LESSON	TITLE	PAGE NUMBER
1	MARKETING STRATEGY: AN OVERVIEW	1
2	ANALYSIS OF THE BUSINESS ENTERPRISES	16
3	INDUSTRY ANALYSIS	31
4	MARKET ANALYSIS	44
5	COMPETITION	58
6	BUSINESS ENVIRONMENT	72
7	CUSTOMER IN THE MARKET PLACE	91
8	COMETITIVE ADVANTAGE	111
9	MARKETING STRATEGIES	128
10	STRATEGY FOR SPECIFIC INDUSTRY	160
11	CUSTOMER ORIENTATION	183
12	COMPETITION ORIENTATION	202
13	SEGMENTATION, TARGETING AND POSITIONING	220
14	PRODUCT DIFFERENTATION	250
15	BRAND POSITIONING	261
16	PRICING	267
17	ADVERTISING	288
18	SALES PROMOTION	307
	CASE STUDIES	316
	ASSIGNMENT	332

LESSON 1

MARKETING STRATEGY: AN OVERVIEW

STRUCTURE

1.0 LEARNING OBJECTIVES
1.1 INTRODUCTION
1.2 IMPACT OF COMPETITION
1.3 STRATEGIC WINDOWS
1.4 MARKET ORIENTATION VERSUS PRODUCT ORIENTATION
1.5 EVOLVING MARKETS AND STRATEGIC WINDOWS
1.6 OPPORTUNITIES AND THREATS PRESENTED BY THE OPENING AND CLOSING OF STRATEGIC WINDOWS
1.7 NATURE OF COMPETITIVE STRATEGY
1.8 THE CLASSIC APPROACH TO THE FORMULATION OF STRATEGY
1.9 PROCESS FOR FORMULATING A COMPETITIVE STRATEGY
1.10 STRATEGY IDENTIFICATION AND SELECTION
1.11 SELF CHECK EXERCISE
1.12 SUMMARY
1.13 GLOSSARY
1.14 ANSWERS TO SELF CHECK EXERCISE
1.15 TERMINAL QUESTIONS
1.16 SUGGESTED READINGS

1.0 LEARNING OBJECTIVES

After studying this lesson you should able to:-

- Understand the meaning of marketing strategy and competition
- The opportunities and threats faced and what is strategic windows.
- The process of formulating strategy, identification of strategy and selection process.

1.1 INTRODUCTION

A strategy is a plan that integrates an organization's major goals, policies, decisions and sequences of action into a cohesive whole. It can apply at all levels in an organization and pertain to any of the functional areas of management. Thus there may be production, financial, marketing, personnel and corporate strategies, just to name a few. If we look specifically at marketing then there may be pricing, product, promotion, distribution, marketing research, sales, advertising, merchandising, etc. strategies. Strategy is concerned with effectiveness rather than efficiency and is the process of analysing the environment and designing the fit between the organization, its resources and objectives and the environment. The strategic process refers to the manner in which strategy is formulated. There are several approaches such as the rational approach, making use of tools such as SWOT analysis and portfolio models and the flexible approach, which employs multiple scenario planning. The creative approach reflects the use of imagination in planning. The behavioural approach reflects the influence of power, politics and personalities. And finally, the incremental approach is based on small adjustments or changes to previously successful strategies.

Marketing is about satisfying customer wants and needs and in the course of doing so facilitating the achievement of an organization's objectives. By paying attention to customer wants and needs, organizations are more likely to achieve their objectives in the marketplace. Of course, organizations have to compete with each other and so also have to satisfy customers' wants and needs at least as well as their competitors. Fortunately, organizations can do this in different ways. Competition involves finding a different way to satisfy customers from other organizations in the market place. In the pursuit of this end, products and services need to be seen as more than physical entities—it is the benefits they offer customers that are being purchased.

Competition involves positioning products and services in the minds of customers in such a way that the products and services are perceived to be different from one another. Marketing is about the competitive positioning of products and services in the minds of the customers. It is also about the communication of messages and images (reflecting product and service positioning) and the means which are used to convey these messages and images to the customers. Figure 1.1 Factors impacting on marketing strategy Marketing is also about managing relationships. In order to persuade the ultimate consumers of the products to buy, others concerned with the product have to be persuaded that what is on offer will satisfy customers' wants and needs. The chain of persuasion can stretch right back into the organization itself and involve employees of the company. This is the area where internal marketing has come to the fore in recent years. Building relationships with Markets or customers are driven towards wanting certain products and services. Political, economic, socio-cultural and technological (PEST) influences all impact upon the nature of customer wants and needs. Political factors acting as market drivers are often more difficult to identify quite so easily. A good example, however, was the 1980s policy of the Conservative government of the time towards home ownership. In particular, the sale of council houses gave rise to a demand for mortgage loans from people who might not normally consider home ownership.

1.2 IMPACT OF COMPETITION

Competition is important in influencing how successful an organization's business venture can be. It is not simply a matter of producing a good product or service which matches with customer wants and needs and provides customer satisfaction. In one way or another, most firms are able to do this but some are much more successful in the marketplace than others. A firm must be able to position itself competitively in the minds of its customers so that its products and services stand out very favourably in important respects in relationship to competitors.

Shell and Esso, for example, both sell essentially the same fuel oils, but both are able to carve out positions for themselves in the minds of their customers, so that they other organizations are also important. The 21st century is seeing the development of strategic alliances and networks where firms work together towards shared goals and collaborate in their operations. Managing such relationships productively is almost certainly the key to success or failure. The foregoing is at the heart of marketing strategy, which has to take into account the following factors: -

- The opening and closing of strategic windows.
- The impact of market drivers.
- The nature of competition in the market place.
- The stage of the market or industry life cycle.

The nature and strength of competitors and how a firm jockeys for position are key aspects of marketing and business strategy. Technologies and products have life cycles and so do markets and industries. There are different stages in the life cycle of markets and industries and these have important ramifications for marketing strategy. Twenty-five years ago, the most sophisticated portable calculating device was a programmable hand held calculator. In the mid-1970s it was regarded as sophisticated to possess such a machine. Personal computers as we know them today began to appear in the early 1980s. Clive Sinclair's ZX80 and ZX81 brought the power of real computer programming to the elbow of every buff that had an interest in the new technology. Of course, compared with modern day personal computers such machines were comparatively primitive. The 80s and the 90s saw a rapid growth in the technology that was available. Not only did machines become much more powerful (the original ZX81, for instance, had only 1K of RAM!) but there was a phenomenal growth in the amount of peripheral equipment to go alongside the personal computer.

CD ROMs, modems, colour printers, internal networks, the Internet, and so on. Technology provided an opportunity for the consumer to experience benefits that could only have been dreamed of by someone with an eye to the future at the beginning of the 1970s. While technology made all these things available there were other factors at work which influenced the direction that the technological innovations should take.

Socio-cultural factors have encouraged the growth of the Internet. Email was seen as a way of speeding up interpersonal communication. Letter writing has been a sociological phenomenon ever since people were able to write but the pace of modern life is so quick that even letter writing needed to be speeded up. Game playing has always been a sociological phenomenon. The need for amusement does not rest solely in children but is also characteristic of adult behaviour.

Personal computers offered a real opportunity to participate in sophisticated simulations and games. The 1980s and the 1990s witnessed a rapid growth in the computer games industry in response to this socio-cultural need. Computers are relatively expensive items to purchase. Over the past 25 years there has been a concerted effort in the industry to bring out more and more sophisticated and high powered machines to provide the benefits required by consumers. Of course, in order to do this, there have been economic considerations.

In the first place, prices have had to be kept down in order to encourage consumers to purchase. From the producer's standpoint this has been achieved by shifting the locus of manufacture to those parts of the world (notably the Far East) where economies of scale in production can be best obtained. It poses a tight boundary within which the firm can design an optimal marketing strategy. Some firms may be ideally suited to exploiting certain types of product market opportunities whereas others may languish and fail when trying to exploit the same ones. In another situation the reverse can easily apply. One cannot assume that every firm will be able to exploit the same situation to its advantage, even when the opportunity does appear to be very exciting and has much to promise.

Political/environmental factors Implications Government retirement from welfare Poor cannot pay for traditional life provision assurance Self-help encouragement by Only middle income groups can afford Government to pay Increasingly severe pensions Driving up costs of compliance and legislation complexity of selling.

Economic environment factors Widening gap between rich and poor Poor will jettison life/savings costs— traditional market will be unprofitable Socio-cultural factors Major increases in working women in No one at home to pay premiums lower income groups Less manual jobs/more office admin, Less need for home collection of life jobs assurance Lottery Reduces disposable income Higher expectations of middle income Better services and returns demanded groups.

Demographic factors Population shift to middle/old ages Need for care and illness cover Less young people Falling market for life/savings products Technological factors New tech not easily accepted by Benefits of automation (costs) not lower income groups immediately available in traditional market Growth in telemarketing/database Key cost cutting force marketing to them, is critical in implementing successful marketing strategies. Without these assets and skills a whole series of strategies may fail.

1.3 STRATEGIC WINDOWS

Abell (1978) introduced the concept of strategic windows. The principal idea behind the concept of a strategic window is 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. As a consequence it is recommended that investment in a product line or a market area is timed to coincide with periods during which a strategic window is open. Correspondingly, withdrawal should be considered where something which was a good fit is no longer a good fit.

The latter can arise, for example, if changes in market requirements exceed the firm's capability to adapt to such changes. The argument put forward is that when changes in the market and the marketing environment are incremental in nature, firms can successfully adapt themselves to the new situation by modifying current marketing and other functional programmes. Such changes can be introduced through technological innovations, changes in customer tastes, changes in legal regulations, economic and financial constraints or any changes in environmental conditions.

The nature of competition may also change and in particular the elements which make up the five forces of Porter's (1980) competition model. New entrants to the industry may appear; substitute products may become more attractive propositions to customers; both suppliers and customers may find their bargaining powers strengthened; and the balance of competition power between the incumbent firms in the industry may change as one firm develops a competitive advantage.

However, if the cumulative changes in the economic, technological, social, political and cultural environments remain unnoticed by a company's managers until it is too late to respond, the problems which they create for the firm may be overwhelmingly difficult to overcome (Large, 1992). Similarly, when the degree of market change is of such magnitude that the competence of a firm to continue to compete effectively is questioned, then the firm may be experiencing the closure of an important strategic window. Where change, leading eventually to the closure of a strategic window, is either very rapid or very slow the consequences may well be disastrous.

In the first case, the window closes before an organization can respond and, in the second instance, it does not even notice that the window is about to close until it is too late to respond. Entry to a new market constitutes an example of where the presence of a strategic window is critical to success. For example, in the tumble drier market in the 1970s, larger manufacturers delayed entry until the market was sufficiently large to generate the kind of return on investment they demanded (Proctor, 1989).

Expenditure on plant, equipment and marketing represents another area in which the strategic window takes on importance. The question as to whether expenditure should be increased, diminished or maintained at the current level depends upon whether the strategic window is expected to remain open or to close in the near future. The timing of exit from a market is also important. There are times when it is possible and advisable to divest business which one cannot operate profitably so as to profit from the divestment. For example, one may be able to reinvest the proceeds of a divested business in other opportunities where the strategic window is open. In such circumstances strategic windows are interdependent. Cunard, for example, successfully moved from being involved principally in passenger shipping to containerization—the strategic windows overlapped. The key seems to be being market oriented rather than product oriented in defining the business in which one is operating. It is important to examine not only where the firm is today, but how well equipped it is to deal with tomorrow. In particular, the task of predicting non-incremental changes in the market is of critical importance. Existing firms and their competitors can sometimes be replaced in a comparatively short space of time by a whole new range of competitors. Examples of this phenomenon have included products such as digital watches, women's tights, calculators, charter air travel, office copiers and scientific instruments.

1.4 MARKET ORIENTATION VERSUS PRODUCT ORIENTATION

We are a night club, We offer an experience, We run an airline, We transport people and their goods anywhere in the world, We sell jewellery, We enhance your appearance, We sell houses, We create happy living environments for people, We sell newspapers, We provide interesting information for people, We run a university, We provide the opportunity for self development, We market personal computers, We bring a new dimension of interpersonal communication into people's lives We are travel agents, We make people's dreams come true By taking a market rather than a product view of what one has to offer new possible strategic windows may seem worthy of investigation. Newspaper producers might consider other ways of providing interesting information for people or may look more closely at the kind of information that they do provide. Travel agents might consider various ways of making people's dreams come true. Firms which are oblivious to the opening and closing of strategic windows or firms which fail to utilize overlapping strategic windows to best advantage, or firms which are unable to divest when a window closes, risk disaster.

1.5 EVOLVING MARKETS AND STRATEGIC WINDOWS

Strategic windows arise as a result of market evolution. Markets are not static unchanging entities but change substantially in nature over time. There are different ways in which a market can evolve. According to Abell the following are examples: -

• The development of new primary demand; • The emergence of new competing technologies which cannibalize existing ones; • Market redefinition; and • Channel changes.

Other sources include:- • Restructuring of markets—removal of trading barriers; • Creation of an internal market—the UK health service of the 1980s and 1990s; • Creation of new industries and markets; • Deregulation of markets; • Entry of new highly competitive firms to an industry; • The changing structure of the retail trade and its impact on supplying firms; • Impact of substitute products on an industry; • Timing of withdrawal from a market; • Managing products in times of high inflation or conditions of economic uncertainty.

The evolving patterns of markets imply that the resource requirements of a firm to compete effectively in a market may change radically with time. Unfortunately the resources and key competencies of incumbent firms cannot be so easily adjusted. Strategic windows have implications for incumbent firms and for new entrants to a market. Incumbent firms have the following four options: - i) Assemble resources needed to close the gap between the new critical marketing requirements and the firm's competencies; ii) Shift their efforts to selected segments, where the fit between requirements and resources is still acceptable; iii) Shift to a low-profile approach cutting back on all further allocation of capital and deliberately milking the business for short-run profit; and iv) Exit the market by liquidation or sale.

Abell noted that often the strategic window phenomenon is not recognized and the choices are not clearly articulated. Old approaches are continued long after the market has changed with the result that the market position is lost and financial losses accumulate. Alternatively, only lukewarm efforts are made to obtain the required resources or management thinks it can adapt where this is clearly unrealistic. The result is that firms become entrapped and are unable to move forward. They continue with lost causes in the hope that a change is around the corner. Ultimately, they fail or incur heavy losses or at the very best experience unrecoverable opportunity costs. In the case of new entrants to an industry getting the entry timing right is clearly important (note the tumble drier example). In the case of incumbent firms, assessing the impact of new entrants on the market or industry is a major issue.

1.6 OPPORTUNITIES AND THREATS PRESENTED BY THE OPENING AND CLOSING OF STRATEGIC WINDOWS

Essentially we are looking at a multi-stage process. Organizations need to: **-** i) Identify the opportunities and threats posed by the opening and closing of strategic windows; ii) Analyse all the relevant internal and external environmental factors acting upon the firm in the context of the strategic windows; iii) Determine the best strategy or set of strategies that are likely to enable the firm to take best advantage of the strategic window while it is open; iv) Ensure that adequate resources are available to implement the chosen strategies; v) Implement the chosen strategy to take best advantage of the opportunities presented by the strategic window and to minimize the risks posed by the threats.

1.7 NATURE OF COMPETITIVE STRATEGY

A competitive strategy is made up of six parts. The first four apply to any type of business whereas the other two are used when there is more than one business unit in an organization. It involves a determination of: -

- The product market in which the business competes. The scope of a business is partially determined by what products it offers, by the markets it serves, by the nature of other businesses with whom it chooses to compete, and by the extent of its vertical integration. The scope of the business is also affected by those same elements it chooses to avoid. Often the latter is more important because decisions regarding what to avoid, if acted upon rigorously, can conserve resources needed to compete successfully elsewhere.

- The level of investment. Although there are variations and refinements, it is useful to see the options in terms of: - (a) Invest to grow; (b) Invest only to maintain the existing position; (c) Milk the business by minimizing investment ; and (d) Recover as much of the assets as possible by liquidating or divesting the business.
- The functional area strategies required to compete in the selected product market. These are: - (a) Product line strategy; (b) Positioning strategy; (c) Pricing strategy; (d) Distribution strategy; (e) Manufacturing strategy; (f) Information technology strategy; (g) Segmentation strategy; and (h) Global strategy.

1.8 THE CLASSIC APPROACH TO THE FORMULATION OF STRATEGY

Developing a competitive strategy means developing a broad formula for how a business is going to compete, what its goals should be and what policies will be needed to attain those goals. Competitive strategy is a combination of the ends or goals for which the firm is striving and the means or policies by which it is seeking to get there. The Wheel of Competitive Strategy (Porter, 1980) is a device for articulating the key aspects of a firm's competitive strategy.

A competitive strategy requires the consideration of matters that determine the upper limits of what it can reasonably accomplish. An organization's strengths and weaknesses are reflected in its profile of assets and skills relative to competitors. An organization's industry and broader environment determine its external limits. Societal expectations reflect the impact on the company of such things as government policy, social concerns, evolving mores and many others. All of these factors must be considered before a business can develop a realistic and implementable set of goals and policies. Assessment of the appropriateness of a competitive strategy is achieved by testing the proposed goals and policies for consistency as follows: -

a) Internal consistency: - i) Are the goals mutually achievable? ii) Do the key operating policies address the goals? Iii) Do the key operating policies reinforce each other?

b) Environmental fit: - i) Do the goals and policies exploit industry opportunities? ii) Do the goals and policies deal with industry threats (including competitive response) to the degree possible with available resources? iii) Does the timing of the goals and policies reflect the ability of the environment to absorb the actions? iv) Are the goals and policies responsive to broader societal concerns?

c) Resource fit: - i) Do the goals and policies match the resources available to the company relative to competition? ii) Does the timing of the goals and policies reflect the organization's ability to change? iii) Communication and implementation: Are the goals well understood by the key implementers? iv) Is there enough congruence between the goals and policies and the values of the key implementers to ensure commitment? v) Is there sufficient managerial capability to allow for effective implementation?

1.9 PROCESS FOR FORMULATING A COMPETITIVE STRATEGY

The process consists of three steps:

a) What is the business doing now? Where are we now?

- Identification: What is the implicit or explicit current strategy?
- Assumptions: What assumptions about the company's relative position, strengths and weaknesses, competitors and industry trends must be made for the current strategy to be viable?

b) What is happening in the environment?

- Industry analysis: What are the key factors influencing competitive success? What are the important industry opportunities and threats?
- Competitor analysis: What are the capabilities and limitations of existing and potential competitors, and what are their probable future moves?
- Societal analysis: What important government, social and political factors will present opportunities or threats?
- Strengths and weaknesses: Given an analysis of industry and competitors, what are the firm's strengths and weaknesses relative to present and future competition?

c) What should the business be doing?

- Tests of assumptions and strategy: How do the assumptions embodied in the current strategy compare with the analysis indicated above? How does the strategy meet the tests indicated above?
- Strategic alternatives: What are the strategic alternatives given the analysis above? (Is the current strategy one of these?)
- Strategic choice: Which alternative best relates the company's situation to external opportunities and threats?

1.10 STRATEGY IDENTIFICATION AND SELECTION

There are three possible broad areas for consideration. The first is the selection of product markets in which the firm will operate and the question of how much investment should be allocated to each. The second is the development of functional area strategies and the third is the determination of the bases of sustainable competitive advantage in those product markets. We will be considering these options in much greater detail later in the book. However, we will just mention them here for clarification purposes. Product market investment strategies for many strategic decisions involve products: which product lines to continue, which to add and which to delete. Markets need to be selected in which a competitive advantage will exist. It is crucial in strategy development to have a dynamic rather than a static focus. The concept of a product-market matrix (Ansoff matrix—Ansoff, 1987) is helpful for identifying options and encouraging a dynamic perspective. In the product-market matrix suggested by Ansoff there are four growth vectors. The first is to penetrate existing product markets. A firm may attempt to attract customers from competitors or to increase usage rates of existing customers. A second growth vector involves product expansion while remaining in existing markets. A third growth vector is to apply the same products in new markets, while the fourth growth vector is to diversify into new products. In addition, there is a third dimension to the matrix which is based on vertical integration.

Investment strategies for each product market, a number of investment options are possible. The firm can reduce or control the investment in a business area by either a milking or a holding strategy. Alternatively, it can withdraw completely if prospects become very unattractive or if the business area becomes incompatible with the overall thrust of the firm. It can also invest to enter or grow.

Functional area strategies for the development of a business strategy involve the specification of the strategies in functional areas such as sales, brand management, Research and Development, manufacturing and finance. The co-ordination of various functional area strategies so that they don't work at cross-purposes can be difficult. The role of strategic objectives is to help in that task. The strategic thrusts representing various ways to achieve sustainable competitive advantage can be implemented in a variety of ways. Differentiation, for instance, can be based upon product quality, product features, innovation, service, distribution or even a strong brand name.

Low-cost strategies can be based on an experience curve which links cost reduction to cumulative production volume. However, it can also be based on factors such as no frills products or automated production processes. Bases of sustainable competitive advantage an effective strategy needs to involve assets and skills or synergies based on unique combinations of businesses. Thus, identifying which assets, skills and synergies to develop or maintain becomes a key decision. Strategies have to be developed and implemented as part of the business management process. Most firms do have some form of regular cyclical planning.

1.11 SELF CHECK EXERCISE

1. Define Strategy.
2. Why competition is important?
3. What do you mean by strategic window?
4. Define Strategic Asset.
5. Write a short note on Classical Approach to formulate strategy.

1.12 SUMMARY

However, in an era of rapidly changing business environments such as those being experienced in the 21st century, the cyclical planning process does face many problems. Strategic market management is motivated by the assumption that the planning cycle is inadequate to deal with the rapid rate of change that can occur in a firm's external environment. To cope with strategic surprises and fast-developing threats and opportunities, strategic decisions need to be precipitated and made outside the planning cycle. It is useful to have a real time information system rather than periodic continuous monitoring of the environment. In addition, efforts to develop strategic flexibility are likely to be helpful. The latter involves strategic options that allow quick and appropriate responses to sudden changes in the environment. An important dimension to strategic market management is to be proactive rather than simply reactive to environmental change. The firm can itself bring about change in the environment. It is possible to make a sizeable impact on governmental policies, customer needs and technological developments. The goal is to develop market-driven strategies that are sensitive to the customer.

1.13 GLOSSARY

- **Competitive Strategy** is defined as the long term plan of a particular company in order to gain competitive advantage over its competitors in the industry. It is aimed at creating defensive position in an industry and generating a superior ROI (Return on Investment).
- **Market** is any place where makers, distributors or retailers sell, and consumers buy. Examples include shops, high streets, or websites. The term may also refer to the whole group of buyers for a good or service. The other companies or rivals offer similar goods or services.
- **Marketing Strategy** refers to a business's overall game plan for reaching prospective consumers and turning them into customers of the products or services the business provides.
- **Strategy** is a long-term plan of action designed to achieve a particular goal or a set of objectives. A core management function, strategy states how business should be conducted in each area of operations in order to successfully accomplish the goals and objectives.
- **Strategic Window** is a period of time during which the strategy will work. More precisely, it is the relatively short time interval during which the fit between the factors critical for success in a market and the Distinctive Competencies of a business competing in that market are favorable / optimal.

- **SWOT** (strengths, weaknesses, opportunities, and threats) analysis is a framework used to evaluate a company's competitive position and to develop strategic planning.

1.14 ANSWERS TO SELF CHECK EXERCISE

1. For answer of question number 1 refer to section 1.1.
2. For answer of question number 2 refer to section 1.2.
3. For answer of question number 3 refer to section 1.3.
4. For answer of question number 4 refer to section 1.7.
5. For answer of question number 5 refer to section 1.8.

1.15 TERMINAL QUESTIONS

1. “Strategy is concerned with effectiveness rather than efficiency.” Do you agree with the given statement? Discuss.
2. “Marketing is all about satisfying customer wants and needs”. How? Discuss.
3. What do you mean by competition? Discuss the significance of competition for a MNC entering Indian Market.
4. Define Strategic Window. Discuss its main characteristics and importance by taking into consideration the Indian business scenario.
5. What do you understand by Competitive Strategy? Elaborate its nature and characteristics.

1.16 SUGGESTED READINGS

- Carvens, D. W., Strategic Marketing Homewood Illiois, Richard D.?Irwin
- Kayank E. and Savitt R., Comparative Marketing Systems, New York, Praegar.
- Kotler Phillip, Marketing Management: Analysis, Planning, Implementation
- Porter, M. E., Competitive Advantage: Creating Sustaining Superior Performance, New York, Free Press.
- Porter, M. E., Competitive Strategy: Techniques for Analysing Industries Competitors, New York, Free Press.

LESSON- 2

ANALYSIS OF THE BUSINESS ENTERPRISE

STRUCTURE

2.0 LEARNING OBJECTIVES
2.1 INTRODUCTION
2.2 BUSINESS ENTERPRISE ANALYSIS
2.3 FINANCIAL PERFORMANCE—SALES AND PROFITABILITY
2.4 CUSTOMER SATISFACTION AND BRAND LOYALTY
2.5 PRODUCT AND SERVICE QUALITY
2.6 BRAND OR FIRM ASSOCIATION
2.7 DETERMINANTS OF STRATEGIC OPTIONS
2.8 CREATIVITY
2.9 CREATIVE THINKING IN MARKETING
2.10 MINDSET
2.11 BARRIERS TO CREATIVITY
2.12 ELEMENTS OF CREATIVE OTGANISATION
2.13 SELF CHECK EXERCISE
2.14 SUMMARY
2.15 GLOSSARY
2.16 ANSWERS TO SELF CHECK EXERCISE
2.17 TERMINAL QUESTIONS
2.18 SUGGESTED READINGS

2.0 LEARNING OBJECTIVE

After studying this lesson you should able to understand about: -

- The completion and how you can beat the competitors
- Type of strategies you should follow to compete with the rivals.

2.1 INTRODUCTION

Making the best of a strategic window opportunity not only involves identifying promising opportunities but also having the right kind of resources to make the best of the opportunity. In addition to an analysis of external threats and opportunities in the environment, strategy development must be based on objectives, strengths and capabilities of a business. Understanding a business in depth is the goal of self analysis. It is similar to competitor analysis but it has a greater focus on performance assessment. The analysis is based on detailed current information on sales, profits, costs, organizational structure, management style and other factors. There are a number of different approaches to self analysis. First, there is the focus on marketing competencies and the resource-based view of the firm which is central to any thinking about self analysis from a marketing perspective.

The value chain analysis examines the elements upon which a competitive advantage can be based and shareholder value analysis provides a financial evaluation of a business. Sales and profitability analysis are discussed along with the need to implement more qualitative measures of analysis which try to ascertain customer perceptions of the organization and its products or services. This then moves us along to the need to consider strategic options.

2.2 BUSINESS ENTERPRISE ANALYSIS

a) MARKETING COMPETENCIES: Two main ideas characterise thinking about marketing in recent years. The first is market orientation and the second is the resource-based view of the firm. Market orientation is central to marketing. A firm characterized as market oriented might have: - i) Developed an appreciation that understanding present and potential customer needs is fundamental to providing superior customer value; ii) Encouraged the systematic gathering and sharing of information regarding present and potential customers and competitors as well as other related constituencies; and iii) (c) Instilled an integrated, organization-wide priority to respond to changing customer needs and competitor activities in order to exploit opportunities and circumvent threats.

b) RESOURCE-BASED VIEW OF THE FIRM: For a strategy to be sustainable it has to be based on the firm’s resources and capabilities. Day (1994) distinguished between a firm’s assets and capabilities as follows. Organizational assets are the endowments a business has accumulated such as those resulting in scale, plant, location and brand equity, whereas capabilities reflect the synergy between these assets and enable them to be deployed to the company's advantage. Capabilities may be conceptualized as complex bundles of skills and collective learning, which promote the co-ordination of functional activities in an organization.

Organizational assets comprise things such as: physical assets—land, facilities, buildings, equipment; financial assets—cash, credit rating; operations assets—machinery, systems and processes; human assets— employees, their qualities and skills; marketing assets—distribution penetration, marketing expertise, market positioning, market knowledge, customer loyalty, brand name, reputation, relationships with distributors; legal assets—patents and copyrights; systems—management information systems and decision support mechanisms. Company capabilities refer to a firm's ability to deploy assets through organizational processes to achieve desired results. There are a number of ways of analysing the strengths and weaknesses of the organization.

c) VALUE CHAIN ANALYSIS: Porter considered the value chain as a means of ascertaining the competitive advantage that a firm might possess. A value chain of this nature comprises two types of value-creating activities: Primary value activities: inbound logistics—material handling and warehousing operations—transforming inputs into the final product. Strategy selection and marketing competencies outbound logistics—order processing and distribution marketing and sales—communication, pricing and channel management service—installation, repair and parts. Secondary value activities: procurement—procedures and information systems technology development—improving product and processes/systems human resource management—hiring, training and compensation firm infrastructure—general management, finance, accounting, governmental relations and quality management. Each of the activities in the value chain is a potential source of competitive advantage and thus should be considered in undertaking self assessment.

d) SHAREHOLDER VALUE ANALYSIS: A business can be evaluated by examining the value it creates for its shareholders. It involves calculating the sum of the present values of future cash flows and residual value less the market value of any debt associated with the business. A positive value means that the business is creating shareholder value whereas a negative one means the shareholder value is being eroded. If a new strategy is to be considered, its value will be the difference between the value with the strategy option and the value without it. Shareholder value analysis presents solutions to many of the difficulties attached to an analysis of business profitability using return on assets as a yardstick. By focusing on cash flow one eliminates many accounting problems such as distortions caused by depreciation and asset book values.

Shareholder value analysis also considers future measures of profitability when evaluating a business. In theory, the method encourages executives not to be driven by short-term pressures of the stock market because of its forward-looking orientation. In addition, it focuses attention on financial analysis and cash flows. It does not pay attention to the development of creative, innovative strategic options and the underlying strategic competitive advantages that must exist to support them. Such an approach requires the ability of executives to provide good objective estimates of future profits which can be very difficult.

2.3 FINANCIAL PERFORMANCE—SALES AND PROFITABILITY

Self analysis starts with an analysis of current financial performance, measures of sales and profitability. Change in either of these can signal a change in the market viability of a product line and the ability to produce competitively. Most firms have sales and profitability targets as key elements of their objectives. A reasonably sensitive measure of what customers think about a product or service is its sales or market share. If customers alter their views about a product or service, sales and market share should be affected. Increased sales can mean that a customer base has grown. Increased share can provide the potential to gain a strategic competitive advantage in the form of economies of scale and experience curve effects. The converse is also true when sales decline. Nevertheless, a difficulty with using sales as a measure is that it can be influenced by short-term promotional activities on the part of the firm or its competitors. An analysis of sales or share should therefore be viewed within the context of a study of customer satisfaction. Profitability Profits can be used for capital needed to pursue growth strategies, to replace obsolete plant and equipment and to absorb market risk.

Return on assets is often taken as the measure of profitability. It is a product of profit margin, which depends on the selling price and cost structure, and asset turnover which depends on inventory control and asset utilization.

Businesses should try to earn a return on assets that meets or exceeds the cost of capital, the weighted average cost of equity and cost of debt. Although such measures are helpful, ascertaining the relevant figures is not always as straightforward as one might assume. There are many difficulties surrounding their calculation, such as the distortions caused by depreciation and the fact that intangible assets such as brand equity are not included, just to mention two. It is difficult to measure performance indicators that really reflect long-term prospects. It is simpler to focus on short-term profitability measures and correspondingly to reduce investment in new products and brand images that will have long-term payoffs. However, performance measures should reflect the long-term viability and health of an enterprise. Attention should be placed on assets and skills that underlie current and future strategies and their strategic competitive advantages. Such measures might include customer satisfaction, brand loyalty measures, product or service quality measures, brand or firm associations, relative cost, new product activity, and manager-employee capability and performance.

2.4 CUSTOMER SATISFACTION AND BRAND LOYALTY

One of the most important assets of many firms is the loyalty of its customer base. Measures of sales and market share are useful but crude indicators of what customers really feel about a firm. Measures of customer service and brand loyalty are more sensitive and provide diagnostic value as well. One way of accessing customer needs/wants is to examine customers’ complaints and obviously try to respond to them. As far as measurement is concerned, the most important point is that the range of instruments used and their sensitivity are appropriate to the clients under scrutiny. A number of difficulties can arise when taking measurements. The issues of validity and reliability are critical, as are sensitivity, timeliness, specificity, ambiguity, explicitness and accuracy. Timeliness refers to the extent to which the material can become available; capacity, the extent to which changes in direction and pace can be detected; and sensitivity, the extent to which small levels of change can be detected. The factor of specificity takes account of the relationship between variables and the extent to which they are related to each other.

Ambiguity is concerned with clarity; and explicitness and accuracy are to do with which measurements are made and recorded. Finally, a number of issues affect the whole process of measurement in organizations, i.e. cost effectiveness, feasibility and the effect that being measured has on the participants.

2.5 PRODUCT AND SERVICE QUALITY

A product or service and its components should be critically and objectively compared with both the competition and with customer expectations and needs. Quality is usually based on several critical dimensions that can be identified and measured over time—number of defects, conformance to performance specifications, durability, reliability, etc. We can contrast notional ideas about product quality with similar ideas about service quality.

a) Product quality includes following: - i) Performance—how well a product performs the task it was designed to do? ii) Durability—how long the product will last? iii) Conformance with specifications—what is the incidence of defects found in the product on delivery; what is the incidence of defects which cannot be remedied? iv) Features—what special features does the product have which makes it superior to competitive offerings? v) The name—can one associate the image of the firm and the brand name with concepts of quality? vi) Reliability—can one expect the same kind of quality every time that the product is used? vii) Serviceability—is the service system efficient, competent and convenient? viii) Fit and finish—does the product look and feel like a quality product?

b) Service quality includes: - i) Tangibles—do the physical facilities, equipment and appearance of personnel associated with the service promote confidence in the quality of the service? ii) Reliability—is there evidence of an ability to perform the promised service properly the first time? iii) Responsiveness—is there a willingness to help customers and provide prompt service? iv) Competence—do the personnel possess knowledge and skill and have they an ability to convey trust and confidence? v) Credibility/trustworthiness—is the organization trustworthy and does it always deliver what it promises to deliver? vi) Empathy—does the provider of the service provide its customers with individualized attention? vii) Courtesy—do customers perceive the service provided to be a friendly one? viii) Communication—are customers kept informed about the service offered in the language they can understand? Do the providers of the service listen to what the customers have to say?

2.6 BRAND OR FIRM ASSOCIATIONS

Companies may become attractive take-over targets and the value of their stock may rise because of the strength of their brands. Moreover, some brands are even valued as assets in the company balance sheet. Branding for consumers represents the mark of a given level of quality and value that helps them choose between one offering and another. The development of a range of brands to cover different consumer segments enables a firm to benefit from changing consumer wants. From a marketer's point of view, brands allow the producer, and more recently the retailer, to target different groups of consumers or segments of the market, with different labels and product offerings. In fact, developing more than one brand enables a firm to segment a market and target different consumers. Moreover, as long as brands add more value than cost for these new segments, an improvement in overall profitability can ensue. The development of a portfolio of discrete brands permits a firm to insulate the problems of one product from rest of the range and it can allow it to divest less profitable brands.

An important asset of a brand or firm is what customers think of it: its associations and perceived quality. The latter, of course, may be different to actual quality. It can be based on experiences with past products or services and quality cues such as retailer types, pricing strategies, and packaging, advertising and typical customers. The product may be associated with expertise in a particular technological area or with innovativeness. Such associations can be an important strategic asset for a brand or firm. Associations can be monitored through the regular use of questions posed in focus groups to describe user experiences. The identification of changes in important associations will likely emerge from such research. Further tracking information can be obtained through surveys.

2.7 DETERMINANTS OF STRATEGIC OPTIONS

Another aspect to self analysis is to consider the determinants of strategic options. One need to consider the characteristics of a business that make some options infeasible without making major organizational changes. There may also be key criteria that are critical when exercising choice among strategic options. Past and current strategies before beginning new strategies one should understand the basis and outcomes of past strategies that have been adopted. History repeats itself only too often and there is no point in making the same mistake twice. In addition, a strategy that has paid dividends in the past may work well in another situation. There is no point inventing the wheel twice over. However, care has to be exercised in not assuming that what has worked in the past will always work in future situations.

Organizational capabilities and constraints in internal organization can affect both the cost and feasibility of some strategies. There has to be a fit between a strategy and the internal structure of an organization. If a strategy does not work well it may be expensive or even impossible to make it work. Strategic alliances, i.e. where organizations co-operate in order to work together for mutual benefit. Internal organizational factors relating to all firms participating in such ventures have to be compatible with one another and the overall strategies being pursued by the consortia. Financial resources and constraints in the end, strategic decisions may well are based on access to funds to provide the necessary resources to get the best out of a perceived opportunity. Ultimately, judgments need to be made about whether or not to invest in a product, product line or service, or simply to withdraw cash from it. A basic consideration in all this is the firm's ability to supply investment resources. A financial analysis to determine probable, actual and potential sources and uses of funds can help provide an estimate of this ability.

2.8 CREATIVITY

Nowadays, the majority of organizations are fully aware of just how vital creativity is to their prosperity. The Majaro (1991) suggests that, 'It is universally assumed that enhanced creativity can provide a company with a competitive edge.' A survey sponsored by Porter/Novelli among 100 executive readers of Fortune 500 in 1993 found that people thought creativity was essential to ensure success in business.

The main problem in management according to James March (1988) is that the Organisations face a large number of problems of about equal importance, but only a few solutions. Thus the chance of finding a solution to a particular problem is small. In order to identify and so solve many of the problems that arise in business it is necessary to challenge the problem-solving capabilities of those in charge. In many cases the creative process which is used to approach problems has to be restructured and redeveloped in order to produce new ideas and perspectives. Change is an intrinsic necessity for a company that wishes to perform well in the long term.

Many firms are experiencing pressure to continually enhance old systems and products. Growth and survival can be related directly to an organization's ability to produce (or adopt) and implement new products or services, and processes. One of the key aspects of any organization's success or failure is its ability to stay ahead of the competition in a rapidly changing environment. The modern business with its emphasis on competition, building larger markets, strategic planning, team working, etc, has created the need for new problem-solving and decision-making strategies.

In particular, an increasing number of problems have few or no precedents, hence there are fewer tried and tested ways of approaching them with the anticipation of reaching a successful outcome. To stay in business a company has to respond creatively to the problems it faces. Management needs to respond positively to such situations. Creativity is considered to be a vital asset for any person who is involved in a leadership situation. Creative leaders actively hunt for new problems and are especially successful in handling new challenges which demand solutions outside the routine of orthodox strategies. They often possess significant vision and are able to inspire others by their creative talents.

2.9 CREATIVE THINKING IN MARKETING

Creative thinking benefits all areas and activities of management. It is required to dream up better ways of marketing goods, to devise new production methods, to find new ways to motivate people, and so on. Creativity turns up in every business situation where there is a chance that things can be done in a more business-like, more profitable or in a more satisfying way. Problems which require creative thinking are 'open-ended' problems. That is problems for which there is not just one solution. Executives have to make decisions which require creative problem solving in planning, organizing, leading, and controlling their organizations as given: -

- **Planning:** Determining the mission of the organization, determining the organizational objectives Identifying strengths, weaknesses, threats and opportunities, adjusting the organization's behaviour and strategies to competitors' strategies, deciding how to implement competitive strategies.
- **Organizing:** Deciding what jobs need to be done within an organizational unit, deciding how various jobs within an organizational unit can be grouped together, etc. Deciding how much authority should be delegated to various organizational positions, Determining how best to train people for their jobs.
- **Leading:** Finding ways of increasing productivity in marketing activities.
- **Controlling:** Deciding what systems of control are needed Setting standards, identifying why standards/objectives have not been achieved

2.10 MINDSET

Mindset is a condition where an individual is over-sensitized to some part of the information available at the expense of other parts. Mindsets can be useful as stated in the following example of Ronex Industries that how to overcome mindset: - Ronex Industries is a large electronics distributor that has been in business since the 1950s and recently reinvented itself in a way that made it the talk of the entire electronics distribution industry. Ronex has 38 locations with about 1300 employees, half of whom are sales people. The CEO describes the organization as a junction box, selling and packaging the goods of over a hundred suppliers to meet the needs of over 30,000 customers. Until the early 1990s, Ronex was a master of MBO-based compensation plans. It was very proud of its elaborate system of incentives for everyone in the organization. Then, the CEO and other senior managers in the company were exposed to ideas about creative thinking. They began to realize that the MBO-system they were so proud of was actually a barrier to innovation as it discouraged full co-operation between business team members and increased sub-optimization. Over a one-year period, Ronex eliminated all individual incentives, including sales commissions and all supplier-sponsored promotions. This action created a flurry in the industry as it was labelled everything from 'communist' to 'visionary'. It turned out to be more on the visionary side as it set up an environment which has created a doubling in sales and earnings, a reduction in employee turnover of over 50%, and the achievement of an ISO 9002 certification in every warehouse and value added operation in less than six months, without using outside consultants.

When mindset blocks us Duncker (1945) investigated how past experience may block productive problem solving. He suggested the expression 'functional fixedness' to refer to a block against using an object in a new way that is required to solve a problem.

Mindset is often characterized by 'one right answer' thinking, always looking for reasons why something will not work and an over-regard for logical thinking. Executives may have learned from past experience that a particular way of dealing with a problem usually leads to a satisfactory solution. Constant successful application of the approach reinforces the belief that this way is the correct way to approach the problem and even the only way to approach the problem. When a new problem arrives that defies solution by the learned approach, executives become stuck and do not know what to do.

2.11 BARRIERS TO CREATIVITY

a) INDIVIDUAL'S CREATIVITY: Some barriers limit an individual's creative output and are related to the people themselves. **Arnold (1962) suggested**: - i) Perceptual blocks, which prevent a person receiving a true, relevant picture of the outside world; ii) Cultural blocks, which result from influences of society; iii) Emotional blocks such as fear, anxiety and jealousy; iv) Adams added a fourth category: Intellectual and expressive blocks: Dealing with individual blocks to creativity Jones (1987) initiated a study designed to find out more about the factors which inhibit creativity. In reviewing the literature on the subject he found that several authors included perceptual, cultural and emotional blocks within their taxonomies while others mentioned factors such as errors in thinking and personal fears. He identified four typologies of blocks. These were derived from cluster analysis of self-reported items. The typologies are: a) Strategic blocks: 'one right answer approaches', inflexibility in thinking. These affect the approach taken to solve problems. They include the tendency to rely heavily on past experience or particular techniques without challenging their appropriateness; focusing on a narrow range of options for either problem definition or problem solving; and adapting an over serious approach to problems which prevents the emergence of a playful, imaginative and humorous climate. • Value blocks: ‘over-generalized rigidity influenced by personal values’. These occur when personal beliefs and values restrict the range of ideas.

b) IN ORGANIZATIONS: People and organizations tend to fall into a variety of traps when trying to become more innovative.

- Identifying the wrong problem.
- Judging ideas too quickly.
- Stopping with the first good idea.
- Failing to get the support of key personnel in the organization.
- Failing to challenge assumptions

Ways of dealing with such blocks include:

- Encouraging prudent risk taking
- Freedom of thought—some degree of autonomy
- Linking rewards with specific performance
- Encouraging different viewpoints on problems
- Positive involvement of top management
- Continual flow of ideas
- Responding positively to new ideas.

2.12 ELEMENTS OF CREATIVE ORGANIZATION

One can divide the characteristics of organizational creativity into four distinct elements: • People—teams or individuals; • Processes—how ideas are developed and innovation accomplished; • Place—creative environment; and • Product—the output of the creativity.

One cannot treat each one of the four Ps in isolation from the other. They are interdependent. Perhaps the one to receive the least attention is Place.

An organization concerned with creating a climate that influences effective creative activity should provide at least the following: - • Resources—these should be appropriate and sufficient; • Security—adequate salary and security of job tenure; • Trust—allow for mistakes; • Reward/recognition—feedback, recognition and reward.

2.13 SELF CHECK EXERCISE

1. What do you understand by Market Orientation? Discuss in brief.
2. Write a short-note on organisational assets.
3. Discuss in brief about value chain analysis.
4. Write a short-note on Product Quality.
5. What do you mean by Service Quality? Discuss in brief.
6. Define Creativity.
7. How you can use creativity in Marketing? Discuss in brief.
8. Write a short-note of Mindset.
9. What are the barriers to creative thinking? Discuss in brief.
10. Write a short-note on elements of creative organisation.

2.14 SUMMARY

Understanding a business in depth is the goal of self analysis. It is similar to competitor analysis but it has a greater focus on performance assessment. The analysis is based on detailed current information on sales, profits, costs, organizational structure, management style and other factors. A value chain of this nature comprises two types of value-creating activities: Primary value activities: inbound logistics—material handling and warehousing operations—transforming inputs into the final product. Strategy selection and marketing competencies outbound logistics—order processing and distribution marketing and sales—communication, pricing and channel management service—installation, repair and parts. Creativity turns up in every business situation where there is a chance that things can be done in a more business-like, more profitable or in a more satisfying way. Problems which require creative thinking are 'open-ended' problems.

2.15 GLOSSARY

- **Brand loyalty** is a pattern of consumer behavior through which consumers tend to get committed to a specific brand or product and make repeat purchases over time.

Businesses plan different creative marketing strategies like reward and loyalty programs, incentives, trials and brand ambassadors to create brand loyalty.

- **Business** is an occupation or trade and the purchase and sale of products or services to make a profit.
- **Enterprise** is a company or business, often a small one. Enterprise is the activity of managing companies and businesses and starting new ones. [business] He is still involved in voluntary work promoting local enterprise.
- **Firm** is a for-profit business organization such as a corporation, limited liability company (LLC), or partnership that provides professional services.
- **Marketing Competencies** are the primary core competency of marketing is the ability to identify with the wants and needs of the target customer and communicate the company's brand image and product value in such a way as to elicit a favorable reaction from that target customer.
- **Organizational creativity** is ideas or innovations attributed to a group of people that all work for the same organization. That could be a team developing, creating and marketing a new product.
- **Shareholder** is someone who holds stock in a company. Shareholders partially own a company and can make more money when it does well. If one shareholder owns more than 50% of the shares, that person can control the company.

2.16 ANSWERS TO SELF CHECK EXERCISE

1. For answer of question number 1 refer to section 2.2 (a).
2. For answer of question number 2 refer to section 2.2 (b).
3. For answer of question number 3 refer to section 2.2 (c).
4. For answer of question number 4 refer to section 2.5 (a).
5. For answer of question number 5 refer to section 2.5 (b).
6. For answer of question number 6 refer to section 2.8.
7. For answer of question number 7 refer to section 2.9.
8. For answer of question number 8 refer to section 2.10.
9. For answer of question number 1 refer to section 2.11.
10. For answer of question number 1 refer to section 2.12.

2.17 TERMINAL QUESTIONS

1. Define Organisational assets. Discuss the various types of organisational assets.
2. What do you understand by Value Chain Analysis? Discuss its significance for business organisation.
3. Why shareholder value analysis is important? Discuss.
4. How Sales and Profitability are related to one-another? Discuss.
5. Define Product Quality. How it is different from Service Quality? Elaborate.
6. Discuss the barriers to individual's and organisational creativity.

2.18 SUGGESTED READINGS

- Carvens, D. W., Strategic Marketing Homewood Illiois, Richard D.?Irwin
- Kayank E. and Savitt R., Comparative Marketing Systems, New York, Praegar.
- Kotler Phillip, Marketing Management: Analysis, Planning, Implementation
- Porter, M. E., Competitive Advantage: Creating Sustaining Superior Performance, New York, Free Press.
- Porter, M. E., Competitive Strategy: Techniques for Analysing Industries Competitors, New York, Free Press.

LESSON-3

INDUSTRY ANALYSIS

STRUCTURE

3.0 LEARNING OBJECTIVE

3.1 INTRODUCTION

3.2 INDUSTRY LIFE CYCLES

3.3 ANALYSIS OF EMERGING AND DEVELOPING INDUSTRIES

3.4 ANALYSIS OF MATURING INDUSTRIES

3.5 ANALYSIS OF DECLINING MARKETS

3.6 HOSTILE MARKETS

3.7 ANALYSIS OF FRAGMENTED INDUSTRIES

3.8 STRATEGIC GROUPS

3.9 SPACE ANALYSIS

3.10 SELF CHECK EXERCISE

3.11 SUMMARY

3.12 GLOSSARY

3.13 ANSWERS TO SELF CHECK EXERCISE

3.14 TERMINAL QUESTIONS

3.15 SUGGESTED READINGS

3.0 LEARNING OBJECTIVE

After studying this lesson you should be able to understand: -

- About industry and its life cycle.
- Differentiate different types of industries and advantages in the economic development.

3.1 INTRODUCTION

Organizations operate within markets and these markets are within industries. The strategic window of opportunity opens out on a market within an industry. Understanding the nature of the industry and how it changes is thus crucial to understanding the process of how strategic windows can be opened and closed by external forces. Industries and markets are different entities. Whereas markets can be looked upon as groups of customers with similar buying needs, industries are collections of organizations with common products and technologies. Vehicle makers are an example of an industry, whereas car products represent a market—the products and services customers use to maintain their cars. Both a knowledge of markets and industries helps to identify competition. Industries, like products have life cycles.

As with products, industries progress through their life cycles and as they do so the nature of competition and consumer demand changes. Naturally, this has implications for the opening and closure of strategic windows.

3.2 INDUSTRY LIFE CYCLES

In the same way that products have life cycles so too do industries. It has to be remembered that initially the concept of the product life cycle was based on the notion that technologies have life cycles and that it was the technologies incorporated in products that gave the latter life cycles. Of course, other factors are also relative to the product life. However, since industries are about products and technologies it is not too surprising that they too should have life cycles. The three key stages which we shall look at below are growth, maturity and decline. We shall also look at two other relevant aspects of an industry—the amount of hostility that exists in an industry and the amount of fragmentation that has taken place. In both cases we will relate this to strategy.

3.3 ANALYSIS OF EMERGING AND DEVELOPING INDUSTRIES

Emerging industries are either newly formed or reformed industries that have been produced by technological innovations, shifts in cost relationships, emergence of new consumer needs, or other economic and sociological changes that make a new product or service a potentially viable business opportunity.

Industry life cycle Considerable uncertainty exists about the technology and the strategic approaches adopted by industry participants. There is little or poor information about competitors, their customers and what is happening in the industry. Often there is ignorance regarding which firms are actually competitors and reliable industry sales and market share data are often unavailable. In the case of producers, the initial small production volume and lack of experience with the product often combine to produce high costs relative to those the industry can potentially achieve. Often there is a steep learning curve in operation and ideas come rapidly in terms of improved procedures, plant requirements for changeover engineering, or R&D costs of changeover, costs in modifying interrelated stages of production, or related aspects of the business.

From the customer's point of view, changeover costs from what they currently use can be expensive. There is also the cost of obsolescence. For some buyers, where successive generations of technology in the emerging industry will make early versions of products obsolete, all the benefits they require may be obtained from the first generation. Others, however, will be forced to acquire successive generations of the new product to remain competitive. Given the nature of the situation, under such circumstances, analysis of the situation has to be based on primary research and data collection. Although information collected in this way may seem to be relatively expensive, it can pay dividends by enabling firms to establish themselves early in such developing industries with the benefit of possibly being a market leader. Good marketing information systems need to be put in place to collect and assimilate whatever sparse data can be collected about customers, competitors and other relevant factors. The following are the characteristics of emerging industries: -

- Emerging industries are either newly formed or reformed industries that have been produced by technological innovations, shifts in cost relationships, emergence of new consumer needs, or other economic and sociological changes that make a new product or service a potentially viable business opportunity.
- Uncertainty exists about the technology and the strategic approaches adopted by industry participants. There is little or poor information about competitors, their customers and what is happening in the industry and reliable industry sales and market share data are often unavailable.
- The initial small production volume and lack of experience with the product often combine to produce high costs relative to those the industry can potentially achieve.
- From the customer's point of view, changeover costs from what they currently use can be expensive

3.4 ANALYSIS OF MATURING INDUSTRIES

Growth in evolving industries slows down with time, but maturity does not occur at any fixed point in development. It can be delayed by innovations or other events that maintain continued growth, and strategic breakthroughs may even lead mature industries to recover rapid growth. Industries can experience more than one transition to maturity. In many ways this is similar to the concept of the product life cycle where the cycle can be extended by product face-lifts and so on. Any analysis of an industry aimed at assessing whether or how the transition to maturity is taking place has to take account of these factors. Clues concerning the transition to maturity may be obtained by studying the significant changes that take place in the competitive environment during this stage of development. Analysis should try to identify those competitors that do not perceive the need for such changes very clearly or may perceive them but be reluctant to make the often substantial changes in strategy that are required. Such firms, their markets and customers are obvious targets to attack when formulating marketing strategy. The reason that they are myopic in their thinking may go beyond strategic considerations and have its roots in the organizational structure and leadership of those competitors. It is these implications which may underpin the reluctance to make appropriate strategic changes.

