FOCUS 4

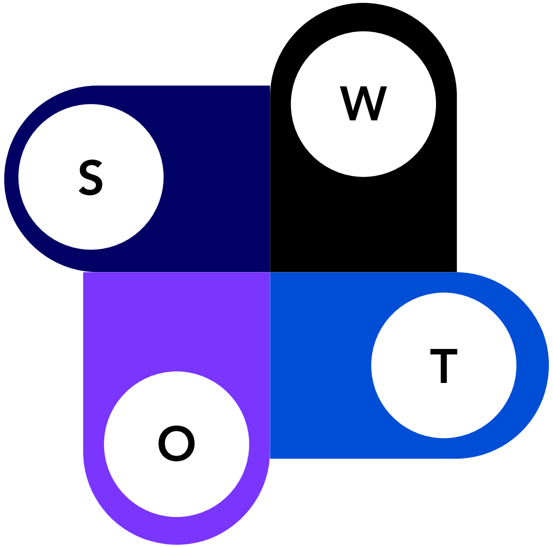
Consulting Tools

Consulting & Analytics Club
IIT Guwahati

SWOT Analysis

Overview — SWOT Analysis

SWOT is a great tool to capture the current state of your organisation; it helps set objectives for strategic planning and identify the firm's core competencies. It analyses whether or not to embark on a strategy.



Internal	Strengths	Weaknesses
External	Opportunities	Threats
	Helpful	Harmful

Tips and Tricks (1/2)

Strengths	Weaknesses
1. What is our competitive advantage? 2. What resources do we have? 3. What products are performing well?	1. Where can we improve? 2. What products are underperforming? 3. Where are we lacking resources?
Opportunities	**Threats**
1. What technology can we use to improve operations? 2. Can we expand our core operations? 3. What new market segments can we explore?	1. What new regulations can threaten the operations? 2. What do our competitors do well? 3. What consumer trends threaten business?

Tips and Tricks (2/2)

Internal Factors	Weaknesses
1. Aspects of the company which it does/ does not do well at. 2. Qualities that make the company better/ worse than its competitors. 3. Assets/liabilities that the company holds (including financial, physical and human). 4. A USP.	1. Market scenario and the relevance of the product being sold . 2. Press/Media coverage of the brand. 3. Customer satisfaction/dissatisfaction 4. Changing trends and customer behaviour.

Practice Problem

Perform a SWOT Analysis on **Apple, Inc.** Refer to the solved example given on the next page.

Solved Example — SWOT Analysis on Unilever

Strengths	Weaknesses
1. High brand awareness 2. Caters to a diverse set of users 3. A wide range of products 4. A strong 4-tier distribution system	1. Most products are imitable i.e. no clear USP. 2. Stagnation of businesses due to marketing myopia*
Opportunities	**Threats**
1. Venturing into health conscious and ayurvedic products whose demand is increasing 2. Strengthening the brand using M&A	1. Competition from companies with specific products 2. Increasing FDI in retail resulting in increased competition from international brands

* This refers to a lack of foresightedness in marketing strategies and overemphasising sales.

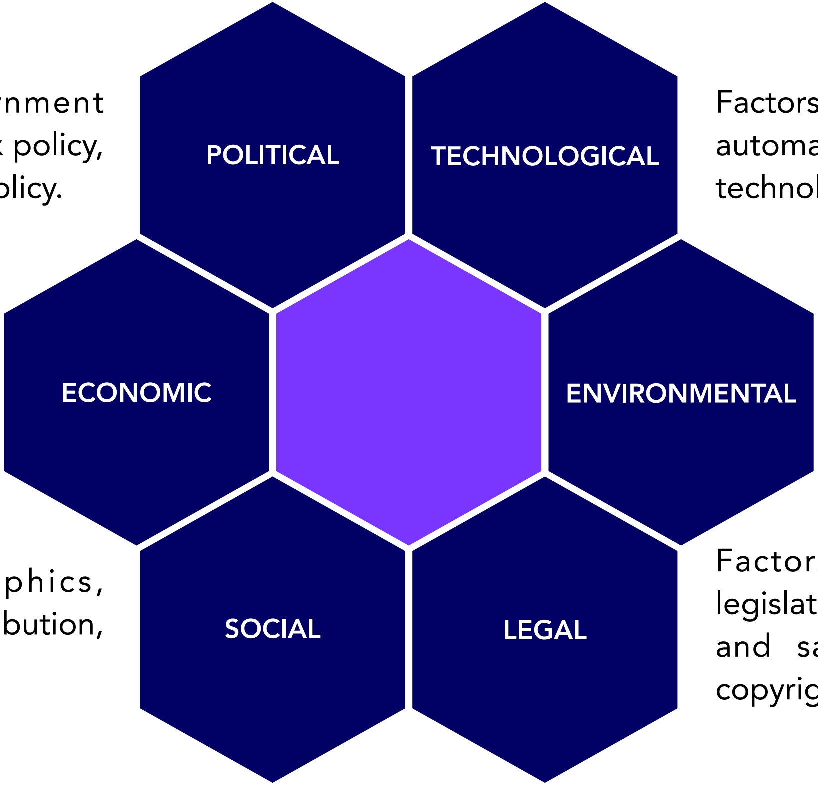
PESTEL Analysis

Overview — PESTEL Analysis

Factors such as government policy, political stability, tax policy, labour law, foreign trade policy.

Factors like economic growth, interest rates, inflation, exchange rates, employment rates, and purchasing power.

Factors like demographics, culture, lifestyle, age distribution, and career attitudes.



Factors like digital transformation, automation, R&D, innovation, and technological awareness.

Include climate change, recycling procedures, carbon footprint, waste disposal, sustainability and net-zero targets.

Factors such as employment legislation, consumer laws, health and safety, trade regulations, copyrights and patents

What is PESTEL Analysis?

PESTEL Analysis is a tool that analyses the **external environment** of an organisation or business.

When is it best of use?

- It is useful when entering a new market or starting a new business.
- PESTEL Analysis helps us identify the EXTERNAL factors that affect a company or organisation.
- These factors affect your business and operations, but the effect cannot be seen the other way round. These are generally climate, industry trends, inflation, etc.
- The company has no say on these factors. But conducting a PESTEL Analysis on them gives us a better insight into the industry.

Solved Example — PESTEL Analysis on DELL

Political Factors

1. Has to follow tax regulations and trade tariff.
2. Have to consider political stability and relations between countries as to not to impact the supply of raw materials and semi finished goods carried for assembly.

Economic Factors

1. Products are generally expensive.
2. Have to consider import rates, exercise duty and exchange rates as they can spike up the cost of products.

Social Factors

1. Increasing popularity of gaming and esports in major markets.
2. Pandemic increased the demand for laptops.
3. Decreasing popularity for the brand among younger age groups.

Technological Factors

1. Technology is continuously developing, requiring companies to release products frequently.
2. Strong competition from brands offering cheaper prices.

Environmental Factors

1. Need to recycle e-waste properly
2. Increasing pressure to adopt greener technology
3. Leaving Carbon footprints is a concern

Legal Factors

1. Need to follow labor and employee safety laws.
2. DELL needs to follow taxation laws in the operating markets to avoid penalties.

