APPENDIX TWO

Marketing Tools and their Use with Scenarios

Like other professionals, marketing specialists use a range of concepts, models and tools in their work. Some have their roots in economics, some in corporate strategy and some in historical management fads. This appendix, contributed by Laurie Young, contains descriptions of a number of marketing tools and shows how each can be used with scenario planning techniques. It does not attempt to be an exhaustive review of all the techniques to which marketers can resort nor does it attempt to provide a detailed description, or critique, of each one. It is simply an indication of ways in which scenario techniques might work on the functional level of marketing activities.

ANSOFF'S MATRIX

Application: Strategy Development

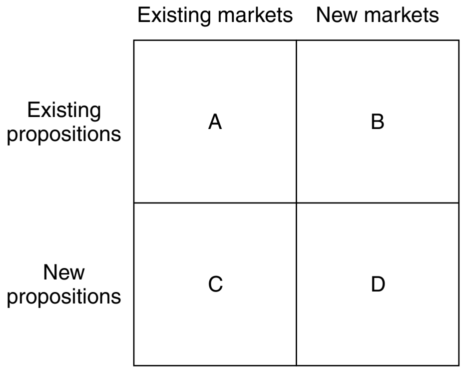
1 The Tool

The, now, classic representation of Ansoff's matrix is reproduced as Figure A2.1. It suggests that firms distill their strategic options by focusing their thinking through a review of existing markets, new markets, existing products and new products. As such it is a useful simplification to help leaders to reach consensus during strategy debates.

However, Ansoff's original representation of the concept (Ansoff, 1957) was more sophisticated and was designed to examine diversification options at the corporate level. His work was based on analysis of the diversification activity by American businesses in the first half of the twentieth century. He suggested

Figure A2.1

The Ansoff Matrix



Source: Ansoff (1957). Reprinted by permission of Harvard Business Review. From "Strategies for diversification" by I. Ansoff, Sept/Oct. Copyright © 1957 by the Harvard Business School Publishing Corporation, all rights reserved.

that there were two key bases for diversification, which he made the axes of his diagram. They were:

- ***Product Lines.*** Referring to both the physical characteristics of the product and its performance characteristics.

- ***Markets.*** For the sake of this analysis he referred to markets as "product missions" rather than buyer segments. By this he meant "all the different market alternatives" or the various uses for the product and its potential uses.

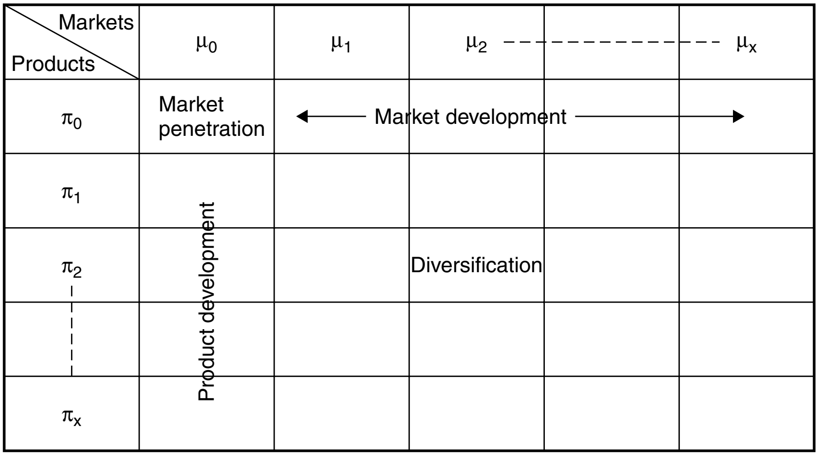
He proposed his matrix as a way of constructing different "product–market" strategies; those "joint statements of a product line and the corresponding set of missions which the products are designed to fulfil". His original diagram is reproduced in Figure A2.2 (π represents the product line and μ the "missions"). Interestingly, this representation of his work puts less stress on market penetration than the popularly used version and details the many strategic options that arise from thinking broadly about the fusion of product and market possibilities.

2 Constructing the Tool

The first step in constructing the tool is analysis of product and market opportunities. This may begin with a simple list of all the existing product/market groups in which the company is established. Then, using market reports, client research and internal brainstorming, it is possible to identify the other opportunity areas.

Figure A2.2

Ansoff's Original Format



Source: Ansoff (1957). Reprinted by permission of Harvard Business Review. From "Strategies for diversification" by I. Ansoff, Sept/Oct.

Once the analysis is available, the options can either be summarised, using judgement, into the simplified version of the tool or crafted into a more thorough analysis by creating a cell for each product/market match, using the original version. The opportunities can either be discussed by the leaders at this stage or prioritised using agreed criteria. Ansoff himself recommended that, due to the risk and cost involved, firms conduct risk analysis of the more likely strategies. The most acceptable programmes should then be developed into full product, marketing and business plans.

3 Use of the Tool

The matrix helps leaders to think through four different growth strategies, which require different marketing and communications approaches. They are presented below in ascending order of risk:

- Strategy A is ***Market penetration***, or increasing market share with existing propositions to current markets.

- Strategy B is ***Market extension*** or market development, targeting existing propositions at new markets.

- Strategy C is ***Product development***, developing new propositions for existing segments.

- Strategy D is ***Diversification***, growing new businesses with new propositions for new markets

The matrix helps to clarify leaders' thinking and to illustrate the very different strategic approaches needed for each of the four strategies. Ideally, an operational marketing plan should be constructed for each strategic option that is finally approved.

4 Ansoff's Matrix and Scenario Planning
Scenario planning can be used with Ansoff's matrix in three ways. Firstly, if corporate scenarios exist it can be used to assess the risk of each one and to construct relevant marketing strategies. Corporate scenarios can also be used as frameworks within which to identify the potential products and markets. They can act as a constraint, or framework for, the opportunities to be identified.

Secondly, scenarios can be generated by the marketing function based on market research and competitive trends. These can then be used as frameworks within which to develop and test product/market alternatives.

Finally, the matrix can be compiled as Ansoff intended, with a broad, creative view of all product/market alternatives. They can then be reduced into manageable groups by combining them into possible market scenarios.

ARR MODEL

Application: Relationship Marketing

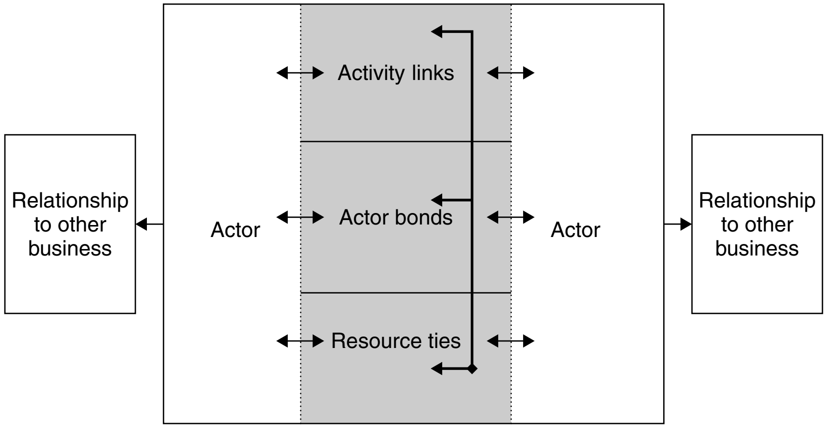
1 The Model
The "actors–activities–resources" model was developed (Figure A2.3) during the early 1980s, by researchers and theorists interested in both business-to-business marketing and network marketing (Hakansson and Snehota, 1995). Yet it appears to be a tool that can also be used in practical marketing within a normal business as well as just pure theoretical research.

The model divides business relationships into three layers:

- ***Actor Bonds.*** These occur when two business people interact through some professional process. Theorists suggest that there are three components necessary for them to develop. The first is reciprocity during the process, ensuring that both sides give something to the interaction, even if one is a buyer. The second is commitment and the third is trust. As people interact they form perceptions of each other about: capability, limitations, commitment and trust. If the relationship develops these perceptions influence the degree

Figure A2.3

The ARR Model



Source: Hakansson and Snehota (1995). Reproduced by permission of Thomson Learning.

and clarity with which the two communicate; and also the degree to which they involve each other in their own professional network. So, for account managers, the way in which they conduct their work influences the trust their customer develops in them and the degree to which they will be invited further into the buyer's organisation, and thus into the possibility of further work.

