Strategy management

Business

Strategies have no chance of being implemented successfully when organizations do not market goods and services well, when firms cannot raise needed working capital, when firms produce technologically inferior products, or when firms have a weak information system. Chapter 8, therefore, examines marketing, finance/accounting, R&D, and MIS issues that are central to effective strategy implementation. Special topics include market segmentation, market positioning, evaluating the worth of a business, determining to what extent debt and/or stock should be used as a source of capital, developing projected financial statements, contracting R&D outside the firm, and creating an information support system. Manager and employee involvement and participation are essential for success in marketing, finance/accounting, R&D, and management information systems activities.

I. THE NATURE OF STRATEGY IMPLEMENTATION A. Implementation Is a Challenge . Less than 10 percent of strategies formulated are successfully implemented. There are many reasons for this low success rate, including failing to segment markets appropriately, paying too much for a new acquisition, falling behind competitors in R&D, and not recognizing the benefit of computers in managing information.

2. Strategy implementation directly affects the lives of plant managers, division managers, department managers, sales managers, project managers, personnel managers, staff managers, supervisors, and all employees. B. The Strategy Implementation Stage of the Strategic Management Process is shown in Figure 8-1. II. MARKETING ISSUES A.

Marketing decisions may require policies: 1. To use exclusive dealerships or multiple channels of distribution. 2. To use heavy, light, or no TV advertising. 3. To limit (or not) the share of business done with a single customer.

4. To be a price leader or follower. 5. To offer a complete or limited warranty. 6. To reward salespeople based on straight salary, straight commission, or a combination salary/commission.

. To advertise online or not. 8. To protect consumer privacy/designate web policies. a.

A marketing issue of increasing concern to consumers today is the extent to which companies can track individuals' movements on the Internet and are even be able to identify the individual by name and e-mail address. b. Recently completed research reveals that Web advertising dollars spent by businesses will increase to 27 percent of total advertising expenditures by 2002, up from 17 percent in 1999. B. Market Segmentation 1.

Market segmentation is widely used in implementing strategies, especially for small and specialized firms. Market segmentation can be defined as the subdividing of a market into distinct subsets of customers according to needs and buying habits. 2. Market segmentation is an important variable in strategy implementation for at least three major reasons. a.

First, strategies such as market development, product development, market penetration, and diversification require increased sales through new markets and products. b. Second, market segmentation allows a firm to operate with limited resources because mass production, mass distribution, and mass advertising are not required. c. Finally, market-segmentation decisions directly affect marketing mix variables: product, place, promotion, and price, as indicated in Table 8-1.

3. Geographic and demographic bases for segmenting markets are the most commonly employed as illustrated in Table 8-2. C. Product Positioning 1. After segmenting markets so that the firm can target particular customer groups, the next step is to find out what customers want and expect. This takes analysis and research.

2. Identifying target customers on whom to focus marketing efforts sets the stage for deciding how to meet the needs and wants of particular consumer groups. Product positioning is widely used for this purpose. 3. Positioning entails developing schematic representations that reflect how your products or services compare to competitors on dimensions most important to success in the industry.

4. Steps in product positioning: a. Select key criteria that effectively differentiate products or services in the industry. b. Diagram a two-dimensional roduct-positioning map with specified criteria on each axis.

c. Plot major competitors' products in the resultant four-quadrant matrix. d. 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).

e. Develop a marketing plan to position the company's products appropriately. 5. Some rules of thumb for using product positioning as a strategy-implementation tool are the following: a. Look for the hole or vacant niche. b.

Don’t squat between segments. c. Don’t serve two segments with the same strategy. d. Don’t position yourself in the middle of the map. 6.

An effective product positioning strategy meets two criteria: (1) it uniquely distinguishes a company from the competition, and (2) it leads customers to expect slightly less service than a company can deliver. Firms should not create expectations that exceed the service the firm can or will deliver. 7. Figure 8-3 illustrates examples of product positioning maps. III.

FINANCE/ACCOUNTING ISSUES A. Finance and Accounting Topics Central to Strategy Implementation 1. Some examples of decisions that may require finance/accounting policies: a. To raise capital with short-term debt, long-term debt, preferred stock, or common stock. b.

To lease or buy fixed assets. c. To determine an appropriate dividend payout ratio. d. To use LIFO, FIFO, or a market-value accounting approach. e.

To establish a certain percentage discount on accounts within a specified period of time. f. To determine the amount of cash that should be kept on hand. B. Acquiring Capital to Implement Strategies 1. Successful strategy implementation often requires additional capital.

. An 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 debt and stock is the best alternative for raising capital to implement strategies. 3. EPS/EBIT analysis is a valuable tool for making capital financing decisions needed to implement strategies, but several considerations should be made whenever using this technique. a. First, profit levels may be higher for stock or debt alternatives when EPS levels are lower.

b. Another consideration when using EPS/EBIT analysis is flexibility. As an organization's capital structure changes, so does its flexibility for considering future capital needs. c. Control is also a concern. When additional stock is issued to finance strategy implementation, ownership and control of the enterprise are diluted.

d. When using EPS/EBIT analysis, timing in relation to movements of stock prices, interest rates, and bond prices becomes important. 4. Tables 8-3, 8-4, and 8-5 illustrate EPS/EBIT analyses. Figure 8-4 illustrates an EPS/EBIT chart. C.

