

CHAPTER 2

Theoretical Background

2.1 Introduction

Strategic management is a set of managerial decisions and actions determines the long-run performance of a corporation. It includes environmental scanning, strategy formulation, strategy implementation, and evaluation and control.

According to Wheelen and Hunger, the benefits of strategic management based on research has revealed that organization that engage in strategic management generally out perform those that do not. The attainment of an appropriate match, or “fit” between an organization’s environment and strategy, structure, and processes had positive effects on the organization’s performance.

Mostly benefits of strategic management for organizations are to be:

- ❖ Clearer sense of strategic vision for the firm
- ❖ Improved understanding of a rapidly changing environment
- ❖ Sharper focus on what is strategically important

In this research there a several step to be analyzed as follow:

1. Scanning the environment
2. Determining objectives and Direction
3. Choosing target market
4. Establishing Positioning
5. Developing marketing strategies

6. Evaluation and Control

2.2 Environmental Scanning

Before an organization can begin strategy formulation, it must scan the external environment to identify possible opportunities and threats and its internal environment for strength and weaknesses. Environmental scanning is monitoring, evaluation and dissemination of information from the external and internal environment to key people within the corporation (Wheelen and Hunger 2006).

Through environmental scanning and analysis, we must collect data about these aspects of the environment and then analyze their findings to have a better understanding of the company's strengths, weaknesses, opportunities, and threats:

- *Strength*: capability or resource that an organization has that could be used to improve its competitive position.
- *Weaknesses*: vulnerability in any capability or resource that may cause your organization to have a less competitive position.
- *Opportunities*: external factor that the organization might be able to exploit for higher performance.
- *Threat*: external factor that can potentially hurt the organization's performance.

Scanning step is used to develop SWOT analysis to formulate a strategic plan that will take advantage of strengths and opportunities while defending against weaknesses and threats. From the SWOT matrix, we can generate a series

of possible strategies for the company or business unit under consideration based on particular combination of four set of factor:

- SO (strength-opportunity) strategy are generate by thinking of ways in which a company or business unit could use it strengths to take advantage of opportunities
- ST (strength- threat) strategy, identify ways that the firm can use its strengths to reduce its vulnerability to external threats
- WO (weaknesses-opportunities) strategy, overcome weaknesses to pursue opportunities
- WT (weaknesses-threat) strategy, establish a defensive plan to prevent the firm weaknesses from making it highly susceptible to external threats.

2.3 Determining Objectives and Direction

Strategic direction indicates a general route for the marketing plan but without specific. Marketers have to set marketing and financial objectives as short-term goals along the path toward longer-term organizational goals. Step by step, the achievement of each marketing and financial objectives bring the organizational closer to fulfilling its ultimate purpose. The exact objectives set will depend on the marketer's knowledge of the current situation, environmental issues and keys to success, customers in targeted segments, and the organization's mission, goals, and positioning.

Objectives will be effective for guiding marketing progress only if they are:

- *Specific, time-defined, and measurable.* Objectives must be specific and include both deadlines and quantitative measure so marketers can plan the timing of activities and evaluate result to check progress. Marketers also must be able to measure progress by looking at sales figures, customer counts, satisfaction surveys, or through some other method.
- *Realistic but challenging.* To move the organization closer to its long-range goals. Marketing objectives should be rooted in reality yet aggressive enough to inspire high performance.
- *Consistent with the mission and overall organizations goals.* Objectives set for the marketing plan should support the organization in fulfilling its ultimate purposes – as stated in mission – and take the organization closer to its long-range goals.
- *Consistent with the internal resource and core competencies.* Challenging objectives will be empty word unless the organization has the resources, core competencies, and strengths to further their achievement. A thorough internal environmental analysis should indicate whether the organization is capable of driving towards the marketing plan objectives.
- *Appropriate in light of external environmental opportunities and threats.* Objective must make sense in a face of market and competitive realities and other opportunities and threat uncovered during the external environmental analysis.

