4
The Internal Assessment

Learning Objectives

After studying this chapter, you should be able to do the following:

4-1. Describe the nature and role of an internal assessment in formulating strategies.

4-2. Discuss the nature and role of management in formulating strategies.

4-3. Discuss the nature and role of marketing in formulating strategies.

4-4. Discuss the nature and role of finance and accounting in formulating strategies.

4-5. Discuss management information systems (MIS) in terms of formulating strategies.

4-6. Explain how to develop and use an Internal Factor Evaluation (IFE) Matrix.

Assurance-of-Learning Exercises

The following exercises are found at the end of this chapter:

Set 1: Strategic Planning for Coca-Cola

Exercise 4A: Perform a Financial Ratio Analysis for Coca-Cola

Exercise 4B: Develop an IFE Matrix for Coca-Cola

Set 2: Strategic Planning for My University

Exercise 4C: Construct an IFE Matrix for Your College or University

Set 3: Strategic Planning for Myself

Exercise 4D: Construct an IFE Matrix for Yourself

Set 4: Individual versus Group Strategic Planning

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This chapter focuses on identifying and evaluating a firm's strengths and weaknesses in the functional areas of business, including management, marketing, finance, accounting, and management information systems (MIS). Careful evaluation of a business' functional areas is necessary to determine the firm's core competencies and understand whether the firm's current strategy is effectively working to provide a sustainable competitive advantage. One excellent way to evaluate the effectiveness of a firm's strategy is to study the firm's financial performance relative to competitors and industry averages. Financial information alone, however, cannot provide a complete assessment of the effectiveness of a firm's strategy, and strategists as well as students of strategy must dig deep into management, marketing, finance, accounting, and MIS issues simultaneously to fully understand why a firm's strategy is effective or not.

The first two-thirds of this chapter address potential strengths and weaknesses in the functional areas cited in terms of what, where, how, and why to obtain this information; the latter one-third of this chapter explains how to assimilate and use this information through development and evaluation of an Internal Factor Evaluation (IFE) Matrix.

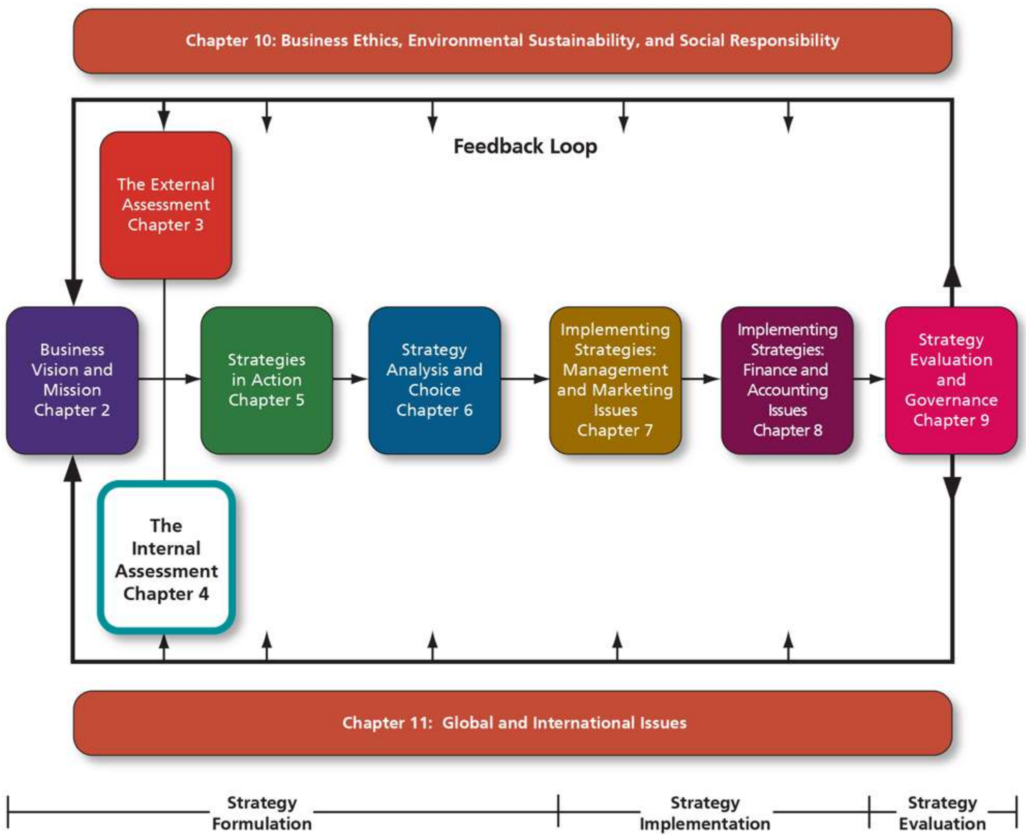
Showcased as an exemplary strategist, Elon Musk does an excellent job using his company's internal strengths to capitalize on external opportunities. Elon Musk has founded four different billion-dollar companies, PayPal, SolarX, Solar City, and Tesla. Once called a "technologist," Musk is revolutionizing the power and transportation industries and changing the world as we know it today.

