COMPETITIVE IMPROVEMENT PLANNING: USING ANSOFF'S MATRIX WITH ABELL'S MODEL TO INFORM THE STRATEGIC MANAGEMENT PROCESS

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ABSTRACT

Modern strategic management textbooks offer the strategic management process to craft strategy at both the business unit and corporate level of analysis. In this paper, I make a case that corporate level analysis and strategic business unit level of analysis represents two different analytical paths, with each seeking a distinctly different destination. This approach to competitive improvement uses the Ansoff Matrix, Abell's model, and the business level strategic management process to produce competitive advantage.

INTRODUCTION

Case analysis has been widely utilized to enhance the student's educational experience by providing opportunities to apply the theoretical content of business courses to real world situations and thereby moves the student from passive learner to active learner as students practice solving business problems. The textbooks of the eighties and nineties provided the business student with specific case analysis methodologies (e.g., Hill & Jones, 1998). Recent textbooks have adopted the strategic management process as the model for crafting corporate strategy but these textbooks no longer contain explicit step by step case analysis methodologies (e.g., Barney & Hesterly, 2012; Barney, 2011; Hitt, Ireland, & Hoskisson, 2011; etc.) as to how students are supposed to perform case analysis while utilizing the SMP; this article partially fills that void.

Figure 1
The Strategic Management Process

				External ↑				
Mission	→	**Objectives**	→	|	→	**Strategic → Choice**	**Strategic Implementation**	→ **Competitive Advantage**
				↓ Internal				

Source: adapted from J.B. Barney. (2011). *Gaining and Sustaining Competitive Advantage,(fourth edition).* Upper Saddle River, NJ: Prentice-Hall. p. 5.

At the strategic business unit level of analysis, the focus on *competitive advantage* (Porter, 1985) and sustaining it (e.g., Barney, 1986; Barney, 1991) dominates modern strategic textbooks (e.g., Barney & Hesterly, 2012; Barney, 2011; Hitt et al., 2011; etc.). As shown in Figure 1, the SMP begins with mission definition and concludes with *competitive advantage* (Barney, 2011).

Hitt et al. (2011) present a corporate level view of the strategic management process (see figure 2) and use that view as the outline for their textbook. In their view of the strategic management process the final outcome is above average returns (investor). Hitt, et al. (2011) utilize returns to characterize the competitive status of the firm: Above average returns = competitive advantage; average returns = competitive parity; below average returns = competitive disadvantage. *Return on equity* then is the relevant measure of corporate strategic effectiveness (Hitt et al., 2011), however, at the strategic business unit level of analysis, *competitive advantage* is the relevant measure (Barney, 2011).

Figure 2
The Strategic Management Process

The External Environment
The Internal Organization → **Mission** → **Vision** → **Strategic Formulation** → **Strategic Implementation** → **Above-Average Returns**

Source: adapted from Hitt, M. A., Ireland, R. D., & Hoskisson, R. E. (2011) Strategic Management: Competitiveness & Globalization, (ninth edition) Mason, OH: South-Western Cengage Learning. p. 5.

The Ansoff Growth Matrix (Ansoff, 1965), combined with Abell's Model (1980), provides students with a way to differentiate between SBU level analysis and corporate level analysis when using the SMP. Abell's (1980) Model (Figure 3) uses three variables to define a

Figure 3
Ansoff Growth Matrix

	Existing Customers	New Customers
Existing Products	Market Penetration	Market Development
New Products	Product Development	Diversification

Source: Ansoff, I.: (1957). Strategies for Diversification, *Harvard Business Review*, 35: 5. pp. 113-124

business: who's the customer, what need is satisfied, and how is it satisfied. By applying Abell's (1980) model to the Ansoff Matrix the *customer* (new versus existing) remains the variable on one axis but the other axis variable becomes "what and how the customer need is satisfied," (in other words, new versus existing core competencies) instead of *products*. The four cells of the matrix are redefined as follows.

Market penetration is the growth strategy that utilizes core competencies of the existing value chain (Porter, 1985), e.g., existing competitive advantage, to increase market share by selling more to existing customers, without sacrificing return on sales. The strategic management process as depicted in Figure 1 describes this purely SBU based strategy. If the firm doesn't hold sustained competitive advantage, then *market penetration* requires the creation and implementation of a competitive improvement plan at the strategic business unit level.

