Marketing Strategy

A Decision-Focused Approach

Seventh Edition

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Chapter Three

Business Strategies and Their Marketing Implications

Business Strategies and Marketing Programs at 3M[1]

The Minnesota Mining and Manufacturing Company, better known as 3M, began manufacturing sandpaper nearly a century ago. Today it is the leader in dozens of technical areas from fluorochemistry to fiber optics. The firm makes more than 60,000 different products, which generated $25.3 billion in global sales in 2008. The company produced $3.5 billion in operating income despite the onset of a global recession in the second half of the year.

As you might expect of a firm with so many products, 3M is organized into a large number of strategic business units (SBUs). The company contains 35 such SBUs or product divisions organized into six market sectors:

- The Industrial and Transportation Sector makes a variety of tapes, abrasives, adhesives, filters, and specialty chemicals for industrial applications ranging from electronics to aerospace to automobile manufacturing.
- The Health Care Sector markets a variety of medical, surgical, pharmaceutical, and dental products and services.
- The Consumer and Office Sector offers products for homes and offices, such as Post-it brand repositionable notes and Scotch brand tapes.
- The Electro and Communications Sector supplies connecting, splicing, and protective products for electronics and telecommunications markets.
- The Display and Graphics Sector is a world leader in the sales of films and reflective materials for electronic displays, touch screens, commercial graphics, and traffic control.
- The Safety, Security, and Protection Services Sector markets a wide variety of products ranging from respirators for worker safety to cleaning supplies to fire protection products.

The corporation's growth strategy has focused primarily on internal new product development, emphasizing both improved products for existing customers and new products for new markets. One formal objective assigned to every business unit is to obtain at least 30 percent of annual sales from products introduced within the past four years. The company supports its growth strategy with a R&D budget of $1.4 billion, more than 6 percent of total revenues.

The company also pursues growth through the aggressive development of foreign markets, and an additional organizational sector is responsible for coordinating the firm's marketing efforts across countries. In 2008, 3M attained $16.1 billion in sales—64 percent of its total revenue—from outside the United States.

Differences in customer needs and life-cycle stages across industries, however, lead 3M's various business units to pursue their growth objectives in different ways. The Industrial Tape Division within the Industrial and Transportation Sector, for example, operates in an industry where both the product technologies and the customer segments are relatively mature and stable. Growth in this group results from extending the scope of adhesive technology (for instance, attaching weather stripping to auto doors), product improvements and line extensions targeted at existing customers, and expansion into global markets.

In contrast, the firm's Drug Delivery Systems Division within the Health Care Sector develops new medical applications for emerging technologies developed in 3M's many R&D labs. It sells a variety of technologies for the delivery of medications that are inhaled or absorbed through the skin. Most of the unit's growth comes from developing new products, often through alliances with other pharmaceutical firms, aimed at new markets.

The competitive strategies of 3M's various business units also differ. For instance, the industrial tape unit is primarily concerned with maintaining its commanding market share in existing markets while preserving or even improving its profitability. Its competitive strategy is to differentiate itself from competitors on the basis of product quality and excellent customer service.

But the drug delivery systems unit's strategy is to avoid head-to-head competitive battles by being the technological leader and introducing a stream of unique new products. To be successful, though, the unit must devote substantial resources to R&D and to the stimulation of primary demand. Thus, its main objective is volume growth, and it must sometimes sacrifice short-run profitability to fund the product development and marketing efforts needed to accomplish that goal.

These differences in competitive strategy, in turn, influence the strategic marketing programs within the various business units. For instance, the firm spends little on advertising or sales promotion for its mature industrial tape products. However, it does maintain a large, well-trained technical salesforce that provides valuable problem-solving assistance and other services to customers.

In contrast, the pioneering nature of the drug delivery unit's technologies calls for more extensive promotion to attract potential alliance partners, develop awareness among prescribing physicians, and stimulate primary demand. Consequently, the unit devotes a relatively large portion of its revenues to advertising in technical journals aimed at the pharmaceutical industry, physicians, and other medical professionals.

Although different business and marketing strategies make sense for business units facing different market conditions, they pose a dilemma for top management. Can a variety of competitive strategies and marketing programs be consistent with, and effective under, a single corporate strategy or company policy? George Buckley had to address this issue when he took over as 3M's CEO in 2005. His predecessor had instituted a "six sigma" program throughout the firm. Six sigma is a quality control approach that uses rigorous statistical analysis to remove variability from a process—such as order fulfillment or product delivery—thereby reducing defects, improving quality, and lowering costs.

Six sigma's objectives and methods make good sense for mature businesses such as 3M's industrial tape unit where the product line is well established and improving quality and lowering costs are important means of maintaining profitability. But what about a business whose competitive strategy focuses on innovation and new product development, such as the drug delivery systems unit? As one management guru points out, "The more you hardwire a company for total quality management (e.g., six sigma), the more it is going to hurt breakthrough innovation. The mind-set that is needed, the capabilities that are needed, the metrics that are needed . . . for discontinuous innovation are totally different."

Consequently, CEO Buckley has made adjustments in the firm's corporate policies to accommodate some of the strategic differences across the firm's business units. For instance, while he has continued to pursue six sigma goals in 3M's mature businesses, he has loosened the reins a bit by de-emphasizing the six sigma approach in the firm's research labs and some of its pioneering business units.

STRATEGIC CHALLENGES ADDRESSED IN CHAPTER 3

The situation at 3M illustrates that large firms with multiple businesses usually have a hierarchy of strategies extending from the corporate level down to the individual product-market entry. As we saw in Chapter 2, corporate strategy addresses such issues as the firm's mission and scope and the directions it will pursue for future growth. Thus, 3M's corporate growth strategy focuses primarily on developing new products and new applications for emerging technologies.

The major strategic question addressed at the business-unit level is: How should we compete in this business? For instance, 3M's industrial tape unit attempts to maintain its commanding market share and high profitability by differentiating itself on the basis of high product quality and good customer service. The drug delivery unit, on the other hand, seeks high growth via aggressive new product and market development.

Finally, the strategic marketing program for each product-market entry within a business unit attempts to allocate marketing resources and activities in a manner appropriate for accomplishing the business unit's objectives. Thus, most of the strategic marketing programs within 3M's drug delivery unit involve relatively large expenditures for marketing research and introductory advertising and promotion campaigns aimed at achieving sales growth.

One key reason for 3M's continuing success is that all three levels of strategy within the company have usually been characterized by good internal and external consistency, or **strategic fit.** The company's managers have done a good job of monitoring and adapting their strategies to the market opportunities, technological advances, and competitive threats in the company's external environment. The firm's marketing and sales managers play critical roles both in developing market-oriented strategies for individual products and in influencing and helping to formulate corporate and business-level strategies that are responsive to environmental conditions. At the same time, those strategies are usually internally compatible. Each strategy fits with those at other levels as well as with the unique competitive strengths and competencies of the relevant business unit and the company as a whole.

Strategic Issue
When there is a good fit between a business's competitive strategy and the strategic marketing programs of its various product or service offerings, the business will achieve better results.

Recent empirical evidence shows that when there is a good fit between a business's competitive strategy and the strategic marketing programs of its various product or service offerings, the business will achieve better results in terms of sales growth, market share, and profitability than when the two levels of strategy are inconsistent with one another.[2] Therefore, this chapter focuses on what marketing decision-makers can and should do to help ensure that the strategic marketing plans they develop are appropriate in light of the available resources and competitive thrust of the business that is their organizational home.

First, we briefly examine the strategic decisions that must be made at the business level, including how business units should be designed. We'll pay particular attention to the question of how a business might choose to compete. What generic competitive strategies might a business pursue, and in what environmental circumstances is each strategy most appropriate? We'll also explore whether the same kinds of competitive strategies are relevant for small, single-business organizations and entrepreneurial start-ups as for large multi-SBU firms such as 3M and whether technological shifts, such as the growth of e-commerce, are likely to give birth to new competitive strategies or make some old ones obsolete.

Next, we examine the interrelationships between different business competitive strategies and elements of the strategic marketing programs for the various products within the business. How does—or should—a particular competitive strategy influence or constrain marketing programs for the business's product offerings? What happens if the market positioning or specific marketing actions that would be most effective for appealing to a product's target customers do not fit very well with the competitive strategy of the larger business unit? For example, as some of the products made by the drug delivery unit at 3M—such as the inhalers they make for delivering asthma medications—become well established and mature, they may require marketing actions (e.g., more competitive pricing) that are not consistent with the aggressive product development strategy of the business unit. What should 3M and the marketing manager responsible for inhalers do under such circumstances?

