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Creating A Competitive Advantage Through Strategic Thinking

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Abstract

"Strategic conversation will be the No.1 management tool in the new century. Marketers who understand the value of relationships and the power of strategic conversation will do best at capturing and keeping the customers of tomorrow. They will own the future." Tony Manning: Chairman of the Institute of Directors of Southern Africa, Independent Management Consultant in Competitive Strategy & Change Management since 1987 and Author of best-selling novel "Making sense of strategy".

This article describes various new theories, which have come about in the last decade (1996-2001) that can be adapted to your business changing and improving the way you think, perform and ultimately reap the benefits.

1. Introduction

Strategy is a buzzword that is being used more and more amongst companies in today's competitive markets. From the sound of the word, many people think that strategy involves complex ideas and radical change….they may be right about change, but by no means should it be difficult or complex. This idea is that of SA strategist Tony Manning (2001).

Manning (June 2001) bases this theory on the seemingly poor communication apparent in many companies. Through his experience over many years with many major firms, he states that "there is a huge amount of literature indicating that communication is a big problem everywhere. One reason is that companies face complex issues, and fail to simplify what they can. They are often not clear about what they must do and then they fail to communicate their intentions effectively to their stakeholders".

2. Literature Review

In an article on how simple strategy can make SA great (Sunday Times Business Times April 30, 2001), Manning emphasises his point that all that is required is some common sense. An inspirational but tough business environment is one where staff reach their goals because they want to, assuming that every individual can make a difference.

In this same article, Manning says that distributing mission statements and 'the company vision' does not mean much to staff members. Those messages that actually motivate are simple. He uses the phrase "The best way to deal with complexity is through simplicity". Why use complex strategies, which could potentially create chaos when there is the option of going the simple route.

Manning explains that it would be better for companies to start small instead of trying to achieve the impossible. They should aim for succeeding in smaller projects and participate in short term planning first in order to focus on the basics. Staff will be more motivated with short-term plans in which they can participate.

One can bear in mind Manning's simplicity strategy when looking at some other new theories such as the "Game theory" developed by a Professor at the Harvard Business School, Adam M. Brandenburger and the Milton Steinbach Professor at the Yale School of Management, Barry J. Nalebuff in their best-seller "Co-Opetition".

Co-Opetition (1996) is a new business strategy that combines the advantages of both competition and co-operation. It is no longer a "catch phrase", but a way to answer wants and needs and achieve greater success.

The book Co-Opetition (Adam M. Brandenburger, Barry J. Nalebuff 1996) speaks of a tool called Game Theory. The concept of this theory is that when two or more organisations that are normally competitors form a business alliance to combine resources, to reduce R&D expenses and cover their individual and respective market weaknesses. Game theory uses a model called the Value Net which consists of five components: Customers; Competitors; the Company; Complementors and Suppliers. By using various strategic moves, these components can be manipulated to benefit some or all of the parties to create a win-win situation.

Convincing goes both ways – its about convincing both the competitor as well as the customer/supplier e.g. the publisher must convince the author that he will invest in marketing the author's book while the author must convince the publisher that he has a good book to write and that it will be complete on time.

The problem comes in where the supplier portrays that what he has to offer is valuable but the buyer remains sceptical. Change people's perceptions…and you change the game! Using tactics, negotiating techniques or adding value does this.

If the wrong decisions are made or the wrong tactics are used and value is removed from any part of the net, the situation can very well be reversed creating a win-lose scenario. The anticipation of tomorrow's game affects today's game. You can change the scope of a game by creating new links between several games or sever existing ones. There is always a larger game made up of many smaller ones.

In Co-Opetition (1996) difficult theory is made easy to understand by means of many vivid examples. Examples of how companies use the game theory to improve their profits are:

- 3DO Company, which invented the 32-bit CD-ROM video game architecture, became a huge success by licensing its hardware technology for FREE! This is how they introduced many complementors.
- American Airlines introduced the Frequent Flyer program, which awards customers, with special trips after accumulating a given number of flying miles. The authors point out how, because the program is targeted toward their own customers, it prevents competitive price wars. All players win, even after other airlines imitate the program!
- Sega used Nintendo's strength in the market by creating a 16-bit gaming system, which overtook Nintendo's 8-bit system even though they were already an established player. Sega priced a superior product sufficiently high to avoid eating into the sales Nintendo's existing product. Nintendo held back from copying Sega to avoid the risk of price wars and to accelerate the cannibalisation of its existing product.
- Due to Procter & Gamble's desirable name in the market, Softsoap liquid soap (run by Robert Taylor) saw an opportunity to produce something new suspecting that the established company would not risk damaging their name if the product failed. Robert Taylor ensured his success by locking up the market by purchasing enough pumps so that Procter & Gamble could not buy supplies and therefore could not compete when or if they decided to.