The Internal Assessment Phase of Strategy Formulation

LO 4.1 Describe the nature and role of an internal assessment in formulating strategies.

All organizations have strengths and weaknesses in the functional areas of business. No enterprise is equally strong or weak in all areas. Objectives and strategies are established with the intention of capitalizing on internal strengths and overcoming weaknesses. The internal-audit part of the strategic-management process is illustrated in Figure 4-1 with white shading.

Figure 4-1 The Comprehensive, Integrative Strategic-Management Model



Source: Fred R. David, "How Companies Define Their Mission," *Long Range Planning* 22, no. 1 (February 1989): 91. See also Anik Ratnaningsih, Nadjadji Anwar, Patdono Suwignjo, and Putu Artama Wiguna, "Balance Scorecard of David's Strategic Modeling at Industrial Business for National Construction Contractor of Indonesia," *Journal of Mathematics and Technology*, no. 4 (October 2010): 20.

Figure 4-1 Full Alternative Text

Exemplary **Strategist** Showcased

Elon Musk, CEO and Cofounder of Tesla, Inc. and Space Exploration Technologies Corporation (SpaceX)

For more than a decade, Elon Musk has been a U.S. exemplary strategist on a mission to develop his rocket-ship company SpaceX and send humans on a 7-month, 34-million-mile journey to Mars. Headquartered in Los Angeles County, Musk's SpaceX already ferries supplies to and from the International Space Station. While pioneering private space exploration and preparing to colonize planets, Musk has also catapulted Tesla to be the world's leader in batteries that supply energy for cars, trucks, homes, businesses, and rockets.

On the way to Mars?

NASA

SpaceX and Tesla aren't the only companies started by Musk; he also started two other billion-dollar companies, PayPal and Solar City. Named the "Architect of the Future," Musk was recently featured as a *Rolling Stones Magazine* cover story, highlighting his "world-changing plans to inhabit outer space, revolutionize high-speed transportation, and reinvent cars." As explained in Musk's own words, his ambition stems in part by his unfettered optimism for the future of human existence:

> Fundamentally, the future is vastly more exciting and interesting if we are a space-faring civilization and multi-planetary species than if we are not.

Musk told his more than 17 million Twitter followers in late 2017 that Tesla in 2020 would manufacture an F-150–type pickup truck except all electric, following the company's 2019 release of an all-electric commercial semitrailer truck.

Source: Based on Brian Deagon, "The New Space Race," *Investor's Business Daily*, September 11, 2017, B1 & B6. Also based on: http://www.rollingstone.com/culture/features/elon-musk-inventors-plans-for-outer-space-cars-finding-love-w511747 and https://www.cnbc.com/2017/11/21/how-tesla-and-elon-musk-became-household-names.html

Some researchers emphasize the importance of the internal-audit part of the strategic-management process by comparing it to the external audit in importance. Robert Grant, for example, concluded that the internal audit is more important, saying:

> In a world where customer preferences are volatile, the identity of customers is changing, and the technologies for serving customer requirements are continually evolving, an externally focused orientation does not provide a secure foundation for formulating long-term strategy. When the external environment is in a state of flux, the firm's own resources and capabilities may be a much more stable basis on which to define its identity. Hence, a definition of a business in terms of what it is capable of doing may offer a more durable basis for strategy.[1]

Resource-Based View

The **resource-based view (RBV)** approach to competitive advantage contends that internal resources are more important for a firm than external factors in achieving and sustaining competitive advantage. Proponents of RBV theory contend that a firm's performance is primarily determined by internal resources that enable the firm to exploit opportunities and neutralize threats. A firm's resources can be tangible, such as labor, capital, land, plant, and equipment, or intangible, such as culture, knowledge, brand equity, reputation, and intellectual property. Because tangible resources can more easily be bought and sold, intangible resources are often more important for gaining and sustaining competitive advantages.

