

## **Strategic Planning**

### **MA205**

#### **1. Strategic Planning**

The key components of 'strategic planning' include an understanding of an entity's vision, mission, values and strategies. (In the commercial world a "Vision Statement" and/or a "Mission Statement" may encapsulate the vision and mission).

- **Vision:** outlines what the organization wants to be, or how it wants the world in which it operates to be (an "idealized" view of the world). It is a long-term view and concentrates on the future. It can be emotive and is a source of inspiration. For example, a charity working with the poor might have a vision statement which reads "A World without Poverty."
- **Mission:** Defines the fundamental purpose of an organization or an enterprise, succinctly describing why it exists and what it does to achieve its vision. For example, the charity above might have a mission statement as "providing jobs for the homeless and unemployed".
- **Values:** Beliefs that are shared among the stakeholders of an organization. Values drive an organization's culture and priorities and provide a framework in which decisions are made. For example, "Knowledge and skills are the keys to success" or "give a man bread and feed him for a day, but teach him to farm and feed him for life". These example maxims may set the priorities of self-sufficiency over shelter.
- **Strategy:** Strategy, narrowly defined, means "the art of the general".- a combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there. A strategy is sometimes called a roadmap - which is the path chosen to plow towards the end vision. The most important part of implementing the strategy is ensuring the company is going in the right direction - defined as towards the end vision.

Organizations sometimes summarize goals and objectives into a **mission statement** and/or a **vision statement**. Others begin with a vision and mission and use them to formulate goals and objectives. A newly emerging approach is to use a **visual strategic plan** such as is used within planning approaches based on outcomes theory. When using this approach, the first step is to build a visual outcomes model of the high-level outcomes being sought and all of the steps which it is believed are needed to get to them. The vision and mission are then just the top layers of the visual model.

Many people mistake the vision statement for the mission statement, and sometimes one is simply used as a longer term version of the other. However they are distinct; with the vision being a descriptive picture of a desired future state; and the mission being a statement of a rationale, applicable now as well as in the future. The mission is therefore the means of successfully achieving the vision. This may be in the business world or the military.

For an organization's vision and mission to be effective, they must become assimilated into the organization's culture. They should also be assessed internally and externally. The internal assessment should focus on how members inside the organization interpret their mission statement. The external assessment — which includes all of the businesses stakeholders — is valuable since it offers a different perspective. These discrepancies between these two assessments can provide insight into their effectiveness.

## Tools and approaches

Among the most widely used tools for strategic planning is SWOT analysis which means (Strengths, Weaknesses, Opportunities, and Threats). The main objective of this tool is to analyze internal strategic factors, strengths and weaknesses attributed to the organization, and external factors beyond control of the organization such as opportunities and threats.

Other tools include:

- Balanced Scorecards, which creates a systematic framework for strategic planning;
- Scenario planning, which was originally used in the military and recently used by large corporations to analyze future scenarios.

- PEST analysis (**P**olitical, **E**conomic, **S**ocial, and **T**echnological)
- ASSIMPLER Blueprinting - The Business Blueprinting of the organization is designed based on the ASSIMPLER framework (based on work of Mandar Vanarse). ASSIMPLER stands for Availability, Scalability, Security, Interoperability, Maintainability, Performance, Low cost of ownership, Extensibility and Reliability - applied to business services and processes.
- STEER analysis (**S**ocio-cultural, **T**echnological, **E**conomic, **E**cological, and **R**egulatory factors)
- EPISTEL (**E**nvironment, **P**olitical, **I**nformatic, **S**ocial, **T**echnological, **E**conomic and **L**egal).
- ATM Approach (**A**ntecedent Conditions, **T**arget Strategies, **M**easure Progress and Impact). Once an understanding of the desired endstate is defined, the ATM approach uses Root Cause Analysis (RCA) to understand the threats, barriers, and challenges to achieving the endstate. Not all antecedent conditions identified through RCA are within the direct and immediate control of the organization to change. Therefore, a review of organizational resources, both human and financial, are used to prioritize which antecedent conditions will be targeted. Strategies are then developed to target the prioritized antecedent conditions. Linking strategies to antecedent conditions ensures the organization does not engage in activity traps: feel good activities that will not lead to desired changes in the endstate. Once a strategy is defined then performance measures and indicators are sought to track progress toward and impact on the desired endstate.

## **Situational analysis**

It is important to analyze the organization and its environment as it is at the moment and how it may develop in the future when developing strategies. The analysis has to be executed at an internal level as well as an external level to identify all opportunities and threats of the external environment as well as the strengths and weaknesses of the organizations.

There are several factors to assess in the external situation analysis:

1. Markets (customers)
2. Competition
3. Technology
4. Supplier markets
5. Labor markets
6. The economy
7. The regulatory environment

It is rare to find all seven of these factors having critical importance. It is also uncommon to find that the first two - markets and competition - are not of critical importance. (Bradford "External Situation - What to Consider")

Analysis of the external environment normally focuses on the customer. Management should be visionary in formulating customer strategy, and should do so by thinking about market environment shifts, how these could impact customer sets, and whether those customer sets are the ones the company wishes to serve.

Analysis of the competitive environment is also performed, many times based on the framework suggested by Michael Porter.

With regard to market planning specifically, researchers have recommended a series of action steps or guidelines in accordance to which market planners should plan.

## **Goals, objectives and targets**

Strategic planning is a very important business activity. It is also important in the public sector areas such as education. It is practiced widely informally and formally. Strategic planning and decision processes should end with objectives and a roadmap of ways to achieve them. The goal of strategic planning mechanisms like formal planning is to increase specificity in business operation, especially when long-term and high-stake activities are involved.

One of the core goals when drafting a strategic plan is to develop it in a way that is easily translatable into action plans. Most strategic plans address high level initiatives and overarching goals, but don't get articulated (translated) into day-to-day projects and tasks that will be required to achieve the plan. Terminology or word choice, as well as the level at which a plan is written, are both examples of easy ways to fail at translating your strategic plan in a way that makes sense and is executable to others. Often, plans are filled with conceptual terms which don't tie into day-to-day realities for the staff expected to carry out the plan.

The following terms have been used in strategic planning: desired end states, plans, policies, goals, objectives, strategies, tactics and actions. Definitions vary, overlap and fail to achieve clarity. The most common of these concepts are specific, time bound statements of intended future results and general and continuing statements of intended future results, which most models refer to as either goals or objectives (sometimes interchangeably).

One model of organizing objectives uses hierarchies. The items listed above may be organized in a hierarchy of means and ends and **numbered** as follows: Top Rank Objective (TRO), Second Rank Objective, Third Rank Objective, etc. From any rank, the objective in a lower rank answers to the question "How?" and the objective in a higher rank answers to the question "Why?" The exception is the Top Rank Objective (TRO): there is no answer to the "Why?" question. That is how the TRO is defined.

