportunities as they emerge. During the first five years of the Jeff Immelt era, GE changed its focus and character by investing in healthcare, energy, water treatment, home mortgages, and entertainment (by buying Universal) while exiting markets for insurance, industrial diamonds, business outsourcing based in India, and a motor division. In addition, the percentage of revenue sources outside the United States grew from 40 percent to nearly 50 percent.

There are risks as the scope expansion ventures further from the core business—the firm's offering may not be distinctive, problems in operations may arise, or the firm's brands may be inadequate to support the expansion. Despite similarities in manufacturing and distribution, Bausch & Lomb's attempt to move from eye care to mouthwash was a product and brand failure. An effort by a manufacturing equipment company to go into robots failed when it could not create or acquire the needed technology. Attention and resources may also be diverted from the core business, causing it to weaken.

The investment pattern will determine the future direction of the firm. Although there are obvious variations and refinements, it is useful to conceptualize the investment alternatives for each product-market as follows:

- Invest to grow (or enter the product market)
- Invest only to maintain the existing position
- Milk the business by minimizing investment
- Recover as many of the assets as possible by liquidating or divesting the business

The Customer Value Proposition

Ultimately, the offering needs to appeal to new and existing customers. There needs to be a value proposition that is relevant and meaningful to the customer and is reflected in the positioning of the product or service. To support a successful strategy, it should be sustainable over time and be differentiated from competitors. The customer value proposition can involve elements such as providing to customers:

- A good value (Wal-Mart)
- Excellence on an important product or service attribute such as getting clothes clean (Tide)
- The best overall quality (Lexus)
- Product line breadth (Amazon)
- Innovative offerings (3M)
- A shared passion for an activity or a product (Harley-Davidson)
- Global connections and prestige (CitiGroup)

Home Depot and Lowe's are home improvement retailers with very different value propositions. Home Depot has very austere, functional stores that are designed to appeal to contractors and homeowners on the basis of function and price. Lowe's strategy since 1994 has been to have a softer side, a look that would be comfortable to women. Thus, their stores are well lit, the signs colorful and clear, the floors spotless, and the people friendly and helpful. Years later, the Lowe's strategy has traction, and Home Depot, with a service issue caused by a cost reduction program, is attempting to adjust its own value proposition.

Assets and Competencies

The strategic assets or competencies that underlie the strategy often provide a sustainable competitive advantage (SCA). A *strategic competency* is what a business unit does exceptionally well—such as a customer relationship program, social technology, manufacturing, or promotion—that has strategic importance to that business. It is usually based on knowledge or a process. A strategic asset is a resource, such as a brand name or installed customer base, that is strong relative to that of competitors. Strategy formulation must consider the cost and feasibility of generating or maintaining assets or competencies that will provide the basis for a sustainable competitive advantage.

Assets and competencies can involve a wide spectrum, from Web sites to R&D expertise to a symbol such as the Michelin Man. For P&G, it is consumer understanding, brand building, innovation, go-to-market capability, and global scale.[1] Although a strong asset or competency is often difficult to build, it can result in an advantage that is significant and enduring.

The synergies obtained from operating a business that spans product markets can be an important asset and SCA source. Synergies, which are significant because they are based on organizational characteristics that are not easily duplicated, can come in many forms. Two businesses can reduce costs by sharing a distribution system, sales force, or logistics system, as when Gillette acquired Duracell (and later was itself acquired by P&G). Synergy can also be based on sharing the same asset, as with the HP brand shared by the dozens of business units or a competence such as Toyota's ability to manage manufacturing plants across brands and countries. Another source of synergy is the sharing of functional area strategies across business units. The Ford organization may be able to sponsor the World Cup, for instance, while Ford SUVs in the United Kingdom could not. Still another synergy source is the sharing of R&D. P&G aggregates brands such as Head & Shoulders, Aussie, Infusion, and Pantene into a hair care category not just to provide shelf space guidance to retailers and to create promotions more easily but also to manage the use of product innovations. Finally, a combination of products can provide a value proposition. Some software firms have aggregated products in order to provide a systems solution to customers; Microsoft Office is one example.

The ability of assets and competencies to support a strategy will in part depend on their power relative to competitors. To what extent are the assets and competencies strong and in place? To what extent are they ownable because of a symbol trademark or long-standing investment in a capability? To what extent are they based on organizational synergy that others cannot duplicate?

Assets and competencies can also provide points of parity. For dimensions such as perceived quality, distribution strength, or manufacturing cost, the goal may be not to create an advantage but to avoid a disadvantage. When an asset or competency is close enough to that of a competitor to neutralize the latter's strength, then a point of parity has been achieved. Such parity can be a key to success; if the perceived quality of a Wal-Mart offering is regarded as adequate, its price perception will then win the day.

Functional Strategies and Programs

A target value proposition, or a set of assets and competencies, should mandate some strategy imperatives in the form of a supportive set of functional strategies or programs. These strategies and programs, in turn, will be implemented with a host of tactical programs with a short-term perspective.

