

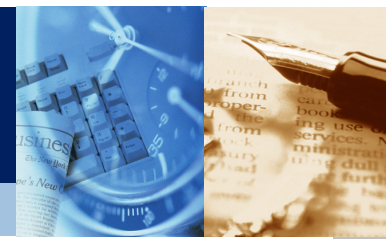


Implementing Strategies: Marketing, Finance/Accounting, R&D, & MIS Issues

Week 08

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The Nature of Strategy Implementation



"The greatest strategy is doomed if it's implemented badly."
– Bernard Reimann

Strategy implementation means change

**Less than 10%
of strategies formulated
are successfully implemented!**



The Nature of Strategy Implementation



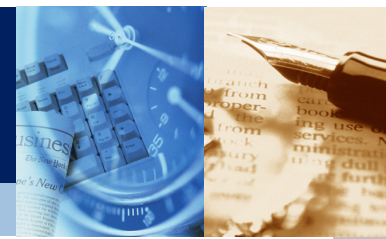
Low Success Rate – Strategy Implementation

- ✓ Failing to segment markets appropriately
- ✓ Paying too much for a new acquisition
- ✓ Falling behind competition in R&D
- ✓ Not recognizing benefit of computers in managing information

Successful Strategy Implementation

- ✓ Market goods & services well
- ✓ Raise needed working capital
- ✓ Produce technologically sound goods
- ✓ Sound information systems





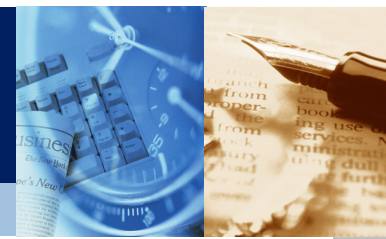
Marketing variables affect success/failure of strategy implementation

Marketing decisions requiring policies

- ✓ Exclusive dealerships – multiple channels of distribution
- ✓ Heavy, light, or no TV advertising
- ✓ Price leader or price follower
- ✓ Advertise online or not
- ✓ Offer complete or limited warranty

Centrally important to Implementation

1. Market segmentation
 2. Product positioning
-



Market Segmentation

Subdividing of a market into distinct subsets of customers according to needs and buying habits

Market Segmentation

- ✓ Key to matching supply & demand
- ✓ Market-development, product-development, market-penetration, and diversification strategies
- ✓ Allows operating with limited resources
- ✓ Enables small firms to compete successfully

Market Segmentation Directly affect marketing mix variables Product, Place, Promotion, Price

Marketing Mix Component Variables



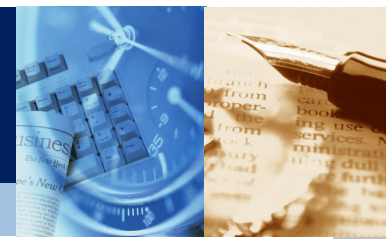
Product	Place	Promotion	Price
Quality	Distribution channels	Advertising	Level
Features and options	Distribution coverage	Personal selling	Discounts and allowances
Style	Outlet location	Sales promotion	Payment terms
Brand name	Sales territories	Publicity	
Packaging	Inventory levels and locations		
Product line	Transportation carriers		
Warranty			
Service level			
Other services			



Marketing Issues



Market Segment Basis	Demographic	<ul style="list-style-type: none">✓ Age✓ Family size✓ Family life cycle✓ Income	<ul style="list-style-type: none">✓ occupation✓ Education✓ Religion✓ Race/nationality
	Psychographic	<ul style="list-style-type: none">✓ Social class✓ Lifestyle✓ Personality	
	Behavioral	<ul style="list-style-type: none">✓ Use occasion✓ Benefits sought✓ User status✓ Usage rate	<ul style="list-style-type: none">✓ Loyalty status✓ Readiness stage✓ Attitude toward product
	Geographic	<ul style="list-style-type: none">✓ Region✓ County size✓ City✓ Density✓ Climate	



Product Positioning

Schematic representations that reflect how products/services compare to competitors' on dimensions most important to success in the industry