Intel and Nutrasweet are also examples of companies that have used Game theory to their advantage, have use co-opetition not only to win but to make it possible for their industry as a whole to grow.

Formulating strategies based on game theory, authors Brandenburger and Nalebuff created a book that's insightful and instructive for managers eager to move their companies into a new mind set. Business needs a new way of thinking that makes room for collaboration as well as competition, for mutual benefits as well as trade-offs.

Game theory has been proven many times over in the research done by the authors Adam M. Brandenburger, Barry J. Nalebuff. The only restriction placed on this theory is if the market is already saturated and there is no place for growth.

According to an article written by President of Sam Albert Associates (www.samalbert.com, April 25, 1997), a consulting firm that specialises in developing strategic corporate relationships, there are several factors that are bringing about a need for co-opetition in our highly competitive marketplace:

- Increasing competition and decreasing margins
- Rising R&D costs and a short product life span
- New IT markets are constantly emerging that can only be addressed by combining strengths.
- The need for standards is also fostering the need for co-opetition.

"The value of strategy roadmaps" (John Stuckey, Article in the McKinsey Quarterly 1992, no.3), Stuckey explains that effective strategies are not sets of prescriptions, but rather a roadmap that shows where the company is now, the direction the company wants to head in and most importantly the adjustments the company needs to make so that their map addresses the real-world challenges they will inevitably face as they move forward.

In the book **Built to Last**, (J Collins and J Porras, 1998) it is recommended that specific strategic actions be taken. These recommendations have been deduced from the authors' six year long research project, that studied eighteen exceptional and lasting companies by focusing on the characteristics of extremely durable competitors that continue dominating industries. The book extensively proves that a visionary company (companies that habitually invest, build and manage for the long term i.e. multiple decades ahead) primarily concentrates on building an organisation. The companies all know the difference between ""clock building" i.e. building a company that can prosper far beyond the presence of any single leader and through multiple life cycles and "time-telling" i.e. having a great idea or being a charismatic leader.

These companies know that "Big Hairy Audacious Goals" provide a powerful mechanism for growth and serve as a unifying focal point of effort often creating team spirit. Boeing took the risk of undertaking to build the 747 Jumbo Jet despite numerous previously failed projects. They (like Walt Disney) often offer their employees work cultures that assume "cult-status", even if it's only true for employees that are well suited to their particular way.

This "cult like" environment is when the working environment takes on almost a religious form and a specific culture is created and strictly adhered to. These companies are all willing to experiment but still keep what works.

The authors deduced that for visionary companies the drive for progress is to never be totally satisfied with the status quo, even if the status quo is working well. To drive for progress the companies should use clear, compelling, bold and exciting goals, falling well outside of the comfort zone, but remaining consistent with the core ideology of the company. Set 'Big Hairy Audacious Goals' (an initiative where the ultimate goal seems almost impossible to achieve as it has never been done before) that will stimulate progress, even if the organisation leaders have disappeared before it has been completed.

Core ideology is a concept derived from the book "Built to last" and according to J Collins and J Porras it is an essential component of a visionary company. This constitutes all the strategies, tactics and culture that forms the core of the business. The visionary company knows that to be successful, they must 'preserve the core ideology' and 'stimulate progress'. For example in 3M, 'Respect for individual initiate' is a permanent, unchanging part of its core ideology, but the 15% rule (where technical employees can spend 15% of their time on projects of their choice) is not a core practice and can change.

Companies should not confuse core ideology with culture, strategy, tactics or policies. The company culture and strategy may form the core ideology itself. The idea is to keep what works i.e. keep your core ideology (your strategies that work). Over time cultural norms and strategy must change except for core ideology, that is, if a company wants to be a visionary company. The authors conclude that the essence of a visionary company is to 'Preserve the core and stimulate progresses.