People typically have several goals at the same time. "Goal congruency" refers to how well the goals combine with each other. Does goal A appear compatible with goal B? Do they fit together to form a unified strategy? "Goal hierarchy" consists of the nesting of one or more goals within other goal(s).

One approach recommends having short-term goals, medium-term goals, and long-term goals. In this model, one can expect to attain short-term goals fairly easily: they stand just slightly above one's reach. At the other extreme, long-term goals appear very difficult, almost impossible to attain. Strategic management jargon sometimes refers to "Big Hairy Audacious Goals" (BHAGs) in this context. Using one goal as a stepping-stone to the next involves **goal sequencing**. A person or group starts by attaining the easy short-term goals, then steps up to the medium-term, then to the long-term goals. Goal sequencing can create a "goal stairway". In an organizational setting, the organization may co-ordinate goals so that they do not conflict with each other. The goals of one part of the organization should mesh compatibly with those of other parts of the organization.

## **1.1 Marketing Management**

**Marketing management** is a business discipline which is focused on the practical application of marketing techniques and the management of a firm's marketing resources and activities. Globalization has led firms to market beyond the borders of their home countries, making international marketing highly significant and an integral part of a firm's marketing strategy. Marketing managers are often responsible for influencing the level, timing, and composition of customer demand accepted definition of the term. In part, this is because the role of a marketing manager can vary significantly based on a business's size, corporate culture, and industry context. For example, in a large consumer products company, the marketing manager may act as the overall general manager of his or her assigned product. To create an effective, cost-efficient marketing management strategy, firms must possess a detailed, objective understanding of their own business and the market in which they operate. In analyzing these issues, the discipline of marketing management often overlaps with the related discipline of strategic planning.

Marketing management employs various tools from economics and competitive strategy to analyze the industry context in which the firm operates. These include Porter's five forces, analysis of strategic groups of competitors, value chain analysis and others. Depending on the industry, the regulatory context may also be important to examine in detail.

In competitor analysis, marketers build detailed profiles of each competitor in the market, focusing especially on their relative competitive strengths and weaknesses using SWOT analysis. Marketing managers will examine each competitor's cost structure, sources of profits, resources and competencies, competitive positioning and product differentiation, degree of vertical integration, historical responses to industry developments, and other factors.

Marketing management often finds it necessary to invest in research to collect the data required to perform accurate marketing analysis. As such, they often conduct market research (alternately marketing research) to obtain this information. Marketers employ a variety of techniques to conduct market research, but some of the more common include:

- Qualitative marketing research, such as focus groups and various types of interviews
- Quantitative marketing research, such as statistical surveys
- Experimental techniques such as test markets
- Observational techniques such as ethnographic (on-site) observation

Marketing managers may also design and oversee various environmental scanning and competitive intelligence processes to help identify trends and inform the company's marketing analysis.

A brand audit is a thorough examination of a brand's current position in an industry compared to its competitors and the examination of its effectiveness. When it comes to brand auditing, five questions should be carefully examined and assessed. These five questions are how well the business' current brand strategy is working, what are the company's established resource strengths and weaknesses, what are its external opportunities and threats, how competitive are the business' prices and costs, how strong is the business' competitive position in comparison to its competitors, and what strategic issues are facing the business.

Generally, when a business is conducting a brand audit, the main goal is to uncover business' resource strengths, deficiencies, best market opportunities, outside threats, future profitability, and its competitive standing in comparison to existing competitors. A brand audit establishes the strategic elements needed to improve brand position and competitive capabilities within the industry. Once a brand is audited, any business that ends up with a strong financial performance and market position is more likely than not to have a properly conceived and effectively executed brand strategy.

A brand audit examines whether a business' share of the market is increasing, decreasing, or stable. It determines if the company's margin of profit is improving, decreasing, and how much it is in comparison to the profit margin of established competitors. Additionally, a brand audit investigates trends in a business' net profits, the return on existing investments, and its established economic value. It determines whether or not the business' entire financial strength and credit rating is improving or getting worse. This kind of audit also assesses a business' image and reputation with its customers. Furthermore, a brand audit seeks to determine whether or not a business is perceived as an industry leader in technology, offering product or service innovations, along with exceptional customer service, among other relevant issues that customers use to decide on a brand of preference.

A brand audit usually focuses on a business' strengths and resource capabilities because these are the elements that enhance its competitiveness. A business' competitive strengths can exist in several forms. Some of these forms include skilled or pertinent expertise, valuable physical assets, valuable human assets, valuable organizational assets, valuable intangible assets, competitive capabilities, achievements and attributes that position the business into a competitive advantage, and alliances or cooperative ventures.

The basic concept of a brand audit is to determine whether a business' resource strengths are competitive assets or competitive liabilities. This type of audit seeks to ensure that a business maintains a distinctive competence that allows it to build and reinforce its competitive advantage. What's more, a successful brand audit seeks to establish what a business capitalizes on best, its level of expertise, resource strengths, and strongest competitive capabilities, while aiming to identify a business' position and future performance.

## **1.2 Definition, planning and Strategic Planning Process**

This brief provides an overview of the strategic planning process, an essential first step in the development of a results-based accountability system.

### **About This Series**

These short reports are designed to frame and contribute to the public debate on evaluation, accountability, and organizational learning.

### **I. Strategic Planning Process Defined**

Successful RBA efforts involve strategic planning, implementation, monitoring, and evaluation (which will ultimately provide data that will be used in future planning and implementation efforts). Strategic planning, an essential first step in the development of a results-based accountability system, is defined as the process of addressing the following questions:

- Where are we?
- What do we have to work with?
- Where do we want to be?
- How do we get there?

This process is undertaken by states, organizations, programs, and sub-programs.

The steps involved in developing a strategic plan are described below. Although this process appears systematic and rational, it is often iterative and evolves substantially over time. Further, it is subject to political pressure and will be modified accordingly. Some strategic planning efforts may not include all the steps

described. The elements and process described in the next section should be modified depending on context.

## **II. Components of a Strategic Planning Process**

The first step in the strategic planning process is to address the questions “Where are we?” and “What do we have to work with?” Examination of recent history and changing contexts (both internal and external) of the state, organization, program, or sub-program allows participants to assess current positions. Answering the question of what we have to work with involves consideration of strengths and weaknesses and determination of how to capitalize on strengths.

The next step in the process is answering “Where do we want to be?” As the articulated vision stems from the values of those involved in the process, it is essential that this step involve all of those who will have a stake in the achieving the vision. For agencies and programs, the vision is then translated into a mission statement: a broad, comprehensive statement of the purpose of the agency or program. States and communities may not have mission statements, as they may have multiple purposes. If unable to design mission statements that can encompass multiple divergent goals, planners should articulate several separate mission statements reflecting different goals.

