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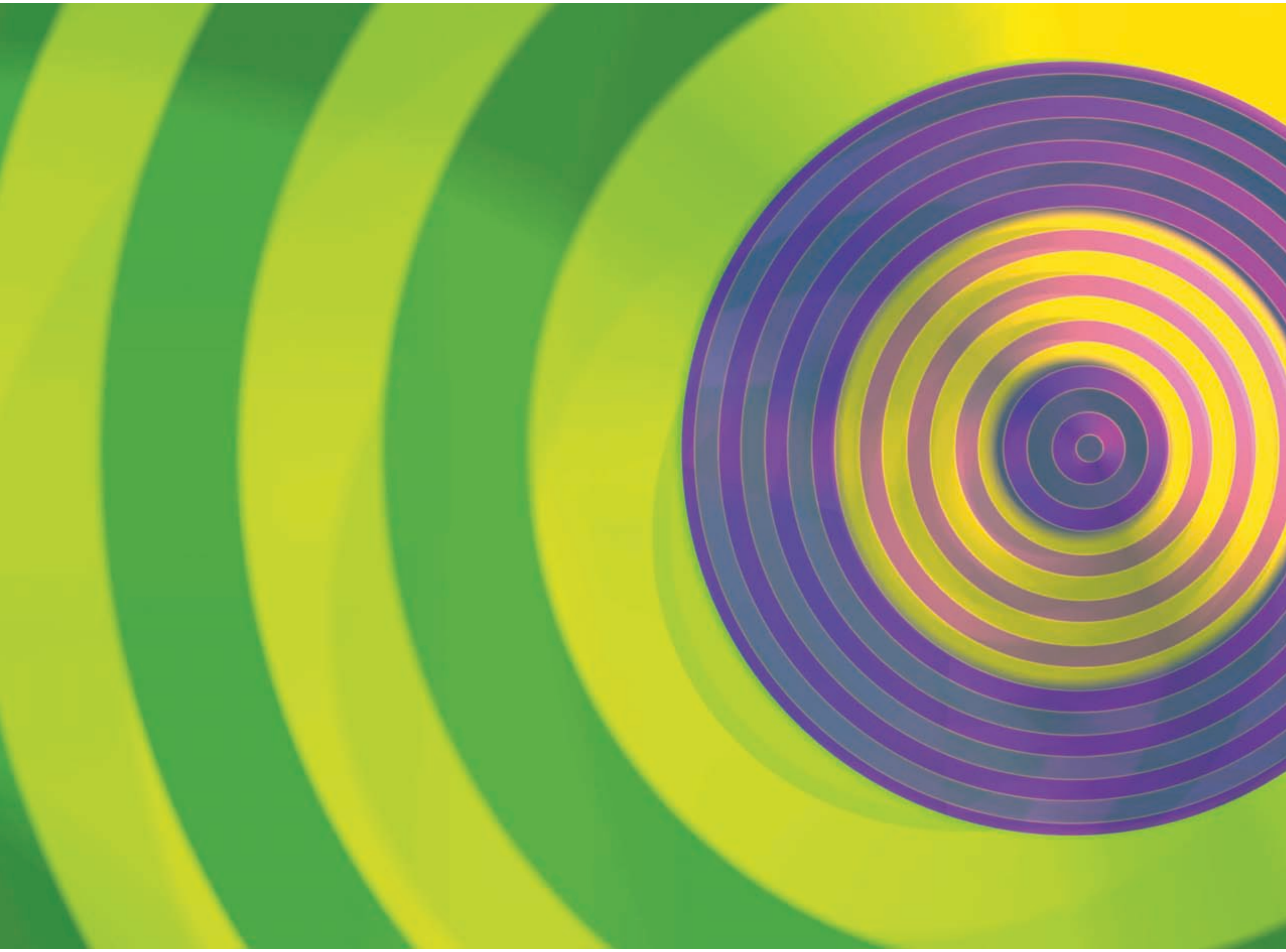

Strategic Marketing

Todd Mooradian Kurt Matzler Larry Ring

First Edition

ALWAYS LEARNING

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APPENDIX

Basic Financial Math for Marketing Strategy

PART ONE: COST-VOLUME-PROFIT LOGIC

There are some fundamental relationships among prices, volume, and costs that define the income statement and drive profitability. These relationships are logical—you can deduce them by thinking about the way a business works and the way its accounts are defined and relate to one another. In fact, understanding their interrelationships can illuminate important aspects of business plans and differentiate alternatives in strategic planning. These terms and their interrelationships are defined below:

- Total revenue (R; the total amount of money taken in) equals average price ($\overline{P}$; the average amount received for each individual unit sold) multiplied by quantity sold (Q; the number of units sold):

  $$R = \overline{P} * Q$$

  "Selling prices" are generally stated for each level of distribution. So there may be a manufacturer's selling price, a distributor's selling price, and a retail selling price. In that respect, the selling prices may be thought to codify "outbound logistics" to channel members and customers. For example, when Perdue Farms was considering whether to enter the chicken hot-dog business, their analysts estimated they could sell 200,000 pounds of this product each week at a manufacturer's selling price of $0.75 per pound. This level of sales would have resulted in total revenues of 200,000*$0.75, or $150,000 per week (which, when multiplied by 52, equates to $7.8 million per year in total revenue). In that same example, the distributor's selling price was expected to be $0.80 per pound and the retail selling price was expected to be $1.23 per pound.
- Total variable costs (TVC; the costs of goods sold) equals variable costs per unit (VC/u; the cost of each unit sold) multiplied by quantity sold (Q):

  $$TVC = VC/u * Q$$

  Variable costs represent the costs of material and labor coming into the firm—its "inbound logistics" in its value chain. Variable costs are cost that vary with volume. To return to the previous example, Perdue Farms' analysts estimated that the variable costs per unit for chicken hot dogs would be $0.582 per pound (including processing and packaging), and $0.582 multiplied by 200,000 pounds per week would yield a total variable cost of $116,400 per week (or $6,052,800 per year).
- Total costs (C; the overall total paid out to operate the business) equal total variable costs (TVC) plus total fixed costs (FC or "overhead"; costs that don't vary with production or change across levels of sales):

  $$C = TVC + FC$$

  Fixed costs do not vary with volume. As more units are manufactured and sold, fixed costs remain the same. Fixed costs represent the value chain "operations" of the firm. In Perdue's case, total fixed costs related to the chicken hot dogs amounted to $1.2 million for marketing, $60,000 in salaried expenses, and $22,500 in depreciation, for a total of $1.285 million in total fixed costs. Therefore, the total costs were equal to $6,052,800 ($TVC$) plus $1,285 million ($FC$), for a total of $7,337,800.
- Total revenues (R; money in) minus total costs (C; money out) equals profit (π; the money the firm can keep):

  $$R - C = \pi$$

  In the Perdue example, the profit is therefore equal to $7.8 million (in total revenue) minus $7,337,800 (in total costs), for a final value of $462,200.

These relationships are fairly straightforward, and they make sense if we think about what goes into each variable or "account" and how revenues and costs are incurred. Despite its apparent simplicity, this cost-volume-profit logic (presented graphically in Figure 1) and its application to marketing strategy can be extremely informative. In fact, cost-volume-profit logic facilitates sensitivity analysis and underlies breakeven analysis—two basic ways of evaluating investments, including capital outlays and marketing expenditures and alternatives.

As Figure 1 illustrates, several of the basic components involved in cost-volume-profit logic (shown as nodes in the graphic) can be broken out even further. For example, as stated earlier, revenue equals average price times quantity sold ($R = \overline{P} * Q$), and quantity sold itself can be broken down to the number of customers (C) multiplied by the average purchase quantity (PQ):

$$Q = C * PQ$$

This greater detail underscores two basic ways to grow sales: Either attract more customers or sell more products per customer (increase use). For instance, in the aforementioned example, Perdue debated whether to market its chicken hot dogs to heavy users (who might consume as much as one pound per week) or to light users (who might only use one pound per month). Clearly, selling to a few "heavy users" is worth as much as or more than selling to many "light users".

It is useful here to think about the revenues per pound and per user as well as the total revenues that might be expected. In other words, there is valuable information in both aggregate and unit-level analyses. Figure 1 shows both. At the aggregate level, unit-level price is multiplied times quantity sold and unit-level variable costs are also multiplied times quantity sold to arrive at sales (total revenue) and total variable costs. This allows for dynamic modeling. For example, if price changes, quantity sold also changes, and, as a result, revenues and costs change in concert. Typically, as price is increased, quantity sold decreases. In Purdue's case, one alternative possibility that was considered was to market to light users at a much higher price, say \$0.90 per pound

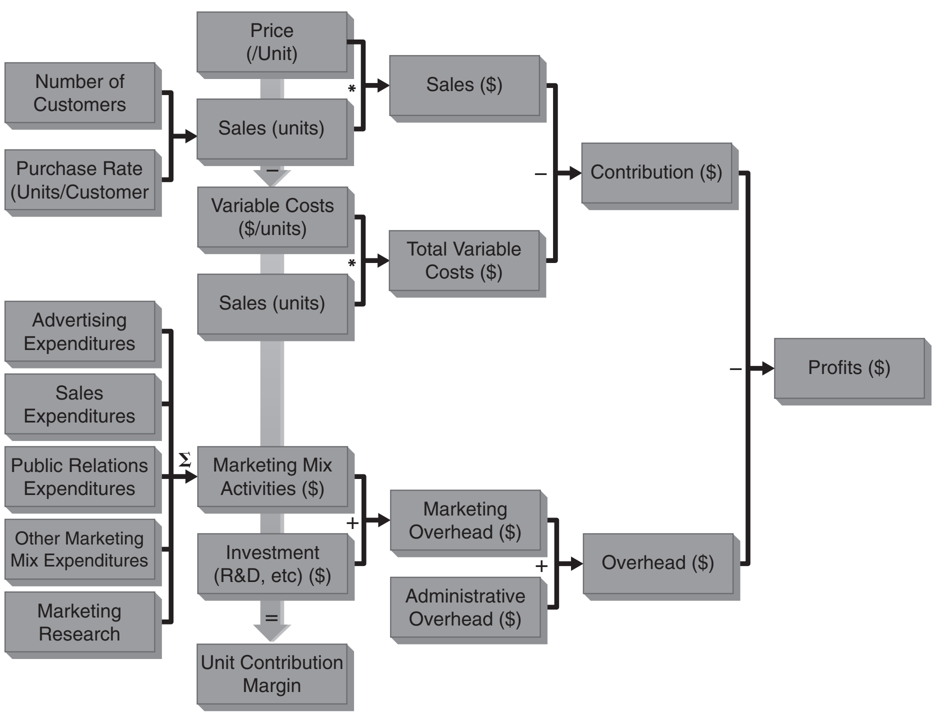

FIGURE 1 Cost-Volume-Profit Relationships

instead of \$0.75. The company expected that at the higher price, demand would be much lower but that the higher price would compensate with increased revenue per pound sold.

It is also helpful to understand that unit-level revenue (price) minus variable costs per unit yields a value known as the "contribution margin"—or the contribution of each unit to covering overhead. Contribution margin per unit is a key measure; it almost always varies across the firm's assortment of products and product bundles, and understanding which products make more money and which make less, and what roles each product plays within the overall assortment and strategy, is invaluable. In the Perdue example, the contribution was equal to the manufacturer's selling price (\$0.75 per pound) minus the variable costs (\$0.582 per pound) for a value of \$0.168 per pound.

