Chapter 8
Implementing Strategies: Marketing, Finance/Accounting, R&D, & MIS Issues

Chapter Outline

The Nature of Strategy Implementation

Marketing Issues

Finance/Accounting Issues

Chapter Outline (cont'd)

Research & Development (R&D) Issues

Management Information Systems (MIS) Issues

Implementing Strategies

The greatest strategy is doomed if it's implemented badly. --
Bernard Reimann

The Nature of Strategy Implementation

-- Strategy implementation means change.

The Nature of Strategy Implementation

-- Less than 10% of strategies formulated are successfully implemented!
Nature of Strategy Implementation

Low Success Rate – Strategy Implementation

- Failing to segment markets appropriately
- Paying too much for a new acquisition
- Falling behind competition in R&D
- Not recognizing benefit of computers in managing information

Successful Strategy Implementation

- Market goods & services well
- Raise needed working capital
- Produce technologically sound goods
- Sound information systems

Marketing Issues

Marketing variables affect success/failure of strategy implementation

Marketing Decisions requiring policies

- Exclusive dealerships – multiple channels of distribution
- Heavy, light, or no TV advertising
- Price leader or price follower
- Advertise online or not
- Offer complete or limited warrantee

Marketing Issues

Centrally important to Implementation

1. Market segmentation
2. Product positioning

Market Segmentation

- Subdividing of a market into distinct subsets of customers according to needs and buying habits.
### Marketing Issues

#### Market Segmentation

- Key to matching supply & demand
- Market development, product-development, market penetration & diversification strategies
- Allows operating with limited resources
- Enables small firms to compete successfully

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### Marketing Issues

#### Market Segmentation

- Directly affect marketing mix variables:
  - Product
  - Place
  - Promotion
  - Price

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### Marketing Mix – Component Factors

<table>
<thead>
<tr>
<th>Product</th>
<th>Place</th>
<th>Promotion</th>
<th>Price</th>
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<tbody>
<tr>
<td>Quality</td>
<td>Distribution channels</td>
<td>Advertising</td>
<td>Level</td>
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<tr>
<td>Features</td>
<td>Distribution coverage</td>
<td>Personal selling</td>
<td>Discounts &amp; allowances</td>
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<tr>
<td>Style</td>
<td>Outlet location</td>
<td>Sales promotion</td>
<td>Payment terms</td>
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<td>Brand name</td>
<td>Sales territories</td>
<td>Publicity</td>
<td></td>
</tr>
<tr>
<td>Packaging</td>
<td>Inventory levels/locations</td>
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<td></td>
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<tr>
<td>Product line</td>
<td>Transportation carriers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Warranty</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service level</td>
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</tbody>
</table>

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### Marketing Issues

#### Geographic

- Region
- County size
- City or SMSA size
- Density
- Climate

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### Marketing Issues
Marketing Issues

Demographic
- Age
- Family Size
- Family Life Cycle
- Income/Occupation
- Education
- Religion
- Race/Nationality

Psychographic
- Social Class
- Lifestyle
- Personality

Behavioral
- Use occasion
- Benefits sought
- User status
- Usage rate
- Loyalty status
- Readiness stage
- Attitude toward product

Product Positioning

-- Schematic representations that reflect how products/services compare to competitors' on dimensions most important to success in the industry
Marketing Issues

Product Positioning

- Customer Wants
- Customer Needs

Product Positioning Map

Rental Car Market

- Firm 1
- Firm 2
- Firm 3

Finance/Accounting Issues

- Central to strategy implementation.

Product Positioning Steps

1. Select Key Criteria
2. Diagram Map
3. Plot competitors' products
4. Look for niches
5. Develop Marketing Plan

Marketing Issues

Product Positioning as Strategy Implementation Tool

- Look for vacant niche
- Avoid sub optimization
- Don’t serve 2 segments w/ same strategy
- Don’t position in the middle of the map

Finance/Accounting Issues

Essential for implementation

- Acquiring needed capital
- Developing projected financial statements
- Preparing financial budgets
- Evaluating worth of a business
Finance/Accounting Issues

Decisions based on Finance/Accounting

- Raise capital – short-term, long-term, preferred, or common stock
- Lease or by fixed assets
- Determine appropriate dividend payout ratio

Finance/Accounting Issues

Decisions based on Finance/Accounting

- LIFO, FIFO, or market-value accounting approach
- Extend time of AR
- Establish % discount on accounts for terms
- Determine the amount of cash kept on hand

Finance/Accounting Issues

Capital acquisition to implement strategies

- Debt
- Equity

Finance/Accounting Issues

Debt vs. Equity Decisions

- EPS/EBIT analysis
  - Earnings per share/Earnings before interest and taxes

EPS-EBIT Analysis

(in $millions)