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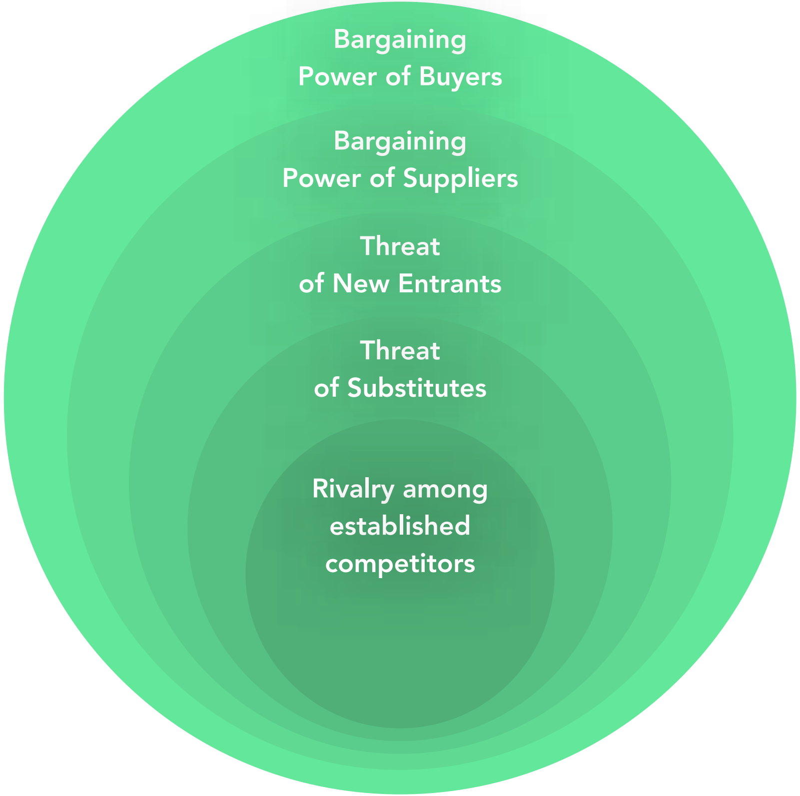
Porter's Five Forces Analysis

Overview — Porter's Five Forces

The Five Forces determine the competitive structure of an industry and its profitability. Industry structure and a company's relative position within the industry are the two fundamental drivers of profitability.

1. Understand your industry of interest.
2. Identify attractive vs less attractive industries/markets.
3. Identify opportunities and risks.
4. How profits within an industry will be distributed
5. Extrapolate industry trends & anticipate changing trends.



Porter's Five Forces — Explained

Bargaining Power of Buyers
Price sensitivity, Number of Customers, Buyer’s ability to substitute, Size of each customer order, Buyer’s information, Difference between competitors.

Threat of Substitutes
Number of substitutes, Buyer propensity to substitute, Relative price performance of substitute, Perceived level of product differentiation, Switching costs

Bargaining Power of Suppliers
Number and size of suppliers, Uniqueness of each supplier’s product, Ability to substitute

Rivalry among competitors
Industry growth, Quality differences, Brand loyalty, Barriers to exit, Number of competitors, Diversity of competitors

Threat of New Entrants
Switching costs, Barriers to entry, Capital requirements, Cumulative experience, Access to distribution channels.

Tips and Tricks

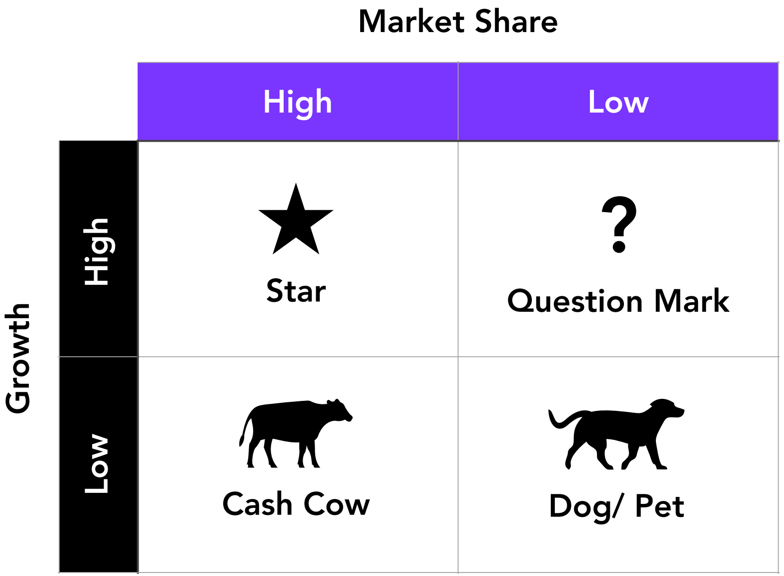
1. Use this model where there are at least three competitors in the market.
2. Consider the impact that government has or may have on the industry.
3. Consider the industry lifecycle stage-earlier stages will be more turbulent.
4. Consider the dynamic/changing characteristics of the industry.
5. Avoid using this model for an individual firm; it is designed for use on an industry basis.

BCG Growth-Share Matrix

Overview — BCG Growth-Share Matrix

The BCG Growth-Share Matrix is a portfolio management framework developed by the Boston Consulting Group (BCG) to assist a company and show where to invest its capital to benefit the most.

The four quadrant matrix has two axes — Growth and Relative Market Share. In simpler terms, growth is the increase or decrease of demand in the market, and relative market share is how well the product is doing in the market compared to the highest competitor. Now, high or low Growth/Relative Market Share can be classified into four categories: Star, Question Mark, Cash Cow, and Pet/Dog.



BCG Growth-Share Matrix — Explained

- High Market Growth and High Market Share products are known as Stars, meaning the product is excelling and has much demand in the market, so it is worth continuing to invest capital in this product.
- Low Market Growth and High Market Share products are known as Cash Cows, meaning the demand is low, but the product is performing well, i.e., for less capital, there is higher profit.
- High Market Growth and Low Market Share products are known as Question Marks, which means the product is not performing well, but the product's demand is increasing in the market, and then the product needs to be improved because it has good potential.
- Low Market Growth and Low Market Share products are known as Pets or Dogs, which means the product is not performing well and demand for the product in the market is declining, so it is better to avoid investing more capital in this product.
- In conclusion, profit can be milked from Cash Cows and invested back on Stars or Question Marks to maximise the success of the company's products.

Solved Example 1 — Growth-Share Matrix of Air India

The airline industry is booming. However, all services of Air India except its cargo flight service have shrunk to a minor portion of the market. Hence, the cargo services of Air India can be considered a star, while others will fall under question marks.

Solved Example 2 — Growth-Share Matrix of Amul

Stars: Amul Ice creams, Lassi and Amul Kool are well known and have a growing market.

Cash Cows: Amul Milk is one of the most popular milk brands. Amul Ghee and Butter have significant market share but low market growth.

Question Marks: Amul bread is a new product with a huge possible market. Amul Pizza Base also has a growing demand.

Dogs: Amul Frozen Pizza is not a much-desired product due to better alternatives. Amul Cookies is also another such product.

