

# Lecture 6 Strategic Management

## THE

# The Services Marketing Mix

## Detailed decisions



# Defining and Understanding Products

## Differing perspectives

- **product** – anything that can be offered to a market for that might satisfy a want or a need;
- THE products – include all elements of the experience;
- consider how product features might be enhanced;
  - in a way that is valued by customers;
- To do this products can be considered at a number of levels.
  - **core product** – main benefit which the customers gain;
  - **generic product** – basic version of the product;
  - **expected product** – a set of attributes buyers normally expect;
  - **augmented product** – goes beyond customers' expectations;
  - **potential product** – includes all enhancements the product might ultimately undergo.

# The Product Life Cycle (PLC)

## Widely used model

- four phase model:
  - **introductory** – sales low as demand increases;
  - **growth** – increasing penetration of product and repeat sales lead to sales growth;
  - **maturity** – rate of growth slows and levels off;
  - **decline** – new more innovative products reach the market and decline sets in;
- usefulness:
  - can be applied to most products;
  - gives insights into behaviour of products;
  - simple, easily understood and widely used;
  - important strategic implications.

# PLC

## Strategic implications

- focuses management attention on likely future sales pattern if no action taken;
- Strategic action can extend length of the cycle and show need for new products.
- strategic implications:

<i>Phase</i>	<i>Strategic focus</i>	<i>Cash flow</i>
<b>Introduction</b>	Expand market	Negative
<b>Growth</b>	Market penetration	Moderate
<b>Maturity</b>	Defend share	High
<b>Decline</b>	Productivity	Low

# New Product Development

## PLC can help identify need for new products

- Most organisations need to innovate regarding products.
- New products can provide further growth.
- totally new products are rare, though they:
  - may be labelled as ‘new’;
  - promoted as ‘new’ but from existing products;
  - are ‘new’ to a particular market segment;
- New products are expensive to develop and risks of failure are high.
  - Products can be generated from many sources.
- a screening process attempts to avoid wasted errors:
  - **GO** errors – products are developed that ultimately fail;
  - **DROP** errors – ideas are abandoned that would have succeeded.

# Product Portfolio Theory

## Balancing risks and opportunities

- A broad portfolio signifies that a business has a presence in a wide range of product and market sectors.
  - advantage – a downturn in one market will not threaten whole company;
  - But it is necessary to manage business interests that may be diverse.
  - company may be said to lack strategic focus;
- developed partly due to dissatisfaction with PLC in 1970s:
  - company's products at different stages of development;
  - company should balance sales growth and cash flow in order to manage its level of risk;
  - develop a portfolio of products which will change over time;
- best known – **Boston Consultancy Group Matrix** (BCG).

# BCG

## BCG Matrix – key assumptions

- Cash generation/usage is key to developing balanced product portfolio.
- cash generated depends upon:
  - **relative market share;**
  - **market growth;**
- BCG Matrix is a simplifying tool.
  - relative market share indicates strength of **Strategic Business Unit** competitive position;
  - growth indicates potential and attractiveness of market;
  - BCG Matrix can be used in forecasting.



# The Experience Effect

## Underpins the BCG Matrix

- Also implicit in the matrix are the benefits to be gained from the **experience effect**.