Projected Financial Statements . Projected financial statement analysis is a central strategy-implementation technique because it allows an organization to examine the expected results of various implementation decisions. 2. Table 8-6 provides a projected income statement and balance sheet. 3.

The six steps required to perform a projected financial analysis: a. Prepare the projected income statement before the balance sheet. Start by forecasting sales as accurately as possible. b. Use the percentage-of-sales method to project the cost of goods sold (CGS) and the expense items in the income statement. For example, if CGS is 70 percent of sales in the prior year then use that same percentage to calculate CGS in the future year.

Items such as interest, dividends, and taxes must be treated independently and cannot be forecasted using the percentage-of-sales method. c. Calculate the projected net income. d. Subtract from the net income any dividends to be paid for that year.

This remaining net income is Retained Earnings. Reflect the Retained Earnings total on both the income statement and balance sheet because this item is the key link between the two projected statements. Bring this retained earnings amount for that year (NI-DIV = RE) over to the balance sheet by adding it to the prior year's RE shown on the balance sheet. The RE on the balance sheet is a cumulative number rather than money available for strategy implementation. e.

Project the balance sheet items, beginning with retained earnings and then forecasting stockholders' equity, long-term liabilities, current liabilities, total liabilities, total assets, fixed assets, and current assets (in that order). Use the Cash account as the plug figure; that is, use the Cash account to make the assets total the liabilities and net worth. Then, make appropriate adjustments. f. List comments on the projected statements. Any time a significant change is made in an item from a prior year to the projected year, a remark should be provided.

D. Financial Budgets 1. A financial budget is a document that details how funds will be obtained and spent for a specified period of time. Annual budgets are the most common, although the period of time for a budget can range from one day to more than 10 years. 2.

There are almost as many different types of financial budgets as there are types of organizations. Some common types of budgets include cash budgets, operating budgets, sales budgets, and fixed budgets. 3. Perhaps the most common type of financial budget is the cash budget. E. Evaluating the Worth of a Business 1.

Evaluating the worth of a business is central to strategy implementation because integrative, intensive, and diversification strategies are often implemented by acquiring other firms. 2. All the various methods for determining a business's worth can be grouped into three main approaches: what a firm owns, what a firm earns, or what a firm will bring in the market. But it is important to realize that valuation is not an exact science. The valuation of a firm's worth is based on financial facts, but common sense and intuitive judgment must enter into the process.

a. The first approach in evaluating the worth of a business is determining its net worth or stockholders' equity. b. The second approach to measuring the value of a firm grows out of the belief that the worth of any business should be based largely on the future benefits its owners may derive through net profits. c. The third approach is to let the market determine a business's orth.

First, base the firm's worth on the selling price of a similar company. Second, calculate a price-earnings ratio. To use this method, divide the market price of the firm's common stock by the annual earnings per share and multiply this number by the firm's average net income for the past five years. The third approach can be called the outstanding share method. To use this method, simply multiply the number of shares outstanding by the market price per share and add a premium.

F. Deciding Whether to Go Public 1. Going public means selling off a percentage of your company to others in order to raise capital; consequently, it dilutes the owners' control of the firm. 2. Before going public, a firm must have quality management with a proven track record for achieving quality earnings and a positive cash flow.

IV. RESEARCH AND DEVELOPMENT (R&D) ISSUES A. R&D 1. R&D personnel can play an integral part in strategy implementation. 2. Surveys suggest that the most successful organizations use an R&D strategy that ties external opportunities to internal strengths and is linked with objectives.

3. R&D policies can enhance strategy-implementation efforts to: a. Emphasize product or process improvements. b. Stress basic or applied research. c.

Be leaders or followers in R&D. d. Develop robotics or manual-type processes. e. Spend a high, average, or low amount of money on R&D. f.

Perform R&D within the firm or contract R&D to outside firms. g. Use university researchers or private sector researchers. 4. Table 8-9 presents research and development involvement in selected strategy-implementation situations.

B. R&D Approaches for Implementing Strategy 1. There are at least three major R&D approaches for implementing strategies. . The first strategy is to be the first firm to market new technological products. b.

The second R&D approach is to be an innovative imitator of successful products, thus minimizing the risks and costs of start-up. c. A third R&D strategy is to be a low-cost producer by mass-producing products similar to, but less expensive than products recently introduced. 2. Perhaps the most current trend in R&D management has been lifting the veil of secrecy whereby firms, even major competitors, are joining forces to develop new products. V.

MANAGEMENT INFORMATION SYSTEMS (MIS) ISSUES A. MIS 1. Although no firm would use the same marketing or management approach for 20 years, many companies have 20-year-old computer information systems that threaten their very existence. 2. Firms that gather, assimilate, and evaluate external and internal information most effectively are gaining competitive advantages over other firms.

3. Information collection, retrieval, and storage can be used to create competitive advantages in ways such as cross-selling to customers, monitoring suppliers, keeping managers and employees informed, coordinating activities among divisions, and managing funds.