Strategic Marketing:
Using Strategy to Drive Demand

By Rich Horwath

How would you define "love?" Ok, pencils up. Chances are nobody defined it exactly the same way. Some of you may still be thinking about your first love and how you spilled popcorn on them during the second and alas, final date. The reason for the myriad of definitions is the fact that love is intangible. Since you can't see it or touch it, a definition of love is relatively fuzzy.

The same can be said for the term, "strategy." As an intangible, it is difficult to define because strategy can't be seen or touched. However, applying the three characteristics of strategy, the concept of Strategic Freedom and the technique of Strategic Marketing Mapping can provide a working knowledge that translates into marketing success. A thorough understanding of what strategy is and more importantly, what it's not, can reap millions of dollars in increased sales and valuable market share points.

Unlike the numerous academic classes and business courses offered to develop and hone one's marketing skills, formal information on strategy has been less available. A brief refresher on the origin and evolution of strategy will lay the groundwork for translating its' principles into advantage in the marketing arena.

Origin

Strategy originated in the military arena, with the need for armies to defeat their enemies. The term "strategy" comes from the Greek word "strategos," which originally referred to a role: general in command of an army. Later it came to mean "the art of the general," referring to the psychological and behavioral skills with which he occupied the role. Around the time of Pericles (450 B.C.) it became managerial skill (administration, leadership, oration, and power). Then by Alexander's time (330 B.C.), it came to mean the skill of employing forces to overcome opposition and to create a unified system of global governance. It is believed that the first written treatise on strategy is the now famous "The Art of War," by Chinese general and philosopher Sun Tzu in 400 B.C.

The military origin of strategy elucidates a key consideration: when no competition exists, there is no need to strategize; the need is to make operational improvements in the product/service provided to customers. The concept of strategy emerged to enable armies to defeat their enemies or competition. So too in games such as chess, or sports such as football, without an opponent or competitor, the need for strategy is nonexistent.

Evolution

Strategy first entered the business arena in the 1950s under the auspices of corporate planning. Alfred Chandler Jr. published the first business book on strategy in 1962 entitled, *Strategy and Structure*. His work examined four large corporations and concluded that firms should first determine their strategy and then define their structure, while moving towards a decentralized framework. In 1965, a Russian-American engineer and mathematician named H. Isaac Ansoff published *Corporate Strategy*, which argued that the strategy process should be formalized through procedure and analysis. This created the "Analytical" or "Classical" school of strategy, where techniques such as the S.W.O.T. analysis found their beginnings.

In the late 1960s and early 1970s, corporate strategy embraced portfolio management for multi-divisional firms, led by Bruce Henderson of the Boston Consulting Group and the popular Growth/Share Matrix. The landmark work *Competitive Strategy* written by Michael Porter of Harvard in 1980 shifted focus from the internal environment of the corporation to the external environment, highlighted by his Five Forces of Competition Model. Porter argued that the impact of the bargaining power of buyers and suppliers, substitute products, barriers to market entry and current industry rivalry were important determinants of the feasibility of a corporation's strategic direction. Porter's work coupled with the other Classical influences form the "structure-conduct-performance" perspective. This perspective emphasizes the formation of a plan based on analysis of the business market and the firm's position on the competitive landscape.

The Evolutionary school of strategy was formed through the works of Henry Mintzberg, professor at McGill University in Montreal in the 1980s. This school of thought proposed that strategy was not a planned effort but emerged from a business's involvement in the market. Professor Mintzberg, not to be outdone by the 4P's of marketing, devised the 5P's of strategy. The 5 P's demonstrate that simply defining strategy as "a plan," is incomplete at best. The 5P's help describe the abstract concept of strategy:

1. Plan: A guideline to deal with a situation.
2. Ploy: A specific maneuver to outwit an opponent.
3. Pattern: Consistency in behavior.
4. Position: Place where resources are focused.
5. Perspective: Way of perceiving the world.

The early 1990s saw the popularity of "core competencies" brought about by Gary Hamel and C.K. Prahalad's acclaimed book, *Competing for the Future*. The central notion of their work was that each company, regardless of size, has a select number of core competencies, or bundles of skills and technologies, that enable a company to provide a particular benefit to customers. For example, FedEx has the core competency of logistics management, which produces the customer benefit of on-time delivery.

The idea of core competencies spawned the resource-based perspective, which added to the Classical perspective of structure-conduct-performance. The resource-based perspective focuses on a firm's resources (assets) and capabilities and how the internal strengths provide advantage over competitors. In this sense, they form two sides to one competitive picture, one perspective focusing on defining what advantages need to be created and the other on how to create them.