- ***Activity Links*** capture the work, or other activity, which is involved in the interaction and business process. These vary with the depth of relationship. They range from simple technical projects through to two firms meshing or adapting their systems and business processes to become more efficient. The latter has created exciting business opportunities in areas such as outsourcing.

- ***Resource Ties*** are items used by people during business interactions. Resources might include: software, intellectual capital, skilled staff, knowledge, experience and expertise. People who have resources, or control over them, have greater power in professional networks.

2 Constructing the Model

At its very simplest the model can be used as a basis for discussion with internal colleagues to map relationships in a network. Account managers can be asked to complete formats of their customer relationships using the three levels of the model. Actions arising from discussion (e.g. creating more opportunities for non-task-related exchange or making different resources, such as knowledge available) to strengthen relationships can be put into account plans.

However, the model can be used as a basis of detailed analysis and research. A hypothesis of the professional relationships that exist in a market, and the types of interaction, can be created using the terms of the model. The model can then be used as a guide to designing the research sample and questionnaires. A two-step, qualitative and quantitative research process is likely to reveal powerful insights into the relationships that customers have with the firm and its competitors.

3 Use of the Model

The thinking behind the model will seem intuitively correct to many in sales and marketing. This is its strength, capturing, as it does, the day-to-day experience of many staff. It allows a firm, when needed, to use a common process and terminology in its approach to relationship management. However, it also introduces (perhaps for the first time) a reasonably robust mechanism whereby professionals can analyse and understand in detail what many recognise to be their most important approach to market: relationships with customers.

4 Use of Scenarios with the Model

This model is relatively new and there is little evidence of it being used with scenarios. It could certainly be used, though, within corporate scenarios that set directions in which accounts should be developed. It might also be used as a basis on which to develop scenarios of different segments of customers.

BOSTON MATRIX

Application: Analysis of Business Portfolios

1 The Tool

One of the best known portfolio management tools is the Boston Consulting Group's growth share matrix (Figure A2.4) which was developed around the concept of "the experience curve" (BCG, 1968). The consultancy demonstrated that, over time, companies specialising in an area of expertise became more effective in their market, reducing costs and gaining competitive advantage. A company might be at various points on the experience curve, depending on its maturity and the accumulated investment in its prime area of focus. The ***Boston Matrix***, which plots relative market share against relative growth, was an attempt to give corporate strategic planners a way of evaluating different business units in different markets.

2 How to Construct It

First, the annual growth rate of each business unit, in each market, is calculated. This is plotted on the matrix, depending on whether its growth is high or low.

Figure A2.4

The Boston Matrix

Market growth	High relative market share	Low relative market share
High	"Star" • Defend leadership • Accept moderate short-term profit and negative cash flow • Consider geographic expansion • Consider line expansion • Aggressive marketing posture • Price for market share	"Question mark" • Invest heavily in selective businesses • As for "rising star"
Low	"Cash cow" • Maintain market position • Cut less successful lines • Differentiate to maintain share of key segments • Limit discretionary marketing expenditure	"Dog" • Prune aggressively • Maximise cash flow • Minimise marketing expenditure • Maintain or raise prices at the expense of volume

Source: BCG (1968). Reprinted by permission of The Boston Consulting Group.

(*Note*: The horizontal axis of the matrix is not positioned at zero on the vertical axis but at 10%.) Secondly, the relative market share of each unit is calculated and plotted on the matrix. The turnover of each unit is then represented by appropriately sized circles.

The portfolio of business units is then categorised by the matrix into four groups:

- The ***question marks*** (otherwise called "problem children" or "wild cats") have low market share in high growth markets. A business which has just started operations would be a "question mark" because the ability of the management team to improve on its competence would be unproven. These are businesses with long-term potential that may have been recently launched and are being bought primarily by buyers who are willing to experiment. They need large amounts of cash if they are to be developed to their full potential because the company has to keep adding plant, equipment and personnel to keep up with the fast-growing market.

- The ***rising star*** is a company that has established itself in the market and is beginning to thrive. It is a leader, with high share in a high growth market. It requires significant investment in order to maintain and grow market share. It does not necessarily produce a positive cash flow but stars are usually profitable and can become "cash cows".

- The ***cash cows*** are companies that are well established and profitable. They have high share in low growth markets. They are producing profit but are unlikely to achieve much incremental improvement. They are generally cash positive and can be used to fund other initiatives.

- The final group are known as ***dogs***; they have low share in low growth markets. These are companies who are in decline and worthy of withdrawal. They have weak market share in low growth markets and tend to be loss-makers, providing small amounts of cash if any.

3 Use of the Tool

The matrix can be used to determine strategy for major firms. A multi-business company needs a balanced portfolio of businesses or SBUs (strategic business units) which use cash from the cash cows to invest in other development issues. It is thought that an unbalanced portfolio of businesses can be classified into four areas:

- Too many losers causing poor cash flow.

- Too many question marks requiring too much investment.

- Too many profit producers.

- Too many developing winners.

The matrix is used to develop different business strategies and corporate requirements for each business unit according to its position on the matrix. Objectives, profit targets, investment constraints and even management style are likely to be different according to their position. Strategies set by the leadership are likely to include:

- ***Build***. This means increasing the market share using cash, resources, marketing programmes and management attention.

- ***Hold***. This means maintaining the market share and is appropriate for strong cash cows if they are to continue to yield cash.

- ***Harvest***. This means using resources to get as much cash from a business unit as is possible regardless of long-term effect. It is appropriate for weakening cash cows whose future is uncertain or dim.

- ***Divest***. This means selling or liquidating the business, and is appropriate for dogs and question marks that are acting as a drag on company resources.

Due to inadequate teaching and lack of understanding, some companies have tried to use this conceptual framework to understand the positioning of their individual products or services rather than business units. Managers can be heard to talk of their offers as either being a "cash cow" or a "dog". This misuse of the concept is dangerous because it muddles two different concepts (the experience curve of a business and the product life cycle).

4 Use of Scenarios with the Tool

Properly constructed, the ***Boston Matrix*** gives an objective view of relative position because it is based on actual share and growth figures. It is in the deduction of strategies that there is opportunity to combine it with scenario work. Having decided that a business is, say, a rising star, the marketing team can create scenarios that predict its trajectory. It may decline fast or grow into a cash cow, for instance. The view taken will determine the level and style of investment in the business.

THE CULTURAL WEB

Application: Change Management

1 The Tool

The Johnson and Scholes cultural web (Figure A2.5) identifies the elements of an organisation that need to be taken into account when planning major strategic change (see also Johnson and Scholes, 2004). They are:

- The ***paradigm***. This is the way the organisation views the world. It may have a number of facets such as the sector or segment on which it concentrates, its products or its competitors.

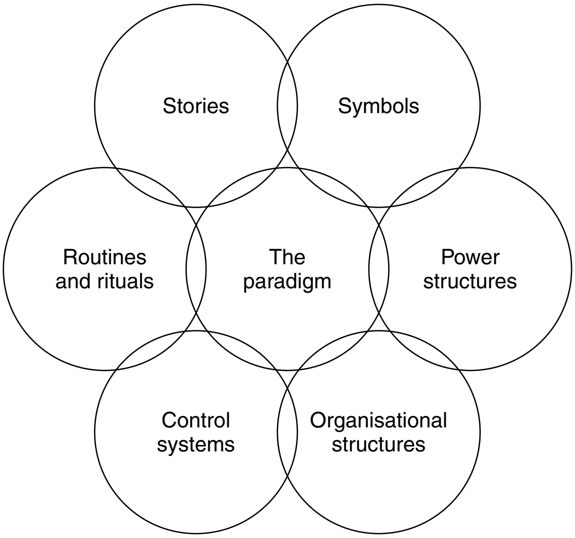
- ***Organisational Structure***. This is the way people interrelate in the firm.