Decrease in industry growth rate means that firms cannot keep up their own growth rate in the industry simply by holding their market share. Maintaining growth rate in sales requires that market share has to be increased at the expense of competition. Competitors who have so far coexisted amicably may regard such a change in strategy as aggressive and irrational. Moreover, it may lead to substantial retaliation. The following are the characteristics of maturing industries: -

- Growth slowing down but maturity does not occur at any fixed point in development.
- It can be delayed by innovations or other events that maintain continued growth and strategic breakthroughs may even lead mature industries to recover rapid growth. Industries can experience more than one transition to maturity.
- Significant changes that take place in the competitive environment.

- Decline in industry growth rate means that firms cannot keep up their own growth rate in the industry simply by holding their market share.
- Maintaining growth rate in sales requires that market share has to be increased at the expense of competition.
- Competitors who have so far coexisted amicably may regard such a change in strategy as aggressive and irrational. Moreover, it may lead to substantial retaliation.
- Price cutting, new forms of promotional activity and new additional services may be the order of the day.
- As customers get used to the product they become more critical in their appraisal of what firms have to offer and also become more brand conscious.
- Competition is based more upon level of service and cost control.
- Over-capacity can lead to over-production and thence to price warfare to take up the production capacity.
- The ability to find new products and applications diminishes as maturity is attained and where they can be found they tend to be more risky and costly.
- Some international competitors possess radically different cost structures and this means that those who are most favourably placed can often enter foreign markets with a decided advantage over the country's domestic producers.

At this stage the emphasis may be on trying to get people to buy more of the product both in terms of amount and frequency of purchase rather than trying to attract new customers. Sales can often be increased by offering additional services or peripheral equipment, or by upgrading and widening the product line. Some degree of diversification of product market scope may result.

However, it is a more economical strategy than that of finding new customers since the latter means winning market share which can be costly. A further point is that more than one cost curve can exist in an industry. Even where a firm is not the overall cost leader it can sometimes find cost curves which will make it a lower cost producer for certain types of buyer, variety of product or order sizes—this is the key to implementing a focus strategy. The effects of industry maturity may be circumvented by competing internationally. Sometimes goods which are obsolete in the home market may not be so in international markets.

Alternatively, the industry structure, within an international context, may be favourable with fewer competitors and less sophisticated and powerful buyers. Not all firms will attempt the transition to operating in a mature industry. Choice reflects not only availability of resources but also what competitors intend to do and how long it will take to adjust to the new conditions and the long-term profitability during the maturity phase. Dis-investment can be an attractive alternative for some firms. Even the industry leaders may not necessarily be in the best position to make the transitions required if they have substantial inertia built into their growth stage strategies.

Indeed, it may well be the smaller firms who have the necessary wherewithal to manage best. The latter may be able to segment the market more easily. Moreover, a new entrant to the industry may possess the requisite resources and be able to establish itself in a strong position.

3.5 ANALYSIS OF DECLINING MARKETS

Although one is apt to think that declining markets are ones from which firms are anxious to exit, in fact, they represent good opportunities for firms that tailor their strategies successfully to the demands of the situation. This is because declining markets are not as attractive as growing markets to many competitors and sooner or later scale economies may cause the larger firms to consider withdrawal, thereby leaving an often relatively large market without major forces within it. Moreover, it may be possible for a firm to revitalize an industry. This may be achieved by creating new markets, new products, new applications, revitalized marketing methods, government assisted growth and/or the exploitation of sub-markets. Analysis of the industry in these circumstances has to point to the direction that a firm might take. New markets are characterized by moves into neglected or ignored market segments with potential for new growth. Sometimes a dormant industry can be revitalized by a new product that makes existing products obsolete and accelerates the replacement cycle.

A new application for a product can stimulate new industry growth. A product class can be revived by a revitalized marketing approach. Government-stimulated growth can take the form of tax incentives or legislation giving rise to a new industry or market. Some firms have been successful in declining or mature industries because they have been able to focus on growth sub-areas, pockets of demand that are healthy and even expanding. Be the profitable survivor the essence of this strategy is to provide the impetus to encourage competitors to leave the industry so that as the surviving firm a very strong position can be held. In order to do this a firm may: -

- Make it clear to all that it intends to be the surviving leader of the industry
- Reduce prices or increase promotions to make the industry less attractive to competitors
- Introduce new products and cover new segments so as to deter competitors from finding a profitable niche
- Reduce competitors' exit barriers by assuming their long-term contracts, supplying spare parts and servicing the product in the field or even by supplying them with products
- Create a national dominant brand
- Purchase a competitor's market share or its production capacity.

a) Milk or Harvest Strategy: This strategy aims to generate cash flow by reducing investment and operating expenses, even if it causes a reduction in sales and market share. It assumes that the firm has better use for the funds and that the business is not crucial to the firm in any way and that a milking strategy is feasible because sales will decline in an orderly fashion. Fast milking involves sharp reductions in operating expenditures and even price increases to maximize short-term cash flow and to minimize the possibility that any additional money will be invested in the business.

The strategy accepts the risk of a sharp sales decline that could precipitate a market exit. Slow milking involves sharply reducing long-term investment in plant, equipment and R&D, but only gradually reducing expenditures in operating areas such as marketing and service. The latter attempts to maximize the flow of cash over time by prolonging and slowing the decline and the conditions favouring a milking strategy are as follows: -

- The decline rate is pronounced and is unlikely to change, but it is not excessively steep and pockets of lasting demand ensure that the decline rate will not suddenly become precipitous
- The price structure is stable at a level that is profitable for the efficient firms
- The business position is weak but there is enough customer loyalty, perhaps in a limited part of the market, to generate sales and profit in milking mode. The risk of losing relative position with a milking strategy is low
- The business is not central to the current mission of the firm
- A milking strategy can be successfully managed.

Milking may be preferred to divesting products because the strategy can be reversed if it turns out to be based upon incorrect premises regarding market prospects, competitor moves, cost projections, etc.

b) The hold strategy: The strategy is a variant of the milking strategy and involves avoiding growth motivated investment but maintaining an adequate level of investment to maintain product quality, production facilities and customer loyalty. It is appropriate when an industry is declining in an orderly way, pockets of enduring demand exist, price pressures are not extreme, the firm has exploitable assets or skills, and a business contributes by its presence to other business units in the firm. It is preferable to an investment strategy when an industry lacks growth opportunities and a strategy for increasing share would risk triggering competitive retaliation. It can be a long-term strategy for managing a cash cow or an interim strategy employed until the uncertainties of a situation are resolved. One problem with the hold strategy is that if conditions change, reluctance or slowness to reinvest may result in lost market share. When a business environment and business position are both unfavourable, then divestment and liquidation is called for. Exit decisions may be triggered by: (a) a rapid and accelerating decline rate (b) extreme price pressures (c) a weak business position—the business is incurring losses and prospects are bad (d) the role of the business being superfluous or unwanted (e) exit barriers which can be easily surmounted.

3.6 HOSTILE MARKETS

Hostile markets are those with over-capacity, low margins, intense competition and management in disarray. Decline in demand and competitive expansion both contribute to the creation of a hostile market. Declining markets may produce hostile markets often associated with over-capacity, low margins, intense competition and management in turmoil. Hostile markets can also occur in other situations, for instance in growth markets where there is over-capacity as a result of too many competitors.

3.7 ANALYSIS OF FRAGMENTED INDUSTRIES

Many firms compete in industries where no one firm has a significant market share and is able to impose a strong influence over the industry. Small and medium-sized firms are often to be found in such industries. The essential feature of such industries is the absence of a market leader having the power to shape the industry. Fragmented industries occur across a broad section of different types of business. Industries are fragmented for a wide variety of reasons some of which involve underlying economic causes. These include: -

- Low overall entry barriers
- Absence of economies of scale or experience curve
- High transportation costs
- High inventory costs or erratic sales fluctuations
- No advantages of size in dealing with buyers or suppliers
- Diseconomies of scale in some important aspect of business
- Diverse market needs
- High product differentiation, particularly when based upon image
- Exit barriers in place.

Overcoming fragmentation represents a very significant strategic opportunity. The rewards can be high because entry costs are low and there tend to be small and relatively weak competitors who offer little in the way of threats or retaliation. Overcoming fragmentation needs an attack on the fundamental economic factors leading to the fragmented structure. Some common approaches include: -

- Creating economies of scale or experience curve benefits—process innovations may consolidate an industry.

- Standardizing diverse market needs—product or marketing innovations can achieve this.
- Overcoming those aspects most responsible for fragmentation.
- Making acquisitions for a critical mass—making many acquisitions of neighbouring firms can be successful provided that the acquisitions can be integrated and managed.
- Spotting industry trends early—in effect this means examining the impact of market drivers such as political, economic, social, technological and business trends as they impact on the industry.

3.8 STRATEGIC GROUPS

A strategic group is comprised of firms within an industry following similar strategies aimed at similar customers or customer groups. The identification of strategic groups is fundamental to industry analysis since, just as industries can rise or fall despite the state of the overall business environment, so strategy groups with distinctive competencies can withstand and even defy the general fluctuations within an industry. Understanding the dynamics of existing strategic groups can be productive in understanding their vulnerability to competitive attack.

The separation of strategic groups within a market depends on the barriers to mobility within the industry, i.e. their ability to compete in all markets. Strategic groups often share common competitors because they are often competing to fulfill similar market needs using similar technologies. The inability of companies to understand the differences in strategic groups is one that causes the frequent failure of companies entering a new market through acquisition. Although the broad business definition, products being sold and customers may be similar within the acquired and the acquiring firm, when the two are in different strategic groups there can be major misunderstandings.

3.9 SPACE ANALYSIS

Strategic Position and Action Evaluation (SPACE) analysis extends environmental analysis to consider industry strength and relates this to competitive advantage and financial strength of a company. Similarly to the portfolio models it summarizes a large number of strategic issues on a few dimensions. It plots dimensions of the firm (its financial strengths and competitive advantages) against industry dimensions (environmental stability and industry strength). Environmental turbulence is seen as being counterbalanced by financial strength—a company with high liquidity or access to other reserves being able to withstand environmental volatility. Industry strength focuses upon attractiveness of the industry in terms of growth potential, profitability and the ability to use its resources efficiently. A firm operating in the industry needs to have a competitive advantage.

SPACE analysis involves rating a firm (and its competitors) on all the factors and drawing up a profile and the firm illustrated has a predominantly aggressive quadrant posture and enjoys significant advantages, nevertheless it is likely to face threats from new competition. It has to guard against complacency which may prevent it gaining further market dominance by developing products with a definite competitive edge. A competitive posture is typical of a company with a considerable advantage in an attractive industry. However, the company's financial strength is insufficient to balance the environmental instability it faces. Such a firm clearly needs more financial resources to maintain its competitive position. The need to raise capital or consider a merger is on the horizon.

A conservative posture is typical of a company operating in mature markets where the lack of need for investment has generated financial surpluses. The lack of investment can mean that such a firm will compete at a disadvantage and a lack of opportunities within existing markets may augur long-term vulnerability. They must therefore defend existing products to ensure a continued cash flow while they seek new market opportunities. A firm with a defensive posture is clearly vulnerable. SPACE analysis efficiently and being prepared to retreat from competitive markets in order to concentrate on ones it has a chance of defending. The outlook of such a firm is poor.

3.10 SELF CHECK EXERCISE

1. Write a short-note on Industry life cycle.
2. Define Emerging Industry.
3. Discuss in brief about Mature Industry.

4. Discuss in brief the meaning of declining market.
5. Define Harvest Strategy.
6. Define Hostile Market.
7. What do you mean by Strategic Groups?
8. What is SPACE Analysis?

3.11 SUMMARY

Organizations operate within markets and these markets are within industries. The strategic window of opportunity opens out on a market within an industry. Understanding the nature of the industry and how it changes is thus crucial to understanding the process of how strategic windows can be opened and closed by external forces. Industries and markets are different entities. Since industries are about products and technologies it is not too surprising that they too should have life cycles. The three key stages which we shall look at below are growth, maturity and decline.

3.12 GLOSSARY

- **Development industry** involves international organisations, government departments, big international charities and social movements, who are all working to fight against the causes of poverty and inequality. A huge amount of criticism has been directed towards the development industry.
- **Emerging industry** is a group of companies in a line of business formed around a new product or idea that is in the early stages of development. An emerging industry typically consists of just a few companies and is often centered on new technology.
- **Industry** is the manufacturing or technically productive enterprises in a particular field, country, region, or economy viewed collectively, or one of these individually. Any general business activity or commercial enterprise that can be isolated from others, such as the tourist industry or the entertainment industry.
- **Industry life cycle** depicts the various stages where businesses operate, progress, prospect and slump within an industry. An industry life cycle typically consists of five stages — startup, growth, shakeout, maturity, and decline. These stages can last for different amounts of time; some can be months or years.

- **Mature industry** is an industry that has passed both the emerging and growth phases of industry growth. Over time, failures and consolidations will distill the business to the strongest as the industry continues to grow. This is the period where the surviving companies are considered to be mature.

3.13 ANSWERS TO SELF CHECK EXERCISE

1. For answer of question number 1 refer to section 3.2.
2. For answer of question number 2 refer to section 3.3.
3. For answer of question number 3 refer to section 3.4.
4. For answer of question number 4 refer to section 3.5.
5. For answer of question number 5 refer to section 3.5 (a).
6. For answer of question number 6 refer to section 3.6.
7. For answer of question number 7 refer to section 3.8.
8. For answer of question number 8 refer to section 3.9.

3.14 TERMINAL EXERCISE

1. Discuss the stages of Industry life cycles in details with diagram.
2. What do you understand by Emerging Industries? Discuss its characteristics.
3. What are the features of Mature Industry? Discuss.
4. "Declining Markets provides opportunities for firms to tailor successful strategies" Discuss the statement.
5. What do you mean by Strategic Groups? Discuss its features and significance.
6. Elaborate the importance of SPACE Analysis.

3.15 SUGGESTED READINGS

- Carvens, D. W., Strategic Marketing Homewood Illiois, Richard D.?Irwin
- Kayank E. and Savitt R., Comparative Marketing Systems, New York, Praegar.
- Kotler Phillip, Marketing Management: Analysis, Planning, Implementation
- Porter, M. E., Competitive Advantage: Creating Sustaining Superior Performance, New York, Free Press.
- Porter, M. E., Competitive Strategy: Techniques for Analysing Industries Competitors, New York, Free Press.

LESSON-4

MARKET ANALYSIS

STRUCTURE

4.0 LEARNING OBJECTIVE
4.1 INTRODUCTION
4.2 DIMENSIONS OF MARKET ANALYSIS
4.3 MARKET ANALYSIS: ACTUAL AND POTENTIAL MARKET SIZE
4.4 FORECASTING METHODS
4.5 SUCCESS FACTORS: BASES OF COMPETITION
4.6 RISKS IN HIGH GROWTH MARKETS
4.7 SELF CHECK EXERCISE
4.8 SUMMARY
4.9 GLOSSARY
4.10 ANSWERS TO SELF CHCEK EXERCISE
4.11 TERMINAL QUESTIONS
4.12 SUGGESTED READINGS

4.0 LEARNING OBJECTIVE

After studying this lesson students are able to understand about: -

- The market and various situations prevailing in the market.
- To analyse the actual and potential market size
- What type of strategies must be followed to forecast the market?
- What are bases of completion in the market?

4.1 INTRODUCTION

The strategic window opens out upon a market. Market analysis builds on customer and competitor analysis to allow strategic judgments to be made about a market and its dynamics. One of the primary objectives of a market analysis is to assess its prospects for participants. Another key purpose of market analysis is to understand the dynamics of the market. One needs to identify emerging key success factors, trends, threats and opportunities and to develop strategic questions that can guide information gathering and analysis. Measuring the size of the market, identifying the trends and being able to predict how the market is going to develop in the future are critical factors in understanding the state of strategic windows.

Organizations need to have a firm grasp of the methods of assessing market size and forecasting the size to which a market will grow. Both short- and long-term forecasts are important. Long-term forecasts are most useful for medium- and long-term strategic planning purposes, whereas short-term forecasts enable organizations to monitor the effectiveness of earlier long-term forecasts. Market size and projected market growth rates are not the only important dimensions of market analysis. One also needs to understand the factors which influence the profitability of a market at its various stages of development. Trying to understand the key factors which govern a firm's success are very important. This moves us on from simply looking at the profitability of a market to consideration of cost structures, distribution systems and related trends and developments.

4.2 DIMENSIONS OF MARKET ANALYSIS

This varies somewhat according to the context. However, the following are often included:-

- Actual and potential market size
- Market growth
- Market profitability
- Cost structure
- Distribution systems
- Trends and developments
- Key success factors.

4.3 MARKET ANALYSIS: ACTUAL AND POTENTIAL MARKET SIZE

A starting point is always the level of sales. Estimates of market size can be based on government sources or trade association findings. Another approach is to obtain information on competitors' sales from published financial sources, customers or even competitors. Still another, though more expensive option, is to survey customers and project their usage to the total market. The potential market is also of interest. A new use, new user group or more frequent usage could change dramatically the size and prospects for the market.

a) **Market Growth:** After the size of the market and its important sub-markets have been estimated, the focus turns to estimating trends in growth rates or decline rates. Identifying driving forces Often the most important strategic question involves the prediction of market sales and identifying the factors that will drive sales directly or indirectly.

b) **Forecasting growth:** Demand can be measured at several levels: -

- Product levels—product item sales, product form sales, product line sales, company sales, industry sales, national sales
- Space levels—sales to individual customers, sales by territory, area or country, world sales
- Time levels—short-range, medium-range, long-range sales. There are 'penetrated markets', 'potential markets', 'available markets' and 'served markets'.

The current number of users of a product or service and the sales volume they generate constitutes the 'penetrated market'. There may be figures readily available which indicate this or it may be necessary to establish it by sample survey. These estimates do not take account of those people who have an interest in buying the product or service, but who currently do not do so. The latter people are important since in looking at future demand they provide a measure of the 'potential market'. Customers must be able to afford the product or service, so in assessing the 'potential market' this must be established. This will redefine the market size.

Opportunity to use the product or service also cuts down on the size of the market. If it is not possible to use a product, then this will obviously restrict the market size. Taking this into account will define the 'available market'. A company has only a limited amount of resources at its disposal and so selects only certain market segments where it feels that it has the capacity to compete effectively and where the market size is sufficiently attractive. This becomes the 'served' or the 'target market'.

c) **Predicting future demand:** A company's production schedules, planned manning levels and financial budgeting are all related to the sales forecast. A too optimistic forecast can lead to excess stocks being accumulated, over-production and too high manning levels, and over borrowing or inefficient deployment of financial resources. A pessimistic forecast can lead to large opportunity costs and the creation of frustration among potential buyers of the company's products because delivery is late or not forthcoming. Firms adopt a variety of approaches to sales forecasting but the basic approach is to:

- Make an environmental forecast regarding inflation, employment, interest rates, consumer spending and saving, business investment, etc.
- Make a forecast of sales and profits to be earned by the industry using the data in stage 1 together with other information which links industry figures to environmental trends.
- Make a company sales forecast using the data in stage 2 and assuming a given market share. Often, however, firms may not know the industry sales level. In such cases sales forecasts are made at the company level at stage 2, and stage 3 is not used.
- There are two basic approaches to forecasting sales for established products, both of which have a number of variants. On the one hand there are the methods which rely on asking people questions, and on the other hand there are those which involve the statistical or mathematical analysis of historical data. Asking people questions Surveys of buyers' intentions.
- There are market research organizations which conduct periodic surveys of buying intentions. Using the results of regular sample surveys, predictions of the likely demand for various items are then prepared. Firms can of course carry out the surveys themselves, provided that they have the resources to do so. It is a method which can be applied effectively by producers of industrial plant, machinery and supplies.

d) Composite of sales forces opinion: The sales force is in constant contact with the market and is in an excellent position to provide estimates on potential sales demand. When making use of estimates of the sales force one has to take into account any bias that may exist. For one reason or another sales force may be biased either in the direction of pessimism or optimism. Another difficulty is that the sales force often may not really appreciate the larger economic factors which may influence sales. Providing one can identify sources of bias and adjust for them in interpreting predictions it is possible to make use of these estimates.

e) Expert opinion: Expert opinion is another method of forecasting. Experts may include dealers, distributors, suppliers, marketing consultants and even trade associations. A key factor which influences patterns of sales in a country is the state of its economy. Various economic experts can provide their opinions and a government produces its own forecast for the economy.

f) Analysing past data: Firms tend to base their forecasts on what they have achieved in the past. This approach to forecasting offers few opportunities for mistakes except where there are large variations in sales from one year to the next. Historical data can provide a useful perspective. However, the strategic interest is not on projections of history, but rather on the prediction of turning points which in turn requires lead indicators. Sales of related equipment or patterns of demographic data can often provide useful lead indicators. In both cases, of course, a reasonable lag between the change in the lead indicator and its impact on the sales of the firm or industry is required in order for it to be of use.

Government forecasts of economic activity, provided experience shows them to be reasonably accurate, have a similar effect. Market sales forecasts, especially of new markets, can be based on the experience of analogous industries. Of course, one has to be able to identify markets with similar characteristics.

g) Detecting maturity and decline: One particularly important set of turning points in market sales is when the growth phase of the product life cycle changes to a flat maturity phase, and when the maturity phase changes into a decline phase. These transitions are important to the health and nature of the market. Often they are accompanied by changes in key success factors. Historical sales and profit patterns of a market can help to identify the onset of maturity or decline, but the following are often more sensitive indicators: -

- Price pressure caused by over-capacity and the lack of product differentiation. When growth slows or even reverses, capacity developed under a more optimistic scenario becomes excessive. Furthermore, the product evolution process often results in most competitors matching product improvements. Thus it becomes more difficult to maintain a meaningful differentiation.

- Buyer sophistication and knowledge. Buyers tend to become more familiar and knowledgeable as the product matures and thus become less willing to apply a premium price to obtain the security of an established name. As a result, the value of big names recedes.
- Substitute products or technologies.
- Saturation. When the number of first-time buyers declines, market sales should mature or decline.
- No growth sources. The market is fully penetrated and there are no visible sources of growth from new uses or users.
- Customer disinterest. A reduction of the interest of customers in applications, new product announcements and so on.

4.4 FORECASTING METHODS

Forecasting amounts to estimating some future event that is outside the control of the organization and which provides a basis for managerial planning. The estimates produced often form the basis of production planning, sales force planning, and setting advertising appropriations, estimating cash flow, and assessing the need for innovation. Moreover, marketing plans are only useful if the size of current and future markets is carefully measured and estimated. Such information is a useful starting point from which to determine how resources should be allocated among markets and products or services.

a) Time Series Analysis: Methods which adopt a solely time dependent approach Classical time series analysis. The first set of methods is those which are based on time series analysis. In this case, it is assumed that sales simply vary as a function of time. The time effects are divided into: -

• Cycle—fluctuations every few years (e.g. the effect of trade cycles as various major economies in the world are hit by booms and slumps)

• Trend—a general upward, downward or static (no trend) pattern (e.g. upward trend of sales of video recorders during the growth phase of the life cycle)

• Seasonal—systematic variations at certain times of the year (e.g. additional sales of bathing costumes in the summer months)

• Erratic—unpredictable or random variations (e.g. demand interrupted by an industry-wide strike).

Erratic variation is taken into account when making forecasts, but one does not attempt to predict it exactly. One merely expresses it as the error one attaches to the sales forecast. This method is most suitable for forecasting sales of products where the unexplained variation is small. The trend component results from developments in a population, the formation of capital and developments in technology. It is evidenced by a general upward or downward shift in the pattern of sales. If there is no such pattern then there is assumed to be no trend. The cycle depicts the wavelike flow of sales over a number of years and is most useful when examining data for use in intermediate range forecasts (3– 7 years).

Traditionally, the cycle represents swings in economic activity. The seasonal component refers to recurrent sales patterns that may exist within the period of a single year. This will reflect things such as weather factors, holidays, seasonal buying habits and so on. Erratic variation comprises such things as strikes, fashions and other unforeseen circumstances. These factors are unpredictable and need to be removed from past data in order to inspect the other three elements.

Time series analysis consists of decomposing the original sales data into its trend, cyclical, seasonal and erratic components.

The series is then recombined to produce a sales forecast.

Demand for period t is: D=[A+Tt]/(St)+erratic variation where A=Average level Tt =Trend component St =Seasonal factor.

b) Exponential smoothing: Many businesses produce many hundreds or thousands of products. Notable examples are the firms operating in the pharmaceutical industry. For such firms a simple forecasting technique is required which requires the minimum of data. In its simplest form exponential smoothing requires only three pieces of information: -

- The period's actual sales, Qt.
- The current period's smoothed sales, qt.
- A smoothing parameter, a, a value between 0 and 1.

The sales forecast for the next period is given by the formula: qt +1= a Qt + (1-a)qt Forecasts of this kind are handled by computer. Using an iterative procedure (trial and error), the computer programme can regularly determine that value of which gives the most satisfactory results in making forecasts. The value is the one that gives the best fit to past sales. Once the system has been set up, all that one has to do is to add new sales figures to the database as and when they occur. There are a number of more sophisticated variants on this approach, e.g. double exponential smoothing, and exponential smoothing incorporating seasonal and trend components.

c) Statistical demand analysis: The statistical or mathematical approaches we have considered treat the factors that seem to influence sales as regularly recurring phenomena. The difficulty with this approach is that some patterns do not reappear at regular intervals. For example, although there are economic booms and slumps from time to time, their patterns are not so precise as to enable accurate forecasts to be made. Statistical demand analysis attempts to identify the source of all influences on demand so that more accurate forecasts can be made. The basic statistical method to take account of such factors is multiple regression analysis. Experience seems to indicate that the factors most commonly considered are price, income, population and marketing promotion. The first stage in a regression analysis is to build a causal model in which one tries to explain sales in terms of a number of independent variables. For example, we might conjecture that industry sales of umbrellas are related to their relative price (P), personal disposable income (I), relative advertising expenditure and the absolute level of rainfall (R).

We would express this relationship in the form of an equation: S=a0P+b1I+b2A+b3R. What one has to do is to estimate the parameters for a0, b1…b3 and apply them to quantifications of P, I, A and R for the period of the forecast. In principle, demand equations of this variety are acquired by fitting the best equations to historical or cross-sectional data. The coefficients of the equation are estimated according to what is called the 'least squares criterion'. According to this criterion, the best equation is the one that minimizes a measure of the error between the actual and the predicted observations. The better the fit, the more useful will be the equation for forecasting purposes. Although this is a popular technique, one has to use it with care. There must always be an adequate number of observations—in making annual forecasts, 10–15 years' data is not unreasonable, where there are four independent variables. Another problem is that what seem to be independent variables turn out to influence each other and are not very independent at all. For example, relative price and relative advertising expenditure may well influence each other, since advertising costs can be reflected in the selling price. In addition, there are other pitfalls to be watched for.

d) Forecasting sales of new products: To forecast sales of new products, one needs some initial sales figures with which to work. Given that early sales data are available, it is then generally possible by using one or other of a variety of mathematical models or 'curve fitting routines' to make some prediction for sales over a specified period of time. Alternatively, it may be possible to look at sales histories of similar new products and make predictions by analogy. There are numerous examples of these models (see, for instance, Kotler and Lilien, 1983).

Example: The epidemic model of initial sales is a useful tool to have to hand when trying to make sales prediction for certain kinds of new products. The model developed by Bass (1969), which he specifically tested out on a range of consumer durable goods, is illustrative: $p_t = p + q/m(Y_t)$,

Where, p_t =probability of purchase given no previous purchase was made,

Y_t =total number who have tried m=total number of potential buyers [saturation level], q=parameter reflecting the rate of diffusion of the model,

p=initial probability of first-time purchase.

The model can be estimated by running a regression of current versus past sales:

$Sales_t = c_0 + c_1 Y_t + c_2 Y_t^2$

Analysis of the above sales gives the forecasting model: Sale st =2.06+1.016 Yt - 0.00464 Yt 2

Forecasting sales of new products in retail outlets:

Large retail chains often add new lines to their stock. Most of these retailers have benchmarks against which to judge whether a product is likely to be successful or not. A common practice is to offer the product for sale for a limited period in one of its shops. If the product fails to achieve a certain level of sales within the specified period it is withdrawn from sale and not put on sale in other outlets.

e) Cost Structure: An understanding of the cost structure of a market can provide insights into present and future key success factors. The first step is to conduct an analysis of the value chain to determine where value is added to the product or service. The proportion of value added attributed to one value chain stage can become so important that a key success factor is associated with that stage. It may, for example, be possible to develop control over a resource or technology. An alternative is that competitors will aim to be the lowest-cost producer in a high-value added stage of the value chain. Advantages in lower-value added stages will simply have less leverage. Where transportation costs are high, for example, location close to a market will have significant advantages. It is most important to be able to anticipate changes in key success factors. This may be approached by examining the changes in the relative importance of the value added stages. Another market cost structure consideration is the extent to which experience curve strategies are feasible.

f) Distribution Systems: one need to consider alternative channels, the trends that are taking place in choice of channel and what new channels are likely to be emerging in the future. One also has to take account of who has the power in the channel and how that is likely to change in the future. Access to an effective and efficient distribution channel is often a key success factor. Related to channel power in market profitability analysis is channel power. In industries without strong brand names, retailers usually have relatively high power and can hold down the price that the manufacturers are paid. The enhanced power of supermarkets, caused in large part by the explosion of transaction information and the importance of promotions, has altered the way in which packaged goods are marketed.

4.5 SUCCESS FACTORS

These are assets and skills that provide the basis for competing successfully. There are two types: -

• Strategic necessities—if these are absent then they will create a substantial weakness.

• Strategic strengths—those at which the firm excels and are assets or skills that are superior to those of the competition. They can provide a competitive advantage. Key success factors differ by industry in a more or less predictable way.

4.6 RISKS IN HIGH GROWTH MARKETS

There are a number of conditions that need to be considered when evaluating whether a high growth market is really as attractive as it might seem. These are: -

Whether the number of competitors serving the market is really greater than can be sustained by the growth opportunity. The following conditions are found in markets in which a surplus of competitors is likely to be attracted and a subsequent shakeout is likely:-

- The market and its growth rate are highly visible to all and therefore unlikely to be overlooked by any firms which may have an interest.
- Very high initial and forecast growth.
- Seemingly very few threats to the sustainability of the growth rate.
- Few initial barriers to entry.
- Products make use of an existing technology rather than a risky or protected technology.
- Some of the potential entrants have low visibility and their intentions are unknown or uncertain. The shakeout itself often occurs over a relatively short period of time.

The trigger is likely to be a combination of: -

- An unexpected slowing of market growth rate, either because the market is close to saturation or a recession has intervened.

- Aggressive late entrants buying their way into the market by cutting prices.
- The market leader attempting to stem the erosion of its market position with aggressive product and price retaliation.
- The key success factors in the market changing as a result of technological development, perhaps shifting the value-added structure.

A competitor may enter with a superior product or low cost advantage. The late entry of low-cost products from the Far East has occurred in many industries including radios, TVs, VCRs and computer components and peripherals. The key success factors in the market are likely to change in a way that is incompatible with the evaluating firm's capabilities. Many product markets have experienced a shift over time from a focus on product technology to process technology. A firm that might be capable of achieving product-technology based advantages may not have the resources or skills required to develop the process-technology based advantage that the evolving market requires.

The technology in the market might change. Developing first-generation technology can involve a commitment to a product line and production facilities that may become obsolete, and to a technology that may not survive. A safe strategy is to wait until it becomes clear which technology will dominate and then attempt to improve it with a compatible entry.

4.7 SELF CHECK EXERCISE

1. What are the objectives of Market Analysis?
2. Define Time Series Analysis.
3. Define Erratic Variation.
4. Write a short-note on forecasting Sales of new products.
5. Write a short-note on risks in high growth markets.

4.8 SUMMARY

A market analysis studies the attractiveness and the dynamics of a special market within a special industry. It is part of the industry analysis and thus in turn of the global environmental analysis. Through all of these analyses, the strengths, weaknesses, opportunities and threats (SWOT) of a company can be identified. Finally, with the help of a SWOT analysis, adequate business strategies of a company will be defined.[1] The market analysis is also known as a documented investigation of a market that is used to inform a firm's planning activities, particularly around decisions of inventory, purchase, work force expansion/contraction, facility expansion, purchases of capital equipment, promotional activities, and many other aspects of a company.

4.9 GLOSSARY

- **Competition** is the rivalry between companies selling similar products and services with the goal of achieving revenue, profit, and market share growth. Market competition motivates companies to increase sales volume by utilizing the four components of the marketing mix, also referred to as the four P's.
- **Market** is any place where makers, distributors or retailers sell, and consumers buy. Examples include shops, high streets, or websites. The term may also refer to the whole group of buyers for a good or service.
- **Market analysis** is a quantitative and qualitative assessment of a market. It looks into the size of the market both in volume and in value, the various customer segments and buying patterns, the competition, and the economic environment in terms of barriers to entry and regulation.
- **Market Size** for a business line is the total potential number of customers or sales, usually in a given year.
- **Potential market** is the part of the total population that has shown some level of interest in buying a particular product or service. This includes individuals, firms and organizations. Potential market is also called Total addressable market.

4.10 ANSWERS TO SELF CHECK EXERCISE

1. For answer to question number 1 refer to section 4.1.
2. For answer to question number 2 refer to section 4.4 (a).
3. For answer to question number 3 refer to section 4.4 (a).
4. For answer to question number 4 refer to section 4.4(d).
5. For answer to question number 5 refer to section 4.6.

4.11 TERMINAL QUESTIONS

1. Define Market Analysis. Discuss its dimensions.

2. What do you mean by expert opinion? Discuss the significance of expert opinion in market Analysis.

3. Discuss different types of methods used in Market Analysis.

4. Why it is important to understand Cost Structure in market analysis? Discuss.

5. Discuss in detail about risks involved in high growth markets faced by the business houses.

4.12 SUGGESTED READINGS

- Carvens, D. W., Strategic Marketing Homewood Illiois, Richard D.?Irwin
- Kayank E. and Savitt R., Comparative Marketing Systems, New York, Praegar.
- Kotler Phillip, Marketing Management: Analysis, Planning, Implementation
- Porter, M. E., Competitive Advantage: Creating Sustaining Superior Performance, New York, Free Press.
- Porter, M. E., Competitive Strategy: Techniques for Analysing Industries Competitors, New York, Free Press.

LESSON-5

COMPETITION

STRUCTURE

5.0 LEARNING OBJECTIVE
5.1 INTRODUCTION
5.2 NATURE OF COMPETITION
5.3 STRATEGY TYPOLOGIES
5.4 COMPETITION RESEARCH
5.5 BENCHMARKING
5.6 MARKET SIGNALS
5.7 TYPES OF MARKET SIGNALS
5.8 SELF CHECK EXERCISE
5.9 SUMMARY
5.10 GLOSSARY
5.11 ANSWERS TO SELF CHECK EXERCISE
5.12 TERMINAL QUESTIONS
5.13 SUGGESTED READINGS

5.0 LEARNING OBJECTIVE

After studying this lesson you should understand: -

- The meaning of competition and about the strategies how you survive in this competitive market.
- What type of completion organisations are facing in the market and how they compete with their rivals?

5.1 INTRODUCTION

All firms have strategic windows and some of these windows open out on to markets that are shared with other firms. Where windows share views over the same market, competition exists. It is important to understand how different firms view the same market since their perceived and actual windows of opportunity will not all are the same. The nature of competition and the factors which influence it are explored along with how firms identify competitors and how they use product positioning to obtain a competitive advantage. Attention is paid to how firms define their marketing strategies and analyse the competitive positions of rivals. Consideration is given to the various sources of information available to firms that enable them to gauge competitors' strengths and weaknesses. Success in the market place depends not only on an ability to identify customer wants and needs but also upon an ability to be able to satisfy those wants and needs better than competitors are able to do. This implies that organizations need to look for ways of achieving a differential advantage in the eyes of the customer. The differential advantage is often achieved through the product or service itself but sometimes it may be achieved through other elements of the marketing mix.

5.2 NATURE OF COMPETITION

Competition is the process of active rivalry between the sellers of a particular product as they seek to win and retain buyer demand for their offerings. The operational definition of competition, however, hinges upon the meaning of 'a particular product'. The identification of an organization's competitors may not be as simple or as obvious as it might at first sight appear. The most obvious competitors are those which offer identical products or services to the same customers. However, substitute products and services highlight the nature of indirect competition which must also be taken into account. Five levels of competition have been suggested: -

- Direct competition,
- Close competition,
- Products of a similar nature,
- Substitute products, and
- Indirect competition.

Factors influencing competition Industries have distinctive idiosyncrasies of their own and these idiosyncrasies alter over time. They are often referred to as the dynamics of the industry. No matter how hard a company tries, if it fails to fit into the dynamics of the industry, ultimate success may not be achieved. Porter (1985) sees competition in an industry being governed by five different sets of forces. Citing these five 'forces' is rather arbitrary, since a sixth force, government regulation, is often the most significant influence in determining the profitability of an industry. In fact, when Porter studied the pharmaceuticals and airline industries he discovered that government regulation. Actually identifying competition may not always be quite straightforward. It is important to be able to correctly identify different types of competitors so that suitable reaction to their marketing strategies and tactics can be put into practice as and when required.

The various bases of competitive advantage are discussed and reference is made to Porter's strategic thrust typologies. This is then followed by a discussion of the various typologies of competitors that can be identified and the kind of strategy each one employs. Various competitor typologies are considered—leader, challenger, follower, nicher—along with their implications for approach to marketing strategy. Attention is then given to ways and methods of obtaining information about competitors' actual and planned activities. In particular, attention is given to market signaling actions and their interpretation.

The forces of competition and deregulation were important factors relating to profitability in both (Porter, 1988). However, we will look at the five forces of the model in more detail. Rivalry among competitors Competition in an industry is more intense if there are many comparable rivals trying to satisfy the wants and needs of the same customers in the same market or market segment. Moreover, competition increases where industry growth is slow, costs are high and there is a lack of product differentiation. High exit barriers from a market or industry contribute to increased competition. Firms may find it difficult to get out of a business because of the relationship of the business with other businesses in which they are engaged. An organization may also have considerable investments in assets which are used for the specific business and for which no valuable other use can be found.

a) Bargaining power of customers: Customers can exert influence on producers. Where there are a small number of buyers, for example, or a predominant/single buyer, the producer's opportunities for action are limited. In the situation where one customer accounts for a significant proportion of a supplier's business, then the one customer can exert considerable influence and control over the price and quality of the products that it buys. Such firms can demand the highest specification in products, with tight delivery times (for just-in-time manufacturing and hence reducing the cost of raw material inventories) and customized products. Buyers exert pressure in industries by hunting for lower prices, higher quality, additional service and through demands for improved products and services. In general, the greater the bargaining power of buyers, the less advantage sellers will have. Not all buyers have equal bargaining power with sellers; some may be less sensitive than others to price, quality or service.

For example, in the clothing industry, major manufacturers confront significant customer power when they sell to retail chains like Marks and Spencer and Burton. However, they can get much better prices selling to small owner-managed boutiques.

b) Bargaining power of suppliers: Suppliers can exert pressures by controlling supplies. A powerful supplier is in a position to influence the profitability of a whole industry by raising prices or reducing the quality of the goods it supplies. A firm that has few or only one potential supplier may exert little influence over the prices it pays for bought in materials and components. It may also experience difficulty in influencing the quality of its raw materials and resources. If it is the only purchaser and constitutes an important part of the supplier's business, however, it can exert a great deal of influence over both prices and quality. Another form of supplier power is 'lock-in'. This involves making it difficult or unattractive for a customer to change suppliers. It can be put into effect, for example, by offering specific services or product attributes that a competitor finds difficult to match. Powerful suppliers can have the same adverse effects upon profitability as powerful buyers. Suppliers can exert bargaining power on participants in an industry by raising prices or reducing the quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of an industry unable to recover cost increases in its own prices.

5.3 STRATEGY TYPOLOGIES

While Porter's typologies represent one important way of looking at how firms behave in the market place there are other ways of looking at what firms do. Various suggestions have been put forward to account for the strategies adopted by firms. A commonly adopted framework is to consider firms according to the role they play in a market. The suggestion is that firms act as: -

- Market Leader

- Market Challenger
- Market Follower
- Market Nicher.

These roles are discussed below: -

- **Leader**: The market leader is the enterprise that has the largest market share. Leadership is exercised with respect to price changes, new product introductions, distribution coverage and promotional intensity. Because of their large volume sales, market leaders enjoy the benefits of economies of scale and accumulated experience which helps reduce costs and bolster profits. Not surprisingly, dominant firms want to stay in the leading position and this requires them to: -(a) Find ways of expanding total market demand; (b) Protect market share; and (c) Even increase market share.

The market leader is conscious of economies of scale of operation and is happiest when making inroads into large and substantial markets. Small specialist markets (niches) are not the prime interest of market leaders. For example, the Ford motor company produces a range of cars for high volume markets, e.g. the Fiesta for the small car market. Ferrari, on the other hand specializes in producing high-performance sports saloons, etc. for a very small market segment that is prepared to pay a very high price for such a car.

- **Challenger**: Another group of competitors are referred to as market challengers. These companies aspire to become market leaders, recognizing the benefits of holding such an exalted position. Challengers attack the leader and other competitors in order to try and gain market share. It is uncommon for market challengers to attack the leader directly. They usually try to gain market share by attacking markets in which the smaller and less efficient firms operate. Such markets, of course, do have to be of a substantial size and not be too small or specialized to deter the larger firms. There are a variety of strategies that challengers can adopt. One strategy is to produce an enormous variety of types, styles and sizes of products including both cheaper and more expensive models. This was a strategy adopted by the Japanese Seiko company when it attacked the watch market. It accompanied this strategy with another which involved distributing its watches through every possible channel. The wide variety of models it had available (over 2000) meant that it could supply different types of channel with different models and thereby avoid the adverse effects of channel conflict.

- **Follower**: A third role that firms can adopt is that termed market follower. Firms which undertake a good deal of innovation often have to recoup massive investment costs. Market followers are able to copy what the leading firms produce and save themselves the burden of massive investment costs. This means that they can operate very profitably at the going price in a market. Such firms will obviously have to forego the market share which comes from being first into the field. Providing they can stay cost efficient and obtain a reasonable share of the market they can survive. Less efficient ones, however, are open to attack from the market challengers.
- **Market niching**: Most industries include smaller firms that specialize in producing products or in offering services to specific sectors of the market, i.e. in specific segments. In so doing they avoid the competitive thrusts of the larger firms for whom specialization does not offer attractive economies of scale, that is, the segments are too small to generate the kind of return on investment that the larger firms require. This is a strategy called market niching. Market niching is a strategy that is not only of interest to small firms but is also of interest to the small divisions of larger companies. The latter firms seek some degree of specialization. In cases where the latter occurs the position of small firms is not quite so secure. From a firm's point of view, an ideal market niche is: -(a) of sufficient size to be profitable to a firm serving it; (b) capable of growth; (c) of negligible interest to major competitors; and (d) a good fit with the firm's skills and resources.

Specialization is the corner-stone of market niching. There is strong evidence to show that a strong brand in a niche market earns a higher percentage return than a strong brand in a big market. In the case of large markets, competitive threats and retailer pressure can hold back profits even for the top brand.

5.4 COMPETITION RESEARCH

Understanding competition is central to making marketing plans and strategy. A firm has to be regularly comparing its products, prices, channels of distribution and promotional methods with those of its competitors in order to ensure that it is not at a disadvantage.

In so doing it can also identify areas where it can gain a competitive advantage. In order to establish a sustainable competitive advantage in the market place it is necessary to know and understand the strategies adopted by competitors. This is more than noting in which markets/segments the competition is operating and their respective market shares and financial performance. In addition, it is important to consider how competition will develop in the future and thus to ascertain the focus of the strategies that competitors are pursuing. Firms need to monitor competition continually. The main need is for information regarding: - • sales; • market share; • profit margin; • return on investment; • cash flow; • new investment; and • in addition, knowledge of competitors' financial performances is useful.

Such information enables firms to gain comprehensive impressions of their rivals that may be useful in predicting short-term strategies to be adopted by competitors. Knowledge of competitors' specific objectives would be very welcome since these would give clues as to future strategies that competitors are likely to pursue. This kind of information may be difficult to obtain but may be inferred from present or past activities.

a) IDENTIFYING COMPETITORS: The first step, however, is to identify the competition. This may seem a simple question for most firms to answer. For example, at first sight a book publisher's main competitors might appear to be other book publishers. This is, of course, correct. However, product substitution also has to be considered. This involves looking more broadly at the types of business in which the firm operates. Many of these products could be potential competition for the publisher. Many of these products could be used instead of the publishers' books, i.e. they can be substituted.

b) SOURCES OF INFORMATION ABOUT COMPETITORS: Decision making can be improved by an adequate supply of relevant information and knowledge of good sources of information is an important first step. A suitable starting point is to examine what competitors say about themselves and what others say about them. Sources of information fall into four categories:

➢ **Public sources:** Advertising, promotional materials and press releases are prime sources of information on what competitors have to say about themselves. Articles and newspaper reports provide a good source of information on what others have to say about them. Nonetheless, one does have to be wary of the information gleaned since it may be biased or even distorted.

- **Trade and professional sources:** Courses, seminars, technical papers and manuals prepared by competitors can give detailed insights into competitors' activities. However, it can take a considerable amount of time to distil and analyse this information. Distributors, the trade press and even customers can be good sources of information about what others have to say about competitors.
- **Government:** In the UK, firms have to lodge their annual reports at Company House in London and the contents of these reports provide insights into the operations of competitors. In particular, lawsuits, government ministries and national plans are useful sources of information.
- **Investors:** Annual meetings, annual reports and prospectuses are primary sources of what competitors have to say about themselves. Credit reports and industry studies provide an outsider's viewpoint.

5.5 BENCHMARKING

There are several notions about what benchmarking is. Here we will adopt the view that benchmarking is the continuous process of measuring products, services and practices against the toughest competitors or those companies recognized as industry leaders with a view to stimulating performance improvement. Camp (1989) identified four types of benchmarking: - i) benchmarking against internal operations; ii) benchmarking against external operations of direct competitors; iii) benchmarking against the equivalent functional operations of non-competitors; and iv) generic process benchmarking.

These approaches all involve comparison of the performance and management of processes. A fifth category could be added—that of product benchmarking which compares the features and performance of products. Competitor benchmarking involves performance comparisons between organizations which are direct competitors. Some competitor comparisons are possible from public sources, but these are often of limited detail and hence limited value.

5.6 MARKET SIGNALS

A market signal is any action by a competitor that provides direct or indirect indications of its intention, motives, goals or internal situation. Some signals are bluffs, some are warnings and some are serious commitments to a course of action. Market signals are indirect ways of communicating in the market place and can be interpreted so as to assist competitor analysis and strategy formulation. A prerequisite to interpreting signals correctly is to develop a baseline competitor analysis—an understanding of a competitor's future goals, assumptions about the market and themselves, current strategies and capabilities. The ability to read market signals rests on subtle judgements about competitors relating to known aspects of their situations with their behaviour.

5.7 TYPES OF MARKET SIGNALS

Market signals have two different functions: they can be truthful indicators of a competitor's motives, intentions or goals or they can be bluffs. Bluffs are signals designed to mislead other firms into taking or not taking action to benefit the signaller. Discerning the difference between the two can often involve subtle judgements. Market signals take a variety of forms, depending on the particular competitive behaviour involved and the medium employed. The important types of market signals are as follows:-

a) Prior announcement of moves: This is a formal communication made by a competitor that it either will or will not take some action, such as instigating a price change. Such an announcement does not mean with certainty that the action will be taken. Announcements can be made that are not carried out, either because nothing was done or a later announcement nullified the action. In general, prior announcements can serve a number of signalling functions that are not mutually exclusive: Pre-empting other competitors. They can be an attempt to indicate a commitment to take action for the purpose of pre-empting other competitors. For example, indicating that it is going to launch a new product well before it is ready for the market place, seeking to get customers to wait for the new product rather than buy a competitor's product in the meantime.

b) Threats to competitors: Announcements can be threats of action to be taken if a competitor follows through with a planned move. For example, a firm might hear that its competitor is about to lower its price. The firm might then announce that it too is to introduce a price reduction below that indicated by its competitor. Such an announcement would indicate that the firm is quite happy to engage in a price war and this may well deter the other firm from making the first price reduction.

c) Tests of competitors' feelings: A firm may be contemplating the introduction of a new type of after-sales agreement but is unsure whether competitors will view this with pleasure or displeasure. By making an announcement about the new scheme the firm can test competitors' reactions to its proposals.

d) Minimizing the provocation of a forthcoming strategic adjustment: This kind of approach seeks to minimize unwelcome retaliation and warfare resulting from a strategic adjustment. It usually takes the form of announcing the strategic adjustment and providing full information as to why the firm believes that the adjustment is necessary. Caution has to be exercised when interpreting such signals since the firm may simply be trying to disguise an aggressive move.

e) Internal marketing: Announcements can sometimes serve the purpose of seeking internal support for a move. Committing the firm to do something publicly can be a way of extinguishing internal debate about its desirability. One of the most difficult tasks is to determine whether a prior announcement is an attempt at pre-emption or a conciliatory move. One can attempt to assess this by studying the lasting benefits that might accrue to competitors from pre-emption. If such benefits exist then it could well indicate announcements prelude pre-emption. Conversely, if the competitor acting in its own narrow self-interest could have done better through a surprise move, then conciliation may be indicated. An announcement that discloses an action much less damaging than it otherwise might have been, given the capabilities of the competitor, may usually be viewed as conciliatory. Announcements much in advance of a move tend to be conciliatory. Announcements can be bluffs because they need not always be carried out. As such they may simply be viewed as mechanisms designed to produce some response from competitors not to continue with a line of action they may be contemplating instigating.

Occasionally, it can be a bluff designed to trick competitors into expanding resources in gearing up to defend against a non-existent threat. The medium in which a prior announcement appears may be a clue to its underlying motives.

f) Announcement of results or actions after the fact: These often take the form of announcements about sales figures, additions of capacity and so on. They ensure that other firms know about the data released and this may in turn influence the latter's behaviour. Such announcements can be misleading, though this is not always the case.

g) Public discussion of the industry by competitors: Competitors often comment on industry conditions and on prospects for the future. These commentaries are often full of signals which testify to the commenting firm's assumptions about the industry and presumably by implication the strategy they are developing. In addition to commentary on the industry generally, competitors sometimes comment on their rival's direct moves. Such commentary can signal displeasure or pleasure with a move.

i) The manner in which strategic changes are implemented: When introducing a new product it can be initially introduced to a peripheral market or it can immediately be aggressively sold to the key customers of its rivals. A price change may be made initially on products that represent the heart of a competitor's product line, or the price changes can be first put into effect in product or market segments where the competitor does not have any great interest. A move can be made at the normal time of the year or it can be made at an unusual time. Of course there can be bluffs.

j) Divergence from past goals: If a competitor has historically produced products exclusively at the high end of the product spectrum in terms of quality, its introduction of a significantly inferior product is an indication of a potential major realignment of its goals or assumptions. Divergence from industry norms A move that diverges from industry norms is usually an aggressive signal. The cross parry When one firm initiates a move in one area and a competitor responds in a different area with one that affects the initiating firm, the situation is referred to as a cross parry. It occurs where firms compete in different geographic areas or have multiple product lines that do not completely overlap. It represents a choice for the defending firm not to counter the initial move directly but to counter it indirectly.

