How did we get from point A to point B? For the first time, Liz tries to look back on her company's history to analyze CanGo's success.

Coaches, generals, politicians and business executives use it, but what exactly is strategic management? Many entrepreneurs who have little or no formal training in strategic management and business planning have been quite successful over the years. In fact, many of them would credit their success to intuition, luck, and being "in the right place at the right time." These same entrepreneurs would agree however, that having a game plan and being acquainted with the strategic management process would have helped them avoid many of the learning experiences (problems) they encountered when starting and growing their businesses.

In this episode, we will examine the concepts of strategic management  
and how businesses use strategy to create a competitive advantage  
in their marketplace.

**Transcript**

*Elizabeth:* -and it involves getting into a new market.

*Gail:* Okay, let’s go to it.

*Andrew:* If the main issue is control, there’s ways to protect ourselves and our interests.

*Elizabeth:* This is my company.

*Maria:* And if heads are going to roll, they say start at the top.

*Warren:* Yes!

*Narrator:* Welcome to the Mastering Strategy episode “Concepts of Strategic Management”.

*[Telephone Rings]*

*Elizabeth:* Hello?

*Julian on Telephone:* Hi, sweetheart. Guess who?

*Elizabeth:* Hi, Julian. How are you?

*Julian on Telephone:* Pretty darn good.

*Elizabeth:* What’s going on?

*Julian on Telephone:* I’ve got to talk to you about a couple of things.

*Elizabeth:* Oh, come on. I know when somebody wants something.

*Julian on Telephone:* Hmm. You know me; I admit that.

*Elizabeth:* So games? Books? Music? Whose birthday is it?

*Julian on Telephone:* Well now, it’s not anything like that, Liz. Why shouldn’t I call Can Go exactly what it is, a success story from the Hudson Valley. You went from a tiny fledgling backwater company to one of the largest small companies in this area.

*Elizabeth: [Laughs]* Well, we have a long way to go. But come on, I know that the president of the Hudson Valley Business Association has better things to do than inflate my ego.***Page 2 of 2 Elizabeth, Gail, Andrew, Elizabeth, Maria, Warren, Narrator, Julian Page 2 of 2***

*Julian on Telephone:* Liz, that’s where you’re mistaken again. This is the most important thing I have to do this morning.

*Elizabeth:* Well how do I get your job?

*Julian on Telephone:* You mean informing the leader of the fastest-growing company in the Hudson Valley that she’s been selected the Regent’s Business Leader of the Year?

*Elizabeth:* What!?

*Julian on Telephone:* By the way, Liz, when you speak at the next Chamber of Commerce meeting it would be great if you could focus on the how and the why of Can Go’s success story.

*Elizabeth:* Are you serious?

*Julian on Telephone:* You’ve done all the right things, Liz. Potential entrepreneurs want to know how you made it. Give them a game plan, okay?

*Elizabeth:* Well, I don’t know what to say.

*Julian on Telephone:* For a change.

*Elizabeth:* Well I will make you proud.

*Julian on Telephone:* Already am. Talk to you later.

*Elizabeth:* Okay, thanks. Bye.

*[Change Scenery]*

*Elizabeth:* Can Go’s development over the last few years – no. How did we plan this? How did I plan this? I don’t know, it was an accident. Started a business, became a success. I can’t do this.

I’m not going to. I’m not. I can’t. I won’t.

*Narrator:* Now move onto the brief summary of concepts and then to the interactive exercises.

Perhaps you have read or seen interviews with famous entrepreneurs such as Bill Gates of Microsoft or Howard Schultz of Starbucks. If not, you can read about how Pete Slosberg and Mark Bronder started Pete's Brewing Company by going to the [Keynote Entrepreneur](http://www.prenhall.com/mbwtc/weblink.cfm?lid=1) Web site. Notice how Pete and Mark built one of the most successful specialty brewers in the land, achieving a multi-million dollar business and a firm position in the growing microbrew industry. As you read, keep in mind the questions Mark and Pete asked themselves as they started their business and recall the actions they took to in order to grow their operation. Maybe you can see some similarities between the co-founders of Pete's Wicked Ale and CanGo's CEO.

Let's see if we can apply the general concepts of strategic management to better understand Liz's dilemma as she tries to describe her business formula. Strategic management has been defined as the future-oriented decisions and actions a company takes in order to achieve its mission. It is a continuously evolving process through which companies attempt to create a business plan that is more effective than those of their competitors. The figure below presents the general strategic management process. As the company's game plan, strategic management follows a planning process that includes:

* Formulating company vision and mission statements (A mission statement defines why the organization exists and what it does. A vision statement describes the organization's vision of its future.)
* Conducting a SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis to assess the company's internal and external environment.
* Making a strategic choice-identifying the most desirable options given the company's SWOT and mission and selecting long-term goals and grand strategies that would achieve those goals.
* Implementing the plan through the development of short-term goals and tactics that include budgeting resources and altering internal operations to accommodate the plan.
* Evaluating the relative success of the plan and adjusting future plans accordingly.