Commitment to a project is essential and staff must be motivated to work as a team to achieve the ultimate goal. Pankaj Ghemawat (Professor of Business Administration for Harvard Business School) stated in an interview on new directions in strategic thinking (The McKinsey Quarterly 1992 no. 3) that the level of commitment to the goal is important. Commitments can have long-lived strategic implications. Companies often make strategic decisions without really looking at the difficulty of reversing them or at the constraints they impose on future options. Ghemawat gave the example of sinking a lot of money and specialised resources into a certain course of action; and the mirror effect of this – the difficulty of re-activating dormant resources, adjusting an organisations capabilities to desired levels and organisational inertia – that complex of psychological and sociological forces that work to preserve the strategic status quo even when preservation means failing to maximise economic profits. Product positioning is important; if the innovation is no better than competing innovations; it is unlikely to generate much value.

The commitment theory can help managers analyse the likely sustainability of performance because it links differences in performance to differences in the bundles of durable, specialised and untraded or 'sticky' resources to which various competitors have committed themselves. It can also help managers to analyse flexibility – that is to recognise multiple future possibilities and considering contingencies, the value of accepting the future as uncertain and of explicitly planning for contingencies is of utmost importance.

"The evolution of the role of the corporate centre: A value addition perspective" is an article written by MA Ferreira (UNISA Graduate School of Business Leadership)

Although the author has not provided sufficient evidence to support his conclusions, his idea expresses how the need for synergy is becoming more popular amongst growing companies today. Ferreira discusses the theory of the corporate headquarters working alongside business units vs. against them.

The origin of the corporate headquarters unit or the corporate centre is intimately linked to the origin of the multidivisional structure. This invention was prompted by the administrative overload that resulted from trying to manage diversified operations through the centralised, functionally departmentalised U-form. It enabled the separation of the day-to-day operational management responsibilities for the businesses from the resource allocation, long-range planning, appraisal and co-ordination and, in particular, the entrepreneurial responsibilities of top management.

Unrelated diversification (changing between industries) leads to a further extension of the capitalist corporate role to include decisions on the type of business a company should be in. Consequently, the chief executive role as 'strategist' and 'architect' of corporate direction started to take shape.

Ferreira infers that the development of portfolio management tools by management consulting firms e.g. Boston Consulting Group and big corporations e.g. General Electric, allowed corporate managers to use two simple metrics; industry growth and relative market share to categorise individual businesses and to use these categories as the basis for resource allocation decisions. The emphasis shifted to the need for a 'balanced' portfolio of businesses with sufficient cash generators to fund developing and high-growth businesses.

The impact of Information Technology, the changing nature of competition and globalisation as well as the increased scepticism about corporate mangers ability to manage and add value to a diverse portfolio of businesses, led to a new concept of corporate strategy and yet another shift in emphasis regarding the role of the corporate centre.

In effect, a contingency approach to corporate strategy is emerging i.e. there is no universal or one best way to manage. Factors such as corporate objective, the characteristics of individual businesses and industries, actual and potential links between businesses, corporate resource strengths, organisational culture and top management personalities determine the appropriate corporate strategy and the accompanying corporate management style.

Corporate management has to fit the particular characteristics of the 'parent' company with the characteristics of its businesses. Only when such fit is achieved, can the corporate office create value and justify its existence.

The corporate centre adds value and the benefits derived from its activities exceed the cost of undertaking those activities. This should be reflected in the market value and the share price of the corporation.

According to Michael Goold and Andrew Campbell (1998), the Directors of the Ashridge Strategic Management Centre in London, England, the corporate centre can achieve this value addition through **synergy.**

In their article found in the Harvard Business Review Sept-Oct 1998, corporate business synergy is defined as the ability of two or more units or companies to generate greater value working together than they could working apart.

4. Methodology

This study utilised Grounded Theory as this a methodology the author used to simply the discovery of emerging patterns in theoretical models through emerging trends in the Media Industry. Grounded Theory is the generation of theories from data, in this study; it is concerned with the disruption within the Media Industry. (Glaser in Walsh, Holton et al 2015)

Grounded theory was applied in this study as it is research tool which enabled the author to seek out and conceptualise the Media Industries emerging strategic patterns and structures the Strategic Management theories through a constant comparison of the relevant and emerging strategic constructs. This methodology was used in developing theory which is more aligned to the emerging Strategic Management trends. This was used by the author as the deductive phase of the grounded theory process (Glaser in Walsh, Holton et al 2015).