The next step in the planning process is the articulation of goals. Desired long-range conditions of well-being for the state, community, agency, or program, goals indicate the intended future direction of the state, agency, or program. An example of a state goal is that all children and families be healthy by the year 2010.

After articulating the vision and determining goals, planners must address means of reaching their goals. This step involves articulating strategies for achieving results. Strategies should reflect the strengths and weaknesses of the entity engaged in the planning. For example, a very small office should recognize that its size could be both a weakness and a strength. The size would limit it to strategies that do not require large human resource commitments, but would allow it to use strategies requiring rapid dissemination of information throughout the organization. Recognition of relative strengths and weaknesses is helpful in identifying promising strategies.

RBA system development must include consideration of methods of goal measurement. Some strategic planning processes include this step; others leave this question to be addressed by a separate process. Addressing goal measurement involves articulation of objectives, indicators, and benchmarks. Objectives are the short-term conditions needed to achieve desired conditions of well-being for children, families, or communities in the long term. Indicators are quantifiable measures of progress; they provide numeric assessment of the desired conditions of well-being (see [Indicators Tip Sheet](#) for further details). Benchmarks are target levels of performance expressed in measurable terms and specified time frames, against which actual achievement is measured.

### **III. State Experiences With Strategic Planning: Lessons Learned**

Many states have developed strategic plans to guide results-based accountability systems. Examination of numerous planning processes yielded the following lessons:

- *Prioritizing goals is an essential step in developing a strategic plan for a RBA system.* Strategic plans are not merely laundry lists of goals, but rather reflect the priorities of those participating in the planning process. The most useful plans are succinct and easily translated into useful measures. Inclusion of too many goals causes states, agencies, and programs to become overwhelmed with the details of data collection and reporting. Friedman (1996) recommends choosing a limited number of broad goals that reflect multiple objectives.
- *Successful public strategic planning processes address conflicting mandates and goals.* State officials and managers of public programs are often faced with the need to negotiate between conflicting mandates and goals when articulating strategic plans. For example, job training legislation may include a program goal of placement of all trainees within one month of program completion. Another goal in the same legislation may be that trainees retain employment for at least one year. These goals may conflict: employment that is obtained quickly may not be the best match for the trainees, so they may be more likely to leave these jobs. In such cases, legislation may have

been drafted with input from numerous representatives with conflicting views. As public managers develop strategic plans, they should recognize that programs may have conflicting mandates and be explicit about what the agency can and cannot do in light of the mandates.

- *Successful efforts involve stakeholders and gain their support.* Strategic plan development requires consideration and articulation of values and priorities; the plan should reflect views expressed by all those involved in the process. States that have successfully designed and adopted plans included all those interested in the strategic planning process. For example, processes have been developed to involve program managers, providers, legislators, and the public in the articulation of visions. Some states have held public meetings; others have coupled meetings of policymakers with public opinion polls asking about the core values of citizens. Inclusion of key stakeholders can take many months and requires that resources be devoted to the activity. However, it is essential to the success and sustainability of the effort.

### 1.2.1 Analysis SWOT

SWOT analysis (alternatively SWOT Matrix) is a structured planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture. A SWOT analysis can be carried out for a product, place, industry or person. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieving that objective. The technique is credited to Albert Humphrey, who led a convention at the Stanford Research Institute (now SRI International) in the 1960s and 1970s using data from Fortune 500 companies. The degree to which the internal environment of the firm matches with the external environment is expressed by the concept of strategic fit.

Setting the objective should be done after the SWOT analysis has been performed. This would allow achievable goals or objectives to be set for the organization.

**Strengths:** characteristics of the business or project that give it an advantage over others

**Weaknesses:** are characteristics that place the team at a disadvantage relative to others

**Opportunities:** elements that the project could exploit to its advantage

**Threats:** elements in the environment that could cause trouble for the business or project

Identification of SWOTs is important because they can inform later steps in planning to achieve the objective.

First, the decision makers should consider whether the objective is attainable, given the SWOTs. If the objective is not attainable a different objective must be selected and the process repeated.

Users of SWOT analysis need to ask and answer questions that generate meaningful information for each category (strengths, weaknesses, opportunities, and threats) to make the analysis useful and find their competitive advantage.

### **1.2.1.1 Goals Formulation**

The goal pyramid is a form of hierarchical goal-structuring. It is used to subdivide strategic goals into operational goals and thus gain better accessibility as well as a higher motivational effect through goal orientation. Generally, a goal pyramid is divided into three to five hierarchical goal levels. The higher the goal level, the more concrete the individual goals. In three goal levels one can talk about, for instance, a strategic main goal, the already more concrete intermediate goals as well as the action goals at the operational goal level.

At the level of action goals, the goals should be formulated in accordance with the SMART principle. This acronym stands for specific, measurable, attainable, realistic and timely. The SMART principle describes how action goals should be structured in order to have a motivating effect.

- Define and focus goals
- Bind and motivate reform actors
- Ensure that the progress to target attainment is measurable
- Ensure that reform progress and successes can be communicated

### **1.2.1.2 Strategies Formulation**

#### **1. Formulate the main goal**

The (strategic) main goal is firstly formulated. The main goal describes the idea of the reform as well as the ideal state to be attained. It is the orientation point for all the goal levels subordinate to it. The main goal therefore remains abstract and is not directly attainable with only one action.

## **2. Subdivide the main goal into intermediate goals**

After the main goal has been formulated, it is divided into several intermediate goals that concretize the various aspects of the main goal, indicate individual “paths” to reach the main goal and, for instance, address responsible groups of actors. The intermediate goals can also not be reached directly but can be subdivided into (operational) action goals.

### **1.2.1.3 Program Formulation**

Formulate SMART action goals

The intermediate goals are subdivided into individual “work packages” at the level of the (operational) action goals. At the operational level, who should achieve what with which resources by when is precisely formulated. Here it is ensured that the goal can be measured with a reasonable cost and effort and that incentives and sanctions are made transparent.

There are also situations in which the goal hierarchy is developed from the operational level and the strategic goal can be derived from the operational goals.

## **1.3 Market Analysis opportunities**

A **market analysis** studies the attractiveness and the dynamics of a special market within a special industry. It is part of the industry analysis and thus in turn of the global environmental analysis. Through all of these analyses the strengths, weaknesses, opportunities and threats (SWOT) of a company can be identified. Finally, with the help of a SWOT analysis, adequate business strategies of a company will be defined. The market analysis is also known as a documented investigation of a market that is used to inform a firm's planning activities, particularly around decisions of inventory, purchase, work force

expansion/contraction, facility expansion, purchases of capital equipment, promotional activities, and many other aspects of a company.