In responding indirectly, the responding firm may well be trying not to trigger a set of destructive moves and counter moves in the encroached-upon market but to clearly signal displeasure and raise the threat of retaliation at a later date. If the cross parry is towards one of the initiator's important markets it may be interpreted as a strong warning. If it is towards a lesser market then the warning will be less severe. The cross parry is an effective way to discipline a competitor if there is a great divergence of market shares. If, for example, a price cut is involved then the cost of meeting this price cut will be greatest for the firm with the largest share. If the firm with the largest share in the cross parry market initiated the first move then this may increase the pressure on the firm to back off. The fighting brand A form of signal related to the cross parry is the fighting brand. A firm threatened or potentially threatened by another can introduce a brand that has the effect of punishing or threatening to punish the source of the threat. Fighting brands are warnings or deterrents to absorb the brunt of a competitive attack.

They are also introduced with little push or support before any serious attack occurs, thereby serving as a warning. Fighting brands can also be used as an offensive weapon as part of a larger campaign. Recourse to legal action Large firms sometimes force smaller ones to yield ground by threatening to take legal action for a variety of patent and other infringements—even if no such infringements actually exist. Such firms force the weaker firm to comply because it does not want to bear the extremely high legal costs which it can incur in order to make its case.

5.8 SELF CHECK EXERCISE

1. Define Competition.
2. Write a short-note on bargaining power of customers.
3. Discuss in brief about strategy typologies.
4. Define Market Leader.
5. What do you understand by competition research? Discuss in brief.
6. Define Benchmarking.
7. Define Market Signals.

5.9 SUMMARY

Competition is the rivalry between companies selling similar products and services with the goal of achieving revenue, profit, and market share growth. Market competition motivates companies to increase sales volume by utilizing the four components of the marketing mix, also referred to as the four P's and these P's stand for product, place, promotion and price. Knowing and understanding your competition is a critical step in designing a successful marketing strategy. If you are not aware of who the competition is and knowledgeable about their strengths and weaknesses, it's likely that another firm could enter the picture and provide a competitive advantage, such as product offerings at lower prices or value added benefits. Identifying your competition and staying informed about their products and services is the key to remaining competitive in the market and is crucial to the survival of any business.

5.10 GLOSSARY

- **Benchmarking** is a process of measuring the performance of a company's products, services, or processes against those of another business considered to be the best in the industry, aka "best in class." The point of benchmarking is to identify internal opportunities for improvement.
- **Competition** is the rivalry between companies selling similar products and services with the goal of achieving revenue, profit, and market share growth. Market competition motivates companies to increase sales volume by utilizing the four components of the marketing mix, also referred to as the four P's.
- **Competitor** is any person or entity which is a rival against another. In business, a company in the same industry or a similar industry which offers a similar product or service. The presence of one or more competitors can reduce the prices of goods and services as the companies attempt to gain a larger market share.
- **Competitive analysis or competitive research** is a field of strategic research that specializes in the collection and review of information about rival firms. It's an essential tactic for finding out what your competitors are doing and what kind of threat they present to your financial well-being.
- **Market Signal** is the unintentional or passive passage of information or indication between participants of a market. For example If a firm issues bonds it

indirectly shows that it needs capital and also desires to retain control thus instead of equity capital it prefers loan capital

- **Organization** is a group of people who work together. Organizations exist because people working together can achieve more than a person working alone.

5.11 ANSWERS TO SELF CHECK EXERCISE

1. For answer for question number 1 refer to section 5.2.
2. For answer for question number 2 refer to section 5.2(a).
3. For answer for question number 3 refer to section 5.3.
4. For answer for question number 4 refer to section 5.3.
5. For answer for question number 5 refer to section 5.4.
6. For answer for question number 6 refer to section 5.5.
7. For answer for question number 7 refer to section 5.6.

5.12 TERMINAL QUESTIONS

1. Discuss the objectives and significance of competition between firms in the same market.
2. Elaborate the nature and levels of competition.
3. Discuss different types of typologies given by Porter by taking into consideration the Indian business environment.
4. Define competition research. Discuss how competitors have been identified? Elaborate the sources of information about competitors.
5. Define Market Signals. Discuss different types of market signals.

5.13 SUGGESTED READINGS

- Carvens, D. W., Strategic Marketing Homewood Illiois, Richard D.?Irwin
- Kayank E. and Savitt R., Comparative Marketing Systems, New York, Praegar.
- Kotler Phillip, Marketing Management: Analysis, Planning, Implementation
- Porter, M. E., Competitive Advantage: Creating Sustaining Superior Performance, New York, Free Press.
- Porter, M. E., Competitive Strategy: Techniques for Analysing Industries Competitors, New York, Free Press.

LESSON-6

BUSINESS ENVIRONMENT

STRUCTURE

6.0 LEARNING OBJECTIVE
6.1 INTRODUCTION
6.2 CHANGING PATTERNS AND CHANGING STRATEGIES
6.3 THE CHANGING NATURE OF SOCIAL AND CULTURAL ASPECTS OF CONSUMERS
6.4 THE INFLUENCE OF POLITICAL, FISCAL AND ECONOMIC POLICIES
6.5 GREEN MARKETING
6.6 THE LEGAL ENVIRONMENT AND ITS INFLUENCE
6.7 ETHICS AND CODE OF PRACTICE
6.8 PRESSURE GROUPS, WATCH-DOGS AND CONSUMERISM
6.9 PREDICTING ENVIRONMENTAL TRENDS AND EVENTS
6.10 SWOT ANALYSIS AND THE TOWS MATRIX
6.11 SELF CHECK EXERCISE
6.12 SUMMARY
6.13 GLOSSARY
6.14 ANSWERS TO SELF CHECK EXERCISE
6.15 TERMINAL QUESTIONS
6.16 SUGGESTED READINGS

6.0 LEARNING OBJECTIVE

After studying this lesson you should able to understand about

- The environment prevailing inside and outside the business organisations.
- Differentiate the factors which have the direct and indirect impact on the working of business organization.
- To cope up with the difficulties faced by the organisation in the competitive environment type of policies or procedures you have to follow to satisfy all the factors which have direct and indirect impact on the business organisations.

6.1 INTRODUCTION

While strategic windows open out on to markets within industries, these same markets and industries are dynamic and changing. To understand the causes and predict the consequences of the changes that take place, an organization needs to appreciate the broader business issues that are involved and the factors in the business environment which bring about such changes. Firms operate in changing and at times hostile business environments. The environment does not always accommodate the interests of the firm. An organization in its environment might be likened to a ship at sea. Sometimes the sea is rough and the ship has difficulty in making progress on its journey, sometimes it is calm and the weather is clear so that the ship can make steady progress. Sometimes the weather is malevolent: there are thick fogs and icebergs which create risk for the very survival of the ship. Organizational environments present the same kinds of opportunities and threats for the organization as the sea does for the ship. Organizations need to respond and adapt to changing environmental conditions if they intend to survive.

6.2 CHANGING PATTERNS AND CHANGING STRATEGIES

Marketing policies, plans and decisions are implemented in the context of an ever-changing external environment. The nature of this environment and the changes occurring within it present opportunities, threats and constraints to an organization's activities. The changing nature of markets requires entirely different marketing strategies to be adopted for the same products from time to time. There are fragmented markets and mass markets. Mass markets are markets in which there is a large volume demand for a standard product. Fragmented markets are based upon distinct niches and segments. There are many examples of changes in the marketing environment that impact heavily upon organizations and what they have to do in order to own advantage. An inability to do so can put organizations in positions where their short- and long-term survival is jeopardized.

The business environment is the setting within which a business operates, formulates policies and makes decisions. It is usual to distinguish between the internal and the external environment. The former usually comprises the various assets and resources possessed by the organization. That is its workforce, plant and machinery, knowhow, financial resources, etc. The latter refers to people, institutions and developments, etc. which exert an external influence on how the organization performs. Of course, with the emergence of strategic alliances and networks such a definition of boundaries does tend to become more blurred. Firms need to know all about the business environment in which they operate. It is essential that they can anticipate the changes that are likely to take place in the marketing environment in the foreseeable future. However, as noted above, it is not simply a matter of adapting to change. Organizations can also exercise their own influence on the environment. Among the ways that this can be achieved is the development and commercialization of new technological ideas. These new technologies then become part of the business environment and in their turn have an impact upon what other organizations can do. Considerable control can be exercised over its internal environment by a firm, but a firm cannot exert control in the same way or to the same extent over the external environment. It can only attempt to influence it.

There are various ways of influencing events in the external environment. These may include activities such as lobbying among legislative groups. The latter is what organizations often do when trying to influence the formulation of European Community directives which can have an impact on such things as product design safety standards, etc. survive and prosper. For instance, from the point of view of technological change, the introduction of the microchip has had a major impact on many types of consumer durables, e.g. washers, cookers, etc. and on home entertainment, home-based office work and computer-based learning in education. Over the past two decades there have been many changes in people’s shopping habits as a greater emphasis has been put on convenience shopping.

Indeed all the forces of the marketing environment have made an impact on what firms and people want and do throughout the world. There are a variety of different environmental variables which affect consumers and firms. Social and cultural factors, political, fiscal and economic policies, and changes in technology all have an impact on customers’ wants and needs for products and services and the kind of products and services that are produced.

6.3 THE CHANGING NATURE OF SOCIAL AND CULTURAL ASPECTS OF CONSUMERS

In this section we will look at demography, the nature of cultural values, and changes in values and attitudes and how they impact upon the marketing activities of organizations. Demography Demographic and cultural factors make up society-wide influences and changes that can affect the marketing environment. In terms of demographic factors, the following are of interest to marketers:

- Population: size, growth rate, distribution by gender, birth rates, death rates, life expectancy
- Density: location, geographical/regional shifts
- Household/family: size, make-up
- Income/wealth distribution
- Socio-economic groups: occupations, ethnic groups.

These factors change slowly over time and exert powerful effects on the volume and nature of demand for most products and services. Some influences are obvious: the demand for children's products and services will be related to birth rate patterns. The demand for products and services to meet the wants and needs of the elderly will be related to characteristics and trends of an ageing population. In European countries in recent times there has been a slowing down of the birth rate. Along with this, an extension of life expectancy has resulted in a shift in the profile of the population to that of an ageing one. In addition, many changes have taken place in the make-up and size of family households. Fewer marriages and fewer children coupled with an increase in the labour force of married women have changed the basic nature of the family household.

Career couples with no children are now quite common and are a target group of interest to many marketers because of their relatively high disposable income. Another characteristic seems to have been a growth in non-family households. Some of these are made up of single, career people, whereas others are made up of divorced or widowed adults. There has also been an increase in single parent families. These changes in the structure and characteristics of households have had a major affect on the pattern of demand for a wide range of everyday goods and services. As far as income and wealth are concerned, the total gross domestic product of Europe is now greater than that of the US and accounts for over one third of world GDP and much of world trade (Haliburton and Hunerberg, 1993). Within Europe there are disparities in terms of relative wealth. In the case of Switzerland, for example, per capita GDP is many more times that of Portugal. These differences seem to be widening because of the unequal effects of the recent recession and the relatively higher population growth in the poorer countries. There are also marked disparities of wealth distribution within individual countries in Europe.

a) The nature of cultural values: Often, different regions of a country exhibit different buying preference patterns that seem to reflect different cultural and traditional values. In addition, because many towns and cities throughout the world are now very cosmopolitan in nature, it is quite common to find large ethnic groups living in fairly large concentrations in urban areas. These groups have distinct cultural values which are reflected in their buying preference patterns. For example, ethnic minorities make up a very small proportion of the population of the UK. But in the Greater London area, in the West Midlands and in West Yorkshire it is significantly greater.

Culture is reflected in the prevalent core beliefs and values of people. These beliefs and values are declared in family and friendship relations, in social conventions and rites, in social institutions and in social order itself. They take a long time to change since they are inextricably linked to such things as family upbringing, the education system, national history, religion and a variety of other institutional phenomena. A variety of secondary beliefs and values which are less durable and more situationally determined are also to be found.

b) Changes in values and attitudes: The ‘permissive’ society of the 1960s and the effects of its aftermath reflecting individualism exerted considerable influence on values and attitudes in the 1970s and 1980s. However, it would seem that these changes may now be undergoing a reversal. Today, people have in some ways returned to the social norms of the pre-1960s. Nevertheless, there are still many ways in which attitudes are considerably different to those of the pre-1960s. Attitudes towards credit have changed substantially over the past 20 years or so. Traditionally, credit purchasing was something which people tended to avoid. Indeed, there was at one time a social stigma against purchasing on credit except for major purchases such as homes and cars. This may have been a carryover of so-called ‘Victorian’ values or even a product of the hardships of debt which ensued during the years of depression—particularly in the 1920s and 1930s.

Credit purchasing started to develop in the late 1950s as consumer confidence began to be restored following the hardships and rationing which existed in Britain in the immediate post-war period. The Conservatives’ message of ‘You have never had it so good’ which was popular in the late 1950s and early 1960s had a ring of truth about it. For many people, more affluent times have continued and today, credit has become an intrinsic part in the marketing of many products. Changes in society’s attitudes towards health over a similar period of time have resulted in a multi-million pound industry developing and the supply of health products and services. People are now more weight conscious, exercise conscious and conscious about their diets. Moreover, smoking which at one time was considered a social sophistication is now considered to be anti-social. There have been many changes in attitudes over the years which have had implications for marketing. One of the most far-reaching of these concerns the role of working women in western society. At one time British women tended to stay at home and rarely held jobs with substantial incomes. This situation has undergone considerable change and a high proportion of the workforces are women. This may have contributed to the acceptance of convenience foods and the widespread adoption of home freezers and microwave ovens as well as one-stop shopping.

6.4 THE INFLUENCE OF POLITICAL, FISCAL AND ECONOMIC POLICIES

Having examined one aspect of the environment, consumers and culture, and its impact on marketing activities, we now turn to examine those usually exerted by government: political, fiscal and economic policies. Political and fiscal policies Governments are in a position to take actions which can substantially alter a company’s marketing environment. In the UK, privatization of the public utilities has created new terms and conditions for their suppliers and subcontractors. The creation of an internal market within the health service has had a substantial impact on the way in which hospitals and other health service units go about their work. The sale of Jaguar in the car industry and of British Airways has created commercially competitive companies which have had a substantial impact on the competitors in their respective industries. Deregulation in the EC has created opportunities and threats across borders. In the case of car manufacturers, their ability to restrict certain models to specific countries has been swept aside.

Legislation over such things as labeling, packaging, advertising and environmentalism all have to be taken into account when designing packaging and formulating advertising messages. To discourage demand for certain imported goods, governments impose tariffs on them. Firms wanting to import such goods then must find ways of getting round the problems that this creates. For example, a government may impose low tariffs on sub-assemblies and firms may prefer to import subassemblies instead of fully assembled goods on which high tariffs have been placed. The lower tariffs may have been placed on sub-assemblies because local people can be employed to assemble the sub-assemblies into finished goods and this provides jobs which the government wants to encourage. Political instability in a country can also have a marked effect on marketing methods used by exporters in accessing that country's markets.

Under such circumstances it may be preferable, for example, to sell the license to manufacture the product to a producer in the country concerned for a once only royalty fee. Licenses may be granted to produce or market goods and services. In the former case, the license relates to know-how. Royalty payments can be one-off payments or they can be fixed as a percentage of subsequent sales.

- **THE ECONOMIC CYCLE:** Traditionally, the economy has been considered to follow a cyclical pattern consisting of four stages: boom, recession, slump (depression) and recovery. Various industries, markets and organizations can, of course, break this trend, either demonstrating a decline in growth during a boom, or an expansion during a slump. In each stage of the cycle there are different business patterns. In times of prosperity, consumer spending is high. Organizations normally exploit this by expanding product lines, increasing promotional efforts, expanding distribution and raising prices, on the presumption that consumers are often willing to pay more for well known and well established products and have the means to do so. In times of recession, the purchasing power of consumers declines and may even stagnate when the economy enters into recovery. During a recession, consumers may shift their buying patterns to purchasing more basic, more functional, less expensive products and spend less on non-essential products. This means that decisions on the purchase of luxury items, such as cars or new homes, may be postponed. Not surprisingly, it is the producers and marketers of luxury goods who are most affected by an economic recession. The strategy for marketers during times of recession is usually to reduce prices, and prune the size of product lines.

Effects of booms and slumps in the economy: As recovery starts to be felt, consumers start to buy convenience products and higher priced goods and services. Assessing the strength of a recovery is difficult and organizations have to assess how quickly consumers are making the transition from recession.

- **Inflation**: One of the most difficult phenomena to deal with during the economic cycle is inflation. Inflation is an increase in the general level of prices in an economy that is sustained over time. Inflation has two main causes: -
    - Excess demand beyond the output capacity of the economy to supply goods and services
    - Increases in input costs—wages, raw materials and components.

Inflation, produced by rising prices and resulting in reduced consumer buying power, creates problems for the marketer. Not only is uncertainty introduced into the market through the effect of inflation on costs and sales forecasts, but it also makes it difficult to determine the price to charge during the next budgeting period. Inflation is not welcomed by the business community. It is administratively expensive to constantly change prices in line with inflation and it can affect a firm’s competitive positions in both domestic and foreign markets. High rates of inflation effectively make imports cheaper but make exports more expensive. Next we will consider another of the environmental forces acting upon firms—technology.

- **THE INFLUENCE OF TECHNOLOGY:** In modern times the influence of technology in the marketing environment has come to the force. Technology has always been important but the rate of innovation has increased so rapidly in recent years that the impact of technology has become a principal driving force in business activity.

Technology is a major driving force for change everywhere. Major changes created through developments in technology have increased the potential losses or rewards associated with commercial success and failure. Technological progress depends on a process of successful innovation which involves commercialization of ideas and an understanding of market needs. The role of marketing is to guide development efforts and facilitate commercialization. The Sony Walkman presents an example of a product that matched customers' wants. In terms of technology sophistication it was basic and unexciting but the key element of its success was that it met a latent market need for a cheap, portable cassette player. Technological advances and improvements are a feature of modern day business. The obsolescence of products within a relatively short period from their introduction is commonplace. Personal computers are a good example of where product obsolescence can be very rapid indeed. Moreover, it is increasingly the case that tomorrow's products are no longer news by the time they are put on the market. During the lead time between an announcement of a new product and the time it can be made available to the consumer, competitors may already have announced improved or better versions of the same product. Organizations which do not react to technological advances which are relevant to the kinds of products they produce run the risk of rapid product obsolescence and going out of business. Another important aspect of the environment which impacts on marketing activities is changes in distribution patterns.

- **ANALYSIS CHANGES IN DISTRIBUTION PATTERNS:** Distribution is part of marketing and the patterns of distribution have changed substantially in the past 30–40 years. The impact of changes in distribution patterns is perhaps felt most in the case of consumer goods marketers, particularly in retailing. In the UK, the growth in car ownership, the trend to a high percentage of husbands and wives both working, together with increasing standards of living has led to less time being available for shopping plus greater mobility of the shopper. All of these factors, in turn, have led to the need for one-stop shopping facilities and thence to the development of supermarkets to provide this facility. Many of the traditional retail outlets have suffered severe competition as a result—fishmongers, butchers, pharmacists, etc. With the passage of time, some of the chain stores such as Boots and Marks and Spencer have increased the range of products they offer to customers.

- **HOW FIRMS ARE RESPONDING TO ENVIRONMENTAL CHANGE:** Firms have adopted a number of ways of coming to grips with the ever-changing complexity of the environment. Foremost among these are the implementations of an effective marketing information system and the use of ongoing market research so that reaction time to change can be speeded up. Another approach involves what is called 'fast track' marketing. Increasing rates of technological change and the shortening of the life of products mean that companies have to act quickly when they are introducing new products to the market.

Late entrants to a market with a new product may find that the product does not offer attractive financial prospects since the product's commercial life is much shorter than might have been typical say 20 years ago. This is obviously most applicable to those industrial markets where product development times can be counted in years, e.g. military and commercial aircraft. The response is to look for ways of reducing the amount of time in developing and testing a product. The implication of this is that organizations have to 'manage in parallel' and not sequentially. This means that instead of one stage following on from another, wherever possible the two stages take place at the same time. Spending more money to speed up the process of innovation is another strategy, while spending more effort on planning things before something is put into action also appears to bear dividends.

Another area which is receiving considerable attention is preservation of the physical environment. Public awareness of the damage that processes and products can do the physical environment has increased the pressure on firms to act in a way which preserves the physical environment rather than destroys it.

6.5 GREEN MARKETING

Green principles relate to the preservation of the environment. There are a number of issues which have important implications for marketing. These issues are now being tackled and in many cases firms take advantage of the fact that they are producing environmentally friendly products when they are promoting the products. The kinds of problems which exist and how firms are tackling these problems are discussed below. It was found that damage was being caused by chloro-fluoro-carbons (CFCs) to the Earth's ozone layer. This led to the gradual removal of CFCs from all products and, in particular, aerosol products. Chemicals are a major force in environmental pollution. In an effort to make more productive use of land, intensive farming methods make use of artificial fertilizers and pesticides. Unfortunately, these can have a detrimental effect on the environment. The use of phosphates and bleaches in household detergents and the dumping of waste into rivers and the sea can also damage the environment. Organizations are changing their working practices to prevent such occurrences. Another problem is that caused by the disposal of waste. This too can create environmental pollution. Packaging materials in which goods are shipped are a major contributor to waste. Over packaging is being discouraged and the use of reusable or recyclable materials encouraged. Green belt countryside is rapidly disappearing in many parts of the world as urban expansion occurs. Along with the disappearance of green belt countryside has been the encroachment of commercial and industrial developments on the natural habitats of animals.

More and better use of existing urban retailing and manufacturing sites has provided a partial answer to this problem. Animals have been the object of abuse and cruelty for a wide variety of purposes. Steps are being taken to create awareness, interest, desire and action to prevent this continuing unabated. People may become increasingly more aware of the damage that can be caused to the environment by products, packaging, by-products and production processes. They may gradually learn to adopt more environmentally friendly products and, in particular, reject throwaway products. Green labels The UK government's plans for an official eco-label on green products were outlined in a Department of the Environment (as it was then) white paper in November 1991.

The kind of products covered by the eco-labeling scheme were those where there was a significant impact on the environment or where there was a high degree of consumer confusion about the environmental claims. Green issues are increasingly seen as important by consumers and this is being reflected in the types of products consumers want to use. Organizations are having to change the nature of their products to meet these requirements. Although many firms do appear to possess a social conscience or see the benefits of meeting the demands of green issues, this is not always the case. The legal infrastructure provides a remedy for this kind of abuse and many other kinds of business bad practices.

6.6 THE LEGAL ENVIRONMENT AND ITS INFLUENCE

Although most firms willingly collaborate to act in the interests of society and behave in a reputable way, unfortunately there are firms who do not. The legal dimension of the marketing environment acts to preserve the best interests of customers and ensure fair competition in the market place. Sometimes, goods are bought that are not of merchantable quality and it is not apparent at the time of purchase. The law exists to protect customers from unscrupulous manufacturers and dealers who produce shoddy, defective or dangerous goods. This also applies to the purchase of services. Legislation may also be passed to curb unfair trading practices. This can occur when companies engage in trading practices which are not in the best interests of the customer. In the UK a variety of important Acts of Parliament have been passed which have either a direct or indirect effect on marketing in the UK.

Similar kinds of laws may exist in other countries but this is not always the case. Acts of Parliament pertinent to marketing which have been passed in the UK cover such things as requirements with respect to the labelling and advertising of foods; the provision of remedies where goods or services purchased do not match with the descriptions given for them; and making it an offence for anyone to demand payment for goods or services that have not been ordered. There are also Acts: - i) concerning products offered at 'sale' prices; ii) goods bought on credit; guarantees or conditions of sale; iii) liability of traders for death or personal injury arising from negligence or from breach of duty; iv) defects in products that give rise to damage; and v) the provision of a regulatory framework for the financial services industry. Legislation also covers anticompetitive practices in both public and private sectors.

6.7 ETHICS AND CODE OF PRACTICE

Laws are enacted to deal with behaviour which is generally considered to be illegal. Defining the boundary between what might be considered lawful and what is not lawful can sometimes be a difficult task. For instance, something might not technically be considered illegal, yet it might be considered undesirable and even immoral. In this section we pay attention to actions which although not against the law may be considered to be undesirable and not in the best interests of the consumer.

Ethics is a study of the principles of morality. In the setting of marketing, ethics relates to activities which although not actually illegal raise moral questions about their use. It is important to differentiate between practices which are illegal and those which are unethical. It is necessary to make these distinctions because of the way in which society reacts to violations of good behaviour. Where something is deemed to be illegal, the remedy is to seek redress through the law. Where something is considered to be unethical, one can only seek redress through pressure groups such as 'watch-dogs'.

The practice of marketing can give rise to many ethical issues. There is a view that marketing creates wants that did not previously exist and which perhaps are not needed. In the case of products such as drugs, legislation exists to outlaw trading in such goods except under medical supervision. However, there are a range of other products that are more difficult to deal with since the products themselves are not illegal. Cigarettes, alcohol and pornography are among the products which are the subject of contention. Ethical issues arise also in connection with how organizations market their products. Advertising which makes misleading claims about products or services and advertising which operates at a subliminal level are examples. Price fixing, although legally outlawed, may still operate since its existence may be difficult to substantiate. Moreover, distributors may fail to live up to agreements they have made with producers without the latter's knowledge. Because ethical problems arise in business and because they cannot often be dealt with inside the legal framework, other ways have to be found for dealing with them.

6.8 PRESSURE GROUPS, WATCH-DOGS AND CONSUMERISM

Pressure groups have come into being in response to the perpetration of unethical or undesirable practices. The purpose of such groups is to influence how decisions that result in socially unacceptable consequences are made and to bring to the attention of the public and governments the need to outlaw such practices. Watch-dog organizations exist to deal with complaints about public sector organizations. Complaints received from users of these services are publicized. Another kind of group, environmental watch-dog organizations, look out for matters relating to protecting the environment. They seek to oppose plans to build factories or houses in the open countryside in some cases, and watch for environmental pollution caused by factories.

Consumerism is an organized movement established to guard the economic interests of consumers by compelling companies to behave in a socially responsible manner. Many organizations have produced voluntary codes of practice relating to matters which may give rise to environmental pollution as a result of pressure from consumerism. The government has established the Office of Fair Trading to encourage competition between organizations that is fair to each of them and fair to the consumer. There are various bodies which exist to protect the customer. The Consumer Protection Advisory Committee was set up to deal with such things as: i) terms and conditions of sale; ii) prices; iii) advertising; iv) labelling and promoting goods and services; and v) selling methods.

6.9 PREDICTING ENVIRONMENTAL TRENDS AND EVENTS

a) Scenario writing: This is a tool developed and used originally in long-term planning and technological forecasting. It is a particularly useful method for speculating on the likelihood of new paradigm shifts. Scenario writing is a method of looking ahead and forces an organization to be receptive to the need for change and creative thinking. It is an experience which involves considering new possibilities and opening up one's mind to considering what might happen. The method involves all members of a team of co-workers and requires a leader or facilitator who introduces and co-ordinates sessions and who has the responsibility for producing a final report. Members of the team are referred to as scenario writers and each member is usually an expert in his or her own field. One need to make sure that there are experts in the group whose expertise is relevant to the problem under study. At the start of the exercise, the scenario writers are briefed with the task of considering the developments in their area of expertise over the next 5–10 years. When they have done this individually they are brought together under the guidance of a leader to examine the situation collectively. Participants need to be reminded that they should be tolerant of the views of others because a consensus of informed opinion has to be reached. The procedure adopted is as follows: -

- Briefing—here the scenario writers are requested to consider what developments will take place in their area of specialization over the next 5–10 years. They are also asked to provide supporting evidence for this and to assess the likely impact of these developments on the organization— see the cross impact matrix below.
- Individual scenario writing—scenario writers spend up to two weeks preparing their individual scenarios independently.
- Collective scenario writing—here the scenario writers meet up to present their individual papers and viewpoints and to reach a consensus viewpoint on possible developments.

The output of the meeting is usually the report. Scenario writing can be extremely useful and productive where the situation under review is a very complex one. It is, however, extremely time consuming. Although scenario writing is a formal procedure it is still speculative in nature since it aims to predict the future of an organization thus aiding the strategic planning process. The exercise can be conducted over a fairly lengthy time period (say two weeks) for its participants have to prepare a written report explaining their view of the future. The participants will be experts of the various functions of the organization. The benefits of bringing together experts from various functions enable an integrated vision of the future to be examined with documentary evidence to support each argument. An awareness of the future environment (internal and external) and the change which may take place in it will provoke more creative responses to current situations.

b) Scenario daydreaming: Like scenario writing, this method also looks into the future and tries to assess the impact that trends will have on the organization. It is, however, less formal in its approach and it is not the custom and practice to produce a report. It is usual for the entire process to take up only a couple of days and is an ideal activity for an 'away day' venue, provided there are at least two away days available. Scenario daydreamers are not expected to substantiate their contributions. The purpose is to stimulate people's imaginations to think in the broader context and to consider more unusual ideas. A good group size is 8–10 people, but of course much depends on the size of the organization and the complexity of its business. Again there is a leader or facilitator whose role it is to plan the sessions in detail, advise on the selection of participants, brief the participants about the sessions, lead the sessions and help summarize the conclusions which are reached. Minutes of the session also need to be taken by someone. The procedure for the session is summarized as: - • preparation; • the natures of the proceedings are explained; • the scenario daydreaming session.

6.10 SWOT ANALYSIS AND THE TOWS MATRIX

SWOT analysis is a technique specifically designed to help with the identification of suitable business strategies for an organization to follow. It involves specifying and relating together organizational strengths and weaknesses and environmental opportunities and threats. In practice this is often an activity that is not carried out well. It is all too easy, having identified all the important points, not to know what to do with the data generated. Although intended as a mechanism to explain strategy rather than to facilitate its generation, the TOWS matrix (Weihrich, 1982) presents a mechanism for facilitating linkages and presents a framework for identifying and formulating strategies.

Implementing the TOWS matrix requires that the following steps are carried out: -

- Pin-point and assess the impact of environmental factors: economic, political, demographic, products and technology, market and competition on the organization.
- Make a prognosis about the future.
- Undertake an assessment of 'strengths and weaknesses' in terms of management and organization, operations, finance and marketing.
- Develop strategy options. Working systematically through this process enables internal and external factors to be entered on a grid and different combinations to be studied.

For example, the entry to one cell of the grid could involve maximizing opportunities and maximizing strengths. This would amount to putting together, at least one strength and one opportunity to produce a strategy that capitalizes upon this combination.

6.11 SELF CHECK EXERCISE

1. Define Business Environment.
2. Define Mass Market.
3. Define Career Couples.
4. Write a short-note on Economic cycle.
5. Discuss in brief about Green Marketing.
6. What is scenario writing? Discuss in brief.
7. Define SWOT Analysis.

6.12 SUMMARY

Business organisation has to interact and transact with its environment. Hence, both the business and environment are totally interrelated and mutually interdependent. Business environment refers to those aspects of the surroundings business enterprise, which affect or influence its operations and determine its effectiveness. The business environment is always changing and is uncertain. It is because of dynamism of environment. As it is already said that the business environment is the sum of all the factors outside the control of management of a company, the factor, which are constantly changing, and they carry with them both opportunities and risks or uncertainties which can, make or mark the future of business. Business environment encompasses all those factors that affect a company's operations and includes customers, competitors, stakeholders, suppliers, industry trends, regulations other government activities, social and economic factors and technological developments. Thus, business environment refers to the external environment and includes all factors outside the firm, which lead to opportunities and threats of a firm.

6.13 GLOSSARY

- **Business environment** means all of the internal and external factors that affect how the company functions including employees, customers, management, supply and demand and **business** regulations.

- **Dual career couples are** families in which both heads of households pursue careers and at the same time maintain a family life together. Both have high degree of commitment to their career.
- **Inflation** is an economic term that refers to an environment of generally rising prices of goods and services within a particular economy.
- **Mass-market** retailers sell large quantities of a wide variety of consumer goods. The products are generally cheap and offered at a discount, due to the retailer's bulk purchasing power. Examples of mass-market retailers include Target, Walmart, and Best Buy.
- **SWOT** stands for Strengths, Weaknesses, Opportunities, and Threats. Strengths and weaknesses are internal to your company—things that you have some control over and can change. **Examples** include who is on your team, your patents and intellectual property, and your location.

6.14 ANSWERS TO SELF CHECK EXERCISE

1. For answer of question number 1 refer to section 6.1.
2. For answer of question number 2 refer to section 6.2.
3. For answer of question number 3 refer to section 6.3.
4. For answer of question number 4 refer to section 6.4.
5. For answer of question number 5 refer to section 6.5.
6. For answer of question number 6 refer to section 6.9.
7. For answer of question number 7 refer to section 6.10.

6.15 TERMINAL QUESTIONS

1. Elaborate the impact of changing nature of social and cultural aspects of consumers on business organisation.
2. Define Economic Cycle. Discuss its various stages with the help of suitable examples.
3. How technology acts as a major driving force for change? Discuss.
4. Elaborate Legal environment and its influence on marketing activities of an organisation.

5. What do you understand by TOWS Analysis? Discuss its significance and objectives.

6.16 SUGGESTED READINGS

- Carvens, D. W., Strategic Marketing Homewood Illiois, Richard D.?Irwin
- Kayank E. and Savitt R., Comparative Marketing Systems, New York, Praegar.
- Kotler Phillip, Marketing Management: Analysis, Planning, Implementation
- Porter, M. E., Competitive Advantage: Creating Sustaining Superior Performance, New York, Free Press.
- Porter, M. E., Competitive Strategy: Techniques for Analysing Industries Competitors, New York, Free Press.

LESSON-7

CUSTOMER IN THE MARKET PLACE

STRUCTURE

7.0 LEARNING OBJECTIVE
7.1 INTRODUCTION
7.2 MODELS OF CONSUMER BEHAVIOUR
7.3 FACTORS INFLUENCING CONSUMER BEHAVIOUR
7.4 BUYER CHARACTERISTICS
7.5 POST-MODERNISM IN CONSUMER BEHAVIOUR
7.6 SOCIETAL MARKETING AND CONSUMER BEHAVIOUR
7.7 ORGANIZATIONAL BUYING DECISIONS
7.8 ROLE FOR MARKET RESEARCH
7.9 CUSTOMER MARKET RESEARCH
7.10 NATURE OF MARKETING RESEARCH
7.11 THE PROCESS OF RESEARCH
7.12 SELF CHECK EXERCISE
7.13 SUMMARY
7.14 GLOSSARY
7.15 ANSWERS TO SELF CHECK EXERCISE
7.16 TERMINAL QUESTIONS
7.17 SUGGESTED READINGS

7.0 LEARNING OBJECTIVE

After studying this chapter you should able to understand:

- The concept of consumerism and who is a consumer.
- About the various strategies to be adopted to convince your customer
- The concept of market research that why business organisations are investing huge amount of money for this.

7.1 INTRODUCTION

The markets that are seen through strategic windows are not abstract concepts—they contain people. In order to understand how changes in the market occur, not only does an organization have to understand the broader issues in the business environment and the views of the market perceived by competitors, but it also has to understand the buying behaviour of the people themselves. In studying buyer behaviour, a distinction is made between complex decision-making situations and those in which little consideration is given to the purchase being made. Where a product is relatively expensive and possibly technologically complex, prospective purchasers often go through a complex search and evaluation process prior to making a purchase.

Various models of consumer behaviour have been developed over the years. The models reflect the different buying situations in which consumers find themselves. Factors influencing consumer behaviour must be considered as well as similar factors influencing the buying decisions in business to business transactions. An understanding of these factors and how they influence the buying decision are extremely important when putting together a selling strategy. Market research also plays an important part in helping to identify relevant facts about buyer behaviour (consumer or organizational) and provides all kinds of information which forms the basis of strategy formulation.

7.2 MODELS OF CONSUMER BEHAVIOUR

The marketing strategist needs to appreciate that consumer's approach the purchase of different goods in different ways. The approaches taken have been thoroughly investigated and a number of situations have been identified. Four main purchase situations are considered here: -

- Habitual purchases
- Limited decision making
- Impulse buying
- Complex buying decisions.

Habitual purchases: Frequently purchased items at the supermarket are often purchased out of habit and consumers do not undertake an extensive search for information nor do they engage in extensive evaluation prior to making a purchase. Consumers search for clues as to what the product is like. Colour of the packaging, for example, may be perceived by consumers to imply a given level of quality. Clearly, the marketing strategist has to discover the nature of these cues and ascertain the best way of making the product stand out on the shelves vis-à-vis competing products. Repeated use of a product raises the confidence people have in using certain cues and scanning becomes cursory in nature. Cues can stem from the product itself (intrinsic cues)—taste, texture, etc.—or can be produced by other attributes than the product (extrinsic cues)—brand name, packaging, advertising, etc.

People develop confidence in the reliability of certain cues and learn to choose with the help of extrinsic cues. The manner in which consumers organize their perceptions helps to compensate for their limited information processing ability. To facilitate their own understanding of several competing brands consumers may categorize them according to several characteristics along a few dimensions.

7.3 MAJOR FACTORS INFLUENCING CONSUMER BEHAVIOUR

In order to be able to function effectively in the market place firms need to know: -

- Who constitutes the market?
- What does the market buy?
- Why does the market buy?
- Who participates in the buying?
- How does the market buy?
- When does the market buy?
- Where does the market buy?

Kotler (1988) confronted by a new brand, consumers will consider its likeness to each one of their mental categories and then judge its probable characteristics.

a) Price and sales promotion: These are the key marketing variables for marketing strategists to use in such circumstances. Impulse buying Impulse buying for many people may well be the main method of purchasing and it can create emotional friction in the mind of the consumer. This happens frequently where the price of goods is substantial relative to the purchaser's resources. The main task for the marketing strategist here is to allay cognitive dissonance. This may be achieved through advertising which is intended to specifically reassure purchasers that they have made a sensible choice in purchasing the product concerned.

b) Limited decision making: Consumers engage in this form of pre-purchase activity when they buy products only occasionally and when information is required regarding an unfamiliar brand. People spend a moderate amount of time gathering information and deliberating upon it prior to making a purchase.

c) Complex buying decisions: Many people have studied consumer behaviour and a five-stage model of the buying process has been distilled from these researches. The implication is that consumers actually pass through all the stages in buying a product or service. In actual fact, of course, as we have seen in the case of habitual purchases, this is not necessarily the case. However, it is a useful framework from within which to view the purchase of many of the more expensive types of durable products and services.

d) Problem recognition: First the prospective purchaser has to experience a need to buy a certain product, for example, a new hi-fi system. The need can be triggered by a variety of things, for instance the unsatisfactory performance of the current hi-fi system or the fact that a neighbour has bought a new one. The marketing strategist needs to identify the factors which give rise to the recognition of the problem and use these to advantage in marketing communications about the particular product, service or brand.

e) Information search: Once the problem has been recognized, prospective purchasers search for information about the product in question. A person who has recognized a need for a new hi-fi system, for example, may scan many hi-fi magazines for information on what is available and at what price. This scanning helps to identify locations where the products or service may be purchased and the intending buyer may well visit these locations to obtain more information and possibly to listen to a number of different hi-fi systems. The amount of search undertaken varies with individuals, the amount of time available and the availability of suitable products and services. From the marketer's point of view, key interest is shown in the sources of information that the prospective purchaser will consult and the kind of information which is likely to sway the consumer into buying one particular brand over another.

f) Evaluation of options: There is an assumption that consumers make decisions on a conscious or rational basis, but this may not necessarily always be true. However, assuming a rational model of consumer choice, the process would seem to take account of the following: -

- Products are thought of as a bundle of attributes, e.g. bicycle: lightweight/ heavy-weight, sports/touring, etc.
- Relevant attributes vary from one product or service to another, e.g. size and speed are important with cameras whereas the variety and container are emphasized in the case of chocolates.
- Some product attributes are more important to consumers than others, e.g. dependability and convenience may be considered more important than price when considering a business trip or an airline.
- The degree of importance of different product attributes to different consumer groups can form the basis of market segmentation, e.g. fast, courteous service at a restaurant.
- Consumers develop beliefs about products with respect to their various attributes—this forms a brand image, e.g. Volvo cars are safe.
- Consumers have utility functions with respect to each one of the attributes. Product/service satisfaction varies according to the fit between the product's performance on the attribute and the consumer's expectations, e.g. a small car's petrol consumption is satisfactory provided that it is more than 10km per liter.
- Attitudes towards brands are formed through the process of evaluation. Marketing strategists need to understand what criteria consumers use to evaluate their products and services.
- Change the product so that it fits with consumer expectations.
- Change people's beliefs about the product or service.
- Change people's beliefs about competing brands and demonstrate that they are no better than the company's brand.

- Change people's perceptions of the importance of different brand attributes—if the product is considered weak on one attribute then the marketer could play down the importance of this attribute and stress the importance of others.
- Move the consumer's perception of what comprises an ideal product more in the direction of the existing brand's profile of attributes.

g) **Purchase decision**: The attitudes of other people often influence intending purchasers. Other factors may also arise which prevent the purchase intention being put into practice. Unfortunately, the marketer of the product can do little to counter these problems unless they make a thorough study of the likely sources of influence. This is clearly a job for marketing research provided that it is feasible and cost effective to study the sources of influence involved.

h) **Post-purchase behaviour**: Post-purchase cognitive dissonance is often experienced by consumers after making a relatively expensive purchase. There is a tendency to ask oneself whether one has done the right thing in making the purchase or whether one would have been better off to have purchased a different brand, product or service altogether. Consumers need to be reassured. If the marketer has exaggerated the benefits of the product then the consumer will more than likely experience dissatisfaction. This in turn can lead to poor word of mouth communication about the product to the consumer's circle of friends, relations and acquaintances.

i) **Environmental factors:** A consumer goods market comprises all individuals or households purchasing goods or acquiring goods or services for personal consumption.

Each market can be subdivided into 'sub-markets' or 'segments' each one of which could be regarded as a 'market' in its own right. There are many different ways in which 'sub-markets' or 'segments' can be defined. Markets can be defined in geographic terms, but there is usually so much variation in terms of purchase behaviour within markets defined in this way that further segmentation is often required. The purchasing behaviour of individuals and groups within a market reflects different consumer characteristics, buying power, and wants and needs. Consumers vary considerably from one region of a country to another in terms of age, income, educational level, mobility patterns and taste. Moreover, climatic conditions vary substantially in different countries.

However, it is possible to distinguish groups of consumers who have much in common with respect to wants and needs. As is indicated above, these groups make up market segments and marketing strategists need to develop products and services to serve the needs of these market segments.

i) **Situational factors:** The time available to make a purchase often plays an important role in determining what is purchased. For example, a last minute purchase of a book to read on an air journey may involve very little consideration of what alternatives are available and one may simply take the first reasonably appealing front cover that one sees. Even substantial purchases like houses and cars can be subjected to the influence of time pressures. If one has already sold one's house and has to move out quickly, but the new house one had previously chosen has been bought by another buyer in the meantime, the time to search for an alternative may be very limited. Apart from time, there are several other situational factors that may influence purchases.

For example, fear of unemployment may force would be buyers of expensive domestic appliances to postpone their decisions, or inclement weather may create an unseasonal demand for waterproof clothing.

j) **Level of involvement:** Highly priced goods that are visible to others often cause consumers to undertake considerable search for information before affecting a purchase. Such goods are known as high involvement goods. Clothing, furniture, cars and houses are products which fall readily into this category. Curiously, the degree of involvement for the same products may vary across people.

Some people, for example, undertake an extensive search when purchasing a birthday card for a particular person. Another person buying a birthday card for the same person may undertake very little search. Nor is this necessarily just a function of the relationship that each person has with the recipient of the card. One person may simply put less value on the card than the other.

7.4 BUYER CHARACTERISTICS:

A) PSYCHOLOGICAL FACTORS INFLUENCING THE BUYING DECISION PROCESS

No two individuals are entirely alike in their behaviour and individual psychological processes intervene. People do not see the same event in exactly the same way. People differ in their perceptual processes of selective attention, selective distortion and selective retention. Selective attention implies that people only pay attention to a small proportion of what is going on around them all the time. For example, when going about their daily work it is quite possible that they are exposed to hundreds of advertising messages but only actually 'perceive' a few of them. In all probability, people would screen out all of them except for the odd one or two which are in some way related to their current thoughts. Certainly, it is quite possible that they would be unable to recall any of them! The real test for the advertiser is to present messages in such a way that people will pay attention to them. Selective distortion refers to how people assimilate incoming information so that it fits in with their preconceptions. It is possible, for example, that in showing horrific accidents resulting from drink driving, people will not take notice of it because they feel that they cannot relate themselves to such a situation. For instance, they might assume that horrific accidents only really happen to people who are habitually very drunk.

Motivations Marketers need to know what motivates people to buy particular brands or services. Given this information it may be possible to gain a competitive advantage in the design and/or marketing of a product. This can be done through persuading consumers that a product is better able to satisfy their wants and needs on account of the benefits it offers. There are various theories of motivation; two of the most important, as far as marketing is concerned, were put forward by Freud and Maslow respectively.

Freud suggested that people may be influenced at an unconscious level. Thus it may not be possible to get people to talk rationally about why they make certain purchases. Freud makes us aware of these veiled motivations. As a consequence, different methods of research have been developed to get at these hidden kinds of motives.

Maslow suggested that human needs are ordered in a hierarchy of importance. The most important needs are those to do with physiological needs, whereas the least important ones are to do with self actualization. Maslow contended that people would not seek to satisfy the less important needs until the more important ones were satisfied. This theory helps us to clarify how various products may fit in with people's purchase plans.

For example, a person may consider buying a home before purchasing a motor car. A householder who has a car, a refrigerator, cooker, freezer, telephone and washing machine may next be interested in purchasing a dishwasher.

a) **Learning**: Most human behaviour is acquired as the result of learning from experience. This also applies to the purchase of goods and services and so learning is perhaps the most important factor underpinning consumer behaviour. Drives, stimuli, cues and responses and reinforcement are the key elements of learning. A **drive** is a force inside people that pushes them towards certain actions. Drives become motives when they are directed specifically towards a stimulus which will reduce the drive. Cues are minor **stimuli** which establish when, where and how a person will respond. Marketers build up demand for a product or service by linking it with strong drives, using cues to motivate people and providing positive reinforcement to people who respond. In effect, this is really the whole basis of the marketing concept. Marketers seek to identify unsatisfied customer wants and needs (where there is a strong drive which is not fulfilled). The firm provides the product or service (stimulus) together with appropriate promotional messages (cues). The consumer responds by purchasing the product and the marketer follows this up with after-sales service or promotional messages to reinforce the fact that the consumer has made a good choice.

b) **Beliefs and attitudes**: People have beliefs and attitudes which affect their purchasing behaviour. Brand images are related to the beliefs and attitudes of people and as a result of these images, people make purchase decisions.

c) **Attitudes** are associated with the way in which people behave and act. Marketing communications tries to inform customers that a product or service meets with their attitudes or corrects mistaken beliefs about a product or service.

d) **Personality:** A person's life-style is an expression of an individual's personality. Some people may have a life-style which people might describe as being avant-garde. Other people may be described as conservative, and yet others as liberal-minded. Marketers have to look for relationships between their products and life-style groups that they can identify. They can then link this to images they wish to portray through marketing communication vehicles.

e) Life-style: Life-style that different occupations engender is thought to influence actual buying behaviour. There have been many different attempts to use life-style classification systems in market segmentation studies. Taylor Nelson's Applied Futures typology, which is used widely in marketing research and for segmentation purposes, has types of life-style ranging from the belonger, who places great store in home, family, country, the establishment, etc. to the aimless who is uninvolved and alienated and is aggressive towards the system and resentful of its failure to provide employment. The life-style approach usually involves presenting respondents with a series of statements and asking for their degree of agreement with each (Likert scale). Such life-style data is then cluster analysed to produce groupings in terms of activities, interests and opinions. As indicated above, a name or type is then attributed to each grouping. If we can identify a group which corresponds to a market segment or sub-segment of the market for a product or service, appropriate features can be built into the product or service that will appeal to this segment. In addition, a promotional message that is congruent with the segment's lifestyle can be developed.

B) SOCIAL FACTORS INFLUENCING THE BUYING DECISION PROCESS

Social factors exert an influence on the purchase behaviour of consumers. Several people may have a part to play in making a purchase. For example, in talking with friends, someone may prompt us into deciding that it is time we did something about buying a new house. Someone else suggests that we should visit a new estate where some individualistic houses are being built. Finally, we decide to buy a new house on the estate in question. Each one of the persons, including ourselves, has played a role in the decision-making process. A friend was the initiator, another friend the influencer and we were the decider, buyer and actual user. A firm needs to be aware of the different influences since they have implications for the various marketing communications that have to be made.

Roles and status symbols People often buy products that relate to or reflect their role and status. Status symbols vary for different social groupings and it is the job of the marketer to recognize what the status symbols are for different groups of people. Family influence Perhaps the strongest reference group which influences consumer behaviour is the family. As a consequence, marketers are interested in the roles and relative influence of the various members of a family in the purchase of a large variety of products and services. Traditionally, the wife or female partner in a family has tended to purchase the weekly shopping and buy small value items. Nevertheless, where there are children in a family the children may exert considerable influence over what is actually purchased during a trip to the supermarket.

In the case of expensive items there is generally joint decision making. The marketer’s main task is to identify which member of the family has the greatest influence in choosing various products.

Roles in the purchase decision-making process: Age and life cycle People pass through various stages in their life cycles. People have different life cycles according to whether or not they decide to establish a family unit. The life cycle concept, assuming that people decide to build a family unit. Different buying patterns are exhibited at every stage in the life cycle. The major weaknesses of the concept include the exclusion of those couples who never have children, lack of account taken of one parent families, undue emphasis on the age of children and the changing role of the father/husband but not of the mother/wife. The concepts here have been extended and applied in practical market analysis programmes such as Sagacity, which combines an abbreviated version of the family life cycle with income and occupation. Reference groups Reference groups are made up of people who directly or indirectly influence a person’s attitudes or behaviours. Teenagers, for example, may be influenced by a pop-star cult. Marketers try to identify the reference groups of their target customers and make use of opinions reflected by such groups in their marketing communications.

Social class: Social class reflects societal stratification. Members of a social class have similar values and attitudes in common. These are different to those of members of other social classes. The identification of the social class to which a person belongs can be a rather involved business but in general it is based upon the recognition of such points as job, pay, wealth, education and value orientation. Research appears to indicate that social classes have distinct product and brand preferences in areas such as clothing, leisure activities, home furnishings and motor cars. There are also signs that social classes have leanings with respect to media preferences. Lower classes show a preference for television whereas upper classes favour magazines and journals. Moreover, within the media division itself, such as TV, we find upper classes favouring news and drama whereas lower classes like soap operas and quiz shows.

Social background: People's social background is reflected in their culture. Culture consists of values, perceptions, preferences and behaviours. Although many western societies put value on achievement, success and materialism which is good for the sale of goods and services which enable consumers to demonstrate their success and achievement through the kinds of products which they purchase, other societies have a somewhat different set of values. Materialism is not altogether absent in these other cultures but it has not been as prominent as it is in Europe and the US. Much of what is revered in western societies is not generally revered in such countries.

Nevertheless, we live in a changing world and there are signs of some western artefacts being adopted in countries which have hitherto been slow to show an interest in western ideas, values and goods. Sub-culture reflects nationality groups, religious groups, racial groups and geographic areas. One can observe its effects in the way consumers form preferences or tastes. Promising material success may sell some products but there is also a 'market' for what is apparently anti-materialist. One of the most rapidly developing business sectors at the present time is the occult 'mind and spirit' sector with its crystals, UFOs, alternative medicines and meditation. These are profit oriented businesses despite the image of ant materialism.

