



Strategic tools in re- shaping and re- mapping business

Karaoulanis Andreas

andrekaroul@gmail.com

ABSTRACT

This paper's objective is to present in a short but concise way several strategies managers need to implement in order to be able to understand the forces that influencing their business. Contemporary management need to re- focus from up to down- stream activities and come closer to their customers. Special conditions of the information technology and computers which are prevalent in our contemporary society, like the network effects, need to be taken under vast consideration from managers in order to empower their company's market position.

Key words

Vertical Transformation; The network effects; The five forces; strategy as simple rules.

Academic Discipline and Sub discipline

Strategy; Management

Type

Literary Analysis



Council for Innovative Research

Peer Review Research Publishing System

JOURNAL: INTERNATIONAL JOURNAL OF MANAGEMENT & INFORMATION TECHNOLOGY

Vol . 10, No 9

editorsijmit@gmail.com

www.ijmit.com



INTRODUCTION

As Steve Jobs once said “It’s not the consumer’s job to know what they want.” (Dawar, 2013). Is that right? If it is what about “the consumer is always right”, something which is the moto (sic) of almost 100% of businessmen around the globe?

In this paper the author will try to deploy a number of strategy theories which were prevalent the last years and which can help businessmen, in almost every industry, to develop an open minded approach to every day issues in terms of decision making and strategy implementation under even controversial circumstances.

1. VERTICAL TRANSFORMATION

According to Dawar (2013) there are two types of activities in which companies focus, the upstream and the downstream ones. With the term upstream activities we mean activities like sourcing, production and logistics while with the term downstream we mean generally selling products to customers. It is Dawar’s (2013) prevalent idea that nowadays companies in order to thrive and expand, they need to shift their focus from up to downstream activities. This focus is very important as it involves several kind of actions companies need to take like focusing in customers by influencing their purchasing behavior, innovate to solve customers’ problems and build their competitive advantage by accumulating data and harnessing network effects (Dawar, 2013).

1.1. The network effect

According to Struve (2009), the parallel development within the last century of information theory, digital technology and the massive increasing in computing power, led to the dawn of the “information age”. In this new era, as information is critical for production, contributes directly to the value of products and services.

This important development which changed the world, thus markets as we knew them, had several side effects which are very important in this vertical breakdown in companies’ focus in order to establish their competitive advantage in the today’s global economies.

Network effects, which sometimes referred to as “externalities”, is the effect that a user of a product or service has on the value of that product or service to another user (Struve, 2009). According to the same author (2009), there are several types of network effects, such as:

- ✓ Direct network effects, where the value of the good or services increases as more people are using it.
- ✓ Indirect network effects, are activated when the usage of a good or service spawns the production of complementary goods or services, which in turn adds value to the original product or service.
- ✓ Cross- network effects, or as they are also well known “*two-sided network effects*”, in which, increases in usage by one set of users increases the value of a complementary product to another divergent set of users.
- ✓ Social network effects, which are also well- known as “local network effects”, have the characteristic that the value of products or services is not necessarily increased by the number of users. What is happening in this case is that each consumer is influenced by the decisions of a subset of other consumers connected with him through a social or business network. The extent of network clustering and amount of information each customer possesses becomes relevant in this model (Struve, 2009).

This kind of network effect is very important nowadays as billions of people are connected through social networks such as Linked In, Facebook, Twitter, Instagram etc. It is imperative to underline here that such network effect has vast impact in strategy deployment for companies as it is an important way for spreading the word through customers’ in our digital era.

Harnessing network effects and accumulating data from them is very important for companies. Either a company is able in harnessing just direct or indirect etc., or all of the network effects, the benefits can be huge as networking is a way of living for billions of peoples nowadays.

1.1. Focusing in customers

According to Dawar (2013), a company is characterized as “market oriented” if it is able to master the art of listening to its customers. This involves understanding their needs and developing products and services that meet those needs. This is a very tricky point. As Dawar (2013) indicates, it is very important to underline that many companies don’t gain their competitive advantage by listening to their customers but on the other hand, by understanding what their customers are looking for and in that way by shaping their buying criteria. In other words, by formulating their buying behavior.

Driving customers’ buying behavior to certain paths can be a very decisive paragon in obtaining the competitive advantage needed in such competitive markets. This is a being one step ahead behavior which can drive production and sales in a very different, more profitable direction.

In that way of thinking, Dawar (2013) indicates that the objective for the downstream business is to influence how customers perceive the relative importance of various purchase criteria and to introduce new, favorable ones.