Strategic management can also be characterized by the pattern in which strategy is created and implemented within the organization (top-down, bottom-up or consensus), and whether this process is purposeful or haphazard. Many organizations have emergent rather than deliberate strategies. An emergent strategy is one that results not from a formal planning process, but from the social and political interactions of organization members. Consequently, the strategy envisioned by each group involved in planning may not be what ultimately emerges from the process. The composition of the planning team and how they interact is crucial in determining the viability of the strategic management process. Good teamwork inevitably increases the likelihood of successful strategic planning.

An organization's strategy and its planning process indicate the firm's position in the marketplace relative to its competitors. A firm can position itself either through **low-cost production** (selling the most products for the least amount) or through **differentiation** (selling a specialized product to a certain target market) and so attempt to carve out a unique position in the market. Some organizations take a very aggressive approach to the market by introducing new products and services (**first movers**) while others "copy cat" the **market leaders** (second movers and late-to-market movers). Still others defend their position vigorously, while others merely react to changes in their external environment.

Remember that the most critical element of the strategic management process is the development of a **competitive advantage**. A competitive advantage is an advantage that earns the firm above average profits and is difficult for competitors to duplicate.

Liz is in a bit of a bind. What is she going to say to the Hudson Valley Professional Business Association about strategic planning if her own company hasn't formally developed a plan? How will she describe her employees' distinctive skills, the company's competitive advantage, and the firm's position in the market? Will she admit that the company has succeeded in spite of its lack of planning or will she gloss over this issue and focus on the more positive aspects of the firm? Now let's see how Liz manages to deal with these issues in her speech to the Hudson Valley Professional Business Association.

**Transcript**

*Narrator:* Now that you’ve responded to the questions, let’s see how this challenge was met by the staff at Can Go.

*Elizabeth:* Thank you. Thank you very much. Thank you.

I think our strong point going in was an understanding that we are the market. What do we want? That was our main question, followed by how do we go about getting what we want at the highest quality for the most affordable price. We’re consumers; we’re as good of an indicator as anyone. Why have to search more than one store for interlinked products? Who wouldn’t love to have a personal shopper?

I wish I could say we had foreseen, even planned the success of Can Go, but we were to busy shopping. If I had to outline our achievements, break it down to the basis formula, I’d say that instead of trying to build a better mousetrap, we concentrated on giving the mouse better cheese.

*[Change Scene]*

*Maria:* Cheese?

*Elizabeth:* Cheese.

*Maria:* You got by with cheese?

*Elizabeth:* Yeah. What’s wrong with cheese?

*Maria:* There’s nothing wrong with cheese. So tell me, Ms. Businesswoman of the Year-

*Elizabeth:* Businessperson of the Year.

*Maria:* Ms. Businessperson of the Year, you told them how to build a business by pushing cheese?

*Elizabeth:* Oh come on, it was a little more complicated than that.

*Maria:* I always knew your lack of formal planning would get the better of you.

*Elizabeth:* Ah, I don’t know, I wonder how big Can Go would be today if I had been more on top of the planning, you know, what opportunities were missed, what was overlooked.***Page 2 of 2 Narrator, Elizabeth, Maria Page 2 of 2***

*Maria:* You know, you can second-guess your way into the night, but you’re a hit. You can move on from here.

*Elizabeth:* I’ll let you in on a little secret.

*Maria:* Huh?

*Elizabeth:* Hindsight is always 20/20.

*Maria: [Laughs]* Double dare-

*Narrator:* We’ve seen that strategic management is an evolving process through which firms attempt to create plans that are more effective than those of their competitors. Firms do not always construct such plans in advance or employ a formal analytical procedure. Whether strategic plans are formal or informal, planned in advance or developed over time, their goal is the same, to provide the firm with a competitive advantage that will earn the firm above average profits and to create a plan of operation that is difficult for competitors to duplicate. Consider these ideas as you take a look at how Can Go employees face another challenge in the case study video that follows.

Strategic planning, as a team process, is not as easy as it sounds. Many individuals understand neither what a strategic plan is nor what thinking "strategically" really means. In the upcoming Case Study video, you will see the CanGo management team tackle the development of a new market. Just how strategic is the CanGo team?

