chapter 2

How to manage your marketing strategy (Part I)

Chapter objectives

Primary strategy principles

Strategy applications

A focus on marketing strategy

Best practices

Chapter objectives

After reading this chapter, you should be able to:

1. **Outline the historical roots of strategy and relate them to 21st Century business practice.**
2. **Identify the marketing techniques that have originated from classic military strategy and apply them to your short and long-range business plans.**
3. **Employ the five primary strategy principles of speed, indirect approach, concentration, alternative objectives, and unbalancing competition to achieve a competitive advantage.**

Since the time that the ancient Greeks coined the word strategia (or strategos), meaning to lead an army or generalship, thousands of generals have used military strategy to conquer territories and gain power. To impose their wills on others, they had to distract and unbalance their opponents physically and psychologically. Faced with a conflict of wills, the generals on the battlefield were forced to maximise the effectiveness of their economic and human resources to achieve their goals.

These military challenges – outwitting competing wills, gaining territory and power, and conserving resources while expanding influence are precisely those of business. Thus, the long history of documented military strategies of attack and defence provide an excellent resource for businesses.

Most confrontations – whether military, business, or even athletic – involve a defence protecting its ground and an offence trying to overtake that ground. The key to offensive strategy is the efficient use of resources to accomplish the attack and overtake the territory – or market segment.

The key to offensive strategy is the efficient use of resources to penetrate a market segment.

The military perspective provides five primary strategy principles that can strengthen your comprehension of strategy, along with their further application for meeting most competitive challenges. These principles include direct attack, indirect attack, envelopment attack, bypass attack, and guerrilla attack.

Primary strategy principles

Direct attack

A direct attack in many business situations results in exhausting budgets and people. That translates into using the sales force, advertising media, distribution networks, manufacturing facilities, and other resources without achieving the desired objectives.

Even if a company does achieve some minor objective, such as minimal sales or gaining nominal market share, few or no resources will remain for penetrating the market and realising its full potential. Using the military equivalence, no resources remain to 'get off the beaches' before the counter-attack succeeds in pushing them back 'into the sea'.

Support for the above assertions comes from one of the most respected military historians of the 20th Century, Basil Liddell Hart. In his book *Strategy*, the British author presents a massive study covering 12 wars that decisively affected the entire course of European history in ancient times and 18 major wars of modern history up to 1914. In all, these 30 conflicts embraced more than 280 major military campaigns, and spanned 2,500 years.

The study reveals that in only six of these campaigns did a decisive result follow a direct frontal attack. And of those six most began with an indirect attack but were changed to a direct attack due to a variety of battlefield conditions.

Consequently, Liddell Hart states:

> 'History shows that rather than resign himself to a direct approach a great captain will take even the most hazardous indirect approach – if necessary over mountains, deserts or swamps with only a fraction of his force even cutting loose from his communications. He prefers to face any unfavourable condition rather than accept the risk of frustration inherent in a direct approach.'[1]

No manager is justified in launching a sales and marketing campaign against a competitor who is entrenched in an actively defended market-leader position.

Thus, reviewing the overwhelming evidence of history, we can conclude the following:

1. No general is justified in launching his troops in a direct attack upon an enemy who is firmly in position.

2. In like manner, we can interchange the concept and assert with strong confidence that no manager is justified in launching sales and marketing forces in a direct campaign against a competitor who is entrenched in an actively defended market-leader position.

3. Consequently, if there is little or no differentiation in such areas as product, promotion, pricing, or distribution – as perceived by the market – there is minimal chance of success.

Just how much stronger is the defence against a direct attack? The military genius Napoleon estimated a three-to-one advantage was needed to break through a defender's line in a direct frontal attack. In Napoleon's time, a three-to-one advantage meant having three times more infantry, artillery, and cavalry – and employing three times more logistical support than was available to the defender. Therefore, even if a breakthrough did occur by using a massive infusion of resources, inadequate human and material resources would remain for follow-up and penetration.

In business terms, a three-to-one advantage translates into three times more salespeople, advertising expenditures, logistical, and administrative support – a huge expenditure of resources for little, or perhaps, no return.

A classic business example of a direct attack is General Electric, RCA, and Xerox launching a direct frontal attack during the 1970s against the formidable IBM, an entrenched defender of its computer market. These companies attempted to penetrate IBM's active defenses with an undifferentiated product. RCA alone lost £307 million on the venture. All three attackers retreated from that market.