5. Results And Discussion

According to the research found by Goold and Campbell (1998), most business synergies take one of six forms:

- Shared Know – How (Business Units sharing of knowledge and skills)
- Shared Tangible Resources (Business Units share physical assets or Resources)
- Pooled Negotiating Power (Business Units combining purchases to gain leverage over suppliers, thus reducing costs, improving quality being bought)
- Vertical Integration (Business Units co-ordinating the flow of products or services between units)
- Combined Business Creation (Business Units establishing joint ventures or alliances)

As noted by the authors, clarifying the real objectives and benefits of a potential synergy initiative is the most important discipline in "sizing the prize" and making sound decisions on synergy.

If executives took a more disciplined approach to achieving **synergy i.e**., it would assist in gaining rewards while avoiding frustrations and they will be better able to evaluate the costs and benefits to 'size the prize'.

The challenge is to distinguish the valid opportunities from the mirages. In some cases, the analysis of synergy opportunities will raise questions that will be hard to answer. For example the size of the prize may be uncertain, the parenting opportunity may be unclear, and the required skills may be unproven. The authors recommend that when the uncertainty is high, the executives proceed cautiously, and should encourage further exploration by means of pilot projects, fact-finding visits, temporary assignments and task forces and forums for sharing ideas.

Goold and Campbell (1998) conclude that the end result is a better-informed decision-maker by changing the way managers are working or thinking. Changing the way a manager thinks enforces changes throughout the business, for example, the structure of the entire company.

Change is not always welcomed so easily and it is for this reason, we should keep in mind, Tony Manning's earlier concept of simplicity (2001).

Complexity and chaos are frequently used interchangeably. "The world is not chaotic, it is complex." (Copyright © Richard Pascale, et. al.) (Excerpt: Surfing the Edge of Chaos)

The chaos theory is explained in the book ("Competing on the edge, Strategy as Structured Chaos", 1998 by Shona L Brown, Kathleen M Eisenhardt).

The stagnation and even decline of established corporations around the globe (Asian, American & European), is not news. It is obvious as well that companies pursuing more fast – paced, change- orientated business models (Nokia, Cisco Systems) are prospering against these ponderous dinosaurs. "It's, even harder to keep a business great than it is to built it" (IBM's Thomas J Watson Snr)

"A principal reason companies do not become businesses that can reinvent themselves is that their managers take a rational, even mechanistic approach to developing their business" (Competing on the edge, Strategy as Structured Chaos, 1998 by Shona L Brown, Kathleen M Eisenhardt). They are often locked into the implicit assumption that business is like a machine. Understanding rational tasks like identifying markets, spotting competences, and creating visions, missing the insight that businesses are also living things.

This distinction is absolutely fundamental. Living things grow. They adapt and evolve with shifting competition and varying climate. Change is what living things do. In contrast, machines run and are built by assembling component pieces. Living things develop and evolve over time.

A key distinction between businesses that are successful developers of the strategy and those that are not is the difference between being machines vs. living things generally, and specifically assembly vs. growth. A constantly changing company is closer to an ecological community than a car. An example of this is the case of Sears (Retailing giant in the USA) executives who took a mechanistic approach. They tried to assemble their company from parts of businesses, flip a switch and watch it run failing to realise a company competing on the edge is not a machine. This cost them their dominance of the $165 billion retailing industry. Growing means that the starting point matters, order matters, and there are missing links in the process.

Although it is rather distant from business, a good example of the basics of growth can be learnt from ecologist experiments to grow prairies. Early experimenters took the assemble approach. In creating a prairie, one generally would want to put it together part by part, aligning all the components in order to reach the desired result. The lesson from this logical approach is that living things are grown, not assembled. The various species of a prairie are too interdependent to be assembled in one single, massive act of change. It is difficult and impossible to know beforehand how the myriad of components will interact to create the final system. Rather than assemble all at once, they create a small subsystem of their ultimate objective, a prairie, nurture, stabilise it and use it as a foundation to grow more of the prairie.