# BCG Matrix

Relative Market Share

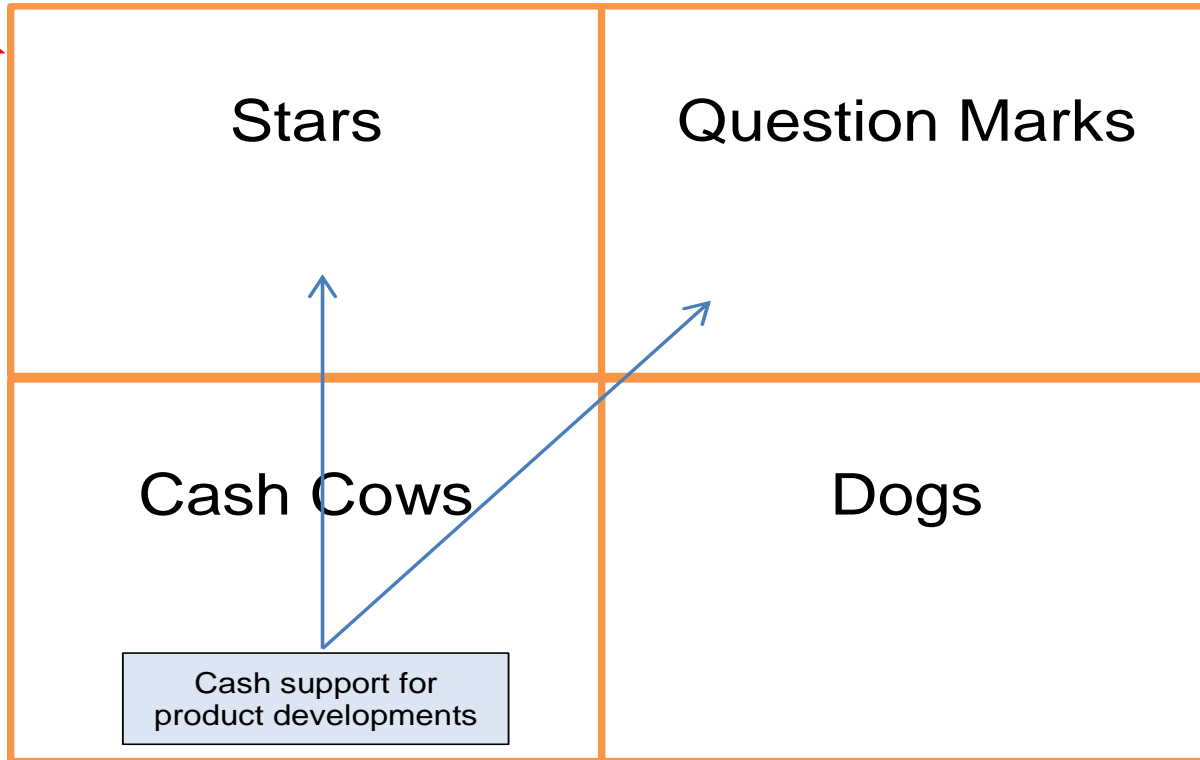
HIGH

LOW

HIGH

Rate of  
Market  
Growth

LOW



# BCG Matrix

## Strategic implications

<i>Business category</i>	<i>Market share thrust</i>	<i>Business profitability</i>	<i>Investment required</i>	<i>Net cash flow</i>
<b><i>Stars</i></b>	<b>Hold/increase</b>	<b>High</b>	<b>High</b>	<b>Around zero or slightly negative</b>
<b><i>Cash cows</i></b>	<b>Hold</b>	<b>High</b>	<b>Low</b>	<b>Highly positive</b>
<b><i>Question marks A</i></b>	<b>Increase</b>	<b>None or negative</b>	<b>Very high</b>	<b>Highly negative</b>
<b><i>Question marks B</i></b>	<b>Harvest/divest</b>	<b>Low or negative</b>	<b>Divest</b>	<b>Positive</b>
<b><i>Dogs</i></b>	<b>Harvest/divest</b>	<b>Low or negative</b>	<b>Divest</b>	<b>Positive</b>

# **The External Environment for Tourism, Hospitality and Event Organisations**

# Introduction

## In this session:

- what is the macro-environment?
- macro-environmental analysis;
- limitations of macro-environmental analysis;
- STEEP analysis:
  - overview of the STEEP influences;
  - how to carry out a STEEP analysis;
  - what to analyse;
  - socio-demographic influences;
  - technological influences;
  - economic influences;
  - environmental influences;
  - political, governmental, legal and regulatory influences.

# What Is the Macro-environment?

## No control for THE managers

- refers to the **broad environment** outside an organisation's industry and markets;
  - generally beyond the control and influence of individual organisations;
  - but can have significant impact on the micro-environment (industry and market) in which the organisation operates;
  - sometimes referred to as the **far, broad** or **remote environment**;
- changes in the macro-environment can be very important to an organisation in that they can, for example:
  - bring about the birth or death of an entire industry;
  - make markets expand or contract;
  - determine the level of competitiveness within an industry.

# What Is the Macro-environment?

## What to leave out?

- In many ways analysis of the macro-environment is more difficult than micro (internal) analysis.
  - since it involves **everything** occurring outside the organisation;
- the problems of dealing with so much information are:
  - assessing what should be included;
  - assessing what should be left out;
  - determining how the information should be organised in a rational and meaningful way;
- There are no simple rules governing analysis.
  - Each analysis needs to be guided by what is relevant for that particular organisation.

# Macro-environmental Analysis

## How to conduct the analysis

- macro-environmental analysis (Ginter and Duncan, 1990) involves:
  - **scanning** macro-environments for warning signs and possible environmental changes;
  - **monitoring** environments for specific trends and patterns;
  - **forecasting** future directions of environmental changes;
  - **assessing** current and future trends in terms of the effects such changes would have on the organisation.