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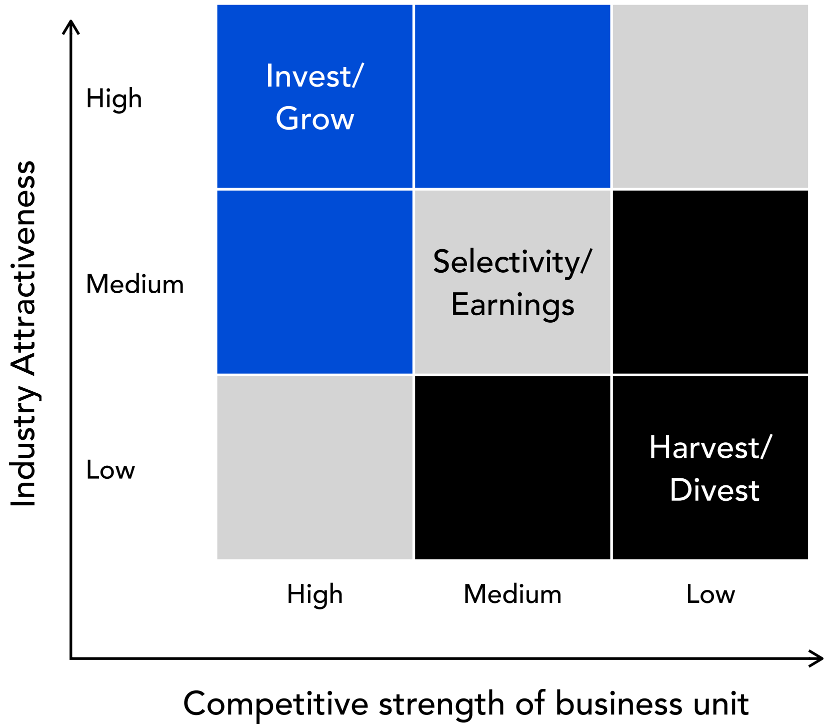
GE-McKinsey Nine-Box Matrix

Overview — GE-McKinsey Nine-Box Matrix



The GE-McKinsey nine-box matrix is a strategic tool used by multi-business corporations to prioritise investments among their business units. McKinsey developed it in the early 1970s, and it is conceptually similar to BCG's Growth-Share Matrix — but more complicated.

The business units (BUs) are evaluated and assigned a position on the matrix following a quantitative assessment of —

(vi) the **industry attractiveness**, and

(vii) the **competitive strength** of the business unit.

Industry Attractiveness

Industry attractiveness measures the ease of doing business in a market and generating profits in the long run. It is determined by factors such as:

1. Market growth rate (both short-term and long-term)
2. Size of the industry
3. Industry Structure (using Structure-Conduct-Performance Model)
4. Industry Profitability (using Porter's Five Forces Analysis)
5. Macro-environmental factors (using PESTEL)

Competitive Strength of Business Unit

Factors used to determine business unit strength or sustainable competitive advantage include:

1. Market share and growth in market share
2. Brand Equity
3. Production capacity, Resources, Capabilities (using VRIO)
4. Value Chain Strength (using Value Chain Analysis and Benchmarking)

After assigning the weight (indicating importance) to each factor, the industry attractiveness score and business unit strength score are calculated using the formula given below:

$$\text{Score} = \sum_{i=1}^{N} \text{factor value}_i \times \text{factor weight}_i$$

The scores are then categorised as high, medium or low, and the business unit is plotted on the matrix. Recommendations can be made to grow, hold, or harvest a unit as discussed below:

Invest/ Grow	Selectivity/ Earnings	Harvest/ Divest
Applicable to BUs operating in a moderate to highly attractive industry with a medium to a high competitive advantage.	These BUs have low to moderate competitive position in an attractive industry or very high competitive position in a less attractive industry.	Applicable to BUs having low competitive advantage, operating in an unattractive industry or a combination of both.
Provide as much resources as the business unit needs regardless of whether it can generate itself or not.	Invest only if there is money left over investments in invest/grow business units or if they can generate cash in future.	Invest just enough to keep the units operational or divest the units by selling it to a prospective buyer.

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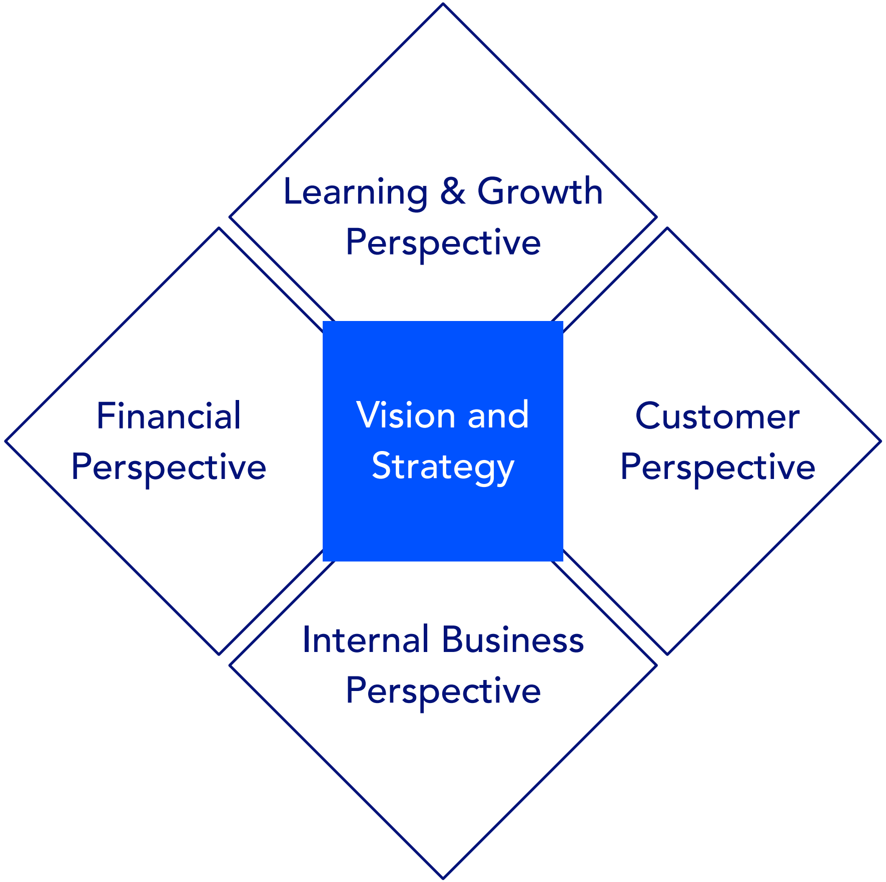
Balanced Scorecard

Overview — Balanced Scorecard

A balanced scorecard identifies and improves various internal business functions and their resulting external outcomes.

The balanced scorecard puts vision and strategy at the centre and isolates four aspects of an organisation for analysing — **Learning and Growth, Finance, Internal Processes, and Customer**.

Vital information is gathered from four business areas — strategic **objectives, KPIs, targets and initiatives/practices**.