Cost Structures

Costs or expenses can be thought of as falling into two categories: variable and fixed. Variable costs are costs directly associated with a unit of product sold. For example, if a store sells a dress, it incurs the cost of that dress. If it doesn't sell the dress, the dress stays in inventory and the costs are not incurred (leaving out the cash-flow implications of buying and storing the dress to have at the ready). However, the store had to have clerks available as well as the store facility itself, whether or not a customer came in to buy the dress, so salaries and rent are fixed costs—in other words, they do *not* change with every unit sold. Figure 2 illustrates these basic relationships.

Of course, some costs are neither perfectly variable nor completely fixed; costs can also be mixed, semi-variable, step-function, and so forth. These variants are not hard to incorporate into cost-volume-profit thinking. For example, if the store can sell 20 dresses per clerk and it must schedule another clerk when sales are expected to exceed 20 (and yet another clerk on very busy days when sales will exceed 40, and so forth), then fixed costs become a step function.

Sensitivity Analyses

The relationships spelled out in the previous sections allow us to create dynamic models—models in which changes in one variable or assumption change the whole system—and also to perform sensitivity analyses. Sensitivity analyses are "what-if" analyses in which changes in specific variables are modeled out to determine their impact on other variables and, ultimately, their effects on profits. In this regard, it is worth noting that quantity sold (Q, or "Sales" in Figure 1) *appears twice in the model*: both revenue ($R = \overline{P} * Q$) and total variable costs ($TVC = VC * Q$) are a function of Q. This makes sense, because both revenues and costs are direct functions of the number of units that are sold. Also, in the real world, the quantity sold is typically related to price; in most cases (but not all), if the price is lowered, then the quantity sold will increase. Similarly, there is a relationship between another variable—one not expressly included in these models—and quantity sold. That variable is quality. In general, the higher the quality of a product (at a given price), the

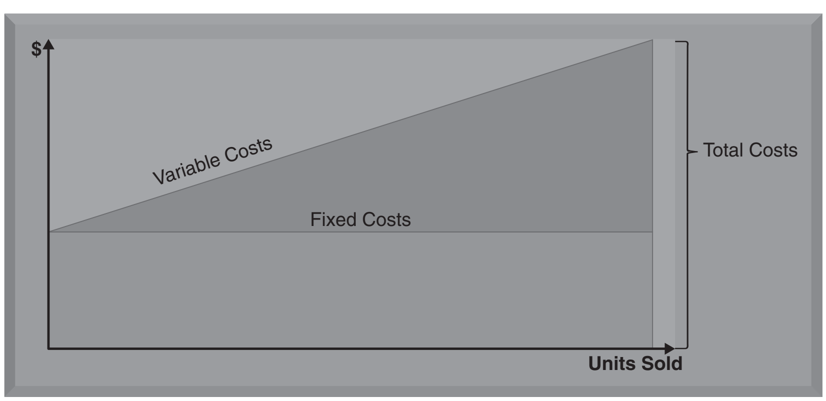

FIGURE 2 Simple Variable-, Fixed- and Total-Cost Structure

higher the quantity sold and, most likely, the higher the variable costs per unit.

Thus, these basic formulas allow us to perform "what-if" analyses. What if we lower the price (and keep quality constant) and assume sales increase by some certain percentage? What if we raise the quality 20 percent (and assume variable costs also go up exactly 20%), raise the price 10 percent, and assume sales increase 8 percent (after all, we're increasing quality by more than we're increasing price)? Of course, we often have good marketing research data regarding how much sales will increase or decrease given specific changes in price, quality, and marketing expenditures—but sometimes, we must live with informed assumptions. If these assumptions are sensible and ranges of possible outcomes are considered (via sensitivity analyses), then the possible outcomes are likely well covered. Still, it is important to understand the interrelationships in cost-volume-profit thinking and to "surface" (i.e., state clearly) and make an effort test all related underlying assumptions.

Elasticity

Elasticity refers to responsiveness of demand. In other words, elasticity is a measure of changes in demand/sales due to changes in any marketer input, including things like advertising, sales effort, and so forth. In economics, the term "price elasticity of demand" relates the demand for a commodity, such as gasoline, to changes in the price of that commodity. Gasoline demand, for example, is not terribly elastic because consumption is partly discretionary, partly a function of long-term decisions (such as the length of one's commute), and partly tied to ongoing commercial activities that are not easily adjusted. In contrast, demand for wine is more elastic, because a large portion of this demand is discretionary and, when the price goes up, consumers can quickly adjust their wine consumption and find substitutes.

A firm often must make assumptions about or perform research to determine the elasticity of demand for its particular products (as compared to broad categories of commodities). There are also other change-effect relationships very similar to price elasticity that the marketing strategist will want to estimate or measure as well. For instance, how much do sales (demand) increase given a change in advertising? How much do sales drop given a cut in personal selling efforts? How much will demand fall if quality or service is pared back? In each of these cases, elasticity is defined by the general formula:

$$E = \frac{\Delta Q}{\Delta P} \quad \text{or} \quad E = \frac{\Delta Q}{\Delta I},$$

where E is elasticity, Δ ("delta") is change, Q is quantity demanded, P is price, and I is the more general variable "input"—in other words, the input that the firm changes, whether it be the price, advertising, sales, quality, or something else. Drawing on basic algebra, this same equation can be reformulated as:

$$\Delta Q = E \times \Delta I$$

by multiplying each side by ΔI. Thus, if a firm has a series of observations about quantities sold at different levels of the input, it can estimate E by running regressions; here, E is simply the beta (β) for I regressed on Q.

Even if the strategic marketer is unfamiliar with the underlying math of regression, the logic of these relationships remains straightforward: *How does Q change when some input I is changed?* For example, in the chicken hot dog example, the question might be "How does the quantity purchased change as the price per pound of chicken hot dogs is either raised or lowered?" Estimating these relationships and understanding the effects of changes in the various components of the cost-volume-profit relationship is fundamental to sensitivity analysis.

Breakeven Analysis

Earlier in this appendix, we recognized a simple cost structure, distinguishing costs as purely variable costs and purely fixed costs. (Again, variable costs change with each unit sold, whereas fixed costs do not change across any level of sales.) Although costs can behave differently than these two simple classifications, use of these two categories allows us to determine the point in sales at which total revenue is equal to total costs (variable costs times quantity sold plus total fixed costs)—that is, the point at which the firm does not make a profit but also does not take a loss. This is also known as the breakeven point, and it can be calculated as follows:

$$R = C\,(\pi = 0)$$

We know that revenue equals average price times quantity sold, that total cost equals total variable costs (*TVC*) plus total fixed costs (*FC*), and that total variable costs equals variable costs per unit times quantity sold:

$$R = \overline{P} * Q$$
$$C = TVC + FC$$
$$TVC = VC/u * Q$$

Using basic algebraic principles, we can combine these equations as follows:

$$C = VC/u * Q + FC$$

Therefore, at breakeven, revenue is equal to total variable costs (*TVC*) plus total fixed costs (*FC*):

$$(\overline{P} * Q) = (VC/u * Q) + FC$$

and profit (π) is zero. We can solve this equation for Q (the breakeven quantity in units) by subtracting ($VC/u * Q$) from both sides and then dividing by ($P - VC/u$):

$$Q_{be} = \frac{FC}{\left(\overline{P} - \dfrac{VC}{u}\right)}$$

Figure 3 shows breakeven graphically. Breakeven (in units) is an important sales level to determine. Strategic marketers want to understand breakeven because it represents the point at which capital investments (such as new plants or equipment) and program investments (such as advertising or research and development) are paid back without a profit, but without a loss either. Marketers will also want to know how changes in price affect payback. An increase in price will steepen the total revenue line because each incremental unit of sales brings in more. However, the price increase may also reduce the likelihood of achieving a given level of sales in units.

To return to the Perdue Farms example, our breakeven quantity, Q_{be}, will be equal to our FC ($1.285 million) divided by the value we get when we subtract our VC ($0.582 per pound) from the manufacturer's selling price ($0.75 per pound). To simplify, this quantity is equal to $1.285 million divided by $0.168, which gives us a value of £7.686 million per year (or £147,000 per week).

Margins and Mark-ups

Above we defined a margin—in particular, the "contribution margin"—as the difference between the price per unit and the total variable costs per unit ($CM = P - VC/u$; see Figure 1). In certain cases, the contribution margin is the difference between what a reseller, such as a retailer, pays for a product and the sales price (e.g., if a store sells a dress for $100 and its

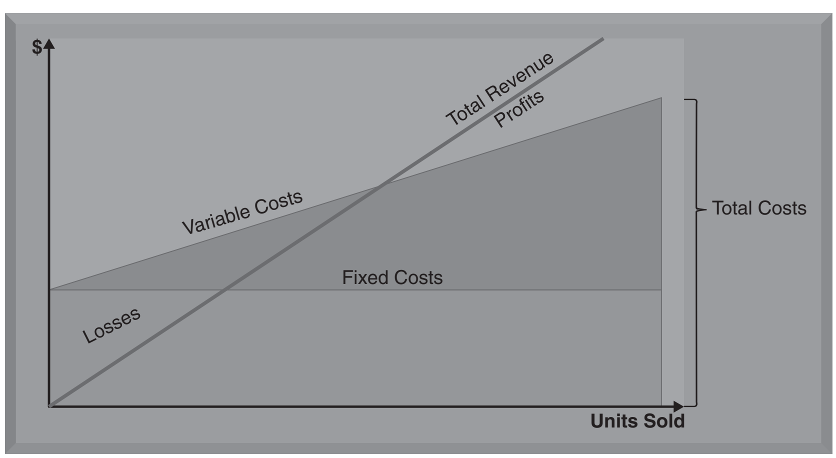

FIGURE 3 Breakeven Analysis

cost for the dress was \$50, its contribution margin is \$50). Still, it is worthwhile to clarify some particular uses of the term "margin" and to distinguish it from the term "mark-up," if only because these terms are often confused and do have specific and different meanings.

A margin, as stated, is the difference between sales price and total variable costs. If margin is expressed as a percentage, it is always the difference divided by the total selling price. Remember, margin is **not** the difference divided by the costs. That is, in Figure 4, margin is equal to B divided by A (i.e., $\frac{B}{A}$), *not B divided by C* ($\frac{B}{C}$). In comparison, mark-up is the amount over costs that a firm, usually an entity in the channel of distribution (such as a retailer), adds onto what they paid for a product to arrive at the selling price. Markup can be attributed to the value created by particular operations. Thus, the retailer's margin and its markup are the same amount of money in dollars *and* in percentage terms. Usually, markup is expressed as a percentage; it is the amount of profit divided by the selling price of the unit sold. This is often confusing, because it seems logical that markup would be on the cost as in the cost plus the markup. *It is not.* In retailing in particular, markup is always expressed as a percent of selling price—and thereby related as a percent of selling price. Because both markup on selling price and markup on cost are conventionally expressed as percentages, the result of using the wrong reference point (denominator) would be dramatic and would cause confusion.

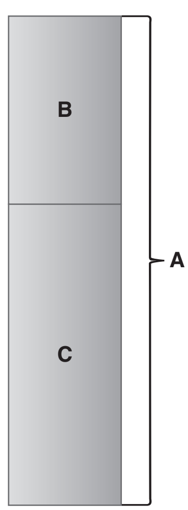

FIGURE 4 Margin and Markup

Because gross margin (the total contribution of sales toward fixed costs) is equal to average price ($\bar{P}$) multiplied by quantity sold (Q), gross margins and changes in gross margin can be readily graphed in a two-dimensional space defined by average price and quantity sold. Figure 5 shows such a graph comparing gross margins for sales of a product with costs of \$100, comparing sales at a price of \$200 (where quantity sold is estimated to be 1,000) with sales at a price of \$150 (in which case the contribution margin has been cut from \$100 to \$50 and quantity sold is estimated to be 1,500). The graph highlights the reality that, at the reduced price (and reduced contribution margin), the firm realizes increased sales in units (from 1,000 to 1,500) and increased sales in dollars (from \$200,000 to \$225,000), but the gross contribution margin drops from \$100,000 to \$75,000.