The end of the 1990s and into the twenty-first century has featured an emphasis on strategy implementation and metrics, as evidenced in works such as *The Strategy-Focused Organization* by Robert Kaplan and David Norton. They propose the use of the Balanced Scorecard, which translates the designated strategy into operational terms for value creation from four different perspectives: 1) financial 2) customer 3) internal business processes, and 4) learning and growth. The internal focus of these works emphasizes the need to have processes in place to enable internal employees and sales forces to implement the conceived strategy. Finally, the application of agreed upon metrics is important to keep everyone focused on the appropriate activities.

Three Characteristics of Strategy

While a definition of an intangible concept like strategy may be hard to agree upon, there are three primary characteristics of strategy. Those characteristics include:
1) Differentiation
2) Focus
3) System of Activities

Differentiation

The idea of differentiation as critical to strategic marketing is inherent. However, when taking a close inspection of marketing efforts, how many of the activities are truly differentiating? The basis of differentiation for strategic advantage has its roots in science. Specifically, G.F. Gause's Principle of Competitive Exclusion explains the reason for differentiation in the realm of competition. In 1934, a Moscow University researcher named G.F. Gause, known as the "father of mathematical biology," published the results of a set of experiments. In his experiments, he put two very small animals (protozoans) of the same genus in a bottle with an adequate supply of food. If the animals were of different species, they could survive and persist together. However, if the animals were of the same species, they could not survive together. This led to Professor G.F. Gause's Principle of Competitive Exclusion: No two species can coexist that make their living in the identical way.

Therefore, failing to evaluate marketing activities for differentiation versus competitors will eventually lead to the demise or severe financial impairment of at least one of the market entrants. The natural tendency is to spread marketing resources over a wide field of activities, from journal advertising and sales aids to direct mail and patient education because "that's the way it's always been done." Strategic marketing takes the idea of "the way it's always been done" and replaces it with "Which activities aligning with the objectives will provide differentiation versus the competitor?"

Focus

Focus demands that we have the discipline to allocate resources to specific areas and activities and not spread them evenly across the business. Focus comes from the ability and willingness to make trade-offs. Trade-offs are about choosing one path and not the other. Trade-offs involve incompatible activities—more of one thing necessitates less of another. In the pharmaceutical industry, one can choose to be the leader in research and development or the leading provider of low-cost drugs, but cannot do both without bearing major inefficiencies.

Making trade-offs is one of the most difficult tasks for most managers, and the result is that they never do make the necessary trade-offs. Instead, they hedge their bets and abide by the adage of "trying to be everything to everyone." Harvard Business School professor Michael Porter has said, "The essence of strategy is in choosing what not to do. Without trade-offs, there would be no need for choice and thus no need for strategy. Any good idea could and would be quickly imitated."

Three sets of questions can help us begin the process of identifying the trade-offs for our business:

Who are we serving?	Who are we not serving?
What are we offering?	What are we not offering?
How are we offering it?	How will it not be offered?

Most managers do a relatively good job of answering the questions in the left column. What most managers don't do is take the time to answer the questions in the right column—the ones that determine the "nots"—the things we are not going to do. As strategy involves "the intelligent allocation of *limited* resources…," choosing where not to allocate resources is a critical step in the development of strong strategy.

Meg Whitman, CEO of eBay, explains the crucial role focus played in the successful development of the company:

> *The key decisions can all be characterized by focus, focus, focus. Back in March 1998, we were faced with a decision on what categories we wanted to focus on. We decided to really be a collectibles company. The heaviest users were collectors, the heaviest sellers were collectors. It was a very explicit strategic decision, because part of the group wanted to go into consumer electronics and all of these other categories we are in today. And we answered, "We have only a limited number of resources. What is the best focus that we can have?*

Ms. Whitman realized early on that good strategy involves the discipline to focus one's limited resources on the key areas that will fuel success.

Following are the four reasons why the majority of organizations don't focus their resources through strategy:

1. **Unclear purpose:** Working without a clearly articulated purpose in the form of a mission, vision, or values statement is like a rudderless ship. It floats along, being pushed by competitors and circumstances into all kinds of strange places—places that waste precious time and resources.
2. **Lack of business intelligence:** Not taking the time for strategic thinking, which involves methodically and comprehensively assessing the market, customers, competitors, and the organization, inhibits the ability to focus. Without the generation of business intelligence, resource allocation is a crapshoot.
3. **Action orientation:** As we are now all technologically tethered to one another and expected to be "on" 24/7, activity is the name of the game. Focusing resources requires us to periodically step back out of the fray and thoughtfully assess the situation. A good strategist isn't driven by the calendar or the clock—they're driven by those few things that make a difference in their business.
4. **Unwillingness to make trade-offs:** Focus requires trade-offs and trade-offs require calculated risk. Spreading resources and not focusing allows us to reduce our vulnerability and lower the risk. However, just like financial investing, the more we reduce risk, the more we reduce the chance for great financial success.