Finally, the Marketing Plan Exercise at the end of the chapter asks you to identify the business-level competitive strategy that is being—or should be—pursued by the business unit or entrepreneurial start-up that houses your product-market entry. Why does that competitive strategy make sense given the capabilities and resources available? What does it imply for the marketing objectives, resources, and activities you will include in your marketing plan?

STRATEGIC DECISIONS AT THE BUSINESS-UNIT LEVEL

The components of a firm engaged in multiple industries or businesses are typically called **strategic business units,** or **SBUs.** Managers within each of these business units decide which objectives, markets, and competitive strategies to pursue. Top-level corporate managers typically reserve the right to review and approve such decisions to ensure their overall consistency with the company's mission, objectives, and the allocation of resources across SBUs in its portfolio. However, SBU-level managers, particularly those in marketing and sales, bear the primary responsibility for collecting and analyzing relevant information and generating appropriate strategies for their businesses. Those managers are more familiar with a given SBU's products, customers, and competitors and are responsible for successfully implementing the strategy. The rationale for breaking larger firms into semiautonomous SBUs usually stems from a market-oriented desire to move strategic decision-making closer to the customers the business is trying to reach.

The first step in developing business-level strategies is for the firm to decide how to divide itself into SBUs. The managers in each SBU must then make recommendations about (*a*) the unit's objectives, (*b*) the scope of its target customers and offerings, (*c*) which broad competitive strategy to pursue to build a competitive advantage in its product-markets, and (*d*) how resources should be allocated across its product-market entries and functional departments.

How Should Strategic Business Units Be Designed?

Ideally, strategic business units have the following characteristics:

- *A homogeneous set of markets to serve with a limited number of related technologies.* Minimizing diversity across a SBU's product-market entries enables the unit's manager to better formulate and implement a coherent and internally consistent business strategy.
- *A unique set of product-markets,* in the sense that no other SBU within the firm competes for the same customers with similar products. Thus, the firm avoids duplication of effort and maximizes economies of scale within its SBUs.
- *Control over those factors necessary for successful performance,* such as production, R&D and engineering, marketing, and distribution. This does not mean a SBU should not share resources, such as a manufacturing plant or a salesforce, with one or more other business units. But the SBU should determine how its share of the joint resource is used to effectively carry out its strategy.
- *Responsibility for their own profitability.*

As you might expect, firms do not always meet all of these ideals when designing business units. There are usually trade-offs between having many small homogeneous SBUs versus large but fewer SBUs that corporate executives can more easily supervise.

What criteria should managers use to decide how product-markets should be clustered into a business unit? The three dimensions that define the scope and mission of the entire corporation also define individual SBUs:

1. *Technical compatibility,* particularly with respect to product technologies and operational requirements, such as the use of similar production facilities and engineering skills.

2. Similarity in the *customer needs* or the product benefits sought by customers in the target markets.
3. Similarity in the *personal characteristics* or behavior patterns of customers in the target markets.

In practice, the choice is often between technical/operational compatibility on the one hand and customer homogeneity on the other. Frequently management defines SBUs by product-markets requiring similar technologies, production facilities, and employee skills. This minimizes the coordination problems involved in administering the unit and increases its ability to focus on one or a few critical competencies.

In some firms, however, the marketing synergies gained from coordinating technically different products aimed at the same customer need or market segment outweigh operational considerations. In these firms, managers group product-market entries into SBUs based on similarities across customers or distribution systems. For instance, 3M's medical products unit includes a wide range of products involving very different technologies and production processes. They are grouped within the same business unit, though, because all address health needs, are marketed to physicians and other health professionals, and can be sold through a common salesforce and distribution system.

Business-Unit Objectives

Companies break down corporate objectives into subobjectives for each SBU. In most cases, those subobjectives vary across SBUs according to the attractiveness of their industries, the strength of their competitive positions within those industries, and resource allocation decisions by corporate management. For example, managers may assign a SBU in a rapidly growing industry relatively high volume and share-growth objectives but lower ROI objectives than a SBU with a large share in a mature industry.

A similar process of breaking down overall SBU objectives into a set of subobjectives should occur for each product-market entry within the unit. Those subobjectives obviously must reflect the SBU's overall objectives, but once again, they may vary across product-market entries according to the attractiveness and growth potential of individual market segments and the competitive strengths of the company's product in each market. For example, when 3M's consumer products group first introduced its Scotch-Brite Never Rust soap pads—a new form of scouring pad that will never rust or splinter because it is made from recycled plastic beverage bottles—its objective was to capture a major share of the soap pad market from well-entrenched competitive brands such as SOS and Brillo. 3M wanted to maximize Never Rust's volume growth and market share even if the new line did not break even for several years. Consequently, the firm's top managers approved a major investment in a new plant and a substantial introductory advertising budget. At the same time, though, the consumer group maintained high profitability goals for its other established products—such as Scotch brand Magic Transparent Tape and Post-it brand notes—to provide the cash required for Never Rust's introduction and preserve the group's overall profit level.

Allocating Resources within the Business Unit

Once a SBU's objectives and budget have been approved at the corporate level, its managers must decide how the available resources should be allocated across the unit's various product-market entries. Because this allocation process is quite similar to allocating corporate resources across SBUs, many firms use similar economic value, value-based planning, or portfolio analysis tools for both. Of course, at the SBU level managers must determine the attractiveness of individual target markets, the competitive position of their products within those markets, and the customer equity and cash flows each product entry will likely generate rather than analyzing industry attractiveness and the overall competitive strengths of the firm.

Unfortunately, value-based planning is not as useful a tool for evaluating alternative resource allocations across product-market entries as it is for evaluating allocations across SBUs. This is because the product-market entries within a business unit often share the benefits of common investments and the costs of functional activities, as when multiple products are produced in the same plant or sold by the same salesforce. The difficulty of deciding what portion of such common investments and shared costs should be assigned to specific products increases the difficulty of applying a discounted cash flow analysis at the product-market level. As we shall see in Chapter 13, some firms have adopted activity-based costing systems in an attempt to resolve such problems,[3] but many difficulties remain. On the other hand, attempts to model the impact of various marketing initiatives on customer equity, as discussed in Chapter 2, are probably more appropriate at the product-market level than at the business level.[4]

HOW DO BUSINESSES COMPETE?

As mentioned, the essential strategic question at the SBU level is: How are we going to compete in this business? Thus, business strategies are primarily concerned with allocating resources across functional activities and product-markets to give the unit a sustainable advantage over its competitors. Of course, the unit's core competencies and resources, together with the customer and competitive characteristics of its industry, determine the viability of any particular competitive strategy.[5] The 3M drug delivery unit's strategy of gaining revenue growth via technological leadership and aggressive new product and market development, for instance, will continue to work only if the firm's R&D, engineering, and marketing competencies and resources continue to outweigh those of its competitors. Consequently, most SBUs pursue a single competitive strategy—one that best fits their market environments and competitive strengths—across all or most of the product-markets in which they compete. The question is: What alternative strategies are available to a business unit? What are the basic, or generic, competitive strategies most SBUs choose to pursue?

Generic Business-Level Competitive Strategies

Researchers have identified general categories of business-level competitive strategies based on overall patterns of purpose, practice, and performance in different businesses. Michael Porter distinguishes three strategies—or competitive positions—that businesses pursue to gain and maintain competitive advantages in their various product-markets: (1) *overall cost leadership;* (2) *differentiation*—building customer perceptions of superior product quality, design, or service; and (3) *focus,* in which the business avoids direct confrontation with its major competitors by concentrating on narrowly defined market niches. Porter describes firms that lack a distinctive strategy as being "stuck in the middle" and predicts that they will perform poorly.[6]

Robert Miles and Charles Snow identified another set of business strategies based on a business's intended rate of product-market development (new product development, penetration of new markets).[7] They classify business units into four strategic types: *prospectors, defenders, analyzers,* and *reactors.* Exhibit 3.1 describes each of these business strategies briefly. As you can see, businesses pursuing a *prospector strategy* focus on growth through the development of new products and markets. 3M's drug delivery business unit illustrates this. *Defender businesses* concentrate on maintaining their positions in established product-markets while paying less attention to new product development, as is the case with 3M's industrial tape business unit. The *analyzer strategy* falls in between these two. An analyzer

EXHIBIT 3.1 Definitions of Miles and Snow's Four Business Strategies

Prospector

- Operates within a broad product-market domain that undergoes periodic redefinition.
- Values being a "first mover" in new product and market areas, even if not all of these efforts prove to be highly profitable.
- Responds rapidly to early signals concerning areas of opportunity, and these responses often lead to new rounds of competitive actions.
- Competes primarily by stimulating and meeting new market opportunities but may not maintain strength over time in all markets it enters.