7.5 POST-MODERNISM IN CONSUMER BEHAVIOUR

One of the central themes of post-modernism relevant to marketing concern consumer's behaviour. In the 21st century, organizations operating in developed countries are supposedly dealing with well educated and informed audiences. More to the point is that many consumers, irrespective of their level of educational attainment, are informed and well able to judge the merits of the variety of products and services and the advertising messages that accompany them. Moreover, in what today are comparatively affluent societies even by standards of 30 years ago, consumer choice has burgeoned and lessened the scope for market suppliers to dictate what consumers should buy. The consumers' main choice at the beginning of the 21st century is one of how to spend their money or wealth. Brand choice will always exist when consumers finally make up their minds how to spend their money but it is persuading people to make up their minds in the first place that is now one of the predominant issues. Presented with a large variety of choices, consumers are beginning to question what they really want. In many cases, consumers may not really know what they want, but only how to reject the unwanted alternatives. Postmodern marketing has five key features according to Firat and Venkatesh (1995) which may serve to underpin and facilitate the process of exchange. These features are: -

- Hyper reality
- Fragmentation
- Reversed production and consumption
- Decentred subjects
- Juxtaposition of opposites.

7.6 SOCIETAL MARKETING AND CONSUMER BEHAVIOUR

Many firms are blending communications activities with public purpose marketing or enlightened capitalism with their economic marketing strategies (Handelman and Arnold, 1999). Such marketing practices are indicative of firms starting to practice, for economic reasons, corporate social responsibility (Brown and Dacin, 1997). Moreover, the emphasis on consumerism and an increasing awareness of environmental and ethical issues all have their implications for marketing strategists. The fact that business depends on reputation and image as much as upon products, services or pricing suggests that firms must not ignore social responsibility.

7.7 ORGANIZATIONAL BUYING DECISIONS

Organizational buyers are those purchasing goods and services for some tangibly productive and commercially meaningful purpose. They purchase on behalf of organizations operating across a wide spectrum of markets. Organizational buyers operate in: -

- Producer markets: These are profit-making businesses that purchase products and services and use them to make other products. These include raw materials, components, semi-finished and finished goods manufacturers.
- Reseller markets: These consist of distributors such as wholesalers and retailers who buy finished goods for resale.
- Government markets: These comprise national and local governments seeking to provide the public with education, water, energy, national defence, road systems and health care.
- Institutional markets: These are often organizations that seek to achieve the charitable, educational, community or other non-business goals that make up institutional markets. They include churches, some hospitals, libraries, museums, universities and charitable organizations. Demand for industrial goods is derived from the demand for consumer goods.

Models of business to business buying behaviour: In the same way there are models of the consumer decision-making process there are also models of the business to business buying behaviour process. Robinson et al. (1967) identified eight buying phases in the buying process: -• problem recognition; • proposal solicitation; • general need description; • supplier selection; • product specification; • order-routine specification; • supplier's search; and • performance review.

The model fits well where a product or service is being bought for the first time, but appears to be less applicable in other situations. Organizational buyer behaviour is a complex process. Although the job of buyer may exist in a firm, there may be many people concerned in the purchase decisions. Marketers have to identify the various roles played and then influence the various actors in the decision-making process. Influences on organizational buying decisions Industrial goods are bought by organizational buyers. In reality, however, more people actually influence business buying decisions than consumer buying decisions. Indeed there may be a buying committee consisting of technical experts and senior management personnel. These are often found in the purchase of relatively expensive industrial goods. Even if this is not the case, the same people may be involved or consulted in the course of making buying decisions.

Webster and Wind (1972) provide a detailed account of the various influences on industrial buyers. Industrial buyers respond to both rational economic and personal appeals when participating in buying decisions. There are various influences on industrial buyers and these may be classified as follows: -

- Environmental—economic recessions and resurgence, technological developments, legal constraints, competitive activities, etc.
- Organizational—reflecting objectives, procedures, structures and systems
- Interpersonal—arising from status differences between people associated with the purchasing decision
- Individual—associated with the age, income, education, job position, personality and attitude to risk of the buyer.

Generally, such purchases are made less frequently than consumer goods sales. The contract regarding the terms of sale of such items is often a long-term agreement requiring re-negotiation from time to time. In addition, purchasing decisions are often made by a committee and several people or departments in the organization will be involved in the negotiations. Attributes of organizational buyers: Some organizational buyers simply place orders. People occupying these jobs require little or no skill. More often, however, the importance that organizations give to the role of the buyer is much greater and the buyer needs to know all about the products and services on offer. Indeed, some buyers often have a great deal of autonomy in the extent to which they can purchase on behalf of the organization. Buyers are also proactive rather than reactive and watch out for information which can enable them to make better purchase decisions. The primary concerns of organizational buyers are: -• delivery; • service; • price.

7.8 ROLE FOR MARKET RESEARCH

Customer or market research can produce quantitative facts about particular markets and market segments. For example, the size of the market both in terms of unit sales and value. When these data are collected over time it allows one to identify trends and helps to predict future sales. It can also provide information on where customers are located, their spending patterns, earnings and creditworthiness. It can also explain why customers prefer one brand to another and what price they are willing to pay for a brand. Market research can also provide information about market share of all the firms operating in a market or market segment. Firms undertake marketing research to help identify why people buy or do not buy products and services. It also provides information for making marketing mix decisions (pricing, product, distribution and promotion). Research can be undertaken both in-house and by specialist marketing research companies. Where the latter are involved, research can be tailor-made.

7.9 CUSTOMER MARKET RESEARCH

Customer market research provides information on: -

- market and market segment sizes
- trends in the market which can be used for forecasting
- brand shares
- customer characteristics and motivations
- competitors' brands' shares to a client's requirements or bought 'off the peg' if a suitable omnibus research report is available.

There are a variety of other sources which provide research data that are useful to companies. These include trade associations and government departments. The research process involves: problem definition, consulting company records and published data sources, deciding whether field work is required and if so what is the best research method, specifying the location and size/ type of sample, collecting the data, analysing the data, evaluating the results and setting down recommendations for action.

Various methods are used in marketing research including surveys, experiments and observational methods. Since virtually all research involves working with sample data, a key aspect of research concerns how the sample is taken from the population.

Quota sampling and simple random sampling methods are widely used in practice. The bulk of marketing research carried out is actually market research which relies very much on survey methods.

Questionnaire design and analysis along with sampling are key aspects of survey methods. There are costs and risks involved in undertaking research. The implications of these have to be fully appreciated before entering into research.

7.10 NATURE OF MARKETING RESEARCH

Marketing research uncovers facts about both buyers and non-buyers of products. It involves ascertaining the nature of wants and needs and assessing the current and potential demand for products and services. Information can help to reduce the element of uncertainty and guesswork in making marketing decisions. For instance, information on income levels and customer perceptions of a fair price can be used to advantage in setting prices. The sources of information are of two varieties—company records and outside sources.

- **Company records**: Firms have useful marketing information filed away in their internal company records. These include customer sales records, sales persons' reports and correspondence with individual customers. In addition, there are the company's own sales statistics and competitive information gleaned from a variety of sources.
- **Outside sources of information:** Sources include trade associations which produce reports, surveys and other statistics for companies which belong to the association. Independently published reports and surveys on specific markets are also produced by organizations such as Mintel and the Economist Intelligence Unit. Other sources of useful information include government statistics (census data, family expenditure surveys, national income statistics, etc.) and company reports and accounts of competitors. The latter provide insightful information about competitors' future strategies and plans and can be obtained from Companies House in London.

a) Marketing research services: Management consultants can help with strategy formulation and advice on marketing problems. Such firms will survey the market to measure consumer attitudes or identify consumer wants and needs. In addition, because of the wealth of knowledge that they have accumulated, they are able to offer expert advice on marketing strategy. The companies undertake research on behalf of clients and also carry out omnibus surveys. These cover a wide range of products and services and probe into people's attitudes and opinions about the products and other related matters. Information obtained in these surveys is sold to client companies on request.

Omnibus surveys contain both relevant and irrelevant information as far as client companies are concerned. This means that although they are comparatively cheap to obtain, their value is somewhat limited. Specific surveys relating to a company's products and those of its competitors may also be commissioned and in this case the results are made known only to the clients sponsoring the research. However, the latter kinds of surveys are more expensive than the omnibus surveys.

7.11 THE PROCESS OF RESEARCH

Research is carried out systematically to ensure that problems are dealt with properly and that nothing is overlooked. There are a number of stages to the research process. These are: -• problem definition; • consulting company records and published data sources; • deciding whether field work is required and if so what the best research method is; • specifying the location and size/type of sample; • collecting the data; • analysing the data; • evaluating the results; • setting down recommendations for action.

The first stage in the research process is problem definition. This is an initial statement of the research objectives. Research objectives are usually to provide information on people: - • opinions; • knowledge; • attitudes; • behaviour; • beliefs; • social background; and • intentions.

The best method of analysing data varies according to the kind of study that has been undertaken and the kind of data that have been obtained. The application of data analysis to data which have been collected by survey research and the same methods will sometimes be applicable to both observational and experimental research and there may also be other forms of data analysis which can be used on survey data which are not covered here. Readers interested in a comprehensive review of data analysis methods in marketing research should consult a specialized text.

7.12 SELF CHECK EXERCISE

1. Write a short-note on habitual purchases.
2. Discuss in brief about Post-purchase behaviour.

3. Define Drive.
4. Write a short-note on Social factors influencing the consumer's buying decision.
5. Define reseller markets.
6. Discuss in brief the research process.

7.13 SUMMARY

Consumers are the basic economic entities of an economy. All the consumers consume goods and services directly and indirectly to maximise satisfaction and utility. Consumers have limited income and by which they want to satisfy their maximum utility (utility is the want satisfying capacity of a commodity). Generally, consumer means an individual only; however, consumers will consist of a particular individual, a group of individuals, institutions etc. Consumers are the main source of demand for all the goods. The producers of industrial goods or the producers of agricultural products are all producing the various items according to the demand in the market. According to Prof. Marshall, it is the demand which controls the production or market. Hence, the consumers create demand in the market and producers produce goods or services accordingly.

7.14 GLOSSARY

- **Buyers** are the people who determine what products get to store shelves, in catalogues, and online. They do the footwork, the research and create the deals to buy large quantities of products for their companies, and then sell them to customers, or use them to create new materials that they then sell to customers.
- **Consumer** is a person that buys a good for consumption. They don't buy goods to sell them again. The consumer is a person who pays money needed to buy goods and services produced. Consumers are important in the economic system of a country. Without consumer demand, producers don't have a reason to produce.
- **Consumer behaviour** is the study of how individual customers, groups or organizations select, buy, use, and dispose ideas, goods, and services to satisfy their needs and wants. The study of consumer behaviour assumes that the consumers are actors in the marketplace.

- **Market** is any place where sellers of particular goods or services can meet with buyers of those goods and services. It creates the potential for a transaction to take place. The buyers must have something they can offer in exchange for the product to create a successful transaction.
- **Market research** is the process of determining the viability of a new service or product through research conducted directly with potential customers. Market research allows a company to discover the target market and get opinions and other feedback from consumers about their interest in the product or service.

7.15 ANSWERS TO SELF CHECK EXERCISE

1. For answer of question number 1 refer to section 7.2.
2. For answer of question number 2 refer to section 7.3.
3. For answer of question number 3 refer to section 7.4(A(a)).
4. For answer of question number 4 refer to section 7.4 (B).
5. For answer of question number 5 refer to section 7.7.
6. For answer of question number 6 refer to section 7.11.

7.16 TERMINAL QUESTIONS

1. Discuss the major factors influence consumer behaviour.
2. How psychological factors influence consumer buying decisions? Discuss.
3. Discuss the role of market research in analysing consumer behaviour.
4. Discuss the nature and objectives of marketing research.

7.17 SUGGESTED READINGS

- Carvens, D. W., Strategic Marketing Homewood Illiois, Richard D.?Irwin
- Kayank E. and Savitt R., Comparative Marketing Systems, New York, Praegar.
- Kotler Phillip, Marketing Management: Analysis, Planning, Implementation
- Porter, M. E., Competitive Advantage: Creating Sustaining Superior Performance, New York, Free Press.
- Porter, M. E., Competitive Strategy: Techniques for Analysing Industries Competitors, New York, Free Press.

LESSON-8

COMPETITIVE ADVANTAGE

STRUCTURE

8.0 LEARNING OBJECTIVE
8.1 INTRODUCTION
8.2 COMPETITIVE ADVANTAGE SHOULD BE MARKET LED
8.3 CORE COMPETENCIES AND COMPETITIVE ADVANTAGE
8.4 STRATEGIC INTENT
8.5 SOURCES OF COMPETITIVE ADVANTAGE
8.6 GENERIC STRATEGIES
8.7 FOCUS STRATEGIES
8.8 SELF CHECK EXERCISE
8.9 SUMMARY
8.10 GLOSSARY
8.11 ANSWERS TO SELF CHECK EXERCISE
8.12 TERMINAL QUESTIONS
8.13 SUGGESTED READINGS

8.0 LEARNING OBJECTIVE

After studying this lesson you will understand: -

- The importance of competitive advantage and generic strategies.
- To cope with the various problems faced by you while running your organisation
- How to become the market leader.

8.1 INTRODUCTION

Keeping the strategic window open involves maintaining a sustainable competitive advantage. In consequence, we argue that competitive advantage should be market led. Next we examine the nature of core competencies and interpret their importance as the basis of gaining a sustainable competitive advantage in the market place. Along with these core competencies are a number of generic strategies that an organization can seek to follow or implement. We will look at each of these generic strategies in turn. First we will look at low-cost, focus and pre-emptive strategies and differentiation strategies. The latter leads us to consider product and service quality, customer focus and relevant issues relating to brand management.

8.2 COMPETITIVE ADVANTAGE SHOULD BE MARKET LED

Some see the firm's outputs or offerings as the main focus of competitive strategy, with the primary aim of strategy being to compete effectively in particular markets by offering a competitive bundle of benefits, or value, to the consumer. It is the positioning of one firm's offering relative to another that is of prime importance An alternative view concentrates on the resources of the organization and maintains that superior resources, and processes, designed to utilize such resources efficiently, will lead to competitive advantage. Both approaches are not mutually exclusive and can be complementary. Indeed, such a view is in keeping with the view of keeping open the strategic window of opportunity.

8.3 CORE COMPETENCIES AND COMPETITIVE ADVANTAGE

Competitive advantage should be built on the basis of core competencies. Through the identification of its distinctive competencies and the relating of them to its core products, a firm can develop purposeful plans utilizing those capabilities. New capabilities can be acquired if required to achieve the greatest sustainable advantage. If a firm identifies its core competencies incorrectly this will result in the firm overlooking attractive opportunities and lead it to pursuing poor ones. In searching for a competitive advantage, businesses often develop capabilities in key functional. To be sustainable, these capabilities must be difficult to imitate and should support the organization's business strategy. Organizations that stress the development of key capabilities are better able to achieve and maintain a position of advantage despite turbulent environmental impacts on the business. The development of key marketing capabilities has been identified as one of the primary ways firms can achieve a competitive advantage.

In this context, firms must develop processes that allow them to collect information about market opportunities, develop goods and services to meet the needs of targeted customers in selected markets, price these products according to market information, communicate product advantages to potential customers and distribute products to customers. Organizational capabilities play an important part in achieving a competitive advantage. According to Grant (1996), an organizational capability is ‘a firm’s ability to perform repeatedly a productive task which relates either directly or indirectly to a firm’s capacity for creating value through effecting the transformation of inputs to outputs’. These capabilities come about through integration of the knowledge and skills of the firm’s employees. A marketing capability is developed when the firm’s marketing employees habitually apply their knowledge and skills to transforming marketing inputs to outputs. It requires combining intangible resources with tangible resources or assets.

In practice, marketing capabilities are the integrative processes designed to apply the collective knowledge, skills and resources of the firm to the market-related needs of the business, enabling the business to add value to its goods and services, adapt to market conditions, take advantage of market opportunities and meet competitive threats. Core competencies Selznick introduced the concept of ‘distinctive competence’ to explain how a particular business obtains a competitive advantage. Selznick’s argument was not entirely unique. Drucker developed a parallel theme of business leadership: a business must be the leader in something— it mattered not what that something was, so long as the customer genuinely wanted it and was prepared to pay for it. Prahalad and Hamel (1990) put forward the idea of ‘core competencies’ as the bedrock upon which to build strategies. This approach differed somewhat from the ideas of both Selznick and Drucker. It resulted from studies examining the way successful firms, mainly Japanese, appeared systematically to acquire and exploit combinations of fundamental technologies in order to develop generic or core products with which to dominate global markets. It is the core competencies which give the business a sustainable competitive advantage. Core competence is a combination of technological and managerial capabilities which provide the firm with a leadership position in the development of certain generic or core products.

A firm’s existing core competencies reflect the fundamental skills and knowledge behind its successful products. They may relate to world leadership in specific technologies or they may be related to particular organizational or managerial skills. Some examples are: -

- Benetton: fast cycle times through computer-aided, just-in-time manufacturing, rapid customer response, distinctive product aesthetic design.
- Toyota: fast cycle times.
- Honda: engines, power trains.
- Coca-Cola: brand strength, geographic spread.

The development of core competencies is the basis for producing a competitive advantage in achieving strategic intent. Acquiring and nurturing competencies which are not ‘core’ is wasteful of resources and effort and serves only to dissipate concentration. It is better to buy in non-core competencies and focus all internal efforts on the acquisition and development of what really matters. A firm’s capacity for competitive innovation reflects its ability to acquire relevant core competencies and to apply them effectively in the development of core products. Capability is infinite. It is not constrained by the competencies already possessed, nor by the resources available, but can be extended by the careful definition of the competencies required and the means of their acquisition and development. Missing competencies can be painstakingly developed internally through focused investment in R&D or acquired externally through various forms of collaborative arrangements. However, internal development is expensive and beyond the means of all but the largest organizations.

In an era when the diffusion of technology is rapid, the resultant competitive advantage may be short lived. Much new technology is not protectable and there is no real commercial benefit in being the holder of patents the essence of which are immediately copied by competitors. As Ouchi and Bolton (1988) suggest, internal development is not the best way to progress in areas where the intellectual property may be ‘leaky’. The strength of a business should not be seen in terms of a particular product, sector of the market or distribution channel, but in terms of the underlying capability to generate a range of rapidly evolving products or markets. The traditional rationale for structuring an organization as a collection of strategic business units, each with maximum autonomy, becomes questionable. Instead, the overriding requirement is for the development and acquisition of common strands of expertise which cut across products, markets and business units. This may lead to some apparently strange combinations of business activities.

8.4 STRATEGIC INTENT

Strategic intent concerns the direction in which a business is headed in the long term. If identified simply and succinctly it can have a profound effect on the firm’s stakeholders, both internal and external. Employees know what they are trying to achieve and therefore how they should make their greatest efforts; customers know what the firm’s products and services embody; suppliers understand what the key elements are when dealing with the firm. Przybylowicz and Faulkner (1993) argue that strategic intent creates a sense of urgency, requires competitor focus, searches for weaknesses in competitors’ positions that can provide competitive advantage if properly addressed, and is stable over time while remaining flexible as to the means used to achieve the intended goals. At Eastman Kodak Co., technology is managed with the help of core platforms, core competencies and competitive skills as the building blocks. Core competencies have to be leveraged across business unit boundaries in order to promote efficiency and effectiveness in research and development. The strategic intent process facilitates the attacking of horizontal market opportunities that might be missed in a business unit structure.

8.5 SOURCES OF COMPETITIVE ADVANTAGE

Skills specialized knowledge of market and needs customer service orientation design expertise applications experience trade relationships utilizing relevant technologies systems design capabilities ability to respond rapidly and with flexibility Resources coverage of distribution availability or access to capital business contacts low cost manufacturing and distribution systems production capability or capacity raw material ownership, knowledge or access to sources. Achieving market leadership and following the path of ‘strategic intent’ is not without dangers.

Prahalad and Hamel argue that market share leadership typically yields shareholder wealth. However, nearly all companies pursue market share, but few achieve exemplary performance for their shareholders. Moreover, Kontes and Mankins (1992) suggest that one of the weaknesses of the strategic intent proposition is the absence of an economic framework for making investment decisions. In following a strategy of global market leadership, it is assumed that competitors will not respond in ways that drive investment returns to or below the cost of capital. However, this does in fact often happen when all players try to lead all markets.

Strategic intent needs to be defined with precision and it also needs to be supported by indications of how fast the firm proposes to travel and how far. Thus milestones along the route need to be spelled out and progress at each stage monitored and the people involved rewarded according to progress. 'Become the leading world producer of photocopiers' is a statement of strategic direction which could be a powerful organizing and motivating concept. The strategic intent of 'beat Xerox' is still more powerful, focusing as it does on the major competitor and thus identifying standards to be beaten, or mechanisms to be avoided, right across every aspect of the business.

8.6 GENERIC STRATEGIES

Low-cost, focus and pre-emptive strategies Porter (1985) suggested the alternatives of a low-cost strategy, a differentiation strategy and a focused strategy. The low-cost strategy involves the sacrifice of some quality, fashion and even product innovation in order to keep costs low—the lowest in the industry. With this strategy there are sources of competitive advantage an assumption that the achievement of production economies of scale is a significant factor in success. This contrasts with a differentiation strategy which focuses on the factors ignored by the low-cost strategy such as product variety, quality and service, but again implicit is the notion that size matters to achieve successful differentiation. Smaller firms are advised to move towards strategies which target small sub-segments of the market to avoid competition with larger businesses for which these segments are too small and specialized to be of interest.

Variants on the Porter model exist, with some writers suggesting a more detailed categorization of options, but the notion of a set of generic strategies of this type among which choice must be made was the dominant strategic paradigm of the 1980s and early 1990s.

a) Low-cost strategies: Although there is a tendency to think of low-cost strategies as a single approach such as scale economies, low-cost labour, or production automation, it is important to recognize that there are many methods of obtaining a low-cost advantage. The successful low-cost firms are those that can harness multiple approaches. No frills product/service. A direct approach to low cost is simply to remove all frills and extras from a product or service. A major risk, especially in the service sector, is that competitors will add just a few features and position themselves against a no-frills firm. The goal is to generate a cost advantage that is sustainable for one of two reasons. First, competitors cannot easily stop offering services that their customers expect. Second, competitors' operations and facilities have been designed for such services and cannot easily be changed. A firm with an inherent cost advantage has a good chance of success with a no-frills approach.

b) Product design: A product's design or composition can create cost advantages. A variant is to augment a product with relatively high-margin accessories or extra features and thus provide a higher perceived value to customers. Product downsizing is another approach that can be helpful when price pressures inhibit alternatives. Cost advantages can also be achieved in other ways. Some of these include:

- obtaining good access to raw materials
- when a major cost component is distribution, the use of a different channel
- in some labour-intensive industries, access to inexpensive labour
- government subsidies or other special treatment
- the best retail locations are obtained by those who enter early into a market
- innovations in the production process, including automation
- Reduction of overheads: especially where there is a bloated work force.

c) Differentiation: A differentiation strategy is one where wide product ranges and higher quality products are offered for the convenience of customers as well as added services such as delivery, information services, etc. A differentiation strategy is one in which a product offering is different from that of one or more competitors in a way that is valued by the customers. The value added should affect customer choice and ultimate satisfaction. Most successful strategies that are not based entirely on a low-cost advantage will be differentiated in some way. There are many ways to differentiate by adding value. There might be something which can be done much better than competitors, or an extra product feature or service that can be included. Value can be added to any aspect of a business. A successful differentiation strategy should:-

- generate customer value
- provide perceived value
- be difficult to copy.

d) Generating value: A differentiation strategy needs to add value for the customer. A distinction is needed between apparent value and actual value. Too often a point of difference with apparent value is not valued by the customer. A key to a successful differentiation strategy is to develop the point of differentiation from the customer's perspective rather than from the perspective of the business operation. In particular, one needs to assess how the point of differentiation affects the customer's experience of buying and using the product.

e) Provide perceived value: The added value must be perceived by the customer. If that is not the case, the problem may be that the value added has not been communicated or at least not communicated effectively. Branding the added value is one way to make it more memorable, meaningful and believable. The perceived value problem is particularly acute when the customer is not capable of evaluating the added value. The task is to manage the signals or cues of value added. User associations and endorsements can help.

f) Difficult to copy: Differentiation needs to be sustainable and thus difficult to copy. When it involves a total organizational effort with a complex set of assets and skills it is difficult and costly to copy especially if there is a dynamic and evolving quality to it. A creative organization with a heavy R&D investment can inhibit investment. In addition, if there are multiple points of differentiation this too can inhibit investment since duplication will be expensive. Over-investment in a value-added activity can have a long-term pay-off by discouraging duplication. For instance, the development of a superior service back-up system might discourage competitors. The same logic applies to a broad product line. Some elements in the line may be unprofitable, but if they plug holes that competitors could use to provide value, then the analysis looks different.

g) Many approaches to differentiation: There are many approaches or strategic orientations that can lead to sustainable differentiation strategies. These include the use of strategic information systems, global thinking, being innovative, customer driven or employing a unique distribution system. Employing quality and building strong brands, however, are two of the most important approaches and these will be considered in some detail next.

h) The quality option: The prototype of differentiation is a quality strategy in which a business will deliver and be perceived to deliver a product or service superior to that of competitors. A quality strategy can mean that the brand, whether it is a hotel, car or computer, will be a premium brand as opposed to a value or economy entry. A brand can also be a quality option within a group of value or economy brands.

i) Total quality management: To be the quality option, a business must distinguish itself with respect to delivering quality to customers. What is required is a quality-focused management system that is comprehensive, integrative and supported throughout the organization. The system consists of a host of tools and precepts, including: -

- the commitment of senior management to quality
- cross-functional teams that focus on quality improvement projects and have the power to make changes
- a process rather than results orientation
- suggestion, measurement and recognition systems
- a focus on the problems and underlying causes of customer complaints and areas of dissatisfaction
- the tracking of key quality measures
- the involvement of suppliers in the system with supplier audits, ratings and recognition, as well as joint team efforts
- the importance of the customer—quality is defined in terms of customer satisfaction.

The quality option is designed ultimately to improve customer satisfaction. It follows that a customer focus will be part of a successful effort. One indicator of a customer focus is the involvement of top management. A hallmark of most customer-driven organizations is that the top executives have regular meaningful one-to-one contact with customers. Another indicator is the link to the compensation and measurement system. It is crucial to understand not only what is important with respect to quality but also what drives those quality perceptions.

j) **Building strong brands**: Differentiation can also be accomplished by building strong brands to create brand equity. This strategy is likely to prove sustainable since it creates competitive barriers. Brand equity generates value to the customer that can emerge either as a price premium or enhanced brand loyalty. Brand equity is a set of assets and liabilities linked to a brand's name and symbol that add to or subtract from the value provided by a product or service to a firm or that firm's customers. The assets and liabilities on which brand equity is based differ according to the situation. They come under four headings: • perceived brand quality; • brand identity; • brand awareness; • brand loyalty.

k) **Brand awareness:** Brand awareness gives the product or service a sense of familiarity. In the case of low involvement products, such as soap, this familiarity can be an important influence in the purchase decision. In market research taste tests, a recognized name can affect evaluation of a product even if the brand has never been purchased or used. Awareness of the name can be a signal of presence, commitment and substance, attributes that can be important even to industrial buyers of big ticket items and consumer buyers of durables. High recognition of a strong name is an enormous asset. The asset becomes stronger with the passage of time as the number of exposures and experiences grows. As a result, a challenging brand, even with an enormous advertising budget and other points of advantage, may find it difficult to enter the memory of the customer.

l) **Brand identity**: A brand identity reflects the associations attached to a firm and its brands. These associations are usually those of product attributes or customer benefits. A brand's associations are assets that can create confidence and trust, affect feelings towards a product and provide the basis for brand extensions. They can provide an important basis for differentiation, especially in product classes where it is difficult to distinguish objectively between various brands.

m) Brand loyalty: For many businesses the loyalty of the installed customer base is a coveted asset. Competitors may copy or improve on a product or service but they still have to make the customers switch brands. Brand loyalty or resistance to switching can be based on lack of motivation to change from the existing brand, a genuine liking for an existing brand or the actual cost of switching. Switching costs reflect the sunk investment that has to be sacrificed in order to switch from one brand to another. Switching costs will be lower for fast moving consumer goods but clearly higher for durable consumer white goods. An existing base of loyal customers provides an enormous sustainable competitive advantage. It reduces the marketing costs of doing business since existing customers are relatively easy to hold whereas getting and retaining new ones is more difficult. The loyalty of existing customers represents a substantial entry barrier to would-be competitors. Excessive resources are required when entering a market in which existing customers must be cajoled away from an established brand with which they are well satisfied. The profit potential for the tentative entrant is thus reduced.

n) Brands and strategy: It has been remarked that companies become attractive take-over targets and the value of their stock rises because of the strength of their brands (Sherrington, 1995) and some brands are even valued as assets in the company balance sheet. Branding for consumers represents the mark of a given level of quality and value that helps them choose between one offering and another. The development of a range of brands to cover different consumer segments enables a firm to benefit from changing consumer wants. From a marketer's point of view, brands allow the producer, and more recently the retailer, to target different groups of consumers or segments of the market with different label product offerings.

In fact, developing more than one brand enables a firm to segment a market and target different consumers. The development of a portfolio of discrete brands enables a firm to isolate the problems of one product from the rest of the range and it can enable it to divest less profitable brands.

o) Brand trends at the retail level: The preparedness of branded goods producers to supply own label products for retailers stems partly from a need to take up spare production capacity but it is also indicative of the need to prevent complete erosion of the existing sales base. The willingness of leading producers to supply own label products has also reduced the quality gap between own labels and producer brands. The sophistication of retailers' own marketing communications, particularly packaging and promotion styles, has strengthened their credibility in terms of ability to deliver satisfying products. Retailers have used advertising to create a brand image which has been reinforced by unique design features applied to store layouts, staff training and their own label product ranges. They have also begun to use product-specific advertising to promote own label brands. It is as a result of being able to gather precise consumer information more quickly through EPOS technology that retailers have been able to become innovative in terms of their own label products. Retailers have begun to develop differentiated ranges of own label products to meet segmented customer needs. But own label activity is not restricted to grocery products and supermarkets.

Mitchell (1995) indicated that the travel business is becoming retailer driven rather than tour-operator driven, with some travel agency companies offering their own packages alongside tour operator brands.

Porter's model of competitive forces provides a useful framework within which to look at the competitive forces at work in this instance. Seen from the point of view of producers, it can be argued that the power of the buyer (the retailer) has been strengthened by the product-market strategies which the retailers pursue. In addition, retailers also represent new entrants to the markets themselves. Strictly speaking, own brands do not meet the formal definition of substitute products, but they certainly perform the function of such products.

p) Counter strategies available to producers: Producers use database and direct marketing to try to get closer to the consumer. Producers also meet the new challenge from own label brands by investing in the development of innovative products which can be shown to have demonstrably different advantages over own label products. Producers are also able to take advantage of their more focused image—since retailers supply such a wide range of products—and producers may very well benefit from developing products in partnership with one another.

q) Producer retailer partnerships: Problems created by the emergence of own brands may be circumvented by producers and retailers getting together and co-operating. Partnerships, where both sides are working for mutual advantage, seem to be fruitful avenues for exploration. The extent to which a producer can obtain cooperation from a retailer does depend upon how much value the latter places on its supplier's marketing and product development expertise. In general, retailers are in the more powerful position since they have gained leverage in the retailer-producer bargaining interface. Faced with the increasing power of retailers, producers need to gain and take notice of the needs and views of retailers. There is a need for joint product development projects and joint marketing ventures between producers and retailers. Moreover, producers can augment their product offerings with product add-ons, including services to retailers and consumers with respect to delivery, after-sales contact, financing and promotion.

A producer's strength will be defined not just in terms of the brand strength, but in terms of the skills of staff assigned to managing brands, retailers and consumers, and the flexibility and effectiveness of the organization structure within which they operate.

r) Category management: The concept of managing categories rather than specific brands involves cooperation between manufacturer and retailer in the development of a product. An alliance is formed to develop the entire product category. Here there is scope for sharing consumer and market data, especially where both parties are developing consumer databases.

For example, in 1997, the Consortium Jigsaw looked at the possibility of linking data from Unilever, Bass, Kimberly Clark and Heinz (Evans and Moutinho, 1999).

s) Ethical branding: Ethics are a potentially powerful influence on consumer decisions. Companies such as Shell have found out with its environmental policies and its treatment of indigenous peoples, that if a brand gets its ethical stance wrong, it can have an adverse effect on the company wherever it goes and whatever it does. Nor is

Shell alone in this, among the big brand names Nike, with its cheap labour sourcing policies, has also experienced similar problems.

Brands such as the Body Shop and the Co-op Bank on the other hand have demonstrated the power of taking an ethical stance. There are certainly many consumers who would prefer to choose ethically safe products and companies. It is reflective of a deep shift in public expectations of what brands do and what they stand for. Increasing marketing literacy, the rise of pressure groups and the development of the consumer press are making people realize that ethical issues are deeply embedded in society. Moreover, relative prosperity in developed countries is affording the consumers in these countries the luxury of worrying about these things and the opportunity to express their approval or disapproval in how they spend their money. Brands have to take an ethical stance in ethical matters whether it relates to matters which impact on the environment—for instance, the disposal of toxic waste or pollution of the atmosphere—or contributions to society in the form of charitable donations.

Of course, the key issue is judging the acceptable price that consumers are willing to pay for adhering to their ethical principles. Consumers are price conscious though the existence of an affluent society can shift the upper boundary to their discretionary purchasing activity and hence allow some degree of ethical consideration to enter into their purchasing decisions. With this trend towards ethical branding the question that consumers tend to ask is not whether they can trust the brand to deliver attributes X and Y but whether the people who bring the brand to the market are the sort of people they can trust to do X and Y. Clearly this has a considerable impact on the image that firms need to project towards their audiences and this is accomplished through promotional strategy.

8.7 FOCUS STRATEGIES

The focus strategic thrust, whether it involves differentiation, low cost or both, concentrates on one part of the market or product line. A focus strategy avoids strategy dilution or distraction and is more likely to lead to competitive advantage. When the internal investment programmes and culture have all been directed towards a single end and there is buy-in on the part of everyone in the organization, the result will be assets, skills and functional strategies that match market needs. In most cases the product line or market is expanded, compromises are made in advertising, distribution, manufacturing and so on.

Moreover, the strategic competitive advantage and associated entry barriers will be diluted. A business that lacks the resources to compete in a broad product market must focus in order to generate the impact that is needed to compete effectively. A focus strategy provides the potential to bypass competitor assets and skills. It can also provide a positioning device. Although pay-off of a small niche may be less than that of a growing market, the competition may often also be less intense. Large growth markets attract many competitors and stimulate over-capacity whereas this is unlikely to occur in niche markets to the same extent. Nevertheless, a focus strategy does limit the potentials of a business. Profitable sales may well be missed and the business may have to compete with firms that enjoy scale economies.

a) Focusing the product line: Focusing on part of a product line can enhance the line's technical superiority. In most businesses, the key people have expertise or interest in a few products. As the product line broadens, however, the products tend to be 'me too' products which do not provide value and detract from the base business. This may spur on the need to remain focused and resist product expansion.

b) Targeting a segment: The same argument applies as in focusing the product line mentioned above.

c) Low-share competitors: In many industries there is a dominant firm with substantial scale advantages. A key to competing against such firms is usually to use some variant of focus strategy. One approach is to look for a portion of the market in which the dominant firm is making high profits which may be used to subsidize other parts of its business. Another is to focus on a part of the market that has been neglected and develop an offering and strategy to capture it.

8.8 SELF CHECK EXERCISE

1. Write a short note on core competencies.
2. What do you mean by competitive advantage? Discuss in brief.
3. Define strategic Intent.

4. Discuss in brief the importance of Differentiation Strategy.
5. Define Total Quality Management.
6. Define Brand Loyalty.
7. What is ethical branding?

8.9 SUMMARY

A competitive advantage is what makes an entity's goods or services superior to all of a customer's other choices. The term is commonly used for businesses. The strategies work for any organization, country, or individual in a competitive environment. Competitive advantage is the leverage a business has over its competitors. This can be gained by offering clients better and greater value. Advertising products or services with lower prices or higher quality piques the interest of consumers. Target markets recognize these unique products or services. This is the reason behind brand loyalty, or why customers prefer one particular product or service over another. Value proposition is important when understanding competitive advantage. If the value proposition is effective, that is, if the value proposition offers clients better and greater value, it can produce a competitive advantage in either the product or service. The value proposition can increase customer expectations and choices.

8.10 GLOSSARY

- **Competitive advantage** is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices.
- **Core competency** is an organization's defining strength, providing the foundation from which the business will grow, seize upon new opportunities and deliver value to customers. A company's core competency is not easily replicated by other organizations, whether existing competitors or new entries into its market.
- **Strategy** is a method or plan chosen to bring about a desired future, such as achievement of a goal or solution to a problem. The art and science of planning and marshalling resources for their most efficient and effective use. The term is derived from the Greek word for generalship or leading an army.

- **Strategic Intent** describes where the organization wants to land. It is the dream of the business and inspiration, base for the planning process. It depicts the company's aspirations for the business and provides a peep of what the organization would like to become in future.
- **Total quality management** (**TQM**) describes a management approach to long-term success through customer satisfaction. In a TQM effort, all members of an organization participate in improving processes, products, services, and the culture in which they work.

8.11 ANSWERS TO SELF CHECK EXERCISE

1. For answer of question number 1 refer to section 8.3.
2. For answer of question number 2 refer to section 8.3.
3. For answer of question number 3 refer to section 8.4.
4. For answer of question number 4 refer to section 8.6.
5. For answer of question number 5 refer to section 8.6.
6. For answer of question number 6 refer to section 8.6.
7. For answer of question number 7 refer to section 8.6.

8.12 TERMINAL QUESTIONS

1. Define Competition. What are the sources of competitive advantage? Discuss.
2. Define strategy. Discuss strategies followed by business organisation to become the market leader.
3. "A focus strategy provides the potential to bypass competitor assets and skill". Discuss the statement.

8.13 SUGGESTED READINGS

- Carvens, D. W., Strategic Marketing Homewood Illiois, Richard D.?Irwin
- Kayank E. and Savitt R., Comparative Marketing Systems, New York, Praegar.
- Kotler Phillip, Marketing Management: Analysis, Planning, Implementation
- Porter, M. E., Competitive Advantage: Creating Sustaining Superior Performance, New York, Free Press.
- Porter, M. E., Competitive Strategy: Techniques for Analysing Industries Competitors, New York, Free Press.

LESSON-9

MARKETING STRATEGIES

STRUCTURE

9.0 LEARNING OBJECTIVE
9.1 INTRODUCTION
9.2 STRATEGY FORMULATION
9.3 LEVELS OF BUSINESS STRATEGIES
9.4 MEANING OF MARKETING STRATEGY
9.5 TYPES OF MARKETING STRATEGIES
    9.5.1 COST LEADERSHIP STRATEGY
    9.5.2 DIFFERENTATION STRATEGY
    9.5.3 MARKET SEGMENTATION
    9.5.4 INNOVATION STRATEGIES
    9.5.5 GROETH STRATEGIES
9.6 ROLE OF MARKETING MIX
9.7 SELF CHECK EXERCSIE
9.8 SUMMARY
9.9 GLOSSARY
9.10 ANSWERS TO SELF CHECK EXERCISE
9.11 TERMINAL QUESTIONS
9.12 SUGGESTED READINGS

9.0 LEARNING OBJECTIVE

After studying this lesson you should understand: -

- The various terms used in marketing strategies and meaning of strategy.
- The role of marketing strategies in uplifting the business and
- Role of marketing mix in the planning part and implementation of marketing strategies.

9.1 INTRODUCTION

In corporate planning, strategy is the grand design or a dynamic action-oriented from general plan to accomplish company mission, basic objectives as well as function are developed in the action plans at a later stage. Objectives emphasize the state of being there, while strategy emphasizes the process of getting there. Objectives prescribe ends. Strategies provide preferred means to accomplish the desired ends. Strategy points out the chosen best way in which objective can be achieved in the best manner possible even in the face of anticipated competition, or against unfavorable environment. The strategy includes: -

- Awareness of mission, purpose and objectives. This provides the central concept for planning - indicating what is our business, who are our customers, what goods and services shall we supply and so on.
- Recognition of the unpredictability and uncertainty of events indicating business environment.
- Need to take into account probable behavior of others in general and of the rivals in particular, e.g., marketing strategies will take into account the probable behavior of customers, dealers, suppliers' citizens, and particularly the behavior of competitors in the near future. In short, strategy is the magic word for action in a competitive market environment.

An enterprise must have at least two major broad objectives:

- To do the right thing, and
- To do things right.

Strategic planning reflects the first objective, i.e., to do the right thing. Tactical planning underscores the second objective, i.e., to do things right.

A strategy of a company is designed in such a way that it matches or fits with:

- Future environmental marketing opportunities,
- Capabilities of company's human and material resources,
- Top management values and beliefs, and
- Desired socio-economic objectives.

The future market opportunities point to, what a company might do. The distinctive corporate competence and resources will point out what a company can do. Personal values and aspirations will indicate, what a company wants to do. Social responsibility, under societal marketing concepts, will reflect what a company should do to fulfill social obligations.

- A strategy has three elements: -
- Mission and basic objectives or goals set by top management,
- Courses or pattern of actions to follow,
- Deployment or allocation of human and material resources to execute the plan and to accomplish the set objectives.

It gives the precise statements.

- Where the firm wants to go and
- How should it try to get there?

While arriving at a decision regarding ends (where to go),

A firm has to solve three problems:

- Choice of right objective in the light of
    - ✓ Market opportunities.
    - ✓ Corporate competence and resources which can be allocated; limitations on resources will decide scale of effort and feasibility of marketing opportunities.
- There are multiple objectives, many a time, conflicting and their conflict must be resolved.
- We have to set the objectives, which must be challenging but feasible, motivating and acceptable to the executives and their subordinates.

In arriving at the second decision regarding preferred means to achieve desirable ends - how should we try to get there, we have several alternative courses of action and the choice of the best means is, many a time, quite hard. We have various company alternatives in technology, organizational set-up, market options, distribution options, promotion options, product choices, and so on. Hence, we prepare complete alternative plans. Like a magnifying glass, strategy puts into the limelight critical activities requiring prior concentration and special efforts. Strategy acts as a bridge between our objectives and our action plans or programmes. Usually, we use two or three strategies simultaneously, a company may choose first to concentrate on, for example, share in the market, or product quality, or price, or after-sale-service, or sales promotion or advertising and so on. The critical factor assuring success will be given top priority. It is called Unique Selling Point (USP). It is responsible for positioning of one's company to adopt a certain strategy. But if one aims at capturing the leadership in the market share, price, quality, service, etc., one must have one's own strategy.

9.2 STRATEGY FORMULATION

There are four basic steps in the formulation of corporate strategy: -

- Determination of corporate objectives, viz., mission and corporate goals or objectives describing the central purpose of business.
- Generation of alternative business opportunities and options at our disposal.
- Selection of the best business opportunity or option.
- Implementation of the chosen line of action to capitalize the selected business opportunity.

Strategy specifies selection and ranking of business opportunities and points out the preferred means of achieving the desired objectives. It also includes allocation of resources to exploit the well-chosen opportunities. Once the nature and magnitude of each business opportunity are precisely known, selection and ranking or grading of opportunity will deserve special attention.

The more important opportunity is given higher preference in our scale of preferences. This is called corporate or business strategy. Evaluation of opportunities under customer-oriented business planning will be made first by marketing management. The evaluation will be primarily based upon customer needs, customers, and competition. Resource availability will also be considered to determine its feasibility. The opportunity approved by the marketer will be screened by other areas of business such as research and development, engineering, production planning and finance departments. The top management can put the final stamp of its decision when the functional specialists have screened and approved the exploitation of business opportunity. Now we will have final business strategic plan ready for implementation to convert the chosen opportunity into a reality.

Different authors have defined strategy in their own words some of the important definition as follows;

- "Strategies most often denote general programme of action and development of emphasis and resources to attain comprehensive objectives." -Prof. Knvonts Hand O'Donnell.
- "The complex plan for bringing the organization from a given posture to a desired position in a future period of time". - Mr. D.I. Cleland and W.R. King.
- "Pattern of objectives, purposes, or goals and major policies and plans for achieving these goals stated in such a way as to deflne what business is in or to be in and the kind of company it is as to be." -Mr. E.P. Learned
- "Strategy is the determination of basic long-term goals and objectives of an enterprise and the adoption of course of action and the allocation of resources necessary for carrying out these goals." -Mr. Alfred Chandler.

The above definition reveals that a strategy is a broad programme for action and organisation objectives and thus implementing its mission. Here, the word programme means an active, conscious and rational role played by managers in formulating the organisation strategy. A strategy creates a unified direction for the organisation in terms of its any objectives and it guide the deployment of the resources used to move the organisation toward those objectives. It is the pattern of the organisation responses to its environment over a given time. Stating links the human and material resources of an organisation in one hand and with the challenges and risks posed by the outside world, on the other.

A successful marketing operation is resting on a carefully thought out plan. Instead of speaking merely a plan, he should think of strategic plan. The strategic aspects of his plan hinge on the ways to use the available resources to secure differential advantages over the competitors-and to move towards the attainment of the firm's objectives.

The strategy must reflect all aspects of the market, and above all it must be capable of anticipating the actions and reactions of competitors:

The most significant elements for any successful strategy is to consider: -

a. The rivals who will be following their own strategy and whose actions are sure to counteract those of strategy.

b. The resources available to the strategist and to rivals.

c. The changes coming in the economic environment that could pose problems or create opportunities in the short and long-run and

d. Changes in the broader society that can change the very nature of markets and people's attitudes towards them.

9.3 LEVELS OF BUSINESS STRATEGIES

A firm is to have strategies at two levels namely, corporate and business unit level. A strategy has to operate at two distinct levels of a corporation taking due care of two very distinct strategic needs. That is, the requirements or the needs at corporate level of the firm and those at its individual business units level. As these requirements are quite distinct from one another they need to be tackled through distinct strategies quite obviously.

Corporate Level Strategies: Every corporation is expected to make certain corporate level strategic decisions regarding the line, length and nature of its growth, during its course of growth process. One can think of five possible corporate strategies of which one is to be selected depending on its individual unique position of realities it encounters.

These five generic strategies are: Stability-Expansion-Diversification-Retrenchment and Combination.

The exact decision regarding the choice of three generic strategy way-outs are influenced by the growth objectives of the firm,

Business level strategies: Business level strategies are more popularly known as marketing strategies. As the firm grows and transmutes itself into a multi-business entity, the corporate managements encounter more challenging strategic requirements both at corporate level, and at the individual business levels. At the individual business levels, the managers are more concerned with the formidable struggle of meeting competition in the related business, protecting and guarding their market shares and profits, ensuring both the short-run prosperity and long-run financial health of the business. They are to focus their attention and energies on winning and retaining the class of customers. The job is one of forging the matching competitive strategies in the market as their fight is in the marketplace. Thus, the strategic demands at corporate level revolve around the growth of the entire corporation coupled with the best utilization of the corporate resources facing the existing business. As opposed to these, the business level or marketing strategies hover round the task of marketing their products tactfully thus ensuring profits and growth.

9.4 MEANING OF MARKETING STRATEGY

Marketing Strategy is the total and unbeatable instrumental or a plan shaped and designed specifically for attaining the marketing objectives of a firm. A marketing mission and objectives tell us as to where we want to go and marketing mission and objectives tell us as to where we want to go and marketing strategy provides us with the grand design for reaching out there.

The following are the some of the important definitions given by different authors on marketing strategies;

- "Strategy is the all important part of marketing. The one time planning decision the most crucial decision that determines what business the company is in and the general strategy, it will follow may be more important than has ever been realized". - Prof. Jerome Mc Carthy.
- "There are three generic strategies for achieving success in the competitive market place. The first of these is to gain control over the supply or distribution, the second competitive cost advantage and the third product differentiation; marketing as a discipline in critical component of all these three strategies. Marketing performs a boundary role function in the firm's selection of an appropriate strategies; marketing spares the customer interface and provides the assessment of needs which must ultimately guide all strategy development". - Mr. Robertson and Yoram Wind.
- " Marketing strategy has mainly one aim - to cope up with competition; there are five major and vital forces that decide the nature and intensity of competition - the threat of new entrants, bargaining power of customers, bargaining power of suppliers, threat of substitute products and jockeying among the existing contest arts; the collective

strength of these forces in the industry where his company can best defined itself against these forces or can influence them in his favor; strategy can be viewed as building defenses against competitive forces." -Michael E Porter.

In the final analysis, marketing strategy stands for competitive marketing actions that are bound to evoke a response from competition. That is why; a successful marketer needs to have a comprehensive strategy to tackle competition at any cost. However, one cannot go to the extent of "any cost" unless one works according to a plan and that is competitive strategy for thumping success in marketing. It is but, therefore, natural that competitive strategy has to be one that will evoke the much sought after competitive advantage. Having given the competitive advantage, the said strategy should give a sustainable competitive edge. It warrants the thorough investigation and analyses of competition before one hope to have a competitive advantage.

Thus, competitive investigation, scanning and analysis consist of two things namely, the "long-term profit opportunity" and one's own competitive position. The ways of out beating competition are: -

- Reducing competition: Perhaps this is the simplest way of fighting out. It sounds well in theory; however, in practice it means acquisition of smaller or weaker units which are in competition. Thus, Hindustan Lever acquired TOMCO and Broke Bond acquiring Kissan and Lipton.
- Joining competition: This is another way out to mitigate competition which is gaining ground. The best example is that of joint venture of Procter and Gamble and Godrej Soaps.
- Pre-empting competition: This is another way which is a proactive approach, which is very effective particularly when it is backed by competitive analysis. Kissan brand same of HLL allowing Maggie brand of Nestle and maintaining the superessinty.
- To create barriers: This implies forbidding others from entry in the line based on very strong financial and muscle power. Good many companies spend heavily barring others to just think of such extravaganza-a-luxury or a dream for them. Introduction of digital cameras by Sony Corporation reduced the supremacy of Kodak.

- To differentiate the products: It pays to differentiate the products. One must not hesitate to differ one's own product with a new to provide better value for the money paid by the customers.
- It is not only ideal but practical that is, what majority of the companies do. The examples are good many but we can take toiletotries of all companies.
- To improve the speed of response: the competitive edge can be further sharpened than one thinks. These are, certain manufactured products, where speed of response as well as quick source is of top significance. Though, the companies are aware of keeping pace with changing technological tempo they should be well ahead of the same. Quality in consonance with technology has such valid response, if it catches the required speed.
- The policy of door delivery by Domino Pizzas within 30 minutes of order. Another case is that of loan clearance within 24 hours as claimed by personal finances companies.
- To divest from regular activities: Instead of moving in the same groove, it should move out of it. The firm should divest out of focus activities. This makes available much wanted scarce resources in the focused activities.
- To improve efficiency: It is but natural that, there is close alliance between important efficiency and the competitive edge. This helps the marketer to distinguish his products though reduced cycle of line and reduced costs. To restate, a competitive marketing strategy should be such that it will give sustainable competitive advantage. One has to be therefore, proactive and quick in one's responses and one should be willing to invest in long-term profits.
- Nature of Marketing Strategies The exact nature of strategy is self evident from the definitions we have gone through.

The nature is clearly spoken by the following points: -

- They are dynamic: The concept of marketing strategy is relative as it is designed to meet the changing demands of a situation. Each situation and event needs a different strategy that is why strategies are revised and recast very frequently to cope up with the changes in a given situation or event.

