Product Strategy and Management

2nd Edition

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PRODUCT STRATEGY AND MANAGEMENT

SECOND EDITION

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5. Is the market supplied by relatively few producers?

6. Is the market free from domination by a small group of powerful customers?

7. Has the product high added-value when converted by the customer?

8. In the case of a new product, is the market destined to remain small enough not to attract too many producers?

9. Is the product one where the customer has to change his formulation or even his machinery if he changes supplier?

10. Is the product free from the risk of substitution by an alternative synthetic or natural product?

While these specific questions relate to an industrial chemicals company it is clear that they embrace competitive forces, such as barriers to entry and exit, contained in Porter's Five Forces model.

With regard to a company's competitive capabilities three basic criteria are identified:

• Market position

• Production capability

• Product research and development.

Market position is measured in terms of market share, and the firm (or firms) is classified according to whether it is a leader with a pre-eminent position, a major producer (one of several evenly matched competitors), and so on. Production capability is a composite factor designed to encapsulate issues such as process economies, manufacturing capacity, sources of raw materials, etc., while product R&D embraces product range, product quality, record of successful NPD, service capability, and so on.

Shell recommend that once the definitions of factors and measurement criteria have been developed, ratings should be secured from a combination of functional specialists and non-specialists to provide both expertise and a degree of detachment. It is further suggested that while individual ratings should be encouraged initially, these should provide the basis for a group discussion to evolve a consensus view. Failing this, some form of averaging may prove necessary. However, a process involving the participants likely to be affected by the outcome is seen to be preferable to more 'objective' methods based on sampling and computerized analysis. Once a 'score' has been agreed, this may be weighted to reflect the factor's relative importance to the company. The outcome is then plotted on the matrix as shown earlier in Figure 5.4.

For diagnostic purposes specific strategies are recommended for each position on the matrix as shown in Figure 5.5.

It should be stressed that the regularity implied in the rectangular format of a matrix rarely exists in real life, and the boundaries between one position and

Prospects for sector profitability

		Unattractive	Average	Attractive
	Weak	Disinvest 9	Phased withdrawal 6 Custodial	Double or quit 3
	Average	Phased withdrawal 8	Custodial 5 Growth	Try harder 2
	Strong	Cash generation 7	Growth 4 Leader	Leader 1

Company's competitive capabilities (vertical axis label)

FIGURE 5.5   The Directional Policy Matrix completed (*source*: Shell, 1975)

another are likely to be decidedly 'fuzzy' and call for considerable judgement in their interpretation. It should also be recognized that the 'recommended' strategy may be infeasible or inappropriate. For example, a version of the DPM was used to analyse the perceived standing and attractiveness of various subjects in a university. According to the analysis, Physics and Mathematics were located in the *Unattractive* column and performance defined as *Weak* to *Average*. According to the proposed strategies the university should have started to get out of these subjects!

Such a diagnosis was unacceptable: Physics and Mathematics are core disciplines which underpin many others. In a university renowned for its Engineering faculty quite the opposite strategy was necessary – at the very least Physics and Maths needed to be moved into the *Strong* category as subjects in their own right, through focused investment. Alternatively, if Physics and Maths were seen as essential components in subjects like Electronic Engineering and Computer Science they needed classifying under the *Attractive* column. As the example makes clear, models of this kind are useful as analytical frameworks – they can be useless, or positively dangerous, if regarded as prescriptive planning devices.

Before leaving the DPM one final comment is called for. Both the DPM and BCG growth–share matrix have been reported here as originally described by their 'inventors'. What would happen if we were to relabel the DPM as below?

	Strong	Weak
Attractive		
Unattractive		

If we were to do this and incorporate the diagnosis from both GSM and DPM we would find:

	Strong	Weak
Attractive	Star Leader	Question mark Double or quit
Unattractive	Cash cow Cash generation	Dog Disinvest

Much the same similarities are to be found in other strategic overview/portfolio planning models. While this may not be immediately obvious it is unsurprising, given that all such models seek to capture the product or firm's standing *vis-à-vis* its rivals and the status/nature of competition which, in turn, is largely determined by the stage of the product/industry life cycle. As Wensley (1981) has pointed out, a salient difference between the growth–share matrix and other 'box classifications' is that the former is based upon univariate dimensions while the DPM, A D Little and GE/McKinsey schemes are based on composite dimensions involving the subjective weighting of a number of factors. The issue, therefore, is which approach is to be preferred.

This issue was addressed by Wensley (1981) in his critical review 'strategic marketing: betas, boxes, or basics'. We can do no better than quote his conclusions:

> *In undertaking strategic marketing analysis of any particular investment option it is important to avoid the use of classificatory systems that deflect the analysis from the critical issue of why there is a potential sustainable competitive advantage for the corporation. The market growth/share portfolio approach advocated by BCG encourages the use of general rather than specific criteria as well as implying assumptions about mechanisms of corporate financing and market behaviour that are either unnecessary or false. The DPM approach, on the other hand, appears to add little to a more specific project based form of analysis.*

Both classificatory schemes would be positively harmful if used to justify some form of cash budgeting, since it is essential that any major project is assessed independently of its box classification. The financial basis of such an assessment should be an evaluation of the project's benefits against the appropriate discount rate related to the project's systematic risk or Beta. It is critical, however, that the financial analysis should not dominate a thorough evaluation of the competitive market assumptions upon which the project is based. Such a project-based

evaluation must focus not only on direct cost experience effects but also on the degree to which the project can be effectively imitated by others if successful, the extent to which progress will be adequately monitored and suitable changes implemented at a later date, and the particular ways in which the project (beyond its direct substantive benefits) will also enhance the firm's ability to exploit further opportunities at a later stage.

SUMMARY

'Boxes' are a useful aid to analysis; to be operationalized they need to be associated with a rigorous financial analysis, but, in doing so, one must not lose sight of the competitive assumptions on which this is based and of future changes in these assumptions. In the cases of all the portfolios reviewed in this chapter, the important application relies on scrutiny of assumptions and specific adjustment.

QUESTIONS

1. Why should firms seek to develop a portfolio of products?

2. How does the idea of a product portfolio relate to that of an investment portfolio? Is the analogy useful?

3. What is involved in developing a balanced portfolio?

4. What is market share? What problems might you encounter in defining and measuring it?

5. What is the experience effect? What implications does it have for managerial practice?

6. Describe the Boston Box.

7. Review the main criticism levelled against portfolio analysis.

8. Describe and explain Shell's Directional Policy Matrix.

9. Compare Ansoff's growth-vector matrix with other 'box' classifications. Which is to be preferred? Why?

Part II

New product development