Defender

- Attempts to locate and maintain a secure position in relatively stable product or service areas.
- Offers relatively limited range of products or services compared with competitors.
- Tries to protect its domain by offering lower prices, higher quality, or better service than competitors.
- Usually not at the forefront of technological/new product development in its industry; tends to ignore industry changes not directly related to its area of operation.

Analyzer

- An intermediate type; makes fewer and slower product-market changes than prospectors but is less committed to stability and efficiency than defenders.
- Attempts to maintain a stable, limited line of products or services but carefully follows a selected set of promising new developments in its industry.
- Seldom a first mover, but often a second or third entrant in product-markets related to its existing market base—often with a lower cost or higher-quality product or service offering.

Reactor

- Lacks any well-defined competitive strategy.
- Does not have as consistent a product-market orientation as its competitors.
- Not as willing to assume the risks of new product or market development as its competitors.
- Not as aggressive in marketing established products as some competitors.
- Responds primarily when it is forced to by environmental pressures.

Source: Adapted from Raymond Miles and Charles Snow, *Organizational Strategy, Structure, and Process,* Copyright © 1978 McGraw-Hill; 2003 by the Board of Trustees of the Leland Stanford Jr. University. All rights reserved. Used with the permission of Stanford University Press, www.sup.org.

business attempts to maintain a strong position in its core product-market(s) but also seeks to expand into new—usually closely related—product-markets. Finally, *reactors* are businesses with no clearly defined strategy.

Even though both the Porter and Miles and Snow typologies have received popular acceptance and research support, neither is complete by itself. For example, a *defender business unit* could pursue a variety of competitive approaches to protect its market position, such as offering the lowest cost or differentiating itself on quality or service. Thus, we have combined the two typologies in Exhibit 3.2 to provide a more comprehensive overview of business strategies. Exhibit 3.2 classifies business strategies on two primary dimensions: the unit's desired rate of product-market development (expansion) and the unit's intended method of competing in its established product-markets.

Each of our strategic categories could be further subdivided according to whether a business applies the strategy across a broadly defined product-market domain or concentrates on a narrowly defined segment where it hopes to avoid direct confrontation with major competitors (the focus strategy of Porter). Although this distinction is useful, it is more germane to a discussion of the business's target market strategy (as discussed in Chapter 6) than to its competitive strategy. Most businesses compete in a reasonably consistent way across all of their product-markets, whether their domain is broad or narrow.

EXHIBIT 3.2 Combined Typology of Business-Level Competitive Strategies

<table>
<tr><th colspan="2" rowspan="3">Competitive strategy</th><th colspan="4">Emphasis on new product-market growth</th></tr>
<tr><th colspan="4">Heavy emphasis ⟵ ⟶ No emphasis</th></tr>
<tr><th>Prospector</th><th>Analyzer</th><th>Defender</th><th>Reactor</th></tr>
<tr><td rowspan="2">Competitive strategy</td><td>Differentiation</td><td rowspan="2">Units primarily concerned with attaining growth through aggressive pursuit of new product-market opportunities</td><td>Units with strong core business; actively seeking to expand into related product-markets with differentiated offerings</td><td>Units primarily concerned with maintaining a differentiated position in mature markets</td><td rowspan="2">Units with no clearly defined product-market development or competitive strategy</td></tr>
<tr><td>Cost leadership</td><td>Units with strong core business; actively seeking to expand into related product-markets with low-cost offerings</td><td>Units primarily concerned with maintaining a low-cost position in mature markets</td></tr>
</table>

Exhibit 3.2 describes only six business strategies, rather than the eight that one might expect. We view reactor and prospector business units as two homogeneous categories.

Evidence suggests that a substantial portion of businesses fall into the reactor category. One study, for instance, found that 50 out of 232 businesses examined could be classified as reactors.[8] By definition, however, such businesses do not have well-defined or consistent approaches either to new product development or to ways of competing in existing product-markets. In other words, reactors have no clear competitive strategy. Therefore, we will largely ignore them during the rest of this discussion.

Prospectors are also shown as a single strategic category in Exhibit 3.2 because the desire for rapid new product or market development is the overriding aspect of their strategy. There is little need for a prospector business to consider how it will compete in the new product-markets it develops because it will face little or no competition—at least not until those markets become established and other firms begin to enter.

Do the Same Competitive Strategies Work for Single-Business Firms and Start-ups?

Even small firms with a single business and only a few related product offerings or start-ups with a single product must decide how they will compete. Just like a SBU in a major corporation such as 3M, their competitive strategies should be tailored to their unique resources and competencies and aimed at securing a sustainable advantage over existing or potential competitors. Therefore, the same set of generic competitive strategies is just as appropriate for small firms as for business units within larger ones. For example, Belvedere vodka—made by a small distillery in Poland—has captured a share of the prestige segment of the North American vodka market by stressing the five-century tradition of its production process and the superior quality of its imported product: in other words, by pursuing a very effective differentiated defender strategy.[9]

However, there is one important difference between single-business and multi-SBU organizations. In smaller single-business firms, the distinction between business-level competitive strategy and marketing strategy tends to blur, and the two strategies blend into one. Belvedere's competitive strategy, for instance, is essentially the same as the market positioning for its primary product: a product that offers higher quality than competing brands because it is made with old-fashioned methods and ingredients that have not changed for centuries. The elements of its marketing strategy all flow from that competitive/market positioning: a premium price, advertising that stresses the product's long history and old-fashioned production practices, traditional packaging, and the like.

Another difference applies to entrepreneurial start-ups. Most start-ups do not have the resources to succeed by competing as a "me-too" competitor in a well-established and highly competitive product-market. By definition they do not have an established market position to defend. Therefore, while the taxonomy of competitive strategies is still relevant to entrepreneurial firms, in reality most of them—at least those that stand a reasonable chance of success—begin life as prospectors. They compete primarily by developing a unique product or service that meets the needs and preferences of a customer segment that is not being well served by established competitors.

Strategic Issue
Although the taxonomy of competitive strategies is still relevant to entrepreneurial firms, in reality most of them—at least those that stand a reasonable chance of success—begin life as prospectors.

The critical question for a start-up firm is: What happens when the new product matures and competitors arrive on the scene? Should the firm continue to focus on developing a stream of new products to stay a step ahead of the competition, even though such a strategy would mean paying less attention to its successful first entry? Should the firm switch to a defender strategy to leverage its initial success, even though that would mean competing head to head with other, probably bigger, competitors? Should the firm create two separate SBUs with different competitive strategies, even though it is small and resources are limited? These are the kinds of questions that arise when the market and competitive conditions facing a product entry change. The entry's marketing strategy should be adjusted in response to such changes, but that may make it less compatible with the overall competitive strategy of the business, which is typically harder to change in the short term. These and similar issues related to strategic change are examined in more detail later in this chapter.

Do the Same Competitive Strategies Work for Service Businesses?

What is a service? Basically, *services* can be thought of as **intangibles** and *goods* as **tangibles.** The former can rarely be experienced in advance of the sale, whereas the latter can be experienced, even tested, before purchase.[10] Using this distinction, a **service** can be defined as "any activity or benefit that one party can offer to another that is essentially intangible and that does not result in the ownership of anything. Its production may or may not be tied to a physical product."[11]

We typically associate services with nonmanufacturing businesses, even though service is often an indispensable part of a goods producer's offering. Services such as applications engineering, system design, delivery, installation, training, and maintenance can be crucial for building long-term relationships between manufacturers and their customers, particularly in consumer durable and industrial products businesses. Thus, almost all businesses are engaged in service to some extent.