Market development, is a hybrid growth strategy in that it contains elements of both SBU and corporate level decision making. To the extent that existing core competencies can be utilized, market development is SBU level strategy (Figure 1) and to the extent that new competencies must be created or acquired, market development is corporate level strategy (Figure 2). With market development, we are meeting the same need of new customers in the same way we have met our old customer needs. In all cases, strategic implementation (Figure 2, the investing and financing decisions of an internal capital market) takes place at the corporate level of analysis. .

Product development, like market development, is a hybrid growth strategy in that it contains elements of both the SBU and corporate level strategic management models. However, because product development meets different customer needs in a different way it is less likely to utilize existing competitive advantage than market development. Therefore, this could be business level strategy or corporate level depending upon whether a new value chain (e.g., a new set of competencies) must be created or acquired. And, as was the case with market development, strategic implementation (Figure 2, the investing and financing decisions of an internal capital market) takes place at the corporate level of analysis. .

Diversification is the riskiest growth strategy and it is farthest removed from *market penetration*. The decision to implement diversification takes place at the corporate level of analysis as depicted in Figure 2 and involves either the acquisition (e.g., M & A) of a new value chain or the creation of a new value chain to serve new customers. Investing and Financing decisions associated with M & A activities take place at the corporate level and ROE is the goal.

THE STRATEGIC MANAGEMENT PROCESS

Crafting strategy through the SMP requires that the strategist explicitly identify the level of analysis being performed: strategic business unit level (Figure 1) or corporate level (Figure 2). This clarifies the objective of the analysis; SBU level (Figure 1) seeks competitive advantage improvement, corporate level (Figure 2) seeks return on equity. SMP also assumes the use of the resource based view when utilizing the SBU level of analysis. Corporate level analysis can be invoked for one of two reasons, 1) making investing decisions concerning SBU level projects in an internal capital market and 2) the execution of a growth strategy of diversification which focuses on M & A activity; but both cases involve investing and financing decisions – the subject matter of corporate finance classes (e.g., Brealey, Myers, & Marcus, 2009); operating decisions on the other hand, occur at the SBU level of analysis and are facilitated by the subject matter of accounting classes (e.g., Gelinas & Dull, 2010). For students trying to synthesize, strategic management, corporate finance and managerial accounting into a unified rationale their recognition that investing and financing decisions are corporate level and operating decisions are business level is a valuable insight. Establishing the linkage between of strategic level of analysis and decision type then permits the use of the DuPont Formula (e.g., Brigham & Houston, 2007) to show the linkage between the SBU level of the SMP (Figure 1) and the corporate level of the SMP (Figure 2).

SMP: Writing the Business Level Competitive Improvement Plan

Based upon previous analysis, a competitive improvement plan, a plan designed to improve competitive advantage, is SBU level SMP (Figure 1) analysis. The initial decision must select a business level strategy – low cost supplier or differentiated supplier (Porter, 1980). Given a business level strategy, the strategist will utilize a resource based view (Barney, 1991) and value chain analysis (Porter, 1985) to guide the assembly of a set of resources and capabilities upon which can be built a set of core competencies that yield sustainable competitive advantage (Barney, 1986). Then, given a competitive advantage, the strategist must pursue market penetration or market development as a way of exploiting the business unit's competitive advantage while concurrently enhancing return on sales.

The following is a systematic method for using the SBU level SMP to develop strategies designed to produce *competitive advantage* at the SBU level of analysis. According to Barney (2012, p. 10) "the ultimate objective of the SMP is to enable a firm to choose and implement a strategy that generates a competitive advantage." Barney and Hesterly (2012, p. 66) further highlight the relationship of competitive advantage to the resource based view (Wernerfelt, 1984), by stating, "RBV is a model of firm performance that focuses on the notion that unique resources and capabilities controlled by a firm are the source of competitive advantage."

Step 1. Historical Context.

Create a historical context (competitive status of industry players) define industry value chain, historically, how the company came to be in its current competitive situation. The historical contest section is divided into three parts with each described below.

Business Definition. Provide the strategic mission and strategic intent (goals) of the firm. Strategic intent is a statement of perfection. This should include a discussion of the future of the industry based on the company and their competitor's perceptions. Some companies use the term vision to provide strategic intent, other, use goals. It is usually useful to compare the firm's mission statement with competitors. Use Abell's (1980) model (who's the customer; what need is being met; and how is that need being met?) to define each business.