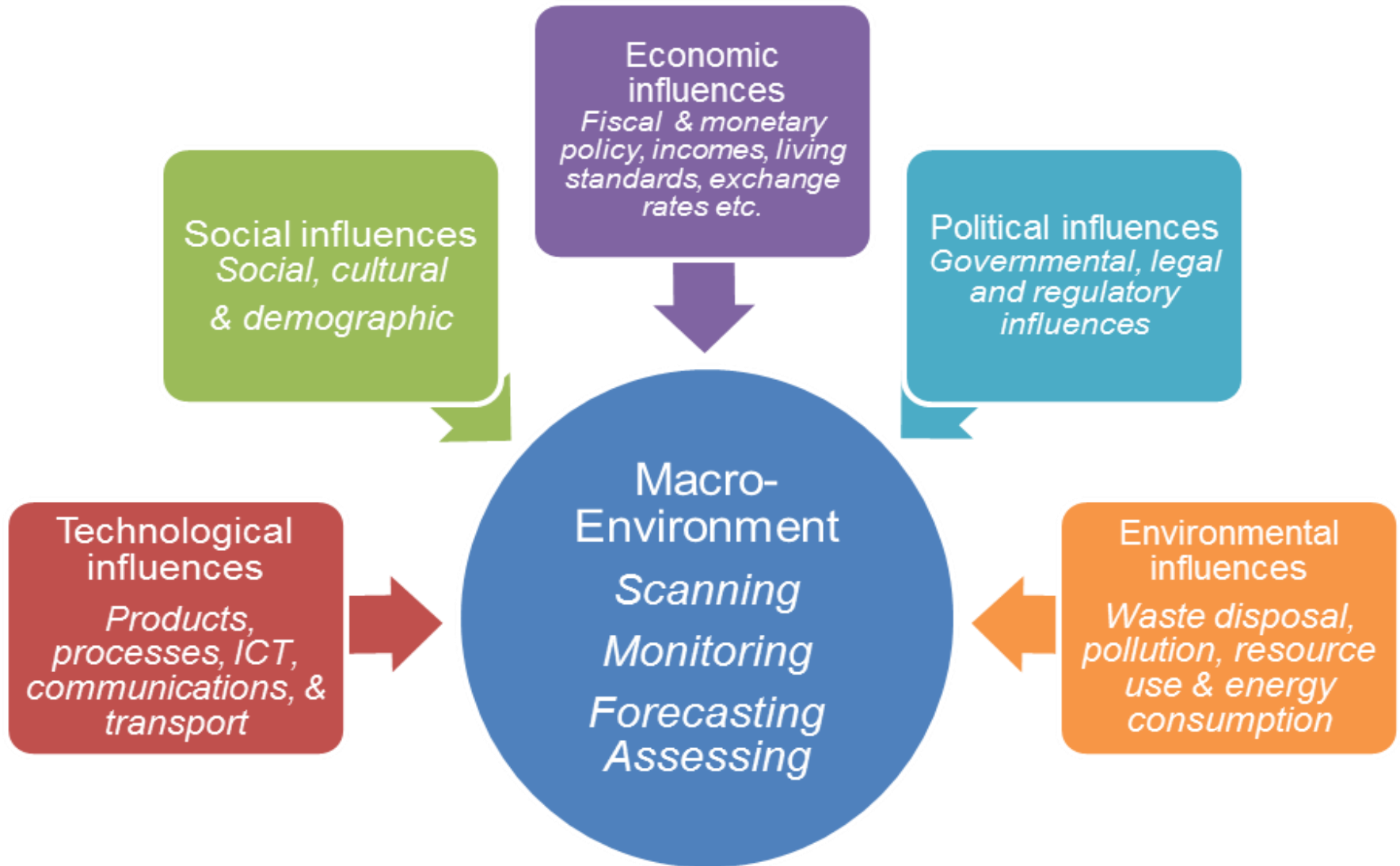


# Macro-environmental Analysis

## Limitations – but still useful

- The macro-environment can be extremely complex and there may be conflicting and contradictory changes taking place.
- The pace of change in many situations is increasing and becoming more turbulent and unpredictable.
- accordingly THE managers concerned with strategic analysis must:
  - Be aware of the limitations and possible inaccuracies;
  - carry out the analysis or update it continuously;
  - constantly seek to improve sources of information and analysis techniques;
  - use the information as one source of organisational learning
  - use the information to inform future strategy
- Nevertheless – it is a valuable mechanism for increasing strategic awareness of managers.