Many organizations are concerned with producing and marketing a service as their primary offering rather than as an adjunct to a physical product. These organizations include public-sector and not-for-profit service organizations, such as churches, hospitals, universities, and arts organizations. The crucial question is this: To be successful, must service organizations employ different competitive strategies than goods manufacturers?

The framework we used to classify business-level competitive strategies in Exhibit 3.2 is equally valid for service businesses. Some service firms, such as Super 8 or Days Inn in the lodging industry, attempt to minimize costs and compete largely with low prices. Other firms, such as Marriott, differentiate their offerings on the basis of high service quality or unique benefits. Similarly, some service businesses adopt prospector strategies and aggressively pursue the development of new offerings or markets. For instance, American Express's Travel

EXHIBIT 3.3 *Emirates Airline—Competing for Business Travelers while Building New Markets*

Habib Fekih was traveling the Mideast as a salesman for European plane manufacturer Airbus in 1985, the year Dubai's ruling family started a small airline called Emirates to shuttle Pakistani workers between Karachi and Dubai aboard two leased planes. "Nobody believed Emirates could be a successful airline," recalls Fekih, who now heads Airbus's Mideast subsidiary. "It was the joke of the day."

Emirates is a joke no longer. It has grown into the world's 10th largest airline, earning $1.37 billion in profits in 2008 on sales of nearly $11 billion.

One important factor underlying Emirates's success is simply the geographic location of Dubai. It provides a convenient hub that has enabled Emirates to offer more convenient routes for business travelers shuttling between Europe or the United States and Asia. The rapid growth of many Asian economies in recent years has, in turn, generated increased demand and new customers for Emirates's flights.

Of course, many other airlines fly between Asia and the West, so Emirates has attempted to strengthen and defend its share of that market by offering superior service. Its aggressive purchasing of new planes from both Boeing and Airbus gives it one of the youngest and most efficient fleets of any airline. Innovative services such as a 200-channel in-flight entertainment system and sumptuous travelers' lounges have helped keep Emirates's flights more than 70 percent full. Thus, Emirates is a good example of a serivce firm pursuing a differentiated analyzer strategy—it differentiates itself with superior service in competitive markets while developing new routes between Asia and the West to capture new customers in that rapidly growing segment of the business travel market.

Source: Carol Matlack, "An Airline with a Deafening Roar," *BusinessWeek*, March 27, 2006, p. 46; and The Emirates Group's 2007–08 Annual Report on the firm's Web site, www.ekgroup.com.

Related Services Division has developed a variety of new services tailored to specific segments of the firm's credit-card holders. Other service businesses focus narrowly on defending established positions in current markets. Still others can best be described as analyzers pursuing both established and new markets. For instance, Emirates, an airline whose competitive strategy is discussed in Exhibit 3.3, might best be described as a differentiated analyzer.

A study of the banking industry provides empirical evidence that service businesses actually do pursue the same types of competitive strategies as goods producers. The 329 bank CEOs who responded to the survey had little trouble categorizing their institution's competitive strategies into one of Miles and Snow's four types. Fifty-four of the executives reported that their banks were prospectors, 87 identified their firms as analyzers, 157 as defenders, and 31 as reactors.[12]

Do the Same Competitive Strategies Work for Global Competitors?

In terms of the strategies described in Exhibit 3.2, businesses that compete in multiple global markets almost always pursue one of the two types of analyzer strategy. They must continue to strengthen and defend their competitive position in their home country—and perhaps in other countries where they are well established—while simultaneously pursuing expansion and growth in new international markets.

When examined on a country-by-country basis, however, the same business unit might be viewed as pursuing different competitive strategies in different countries. For instance, although 3M's industrial tape group competes like a differentiated defender in the United States, Canada, and some European countries where it has established large market shares, it competes more like a prospector when attempting to open and develop new markets in emerging economies such as China and Mexico.

This suggests that a single SBU may need to engage in different functional activities (including different strategic marketing programs)—and perhaps even adopt different organizational structures to implement those activities—across the various countries in which it competes. For example, Huawei Technologies Co., located in Shenzhen, China, was able to compete very effectively in its home market as a low-cost analyzer. The company earned

$2.4 billion in revenues in 2001 selling Internet switches and routers patterned after the equipment manufactured by Cisco Systems and Alcatel, but at prices as much as 40 percent lower. However, only 10 percent of those revenues came from outside China. In order to compete more effectively in the developed markets of Europe and the Americas, Huawei had to expand its product line and develop new equipment with more innovative features and greater functionality. In other words, it had to compete more like a prospector in those markets. Consequently, the firm greatly increased its R&D spending and product development efforts. It also developed marketing programs geared to generating brand awareness and trial among potential customers. For the time being, Huawei relies heavily on alliances with established distributors and value-added resellers to develop and implement marketing programs in developed markets. For instance, the Vierling Group serves as Huawei's exclusive distributor in Germany, and the firm has also signed a distribution deal with IBM. As a result of these strategic adjustments, Huawei's revenues topped $23.3 billion in 2008, and 75 percent of those sales came from outside of China.[13]

Will the Internet Change Everything?

Some analysts argue that the Internet will change the way firms compete. The Internet makes it easier for buyers and sellers to compare prices, reduces the number of middlemen necessary between manufacturers and end users, cuts transaction costs, improves the functioning of the price mechanism, and thereby increases competition.[14] One possible outcome of all these changes is that it will be harder for firms to differentiate themselves on any basis other than low price. All the business-level competitive strategies focused on differentiation will become less viable, whereas firms pursuing low-cost strategies will be more successful.

Although we agree that the Internet has increased both efficiency and competitiveness in many product-markets, we doubt that competition will focus exclusively on price. For one thing, innovation is likely to continue—and probably accelerate—in the future. Unique new products and services will continue to emerge and provide a way for the innovator to gain a competitive advantage, at least in the short term. Thus, firms with the resources and competencies necessary to produce a continuing stream of new product or service offerings that appeal to one or more customer segments—that is, to effectively implement a prospector strategy—should be successful regardless of whether they are the lowest-cost producers in their industries. Amazon.com, the largest e-tailer as of early 2009, is generally not the lowest priced.

In addition, the Internet is primarily a communications channel. Although it facilitates the dissemination of information, including price information, the goods and services themselves will continue to offer different features and benefits. As customers gather more information from the Internet and become better informed, they are less likely to be swayed by superficial distinctions between brands. But if a firm offers unique benefits that a segment of customers perceives as *meaningful,* it should still be able to differentiate its offering and command a premium price, at least until its competitors offer something similar.

Strategic Issue

The Internet will make it easier for firms to customize their offerings and personalize their relationships with their customers.

Finally, the Internet will make it easier for firms to customize their offerings and personalize their relationships with their customers. Such personalization should differentiate the firm from its competitors in the customer's eyes and improve customer loyalty and retention. For instance, over the past few years, the Internet has played a major role in developing logistical alliances among organizational buyers and their suppliers. Consumer goods and services firms, and even Internet portals, also are using the Internet's interactive capabilities to acquire and communicate information and build customer relationships. For example, the My Yahoo! Web site allows individual consumers to personalize their Web portal in exchange for some basic demographic information. About 40 percent of shoppers who buy clothing at Lands' End—both men and women—choose a customized garment tailored to their personal dimensions over the standard-sized equivalent, even though each customized garment costs more and takes longer to arrive. Lands' End's margins on customized clothing are about the same as on standard items, but customers who customize are more loyal to the company. Reorder rates for custom-clothing buyers are 35 percent higher than for buyers of Lands' End's standard items.[15]

HOW DO COMPETITIVE STRATEGIES DIFFER FROM ONE ANOTHER?

In Chapter 1, we said that all strategies consist of five components or underlying dimensions: scope (or breadth of strategic domain), goals and objectives, resource deployments, a basis for achieving a sustainable competitive advantage, and synergy. But the generic strategies summarized in Exhibit 3.2 are defined largely by their differences on only one dimension: the nature of the competitive advantage sought. Each strategy also involves some important differences on the other four dimensions—differences that are outlined in Exhibit 3.4 and discussed as follows. Those differences provide insights concerning the conditions under which each strategy is most appropriate and about the relative importance of different marketing actions in implementing them effectively.