Part One Summary

As illustrated in the preceding sections, cost-volume-profit logic—the relationships among revenues, costs, volume (sales), and profits—is fundamental to analyzing marketing programs, comparing alternatives, and formulating marketing strategies. This logic does not involve complicated math, but it usually involves making some well-founded assumptions, surfacing those assumptions (i.e., articulating the assumptions and testing them against reality as far as possible), and relating known parameters, links, and plans to these fundamental business relationships. This process allows marketers to consider a wide variety of scenarios such as how a drop or raise in price would affect sales. Or, another scenario might explore the relationship between spending a particular amount on a marketing communications program (marketing overhead), and sales level at a particular price to 'breakeven' on the investment and thereby to begin adding to profits?" "If we add a product with a different price and contribution margin and it cannibalizes a certain assumed percentage of existing sales but adds the remainder as incremental sales, is the firm better off launching the line extension or not?" Having a solid, even intuitive understanding of the

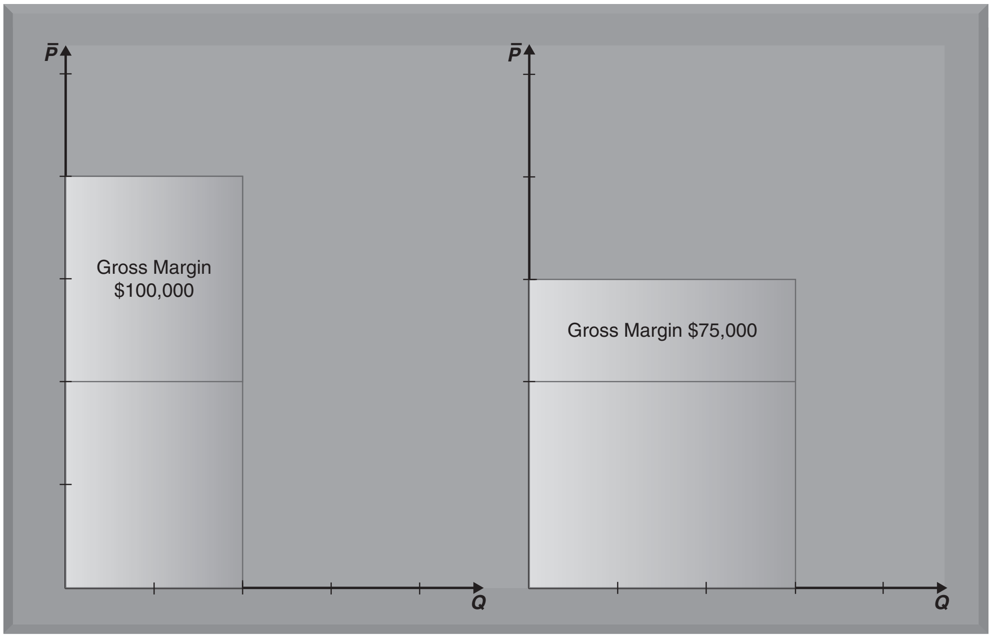

FIGURE 5 Graphic Representations of Gross Margins

logical relationships integrated in "cost-volume-profit" framework is therefore an invaluable tool to analyzing alternatives and thinking strategically.

PART TWO: THE TIME VALUE OF MONEY

Money changes value across time—in fact, it is almost always true that any amount today will be worth more in the future. For example, if a business takes out a loan today for some amount of money, say $100,000, it must repay *more than $100,000* in the future. If the company were only going to pay back an identical amount ($100,000), there would be no incentive for the lender to make the loan. In fact, given the reality of inflation—the fact that things generally become more expensive across time—the lender would actually lose money if it gave the borrower money today and only got that same amount back later. Because of these concerns, lenders must charge some additional interest rate (on top of inflation) that represents the *profit* on a loan. (After all, if a lender only charges the rate of inflation, it will still have no incentive to commit its money and take on the risks of the loan to get back essentially exactly what it lent). Thus, a loan's interest rate over-and-above inflation can be thought of as the "price" the lender charges for the loan.

As previously mentioned, money changes value across time, and, as a rule, it takes more money in the future ("future value") to equal a given amount of money today ("present value"). It is not difficult to understand the basic logic of this "time value of money" and to translate these ideas into simple formulas. In fact, these formulas are programmed into most spreadsheet applications and are easy to apply. The following sections explain the logic of the underlying algorithms, because it is useful to understand this logic before applying the spreadsheet tools.

The Basic Logic and Formula

If a bank loans a company $100 today and the simple interest rate is 10 percent, then in one year, the repayment amount will be $110—that is, $100 today equals $110 in one year at 10 percent interest. In this situation, the present value (PV) is $100; the interest rate ($i$) is 10 percent; and the future value (C) is $110.

If we express this as an equation, the future value equals the present value itself plus interest (i.e., the present value multiplied times the interest rate):

$$C_1 = [(PV]_0 * 1) + [(PV]_0 * i)$$

Basic algebra (specifically the distributive property) allows us to reformulate this equation as follows:

$$C_1 = PV_0 * (1 + i)$$

It is similarly uncomplicated to work out a formula for present value—or the amount some future payment is worth today—by dividing each side of the future value equation by (1 + *i*) (i.e., multiplying both sides by $\frac{1}{(1 + i)}$ to arrive at the following:

$$PV_0 = \frac{C_1}{(1 + i)}$$

These straightforward formulas are for future value *after just one year* and for present value of an amount that will occur in *one year*. The subscript indicates the point in time or "period." Here, zero (0) is the present (zero periods have passed so far), so PV_0 is actually redundant, and C_1 indicates future value after one period; in this example a period is equal to one year—but the formula and logic can be applied to analyses in which the unit of time (i.e., "period") is something other than a year, such as a month or a day.

Multiple Years

Of course, people are frequently interested in thinking about the value of money received in *more than one year*. What if we wanted to calculate the present value of money received in two years, for example? In this situation, we can use C_2 to denote the future value after two periods—here, two years because we're defining each period as equal to one year in our analysis. (Note that such analyses can also be done with months as the unit of time.) Similarly, C_3 would denote a lapse of three periods; and so on.

We can figure out how much some amount today would be worth in *two* periods by remembering that, if we invested an amount today in, say, a bank, we'd want to have the bank add the interest after one period—or "compound" our investment—and then compute the second-period interest using our original investment amount *plus* the amount we earned in period one. So, if we invest $100 and the interest rate is 10 percent, after one year we have $110. Then, after the second year, we earn ten percent on the entire $110 (and not on the just original $100). Our total amount after both years can therefore be calculated using the following formula:

$$C_2 = [[PV]_0 \times (1 + i) \times 1] + [[PV]_0 \times (1 + i) \times i]$$

Here, we're computing the end-of-the-*first*-year balance ($PV_0(1 + i)$) times one (which gives us the original amount back) and also multiplying the end-of-the-*first*-year balance times the interest rate (*i*) to get the increase in value. Again, we can use basic algebra to pull out the common term $PV_0 * (1 + i)$, which leaves (1 + *i*) and we'd get $[[PV]_0 * (1 + i)] \times (1 + i)$ which equals $[[PV]_1 0 * (1 + i)]^{*2}]$. So:

$$C_2 = PV_0 * (1 + i)^2$$

and therefore:

$$PV_0 = \frac{C_2}{(1 + i)^2}$$

We can now create a general formula by recognizing that the key to compounding interest is simply multiplying by (1 + *i*). Compounding across two periods was achieved by multiplying times $(1 + i)^2$; thus, compounding across three periods would be achieved by multiplying $(1 + i) \times (1 + i) \times (1 + i)$ or $(1 + i)^2$, and compounding across *n* periods would be achieved by multiplying times $(1 + i)^n$. So, the general forms of the relationship between present value and future value are:

$$C_n = PV_0 * (1 + i)^n$$

and:

$$PV_0 = \frac{C_n}{(1 + i)^n}$$

These equations use the subscript *n* to indicate some indeterminate number of periods, *n,* so C_n is the generic "future value after some number of periods *n*."

Annuities

Often in business and certainly in marketing, the manager is not just analyzing the present value of a single future amount received (or paid) in time period n. Instead, the issue is valuing some stream of revenues that recur across n periods of time—that is, the concern is for valuing a series of payments or profitable sales on a recurring basis. For example, banks make loans and expect to be paid back with a series of regularly recurring loan payments. Similarly, a marketer who wins a customer's loyalty—his or her repeated patronage across time—has a recurring stream of margins that have some specific present value. These recurring streams of revenue are called annuities, and the present value of an annuity is referred to as the "net present value" (*NPV*), which is simply *the sum of the present values of each payment.* Thus, if a marketer knows that a customer will buy one unit every year for three years and the margin or profit on each sale is $10 at a 5 percent interest rate, the net present value of that three-year annuity could be computed using the formulas above. In fact, the NPV is simply the sum of three present value computations:

$$NPV_0 = \frac{C_1}{(1 + i)^1} + \frac{C_2}{(1 + i)^2} + \frac{C_3}{(1 + i)^3}$$

which, in our example, yields the following:

$$NPV_0 = \frac{10}{(1 + .05)} + \frac{10}{(1 + .05)^2} + \frac{10}{(1 + .05)^2}$$
$$= \$27.23 \ (\textit{not 30}!).$$

Thus, the general formula for net present value is simply:

$$NPV_0 = \sum_{1}^{T} \frac{C_n}{(1 + i)^n}$$

where sigma ($\sum$) denotes *sum* (add these terms all together) and the whole formula denotes "the sum of the values of this formula from $n = 1$ to $n = T$," with T representing the number of periods. That is why we use C for what's been labeled "future value"—C denotes a future "cash flow." It is important to remember that, if the period for analysis is *months* instead of years, then the interest rate (i) should be the annual interest rate divided by 12. Similarly, if you're using quarters, the interest rate is the annual interest rate divided by 4, and so on.

If an annuity is going to involve some initial investment—as annuities usually do—than an extension of this logic and formula is to include the initial investment as C_0 (value today), which is usually negative (i.e., it is a cost, not a revenue):

$$NPV_0 = -C_0 + \sum_{1}^{T} \frac{C_n}{(1 + i)^n}$$

or

$$NPV_0 = \sum_{1}^{T} \frac{C_n}{(1 + i)^n} - C_0$$

because C_0 would normally be negative (i.e., an investment or cost, not an inflow of cash). For example, if the initial investment to achieve a three-period annuity of $10 per period at 5 percent interest is $15, the formula would be:

$$NPV_0 = C_0 + \frac{C_1}{(1 + i)^1} + \frac{C_2}{(1 + i)^2} + \frac{C_3}{(1 + i)^3}$$

and the calculation would be:

$$NPV_0 = \frac{10}{(1 + .05)} + \frac{10}{(1 + .05)^2} + \frac{10}{(1 + .05)^3} - \$15$$

which equals $12.23.

Part Two Summary

The relationships above and the corresponding formulas are really all it takes to understand the logic and the underlying the concepts of future value, present value, and net present value (the present value of an annuity). This logic and these formulas are the very basis for thinking about "the time value of money." As stated previously, money changes value across time, and the time value of money is an essential concept in business—especially for marketers, who must think strategically about pricing, future prices and future costs, delayed payments (financing), and recurring streams of revenues, such as rents and customer lifetime value (*CLV*). Of course, the time value of money is also important when thinking about borrowing for cash flow and for capital budgeting tasks. This value is easily computed in any spreadsheet application, but it is still useful to understand the time value of money conceptually before running those computations.