- They are futuristic: A marketing strategy is forward looking. It orients towards future. A marketing strategy is designed to bring out the organization from a ditch of regression to the path of progress for better change in the coming times.
- They are complex: A marketing strategy is a very complex plan impounding in its compound other plans or firms of plans which area must to achieve the organizational goals. It is a compendium or complex of plans within plan to outbeat the strength and vitality of others in the line.
- They provide direction: Marketing strategies provide a set direction in which human or physical resources will be allocated and deployed for achieving organizational goals in the face of changing environmental pressure, stress and strains and constraints and restraints.
- They are all covering: Marketing strategies involve the right combination of factors governing the best results. In fact, strategic planning warrants not only the isolation of various elements of a given situation but a judicious and critical evaluation of their relative importance.
- They are a link between the unit and the environment: The strategic decisions that are basically related with likely trends in the changing marketing changes in government, policies, and technological developments, and ecological changeovers, social and cultural overtones. Then, the ever-changing environment which is external to the organization has impact on it because unit is the sub-systems of supra-system namely environment.
- They are interpretative: Marketing strategies are the interpretative plans formulated to interpret and give meaning to other plans in the spot-light of a specific situation or situations. They demand an adjustment of plans in anticipation of the reactions of those who will be influenced. Strategic decisions are the result of a complex and intricate process of decision making.
- They are top management blue-print: Marketing strategies and their formulation is the basic responsibility of top management. It is because; it is tip management that spells out the missions, objectives and goals and the policies and strategies or the ways to reach them.

Thus, top management is not only to say to where to go but how best to go to the terminal point.

• Essentials of Marketing Strategies Any marketing strategy to be worth calling as successful or effective must enjoy certain extras which can be called as essentials or requisites of it.

The basic guidelines, used to call a strategy a successful one used by experts are: -

- It is consistent: A marketing strategy to be effective is to be consistent with the overall and specific objectives and policies and other, strategies and tactics of the marketing organization.
- It is workable: Any strategy however laudable and theoretically sound is meaningless unless it is able to meet the ever changing needs of a situation. In this business world contingency is quite common and the strategy that strikes at the head to contribute to the progresses and prosperity of marketing organization.
- It is suitable: A strategy is emergent of situations or environment. It is the subservient of changing environment of business world. It is but natural that any strategy not suiting to the environment can impound the marketing organization in the compounds of danger, digress and frustration.
- It is not risky: Any strategy involves risks as uncertainty is certain; what is important is that the extent of the risk involved or associated with strategy is reasonably low as compared to its pay-off or returns. It is because; a high risk strategy may threaten the survival of the marketing organization, let alone its success, if calculations go fut.
- It is resource based: A sound strategy is one which is designed in the background of the available resources at its command. A strategy involves certain amount of risk which can hardly be segregated. A strategic decision warrants commitment of right amount of resources for an anticipated or "pass through" errors in such demands of resources.
- It has a time horizon: The statement "a stitch in time saves nine" that aptly applies to the concept of strategy. A sound strategy is time bound to be used at the nick of the hour and tick of the opportunity. It has an appropriate time horizon. This time this

is costlier than money and its horizon banks on the goals to be achieved. The time should be long enough to permit the organization to make adjustments and maintain the consistency of a strategy.

9.5 TYPES OF MARKETING STRATEGIES

Marketing strategies may differ depending on the unique situation of the individual business. However there are number of ways of categorizing some generic strategies.

A brief description of the most common categorizing schemes is presented below:

i. Strategies Based On Market Dominance - In this scheme, firms are classified based on their market share or dominance of an industry. Typically there are four types of market dominance strategies: a) Leader, b) Challenger, c) Follower, d) Nicher Market dominance is a measure of the strength of a brand, product, service, or firm, relative to competitive offerings. There is often a geographic element to the competitive landscape. In defining market dominance, you must see to what extent a product, brand, or firm controls a product category in a given geographic area. There are several ways of calculating market dominance. The most direct is market share. This is the percentage of the total market serviced by a firm or brand. A declining scale of market shares is common in most industries: that is, if the industry leader has say 50% share, the next largest might have 25% share, the next 12% share, the next 6% share, and all remaining firms combined might have 6% share. Market share is not a perfect proxy of market dominance. We must take into account the influences of customers, suppliers, competitors in related industries, and government regulations.

Although there are no hard and fast rules governing the relationship between market share and market dominance, the following are general criteria:-

- A company, brand, product, or service that has a combined market share exceeding 60%) most probably has market power and market dominance.
- A market share of over 35% but less than 60%, held by one brand, product or service, is an indicator of market strength but not necessarily dominance.
- A market share of less than 35%, held by one brand, product or service, is not an indicator of strength or dominance and will not raise anti-combines concerns of government regulators. These calculations of market dominance yield quantitative

metrics, but most business strategists categorize market dominance strategies in qualitative terms.

Typically there are four types of market dominance strategies that a marketer will consider: There are market leader, market challenger, market follower, and market nicher.

a) The Market Leader is dominant in its industry. It has substantial market share and often extensive distribution arrangements with retailers. It typically is the industry leader in developing innovative new business models and new products (although not always). It tends to be on the cutting edge of new technologies and new production processes. It sometimes has some market power in determining either price or output. Of the four dominance strategies, it has the most flexibility in crafting strategy. There are few options not open to it. However it is in a very visible position and can be the target of competitive threats and government anticombines actions. Research in experience curve effects and the PIMs study during the 1970s concluded that market leadership was the most profitable strategy in most industries. It was claimed that if you cannot get enough market share to be a major player, you should get out of that business and concentrate your resources where you can take advantage of experience curve effects and economies of scale, and thereby gain dominant market share. Today we recognize that other less dominant strategies can also be effective.

The main options available to market leaders are: • Expand the total market by finding new users of the product new uses of the product more usage on each use occasion;

• Protect your existing market share by developing new product ideas, improve customer service, improve distribution effectiveness and reduce costs; • Expand your market share by targeting one or more competitor without being noticed by government regulators.

b) A Market Challenger is a firm in a strong, but not dominant position that is following an aggressive strategy of trying to gain market share. It typically targets the industry leader (for example, Pepsi targets Coke), but it could also target smaller, more vulnerable competitors. The fundamental principles involved are: - • Assess the strength of the target competitor. Consider the amount of support that the target might muster from allies; • Choose only one target at a time; • Find a weakness in the target's position and attack at this point. Consider how long it will take for the target to realign their resources so as to reinforce this weak spot; • Launch the attack on as narrow as possible. Whereas a defender must defend all their borders, an attacker has the advantage of being able to concentrate their forces at one place. • Launch the attack quickly, and then consolidate.

Some of the options open to a market challenger are: -Price discounts or price cutting; Line extensions; Introduce new products; Reduce product quality; Increase product quality; Improve service; Change distribution; Cost reductions; and Intensify promotional activity

c) A Market Follower is a firm in a strong, but not dominant position that is content to stay at that position. The rationale is that by developing strategies that are parallel to those of the market leader, they will gain much of the market from the leader while being exposed to very little risk. This "play it safe" strategy is how Burger King retains its position behind McDonalds. The advantages of this strategy are: -

• No expensive R&D failures

- No risk of bad business model
- "Best practices" are already established
- Able to capitalize on the promotional activities of the market leader
- No risk of government anti-combines actions
- Minimal risk of competitive attacks
- Don't waste money in a head-on battle with the market leader

d) In the niche strategy the firm concentrates on a select few target markets. It is also called a focus strategy. It is hoped that by focusing ones marketing efforts on one or two narrow market segments and tailoring your marketing mix to these specialized markets, you can better meet the needs of that target market. The niche should be large enough to be profitable, but small enough to be ignored by the major industry players. Profit margins are emphasized rather than revenue or market share. The firm typically looks to gain a competitive advantage through effectiveness rather than efficiency. It is most suitable for relatively small firms and has much in common with guerrilla marketing warfare strategies. The most successful nichers tend to have the following characteristics: -

• They tend to be in high value added industries and are able to obtain high margins.

• They tend to be highly focused on a specific market segment.

• They tend to market high end products or services, and are able to use a premium pricing strategy.

• They tend to keep their operating expenses down by spending less on R&D, advertising, and personal selling.

ii. Porter Generic Strategies: Strategy on the dimensions of strategic scope and strategic strength. Strategic scope refers to the market penetration while strategic strength refers to the firm's sustainable competitive advantage. The generic strategy framework (porter 1984) comprises two alternatives each with two alternative scopes. These are Differentiation and low-cost leadership each with a dimension of Focus-broad or narrow.

a. Product differentiation,

b. Market segmentation

9.5.1 Cost Leadership Strategy: This strategy emphasizes efficiency. By producing high volumes of standardized products, the firm hopes to take advantage of economies of scale and experience curve effects. The product is often a basic no-frills product that is produced at a relatively low cost and made available to a very large customer base. Maintaining this strategy requires a continuous search for cost reductions in all aspects of the business. The associated distribution strategy is to obtain the most extensive distribution possible. Promotional strategy often involves trying to make a virtue out of low cost product features. To be successful, this strategy usually requires a considerable market share advantage or preferential access to raw materials, components, labour, or some other important input. Without one or more of these advantages, the strategy can easily be mimicked by competitors. Successful implementation also benefits from: -

- Process engineering skills,
- Products designed for ease of manufacture,

- Sustained access to inexpensive capital,
- Close supervision of labour,
- Tight cost control,
- Incentives based on quantitative targets.

9.5.2 Differentiation Strategy: Differentiation involves creating a product that is perceived as unique. The unique features or benefits should provide superior value for the customer if this strategy is to be successful. Because customers see the product as unrivaled and unequaled, the price elasticity of demand tends to be reduced and customers tend to be more brand loyal. This can provide considerable insulation from competition. However there are usually additional costs associated with the differentiating product features and this could require a premium pricing strategy. To maintain this strategy the firm should have:-

- Strong research and development skills,
- Strong product engineering skills,
- Strong creativity skills,
- Good cooperation with distribution channels,
- Strong marketing skills,
- Incentives based largely on subjective measures,
- Be able to communicate the importance of the differentiating product characteristics,
- Stress continuous improvement and innovation,
- Attract highly skilled, creative people.

9.5.3 Market Segmentation: Strategies In this strategy the firm concentrates on a select few target markets. It is also called a focus strategy or niche strategy. It is hoped that by focusing your marketing efforts on one or two narrow market segments and tailoring your marketing mix to these specialized markets, you can better meet the needs of that target market. The firm typically looks to gain a competitive advantage through effectiveness rather than efficiency. It is most suitable for relatively small firms and has much in common with guerrilla marketing warfare strategies.

9.5.4 Innovation Strategies: This deals with the firm's rate of the new product development and business model innovation. It asks whether the company is on the cutting edge of technology and business innovation. The most important pillar and main driving force of innovation are the Business Units. They operate close to customers and they are working on product-specific innovation strategies and technology road maps in their segments, and thus increase Freudenberg's power of innovation. The second pillar in the middle stands for the Business Group Freudenberg New Technologies. Its goal is to concentrate cross-Group technical know-how, especially which of interdisciplinary technologies (Freudenberg Forschungsdienste - Research Services) and to examine and to develop new business fields (New Business Development, Freudenberg Venture Capital).

The third pillar is made up of acquisitions aimed at the targeted expansion of the Freudenberg portfolio, thus contributing to increasing Freudenberg's innovative power.

9.5.5 Growth strategies: A strategy based on investing in companies and sectors which are growing faster than their peers. The benefits are usually in the form of capital gains rather than dividends. Strategy aimed at winning larger market share, even at the expense of short-term earnings. Four broad growth strategies are diversification, product development, market penetration, and market development.

a) Ansoffs Product / Market Matrix: The Ansoff Growth matrix is a tool that helps businesses decide their product and market growth strategy. Ansoff's product/market growth matrix suggests that a business' attempts to grow depend on whether it markets new or existing products in new or existing markets. The output from the Ansoff product/market matrix is a series of suggested growth strategies that set the direction for the business strategy.

9.6 ROLE OF MARKETING MIX

Marketing mix has an important role to play in Marketing Planning and Marketing Strategy. Planning is an important managerial activity, which is a basic requirement for all organizations. Any organization will need general and specific plans to fulfill its objectives. The primary concern of marketing planning is marketing strategy formulation. Marketing planning involves preparing action plans to shape the fixture growth of an organization. Achieving profitability, meeting competition, protecting and improving market share, and promoting brand image are its concerns. The task involved is to identify the consumers' needs in various segments, develop suitable products or services to meet those needs and generate profits. This is achieved through marketing planning and marketing strategy. Marketing planning and strategy formulation is to be done reckoning the environmental variables of marketing like competition, the consumer, the government, and legal, political and natural forces.

While the organization can choose, alter and control its marketing mix variables, it cannot choose or alter the environmental variables against which the products are marketed. Using the marketing mix variables, the organization tackles the environmental variables. This is the process involved in formulating the organizations' marketing strategy-assembling the marketing appropriately. The four Ps of marketing have to be assembled in the best possible combination. This process involves choosing the appropriate marketing activities and the allocation of the appropriate marketing effort and resources to each one of them. The organization has to consider how to generate targeted sales and profitability. Different combinations of marketing mixes are considered with varying levels of expenditure on each marketing activity to identify the most effective combination. It then chooses the best combination of mix of product, price, place and promotion to ensure success. It is necessary to work out marketing mix for every brand because the competition in the market is ultimately at the brand level. And it is the marketing mix that decides how much strength the brand has at its disposal to fight competition.

Interaction between Marketing Mix and Marketing Environment presents the Interaction between Marketing Mix and Marketing Environment the interaction between Marketing Mix and Marketing Environment. Initiating or independent factors acting as stimulus are:

a) Controllable factors, and

b) Non-controllable factors influencing the controllable factors Controllable factors represent the marketing mix:

a) Product,

b) Price,

c) Promotion,

d) Distribution (place).

Promotion covers personal selling, advertising, sales promotion and publicity (tools of marketing communications). Distribution includes channels, transport, and warehousing and inventory control. These controllable factors are the marketing instruments or variables. Taken together they give us marketing programme or marketing mix. The firm has a choice of alternatives regarding these marketing instruments, and their permutations and combinations. A company can achieve its marketing objectives by selecting and balancing the marketing mix-programme in such a way that it fits the requirements of the market environmental forces, i.e., the non-controllable factors. Marketing management must establish a happy and enduring marriage or union between non-controllable factors and marketing programme in the form of tailor-made marketing mix for each market segment - the target market. Internal limitations indicate the firm's capacity or resource position. Resources of the company are the means (inputs) and company objectives are the ends (output).

Production capacity, research and development, financial and personnel resources, level of production cost, etc., are the internal resource limitations. We have to match these means to our ends. Hence, marketing objectives are determined on the basis of self-analysis of our strengths and weaknesses - internal constraints. In essence, planning involves a matching of means and ends, or inputs and outputs.

External environmental factors are uncontrollable by individual firms, and marketing management is called upon to adjust and adapt with the requirements of the environment. We have changing customers, changing customer needs, changing competition, changing distribution structure and changing economic, social, technological, legal and political climate. We have to establish proper balance between our resources and our marketing environment. The environmental factors reveal marketing opportunities and threats. On the basis of available resources, we have to select the best marketing opportunities and find out appropriate marketing mix to capitalize the chosen marketing opportunities. By anticipating threats, management should be prepared to meet their challenge in time. Threats and uncertainties can be converted into opportunities through intelligent planning.

Marketing mix acts as a stimulus and resulting variables such as consumer satisfaction, market share, return on investment and company image as responses. The marketing objectives represent desired responses. The firm will be judged by outsiders on the basis of results achieved. Under customer-oriented marketing plans and strategies, main marketing objectives are naturally consumer-citizen satisfaction and profitability through serving the demand, viz., customers and customer needs. Company image will be bright if marketers adopt and practice sincerely the socially responsible marketing policies. When a firm succeeds in establishing profitable relationship with changing marketing environment, it is assured not only survival but also growth and prosperity.

The Elements of Marketing Mix: The key to understand integrated marketing today is to understand the word strategy. The strategy, has already discussed, is what we are going to do; A marketing strategy is a link between the product and the marketer; it provides a much desired direction for allocating the marketing efforts. It is translated into an action plan through the tools of marketing management. These tools together are called marketing mix. Individually they are product, price, promotion and place. It is the blend or compound of all the marketing efforts hovering round the four ingredients as stated above. However, there can be four 'C's from the angle of consumers.

Thus what "product" is for marketer is "consumer needs and wants" for consumers; "price" is for marketer is "cost to all consumers", "promotion" is for marketer is "communication' for the customer and what 'place' is for marketer is "convenience "for the customer. Precisely, marketing mix is the master mix of sub mixes namely, product mix, price mix, promotion mix and place mix and as a set of good many variables. These are elements of marketing decisions over which the firm has control. Hence, marketing mix signifies internal controllable forces. Following is detailed analysis of each element of marketing mix;

(1) The Product-Mix: The product is the focus of making and marketing efforts. Product is the sum-total of physical and psychological satisfaction it provides to the buyer. For instance, a car in a physical sense is a fabricated conveyance powered by gasoline

engine which carrier people from one place to another. To a teenager, with its driving license, it is a sign that he is no longer a boy-but a fully grown-up man; to his father, a particular make is an indication of success in his life as a status symbol. A product is the sum-total of parts like materials used in its construction and its ability to perform, its packaging, its brands and the intangibles associated with it-all that speak about its personality or image. The product-mix is the composite of products offered for sale by the firm, over period of time.

• The Product Mix Variables: The product mix has the following important variables:

1. The product-line and product range: 'Product-line' is a group of closely related products which are able to satisfy a class of need, to be used together, to be sold to the same ranges. Each firm has its own product line. Thus, Godrej Company has product-line consisting of-Vanaspati, soaps, detergents, fridges, fiimiture, machine tools, soft-drinks, and so on. Product-line stands for the entire range of products manufactured by the firm. That is, taking a particular product say, TV set, we have so many companies in India. Precisely, it speaks of the width of the product mix. 'Product range' on the other hand, speaks of the depth of specialization in terms of varieties based on consumer pockets and functional requirements. Thus, Sony Corporation of Japan has countless models of TV sets, video players and recorders; Casio Corporation of Japan has given widest range of calculators numbering more than one thousand. Take famous case of Coca Cola Company of America which started with "Sacred" 6.5 Oz., bottle by 1954. But, today, it has two sizes "King" and "Family" size bottles of 10 and 12 Ozs., in wide range named as "Sprite"-"Tab" and range of Fanta flavor such as grape root-bee orange-ginger both in bottles and cans, hi India, Kirloskars give oil engines in the range of 0.5 HP to 2,000HP.

2. Product design: The marketing decisions start with designing the product in a way which is required by the target consumer. Product design is an important factor in the sale of many products. The trend in the product appearance is away from ornamentation and leaning towards greater simplicity in form and construction. The form, the color and the line of all the products are being planned to give greater proportion, beauty and functional utility. Products designed properly enhance their

utility, attractiveness, ease of operation, safety and appeal; good design; therefore increases sales volume, provides advertising and selling features permit higher prices reduces manufacturing costs, minimizes service and reduces transportation charges. Design is a major selling feature in almost all the consumer goods-be it a ready garment, draperies, millionaire items, wall paper, silverware or even an automobile. Similarly, style merchandise manufacturers are to go as per style movement.

Product design is influenced by –

i. External appearance:- determined by size, shape, proportions, color, finish, texture, dimensions, ornamentation and other physical features that appeal to the consumer senses of beauty- utility and distinctiveness,

ii. Construction: - the arrangement of parts and materials to give the user greater convenience, ease of maintenance, economy in operation, helping them for easy handling, save time and money in selling, facilitate inventory control and make possible attractive store displays.

Attractive packages have communicating value. An attractive package in a self-service store helps the consumers to identify the product, builds consumer confidence, describes merits and limits of products and encourages impulsive buying. Thus, it makes brand identification, easy prevents substitution and short weight and makes an element of advertising and sales promotion, possible.

Package design is a significant factor in successful merchandising. Good package design includes such elements as size-color-shape-material construction-closure-copy-and illustration. These elements make package a silent salesman. While redesigning a new or redesigning an old package, the manufacturers must take into account the nature of product, the cost of packaging, product family resemblance, packaging materials, advertising value of packaging, size and price and above all the legal requirements.

4. Product quality: Establishment and control of quality standards is a basic step in merchandising. Generally, specific grades or standards of quality are established for products either by agreement among the producers or by law. These product quality standards are based on factors like- color, texture, flavor, weight, finish, appearance,

size, shrinkage, strength, shape, moisture and the other physical features depending on the nature of the product. Once the standards of quality are established by the manufacturer, continuous efforts are made to see that the products conform to the standards so set.

Product quality depends on proper redesign, engineering, choice of materials, manufacturing processes, workmanship and packaging.

5. Product labeling: A product label may be either descriptive, informative, grade designating or a combination of these. Labels are fixed to products to identify them and to describe their ingredients, quantity, quality, and other characteristics. A descriptive label is one that may describe the contents by size, weight, number of pieces, syrup, cups and number of servings. An informative label may include descriptive material, but it informs primarily the users how the product is made and how to use it for best results. A grade label designates the ISI standard mark to which the product conforms. In any country, labeling is mandatory in case of food, drug and cosmetic products so that the manufacturer is to give the details of his name, place of manufacture, date of manufacture, expiry date, lot or batch number, composition and so on.

6. Product branding: The brand image is the part of a complex activities used to reduce the risk inherent in modem, business by creating a degree of loyalty among the customers. This is a very true as we experience that today people do not want just a face-powder but a particular brand say 'Emami' talc or say Pond's dream-flower'. What is true of this face-powder is true of all the consumer durable and non-durable products. It applies to industrial goods also. A brand is a symbol, a mark, a name, a communication which brings about an identity of a given product. A brand is a product image, a quality, a value, a personality. Products are identified and labeled with trade-marks or brands composed of letters, numbers, words and designs. A good brand name is one which is easy to remember, pronounce, describe the product or hs use, suggests product quality distinctive and compliment with legal sanction.

7. After-sale Services and Guarantees: With every increase in the use of machinery, appliances, equipment and gadgets, there is inherent need for after-sale services such as installation, guarantees and warrantees against defect, servicing, repairs, spare-

parts, maintenance and the like. Manufacturers of machines, instruments, gadgets and technical equipment will have to establish service policy and a plan for servicing their equipments after sale. Mechanical service is an important sales asset. It is instrumental in securing repeat sales, customer goodwill and word of mouth advertising. The heart of sound service policy is the product guarantee or warranty which defines the producer's liability for defects in materials or workmanship over a certain period of time ranging from the year to five years under normal circumstances. Every manufacturer should determine as to who shall be responsible for service to customers. It may be the responsibility of manufacturer or distributor or wholesaler of retailer. Such a decision depends on factors like nature of product-the amount and type of service required and the resources of the manufacturer. In case the middlemen are responsible, the manufacturer should train those in the areas of after-sale services such as installation, servicing and maintenance.

The Price Mix Price is a major marketing tool and helps in directing the product to a specific consumer segment. Price is the value of a product expressed in terms of money. Price is a powerful instrument in which both the buyers and sellers are keenly interested. It is the price of a product or a service that ensures a decent return in investment, guarantees stable economic structure, creates, maintains and extends market and market share. Price is equal to consumer expectations and expectations imply product, installation, credit, after-sale services and the like. Hence, pricing constitutes one of the major problems of marketing management.

Every marketing manager is very much particular about his pricing policy, its determination and implementation.

• The Price Variables: There are good many variables affecting the price of a product namely, its nature of market-cost of manufacture-costs of marketing-sales policies and methods-channels of distribution and competitor's prices. The basic price variables relate to the pricing policies, margin, terms of credit, terms of delivery and resale price maintenance.

a. The pricing policies and strategies: The price policies and strategies are the guidelines and the frames within which management administers prices so to match them to the market needs. These policies can be broadly identified as policies involving price variations, geographical price policies, policies involving price differentials, price policies involving leadership imitation and policies involving psyche of the consumers. In the first category, such policy may be variable in multiple and non-variable or single price policy. In second category, it may take two forms namely, point origin price policy and fi-eight absorption price policy. Again, frieght absorption policy may have variations as uniform, delivered, zone and base point price policy. In the third category, various discounts are offered such as quantity, fiscal, trade, geographical and advertising.

b. The terms of credit: Without the ability of offer some form of deferred payment or installment buying, many of the products sold by business houses would never actives the size of the market needed to get production economies of scale. Credit, by expanding a market, can make new firms of production economically worthwhile. The modem business is built up and expansion is based on the credit. Credit is the breath of modem marketing efforts. No firm can think of surviving without this credit. It is a means of sales promotion; its significance is in its contribution to efficient selling. Even though its influence on sales activities is considerable, it is above all a financial matter and such credit obligation of the business house must be kept at a prudent level. Of the total turn-over of the business houses, the credit share ranges anywhere between 60 and 95 percent. The business house grants credit to wholesalers and wholesalers in turn, to retailers and retailers back to consumers. In case of direct selling, credit is granted to customers depending on the nature of the product, its marketability, class of customers, competitor's terms and consumer credit facilities made available by banking and other financial units.

c. Terms of delivery: Delivery of the goods to the dealers, middlemen and customers is also of vital importance. Clear-cut policies are to be spelled out regarding the terms of delivery as to quantity, time and place of delivery and the conditions of valid delivery.

d. Margin: Margin here refers to the difference between the final price paid by the consumer and the total cost incurred in making available to him the product or service. This includes margin of retailer, wholesaler and the producer. If conventional margins are existing in a market, it is essential to accept these to get necessary distribution and positive promotion of the product. Where dealer margins are reduced below the accepted normal, in the trade, advertising may be pressed in service to exert consumer pressure on dealers. Much depends on the nature of products. Articles, particularly, consumer durables and nondurables need lower margin because of mass consumption. On the other hand, the industrial products requiring after-sale services and maintenance will need higher margin to the intermediaries.

e. Resale price maintenance: Resale price maintenance is a practice whereby manufacturers or the distributors or the importers recommended and/or the price and the profit margin at which a product will be sold in section or sections forwarded actuality. It manifests itself in the removal of price competition at the level or levels at which it is imposed. It is a policy of establishing a minimum resale price below which a wholesaler-a retailer may not sell, the manufacturer's products. Resale price maintenance is designed to prevent excessive price cuttings by wholesalers and retailers and the consequent reductions in their profit margins. It discourages product substation by merchants and maintains the prestige of an advertised brand. It generates co-operation and merchandising support of dealers. Further, the consumers are protected against over-charging by the middlemen.

The Promotion Mix: Promotion mix is the communication mix which deals with the personal and impersonal persuasive communication about the product or service of the manufacturer. Though companies communicate with their present and potential customers in wide variety of ways, the most distinguishable categories are two namely, personal and impersonal. Personal communications relate to face to face meeting between the sales-force of the company and the clientele.

On the other hand, impersonal communications include-advertising, sales-promotion and public relations.

• The Promotion Mix Variables: The promotion mix variables worth considering are personal selling, advertising, sales-promotion, exhibitions and fairs and public relations.

Following is the brief outlining of these.

1. Personal Selling: Personal selling has an important role to play in communicating between a firm and its customers. The important questions to be answered to achieve fair degree of success are: How important is personal selling? What is its role in the marketing mix and in management of sales-force? Recruitment-Selection-Training-Motivation and controlling the management of sales-force?

2. Advertising: Advertising is a very popular method of impersonal communication using its wide variety of media and media vehicles. These media are indoor, outdoor, direct and display advertising. In planning advertising, decisions must be made on the objectives to be achieved, the audience to be reached, the themes and appeals of advertisements, the media selection, advertising appropriation, coordination with sales-force, advertising agency, advertising effectiveness, its evaluation and so on.

3. Sales-Promotion: Sales-Promotion is the achievement of short-term marketing objectives by schematic means. It is the function in marketing of providing inducements to buy, offered for a limited period only, at the time and place the purchasing decision is made, which are supplementary to a product's nominal value. Precisely, it implies special offers. Thought, it is an important tool of marketing, it is secondary to advertising and personal selling. It deals with offering of short-term incentives such as coupons, premiums and contests for consumers, buying allowance, cooperating advertising allowance, free goods for distribution to dealers, discounts, gifts, extras, sales contests, special bonus for members of sales-force, and the like. Successful sales-promotion involves defining of sales-promotion programme, its finalisation, testing and implementation and evaluation.

4. Trade Fairs and Exhibition: An exhibition is the huge congregation of manufacturers and dealers under a single roof for displaying, demonstrating and selling their products. On the other hand, a trade fair is a mammoth gathering of prospects arranged by manufacturers and the dealers where fun and frolic and entertainment are prominent. The success of these depends on the sound planning as to size, site, design of exhibitions and spots, administrative and sales staff, sales literature, display and demonstration style.

5. Public-Relations: Public-relations involve the installation and maintenance of mutual understanding between a firm and all who are likely to come in contact with it. These sections of society are customers, share holders, administration staff and general public. It attempts to portray the image and the personality of the organization. It is an impression of public opinion. It is the art and science of developing reciprocal understanding and goodwill. Functionally, it encompasses different activities undertaken to achieve corporate objectives. It engages in conferences, tours and visits all called as public relations programme. It is an attempt to achieve good relations was public and the techniques used include publicity, promotion, exploration and advertising. It is planned, deliberate and sustained effort to institute and maintain good relations between the firm and its publics.

The Place Mix: Place or distribution mix stands for the matching arrangement for the smooth flow of goods and services from the producers to the consumers. It is concerned with creation of place, time and possession utilities. In other words, it signifies two things namely physical distribution and the channels of distribution.

• The Place Mix Variables: The basic place mix variables are-transportation, warehousing, inventory levels channels of distribution. These are described in brief at this juncture.

1. Transportation: A selection is to be made of the most efficient, economical, rapid and dependable mode of transport for the firm's products taking into account railroads, motor trucks, inland-water ways, pipe-lines, air or railways express and post parcel. The basic question is who shall assume the cost of transportation from the manufacturer to the wholesaler and wholesaler to the retailer. This is of particular importance, in these days of ever increasing rates. It is known fact that transport is creating place utility that widens market and marketability for the products of the firm.

There can be at least five possible alternatives namely,

a) F.O.B: free on board policy under which the buyers pay the transport costs from the point of shipment to the point of purchaser.

b) Rapid or Delivered policy under which sellers pay all the shipping costs from seller's point to customer's point.

c) Freight allowance policy in which sellers allow the buyers a certain portion of the transportation costs involved in getting the goods from the sellers to the buyers.

d) Averaged transportation charge policy in which buyers pay an uniform charge on all the shipments regardless of their location in respect to the seller's shipping point.

e) Basing point policy under which buyers pay the costs of transport from a basing point regardless of whether shipments originated at basing point or elsewhere, either within or without the basing point area. The transportation policy-its choice is influenced by atleast seven factors namely, consumer demand, advertising, plant location, profit, warehouse facilities, competition and product value.

2. Warehousing: Warehousing has its own place in distribution of goods that creates time utility by adjusting supply and demand, preserving or conditioning the product and obtaining more favorable demand and market price. Hence, plans and policies are to be designed and implemented regarding storage and storage facilities considering the public warehouses, private storage and cold storage. Today, storage involves four functions in distributing the goods namely, receiving, actually receiving and checking the unloaded incoming goods; transfer to warehouses; selecting-that is picking up goods to conform to the orders received and finally shipping that involves checking, loading the goods as per order specification in case of outgoing goods.

3. Inventory levels: Merchandising is responsible not only for what to make available but also how much to produce. Merchandising staff, along with market research staff, determines the volume of merchandise the manufacturer experts to sell in a given period say, a month, a quarter, a term or a year. Sufficient inventory must be on hand of different sizes, colors, models, and varieties to make immediate shipment upon the receipt of orders, failing which the sales and advertising efforts go futile, orders cancelled, customers are lost to competitors and hence, profits are reduced. In determining the amount of merchandise, to make for inventory, part and current sales and the anticipated future sales for the product lines are to be considered. The inventory requirements are dependent on economic conditions, weather conditions, new or improved products and amount of advertising and sales-promotion. Amount of inventory involves determining the variety of products, models, sizes, types or colors of each

product to manufacture. Much depends on the policy followed by each business house as some manufacturers go in for concentration and others diversification. Good many manufacturers follow a policy of product concentration.

The merits of such policy are-production costs are reduced; concentrated and more sales; reduced inventories; effective sales-promotion, advertising, and lower warehousing costs; improved sales and after-sale services by dealers. On the other hand, diversification implies handling large varieties of products in the product-line and range. Manufacturers are very often encouraged by their distributors, dealers and salesmen to diversify the product lines. The merits of diversification are: greater satisfaction to customers; greater expansion of market by tapping new levels of demand and purchasing power; reduced production and distribution costs; a more complete product line for the dealers; reduced risks by distributing over more varieties; improved ability to face competition; avoiding seasonal fluctuations and increasing sale volumes and profits.

4. The channels of distribution: every manufacturer or producer is faced with the problem of developing plans and policies involving the choice of a channel or channels of distribution for his products. These plans and policies are related with the determination of the number of the franchise agreement stipulating the obligations of manufacturers and the intermediaries and the legal implications involved in their relationships, on the other. In developing and implementing these plans and policies, the manufacturer should take into account the factors such as the type of product-in the nature and extent of market-the channels employed by the competitors-the relative merits and demerits of each channel of distribution to the manufacturer-in the extent of cooperation extended by the intermediaries-the potential volume, cost and profit derived in case of each alternative channel. This involves a detailed distribution survey gathering information regarding the operations of various types of middlemen, their functions characteristics, policies, strengths and weaknesses and the ability to render efficient and economical distribution service.

These policies are broadly of three kinds of which one is to be selected by the manufacturer to his advantage. One intensive distribution in which the maximum number of outlets is employed; two selective distributions in which selected outlets are used and three exclusive distributions in which only one outlet in an area is employed.

9.7 SELF CHECK EXERCSIE

1. Discuss in brief the term Strategy.
2. How strategy is formulated? Discuss in brief.
3. Define Strategy.
4. Define Marketing Strategy.
5. Write a short-note on Niche Market.
6. Write a short note on market segmentation.
7. Define Marketing Mix.

9.8 SUMMARY

Marketing strategy is the comprehensive plan formulated particularly for achieving the marketing objectives of the organization. It provides a blueprint for attaining these marketing objectives. It is the building block of a marketing plan. It is designed after detailed marketing research. A marketing strategy helps an organization to concentrate its scarce resources on the best possible opportunities so as to increase the sales. By marketing mix we mean how the organization proposes to sell its products. The organization has to gather the four P's of marketing in appropriate combination. Gathering the marketing mix is a crucial part of marketing task. Marketing strategy clearly explains how an organization reaches its predetermined objectives.

9.9 GLOSSARY

- **Market segmentation** is the process of dividing a market of potential customers into groups, or segments, based on different characteristics. The segments created are composed of consumers who will respond similarly to marketing strategies and who share traits such as similar interests, needs, or locations.
- **Marketing** is the process of interesting potential customers and clients in your products and/or services. The key word in this marketing definition is "process"; marketing involves researching, promoting, selling, and distributing your products or services.

- **Marketing mix** refers to the set of actions, or tactics, that a company uses to promote its brand or product in the market. The 4Ps make up a typical marketing mix - Price, Product, Promotion and Place.
- **Niche market** is a segment of a larger market that can be defined by its own unique needs, preferences, or identity that makes it different from the market at large. For example, within the market for women's shoes are many different segments or niches.

9.10 ANSWERS TO SELF CHECK EXERCISE

1. For answer of question number 1 refer to section 9.1.
2. For answer of question number 2 refer to section 9.2.
3. For answer of question number 3 refer to section 9.2.
4. For answer of question number 4 refer to section 9.4.
5. For answer of question number 5 refer to section 9.5.
6. For answer of question number 6 refer to section 9.5.3.
7. For answer of question number 7 refer to section 9.6.

9.11 TERMINAL QUESTIONS

1. Define strategy. How strategies have been formulated? Discuss the process.
2. Discuss the meaning, features and objectives of marketing strategies.
3. Elaborate the different types of marketing strategies.
4. Discuss the role of marketing mix in marketing Planning.

9.12 SUGGESTED READINGS

- Carvens, D. W., Strategic Marketing Homewood Illiois, Richard D.?Irwin
- Kayank E. and Savitt R., Comparative Marketing Systems, New York, Praegar.
- Kotler Phillip, Marketing Management: Analysis, Planning, Implementation
- Porter, M. E., Competitive Advantage: Creating Sustaining Superior Performance, New York, Free Press.
- Porter, M. E., Competitive Strategy: Techniques for Analysing Industries Competitors, New York, Free Press.

LESSON-10

STRATEGY FOR SPECIFIC INDUSTRY

STRUCTURE

10.0 LEARNING OBJECTIVE
10.1 STRATEGIES FOR COMPETING IN EMERGING INDUSTRIES
10.2 STRATEGIES FOR COMPETING IN MATURING INDUSTRIES
10.3 STRATEGIES FOR FIRMS IN STAGNANT OR DECLINING INDUSTRIES
10.4 STRATEGIES FOR COMPETING IN FRAGMENTED INDUSTRIES
10.5 STRATEGIES FOR SUSTAINING RAPID COMPANY GROWTH
10.6 STRATEGIES FOR INDUSTRY LEADERS
10.7 STRATEGIES FOR RUNNER-UP FIRMS
10.8 STRATEGIES FOR WEAK AND CRISIS-RIDDEN BUSINESSES
10.9 CRAFTING SUCCESSFUL BUSINESS STRATEGIES
10.10 MATCHING STRATEGY TO ANY INDUSTRY AND COMPANY SITUATION
10.11 SELF CHECK EXERCISE
10.12 SUMMARY
10.13 GLOSSARY
10.14 ANSWERS TO SELF CHECK EXERCISE
10.15 TERMINAL QUESTIONS
10.16 SUGGESTED READINGS

10.0 LEARNING OBJECTIVE

After studying this lesson you should able to understand about: -

- The various strategies followed by different industries to cope with the situations they are facing in the market or environment.
- Easily frame and understand what to do in various situations prevailing in the market and faced by the industries.

10.1 STRATEGIES FOR COMPETING IN EMERGING INDUSTRIES

- An emerging industry is one in the formative stage.

- The business models and strategies of companies in an emerging industry are unproved – what appears to be a promising business concept and strategy may never generate attractive bottom-line profitability.

A. **Challenges When Competing in Emerging Industries**

1. Competing in emerging industries presents managers with some unique strategy-making challenges:

a. Because the market is new and unproved, there may be much speculation about how it will function, how fast it will grow, and how big it will get

b. Much of the technological know-how underlying the products of emerging industries is proprietary and closely guarded, having been developed in-house by pioneering firms; patents and unique technical expertise are key factors in securing competitive advantage

c. Often there is no consensus regarding which of several competing technologies will win out or which product attributes will proves decisive in winning buyer favor

d. Entry barriers tend to be relatively low, even for entrepreneurial start-up companies

e. Strong learning and experience curve effects may be present

f. Since in an emerging industry all buyers are first-time users, the marketing task is to induce initial purchase and to overcome customer concerns about product features, performance reliability, and conflicting claims of rival firms

g. Many potential buyers expect first-generation products to be rapidly improved, so they delay purchase until technology and product design mature

h. Sometimes firms have trouble securing ample supplies of raw materials and components

i. Undercapitalized companies may end up merging with competitors or being acquired by financially strong outsiders looking to invest in a growth market

2. The two critical strategic issues confronting firms in an emerging industry are:

a. How to finance initial operations until sales and revenues take off

b. What market segments and competitive advantages to go after in trying to secure a front-runner position

3. A firm with solid resource capabilities, an appealing business model, and a good strategy has a golden opportunity to shape the rules and establish itself as the recognized industry front-runner.

B. **Strategic Avenues for Competing in an Emerging Industry**

1. Dealing with all the risks and opportunities of an emerging industry is one of the most challenging business strategy problems.

CORE CONCEPT: Strategic success in an emerging industry calls for bold entrepreneurship, a willingness to pioneer and take risks, an intuitive feel for what buyers will like, quick responses to new developments, and opportunistic strategy making.

2. To be successful in an emerging industry, companies usually have to pursue one or more of the following strategic avenues:

a. Try to win the early race for industry leadership with risk-taking entrepreneurship and a bold creative strategy

b. Push to perfect the technology, improve product quality, and develop additional attractive performance features

c. As technological uncertainty clears and a dominant technology emerges, adopt it quickly

d. Form strategic alliances with key suppliers to gain access to specialized skills, technological capabilities, and critical materials or components

e. Acquire or form alliances with companies that have related or complementary technological expertise

f. Try to capture any first-mover advantages associated with early commitments to promising technologies

g. Pursue new customer groups, new user applications, and entry into new geographical areas

h. Make it easy and cheap for first-time buyers to try the industry's first-generation product

i. Use price cuts to attract the next layer of price-sensitive buyers into the market

3. The short-term value of winning the early race for growth and market share leadership has to be balanced against the longer-range need to build a durable competitive edge and a defendable market position.

CORE CONCEPT: The early leaders in an emerging industry cannot rest on their laurels; they must drive hard to strengthen their resource capabilities and build a position strong enough to ward off newcomers and compete successfully for the long haul.

4. Young companies in fast-growing markets face three strategic hurdles:

a. managing their own rapid expansion,

b. defending against competitors trying to horn in on their success, and

c. building a competitive position extending beyond their initial product or market.

5. Up-and-coming companies can help their cause by:

a. selecting knowledgeable members for their boards of directors,

b. hiring entrepreneurial managers with experience in guiding young businesses through the start-up and takeoff stages,

c. concentrating on out-innovating the competition, and

d. merging with or acquiring another firm to gain added expertise and a stronger resource base.

10.2 STRATEGIES FOR COMPETING IN MATURING INDUSTRIES

1. A maturing industry is one that is moving from rapid growth to significantly slower growth.

2. An industry is said to be mature when nearly all potential buyers are already users of the industry's products. In a mature market, demand consists mainly of replacement sales to existing users with growth hinging on the industry's ability to attract the few remaining buyers and convince existing buyers to up their usage.

A. Industry Changes Resulting from Market Maturity

1. An industry's transition to maturity does not begin on an easily predicted schedule.

2. When growth rates do slacken, the onset of market maturity usually produces fundamental changes in the industry's competitive environment:

a. Slowing growth in buyer demand generates more head-to-head competition for market share

b. Buyers become more sophisticated, often driving a harder bargain on repeat purchases

c. Competition often produces a greater emphasis on cost and service

d. Firms have a topping-out problem in adding new facilities

e. Product innovation and new end-use applications are harder to come by

f. International competition increases

g. Industry profitability falls temporarily or permanently

h. Stiffening competition induces a number of mergers and acquisitions among former competitors, drives the weakest firms out of the industry, and produces industry consolidation in general

B. **Strategic Moves in Maturing Industries**

1. As the new competitive character of industry maturity begins to hit full force, any of several strategic moves can strengthen a firm’s competitive positions:

a. **Pruning Marginal Products and Models:** Pruning marginal products from the line opens the door for cost savings and permits more concentration on items whose margins are highest and/or where a firm has a competitive advantage.

b. **More Emphasis on Value Chain Innovation:** Efforts to reinvent the industry value chain can have a fourfold payoff – lower costs, better product or service quality, greater capability to turn out multiple or customized product versions, and shorter design-to-market cycles.

c. **Trimming Costs:** Stiffening price competition gives firms extra incentives to drive down unit costs. Company cost reduction initiatives can cover a broad front.

d. **Increasing Sales to Present Customers:** In a mature market, growing by taking customers away from rivals may not be as appealing as expanding sales to existing customers.

e. **Acquiring Rival Firms at Bargain Prices:** Sometimes a firm can acquire the facilities and assets of struggling rivals quite cheaply.

f. **Expanding Internationally:** As its domestic market matures, a firm may seek to enter foreign markets where attractive growth potential still exists and competitive pressures are not so strong.

g. **Building New or More Flexible Capabilities:** The stiffening pressures of competition in a maturing or already mature market can often be combated by strengthening the company's resource base and competitive capabilities.

C. **Strategic Pitfalls in Maturing Industries**

1. Perhaps the biggest mistake a company can make as an industry matures is steering a middle course between low cost, differentiation, and focusing – blending efforts to achieve low cost with efforts to incorporate differentiating features and efforts to focus on a limited target market.

CORE CONCEPT: One of the greatest strategic mistakes a firm can make in a maturing industry is pursuing a compromise strategy that leaves it stuck in the middle.

2. Other strategic pitfalls include:

a. Being slow to mount a defense against stiffening competitive pressures

b. Concentrating more on protecting short-term profitability than on building or maintaining long-term competitive position

c. Waiting too long to respond to price cutting by rivals

d. Over-expanding in the face of slowing growth

e. Overspending on advertising and sales promotion efforts in a losing effort to combat growth slowdown

f. Failing to pursue cost reduction soon enough or aggressively enough

10.3 STRATEGIES FOR FIRMS IN STAGNANT OR DECLINING INDUSTRIES

1. Many firms operate in industries where demand is growing more slowly than the economy-wide average or is even declining.

2. Stagnant demand by itself is not enough to make an industry unattractive. Selling out may or may not be practical and closing operations is always a last resort.

3. Businesses competing in stagnant or declining industries must resign themselves to performance targets consistent with available market opportunities.

4. In general, companies that succeed in stagnant industries employ one or more of three strategic themes:

a. Pursue a focused strategy aimed at the fastest growing market segments within the industry

b. Stress differentiation based on quality improvement and product innovation

c. Strive to drive costs down and become the industry's low-cost provider

CORE CONCEPT: Achieving competitive advantage in stagnant or declining industries usually requires pursuing one of three competitive approaches: focusing on growing market segments within the industry, differentiating on the basis of better quality and frequent product innovation, or becoming a lower-cost producer.

5. These three strategic themes are not mutually exclusive.

6. The most common strategic mistakes companies make in stagnating or declining markets are:

a. Getting trapped in a profitless war of attrition

b. Diverting too much cash out of the business too quickly

c. Being overly optimistic about the industry's future and spending too much on improvements in anticipation that things will get better

Question

1. Identify the prominent reason for the 10% annual decline in this industry. How did Yamaha's creative strategists combat this decline?

Answer: Change in consumer usage was the predominating reason for the piano industry decline. Households were no longer utilizing pianos as much or in the same ways as before.

Yamaha's strategists looked at this decline as an opportunity to capitalize on the declining market in new ways. These strategists developed other uses for the previous idle household pianos and thus were able to increase sales of varying supporting products.

10.4 STRATEGIES FOR COMPETING IN FRAGMENTED INDUSTRIES

1. The standout competitive feature of a fragmented industry is the absence of market leaders with king-sized market shares or widespread buyer recognition.

A. **Reasons for Supply-Side Fragmentation**

1. Any of several reasons can account for why the supply side of an industry is fragmented:

a. Market demand is so extensive and so diverse that very larges numbers of firms can easily coexist trying to accommodate the range and variety of buyer preferences and requirements and to cover all the needed geographic locations

b. Low entry barriers allow small firms to enter quickly and cheaply

c. An absence of scale economies permits small companies to compete on an equal cost footing with larger firms

d. Buyers require relatively small quantities of customized products

e. The market for the industry's product or service is becoming more global, putting companies in more and more countries in the same competitive market

f. The technologies embodied in the industry's value chain are exploding into so many new areas and along so many different paths that specialization is essential just to keep abreast in any one area of expertise

g. The industry is young and crowded with aspiring contenders, with no firm having yet developed the resource base, competitive capabilities, and market recognition to command a significant market share

2. Some fragmented industries consolidate over time as growth slows and the market matures.

3. Competitive rivalry in fragmented industries can vary from moderately strong to fierce.

CORE CONCEPT: In fragmented industries competitors usually have wide enough strategic latitude (1) to either compete broadly or focus and (2) to pursue a low-cost, differentiation-based or best-cost competitive advantage.

4. Competitive strategies based on either low cost or product differentiation are viable unless the industry's product is highly standardized or a commodity.

5. Focusing on a well-defined market niche or buyer segment usually offers more competitive advantage potential than striving for broader market appeal.

B. **Strategy Options for a Fragmented Industry**

1. Suitable competitive strategy options in a fragmented industry include:

a. Constructing and operating "formula" facilities – This strategic approach is frequently employed in restaurant and retailing businesses operating at multiple locations.

b. Becoming a low-cost operator – When price competition is intense and profit margins are under constant pressure, companies can stress no-frills operations featuring low overhead, high productivity/low-cost labor.

c. Specializing by product type – When a fragmented industry's products include a range of styles or services, a strategy to focus on one product or service category can be effective.

d. Specialization by customer type – A firm can stake out a market niche in a fragmented industry by catering to those customers who are interested in low prices, unique product attributes, customized features, carefree service, or other extras.

e. Focusing on a limited geographic area – Even though a firm in a fragmented industry cannot win a big share of total industry wide sales. It can still try to dominate a local or regional geographic area.

2. In fragmented industries, firms generally have the strategic freedom to pursue broad or narrow market targets and low-cost or differentiation-based competitive advantages. Many different strategic approaches can exist side-by-side.

10.5 STRATEGIES FOR SUSTAINING RAPID COMPANY GROWTH

1. Companies that are focused on growing their revenues and earnings at a rapid or above-average pace year after year generally have to craft a portfolio of strategic initiatives covering three horizons:

a. Horizon 1: "Short-jump" strategic initiatives to fortify and extend the company's position in existing businesses

b. Horizon 2: "Medium-jump" strategic initiatives to leverage existing resources and capabilities by entering new businesses with promising growth potential

c. Horizon 3: "Long-jump" strategic initiatives to plant the seeds for ventures in businesses that do not yet exist

A. **The Risks of Pursuing Multiple Strategy Horizons**

1. There are risks to pursuing a diverse strategy portfolio aimed at sustained growth:

a. A company cannot place bets on every opportunity that appears lest it stretch its resources too thin

b. Medium-jump and long-jump initiatives can cause a company to stray far from its core competencies and end up trying to compete in businesses for which it is ill suited

c. It can be difficult to achieve competitive advantage in medium- and long-jump product families and businesses that prove not to mesh well with a company's present businesses and resource strengths

10.6 STRATEGIES FOR INDUSTRY LEADERS

1. The competitive positions of industry leaders normally range from "stronger than average" to "powerful."

2. Leaders are typically well known and strongly entrenched leaders have proven strategies.

3. The main strategic concern for a leader revolves around how to defend and strengthen its leadership position, perhaps becoming the dominant leader as opposed to just a leader.

4. The pursuit of industry leadership and large market share is primarily important because of the competitive advantage and profitability that accrue to being the industry's biggest company.

CORE CONCEPT: The two best tests of success of a stay-on-the-defensive strategy are (1) the extent to which it keeps rivals in a reactive mode, struggling to keep up and (2) whether the leader is growing faster than the industry as a whole and wresting market share from rivals.

5. Three contrasting strategic postures are open to industry leaders:

a. **Stay-on-the-defensive strategy:**

The central goal of a stay-on-the-defensive strategy is to be a first-mover. It rests on the principle that staying a step ahead and forcing rivals into a catch-up mode is the surest path to industry prominence and potential market dominance. Being the industry standard setter entails relentless pursuit of continuous improvement and innovation.

The array of options for a potent stay-on-the-defensive strategy can include initiatives to expand overall industry demand.

a. Fortify-and-defend strategy:

The essence of "fortify-and defend" is to make it harder for challengers to gain ground and for new firms to enter. Specific defensive actions can include:

(1) attempting to raise the competitive ante for challengers and new entrants via increased spending for advertising, higher levels of customer service, and bigger R&D outlays,

(2) introducing more product versions or brands to match the product attributes that challenger brands have or to fill vacant niches that competitors could slip into,

(3) adding personalized services and other extras that boost customer loyalty and make it harder and more costly for customers to switch to rival products,

(4) keeping prices reasonable and quality attractive,

(5) building new capacity ahead of market demand to discourage smaller competitors from adding capacity of their own,

(6) investing enough to remain cost-competitive and technologically progressive,

(7) patenting the feasible alternative technologies, and

(8) signing exclusive contracts with the best suppliers and dealer distributors. A fortify-and-defend strategy best suits firms that have already achieved industry dominance and do not wish to risk antitrust action. A fortify-and-defend strategy always entails trying to grow as fast as the market as a whole and requires reinvesting enough capital in the business to protect the leader's ability to compete.

c. **Muscle-flexing strategy:** Here a dominant leader plays a competitive hardball when smaller rivals rock the boat with price cuts or mount any new market offensives that directly threaten its position. Specific responses can include quickly matching or exceeding challengers' price cuts, using large promotional campaigns to counter challengers' moves to gain market share, and offering better deals to their major customers. The leader may also use various arm-twisting tactics to pressure present customers not to use the products of rivals. The obvious risks of a muscle-flexing strategy are running afoul of the antitrust laws, alienating customers with bullying tactics, and arousing adverse public opinion.