EXHIBIT 3.4 **How Business Strategies Differ in Scope, Objectives, Resource Deployments, and Synergy**

Dimensions	Low-Cost Defender	Differentiated Defender	Prospector	Analyzer
• *Scope*	Mature/stable/ well defined domain; mature technology and customer segments	Mature/stable/ well-defined domain; mature technology and customer segments	Broad/dynamic domains; technology and customer segments not well established	Mixture of defender and prospector strategies
• *Goals and objectives*				
Adaptability (new product success)	Very Little	Little	Extensive	Mixture of defender and prospector strategies
Effectiveness (increase in market share)	Low	Low	High	Mixture of defender and prospector strategies
Efficiency (ROI)	High	High	Low	Mixture of defender and prospector strategies
• *Resource deployment*	Generate excess cash (cash cows)	Generate excess cash (cash cows)	Need cash for product development (question marks or stars)	Need cash for product development but less so than do prospectors
• *Synergy*	Need to seek operating synergies to achieve efficiencies	Need to seek operating synergies to achieve efficiencies	Danger in sharing operating facilities and programs—better to share technology/ marketing skills	Danger in sharing operating facilities and programs—better to share technology/ marketing skills

Differences in Scope

Both the breadth and stability of a business's domain are likely to vary with different strategies. This, in turn, can affect the variables the corporation uses to define its various businesses. At one extreme, defender businesses, whether low-cost or differentiated, tend to operate in relatively well-defined, narrow, and stable domains where both the product technology and the customer segments are mature.

At the other extreme, prospector businesses usually operate in broad and rapidly changing domains where neither the technology nor customer segments are well established. The scope of such businesses often undergoes periodic redefinition. Thus, prospector businesses are typically organized around either a core technology that might lead to the development of products aimed at a broad range of customer segments or a basic customer need that might be met with products based on different technologies. The latter is the approach taken by 3M's drug delivery systems business. Its mission is to satisfy the health needs of a broad range of patients with new products developed from technologies drawn from other business units within the firm.

Analyzer businesses, whether low-cost or differentiated, fall somewhere in between the two extremes. They usually have a well-established core business to defend, and often their domain is primarily focused on that business. However, businesses pursuing this intermediate strategy are often in industries that are still growing or experiencing technological changes. Consequently, they must pay attention to the emergence of new customer segments and/or new product types. As a result, managers must review and adjust the domain of such businesses from time to time.

Differences in Goals and Objectives

Another important difference across generic business-level strategies with particular relevance for the design and implementation of appropriate marketing programs is that different strategies often focus on different objectives. SBU and product-market objectives might be specified on a variety of criteria, but to keep things simple, we focus on only three performance dimensions of major importance to both business-unit and marketing managers:

1. *Effectiveness.* The success of a business's products and programs relative to those of its competitors in the market. Effectiveness is commonly measured by such items as *sales growth* relative to competitors or *changes in market share.*
2. *Efficiency.* The outcomes of a business's programs relative to the resources used in implementing them. Common measures of efficiency are *profitability* as a percent of sales and *return on investment.*
3. *Adaptability.* The business's success in responding over time to changing conditions and opportunities in the environment. Adaptability can be measured in a variety of ways, but the most common ones are the *number of successful new products* introduced relative to competitors or the *percentage of sales accounted for by products introduced within the last five years.*

However, it is very difficult for any SBU, regardless of its competitive strategy, to simultaneously achieve outstanding performance on even this limited number of dimensions because they involve substantial trade-offs. Good performance on one dimension often means sacrificing performance on another.[16] For example, developing successful new products or attaining share growth often involves large marketing budgets, substantial up-front investment, high operating costs, and a shaving of profit margins—all of which reduce ROI. This suggests that managers should choose a competitive strategy with a view toward maximizing performance on one or two dimensions, while expecting to sacrifice some level of performance on the others, at least in the short term. Over the longer term, of course, the chosen strategy should promise discounted cash flows that exceed the business's cost of capital and thereby increase shareholder value.

As Exhibit 3.4 indicates, prospector businesses are expected to outperform defenders on both new product development and market-share growth. On the other hand, both defender strategies should lead to better returns on investment. Differentiated defenders likely produce higher returns than low-cost defenders, assuming that the greater expenses involved in maintaining their differentiated positions can be more than offset by the higher margins gained by avoiding the intense price competition low-cost competitors often face. Once again, both low-cost and differentiated analyzer strategies are likely to fall between the two extremes.[17]

Differences in Resource Deployment

Businesses following different strategies also tend to allocate their financial resources differently across product-markets, functional departments, and activities within each functional area. Prospector—and to a lesser degree, analyzer—businesses devote a relatively large proportion of resources to the development of new product-markets. Because such product-markets usually require more cash to develop than they produce short term, businesses pursuing these strategies often need infusions of financial resources from other parts of the corporation. In portfolio terms, they are "question marks" or "stars."

Defenders, on the other hand, focus the bulk of their resources on preserving existing positions in established product-markets. These product-markets are usually profitable; therefore, defender businesses typically generate excess cash to support product and market development efforts in other business units within the firm. They are the "cash cows."

Resource allocations among functional departments and activities within the SBU also vary across businesses pursuing different strategies. For instance, marketing budgets tend to be the largest as a percentage of a SBU's revenues when the business is pursuing a prospector strategy; they tend to be the smallest as a percentage of sales under a low-cost defender strategy. We discuss this in more detail later.

Differences in Sources of Synergy

Because different strategies emphasize different methods of competition and different functional activities, a given source of synergy may be more appropriate for some strategies than for others.

At one extreme, the sharing of operating facilities and programs may be an inappropriate approach to gaining synergy for businesses following a prospector strategy. To a lesser extent, this also may be true for both types of analyzer strategies. Such sharing can reduce a SBU's ability to adapt quickly to changing market demands or competitive threats. Commitments to internally negotiated price structures and materials, as well as the use of joint resources, facilities, and programs, increase interdependence among SBUs and limit their flexibility. It is more appropriate for such businesses to seek synergy through the sharing of a technology, engineering skills, or market knowledge—expertise that can help improve the success rate of their product development efforts. Thus, 3M's drug delivery systems business attempts to find medical applications for new technologies developed in many of the firm's other business units.

At the other extreme, however, low-cost defenders should seek operating synergies that will make them more efficient. Synergies that enable such businesses to increase economies of scale and experience curve effects are particularly desirable. They help reduce unit costs and strengthen the strategy's basis of competitive advantage. The primary means of gaining such operating synergies is through the sharing of resources, facilities, and functional activities across product-market entries within the business unit or across related business units. Emerson Electric, for instance, formed an "operating group" of several otherwise autonomous business units that make different types of electrical motors and tools. By sharing production facilities, marketing activities, and a common salesforce, the group was able to reduce the costs of both per-unit production and marketing.

DECIDING WHEN A STRATEGY IS APPROPRIATE: THE FIT BETWEEN BUSINESS STRATEGIES AND THE ENVIRONMENT

Because different strategies pursue different objectives in different domains with different competitive approaches, they do not all work equally well under the same environmental circumstances. The question is: Which environmental situations are most amenable to the successful pursuit of each type of strategy? Exhibit 3.5 outlines some major market, technological, and competitive conditions—plus a business unit's strengths relative to its competitors—that are most favorable for the successful implementation of each generic business strategy. We next discuss the reasons each strategy fits best with a particular set of environmental conditions.

Appropriate Conditions for a Prospector Strategy

A prospector strategy is particularly well suited to unstable, rapidly changing environments resulting from new technology, shifting customer needs, or both. In either case, such industries tend to be at an early stage in their life cycles and offer many opportunities for new product-market entries. Industry structure is often unstable because few competitors are present and their relative market shares can shift rapidly as new products are introduced and new markets develop.

Because they emphasize the development of new products and/or new markets, the most successful prospectors are usually strong in, and devote substantial resources to, two broad areas of competence: first, R&D, product engineering, and other functional areas that identify new technology and convert it into innovative products and second, marketing research, marketing, and sales—functions necessary for the identification and development of new market opportunities.

In some cases, however, even though a prospector business has strong product development and marketing skills, it may lack the resources to maintain its early lead as product-markets grow and attract new competitors. For example, Minnetonka was the pioneer in several health and beauty-aid product categories with brands such as Softsoap liquid soap and Check-Up plaque-fighting toothpaste. However, because competitors such as Procter & Gamble and Colgate-Palmolive introduced competing brands with advertising and promotion budgets much larger than Minnetonka could match, the firm was eventually forced to change its strategy and concentrate on manufacturing products under licenses from larger firms.

