SOLUTIONS MANUAL

Instructor's Manual

Marketing Strategy and Competitive Positioning

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CHAPTER 1

MARKETING STRATEGY

Case Study: Psion

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Over the past 20 years Psion has had more than a few difficult moments when it has questioned its future as a maker of handheld electronic organisers.

It could innovate its way out of trouble but now it has admitted the handheld market has changed too much and even innovation will not save it. What matters is not differentiation but scale.

For David Levin, the cerebral chief executive of Psion, one of the most telling signs of change was a recent advertisement by Dixons, the retail group, designed for the Nokia 9210, a new smartphone product: ‘The advert described the Nokia as having all the functionality of a Psion organiser and a phone, too. It indicated in stark relief the issues for us.’

Psion faced a dilemma. It lacked the scale to compete with cut-throat global rivals, such as Palm, Handspring of the US or Sony for cheaper organisers that were becoming commodity items.

However, it saw the high-end organiser market was being invaded by a new generation of smartphones – phones with organiser capabilities built in.

‘We knew the standalone organiser had a finite lifespan,’ Mr Levin said. ‘Our route forward was to create a connected device. That is why we did a strategic deal with Motorola, to penetrate the market for integrated devices.’ However, that fell through in January, when Motorola pulled the plug as part of a cost-cutting agenda.

‘We spent the last five months going through every option to see what other ways there were to preserve that strategic thrust,’ says Mr Levin.

Those efforts coincided with excess capacity. Rivals such as Palm of the US have huge warehouses of unsold organisers.

Palm recently wrote off about $300m, representing more than 5m unsold units. Handspring has done the same. Prices have dived. Faced with that deteriorating scenario, Mr Levin said ‘it would have been commercially naive to press on’.

The decision to pull out is costly – both financially and emotionally. Psion will take a £29m restructuring charge, of which £10m is a cash charge. The exceptional costs include £3m related to 250 redundancies, and about £15m for inventory write-downs, representing about 20,000–30,000 unsold devices.

Even though it will stop making handheld organisers, Psion intends to keep exploiting the intellectual property it has gleaned from more than 20 years of producing them.

Mr Levin said existing products such as the Psion Revo would continue to be sold, but admitted: 'We do not expect them to be a big seller by Christmas 2002.'

So what will be left of Psion after restructuring?

The answer is two-fold. It retains its 28 per cent stake in Symbian, the consortium that controls Epoc, the operating system for wireless devices. For many investors, that stake has long been a good reason to hold Psion shares. Hopes remain that Epoc will be the operating system of choice for the next generation of mobile phones. But Psion's core business – as even Mr Levin admits – is in a less sexy area than consumer electronics, selling services and gadgets for the enterprise wireless market.

'The industrial wireless market does not hit those buttons, but it does in terms of making money,' says Mr Levin.

Psion said underlying revenue growth in this market was in the high teens – low when compared with the 40 per cent growth Psion had last year for its handheld devices – but solid.

This enterprise business was bolstered by the acquisition last year of Teklogix, a Canadian company, which already provides the bulk of Psion's revenues.

Provisional revenues from the combined enterprise division would be £63m in the first half of 2001, against £36m from Psion Digital, which includes handheld sales. However, the move into wireless enterprise, although less risky than staying in the consumer market, is not without hazard. Psion said Teklogix had grown in line with expectations until June. Then, it was hit by the slowdown in IT spending in the US.

Although there have been few signs of that slowdown spreading to Europe, Psion believes European demand could see a 'similar slowdown to those in North America during the second half'. Mr Levin, though, has few doubts the prospects in enterprise are far better than Psion's chances in the consumer market.

Source: Caroline Daniel, 'Psion opts to close its future in handheld organisers', *Financial Times*, 12 July 2001, p. 18.

Discussion Questions with Guidelines

1. Evaluate and comment upon Psion's market orientation using the market orientation assessment form (Box 1.1).

Market orientation assessment — Box 1.1

1 CUSTOMER ORIENTATION

	Strongly agree	Agree	Neither	Disagree	Strongly disagree	Don't know
Information about customer needs and requirements is collected regularly	5	4	3	2	1	0
Our corporate objective and policies are aimed directly at creating satisfied customers	5	4	3	2	1	0
Levels of customer satisfaction are regularly assessed and action is taken to improve matters where necessary	5	4	3	2	1	0
We put major effort into building stronger relationships with key customers and customer groups	5	4	3	2	1	0
We recognise the existence of distinct groups or segments in our markets with different needs and we adapt our offerings accordingly	5	4	3	2	1	0