*The use of a **direct frontal attack** against an entrenched competitor is a sign of a mediocre manager and there is no room in today's competitive environment for such a manager.*

To add still another perspective to the negatives of the direct attack: During World War II, the renowned General Douglas MacArthur stated at a strategy meeting with U. S. President Franklin D. Roosevelt, 'The use of a direct frontal attack is a sign of a mediocre commander and there is no room in modern warfare for such a commander'.

To paraphrase MacArthur for our topic:

The use of a direct frontal attack against an entrenched competitor is a sign of a mediocre manager and there is no room in today's competitive environment for such a manager!

Indirect attack

If the direct attack puts the active defender at an advantage, requiring the aggressor to expend an enormous quantity of resources thereby depriving it of strength for market penetration, and is generally likely to fail, then an alternative approach must do the opposite. To place the defender at a disadvantage, it is necessary to concentrate on its weaknesses. At the same time, an effective strategy should channel the attacker's resources to maximising market share, rather than exhausting them in the attack.

According to Liddell Hart, the indirect attack is the most fruitful approach. It has the greatest chance of success while conserving the greatest amount of strength.

Application

When an indirect attack is applied as a business strategy, the attacker concentrates on a weakness in those market segments that are emerging, neglected, or poorly served by competitors. Such a segment is the initial point of entry.

What follows the entry is the selection of a strategy using the marketing mix as a resource. Refer to the following chapter, Figure 3.1, Creating strategies out of the marketing mix, page 58, for a complete list of strategy possibilities.

*An **indirect attack** relies on differentiation and concentrates on market segments that are emerging, neglected, or poorly served by competitors.*

Strategies could be in a product (a cassette with the digital capabilities of a compact disc), in price (a computer cheap enough for students to afford), in promotion (mineral water targeted at upper-class consumers), or in distribution (video cassettes dispensed at commuter train stations).

Once entrenched in the initial market segment, thereby establishing a market presence with a customer base, suppliers, and a distribution network, the attacker can more easily secure parts of the market previously dominated by competitors. This critical follow-up to entry is called market expansion.

case

Examples abound of the advantages of the indirect attack in business:

- German and Japanese auto makers first entered the North American automobile market with small cars, a market essentially neglected by domestic manufacturers during the 1970s and poorly served during the 1980s.
- Miller discovered the light beer segment as an emerging market.
- Honeywell for years concentrated its computers at the medium and small-size cities initially unattended by IBM.
- Apple became a dominant factor in schools early on, specifically serving that segment with computer hardware and software, also left vacant by IBM.
- Wal-Mart originally opened its stores in towns with populations under 2,500, ignored at that time by the leading retailers.

With the abundance of business examples and with evidence from military history, there is never any justification for a manager to undertake a direct frontal attack in today's competitive market. Rather, it is a manager's obligation and necessity to use an indirect approach to:

1. Find an unattended, poorly served, or emerging market segment.
2. Create a competitive advantage by using the marketing mix (product, price, promotion, and distribution) in a configuration that cannot be easily matched by competitors. That means, applying your maximum strength against the weaknesses of your opponent.

*There is never any justification for a manager to undertake a **direct frontal attack** in today's competitive market.*

3. Mobilise all available resources on fulfiling the unmet needs and wants of the selected market in a strength-conserving manner.Then work diligently at solidifying relationships with your customers for the long-term.

4. Expand into additional segments of the market in a planned, deliberate approach that keeps in mind the overwhelming advantages of the indirect approach.

Envelopment attack

An envelopment strategy consists of two stages:

- First, beginning as an indirect attack, the attacker focuses on a specific market segment for a point of entry.
- Second, by identifying additional market segments and adding new products, the attacker then uses an expansion strategy to envelop the entire market.

In the consumer market, Seiko illustrates the indirect-envelopment combination.The Japanese company initially entered the watch market in one segment, digital watches, and then enveloped the overall market by offering as many as 400 models of watches to penetrate every major watch outlet and customer segment – and generally overwhelmed their competitors.

In the industrial sector, The Timken Company offers 26,000 shaped ballbearing combinations, a product line unmatched by any competitor. The company thereby enveloped that market segment and fulfilled practically all its customers' needs in that product category.