- ***Power Structures***. This acknowledges the authority that people have in the organisation and how they use it. It covers both formal and informal power.

- ***Control Systems***. These are built into the structure of the firm to ensure that objectives are met. They might be processes, systems or measures.

Figure A2.5

Mapping Organisational Culture Using the Cultural Web



Source: Johnson and Scholes (2004). Exploring Corporate Strategy Text and Cases 7/ed, G. Johnson and K. Scholes, Pearson Education Limited, Copyright © 2004.

- ***Routines and Rituals***. These may not be overtly described by the firm or part of its acknowledged policies, but they can be very powerful nonetheless. Very often they are the real functions of the organisation.

- ***Symbols***. These are physical evidence of past victories, failures, moments of history or power. They are very influential and can cause deep emotion to be stirred.

- ***Stories***. These circulate in an organisation and affect behaviour.

2 Constructing the Tool

The tool is best configured using internal interviews. Employees can either be shown the tool and asked to contribute, or interviewed on a range of subjects to reveal the components of the web.

3 Use of the Tool

The tool can be used to plan major change programmes, internal communication campaigns and internal marketing. The components of the web indicate the full range of activities that need to be considered if change or communications are to be effective.

4 Use of the Tool with Scenarios

As the cultural web is a tool for major strategic change, it fits well with use of scenarios. Corporate scenarios which require major strategic change can be developed into stories and communication programmes that influence all aspects of the web. The rich pictures created in scenarios can be easily built into clear reasons to change and visions of where the business is headed.

DIRECTIONAL POLICY MATRIX

Application: Business Portfolio Tool

1 The Tool

Another well-known product portfolio technique is the ***Directional Policy Matrix*** (Figure A2.6) developed by McKinsey for its client GE. This was developed soon after the Boston matrix as a result of inadequacies with it. It was typical of several methods of "multifactor portfolio models" which were developed at the time.

This is a way of categorising businesses against markets and is more flexible than the Boston Matrix because it uses criteria created by the management team themselves. As such it is more relevant to the individual strategic position of the company in its marketplace. The grid plots "market attractiveness" against "business strength" and allows management to prioritise resources accordingly.

Figure A2.6

The Directional Policy Matrix

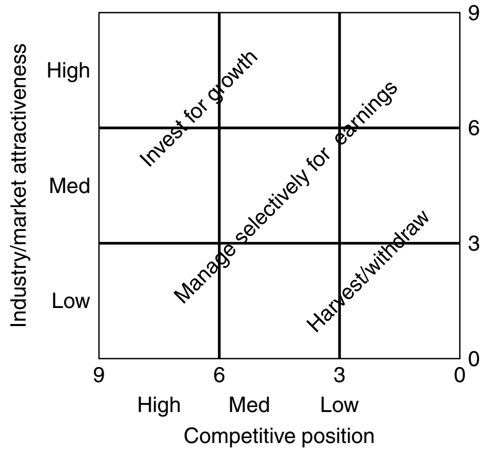


TABLE A2.1 FACTORS OF MARKET ATTRACTIVENESS AND BUSINESS STRENGTH USED IN THE ORIGINAL GE MATRIX

Market attractivencess	Business strength
Size	Size
Growth rates	Growth rate
Competitive intensity	Market share
Profitability	Profitability
Technology impact	Margins
Social impacts	Technology position
Environmental impacts	Strengths and weaknesses
Legal impacts	Image
Human impacts	Environmental impact
	Management

The original GE matrix used the factors of market attractiveness and business position, which are listed in Table A2.1. GE used these key factors because they believed that, taken together, they had the most influence on return on investment. However, this list should be modified for each company according to its own particular circumstances.

2 Constructing the Matrix

There are clear steps in compiling the matrix. They are:

- Identify the strategic business units (SBUs).
- Determine the factors contributing to market attractiveness.
- Determine factors contributing to business position.
- Rank and rate the market attractiveness and business position features.
- Rank each SBU.
- Plot the SBUs on the matrix.
- Represent the total size of the market and the businesses share by a pie chart at the appropriate plot on the matrix.

The two ranking steps involve numerically rating the relative importance of each feature. Multiplying these together and totalling them for each business unit gives a composite score which enables the matrix to be compiled. The total size of each market in which the firm's businesses operate, and their share of each, can be represented by a pie chart centred on each plot. As with the growth/share matrix, the visual presentation enables complex information to be presented in an easily understood form.

3 Use of the Tool

Strategy can be deduced from the matrix as follows:

- Where a business unit scores high or medium on business strength or market attractiveness the firm should maintain or grow investment.
- Those that score low/low or low/medium should have investment depleted. If possible, cash should be harvested from them.
- Units scoring high/low or medium/medium should be examined to see if selective investment should be made to increase earnings.

There has been some critical evaluation of the GE matrix. Many people consider the fact that it uses several dimensions to assess business units instead of two, and because it is based on ROI rather than cash flow, it is a substantial improvement on the Boston matrix. However it is criticised because:

- It offers only broad strategy guidelines with no indication as to precisely what needs to be done to achieve strategy.
- There is no indication of how to weight the scoring of market attractiveness and business strengths. As such it is highly subjective.
- Evaluation of the scoring is also subjective.
- The technique is more complex than the Boston matrix and requires much more extensive data gathering.
- The approach does not take account of interrelationships between business units.
- It is not supported by empirical research or evidence. For instance, there does not seem to be evidence that market attractiveness and business position are related to ROI.
- It pays little attention to the business environment.

It is really powerful, however, as a tool to reach consensus among a group of business leaders. The definition of business units, the agreement of common criteria and, particularly, the joint scoring exercise stimulate debate, which can be very valuable.

4 Use of the Tool with Scenarios

This tool works very well with scenarios. If corporate scenarios have been developed, they can be used as a context for scoring. The scenarios will influence the judgement of those creating the matrix, affecting the scoring and the judgement of business unit success.

The tool is particularly good at dramatising the future direction of businesses. The marketing team can turn market analysis into future scenarios and these can be superimposed on the matrix to predict the likely business direction. Strategy and investment can be deduced from this.

EXPERIENCE CURVE

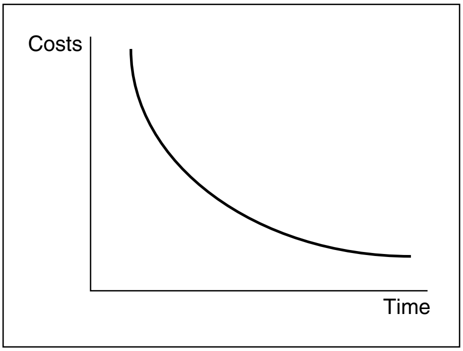
Application: New Service Development, Competitive Strategy

1 The Tool

This concept, pioneered particularly by the Boston Consulting Group during the early 1960s, suggests that unit costs of a firm fall with experience of operating in an industry and with a company's cumulative volume of production (Figure A2.7). The consultancy invested substantial time into research on many industries (including service industries) and used "the scientific method" to validate the

Figure A2.7

The Experience Curve



Source: BCG (1968). Reprinted by permission of The Boston Consulting Group.

concept. Although appearing deceptively simple, and intuitively right, the concept can be used to set exhilarating strategic objectives.

Costs decline due to a combination of: economies of scale, a learning curve for labour and the substitution of technology for labour. The cost decline gives competitive advantage because new competitors can face higher costs if not entering with a major innovative advantage. Some have argued that the advantage is so great that established leaders should drive to gain further advantage through actions such as price-cutting.

2 Constructing the Tool

Plot the firm's prices or costs against unit volume, projecting back in time as far as is sensible. The resultant curve should reveal the accumulated gains by the firm.

Note: For the analytically minded, the Boston Consulting Group recommended the use of double logarithmic scales because they show percentage gain as a constant distance. "A straight line... means, then, that a given percentage change in one factor results in a corresponding percentage change in the other... reflecting the relationship between experience and costs and experience and prices" (from *Perspectives on Experience*, BCG, 1968).

3 Use of the Tool

The tool can be used to identify cost gains and advantages compared to competitors. As a result it can become a benchmark by which the firm can set a strategy for business units to improve costs. It can also be used to predict and set prices by giving a directional indication of industry costs and likely competitive responses.