Total score for customer orientation (*out of 25*)

2 COMPETITOR ORIENTATION

	Strongly agree	Agree	Neither	Disagree	Strongly disagree	Don't know
Information about competitor activities is collected regularly	5	4	3	2	1	0
We conduct regular benchmarking against major competitor offerings	5	4	3	2	1	0
There is rapid response to major competitor actions	5	4	3	2	1	0
We put major emphasis on differentiating ourselves from the competition on factors important to customers	5	4	3	2	1	0

Total score for competitor orientation (*out of 20*)

3 LONG-TERM PERSPECTIVES

	Strongly agree	Agree	Neither	Disagree	Strongly disagree	Don't know
We place greater priority on long-term market share gain than short-run profits	5	4	3	2	1	0
We put greater emphasis on improving our market performance than on improving internal efficiencies	5	4	3	2	1	0
Decisions are guided by long-term considerations rather than short-run expediency	5	4	3	2	1	0

Total score for long-term perspectives (*out of 15*)

4 INTERFUNCTIONAL COORDINATION

	Strongly agree	Agree	Neither	Disagree	Strongly disagree	Don't know
Information about customers is widely circulated and communicated throughout the organisation	5	4	3	2	1	0
The different departments in the organisation work effectively together to serve customer needs	5	4	3	2	1	0
Tensions and rivalries between departments are not allowed to get in the way of serving customers effectively	5	4	3	2	1	0
Our organisation is flexible to enable opportunities to be seized effectively rather than hierarchically constrained	5	4	3	2	1	0

Total score for interfunctional coordination (*out of 20*)

5 ORGANISATIONAL CULTURE

	Strongly agree	Agree	Neither	Disagree	Strongly disagree	Don't know
All employees recognise their role in helping to create satisfied end customers	5	4	3	2	1	0
Reward structures are closely related to external market performance and customer satisfaction	5	4	3	2	1	0
Senior management in all functional areas give top importance to creating satisfied customers	5	4	3	2	1	0
Senior management meetings give high priority to discussing issues that affect customer satisfaction	5	4	3	2	1	0

Total score for organisational culture (*out of 20*)

Summary

Customer orientation (*out of 25*)
Competitor orientation (*out of 20*)
Long-term perspectives (*out of 15*)
Interfunctional coordination (*out of 20*)
Organisational culture (*out of 20*)
Total score (*out of 100*)

Interpretation

80–100 indicates a high level of market orientation. Scores below 100 can still, however, be improved!

60–80 indicates moderate market orientation – identify the areas where most improvement is needed.

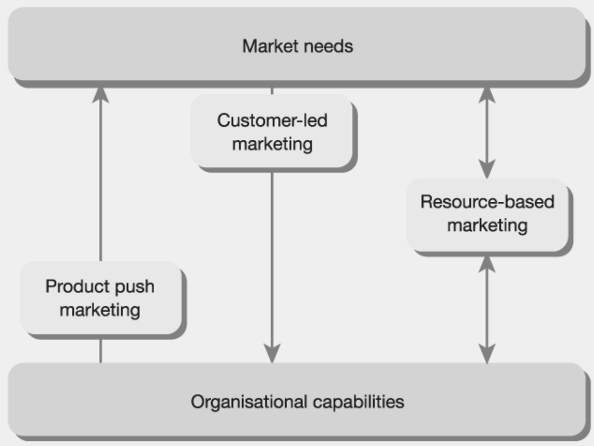
40–60 shows a long way to go in developing a market orientation. Identify the main gaps and set priorities for action to close them.

20–40 indicates a mountain ahead of you! Start at the top and work your way through. Some factors will be more within your control than others. Tackle those first.

Note: If you scored '0' on many of the scales you need to find out more about your own company!

2. Based on the resource-based view of marketing, what best describes Psion's stance in the market and to what extent is their current dilemma a result of that stance?
   - Long-term fit between market needs and wants and company abilities to compete in the market (the positioning of innovation without scale was not sustainable)
   - Awareness of broader market considerations including competitors and realities of supply chain (competitors came from both global organisers rivals and, more recently, from smartphones)
   - Updating of capabilities (Psion sought a strategic deal with Motorola to move into connected device, acquired Teklogix to strengthen its position in the wireless enterprise market, particularly the North American one)
   - Opportunities pursued when the company has an existing or potential advantage not on an ad hoc basis (without a strategic alliance with a smartphone manufacturer and economies of scale, Psion cannot compete in the PDA's market; however, it has a potential advantage with Symbian and a real one in the enterprise market).