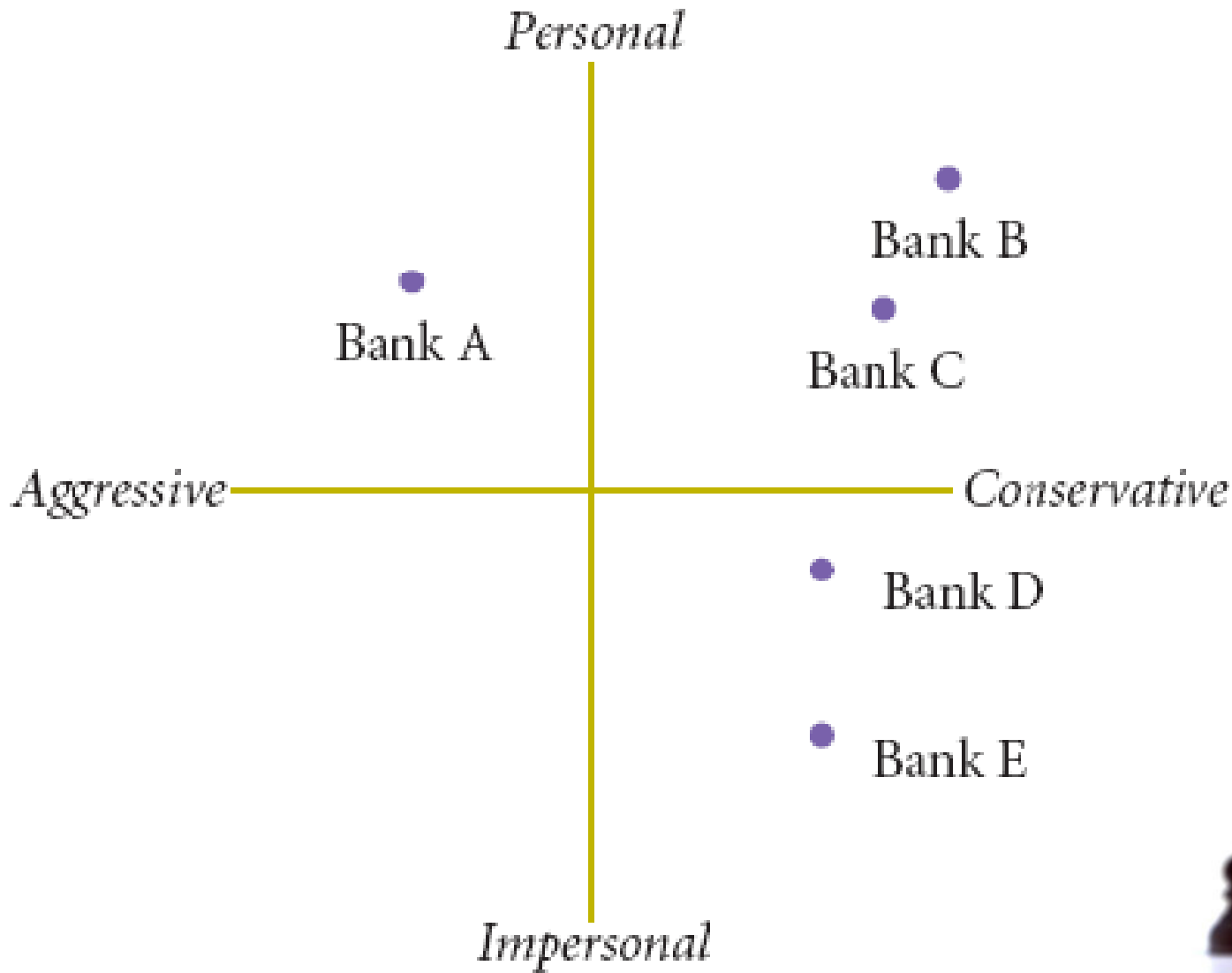
Product-Positioning Steps

1. Select Key Criteria
2. Diagram Map
3. Plot Competitors' Products
4. Look for Niches
5. Develop Marketing Plan

Product-Positioning

- ✓ Look for vacant niche
- ✓ Avoid suboptimization
- ✓ Don't serve 2 segments with same strategy
- ✓ Don't position in the middle of the map