Appropriate Conditions for an Analyzer Strategy

The analyzer strategy is a hybrid. On one hand, analyzers are concerned with defending—via low costs or differentiation in quality or service—a strong share position in one or more established product-markets. At the same time, the business must pay attention to new product development to avoid being leapfrogged by competitors with more technologically advanced products or being left behind in newly developing application segments within the market. This dual focus makes the analyzer strategy appropriate for well-developed industries that are still experiencing some growth and change as a consequence of evolving customer needs and desires or continuing technological improvements.

EXHIBIT 3.5 Environmental Factors Favorable to Different Business Strategies

External Factors	Prospector	Analyzer	Differentiated Defender	Low-Cost Defender
Industry and market	Industry in introductory or early growth stage of life cycle; many potential customer segments as yet unidentified and/or undeveloped.	Industry in late growth or early maturity stage of life cycle; one or more product offerings currently targeted at major customer segments, but some potential segments may still be undeveloped.	Industry in maturity or decline stage of life cycle; current offerings targeted at all major segments; sales primarily due to repeat purchases/ replacement demand.	Industry in maturity or decline stage of life cycle; current offerings targeted at all major segments; sales primarily due to repeat purchases/replacement demand.
Technology	Newly emerging technology; many applications as yet undeveloped.	Basic technology well developed but still evolving; product modifications and improvements—as well as emergence of new competing technologies—still likely.	Basic technology fully developed and stable; few major modifications or improvements likely.	Basic technology fully developed and stable; few major modifications or improvements likely.
Competition	Few established competitors; industry structure still emerging; single competitor holds commanding share of major market segments.	Large number of competitors, but future shakeout likely; industry structure still evolving; one or more competitors hold large shares in major segments, but continuing growth may allow rapid changes in relative shares.	Small to moderate number of well-established competitors; industry structure stable, though acquisitions and consolidation possible; maturity of markets means relative shares of competitors tend to be reasonably stable over time.	Small to moderate number of well-established competitors; industry structure stable, though acquisitions and consolidation possible; maturity of markets means relative shares of competitors tend to be reasonably stable over time.
Business's relative strengths	SBU (or parent) has strong R&D, product engineering and marketing research and marketing capabilities.	SBU (or parent) has good R&D, product engineering, and marketing research capabilities, but not as strong as some competitors'; has either low-cost position or strong sales, marketing, distribution, or service capabilities in one or more segments.	SBU has no outstanding strengths in R&D or product engineering; costs are higher than at least some competitors'; SBU's outstanding strengths are in process engineering and quality control and/or in marketing, sales, distribution, or customer services.	SBU (or parent) has superior sources of supply and/or process engineering and production capabilities that enable it to be low-cost producer; R&D, product engineering, marketing, sales, or service capabilities may not be as strong as some competitors.

Automobile manufacturing is an example of such an industry. Competitors are relatively few and well established, the market is relatively mature, but technology continues to advance. Recent changes in the industry's environment—such as rising fuel prices and concerns over the impact of auto emissions on global warming—have underscored the need for more efficient and ecologically friendly technologies. Thus, auto manufacturers around the world, including Toyota, Honda, and many others, are investing billions in a variety of different technologies to develop a new generation of cars, as discussed in Exhibit 3.6.

The actions of Toyota and Honda illustrate one problem with an analyzer strategy. Few businesses have the resources and competencies needed to successfully defend an established core business while generating revolutionary new products at the same time. Success on both dimensions requires strengths across virtually every functional area, and few businesses (or their parent companies) have such universal strengths relative to competitors. Therefore, analyzers are often not as innovative in new product development as prospectors. They may not be as profitable in defending their core businesses as defenders.

EXHIBIT 3.6 *Analyzer Strategies in the Auto Industry*

Given that Toyota was already selling 300,000 of its Prius gas-electric hybrid cars annually by 2008, it was in the strongest position to respond to the double whammy of rising gas prices and growing concerns over auto emissions and their impact on global warming that caught the auto industry off guard that year. The firm's strategy, at least for the short term, is to rapidly expand its hybrid offerings and invest in R&D to further improve their efficiency. Two new hybrid models—including one in the firm's luxury Lexus line—are scheduled to reach the market in 2009. A new version of the Prius, which promises to be lighter and more fuel efficient, will also be introduced around the same time. All told, Toyota forecasts global sales of its gas-electric hybrids will reach 1 million units per year by the early 2010s, assuming the world economy recovers from its recession in a timely manner.

Longer term, the company is eyeing plug-in electric cars. To that end, Toyota has created a special battery research division, complete with more than 100 engineers and technicians.

Honda also plans to beef up its hybrid offerings in the short term, but it will also offer new clean-diesel engines—which are purportedly 25 percent more fuel efficient than gas engines—in its larger cars, including those that carry the luxury Acura brand.

For the longer term, Honda is focusing on fuel cell vehicles which run on liquid hydrogen and emit only water. In 2008, the firm began production on a fuel cell model called the FCX Clarity which can go 280 miles on a tank of hydrogen and boast better fuel efficiency than comparable gas or hybrid cars. While Honda will lease just 200 Claritys in Japan and the United States through the early 2010s, it hopes to have the technology ready for the mass market within ten years. But since every Clarity made in 2008 cost an estimated $1 million to produce, cost reductions via economies of scale and experience will be critical for the car's future.

Back in 2003 when the environment facing the auto companies was not quite so bleak, General Motors pulled the plug on an experimental electric car and wrote off losses of about $1 billion. It is a bit surprising, then, that GM's strategy for the future focuses heavily on a plug-in electric called the Chevrolet Volt. Due in late 2010, the sedan is expected to charge from a household electric socket in six hours and run for 40 miles before a small gas engine fires up to recharge the battery, extending the cars range to about 600 miles. Since the small engine does nothing but run a generator, the car is expected to go over 100 miles per gallon of gas.

GM says the Volt will be priced between $30,000 and $45,000 and will cost only about $300 per year for the electricity to keep it charged. Given the technical challenges involved and GM's shaky financial health, however, it remains to be seen whether the firm can meet its 2010 deadline and hold costs low enough to justify such relatively modest prices.

Katsuaki Watanabe, Toyota's president, recently declared that, "Without focusing on measures to address global warming and energy issues, there can be no future for our auto business." The interesting question is which of the many new technologies being pursued by Toyota, Honda, GM, and others will prove the most effective and appealing means of addressing those issues.

Source: David Welch, "GM: Live Green or Die, *BusinessWeek,* May 26, 2008, pp. 36–41; and Ian Rowley, "Japan's New Green Car Push," www.businessweek.com, July 2, 2008.

Appropriate Conditions for a Defender Strategy

A defender strategy makes sense only when a business has something worth defending. It is most appropriate for units with a profitable share of one or more major segments in a relatively mature, stable industry. Consistent with the "constant improvement" principles of total quality management, most successful defenders initiate process improvements, product improvements, or line extensions to help protect and strengthen their established positions. But they devote relatively few resources to basic R&D or the development of innovative new products. Thus, a defender strategy works best in industries where the basic technology is not very complex or where it is well developed and unlikely to change dramatically over the short term. For instance, Pillsbury's prepared-dough products SBU—now part of the General Mills Company—has pursued a differentiated defender strategy for years. The unit generates substantial profits from well-established refrigerated dough products such as Pillsbury Crescent rolls and Grands biscuits. But while it has introduced a number of line extensions over the years, most have been reconfigurations of the same basic dough-in-a-can technology, such as Soft Breadsticks.

Differentiated Defenders

To effectively defend its position by differentiation, a business must be strong in those functional areas critical for maintaining its particular competitive advantages over time. If a business's differentiation is based on superior product quality, those key functional areas include production, process engineering, quality control, and perhaps product engineering to develop product improvements. The effort to develop and maintain a quality differentiation can be worthwhile, though, because evidence suggests that superior product quality has a strong impact on a business's return on investment—an important performance objective for defenders.[18]

Regardless of the basis for differentiation, marketing is also important for the effective implementation of a differentiated defender strategy. Marketing activities that track changing customer needs and competitive actions and communicate the product offering's unique advantages through promotional and sales efforts to maintain customer awareness and loyalty are particularly important.

