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The time to invest in a product or market is when a 'strategic window' is open.

STRATEGIC WINDOWS

STRATEGIC MARKET PLANNING involves the management of any business unit in the dual tasks of *anticipating* and *responding* to changes which affect the marketplace for their products. This article discusses both of these tasks. Anticipation of change and its impact can be substantially improved if an organizing framework can be used to identify sources and directions of change in a systematic fashion. Appropriate responses to change require a clear understanding of the alternative strategic options available to management as a market evolves and change takes place.

Dynamic Analysis

When changes in the market are only incremental, firms may successfully adapt themselves to the new situation by modifying current marketing or other functional programs. Frequently, however, market changes are so far reaching that the competence of

the firm to continue to compete effectively is called into question. And it is in such situations that the concept of "strategic windows" is applicable.

The term "strategic window" is used here to focus attention on the fact that there are only limited periods during which the "fit" between the key requirements of a market and the particular competencies of a firm competing in that market is at an optimum. Investment in a product line or market area should be timed to coincide with periods in which such a strategic window is open. Conversely, disinvestment should be contemplated if what was once a good fit has been eroded—i.e., if changes in market requirements outstrip the firm's capability to adapt itself to them.

Among the most frequent questions which management has to deal with in this respect are:

- Should funds be committed to a proposed new market entry? Now? Later? Or not at all? If a commitment is to be made, how large should it be?
- Should expenditure of funds of plant and equipment or marketing to support existing product lines be expanded, continued at historical levels, or diminished?

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- When should a decision be made to quit and throw in the towel for an unprofitable product line or business area?

Resource allocation decisions of this nature all require a careful assessment of the future evolution of the market involved and an accurate appraisal of the firm's capability to successfully meet key market requirements. The strategic window concept encourages the analysis of these questions in a dynamic rather than a static framework, and forces marketing planners to be as specific as they can about these future patterns of market evolution and the firm's capability to adapt to them.

It is unfortunate that the heightened interest in product portfolio analysis evident in the last decade has failed to adequately encompass these issues. Many managers routinely classify their various activities as 'cows', 'dogs', 'stars', or 'question marks' based on a *static* analysis of the *current* position of the firm and its market environment.

Of key interest, however, is the question not only of where the firm is today, but of how well equipped it is to deal with *tomorrow*. Such a *dynamic* analysis may foretell non-incremental changes in the market which work to disqualify market leaders, provide opportunities for currently low share competitors, and sometimes even usher in a completely new cast of competitors into the marketplace. Familiar contemporary examples of this latter phenomenon include such products as digital watches, women's pantyhose, calculators, charter air travel, office copiers, and scientific instrumentation.

In all these cases existing competitors have been displaced by new contenders as these markets have evolved. In each case changing market requirements have resulted in a *closing* strategic window for incumbent competitors and an *opening* window for new entrants.

Market Evolution

The evolution of a market usually embodies more far reaching changes than the relatively systematic changes in customer behavior and marketing mix due to individual product life cycles. Four major categories of change stand out:

1. The development of new primary demand opportunities whose marketing requirements differ radically from those of existing market segments.
2. The advent of new competing technologies which cannibalize the existing ones.

3. Market redefinition caused by changes in the definition of the product itself and/or changes in the product market strategies of competing firms.
4. Channel changes.

There may be other categories of change or variants in particular industries. That doesn't matter; understanding of how such changes may qualify or disqualify different types of competitors can still be derived from a closer look at examples within each of the four categories above.

New Primary Demand

In a primary demand growth phase, decisions have to be reached by existing competitors about whether to spend the majority of the resources fighting to protect and fortify market positions that have already been established, or whether to seek new development opportunities.

In some cases, it is an original entrant who ploughs new territory—adjusting his approach to the emergent needs of the marketplace; in other cases it is a new entrant who, maybe basing his entry on expertise developed elsewhere, sees a "strategic window" and leapfrogs over the original market leader to take advantage of the new growth opportunity. Paradoxically, pioneering competitors who narrowly focus their activities in the early stages of growth may have the most difficulty in making the transition to new primary demand growth opportunities later. Emery Air Freight provides an example of a company that did face up to a challenge in such a situation.