APPENDIX

Strategic Marketing Plan Exercise

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Strategic Marketing Plan Exercise

A major objective of this text is to provide you with the process, concepts, and tools needed to develop a strategic marketing plan. What follows in this note is a "paint-by-number" set of worksheets that will assist you in developing, as an exercise, a strategic marketing plan for a specific product or market.

All strategic marketing plans are fundamentally similar, varying in the degree of specificity required as a function of the planner's predilections and corporate policy. The following worksheets provide an overview of planning considerations and tentative decisions for a particular line of business.

There is no expectation that you will have all of the specific data and information necessary to make your planning precise. You may have to make estimates and judgments. However, this exercise will reveal the areas in which you need particular kinds of data or information. For example, you may be able to give only nominal estimates of your competitive advantages here (using a plus or minus to indicate whether you are in a better or worse position than specific competitors), but you could gather more precise ordinal data via marketing research in your actual planning process.

THE STRATEGIC MARKETING PLAN ASSESSMENT

All strategic marketing plans pose and answer three fundamental questions:

- Where are we now?
- Where do we want to go?
- How do we get there?

In fact, these three questions form the basic structure of this exercise. You could use the worksheets to help prepare a strategic marketing plan for any business unit, line of business, product, or market.

A. Situation Assessment: Where Are We Now?

The exercise begins by asking you to consider the question "Where are we now?" This exercise is called the "Situation Assessment." **Worksheet A-1** asks you to provide a business definition describing the business in which your company wants to be involved. You should refer to the particular line of business here, not the company as a total organization. Your business definition should be specific; it is not enough to simply say the company will "provide solutions." You must specify the kinds of solutions it will provide to different types of people or organizations and the ways in which these will differ from the competition.

Next, you will provide a market profile with **Worksheet A-2**. This profile must assess the overall market and define it in terms of the relevant or "served" market. For example, at the broadest level, Federal Express serves the "rush" market with its overnight delivery services. However, the relevant market that Federal Express wishes to serve is the time- and reliability-sensitive market for small packages (under seventy pounds) and documents. This more precise market definition defines the relevant market that Federal Express wishes to serve.

In the market profile, you must *estimate* market size, share, and growth, and give an indication of the life cycle stage for the product market. You should also designate your company's largest competitor and its share relative to that competitor.

Worksheet A-3 requires you to segment the overall market that you have identified. This is often the most time-consuming task in the exercise, but it is a critical one. The worksheet includes some basic instructions to refresh your memory about approaches to market segmentation, and gets you started by asking you to list some differences across the total market.

You will then assess differences in the benefits sought by each market segment with **Worksheet A-4**. If there are no differences, then your segmentation approach is flawed. On the other hand, all segments may benefit the most from a single attribute but vary in terms of the other attributes. The cell entries on the worksheet are rank orders of the benefits for each segment.

Worksheet A-5 continues the "Where are we now?" exercise by asking you to describe buyer behavior and determine what the decision-making process is in each segment. It may be similar across segments, but you should still examine the decision-making unit (DMU) and the decision-making process (DMP). In many products or markets, the Chooser (i.e., the person or persons responsible for the decision to buy from you versus another vendor) may be different from the users (i.e., the individuals who will actually use or consume your services). It is sufficient to indicate job titles to characterize the DMUs. You may wish to characterize the DMP in terms of time (long or short term), complexity, or qualitative factors (routine or modified rebuy, new task, political, performance, etc.)

Worksheet A-6 asks you to assess the individual market segments that you have identified and define them in terms of the relevant market. This is similar to the work you did in **Worksheet A-2**, and it may be helpful for you to refer to the information about the total served market in that worksheet and break it down by market segment.

Next, you will develop an overview of the environment in **Worksheet A-7** based on three analyses:

- Market trends (What are the crucial current and potential trends in the overall market?)
- Competitive trends (What are the crucial elements of competitors' strategies and where are they heading?)
- Segment/customer trends (What are the crucial trends that best describe segment and customer trends that affect your marketing planning in the product or market?)

Worksheet A-8 asks you to provide a relative assessment of how your company stacks up against its major competitors. First, you will list the competitors in the product or market. Then, for each competitor, you will indicate with pluses and minuses whether your company is better (+) or worse (−) on each benefit (from **Worksheet A-4**) and give brief examples where you can. Note that specific, ordinal data could be gathered to provide a more precise determination of your relative ranking on each benefit.

Worksheet A-9 continues the assessment of your company versus its competitors by asking for your overall judgment about the company's relative strength against each competitor in the market segments in which you compete. You will use pluses and minuses in your assessment again, and your judgments may heavily reflect those you made in **Worksheet A-8**. Once again, give brief examples to illustrate your points where you can. Note that market research could be used to more precisely describe the nature and extent of your relative position in this grid.

Worksheet A-10 continues the situation assessment by asking you to construct one or more perceptual maps and indicate your company's relative position on each map versus its competitors. Each map is, in effect, a cross-section of a customer's brain and should reflect how customers perceive the company relative to the competition. This will require you to choose dimensions; for example, individual customers may perceive various competitive options in terms of size (so the dimension might be "large to small") and in terms of focus (so the other dimension might be "general purpose to specialized purpose"). You may have multiple perceptual maps for each segment if you have many significant *dimensions* or characteristics.

Worksheet A-11 completes the Situation Assessment with a "SWOT" analysis (Strengths, Weaknesses, Opportunities, and Threats) by segment and for the overall market. To a large extent, this exercise will provide a quick summary of the analyses you have completed to this point.

Worksheet A-12 extends the situation assessment to portfolio analysis and establishes a transition from "Where are we now?" to "Where do we want to go?" This worksheet consists of five pages:

1. Market Attractiveness/Competitive Position Portfolio Model Development Process (This page lists the steps involved in the process.)
2. Market Attractiveness/Competitive Position Criteria Examples (This page lists ideas for increasing the attractiveness and strength of your company.)

3. Market Attractiveness/Competitive Position Model Input Criteria Evaluation Development (This page asks you to establish which of the criteria from page two you will use to improve the market attractiveness and competitive position of your company and to complete steps two and three from page one.)
4. Market Attractiveness/Competitive Position Graph (This page asks you to determine the relative position of strategies for improving market attractiveness and competitive position and to complete steps four and five from page one.)
5. Market Attractiveness/Competitive Position Graph Prescriptions (This page provides an example of strategies and their likely positions in each of the nine portfolio matrix boxes.)

Worksheet A-1

A. Situation Assessment: Where Are We Now?

1. Business Definition (Product, Line of Business, Industry Segment)

Worksheet A-2

A. Situation Assessment: Where Are We Now?

2. Total Market Profile

a. Size (Units and/or $)
b. Share: i. Now: ii. Sought in Three Years:
c. Growth Trend APGR, 3 years
d. Life Cycle Stage
e. Largest Competitor Your Company's Relative Share

Worksheet A-3

A. Situation Assessment: Where Are We Now?

Segmenting the Market

Now that you have described the TOTAL relevant or "served" market, your task is to subdivide the market into the most appropriate and useful segments. This is a difficult task and demands careful analysis from all team members. You should start by listing the areas of differences across the total market. For example, the market may vary by size of firms, nature of business, decision-making units, decision criteria, and so on. Next, you should evaluate these market differences by the criteria for segmentation, including:

- Are the segments reachable, differentially responsive to some elements(s) of the marketing mix, and likely to be profitable given different costs that may be associated with starting each of them with different mixes?
- Are the segments reasonably exclusive, yet mutually exhaustive? Are excluded segments ones that your company is just as happy to walk away from?
- Which segmentation approach presents the greatest "product-company-market fit?" In other words, which approach makes the most sense in terms of how your company is set up now, how well established it is (compared to its competitors) in each segment, and what barriers to competitive entry are in each segmentation approach?
- Which segmentation approach fits with your company's LOB mission, goals, and resources? For example, you might define segments that your company has not traditionally served but may choose to serve given their growth potential, possibilities for add-on business later, fit with other corporate business, etc.

Try sequential segmentation: start with broad industry descriptors, proceed through company characteristics, and try uncovering some differences due to desired benefits of needs. The result may well be a multidimensional segmentation. Note that you will complete **Worksheets A-4** through **A-6** using your segmentation approach. You might look at these forms now to help you get started.

Segmenting the Market

3. List Some Differences Across the Total Market:

Worksheet A-4

A. Situation Assessment: Where Are We Now?

4. Customer Analysis: Benefits Sought

Customer Benefits Sought	Segment A	Segment B	Segment C	Segment D	Segment E

NOTE: Rank the order of benefits *for each segment*.

Worksheet A-5

A. Situation Assessment: Where Are We Now?

5. Analysis of Decision Makers in Each Segment

	Segment A	Segment B	Segment C	Segment D	Segment E
Decision Making Unit (DMU) (Buyers, Influencers)					
Decision Making Process (DMP)					

Worksheet A-6

A. Situation Assessment: Where Are We Now?

6. Segment Profiles

	Total	Segment A	Segment B	Segment C	Segment D	Segment E
Size (Units and/or $)						
Share Now Sought in Three Years						
Growth Trend APGR, 3 years						
Life Cycle Stage						
Largest Competitor Today/Future Your Relative Share						

Worksheet A-7

A. Situation Assessment: Where Are We Now?

7. Environment: Our Relative Position Vis-À-Vis Markets, Competitors, Segments, and Customers
   - Market Trends
   - Competitive Trends
   - Segment/Customer Trends

Worksheet A-8

A. Situation Assessment: Where Are We Now?

8. Competitive Analysis

Major Competitors	**Major Benefits**				
	Benefit 1	**Benefit 2**	**Benefit 3**	**Benefit 4**	**Benefit 5**

Worksheet A-9

A. Situation Assessment: Where Are We Now?

9. Strength of Competitors by Segment

Major Competitor	**Segment A**	**Segment B**	**Segment C**	**Segment D**	**Segment E**

+ We are BETTER − We are WORSE

Worksheet A-10

A. Situation Assessment: Where Are We Now?

10. Competitive Positioning (Axis relates to benefits by segment)

Map #1 Map #2 Map #3 Map #4 Map #5

Worksheet A-11

A. Situation Assessment: Where Are We Now?

11. SWOT Analysis: Strengths, Weaknesses, Opportunities, Threats

	Strengths	**Weaknesses**	**Opportunities**	**Threats**
Overall Market				
Segment A				
Segment B				
Segment C				
Segment D				
Segment E				

Worksheet A-12

A. Situation Assessment: Where Are We Now?

MARKET ATTRACTIVENESS/COMPETITIVE POSITION PORTFOLIO MODEL DEVELOPMENT PROCESS

Situation Assessment

- **STEP 1:** Establish the level and units of analysis (business units, segments, or product-markets).
- **STEP 2:** Identify the factors underlying the market attractiveness and competitive position dimensions.
- **STEP 3:** Assign weights to factors to reflect their relative importance.
- **STEP 4:** Assess the *current* position of each business or product on each factor, and aggregate the factor judgments into an overall score reflecting the position on the two classification dimensions.

Strategy Development

- **STEP 5:** Project the future position of each unit, based on forecasts of environmental trends and a continuation of the present strategy.
- **STEP 6:** Explore possible changes in the position of each of the units, and the implications of these changes for strategies and resource requirements.