Was there a missing link between the assembled prairie and the grown one – Yes – FIRE – fire triggers certain prairie seeds to sprout and eliminates many fire-intolerant urban plants – without fire there is no prairie.

The creation and launch of CPS (Computer Products Singapore) by HP (Hewlett-Packard) indicates how the goal was to create a design and development centre in Asia with the potential for full-blown division status. Almost 3 decades later, the venture has become a vibrant global centre for design, development and manufacturing with HP.

These equalised steps used are a guideline to synergise a rhythmic desired flow start with the current business fleshing out from current business, regenerating from the past, experimenting with the future, and pacing time throughout this recommendation ensures the "inch- worm one step at a time" approach to converting to a competing on the edge strategy.

Simplicity captures reality. The most maligned features of contemporary culture are sound bites. In 1992 the Nokia brainstorming session resulted in five words to be jotted down. "Telecommunication – orientated, global, focus and value added – they described what Nokia is, not just simply the vision of being a global telecommunications company. This simply built a sense of coherence and control in an otherwise complicated set of strategies, capturing the actions of 30000 employees and operations in over forty countries. The use of sound bites "…. Ask what you can do for your country" (John Kennedy) or "I have a dream" (Dr Martin Luther King) play relevant role of senior executives in high velocity and unpredictable markets. Elegance to simple rhetoric capturing the essence of complicated ideas and emotions helped the lower levels of the Nokia Corporation which was fundamentally semicoherent directed.

The strategist followed by the implementer conducts the traditional management cycle; simply holding a marble in a cup is termed dissipative equilibrium.

In contrast the dynamism and simultaneity of managing in rapidly changing, unpredictable markets suggests that leaders will have more, different and shifted roles (Competing on the edge, Strategy as Structured Chaos, 1998 by Shona L Brown, Kathleen M Eisenhardt). Strategist shifts to business level, as the heart of the strategy is at the business level, where dual facets of strategy meld together ensuring that the setting of business and collectively shaping corporate strategy occur. Priority tasks of improvisation, co-adaptation, regeneration, experimentation and time pacing. Now we will run holding the coffee upside down with the marble on top. This is now dynamic equilibrium. Watching where to run to now and also help other runners on the same team to run well.

A New leadership role emerges, orchestrating multiple products, services or businesses emerging at group or sector level (Corporate level in small firms). Continually adding and subtracting, merging and splitting businesses to match relentlessly shifting mix of market opportunities. Critical role of Patcher that rapid and unpredictable change creates. In coffee cup terms patching involves constantly matching and rematching best marbles with the right runners in the face of changing competitive conditions. Starbucks, a leading coffee brand in the USA left its competitors (like Nescafe) fighting traditional shelf wars in stores, when an employee bought the company and changed it to outdoor cafes (Europe style) and became the largest in-flight brand. Continual reinvention was their strategy, forming unique alliances with partners continuously.

Thus the coffee-cup ideology evolved, as also the Patcher. The General Manager of the Atlanta Braves (J Schuerholz) role was pivotal in the success strategy that led the Braves to dominate the NFL during the nineties. His ability to recognise marketplace patterns, patch the quilt of the Braves players together. This key managerial skill is recognising patterns within and outside organisations and matching them to each other, during the advent of the 'free agent' era where players were able to market themselves.

According to the authors (Competing on the edge, Strategy as Structured Chaos, 1998 by Shona L Brown, Kathleen M Eisenhardt), the Role at senior level changes from strategist to synthesiser involves channelling, synthesising and articulating the essence of the semi coherent strategic direction that characterises strategy emerging as businesses reinvent themselves. In coffee cup terms – role of hiring the right runners and patchers, jogging alongside to cheer, and most important, articulating why everyone is engaged in the frantic task of cup running characterises businesses in fast-moving, unpredictable markets. These 3 leadership roles are key to sustaining performance on the edge.

Carefully drawn boxes in organisation charts portray businesses in an often-unchanging match with marketplaces. Imagine pace of markets is accelerated, add new technologies, blend in novel products & services, add dash of new markets, throw in an acquisition or two, converge several markets, what emerges is UBIQUITOUS change. Resulting in new opportunities opening up where there is no existing business. Today s clear-cut partitioning of business into neat, equidistant rectangular shapes on organisational chart becomes tomorrows out of date scramble as opportunities come and go, collide and separate, grow & shrink in a landscape of constant flux. Through patching, the frequent need to re-align businesses can stimulate rhythm which is the key factor to businesses reinventing themselves along their specific modularity representing distinct unique stand alone interdependent living beings.