**Transcript**

*Narrator:* This additional video further explores the topics addressed in this episode. Watch the video and then consider the discussion questions that follow.

*Elizabeth:* All right. There’s one more thing I want to discuss and it involves getting into a new market, namely online gaming.

*Andrew:* Okay. So online gaming is the ticket to the Xers and Yers. I mean this is cutting edge, folks. It’s going to keep us in the forefront of interactivity. Let’s say Warren was from Ecuador.

*Warren:* I’m from Poughkeepsie.

*Andrew:* Let’s just say, as in using your imagination, you could play a game in real-time with Maria in Sweden.

*Maria:* Sweden? *[Speaks in Spanish to Warren]*

*Andrew:* Stick with me here, folks. It’s just the two countries are a million miles apart. I mean this is exciting. This is going to keep us ahead of the competition.

*Warren:* What about sports games? I mean football is one of the best sellers out there; maybe it’s the one thing Can Go’s missing right now.

*Ethel:* Do we have to hire a partner to develop all this?

*Maria:* What about personnel for production, for operations?

*Andrew:* I figured we’d train our staff to do it.

*Ethel:* I don’t know, this smells like a lot of money to develop. Why don’t we consider outsourcing the whole thing?

*Andrew:* I know this is a hard concept, but we’re talking about fun. You know fun? Remember when you were young?

*Elizabeth:* All right. Okay. This has been really helpful. Andrew’s going to develop a preliminary marketing plan and we’ll meet back here and discuss it further. Okay? Good. Good.

*Maria:* Okay.

*Warren:* Okay.

*[Change Scenery]****Page 2 of 2 Elizabeth, Andrew, Warren, Maria, Ethel, Clark Page 2 of 2***

*Ethel:* Hey, Clark.

*Clark:* Hmm?

*Ethel:* How do you see the future of this company?

*Clark:* What do you mean?

*Ethel:* Well for instance, that online gaming meeting we had, we never even talked about whether or not we should. You know me; I’m not a gambler. I think it’s a risky venture. I mean it’s not as if we’ve got a lot of extra capital lying around; we’re still in the red.

*Clark:* I agree with you. We never talked about how this could add real value to our operation or inflate the price of stock if we go public or even how it contributes to our overall strategy.

*Ethel:* Yeah. I’m a little scared the whole decision process is getting a little ragtag.

*Clark:* I’ll say. I would like to see some firm financial projections before we move ahead.

*Ethel:* Yeah, me too. But in the meantime it looks like we’re going to have to settle for a preliminary marketing plan.

*Clark:* That’s right.

*Ethel:* Guess who’s going to that new 3-D movie this weekend?

*Clark:* Oh. Taking the kids?

*Ethel:* Now why would I do that?

*Narrator:* Now take a look at the discussion questions. These questions will ask you to apply what you’ve learned in this episode to this case video.

**Mastering Marketing**

Marketers have developed a sophisticated understanding of how consumers go about deciding whether or not to buy a product. Using their understanding, marketers try to influence that process with messages that make consumers feel good about each phase of their purchase decision. As you'll see in the video, CanGo, like many smart e-tailers, has constructed its Web site to mirror the consumer buying process. By sending the right messages, the site stimulates consumers to click through each page. If all goes well, consumers who reach the final page will have developed such intense liking for the product that they'll buy it.

However, the consumer buying process rarely unfolds as marketers would like. Consumers often hem and haw, shop around to compare prices, or just lose heart when the time comes to open their wallets. The process grows all the more complicated when the consumer shops online. As Andrew and his team learn, a distressingly high number of e-consumers fail to "pull the trigger"-complete the transaction with that final click of the mouse. As you watch the video, note how the marketing team accounts for this reluctance. Notice as well what steps they take to determine how effectively the CanGo site addresses consumer needs.

**Transcript**

*Elizabeth:* -and it involves getting into a new market.

*Gail:* Okay, let’s go to it.

*Andrew:* If the main issue is control, there’s ways to protect ourselves and our interests.

*Elizabeth:* This is my company.

*Maria:* And if heads are going to roll, they say start at the top.

*Warren:* Yes!

*Narrator:* Welcome to the Mastering Marketing episode “Understanding Consumer Behavior”.

*Gail:* I love that deal.

*Whitney:* But the two-for-one. Forget about it; I’m not worried about it.

*Nick:* What’d you buy?

*Whitney:* Oh, a sweater and some shoes.

*Nick:* You don’t have to leave your desk. You could’ve got that online.

*Gail:* You know, it’s funny, the skirt that I bought today, I saw it online and I put it in my virtual shopping cart, but I didn’t pull the trigger.