A resource can be considered valuable to the extent that it is (1) rare, (2) hard to imitate, or (3) not easily substitutable. Often called **empirical indicators**, these three characteristics of resources enable a firm to implement strategies that improve its efficiency and effectiveness and lead to a sustainable competitive advantage. The more a resource(s) is rare (not held by many firms in the industry), hard to imitate (hard to copy or achieve), and not easily substitutable (invulnerable to threat of substitution from different products), the stronger a firm's competitive advantage will be and the longer the advantage will last. Valuable resources comprise strengths that a firm can capitalize on to prosper in a given industry.

The basic premise of RBV theory is that the mix, type, amount, and nature of a firm's internal resources should be considered first and foremost in devising strategies that can lead to sustainable competitive advantage. Managing strategically according to the RBV involves developing and exploiting a firm's unique resources and capabilities, and continually maintaining and strengthening those resources.

As indicated in the Ethics Capsule 4, exploiting a firm's unique resources and capabilities can present ethical dilemmas.

Ethics Capsule 4

The Sagebrush Lizard versus the Big Oil Man

I need help from people.

Petr Podrouzek/123RF

The state of Texas leads the United States in crude oil production. West Texas, in particular, is home to the largest oil deposit ever discovered in the continental United States. With an estimated 20 billion barrels of oil, valued at more than $900 billion, West Texas has become a mecca for oil and gas companies. Warm weather, a sophisticated labor and equipment industry, and favorable geological formations all contribute to efficient drilling productions in West Texas. Numerous reservoirs can be drilled simultaneously through a process called *fracking*, in which a high-pressure mixture of water, sand, and chemicals is forcefully injected into the rock, causing gas to be released. Texas oil drilling helps oil and gas companies, boosts the Texas and U.S. economies, adds jobs, increases exports, reduces imports, and lowers gas prices for everybody. These touted benefits make the oil drilling seem like a good, ethical practice, but there is a dark side.

What many don't know is that the unique sand used in fracking in West Texas is also home to the dunes sagebrush lizard, a 3-inch long, tan-colored animal that lives only in a small portion of a few counties in West Texas and Southeastern New Mexico. The pretty, picky little lizard may soon be added to the federal endangered species list; more than half of the lizard's habitat has been taken over by miners and drillers, such as big Ben Brigham. Brigham has made hundreds of millions of dollars as a Texas oilman and claims to be working with biologists to recreate the sagebrush lizard's habitat and relocate the lizards to a new area that resembles the lizard's home ecosystem. From an internal analysis perspective, do you think Brigham's established oil-drilling operations and current production procedures that yield the benefits described offset the possibility of the sagebrush lizard becoming extinct? Investors, environmentalists, and policy makers are meeting in hopes of finding an appropriate solution.

Source: Based on Christopher M. Matthews, "It's Lizard vs. Oil Magnate In the Latest Fracking Fight," *Wall Street Journal*, (October 14, 2017): A1, A10.

Key Internal Forces

An internal strategic-management assessment includes analysis of how strong or weak a firm is in each functional area of business, including management, marketing, finance, accounting, and MIS. Uniqueness or distinctive competences a firm has or lacks in each area provides the foundation for identifying strength and weakness factors. Strengths that cannot be easily matched or imitated by competitors are called **distinctive competencies**. It is of paramount importance in strategic planning to capitalize on and nurture strengths because competitive advantages generally arise more from strengths, uniqueness, and distinctive competencies than from weaknesses. Improving on weaknesses, however, is a vital task for all organizations and generally helps to improve efficiencies, weaknesses are unlikely to develop into sustainable competitive advantages, thus stressing the importance of nurturing strengths.

It is impossible in a strategic-management text to review in depth all the material presented in prior business courses; there are many subareas within these functions, such as customer service, warranties, advertising, packaging, and pricing under marketing. However, strategic planning must include a detailed assessment of how the firm is doing in all internal areas. Thus, an overview of each of the functional business areas from a strategy perspective is provided here. Regardless of the type or size of firm, effective strategic planning hinges on identification and prioritization of internal strengths and weaknesses because a firm must continually capitalize on its strengths and improve on its weaknesses to gain and sustain competitive advantage.