Four Perspectives of a Balanced Scorecard — Explained

1. Learning and Growth Perspective	Determines the company's ability to improve and adapt to change
2. Financial Perspective	Analyses the company's ability to pay dividends, manage risks involved and better appeal to shareholders.
3. Customer Perspective	Determines the level of customer satisfaction with the company's products and services and how it provides value to its customers
4. Internal Business Perspective	Evaluates the company's products and services and how well it runs.

Some books also mention the **Learning and Growth Perspective** as the **Organisational Capacity Perspective**.

The third-generation balanced scorecard features a strategic linkage model connecting the dots between the objectives and a vision statement representing the result of implementing the initiatives listed in the scorecard. **[click here]**

Solved Example — Balanced Scorecard of JCPenney

✍🏼 Note that the targets mentioned here are representative in nature. Actual values may vary.

	Objectives	KPIs	Targets	Initiatives
1. Learning and Growth Perspective	1. Optimise Supply Chain 2. Reduce Employee Turnover Rate 3. Improve Employee Skills	1. Supply Chain Efficiency Index 2. Turnover Rate 3. Training Index	1. Achieve 95% efficiency 2. Reduce by 5% 3. Achieve 85% efficiency	1. Sign long-term agreements 2. Increase job rotation 3. Start upskilling programmes
2. Financial Perspective	1. Increase Return on Investment 2. Reduce Operating Costs 3. Increase Revenue	1. ROI 2. Operating Costs 3. Revenue	1. Increase by 8% over two years 2. Reduce by 3% per year 3. Increase by 15% per year	1. Bulk purchases to achieve EoS 2. New billing system 3. Competitive Pricing Options

	Objectives	KPIs	Targets	Initiatives
3. Customer Perspective	1. Improve Customer Satisfaction 2. Reduce Waiting Times 3. Increase Customer Size	1. CSAT Score 2. Average Waiting Time 3. New Visitors (Monthly)	1. Achieve 85% CSAT Score 2. Reduce by 15% 3. Increase by 6% every quarter	1. Provide more choices at stores 2. Improved billing system 3. Offer incentives and coupons
4. Internal Business Perspective	1. Improve Cost Control 2. Reduce Process Cycle Times 3. Ensure supply-demand balance	1. Cost Efficiency Index 2. Average Cycle Time 3. Fill rate	1. Achieve 92% efficiency 2. Reduce by 15% 3. Achieve 98% efficiency	1. Buy raw materials in bulk 2. Increase automation 3. Use AI-enabled WMS and IMS

Practice Problem

Create a balanced scorecard of the **Starbucks Corporation**.

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Value Chain Analysis

What is a value chain?

A value chain refers to all the business activities a firm undertakes to create a product from start to finish (e.g., design, production, distribution, and so on).

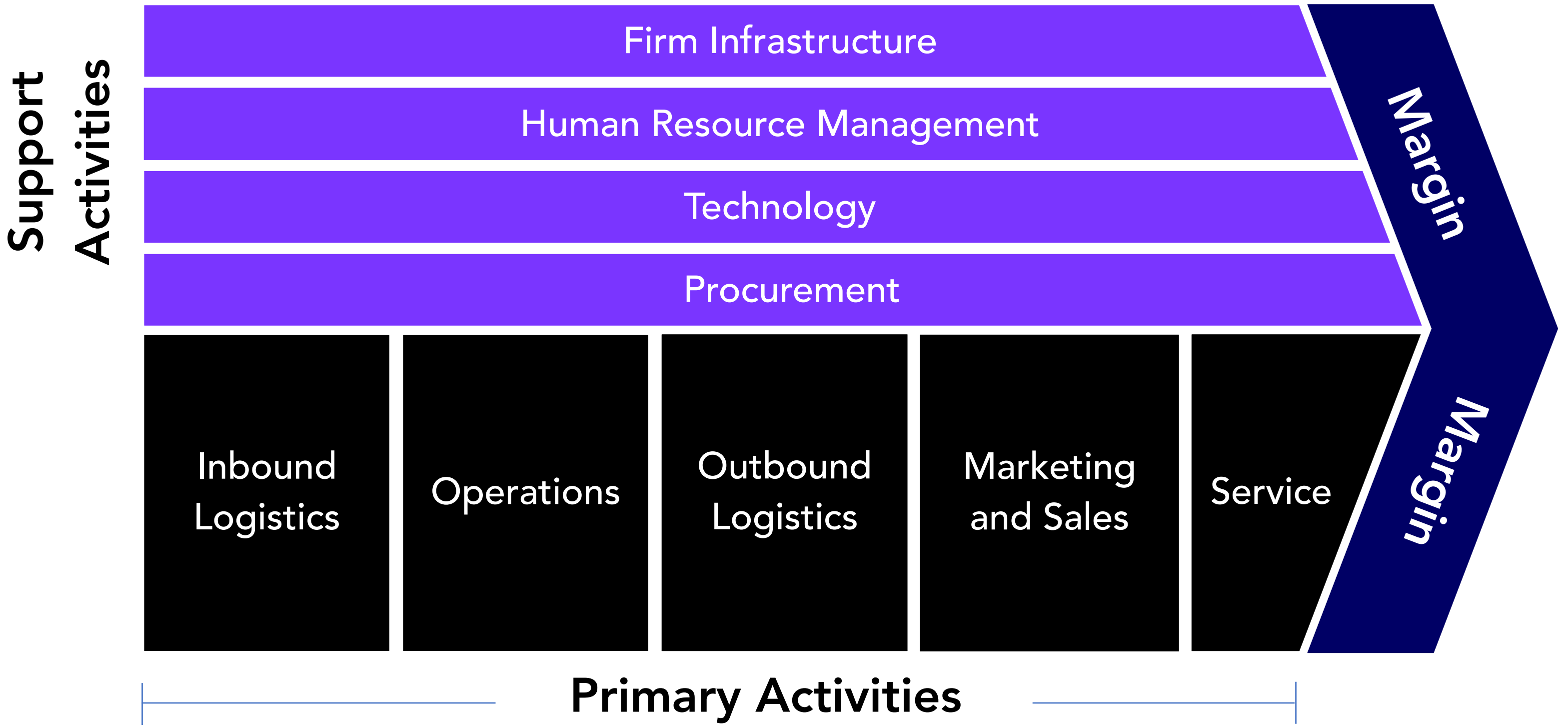
What do you mean by a value chain analysis?

Value chain analysis is a strategic process where a firm evaluates its internal activities to identify how each contributes to the firm's competitive, cost and differentiation advantage. Its primary objective is to give businesses a visual model of these activities, allowing them to determine where they can reduce costs.

Porter's model is most commonly used for this purpose, considering several primary and support activities. The overall process is completed in five steps.

We'll now give you an overview of Porter's Value Chain Model.

Overview —- Porter's Value Chain



Primary Activities vs Support Activities

Primary Activities

Inbound Logistics
Getting raw materials from suppliers

Operations
Manufacturing of the product

Outbound Logistics
Involves storage and movement of products to the end user

Marketing & Sales
Strategies to enhance visibility of product among the target audience

Service
Customer support for the product, warranty etc.