According to Constandinides (2004), the 4Ps- product, price, place and promotion- which are also known as the marketing mix (Borden, 1964; McCarthy, 1964, cited in Constandinides, 2004), are, as marketing practitioners widely deem, the tools that can influence the consumer’s behavior and the final outcome of the buyer-seller interaction



(Kotler and Armstrong, 2001; Kotler, 2003; Brassington and Pettitt, 2003, cited in Constandinides, 2004).

According to Radice (2014), there are 4 other Ps that can help marketers make the first step in influencing their customers' behavior, which is to understand it. These 4 Ps are the following:

- ✓ Pervasive – “Let me shop wherever I am.”
- ✓ Participatory. “I have a voice and I'm going to use it.
- ✓ Personalized. “Make it relevant to me
- ✓ Prescriptive. “I'm in control of the shopping process. (Radice, 2014).

Marketers who are eager enough in listening such customers' voices, will be able to influence their behavior by using the Constandinidese's 4Ps tools.

1.1. Innovating

Nowadays, companies compete ferociously against one another in order to prove and declare their uniqueness instead of struggling to prove their potential superiority (Dawar, 2013). Companies are trying to innovate in order to correlate their potential specific brand name with what their customers have in their minds about their brand (Dawar, 2013). In that way of thinking several brands tend to launch a specific image creation which correlates their brand with an abstract image of a specific brand quality they want to demonstrate in order to gain their competitive advantage.

But this is not the only way innovation tries to create a competitive advantage. Customers have specific considerations while trying to purchase a product. These considerations usually are costs and risks over the entire purchase, consumption, and disposal cycle of the product (Dawar, 2014). In order to understand their customers' needs and try to solve their potential problems, many companies innovated in several ways in order to give to their customers' what they wanted and gain a bigger market share.

The example of Hyundai during the great recession of 2008- 2009 which introduced a risk- reduction guarantee to target their customers' concerns, which was the fear of losing their jobs or income, is prevalent and signifies the importance of innovation solving customers' problems (Dawar, 2013). As Dawar underlines, Hyundai, instead of offering a price reduction as other automobile companies was doing, offered to its potential customers a risk- reduction guarantee which said “if you lose your job or income within a year of buying the car, you can return it with no penalty to your credit rating” (Dawar, 2013).

1. THE SIMPLE RULES OF STRATEGIC DECISIONS

According to Eisenhardt et al. (2001), there are times when managers need to jump into chaotic markets in order to probe for opportunities. To build successful forays and shift flexibly among opportunities as circumstances dictate. In order to do such moves, managers recognize the need of simple rules to guide them through the chaos. This is where the simple rules idea was born.

While in traditional strategy the competitive advantage, companies strive so hard to acquire, comes from exploiting resources or stable market positions, in strategy as simple rules, advantage comes from successfully seizing fleeting opportunities. This simple rules as strategy, according to Eisenhardt et al. (2001), fell mainly into five broad categories, which are the following:

- ✓ **How- to rules**, which keep managers just organized enough to seize opportunities,
- ✓ **Boundary rules**, which sometimes delineate boundary conditions that help managers sort through many opportunities quickly,
- ✓ **Priority rules**, which can set priorities for re- source allocation among competing opportunities,
- ✓ **Timing rules**, which can help companies to be synchronized with emerging opportunities and coordinate the companies' various parts to capture them,
- ✓ **Exit rules**, which help managers pull out from yesterday's opportunities.

(Eisenhardt et al., 2001).

As Warren Buffet said “Chains of habits are too light to be felt until they are too heavy to be broken.” (Maltoni, n.d.).

According to Maltoni (n.d.), simple rules works due to several reason, the most important of which are the following:

- ✓ They confer flexibility- to pursue new opportunities while maintaining some consistency,
- ✓ They can produce better decisions- especially when we have limited time frames and a shortage in information, simple rules makes it easy for managers or even simple people to take sound decisions.
- ✓ They allow the members of a community to synchronize their activities- by using such simple rules, community, or company members etc., can achieve things that under different circumstances could be far more difficult to achieve.

Although simple rules are not a panacea in problem solving and strategy implementation, they can very handy in several ways and even help marketers escape from very difficult and frustrating situation, while they can offer them the way to embrace new successful opportunities throughout a chaotic market momentum which under different circumstances can take them to the verge of disaster.