MARKET ATTRACTIVENESS/COMPETITIVE POSITION CRITERIA EXAMPLES

ATTRACTIVENESS OF YOUR BUSINESS	**STRENGTH OF YOUR COMPETITIVE POSITION**
A. Market Factors • Size (Dollars, Units) • Size of Product Market • Market Growth Rate • Stage in Life Cycle • Diversity of Market (Potential for Differentiation) • Price Elasticity • Bargaining Power of Customers • Cyclicality/Seasonality of Demand	**A. Market Position** • Relative Share of Market • Rate of Change of Share • Variability of Share Across Segments • Perceived Differentiation of Quality, Price and Service • Breadth of Product • Company Image

MARKET ATTRACTIVENESS/COMPETITIVE POSITION CRITERIA EXAMPLES

ATTRACTIVENESS OF YOUR BUSINESS	STRENGTH OF YOUR COMPETITIVE POSITION
B. Economic and Technological Factors • Investment Intensity • Nature of Investment (Facilities, Working Capital, Leases) • Ability to Pass Through Effects of Inflation • Industry Capacity • Level and Maturity of Technology Utilization • Barriers to Entry/Exit • Access to Raw Materials	**B. Economic and Technological Position** • Relative Cost Position • Capacity Utilization • Technological Position • Patented Technology, Product or Process
C. Competitive Factors • Types of Competitors • Structure of Competition • Substitution Threats • Perceived Differentiation Among Competitors	**C. Capabilities** • Management Strength and Depth • Marketing Strength • Distribution System • Labor Relations • Relationships with Regulators
D. Environmental Factors • Regulatory Climate • Degree of Social Acceptance • Human Factors Such as Unionization	

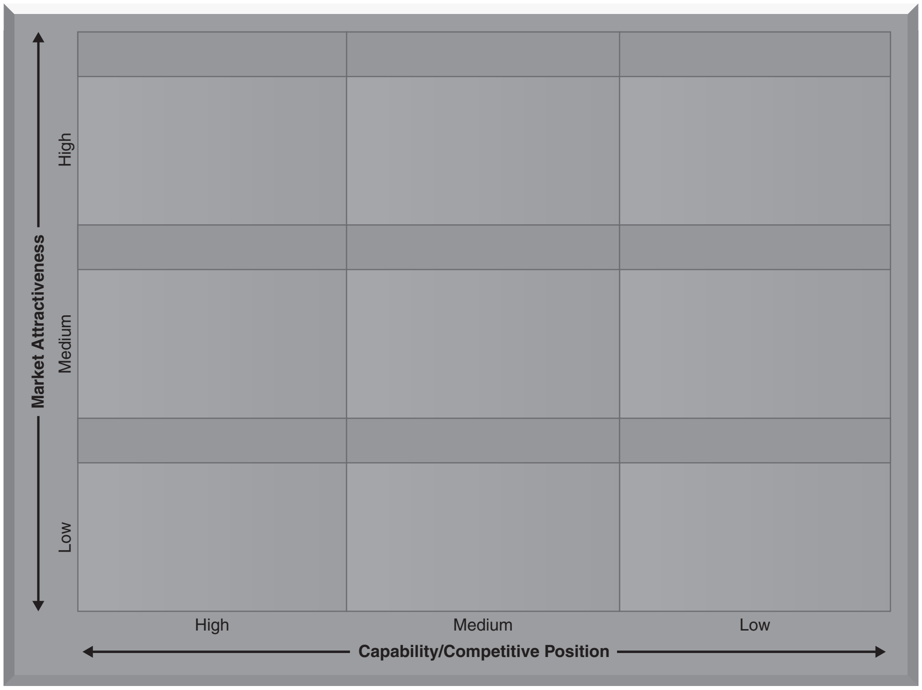
MARKET ATTRACTIVENESS/COMPETITIVE POSITION MODEL INPUT CRITERIA EVALUATION DEVELOPMENT

MARKET ATTRACTIVENESS	X AXIS	CRITERIA	HIGH	MEDIUM	LOW
		Opportunity Size			
		Opportunity Growth			

POSITIONS CAPABILITIES	Y AXIS	CRITERIA	HIGH	MEDIUM	LOW
		Skills to Support Segment			

(*continued*)

MARKET ATTRACTIVENESS/COMPETITIVE POSITION GRAPH



PRESCRIPTIONS

Market Attractiveness	High (Capability/Competitive Position)	Medium	Low
High	**Reinforce** • Invest to Grow at Maximum Digestible Rate • Concentrate Effort on Maintaining strength	**Invest to Build** • Challenge for Leadership • Build Selectively on Strengths • Reinforce Vulnerable Areas	**Exploit Industry Attractiveness** • Specialize Around Limited Strengths • Seek Ways to Overcome Weaknesses • Withdraw if Indication of Sustainable Growth are Lacking
Medium	**Build Selectively** • Invest Heavily in Most Attractive Segments • Build up Ability to Counter Competition • Emphasize Profitability by Raising Productivity	**Manage Earnings** • Protect Existing Program • Concentrate Investments in Segments Where Profitability is Good and Risk is Relatively Low	**Limit Expansion or Harvest** • Look for Ways to Expand Without High Risk; Otherwise Minimize Investment and Rationalize Operations
Low	**Protect & Refocus** • Manage for Current Earnings • Concentrate on Attractive Segments • Defend Strengths	**Preserve Cash Flow** • Protect Position in Most Profitable Segment • Upgrade Product Line • Minimize Investment	**Divest** • Sell at time That will Maximize Cash Value • Cut Fixed Costs and Avoid Investment

B. Proposed Strategy: Where Do We Want to Go?

Once you have fully assessed your company's market and position in the market, you are ready to propose a strategy (**Worksheet B-1**). The term "strategy" refers to your company's *overall plan of action*. It should be distinguished from "tactics," which are expedients for carrying out strategies, and "objectives," which are near-term, measurable, desired end-results. Objectives may be qualitative (e.g., increases in customer satisfaction), but they should always be measurable (e.g., a 20 % increase in satisfaction measures).

Typically, marketing strategies involve some plans regarding products and services and/or markets. Strategies designed to exploit current markets with current products or services are "market penetration" strategies; plans to develop new markets or focus on particular markets are "market development" or "market segmentation" strategies. Some other examples of strategies include "new product" or "product development" strategies, and "diversification" strategies, which involve simultaneous moves into new markets with new products or services.

Still other marketing strategies include "market dominance," "low cost/lost price," "product differentiation," and "control of supply or distribution." There are many other strategies, too, and it is up to you to rationalize the strategy you choose based on the Situation Assessment to this point. The fourth and fifth pages of **Worksheet A-12** should be very helpful in determining your company's strategy.

Once you have clearly stated your company's strategy, the next step is to make it more explicit by specifying objectives (also on **Worksheet B-1**). As discussed earlier, these are near-term (usually one year), measurable, desired end-results, usually expressed in terms of market share, some financial measure, and/or additional, qualitative measures

Note that strategies precede objectives here. Some individuals might believe that objectives should be set first and strategies then specified to achieve those objectives. This approach is perfectly acceptable—strategies and objectives are derived hand in hand, in strategic market planning.

Finally, you will assess risks on **Worksheet B-2**. To do this, you must ask yourself what types of things might happen that would jeopardize the strategy and threaten your company's ability to achieve its objectives.

Worksheet B-1

B. Proposed Strategy and Objectives: Where Do We Want to Go?

1. **Strategic Statement (Overall and/or by Segment):** Remember, "Strategy" refers to the overall plan of action, e.g., penetration, segmentation, new products, diversification defense, flanker, etc. "Tactics," to be specified later, refers to near-term specific actions or maneuvers that you will employ to carry out your strategy.

2. **Objectives (Overall and/or by Segment):** Remember, "objectives" are near-term, measurable, desired end-results. They may be qualitative, but some objectives must be quantitative.

Worksheet B-2

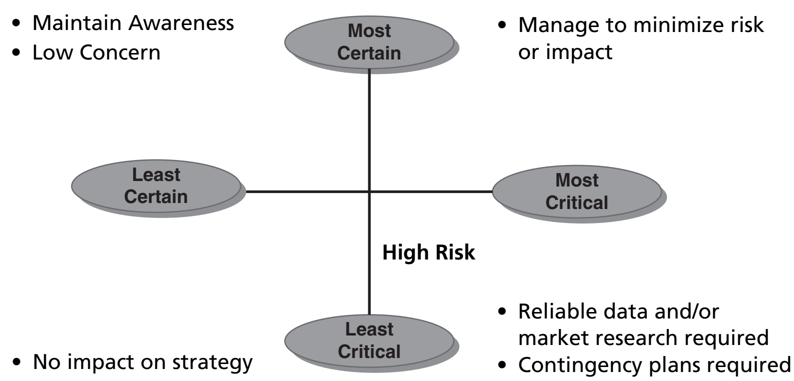
B. Proposed Strategy and Objectives: Where Do We Want to Go?

3. Risk Analysis

Event or Assumption	Likelihood of Occurrence	Possible Impact	Contingency Plan

(*continued*)

RISK ASSESSMENT



C. Marketing Tactics: How Do We Get There?

After your company's strategy is set, you must turn your attention to specifying the market program your company will use to carry out its strategy and achieve its objectives in the context of the situation you have described and assessed. **Worksheet C-1** asks you to consider and describe what will be required in terms of the "marketing mix" and internal operations support.

Note that "internal operations support" refers to "What will be done when and by whom," and the other elements parallel what we have described as the marketing mix.

The financial consequences described in **Worksheet C-2** require you to give some preliminary thought to the costs of your company's marketing programs by segment. Again, precision is not expected here, but you should have some idea of costs, margins, and expenses that will enable you to give reasonable estimates that describe your expectations.

Worksheet C-1

C. Marketing Tactics: How Do We Get There?

1. Marketing Mix

	Segment A		Segment B		Segment C		Segment D		Segment E	
	Current Position	Plan	Current Position	Plan	Current Position	Plan	Current Position	Plan	Current Position	Plan
Product: What Is Your Company Selling?										
Service Maintenance/ Customer Support										
Distribution										
Communications										

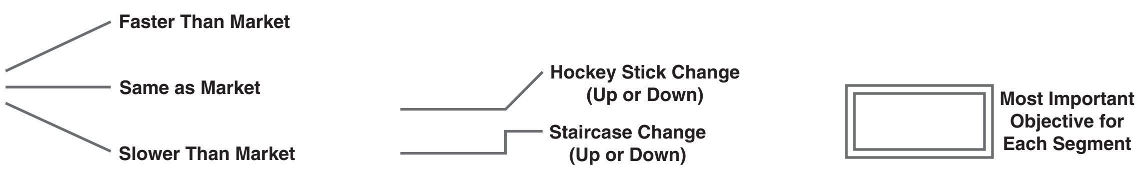
	Segment A		Segment B		Segment C		Segment D		Segment E	
	Current Position	Plan	Current Position	Plan	Current Position	Plan	Current Position	Plan	Current Position	Plan
Pricing Strategy/ T & C										
Internal/Operations Support										
Channel Design										

Worksheet C-2

C. Marketing Tactics: How Do We Get There?

2. Financial Consequences (Enter numbers where you can, use the icons below, or invent your own.)

	Segment A	Segment B	Segment C	Segment D	Segment E
Share of Market					
Relative Share of Market					
Sales					
Margins (%)					
Marketing Expenses					
Contribution after Marketing Expenses					



GETTING STARTED

Remember, this is a template designed to get you started with building a strategic marketing plan. By the time you have completed all of the worksheets in the template, you will have used many of the major concepts and tools from this text and applied them to a specific business. This template should also help you understand the kinds of information required for sound strategic marketing planning and get you started on your way toward completing a preliminary strategic market plan. You may be somewhat uncomfortable making estimates instead of using "real" data, but you will learn where in the process you need precise data, what kinds of data would be most helpful, and how these data are used in strategic marketing decision making.