Support Activities

Firm Infrastructure
The management, financial and legal systems incorporated in the business

Human Resource Management
Managing employees and fresh recruitments

Technology
Innovation through R&D to enhance efficiency and profit

Procurement
Sourcing from suppliers for the best quality possible

Steps of Value Chain Analysis

1. Determining the business' primary and support activities	The primary and support activities include each action required in developing a product or service, from raw material to final product.
2. Analysing the value and cost of the activities	This involves identifying how each activity provides value to customers and the business as a whole, including checking for the competitive advantage (based on cost leadership or differentiation).
3. Referring to competitors' value chains	Use relevant metrics to compare your company to competitors. This practice is called competitive benchmarking.
4. Understanding a firm's customer base's perception of value	Conducting customer surveys, digging into any qualitative or quantitative data that can be pieced together, etc., to understand what its target market thinks of it.
5. Identifying opportunities to gain a competitive advantage	Undertaking minor changes at the beginning that provides high-impact results. After the easy wins are identified and actioned, the more significant challenges hindering efficiency must be tacked.

Solved Example 1 — Value Chain Analysis of Samsung

Primary Activities

Inbound Logistics

579 suppliers globally. Owns several logistics firms as its subsidiaries.

Operations

Corporate business model. In-house manufacturing.

Outbound Logistics

Integrated logistics subsidiaries, SELC & Samsung SDC transport and distribute finished products.

Marketing & Sales

Print and media advertising, public relations programs. 53 international sales bases.

Service

Regular customer satisfaction surveys, Samsung Direct Support.

Support Activities

Firm Infrastructure

Well executed financial support system and corporate governance.

Human Resource Management

Regular training and critical resources to employees. Competitive salaries and added benefits

Technology

Heavy investment in R&D (more than 20 trillion KRW)

Procurement

2400+ suppliers globally. International Procurement Centre manages supplier relationships

Solved Example 2 — Value Chain Analysis of Nike

Primary Activities

Inbound Logistics
Supply chain based on outsourcing and diversification.

Operations
600 factories and 1048 retail stores worldwide.

Outbound Logistics
Selling products to wholesalers, D2C sales through retail outlets and own website.

Marketing & Sales
Print and media advertising, promo events and promotion through celebrities.

Service
Excellent pre-sale and after sales services, special store hours, store-to-door services.

Support Activities

Firm Infrastructure
High focus on quality management, efficient legal matter handling, state-of-the-art offices, procurement facilities and distribution outlets.

Human Resource Management
Promotes a work culture based on diversity and inclusion.

Technology
Integration of AR technology into stores, Reuse of wastes generated in Nike factories.

Procurement
A global procurement team manages the procurement process to ensure supply of high quality raw materials.

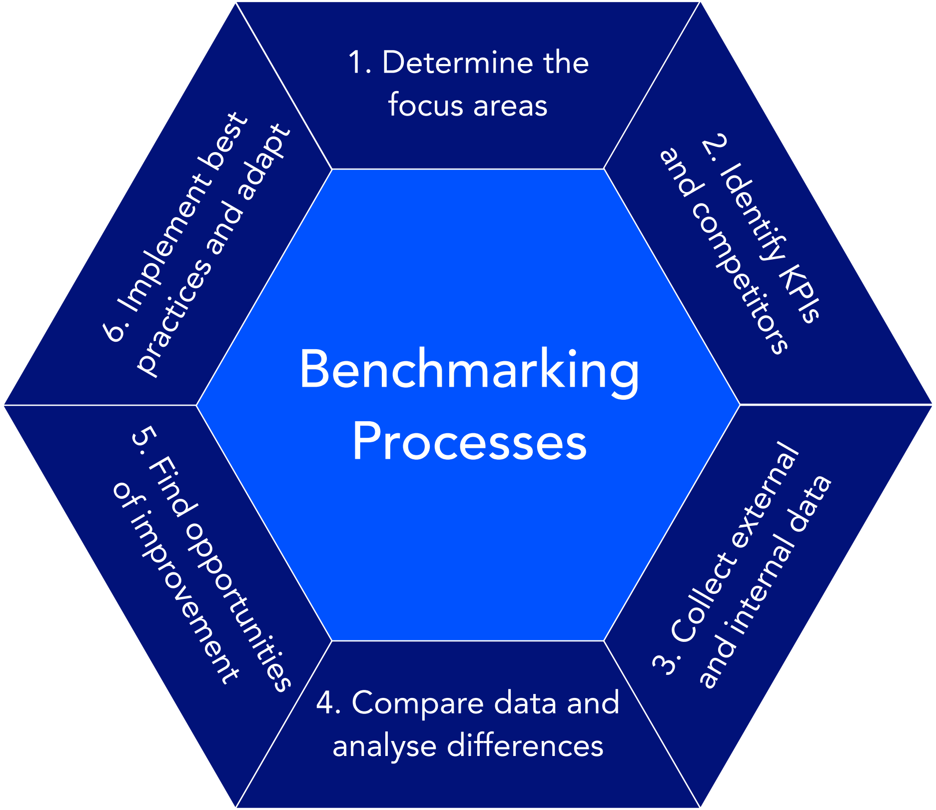
Benchmarking

Overview — Benchmarking

Benchmarking involves comparing a company's metrics with that of industry competitors (often industry leaders) or to those of innovative companies in related industries.

This strategic tool aims to identify the industry's best practices and incorporate similar activities into other companies.

In some cases, comparisons can be made internally between operations of businesses owned by the same firm.



Benchmarking Processes — Explained

1. Determining the focus areas	In the first step, the problem areas are identified. Usually, these are business operations with scope for improvement.
2. Identifying KPIs and competitors to compare data	The next step is to decide on the performance metrics for benchmarking. Companies operating within the industry or internal areas with better performance rates are chosen to compare data.
3. Collecting external and internal data	Now, data is collected on performance and company practices. In most cases, the data collected includes revenues, profit margins, production costs, process cycle times, etc.
4. Comparing data and analysing differences	The two sets of metrics are compared side-by-side and the gaps are identified. The relevance of these differences is analysed.
5. Finding opportunities of improvement	The competitor's best practices are identified, and an action plan is formulated.
6. Implement best practices and adapt	Finally, companies can incorporate these best practices after tweaking them to their needs. Benchmarking should be repeated at regular intervals to track metrics changes or adapt to other changes.