Heinz Company – Year End 2001

- $Amount Needed: $500
- Stock Price $40
- EBIT Range $1000 to $2000
- Tax Rate 175/673 = .26 = 26%
- Interest Rate 5%
- # Shares Outstanding 350

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<th></th>
<th>Stock Financing</th>
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<td></td>
<td>High</td>
<td>Low</td>
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<td>EBIT ($982.4 in 2001)</td>
<td>$3200</td>
<td>$1000</td>
<td>$2000</td>
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<td>Interest (5%)</td>
<td>0</td>
<td>0</td>
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<td>EBIT</td>
<td>2000</td>
<td>1000</td>
<td>1975</td>
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<td>Taxes 26%</td>
<td>520</td>
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<td>EAT</td>
<td>1480</td>
<td>740</td>
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<td># Shares outstanding</td>
<td>362.5</td>
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<td>EPS</td>
<td>4.08</td>
<td>2.04</td>
<td>4.17</td>
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Finance/Accounting Issues

EPS-EBIT Analysis Heinz

- Conclusion:
  - Heinz should use debt to raise the $500 million

Finance/Accounting Issues

Projected Financial Statements

- Allow an organization to examine the expected results of various actions and approaches

Finance/Accounting Issues

Steps in Preparing Projected Financial Statements

1. Prepare income statement before balance sheet (forecast sales)
2. Use percentage of sales method to project CoGS & expenses
3. Calculate projected net income

Finance/Accounting Issues

Steps in Preparing Projected Financial Statements (cont’d)

4. Subtract dividends to be paid from Net Income and add remaining to Retained Earnings
5. Project balance sheet times beginning with retained earnings
6. List comments (remarks) on projected statements

Projected Income Statement for Litten Company (in millions)

<table>
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<tr>
<th>Description</th>
<th>Projected Year 2005 (in millions)</th>
<th>Remarks</th>
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<tr>
<td>Sales</td>
<td>195.00</td>
<td>50% increase</td>
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<tr>
<td>Cost of Goods Sold</td>
<td>105.00</td>
<td>70% of sales</td>
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<td>Gross Margin</td>
<td>45.00</td>
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<tr>
<td>Selling Expense</td>
<td>15.00</td>
<td>10% of sales</td>
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<tr>
<td>Administrative Expense</td>
<td>7.50</td>
<td>5% of sales</td>
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<tr>
<td>EBIT</td>
<td>22.50</td>
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<tr>
<td>Interest</td>
<td>2.00</td>
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<tr>
<td>EBT</td>
<td>19.50</td>
<td></td>
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<tr>
<td>Taxes</td>
<td>9.75</td>
<td>50% rate</td>
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<tr>
<td>Net Income</td>
<td>9.75</td>
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<tr>
<td>Dividends</td>
<td>5.00</td>
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<tr>
<td>Retained Earnings</td>
<td>4.75</td>
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Finance/Accounting Issues

Financial Budget

-- Details how funds will be obtained and spent for a specified period of time.
**Finance/Accounting Issues**

**Types of Budgets**
- Cash budgets
- Operating budgets
- Sales budgets
- Profit budgets
- Factory budgets
- Expense budgets

**Finance/Accounting Issues**

**Types of Budgets**
- Divisional budgets
- Variable budgets
- Flexible budgets
- Fixed budgets

**Finance/Accounting Issues**

**Evaluating Worth of a Business**
- Central to strategy implementation – integrative, intensive, & diversification strategies often implemented through acquisitions of other firms

**Finance/Accounting Issues**

**Evaluating Worth of a Business:**
3 Basic Approaches
1. What a firm owns
2. What a firm earns
3. What a firm will bring in the market

**Research & Development Issues**

-- New products and improvement of existing products that allow for effective strategy implementation

**Research & Development Issues**

**Constraints**
- Level of support constrained by resource availability
- Technological improvements shorten product life cycles
**Research & Development Issues**

3 Major R&D approaches to implementing strategies

1. 1st firm to market new technological products
2. Innovative imitator of successful products
3. Low-cost producer of similar but less expensive products

**Management Information Systems (MIS) Issues**

--- Information is basis for understanding the firm. One of the most important factors differentiating successful from unsuccessful firms

**MIS Issues**

Functions of MIS

- Information collection, retrieval, & storage
- Keeping managers informed
- Coordination of activities among divisions
- Allow firm to reduce costs

**For Review (Chapter 8)**

**Key Terms & Concepts**

- Cash Budget
- Marketing Mix Variables
- EPS/EBIT Analysis
- Outstanding Shares Method
- Management Information Systems (MIS)
- Price-Earnings Ratio Method
- Market Segmentation
- Product Positioning
- Projected Financial Statement Analysis
- Research & Development (R&D)
- Vacant Niche