As markets change faster, use smaller patches. Big patches create rigidity while many small ones create chaos.

The intuition behind the edge of chaos is that change occurs when strategies and their related organisations are sufficiently rigid so that change can be organised to happen but not so rigid that it cannot occur. Too much chaos makes it difficult to co-ordinate change. A 'one size fits all' can logically not be the order of the day, so it can be expected that to stay away from the too big and/or too small will not suit all parties concerned. To find the compromise where resources and products will both are favoured, as both have to be the beneficiaries in the strategy or direction followed.

Semi-structured (i.e. rigid framework yet flexible surrounding structure) and real time communication (i.e. something is dealt with immediately – Cambridge Dictionary) organisations tend to be dynamic and fast moving compared to bureaucratic structured companies. Examples of companies, which cannot be semi-structured, would be the government or the military, as strict rules and reporting structures need to be in place throughout the entire workforce.

Ground rules for semi-structured companies are that companies need to focus on specific fixed priorities e.g. Customer Focus, service delivery. People that need to take responsibility for crucial aspects of the business e.g. Financials, day to day operations. This is important if you want to be successful in your mission to be fast to react, fast to adapt and to be on time and profitable.

The advantage of being able to implement a semi-structure, real time communication and adaptive culture is that your company is able to backtrack and review decisions made. This is not possible in an environment with too much structure or beaurocracy and has a negative impact on the business, as decisions cannot be adjusted effectively.

In an article "Creating corporate advantage" by David J Collins & A Montgomery, it is said that most multi business companies are the sum of their parts and nothing more. Although executives have become more sophisticated in their understanding of what it takes to achieve competitive advantage at the level of individual businesses, when it comes to creating corporate advantage across multiple businesses, the news is far less encouraging. True, corporate executive's face mounting pressure from their boards and from capital markets to add value. To date, however that pressure has had the greatest impact on corporate strategy in pathological companies such as ITT, where the destruction of value was so great that it had to be stopped. Slipping beneath the radar are those companies – the majority can arguably state that they neither destroy nor create it.

A six-year – 50 company research project (Creating Corporate Advantage by David J Collins and Cynthia A Montgomery) indicated amongst other factors that corporate executives struggled to create viable corporate strategies. Some worked on their core competencies, others were restructuring their corporate portfolios, and others were still building learning organisations. Thus focusing on individual elements of corporate strategy, resources, businesses, or organisation. Missing was the insight that turns those elements into an integrated whole. The way a company creates value through the configuration and co-ordination of its multi business activities. Ultimately, it is what differentiates truly great corporate strategies from the merely adequate.

The wall street journal published a special report on corporate restructuring (1985: 1), the findings of this report were as follows, out of the 850 of North America's largest corporations surveyed 398 (47%) restructured. One of the strategies corporate businesses use to restructure is referred to as refocusing.

According to research (Scherer, 1980), a company's goal would be to isolate the effect on profitability when applying the refocusing strategy. Theoretical discussions suggest that firms return to their optimal level after refocusing which intern improves overall efficiency.

Some of the elements associated with the refocusing strategy are as follows:

- Changing Top management could result in a dramatic increase of efficiency for the company. There is evidence of this from business literature (Gabarro, 1985) that changing the CEO could result in efficiency decreasing dramatically.
- A debt burden hinders the company in allocating free cash flow for the refocusing exercise. This forces the company's management to invest wisely and as a result they become more efficient (Jensen, 1986).
- Attacking foreign markets for market share increases the firm's profitability without having to improve efficiency. The literature on international diversification suggests a positive relationship between profitability and foreign operations (Calves, 1971).
- Increased capital investment results in higher levels of productivity, which may not be the result of applying the refocusing strategy.

It was found via a number of empirical event studies (Schipper & Smith 1993; Miles & Rosenfeld 1983; Hite & Owers 1983; Rosenfeld 1984; Markides 1992, 1995; Johnson & Brown 1994) that refocusing is associated with statistically significant positive abnormal returns.

One of the negatives to refocusing is that it may take some time before the effect of refocusing is seen on the bottom line.