CORE CONCEPT: Industry leaders can strengthen their long-term competitive positions with strategies keyed to aggressive offense, aggressive defense, or muscling smaller rivals and customers into behaviors that bolster its own market standing.

Question: What type of strategy did Microsoft allegedly engage in? What caused this to be considered an antitrust situation?

Answer: Microsoft allegedly engaged in a muscle-flexing strategy in which it used heavy-handed tactics to routinely pressure customers, crush competitors, and throttle competition.

The case study presents supporting evidence to indicate that Microsoft "rewarded its friends and punished its enemies." This type of market domination, utilizing such tactics, creates an antitrust situation in the industry.

10.7 STRATEGIES FOR RUNNER-UP FIRMS

1. Runner-up or second-tier firms have smaller market shares than first-tier industry leaders.

2. Runner-up firms can be:

a. Market challengers – employing offensive strategies to gain market share and build a stronger market position

b. Focusers – seeking to improve their lot by concentrating their attention on serving a limited portion of the market

c. Perennial runner-ups – lacking the resources and competitive strengths to do more than continue in trailing positions and/or content to follow the trendsetting moves of the market leaders

A. **Obstacles for Firms with Small Market Shares**

1. In industries where big size is definitely a key success factor, firms with small market shares have some obstacles to overcome:

a. Less access to economies of scale in manufacturing, distribution, or marketing and sales promotion

b. Difficulty in gaining customer recognition

c. Weaker ability to use mass media advertising

d. Difficulty in funding capital requirements

2. The competitive strategies most underdogs use to build market share and achieve critical scale economies are based on:

a. Using lower prices to win customers from weak higher-cost rivals

b. Merging with or acquiring rival firms to achieve the size needed to capture greater scale economies

c. Investing in new cost-saving facilities and equipment, perhaps relocating operations to countries where costs are significantly lower

d. Pursuing technological innovations or radical value chain revamping to achieve dramatic cost savings

3. However, it is erroneous to view runner-up firms as inherently less profitable or unable to hold their own against the biggest firms.

B. Strategic Approaches for Runner-Up Companies

1. Runner-up companies can have considerable strategic flexibility and can consider any of the following seven approaches:

a. **Offensive Strategies to Build Market Share:** A challenger firm needs a strategy aimed at building a competitive advantage of its own. The best “mover-and-shaker” offensives usually involve one of the following approaches:

(1) pioneering a leapfrog technological breakthrough,

(2) getting new or better products into the market consistently ahead of rivals and building a reputation for product leadership,

(3) being more agile and innovative in adapting to evolving market conditions and customer expectations than slower-to-change market leaders,

(4) forging attractive strategic alliances with key distributors, dealers, or marketers of complementary products,

(5) finding innovative ways to dramatically drive down costs and then using the attraction of lower prices to win customers from higher-cost, higher-priced rivals, and

(6) crafting an attractive differentiation strategy based on premium quality, technological superiority, outstanding customer service, rapid product innovation, or convenient online shopping options.

b. **Growth-via-Acquisition Strategy:** One of the most frequently used strategies employed by ambitious runner-up companies is merging with or acquiring rivals to form an enterprise that has greater competitive strength and a larger share of the overall market.

c. **Vacant-Niche Strategy:** This version of a focused strategy involves concentrating on specific customer groups or end-user applications that market leaders have bypassed or neglected.

d. **Specialist Strategy:** A specialist firm trains its competitive effort on one technology, product or product family, end use, or market segment. The aim is to train the company's resource strengths and capabilities on building competitive advantage through leadership in a specific area.

e. **Superior Product Strategy:** The approach here is to use a differentiation-based focused strategy keyed to superior product quality or unique attributes.

f. **Distinctive Image Strategy:** Some runner-up companies build their strategies around ways to make themselves stand out from competitors. A variety of distinctive strategies can be used.

g. **Content Follower Strategy:** Content followers deliberately refrain from initiating trendsetting strategic moves and from aggressive attempts to steal customers away from the leaders. Followers prefer approaches that will not provoke competitive retaliation, often opting for focus and differentiation strategies that keep them out of the leader's path.

CORE CONCEPT: Rarely can a runner-up firm successfully challenge an industry leader with a copycat strategy.

10.8 STRATEGIES FOR WEAK AND CRISIS-RIDDEN BUSINESSES

1. A firm in an also-ran or declining competitive position has four basic strategic options:

a. **Offensive turnaround strategy** – If it can come up with the financial resources, it can launch an offensive turnaround strategy keyed either to low cost or new differentiation themes

b. **Fortify-and-defend strategy** – Using variations of its present strategy and fighting hard to keep sales, market share, profitability, and competitive position at current levels

c. **Fast-exit strategy** – Get out of the business either by selling out to another firm or by closing down operations if a buyer cannot be found

d. **End-game or slow-exit strategy** – Keeping reinvestment to a bare bones minimum and taking actions to maximize short-term cash flows in preparation for an orderly market exit

CORE CONCEPT: The strategic options for a competitively weak company include waging a modest offensive to improve its position, defending its present position, being acquired by another company, or employing an end-game strategy.

A. **Turnaround Strategies for Businesses in Crisis**

1. Turnaround strategies are needed when a business worth rescuing goes into crisis; the objective is to arrest and reverse the sources of competitive and financial weakness as quickly as possible.

2. Management's first task in formulating a suitable turnaround strategy is to diagnose what lies at the root of poor performance. The next task is to decide whether the business can be saved or whether the situation is hopeless.

3. Some of the most common causes of business trouble are:

- taking on too much debt,
- overestimating the potential for sales growth,
- ignoring the profit-depressing effects of an overly aggressive effort to buy market share with deep cost cuts,
- being burdened with heavy fixed costs,
- betting on R&D efforts but failing to come up with effective innovations,
- betting on technological long-shots,
- being too optimistic about the ability to penetrate new markets,

- making frequent changes in strategy, and
- being overpowered by more successful rivals.

4. Curing these kinds of problems and achieving a successful business turnaround can involve any of the following actions:

a. **Selling Off Assets:** Asset-reduction strategies are essential when cash flow is a critical consideration and when the most practical ways to generate cash are (1) through sale of some of the firm's assets and (2) through retrenchment.

b. **Strategy Revision:** When weak performance is caused by bad strategy, the task of strategy overhaul can proceed along any of several paths: (1) shifting to a new competitive approach to rebuild the firm's market position, (2) overhauling internal operations and functional area strategies to better support the same overall business strategy, (3) merging with another firm in the industry and forging a new strategy keyed to the newly merged firm's strengths, and (4) retrenching into a reduced core of products and customers more closely matched to the firm's strengths.

c. **Boosting Revenues:** Revenue increasing turnaround efforts aim at generating increased sales volume. Attempts to increase revenues and sales volume are necessary (1) when there is little or no room in the operating budget to cut expenses and still break even and (2) when the key to restoring profitability is increased use of existing capacity.

d. **Cutting Costs:** Cost-reducing turnaround strategies work best when an ailing firm's value chain and cost structure are flexible enough to permit radical surgery, when operating insufficiencies are identifiable and readily correctable, when the firm's costs are obviously bloated, and when the firm is relatively close to its break-even point.

e. **Combination Efforts:** Combination turnaround strategies are usually essential in grim situations that require fast action on a broad front. Combination actions frequently come into play when new managers are brought in and given a free hand to make whatever changes they see fit. Turnaround efforts tend to be high-risk undertakings and they often fail.

Question: Identify the circumstances at Lucent that directed the company to implement a turnaround strategy. Were the implemented changes effective? Explain.

Answer: By the fall of 2001, lost sales to competitors and a steep downturn in capital spending for telecommunications equipment had thrown the company into a nosedive. The proposed turnaround strategy changes are not expected to produce the desired results until the year 2004. Initially, they were expected to provide an immediate positive effect for the organization.

6. A landmark study of 64 companies found no successful turnarounds among the most troubled companies in eight basic industries.

7. A recent study found that troubled companies that did nothing and elected to wait out hard times had only a 10 percent chance of recovery. Modifications to the turnaround strategy increased this percentage.

B. **Liquidation – The Strategy of Last Resort**

1. Of all the strategic alternatives, liquidation is the most unpleasant and painful because of the hardships of job elimination and the effects of business closings on local communities.

2. In hopeless situations, an early liquidation effort usually serves owner-stockholder interests better than an inevitable bankruptcy.

C. **End-Game Strategies**

1. An end-game or slow-exist strategy steers a middle course between preserving the status quo and exiting as soon as possible.

2. Harvesting is a phasing-down strategy that involves sacrificing market position in return for bigger near-term cash flows or current profitability.

3. A slow-exit strategy is a reasonable strategic option for a weak business in the following circumstances:

a. When the industry's long-term prospects are unattractive

b. When rejuvenating the business would be too costly or at best marginally profitable

c. When the firm's market share is becoming increasingly costly to maintain or defend

d. When reduced levels of competitive effort will not trigger an immediate or rapid falloff in sales

e. When the enterprise can redeploy the freed resources in higher-opportunity areas

f. When the business is not a crucial or core component of a diversified company's overall lineup of businesses

g. When the business does not contribute other desired features to a company's overall business portfolio

4. End-game strategies make the most sense for diversified companies that have sideline or noncore business units in weak competitive positions or in unattractive industries.

10. 9 CRAFTING SUCCESSFUL BUSINESS STRATEGIES

1. The 10 commandments that serve as useful guides for developing sound strategies include:

a. Place top priority on crafting and executing strategic moves that enhances the company's competitive position for the long term

b. Be prompt in adapting to changing market conditions, unmet customer needs, buyer wishes for something better, emerging technological alternatives, and new initiatives of competitors

c. Invest in creating a sustainable competitive advantage

d. Avoid strategies capable of succeeding only in the most optimistic circumstances

e. Do not underestimate the reactions and the commitment of rival firms

f. Consider that attacking competitive weakness is usually more profitable and less risky than attacking competitive strength

g. Be judicious in cutting prices without an established cost advantage

h. Strive to open up very meaningful gaps in quality or service or performance features when pursuing a differentiation strategy

i. Avoid stuck-in-the-middle strategies that represent compromise between lower costs and greater differentiation and between broad and narrow market appeal

j. Be aware that aggressive moves to wrest market share away from rivals often provoke retaliation in the form of a price war

10.10 MATCHING STRATEGY TO ANY INDUSTRY AND COMPANY SITUATION

1. Aligning a company's strategy with its overall situation starts with a quick diagnosis of the industry environment and the firm's competitive standing in the industry.

2. In crafting the overall strategy, there are several pitfalls to avoid:

a. Designing an overly ambitious strategic plan

b. Selecting a strategy that represents a radical departure from or abandonment of the cornerstones of the company's prior success

c. Choosing a strategy that goes against the grain of the organization's culture or conflicts with the values and philosophies of the most senior executives

d. Being unwilling to commit wholeheartedly to one of the five competitive strategies

10.11 SELF CHECK EXERCISE

Write Short-notes on the following: -

1. Strategies for competing in Emerging Industries.
2. Strategies for competing in Mature Industry.
3. Strategies for competing in fragmented Industry.
4. Strategies for firms in declining industry.
5. Strategy for industry leaders.
6. What is selling of assets?
7. How you can craft successful business strategies? Write in brief.

10.12 SUMMARY

Industrial development is the motive force behind economic growth. Industrial development is also a result of international economic competition. Development of technology-intensive industries is often the guiding principle of government for a developing country with limited natural resources and a small-scale domestic market. Industrial development is a very important aspect of any economy. It creates employment, promotes research and development, leads to modernization and ultimately makes the economy self-sufficient. In fact, industrial development even boosts other sectors of the economy like the agricultural sector (new farming technology) and the service sector. It is also closely related to the development of trade.

10.13 GLOSSARY

- **Asset** is a resource with economic value that an individual, corporation or country owns or controls with the expectation that it will provide a future benefit. Assets are reported on a company's balance sheet and are bought or created to increase a firm's value or benefit the firm's operations.
- **Declining Industry** means an industry which experiences negative growth, or remains stagnant due to decline in demand of one or more of its products for varied reasons. This includes and is not limited to, a declining economy, downgrade or upgrade of a product, and changes in technology.
- **Emerging industry** is a group of companies in a line of business formed around a new product or idea that is in the early stages of development. An emerging industry typically consists of just a few companies and is often centered on new technology.
- **Fragmented industry** is one in which many companies compete and there is no single or small group of companies which dominate the industry. The competitive structure of the industry means that no one company is in an overly strong or influential position in the industry.
- **Industry leader** is a company that is important in a particular industry because it has the highest level of sales, the best products etc a person who is very important in an industry or in business.
- **Mature industry** is an industry that has passed both the emerging and growth phases of industry growth.
- **Stagnant Industry** means an industry which experiences negative growth, or remains stagnant due to decline in demand of one or more of its products for varied reasons. This includes and is not limited to, a declining economy, downgrade or upgrade of a product, and changes in technology.

10.14 ANSWERS TO SELF CHECK EXERCISE

1. For answer of question number 1 refer to section 10.1.
2. For answer of question number 2 refer to section 10.2.
3. For answer of question number 3 refer to section 10.4.
4. For answer of question number 4 refer to section 10.3.

5. For answer of question number 5 refer to section 10.6.

6. For answer of question number 6 refer to section 10.8.

7. For answer of question number 7 refer to section 10.9.

10.15 TERMINAL QUESTIONS

1. Listed below are 8 industries. Classify each one as (a) emerging, (b) turbulent or high-velocity, (c) mature/slow-growth, (d) stagnant/declining, or (e) fragmented. Do research on the Internet, if needed, to locate information on industry conditions and reach a conclusion on what classification to assign each of the following: -

(1) DVD player industry

(2) Dry cleaning industry

(3) Poultry industry

(4) Camera film and film-developing industry

(5) Wine, beer, and liquor retailing

(6) Personal computer industry

(7) Cell phone industry

(8) Recorded music industry (CDs, tapes)

The students will provide varying responses in making their decision as to which classification to assign each of the industries. However, all responses should be staunchly supported with text material and Internet research. It should be expected that each student would identify the characteristics of the classification selected and relate them to the industry under discussion.

Suggested student responses may include (the numbers and letters correspond to those in the exercise above): 1 is b (rapid changes in the industry and new competition), 2 is d (not as many clothes manufactured that require dry cleaning due to customer preference), 3 is c (most buyers are already customers), 4 is d (demand has fallen off due to new technological advancements), 5 is b (new competitors with new products and changing customer requirements), 6 is b (rapid technological changes and consumer needs are changing quickly) 7 is b (rapid technological changes and new competition), and 8 is c or d (sales are mainly to current users and available technology is quickly replacing this market).

Students should support responses by indicating acquisition of industry knowledge such as: (1) an emerging industry is one in the formative stage with most companies in start-up mode, (2) a turbulent/high-velocity industry is one that finds itself facing rapid technological change, short product life-cycles, new competitive moves by rivals, and fast evolving customer requirements, (3) mature/slow growth industries are those in which most potential buyers are already users of current products and demand consists mainly of replacement sales to existing users, (4) a stagnant/declining industry is one where demand is growing more slowly than the economy-wide average or is even declining and companies operating must resign themselves to performance targets consistent with available market opportunities, and (5) a fragmented industry is one that has no single market leader who possesses king-sized shares of the market or widespread buyer recognition and many of the companies here are privately held.

2. Toyota overtook Ford Motor Company in 2003 to become the second largest maker of motor vehicles, behind General Motors. Toyota is widely regarded as having aspirations to overtake General Motors as the global leader in motor vehicles within the next 10 years. Do research on the Internet or in the library to determine what strategy General Motors is pursuing to maintain its status as the industry leader. Then research Toyota's strategy to overtake General Motors.

Students are expected to conduct extensive research and should readily provide current information regarding General Motors' defensive strategy to combat Toyota's market influence. This may include GMs' product modifications to better meet customer preferences, price-cutting, and sales/marketing tactics such as rebates and price savings to encourage buyers to the product. Also, each student should reveal the intricacies of Toyota's strategy to overtake General Motors in the market. Discussions should include such information as maintaining a respected brand name, superior customer service, and extensive product guarantees.

10.16 SUGGESTED READINGS

- Carvens, D. W., Strategic Marketing Homewood Illiois, Richard D.?Irwin
- Kayank E. and Savitt R., Comparative Marketing Systems, New York, Praegar.
- Kotler Phillip, Marketing Management: Analysis, Planning, Implementation

- Porter, M. E., Competitive Advantage: Creating Sustaining Superior Performance, New York, Free Press.
- Porter, M. E., Competitive Strategy: Techniques for Analysing Industries Competitors, New York, Free Press.

LESSON-11

CUSTOMER ORIENTATION

STRUCTURE

11.0 LEARNING OBJECTIVE
11.1 INTRODUCTION
11.2 RELEVANCE OF A CUSTOMER ORIENTATION
11.3 CONSUMER –ORGANISATIONAL MARKET CONTINUUM
11.4 EXCHANGE RELATIONSHIPS IN MARKETING
11.5 TRANSACTIONS AND RELATIONSHIPS
11.6 CUSTOMER LOYALTY AND PROFITABILITY
11.7 STIMULATING BUYING BEHAVIOUR
11.8 CULTURAL VALUES AND SOCIAL INFLUENCES
11.9 INVOLVEMENT IN BUYING BEHAVIOUR
11.10 NATURE OF ORGANISATIONAL BUYING
11.11 COMPLEXITY IN ORGANISATIONAL BUYING
11.12 PRODUCT COMPLEXITY AND COMMERCIAL UNCERTAININITY
11.13 BUYING PROCESS FRAMEWORK
11.14 SELF CHECK EXERCISE
11.15 SUMMARY
11.16 GLOSSARY
11.17 ANSWERS TO SELF CHECK EXERCISE
11.18 TERMINAL QUESTIONS
11.19 SUGGESTED READINGS

11.0 LEARNING OBJECTIVE

After studying this lesson you should able to understand: -

- What is customer orientation and how business organisations works to attract customers and make them loyal to them.

11.1 INTRODUCTION

In earlier years the dominant business paradigm was mass production in which firms produced as much as they could, depending on cost structures. In many situations the market was only partly satisfied. A mass production mentality encourages a strong pressure to move output down the distribution channel to where it can be consumed with an accompanying pressure on selling what has been produced. Selling is emphasized, not marketing. Marketing, being a more sophisticated and complex process, gets ignored. Selling focuses on the needs of the seller, marketing on the needs of the buyer. Selling is preoccupied with the seller's needs to convert his product into cash, marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering, and finally consuming it. While a focus on mass production still exists in many organizations, the beliefs and assumptions held in common and taken for granted in successful organizations are a customer orientation where the focus is on satisfying customer needs and wants while providing a profit for shareholders. A focus on customers means addressing their needs in consumer and industrial markets and understanding their behaviour in all its aspects. The wide selection of products available nowadays indicates that most of us find something that meets our requirements. Pleasing the customer is, therefore, not about producing more products and services but about producing the right products.

11.2 RELEVANCE OF A CUSTOMER ORIENTATION

A customer orientation means focusing exclusively on customers as the way to achieve long-run profits. It means directly appealing to customers by offering a better match of products or services to customer needs. An unbalanced customer focus may arise, however, where the product category or brand manager devotes attention only to customers and pays less attention to other actors in the business system. Too great a focus on customers can lead to rapid pseudo-product innovation and differentiation, short product life cycles and emphasis on small-batch production of specialized products that may be a response to a wish list rather than to real needs.

Companies which treat every customer the same are following an approach based on mass production–mass marketing presuming that all customers have similar needs and wants and that the provision of value means satisfying customers with standard products, communicated in the same way throughout the market and delivered at the same price and through the same distribution channels. The mass market approach is appropriate when there is little variation in the needs of customers for a specific product. Apart from some commodities, it is extremely rare to find this condition in practice since people express wide-ranging preferences for the things they buy. The extensive range of product and service options available in retail outlets attests to the validity of this claim. For this reason a customer orientation obliges the organization to examine customer expectations regarding the performance of a product or service purchased. The balance of expectations when measured against performance presents managers with a measure of customer satisfaction. Satisfied customers are presumed to manifest long-term loyalty which results in profits for the organization.

11.3 CONSUMER–ORGANIZATIONAL MARKET CONTINUUM

A consumer market is defined as all the individuals and households who are actual and potential buyers of products and services for personal, family or household consumption. An organizational market contains all the organizations which buy products and services as components, raw materials or equipment to be used in the provision of other products and services. While these markets are often treated separately, they have much in common. Buying behaviours at both ends of the continuum from consumer to organizational markets are similar, only the emphasis is different. The actors and influencers are people motivated by similar factors but to different degrees.

It is a matter of examining a continuum of buying behaviour. In both consumer and industrial markets there are a number of identifiable influences on the demand for products and services. For both markets it is possible to distinguish between generic demand, which is influenced by demographic and economic factors, and brand demand, which is primarily influenced by the degree of the organization’s product differentiation and the extent of competition. Organizational markets tend to be far more complex than consumer markets because they involve a more intricate network of buying influences. The technical nature of many of the products purchased adds to the complexity of industrial marketing. Generally, the size of the purchase in money terms is greater and the buying relationship is more complex and long term. In the marketing of industrial products, technology is a more pervasive element which frequently produces a technologically driven production orientation rather than a marketing orientation. It is possible to distinguish organizational markets from consumer markets in three respects:

- market structure
- buying decisions
- how companies reach their customers.

In regard to structure, a small number of users in organizational markets usually account for a very high proportion of total sales in that market. In addition, many industrial products sold, e.g. equipment and machinery, usually have a high unit value and are not purchased frequently. The purchasing decision for capital products can usually be postponed, something which can be difficult for many consumer products. Buyers in industrial markets are thought to be more rational than buyers in consumer markets. A degree of rationality enters into all purchases but it is necessary to recognize that buying motivations in organizational markets are also influenced by psychological and political factors in addition to the more rational economic factors that are often stated as the only basis for industrial purchases. Buying decisions in organizational markets are also influenced by the derived demand for the products and services their products serve as inputs. Demand in organizational markets depends on the demand for other industrial or consumer products. In this sense the demand for the output of industrial markets is derived from the demand arising in other markets. In organizational markets there is usually greater emphasis on direct selling to the final user. Products have to be demonstrated, technical issues must be exploited, and special before- and after-sales services provided. If distributors are involved in the process, they are usually customers and may be regarded as final users by the manufacturer. In such circumstances the manufacturer must consider providing customer satisfaction to distributors and final users.

11.4 EXCHANGE RELATIONSHIPS IN MARKETING

Most marketing exchanges between the organization and its customers are characterized by transactions involving a product or service being sold for money where the latent reasons for the transaction are economic, social and psychological in nature.

Based on this latent structure, marketing exchanges may be economic, symbolic or some combination of the two. Marketing exchange as economic is built on the concept of economic man which assumes that people: -

- are rational in behaviour;
- attempt to maximize satisfaction through exchange;
- possess complete information on alternatives available to them; and
- exchanges are reasonably free from outside influences.

Symbolic exchange, in contrast, refers to the mutual transfer of psychological, social or other intangible benefits associated with products and services. 'People buy things not only for what they can do, but also for what they mean'. But experience demonstrates that marketing exchanges involve economic and symbolic dimensions which are often quite difficult to separate. Successful transactions depend on deriving an appropriate mix of the two. Customers seek economic and symbolic rewards in their purchases and relationships with organizations which leads to the suggestion of the existence of a marketing person who: -

- is sometimes rational, sometimes irrational;
- is motivated by tangible and intangible rewards;
- engages in economic and symbolic exchanges;
- faces incomplete information;
- strives to maximize benefits but settles for less than optimum gains in exchanges;
- is constrained by individual and social factors.

11.5 TRANSACTIONS AND RELATIONSHIPS

A myth that is perpetuated among business commentators and readily believed by chief executive officers of many organizations is that customer relationship management (CRM), requiring large sophisticated databases of customer information, is the panacea for establishing customer loyalty. Without an emphasis on technology or software, CRM aligns business processes with customer strategies to build customer loyalty and increase profits over time. Customer relationship management is not a software tool that manages customer relationships but is rather the bundling of customer strategies and processes, supported by relevant software, for the purpose of improving customer loyalty and eventually profits in the organization. Effective customer relationship management is based on segmentation analysis and an appropriate customer strategy for each segment.

According to Rigby 'successful CRM depends more on strategy than on the amount spent on technology. The only way you can make CRM work is by taking the time to calculate your customer strategy, which helps employees understand where they are going and why, and to align your business processes before implementing technology.' These authors provide a framework to ensure an appropriate alignment of CRM strategy with technology.

Five steps lead to the successful retention of customers. First, it is necessary to acquire the right customer, which depends on selecting an appropriate strategy supported by suitable technology. During the next stage the organization develops the right value proposition after which it establishes the best processes. It is then necessary to involve employees in the task of retaining customers. Customer relationship management, loyalty programmes, relationship marketing, life-time customer value are, therefore, fashionable terms used by commentators and managers who ignore the importance of the sale – the transaction – as the primary purpose of multiple communications with customers. A focus on the transaction provides immediate feed-back on the effectiveness of marketing activities. It also serves to prequalify customers Imperative Strategy Technology Acquiring the right customer identify most valuable customers determine their importance to you select products required now and in the future identify competing products determine products to offer determine the best way to deliver the products role for alliances and technologies service capabilities to develop or acquire understand tools employees need to foster customer relationships establish human resource systems to increase employee loyalty analysis of customer revenue and costs identify current and future high-value customers target direct marketing understand why customers defect and how to re-acquire them understand what competitors do to win organization's high-value customers service managers study customer defection measures collect relevant product behaviour data create new distribution channels develop new pricing models build communities of customers process transactions faster provide better information to the front office efficient management of logistics and supply chain install effective collaboration align incentives and performance measures use knowledge management systems track customer defection and retention levels track customer satisfaction levels Designing the right value proposition Establish the best processes Motivate employees Retain customers.

Customer relationship management strategy and technology and measure their potential value before the organization invests in building a relationship with them. Relationship marketing aims to create a customer relationship from the start of the sales cycle and satisfy and retain existing customers whereas the goal of transactional marketing is to make the sale and locate new customers. Advocates of relationship marketing or customer relationship management believe that the approach delivers accurate data to the organization to assist in making decisions but in fact these data are unfiltered because they are not calibrated against any benchmarks or standards. There is, however, a clear relationship between the transactional activities of an organization and resulting revenues. Observing customer behaviour rather than basing decisions on attitudes seems the better option. Transactional marketing techniques should be used as a precursor to relationship building efforts as retaining customers ultimately is more profitable than searching for new ones. In this regard the ability of transactional marketing to prequalify customers is the approach favoured.

11.6 CUSTOMER LOYALTY AND PROFITABILITY

The relationship between customer loyalty and profitability is much weaker and more subtle than proponents of loyalty programmes claim. Loyalty programmes are based on three assumptions: that it costs less to serve loyal customers; that loyal customers pay higher prices for the same bundle of Focus on the customer goods; and that loyal customers through good word-of-mouth communication, promote the organization. In regard to the first assumption, many advocates of loyalty programmes claim that loyal customers are profitable because the initial costs of recruiting them are amortized over a larger number of transactions. This assumes that these transactions are profitable. It is necessary to test for a direct link between loyalty and costs. No doubt there are circumstances where such links exist but the organization should determine the circumstances in which loyalty programmes are profitable. The second assumption depends on high switching costs among some customer groups whereby they are willing to pay higher prices to avoid making the switch. In practice, loyalty is rewarded with discounts so just because a customer is willing to pay a relatively high price does not mean that the organization will benefit from this loyalty.

Under the third assumption loyal customers should promote the organization. The idea that more frequent customers are also the strongest advocates for the organization holds a great attraction for managers. Many organizations justify their investments in loyalty programmes by seeking profits not so much from the loyal customers as from the new customers the loyal ones attract. Furthermore, loyal customers may have formed a positive attitude toward the organization which they pass along to new customers. As noted previously, however, the organization must study customer behaviour, not just attitudes to determine the effectiveness of loyalty programmes. Understanding consumer buyer behaviour Approaches based on understanding consumer buyer behaviour draw heavily on the other social sciences. Four groups of factors underlie buying behaviour in consumer markets: external factors, e.g. competitive substitutes; individual factors, e.g. the customer's family needs, budget constraints and social concerns; buying processes; and a product or service or something of value provided by the organization which stimulates the consumer into a buying routine. The external factors which influence consumer buying behaviour are culture, ethics, legal restrictions, social class, inter-household communications and other influence processes. The internal factors refer to the individual's own cognitive world which determines the individual's reaction to stimuli. The individual's cognitive world is influenced by needs, past experience, personality, learning and attitudes. The organization also has a strong role to play in designing and providing appropriate stimulation to the purchase decisions. The organization modifies its marketing mix to accommodate the demands and subjective expected Competitive substitutes Customer family needs budgets social concerns Subjective expected utilities Social norms, ethics, legal restrictions Organization goals policies. Influences in the customer–organization interaction utilities expressed by consumers. It is believed that to the extent that it is successful in matching its marketing mix with expressed and latent demands in the market, the greater is the possibility that consumers will patronize the organization's products now and in the future.

11.7 STIMULATING BUYING BEHAVIOUR

An element in understanding consumer behaviour refers to the relationship between a stimulus of some kind created by the organization, such as a new product, the way information about the innovation is processed by the consumer and the response the consumer makes having evaluated the alternatives. The stimulus is captured by the range of elements in the marketing mix which the company manipulates to achieve its corporate objectives. These stimuli derive from the product or service itself or from other elements of the marketing mix developed by the company to support its products and services. Process refers to the sequence of stages used in the internal processing of these influences by the consumer which highlights the cause and effect relationships in making decisions. These processes include the perceptual, physiological and inner feelings and dispositions of consumers toward the product or service being evaluated. These internal processes characterize the buyer's state of mind and the disposition to respond in a particular way. The third component refers to the consumer's response in terms of changes in behaviour, awareness and attention, brand comprehension, attitudes, intentions and actual purchase. This response may indicate a change in the consumer's psychological reaction to the product or service. As a result of some change in a stimulus, the consumer may be better disposed to the Focus on the customer product, have formed a better attitude toward it or believe it can solve a particular consumption problem.

Alternatively, the response may be in the form of an actual change in purchasing activity. The consumer may switch from one brand to another or from one product category to another. Consumer responses may also take the form of a change in consumption practices whereby the pattern of consumer behaviour is changed.

11.8 CULTURAL VALUES AND SOCIAL INFLUENCES

Individual and family decisions are affected by individual and social values. Values are centrally held enduring beliefs which guide actions and judgements in specific situations and in more general circumstances as people orient themselves in their environment. There are many types of values; people possess moral values, express political values and satisfy utility values which are often mixed together. The significance of values is determined by their function in understanding how the individual, groups and organizations in society adapt and behave. Values in society are beliefs about desirable behaviours that transcend specific situations to guide behaviour and are ranked by their relative importance. Values are also drawn into use when interaction between the individual and the group arises. These are the formal characteristics of values and their meaningful content may be defined as the cognitive representation of universal human requirements. These requirements refer to biological needs and wants such as food and shelter, personal interactions in families and groups, esteem and social or institutional requirements, welfare and survival of the group.

Culture influences buying behaviour in a number of ways. Culture is a complex mixture of ideas, attitudes and images created by people in society to shape human behaviour. Culture comprises numerous elements which affect marketing and consumer buying behaviour: language, education, religion, values and attitudes, organization, technology and material culture and the political and legal environment. Social characteristics involving group norms and role behaviour, reference groups, social class and the family are important considerations in this respect. The norms of a society influence the type of products and services members of that society purchase. Role behaviour in society depends on social norms which regulate relations among individuals and so provide a guide to social behaviour; compliance with norms is rewarded while non-compliance is punished. Seemingly a powerful social influence is the reference group; real or imagined people with whom individuals compare themselves or to whom they ascribe a set of standards for the purpose of modelling their own behaviour. The degree of reference group influence tends to vary by product and service type.

Reference groups consist of people with whom the individual compares his or her own behaviour. Stereotyping and image are usually involved. Reference group influence is thought to vary by product and by brand and to be stronger for some products and brands than others. Perhaps the strongest social influence on individual buying behaviour is the role of the family. In examining this influence from the point of view of buying behaviour, it is necessary to decide who influences the buying decision, who makes it, who purchases and who uses it. The family is considered as a major source of influence in the buying process.

Adults and children display varying degrees of influence in household purchases. Shared and joint decisions are now more common for a greater range of products and services than was the case traditionally. With increased informality in lifestyles the source and importance of the influence vary. Path from beliefs to preferences Beliefs and attitudes are personal influences which affect buying behaviour. Beliefs may be based on direct use of the product or brand or what has been gleaned about it from advertising and word of mouth. Attitudes, on the other hand, are feelings of like or dislike towards a product or service. Beliefs are thought to help form attitudes. The combination of beliefs and attitudes towards a product or service determines the extent to which buyers like the product or service as a whole. Perception is the process by which people receive, interpret and recall information from the world about them. Perceptions are most powerful influencing factors in buying behaviour as they are shaped by the physical characteristics of the stimuli, the relation of the stimuli to their surroundings and condition within the individual. The scope for advertising, product and package design in this context is obvious. Perceptions are thought to influence behaviour, especially preferences. While perceptions refer to an individual's judgements concerning the similarities and differences among a set of products or brands, preferences refer to a ranking of these products or brands regarding the extent to which they meet customer requirements as indicated by distance from some ideal preference point. So far we have discussed buyer dispositions. Preferences, for example, must be converted into behaviour such as a purchase. This involves motivation.

A motive is a stimulated need which an individual seeks to satisfy, e.g. hunger, thirst, security or esteem. A need must be aroused before it can serve as a motive. It is possible to have latent needs which do not influence behaviour until they become stimulated. The source of this stimulation may be from within the individual, e.g. hunger, or external, e.g. an advertisement for a Big Mac meal. Satisfaction of basic needs permits higher level needs to emerge. Needs which dominate at any time are dependent on the extent of satisfaction achieved for the more basic needs.

In countries suffering chronic food shortages and hunger, higher level needs may be sacrificed. In more affluent societies the needs for affiliation, prestige and self-fulfilment tend to dominate buyer behaviour.

11.9 INVOLVEMENT IN BUYING BEHAVIOUR

For most customers, many fast-moving consumer products are 'trivial' and uninvolving both in terms of the amount of decision making they require, and in terms of their personal relevance to the customer. Consequently, customer behaviour may be viewed as a two-fold dichotomy: low-involvement behaviour and high-involvement behaviour. Inherent in the concept of involvement is recognition that certain product classes may be more or less central to life, attitudes about the self or sense of identity, and relationship with the rest of the world. Involvement is frequently measured by the degree of importance the product has to the buyer:

- perceived importance of the product;
- perceived risk associated with its use;
- symbolic value of the product;
- hedonic value of the product.

Perceived risk refers to the perceived importance of negative consequences in the case of poor choice. Symbolism refers to the value attributed by the consumer to the product, its purchase or its consumption that differentiates products in terms of psycho-social risk. The hedonic value of the product refers to its emotional appeal, its ability to provide pleasure and affect. Most buying behaviour is low involvement. Low-involvement purchasing assumes that the major goal in repetitive and relatively unimportant decisions is not to make an 'optimal' choice but, rather, to make a satisfactory choice while minimizing cognitive effort. Such buying decisions are unimportant, decisions are routine, and the buyer faces time constraints.

Generally marketing practitioners would appear to be at odds with this concept of low involvement, especially in regard to routine purchases in which buyers do not buy on the basis of any long-term or deeper-rooted, exclusive loyalty to the organization or the brand. If the concept of low involvement has validity, particularly among fast-moving consumer goods, there would seem to be no economic justification for either manufacturers or retailers to engage in expensive branding activities except to trigger a response within a low-involvement category to select a familiar brand. High-involvement conditions are believed to exist for the many types of products or brands including lifestyle products, special interest products, hedonic products and differentiated brands. Products which are 'lifestyle products', or used as ways of self-expression or self-concept enhancement are considered to be high-involvement products as are special-interest products, purchased as a hobby, or related to the consumer's role or occupation. Products and brands which provide 'pleasure' or fit the hedonism criterion are also considered to be high-involvement purchases. Where there exists a high degree of brand differentiation based on the product's attributes, there is usually a high degree of involvement in the purchase due to the element of risk involved.

11.10 NATURE OF ORGANIZATIONAL BUYING

An organizational market, located at the opposite end of the consumer organization buyer spectrum, consists of all individuals and organizations that acquire products which are used in the manufacture of other products – a demand derived from the demand for the finished products the organization produces. In broad terms organizational buying is influenced by factors in the environment, by the nature and structure of the organization itself and by the way the buying centre in the organization operates.

11.11 COMPLEXITY IN ORGANIZATIONAL BUYING

The complexity of the market for a product and the difficulties of marketing it should not be confused with the complexity or high technical content of the product itself. To be useful from a marketing viewpoint the classification of industrial products should be on the basis of the ways the products are bought and serviced rather than on technical specifications. Determining the marketing complexity of the product forces the firm to adopt marketing rather than a purely technical orientation when attempting to understand industrial buyer behaviour. Marketing complexity may be measured as the extent of interaction which must exist between the seller and buyer to bring about a successful exchange. In many cases the interaction can be extensive. Six major areas may be identified where interaction can be high. The more extensive the interaction required, the greater the marketing complexity involved. Understanding the technical dimensions of the product is essential but so also understanding the buying process, the communication needs of buyers and the negotiation positions to adopt at the various stages of the buying process.

11.12 PRODUCT COMPLEXITY AND COMMERCIAL UNCERTAINTY

The buying responsibility in organizational markets is largely determined by product complexity and commercial uncertainty. Product complexity refers to the relationship of product technology and the extent of the customer's technical knowledge. It refers to issues such as product standardization, technical complexity, and product-in-use experience, newness of application, ease of installation and the extent of after-sales service required. Commercial uncertainty refers to business risk and its impact on future company profits. It refers to the level of the investment, order size, length of commitment, adjustments required elsewhere in the company, the effect on profitability and the ease with which the effect can be forecasted. Where product complexity and commercial risk are low, the buyer usually carries out all the buying functions, while at the other extreme many people may be involved at different levels in the organization. When product complexity is high and commercial uncertainty is low, the technical staff tends to dominate the buying decision. When the commercial risk is high and the product complexity is low, the buying decision becomes the responsibility of specialist buyers supported by the finance department.

11.13 BUYING PROCESS FRAMEWORK

Although buying decisions in some circumstances can be quite complex, a simple stage model provides a useful framework for analysing buying behaviour in consumer and organizational markets and the marketing actions that are likely to be successful. One complexity is faced by the customer – that of identifying a suitable product and seller simultaneously. The individual buying process starts when customers recognize that a need exists; they are aware of a need. The customer then proceeds through an additional three stages before arriving at a decision or outcome of the buying process. In the next stage the customer attempts to identify the products that satisfy the need.

During the following stage the customer may wish to seek alternatives which could satisfy the need and may search for information about the alternatives available. A suitable product readily available may satisfy the potential customer who is not curious about alternatives. If the buyer decides to search for information, the organization takes an interest in the information sources used. Simultaneously, the customer attempts to identify relevant sellers of the product of interest. Information about sellers is collected and they are evaluated before a seller is chosen. The following stage involves an evaluation of the alternatives available or shortlisted; the chosen seller’s product is evaluated. In this regard buyers differ in their approach to evaluation but a number of aspects are common. Products or services are viewed by individuals as bundles of attributes. Cars are seen as transport, safety, prestige, speed, carrying capacity. Some attributes are more important than others so customers allocate importance weights to each attribute identified. The organization can divide the market into segments according to the attributes which are important to different groups. After making a purchase, the product is used and if the customer is completely satisfied, additional products are purchased from the same seller after an appropriate interval. Presumably the customer provides good word-of-mouth promotion for the product in question.

If the customer is not satisfied, new sellers may be evaluated and chosen. In each organization a number of buying roles may be identified which may be taken by one individual or shared by many in the group. The customer buying process is characterized by a number of distinct roles played by the same individual in a sequence or by a number of different people in a complementary fashion. The initiator is the person who first suggests the purchase of a particular item, the person who is first aware of a particular need. The influencer is the person who carries implicit or explicit influence in the final decision. The decider is an individual or group involved in the decision-making process that share common purchasing objectives and share the risks and rewards which may arise from the decision.

This person may decide whether to buy, what to buy, how to buy, when to buy or where to buy. Gatekeepers, important in both consumer and organizational markets, have a strong information role in their relationship with influencers and deciders. The buyer is the person who makes the actual purchase. This may be an administrative role but is likely to be more centrally involved in setting the contract terms or in the actual purchase. The user is the person who consumes or uses the product. Feedback loops exist among these roles, providing an opportunity for interaction and integration of the buying activity.

The buying process for industrial products is often conceptualized similarly as a sequential process. Industrial buying processes begin when a need for a product or service is recognized. This step can occur in many different ways. At one extreme, need recognition is routine, such as for straight rebuy decisions. At the other extreme, a need for a product can arise because of events which happen in specific situations. For instance, the buying approach is different for the organization that decides to install a power generating system to reduce its energy costs than it is for the purchase of a new computer system to process sales orders. Having recognized a product need, members of the buying centre in the organization specify performance factors and other benefits important to the user of the products as well as non-product criteria important to the buying organization. New task and modified rebuy decisions require that information to evaluate alternative products and suppliers be obtained. The organization attempts to encourage repeat purchases and loyalty among customers. Traditional economic variables such as price, quality and delivery; the buyer's previous experience with suppliers; the organizational structure of the buying firm; and factors which simplify buyers' work each strengthen source loyalty. The performance of the organization's product or service from the customer's point of view is evaluated and a level of satisfaction determined. The greater the level of customer satisfaction, the more customers is expected to reward the company with their long-term loyalty which should result in healthy profits over the life cycle of the product or service. By following the analytical approach suggested here the organization may be able to form a strategic view of its customers. Such a view should take account of customer profitability and vulnerability to poaching by competitors. Highly profitable customers who are vulnerable to competitors should receive improved service levels and improved products while the organization might reduce the service level and remove non-essential product attributes for customers who provide meager profits and are not likely to switch to competitors.

11.14 SELF CHECK EXERCISE

1. Write short-note on focus on customers.
2. Define Customer orientation.
3. Define Consumer market.
4. Write a short-note on Marketing Exchange.
5. Define Process.
6. Define Product Complexity.

11.15 SUMMARY

Interest in the creation of customer value has grown in recent years and has been discussed intensively ever since the view has shifted from product and sales to a market orientation, which implies that value originates from solutions that address and satisfy the customers' needs. Customer orientation means A group of actions taken by a business to support its sales and service staff in considering client needs and satisfaction their major priorities. Business strategies that tend to reflect a customer orientation might include: developing a quality product appreciate by consumers; responding promptly and respectfully to consumer complaints and queries; and dealing sensitively with community issues.

11.16 GLOSSARY

- **Buying Behavior** is the sum total of the attitudes, preferences, beliefs and decisions regarding the consumer's behavior when purchasing a product or service in a market
- **Cultural values** are the core principles and ideals upon which an entire community exists. This is made up of several parts: customs, which are traditions and rituals; values, which are beliefs; and culture, which is all of a group's guiding values.

- **Consumer** is a person that buys a good for consumption. They don't buy goods to sell them again. The consumer is a person who pays money needed to buy goods and services produced. Consumers are important in the economic system of a country. Without consumer demand, producers don't have a reason to produce.
- **Customer** is any person who buys for resale directly from the seller, or the seller's agent or broker. In addition, a "customer" is any buyer of the seller's product for resale who purchases from or through a wholesaler or other intermediate reseller.
- **Marketing** is the process of interesting potential customers and clients in your products and/or services. The key word in this marketing definition is "process"; marketing involves researching, promoting, selling, and distributing your products or services.
- **Marketing exchange** is what happens any time two or more people trade goods or services. In marketing theory, every exchange is supposed to produce "utility," which means the value of what you trade is less than the value of what you receive from the trade.
- **Organization** is a group of people who work together. Organizations exist because people working together can achieve more than a person working alone.

11.17 ANSWERS TO SELF CHECK EXERCISE

1. For answer to question number 1 refer to section 11.1.
2. For answer to question number 2 refer to section 11.2.
3. For answer to question number 3 refer to section 11.3.
4. For answer to question number 4 refer to section 11.4.
5. For answer to question number 5 refer to section 11.5.
6. For answer to question number 6 refer to section 11.12.

11.18 TERMINAL QUESTIONS

1. Define Consumer markets. Discuss the actors which motivate the business organisations to focus on these markets.
2. "Effective CRM is based on segmentation analysis and an appropriate customer strategy". Discuss.

3. Do you agree that customer loyalty is important factor for the survival of a business organisation? Discuss with the help of suitable example.

11.19 SUGGESTED READINGS

- Carvens, D. W., Strategic Marketing Homewood Illiois, Richard D.?Irwin
- Kayank E. and Savitt R., Comparative Marketing Systems, New York, Praegar.
- Kotler Phillip, Marketing Management: Analysis, Planning, Implementation
- Porter, M. E., Competitive Advantage: Creating Sustaining Superior Performance, New York, Free Press.
- Porter, M. E., Competitive Strategy: Techniques for Analysing Industries Competitors, New York, Free Press.

LESSON-12

COMPETITION ORIENTATION

STRUCTURE

12.0 LEARNING OBJECTIVE
12.1 INTRODUCTION
12.2 MARKETING IN THE BUSINESS SYSTEM – CUSTOMER ACQUISITION AND RETENTION
12.3 POSITIONING IN THE BUSINESS SYSTEM
12.4 MARKETING PERSPECTIVE OF VALUE ADDED
12.5 VALUE OF AN ORGANIZATION'S RESOURCES
12.6 APPLYING THE APPROPRIABILITY CRITERION
12.7 APPLYING THE RARITY CRITERION
12.8 APPLYING THE IMITABILITY CRITERION
12.9 STRATEGIC RESPONSE TO COMPETITION
12.10 GENERIC STRATEGIES
12.11 BUSINESS STRATEGIES
12.12 COST LEADERSHIP STRATEGIES
12.13 PRODUCT DIFFERENTIATION STRATEGIES
12.14 A FOCUS ON NICHES AND IMITATION
12.15 ORDER OF ENTRY AND MARKET SHARE
12.16 CHALLENGES IN THE BUSINESS SYSTEM
12.17 SELF CHECK EXERCISE
12.18 SUMMARY
12.19 GLOSSARY
12.20 ANSWERS TO SELF CHECK EXERCISE
12.21 TERMINAL QUESTIONS
12.22 SUGGESTED READINGS

12.0 LEARNING OBJECTIVE

After studying this lesson you should understand: -

- The competition and various strategies used by business organisations to cope with the competition.
- What type of competitive strategies used by the various organisations to capture more and more market share to beat their competitors?

12.1 INTRODUCTION

A competitor orientation in the business system views customers as the ultimate prize to be won at the expense of rivals. A competitor orientation implies that the organization attempts to capitalize on the weaknesses of vulnerable competitors to win market position and customers from them, which in turn produces a high level of sales and long-run profits. At the same time, the organization attempts to remove its own weaknesses to defend market position and to minimize the loss of customers to competitors. The organization attempts to seek those activities in which its performance is superior to that of its competitors. In this context it is necessary to determine the various positions competitors hold in the market. For each competitor it is necessary to understand what customer segments they focus on and what distinctive product or service benefits they offer. An understanding of their customer focus and strengths show the areas of the market that will be most difficult to penetrate and also the areas of the market that are not being serviced adequately. How competitors typically respond to changes in the market is something most companies attempt to glean from observation and other sources. Competition in the business system has been defined as 'the constant struggle among firms for comparative advantages in resources that will yield marketplace positions of competitive advantage for some market segment(s) and, thereby superior financial performance'. Many companies have predictable management styles which influence or even determine how they react in a particular situation. Elements of predictable management styles include the competitor's record on innovation and imitation. Some competitors match innovations very quickly through innovations of their own or imitate the success of others. Other competitors may be classified as price leaders or price followers. Understanding these patterns of competitive behaviour helps the organization to formulate a marketing strategy.

12.2 MARKETING IN THE BUSINESS SYSTEM – CUSTOMER ACQUISITION AND RETENTION

Traditionally, competition for customers is defined as arising from other firms in the industry, which make products or provide services similar to those of the company. This industry perspective is irrelevant when the company's focus is on solving customer problems. Customers are interested in what they buy, not whether the buyer belongs to a particular industry. Competitors should be identified, therefore, from the customer's viewpoint. In this view of the business system, banks and software companies, though from separate traditional industries, could be competitors in supplying customers with added-value products and services like e-money and smart cards. Similarly, banks and insurance companies provide competing financial services.

From an industrial economics viewpoint, neither would consider the other as competitors. Increasing industry convergence and the breakdown of traditional industry boundaries mean that the traditional view of competition is becoming less relevant. A similar situation arises on the supply side; firms compete with the company in attracting the resources of suppliers. Competition for suppliers frequently crosses traditional industry and international boundaries. Listening to and working with suppliers are just as important as listening to customers. Many companies now recognize the importance of working with suppliers, acknowledging that they are equal partners in the creation of value within the business system. In this view of the business system, supplier relations are just as important as customer relations. Both share the common goal of increasing wealth. Both create value and provide access to markets, technology and information. In the traditional view of the business system the company serves customers and depends on suppliers for essential raw materials and other inputs. As we move further into the knowledge-based economy, such complementary relationships on the supply side are likely to become standard practice. This is especially true where there is a large initial investment and where the variable costs are relatively modest. Practically all costs in designing computer software, for example, are fixed, so the larger the market, the greater the leverage and the more development costs can be spread.

12.3 POSITIONING IN THE BUSINESS SYSTEM

The objective of the organization is to manage the business system to achieve an increase in the level of perceived value added or a reduction in the price charged. In that way the total perceived value to the customer exceeds the collective cost to the organization of performing the value activities embodied in the final product. Positioning for competitive advantage in this sense is based on the organization's ability to manage the business system to provide the final customer with the desired perceived value at the lowest delivered cost which requires superior performance in at least one of the business system activities. Only by ´ adding more value in this way can the organization develop a competitive advantage and thereby survive in a particular business system. Obtaining competitive advantage by positioning the organization in the business system means identifying ways of sourcing manufactured components and launching products included in the organization's portfolio. The core of the business system positioning concept is the recognition that the organization competes within a business system, not an industry. A productive activity is viewed as a chain of many parts ranging from design to use by the final customer. The various parts of this chain can be ordered, therefore, in terms of stages of perceived value added. Competition among organizations takes place at the product level but increasingly at the capability level. Successful marketing strategies take advantage of the organization's capabilities but recognize that no capability gives a permanent advantage. For example, Honda is known for its capability in engines which it applies in cars, lawn mowers and motorcycles. Canon has a known capability in optical imaging and scanning which it applies with great success in copiers, fax machines and cameras. Casio applies its capabilities in component miniaturization in calculators, watches, small TVs and hand-held personal computers. A traditional view of the value chain stems from the idea of value being added progressively to a product as it passes through stages: inbound logistics, operations, outbound logistics, marketing, sales and service. The Porter framework of value creation is, however, essentially production driven with an emphasis on the margin accruing to the organization. It does not adequately consider marketing activities in the process of adding value in the business system. This limitation is removed by viewing the marketing value system as consisting of all the activities and organizations that create and deliver value to customers. Here concern rests with the four columns under the business system sub-heading. The business functions column is a traditional Porter value system that is linked to the three major dynamic activities of marketing – product development, customer acquisition and customer retention, represented by the column to the left while the following column describes information flows required in the fulfillment of marketing and business tasks – research and development, market and customer research. The left-most column represents integrated marketing communications activities.