System

While a strategy can be made up of only one activity, there are compelling reasons for building an activity system to drive your strategy. As the number of activities comprising your strategy increases, it becomes more and more difficult for competitors to emulate the entire system of strategy. This premise is evident in Figure 1.

Figure 1 Arithmetic Support of System of Activities

# of Activities	Numerical Representation	Probability of competitor match
1	.9	90%
2	.9 x .9	81%
3	.9 x .9 x .9	73%
4	.9 x .9 x .9 x .9	66%
10	$.9^{10}$	35%

In this figure, we can see that the probability of a competitor successfully copying a strategy involving only one activity is relatively high at 90% or .9. With three activities comprising our strategy, the probability of a competitor successfully emulating the strategy drops to 73%. Creating a system of strategy involving ten activities significantly diminishes the competitor's ability to follow our lead. Later in the book we will introduce a tool called the Activity System Map, which will enable you to create a system of strategic activities.

Distinction from Operational Effectiveness

Another important aspect of strategy is the distinction from operational effectiveness. In his acclaimed Harvard Business Review article, "What is Strategy?", Professor Michael Porter asserts that strategy is: "performing different activities than your competitors or performing similar activities to your competitors in a different manner." Performing the same activities in the same manner, even if faster or more efficient than competitors, is operational effectiveness. Examples of operational effectiveness in marketing include market research, competitive intelligence and marketing planning. Often confused with strategy, operational effectiveness is nonetheless instrumental to the success of the firm.

Strategy Marketing versus Maintenance Marketing Activities

The distinction between strategic marketing activities and maintenance marketing activities also can be applied to the marketing budget process. It is becoming more common to see marketing budgets with categories titled "Strategic Marketing Initiatives," and "Maintenance Marketing Activities." This categorization allows management to quickly understand what they are funding and how much of the funding is going to initiatives that actually support differentiation in the marketplace. A "Strategic Reserve" category also may be useful as part of the marketing budget. The Strategic Reserve consists of funds or resources deliberately held back until it is determined which activities have been the most successful. The Strategic Reserve is then applied to those activities to fully exploit the advantages they can yield.

Strategic Freedom

Once the marketing activities have been evaluated using the three characteristics of strategy, a final question for marketers to ask is "What are the areas of Strategic Freedom I have across the 4 P's of marketing (product, place, promotion, price) and the target audience?" Strategic Freedom (SF) is defined as the marketer's ability to change its offering on one or more of the 4 P's of marketing and target audience to create a positive point of differentiation from competitors. Identifying the areas of SF allows the marketer to find the optimum areas to invest its discretionary resources. Equally as important, SF can prevent the marketer from investing inordinate resources into areas where it cannot realistically gain advantage or differentiate itself from competitors.

Using Company X's cardiovascular pharmaceutical as an example, it is evident in Figure 2 that the areas of SF are in promotion (nonpersonal, direct marketing) and target audience (Nephrologists).

Figure 2 Strategic Freedom
Company X's Cardiovascular Rx Product

	Description	Strategic Marketing Freedom
Product	Little difference	No
Place	Office based MD's	No
Promotion	Sales rep or nonpersonal	**Yes**
Price	Competitive	No
Target Audience	IM/CD/Neph	**Yes**

StrategyPrint

One technique to assist in the crafting of marketing strategy is the StrategyPrint. Until now, one of the greatest challenges in strategic marketing planning has been linking the plan with day-to-day activities. Typically, lengthy plans are housed in bulky three-ring binders collecting dust on the shelf until their annual renewal. The solution to this age-old dilemma is to morph the traditional narrative strategic plan into a concise but thorough business blueprint, or StrategyPrint, that managers can use every day to drive their activities.

The StrategyPrint is a powerful two-page blueprint that serves as a real-time strategic action plan for your business. The StrategyPrint solves the challenge of linking marketing strategy development with execution by providing a concise yet thorough two-page document that is infinitely more functional to use on a daily basis than the traditional strategic plan.

Page one of the StrategyPrint captures the key insights for the business and places them in the four categories of market, customers, competition, and the organization. The intelligence and insights are generated during the discovery and strategic thinking phases of the process.

Page two of the StrategyPrint transforms the insights into the strategic action plan, including the overarching strategy, critical success factors, goals, objectives, strategies, and tactics. The result is a common planning framework that can be used throughout your group to ensure that everyone is following a unified strategic marketing direction.

Conclusion

Strategic marketing requires careful attention to the three characteristics of strategy: differentiation, focus and a system of activities. It also involves examining the Strategic Freedom across the 4 P's and target market to determine the optimum use of discretionary resources. Finally, a well-constructed StrategyPrint can serve as the foundation for the marketing plan. The net of these activities is assurance that the resources being invested in marketing will yield the maximum level of sales.

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