Low-Cost Defenders

Successful implementation of a low-cost defender strategy requires the business to be more efficient than its competitors. Thus, the business must establish the groundwork for such a strategy early in the growth stage of the industry. Achieving and maintaining the lowest per-unit cost usually means that the business has to seek large volume from the beginning—through some combination of low prices and promotional efforts—to gain economies of scale and experience. At the same time, such businesses must also invest in more plant capacity in anticipation of future growth and in state-of-the-art equipment to minimize production costs. This combination of low margins and heavy investment can be prohibitive unless the parent corporation can commit substantial resources to the business or unless extensive sharing of facilities, technologies, and programs with other business units is possible.

The low-cost defender's need for efficiency also forces the standardization of product offerings and marketing programs across customer segments to achieve scale effects. Thus, such a strategy is usually not so effective in fragmented markets desiring customized offerings as it is in commodity industries such as basic chemicals, steel, or flour or in industries producing low-technology components such as electric motors or valves.

Although low-cost defenders emphasize efficiency and low price as the primary focus of their competitive strategy, it is important to keep in mind that businesses pursuing other strategies should also operate as efficiently as possible given the functional activities necessary to implement those strategies. Some of the most effective businesses are those that work *simultaneously* to lower costs and improve quality and service.[19] Operating efficiency is likely to become even more critical as the Internet makes it easier for customers to compare prices across alternative suppliers or to obtain low-price bids via "buyers' auction" sites, such as **www.MetalSite.com.**

HOW DIFFERENT BUSINESS STRATEGIES INFLUENCE MARKETING DECISIONS

Business units typically incorporate a number of distinct product-markets. A given entry's marketing manager monitors and evaluates the product's environmental situation and develops a marketing program suited to it. However, the manager's freedom to design such a program may be constrained by the business unit's competitive strategy. This is because different strategies focus on different objectives and seek to gain and maintain a competitive advantage in different ways. As a result, different functions within the SBU—and different activities within a given functional area, such as marketing—are critical for the success of different strategies.

There are, therefore, different key success factors inherent in the various generic business strategies. This constrains the individual marketing manager's freedom of action in two basic ways. First, because varying functions within the business unit are more important under different strategies, they receive different proportions of the SBU's total resources. Thus, the SBU's strategy influences *the amount of resources committed to marketing* and ultimately the budget available to an individual marketing manager within the business unit. Second, the SBU's choice of strategy influences both the kind of *market and competitive situation* that individual product-market entries are likely to face and the *objectives* they are asked to attain. Both constraints have implications for the design of marketing programs for individual products within a SBU.

Strategic Issue
The SBU's strategy influences the amount of resources committed to marketing and ultimately the budget available.

It is risky to draw broad generalizations about how specific marketing policies and program elements might fit within different business strategies. Although a business strategy is a general statement about how a SBU chooses to compete in an industry, that unit may comprise a number of product-market entries facing different competitive situations in various markets. Thus, there is likely to be a good deal of variation in marketing programs, and in the freedom individual marketing managers have in designing them, across products within a given SBU. Still, a business's strategy does set a general direction for the types of target markets it will pursue and how the unit will compete in those markets. It does have some influence on marketing policies that cut across product-markets. Exhibit 3.7 outlines differences in marketing policies and program elements that occur across businesses pursuing different strategies, and those differences are discussed as follows.

Product Policies

One set of marketing policies defines the nature of the products the business will concentrate on offering to its target markets. These policies concern the *breadth or diversity of product lines,* their *level of technical sophistication,* and the target *level of product quality* relative to competitors.

Because prospector businesses rely heavily on the continuing development of unique new products and the penetration of new markets as their primary competitive strategy, policies encouraging broader and more technically advanced product lines than those of competitors should be positively related to performance on the critical dimension of share growth. The diverse and technically advanced product offerings of 3M's drug delivery systems SBU are a good example of this.

EXHIBIT 3.7 Differences in Marketing Policies and Program Components across Businesses Pursuing Different Strategies

	Strategy		
Marketing Policies and Program Components	**Prospector**	**Differentiated Defender**	**Low-Cost Defender**
Product policies			
• Product-line breadth relative to competitors	+	+	–
• Technical sophistication of products relative to competitors	+	+	–
• Product quality relative to competitors	?	+	–
• Service quality relative to competitors	?	+	–
Price policies			
• Price levels relative to competitors	+	+	–
Distribution policies			
• Degree of forward vertical integration relative to competitors	–	+	?
• Trade promotion expenses as percent of sales relative to competitors	+	–	–
Promotion policies			
• Advertising expenses as percent of sales relative to competitors	+	?	–
• Sales promotions expenses as percent of sales relative to competitors	+	?	–
• Salesforce expenses as percent of sales relative to competitors	?	+	–

Key: Plus sign (+) = greater than the average competitor.
Minus sign (–) = smaller than the average competitor.
Question mark (?) = uncertain relationship between strategy and marketing policy or program component.

Whether a prospector's products should be of higher quality than competitors' products is open to question. Quality is hard to define; it can mean different things to different customers. Even so, it is an important determinant of business profitability.[20] Thus, Hambrick suggests that in product-markets where technical features or up-to-the-minute styling are key attributes in customers' definitions of quality, high-quality products may play a positive role in determining the success of a prospector strategy. In markets where the critical determinants of quality are reliability or brand familiarity, the maintenance of relatively high product quality is likely to be more strongly related to the successful performance of defender businesses, particularly differentiated defenders.[21]

Differentiated defenders compete by offering more or better choices to customers than do their competitors. For example, 3M's commercial graphics business, a major supplier of sign material for truck fleets, has strengthened its competitive position in that market by developing products appropriate for custom-designed signs. Until recently, the use of film for individual signs was not economical. But the use of computer-controlled knives and a new Scotch-brand marking film produce signs of higher quality and at lower cost than those that are hand-painted. This kind of success in developing relatively broad and technically sophisticated product lines should be positively related to the long-term ROI performance of most differentiated defender businesses.

However, broad and sophisticated product lines are less consistent with the efficiency requirements of the low-cost defender strategy. For one thing, maintaining technical sophistication in a business's products requires continuing investments in product and process R&D. For another, broad, complex lines can lead to short production runs and larger inventories. Some of the efficiency problems associated with broader, more customized product lines may disappear, however, with continuing improvements in computer-assisted design and manufacturing, process reengineering, and the like.[22]

Instead of, or in addition to, competing on the basis of product characteristics, businesses can distinguish themselves relative to competitors on the *quality of service* they offer. Such service might take many forms, including engineering and design services, alterations, installation, training of customer personnel, or maintenance and repair services. A policy of high service quality is particularly appropriate for differentiated defenders because it offers a way to maintain a competitive advantage in well-established markets.[23]

The appropriateness of an extensive service policy for low-cost defenders, though, is more questionable if higher operating and administrative costs offset customer satisfaction benefits. Those higher costs may detract from the business's ability to maintain the low prices critical to its strategy, as well as lowering ROI—at least in the short term. Further, one study of 71 SBUs pursuing a range of competitive strategies suggests that investments aimed at improving service efficiency and thereby reducing costs generally do not have as positive an impact on a unit's financial performance as service improvements aimed at increasing revenues via improved customer satisfaction and loyalty.[24]

Pricing Policies

Success in offering low prices relative to those of competitors should be positively related to the performance of low-cost defender businesses—for low price is the primary competitive weapon of such a strategy. However, such a policy is inconsistent with both differentiated defender and prospector strategies. The higher costs involved in differentiating a business's products on either a quality or service basis require higher prices to maintain profitability. Differentiation also provides customers with additional value for which higher prices can be charged. Similarly, the costs and benefits of new product and market development by prospector businesses require and justify relatively high prices. Thus, differentiated defenders and prospectors seldom adhere to a policy of low competitive prices.

Distribution Policies

Some observers argue that prospector businesses should show a greater degree of *forward vertical integration* than defender businesses.[25] The rationale for this view is that the prospector's focus on new product and market development requires superior market intelligence and frequent reeducation and motivation of distribution channel members. This can best be accomplished through tight control of company-owned channels. However, these arguments seem inconsistent with the prospector's need for flexibility in constructing new channels to distribute new products and reach new markets.