2.4 Target Market

Target market is a group of people or companies with a set of common characteristics. Target marketing allows for a concentration of efforts against a portion of the universe with similar descriptors, product needs, or buying habits. Since marketing is define as a process of identifying the target markets, determining the need and wants of the target markets, and fulfilling those needs and want better than the competition, the determination or the target market is the most critical step in the marketing planning process (hiebing jr and cooper, 2003).

2.4.1 Segmentation

Segmentation is a selection process that divides the broad consuming market into manageable customer or noncustomer groups with common characteristics. Segmentation provides the marketer the opportunity to exploit these common characteristics of the consumer or consumer group through the company marketing efforts. Instead of marketing the 'average' consumer, company are able to pinpoint specific cluster of consumer who have unique, yet similar, demographics, lifestyle, attitudes, concerns, purchasing habit, or need and wants.

There are several segmentation categories according to hiebing jr and cooper which is:

- 1. Demographics*

Demographics include descriptor such as age, income, education level, marital status, employment/job classification, race, and home ownership

2. *Buying Habits/ Product use*

Segmentation can be based upon how the product is purchased or used, the number of times purchased per year, the time of year the product is purchased, loyalty, or tenure of product use.

3. *Lifestyle Characteristic*

Psychographics (values, lifestyle, interest, attitudes) are often used in conjunction with demographics to identify target market descriptor.

4. *Geography*

Segmentation can be based upon climate, the consumption habit of certain regions, and other factors that cause differences in volume and usage by geography.

5. *Attribute preferences*

Different consumer groups purchase different product categories due to product attributes and benefits.

6. *Emotional Connections*

Many times company can segment their target market by emotional connection to their product, company, or service. While harder to define and quantify, emotional segment are often most powerful because they uncover the real reason consumers are using and continue to use your product.

There are two broad segments for most business within which company will develop additional sub segments for targeting:

1. *Current customer.* Customer and segments of the customer base with whom company are currently doing business
2. *New customers.* Segments in which you are not currently doing business or in which company feel there is potential to do more business.

2.4.2 Primary and Secondary Target Markets

When company develops target market segments, there are varying degree of importance among the target markets. We group these segments into primary and secondary target markets. While the spending and focus emphasis is different for primary and secondary target markets, both are responsible for generating sales. Primary targets typically have greater spending emphasis and contribute to generating sales at far greater rates than secondary target markets.

2.4.2.1 Primary Target Market

A primary target market is company main consuming group. These consumers are the most important purchasers and users of the product and will mainstay of the business. Company are in business to determining the primary target market's want and need and to provide for those wants and need better than the competition. This pertains to providing the product, service, shopping or sales environment, distribution channel, and price structure that is required by the consumer for purchase. The better the definition and description of the consumers in company primary target market, the better company will be able to market to them.

2.4.2.2 Secondary Target Market

The primary target markets receive a priority and a majority of the marketing spending because they will most directly influence the short-term financial success of the plan. The secondary target also important, because they provide additional sales and/ or influence on the sales to the company beyond that of the primary target market as well as future sales to the company. A secondary target market can be one of the following:

- *A segment currently too small to be a primary market but shown to have future potential.* In some cases company may identify segment with a great growth potential but that currently are very small in absolute purchasing power. In other cases there might a large segment that would become a primary target as a result of fundamental marketing change making the product or service more attractive to this market
- *A demographic category with a low volume but a high concentration index.* Often there is a distinct demographic category that accounts for a small percentage of the volume but contains high concentration of purchasers.
- *Subsets of purchasers or users who make up the primary target markets.*

Target markets should ideally be one unified profile customers accounting for greater than 30 percent of the category volume. This allows for a focusing resources and message in the marketing effort. However, there are situation in which the volume of any target market is not substantial enough to qualify is as a primary target market. In addition, each smaller

target market has different demographics, needs, wants, product usage, and purchasing behavior.

- *Influencer*. Influencer can be a primary or secondary target market, though in most situations they are secondary target market. These are individuals who influence the purchase or usage decisions of the primary target market. (hiebing jr and cooper, 2003).