Management

LO 4.2 Discuss the nature and role of management in formulating strategies.

There are four basic activities that comprise management: planning, organizing, motivating, and controlling. An overview of these activities is provided in Table 4-1 because an organization should continually capitalize on its strengths and improve on its weaknesses in these four areas.

Table 4-1 The Basic Functions of Management

Function	Description	Stage of Strategic-Management Process When Most Important
Planning	Planning consists of all managerial activities related to preparing for the future, such as establishing objectives, devising strategies, and developing policies.	Strategy Formulation
Organizing	Organizing includes all managerial activities that result in a structure of task and authority relationships, such as organizational design, job specialization, job descriptions, span of control, job design, and job analysis.	Strategy Implementation
Motivating	Motivating involves efforts directed toward shaping human behavior, such as leadership, communication, teamwork, job enrichment, and human resource management (HRM).	Strategy Implementation
Controlling	Controlling refers to all managerial activities that compare actual results with planned results, such as quality control, financial control, inventory control, expense control, analysis of variances, rewards, and sanctions.	Strategy Evaluation

Planning

Planning is the essential bridge between the present and the future; planning increases the likelihood of achieving desired results. Even though planning is considered the foundation of management, it is the task that managers most commonly neglect. Planning enables a firm to:

1. Take into account relevant factors and focus on the critical ones
2. Ensure that the firm is prepared for all reasonable eventualities and can make timely changes and adapt as needed
3. Gather the resources needed and carry out tasks in the most efficient way possible
4. Conserve its own resources and avoid wasting natural resources
5. Assess whether the effort, costs, and implications associated with achieving desired objectives are warranted
6. Be proactive, anticipate, and influence the future

Planning is more than simply projecting past and present trends into the future (long-range planning). Planning also includes revising a firm's vision and mission, forecasting future events and trends, establishing objectives, and choosing strategies to pursue. Successful organizations strive to guide their own futures rather than merely react to external forces and events as they occur. Historically, organisms and organizations that adapt well to changing conditions survive and prosper; others become extinct.

An organization can develop synergy through planning. **Synergy** exists when everyone pulls together as a team that knows what it wants to achieve; synergy is the $2 + 2 = 5$ effect. By establishing and communicating clear objectives, employees and managers can work together toward desired results. Synergy can result in powerful competitive advantages. The strategic-management process itself is aimed at creating synergy in an organization.

Strengths and weaknesses with respect to planning could relate to: (1) quality of a firm's vision or mission and how well the firm's strategies support the vision or mission, (2) divisions' relative contribution to the firm's performance, and (3) resource allocation across regions and products.

Organizing

The purpose of **organizing** is to achieve coordinated effort by defining task and authority relationships. Organizing means determining who does what and who reports to whom. There are countless examples in history of well-organized enterprises successfully competing against—and in some cases defeating—much stronger but less-organized firms. A well-organized firm generally has motivated managers and employees who are committed to seeing the organization succeed. Resources are allocated more effectively and used more efficiently in a well-organized firm.

The organizing function of management can be viewed as consisting of three sequential activities: breaking down tasks into jobs, combining jobs to form departments, and delegating authority. In *The Wealth of Nations*, published in 1776, Adam Smith cited the advantages of work specialization in the manufacture of pins:

> One man draws the wire, another straightens it, a third cuts it, a fourth points it, a fifth grinds it at the top for receiving the head. Ten men working in this manner can produce 48,000 pins in a single day, but if they had all wrought separately and independently, each might at best produce twenty pins in a day.[2]

Organizing includes developing an appropriate structure, span of control, and chain of command. Structure dictates how resources are allocated and how objectives are established in a firm. Changes in strategy often require changes in structure because positions may be created, deleted, or merged. The most common types of structure are discussed in Chapter 7. Strengths and weaknesses with respect to organizing could relate to (1) how well the firm's current structure matches the various divisions and strategy of the firm, (2) the degree to which a clear chain of command is displayed through executive titles, and (3) the extent of overlap among related jobs and job descriptions.

Motivating

Motivating is the process of influencing people to accomplish specific objectives. Motivation helps explain why some people work hard and others do not. Strategies have little chance of succeeding if employees are not motivated to implement them once they are formulated. The motivating function of management includes such activities as developing leaders, managing groups, communicating effectively, and managing organizational change.