## **Market segmentation**

Market segmentation is the basis for a differentiated market analysis. Differentiation is important. One main reason is the saturation of consumption, which exists due to the increasing competition in offered products. Consumers ask for more individual products and services and are better informed about the range of products than before. As a consequence, market segmentation is indispensable. Segmentation includes a lot of market research, since a lot of market knowledge is required to segment the market. Market research about market structures and processes must be done to define the “relevant market”. The relevant market is an integral part of the whole market, on which the company focuses its activities. To identify and classify the relevant market, a market classification or segmentation has to be done.

## **Dimensions of market analysis**

David A. Aaker outlined the following dimensions of a market analysis:

- Market size (current and future)
- Market Trend
- Market growth rate
- Market profitability
- Industry cost structure
- Distribution channels
- Key success factors
- Key success Details

The goal of a market analysis is to determine the attractiveness of a market, both now and in the future. Organizations evaluate the future attractiveness of a market by gaining an understanding of evolving opportunities and threats as they relate to that organization's own strengths and weaknesses.

Organizations use the finding to guide the investment decisions they make to advance their success. The findings of a market analysis may motivate an organization to change various aspects of its investment strategy. Affected areas may include inventory levels, a work force expansion/contraction, facility expansion, purchases of capital equipment, and promotional activities.

## Elements

### Market size

The market size is defined through the market volume and the market potential. The market volume exhibits the totality of all realized sales volume of a special market. The volume is therefore dependent on the quantity of consumers and their ordinary demand. Furthermore, the market volume is either measured in quantities or qualities. The quantities can be given in technical terms, like GW for power capacities, or in numbers of items. Qualitative measuring mostly uses the sales turnover as an indicator. That means that the market price and the quantity are taken into account. Besides the market volume, the market potential is of equal importance. It defines the upper limit of the total demand and takes potential clients into consideration. Although the market potential is rather fictitious, it offers good values of orientation. The relation of market volume to market potential provides information about the chances of market growth. The following are examples of information sources for determining market size:

- Government data
- Trade association data
- Financial data from major players
- Customer surveys

### Market trends

Market trends are the upward or downward movement of a market, during a period of time. The market size is more difficult to estimate if one is starting with something completely new. In this case, you will have to derive the figures from the number of potential customers, or customer segments.

Besides information about the target market, one also needs information about one's competitors, customers, products, etc. Lastly, you need to measure marketing effectiveness. A few techniques are:

- Customer analysis
- Choice modelling
- Competitor analysis
- Risk analysis
- Product research
- Advertising the research
- Marketing mix modeling
- Simulated Test Marketing[5]

Changes in the market are important because they often are the source of new opportunities and threats. Moreover, they have the potential to dramatically affect the market size.

Examples include changes in economic, social, regulatory, legal, and political conditions and in available technology, price sensitivity, demand for variety, and level of emphasis on service and support.

### **Market growth rate**

A simple means of forecasting the market growth rate is to extrapolate historical data into the future. While this method may provide a first-order estimate, it does not predict important turning points. A better method is to study market trends and sales growth in complementary products. Such drivers serve as leading indicators that are more accurate than simply extrapolating historical data.

Important inflection points in the market growth rate sometimes can be predicted by constructing a product diffusion curve. The shape of the curve can be estimated by studying the characteristics of the adoption rate of a similar product in the past.

Ultimately, many markets mature and decline. Some leading indicators of a market's decline include market saturation, the emergence of substitute products, and/or the absence of growth drivers.

## **Market opportunity**

A market opportunity product or a service, based on either one technology or several, fulfills the need(s) of a (preferably increasing) market better than the competition and better than substitution-technologies within the given environmental frame (e.g. society, politics, legislation, etc.).

## **Market profitability**

While different organizations in a market will have different levels of profitability, they are all similar to different market conditions. Michael Porter devised a useful framework for evaluating the attractiveness of an industry or market. This framework, known as Porter five forces analysis, identifies five factors that influence the market profitability:

- Buyer power
- Supplier power
- Barriers to entry
- Threat of substitute products
- Rivalry among firms in the industry<sup>[citation needed]</sup>

## **Industry cost structure**

The cost structure is important for identifying key factors for success. To this end, Porter's value chain model is useful for determining where value is added and for isolating the costs.

The cost structure also is helpful for formulating strategies to develop a competitive advantage. For example, in some environments the experience curve effect can be used to develop a cost advantage over competitors.

## **Distribution channels**

Examining the following aspects of the distribution system may help with a market analysis:

- Existing distribution channels - can be described by how direct they are to the customer.
- Trends and emerging channels - new channels can offer the opportunity to develop a competitive advantage.
- Channel power structure - for example, in the case of a product having little brand equity, retailers have negotiating power over manufacturers and can capture more margin.

## **Success factors**

The key success factors are those elements that are necessary in order for the firm to achieve its marketing objectives. A few examples of such factors include:

- Access to essential unique resources
- Ability to achieve economies of scale
- Access to distribution channels
- Technological progress

It is important to consider that key success factors may change over time, especially as the product progresses through its life cycle.

## **Applications**

The literature defines several areas in which market analysis is important. These include: sales forecasting, market research, and marketing strategy. Not all managers will need to conduct a market analysis. Nevertheless, it would be important for managers that use market analysis data to know how analysts derive their conclusions and what techniques they use to do so.

In addition, the market opportunity consists of a market segment which, when properly analyzed and forecasted, illustrates profit and potential for use of franchisees. Market segment may simply be defined as a group of individuals or

organizations which share one or more characteristics and have relatively similar product needs.

The market opportunity analysis endeavors to estimate the size and sales potential of a specific market segment of interest to you as a franchisee while also assessing key competitors in the specific market segment. It is important as a franchisee that you take the time to analyze your market opportunity in a specific target market area.

The common criteria for describing market segments in consumer markets include:

- (1) a specific geographic locations of potential customers,
- (2) individual demographic characteristics,
- (3) psychological characteristics,
- (4) the needs or benefits which they would obtain from using a product, and
- (5) the purchasing power which they have or the amount of product or services that they normally purchase or consume.

The market segments size simply refers to the number of potential customer in a specific market segment. The market segment sales potential is an estimate of the maximum amount of units of a product that could be sold in that specific market segment during a specified period. The franchise sales potential, therefore, is the amount you could possibly sale in your market segment during a specified time period.

**Key Competitor Analysis** Because most franchise businesses face competition, it is important that a competitor analysis be developed for all key competitors in any business which sell substitutable goods or services. Key competitors are generally defined as other firms that target the same markets and have similar product or

substitutes which may meet the consumers needs. The idea behind the key competitor analysis is to ascertain the numbers as well as the strengths and weaknesses of key competitors. It is important that you also assess their current market strategies and the strength of their current business operation.