# STEEP Analysis



# STEEP Analysis

## An overview

- The complexity of the macro-environment makes it necessary to divide the forces at work into five categories.
  - **Socio-demographic** influences;
  - **Technological** influences;
  - **Economic** influences;
  - **Environmental** Influences;
  - **Political, governmental, legal and regulatory** influences;
- Categories are interrelated and interact with each other.
- some of the factors identified may be:
  - **generic** in that they affect all industrial sectors;
  - Others are **specific** to THE or a particular sector of THE.

# STEEP Analysis

## How to carry it out

- It is necessary to analyse the effects of the factors on the organisation, its markets and its industry.
  - **internal organisation** – effects on the organisation's core competencies, strategies, resources, value system and functional areas;
  - the organisation's **markets** – effects on **product markets** (e.g. market size, structure, segments, customer needs and wants) and **resource markets** in which organisation acquires resources;
  - the **industry** in which the organisation competes – effects on the five competitive forces (buyer power, supplier power, threat of entry, threat of substitutes, competitive rivalry).

# Socio-demographic Influences

- understanding the potential impacts of society and social changes on a business, its industry and markets;
- will normally require consideration of the impact of:
  - **social culture** (values, attitudes and beliefs) – for products and services, attitudes to work, savings and investment, ecology, ethics, etc.;
  - **demography** – size and structure of the population on the workforce and patterns of demand;
  - **social structure** – attitudes to work, products and services.

## THE example

A number of demographic factors point to increased demand for air travel. These include: an increasing proportion of the population being healthy and prosperous; increasing numbers of retired people; and greater international mobility of labour.

# Technological Influences

- understanding these involves developing understanding of the effects of changes in technology on all areas of a business and its activities, including:
  - **products** and **services**;
  - **operational processes**;
  - **information** and **communications**;
  - **transport** and **distribution**;
- trends include:
  - development of ICT devices and software;
  - replacement of human resources by technology;
  - improvements in transport infrastructure and equipment.

## THE example

Many companies in THE, such as British Airways and Thomas Cook, have cut costs through replacing people employed particularly at middle levels of the organisation with technology, in a process known as **de-layering**.

# Economic Influences

- centres on changes in the macro-economy and their effects on businesses, markets and consumers;
- Because governments intervene, many factors classed as political in will have important economic implications.
- Regulation of a national economy is brought about by two key policy instruments – fiscal policy and monetary policy.
- these policies can affect many parts of the economy, such as:
  - growth rates;
  - levels of personal income;
  - inflation.

## THE example

International air travel demand has closely mirrored the cyclical pattern shown by gross domestic product (GDP) figures in that it responds to cyclical upswings and downswings. However, air travel growth has far exceeded GDP growth over most periods.

# Environmental Influences

- concerns for physical environment (both **natural** and **built** environment) on THE organisations, industry and markets;
- Increasing concerns about ecology and ‘green issues’ has been an important social trend.
  - changed attitudes towards the effects of products and processes on the environment;
  - Issues such as global climate change, ozone depletion, deforestation, extinction of species, soil erosion, desertification, acid rain, toxic waste, water and noise pollution have become important concerns.

## THE example

Scandic Hotels is the leading hotel brand in Scandinavia. The environmental programme which is central to the brand’s promotional activity provides a source of competitive advantage for Scandic in a region where consumers are traditionally highly environmentally conscious



# Political, Governmental, Legal and Regulatory Influences

- concerns factors under the direct control or influence of governments or inter-governmental organisations:
  - **legislation** and **regulation** – stipulate how businesses operate;
  - **economic policy** – particularly setting fiscal and monetary policy;
  - **government-owned businesses** – some retain control over key strategic industries (such as airlines);
  - **international policy** – impact international trade;
- Another important aspect is **political risk**, i.e. the threat of political or military instability and its effects on business.

## THE example

The airline sector has an extended network of national and international rules and regulations, many of which date back to the Chicago Convention of 1944. Based on acknowledgement of the sovereignty of nations over their airspace, and of the equal right for every nation to participate in air travel, the so-called five freedoms of the air were established

# SUMMARY

- refers to the **broad environment** outside an organisation's industry and markets:
  - generally beyond the control and influence of individual organisations;
  - can be extremely complex and there may be conflicting and contradictory changes taking place;
- difficult – as it involves **everything** outside the organisation:
  - Assess what should be included.
  - Assess what should be left out.
  - Determine how the information should be organised.
- Divide the forces at work into the five categories.
  - **Socio-demographic; Technological; Economic; Environmental; Political, governmental, legal and regulatory influences.**