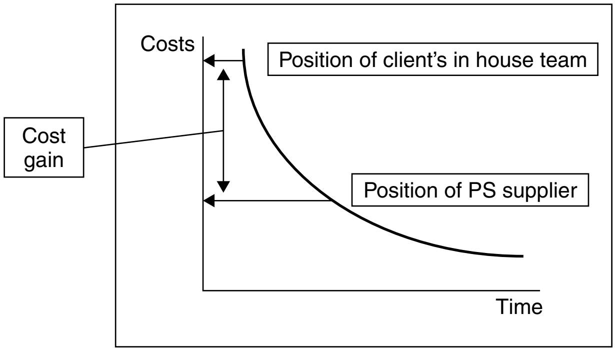
The tool can also be used to plan and sell outsourcing concepts. As illustrated in Figure A2.8, a firm whose business is focused on a particular function is likely to be further down the experience curve than a client's in-house team. If the in-house operations are passed to the supplier, the client gains advantage of the supplier's "experience". When the UK government's audit office first reviewed public sector outsourcing deals initiated by the Thatcher government in the 1980s, gains of up to 20% where found. This sparked the outsourcing trend in much of Europe. Note, however, that further dramatic gains are unlikely and continuing success depends on the nature of the relationship between the two parties. If the relationship breaks down, the client loses the supplier's experience and begins to build cost back into its business.

4 Use of the Tool with Scenarios

This tool works well with scenarios. It might, for example, be used to set detailed internal cost and pricing targets to achieve market positions required by corporate scenarios. It can also be used as a basis for different cost advantages that the business can achieve, which can then be built into market-based scenarios.

Figure A2.8

The Experience Curve Applied to Outsourcing



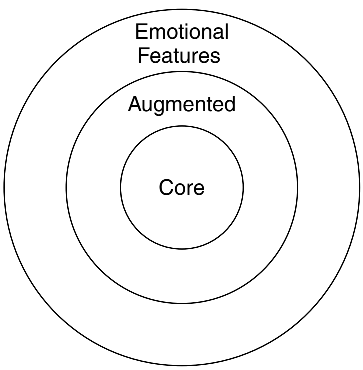
FEATURES ANALYSIS

Application: Service Design

Features analysis (Figure A2.9) is a concept used in product design to proactively plan the content of the offer. It is a development of the suggestion by leading marketing thinker Philip Kotler that products and services are propositions augmented by intangible marketing concepts such as brand and design. It suggests that each product offer comprises three sets of features. They are:

Figure A2.9

Features Analysis



- ***The Core Feature.*** This is the hub of the offer and is the prime benefit to buyers. In the case of a briefcase it will be to "carry documents", in the case of a car it will be for "personal transportation". Experience shows this to be one of the most difficult aspects of product and service design. Service designers find it inordinately difficult to settle on the core proposition.

- ***Augmented Features.*** These are the physical components of the product which the product manager chooses to use to represent the core feature. In the case of a briefcase it would include the choice of leather, latches, nature of stitching, internal construction, etc. In the case of a car it would include the engine, the bodywork, the colour and the physical layout of the car. This is very much the design and assembly of physical components around identified customer need.

- ***Emotional Features.*** These are designed to appeal to the buyers' underlying, often unknown and unarticulated, emotional requirements. These are often the most influential aspects of the appeal of the proposition to the buyer. They particularly affect perceptions of value. Without them many offers become commodities.

Although these are actually offered through the physical (augmented) features, the emotional ring of the planning tool is there to remind designers to proactively plan their presence. They are particularly tied to the firm's brand values. For example, the emotional promise of a briefcase that is labelled "Gucci" will give a different message, for example, than one which is labelled "Woolworths".

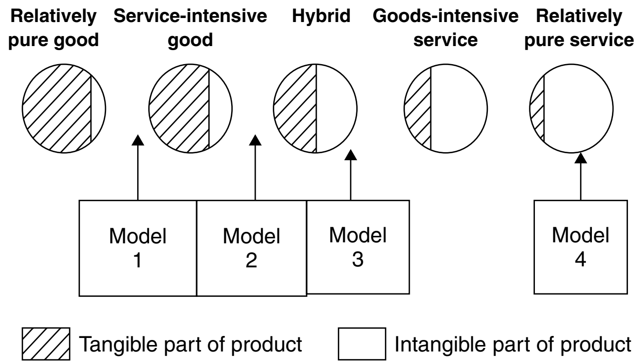
Incidentally, the importance of emotion in the planning of a business-to-business proposition is just as critical as it is in consumer propositions. Early writers and teachers of marketing had suggested that business-to-business marketing is more "rational" than consumer marketing because formal buying processes exist. This is nonsense. Business buyers are human beings who experience emotions at work. The degree of risk, personal enhancement or political effort in a purchase, particularly a service purchase, can be decisive.

It is the proactive management of this mix of features that allows managers to design increasingly sophisticated versions of their offer in the light of feedback from markets. This allows the evolution of real choice and the supplier to create profit through the evolution of differentiated offers.

In service businesses, this technique needs to be adjusted to take on board the observation by Lynne Shostack that propositions from companies are neither all product nor all service. Using her goods/services spectrum of offers (as identified in Figure A2.10) the following four models can be used.

Figure A2.10

The Goods/Services Spectrum



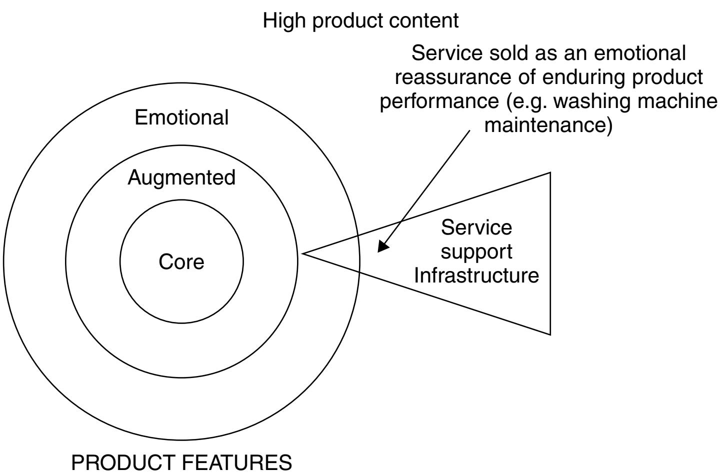
Source: Berry and Parasuraman (1991) and adapted by Young (2005). Adapted with the permission of The Free Press, a Division of Simon & Schuster Adult Publishing Group, from Marketing Services: Competing through Quality by L. Berry and A. Parasuraman. Copyright © 1991 by The Free Press. All rights reserved.

Model One (Figure A2.11)

This represents a proposition where service is primarily an emotional reassurance to a product offer. The core proposition is a product that has been augmented by

Figure A2.11

Models of Service 1



physical features. However, because it is based on new technology, the supplier has accepted, generally, that faults will occur in their product. Service has to be provided as an emotional reassurance to the purchaser of the enduring provision of those benefits. Service is therefore an emotional feature of the product. This has been in evidence with many product offers over the years, from washing machines and cars through to computers and elevators.

Model Two (Figure A2.12)
This represents an evolution in a market where suppliers begin to build service into the product concept. It occurred, for example, in the computer industry during the latter half of the twentieth century. Suppliers began to provide preventative maintenance through a monitored service involving people, procedures and technology. It was sold as part of the product offer so that computers failed less due to self-diagnostic technology and preventative maintenance. (This was an entirely different proposition to the previous maintenance contracts which promised "Don't worry, if it goes wrong we'll repair it quickly".) In this model, service has become an augmented component of the product offer.

