THE PHILOSOPHY OF STRATEGIC DECISION-MAKING IN MARKETING

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Abstract. The present paper touches upon the necessity of rethinking the concept of “strategy” in regards to decision-making in marketing. Considering the fact that the ever increasing competition represents the greatest threat to companies that operate in any sector of industry; redefining the guiding lines of strategic decision-making becomes an imperative. By identifying the main sources of threat and also by being able to predict the changes that will occur in the markets, companies that chose the correct strategic approach shall be rewarded with great profits.

Keywords: strategy, decision-making, marketing management.

INTRODUCTION

The competitive dynamics that characterizes every business domain nowadays, calls for the necessity of conceiving and applying strategies in regards to each companies particularities. Adopting the correct strategy depends first and foremost on the nature and intensity of the competition that manifests itself in the company’s operating sector (Porter 2008).

One of the turning points in a business’s live is represented by the moment in which the question: “how to invest the money for further grow?” arises. And so the decision-making process might lead to investing in brand building (Adamson 2009), or investing in increasing the quantities that are produced and demanded by lowering the prices. It seems that increasing the quality of the products nowadays happens very rare; it is more about the perceived value/brand manipulation, then the real/objective value of the product (Crăciun 2009). Of course this all ties in with the concept of “Marketing Efficiency”.

According to this concept, businesses aim to provide their consumers with the established desired levels of service at the lowest cost possible for them (http://consumerpsychologist.com/food_marketing.html). But this becomes harder in a globalized system where business from all over the world compete with each other in order to increase market share and dividing profits (Beck 2003). And so appears the necessity to devise a proper strategy that will guide the business towards its ultimate goal – sustainability.

STRATEGIC DECISION-MAKING

Michael Porter underlines the importance of analyzing five crucial factors that shape the nature of competition in any operating sector. The influence of each factor and also their combined effects, determines the profitability of the sector, quantified by the long-term return on invested capital. The framework for analyzing the intensity of competition in any given sector of activity consists of the interaction of five forces. Those five forces are the following: a) industry rivalry, b) bargaining power of suppliers, c) bargaining power of buyers, d) threats of new entrants, and e) threats of substitutes (Fig. 1.).

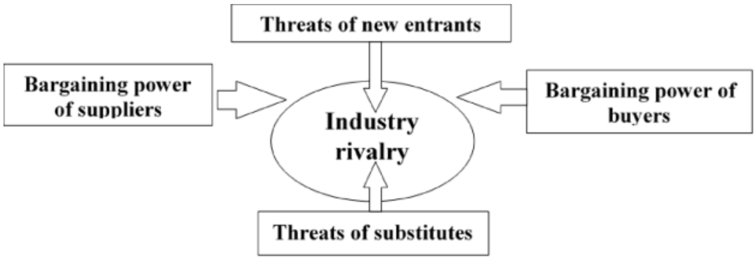

Figure 1. Porter's five forces model adaptation

Analyzing the main conditions that are frequently triggering price and advertising "wars" between competitors in any segment, becomes a crucial element in understanding what strategy methods need to be applied in order to be profitable in the long term. That most desirable asymptotic approach to sustainability is the direct result of applying the correct strategy for your business (Porter 2001). In order to achieve sustainability, businesses must achieve that optimum balance between Porter's five forces and the five main attributes of the any managerial process: prediction, organization, coordination, motivation and control (Abrudan 2012). The focus on the analysis of rivalry between existing firms that operate in the same sector means that the company is keeping its eyes on the ball. Experience has shown that competition intensifies when certain key elements occur within the operating sector (Nash 2000). For instance the competition greatly increases when numerous competitors, with relatively equal forces, are operating in the field. The more competitors occupy solid positions in the sector the harder it is to torn big profits. Also, if there is a low rate of development of the sector of activity, then it only makes things worst (Magreta 2012).

When it comes to big companies in the industry, fixed costs account for a significant share in the domain-specific cost structure. Big companies have to manage large production and logistics capabilities that require great investments, which can only be recovered by large volumes of production and by registering a high market share. If this combines with high product storage costs, then the companies are forced into strategic maneuvers in order to win a competitive cost battle (Porter 2001). Seeing that with each time that passes, their potential profits diminish, because of high product storage costs, companies will show a tendency to reduce stocks. By practicing low sales prices, we witness an intensified price-based competition.

Another important threat to profitability arises when there is a poor differentiation of the products offered by competitors. Therefore differentiation attributes are not an important criterion for the customer purchase option. As a result, customers can easily migrate from one producer/company to another; and this increases the competition stress, because it is difficult to obtain customer loyalty (Porter 2008).

If the company has invested a lot in a particular industry sector, then in case of seeing their profits stagnate or even diminished, then that particular company cannot easily leave its operating sector. This is because there are large exit barriers in the sector that contribute to a high level competition status quo. This goes hand in hand with the existence of surplus production capacities for producers, which stimulates rising output and increasing market shares (Magreta 2012). As a conclusion, the need to implement diversification and product renewal strategies, results in the ever increasing cost of competition. Therefore, often big companies will buy out their competitors, just to lower the intensity of competition (Nestle is a great example). Another key factor in downing the intensity of the competition is creating and maintaining a strong brand (Holt 2004). Brand icons ease that relationship marketing ideology of "win-win" situations which lead to customer retention and satisfaction (Bengtsson, Firat 2006).

For example successful brands exploit the social class and status aspirations of potential customers, in the positioning of their products (Haig 2009). This so called "upward pull marketing", involves positioning a product that is addressed to mainstream consumers, but portraying the product as being consumed by upper class consumers. This will make the product sell better, as mainstream customers buy the product as a psychological incentive to partake in upper class indulgence. It's all about creating those consumption patterns. Customer behavior is the subject of science, since the human subject has proven to be predictable, measurable and easily influenced (Naghiu 2013).

Every strategy must take into consideration the 8 Ps of marketing namely: Product, Price, Place, Promotion, People, Process and Physical evidence and Productivity (http://www.business-fundas.com/2011/the-8-ps-of-services-marketing/).

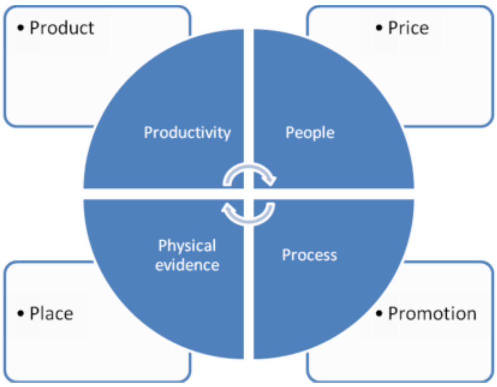

Figure 2. The 8 Ps of marketing

Conclusion

Built around the nucleus formed by the 8 Ps of services marketing, every particular strategy falls into three main categories: a) the strategy of dominating through costs; b) the differentiation strategy; and c) the concentration strategy. Choosing the correct strategy will prove to be the difference between failure and success of a business. The two fundamental dimensions of strategy: the decision of allocating resources and the development of the competitive sustainable advantage must be adapted and oriented towards winning the minds and hearts of the targeted customers (Naghiu 2013). The essence of business strategy is winning the choices of customers by identifying their profile. Customers profile is the combined result of several key factors such as: the social factor, the psychological factor, the personal factor and the cultural factor (Kotler 2008).

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