Emery Air Freight. This pioneer in the air freight forwarding business developed many of the early applications of air freight in the United States. In particular, Emery's efforts were focused on servicing the "emergency" segment of the market, which initially accounted for a substantial portion of all air freight business. Emery served this market via an extensive organization of regional and district offices. Among Emery's major assets in this market was a unique nationwide, and later worldwide, communications network; and the special competence of personnel located in the district offices in using scheduled carriers in the most efficient possible way to expedite deliveries.

As the market evolved, however, many new applications for air freight emerged. These included regular planned shipments of high value-low weight merchandise, shipments of perishables; 'off-line' service to hard-to-reach locations, and what became known as the TCC (Total Cost Concept) market. Each

of these new applications required a somewhat different approach than that demanded by the original emergency business.

TCC applications, for example, required detailed logistics planning to assess the savings and benefits to be obtained via lower inventories, quicker deliveries and fewer lost sales through the use of air freight. Customer decisions about whether or not to use air freight required substantially more analysis than had been the case for "emergency" use; furthermore, decisions which had originally been made by traffic managers now involved marketing personnel and often top management.

A decision to seek this kind of business thus implied a radical change in Emery's organization—the addition of capability to analyze complex logistics systems and to deal with upper echelons of management.

New Competing Technologies

When a fundamental change takes place in the basic technology of an industry, it again raises questions of the adaptability to new circumstances of existing firms using obsolete technology.

In many cases established competitors in an industry are challenged, not by another member of the same industry, but by a company which bases its approach on a technology developed outside that industry. Sometimes this results from forward integration of a firm that is eager to develop applications for a new component or raw material. Texas Instrument's entry into a wide variety of consumer electronic products from a base of semi-conductor manufacture, is a case in point. Sometimes it results from the application by firms of a technology developed in one market to opportunities in another. Or sometimes a breakthrough in either product or process technology may remove traditional barriers to entry in an industry and attract a completely new set of competitors. Consider the following examples:

- ▶ Watchmakers have recently found that a new class of competitor is challenging their industry leadership—namely electronic firms who are seeking end market applications for their semi-conductors, as well as a new breed of assemblers manufacturing digital watches.
- ▶ Manufacturers of mechanical adjustable speed drive equipment found their markets eroded by electrical speed drives in the early 1900's. Electrical drives were based on rotating motor-generator sets and electronic controls. In the late 1950's, the advent of solid state electronics, in turn, virtually obsoleted rotating equipment. New independent competitors, basing their approach on the

assembly of electronic components, joined the large electrical equipment manufacturers in the speed drive market. Today, yet another change is taking place, namely the advent of large computer controlled drive systems. This is ushering yet another class of competitors into the market—namely, companies whose basic competence is in computers.

In each of these cases, recurrent waves of new technology fundamentally changed the nature of the market and usually ushered in an entirely new class of competitors. Many firms in most markets have a limited capability to master all the technologies which might ultimately cannibalize their business. The nature of technological innovation and diffusion is such that most *major* innovations will originate outside a particular industry and not within it.

In many cases, the upheaval is not only technological; indeed the nature of competition may also change dramatically as technology changes. The advent of solid state electronics in the speed drive industry, for example, ushered in a number of small, low overhead, independent assemblers who based their approach primarily on low price. Prior to that, the market had been dominated by the large electrical equipment manufacturers basing their approach largely on applications engineering coupled with high prices and high margins.

The "strategic window" concept does not preclude adaption when it appears feasible, but rather suggests that certain firms may be better suited to compete in certain technological waves than in others. Often the cost and the difficulty of acquiring the new technology, as well as the sunk-cost commitment to the old, argue against adaption.

Market Redefinition

Frequently, as markets evolve, the fundamental definition of the market changes in ways which increasingly disqualify some competitors while providing opportunities for others. The trend towards marketing "systems" of products as opposed to individual pieces of equipment provides many examples of this phenomenon. The situation of Docutel illustrates this point.