Solved Example on Benchmarking — Logistics Sector

Problem Statement

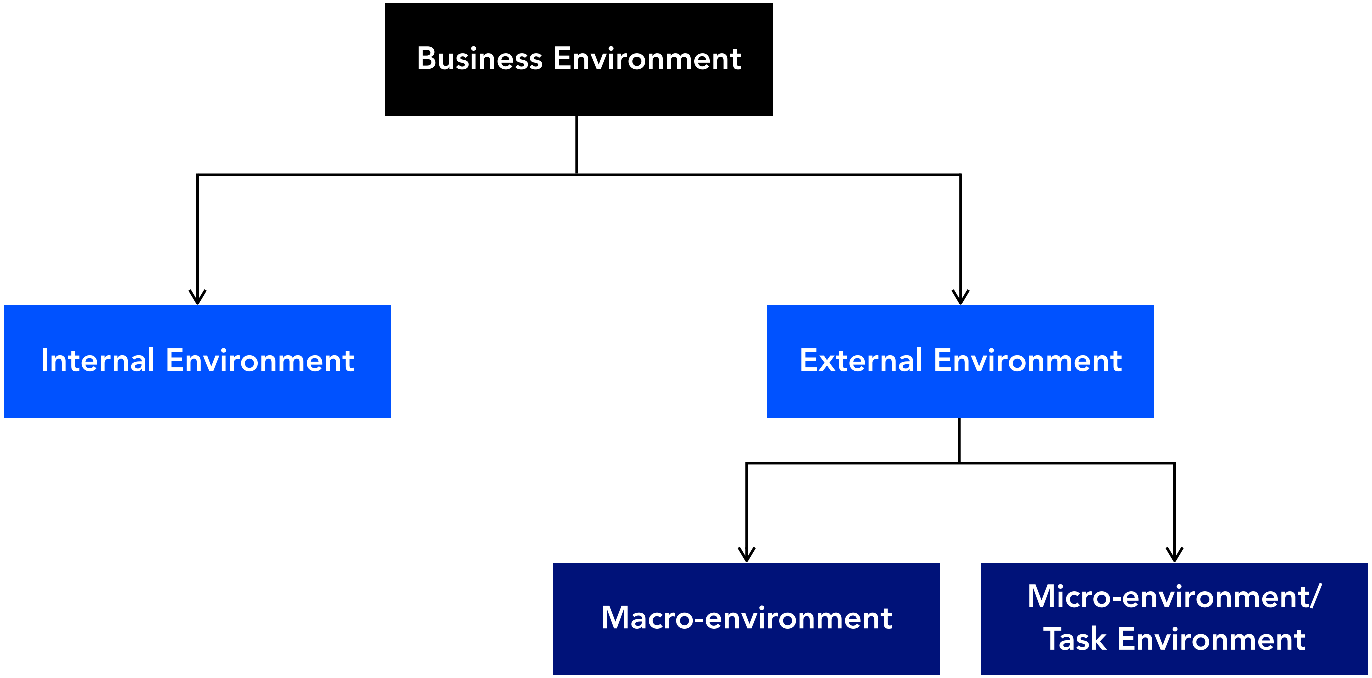
Attoship is a global logistics company that provides package delivery services. The company saw flattening revenue growth during H2-2021, while the worldwide market experienced growth of 12% during the same time. Recommend a strategy to increase revenues by 15% in a year.

Approach

1. The primary step is to find all **operations/processes that add value to the supply chain** (warehousing, transportation, distribution, value-added services, packaging).
2. The next step is to identify the performance metrics — in this case, **on-time performance, package costs, employee turnover rate, customer satisfaction rate and storage cost per product shipped**.
3. A competitor, preferably the market leader (e.g. DHL), can now be chosen to compare data.
4. After relevant data is collected, the **differences can be analysed,** and an **action plan can be suggested**.

Task Environment

Overview — Task Environment



Business Environment: The aggregate of all the forces, factors and institutions which are external to and beyond the control of an individual business enterprise but significantly influence the enterprise's functioning and growth.

Internal Environment: Several elements inside an organisation act as strengths and may also become a reason for weaknesses of the organisation. These internal factors have an impact on organisational decisions.

External Environment: This includes factors existing outside the business enterprise that offer opportunities and create threats for the business. These include factors such as economic, socio-cultural, legal, demographic etc. These factors are beyond the control of the company. There are two types of external environments — **macro** and **micro**.

The **macro-environment** refers to the broader condition of an economy as opposed to specific markets. It consists of **demographics, economic, natural, technological and political factors**.

The **micro-environment** includes many factors in the company's immediate environment and has a bearing on the company's performance. These can be **suppliers, customers, competitors and labour**.

The **micro-environment** is also referred to as the **Task Environment**.

Suppliers
Customers
Competitors
Labour

→

Forces that affect an organisation in achieving its business goals.

Task Environment

The task environment of an organisation is the environment which directly affects the organisation in attaining business goals. These can be analysed better using Porter's 5 Forces Analysis.

Structure–Conduct–Performance Paradigm

Overview — SCP Paradigm

The structure-conduct-performance (SCP) paradigm states that market structure would determine firm conduct, which, in turn, would determine performance.

Structure

Measured by
- Number of Competitors
- Heterogeneity of product
- Supply-Demand Match
- Cost of Entry and Exit

Conduct

Measured by
- Pricing
- Tacit collusion
- Product Differentiation
- Market Power

Performance

Measured by
- Productive efficiency
- Profitability
- Product Quality
- Resource Allocation

Use Cases

The structure-conduct-performance (SCP) paradigm can be used in the following scenarios:

- To analyse a non-changing industry.
- To justify consolidation in an industry.
- To investigate the effects of an external shock on one sector (like talent drain, shifting global demand, pandemics, data attacks and changing consumer demand).
- It studies whether structure drives performance and also influences conduct.
- To analyse the effects of a more attractive industry structure on the industry's performance.

The SCP paradigm cannot be used alone to generate relevant insights and is often used with other consulting tools.

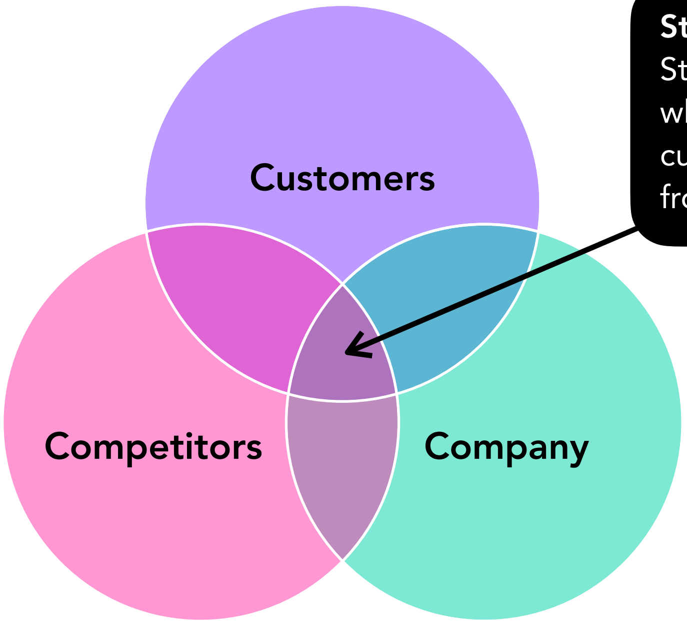
Practice Problem

Analyse the impact of adverse weather and natural disasters at the workplace on the performance of Texas Instruments.

3Cs Model

Overview — 3Cs Model

Customers
- Who are the key customers?
- What do they value?
- Why will they choose our product?
- What do they think of our product?



Strategy
Strategy is the balance between what we offer, what the customers want and the threats from our competition.

Competitors
- What are they offering that we can do better?
- How are they making money/profits?
- What should we do to beat them?

Company
- What are our strengths and weaknesses?
- What is our unique selling point (USP)?