1.THE COMPETITIVE FORCES THAT SHAPE STRATEGY

According to Porter (2008), the job of a strategist is to understand and cope with competition. The key point to that definition is that they shouldn't define competition too narrowly, as if it occurred only among today's direct competitors (existing rivals). This is why Porter (2008), introduced four other competitive forces which go beyond competition for profits. These forces are:

- ✓ The power of buyers, which is the flip side of the power of suppliers, as they can capture more value by forcing down prices, demanding better quality or more service.
- ✓ The power of suppliers, as suppliers can be proved very powerful and can force prices up, for example if they implement a kind of oligopoly or even a monopoly by using as their dominant foundation their unique product or their products' sensitivity (i.e. software programs for banking usage) etc.
- ✓ The threat of potential entrants, as new entrants to an industry are usually bring with them new capacity and the desire to gain market share, something which inevitably puts pressure on prices, costs and the rate of investment which is necessary for incumbents to compete with them.
- ✓ The threat of substitute products, as a substitute product performs the same or a similar function as an industry's product but usually with a lower price.

According to St. Rosemary Educational Institution (2015), marketers in order to identify trends, threats and opportunities, need to scan the market environment outside the organization in order to acquire the information needed. There are six forces marketers look at, which are the following:

- ✓ **Demographic forces**, which incorporate the statistical data on a population according to characteristics such as age, gender, ethnicity, income and occupation.
- ✓ **Socio- cultural forces**, which involve cultural values, ideas, and attitudes, as well as society's morals and beliefs.
- ✓ **Economic forces**, which are the collective income, expenditures, and resources that affect the cost of running a business or a household. In terms of macro, these forces involve the country's economy, inflation, and recession, while in terms of micro economics involve factors like supply and demand, gross income, disposable income, and discretionary income.
- ✓ **Technological forces**, which involve inventions from applied science or engineering research, something which brings the replacement of old technology by new more advanced products.
- ✓ **Competitive forces**, which can be deployed by alternative products that can satisfy the needs of a specific market, and can involve in the following ways:
 - I. **Direct:** In this occasion we have very similar products in the same category.
 - II. **Indirect:** Here we have products of the same category but which are different.
 - III. **Perfect competition:** In this occasion we have many sellers with almost identical products.
 - IV. **Monopolistic competition: This is the type of competition in which** a large number of sellers compete with each other, offering customers similar or substitute products.
 - V. **Oligopoly: On the other hand, this is the type of competition where the number of suppliers of the goods is very limited.**
 - VI. **Monopoly:** This is the last form of competition in which we have only one supplier.
- ✓ **Regulatory forces**, which involve restrictions placed on marketing practices by government and industry associations.

CONCLUSIONS

There are several strategic tools managers are able to deploy in order to re- shape their business. Eisenghart introduced something which was in use for several years in the management cycles without being developed, maybe because nobody till then understood its importance. The management as simple rules. Turnaround management, something which is the subject of an upcoming paper, has lent many aspects of the theories deployed in this paper. Managers, especially in difficult, in terms of stagnant or saturated markets periods, need to be able to understand the forces that shaping and influencing the markets in order to take the right measures to protect and/or restructure their company.

REFERENCES

- [1] Constantinides E., (2004) "Influencing the online consumer's behavior: the Web experience", Internet Research, Vol. 14 (2), pp.111 – 126.
- [2] Dawar N., 2013. When marketing is strategy. HBR, 91 (12), pp.100-108.



- [3] Eisenhardt K.M., Sull D.N., 2001. Strategy as simple rules, *HBR*, 79 (1), pp.106-116.
- [4] Porter M.E., 2008. The five competitive forces that shape strategy. *HBR*, 68(2), PP.73-93.
- [5] Radice R., 2014. The four Ps of customer behavior. Imagine wow [online]. Available at: <<http://www.imaginewow.com/social-media-marketing/customer-behavior/>> [Accessed 10 November 2015]
- [6] Struver J., 2009, Harnessing network effects: A Web 2.0 primer for the insurance industry. *Journal of Insurance Operations* [online], Available at: <<http://www.jiops.com/10/2009/harnessing-network-effects-a-web-2-0-primer-for-the-insurance-industry/>> [Accessed 10 November 2015].
- [7] St. Rosemary Educational Institution, 2015. The Marketing Environment: Competitive Forces[online]. Available at :<<http://schoolworkhelper.net/the-marketing-environment-competitive-forces/>> [Accessed 8 November 2015].
- [8] Maltoni V., n.d. Why simple rules produce better decisions. *Conversationagent.com* [online]. Available at: <<http://www.conversationagent.com/2015/08/simple-rules.html>>. [Accessed 10 November 2015].



Andreas Karaoulanis, MBA, MsEng is currently working in the banking sector in Greece. He has an MBA degree in Industrial Management and Economics from Blekinge Institute of Technology Sweden and a MSc in Engineering from Aristotle University of Thessaloniki. He is very experienced after 25 years of working in several industries like engineering, banking, retail and consulting. He is a Linked In blogger with many managerial posts.