Model Three (Figure A2.13)
This represents a position where people are buying a mix of service and product. It is common in industries which offer a high volume, low margin product. The fast

Figure A2.12

Models of Service 2

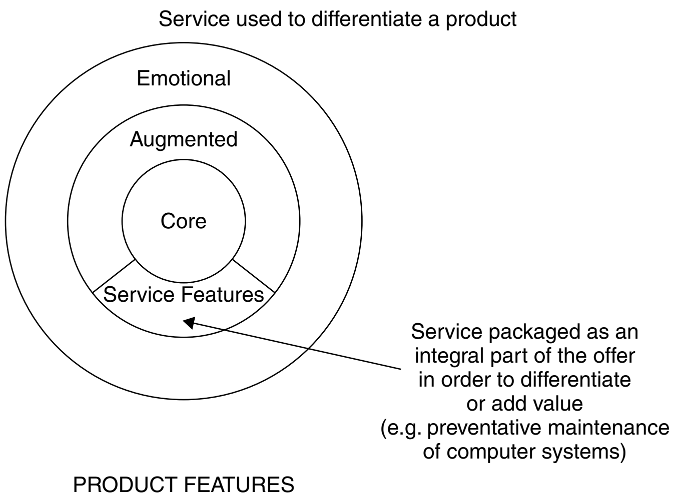
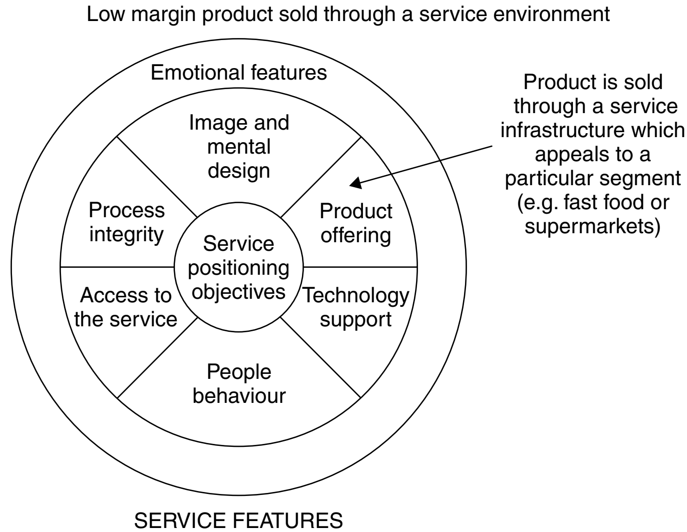


Figure A2.13

Models of Service 3



food industry, for example, uses service to sell a cheap product. The brand, environmental design, product range, technology support, people behaviour, method of accessing the service and the process through which the service is provided are all integrated into a holistic experience which people buy. This is the core service of fast food retailers and has evolved over a long period of time.

Model Four (Figure A2.14)

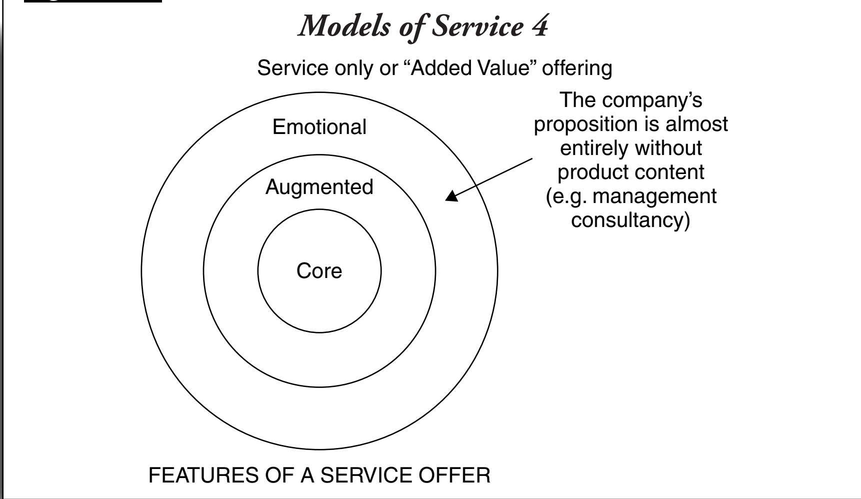
This represents a service offer which applies to many professional service firms. It has almost no physical or product content. An example would be management consultancy where any physical components (e.g. slides or bound reports) are merely an emotional reassurance to the buyer that good quality and high value exist in the offer. The tangible elements are a reassurance of the intangible benefit.

If service designers choose to use features analysis, it is essential that they use the correct design model. It may be, for example, that market conditions have changed and a service which was once associated with a product offer (paradigm 1) can be positioned as an entity which has value in its own right (paradigm 4). In this case, a different features mix must be used.

Use of the Tool with Scenarios

Features analysis allows marketers to design potential product and service concepts proactively. It therefore works well with corporate or strategic marketing scenarios.

Figure A2.14



Designers can use the method to create the detailed components of service envisaged by different future scenarios, calculate the cost involved and construct a detailed product or business plan.

GAP MODEL

Application: Diagnosis of Client Service Issues, Development of Service Strategy

1 The Tool

This model (Figure A2.15) was designed and proposed by A. Parasuraman, V.A. Zeithaml and L.B. Berry, a group of academics who specialise in service marketing studies, (Zeithaml et al., 2000). It acknowledges that:

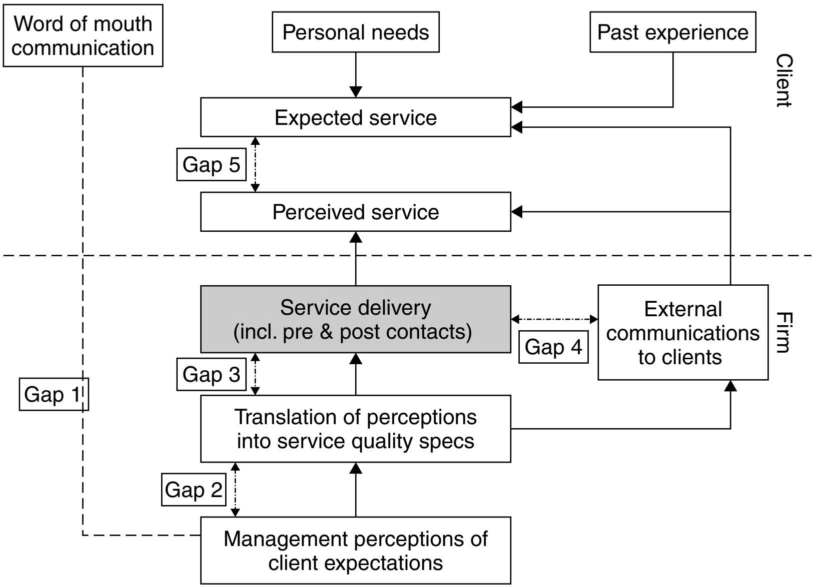
- Buyers find service quality more difficult to evaluate than product quality. They have few tangible clues as to quality, so must rely on other clues.

- Quality is a comparison between expectation and actual performance. Satisfaction depends on the degree to which the two match.

- Quality evaluation by buyers depends on outcomes and processes. Quality can be influenced by technical outcomes and functional or client service outcomes. It can also be influenced by physical aspects of the service and by company image as much as by the interaction with client service staff.

Figure A2.15

The Gap Model



Source: Zaithaml *et al*. (2000). Reproduced with permission of The McGraw-Hill Companies from Services Marketing by V. Zeithaml, J. Bitner and D.D. Gremler, Copyright © 2000, McGraw-Hill/Irwin.

The original investigation to substantiate the model was conducted in financial and product repair services. It has, however, been widely tested and developed since.

The model focuses on five "gaps":

- ***The Management Perception Gap***. This is any difference between management's views and those of clients or the market in general.
- ***The Quality Specification Gap***. This exists when quality standards, strategy or plans do not reflect management objectives or views.
- ***The Service Delivery Gap***. This exists if there is a difference between quality strategy or plans and the firm's delivery to clients.
- ***The Market Communications Gap***. This tracks any difference between marketing communications and service delivery.

- ***The Perceived Service Gap***. This exists if there is a difference between the service delivery perceived or experienced by clients and their expectations.

2 Constructing the Tool

The representation of the tool above is used as a format for analysis, representing as it does major parts of the firm. Research and data collection needs to be undertaken at the point of each gap to compare and contrast opinion or experience.

3 Using the Tool

In actual business the tool is best used as a diagnostic for the improvement of service strategy. Its analysis brings into sharp relief the differences between various perceptions and experiences. It allows the leadership to construct very specific improvement programmes in all relevant areas of business.