APPENDIX

The One-Page Memo

APPENDIX

The One-Page Memo

Tom Peters and Robert Waterman, in their now-classic book "In Search of Excellence," included a section on the value of a "bias for action," and highlighted the value of the one-page memo as a tool for effective, action-oriented communications and for clarifying thinking:

> "John Steinbeck once said that the first step toward writing a novel is to write a one-page statement of purpose. If you can't get the one page clear, it isn't likely you'll get far with the novel. . . . It's little wonder that key assumptions get lost in a 100-page investment proposal. The logic probably is loose. The writing most likely is padded. The thinking is almost by definition shoddy. And, worse, the ensuing debate about the proposal among senior executives and reviewers is apt to be similarly unfocused."[1]

One-page memos are *required* at Proctor & Gamble, one of the world's preeminent consumer marketing companies, and they are invaluable for any company and any marketing strategist. Distilling the essential ideas of an analysis or arguments for a proposal down to one-page is not easy. It actually takes a lot longer to create a one-page memo than it does to write longer reports, but the exercise enhances communication and persuasion. Additionally, the process almost always leads to *better underlying ideas*, forcing managers to clarify their thinking, surface and examine their assumptions, and test their own decision-making criteria and processes.

WHAT TO INCLUDE/USE OF APPENDICES

Creating a one-page memo does *not* require that all the relevant information be included on that one page. A lot of important data can be appended to the memo. Any data that are attached should be clearly cited and explained in the body of memo. The writer shouldn't just point the reader to an appendix (e.g., "Financial statements are attached") but, rather, should summarize and interpret the attachments (e.g., "The impact on financial performance, shown in the Appendix, will be lower per-unit margins but higher net contribution and profitability"). The one-page memo should point the readers to the important information and must tell them what that information means. Of course, those appended materials should also be relevant, readable, and succinct.

COMMUNICATING AND SELLING YOUR IDEA

The process of writing a one-page memo is interwoven with the process of making decisions and thinking about persuading others to endorse the ideas the memo conveys. The "others" being persuaded are usually busy and are often higher in the organization than the writer. In fact, thinking about who exactly the memo is targeting and exactly what action is being proposed—*Who do you want to do what?*—is an important an important first step in framing the task of creating a one-page memo. Other initial considerations should include determining exactly what it is that is being recommended—*What is it the memo wants to have happen?*—and what the most compelling arguments for doing that are. This analysis—who the intended decision makers are, what it is the memo recommends they do or that they approve, and what the essential arguments are for doing that—leads to considerations of persuasive strategy: What do those readers care about? That is, what are the readers' needs and motivations? What does the reader need to know? What reactions might the reader have—and how can undesirable reactions be anticipated and cut-off?

CREATING THE ONE-PAGE MEMO

PREPARATION AND ORGANIZATION. The first steps in preparing a one-page memo, steps which precede any writing, are to decide:

- *Who* your reader is/readers are;
- What are the reader's *needs and motivations*—what drives this audience to act or not act;

- What is *the objective*; what does the memo recommend (specific actions, approvals, etc.);
- What the reader *needs to know*;
- What will *persuade/motivate the reader* to take desired action; and,
- *Possible reader reactions* –questions, concerns, and reservations;

Once this context has been fleshed out in some detail, then the writer can begin to gather specific elements of the memo. The first step is to organize, analyze, summarize, and prioritize the information. Organizing is part of the preparation for writing—the writer must be confident that he or she has all of the facts and that those facts supported by data are "on hand"—and it is an important step in persuasion process. It should include sorting facts as supportive or contrary and by importance and power to persuade the intended audience. This should produce an ordered summary of the key pieces of information—or "key points" for the memo.

WRITING THE MEMO. When the information and key points have been organized, analyzed, summarized, and prioritized, the memo writer should outline the memo *in detail.* Any good piece of communications has an underlying, organizing outline. This outline may be in the memo writer's head, but that invites negligence. Explicit outlines are most useful when they are written and available for reference in the next stages, the drafting, and review, and rewriting of the memo itself. Outlines are not "set in stone," but maintaining an explicit outline while writing is an important practice for producing clear, concise, and persuasive memos.

In summary, during the writing process you must:

- Organize, analyze, and summarize information—without putting it into a memo or worrying about how it will appear in the memo;
- Prioritize information—what is more important and what is less important;
- Create a detailed outline of the memo;
- Draft the memo;
- Review the memo—step back and review the memo for form and substance. In at least one review the writer should very deliberately adopt the intended readers' perspective or "point of view." *How will they [or he or she] interpret the memo?* Will they be inclined to agree or predisposed to argue against the recommendations? How do the facts stated in the memo correspond to the reader's prior understandings?); and,
- Rewrite—and rewrite, *and rewrite.*

A generic outline of every one-page memo is not really possible, because each memo has a particular purpose and the outline will change depending on that purpose, but at least one outline that works in many strategic business settings includes:

- **I.** ***The Idea:*** What are you proposing?
- **II.** ***Background:*** What facts and events have led to this being important?
- **III.** ***Details:*** *How it will work*?
- **IV.** ***Motivate the Audience:*** Who will benefit and how will they benefit?
- **V.** ***Next Steps.*** Who has to do what and by when for this to happen?

A more detailed version of this generic outline is included as Table 1 below.

Summary

In summary, marketing managers usually influence the broader organization and make things happen not by claiming resources or commanding action—in most organizations they do not have that sort of authority—but rather by *persuading* the organization to commit resources and people to support proposals and programs. Learning to communicate persuasively in concise memos can be a powerful tool in that process. It can also be invaluable in organizing and directing the marketing effort; staff and field sales people do not have time to read lengthy missives, but they must be managed, informed, and motivated—all of which entails effective communications from the marketing manager. This note presents some basic guidelines with regard to creating a one-page memo—a well-tested format made famous Proctor & Gamble, recommended notably in "In Search of Excellence." The keys to creating an effective memo are: (1) careful preparation, (2) consideration of the audience and the audience's motivation to read and respond to the memo, and (3) pithy composition.

TABLE 1: Detailed Outline of a One-Page Memo

1. Opening/'The Whole Idea'

"I recommend . . ." "This memo recommends . . ."

- Succinct statement of exactly:
  - What you're recommending and when;
  - Why you're recommending it—What do you expect the recommended action will accomplish;
  - Expected impact;
  - Action/decision expected of the reader, assuming agreement (exactly what you want the reader to do); and
  - Key next step and timing if reader agrees.
- Concurrences of others; as required (1 sentence).

2. Background

Briefly explain what the issue is all about to get reader up to understanding speed and put recommendation in perspective.

Include, if appropriate:

- Project description;
- Past history/experience;
- Current situation;
- Define the issue (the problem, the opportunity, or the need and its causes or roots);
- Solution requirements: What is required in terms of resources or changes, and when will those requirements be needed; and,
- Any pertinent statements of strategy, principles or objectives.

3. Recommendation/How it works/How it will work

Briefly outline entire recommendation. Cover all important elements. Define the solution. Include:

- Objectives;
- Strategic focus;
- Implementation plan;
- Financial implications;
- Impact on other functions/brands/businesses; and
- Evaluation/measurement—criteria of success.

4. Basis for Recommendation/Key Benefits

Concise statement of most important rationale for the recommendation.

"The most important reasons for this recommendation are . . ." (typically 2 or 3 justifications, in priority order).

5. Discussion

Briefly identify, if appropriate, and address:

- Reasons for not doing the recommendation;
- Arguments against;
- Major disadvantages—the con's;
- Major risks/concerns and how plan to manage those risks;
- Important (and obvious) alternatives to recommendation—"Alternative options considered include . . ."
- Implications of rejection of recommendation—consequences of not doing;
- Key issues—key factors for success and problems expected;
- All basic assumptions; and
- Any feasibility issues.

6. Next Steps & Timing

Briefly identify what happens next, when it should happen, and who is responsible. The more specific these steps, schedules, and responsibilities are, the better.

Endnote

1. Thomas J. Peters and Robert H. Waterman Jr., *In Search of Excellence: Lessons from America's Best-Run Companies* (New York: Harper & Row, 1982), 151.

APPENDIX

Case Analysis and Action-Oriented Decisions

This book presents a paradigm—a way of seeing the world and a framework for addressing strategic marketing problems—that dovetails with one of the core teaching methods in business education, the case method. Our strategic-thinking/problem-solving framework, presented in the first section of this book, is about recognizing issues and identifying the appropriate tools, theories, and frameworks to develop strategies, exploit opportunities, avoid threats, solve problems and take action. Those tools, theories, and frameworks are themselves presented in the thirty-eight short notes that make up the remainder of this book, *Strategic Marketing*.

This appendix focuses specifically on ways to approach and analyze challenges, opportunities, threats, and problems that are *presented in written cases*. Therefore, the appendix will be especially useful to students who are required to analyze written cases and come up with action-oriented recommendations to the challenges therein. It also will be useful to students who are participating in marketing-strategy simulations involving a sequence of analyses, decisions, and simulated actions. Like the case method itself, this note is really about *making action-oriented decisions* in general; therefore, it will also be valuable to practicing marketing strategists. After all, the whole point of studying a case in the "business-school world" is as practice for addressing similar challenges in the "real world." Thus, marketing strategy students and managers alike will find this note and this approach to decision making invaluable in addressing the opportunities, threats, and problems of marketing strategy.

ACTION-ORIENTED DECISION MAKING

Action-oriented decisions are decisions that specify something that should be done. In other words, these decisions identify one or more actions that should be taken. Action-oriented decisions can be compared, in particular, with descriptions, evaluations, and plans to decide:

> ***Descriptions*** are simply statements of fact and organizations of the facts. Some professionals create value by analyzing, organizing, and stating facts, *but that is not strategic management decision making*.
>
> ***Evaluations*** are assessments of whether something is good or bad, to be desired or to be avoided. Many people make their living as critics, inspectors, or judges by offering evaluations of what others have done, *but that is not management.*
>
> ***Plans to decide*** are about delaying decision making; for instance, a person might say, "I think we should meet another time to look at this again" or "I think we should do more research." Sometimes, decisions must be delayed and research can be invaluable, but delays and further research are not strategic management decision making.

Thus, managers don't just issue descriptions and evaluations or make plans to decide. Rather, *managers direct and take action*—which means that strategic marketing managers direct strategic marketing actions. For managers, the more specific an action recommendation is the better it is; ambiguous decisions and indefinite strategies are unsound and ineffective. In the framework that organizes this book, broad strategies synthesize and align specific actions or tactics. Either without the other is insufficient: Actions that are not organized and aligned within a cohesive strategy are ineffectual, and strategy that isn't translated into specific, structured actions is no strategy at all. Thus, strategic marketing management is about making action-oriented decisions, which, in the framework of this textbook, include both clarification of an organizing strategy *and* specification of the tactical details (in as much as is possible). Like strategic marketing management in

From Appendix D of *Strategic Marketing*, 1/e. Todd A. Mooradian. Kurt Matzler. Lawrence J. Ring.

practice, case analysis in marketing strategy education requires action-oriented decisions and should avoid being satisfied with description, evaluation, or planning.

THE CASE METHOD

"If you hold a cat by the tail, you learn things you cannot learn any other way."