Attempting to maintain tight control over the behavior of channel members is a more appropriate policy for defenders who are trying to maintain strong positions in established markets. This is particularly true for defenders who rely on good customer service to differentiate themselves from competitors. Thus, it seems more likely that a relatively high degree of forward vertical integration is found among defender businesses, particularly differentiated defenders, whereas prospectors rely more heavily on independent channel members—such as manufacturer's representatives or wholesale distributors—to distribute their products.[26]

Because prospectors focus on new products where success is uncertain and sales volumes are small in the short run, they are likely to devote a larger percentage of sales to *trade promotions* than are defender businesses. Prospectors rely on trade promotion tools such as slotting allowances, quantity discounts, liberal credit terms, and other incentives to induce cooperation and support from their independent channel members.

Promotion Policies

Extensive marketing communications also play an important role in the successful implementation of both prospector and differentiated defender strategies. The form of that communication, however, may differ under the two strategies. Because prospectors must constantly work to generate awareness, stimulate trial, and build primary demand for new and unfamiliar products, high advertising and sales promotion expenditures are likely to bear a positive relationship to the new product and share-growth success of such businesses. The drug delivery SBU at 3M, for instance, devotes substantial resources to advertising in professional journals and distributing samples of new products, as well as to maintaining an extensive salesforce.

Differentiated defenders, on the other hand, are primarily concerned with maintaining the loyalty of established customers by adapting to their needs and providing good service. These tasks can best be accomplished—particularly in industrial goods and services industries—by an extensive, well-trained, well-supported, salesforce.[27] Therefore, differentiated defenders are likely to have higher salesforce expenditures than are competitors.

Finally, low-cost defenders appeal to their customers primarily on price. Thus, high expenditures on advertising, sales promotion, or the salesforce would detract from their basic strategy and might have a negative impact on their ROI. Consequently, such businesses are likely to make relatively low expenditures as a percentage of sales on those promotional activities.

WHAT IF THE BEST MARKETING PROGRAM FOR A PRODUCT DOES NOT FIT THE BUSINESS'S COMPETITIVE STRATEGY?

What should a marketing manager do if the market environment facing a particular product or service demands marketing actions that are not consistent with the overall competitive strategy of the business to which it belongs? What if, for example, the product's target market is rapidly becoming more mature and competitive, but it is housed in a prospector business unit that does not have the cost structure or the personnel to allow the aggressive pricing or excellent customer service that may be needed for the product to compete successfully? What if newly emerging technology demands that a mature product category undergo an innovative redesign even though the defender SBU does not have extensive R&D and product development capabilities?

If a business unit is focused on a single product category or technological domain—as is the case with 3M's industrial tape unit—the ideal solution might be for the whole SBU to change its strategy in response to shifting industry circumstances. As the product category matures, for instance, the SBU might switch from a prospector to an analyzer strategy and ultimately to one of the defender strategies.

The problem is that—as we shall see in Chapter 12—effective implementation of different business strategies requires not only different functional competencies and resources, but also different organizational structures, decision-making and coordination processes reward systems, and even personnel. Because such internal structures and processes are hard to change quickly, it can be very difficult for an entire SBU to make a successful transition from one basic strategy to another.[28] For example, many of Emerson Electric's SBUs historically were successful low-cost defenders, but accelerating technological change in their industries caused the corporation to try to convert them to low-cost analyzers who would focus more attention on new product and market development. Initially, however, this attempted shift in strategy resulted in some culture shock, conflict, and mixed performance outcomes within those units.

In view of the implementation problems involved, some firms do not try to make major changes in the basic competitive strategies of their existing business units. Instead, they might form new prospector SBUs to pursue emerging technologies and industries rather than expecting established units to handle extensive new product development efforts.

Similarly, as individual product-market entries gain successful positions in growing markets, some firms move them from the prospector unit that developed them into an

EXHIBIT 3.8 *Jim Watkins Takes a Hike*

When he was a product manager at the Pillsbury Company in the early 1970s, James D. Watkins became convinced that microwave technology represented a major opportunity for the packaged food industry. Consequently, he developed a marketing plan that proposed the pioneering development and aggressive introduction of a line of microwavable food products, starting with microwave popcorn. However, the business unit he worked for—and the entire Pillsbury Company at that time—was focused on defending strong positions in established markets, largely through incremental line extensions and product improvements. In other words, it was pursuing more of an analyzer strategy. As a result, top management rejected Watkins's proposal as being too risky and requiring resources and capabilities that were in short supply.

Watkins subsequently quit Pillsbury, founded a new firm called Golden Valley Microwave, attracted venture capital, hired some food scientists to do the necessary R&D, and began to market ActII microwave popcorn through large mass merchandisers such as Wal-Mart. As Watkins had predicted in his original marketing plan, the availability of microwavable foods spurred a rapid increase in consumer demand for microwave ovens, which in turn increased demand for more microwavable foods. His new company grew rapidly, and a few years later he sold it to Conagra for many millions of dollars.

But don't be too critical of Pillsbury. Like a good analyzer, the company avoided playing the risky role of the pioneer, but it eventually responded to the growing potential of microwave technology and successfully launched its own line of microwavable foods, including popcorn.

existing analyzer or defender unit or even into a newly formed SBU better suited to reaping profits from them as their markets mature. For example, a number of innovative products developed at 3M, such as Post-it repositionable notes, have enjoyed sufficient success that new divisions were formed to concentrate on defending them as their markets matured. Many successful entrepreneurial start-ups eventually reorganize into two or more business units, one to continue prospecting new products and markets and another to defend the firm's initial product offering as its market matures.

Finally, some firms that are technological leaders in their industries may divest or license individual product-market entries as they mature rather than defend them in the face of increasing competition and eroding margins. This approach is relatively common at firms such as 3M and DuPont.

Because the marketing manager responsible for a given product-market entry is usually most closely tuned in to changes in the market environment, he or she bears the responsibility for pointing out any mismatches between what is best for the product and the capabilities of the organizational unit to which it belongs. The marketer should develop a marketing strategy that makes the most sense in light of a detailed analysis of the available customer and competitive information and present a strong case for the resources necessary to implement the plan. If those resources are not available within the business unit or if the marketing strategy is inconsistent with the SBU's objectives or competitive strategy, top management faces a choice of moving the product to a more benign unit of the firm or rejecting the recommended strategy. If the strategy is rejected, the marketer will likely have to make compromises to the strategy to make it fit better with the competitive thrust of the SBU, even though an attractive opportunity may be lost. But if the marketer has great confidence in the recommended strategy, he or she might opt to quit the firm and pursue the opportunity elsewhere, as was the case with Jim Watkins, as discussed in Exhibit 3.8.

Marketing Plan Exercise

Using one or both of the Porter and the Miles and Snow frameworks, identify which type of business unit strategy your plan will pursue, based on your still very preliminary thinking. Identify the key capabilities and resources—marketing and otherwise—necessary to do so. Determine why that strategy does or does not make sense, compared to the other alternatives.

Discussion Questions

1. Compare and contrast the prospector and low-cost defender business strategies discussed in this chapter on each of the following strategic dimensions:
   a. Scope.
   b. Objectives.
   c. Deployment of resources.
   d. Sources of synergy.
2. The 3M Company's Industrial Tape SBU pursues a differentiated defender strategy in an industry where both the basic technologies and the customer segments are relatively mature and stable. Is the objective imposed by top management of obtaining 30 percent of sales from products introduced within the last four years an appropriate objective for such a SBU? What do you think top management hopes to accomplish by imposing such an objective on the Industrial Tape SBU? What are the potential disadvantages or dangers involved in imposing such an objective?
3. If you were the general manager of the 3M Industrial Tape SBU discussed in question 2, which objectives would you argue are most appropriate for your business unit in view of its strategy and its external environment? Why?
4. You are the marketing manager for a generic products division of a major pharmaceutical manufacturer. Your division uses the corporation's excess manufacturing capacity to produce generic prescription drugs—drugs whose patents have expired and can thus be manufactured by any company that wishes to produce them. Your division is a low-cost defender that maintains its position in the generic drug market by holding down its costs and selling generic products to distributors and pharmacies at very low prices. What are the implications of this business strategy for each of the 4 Ps in the strategic marketing program you would develop for your division?

Self-diagnostic questions to test your ability to apply the analytical tools and concepts in this chapter to marketing decision-making may be found at this book's Web site at **www.mhhe.com/walker11.**

Endnotes

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