4 Using the Tool with Scenarios

The service issues revealed by the gap tool can be easily turned into scenarios that dramatise the company's competitive service situation. By creating "service scenarios" in this way, the marketing or service specialists can highlight key difficulties that need to be addressed, and alternative investment options with their anticipated impact.

HOFSTEDE'S CULTURAL DIMENSIONS FOR MANAGEMENT AND PLANNING

Application: International Marketing

1 The Tool

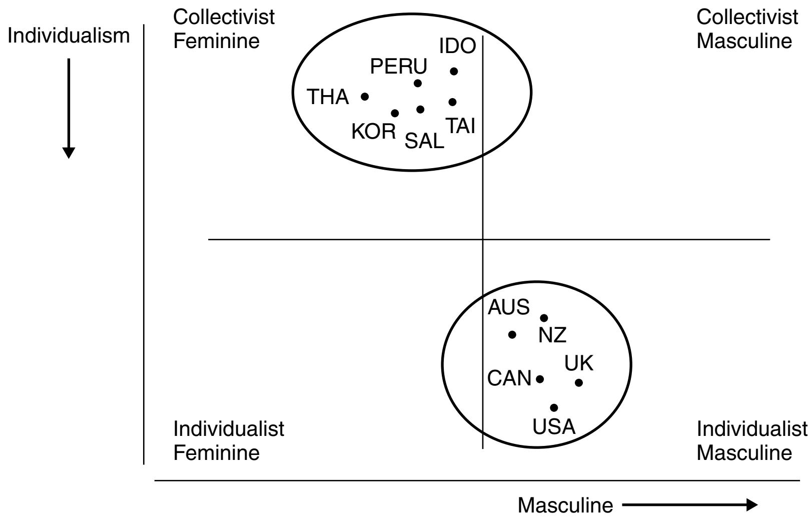
Geert Hofstede researched, developed and published a number of dimensions of cultural difference based on studies of IBM employees across the globe (Hufstede, 1980). He grouped, tested and demonstrated the affect of these dimensions on management practice (Figure A2.16). They can be used to guide international strategy and planning. The dimensions were:

- ***Individualism versus Collectivism***. Some societies are loosely knit where individuals are supposed to take care of themselves and their immediate families. Work, career, economic provision and progress are centred around the individual. Others are more collective. Individuals can expect their relatives, clan or gang to look after them in exchange for unquestioning loyalty.

- ***Power Distance***. This is the extent to which members of a society accept that power in its institutions is distributed unequally. This attitude affects

Figure A2.16

Individualism vs. Masculinity/Femininity



Source: Hofstede (1980). Reproduced by permission of Sage Publications.

the behaviour of those with and without power. Large power distance cultures accept hierarchical order in which everyone has a place; small power distance cultures strive for equalisation. This issue affects how societies handle inequalities when they occur.

- ***Uncertainty Avoidance***. This is the degree to which members of a society feel uncomfortable with risk, ambiguity and uncertainty. Uncertainty avoidance cultures maintain rigid codes of belief and behaviour. They are intolerant towards deviants. Weak uncertainty cultures are the opposite.

- ***Masculinity versus Femininity***. In Hofstede's view masculine cultures prefer achievement, heroism and material success; whereas feminine cultures stand for relationships, modesty, caring for the weak and quality of life.

This work shows how different cultures cluster and are similar under different dimensions. Figure A2.16 above represents just one set of pairings (individualism/collectivism with masculinity/femininity). This clearly shows the clustering of the "Anglo Saxon" influenced cultures of the USA, the UK, New Zealand and

Canada. A proposition built on the assumptions of individualistic masculinity (like high end executive search) is likely to succeed in this group.

2 Constructing the Model

Determine the dimensions that have the most profound association with the product service or strategy. Group the firm's existing international operations and any target countries using the clustering on the relevant dimensions. Adjust the programmes to fit key clusters.

3 Use of the Model

The model can be used as an aid to almost any international marketing function. It can be used to develop growth and acquisition strategy. It readily reveals compatible cultures that will be low-risk target. It also shows how communications and product or services need to adapted to penetrate different cultures.

4 Use of the Tool with Scenarios

The depth of the Hofstede dimensions can be used to create detailed scenarios of potential cultural differences and their appeal to different marketing strategies. They can be used with research to create models of how different strategies are likely to succeed in different countries.

INDUSTRY MATURITY CURVE

Application: Strategic Insight into Market Development

1 The Concept

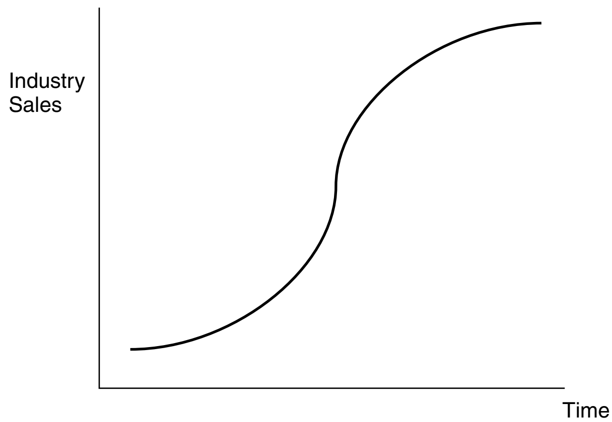
The ***Industry Maturity Curve*** (Figure A2.17) is often mistakenly referred to as the 'product life cycle concept'. Yet the phenomenon occurs in the sales volume of product groups over time, not individual products. There must be multiple suppliers and multiple buyers in markets that develop over time for it to be observed. (Individual products rarely go through the sales history represented in the figure. Most die soon after launch.)

The concept draws an analogy between biological life cycles and the sales growth of successful product groups, by suggesting that they are born, introduced to the market, grow in sales, mature (sales growth stops) and then decline (sales fall). In fact, it represents an iterative learning process between the buyers and suppliers in a market. The cycle is represented by the well-known maturity curve.

At "birth"—the first introduction of the proposition to the world—a new product concept sells poorly. Buyers are unaware of its existence, suspicious of the new idea, or experience problems when ordering (with production capacity, effective distribution or product quality). "Bold" or "innovative" people buy the new product during this stage as a substitute for an existing product or to meet a

Figure A2.17

The Phenomenon of Industry Maturity



newly identified need. Profits may well be low or non-existent because of the high cost of sale.

In phase two, sales growth develops as a consequence of "word of mouth" communication. Early buyers pass on the good experience of the product to others or repurchase it. Producers and distributors (whether new to the market or well-established) recognise the opportunity and switch over to produce their own version. The market broadens through policies of product differentiation and market segmentation. Profit margins peak as experience reduces unit costs and promotional expenditure is spread over a larger sales volume.

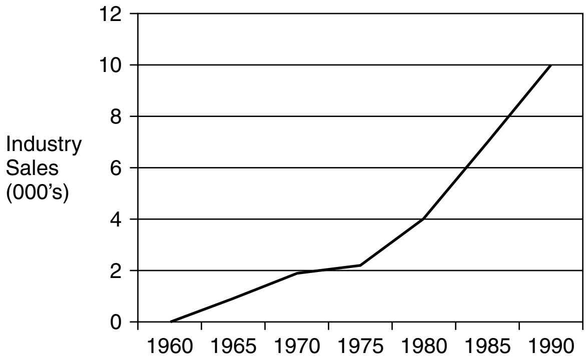
Maturity occurs because all markets are ultimately finite (in time, volume and geography), and the market becomes saturated. Sales growth becomes more or less flat as sales settle down to a level that reflects the regular volume of new buyers entering the market plus repurchase rates. Profits decline because of the number of competitive offerings; cost reductions become more difficult and smaller, specialist competitors enter the market.

Decline occurs as buyers switch to new offers that give advantages or benefits not present in the existing product. Producers therefore initiate a new curve, bringing to an end that of the product group to be displaced. Declining sales are accompanied by falling profit margins as too many competitors fight for the remaining market. Price-cutting is prevalent and marginal competitors move out of the market.