*To **envelop** the entire market, the attacker uses an expansion strategy by identifying additional market segments and adding new products.*

Bypass attack

The bypass attack allows the attacker to circumvent its chief competitors and diversify into unrelated products or unrelated geographical markets for existing products.

For example, Eastman Kodak Co. successfully used a bypass approach into such diverse areas as electronics and biotechnology, with products as diverse as electronic publishing systems, cattle feed nutrients, and anti cancer drugs.

However, this relatively sudden move into diverse fields followed an ultraconservative period in which Kodak temporarily stalled and competitors grabbed such markets as instant photography, 35mm cameras, and video recorders. All of which were natural extensions of Kodak's core business. The bypass strategy does include a measure of risk because expansion into a range of unrelated fields can diminish a company's strength in any single area.

An example of a somewhat unsuccessful use of bypass strategy is the Colgate-Palmolive Company. Although Colgate surpassed the Procter & Gamble Co. in many European markets and maintained a lead for its existing products there, in most North American markets Colgate remained behind Procter & Gamble.

Guerrilla attack

Guerrilla attack involves small intermittent attacks on different markets. It is useful for a small company competing against a large corporation, or where a product with a small market share is combating a brand leader. It can also be executed by a larger organisation against its competitors.

Guerrilla attacks are characterised by a number of actions: selective price cuts, supply interference, executive raids, intensive promotional bursts, and assorted legal actions. The aim is movement and surprise to create confusion and distraction, and to cause the opposing manager to make mistakes.

*The **bypass** strategy includes some risk because expansion into unrelated fields can diminish a company's strength in any single area.*

Strategy applications

With the discussion of attack techniques in mind, we can now bridge the vast historical perspective of military strategy with the more recent view of business. The military-marketing connection can be summed up in the following perceptive and parallel statements:

> *The object of war is a better state of peace.* B. H. LIDDELL HART
>
> *The object of business is to create a customer.* PETER DRUCKER[2]

From the 2,500 years of recorded military history we find five ruling applications that are characteristic of all well executed strategies – practical principles that you can use in your business to develop successful competitive strategies.

These applications consist of speed, indirect approach, concentration, alternative objectives, and unbalancing competition. A thorough understanding of these practical guidelines is critical for you to implement business-building strategies.

Below, you will find descriptions of the strategy guidelines, examples from actual corporations, and step-by-step procedures for applying them to your firm.

Speed

Speed is an essential ingredient in the effective application of marketing strategy. There are few cases of overlong, dragged-out campaigns that have been successful. Exhaustion – the draining of resources – has killed more companies than almost any other factor.

Extended deliberation, procrastination, cumbersome committees, and long chains of command from home office to the field are all detriments to success.

Drawn out efforts often divert interest, diminish enthusiasm, and depress morale. Individuals become bored and their skills lose sharpness. The gaps of time created through lack of action give competitors a greater chance to react and blunt your efforts.

__Speed__ is essential for gaining the advantage and exploiting the advantage gained.

In today's competitive business environment, it is in your best interest to evaluate, manoeuvre, and concentrate your marketing forces quickly to gain the most profit at least cost in the shortest span of time. In one case, IBM acted quickly to invade Japanese markets, while bringing legal action against its Japanese competitor for illegally obtaining IBM's operating codes.

In another situation, Heublein, makers of Smirnoff vodka, moved rapidly to reposition its product and introduce two new brands to envelop three market segments before Seagram could respond with an adequate strategy for its brand of Wolfschmidt vodka.

The proverbs 'Opportunities are fleeting' or 'The window of opportunity is open' have an intensified truth in today's markets. Speed is essential for gaining the advantage and exploiting the advantage gained.

Organising for speed and quick reaction

Two factors make it possible for the manager to react with speed:

1. New technologies in product development, communications, and computerisation challenge companies to set up organisations to react quickly and decisively, in a ratio of a short span of time to a large amount of space.

2. Even with new technology, gathering market intelligence entails long periods of research, experiment, and investment for each marketing situation. Therefore, for maximum speed the essential ingredient is an efficient organisation that simplifies the system of control and, in particular, shortens the chain of command.