Functional strategies or programs that could drive the business strategy might include a:

- Customer relationship program
- Brand-building strategy
- Social technology strategy
- Communication strategy
- Information technology strategy
- Distribution strategy
- Global strategy
- Quality program
- Sourcing strategy
- Logistical strategy
- Manufacturing strategy

The need for functional strategies and programs can be determined by asking a few questions. What must happen for the firm to be able to deliver on the value proposition?

PITFALLS IN STRATEGY DEVELOPMENT

Richard Rumelt, noted strategy thinker, has identified some common pitfalls in developing a business strategy.[2] First, a central problem or threat is ignored. The problem could be a quality issue or a receding marketplace. A competitor's innovation or a customer trend could represent a threat. A strategy developed as if either did not exist will be doomed. Second, the strategy is a long to-do list with no sense of what is important. There needs to be a sense of priorities. Third, a set of goals is assumed to be a strategy. It is not. There can and should be goals, especially long-term goals that go beyond financial measures, but a strategy needs to address the four key dimensions in order to find a path to success. Finally, a strategy is a fluffy description of some desired state of affairs. We will become the industry leaders while increasing margins and addressing sustainability challenges. Rather, the strategies and accompanying action plans need to be specific.

Are the assets and competencies needed in place? Do they need to be created, strengthened, or supported? How?

Criteria to Select Business Strategies

The principal criteria useful for selecting alternatives can be grouped around five general questions:

- ***Is the ROI attractive?*** Creating a value proposition that is appealing to customers may not be worthwhile if the investment or operating cost is excessive. Starbucks opened in Japan in 1996 in the Ginza district and grew to over 400 units, many of which were in the highest rent areas. The result was a trendy brand but one that was vulnerable to competitors, who matched or exceeded Starbucks' product offerings and were not handicapped with such high overhead because they developed less costly sites.
- ***Is there a sustainable competitive advantage?*** Unless the business unit has or can develop a real competitive advantage that is sustainable over time in the face of competitor reaction, an attractive long-term return will be unlikely. To achieve a sustainable competitive advantage, a strategy should exploit organizational assets and competencies and neutralize weaknesses.
- ***Will the strategy have success in the future?*** A strategy needs to be able to survive the dynamics of the market, with its emerging threats and opportunities. Either the strategy components should be expected to have a long life or the strategy should be capable of adapting to changing conditions. In that context, future scenarios (described in Chapter 5) might be used to test the robustness of the strategy with respect to future uncertainties.
- ***Is the strategy feasible?*** The strategy should be within both the financial and human resources of the organization. It also should be internally consistent with other organizational characteristics, such as the firm's structure, systems, people, and culture. These organizational considerations are covered in Chapter 16.

EXPANDING THE BUSINESS SCOPE

In his classic article "Marketing Myopia," Theodore Levitt explained how firms that define their business myopically in product terms can stagnate even though the basic customer need they serve is enjoying healthy growth.[3] Because of a myopic product focus, others gain the benefits of growth. In contrast, firms that regard themselves as being in the transportation rather than the railroad business, the energy instead of the petroleum business, or the communication rather than the telephone business are more likely to exploit opportunities.

The concept is simple. Define the business in terms of the basic customer need rather than the product. Visa has defined itself as being in the business of enabling customers to exchange value (any asset, including cash on deposit, the cash value of life insurance, or the equity in a home) for virtually anything anywhere in the world. As the business is redefined, both the set of competitors and the range of opportunities are often radically expanded. After redefining its business, Visa estimated that it had reached only 5 percent of its potential given the new definition.

Defining a business in terms of generic need can be extremely useful for fostering creativity, generating strategic options, and avoiding an internally oriented product focus.

- ***Does the strategy fit with the other strategies of the firm?*** Are the sources and uses of cash flow in balance? Is organizational flexibility reduced by an investment in financial or human resources? Is potential synergy captured by the strategy?

STRATEGIC MARKET MANAGEMENT

Strategic market management is a system designed to help management create, change, or retain a business strategy and to create strategic visions. A *strategic vision* is a projection of a future strategy or sets of strategies. The realization of an optimal strategy may involve a delay because the firm is not ready or the emerging conditions are not yet in place. A vision will provide direction and purpose for interim strategies and activities and can inspire those in the organization by providing a purpose that is worthwhile and ennobling.

Strategic market management involves decisions with a significant, long-term impact on the organization. The resulting business strategies can be costly in terms of time and resources to reverse or change. In fact, emerging strategic decisions can mean the difference between success, mediocrity, failure, or even survival.

Developing the right business strategies is a basic goal, but it is not the end of the story. With a business strategy in hand, the task is to:

- Continuously challenge the strategy in order to make sure that it remains relevant to the changing marketplace and responsive to emerging opportunities
- Ensure that the organization develops and retains the necessary skills and competencies to make the strategy succeed
- Implement the strategy with energy and focus; the best strategy badly implemented will be a failure (or worse, jeopardize the firm)

Figure 1.3 provides a structure for strategic market management and for this book. A brief overview of its principal elements and an introduction to the key concepts will be presented in this chapter.