This is a basic description of the industry maturity concept that has been tested, examined, criticised and developed over the past four decades. It was first observed

Figure A2.18

Case Study: Growth of Executive Search in the UK



Source: Young (1996).

by an economist and then brought to prominence by leading marketing writers. The history of its development gives clues to its usefulness today, especially in service markets.

2 Constructing the Curve

Industry sales figures should be collected or calculated in a defined region or country. They should be projected back as far as is reasonably possible. Figure A2.8 shows an actual version for the UK executive search market.

3 Use of the Concept

As the phenomenon occurs when there are independent variables (i.e. groups of suppliers and buyers), and rarely applies to individual products, it can be used to create marketing strategy. Many have found that the concept can be used to form a judgement about movements in the category's sales growth curve. They can develop marketing strategies appropriate to each stage in the life cycle.

The concept is also useful in indicating the maturity of a market (i.e. the relationship of the group of customers to the group of suppliers, and the level of maturity of the understanding of the concept). An individual product being offered into that marketplace can then be adjusted in the light and understanding of that relationship. The likely strategies in each phase are summarised in Table A2.2.

Firms can use this concept to understand the position of their firm and service in the light of a total market's evolution. They can then construct their business strategy in the light of it.

TABLE A2.2 STRATEGIC IMPLICATIONS OF DIFFERENT PHASES OF INDUSTRY MATURITY

	Introduction	Growth	Maturity	Decline
Characterist s				
Sales	Low	Fast growth	Slow growth	Decline
Profits	Negligible	Peak levels	Declining	Low or zero
Cash flow	Negative	Moderate	High	Low
Customers	Innovative	Mass market	Mass market	Laggards
Competitors	Few	growing	Many rivals	Declining
Responses				
Strategic focus	Expand market	Penetration	Defend share	Efficiency
Marketing spend	High	Declining	Falling	Low
Marketing emphasis	Product awareness	Brand preference	Brand loyalty	Selective
Distribution	Patchy	Intensive	Intensity	Selective
Price	High	Lower	Lowest	Rising
Product	Basic	Improved	Differentiated	Rationalised

Source: Doyle (1976).

4 Use of the Tool with Scenarios

If companies should take the time to step back and create scenarios of any strategic situation, it is with regard to industry maturity. Numerous industries, from mobile phones and computers to cars and tourism, have found, to their cost, that the growth phase of their market can end suddenly and painfully. Although the concept is well known, managers seem unable or unwilling to acknowledge that maturity has arrived. Yet, if they don't, revenue will decline while costs stay static.

When this occurred in the big systems end of the computer market, for instance, the mighty IBM nearly went down. Scenarios of potential market developments and their implication can easily be modelled in the light of maturity trends by calculating, for example, the penetration of the offer into different potential markets and the rate at which saturation will be reached.

MARKETING MIX

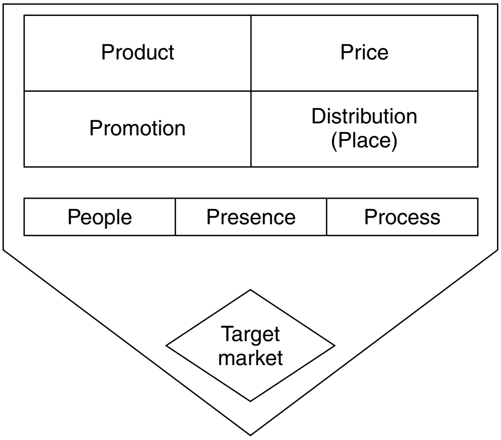
Application: Planning and Influence

1 The Tool

This concept focuses on the aspects of marketing that need to be coordinated in order to influence the buyers. They are the "four Ps" of marketing (Figure A2.19):

Figure A2.19

The Marketing Mix for Services



- The **P**roduct; or the offer to clients.
- The **P**rice at which the product is offered.
- The **P**romotion of the product to the target buyers
- The **P**lacing of the product in the market through sales and distribution channels.

Classic marketing training emphasises that all these elements need to planned in order to achieve success. However, there are two other ingredients. The first is a clear knowledge of the target market. Suppliers need to know, in detail, the attributes and benefits that the buyers will value. The second is the "mix" of components that will most appeal to the buyers. These need to be planned and balanced carefully.

In reality, few marketers have direct line responsibility for all the components of the mix. They therefore need to influence these other areas in order to achieve their objectives and create value for their employers. Experience suggests that they will fail to have impact and their work may as well not be attempted if they are restricted to just short-term tactical aspects of one or two aspects of the mix.

The mix for a service business is different. Firstly, the offer is not a tangible product but a proposition, which is likely to be a mix of intangibles and tangibles. This changes marketing dramatically.

However, it is generally accepted that there are three further aspects of the marketing mix for services—three extra "Ps". They are:

- The **P**eople who deliver the service because the buyer often cannot separate them from the value they buy.
- The **P**hysical evidence, or tangible aspects of the offer, designed to help deliver perceived value to the buyer.
- The **P**rocess through which the buyer moves while using or buying the service.

Again, all aspects of the mix need to be designed to match the aspirations of the intended buyers.

There is, of course, complexity behind this concept. Each "P" has many detailed aspects; the "P" of promotion, for instance, represents detailed, carefully managed and interactive marketing communication.

2 Constructing the Tool

In any planning situation simply list the elements of the mix and ensure that they have been considered for the particular target market.

3 Use of the Tool

The marketing mix is most often used in management dialogue or communications. Those involved can use it as an informal checklist to ensure that all aspects of a proposition have been properly considered. However, it can also be used in detailed marketing planning. Once strategy has been decided, a full campaign comprising all elements of the mix should be created for each target market.

4 Use of the Tool with Scenarios

With large, new or risky campaigns, it would be possible to create scenarios of different impact on the target market. These could form the basis of alternative investment decisions.

PORTER'S COMPETITIVE FORCES

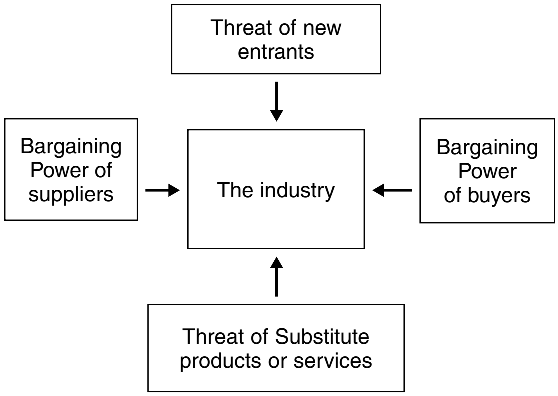
Application: Market Analysis, Strategy Development

1 The Tool

Among Michael Porter's impressive and prodigious work on competitive strategy (for example, Porter, 1979) he offered a powerful conceptual framework which works well as part of the market analysis and strategy development process. His "five forces" of competition (Figure A2.20) are a useful checklist for strategists and marketers to work through when analysing a market. They are:

Figure A2.20

Porter's Forces of Competition



Source: Porter (1979). Reprinted by permission of Harvard Business Review. From "How competitive forces shape strategy" by M.E. Porter, March. Copyright © 1979 by the Harvard Business School Publishing Corporation, all right reserved.

- ***The Power of Buyers***. Buyers can influence a market by forcing down prices, by demanding higher service and quality or by playing competitors off against each other. Porter suggested that there are a number of circumstances when a buyer group is powerful including: if they are concentrated; if buying commodities, or components; if driven to get price cuts; or if the purchase is unimportant to them.

- ***The Power of Suppliers***. Suppliers can execute power by raising prices or reducing the quality of the offer. They can squeeze profitability out of the industry. They are powerful if: dominated by a few; have unique offers; are not obliged to compete; threaten forward integration; or are not part of an important industry to the buyers.

- ***The Threat of New Entrants***. These bring new capacity, the desire for market share and resources. The seriousness of the threat depends on barriers to entry which have six sources (economies of scale, product differentiation, capital requirements, cost advantages, access to distribution, and government policy).

- ***The Threat of Substitute Offers***. These affect the profit of an industry by placing a ceiling on what it can charge through offering an alternative price/feature option.