#### **1.4 Forecasting and market demand**

**Demand forecasting** is the activity of estimating the quantity of a product or service that consumers will purchase. Demand forecasting involves techniques including both informal methods, such as educated guesses, and quantitative methods, such as the use of historical sales data or current data from test markets. Demand forecasting may be used in making pricing decisions, in assessing future capacity requirements, or in making decisions on whether to enter a new market.

Methods that rely on qualitative assessment

Forecasting demand based on expert opinion. Some of the types in this method are,

Unaided judgment

Prediction market

Delphi technique

Game theory

Judgmental bootstrapping

Simulated interaction

Intentions and expectations surveys

Conjoint analysis

Jury of executive method

## **Methods that rely on quantitative data**

Discrete Event Simulation

Extrapolation

Reference class forecasting

Quantitative analogies

Rule-based forecasting

Neural networks

Data mining

Causal models

Segmentation

## **some of the other methods**

a) time series projection methods this includes:

moving average method

exponential smoothing method

trend projection methods

b) causal methods this includes:

chain-ratio method

consumption level method

end use method

### **1.4.1 Measures and Market Demand**

Defining the demand for your product within the wider consumer market is an important step in market analysis. It will help you to develop effective strategies to promote and sell your product to as many potential customers as possible.

Market demand is the total volume of a product or service that would be bought by a consumer group where the location, time period and marketing effort are defined. Market demand can depend on environmental factors as well, such as the sales of a related product or service or the current economic conditions.

Base line market demand is called the market minimum. This refers to the number of sales that would occur regardless of any marketing efforts or underlying factors. There is also a limit to market demand that is referred to as market potential. Market potential is where an increased marketing effort, even combined with other factors, would have no effect on overall sales.

Market demand can also be divided into two categories, primary and selective demand. Primary demand is the total demand for all brands of a given product or service. Selective demand is the demand for a given brand of product or services.

A business should estimate what its share of the market could be in order to assess its business potential. Once you have analysed the entire potential market for your product, study the competitors and their customers. Then gauge what amount of this market you can realistically see your business capturing.

To measure market demand, you can use published industry statistics, surveys or even by spying on your competitors and compiling a list of how many customers they have and how many sales they make.

Using this knowledge, you can estimate what the market demand for your business will be. The market demand of your business is equal to your potential market share multiplied by the total market demand.

#### **1.4.2 Terminology for measuring demand**

Supply and Demand analysis is relatively straight-forward once the terminology is understood. The important terms are as follows:

- Price

- Quantity
- Demand and Demand Curve
- Quantity Demanded
- Supply and Supply Curve
- Quantity Supplied
- Equilibrium
- Surplus
- Shortage

Basic supply and demand analysis is done one of two ways - either graphically or numerically. If done graphically, it is important to set up the graph in the 'standard' form.

#### **The Graph**

Traditionally economists have placed price (P) on the Y-axis and quantity (Q), as in quantity consumed or quantity purchased/sold on the X-axis. An easy way to remember how to label each axis is to remember 'P then Q', since the price (P)

label occurs above and to the left of the quantity (Q) label. Next there are two curves to understand - the demand curve and the supply curve.

### The Demand Curve

A demand curve is simply a demand function or demand schedule represented graphically. Note that demand is not simply a number - it is a one-to-one relationship between prices and quantities. The following is an example of a demand schedule:

#### Demand Schedule

\$10 - 200 units

\$20 - 145 units

\$30 - 110 units

\$40 - 100 units

Note that demand is not simply a number such as '145'. The quantity level associated with a particular price (such as 145 units @ \$20) is known as a quantity demanded.

A more detailed description of the demand curve can be found at: The Economics of Demand.

### The Supply Curve

Supply curves, supply functions and supply schedules are not conceptually different than their demand counterparts. Once again, supply is never represented as a number. When considering the problem from the point of view of the seller the quantity level associated with a particular price is known as quantity supplied. A more detailed description of the supply curve can be found at: The Economics of Supply.

## Equilibrium

Equilibrium occurs when at a specific price  $P'$ , quantity demanded = quantity supplied. In other words, if there is some price where the amount buyers wish to buy is the same as the amount sellers wish to sell, then equilibrium occurs. Consider the following demand and supply schedules:

### Demand Schedule

\$10 - 200 units

\$20 - 145 units

\$30 - 110 units

\$40 - 100 units

### Supply Schedule

\$10 - 100 units

\$20 - 145 units

\$30 - 180 units

\$40 - 200 units

At a price of \$20, consumers wish to purchase 145 units and sellers which to provide 145 units. Thus quantity supplied = quantity demanded and we have an equilibrium of (\$20, 145 units)

## Surplus

A surplus, from the supply and demand perspective, is a situation where, at the current price, quantity supplied exceeds quantity demanded. Consider the demand

and supply schedules above. At a price of \$30, quantity supplied is 180 units and quantity demanded is 110 units, leading to a surplus of 70 units ( $180-110=70$ ). Our market, then, is out of equilibrium. The current price is unsustainable and must be lowered in order for the market to reach equilibrium.

### Shortage

A shortage is simply the flip-side of a surplus. It is a situation where, at the current price, quantity demanded exceeds quantity supplied. At a price of \$10, quantity supplied is 100 units and quantity demanded is 200 units, leading to a shortage of 100 units ( $200-100=100$ ). Our market, then, is out of equilibrium. The current price is unsustainable and must be raised in order for the market to reach equilibrium.

#### **1.4.3 Estimated current demand**

When you are operating a small business it is important to understand the demand for your product. If you produce more products than there is demand for, then you will lose money to unsold stock. If you produce too few goods, then you will lose money from missed opportunities. Calculate the demand for goods based on your sales, publicly available data or your own survey of consumers.

### **Demand Forecasting**

Are inaccurate forecasts forcing you to fatten up your warehouse?

[advanceddistributionsoftware.com](http://advanceddistributionsoftware.com)

#### Step 1

Estimate consumer demand based on sales. Calculate the average monthly sales value of each item or group of items; this will give you an estimate of demand. For example, if you have average sales of books valued at \$3,000, then you can estimate the market demand for books to be \$3,000. This method is limited

however, as it only gives the demand for customers of your store; it does not give a picture of the entire market.

## Step 2

Estimate demand based on the Bureau of Labor Statistics' Consumer Expenditure Survey. Select the expenditure table for a specific demographic breakdown, such as age, income, place of residence or race -- you can also use the total population value in each table for a picture of all Americans. Look at the value for the specific type of product that you want to find the demand for and multiply it by the number of people in the demographic. For example, the 2009 survey indicates that the average American spends \$343 on furniture; with a total population of 307 million people, that reflects a national demand for furniture of \$105.3 billion.

Related Reading: Differences Between Aggregate Demand Curve and Market Curve

## Step 3

Estimate the demand for a product using your own survey if the Bureau of Labor Statistics doesn't have information for your specific product. Survey people in the area that you operate, or nationally for a national business. Your survey should ask how much money they spend on the product annually.