Docutel. This manufacturer of automatic teller machines (ATM's) supplied virtually all the ATM's in use up to late 1974. In early 1975, Docutel found itself losing market share to large computer companies such as Burroughs, Honeywell, and IBM as

these manufacturers began to look at the banks' total EFTS (Electronic Funds Transfer System) needs. They offered the bank a package of equipment representing a complete system of which the ATM was only one component. In essence their success may be attributed to the fact that they redefined the market in a way which increasingly appeared to disqualify Docutel as a potential supplier.

Market redefinition is not limited to the banking industry; similar trends are underway in scientific instrumentation, process control equipment, the machine tool industry, office equipment, and electric control gear, to name but a few. In each case, manufacturers basing their approach on the marketing of individual hardware items are seeing their "strategic window" closing as computer systems producers move in to take advantage of emerging opportunities.

Channel Changes

Changes in the channels of distribution for both consumer and industrial goods can have far reaching consequences for existing competitors and would-be entrants.

Changes take place in part because of product life cycle phenomena—the shift as the market matures to more intensive distribution, increasing convenience, and often lower levels of channel service. Changes also frequently take place as a result of new institutional development in the channels themselves. Few sectors of American industry have changed as fast as retail and wholesale distribution, with the result that completely new types of outlets may be employed by suppliers seeking to develop competitive advantage.

Whatever the origin of the change, the effect may be to provide an opportunity for a new entrant and to raise questions about the viability of existing competitors. Gillette's contemplated entry into the blank cassette tape market is a case in point.

Gillette. As the market for cassettes evolved due to increased penetration and new uses of equipment for automotive, study, business, letter writing, and home entertainment, so did distribution channels broaden into an increasing number of drug chains, variety stores, and large discount stores.

Presumably it was recognition of a possible "strategic window" for Gillette that encouraged executives in the Safety Razor Division to look carefully at ways in which Gillette might exploit the cassette market at this particular stage in its evolution. The question was whether Gillette's skill in market-

ing low-priced, frequently purchased package goods, along with its distribution channel resources, could be applied to marketing blank cassettes. Was there a place for a competitor in this market to offer a quality, branded product, broadly distributed and supported by heavy media advertising in much the same way that Gillette marketed razor blades?

Actually, Gillette decided against entry, apparently not because a "strategic window" did not exist, but because profit prospects were not favorable. They did, however, enter the cigarette lighter business based on similar analysis and reportedly have had considerable success with their *Cricket* brand.

Problems & Opportunities

What do all these examples indicate? *First*, they suggest that the "resource requirements" for success in a business—whether these be financial requirements, marketing requirements, engineering requirements, or whatever—may change radically with market evolution. *Second*, they appear to suggest that, by contrast, the firm's resources and key competencies often cannot be so easily adjusted. The result is a *predictable* change in the fit of the firm to its market—leading to defined periods during which a "strategic window" exists and can be exploited.

The "strategic window" concept can be useful to incumbent competitors as well as to would-be entrants into a market. For the former, it provides a way of relating future strategic moves to market evolution and of assessing how resources should be allocated to existing activities. For the latter, it provides a framework for diversification and growth.

Existing Businesses

Confronted with changes in the marketplace which potentially disqualify the firm from continued successful participation, several strategic options are available:

1. An attempt can be made to assemble the resources needed to close the gap between the new critical marketing requirements and the firm's competences.
2. The firm may shift its efforts to selected segments, where the "fit" between requirements and resources is still acceptable.
3. The firm may shift to a "low profile" approach—cutting back severely on all further allocation of capital and deliberately "milking" the business for short-run profit.
4. A decision may be taken to exit from that particular market either through liquidation or through sale.

All too frequently, however, because the "strategic window" phenomenon is not clearly recognized, these strategic choices are not clearly articulated. Instead, "old" approaches are continued long after the market has changed with the result that market position is lost and financial losses pile up. Or, often only half-hearted attempts are made to assemble the new resources required to compete effectively; or management is simply deluded into believing that it can adapt itself to the new situation even where this is actually out of the question.