2 Constructing the Tool

The concept can simply be used as a checklist to prompt planners to cover relevant issues during market analysis and strategy development. However, it is most powerful when good analysis is put behind the thinking so that judgements can be made with the benefit of real data. Industry reports and original research can be summarised into the model and used as criteria by which to develop competitive responses or critical success factors.

3 Use of the Tool

The tool can be used to guide debate and is also effective as a communications device. Its clarity summarises graphically and quickly the competitive landscape and can be used as part of the rationale for competitive programmes. It is best used, however, as a background planning tool in the market planning process.

4 Use of the Tool with Scenarios

This structure of a market lends itself well to work with scenarios. Having completed a process to identify the various forces and structures, different scenarios of how it might develop can be created. For example, a future development of the market might be for customers to develop more power, causing suppliers to compete for share. Different scenarios of how this competition might evolve can be modelled and used to anticipate marketing requirements.

RESEARCH

Application: Client, Competitor or Market Insight

1 The Tool

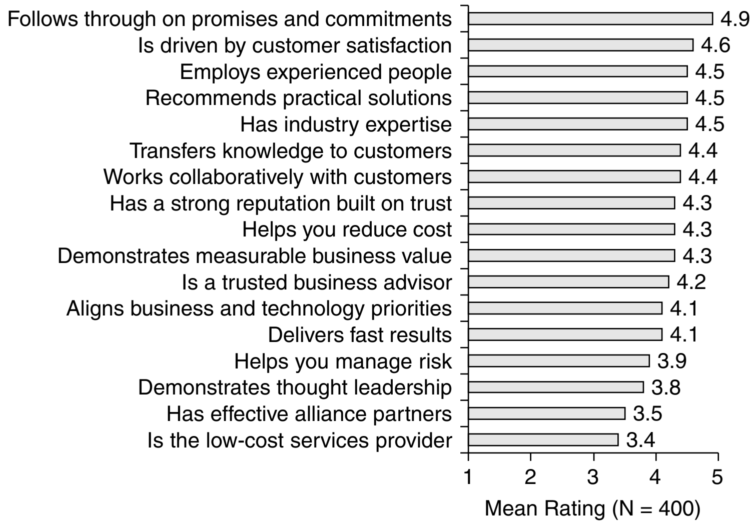
Field research is familiar to many business leaders and managers. They may have seen results of research presented at internal meetings or read research reports while training. Unfortunately, familiarity can breed contempt, making the processes, the techniques and the outcomes seem deceptively simple. As a result, there are many unconvincing or poor research reports resulting from poor specification or poor use of the research industry.

Yet, undertaken properly, field research yields insights into customer needs, competitor performance and market trends (Figure A2.21). It can reveal the different elements of an offer that buyers value and how they combine with different price points to form packages that they will buy. Moreover, it can reveal how these vary between different groups, creating opportunities through variation of an offer in different market segments. It can also save money by stopping new product ideas or marketing programmes which the market will reject. Yet to do all this it has to be properly specified and managed. It needs a brief and a managerial process if it is going to produce results. This needs to ensure that the sample frame, the approach, the technique and the questionnaires are appropriate.

Figure A2.21

Importance Rating of IT Professional Services Firms' Attributes

When you and your company are selecting a professional services consultant or solution provider, how important is it that this vendor ___?



Source: ITSMA (2004). Reproduced by permission of ITSMA.

2 *Constructing Research Projects*

There are two main types of research. The first is the qualitative or "in depth" approach. This involves spending time with a relatively small number of buyers and seeking deep answers to questions. It gives colour to views and can reveal underlying feelings and motivations that can be enormously valuable. Quantitative research, on the other hand, involves a wider number of contacts, normally to investigate trends. Both have their strengths and their weaknesses.

Methods used to collect data vary enormously. They range from face-to-face interviews and observed discussion groups to telephone, postal or internet surveys. There are, however, several different research techniques.

- ***Conjoint Research.*** This uses questions (either in face to face meetings with clients or via mail or telephone) designed to trade off different pairs of values or ideas. Interviewees are forced to choose. It mimics the thought processes of clients when considering purchase and yields the type of detailed output illustrated in the diagram above. It can provide powerful insight into new offers and adjustments needed to service.

- ***Observational Research.*** As the name suggests this involves a researcher observing behaviour of clients. It can give real insight into behaviours which reflect customer views.

- ***Explorative Research.*** This is normally used in developing a new proposition or identifying a new customer segment, this technique follows issues until a trend suggests that they are likely to be substantive. The work can be iterative, checking back and adjusting the idea as interviewees respond.

- ***Concept Testing.*** This involves testing ideas for new propositions or approaches with customers before launch. They are shown an idea or marketing programme and asked to comment on it in a structured way.

3 Use of the Tool

Field research ought to carry an arrogance warning. Managers and leaders in all sectors of industry can be very dismissive of it. Many have been heard to remark that there is little that field research can tell them about their buyers. Yet they are almost always wrong. In fact, some very senior business leaders have been chastened by the direct comments they have heard their buyers make when sitting behind two-way mirrors watching focus groups.

Research does, however, need to be used properly. It needs to fill a gap in knowledge. It is sensible to first conduct an exhaustive desk review to see if libraries, professional societies or academic institutions have conducted research or provided commentary on the subject in question. Many people in large companies which lack a structured research library find, after a brief search, that their own company has conducted research near to the subject in question on previous occasions.

Once this preliminary work has been completed, the gap in knowledge ought to be clearly defined in a brief to a specialist research agency. This should specify the purpose of the research, which might be to test a new service idea, to test segmentation dimensions, to understand a new concept or to identify client needs. The exercise will be confused if there are too many objectives. In particular, the information yield that is expected must be made clear to the supplier.

When results are received, careful interpretation is needed. It is important to understand not only the statistically valid representation of results but also their meaning. Human beings often do not know what they want and, sometimes, why they behave in a particular way. They will say they want cheapness yet spend outrageous sums on a product from a branded supplier.

There are numerous examples of mistakes due to poor interpretation. In the late 1980s, for example, one American telecoms supplier commissioned a leading consultancy firm to judge the ultimate size of the worldwide mobile phone market.

The consultancy, which was not a specialist research firm, interviewed people in various parts of the world and estimated that the size of the mobile phone market would "never exceed a million handsets". They did not understand people's social need to chat, move fast and get a grip of personal communications.

Research therefore needs careful commissioning, good execution and enlightened interpretation. Yet the expense and effort is more than worth while. It can lead to profitable new insights that build strong future revenue streams and it can obviate mistakes.

4 Use of the Tool with Scenarios

Scenarios are very powerful representations of research results. Rather than literal tabulation of questions and findings, the pictures created by different scenarios can help to facilitate debate and develop strategy.

SWOT ANALYSIS

Application: Strategy Development

1 The Tool

Probably the best known of the strategy tools this matrix (Figure A2.22) helps to structure discussion by summarising a firm's strategic position into: strengths, weaknesses, opportunities and threats.

Figure A2.22

SWOT Analysis

Strengths	Weaknesses
Opportunities	Threats

2 Constructing the Matrix

A SWOT analysis can easily be created during discussion among a management team. Valuable insight and debate can emerge from its succinct summary of the firm.

It can, however, be constructed using detailed analysis. The market analysis techniques outlined in Chapter 2 can be summarised into it. Competitive analysis will reveal "threats", for example, and client research will give insight into "opportunities". On the other hand, an environmental analysis, which reviews "PEST" (political, economic, social, technological) factors, can contribute to both of these.

Those wishing to take a thorough, analytical approach can use the "TOWS" method. This suggests that each item in the matrix is numbered. Then each threat is compared against each weakness and each opportunity against each strength, in a systematic search for strategic options. As the strengths and weaknesses arise from debate about the firm's competencies, the strategist is, in fact, checking these against market developments through this process.

3 Use of the Tool

The tool is best used in the strategy development process to summarise analysis. It allows senior people to focus debate and decision-making.

4 Use of the Tool with Scenarios

The different combinations of strengths with opportunities and weaknesses with threats can be built into scenarios. Once agreed and prioritised, they can form the basis of a clear marketing strategy.

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