When managers and employees of a firm strive to achieve high levels of productivity, this indicates that the firm's strategists are excellent leaders—persons that establish rapport with subordinates, empathize with their needs and concerns, set a good example, and are trustworthy and fair. An excellent leader communicates a vision of the firm's future and inspires people to work hard to achieve that vision. Stressing the importance of leadership, Sun Tzu stated, "Weak leadership can wreck the soundest strategy." According to Peter Drucker:

> Leadership is not a magnetic personality. That can just as well be demagoguery. It is not "making friends and influencing people." That is flattery. Leadership is the lifting of a person's vision to higher sights, the raising of a person's performance to a higher standard, the building of a person's personality beyond its normal limitations.[3]

An organization's system of communication determines whether strategies can be implemented successfully. Good two-way communication is vital for gaining support for departmental and divisional objectives and policies. Top-down communication can encourage bottom-up communication. The strategic-management process becomes a lot easier when subordinates are encouraged to discuss their concerns, reveal their problems, provide recommendations, and give suggestions. A primary reason for instituting strategic management is to build and support effective communication networks throughout the firm.

Human resource management (HRM) includes activities such as recruiting, interviewing, testing, selecting, orienting, training, developing, caring for, evaluating, rewarding, disciplining, promoting, transferring, demoting, and dismissing employees, as well as managing union relations. The complexity and importance of HRM has increased to such a degree that all but the smallest organizations generally have a full-time human resource manager. As employees and managers come and go, HRM must manage this process effectively to maintain employee morale and minimize workplace stress. Table 4-2 reveals several of many ways that effective HRM can help create and maintain a competitive advantage for organizations. The type of HRM information listed in Table 4-2 could be the source of a firm's strengths or weaknesses with respect to the overall motivation of managers and employees.

Table 4-2 **Six Ways Human Resource Management Can Provide a Competitive Advantage**

1. Analyze turnover rates to determine where problems may lie.
2. Measure and monitor employee engagement and morale scores.
3. Track employee data to identify high and low performers.
4. Determine going market rates for talent and align compensation with company goals.
5. Design employee development and training pathways that take into account the strategic and long-term needs of the organization.
6. Provide guidance on legal issues related to all personnel matters.

Source: Based on information from http://hrdailyadvisor.blr.com/2017/08/21/using-hr-competitive-advantage/

Controlling

All managers in an organization have controlling responsibilities, such as conducting performance evaluations and taking necessary action to minimize inefficiencies. The controlling function of management is particularly important for effective strategy evaluation (the focal topic of Chapter 9). Controlling consists of four basic steps:

1. Establishing performance standards
2. Measuring individual and organizational performance
3. Comparing actual performance to planned performance standards
4. Taking corrective actions

The **production/operations** portion of a business consists of all those activities that transform inputs (raw materials, labor, capital, machines, and facilities) into finished goods and services. The extent to which a manufacturing plant's output reaches its full potential output is called **capacity utilization**, a key strategic variable. The higher the capacity utilization, the better; otherwise, equipment may sit idle. For example, if a manufacturing firm's plants are averaging 60 percent capacity utilization, that would represent a severe weakness of the firm.

As indicated in Table 4-3, Roger Schroeder suggests that production/operations comprises five decision areas: process, capacity, inventory, workforce, and quality. Production/operations activities often represent the largest part of an organization's human and capital assets. In many industries, the major costs of producing a product are incurred within operations, so production/operations can have great value as a competitive weapon in a company's overall strategy. Strengths and weaknesses in the five areas of production can mean the success or failure of an enterprise.

Table 4-3 The Basic Decisions Areas Within Production/Operations

Decision Areas	Example Decisions
1. Process	Robotics, facility layout, process flow analysis, line balancing, process control, and transportation analysis.
2. Capacity	Forecasting, facilities planning, aggregate planning, scheduling, capacity planning, queuing analysis, and capacity utilization.
3.	Level of raw materials, work-in-process, finished goods, what to order, when to

Inventory	order, how much to order, and materials handling.
4. Workforce	Managing the skilled, unskilled, clerical, and managerial employees by caring for job design, work measurement, job enrichment, work standards, and motivation techniques.
5. Quality	Quality control, sampling, testing, quality assurance, and cost control.

Source: Based on a variety of sources.