Another aspect we can look at is the impact of strategic planning on profit performance.

An article by the Marketing Science Institute on the profit impact of market strategies (P.I.M.S.) undertaken by Mr. S. Schoeffler (visiting research fellow at Harvard Business School), Mr. R. Buzzell (Professor of Business Administration and Chairman of marketing at H.B.S.) and Mr. D. Heany (visiting research fellow at H.B.S.); studied the impact of strategic planning on profit performance on 57 corporations within 620 diverse businesses during a 2 year period. The P.I.M.S. sample of individual businesses consists of 6 diverse industries, namely: Consumer product manufactures (19,8%); Capital equipment manufactures (15,6%); Raw material producers (11,9%); Component manufactures (24,1%); Supplies manufactures (16,5%); and Service and distribution (12,1%), totalling 100& of the market study.

The premise was to provide corporate level strategic management with insight on strategic information on expected profit performance of different kinds of businesses under different competitive conditions. From the statistically proven study the authors deduced seven important profit determinants- Market share, Investment intensity, Return on investments, Product quality, Market expenditure, Research and development expenditure, and Corporate diversity.

The profit impact of market strategies (P.I.M.S.) was designed to answer a second important question: How does return on investment change in response to changes in strategy and in market conditions?

Market Share

The findings suggest that when market share increases, return on investment increases on the average. Businesses with market shares above 36% (high share business) earned more than three times as much, relative to investment, as businesses with less than 7% (low share business) share of their respective markets. The findings suggest that businesses with relatively large market shares tend to have above average rates of investment turnover, particularly working capital. Also, the ratio of marketing expense to sales is generally lower for high share businesses than for those with small market shares. These differences are indications of economies of scale that may go along with strong market positions.

Impact of Market Share and Product Quality on Return on Investment.

P.I.M.S suggests that the objective of most businesses is to have both high market share and superior quality. Businesses in this category averaged 28,3% R.O.I. When quality was relatively inferior average R.O.I. for high share businesses was 19,5%. On the other hand, superior quality producers with weak market positions earned on average 17,4% on investment, which suggests that quality can partially off-set low share. When quality is relatively low- exactly equivalent to competition or somewhat inferior- there is a strong negative relationship between market expenditure and R.O.I. Thus inferring that it does not pay to promote a poor product.

P.I.M.S. findings suggest that R.O.I. somewhat diminished by a high level of marketing expenditure (11%) for businesses with average (14,2%) or superior (19,8%) relative product quality- but not nearly to the same extent as for competitors with lower quality products (2,7%). This might suggest, further, that sellers of high quality products or services could inflict severe short-term penalties on weaker competitors by escalating the level of marketing costs in an industry- and that lower quality producers should avoid such confrontations.

Research and Development Expenditure

P.I.M.S. suggests that when market share is high (over 26%), average R.O.I. is highest (26,3%) when research and development spending is also high (over 3% of sales). Businesses that are highly profitable for whatever reason, are inclined to invest more of their earnings in research- most likely the positive relationship between R.O.I. and R&D spending reflects both this kind of reverse causation and a positive impact in the other direction. With low market share (under 12%), the higher the level of R&D spending the lower profits were on the average (4,9%). Among businesses with low market share, R.O.I. was higher (11,6%) when new products comprised a relatively high proportion of total sales when new products represented only a small fraction of sales (average R.O.I. 5,3%)

Company Factors

P.I.M.S. infers that when characteristics of two companies are identical, their profit results might vary if they belong to corporations that differ in terms of size, corporate diversity, etc,

- Companies with low corporate diversity and with low sales volume (under $750m) had an average R.O.I. (15,8%).
- Companies with average corporate diversity and with average sales volume (between $750- $1500m) had a low return on investment (12,5%)
- Companies with high corporate diversity and with high sales volume (over $1500m) had a high return on investment (21,7%)

These statistical results suggest that large corporations benefit from economies of scale, while smaller companies gain advantage from greater flexibility. The contrary is highlighted by companies with average corporate diversity and sales volumes, suggesting that they benefit less from reduced economies of scale and flexibility.

From the case studies in this article, one can see the enormous positive impact today's new strategies could have on any business. The potential for improving performance and success is great, provided these theories are clearly understood and buy-in is obtained from all concerned parties.

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