### 1.4.4. Estimating Future demand

The accurate estimation of future demand growth in power systems has important technical, economic, and regulatory repercussions. For example, future demand is a key input for regulators before approving future capital expenditures. Similarly, accurate estimation of future demand is extremely valuable when validating configuration of the electricity sector prior to ring-fencing and/or privatization. This paper proposes a top-down/bottom-up approach for accurately estimating future demand growth in a restructured environment. The results of the recent

application of this approach in a developing country in South America are also presented.

Forecasting is the process of estimating future demand by anticipating what customers are likely to do given a certain set of conditions. Forecasting can give you an advantage over your competitors during periods of market change.

Unfortunately, very few products, services, industries or markets are easy to forecast. This is because very few markets follow consistent cycles and there are a range of external and environmental factors that can cause changes to market demand. The more unstable the market, the better your forecasting will need to be.

The way to counter this is to have projections for a range of different circumstances. These projections can be based on indicators such as interest rates, inflation, market trends, changing consumer tastes and unemployment. Therefore, you can plan for and have strategies prepared to either survive tough times or be aggressive and increase your market share.

The benefits of conducting realistic forecasting are that you can reduce surplus inventory whilst ensuring that you have enough stock to meet demand. This means that you can avoid the costs associated with having excess or wasted stock as well as capitalise on making as many sales as possible.

There are a number of methods that you can implement in order to forecast the future market demand. Customer surveys will allow you to gain an understanding of what your customers believe the future holds for them, your business and the market. Analysis of the leading market indicators, expert opinion and past sales analysis can also help you to forecast future market demand.

#### **1.4.4 Performance Analysis in Marketing**

One of the core methodologies to measure marketing effectiveness is the collection of appropriate data. The gathering of right types of data, and its accuracy, is crucial in measuring the marketing performance. Agreement between the marketing department and the senior management is important in selecting appropriate data to be collected.

While data collection is relatively simple, a thorough analysis to make sense of collected data is critical. By thoroughly analyzing the data, organizations can gather actionable business insights to improve the marketing effectiveness and marketing efficiency. For example, organizations can use the analytics to drive the marketing return on investment, and make faster and better business decisions.

One common use of these analytics is optimizing marketing spending by using market mix models--models that measure the impact of marketing activities, competitive effects, and market environment on sales of a product. The consumer packaged goods (CPG) industry extensively uses this method, and it is now being adopted elsewhere. For example, in Financial Services, Marketing Mix Modeling projects and tools will collect all marketing spend into a single database, and analyze spend's effects on acquisition of new customers, retention, average customer value, up-sell of additional services, and so on. These models use data to create a model that establishes the link between spend in various channels, geographies and so on with incremental sales. The concepts and tools of these Marketing Mix Models date back over 30 years - but more sophisticated techniques developed in the 1990s/2000s by such agencies as ATG, MindShare, Edge, and Brand Science, coupled with the explosion in the quantity and availability of marketing data, have brought MMM into the mainstream. With the increased usage of the Internet, social networking sites, mobile advertising, and text messaging, interest in them is increasing.

#### **Metrics and management**

##### **Histograms help analyze metrics**

Measurement and metrics enable marketing professionals to justify budgets based on returns and to drive organizational growth and innovation. As a result,

marketers use these metrics and performance measurement as way to prove value and demonstrate the contribution of marketing to the organization.

Popular metrics used in analysis include activity-based metrics that involves numerical counting and reporting. For example, tracking downloads, Web site visitors, attendees at various events are types of activity-based metrics. However, they seldom link marketing to business outcomes. Instead, business outcomes such as market share, customer value, and new product adoption offer a better correlation. MPM focuses on measuring the aggregated effectiveness and efficiency of the marketing organization. Some common categories of these specific metrics include marketing's impact on share of preference, rate of customer acquisition, average order value, rate of new product and service adoptions, growth in customer buying frequency, volume and share of business, net advocacy and loyalty, rate of growth compared to competition and the market, margin, and customer engagement. In addition, MPM is used to measure the monitoring of operational efficiency and external performance.

Operations performance metrics is a term used when organizations manage marketing functions as a business. Organizations committed to implementing MPM may create positions such as marketing operations director and marketing finance director. Program-to-people ratios, awareness-to-demand ratios, the cost vs lead, the cost vs sale, and conversation rates are the typical data collected and analyzed. Operational performance metrics, however, primarily provide the organization with a way to rationalize marketing investments, but do not correlate marketing to business strategy and business performance.

MPM tightly focuses on these operating measures to help marketers view how efficiently resources of the organization such as people, facilities, and capital are used. External performance measures aligned with business outcomes assess things such as the value an organization provides to customers or the performance of an organization relative to its competitors.

By using a top-down approach, marketers develop metrics and specific performance targets known as key performance indicators (KPI). First business decisions are made to define the scope. To create metrics and KPIs, marketeers involved in MPM try to first brainstorm on the business outcome that they are trying to impact. This is followed by asking the opposite questions that need to be

answered to determine if the questions have an impact on this outcome, and the necessary supporting data required to answer these questions. After determining what data is needed, marketeers need to search for this data, and determine the decisions and actions that must be enforced as a result of this data mining.

#### **1.4.5 Performance Analysis in Marketing**

A "dashboard" is like a speedometer that marketing professionals use to report marketing performance

One way of displaying the performance measurements is with a dashboard.[8] The dashboard is where all data and metrics are collated and presented as useful information for the organization. Marketing professionals create these dashboards from metrics and KPIs. Organizations can then use this information to proceed with their marketing. In essence, a dashboard is a multilayered performance management tool that enables organizations to measure, monitor and manage business activity by using both financial and non-financial measures. The dashboard provides analysis into the progress of the organization toward achieving each defined objectives.

Executive level Strategic level Monitors and measures performance against business outcomes and marketing objectives

Operational level Marketing management Tracks performance of core marketing strategies and processes

Tactical level Functions and individuals Analyzes performance at project or activity level as they relate to the first two

An ideal dashboard should show the progress of marketing, help assess productive areas, and help in the decision making. In addition, dashboards provide an indication on the value of marketing and also helps to align marketing with the business.

## **Processes**

MPM professionals develop closed-loop business processes for data collection, performance target setting, measurement and reporting.

Processes must describe a document outlining the step-by-step actions that marketing must take to follow the process consistently. A valuable aid is the process map. Process mapping is a technique to create a clearly defined objective to meeting business results. It provides a systematic description of the actions taken by marketing personnel as they use a specific set of activities to produce a defined set of outcomes. It can also help identify skills the organization may need to implement the plan. In addition, an organization can use the process map to identify technology and training requirements. For organizations committed to implementing ISO 9001, process maps are an integral part of quality management.