Your own experience may well support the obvious conclusion that an organisation with many levels in its decision-making process cannot operate with speed. This situation exists because each link in a chain of command carries four drawbacks:

1. Loss of time in getting information back.

2. Loss of time in sending orders forward.

3. The reduction of the top executive's full knowledge of the situation.

4. Decrease in the top executive's personal influence on managers.

To make your marketing effort effective, reduce the chain of command. The fewer the intermediate levels, the more dynamic the operations tend to become.

Therefore, to make your marketing effort effective, reduce the chain of command. The fewer the intermediate levels, the more dynamic the operations tend to become. The result is improved effectiveness of the total marketing effort and increased flexibility.

A more flexible organisation can achieve greater market penetration because it has the capacity to adjust to varying market circumstances, support alternative objectives, and concentrate at the decisive points. Organisational flexibility is further enhanced by setting up cross-functional strategy teams consisting of junior and middle managers, representing different functional areas of the organisation. (See Chapter 1, page 22, for a listing of duties and responsibilities of a strategy team.)

Application

To increase the speed of your operations and improve your flexibility, follow these guidelines:

1. Reduce the chain of command in your company and increase the pace of communications from the field to the home office.
2. Utilise junior managers for ideas, flexibility, and initiatives for identifying and taking advantage of new opportunities.
3. Use a cross-functional strategy team to tap areas of cultural diversity that may exist in your firm, thereby permitting you to benefit from multiple perspectives.

Indirect approach

As already noted in the discussion of military strategy, you should avoid the frontal attack at all costs in favour of an indirect approach, which can include any of the nondirect forms of attack: envelopment, bypass, or guerrilla.

The object of the indirect approach is to circumvent the strong points of resistance and concentrate in the markets of opportunity with a competitive advantage built around product, price, promotion, and distribution.

The object of the indirect approach is to circumvent the strong points of resistance and concentrate in the markets of opportunity with a competitive advantage.

A familiar example is Japanese copier makers attacking Xerox by initially avoiding the big copier market and focusing instead on the vacant small copier segment. Also, as noted earlier, German and Japanese firms dominating the small automobile market in North America further illustrates an indirect attack centred on market segmentation and product positioning that avoids a direct confrontation.

Other cases have become marketing legends:

- Columbia House used an indirect approach centred on distribution to start the first record club.
- Book-of-the-Month Club started in the late 1920s and circumvented the traditional bookstore as the 'only' way to sell books.
- Sony Corp. entered the North American and European markets with a small TV in the early 1970s, thereby using the indirect approach against the inbred giants that focused only on larger sets.
- Amazon.com has become a legend in its own time by using the Internet and a vast selection of discounted book titles as an indirect approach to outflank most other book sellers and cause still others to scramble to catch up.

Concentration

Concentration has two uses in strategy terms:

1. It means directing your resources toward a market or group and fulfiling its specific needs and wants. In modern marketing practice, concentration applies to target marketing, segmentation, and niche marketing.
2. As applied to strategy, concentration means focusing your strengths against the weaknesses of your competitor.

How do you determine the weaknesses of the competitor? When developing your marketing strategy, conduct a competitive analysis (see Chapter 4, How to manage your competitor intelligence) to detect the strength-weakness relationship. From the analysis, you can then isolate the areas of competitive weakness and thereby determine where to apply your strength.

Concentration means focusing your strengths against the weaknesses of your competitor.

Application

To concentrate in a market, use as many of the following techniques as appropriate to your company's situation:

1. As with the indirect approach, use competitive analysis to identify your competitors' weaknesses and your company's strengths.
2. Concentrate on a market segment that you have determined represents growth and, in turn, could help launch you into additional market segments.
3. Introduce a differentiated product (or product modification) not already developed by existing competitors.
4. Develop multilevel distribution by private labelling your product for existing suppliers. Concurrent with that action, establish your own brand. Therefore, if one strategy falters the alternative strategy often wins.
5. Follow-up by expanding into additional market segments with the appropriate products so you can envelop the entire market category, providing your firm has the resources to sustain the effort.

Alternative objectives

There are four central reasons for developing alternative, or multiple objectives:

1. On a corporate scale, most businesses have to fulfill several long and short-term goals and require various approaches for their attainment. Therefore, they need a wide range of objectives with a variety of time frames.
2. As already discussed, the strategy principle of concentration is implemented successfully only through the application of alternative objectives.

Alternative objectives prevent competitors from detecting your real intentions.