Competitive Status Assessment. The use of the word competitive advantage implies a comparison of at least two entities and describes how one is better than another. The term competitive advantage then is an attribute of one firm versus other firm(s). You can verify your assessment by checking for the correlates of competitive advantage such as the Price/Book ratio (Brigham & Houston, 2007) or other lagging indicators of competitive advantage.

History. The firm history should include a general description of the company studied (brief historical review). Include the Board of Directors (provide an attachment of the members and their affiliation) and the CEO (profile and comparison with competitor CEOs). Also include industry background with a general description of companies, economic factors impacting the success of the industry, the market, consumer trends, placement of the competitors, and strategic groups.

Step 2: Exogenous Analysis

The exogenous analysis section identifies the conditions, external to the firm, that impact competitive advantage. Trend identification is critical, you must predict the future external environment and its impact on competitive advantage. The resource based view (RBV) paradigm focuses the external analysis on the following areas:

Macro-environment analysis requires an assessment of those threats originating from outside the firm in the macro environment. Those forces include the macroeconomic, government and political forces. In Sun Tzu's vernacular, this is the climate.

Industry environment analysis begins with the *life cycle model*; this will be the source of opportunities. Next describe the *industry level value chain* and identify the key firms in each link. Finally, assess the threats inherent to the industry that bear on firm competitiveness – use Porter's (2008) *Big 5 threats model.* In Sun Tzu's vernacular, this is the weather.

Strategic rival identification. This step utilizes competitive status assessments from step 1 to determine which firms possess competitive advantage, parity, and disadvantage. See Taylor and Nichols (In Press) for this assessment methodology.

Step 3: Endogenous Analysis

The endogenous analysis section identifies the conditions emanating from within the firm that impact the business unit's competitive advantage. Consistent with the focus of the strategic management process, this step identities the resources and capabilities associated with acquiring and sustaining competitive advantage. The endogenous analysis must address the following:

Resources (tangible & intangible)
Capabilities
Core Competencies
Competitive Advantage

Value Chain Analysis, at the firm level, identifies specifics for the business of interest given a generic model given the following five links: inbound logistics, operations, marketing, outbound logistics and service after the sale. Finally, the analyst places the firm level value chain within the context of the industry value chain.

Linkage analysis defines core competencies by providing the link between the value chain resource/capability and competitive advantage. Those resources and capabilities that link to competitive advantage are then, by definition, core competencies. Both primary value chain links and support activities should be addressed even though typically, only value chain links can produce competitive advantage.

VRIO analysis. Once the linkages to competitive advantage are defined, utilize Barney and Hesterly's (2012) VRIO framework (i.e., Valuable, Rare, Imitable, & Organization) to evaluate each core competency for sustainability of competitive advantage..

Step 4: Strategic formulation

Organizational Effectiveness Assessment constitutes a summary of the analysis contained in the preceding sections. Your summary should highlight the evidence of the firm's success or failure. Express assessments of organizational effectiveness, or lack thereof, in terms of competitive advantage, competitive parity, or competitive disadvantage.

Identify critical resource & capability areas. Review your previous analysis and identify those resources and capabilities (core competencies) that are the basis for competitive advantage and disadvantage of the firm of interest.

Generate a list of critical strategic actions (CSAs) that will add to competitive advantage or reduce and/or eliminate competitive disadvantage. Critical strategic actions are by definition associated with mission and vision. If vertical integration is a recommended course of action, note that the decision to vertically integrate is derived from business level value chain analysis and not at the corporate level as suggested by many texts (e.g., Barney, 2011; Hitt, et al., 2011).

Step 5: Strategic Implementation

Assess alternatives and recommend a ***competitive improvement plan.*** Your recommended strategic course of action must implement at least one of the CSAs. Cite supporting evidence drawn from the analysis. Finally, your analysis should address expected industry reactions and results, and contingency plans for dealing with those reactions. When assessing alternatives be sure to include multiple stakeholder viewpoints and make sure that you address the issues of ethics and social responsibility. Finally, you should define the measures to be used in follow-up analysis. You may choose to use direct measures to verify that the resource/capability you are creating impacts the firm's competitive advantage in the intended manner. In the final analysis, recalculation of competitive advantage will always provide the acid test of any competitive improvement plan.

CONCLUSION

This paper provides a frame of reference for the use of SMP in strategic management courses. It provides a framework for focusing analysis on either competitive advantage or return on equity by helping the student determine the appropriate strategic level of analysis. Finally, this paper has shown the student how to conduct business level analysis designed to produce competitive improvement.

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