

analysis and a focus of Chapter 2, involves identifying the organization's customer segments and each segment's motivations and unmet needs. Competitor analysis, covered in Chapter 3, attempts to identify competitors (both current and potential) and describe their performance, image, strategy, and strengths and weaknesses. Market analysis, the subject of Chapter 4, aims to determine the attractiveness of the market and submarkets and to understand the dynamics of the market so that threats and opportunities can be detected and strategies adapted. Environmental analysis, the subject of Chapter 5, is the process of identifying and understanding emerging opportunities and threats created by forces in the context of the business.

The external analysis should be purposeful, focusing on key outputs: the identification of present and potential opportunities, threats, trends, strategic uncertainties, and strategic choices. There is a danger in being excessively descriptive. Because there is literally no limit to the scope of a descriptive study, the result can be a considerable expenditure of resources with little impact on strategy.

The frame of reference for an external analysis is typically a defined strategic business unit (SBU), but it is useful to conduct the analysis at several levels. External analyses of submarkets sometimes provide critical insights; for example, an external analysis of the mature beer industry might contain analyses of the import and nonalcoholic beer submarkets, which are growing and have important differences. It is also possible to conduct external analyses for groups of SBUs, such as divisions, that have characteristics in common. For instance, a food products company might consider analyses of the healthy-living segment and food trends that could span operating units within the firm.

### Internal Analysis

Internal analysis, introduced in Chapter 5 (see also similar competitor criteria in Chapter 2), Appendix A, and as summarized in Figure 1.3, aims to provide a detailed understanding of strategically important aspects of the business. Performance analysis looks not only at financial performance, but also examines the company's assets and competencies (including brand, customer relationships, and innovation), the company's current image and position, culture as well as its past and current strategies. The identification and assessment of organizational strengths and weaknesses will guide strategic priorities, including both the development of new strategies and the adaptation of existing ones.

### Creating and Adapting Strategy

After describing strategic analysis, the book turns to the creation and adaptation of strategy. How do you decide on the business scope? What are the alternative value propositions, and how do they guide strategy development? What assets and competencies will provide points of advantage, and which will aim for points of parity? What functional strategies and programs will lead to strategic success? What growth options will receive investment? Is the core business to be the source of growth, or is there a need to move beyond the core? What is to be the global strategy? How should the business units be prioritized? Should there be disinvestment in the business portfolio? How can the organization be adapted so that it supports rather than constrains strategy?

Chapter 6 provides an overview of the scope of strategic choices by describing the firm's choice of value propositions as a means to customer value leadership and sustainable competitive advantage. Chapter 7 examines customer relationships with a focus on facilitating the decision

### GALLO: A CASE STUDY

Gallo, despite producing roughly one of every four bottles of wine sold in the United States (primarily in the form of cheap wines sold under the Gallo name), thought it had to adapt to a strong market trend to premium varietals.

One vehicle was the launching of the premium Gallo of Sonoma brand, which enjoyed several significant potential SCAs. The grapes available to Gallo from Sonoma County in northern California (whose climate, some say, is superior to the famous Napa region), coupled with the company's willingness and ability to make great wine, have resulted in a product that has won some major international wine competitions. In addition, the brand gained synergies from Gallo's substantial distribution clout and operational scale efficiencies.

The decision to put the Gallo name on the new line undoubtedly created a huge liability, but it also had some compensating advantages. First, it permitted the business to leverage the credibility and personality of a third-generation family winemaker, Gina Gallo. Second, it boosted the pride of the organization and its partners in an aspect of the business (winemaking) that is at the core of its values. Finally, the seeming incongruity of Gallo making a fine wine could appeal to the wine tastermakers of the world by giving them a chance to prove that they are above labels.

The success of Gallo of Sonoma emboldened Gallo to radically change the business and brand strategy. Gallo of Sonoma became the Gallo Family Vineyards Sonoma, one of four Gallo Family brands. The Gallo value brands were retired, and other brands in the portfolio took on the value role.

journey, creating value through strong experiences, and defending relationships over the long-term. Chapter 8 shifts to a focus creating valuable customers by examining purchase funnel management and customer lifetime value approaches. Chapter 9 shows how brand equity, a key asset can be created and used. Chapter 10 discusses how to develop a strong brand relationship with customers. The next four chapters discuss growth options: Chapter 11 covers energizing the business, Chapter 12 leveraging the business, Chapter 13 creating new businesses, and Chapter 14 global strategies. Chapter 15 discusses the disinvestment option, an important and often overlooked dimension of the investment decision.

### Implementing Strategy and Producing Firm Value

Chapter 16 examines the organizational reality of implementing strategy. It considers the idea of customer-centricity—an approach that puts the customer at the forefront of all company decisions—as a guiding approach to ensuring that the company is able to compete effectively in the marketplace over time. Customer centricity requires a focus on five organizational elements—culture, competencies, structure, metrics and incentives, and human capital. Finally, Chapter 17 considers more deeply how marketing creates value for firm, including the effect of customer relationships and brands on both revenues and shareholder value. The arrow feeding back to the firm (top box) denotes the financial performance effects and improvement of assets and competencies that strengthen the company.

### The Planning Cycle

Too often an annual planning exercise is perceived as strategy development when the output is not strategy but an operating and resource budget that specifies financial targets, hiring plans, and