Each solid arrow represents an exchange of product, resources, information and effort that is governed by power relationships among parties to a specific exchange. In this view of the marketing system some activities are internal to the organization while partners perform others. It is the system that delivers value. The cost of each activity is, however, borne by a organization individually. Similarly, though value is derived from the total margin produced by the system, the power of the other participants determines how this total margin is divided among the various participants. It is misleading to think, however, that only the marketing function in the organization affects marketing outcomes. Value emanates from the business system in which the organization operates and it may leverage other firms and individuals in the system – customers, suppliers and particularly those who complement the organization in what it provides – in creating that value.

12.4 MARKETING PERSPECTIVE OF VALUE ADDED

A marketing viewpoint focuses on the customer and attempts to determine value from the customer's perspective. An emphasis on customer satisfaction means determining the values required now and in the future by customers, as well as the amount required, how it should be delivered and when it should be provided. Customer satisfaction also stems from attention to raw materials, engineering quality, design and innovation. The purpose of the organization in this added-value view is a never-ending search for continuous improvement in the cost base, through value analysis and value engineering. Most organizations recognize that in a competitive world, it is difficult to create added value. Usually, added value arises by making better products, using resources more efficiently, listening to customers to determine how to make more attractive products and working with suppliers to discover more efficient ways of running the organization's business, while being more effective for them. Organizations that cannot produce an added value in the business system are not able to sustain a premium over cost, i.e. the organization makes very little money. Collaboration is, therefore, frequently required among organizations to provide this value and ensure customer satisfaction. Of course, adversarial competitive relationships also exist, but an emphasis on customer satisfaction in a redefined value chain introduces a balance between the concepts of collaboration and competition.

12.6 APPLYING THE APPROPRIABILITY CRITERION

This resource value criterion also concerns the issue of the appropriability of the value and attempts to discover who captures the value that the resource creates. The value of the resource is subject to bargaining among customers, suppliers, distributors and employees. In many situations the firm that owns the resource does not capture the full value of the resource; the value dissipates to other firms in the business system. This is a matter of concern in the new market entry decision whereby some distribution channels may favour the appropriation of value to the firm while others do not.

12.7 APPLYING THE RARITY CRITERION

If an organization's resource or capability is controlled by numerous competing organizations then that resource is unlikely to be a source of competitive advantage for any of them. Instead, valuable but common resources and capabilities are sources of competitive parity. This is a matter of rarity in the resources and capabilities. How rare a valuable resource and capability must be in order to be considered competitively advantageous depends on the circumstances. If the organization's valuable resources are absolutely unique among a set of competitors, they can provide a competitive advantage. It may be possible for a small number of organizations to possess a particular valuable resource and still obtain a competitive advantage provided there are many others who do not have the advantage.

While common resources and capabilities cannot generate a competitive advantage, they can help to ensure an organization's survival when they are exploited to create competitive parity. Under parity conditions no one organization gains a competitive advantage, but organizations increase their chances of survival.

12.8 APPLYING THE IMITABILITY CRITERION

The most common competitor-centred approach, based on different forms of differentiation, refers to distinctive competences that are based on skills and resources used by the organization in ways not easily imitated by competitors. The protection provided by the resource imitation test may be undermined if duplication or substitution is possible. Suppose an organization possesses a competitive advantage because of its research and development or marketing capabilities, then a competitor can attempt to develop its own research and development and marketing competences.

If the cost of duplicating an organization's capabilities is greater than the cost of developing these resources and capabilities for the organization with the competitive advantage, then this may be a sustainable competitive advantage. If the cost of duplication is no more costly than the original development of these resources and capabilities, then any competitive advantage will be only temporary. Imitating organizations may also attempt to substitute other resources for a costly-to-imitate resource possessed by an organization with a competitive advantage. If one organization, for example, has a competitive advantage because of its direct marketing skills, a competing organization may try to substitute a sophisticated CRM system. If the effects of direct marketing skills and CRM systems are the same, then these resources may be thought of as substitutes. If a substitute resource exists, and if imitating organizations do not face a cost disadvantage in obtaining them, then the competitive advantage of other organizations will only be temporary. If these resources, however, have no substitutes or if the cost of acquiring them is greater than the cost of the original resource, the competitive advantage can be sustained. Competing organizations face a cost disadvantage in imitating another's resources and capabilities but there are circumstances where the imitability test can be met. To meet the criterion the resources must have a physical uniqueness which may be patented or are unique in some way and accumulated over time, e.g. brand loyalty. It also means that it should be impossible for outsiders to disentangle what the resource is or how to create it. Such causal ambiguity is often associated with organizational capabilities. To protect a resource, firms often engage in a strategy of economic deterrence whereby they make large investments in the asset relative to its current market share; hence the large advertising expenditures by big-brand organizations.

12.9 STRATEGIC RESPONSE TO COMPETITION

In carrying out a competitive analysis most companies start by attempting to define their business. In defining a business, factors such as products, markets, segments, technologies and competitors are identified. The choice of business definition depends on the personality, leadership qualities and vision of senior managers. In circumstances where the company is changing its competitive focus, the business definition itself may be the most important element of the business strategy.

12.10 GENERIC STRATEGIES

Competition is limited by the threat of substitute products and services and the new entrants. These external threats pose the greatest difficulty to incumbents attempting to respond. It is rare that dominant incumbent firms can survive the onslaught of continuous threat from substitute products and services. For this reason, many companies succumb to new competition from manufacturers using alternative materials and technologies and to imports from low-cost countries. According to Porter (1980) there are three ways a company can succeed, by attempting to be:

- a low-cost provider of products and services
- a high-cost, differentiated provider
- a focused provider of unique products and services in a niche market.

In Spain Banco Popular has successfully served a large number of small and medium-sized companies that form the backbone of the Spanish economy by following a market niche strategy. Unlike other Spanish banks Banco Popular did not acquire banks in Latin America nor merge with other financial institutions nor amass a large industrial portfolio or invest in dot.com projects. More than half its business is with small enterprises. Lending to small companies remains a risky business, however, so Banco Popular invested heavily in a risk management platform that strengthens its early warning systems and also allowed the bank to identify cross-selling opportunities. The bank believes that it places an average of seven financial packages with each customer – more than double that of its competitors. According to Angel Ron, Banco Popular's CEO, 'servicing small companies requires a large bank network and a lot of personal attention but it is also more profitable than the mass retail market'.

12.11 BUSINESS STRATEGIES

A precursor to deciding appropriate business strategies for the organization is to carry out a SWOT analysis. While there are many specific activities that organizations can engage in to exploit opportunities and strengths while neutralizing threats and avoiding or correcting weaknesses, the more important business strategies with a marketing focus include cost leadership, product differentiation, segment focus and imitation.

12.12 COST LEADERSHIP STRATEGIES

An organization that chooses to compete on cost focuses on gaining advantages by reducing its costs below all of its competitors. This does not mean that the organization abandons other business strategies, merely that much of its endeavours are devoted to lowering costs. A single-minded focus on just reducing costs may result in low-cost products that no customer wants.

Cost leadership arises for a number of reasons. By investing in larger-scale modern equipment some manufacturing firms are able to reduce costs and thereby obtain economies of scale in manufacturing. Overall cost leadership involves generating higher margins relative to competitors by achieving lower relative manufacturing and distribution costs. Higher margins reinvested in new manufacturing equipment help to maintain cost leadership. The globalization of business also helps; companies marketing global brands may obtain marketing and distribution-scale economies unavailable to companies that permit regional autonomy.

Global manufacturing decisions allow firms to concentrate production in larger factories in low labour cost countries. Low cost also derives from labour effectiveness as a result of flexible co-operation and commitment of workers. To achieve cost leadership a company must focus on controlling costs. Cost leadership should not be confused with low prices. Low costs allow companies to lower prices if they choose to penetrate markets but they can also be used to produce profit which in turn is used for investment purposes that contributes to maintaining market dominance. Low-cost airlines offer low fares by aggressively controlling costs. They cut out the ‘frills’ – in-flight meals and allocated seating and they promote Internet reservations and payments. Typically they fly from secondary, lower cost airports distant from main centres of population.

Two low-cost airlines dominate the European market – easyJet (1.1 million passengers) and Ryanair (1.5 million passengers). Ryanair continues to use secondary airports while easyJet has moved to primary airports such as Gatwick in the UK. Low-cost airlines fly their aircraft for more hours than traditional carriers. Using daily use as a measure, easyJet and Ryanair both obtain about twice the productivity of the larger, more traditional airlines such as British Airways or Aer Lingus, their principal national full-service competitors. The rapid expansion of this low-cost sector to challenge established airlines has given rise to concerns that success is achieved at the expense of customer satisfaction and even safety. Critics point to the poor punctuality of the lowcost airlines, poor luggage handling systems leading to much lost luggage and rostering systems that do not work. These airlines strongly deny any safety problems and point to their market growth as an indication that customer behaviour belies the charge of poor customer satisfaction.

12.13 PRODUCT DIFFERENTIATION STRATEGIES

In contrast the organization that bases its competitive strategy on differentiation attempts to offer products and services which are unique or superior to those of competitors. Product differentiation is a business strategy whereby organizations attempt to gain competitive advantage by increasing the perceived value of their products relative to those of rival companies or providers of substitutes. BMW, for example attempts to differentiate its cars from Nissan’s cars through sophisticated engineering and performance. McDonald’s attempts to differentiate its food service from the fast food sold by locally owned, single-outlet fast-food stores by selling the same food, at the same quality, at the same prices and in the same way in all of its outlets throughout the world. Differentiation by added value insulates a firm from competitive rivalry by creating customer loyalty, lowering customer sensitivity to price, and protecting the business from other competitive forces that reduce price–cost margins.

Differentiation is a strategy favoured during the emergence of a product life cycle when innovation attracts customers whose present value of having new products and services outweighs the cost of waiting. Differentiation also works in mature markets as market growth may be rejuvenated when new technology replaces old technology in well-known standardized products. Competitive strategies based on differentiation require an innovative and creative approach to marketing. Differentiation also requires speed and flexibility since imitators are many and easily flock to a success. The rapid expansion of Starbuck's Coffee chain in the UK has forced its rivals to follow its pace and focus on building scale, not on making profits. Many companies have felt the competitive pressures of Starbuck's differentiated strategy. According to Mark Hughes, Numis Securities, 'Starbuck's has shaped the UK market and they have done to coffee what McDonald's have done to fast food. It is only after you reach critical mass that you start to make money' (The Financial Times, 7 August 2002, p. 19). In such circumstances it is likely that even Starbuck's is not making any money but by rapidly acquiring market share it is in a position to wait for rivals to run into financial difficulties causing the onset of consolidation. There was evidence of that consolidation in 2002 in the acquisition by Caffe Nero of 4.3 per cent share in Coffee Republic. Any further dilution of its shareholding would be an indication that Coffee Republic has not been successful in establishing its brand in what has become a saturated UK coffee market.

12.14 FOCUS ON NICHES AND IMITATION

Small companies sometimes focus on small sheltered market niches in which they are uniquely able to survive. In doing so they attempt to avoid confrontation with major low-cost competitors by occupying niches in a separated market segment which is secluded and profitable. Imitators are companies that do not have sufficient resources, appropriate market position technical skills or organizational commitment to challenge the market leaders. Market leaders dominate their industries where product and service differentiation and branding are difficult to achieve, where price sensitivity is high and where the market rewards existing suppliers with patronage because the products and services offered are sufficiently established and acceptable to provide satisfaction. In this market structure imitators copy or mimic successful products. Success does not depend on concentrating exclusively on one competitive position.

Many successful companies are cost leaders and differentiators. The buying power and skills and expertise of companies like 3M or Carrefour makes them low-cost companies but they trade on quality, service and brand names. Differentiators can be combined with focus to produce a successful competitive mix: Ferrari and Jaguar in cars; Bang and Olufsen in stereo musical equipment. Some companies succeed, therefore, by keeping costs down and investing the profits earned in new products and services to stay ahead. Others win by differentiating their products and services to meet the needs of the market in a unique way while smaller companies can sometimes succeed by focusing on special niches with a customized approach. Even imitators can be successful. It is necessary, however, to understand the market, its customers and competitors before choosing a particular approach.

Time-based competition Time-based competition or speed to market has recently been suggested as a way of increasing flexibility to offer customers more choice and faster delivery of goods and services. By improving on speed to market successful companies can provide the most value for the lowest cost in the least amount of time. To be competitive in such an environment companies strive to provide speedy, low-cost, high added-value goods and services. Successful organizations choose time consumption as a critical strategic response to stay close to customers which results in increased customer dependence.

Time-based competition also allows the organization to rapidly direct value delivery systems to the most attractive customers which may have the effect of further growth with higher profits. In this way the organization can set the competitive standard in the industry. As time compression allows incremental innovation, it does not depend on strategic leaps so slower companies are forced to incorporate a greater number of changes each time a new product version is introduced. Fast companies can innovate incrementally in steps which are less risky and more reliable.

The market benefits to the firm of faster new product development and commercialization are numerous. Faster new product development allows the company:

- to charge higher prices
- to adopt a shorter time horizon for forecasting sales and profits
- to increase its market share
- to provide excitement at retail level and increase consumer satisfaction
- to obtain a greater number of product development experiences.

Customers want products faster than ever; the fashionable buy products only if the latest designs are available before rivals have them and they pay more for the privilege of speed. For the increasing number of faddish, fashionable, innovative customers, many companies have developed fast response manufacturing, marketing and distribution. Benetton, for example, maintains an undyed inventory of clothes waiting to be coloured according to the latest trends. This is not a matter of cutting out unnecessary manufacturing tasks. In developing speed to market it is necessary to examine the entire manufacturing and marketing system and to restructure it systematically.

Customers benefit from rapid response time by value providers in a number of ways:

- They need less inventory.
- They can make purchasing decisions closer to the time of need.
- Their customers are less likely to cancel or change orders.
- A rapid market response speeds up customers' cash flows.
- Market share grows because customers like receiving near immediate delivery.
- Quality improves because speed to market encourages being right the first time.

12.15 ORDER OF ENTRY AND MARKET SHARE

Speed to market allows the innovator greater pricing discretion which is likely to benefit profit margins. Early entry at the pioneering or growth stage of the life cycle results in greater sales than achievable by a late entrant. Further, throughout the remainder of the life cycle, market share tends to be larger for the quicker firm. As competitors introduce new products in response, prices may decline. By then, however, the pioneering company will have moved down the manufacturing learning curve ahead of the competition. The pioneering firm benefits from the initial price premium and from a significant cost advantage. This tends to last over the life of the venture. There is, therefore, a continuing price and cost advantage to being first. In sum, pioneering or first mover advantages refer to lower unit costs and greater market control than competitors; the ability to set product standards and thus differentiate the organization from followers; and the decline in unit costs through experience curve effects. In the beginning the pioneer dominates the market completely but after others enter, it usually continues to hold a large share of the market. There are three major sources of market pioneering advantage; those attributable to relative consumer information advantages, relative marketing mix advantages and, through increased market share, improvements in relative direct costs.

By using the organization's products before competing products become available customers obtain differential information advantages derived by way of product experience or familiarity, which, in turn, may provide market pioneers with higher market shares – customers know and understand how the products function. These represent a product differentiation advantage arising from the demand side of the market. With relative direct costs held constant, market pioneering may lead to long-lived marketing mix advantages. These represent product differentiation advantages arising from the supply side of the market. Because customers have come to know and understand the pioneer's marketing mix, this provides an additional relative advantage over competitors. A stronger relative marketing mix tends to lead to a higher market share. A third source of pioneering advantage occurs because of the pioneer's lower relative direct costs. Being first to market may lead to direct cost savings, purchasing, manufacturing and physical distribution expenditure, relative to competition. These direct cost savings can be based on absolute cost or scale advantages. If some portion of the relative cost savings is used to provide a more effective marketing mix, the pioneer can achieve a higher market share. It is now generally accepted that market share is, in general, closely related to order of market entry: 'the first takes the lion's share, the second has to settle for second best, the rest fight over the scraps. We can prove this in our markets. On average, the pioneer achieves twice the share of the second man in'.

The protected position built up through early market entry is achieved in the face of inactivity by competitors and allows the pioneering organization to achieve customer loyalty, brand identification and time to build distribution while benefiting from manufacturing-scale economies that may exist. Product leadership, being the first to introduce a new product or innovative product features, can also provide an extended period of market protection.

12.16 CHALLENGES IN THE BUSINESS SYSTEM

The organization faces two major challenges in the business system – how to compete with other organizations in the business system and how to co-operate with some of them. The business system was characterized as a value-added chain from supplier through the organization to the customer, supported by partners and competitors. It was noted that the organization faces other organizations both as partners with whom it co-operates and competitors who are rivals. Consequently, the organization faces co-operative and competitive challenges in the business system.

Furthermore, these challenges evolve in stages over time. In the pioneering stage of the evolution of the business system the provision of value is the key consideration; in the growth stage it is developing a critical mass to compete and survive while at the following stage leadership becomes the issue, and at the renewal stage continuous performance improvement is the driving force. The pioneering organization, the innovating organization that is first to market, is much concerned about providing value that is attractive to a significant group of customers and faces the competitive challenge of protecting from competitors the ideas, patents and processes that produced that value. It is likely that an organization in this stage of development will be a differentiator whose resources and capabilities substantially meet the imitability criterion for valuing its resources and capabilities.

The co-operative challenges the pioneering organization faces include the ability to work with customers and suppliers to define and provide new value propositions based on its innovating, pioneering, and speed to market skills. The natural feed additives firm, Alltech Inc, faced the competitive challenge in the early 1990s of working closely with integrators and large animal feed compounders and its suppliers of scientific knowledge, minerals and trace elements to define new innovative products to reduce the cost of production of beef, pork and poultry while at the same time being friendly to the consumer, the animal and the environment.

Alltech Inc had to do this while protecting its ideas deriving from its core capabilities based on fermentation technology and other scientific knowledge of biotechnology processes. In contrast, at the start of the new century the competitive challenges were to dominate key market segments and sign agreements with critical lead customers, suppliers and distributors. The co-operative challenges were to continue to work with customers and suppliers to achieve critical mass in its sector. It is possible to speculate that Alltech Inc's ambitions for the maturity stage might be to become the business system leader and subsequently to establish programmes designed to renew its position by adapting to the evolving competitive and co-operative challenges in its business system.

12.17 SELF CHECK EXERCISE

1. Write a short-note on competitor orientation.
2. What do you understand by customer acquisition? Discuss in brief.
3. Discuss in brief the significance of Positioning.
4. What do you mean by Generic Strategies? Discuss in brief.
5. Write a short-note on Cost Leadership.

12.18 SUMMARY

Competitor orientation, i.e., the focus on beating the competition rather than maximizing profits, seems to thrive in business situations despite being, by definition, suboptimal for profit-maximizing firms. The competitor's orientation means that companies must understand the short-term strengths and weaknesses as well as the long-term capabilities and strategies of today's competitors and potential competitors. An effective strategy in market orientation has created customer value not only requires attention to customers but also requires competitor strategies. An unbalanced focus on competitors is also undesirable because exclusive attention to competition can forget customers.

The competitor's orientation can be interpreted as an understanding of short-term strengths and weaknesses, as well as the long-term capabilities and strategies of competitors that currently exist as potential competitors that will emerge. While the coordination between functions describes the utilization of all resources within the company to create a "Superior Value" for customers. Where coordinated company resources are closely related to customer orientation and competitor orientation. Basically Customer orientation and competitor orientation are two things or interrelated dimensions, and integral is also a unity in the concept of market orientation. Salespeople should therefore seek to gather information about competitors and share information on other functions within the company and discuss them with the company's leaders on how competing forces and strategies they develop.

12.19 GLOSSARY

- **Business strategy** is the firm's working plan for achieving its vision, prioritizing objectives, competing successfully, and optimizing financial performance with its business model.
- **Business system** refers to the value-added chain, which describes the value-added process, meaning the supply of goods and services. A business can span one or several business systems. Each business system, in itself, generates economic benefit.
- **Generic Strategy** is a strategy based on acquiring a high market share by appealing to cost-conscious and price-sensitive customers. This is achieved by having the lowest price in the targeted segment, or having the best perceived value for the service or product received compared to the price charged.
- **Imitative strategy** is the strategy adopted by companies to imitate or copy an existing model of a company and implement its services, business ideas, revenue model etc. Imitation is following someone or implementing model of someone else.
- **Marketing perspectives** is the rare concept of marketing dates back to ancient times. However the perspective of marketing varies from different cycles. Marketing is defined as the theory and practice of identifying the needs/ wants and leveraging distribution of goods and services in a competitive society.

12.20 ANSWERS TO SELF CHECK EXERCISE

1. For answer to question number 1 refer to section 12.1.
2. For answer to question number 2 refer to section 12.2.
3. For answer to question number 3 refer to section 12.3.
4. For answer to question number 4 refer to section 12.10.
5. For answer to question number 5 refer to section 12.12.

12.21 TERMINAL QUESTIONS

1. Give the reasons why organisations are focusing only on those activities in which their performance is superior to its competitors?
2. "Listening to Customers" becomes important for the survival of business organisation. Elaborate with suitable example.
3. What do you understand by Imitation Strategy? How it becomes a challenge for business organisation in present scenario? Give measures to protect your business from this problem of imitation.
4. Discuss the challenges faced by the business organisations in present scenario.

12.22 SUGGESTED READINGS

- Carvens, D. W., Strategic Marketing Homewood Illiois, Richard D.?Irwin
- Kayank E. and Savitt R., Comparative Marketing Systems, New York, Praegar.
- Kotler Phillip, Marketing Management: Analysis, Planning, Implementation
- Porter, M. E., Competitive Advantage: Creating Sustaining Superior Performance, New York, Free Press.
- Porter, M. E., Competitive Strategy: Techniques for Analysing Industries Competitors, New York, Free Press.

LESSON-13

SEGMENTATION, TARGETING AND POSITIONING

STRUCTURE

13.0 LEARNING OBJECTIVE
13.1 INTRODUCTION
13.2 THE SEGMENTATION VARIABLES
13.3 NEEDS AND BENEFITS
13.4 DECISION ROLES
13.5 USER AND USAGE—REAL USER AND USAGE-RELATED VARIABLES
13.6 BASES FOR SEGMENTING BUSINESS MARKETS
13.7 FULL MARKET COVERAGE
13.8 MULTIPLE SEGMENT SPECIALIZATION
13.9 SINGLE SEGMENT CONCENTRATION
13.10 ETHICAL CHOICE OF MARKET TARGETS
13.11 SELF CHECK EXERCISE
13.12 SUMMARY
13.13 GLOSSARY
13.14 ANSWERS TO SELF CHECK EXERCISE
13.15 TERMINAL QUESTIONS
13.16 SUGGESTED READINGS

13.0 LEARNING OBJECTIVE

After studying this lesson students should able to understand:

- The concept of segmentation and that what is segmentation and what bases marketer used for segmenting the market.
- Can easily approach that segment and satisfy the needs, desires and wants of his potential customer.

13.1 INTRODUCTION

Companies cannot connect with all customers in large, broad, or diverse markets. But they can divide such markets into groups of consumers or segments with distinct needs and wants. A company then needs to identify which market segments it can serve effectively. This decision requires a keen understanding of consumer behavior and careful strategic thinking. To develop the best marketing plans, managers need to understand what makes each segment unique and different. Identifying and satisfying the right market segments is often the key to marketing success.

To compete more effectively, many companies are now embracing target marketing. Instead of scattering their marketing efforts, they're focusing on those consumers they have the greatest chance of satisfying. Effective target marketing requires that marketers:

- Identify and profile distinct groups of buyers who differ in their needs and wants (market segmentation).
- Select one or more market segments to enter (market targeting).
- For each target segment, establish and communicate the distinctive benefit(s) of the company's market offering (market positioning).

a) Bases for Segmenting Consumer Markets: Market segmentation divides a market into well-defined slices. A market segment consists of a group of customers who share a similar set of needs and wants. The marketer's task is to identify the appropriate number and nature of market segments and decide which one(s) to target. We use two broad groups of variables to segment consumer markets. Some researchers try to define segments by looking at descriptive characteristics: geographic, demographic, and psychographic. Then they examine whether these customer segments exhibit different needs or product responses. For example, they might examine the differing attitudes of "professionals,""blue collars," and other groups toward, say, "safety" as a product benefit. Other researchers try to define segments by looking at behavioral considerations, such as consumer responses to benefits, usage occasions, or brands. The researcher then sees whether different characteristics are associated with each consumer-response segment. For example, do people who want "quality" rather than "low price" in an automobile differ in their geographic, demographic, and psychographic makeup? Regardless of which type of segmentation scheme we use, the key is adjusting the marketing program to recognize customer differences.

13.2 THE SEGMENTATION VARIABLES

a) Geographic Segmentation: Geographic segmentation divides the market into geographical units such as nations, states, regions, counties, cities, or neighborhoods. The company can operate in one or a few areas, or it can operate in all but pay attention to local variations. In that way it can tailor marketing programs to the needs and wants of local customer groups in trading areas, neighborhoods, even individual stores. In a growing trend called grassroots marketing, such activities concentrate on getting as close and personally relevant to individual customers as possible. Much of Nike’s initial success comes from engaging target consumers through grassroots marketing efforts such as sponsorship of local school teams, expert-conducted clinics, and provision of shoes, clothing, and equipment. Citibank provides different mixes of banking services in its branches depending on neighborhood demographics. Curves, an exercise chain aimed at middle-aged women, places paper bags where consumers can place a form asking for more information about Curves in local businesses such as ice cream shops, pizza parlors, and other places where guilt can strike the weight-conscious shopper. Retail firms such as Starbucks, Costco, Trader Joe’s, and REI have all found great success emphasizing local marketing initiatives, but other types of firms have also jumped into action.

More and more, regional marketing means marketing right down to a specific zip code. Many companies use mapping software to pinpoint the geographic locations of their customers, learning, say, that most customers are within a 10-mile radius of the store and are further concentrated within certain zip+4 areas. By mapping the densest areas, the retailer can rely on customer cloning, assuming the best prospects live where most of the customers already come from Some approaches combine geographic data with demographic data to yield even richer descriptions of consumers and neighborhoods. Nielsen Claritas has developed a geoclustering approach called PRIZM (Potential Rating Index by Zip Markets) NE that classifies over half a million U.S. residential neighborhoods into 14 distinct groups and 66 distinct lifestyle segments called PRIZM Clusters.

The groupings take into consideration 39 factors in five broad categories: (1) education and affluence, (2) family life cycle, (3) urbanization, (4) race and ethnicity, and (5) mobility. The neighborhoods are broken down by zip code, zip+4, or census tract and block group. The clusters have descriptive titles such as Blue Blood Estates, Winner's Circle, Hometown Retired, Shotguns and Pickups, and Back Country Folks. The inhabitants in a cluster tend to lead similar lives, drive similar cars, have similar jobs, and read similar magazines. Table 8.2 has examples of four PRIZM clusters. Marketers can use PRIZM to answer questions such as: Which geographic areas (neighborhoods or zip codes) contain our most valuable customers? How deeply have we already penetrated these segments? Which distribution channels and promotional media work best in reaching our target clusters in each area? Geoclustering captures the increasing diversity of the U.S. population.

A number of organizations have applied this service to their marketing. The U.S. Army uses a custom Claritas system to help in recruiting. Sodexho Marriott uses a system to select menu offerings for its nationwide college food program. Wendy's and PETCO rely on Claritas to help decide where to put new stores. When Ace Hardware launched a customer loyalty program called the Helpful Hardware Club a few years ago, it assigned a Claritas cluster code to every one of the 7 million members. When Ace found that 12 clusters generated most of its business, it targeted them with specific promotions. Marketing to micro segments has become possible even for small organizations as database costs decline, software becomes easier to use, and data integration increases. Those who favor such localized marketing see national advertising as wasteful because it is too "arm's length" and fails to address local needs. Those against local marketing argue that it drives up manufacturing and marketing costs by reducing economies of scale and magnifying logistical problems. A brand's overall image might be diluted if the product and message are different in different localities.

b) Demographic Segmentation: In demographic segmentation, we divide the market on variables such as age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality, and social class. One reason demographic variables are so popular with marketers is that they're often associated with consumer needs and wants. Another is that they're easy to measure. Even when we describe the target market in non-demographic terms (say, by personality type), we may need the link back to demographic characteristics in order to estimate the size of the market and the media we should use to reach it efficiently. Here's how marketers have used certain demographic variables to segment markets.

i) AGE AND LIFE-CYCLE STAGE: Consumer wants and abilities change with age. Toothpaste brands such as Crest and Colgate offer three main lines of products to target kids, adults, and older consumers. Age segmentation can be even more refined. Pampers divides its market into prenatal, new baby (0–5 months), baby (6–12 months), toddler (13–23 months), and preschooler (24 months+). Indirect age effects also operate for some products. One study of kids aged 8–12 found that 91 percent decided or influenced clothing or apparel buys, 79 percent grocery purchases, and 54 percent vacation choices, while 14 percent even made or swayed vehicle decisions.

Nevertheless, age and life cycle can be tricky variables. The target market for some products may be the psychologically young. To target 21-year-olds with its boxy Element, which company officials described as a "dorm room on wheels," Honda ran ads depicting sexy college kids partying near the car at a beach. So many baby boomers were attracted to the ads, however, that the average age of Element buyers turned out to be 42! With baby boomers seeking to stay young, Honda decided the lines between age groups were getting blurred. When it was ready to launch a new subcompact called the Fit, the firm deliberately targeted Gen Y buyers as well as their empty-nest parents.

ii) LIFE STAGE: People in the same part of the life cycle may still differ in their life stage. Life stage defines a person's major concern, such as going through a divorce, going into a second marriage, taking care of an older parent, deciding to cohabit with another person, deciding to buy a new home, and so on. These life stages present opportunities for marketers who can help people cope with their major concerns.

iii) GENDER: Men and women have different attitudes and behave differently, based partly on genetic makeup and partly on socialization.10 Women tend to be more communal-minded and men more self-expressive and goal-directed; women tend to take in more of the data in their immediate environment and men to focus on the part of the environment that helps them achieve a goal. A research study examining how men and women shop found that men often need to be invited to touch a product, whereas women are likely to pick it up without prompting. Men often like to read product information; women may relate to a product on a more personal level.

According to some studies, women in the United States and the United Kingdom control or influence over 80 percent of consumer goods and services, make 75 percent of the decisions about buying new homes, and purchase outright 60 percent of new cars. Gender differentiation has long been applied in clothing, hairstyling, cosmetics, and magazines. Avon, for one, has built $6 billion–plus business selling beauty products to women. Marketers can now reach women more easily via media like Lifetime, Oxygen, and WE television networks and scores of women's magazines and Web sites; men are more easily found at ESPN, Comedy Central, Fuel, and Spike TV channels and through magazines such as Maxim and Men's Health. Some traditionally more male-oriented markets, such as the automobile industry, are beginning to recognize gender segmentation and changing the way they design and sell cars. Women shop differently for cars than men; they are more interested in environmental impact, care more about interior than exterior styling, and view safety in terms of features that help drivers survive an accident rather than help avoid one.

iv) INCOME: Income segmentation is a long-standing practice in such categories as automobiles, clothing, cosmetics, financial services, and travel. However, income does not always predict the best customers for a given product. Blue-collar workers were among the first purchasers of color television sets; it was cheaper for them to buy these sets than to go to movies and restaurants. Many marketers are deliberately going after lower-income groups, in some cases discovering fewer competitive pressures or greater consumer loyalty. Procter & Gamble launched two discount-priced brand extensions in 2005—Bounty Basic and Charmin Basic—whose success led to the introduction in 2009 of Tide Basic, although this extension was later withdrawn from the market. At the same time other marketers are finding success with premium-priced products. When Whirlpool launched a pricey Duet washer line, sales doubled their forecasts in a weak economy, due primarily to middle-class shoppers who traded up. Increasingly, companies are finding their markets are hourglass shaped as middle-market U.S.

consumers migrate toward both discount and premium products. Companies that miss out on this new market risk being "trapped in the middle" and seeing their market share steadily decline. Recognizing that its channel strategy emphasized retailers like Sears selling primarily to the middle class, Levi-Strauss introduced premium lines such as Levi's Capital E to upscale retailers Bloomingdales and Nordstrom, and the less-expensive Signature by Levi Strauss & Co. line to mass market retailers Walmart and Target.

"Marketing Insight: Trading Up, Down, and Over" describes the factors creating this trend and what it means to marketers. Marketing Insight Trading Up, Down, and Over Michael Silverstein and Neil Fiske, the authors of Trading Up, observed an increasing number of middle-market consumers periodically trading up to what they call "New Luxury" products and services "that possess higher levels of quality, taste, and aspiration than other goods in the category but are not so expensive as to be out of reach." For example, consumers might trade up to such brands as Starbucks coffee, Aveda shampoo, or Viking ranges, depending in part on the emotional benefits they gain in the trade. Thanks to the trading-up trend, New Luxury goods sell at higher volumes than traditional luxury goods, although priced higher than conventional middle-market items. The authors identify three main types of New Luxury products: • Accessible super premium products, such as Victoria's Secret underwear and Kettle gourmet potato chips, carry a significant premium over middle-market brands, yet consumers can readily trade up to them because they are relatively low-ticket items in affordable categories.

v) GENERATION: Each generation or cohort is profoundly influenced by the times in which it grows up—the music, movies, politics, and defining events of that period. Members share the same major cultural, political, and economic experiences and have similar outlooks and values. Marketers often advertise to a cohort by using the icons and images prominent in its experiences. They also try to develop products and services that uniquely meet the particular interests or needs of a generational target. Here is how one bank targeted Gen Y consumers. Although the beginning and ending birth dates of any generation are always subjective— and generalizations can mask important differences within the group—here are some general observations about the four main generation cohorts of consumers, from youngest to oldest.

Millennials (or Gen Y) Born between 1979 and 1994, Millennials, also called Gen Y, number 78 million with annual spending power estimated at $187 billion. If you factor in career growth and household and family formation, and multiply by another 53 years of life expectancy, trillions of dollars in consumer spending are at stake over their life spans. It's not surprising that market researchers and advertisers are racing to get a bead on Gen Y's buying behavior. Also known as the Echo Boomers, these consumers have been "wired" almost from birth— playing computer games, navigating the Web, downloading music, connecting with friends via instant messaging and mobile phones. They have a sense of entitlement and abundance from growing up during the economic boom and being pampered by their boomer parents. Yet they are highly socially conscious and concerned about environmental issues. They are selective, confident, and impatient.

Because Gen Y members are often turned off by overt branding practices and "hard sell," marketers have tried many different approaches to reach and persuade them.

- Online buzz—Rock band Foo Fighters created a digital street team that sends targeted e-mail blasts to members who "get the latest news, exclusive audio/video sneak previews, tons of chances to win great Foo Fighters prizes, and become part of the Foo Fighters Family."
- Student ambassadors—Red Bull enlisted college students as Red Bull Student Brand Managers to distribute samples, research drinking trends, design on-campus marketing initiatives, and write stories for student newspapers.
- Unconventional sports—Chick-fil-A sponsored the National Amateur Dodgeball Association, "a recreational pursuit for nontraditional sport enthusiasts."
- Cool events—Hurley, which defined itself as an authentic "Microphone for Youth" brand rooted in surf, skate, art, music, and beach cultures, became the title sponsor of the U.S. Open of Surfing. Other sponsors included Casio, Converse, Corona, Paul Mitchell, and Southwest Airlines.

- Computer games—Product placement is not restricted to movies or TV: Mountain Dew, Oakley, and Harley-Davidson all made deals to put logos on Tony Hawk's Pro Skater from Activision.
- Videos—Burton ensures its snowboards and riders are clearly visible in any videos that are shot.
- Street teams—As part of an antismoking crusade, the American Legacy Foundation hires teens as the "Truth Squad" to hand out T-shirts, bandanas, and dog tags at teen-targeted events.

Gen X Often lost in the demographic shuffle, the 50 million or so Gen X consumers, named for a 1991 novel by Douglas Coupland, were born between 1964 and 1978. The popularity of Kurt Cobain, rock band Nirvana, and the lifestyle portrayed in the critically lauded film Slacker led to the use of terms like grunge and slacker to characterize Gen X teens and young adults. It was an unflattering image of a disaffected group with short attention spans and little work ethic. These stereotypes slowly disappeared. Gen X was certainly raised in more challenging times, when working parents relied on day care or left "latchkey kids" on their own after school, and corporate downsizing led to the threat of layoffs and economic uncertainty. At the same time, social and racial diversity were accepted and technology rapidly changed the way people lived and worked. Although Gen Xers created new norms in educational achievement, they were also the first generation to find surpassing their parents' standard of living a serious challenge. These realities had a profound impact. Gen Xers feel self-sufficiency and the ability to handle any circumstance are key.

Technology is an enabler for them, not a barrier. Unlike the more optimistic, team-oriented Gen Yers, Gen Xers are more pragmatic and individualistic. As consumers, they are wary of hype and pitches that seem inauthentic or patronizing. Direct appeals where value is clear often works best, especially as Gen Xers become parents raising families. Baby Boomers Baby boomers are the approximately 76 million U.S. consumers born between 1946 and 1964. Though they represent a wealthy target, possessing $1.2 trillion in annual spending power and controlling three-quarters of the country's wealth, marketers often overlook them. In network television circles, because advertisers are primarily interested in 18- to 49-year-olds, viewers over 50 are referred to as “undesirables.”

With many baby boomers moving into their 60s and even the last and youngest wave bearing down on 50, demand has exploded for products to turn back the hands of time. According to one survey, nearly one in five boomers was actively resisting the aging process, driven by the mantra, “Fifty is the new thirty.” As they search for the fountain of youth, sales of hair replacement and hair coloring aids, health club memberships, home gym equipment, skin-tightening creams, nutritional supplements, and organic foods have all soared. Interestingly, because so many members of the Gen Y “Echo Boomers” are living with their boomer parents, parents are being influenced by what demographers are calling a “boom-boom effect.” The same products that appeal to 21-year-olds are appealing to youth-obsessed baby boomers.

The multi-season success of MTV’s reality show The Osbournes, starring heavy-metal rocker Ozzy Osbourne and his family, was fueled as much by boomer parents as by their MTV loving kids. Contrary to conventional marketing wisdom that brand preferences of consumers over 50 are fixed, one study found 52 percent of boomers are willing to change brands, in line with the total population. Although they love to buy things, they hate being sold to, and as one marketer noted, “You have to earn your stripes every day.” But abundant opportunity exists. Boomers are also less likely to associate retirement with “the beginning of the end” and see it instead as a new chapter in their lives with new activities, interests, careers, or even relationships.22 Silent Generation Those born between 1925 and 1945—the “Silent Generation”—are redefining what old age means. To start with, many people whose chronological age puts them in this category don’t see themselves as old. One survey found that 60 percent of respondents over 65 said they felt younger than their actual age. A third aged 65 to 74 said they felt 10 to 19 years younger, and one in six felt at least 20 years younger than their actual age.

Consistent with what they say, many older consumers lead very active lives. As one expert noted, it is if they were having a second middle age before becoming elderly. Advertisers have learned that older consumers don’t mind seeing other older consumers in ads targeting them, as long as they appear to be leading vibrant lives. But marketers have learned to avoid clichés like happy older couples riding bikes or strolling hand-in-hand on a beach at sunset. Emphasizing their roles as grandparents is universally well-received. Many older consumers not only happily spend time with their grandkids, they often provide for their basic needs or at least occasional gifts. The founders of eBeanstalk.com, which sells children's learning toys online, thought their business would be largely driven by young consumers starting families. They were surprised to find that up to 40 percent of their customers were older consumers, mainly grandparents. These customers are very demanding, but also more willing to pay full price than their younger counterparts.

vi) RACE AND CULTURE: Multicultural marketing is an approach recognizing that different ethnic and cultural segments have sufficiently different needs and wants to require targeted marketing activities, and that a mass market approach is not refined enough for the diversity of the marketplace. Consider that McDonald's now does 40 percent of its U.S. business with ethnic minorities. Its highly successful "I'm Lovin' It" campaign was rooted in hip-hop culture but has had an appeal that transcended race and ethnicity. The Hispanic American, African American, and Asian American markets are all growing at two to three times the rate of non-multicultural populations, with numerous submarkets, and their buying power is expanding. Multicultural markets also vary in whether they are first and second (or more) generation, and whether they are immigrants or born and raised in the United States. The norms, language nuances, buying habits, and business practices of multicultural markets need to be factored into the initial formulation of a marketing strategy, rather than added as an afterthought. All this diversity also has implications for marketing research; it takes careful sampling to adequately profile target markets.

Multicultural marketing can result in different marketing messages, media, channels, and so on. Specialized media exists to reach virtually any cultural segment or minority group, though some companies have struggled to provide financial and management support for fully realized programs. Fortunately, as countries become more culturally diverse, many marketing campaigns targeting a specific cultural group can spill over and positively influence others. An ad for Tide in which an African American man wearing a wedding ring was drying his son off after a bath was well regarded by both African Americans and the market as a whole.

Boost Mobile has leveraged a shared interest in youth culture to create a diverse customer base of young adults made up of 35 percent African Americans, 27 percent Hispanic Americans, and 32 percent Caucasians. Next, we consider issues in the three largest multicultural markets—Hispanic Americans, African Americans, and Asian Americans. Hispanic Americans Hispanic Americans have become the largest minority in the country with annual purchasing power estimated to be more than $1 trillion in 2010. By 2020, 17 percent of Americans are projected to be of Hispanic origin. The Hispanic American market holds a wide variety of sub-segments, with roughly two dozen nationalities including Cuban, Mexican, Puerto Rican, Dominican, and other Central and South American groups, and a mix of cultures, physical types, racial backgrounds, and aspirations.

To meet these divergent needs, Goya, the United States' largest Hispanic food company, sells 1,600 products ranging from bags of rice to ready-to-eat, frozen empanadas. The company sells 38 varieties of beans alone. Although Hispanics suffered from greater unemployment and diminished disposable income in the recession, they were still an attractive target because they had lower mortgage and credit card debt, two or more income earners, and a greater propensity to buy advertised brands. Companies such as Johnson & Johnson, Verizon, and General Mills all significantly increased their advertising investment in the Hispanic market during the last recession.

Hispanic Americans often share strong family values—several generations may reside in one household—and strong roots to their original country of origin. They have a need for respect, brand loyalty, and a keen interest in product quality. Procter & Gamble's research revealed that Hispanic consumers believe "lo barato sale caro" ("cheap can be expensive," or in the English equivalent, "you get what you pay for"). P&G found Hispanic consumers were so value-oriented they would even do their own product tests at home. One woman was using different brands of tissues and toilet paper in different rooms and bathrooms to see which her family liked best.

Marketers are reaching out to Hispanic Americans with targeted promotions, ads, and Web sites but need to be careful to capture the nuances of cultural and market trends. The California Milk Processor Board (CMPB) had to change its famed “got milk?” ad campaign when targeting the Hispanic market.

U.S.-born Hispanic Americans also have different needs and tastes than their foreign-born counterparts and, though bilingual, often prefer to communicate in English. With two-thirds of U.S. Hispanics considered “bicultural” and comfortable with both Spanish- and English-speaking cultures, most firms choose not to risk alienating the English-speaking audience on national TV and to run Spanish-only ads just on Hispanic networks Univision, Telemundo, and Telefutura. Some marketers such as General Motors and Toyota have used a “Spanglish” approach in their ads, mixing some Spanish naturally in with English in conversations among Hispanic families.

Companies such as Continental Airlines, General Mills, and Sears have recently been using mobile marketing to reach Hispanics. With a mostly younger population and less access to Internet or landline service, Hispanics are much more likely to consume content on their cell phones than the general market. African Americans African Americans have had a significant economic, social, and cultural impact on U.S. life, influencing inventions, art, music, sports, fashion, and literature. Like many cultural segments, they are deeply rooted in the U.S. landscape while also proud of their heritage and respectful of family ties. Based on survey findings, African Americans are the most fashion-conscious of all racial and ethnic groups but strongly motivated by quality and selection. They’re also more likely to be influenced by their children when selecting a product for purchase, and less likely to buy unfamiliar brands. African Americans watch television and listen to the radio more than other groups, and they buy more DVDs than any other multicultural segment except Hispanics.

Many companies have successfully tailored products to meet the needs of African Americans. In 1987, Hallmark Cards launched its African American–targeted Mahogany line with only 16 greeting cards; today it offers 800 cards and a line of stationery. Sara

Lee Corporation’s L’eggs discontinued its separate line of pantyhose for black women; now shades and styles popular among black women make up half the company’s general-focus sub-brands. Ad messages must also be seen as relevant. In a campaign for Lawry’s Seasoned Salt targeting African Americans, images of soul food appeared; a campaign for Kentucky Fried Chicken showed an African American family gathered at a reunion—demonstrating an understanding of both the market’s values and its lifestyle.
Cigarette, liquor, and fast-food firms have been criticized for targeting urban African Americans. As one writer noted, with obesity a problem, it is disturbing that it is easier to find a fast-food restaurant than a grocery store in many black neighborhoods. Asian Americans According to the U.S. Census Bureau,“Asian” refers to people having origins in any of the original peoples of the Far East, Southeast Asia, or the Indian subcontinent. Six countries represent 79 percent of the Asian American population: China (21 percent), the Philippines (18 percent), India (11 percent), Vietnam (10 percent), Korea (10 percent), and Japan (9 percent). The diversity of these national identities limits the effectiveness of pan-Asian marketing appeals. The Asian American market has been called the “invisible market” because, compared to Hispanic Americans and African Americans, it has traditionally received a disproportionally small fraction of U.S. companies’ total multicultural marketing expenditure.

Yet it is getting easier and easier to reach this market. The number of media outlets targeting Asian Americans has grown from 200 in the 1980s to between 700 and 800 by 2007. Philadelphia-based Sovereign Bank has been successful targeting Boston’s Chinese American community with a 100 percent Chinese American–staffed branch. Not only do employees speak Cantonese, they know that in financial planning for Chinese Americans it is appropriate to acknowledge the need to care for elderly parents. Traditional packaged-good firms have also been getting in the act. Here is how Kraft got its start. Asian Americans tend to be more brand-conscious than other minority groups yet are the least loyal to particular brands. They also tend to care more about what others think (for instance, whether their neighbors will approve of them) and share core values of safety and education. Comparatively affluent and well-educated, they are an attractive target for luxury brands. The most computer-literate group, Asian Americans are more likely to use the Internet on a daily basis.

Lesbian, Gay, Bisexual, and Transgender (LGBT) The lesbian, gay, bisexual, and transgender (LGBT) market is estimated to make up 5 percent to 10 percent of the population and have approximately $700 billion in buying power. Many firms have recently created initiatives to target this market. American Airlines created a Rainbow Team with a dedicated LGBT staff and Web site that has emphasized community-relevant services such as an event calendar of gay-themed national events. According to one survey of the gay and lesbian community, Absolut, Apple, Levi's, and Bravo and Showtime television networks are seen as among the most gay-friendly businesses.

Logo, MTV's television channel for a gay and lesbian audience, has 150 advertisers in a wide variety of product categories and is available in 40 million homes. Increasingly, advertisers are using digital efforts to reach the market. Hyatt's online appeals to the LGBT community targets social sites and blogs where customers share their travel experiences. Some firms, however, worry about backlash from organizations that will criticize or even boycott firms supporting gay and lesbian causes. Although Pepsi, Campbell's, and Wells Fargo have all experienced such boycotts, they continue to advertise to the gay community.

c) Psychographic Segmentation: Psychographics is the science of using psychology and demographics to better understand consumers. In psychographic segmentation, buyers are divided into different groups on the basis of psychological/personality traits, lifestyle, or values. People within the same demographic group can exhibit very different psychographic profiles. One of the most popular commercially available classification systems based on psychographic measurements is Strategic Business Insight's (SBI) VALS framework. VALS, signifying values and lifestyles, classifies U.S. adults into eight primary groups based on responses to a questionnaire featuring 4 demographic and 35 attitudinal questions. The VALS system is continually updated with new data from more than 80,000 surveys per year. You can find out which VALS type you are by going to the SBI Web site.49 The main dimensions of the VALS segmentation framework are consumer motivation (the horizontal dimension) and consumer resources (the vertical dimension). Consumers are inspired by one of three primary motivations: ideals, achievement, and self-expression. Those primarily motivated by ideals are guided by knowledge and principles. Those motivated by achievement look for products and services that demonstrate success to their peers. Consumers whose motivation is self-expression desire social or physical activity, variety, and risk. Personality traits such as energy, self-confidence, intellectualism, novelty seeking, innovativeness, impulsiveness, leadership, and vanity—in conjunction with key demographics—determine an individual's resources. Different levels of resources enhance or constrain a person's expression of his or her primary motivation. The four groups with higher resources are:

- Innovators—Successful, sophisticated, active, "take-charge" people with high self-esteem. Purchases often reflect cultivated tastes for relatively upscale, niche-oriented products and services.
- Thinkers—Mature, satisfied, and reflective people motivated by ideals and who value order, knowledge, and responsibility. They seek durability, functionality, and value in products.
- Achievers—Successful, goal-oriented people who focus on career and family. They favor premium products that demonstrate success to their peers.
- Experiencers—Young, enthusiastic, impulsive people who seek variety and excitement. They spend a comparatively high proportion of income on fashion, entertainment, and socializing.

The four groups with lower resources are:

- Believers—Conservative, conventional, and traditional people with concrete beliefs. They prefer familiar, U.S.-made products and are loyal to established brands.
- Strivers—Trendy and fun-loving people who are resource-constrained. They favor stylish products that emulate the purchases of those with greater material wealth.
- Makers—Practical, down-to-earth, self-sufficient people who like to work with their hands. They seek U.S.-made products with a practical or functional purpose.
- Survivors—Elderly, passive people concerned about change and loyal to their favorite brands.

Marketers can apply their understanding of VALS segments to marketing planning. For example, Transport Canada, the agency that operates major Canadian airports, found that Actualizers, who desire to express independence and taste, made up a disproportionate percentage of air travelers. Given that segment's profile, stores such as Sharper Image and Nature Company were expected to do well in the firm's airports.

Psychographic segmentation schemes are often customized by culture. The Japanese version of VALS, Japan VALS, divides society into 10 consumer segments on the basis of two key concepts: life orientation (traditional ways, occupations, innovation, and self-expression) and attitudes to social change (sustaining, pragmatic, adapting, and innovating).

d) Behavioral Segmentation: In behavioral segmentation, marketers divide buyers into groups on the basis of their knowledge of, attitude toward, use of, or response to a product.

13.3 NEEDS AND BENEFITS

Not everyone who buys a product has the same needs or wants the same benefits from it. Needs-based or benefit-based segmentation is a widely used approach because it identifies distinct market segments with clear marketing implications.

Constellation Brands identified six different benefit segments in the U.S. premium wine market ($5.50 a bottle and up).

• Enthusiast (12 percent of the market). Skewing female, their average income is about $76,000 a year. About 3 percent are "luxury enthusiasts" who skew more male with a higher income.

• Image Seekers (20 percent). The only segment that skews male, with an average age of 35. They use wine basically as a badge to say who they are, and they're willing to pay more to make sure they're getting the right bottle.

• Savvy Shoppers (15 percent). They love to shop and believe they don't have to spend a lot to get a good bottle of wine. Happy to use the bargain bin.

• Traditionalist (16 percent). With very traditional values, they like to buy brands they've heard of and from wineries that have been around a long time. Their average age is 50 and they are 68 percent female.

• Satisfied Sippers (14 percent). Not knowing much about wine, they tend to buy the same brands. About half of what they drink is white zinfandel.
• Overwhelmed (23 percent). A potentially attractive target market, they find purchasing wine confusing.