### **1.5 Purchase Decision Process**

A buying decision process (or cost/benefit analysis) describes the process a customer goes through when buying a product. This buying decision model has gone through lots of interpretation by scholars. Although the models vary, there is a common theme of five stages in the decision process.

#### **Stages**

These stages were first introduced by John Dewey (1910). The stages are:

1. Problem/Need recognition
2. Information search
3. Evaluation of alternatives
4. Purchase decision

## **5.Post-purchase behavior**

These five stages are a good framework to evaluate customers' buying decision process. However, it is not necessary that customers get through every stage, nor is it necessary that they proceed in any particular order. For example, if a customer feels the urge to buy chocolate, he or she might go straight to the purchase decision stage, skipping information search and evaluation.

### **Problem/need-recognition**

Problem/Need-recognition is the first and most important step in the buying decision. Without the recognition of the need, a purchase cannot take place. The need can be triggered by internal stimuli (e.g. hunger, thirst) or external stimuli (e.g. advertising). Maslow held that needs are arranged in a hierarchy. According to Maslow's hierarchy, only when a person has fulfilled the needs at a certain stage, can he or she move to the next stage.

### **Information search**

The information search stage is the next step that the customers may take after they have recognized the problem or need in order to find out what they feel is the best solution. This is the buyers' effort at searching the internal and external business environments to identify and observe sources of information related to the focal buying decision. Consumers can rely on print, visual, and/or voice media for getting information.

## **Evaluation of alternatives**

At this stage, consumers evaluate different products/brands on the basis of varying product attributes, and whether these can deliver the benefits that the customers are seeking. This stage is heavily influenced by one's attitude, as "attitude puts one in a frame of mind: liking or disliking an object, moving towards or away from it". Another factor that influences the evaluation process is the degree of involvement. For example, if the customer involvement is high, then he/she will evaluate a number of brands; whereas if it is low, only one brand will be evaluated.

## **Purchase decision**

This is the fourth stage, where the purchase takes place. According to Philip Kotler, Keller, Koshy and Jha (2009), the final purchase decision can be disrupted by two factors: negative feedback from other customers and the level of motivation to comply or accept the feedback. For example, after going through the above three stages, a customer chooses to buy a Nikon D80 DSLR camera. However, because his good friend, who is also a photographer, gives him negative feedback, he will then be bound to change his preference. Secondly, the decision may be disrupted due to unanticipated situations such as a sudden job loss or the closing of a retail store.

## **Post-purchase behavior**

These stages are critical to retain customers. In short, customers compare products with their expectations and are either satisfied or dissatisfied. This can then greatly affect the decision process for a similar purchase from the same company in the future, mainly at the information search stage and evaluation of alternatives stage. If customers are satisfied, this results in brand loyalty, and the information search and evaluation of alternative stages are often fast-tracked or skipped completely. As a result, brand loyalty is the ultimate aim of many companies.

On the basis of either being satisfied or dissatisfied, a customer will spread either positive or negative feedback about the product. At this stage, companies should carefully create positive post-purchase communication to engage the customers.

Also, cognitive dissonance (consumer confusion in marketing terms) is common at this stage; customers often go through the feelings of post-purchase psychological tension or anxiety. Questions include: "Have I made the right decision?", "Is it a good choice?" etc.

### **1.5.1. Purchase decision process stages**

Buyer decision processes are the decision making processes undertaken by consumers in regard to a potential market transaction before, during, and after the purchase of a product or service.

More generally, decision making is the cognitive process of selecting a course of action from among multiple alternatives. Common examples include shopping and deciding what to eat. Decision making is said to be a psychological construct. This means that although we can never "see" a decision, we can infer from observable behavior that a decision has been made. Therefore we conclude that a psychological event that we call "decision making" has occurred. It is a construction that imputes commitment to action. That is, based on observable actions, we assume that people have made a commitment to effect the action.

In general there are three ways of analyzing consumer buying decisions. They are:

Economic models - These models are largely quantitative and are based on the assumptions of rationality and near perfect knowledge. The consumer is seen to maximize their utility. See consumer theory. Game theory can also be used in some circumstances.

**Psychological models** - These models concentrate on psychological and cognitive processes such as motivation and need recognition. They are qualitative rather than quantitative and build on sociological factors like cultural influences and family influences.

**Consumer behavior models** - These are practical models used by marketers. They typically blend both economic and psychological models.

Neuroscience has become both a useful tool and a source of theory development and testing in buyer decision-making research, and using neuroimaging devices in order to investigate consumer behavior developed under the name of Neuromarketing. What is going on inside the head of the consumer as measured by various neuroimaging and biological correlates like genes and hormones can provide new insights and new ways to test theory, so this is a great opportunity for the decision-making researcher.

There are 5 stages which a consumer often goes through when he/she around their Purchase. These stages also exist because of normal human psychology.

These 5 stages are:

**Problem/Need Recognition-** This is in general the first stage in which the consumer recognizes that what essentially is the problem or need and hence accordingly a consumer can identify the product or kind of product which would be required by the consumer.

**Information Search-** In information search, the consumer searches about the product which would satisfy the need which has been recognized by the consumer in the stage previous to this one.

**Evaluation of Alternatives** - In this stage, the consumer evaluates the different alternatives which the consumer comes across, when the consumer was searching for information. Generally in the information search the consumer comes across

quite a few products and thus now the consumer has to evaluate and understand which product would be properly suited for the consumer.

**Purchase**-After the consumer has evaluated all the options and would be having the intention to buy any product, there could be now only two things which might just change the decision of the consumer of buying the product that is what the other peers of the consumer think of the product and any unforeseen circumstances. Unforeseen circumstances for example in this case could be financial losses which led to not buying of the product.

**Post Purchase Behavior**-After the purchase the consumer might just go through post purchase dissonance in which the consumer feels that buying the other product would be better. But a company should really take care of it, taking care of post purchase dissonance doesn't only spread good words for the product but also increases the chance of frequent repurchase.

Nobel laureate Herbert A. Simon sees economic decision making as a vain attempt to be rational. He claims (in 1947 and 1957) that if a complete analysis is to be done, a decision will be immensely complex. He also says that peoples' information processing ability is very limited. The assumption of a perfectly rational economic actor is unrealistic. Often we are influenced by emotional and non-rational considerations. When we try to be rational we are at best only partially successful.