Increasingly in production settings, a new breed of robots called **collaborative machines** are working alongside people. Priced as low as $20,000 and becoming widely used even in small businesses, robots do not take lunch breaks or sick days or require health insurance, and they can work nonstop all night tirelessly if needed. Collaborative machines are more flexible, often doing one task one day and a different task the next day. At Panek Precision Inc., a Northbrook, Illinois-based machine shop, Mr. Panek states, “Having robots has allowed us to move our existing workers into more useful tasks, such as monitoring more-advanced machines that require human tending.” Workers are generally quite receptive to collaborative machines, even giving them names, such as “Fred” at Stuller Inc., a jewelry factory in Lafayette, Louisiana, and “Baxter” at K’NEX Brands, a toy maker in Hatfield, Pennsylvania.[4] Strengths and weaknesses with respect to controlling could relate to (1) inventory turnover levels versus competitors, (2) how well or poorly the firm’s operations are performing across various geographical regions, and (3) how cost efficient the firm is in acquiring needed supplies.

Integrating Strategy and Culture

The functions of management can be performed best when a firm's strategy and culture are integrated. Every business entity has a unique organizational culture that impacts strategic-planning activities. **Organizational culture** is "a pattern of behavior that has been developed by an organization as it learns to cope with its problem of external adaptation and internal integration, and that has worked well enough to be considered valid and to be taught to new members as the correct way to perceive, think, and feel."[5] This definition emphasizes the importance of matching external with internal factors in making strategic decisions. Organizational culture captures the subtle, elusive, and largely unconscious forces that shape a workplace. Remarkably resistant to change, culture can represent a major strength or weakness for any firm.

The strategic-management process takes place largely within a particular organization's culture. A culture ideally supports the collective commitment of its people to a common purpose. It must foster competence and enthusiasm among managers and employees. If strategies can capitalize on cultural strengths, such as a strong work ethic or highly ethical beliefs, then management often can swiftly and easily implement changes. However, if the firm's culture is not supportive, strategic changes may be ineffective or even counterproductive. A firm's culture can become antagonistic to new strategies, with the result being confusion and disorientation.

To achieve and maintain competitive advantage, firms must continually learn, adapt, and evolve. Adapting to change can be difficult, particularly when change includes forging new alliances, partnerships, or mergers between different companies, each of which likely has its own unique culture and unique identity. Table 4-4 provides some example (possible) aspects of an organization's culture and possible considerations for identifying strengths and weaknesses within the firm.

When one firm acquires another firm, integrating the two cultures effectively can be vital for success. For example, in Table 4-4, one firm may score mostly 1s (low) and the other firm may score mostly 5s (high), which would present a challenging strategic problem. Regardless of a firm's industry, geography, or company history, it is imperative that firms effectively integrate corporate strategy and culture, even as they continuously adapt and evolve overtime.

Table 4-4 15 Aspects of an Organization's Culture

Dimension	Low	Degree			High
1. Strong work ethic; arrive early and leave late	1	2	3	4	5

2. High ethical beliefs; clear code of business ethics followed	1	2	3	4	5
3. Formal dress; shirt and tie expected	1	2	3	4	5
4. Informal dress; many casual dress days	1	2	3	4	5
5. Socialize together outside of work	1	2	3	4	5
6. Do not question supervisor’s decision	1	2	3	4	5
7. Encourage whistle-blowing	1	2	3	4	5
8. Be health conscious; have a wellness program	1	2	3	4	5
9. Allow substantial “working from home”	1	2	3	4	5
10. Encourage creativity, innovation, and open-mindedness	1	2	3	4	5
11. Support women and minorities; no glass ceiling	1	2	3	4	5
12. Be highly socially responsible; be philanthropic	1	2	3	4	5
13. Have numerous meetings	1	2	3	4	5
14. Have a participative management style	1	2	3	4	5
15. Preserve the natural environment; have a sustainability program	1	2	3	4	5

An organization’s culture should infuse individuals with enthusiasm for implementing strategies. Internal strengths and weaknesses associated with a firm’s culture sometimes are overlooked because of the interfunctional nature of this phenomenon. This is a key reason why strategists need to view and understand their firm as a sociocultural system. Success is often determined by links between a firm’s culture and strategies. The challenge of strategic management today is to bring about the changes in organizational culture and individual mind-sets that are needed to support the formulation, implementation, and evaluation of strategies.

Management Audit Checklist of Questions

The following checklist of questions can help determine specific strengths and weaknesses in the management functional area of business. An answer of *no* to any question could indicate a potential weakness, although the strategic significance and implications of negative answers, of course, will vary by organization, industry, and severity of the weakness. Positive or *yes* answers to the checklist questions suggest potential areas of strength.