2.5 Brand Positioning

Positioning is creating an image for product in mind of the people to who company are attempting to sell the product. Positioning establishes the desired perception of product within the target market relative to the competition. If there is no real or direct competition, the organization still needs a reference in order for the target market to understand and remember what is being communicated. In the case of competitive marketplace, a positioning positively differentiates the product from the competitor. Positioning is used to differentiate company product to a specific target market, not for a whole word.

2.5.1 Importance of Positioning

Positioning is the basis of all company communication- naming, advertising, promotions, packaging, sales force, merchandising, and publicity. By having one meaningful, targeted positioning as a guide for all communication, company will convey a consistent image. By conveying a common positioning,

each vehicle of communication will reinforce the other for a cumulative effect, maximizing the return of marketing investment.

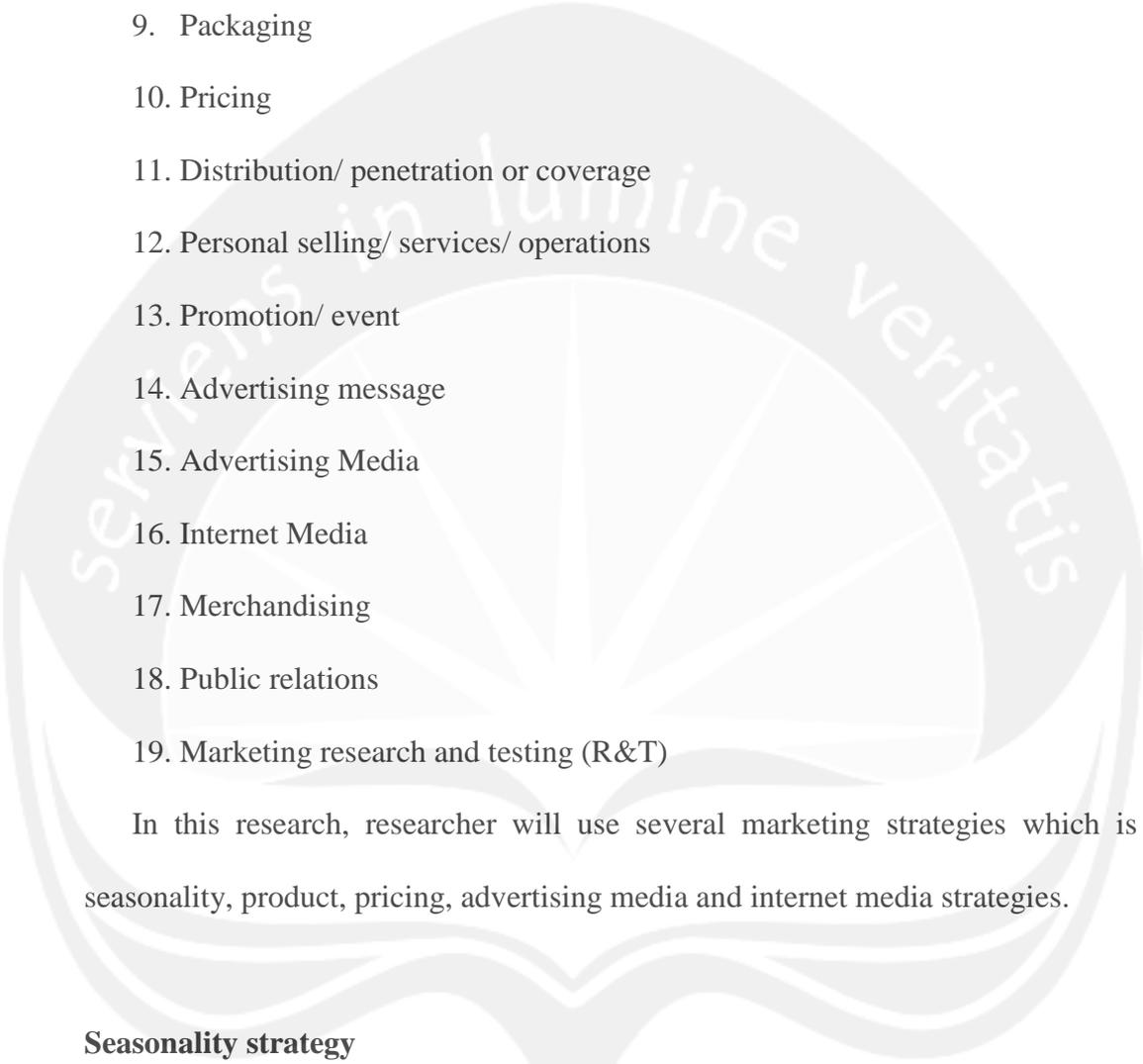
Further, because everything companies do should reflect one positioning, the positioning must be correct, or marketing activities will be ineffective. Worse yet, incorrect positioning could even destroy a successful product. Company must look for a positioning that not only is right for the product now but that will also be adaptable years into the future for both the marketplace and the product.

