

The Product-Market Investment Strategy: Where to Compete

The scope of the business and the dynamics within that scope represent a very basic strategy dimension. Which sectors should receive investments in resources and management attention? Which should have resources withdrawn or withheld? Even for a small organization, the allocation decision is key to strategy.

The scope of a business is defined by the products it offers and chooses not to offer, by the markets it seeks to serve and not serve, by the competitors it chooses to compete with and to avoid, and by its level of vertical integration. Sometimes the most important business scope decision is what products or segments to avoid because such a decision, if followed by discipline, can conserve resources needed to compete successfully elsewhere. Peter Drucker, the management guru, challenged executives to specify—“What is our business and what should it be? What is not our business, and what should it not be?” Such a judgment can sometimes involve painful choices to divest or liquidate a business or avoid an apparently attractive opportunity. Chapter 15 discusses disinvestment judgments and why they are hard to make and easy to avoid.

Many organizations have demonstrated the advantages of having a well-defined business scope. Williams-Sonoma offers products for the home and kitchen. IBM turned around its firm under the direction of Lou Gerstner in part by dialing up its service component and more recently by expanding its software and data analytics footprint. P&G focuses on a broad spectrum of nonfood consumer goods with an emphasis on current or potential billion dollar brands such as Tide/Arial, Always/Whisper, Crest, Iams, Pampers, Charmin, Bounty, Pantene, Downy/Lenor, and Gillette. Walmart and Amazon have a wide scope that generates both scale economies and a one-stop shopping value proposition.

More important than the scope is the scope dynamics. What product markets will be entered or exited in the coming years? As Figure 1.2 suggests, growth can be generated by bringing existing products to new markets (market expansion), bringing new products to existing markets (product expansion), or entering new product markets (diversification).

Expanding or changing the product-market mix can help the organization achieve growth and vitality and can be a lever to cope with the changing marketplace by seizing opportunities as they emerge. During the first five years of the Jeff Immelt era, GE changed its focus and character by investing in healthcare, energy, water treatment, home mortgages, and entertainment (by buying Universal) while exiting markets for insurance, industrial diamonds, business outsourcing based in India, and a motor division. In addition, the percentage of revenue sources outside the United States grew from 40 percent to nearly 50 percent.

There are risks as the scope expansion ventures further from the core business—the firm’s offering may not be distinctive, problems in operations may arise, or the firm’s brands may be

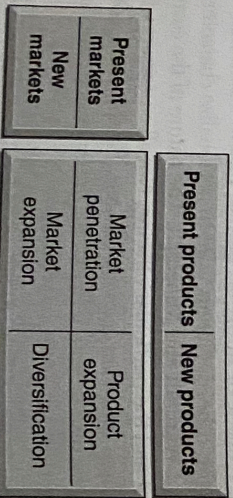


Figure 1.2 Product-Market Growth Directions

inadequate to support the expansion. Despite similarities in manufacturing and distribution, Bausch & Lomb’s attempt to move from eye care to mouthwash was a product and brand failure. An effort by a manufacturing equipment company to go into robots failed when it could not create or acquire the needed technology. Attention and resources may also be diverted from the core business, causing it to weaken.

The investment pattern will determine the future direction of the firm. Although there are obvious variations and refinements, it is useful to conceptualize the investment alternatives for each product-market as follows:

- Invest to grow (or enter the product market)
- Invest only to maintain the existing position
- Milk the business by minimizing investment
- Recover as many of the assets as possible by liquidating or divesting the business

The Customer Value Proposition and Customer Value Leadership

The *customer value proposition* is a clear statement about what sources of distinctive value the business wants to offer the customer. To be successful, the target market selected must find the value relevant and meaningful. It must also be supported by all aspects of the company’s strategy. For example, if Jessica Alba’s Honest Company promises consumers “effective, unquestionably safe, and eco-friendly” body and home products, all ingredients must reflect this status—a point questioned in recent lawsuits brought against the company. To be credible, all other aspects of the company’s communication and interactions must also support this position, including where the product is sold, the transparency of the salespeople, and all online interactions. To support a successful strategy, the value proposition should be sustainable over time and be differentiated from competitors.

Home Depot and Lowe’s are home improvement retailers with very different value propositions. Home Depot has very austere, functional stores that are designed to appeal to contractors and homeowners on the basis of good price and basic functionality. Lowe’s strategy since 1994 has been to have a softer side, a look that would be comfortable to women. Thus, their stores are well lit, the signs colorful and clear, the floors spotless, and the people friendly and helpful. Years later, the Lowe’s strategy has traction, and Home Depot, with service problems caused by a cost reduction program, is attempting to adjust its own value proposition.

A value proposition is just table stakes for competing, however. The most effective strategies pave the way the firm to be a customer value leader, which means that it performs very well on one type of value and at least meets basic levels on other types. For example, while IKEA competes on price, its no-fills products measure up to basic standards of functionality and its store environments, while simple, are clean, well-lit, and organized. Customer value leaders make decisive choices about which customers they will target within a market and with what types of value.

Assets and Competencies

The strategic assets and competencies that underlie the strategy are the critical resources that produce sustainable competitive advantage (SCA) for a firm. According to resource-based theories of the firm, these resources produce competitive advantage because they can be converted into sources of value for customers; they are rare, not easily imitated; and good substitutes for the