A Product-positioning Map For Banks

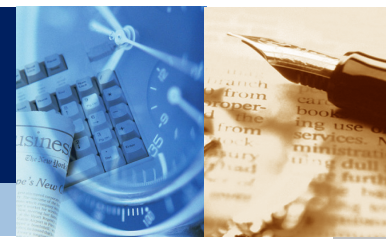


Average Age of Automobile Buyers by Brand



Plymouth	38	Pontiac	42	Infiniti	45
Mitsubishi	38	Acura	42	Subaru	45
Volkswagen	38	Hyundai	42	Oldsmobile	46
Honda	41	Suzuki	42	Saturn	46
Isuzu	41	Audi	42	Chrysler	47
Kia	41	Daewoo	43	Lexus	47
Land Rover	41	Chevrolet	43	Jaguar	49
Mazda	41	Porsche	43	Mercury	50
Nissan	41	Saab	43	Lincoln	51
BMW	42	GMC	44	Cadillac	53
Dodge	42	Toyota	44	Buick	57
Jeep	42	Volvo	44		
Ford	42	Mercedes-Benz	45		

Source: Adapted from Norihiko Shirouzu, "This Is Not Your Father's Toyota," *Wall Street Journal* (March 26, 2002): B1.



Central to strategy implementation

Essential for Implementation

- ✓ Acquiring needed capital
- ✓ Developing projected financial statements
- ✓ Preparing financial budgets
- ✓ Evaluating worth of a business

Decisions Based on Finance/Accounting

- ✓ Raise capital – short-term, long-term, preferred, or common stock
 - ✓ Lease or buy fixed assets
 - ✓ Determine appropriate dividend payout ratio
 - ✓ LIFO, FIFO, or market-value accounting approach
 - ✓ Establish % discount on accounts for terms
 - ✓ Determine the amount of cash kept on hand
-