2.6 Marketing Strategies

Marketing strategy is a broad directional statement indicating how the marketing objectives will be achieved. It provides the method for accomplishing the objectives. While marketing objectives are specific, quantifiable, and measurable, marketing strategies are descriptive.

Marketing strategies represent a first overview of various marketing element and how they will be utilized to achieve the marketing objectives. According to Hiebing Jr and Cooper the most commonly addressed strategy issues are as follow:

1. Building the market versus stealing the market share
2. National, regional, or local markets
3. Seasonality
4. Spending
5. Competition
6. Target market

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7. Product
 8. Naming
 9. Packaging
 10. Pricing
 11. Distribution/ penetration or coverage
 12. Personal selling/ services/ operations
 13. Promotion/ event
 14. Advertising message
 15. Advertising Media
 16. Internet Media
 17. Merchandising
 18. Public relations
 19. Marketing research and testing (R&T)

In this research, researcher will use several marketing strategies which is seasonality, product, pricing, advertising media and internet media strategies.

Seasonality strategy

Strategic decisions must be made about to advertise or promote company product or store. There are several issues in seasonality strategy which is:

- Whether there is time of year when your product category as a whole does significantly better than your company does. If so, why? Can you do something to increase sales during that period when customers of your product are naturally purchasing at increased rates?

- Whether company are going to advertise and promote all year, during stronger selling periods, or during weaker selling periods.
- Company need to decide if they are going to advertise and promote prior to, during, or between peak selling period. A strategic decision must be made on whether going to advertise earlier than competitors, throughout the whole selling season, or just during peak selling weeks.
- Finally, company must consider resource and production capacity. If current seasonal sales peaks already have make the company operating near capacity, they will not going to be able to increase sales much in this period.

Product Strategies

Company must make strategic decisions regarding new product, product line extensions, product management, product elimination, and/ or whether to build or to improve weaker product lines or continue to maximize stronger-selling product lines. If repeat purchase rate are low and product rank poorly across product attributes, company must decide how to improve the product in order to meet marketing objectives. This is a viable strategy when company has a mature product with a static or limited consumer base.

Pricing Strategies

One area to address is whether the company will use high or low prices relatives to their competitor, or simply match the competition's price and depend

upon service or superior product attributes for a competitive edge. Will company maintain margins and lower price to develop trial? Also include whether the pricing will be uniform nationally or vary market by market, store by store, or customer by customer. Finally is the company going to use price to help communicate the positioning.

Internet Media Strategies

Internet media strategies can center on the web and e-commerce. The internet and intranet can be considered as alternative channel of distribution, communication tools, and sales tools.

Advertising Media Strategies

The strategies developed in this section should be consistent with the direction established in the product, competitive, and spending marketing strategies. The primary goal in establishing an overall media strategy is to provide direction for the upcoming media plan and to establish geographic and product spending emphasis.

2.7 Evaluation and control process

The evaluation and control process ensure that a company is achieving what is set out to accomplish. It compares performance with desired results and provides the feedback necessary for management to evaluate result and take corrective action, as needed.