Figure 1.3 Marketing approaches



3. Should Psion become more marketing oriented? What would they need to do to become more market oriented?

   The components of market orientation are:

   - Customer orientation
   - Competitor orientation
   - Interfunctional coordination• Organisational culture
   - Long-term profit focus.

   These can be used to ascertain the extent to which Psion has been market oriented and how it could become more so.

Figure 1.2 Components and context of market orientation

Update

A next-generation rugged handheld from Psion Teklogix has been released for the North American market.

The new 7535 is so tough, says Psion Teklogix, that it can withstand 'multiple drops to concrete'.

The 7535 is aimed at both the traditional supply chain and logistics markets and other 'outside the warehouse' uses, the company said. It features radio, scanning, keyboard and display options; and it can run GUI-based, thick client applications. It is also backwards compatible to work with text-only applications.

New Product Watch: 'Psion Teklogix Releases Rugged Handheld', *Wireless News*, 21 May 2003

Psion – Update 2007

Psion has received £105.6m from the sale in 2004 of its 31.1 per cent stake in Symbian, the mobile phone software company, with a final payment of £2m due the following year (9 July 2005).

Psion's revenues increased in 2006 by 25 per cent and pre-tax profit rose from £4.5m to £10.5m. The sharp improvement in results reflects a recent reorganisation of the Psion sales team and growing demand for their new range of products. Psion makes rugged handheld devices used for functions such as warehouse stocktaking. Alistair Crawford, chief executive, said there was a growing demand for such devices as companies came under increased pressure to manage their supply chain more efficiently. Growth was driven particularly by Europe, where sales increased 30 per cent, and the US, where the company was recently selected as a supplier by the Department of Defence, the Coast Guard and several other government agencies (21 September 2005).

Psion has warned it could take 18 months to gain the benefit of a programme to restructure its supply chain. The group has seen problems with its supply chain resulting in higher costs and delayed shipments of products. It has also had to relaunch many products following new European Union legislation that cut the amount of metals in electronic products. Although revenues for the period rose from £78.9m to £93.3m, pre-tax profit shrank from £7.2m to £865,000 as the overall cost of sales rose from £40.2m to £54.2m (11 September 2006).

Sources

Supply problems hit Psion's costs

By Philip Stafford, FT.com site Published: 11 September 2006

SMALLER COMPANIES UK: Psion given a sharp lift by new products

By Maija Palmer,IT Correspondent, Financial Times
Published: 21 September 2005

COMPANIES UK: Psion set to return cash to investors

By Maija Pesola,IT Correspondent, Financial Times
Published: 9 July 2005

CHAPTER 2

STRATEGIC MARKETING PLANNING

Case Study: iPhone

FT

By Kevin Allison
Published: 10 January 2007

The throngs of Apple fans who crowded into the Moscone convention centre in San Francisco to hear Steve Jobs give his annual MacWorld keynote address went into the room with high expectations.

Judging by their response their expectations were more than met.

The unveiling of the iPhone, Apple's long-awaited entry into the mobile handset market, was greeted by rapturous applause, gasps of disbelief, and occasional whoops of joy from the Apple faithful.

Six years after Apple transformed the market for digital music players with the introduction of the iPod, the company had attempted a repeat performance in the market for mobile handsets with the iPhone – a slim, sleek handset that relies on an innovative touch-screen interface.

'This thing is amazing,' says Van Baker, an analyst at Gartner, who had a chance to try the iPhone himself during an analyst briefing by Apple. 'It's the biggest home run for them I've seen yet.'

Apple is far from the first company to try to crack the so-called smartphone market. Microsoft, Apple's arch-rival, has been talking about such devices for years, but its mobile windows effort has slumped – in part because mobile carriers were wary of Microsoft and kept out.

Just 6m smart phones were sold in the US last year, compared with more than 1bn mobile handsets sold worldwide.

Two million of them operated on Windows software, with the rest of the market split between Research In Motion, makers of the Blackberry; Palm, maker of the Treo handset; and a handful of others. Shares of RIM fell 7.9 per cent yesterday while Palm stock fell 5.7 per cent.

Charles Golvin, analyst at Forrester, cautions that, even with Apple's impressive device, the market for phones that integrate voice calls, e-mail, web browsing and music will remain a small part of the overall handset market.

Miro Kazakoff, senior associate at Compete, an industry analyst group, says his research shows that 'it's unlikely that any phone, no matter how good, is going to get people to pay a high price and up to $200 in early termination fees on their current contract'.

'Wireless shoppers are hooked on free phones as carriers have subsidized better and better devices over the years.'