*Whitney:* Hmm. You know, I saw a statistic that said over 75-percent of e-shoppers who put stuff in their cart never pull the trigger.

*Andrew:* Is that true? That’s a large number.

*Whitney:* Well, that’s what the BizRate site said.

*Andrew:* That’s incredible. I wonder if that rate applies to Can Go shoppers.

*Gail:* Well, shopping is just different online.

*Andrew:* Well, actually the Web page hierarchy is set up to mirror the consumer buying process from problem recognition to purchase.

*Gail:* You know, but virtual things always happen along the way. It’s just, it’s different when the skirt is in your hand.***Page 2 of 2 Elizabeth, Gail, Andrew, Maria, Warren, Narrator, Nick, Whitney, Page 2 of 2***

*Whitney:* Or in this case on your hips.

*[Laughter]*

*Whitney:* Just kidding! It’s a joke.

*Gail:* That’s not funny. Something’s wrong. What?

*Andrew:* Here’s what I want you to do, I want you to investigate the hit-

*Gail:* Quiet, Nick.

*Andrew:* -hit and click through rates on some of those specific pages. I’ll e-mail you the page numbers that correspond to problem recognition, informative search, alternative evaluation, purchase and post-purchase evaluations.

*Gail:* And you want this when?

*Andrew:* ASAP. This should help see if customers – where customers are falling off, if they’re moving through the process as they should, and if this 75-percent rate applies to us.

*Gail:* Guess I have my marching orders.

*Nick:* And, Gail, the clock’s ticking.

*Gail:* Oh, don’t worry, you’re going to be on it with me.

*Nick:* Oh, no, I’m-

*Gail:* Oh, you are going to be my-

*Andrew:* Actually, why don’t you help her with that?

*Nick:* Come on, Andrew.

*Gail:* My number one assistant.

*Narrator:* Now move onto the brief summary of concepts and then to the interactive exercises.

As the Introductory Video suggested, consumer buying behavior is complex and unpredictable. E-tailers like CanGo work hard to build their technology around that behavior, adapting it to the informational and emotional needs of consumers as they make their purchase decisions. However, as Andrew and his team realized, even the most up-to-date e-tailing technology can't always keep up with the shifts in consumer behavior. Marketers must continually revisit the consumer buying process, refresh their understanding of it, and use their ever-evolving insights to craft messages that appeal to consumers' developing needs.

Recall that the consumer buying process consists of five basic stages:

* **Problem or need recognition**, during which consumers realize they have a need that they might fill with some product. Their sense of need motivates them to begin searching for the appropriate product.
* **Information search**, during which consumers gather information about products that might fill their needs. Initially they might do no more than pay closer attention to ads and other kinds of product information. As their interest in particular products develops, their search may grow more active as they seek out more detailed information. In general, the more expensive or complicated the product, the more intensively the consumer will search for information.
* **Alternative evaluation**, during which consumers compare the options available to them, assessing their relative advantages and disadvantages. This stage can be more or less involved, depending on the complexity and expense of the product.
* **Purchase, also known as product choice**, at which consumers choose from the alternatives and buy a product.
* **Postpurchase evaluation** (or purchase outcome), during which consumers assess their purchases. Often, consumers experience cognitive dissonance or misgivings about their purchases, particularly when the product was expensive. How thoroughly consumers overcome this dissonance depends on how effectively the product satisfies them and how well marketers are able to reassure them about the correctness of their choice.

How lengthy and elaborate this process is depends on the individual consumer and/or product. Further, marketers try to advance the process through messages that address the consumer's needs at each stage. For example, to stimulate the problem recognition stage, marketers send messages, such as advertisements, that tell consumers about products they don't have but might want. Similarly, at the post purchase evaluation stage, marketers reduce cognitive dissonance in a number of ways, such as following up with customers to make sure they are happy with their purchase. The most successful marketers are those who know their consumers well enough to guide them through this process as effectively as possible. As they do so, such marketers cultivate a base of satisfied customers who buy from them over and over again.

the consumer buying process is complex and full of potential pitfalls. A Web site like CanGo's could effectively move the customer as far as the purchase decision. However, if it fails at that point to address some important factor, it could lose the customer to a more knowledgeable competitor. As you watch the Resolution Video, note where in the process CanGo tends to lose potential customers. Notice too how Andrew and his team use information from VALS2TM to fill the gaps in their understanding of their target consumers.

**Transcript**

*Narrator:* Now that you’ve responded to the questions, let’s see how this challenge was met by the staff at Can Go.

*Debbie:* I think \_\_\_\_\_ figures over to that side.