The four basic strategic choices outlined above may be viewed hierarchically in terms of *resource commitment*, with No. 1 representing the highest level of commitment. Only the company itself can decide which position on the hierarchy it should adopt in particular situations, but the following guideline questions may be helpful:

- ▶ To what extent do the changes call for skills and resources completely outside the traditional competence of the firm? A careful analysis has to be made of the gap which may emerge between the evolving requirements of the market and the firm's profile.
- ▶ To what extent can changes be anticipated? Often it is easier to adapt through a series of minor adjustments—a stepping stone approach to change—than it is to be confronted with a major and unexpected discontinuity in approach.
- ▶ How rapid are the changes which are taking place? Is there enough time to adjust without forfeiting a major share of the market which later may be difficult to regain?
- ▶ How long will realignment of the functional activities of the firm take? Is the need limited to only some functions, or are all the basic resources of the firm affected—e.g., technology, engineering, manufacturing, marketing, sales, and organization policies?
- ▶ What existing commitments—e.g., technical skills, distribution channels, manufacturing approaches, etc.—constrain adaptation?
- ▶ Can the new resources and new approaches be developed internally or must they be acquired?
- ▶ Will the changes completely obsolete existing ways of doing business or will there be a chance for coexistence? In the case of new technologies intruding from outside industry, the decision often has to be made to "join-em rather than fight-em." Not to do so is to risk complete obsolescence. In other cases, coexistence may be possible.

▶ Are there segments of the market where the firm's existing resources can be effectively concentrated?

▶ How large is the firm's stake in the business? To the extent that the business represents a major source of revenues and profit, a greater commitment will probably need to be made to adapt to the changing circumstances.

▶ Will corporate management, in the event that this is a business unit within a multi-business corporation, be willing to accept different goals for the business in the future than it has in the past? A decision not to adapt to changes may result in high short-run returns from that particular business. Looking at the problem from the position of corporate planners interested in the welfare of the total corporation, a periodic market-by-market analysis in the terms described above would appear to be imperative prior to setting goals, agreeing on strategies, and allocating resources.

New Entrants

The "strategic window" concept has been used implicitly by many new entrants to judge the direction, timing, and scale of new entry activities. Gillette's entry into cigarette lighters, major computer manufacturers entry into ATM's, and Procter & Gamble's entry into many consumer markets *after* pioneers have laid the groundwork for a large scale, mass market approach to the specific product areas, all are familiar examples.

Such approaches to strategic market planning require two distinctly different types of analysis:

1. Careful assessment has to be made of the firm's strengths and weaknesses. This should include audits of all the key resources of the company as well as its various existing programs of activity.

2. Attention should be directed away from the narrow focus of familiar products and markets to a search for opportunities to put unique competencies to work. This requires a broader appreciation of overall environmental, technical and market forces and knowledge of many more markets, than is encountered in many firms today. It puts a particular burden on marketing managers, general managers, and business planners used to thinking in terms of existing activities.

Analysis of patterns of market evolution and diagnosis of critical market requirements in the future can also be of use to incumbent competitors as

a forewarning of potential new entry. In such cases, adjustments in strategy can sometimes be made in advance, which will ultimately deter would-be new competitors. Even where this is not the case, resource commitments may be adjusted to reflect the future changes in structure of industrial supply.

Conclusion

The "strategic window" concept suggests that fundamental changes are needed in marketing management practice, and in particular in strategic market planning activities. At the heart of these changes is the need to base marketing planning around predictions of future patterns of market evolution and to make assessments of the firm's capabilities to deal with change. Such analyses require considerably greater strategic orientation than the sales forecasting activities which underpin much marketing planning today. Users of product portfolio chart analysis, in particular, should consider the dynamic as opposed to the static implications in designating a particular business.

Entry and exit from markets is likely to occur with greater rapidity than is often the case today, as firms search for opportunities where their resources can be deployed with maximum effectiveness. Short of entry and exit, the allocation of funds to markets should be timed to coincide with the period when the fit between the firm and the market is at its optimum. Entering a market in its early stages and evolving with it until maturity may, on closer analysis, turn out to be a serious management error.

It has been said that while the life of the product is limited, a market has greater longevity and as such can provide a business with a steady and growing stream of revenue and profit if management can avoid being myopic about change. This article suggests that as far as any one firm is concerned, a market also is a temporary vehicle for growth, a vehicle which should be used and abandoned as circumstances dictate—the reason being that the firm is often slower to evolve and change than is the market in which it competes.

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