Capital Acquisition to Implement Strategies

- ✓ Debt
- ✓ Equity

Debt vs. Equity Decisions

- ✓ EPS/EBIT analysis
 - Earnings per share/earnings before interest and taxes



EPS/EBIT analysis for the Brown Company

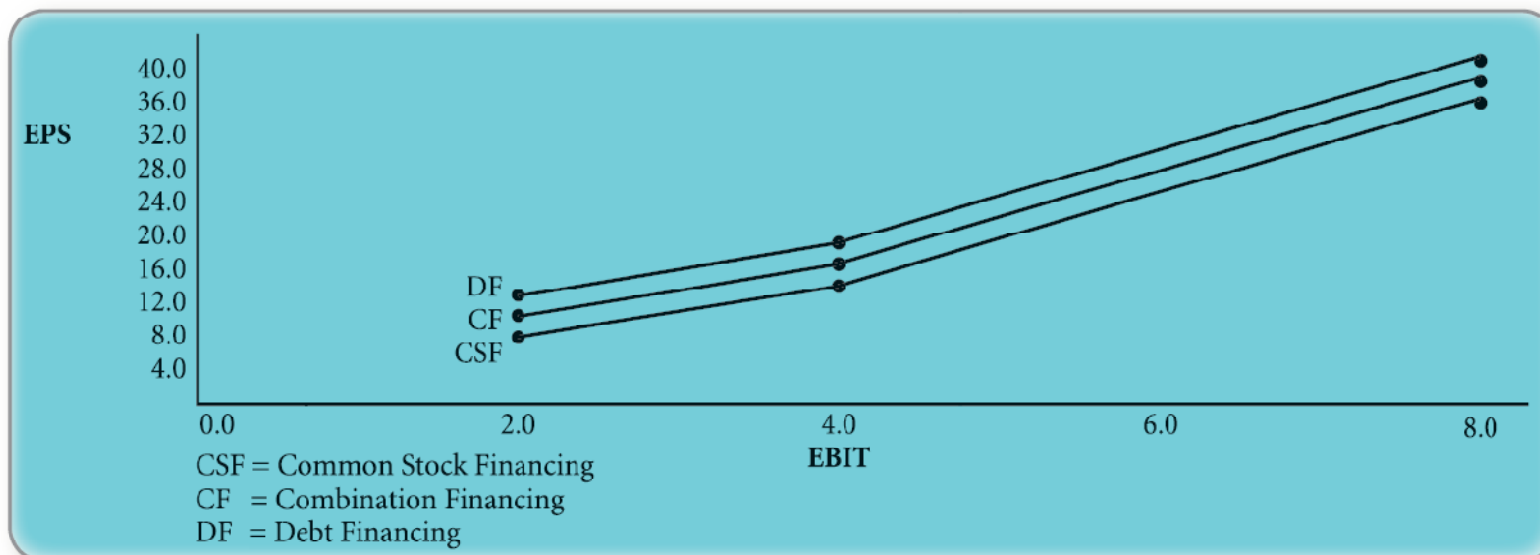


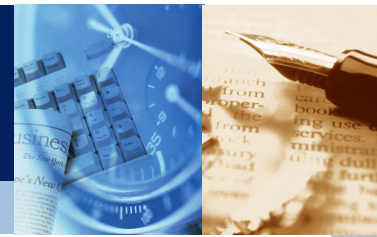
	Common Stock Financing			Debt Financing			Combination Financing		
	<i>Recession</i>	<i>Normal</i>	<i>Boom</i>	<i>Recession</i>	<i>Normal</i>	<i>Boom</i>	<i>Recession</i>	<i>Normal</i>	<i>Boom</i>
EBIT	\$2.0	\$4.0	\$8.0	\$2.0	\$4.0	\$8.0	\$2.0	\$4.0	\$8.0
Interest ^a	0	0	0	.10	.10	.10	.05	.05	.05
EBT	2.0	4.0	8.0	1.9	3.9	7.9	1.95	3.95	7.95
Taxes	1.0	2.0	4.0	.95	1.95	3.95	.975	1.975	3.975
EAT	1.0	2.0	4.0	.95	1.95	3.95	.975	1.975	3.975
#Shares ^b	.12	.12	.12	.10	.10	.10	.11	.11	.11
EPS ^c	8.33	16.66	33.33	9.5	19.50	39.50	8.86	17.95	36.14

^aThe annual interest charge on \$1 million at 10% is \$100,000 and on \$0.5 million is \$50,000. This row is in \$, not %.

^bTo raise all of the needed \$1 million with stock, 20,000 new shares must be issued, raising the total to 120,000 shares outstanding. To raise one-half of the needed \$1 million with stock, 10,000 new shares must be issued, raising the total to 110,000 shares outstanding.

^cEPS = Earnings After Taxes (EAT) divided by shares (number of shares outstanding).





Evaluating Worth of a Business

Central to strategy implementation – integrative, intensive, and diversification strategies often implemented through acquisitions of other firms.

Three Basic Approaches

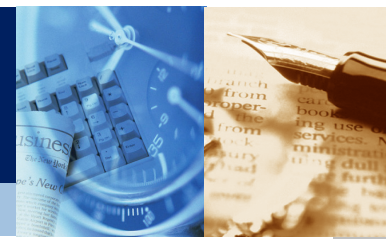
1. What a firm owns
2. What a firm earns
3. What a firm will bring in the market



Company Worth Analysis (Mattel, Nordstrom & Pfizer)



Input Data	Mattel	Nordstrom	Pfizer
Shareholders' Equity	\$2,432	\$2,168	\$71,358
Net Income (NI)	592	677	19,337
Stock Price	25	55	25
EPS	1.48	2.55	2.58
# of Shares Outstanding	393	257	7,090
Goodwill	845	51	20,876
Total Assets	4,955	4,821	114,837
Company Worth Analyses			
1. Shareholders' Equity plus Goodwill	\$3,277	\$2,219	\$92,244
2. Net Income \times 5	2,960	3,385	96,685
3. (Stock Price/EPS) \times NI	10,000	14,601	187,374
4. # of Shares Out \times Stock Price	9,825	14,135	177,250
5. Enterprise Value according to http://finance.yahoo.com	10,840	14,480	168,990
6. Five Method Average	7,380	9,764	144,508
\$Goodwill/\$Total Assets	17.1%	1.1%	18.7%



New products and improvement of existing products that allow for effective strategy implementation.

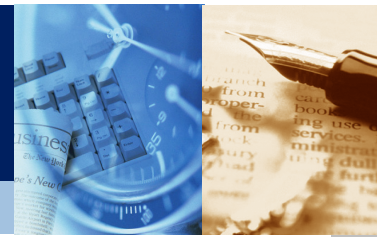
Constraints

- ✓ Level of support constrained by resource availability
- ✓ Technological improvements shorten product life cycles

Major R&D Approaches to Implementing Strategies

1. 1st firm to market new technological products
 2. Innovative imitator of successful products
 3. Low-cost producer of similar but less expensive products
-

Management Information Systems (MIS) Issues



Information is the basis for understanding the firm. It's one of the most important factors differentiating successful from unsuccessful firms.

Functions of MIS

- ✓ Information collection, retrieval, and storage
- ✓ Keeping managers informed
- ✓ Coordination of activities among divisions
- ✓ Allow firm to reduce costs