Mark Twain

Some knowledge can't be "told"; instead, it must be learned by experience. Thus, one of the core pedagogies in business education is the case method. The choice to teach management via cases is motivated by the recognition that management is about *problem solving*, and problem solving is better learned by doing than by listening. That is, problem solving is both a process and a skill and, and as such, it can only be mastered by practice and feedback. Theory will inform that practice, but it can't replace it. Another reason to teach with cases is that doing so not only incorporates an "answer"—a theory or framework that is appropriate to the situation—but it also necessitates *first coming up with the question*. This is appropriate, because before real-world managers can address challenges and opportunities and solve problems, they must first identify the question(s); that is, they must recognize opportunities, threats, and problems and choose the appropriate tools (theories and frameworks) to bring to bear on those issues.

Learning golf is a good metaphor for learning managerial decision making. Golf can be described in terms of physics and biomechanics: Striking the golf ball with a club at a certain angle and certain velocity leads to the ball traveling in a certain direction at a certain speed and rolling or stopping in a certain way. One can learn *about* golf by reading or attending a lecture, and that lecture would be interesting and informative, but no one ever learned *to* golf in the classroom or laboratory. Rather, one learns to golf by golfing, even if it is on the practice range. This example reflects a core tenet of the philosophy behind the case method: As a process and a skill, management is best learned by applying theory to practice, and the case method gives students experience in action-oriented decision making.

The Role of the Professor

Still, with both golf and management, it is not enough to merely practice—practice alone is inadequate. A golfer needs to practice *doing things right*—applying certain techniques and seeing the results of those applications. When a person practices doing things poorly, he or she only ingrains bad habits. As professional golfer Henry Longhurst observed, "They say 'practice makes perfect.' Of course, it doesn't. For the vast majority of golfers it merely consolidates imperfection."[1]

Based on that same logic, the case method must be informed by theory and guided by skillful discussion leadership in order to be effective. Analyzing cases without guidance would be frustrating and would only ingrain bad habits. Case-learning leadership is the responsibility of the professor. In the case method, the professor is usually reluctant to over-control a case discussion—too much direction weakens the effect of having students gain experience attacking the challenges and problems themselves—but he or she does know at least two important things going in that the student may not. First, the professor knows the problem-solving process and has experience guiding students through it. Second, the professor knows at least a subset of the theories, tools, and frameworks that might be productively applied to the case. Thus, the case method and marketing simulations are experiential, but they are safe and directed experiences, done without real investment or real risk (because there is rarely any real money at stake) and under the supervision of someone who has an idea of how the process could be done well.

Inefficiency in the Case Method

Most of the frameworks and lessons conveyed through a case discussion could be summarized in much shorter lectures—so why use the case method? In short, the case method is valuable because it both teaches those frameworks *and* provides experience applying those frameworks to messy, ambiguous situations that mirror the realities faced by managers. In doing so, the case method provides students with experience making and defending action-oriented decisions. Furthermore, there is rarely a definite "right answer" to a case. Instead, as with any real-world administrative situation, there are likely to be *many* possible good and defensible answers. In fact, there may be several ways to define the problem or problems in a case, and, needless to say, several possible answers or solutions once a problem is defined. This ambiguity can be frustrating to students, but it mirrors the real world of strategic management.

This absence of a single right answer leads to another quality of case teaching that most students will notice and some will find frustrating: It is often difficult to come out of a particular case discussion with a clear understanding of what "the lesson of the day" was. Taking notes and summarizing a case discussion can be frustrating. Nevertheless, these aspects—the absence of a right answer or even a single correct view of the problem; ambiguous and incomplete information; and the presence of distracting information—are all aspects of the real world. Insofar as management education is intended to prepare students to manage in the real world, with all of its ambiguity and misinformation, the case method, even with its accompanying frustrations, is an appropriate and effective pedagogy.

Cases

A case can be described as a verbal photograph of a particular decision-making situation, real or invented (but nevertheless realistic), at a particular moment in time. The case presents the reader with more or less the same information that was available to the decision maker at the time. Some cases can be "tools-oriented," meaning they present data meant to support specific analyses and lead toward "correct answers," but these sorts of cases are unusual and especially rare in marketing strategy. Instead, most cases are descriptions of credible, complex situations that a strategist has faced or might face. Some data in a case may not be particularly relevant—like real management, part of learning via cases is dealing with distractions, messy information, and potential misdirection—but most cases will not present *false* information. Some cases may stop there, with the description of good or bad management, but these sorts of "illustration" cases are also rare in marketing strategy. Rather, the most common type of marketing strategy case will present a situation and a challenge (an opportunity, a threat, or a problem of some sort) and then challenge students to analyze the path that led to the current situation and to identify solutions in the form of forward-looking action recommendations. Thus, there are at least three types of cases—tools-oriented, illustrations, and problem cases. Most cases used in teaching marketing strategy present problems and call for rigorous analysis and action-oriented decision making.

LEARNING VIA THE CASE METHOD

Because of its discussion format and its other differences from lectures and traditional pedagogies, the case method relies on the preparation, analysis, and contributions of students to advance the learning process. If the professor or discussion facilitator does the work—summarizing the issues, working through the analysis, or offering a solution—then the case is reduced to little more than an elaborate example. Therefore, the advantages of the case method are diluted or lost if students do not thoroughly prepare in advance and then vigorously participate in case discussions.

Preparation

A detailed plan for analyzing cases in preparation for class discussions is presented later in this appendix. This plan involves two elements: things to accomplish (outcomes), and a process (steps) to move through the case analysis to accomplish those things. Things to be accomplished include becoming familiar with the situation, identifying the issues (opportunities, threats, problems, and challenges), evaluating alternative courses of action, and recommending a specific course of action. The specific course of action should include appropriate tactical detail, including acknowledgment of trade-offs and uncertainties and consideration of ensuing assessment and measurement. At the same time, it is possible to identify a series of steps for working through the case and producing the outcomes just discussed. The steps to producing these outcomes include:

1. An initial reading of the case;
2. A subsequent, much more thorough reading, including taking notes and identifying things to come back to for subsequent analysis;
3. The analyses themselves including digging deeply into and reformulating the facts and assumptions, performing computations, and creating summaries; and
4. Synthesis of the analyses which includes making and supporting recommendations fleshed out into specifics as much as possible and as far as is appropriate, and elaborating trade-offs, uncertainties, and measurement.

These outcomes and steps are organized in Table 1. Of course, these are only guidelines—some cases will not require each step or each outcome, and some steps may be done in a different order and can certainly be repeated—but in general, these

TABLE 1 Making Decisions and Analyzing Cases

Steps	***Outcomes***	***Issue/Problem Identification***			***Analysis***				***Recommendation(s)***			
	Situation Assessment	Major/Surface	Minor/Root	Objectives	Facts	Assumptions and Missing Data	Alternatives	Analyses	Recommendation(s)	Details/Tactics	Trade-offs and Uncertainties	Evaluation and Measurement
First Read/ Skim												
Document	X	X										
Scrutinizing Read/ Scrutinize												
Document	X	X	X	X	X	X	X					
Analyze/ Deep Dig												
Document			X	X	X	X	X	X				
Review/ Synthesis												
Document									X	X	X	X

objectives and this process will be part of any thorough case analysis.

Things to Avoid

There are also a few things *not* to do when analyzing a case and preparing for discussion. For one, the student should not research additional information or more recent data on the case facts, and the student should not, in as much as is possible, assume the role of a critic reviewing prior management or past decisions described in the case. The case is meant to be complete on its own, so getting on the Internet or going to the library and augmenting case facts (or, especially, finding out what has happened to the protagonist, the company, or the industry since the case was written) is "out of bounds." *Stick to the case facts!* (Of course, the professor may abrogate this rule in certain, deliberate instances.) Generally, it is assumed that the case facts are adequate to support the discussion and the learning objectives, so digging up additional information can make the class discussion uneven, because other students will not have the new data, or may have their own "new information". The idea is for all students to be playing with the same deck of cards or to have the same information.

Beyond not researching information outside of the case unless instructed to, students should also avoid being unduly skeptical and thereby missing out on the experience. In the arts, theater, and literature there is an expression—the "willing suspension of disbelief"[2] that gets at the fact that, in order to enjoy a work of art such as a play or a piece of literature the members of the audience must be inclined to put aside their skepticism and to believe the story no matter how seemingly far-fetched or unrealistic. For example, if the audience looks for the guide wire, they will not enjoy Peter Pan's flight. Similarly, in case discussions, sticking with the case facts and suspending disbelief are important to learning and to enjoying the process. The student should not say, "Well, if this were the 'real world,' I'd get on the phone and find out this, that, and the other." Rather, students should assume they have all the information they can get, and they should see what they can learn from making action-oriented decisions based on these facts.

Finally, it is also important to recognize that, in almost all instances, the lesson of the case is not to point out what previous management did wrong (or right); instead, it is to figure out *"Where do we go from here?"* Previous management was rarely "dumb"—and saying "the old boss was dumb" is unbecoming and unproductive in both the business world and the classroom. In actuality, previous managers likely made decisions based on the best information they could gather and within their understanding of the situation and their knowledge of sound strategic business practices and theories. Instead of judging past decisions, students should build on the best information they can gather (specifically from the written case) and apply their understanding of the situation and their growing knowledge of business practice and theory to create a forward-looking plan for success.

Thus, when analyzing a case and preparing for case discussion, the student is expected to come to class well prepared, having thoroughly analyzed the case and gone beyond the facts to analysis, action-oriented recommendations, and considerations of implementation and control. The student should stick with the case facts and suspend disbelief. The student also should view him or herself as taking on the role of the protagonist in a forward-looking, proactive way, and he or she should avoid simply criticizing or critiquing past decisions.

Case Discussion and Class Participation

With regard to classroom discussion of a business case, there are a few simple rules that will lead to success. Of these rules, two are particularly important. The first critical rule is "Come prepared," as described earlier in this appendix. The second critical rule is "Offer your ideas to the class discussion." After all, the professor doesn't want to hear about your shyness, nor does he or she want you to approach after class with an insight that everyone would have benefited from in class—this will only highlight the lost opportunity. Remember, *every student brings a unique perspective and can present valuable understandings to every case discussion.* One way or another, timidly or boldly, all students must enter the discussion and offer their inputs, otherwise the class will suffer for the lost insights and the individual students will lose an opportunity to test their ideas (and almost certainly suffer lowered grades as a result).

Of course, there are good and bad ways to participate in class. For one, students should remember that professors can distinguish contributions that are meant to gain "air time" from thoughtful input that moves the discussion forward. As much as case professors don't like to have a student come in after class and talk about their introversion, they also hate to learn about someone's extraversion in the middle of the case discussion. *Don't talk just to talk!* Class participation isn't about quantity; *it's about quality.* Offer well-thought-through ideas concisely and at the appropriate time. Build on what's been said—don't take the discussion back to what you wanted to say at an earlier juncture. If you didn't get called on, then you missed that chance, so simply move forward with the discussion. Also, don't move to a *new* issue unless the current topic is at, or at least moving toward, resolution. If you believe it's time to move on, then it's a good idea to preface your comment with a motion to change to a new topic ("Can we shift to considering X?" or "I think we need to talk about Z before we can decide Y"). This helps everyone track the discussion and gives the discussion leader (and your classmates) a chance to delay the shift if they think it should be put off.