Customer Analysis

1. Customers are the most crucial of the three elements since a firm cannot exist without them, or there would be no opportunity to achieve a competitive edge. The best strategies are often found by putting oneself in the customer's shoes.
2. The best approach to determine how to appeal to your target market is to conduct thorough consumer research.
3. Demographic information is crucial to this research. This information can be found through surveys and interviews with the target market.
4. Understanding your target market and what they want can help you develop marketing techniques more likely to succeed once implemented.

Competitor Analysis

1. After analysing the customers, a company needs to understand how it compares to its rivals.
2. The first step would be finding out the main competitors in the industry.
3. Then one should find their business model, revenue streams, go-to marketing strategy and USP.

4. One can do this by analysing their website using SEO tools, reading their newsletters and reports, visiting their stores or online payment check-out and contacting them as a potential customer.
5. Also, you should find out the brand image and penetration of the competitors.

Company Analysis

1. Last but not least, one should analyse the client company.
2. You must focus on cost structure and cost-effectiveness in production and marketing. These are key to ensuring more cash in your hands.
3. You should find out what marketing tactics have previously been successful for them and what hasn't. It would help if you approached this, once more, from the client's perspective.
4. We must now analyse our brand image and presence, compare it with the competitors, and see ways to gain an advantage.

Solved Example — 3Cs Model of Burger King

Customer

1. The average Burger King customer is a middle-high income male in the age bracket of 15-40 years.
2. Its unique and innovative marketing strategies show its focus on customers.
3. It offers one of the most reasonably priced and largest variety of products which is loved by the people.

Competitors

1. As McDonald's is the market leader, BK's major strategy has been to attract McD's customers over to them.
2. The one penny whooper played a very important role in this. They built their brand image as one which promotes fresh foods using the stale whooper campaign against the longevity of McDonald's burgers.

Company

1. Burger King's mission is to offer reasonably priced quality food served quickly in attractive, clean surroundings.
2. It's based on a franchisee model.
3. It focuses on a cost leadership and differentiation business model, thus catering to a more significant no. of people.

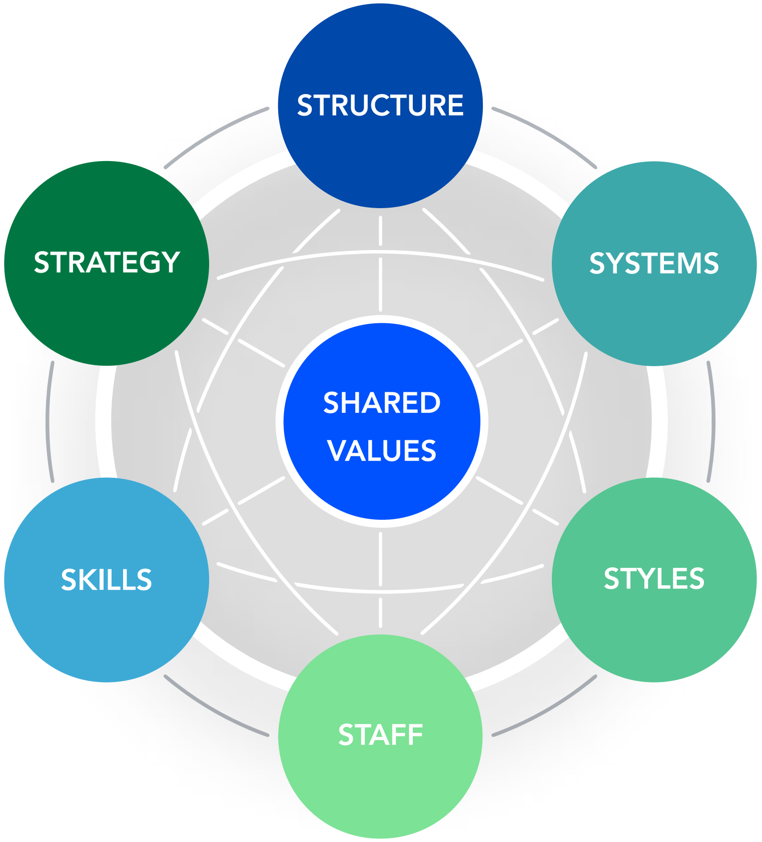
McKinsey 7S Model

Overview — McKinsey 7S Model

The McKinsey 7S Framework is a management model that identifies seven internal elements of an organisation that must be aligned for success.

It is used to assess performance following a merger or other restructuring to identify areas that need improvement. The model suggests that the risk of resistance to change can be significantly reduced by incorporating all seven elements from the start.

This model ensures that an organisation's culture is not negatively affected by implementing necessary changes.



The Seven Interdependent Elements - Explained

Hard Elements

STRATEGY — Organisation's plan for building and maintaining a competitive advantage.

STRUCTURE — How the company is organised.

SYSTEMS — The daily activities and procedures that staff use to get the job done.

Soft Elements

SHARED VALUES — These are the core values of the organisation.

SKILLS — Includes competencies and distinctive capabilities.

STAFF — The demographic, educational and attitudinal characteristics.

STYLES — Typical behaviour patterns of key groups.

How to use the McKinsey 7S Model?

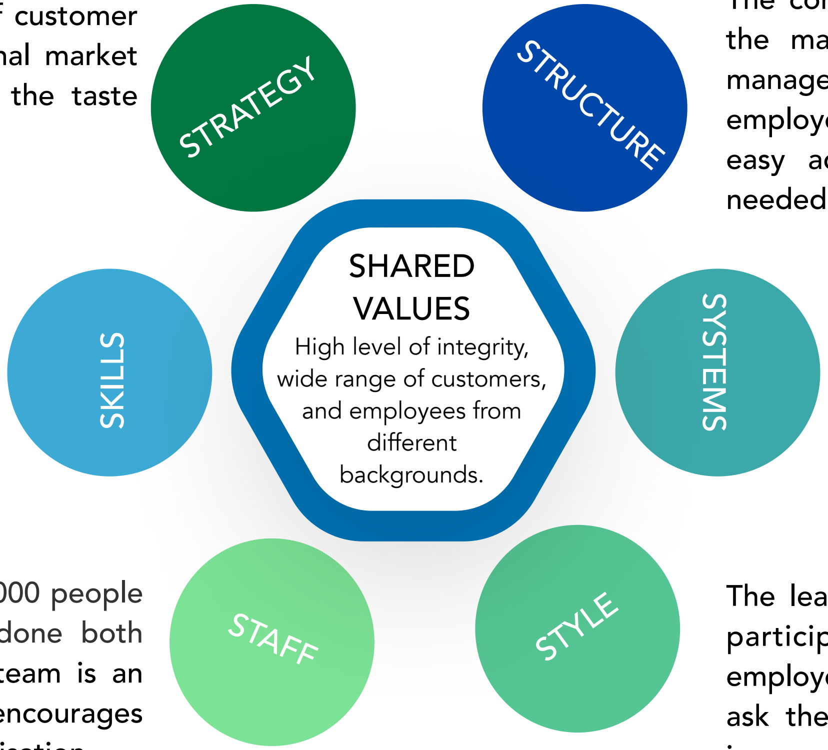
1	Start with your shared values: do they align with your organisational structure, strategy, and operations? If not, what can be changed?
2	Then look at the hard elements — strategy, structure, and systems. How well do they align with each other? Identify areas of improvement.
3	Next, consider the soft elements — shared values, skills, style, and staff. Are they consistent with the hard elements? Do they align with one another? If not, what can be changed?
4	You'll need to employ an iterative (often time-consuming) approach of making adjustments and then re-analysing how it influences other elements and their alignment.