1. Does the firm use strategic-management concepts?
2. Are company objectives and goals measurable and well communicated?
3. Do managers at all hierarchical levels plan effectively?
4. Do managers delegate authority well?
5. Is the organization’s structure appropriate?
6. Are job descriptions and job specifications clear?
7. Is employee morale high?
8. Are employee turnover and absenteeism low?
9. Are organizational reward and control mechanisms effective?

Marketing

LO 4.3 Discuss the nature and role of marketing in formulating strategies.

Marketing can be described as the process of defining, anticipating, and fulfilling consumers' needs and wants. Marketing is about satisfying current and potential customers' needs. Excellent marketing can provide firms with a competitive advantage. Table 4-5 lists companies that lead their respective industries in customer satisfaction according to the American Customer Satisfaction Index (ACSI) that surveys around 180,000 U.S. customers each year.

Table 4-5 Companies that Lead Their Industries in Customer Satisfaction According to the 2017 American Customer Satisfaction Index

Company	Industry
JetBlue	Airline
Lexus (Toyota)	Automobiles
Dillard's	Department Stores
Cracker Barrel	Full-Service Restaurants
LG	Household Appliances
Vanguard	Internet Investment Services
Amazon	Internet Retail
Google	Internet Search Engines and Information
Chick-fil-A	Limited-Service Restaurants
Clorox	Cleaning Products
Apple	Personal Computers
AAA	Property and Casualty Insurance

Trader Joe's	Supermarkets

Source: Based on information from http://www.theacsi.org/acsi-benchmarks/benchmarks-by-industry

Marketing consists of five basic activities: (1) marketing research and target market analysis, (2) product planning, (3) pricing products, (4) promoting products, and (5) placing or distributing products. Understanding these activities helps strategists identify and evaluate marketing strengths and weaknesses—a vital strategy-formulation activity.

Marketing Research and Target Market Analysis

Marketing research is the systematic gathering, recording, and analyzing of data to identify and define opportunities and problems related to the marketing of goods and services. Marketing research is often used to help firms evaluate and formulate strategies. Marketing researchers employ numerous scales, instruments, procedures, concepts, and techniques to gather information; their research can uncover critical strengths and weaknesses. Organizations that possess excellent marketing research skills have a competitive advantage. According to the former president of PepsiCo:

> Looking at the competition is the company's best form of market research. The majority of our strategic successes are ideas that we borrow from the marketplace, usually from a small regional or local competitor. In each case, we spot a promising new idea, improve on it, and then out-execute our competitor.[6]

An important use of marketing research involves **target market analysis**—the examination and evaluation of consumer needs and wants. Marketing research involves methods such as administering customer surveys, analyzing consumer information, evaluating market positioning strategies, developing customer profiles, and determining optimal market segmentation strategies, all of which contribute to effective customer analysis.

Successful organizations continually monitor present and potential customers' buying patterns and engage in extensive marketing research to understand the needs and wants of different segments of customers. Firms tailor their product offerings to fit the needs of their target market(s). Many companies have recently shifted their target markets to focus on younger consumers, and particularly millennials because these individuals now make up the largest group of U.S. consumers. For example, Home Depot, P&G, Williams-Sonoma Inc., Sherwin-Williams Co., and Scotts Miracle-Gro Company are now targeting millennials by offering online lessons aimed at teaching basic skills such as how to mow a lawn, use a tape measure, hammer a nail, and care for plants.

With a clearly defined target market, marketers can best use their strategic toolbox to ensure that their firm's offering delivers value to target customers. A clear understanding of a firm's target market(s) serves as the foundation on which the marketing mix is designed. Commonly referred to as the "four Ps of marketing," the marketing mix includes product, price, promotion, and place, as indicated in Table 4-6. Marketers design a marketing mix to fit the unique needs of each target market. Table 4-6 reveals key areas to consider when searching for and identifying possible strengths and weaknesses related to the marketing functional area of a firm.

Table 4-6 The Marketing Mix Component Variables

Product	Place	Promotion	Price
Quality	Distribution channels	Advertising	Level
Features and options	Distribution coverage	Personal selling	Discounts
Style and brands	Outlet location	Sales promotion	Allowances
Packaging	Sales territories	Publicity	Payment terms
Product line	Inventory levels		
Warranty and services	Transportation carriers		

Source: Based on a variety of sources.