Professionalism and Respect

All of the aforementioned classroom skills (moving discussions ahead, refraining from moving discussions backward, and shifting topics appropriately) require listening and respect. Respect for your classmates and for the instructor is of utmost importance in a discussion-based learning environment. Remember, discussion is about ideas and analyses. You can criticize someone's idea, offer alternatives to their analysis, or even question their understanding of the facts, but no student should ever criticize another student as a person or participant. *There is no room for personal attacks or disparagement in the classroom!* Any such characterization of a person and certainly any effort to stifle contribution are out of bounds. This level of respect should extend to the instructor as well. Leading a case discussion is a tricky undertaking. Tracking contributions, managing the discussion, keeping the learning objectives in sight, and tracking evaluations of student contributions while ceding control of the discussion to the class require a lot of skill and a thorough understanding of the topic, the case, and the participants. Be sure to respect everyone in the room and work *with* the instructor to move the process ahead while keeping the discussion professional and pleasant.

CASE ANALYSIS

As described above and summarized in Table 1, the process of understanding and analyzing a case can be broken out as iterative readings, reviews, and analyses leading toward an action-oriented decision and plan. These steps may be slightly different or progress in a somewhat different order for different cases, but this is a reliable, general approach.

Recall that the first step in the systematic approach to case analysis is reading through a case at least once just to get the "lay of the land," or the so-called "view from 30,000 feet." Doing so gives the reader an overview of the firm, the protagonist, the industry, and the broad issues at play in the case. Then the student should read the case again, digging into the details, confirming or refuting first impressions, taking notes, and identifying analyses that may be feasible and relevant (but not yet stopping to perform those analyses). It is a good idea, in going through these initial iterative reviews of the case, to take notes and document the issues, facts, and assumptions of the case on paper.

Having skimmed the case and then studied it carefully, it's now time for the student to go back to specific data and facts in the case to perform the analyses and organize information and assumptions. Once the analyses have been performed, the student must make a decision, and that decision should be fleshed out into appropriate details, depending on the case, the amount of detail included, the purpose of the case analysis, and its place in the course. As with any plan, the uncertainties in the case should be elaborated and the contingency plans articulated. This series of related steps will produce a set of structured outcomes or "deliverables," as described in subsequent sections.

Situation Assessment

The first thing to be achieved in reviewing a case is an understanding of the situation. This text has presented a framework for organizing situation assessment: specifically, the situation includes the general context (divisible into the political/regulatory/legal environment, the economic environment, the social/cultural environment, and the technical/physical/natural environment); the competitive situation; the company itself (including its missions and goals, competitive advantages, and strengths and weaknesses); the industry the company competes in or could compete in; and the customers the company serves or might serve. Although a case is a "snapshot" of a situation, the situation is never actually static, so one important aspect of marketing strategy is to recognize the changes in the environment and the effects of those changes on strategy. Hence, a crucial set of related questions in developing and maintaining effective marketing strategy—and in analyzing a marketing strategy case—is as follows:

- What is the situation (context, industry, competition, customers, and the company itself)?
- What has changed or is changing in the situation? Where are those changes and trends headed?
- How have those changes impacted the firm's customers, its strategy, and its competition?

Problem Identification

As noted above, there are often *multiple* reasonable ways to interpret and define "the problem" in a case analysis or in the real world of applied strategic management. Identifying the problem and organizing multiple problems in a logical order by importance is often more than half the battle. Frequently, if the problem has been clearly and correctly specified, the analyses may become "workmanlike" and relatively straightforward.

In identifying the problem or problems, it is useful to distinguish high-level or surface problems from underlying root problems, as well as to differentiate causes from symptoms. Symptoms may at first appear to be "the problem." For example, a first read of many marketing strategy cases will reveal that sales are failing to meet expectations, and in some cases, they may even be declining. Falling sales are almost always a problem, but they're also likely to be the outcome of some other problem, such as an unsound strategy, poor product quality, or a bad fit between the offering and the customers' needs and wants. Given these sorts of situations, it is important to flesh out an understanding not only of the immediate, surface problems, but also of these problems' underlying root causes.

A useful framework for identifying issues is to organize those issues into a "gap analysis." Gap analysis identifies the difference (or "gap") between *where we are* and *where we want to be.* A strategic gap or planning gap is the gap between actual and desired results along any strategic objective or marker of strategic success, such as sales, market share, profitability, or returns. Gap analysis can also be applied to a process or logical chain connecting managerial objectives to actual outcomes and customer responses.

A well-known example of a process-based gap analysis comes from services marketing. Professors Valarie A. Zeithaml, Leonard L. Berry, and A. Parasuraman have presented a logical framework linking management's perceptions of customer expectations, management's specifications of service quality, delivered service quality, customer perceptions of delivered service quality, and customer expectations, shown in Figure 2.[3] A "service-quality gap" can occur at any of the five major linkages shown in this model, and any gap can contribute to lowered customer satisfaction. This framework illustrates gap analysis applied to a system of relationships and linkages involved in delivering value and executing strategy.

It is also important to *prioritize* issues and problems in both case analyses and strategic management. One especially useful way to organize and prioritize issues is Pareto analysis, which can be presented as a Pareto chart and is built on the Pareto principle. Also referred to as the "80/20 rule," the Pareto principle states that, for most phenomena, roughly 80 percent of the effects or outcomes are attributable to roughly 20 percent of the causes or inputs. In marketing, the Pareto principle leads to the rule of thumb that 20 percent of your customers account for 80 percent of your sales (and also that 20 percent of your customers generate 80% of your complaints).Therefore, Pareto principle implies that 20 percent of the issues in a particular situation are related to 80 percent of the problems—which also means solving 20 percent of the problems will account for 80 percent of the solution. This principle

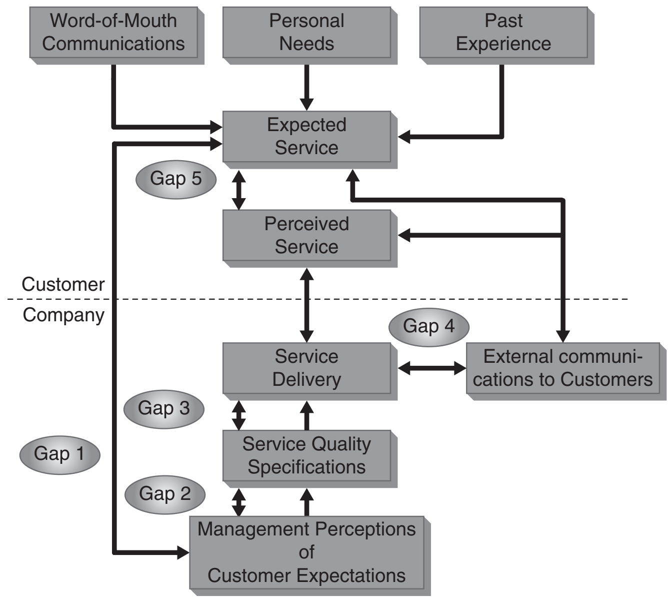


FIGURE 1 Zeithaml, Berry, and Parasuraman's Service Quality Gap Framework[4]

In this example, Gap1 is between managements perceptions of customer expectations and their actual expectations, Gap 3 is the difference between specified service quality and delivered service quality, and so forth.

does not always hold true in specific terms, but in nearly all situations, some small amount of the total causes and issues almost always accounts for a disproportionate amount of the effects or outcomes. Figure 2 shows a simple hypothetical Pareto analysis and highlights its utility; here, solving the first and second issue solves half the problems, while solving the first four issues (of 20 total issues) solves 80 percent of the problems. As shown in the figure, if the manager can focus on only one issue, focusing on root cause 1 in the hypothetical scenario will resolve almost 30 percent of the problem, whereas solving root cause 13 will only address one percent of the problem. Thus, Pareto analysis facilitates the prioritization of underlying problems and the maximization of return on problem-solving effort.

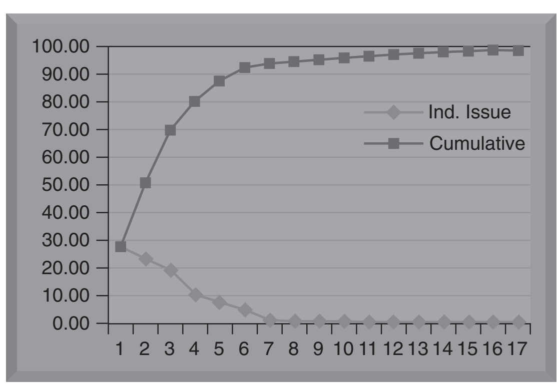


FIGURE 2 A Hypothetic Pareto Chart.

The first several issues (the horizontal axis) alleviate more a disproportionate percentage of the problems (the vertical axis)

Another useful tool that serves to organize and summarize these first two steps, situation assessment and problem identification, is SWOT analysis. In any SWOT analysis, the "strengths" and "weaknesses" are aspects of the situation that are *internal* to the company. Still, identifying strengths and weaknesses does require reference to the competition, because it is not enough just to be good at something—rather, the firm must be better than the competition or the competency is not really an exploitable strength. In contrast, "opportunities" and "threats" in SWOT are *external* aspects of the situation. Opportunities and threats may arise from the context (i.e., "PEST" analysis) or from the competition, but their effects on the firm are usually felt via customers and their behaviors. For example, even if an opportunity arises because a competitor withdraws from the market, that competitive change actually connects to the firm and its strategy as an opportunity (that is, as newly unmet demand).

Identification of Facts, Assumptions, and Opinions

As shown in Table 1 and described earlier, analyzing a case involves multiple, iterative readings moving from familiarization toward deep understanding and analysis, accompanied by increasingly detailed note taking or "documentation." The core of that process involves identifying and organizing the case facts, surfacing assumptions, and distinguishing fact from assumption. Assumptions and opinions are sometimes presented in the case, or they may be necessitated by the issues in the case. In either situation, documenting the assumptions facilitates going back to those assumptions to consider their impact on resulting decisions. Assumptions put forward in a case text are generally stated equivocally or as personal beliefs—for example, "Fran [the protagonist] believed that . . ." or "The market was thought to . . ." Another source of assumptions is the student's own analysis of the issues. There will be many situations in which the student has to make assumptions or "educated guesses" in order to proceed with an analysis of the case—and documenting these necessary assumptions ensures that the student can support his or her analyses in a presentation or discussion and return to these assumptions and challenge them after any initial analyses are complete.

Clarify the Objectives

What is the protagonist or the firm trying to accomplish? When considering a case, these sorts of objectives may seem obvious—but if they are obvious, then it should be easy enough to make them explicit. Frequently, however, trying to clarify a simple statement of the objectives leads one to the recognition that the objectives at play in a particular situation are more complex than first thought. Some objectives may conflict or be mutually exclusive. For example, raising margins and raising unit sales/market share are common objectives in marketing strategy, but they are not compatible objectives; one is generally counter to the other. It may also be true that the objectives can be organized in a means-end hierarchy. Increasing margins or increasing market share are, for example, usually seen as "means" to the "end" or ultimate objective of increasing profits and returns. Organizing objectives in a hierarchy helps prioritize the objectives and make it easier to decide between conflicting objectives. Thus, clarifying objectives is worthwhile, even if the objectives might seem obvious, and it often helps in the process of sorting through case facts and tying these facts to relevant elements of a decision.

Specify Alternatives

What are the *possible* courses of action? It is useful to deliberately delay settling on a decision or choosing an alternative course of action until after thoroughly and creatively cataloging the full range of alternatives. Once a manager or an analyst has chosen his or her preferred direction or alternative, he or she is likely to focus on facts and arguments that support the decision and to see confirming evidence more keenly than counter evidence. In fact, he or she may not recognize or integrate contrary evidence at all; that is human nature. Thus, in making any decision, it is valuable to first flesh out as wide a range of alternative actions as is possible before analyzing each for viability and merit.