### **Models of buyer decision making.**

Making a few last minute decisions before purchasing a gold necklace from a Navy Exchange vendor

In an early study of the buyer decision process literature, Frank Nicosia (Nicosia, F. 1966; pp 9–21) identified three types of buyer decision making models. They are the univariate model (He called it the "simple scheme".) in which only one behavioural determinant was allowed in a stimulus-response type of relationship; the multi-variate model (He called it a "reduced form scheme".) in which numerous independent variables were assumed to determine buyer behaviour; and finally the "system of equations" model (He called it a "structural scheme" or

"process scheme".) in which numerous functional relations (either univariate or multi-variate) interact in a complex system of equations. He concluded that only this third type of model is capable of expressing the complexity of buyer decision processes. In chapter 7, Nicosia builds a comprehensive model involving five modules. The encoding module includes determinants like "attributes of the brand", "environmental factors", "consumer's attributes", "attributes of the organization", and "attributes of the message". Other modules in the system include, consumer decoding, search and evaluation, decision, and consumption.

Some neuromarketing research papers examined how approach motivation as indexed by electroencephalographic (EEG) asymmetry over the prefrontal cortex predicts purchase decision when brand and price are varied. In a within-subjects design, the participants were presented purchase decision trials with 14 different grocery products (seven private label and seven national brand products) whose prices were increased and decreased while their EEG activity was recorded. The results showed that relatively greater left frontal activation (i.e., higher approach motivation) during the predecision period predicted an affirmative purchase decision. The relationship of frontal EEG asymmetry with purchase decision was stronger for national brand products compared with private label products and when the price of a product was below a normal price (i.e., implicit reference price) compared with when it was above a normal price. Higher perceived need for a product and higher perceived product quality were associated with greater relative left frontal activation.

## **Cognitive and personal biases in decision making**

It is generally agreed that biases can creep into our decision making processes, calling into question the correctness of a decision. Below is a list of some of the more common cognitive biases.

**Selective search for evidence** - We tend to be willing to gather facts that support certain conclusions but disregard other facts that support different conclusions.

**Selective perception** - We actively screen-out information that we do not think is salient.

**Premature termination of search for evidence** - We tend to accept the first alternative that looks like it might work.

**Conservatism and inertia** - Unwillingness to change thought patterns that we have used in the past in the face of new circumstances.

**Experiential limitations** - Unwillingness or inability to look beyond the scope of our past experiences; rejection of the unfamiliar.

**Wishful thinking or optimism** - We tend to want to see things in a positive light and this can distort our perception and thinking.

**Recency** - We tend to place more attention on more recent information and either ignore or forget more distant information.

**Repetition bias** - A willingness to believe what we have been told most often and by the greatest number of different sources.

**Anchoring** - Decisions are unduly influenced by initial information that shapes our view of subsequent information.

**Group think** - Peer pressure to conform to the opinions held by the group.

**Source credibility bias** - We reject something if we have a bias against the person, organization, or group to which the person belongs: We are inclined to accept a statement by someone we like.

**Incremental decision making and escalating commitment** - We look at a decision as a small step in a process and this tends to perpetuate a series of similar decisions. This can be contrasted with zero-based decision making.

**Inconsistency** - The unwillingness to apply the same decision criteria in similar situations..

**Attribution asymmetry** - We tend to attribute our success to our abilities and talents, but we attribute our failures to bad luck and external factors. We attribute other's success to good luck, and their failures to their mistakes.

**Role fulfillment** - We conform to the decision making expectations that others have of someone in our position.

**Underestimating uncertainty and the illusion of control** - We tend to underestimate future uncertainty because we tend to believe we have more control over events than we really do.

**Faulty generalizations** - In order to simplify an extremely complex world, we tend to group things and people. These simplifying generalizations can bias decision making processes.

**Ascription of causality** - We tend to ascribe causation even when the evidence only suggests correlation. Just because birds fly to the equatorial regions when the trees lose their leaves, does not mean that the birds migrate because the trees lose their leaves.

### 1.5.2 Organizational Purchase

We now move to an examination of how purchases are made by organizational buyers. The process is fundamentally the same as described for consumer buying -- many of the steps are similar, if not identical. As with consumer buying, because some decisions are more complex than others, not all decisions will involve all the steps discussed. Nor will the steps require the same degree of attention, resource commitments, and personnel. New task decisions normally involve all the steps we will discuss; steps may be abbreviated or skipped entirely for modified rebuys and straight rebuys. However, it is always important to recognize that, for every organizational purchase decision, the over-riding objective is to make the decision that is in the best interests of the firm. As a result, the emphasis in decision-making is on objectivity and maximizing utility. With these caveats in mind, the organizational buying process consists of seven steps, ranging from 'need recognition' to 'post-purchase evaluation.'

Need recognition can result in several ways. Internal stimuli that trigger need recognition and kick-off the purchase process are those that result from some event within the firm. For example, need recognition may occur when users or other initiators suggest that costs can be reduced or efficiency improved by investing in new equipment or making changes in existing processes. Often, the need to engage in a purchase decision results from a dissatisfying experience with existing

products or vendors. Something goes wrong! These "triggers" generally lead to modified rebuys or new task purchase decisions.

In contrast, many purchases result from virtually 'automatic' need recognition associated with running low on operating supplies, parts, or materials. Many vendors will monitor their customers' inventories and automatically ship additional supplies when inventories reach critical points. Such arrangements are consistent with trends toward "systems contracting" in which buyers contract with a single vendor to provide for all of its MRO requirements. Clearly, this scenario is more as The second step in the organizational buying process is one of the more critical steps. At this stage, organizational buyers determine exactly what it is they need by defining the specifications and other important selection criteria for both the product and its potential vendors. This is an easy process for products that are frequently purchased. For example, with a straight rebuy of office or janitorial supplies, there is little reason to identify technical specifications because these specifications have been adequately outlined and applied with past purchase decisions. Often all that is required with the straight rebuy is to identify quantities that may be required of specific products.

In contrast, when engaged in modified rebuy or new task decisions, greater expenditures of time and effort may be required to identify exactly what is needed and set detailed specifications. Buyers may need to work extensively with engineers and other technicians to ensure that the right specifications are identified to ensure that satisfactory levels of quality and reliability are obtained.

During this phase, "value analysis" may be employed. A team of technicians may be appointed to examine high-cost components of products with an eye toward modifying the general design of this product and other products such that they employ common parts. The usual objective of value analysis is to save money. Products and their component parts are critically evaluated with respect to function and design in order to improve quality and, at the same time, substantially lower production and product costs. There are many examples of simple, straightforward

design and manufacturing changes that have produced spectacular cost savings. The purchasing department usually kicks off value analysis efforts. Normally, however, the value analysis team will include purchasing personnel, engineers, and representatives from marketing and finance. Value analysis teams may even involve representatives from the seller's organization. By involving vendors in the value analysis process, buyers can ensure that suppliers have a better understanding of their needs and, as a result, are better able to design products that deliver the level of required performance. The supplier's representative to the value analysis team plays an active role in the team's efforts by providing timely and valuable recommendations for design changes, and critical data concerning the vendors products. Associated with the straight re buy decision.