*Gail:* Okay.

*Debbie:* That just might be a little bit clearer.

*Gail:* We are not as bad as this 75-percent figure says we are.

*Andrew:* We aren’t, but we aren’t that far off either. So where are we losing them?

*Gail:* I don’t know, it’s somewhere between evaluation and purchase. But when they do purchase they go to those post-purchase pages.

*Andrew:* But are we losing to the other sites?

*Gail:* I don’t think so. Many are not even completing the transaction, but it’s not just Can Go, it’s everywhere.

*Andrew:* But did you notice that the more expensive items are more likely to stay in the shopping carts?

*Debbie:* That’s the key word: expensive. Anyone can buy a CD, but a boxed set, well, that’s a week’s lunch money.

*Andrew:* Depends on where you eat lunch.

*Gail:* Yeah, exactly.

*Andrew:* Here’s what we’re going to do, I got this information from Valstem II.

*Gail:* Exsqueeze me?

*Andrew:* Val System II. They do extensive research on consumers and their tendencies. I’ve asked them to tailor this specifically for consumers similar characteristics to our own, demographically and psychographically.

*Gail:* Is this legal?

*Andrew:* They classify our consumers as mostly experiencers with secondary aspects of achievers.***Page 2 of 2 Narrator, Debbie, Gail, Andrew Page 2 of 2***

*Debbie:* That sounds right.

*Andrew:* I think we’re going to be able to use this information to appeal to our customers’ self-concept.

*Debbie:* Peer pressure.

*Andrew:* Just a little bit of pointed marketing design to help our consumers click and buy.

*Gail:* I think your strategy seems sound to me.

*Debbie:* And what specifics do you want us to handle?

*Andrew:* I’m not sure about that yet. I’ll have to get back to you.

*Gail:* Oh, you’re taking those back?

*Andrew:* Yes, thank you. Thank you.

*Debbie:* Oh, that’s good.

*Gail:* I can’t believe they know that about people.

*Debbie:* That’s going to be very valuable to us.

*Narrator:* To serve their target market effectively, marketers must understand how consumers go about deciding to buy a product. This consumer buying process usually involves five steps: the recognition that a need for a product exists, a search for information about products that might satisfy the need, an evaluation of alternative products, a purchase decision, and a post-purchase evaluation. Marketers work to encourage consumers to move through each step of the process. Once the consumer has bought the product the marketer reinforces the purchase with messages that make the consumer feel good about his or her decision.

There are also psychological, personal, and social factors that affect buying behavior. By understanding these factors, marketers build the customer loyalty any firm needs to hold on to its target market. Consider these ideas as you take a look at how Can Go employees face another challenge in the case video that follows.

Marketing to domestic consumers is hard enough, but how could an e-tailer like CanGo appeal to consumers in other countries? What psychological, personal, social, and situational influences motivate consumer behavior in, say, Brazil or Japan. As you'll see in the video, CanGo has recently been filling a lot of orders from Japan, for reasons no one on the team can explain. As you watch, notice how Andrew tries to understand what might be drawing Japanese consumers to CanGo. In addition, consider more broadly the challenges of addressing the consumer buying process in international markets.

**Transcript**

*Narrator:* This additional video further explores the topics addressed in this episode. Watch the video and then consider the discussion questions that follow.

*Warren:* Half day?

*Andrew:* No, just sitting here enjoying my lunch.

*Warren:* Yep.

*Andrew:* Okay then.

*Warren:* You notice anything?

*Andrew:* About what?

*Warren:* Shipping.

*Andrew:* That’s your department, Warren.

*Warren:* You haven’t noticed an increase in shipping to Japan.

*Andrew:* Has there been?

*Warren:* Come on, you don’t have some kind of campaign going to attract more Japanese customers?

*Andrew:* Not at all.

*Warren:* All right. Okay. I’ll see you around.

*Andrew:* No, no, wait a second. I haven’t been doing anything. Has there been an increase?

*Warren:* Yeah, lately. I thought you were doing something.

*Andrew:* I wouldn’t even know where to begin.

*Warren:* Yeah, I know. Who knows what goes on in the mind of a 20-year-old these days, no matter where they’re from, Japan, America?

*Andrew:* I’ll check it out, though.

*Warren:* You will? You’re going to check it out? You promise?

*Andrew:* I’ll check it out. ***Page 2 of 2 Narrator, Warren, Andrew Page 2 of 2***

*Warren:* All right. I’ll see you.

*Andrew:* See you later, Coach.

*Warren:* Okay.

*Narrator:* Now take a look at the discussion questions. These questions will ask you to apply what you’ve learned in this episode to this case video.