Solved Example — McKinsey 7S Model of McDonald's

Cost leadership, High speed of customer services, aggressive international market expansion, the universality of the taste and cleanliness of restaurants.

McDonald's pays special attention to skills, training, and workshops are regularly held to ensure that staff is able to provide flawless service to customers. HR is one of its core competitive advantages.

McDonald's employs over 200,000 people worldwide and the hiring is done both internally and externally. The team is an inclusive one that accepts, encourages diversity, and works in synchronisation.



The company has a flat structure and the manager of each outlet usually manages assistants and employees. All employees work as a team and have easy access to senior leadership if needed.

The systems include but are not limited to employee recruitment and selection, transaction processing, team development and orientation and customer relationship management system.

The leadership style at McDonald's is participative. Seniors engage with employees from different levels and ask them to share their feedback to improve strategy and operations.

4 Ps of Marketing

Overview — 4Ps of Marketing

To market a product successfully, the 4 Ps are essentially important. The 4 Ps are comprised of four core elements:

1. Product
2. Price
3. Place
4. Promotion

The 4Ps are often referred to as marketing mix. However, this tool got extended to the 7Ps with the insertion of People, Process and Physical evidence. The marketing mix strategy is not static. One must adjust and refine it based on customer needs and product growth.

Product

Marketers first have to analyse who needs the product and why. They have to define the quality of the product in all areas like ease of availability, attractiveness, effect on the environment, etc. Being first in introducing a category can unexpectedly boost sales. For example, Apple was the first company to launch a touch-screen smartphone which could play music, browse, and make phone calls. Its sales touched the two billion mark in the year 2021.

Price

Price is the amount the marketer sets up for the product and the customer is willing to pay. Marketers must set the price, keeping production costs and profit margin in mind. The price of a product must be accurate and perceive its value. The supply costs, seasonal discounts, competitor prices, and retail markup are the essential considerations for putting up the product's price. Marketers also have an option to increase the price and create artificial scarcity to increase the demand for their products. Giving appropriate discounts at the time needed also will draw customers, but it provides a look that the product is less desirable.

Place

The place is where the product is kept for sale. It may either be online or offline. The critical consideration for offline stores is to keep the product where it seems more people will buy. Selecting luxurious malls and stores will give the product an expensive and better quality look.

Promotion

Promotion is the way to communicate and advertise the product to customers. Giving ads on social media, banners and flexes on roadsides and malls will attract customers' eyes.

When to use 4Ps of Marketing?
This tool could be of use while launching a product in the market. At the time, analysing the existing development and sales will clearly show the areas of interest. This tool can optimise sales. Although it seems the 4Ps are mutually exclusive in their way, they overlap inevitably when the product sale begins to grow in the market.

Solved Example — Amazon

Product: Amazon started to keep various products ranging from electronics, clothing, home appliances & decoration, and accessories. It expanded its product range to Amazon Fresh for groceries, Kindle for reading e-books, Amazon Prime Video for movies, TV shows and web series, etc.

Price: Amazon gives an option to search for items below a specific price, providing ease to its customers. It also announces sales and highlights discount percentages on the product. Amazon Prime allows customers to take a subscription plan with multiple benefits of shopping. The options of pay later and auto-pay for subscriptions draws the customers.

Place: Amazon offers all its products and services globally. It operates massive warehouses at strategic locations all over the world to ensure timely delivery at even the remotest of places.

Promotion: Amazon uses aggressive marketing campaigns to promote its brand. It uses older searches and shows advertisements on other social media platforms linked with the same account.

Miscellaneous

1. Potential Industry Earnings (PIE)

This can be considered a modern version of the original Five Forces Model and is used to evaluate a firm's ability to enjoy its share of the industry profits.

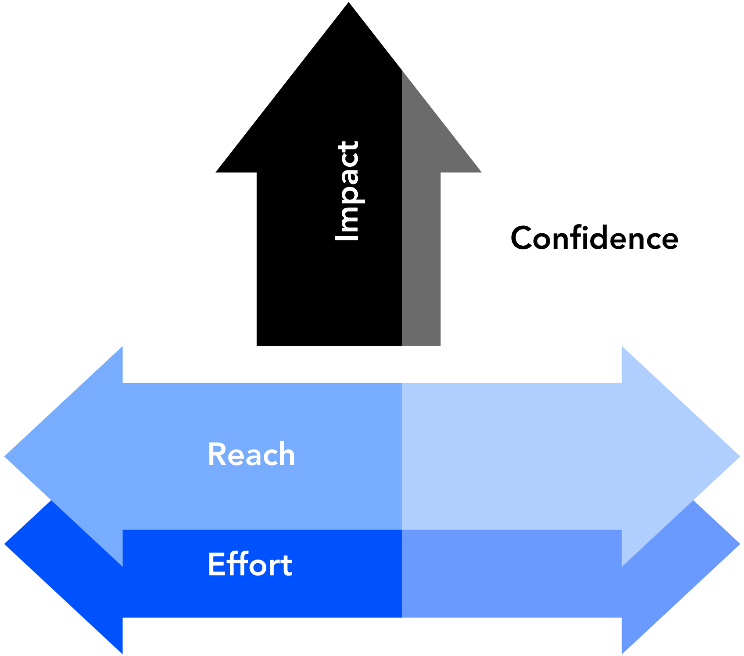
$$\text{PIE} = \text{Total value added by the industry} - \text{Total cost to produce the goods}$$

In addition to the original five elements, the PIE model considers the effect added by value disciplines, which explains how some companies can achieve and maintain market leadership despite being in competitive industries. The three value disciplines are:

1. Operational Excellence
2. Product Leadership
3. Customer Intimacy

By identifying what is most important for an industry and its customers, a strategist can make specific recommendations about the direction a company should go. Companies should adopt either of the value disciplines to enjoy success.

2. RICE Model



RICE is a prioritisation model companies use to improve internal decision-making processes.

Each of the four factors is scored as depicted in the illustration on the left:

1. **Reach** is measured as the number of people/ events per time period.
2. The **impact** of an idea on an individual user is estimated.
3. The level of **confidence** in the estimates is factored in.
4. The **effort** is estimated as the work that one team member can do in a month.

3. VRIO Model

VRIO stands for value, rarity, imitability, and organisation and is used to evaluate an organisation's resources and capabilities to determine its competitive advantage. You can use a decision tree to help map the outcomes of your probe, depending on whether you deem a resource as having met the criteria or not.

- **The Question of Value:** Can the firm exploit an opportunity or neutralise an external threat with the resource/capability?
- **The Question of Rarity:** Does the firm control scarce resources or capabilities or own something hard to find yet in demand?
- **The Question of Imitability:** Is it difficult to imitate, and will there be a significant cost disadvantage to a firm trying to obtain, develop, or duplicate the resource/capability?
- **The Question of Organization:** Is the firm organised, ready, and able to capitalise on resources and capabilities? Has the firm managed to capture value?