13.4 DECISION ROLES

It's easy to identify the buyer for many products. In the United States, men normally choose their shaving equipment and women choose their pantyhose; but even here marketers must be careful in making targeting decisions, because buying roles change. When ICI, the giant British chemical company, discovered that women made 60 percent of decisions on the brand of household paint, it decided to advertise its Dulux brand to women. People play five roles in a buying decision: Initiator, Influencer, Decider, Buyer, and User. For example, assume a wife initiates a purchase by requesting a new treadmill for her birthday. The husband may then seek information from many sources, including his best friend who has a treadmill and is a key influencer in what models to consider. After presenting the alternative choices to his wife, he purchases her preferred model, which ends up being used by the entire family. Different people are playing different roles, but all are crucial in the decision process and ultimate consumer satisfaction.

13.5 USER AND USAGE—REAL USER AND USAGE-RELATED VARIABLES

Many marketers believe variables related to various aspects of users or their usage—occasions, user status, usage rate, buyer-readiness stage, and loyalty status—are good starting points for constructing market segments. Occasions mark a time of day, week, month, year, or other well-defined temporal aspects of a consumer's life. We can distinguish buyers according to the occasions when they develop a need, purchase a product, or use a product. For example, air travel is triggered by occasions related to business, vacation, or family. Occasion segmentation can help expand product usage. User Status Every product has its nonusers, ex-users, potential users, first-time users, and regular users. Blood banks cannot rely only on regular donors to supply blood; they must also recruit new first-time donors and contact ex-donors, each with a different marketing strategy. The key to attracting potential users, or even possibly nonusers, understands the reasons they are not using. Do they have deeply held attitudes, beliefs, or behaviors or just lack knowledge of the product or brand benefits and usage? Included in the potential-user group are consumers who will become users in connection with some life stage or life event.

Mothers-to-be are potential users who will turn into heavy users. Producers of infant products and services learn their names and shower them with products and ads to capture a share of their future purchases. Market-share leaders tend to focus on attracting potential users because they have the most to gain. Smaller firms focus on trying to attract current users away from the market leader. Usage Rate We can segment markets into light, medium, and heavy product users. Heavy users are often a small slice but account for a high percentage of total consumption. Heavy beer drinkers account for 87 percent of beer consumption—almost seven times as much as light drinkers. Marketers would rather attract one heavy user than several light users. A potential problem, however, is that heavy users are often either extremely loyal to one brand or never loyal to any brand and always looking for the lowest price. They also may have less room to expand their purchase and consumption. Buyer-Readiness Stage Some people are unaware of the product, some are aware, some are informed, some are interested, some desire the product, and some intend to buy. To help characterize how many people are at different stages and how well they have converted people from one stage to another, marketers can employ a marketing funnel to break down the market into different buyer-readiness stages.

The proportions of consumers at different stages make a big difference in designing the marketing program. Suppose a health agency wants to encourage women to have an annual Pap test to detect cervical cancer. At the beginning, most women may be unaware of the Pap test. The marketing effort should go into awareness-building advertising using a simple message. Later, the advertising should dramatize the benefits of the Pap test and the risks of not getting it. A special offer of a free health examination might motivate women to actually sign up for the test. Depending on the reasons consumers didn't use again, a marketing campaign could introduce more relevant products, find more accessible retail outlets, or dispel rumors or incorrect beliefs consumers hold.

a) **Loyalty Status Marketers** usually envision four groups based on brand loyalty status:

- Hard-core loyals—Consumers who buy only one brand all the time
- Split loyals—Consumers who are loyal to two or three brands
- Shifting loyals—Consumers who shift loyalty from one brand to another
- Switchers—Consumers who show no loyalty to any brand

A company can learn a great deal by analyzing degrees of brand loyalty: Hard-core loyal can help identify the products' strengths; split loyal can show the firm which brands are most competitive with its own; and by looking at customers dropping its brand, the company can learn about its marketing weaknesses and attempt to correct them. One caution: What appear to be brand-loyal purchase patterns may reflect habit, indifference, a low price, a high switching cost, or the unavailability of other brands.

b) **Attitude:** Five consumer attitudes about products are enthusiastic, positive, indifferent, negative, and hostile. Door-to-door workers in a political campaign use attitude to determine how much time to spend with each voter. They thank enthusiastic voters and remind them to vote, reinforce those who are positively disposed, try to win the votes of indifferent voters, and spend no time trying to change the attitudes of negative and hostile voters. Multiple Bases Combining different behavioral bases can provide a more comprehensive and cohesive view of a market and its segments.

13.6 BASES FOR SEGMENTING BUSINESS MARKETS

We can segment business markets with some of the same variables we use in consumer markets, such as geography, benefits sought, and usage rate, but business marketers also use other variables. The demographic variables are the most important, followed by the operating variables—down to the personal characteristics of the buyer. The table lists major questions that business marketers should ask in determining which segments and customers to serve. A rubber-tire company can sell tires to manufacturers of automobiles, trucks, farm tractors, forklift trucks, or aircraft. Within a chosen target industry, it can further segment by company size and set up separate operations for selling to large and small customers. A company can segment further by purchase criteria. Government laboratories need low prices and service contracts for scientific equipment, university laboratories need equipment that requires little service, and industrial labs need equipment that is highly reliable and accurate. Business marketers generally identify segments through a sequential process.

Consider an aluminum company: The company first undertook macro-segmentation. It looked at which end-use market to serve: automobile, residential, or beverage containers. It chose the residential market, and it needed to determine the most attractive product application: semi-finished material, building components, or aluminum mobile homes. Deciding to focus on building components, it considered the best customer size and chose large customers. The second stage consisted of micro-segmentation. The company distinguished among customers buying on price, service, or quality. Because it had a high-service profile, the firm decided to concentrate on the service-motivated segment of the market. Business-to-business marketing experts James C. Anderson and James A. Narus have urged marketers to present flexible market offerings to all members of a segment. A flexible market offering consists of two parts: a naked solution containing the product and service elements that all segment members value, and discretionary options that some segment members value. Each option might carry an additional charge. Siemens Electrical Apparatus Division sells metal-clad boxes to small manufacturers at prices that include free delivery and a warranty, but it also offers installation, tests, and communication peripherals as extra-cost options.

Delta Airlines offers all economy passengers a seat, small snack and soft drinks and charges extra for alcoholic beverages and meals. Market Targeting There are many statistical techniques for developing market segments. Once the firm has identified its market-segment opportunities, it must decide how many and which ones to target. Marketers are increasingly combining several variables in an effort to identify smaller, better-defined target groups. Thus, a bank may not only identify a group of wealthy retired adults but within that group distinguish several segments depending on current income, assets, savings, and risk preferences. This has led some market researchers to advocate a needs-based market segmentation approach, as introduced previously.

a) Effective Segmentation Criteria: Not all segmentation schemes are useful. We could divide buyers of table salt into blond and brunette customers, but hair color is undoubtedly irrelevant to the purchase of salt. Furthermore, if all salt buyers buy the same amount of salt each month, believe all salt is the same, and would pay only one price for salt, this market is minimally segmentable from a marketing point of view.

To be useful, market segments must rate favorably on five key criteria:

• Measurable. The size, purchasing power, and characteristics of the segments can be measured.

• Substantial. The segments are large and profitable enough to serve. A segment should be the largest possible homogeneous group worth going after with a tailored marketing program. It would not pay, for example, for an automobile manufacturer to develop cars for people who are less than four feet tall.

• Accessible. The segments can be effectively reached and served.

Differentiable:

The segments are conceptually distinguishable and respond differently to different marketing-mix elements and programs. If married and unmarried women respond similarly to a sale on perfume, they do not constitute separate segments.

• Actionable. Effective programs can be formulated for attracting and serving the segments. Michael Porter has identified five forces that determine the intrinsic long-run attractiveness of a market or market segment: industry competitors, potential entrants, substitutes, buyers, and suppliers.

b) The threats these forces pose are as follows:

1. Threat of intense segment rivalry—A segment is unattractive if it already contains numerous, strong, or aggressive competitors. It's even more unattractive if it's stable or declining, if plant capacity must be added in large increments, if fixed costs or exit barriers are high, or if competitors have high stakes in staying in the segment. These conditions will lead to frequent price wars, advertising battles, and new-product

introductions and will make it expensive to compete. The cellular phone market has seen fierce competition due to segment rivalry.

2. Threat of new entrants—The most attractive segment is one in which entry barriers are high and exit barriers are low. Few new firms can enter the industry, and poorly performing firms can easily exit. When both entry and exit barriers are high, profit potential is high, but firms face more risk because poorer-performing firms stay in and fight it out. When both entry and exit barriers are low, firms easily enter and leave the industry, and returns are stable but low. The worst case is when entry barriers are low and exit barriers are high: Here firms enter during good times but find it hard to leave during bad times. The result is chronic overcapacity and depressed earnings for all. The airline industry has low entry barriers but high exit barriers, leaving all carriers struggling during economic downturns.

3. Threat of substitute products—A segment is unattractive when there are actual or potential substitutes for the product. Substitutes place a limit on prices and on profits. If technology advances or competition increases in these substitute industries, prices and profits are likely to fall. Air travel has severely challenged profitability for Greyhound and Amtrak.

4. Threat of buyers' growing bargaining power—A segment is unattractive if buyers possess strong or growing bargaining power. The rise of retail giants such as Walmart has led some analysts to conclude that the potential profitability of packaged-goods companies will become curtailed. Buyers' bargaining power grows when they become more concentrated or organized, when the product represents a significant fraction of their costs, when the product is undifferentiated, when buyers' switching costs are low, when buyers are price-sensitive because of low profits, or when they can integrate upstream. To protect themselves, sellers might select buyers who have the least power to negotiate or switch suppliers. A better defense is developing superior offers that strong buyers cannot refuse.

5. Threat of suppliers' growing bargaining power—A segment is unattractive if the company's suppliers are able to raise prices or reduce quantity supplied. Suppliers tend to be powerful when they are concentrated or organized, when they can integrate

downstream, when there are few substitutes, when the supplied product is an important input, and when the costs of switching suppliers are high. The best defenses are to build win-win relationships with suppliers or use multiple supply sources. Evaluating and Selecting the Market Segments In evaluating different market segments, the firm must look at two factors: the segment's overall attractiveness and the company's objectives and resources. How well does a potential segment score on the five criteria? Does it have characteristics that make it generally attractive, such as size, growth, profitability, scale economies, and low risk? Does investing in the segment make sense given the firm's objectives, competencies, and resources? Some attractive segments may not mesh with the company's long-run objectives, or the company may lack one or more necessary competencies to offer superior value. Marketers have a range or continuum of possible levels of segmentation that can guide their target market decisions.

13.7 FULL MARKET COVERAGE

With full market coverage, a firm attempts to serve all customer groups with all the products they might need. Only very large firms such as Microsoft (software market), General Motors (vehicle market), and Coca-Cola (nonalcoholic beverage market) can undertake a full market coverage strategy. Large firms can cover a whole market in two broad ways: through differentiated or undifferentiated marketing. In undifferentiated or mass marketing, the firm ignores segment differences and goes after the whole market with one offer. It designs a marketing program for a product with a superior image that can be sold to the broadest number of buyers via mass distribution and mass communications. Undifferentiated marketing is appropriate when all consumers have roughly the same preferences and the market shows no natural segments.

Henry Ford epitomized this strategy when he offered the Model-T Ford in one color, black. The argument for mass marketing is that it creates the largest potential market, which leads to the lowest costs, which in turn can lead to lower prices or higher margins. The narrow product line keeps down the costs of research and development, production, inventory, transportation, marketing research, advertising, and product management. The undifferentiated communication program also reduces costs. However, many critics point to the increasing splintering of the market, and the proliferation of marketing channels and communication, which make it difficult and increasingly expensive to reach a mass audience. When different groups of consumers have different needs and wants, marketers can define multiple segments. The company can often better design, price, disclose, and deliver the product or service and also fine-tune the marketing program and activities to better reflect competitors' marketing. In differentiated marketing, the firm sells different products to all the different segments of the market.

Cosmetics firm Estée Lauder markets brands that appeal to women (and men) of different tastes: The flagship brand, the original Estée Lauder, appeals to older consumers; Clinique caters to middle-aged women; M.A.C. to youthful hipsters; Aveda to aromatherapy enthusiasts; and Origins to eco conscious consumers who want cosmetics made from natural ingredients.55 Perhaps no firm practices differentiated marketing like Hallmark Cards, which celebrated its 100th birthday in 2010 Differentiated marketing typically creates more total sales than undifferentiated marketing. However, it also increases the costs of doing business. Because differentiated marketing leads to both higher sales and higher costs, no generalizations about its profitability are valid.

13.8 MULTIPLE SEGMENT SPECIALISATIONS

With selective specialization, a firm selects a subset of all the possible segments, each objectively attractive and appropriate. There may be little or no synergy among the segments, but each promises to be a moneymaker. When Procter & Gamble launched Crest White strips, initial target segments included newly engaged women and brides-to be as well as gay males. The multi-segment strategy also has the advantage of diversifying the firm's risk. Keeping synergies in mind, companies can try to operate in super segments rather than in isolated segments. A super segment is a set of segments sharing some exploitable similarity. For example, many symphony orchestras target people who have broad cultural interests, rather than only those who regularly attend concerts. A firm can also attempt to achieve some synergy with product or market specialization.

• With product specialization, the firm sells a certain product to several different market segments. A microscope manufacturer, for instance, sells to university, government, and commercial laboratories, making different instruments for each and building a strong reputation in the specific product area. The downside risk is that the product may be supplanted by an entirely new technology.

• With market specialization, the firm concentrates on serving many needs of a particular customer group, such as by selling an assortment of products only to university laboratories. The firm gains a strong reputation among this customer group and becomes a channel for additional products its members can use. The downside risk is that the customer group may suffer budget cuts or shrink in size.

13.9 SINGLE-SEGMENT CONCENTRATION

With single-segment concentration, the firm markets to only one particular segment. Porsche concentrates on the sports car market and Volkswagen on the small-car market—its foray into the large-car market with the Phaeton was a failure in the United States. Through concentrated marketing, the firm gains deep knowledge of the segment's needs and achieves a strong market presence. It also enjoys operating economies by specializing its production, distribution, and promotion. If it captures segment leadership, the firm can earn a high return on its investment. A niche is a more narrowly defined customer group seeking a distinctive mix of benefits within a segment. Marketers usually identify niches by dividing a segment into sub-segments.

Whereas Hertz, Avis, Alamo, and others specialize in airport rental cars for business and leisure travelers, Enterprise has attacked the low-budget, insurance-replacement market by primarily renting to customers whose cars have been wrecked or stolen. By creating unique associations to low cost and convenience in an overlooked niche market, Enterprise has been highly profitable. Niche marketers aim to understand their customers' needs so well that customers willingly pay a premium. Tom's of Maine was acquired by Colgate-Palmolive for $100 million in part because its all-natural personal care products and charitable donation programs appeal to consumers turned off by big businesses. The brand commands a 30 percent price premium as a result.

What does an attractive niche look like? Customers have a distinct set of needs; they will pay a premium to the firm that best satisfies them; the niche is fairly small but has size, profit, and growth potential and is unlikely to attract many competitors; and the niche gains certain economies through specialization. As marketing efficiency increases, niches that were seemingly too small may become more profitable. See "Marketing Insight: Chasing the Long Tail."

13.10 INDIVIDUAL MARKETING

The ultimate level of segmentation leads to "segments of one," "customized marketing," or "one-to-one marketing." Today, customers are taking more individual initiative in determining what and how to buy. They log onto the Internet; look up information and evaluations of product or service offerings; conduct dialogue with suppliers, users, and product critics; and in many cases design the product they want. Jerry Wind and Arvind Rangaswamy see a movement toward "customerizing" the firm.

Customerization combines operationally driven mass customization with customized marketing in a way that empowers consumers to design the product and service offering of their choice. The firm no longer requires prior information about the customer, nor does it need to own manufacturing. It provides a platform and tools and "rents" to customers the means to design their own products. A company is customerized when it is able to respond to individual customers by customizing its products, services, and messages on a one-to-one basis. Customization is certainly not for every company. It may be very difficult to implement for complex products such as automobiles. It can also raise the cost of goods by more than the customer is willing to pay. Some customers don't know what they want until they see actual products, but they also cannot cancel the order after the company has started to work on it. The product may be hard to repair and have little sales value. In spite of this, customization has worked well for some products.

13.11 ETHICAL CHOICE OF MARKET TARGETS

Marketers must target carefully to avoid consumer backlash. Some consumers resist being labeled. Singles may reject single-serve food packaging because they don't want to be reminded they are eating alone. Elderly consumers who don't feel their age may not appreciate products that label them “old.” Market targeting also can generate public controversy when marketers take unfair advantage of vulnerable groups (such as children) or disadvantaged groups (such as inner-city poor people) or promote potentially harmful products. The cereal industry has been heavily criticized for marketing efforts directed toward children. Critics worry that high-powered appeals presented through the mouths of lovable animated characters will overwhelm children’s defenses and lead them to want sugared cereals or poorly balanced breakfasts. Toy marketers have been similarly criticized.

13.12 SELF CHECK EXERCISE

1. What are the essentials of effective target marketing? Discuss in brief.
2. Define Market Segmentation.
3. Define Geographic Segmentation.
4. Write a short-note on importance of age and life-cycle stage in segmentation.
5. Write a short note on need and benefits of segmentation.
6. Discuss in brief the bases for segmenting business markets.
7. What do you mean by full market coverage? Discuss in brief.

13.13 SUMMARY

Market segmentation is one of the most efficient tools for marketers to cater to their target group. It makes it easier for them to personalize their campaigns, focus on what’s necessary, and to group similar consumers to target a specific audience in a cost-effective manner. Market segmentation is being used by marketers since the late 1900s. Simple though it may be, it is of vital use to forming any marketing plan. Market Segmentation is a process of dividing the market of potential customers into different groups and segments on the basis of certain characteristics. The member of these groups share similar characteristics and usually has one or more than one aspect common among them. There are many reasons as to why market segmentation is done. One of the major reasons marketers segment market is because they can create a custom marketing mix for each segment and cater them accordingly.

13.14 GLOSSARY

- **Consumer market** pertains to buyers who purchase goods and services for consumption rather than resale. However, not all consumers are alike in their tastes, preferences and buying habits due to different characteristics that can distinguish certain consumers from others.
- **Full market coverage**. Means that in undifferentiated marketing, the firm ignores segment difference and goes after the whole market with one offer. It designs a product and a marketing program that will appeal to the broader number of buyers. It relies on mass distribution and advertising.
- **Individual market** means the market for health insurance coverage offered to individuals other than in connection with a group health plan. Individual market means the market for health insurance coverage offered to individuals other than in connection with group health insurance coverage.
- **Market** is any place where sellers of particular goods or services can meet with buyers of those goods and services. It creates the potential for a transaction to take place. The buyers must have something they can offer in exchange for the product to create a successful transaction.
- **Market segmentation** is the process of dividing a market of potential customers into groups, or segments, based on different characteristics. The segments created are composed of consumers who will respond similarly to marketing strategies and who share traits such as similar interests, needs, or locations.
- **Segmentation** means to divide the marketplace into parts, or segments, which are definable, accessible, actionable, and profitable and have a growth potential. In other words, a company would find it impossible to target the entire market, because of time, cost and effort restrictions.

13.15 ANSWERS TO SELF CHECK EXERCISE

1. For answer to question number 1 refer to section 13.1.
2. For answer to question number 2 refer to section 13.1 (a).
3. For answer to question number 3 refer to section 13.2 (a).
4. For answer to question number 4 refer to section 13.2 (b) (i).
5. For answer to question number 5 refer to section 13.3.

6. For answer to question number 6 refer to section 13.6.

7. For answer to question number 6 refer to section 13.7.

13.16 TERMINAL QUESTIONS

1. Define Segmentation. Discuss the bases for segmenting consumer markets.
2. Elaborate the bases for segmenting business markets.
3. Distinguish between consumer market and business market.
4. What are the benefits of segmentation? Discuss in detail.
5. What do you mean by Full Market Coverage? Is it beneficial for the organisation to have full coverage of the market? Give reasons to support your answer.

13.17 SUGGESTED READINGS

- Carvens, D. W., Strategic Marketing Homewood Illiois, Richard D.?Irwin
- Kayank E. and Savitt R., Comparative Marketing Systems, New York, Praegar.
- Kotler Phillip, Marketing Management: Analysis, Planning, Implementation
- Porter, M. E., Competitive Advantage: Creating Sustaining Superior Performance, New York, Free Press.
- Porter, M. E., Competitive Strategy: Techniques for Analysing Industries Competitors, New York, Free Press.

LESSON-14

PRODUCT DIFFERENTIATION

STRUCTURE

14.0 LEARNING OBJECTIVE
14.1 INTRODUCTION
14.2 THE TOTAL PRODUCT CONCEPT
14.3 PRODUCT DIFFERENTIATION
14.4 SELF CHECK EXERCISE
14.5 SUMMARY
14.6 GLOSSARY
14.7 ANSWERS TO SELF CHECK EXERCISE
14.8 TERMINAL QUESTIONS
14.9 SUGGESTED READINGS

14.0 LEARNING OBJECTIVE

After studying this lesson you must be able to understand; -

- The concept of product differentiation and is important to distinguishing one product from other product.
- This helps the businessmen to target the customers and customers easily distinguish the products offered by various business organisations.

14.1 INTRODUCTION

The product is the central element in a printing paper manufacturer's earning logic. The product – printing paper - together with related services forms an offering to a publisher, printer or a merchant. The concept of 'product' can be defined in various ways. Doyle (1994) defines a product as "anything that a firm offers to satisfy the needs or wants of customers". This can be a physical object such as a soft drink or a printing paper, but it can also be an intangible service such as a technical advice or just-in-time delivery. The key point is that products are not bought for their own sake but to satisfy a need or a want. The product offer can for example contain the entire product-service package including technical service, product training, payment conditions, promotion, and distribution in addition to product's physical attributes. According to Kotler (1998) a product is”anything which can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need”. The product is the first and the most important element of the marketing mix. Kotler (1998) identifies two levels in a product, which he labels the core product and the augmented product. The core product refers to the minimum benefit provided to meet the buyer's basic needs. It answers the question: what is a buyer really buying? These qualities of products or services are normally taken for granted and are also the easiest for competitors to copy. The augmented product provides a range of basic ancillary services which are not associated with the core product. These include guarantees, credits, and purchase terms, customer service, installation, training, consulting and delivery. These distinguish the company’s offer from competitor’s offers. Levitt (1986) and de Chernatony & McDonald (1992) distinguish four different levels within the total product concept. The generic level meets the buyer’s basic needs. It is the easiest concept to copy and seldom provides any base for differentiation. The expected level satisfies minimum purchase conditions such as availability and functional capabilities. The augmented level provides additional values such as delivery information and product training. It satisfies both rational and emotional needs. This type of product can be positioned according to an end-use, end user or according to a specific product attribute. The potential level embeds more intangible, emotional factors than rational factors. We can usually affect this level by branding products. On 'potential level' products as such can be similar.

14.2 THE TOTAL PRODUCT CONCEPT

Printing paper is an intermediary industrial material, which functions as a raw material for a publisher or a printer which is then to be converted into a final printed product. Both the level and uniformity of physical properties are important to a converter. That is why printing papers are differentiated on the basis of physical product attributes such as basis weight, thickness, gloss, opacity, brightness, smoothness, surface strength and oil absorption rather than according to psychological attributes, which is usually the case with consumer products and markets. The situation in standard printing papers is close to pure (perfect) competition, where an offer is planned in response to basic and essential needs and in markets where purchasing decisions are rational and concentrate on price or are dominated by it (Tuominen, 1998). Product family in many industrial sectors a wide product variety is becoming commonplace. Global operations must be able to adapt to different environments, regulations and cultures. In order to satisfy the needs of a specific customer segment companies develop product families. Within printing papers, for example SC papers form a product family with sub-grades such as SC B, standard SC, SC A+ and SC A++ papers. To manage the emergence of product families companies specify components similar to products. These underlying product components are called product platforms. According Mayer and Utterback (1993)"a robust platform is the heart of a successful product family serving as a foundation for a series of closely related products". Wheelwright & Clark (1992) mention three important characteristics which products must have in order to function as a platform: - established core performance capabilities which match with primary needs - the support of an entire product generation - a link to previous and subsequent generations of products. Individual products and product families are the offspring of product platforms which are enhanced over time. Successive product platforms are themselves perceived to be the results of a firm's underlying core capabilities. Therefore, in order to utilise those core capabilities effectively, product development should be managed by concentrating on levels of product platforms and product families. If product families share good mutual platforms, new product variants can be developed quickly by extending platforms (Wheelwright & Clark, 1992). Large product families do not come for free: this complicates sales, sets higher demands for pricing strategies, increases inventories and may cause decreased production efficiencies. Building-up large product families is easier in bigger (printing paper) firms than smaller ones due to a larger number of paper machines and broader and more versatile resource base. In any case, big firms must also solve the problems related to pricing and inventories. In the process of extending the platforms, two processes can be identified: an evolutionary process and a revolutionary process.

In the evolutionary process, developing new features to add value to the next generation product augments the available products. With these specific products different complementary market applications can be targeted. The customer demands in these segments typically vary: In order to satisfy these customer needs, it should be possible to scale up or scale down products. In the printing papers this means that a firm is able to offer lower quality less expensive solution during downturn for the same end-use.

The next generation products are, however, rapidly copied by the competitors. In the revolutionary process, however, the core platforms are adapted and refreshed with improved design and technologies to new market segment. When entering into new market segments, the existing products or families can be used as branches to extending the product range of the family or create new product families. In the expansion process existing and new technical skills, market knowledge and manufacturing capabilities can be utilised. Naturally, a revolution in terms of the core product also provides the basis for differentiation between the competing products. Evolutionary and revolutionary processes are highly industry specific. In the printing paper industry the evolutionary approach has been dominating. The rate of really new products has been slow. We can also evaluate product enhancements through three dimensions, in which y-axis represent product, x-axis market and z-axis production method. The easiest changes to carry out in the process industries are those to be found on the level of product/production method, somewhat more difficult on the level of product/market and the most difficult are those cases in which all three parameters – product, market and production method – simultaneously vary.

14.3 PRODUCT DIFFERENTIATION

No one definition exists of what exactly constitutes differentiation. Jernström (2000) refers to this issue in her doctoral dissertation by saying: "In fact, it is difficult to define differentiation". There are also different approaches to differentiation, for example, one of a marketer, one of an economist and one of a strategist as well as many levels such as a product level, product & service offering level and firm level. Scheuing (1974) defines differentiation as "adding variations of one product which will compete with it within the same market". Scheuing points out substantive differences in products. Kotler (1998) takes a broader approach covering any aspect of the total offering by stating "differentiation is the introduction of differential features, quality, style or image of brands as a basis for commanding a premium". Chamberlin (1965) elaborated on the concept of product differentiation which was offered as the explanation of a downward-falling demand curve of an individual product. Accordingly, Chamberlin suggested that demand is also dependent on the style of the product and selling activities – in addition to pricing. By differentiating its product offer, a firm may establish a quasi-monopoly, which will, to a certain extent, give a firm more freedom of pricing instead of being a mere 'pricetaker'. In short, Chamberlin noticed the importance of non-price competition, which at firm level can be met by creating certain product attributes and/or product variation, so that differentiation can take place. Porter (1985) suggests the following rationale behind differentiation: “a firm differentiates itself from its competitors, if it can be unique at something that is valuable to buyers”. He continues that the sources for differentiation are not well understood. They can stem from anywhere in the value chain. Differentiation is a much broader concept which encompasses more than any one factor such as quality, for example. For industrial, commercial and institutional buyers, differentiation requires that a firm be uniquely able to create competitive advantage for themselves (Porter, 1985). Calori and Ardisson (1988) define differentiation in a following manner: "It is a position in which the offer of a given competitor has some valuable, distinctive characteristics for the customers. Those characteristics must fulfil the following criteria: they must be perceived by customers, defensible from imitation by competitors and valuable for the supplier either through higher market share and/or higher margin".

O’Shaughnessy (1984) takes the economists’ view by saying that any nonprice differences constitute differentiation. The idea that product differentiation softens price competition is prevalent in micro-economic literature. It is motivated by a problem known as the Bertrand paradox (Bertrand, 1987): “When firms produce homogenous products, price is the only variable of interest to consumers. Consequently, no firm can raise its price above marginal cost without losing its entire market share. In contrast, product differentiation establishes market niches and allows firms to enjoy some market power over these clienteles.”

In addition to defining, what is differentiation, it is important to consider two other issues:
- differentiation with respect to what and
- differentiation in whose eyes.

Regarding the former question, Scheuing (1974) and Foote (1972) for example agree that products are differentiated from those of competitors. Regarding the latter question – differentiation from whose perspective – several writers imply that differentiation is based on customer perceptions.

The connection between the intentions or needs of the supplier and perceptions of the customer is not well explained.

A product differentiation process in the printing paper industry context, identifying the roles of different actors and producing a framework for organising and managing product differentiation process.

Reducing price competition is the primary aim of differentiating a product. By differentiating the product, a seller attempts to reduce the influence of price on demand by creating a distinctive good or service via promotion, packaging, delivery, customer service, availability and other marketing factors. Successful product differentiation creates value to both customer and manufacturer.

Evans and Berman (1997) call it the valuable, distinctive characteristics for the customers. Those characteristics must fulfil the following criteria: they must be perceived by customers, defensible from imitation by competitors and valuable for the supplier either through higher market share and/or higher margin".

To benefit from differentiation a seller must be able to identify customers, who benefit from differentiation and are ready to pay for it. Customers can be classified as four distinct groups according to Nagle and Holden (1995) - convenience buyers, price buyers, value buyers and loyal buyers – value buyers should be sought out.

Differentiated products function also as informative experiments for a producer. In her research, Sällström (1998), has identified the following benefits from experimenting with differentiated products:
- adequacy of learning
- speed of learning

- expected pay-off per period.

Porter (1985) mentions the following pitfalls of differentiation:

1) uniqueness that is not valuable to buyers;

2) too much differentiation;

3) too big a price premium which ignores the need to signal value;

4) underestimated costs of differentiation;

5) focus only on the product and not on the whole value chain; and

6) a failure to recognise buyer segments.

Trout (2000) claims in his book “Differentiate or die” and specifically in Chapter ‘Differentiating commodities’ that “where there is a will, there is a way to differentiate”.

Levitt (1986) has stated that you can differentiate anything. In order to do this it is essential to offer customers more than they think, they need or they expect to get. This requires a good knowledge of customers' and their customers' businesses and logic. The final step in differentiation is about building a programme to make people aware of your difference. There, however, remains a challenge to implement differentiation strategy. Product differentiation in the paper industry can take many forms. From raw materials – various fibres and pigments for example - through to production methods – coating and calendering for example - to branding and pricing of printing papers.

Customers - publishers, printers and merchants – increasingly need product differentiation to support their differentiation strategies and to provide financial flexibility in this cyclical business. It can be stated that differentiation is a complex issue. No one unique and generally accepted definition exists and many depend on the researcher's approach and objectives.

To summarise there are, however, some important characteristics in differentiation:

- differentiation must add value to both customer and manufacturer
- it must be well communicated
- it must be compared with competition
- it is important from whose perspective differentiation is assessed
- connection between the needs of the manufacturer and the perception of the customer is not well known

- to sell differentiated products requires from sales executives different approach from that of commodity, e.g. good reasoning for why to pay more
- product differentiation is about will and determination. Product differentiation has not been on focus of research community since early 1990's but is an increasing reality in the printing paper firms.

Substitution Industrial markets, which the paper industry typically represents, can be characterised in terms of the relationship between buying and selling partners rather than short-term transactions. Möller and Wilson (1995) distinguish three different ways in which buyer-seller interaction can be approached: 1) through exchange, 2) adoption and 3) co-ordination. Firms are bound to each other through multi-level relationships. Customers and suppliers become dependent on each other in many ways. So a change of a supplier will not be made without good reason. Neither are paper grades switched so often for an end-use. Porter (1985) has stated that one method of understanding the adoption of a modified product can be found by employing the concept of substitution. This takes both the propensity to change and the switching costs into account in addition to the relative advantages. Direct switching costs typically arise as a result of different printing machine adjustments and usage training. The propensity to change is related to factors such as an approaching down cycle, decreased paper budgets and a need for a more economical printing substrate. How, and to what extent, purchasing strategies impact directly on the acceptance of differentiated products is not so well known. That is to say: the willingness to buy is mainly approached from the traditional adoption point of view. Some evidence can be found that early acceptance depends on the attitudes of the managers: specifically, to what extent they generally favour a change (Cohn, 1980). It is also anticipated that firm size is of some significance. Larger firms can generally devote more resources to the search for information. This in turn then has a considerable impact on the number of possibilities it is possible to identify (Baker, 1975). Two types of substitution occur in printing papers: 1) substitution of print media by electronic media and 2) substitution within the print media. Different drivers exist for both developments. In substitution between printing papers there are, in effect, two different types of forces: short term and long term (Haarla, 2000b). Both the shortterm actual situation and the long-term development simultaneously affect the final outcome. The strongest short-term forces are the supply/demand balance and the price difference between competing grades. Long term influences on substitution include decreasing quality differences between printing paper grades, the widening of a product range, the development of printing technology for a unifying effect, the development of paper production technology with new coating and finishing applications and pressure from advertisers and consumers in the form of environmental demands. The general economic situation and the supply/demand balance have had – according to a writer's experience - an impact on the direction of substitution. When the economy is weakening there is an increasing pressure to downgrade, to move towards lower quality, more economical paper grades which are good enough for the end-use. Typical examples of this are switches from LWC to SC or from WFC to LWC. Quality differences in printed products are often minimal to an advertiser and hardly visible to an end-user, consumer. An article by Oinonen and Malashenko (2000) contains examples of how newsprint is increasingly substituted for more value added printing paper grades.

14.4 SELF CHECK EXERCISE

1. Define Product.
2. What do you understand by concept of Total Product? Discuss in brief.
3. What are the characteristics of Product? Write a brief note.
4. Define Product Differentiation.
5. Write a short-note on benefits of Product Differentiation.

14.5 SUMMARY

Product differentiation (or just differentiation) is a marketing process of differentiating an offering (product or service) from others in the market, to make it more appealing to the target audience. It involves defining the offering's unique position in the market by explaining the unique benefit it provides to the target group. This may also be referred to pinpointing a unique selling proposition of the product to make it stand out from the crowd. The increased competition has divided the demand among different players in the market. This has made it very important for businesses to make their customers understand what different they have to offer.

14.6 GLOSSARY

- **Core product** is a concept that describes the utility that a consumer derives by using the product. It is the main need that is satisfied for which the product was made.
- **Product** is defined as a “thing produced by labor or effort” or the “result of an act or a process.” The word “product” stems from the verb “produce”, from the Latin prōdūce(re) “(to) lead or bring forth. ” Since 1575, the word “product” has referred to anything produced.
- **Product Differentiation** is Important in Today's Financial Climate. Product differentiation is essential in today's financial climate. It allows the seller to contrast its own product with competing products in the market and emphasize the unique aspects that make its product superior.
- **Total product** is the overall quantity of output that a firm produces, usually specified in relation to a variable input. Total product is the starting point for the analysis of short-run production. It indicates how much output a firm can produce according to the law of diminishing marginal returns.

14.7 ANSWERS TO SELF CHECK EXERCISE

1. For answer of question number 1 refer to section 14.1.
2 For answer of question number 2 refer to section 14.2.
3. For answer of question number 3 refer to section 14.2.
4. For answer of question number 4 refer to section 14.3.
5. For answer of question number 5 refer to section 14.3.

14.8 TERMINAL QUESTIONS

1. Define Product. Elaborate its features, significance and types.
2. Without Product the survival of a business firm becomes difficult. Why? Give reasons.
3. What is Product Differentiation? Give the benefits and pitfalls.
4. What are the criteria for product differentiation followed by business organisation? Discuss.

14.9 SUGGESTED READINGS

- Carvens, D. W., Strategic Marketing Homewood Illiois, Richard D.?Irwin

- Kayank E. and Savitt R., Comparative Marketing Systems, New York, Praegar.
- Kotler Phillip, Marketing Management: Analysis, Planning, Implementation
- Porter, M. E., Competitive Advantage: Creating Sustaining Superior Performance, New York, Free Press.
- Porter, M. E., Competitive Strategy: Techniques for Analysing Industries Competitors, New York, Free Press.

LESSON-15

BRAND POSITIONING

STRUCTURE

15.0 LEARNING OBJECTIVE

15.1 INTRODUCTION

15.2 CONCEPT OF POSITIONING

15.3 BRAND POSITIONING

15.4 SELF CHECK EXERCISE

15.5 SUMMARY

15.6 GLOSSARY

15.7 ANSWERS TO SELF CHECK EXERCISE

15.8 TERMINAL QUESTIONS

15.9 SUGGESTED READINGS

15.0 LEARNING OBJECTIVE

After studying this lesson you should able to understand: -

- The concept of brand positioning and also about positioning.
- The positioning strategies have been used by business organisations to establish its product in the market.

15.1 INTRODUCTION

A brand is a product from a known source (organization). The name of the organization can also serve as a brand. The brand value reflects how a product's name, or company name, is perceived by the marketplace, whether that is a target audience for a product or the marketplace in general (clearly these can have different meanings and therefore different values). It is important to understand the meaning and the value of the brand (for each target audience) in order to develop an effective marketing mix, for each target audience. The value of the brand for a web based company may have heightened importance due to the intangible nature of the web.

15.2 CONCEPT OF POSITIONING

Every brand has to have a strategic platform. One half of that platform is created by carefully formulating a distinct brand personality, which makes the identity of the brand unique. The other half of the strategic brand platform is positioning. Positioning is critical to brand building because it is responsible for projecting the brand identity and creating the perception and image of the brand in people's minds.

In other words, positioning is the process of offering the brand to the consumer. It is positioning that makes the brand appear to be different and better than all competing brands. The key points to note about positioning are: -

- It is a strategic, not a tactical, activity
- It is aimed at developing a strategic, sustainable competitive advantage
- It is concerned with managing perceptions
- Brand image and reputation are the result of the positioning process positioning carving out a market niche for your firm.

This may be accomplished by searching out unique marketing advantages, seeking new market segments that competitors are not cultivating, or developing new approaches to old problems. Your positioning should be based on a real (e.g., lower cost, superior quality) or intangible (e.g., company reputation) competitive advantage. Product positioning is an important strategy for achieving differential advantage. Positioning reflects the "place" a product occupies in a market or segment. A successful position has characteristics that are both differentiating and important to consumers.

Every product has some sort of position — whether intended or not. Positions are based upon consumer perceptions, which may or may not reflect reality. A position is effectively built by communicating a consistent message to consumers about the product and where it fits into the market — through advertising, brand name, and packaging Positioning is inextricably linked with market segmentation. You can't define a good position until you have divided the market into unique segments and selected your target segments.

Three key research issues must be addressed: -

1. What is your current position?

• What does the "space" look like what are the most important dimensions in the category?

• What are the other products in that space and where are they?

• What are the gaps, unfilled positions or “holes” in the category?

• Which dimensions are most important?

• How do these attitudes differ by market segment?

2. What position do you want to have? Some of the positioning opportunities for a product include:

• Finding an unmet consumer need or at least one that’s not being adequately met now by competition

• Identifying a product strength that is both unique & important

• Determining how to correct a product weakness and thereby enhance a product’s appeal. (e.g., legitimate “new & improved”)

• Changing consumer usage patterns to include different or additional uses for the product

• Identifying market segments, which represent the best targets for a product

3. How do you create a new positioning? Creating a new positioning can come from two sources

• Physical product differences

• Communications finding a memorable and meaningful way to describe the product (e.g., calling 7-Up the “Uncola”). As Ries and Trout point out, “Positioning is not what you do to a product; positioning is what you do to the mind of the prospect.”

15.3 BRAND POSITIONING

It is the “added value” or augmented elements that determine a brand’s positioning in the market place. Positioning can be defined as follows: Positioning is how a product appears in relation to other products in the market.

Its components: The Brand Positioning Component Involves Identifying Perceptions That Your Brand Should Own in the Minds of Its Target Market. The process recommended for developing a compelling brand positioning involves establishing consensus on key brand attributes with internal client stakeholders in a workshop setting.

In the workshop, exercises incorporating a variety of sensory elements are utilized to stimulate discussion and ultimately identify critical brand attributes. Results from the workshop will drive the brand through all points of contact with key stakeholders.

Product features: After formulated the objectives, customer and competitor segments. Now it is time to determine the specific features to be included in your product.

- The intrinsic product features such as size, color, packaging and design.
- Developing different features for segments is appealing for services but expensive for manufacturers.

Differential advantages: -

One of the most important strategic decisions:

If not low cost producer the firm must be able to differentiate but must have the following characteristics: -

- It should generate customer value (difference must mattered computer).
- The increased value must be perceived by the customer (intell inside).
- The advantage should be difficult to copy.

How many positions can a brand have? Positioning is the outward expression of a brand, and the reality, therefore, is that a brand can only have one true position. As positioning presents the identity and personality of the brand to the outside world, a multiple personality would seem odd at the very least, and at worst, schizophrenic. Consumers make brands famous for many reasons, of which the most important is that they come to trust brands as friends. That is why deciding on the brand-positioning strategy is such an important part of brand strategy. However, there are ways in which the brand may be presented differently to various target audiences. The success of this depends on an accurate judgment of the segments that exist in the market, and the segments' precise needs and wants. For example, a chocolate-based drink may have a central positioning of nutrition. This could be presented as an energy-giving drink for active people, a dietary supplement for the elderly who have trouble eating many solid foods, an essential growth supplement for youngsters, and a relaxing drink for tired people before they go to bed. By appealing to these various segments, we have not stepped away from the central positioning.

15.4 SELF CHECK EXERCISE

1. Define Brand.
2. Define Positioning.
3. What do you mean by brand positioning? Discuss in brief.

15.5 SUMMARY

Brand positioning refers to “target consumer’s” reason to buy your brand in preference to others. It is ensures that all brand activity has a common aim; is guided, directed and delivered by the brand’s benefits/reasons to buy; and it focuses at all points of contact with the consumer. In order to create a distinctive place in the market, a niche market has to be carefully chosen and a differential advantage must be created in their mind. Brand positioning is a medium through which an organization can portray its customers what it wants to achieve for them and what it wants to mean to them. Brand positioning forms customer’s views and opinions. Brand Positioning involves identifying and determining points of similarity and difference to ascertain the right brand identity and to create a proper brand image. Brand Positioning is the key of marketing strategy. A strong brand positioning directs marketing strategy by explaining the brand details, the uniqueness of brand and it’s similarity with the competitive brands, as well as the reasons for buying and using that specific brand. Positioning is the base for developing and increasing the required knowledge and perceptions of the customers. It is the single feature that sets your service apart from your competitors. For instance- Kingfisher stands for youth and excitement. It represents brand in full flight.

15.6 GLOSSARY

- **Brand** is “a name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers. The legal term for brand is trademark.
- **Brand positioning** is defined as the conceptual place you want to own in the target consumer's mind — the benefits you want them to think of when they think of your brand. An effective brand positioning strategy will maximize customer relevancy and competitive distinctiveness, in maximizing brand value.

- **Positioning** is a marketing concept that outlines what a business should do to market its product or service to its customers. In positioning, the marketing department creates an image for the product based on its intended audience. This is created through the use of promotion, price, place and product.
- **Product** is complex of tangible and intangible attributes, including packaging, colour, price, prestige, and services that satisfy needs and wants of people.
- **Strategic positioning** is outward-focused, more fully recognizing the competitive and market environment within which an organization operates. Positioning defines an organization's specific niche within its sphere of influence.

15.7 ANSWERS TO SELF CHECK EXERCISE

1. For answer to question number 1 refer to section 15.1.
2. For answer to question number 2 refer to section 15.2.
3. For answer to question number 3 refer to section 15.3.

15.8 TERMINAL QUESTIONS

1. Define Branding. Discuss the importance of branding.
2. Discuss the strategies followed by the business organisations to position its product/service in market.
3. What do you mean by brand positioning? Discuss the components of brand positioning.

15.9 SUGGESTED READINGS

- Carvens, D. W., Strategic Marketing Homewood Illiois, Richard D.?Irwin
- Kayank E. and Savitt R., Comparative Marketing Systems, New York, Praegar.
- Kotler Phillip, Marketing Management: Analysis, Planning, Implementation
- Porter, M. E., Competitive Advantage: Creating Sustaining Superior Performance, New York, Free Press.
- Porter, M. E., Competitive Strategy: Techniques for Analysing Industries Competitors, New York, Free Press.

LESSON-16
PRICING

STRUCTURE

16.0 LEARNING OBJECTIVE
16.1 INTRODUCTION
16.2 PRICE DEFINED
16.3 PRICING OBJECTIVES
16.4 DEVELOPING A PRICING STRATEGY
16.5 NEW PRODUCT PRICING
16.6 PRICE FLEXIBILITY
16.7 PRICE BUNDLING
16.8 PSYCHOLOGICAL ASPECTS OF PRICING
16.9 SELF CHECK EXERCISE
16.10 SUMMARY
16.11 GLOSSARY
16.12 ANSWERS TO SELF CHECK EXERCISE
16.13 TERMINAL QUESTIONS
16.14 SUGGESTED READINGS

16.0 LEARNING OBJECTIVES

After studying this lesson you should able to understand: -

- The concept and meaning of pricing.
- What type of strategies business organisations are adopting to compete in the market with rivals.

16.1 INTRODUCTION

From a customer's point of view, value is the sole justification for price; Many times customers lack an understanding of the cost of materials and other costs that go into the making of a product. But those customers can understand what that product does for them in the way of providing value. It is on this basis that customers make decisions about the purchase of a product. Effective pricing meets the needs of consumers and facilitates the exchange process. It requires that marketers understand that not all buyers want to pay the same price for products, just as they do not all want the same product, the same distribution outlets, or the same promotional messages. Therefore, in order to effectively price products, markets must distinguish among various market segments. The key to effective pricing is the same as the key to effective product, distribution, and promotion strategies. Marketers must understand buyers and price their products according to buyer needs if exchanges are to occur, however, one cannot overlook the fact that the price must be sufficient to support the plans of the organization, including satisfying stockholders. Price charged remains the primary source of revenue for most businesses.

16.2 CONCEPT OF PRICING

Although making the pricing decision is usually a marketing decision, making it correctly requires an understanding of both the customer and society's view of price as well. In some respects, price setting is the most important decision made by a business. A price set too low may result in a deficiency in revenues and the demise of the business. A price set too high may result in poor response from customers and, unsurprisingly, the demise of the business. The consequences of a poor pricing decision, therefore, can be dire. It is the customer that seeks to satisfy a need or set of needs through the purchase of a particular product or set of products. Consequently, the customer uses several criteria to determine how much they are willing to expend in order to satisfy these needs. Ideally, the customer would like to pay as little as possible to satisfy these needs. Therefore, for the business to increase value (i.e., create the competitive advantage), it can either increase the perceived benefits or reduce the perceived costs, Both of these elements should be considered elements of price.

To a certain extent, perceived benefits are the mirror image of perceived costs. For example, paying a premium price-e.g., $650 for a piece of Lalique crystal-is compensated for by having this exquisite work of art displayed in one's home. Other possible perceived benefits directly related to the price- value equation are status, convenience, the deal, brand, quality, choice, and so forth. Many of these benefits tend to overlap. For instance, a Mercedes Benz E 750 is a very high-status brand name and possesses superb quality. This makes it worth the $100,000 price tag. Further, if Mark

Smith can negotiate a deal reducing the price by $15,000, that would be his incentive to purchase. Likewise, someone living in an isolated mountain community is willing to pay substantially more for groceries at a local store rather than drive 78 miles to the nearest Safeway. That person is also willing to sacrifice choice for greater convenience. Increasing these perceived benefits is represented by a recently coined term-value-added. Thus, providing value-added elements to the product has become a popular strategic alternative. Computer manufacturers now compete on value-added components such as free delivery setup, training, a 24-hour help line, trade-in, and upgrades. Perceived costs include the actual dollar amount printed on the product, plus a host of additional factors. As noted, these perceived costs are the mirror-opposite of the benefits. When finding a gas station that is selling its highest grade for 6¢ less per gallon, the customer must consider the 16-mile drive to get there, the long line, the fact that the middle grade is not available, and heavy traffic. Therefore, inconvenience, limited choice, and poor service are possible perceived costs. Other common perceived costs include risk of making a mistake, related costs, lost opportunity, and unexpected consequences, to name but a few. A new cruise traveler discovers she really doesn't enjoy that venue for several reasons-e.g., she is given a bill for incidentals when she leaves the ship, she has used up her vacation time and money, and she receives unwanted materials from this company for years to come. In the end, viewing price from the customer's perspective pays off in many ways. Most notably, it helps define value-the most important basis for creating a competitive advantage.

a) Price from a Societal Perspective: Price, at least in dollars and cents, has been the historical view of value. Derived from a bartering system-i.e., exchanging goods of equal value-the monetary system of each society provides a more convenient way to purchase goods and accumulate wealth. Price has also become a variable society employs to control its economic health. Price can be inclusive or exclusive. In many countries, such as Russia, China, and South Africa, high prices for products such as food, health care, housing, and automobiles, means that most of the population is excluded from purchase. In contrast, countries such as Denmark, Germany, and Great Britain charge little for health care and consequently make it available to all. There are two different ways to look at the role price plays in a society: rational man and irrational man. The former is the primary assumption underlying economic theory, and suggests that the results of price manipulatio'1 are predictable. The latter role for price acknowledges that man's response to price is sometimes unpredictable and pretesting price manipulation is a necessary task.

b) Rational Man Pricing: An Economic Perspective Basically, economics assume" that the consumer is a rational decision maker and has perfect information. Therefore, if a price for a particular product goes up and the customer is aware of all relevant information, demand will be reduced for that product should price decline, demand would increase. That is, the quantity demanded typically rises causing a downward sloping demand curve. A demand curve shows the quantity demanded at various price levels. As a seller changes the price requested to a lower level, the product or service may become an attractive use of financial resources to a larger number of buyers, thus expanding the total market for the item. This total market demand by all buyers for a product type (not just for the company's own brand name) is called primary demand. Additionally, a lower price may cause buyers to shift purchases from competitors, assuming that the competitors do not met the lower price. If prima')' demand doe not expand and competitors meet the lower price the result will be lower total revenue for all sellers. Since, in the U.S., we operate as a free market economy, there are few instances when someone outside the organization controls a product's price. Even commodity-like products such as air travel, gasoline, and telecommunications, now determine their own prices. Because large companies have economists on staff and buy into the assumptions of economic theory as it relates to price, the classic price-demand relationship dictates the economic health of most societies. Alan Greenspan, Chairman of the U. S. Federal Reserve, determines interest rates charged by banks as well as the money supply, thereby directly affecting price (especially of stocks and bonds). He is considered by many to be the most influential person in the world.

c) Irrational Man Pricing: Freedom Rules There are simply too many examples to the contrary to believe that the economic assumptions posited under the rational man model are valid. Prices go up and people buy more. Prices go down and people become suspicious and buy less. Sometimes we simply behave in an irrational manner. Clearly, as noted in our earlier discussion on consumers, there are other factors operating in the marketplace. The ability of paying a price few others can afford may be irrational, but it provides important personal status. There are even people who refuse to buy anything on sale Or, others who buy everything on sale. Often businesses are willing to hire a $10,000 consultant, who does no more than a $5,000 consultant, simply to show the world they're successful. In many societies, an additional irrational phenomenon may exist-support of those that cannot pay. In the U.S., there are literally thousands of not-for-profit organizations that provide goods and services to individuals for very little cost or free. There are also government agencies that do even more. Imagine what giving away surplus food to the needy does to the believers of the economic model. Pricing planners must be aware of both the rational as well as the irrational model, since, at some level, both are likely operating in a society. Choosing one over the other is neither wise nor necessary.

d) The Marketer's View of Price: Price is important to marketers, because it represents marketers' assessment of the value customers see in the product or service and are willing to pay for a product or service. A number of factors have changed the way marketers undertake the pricing of their products and services.

- Foreign competition has put considerable pressure on U.S. firms' pricing strategies. Many foreign-made products are high in quality and compete in U.S. markets on the basis of lower price for good value.
- Competitors often try to gain market share by reducing their prices. The price reduction is intended to increase demand from customers who are judged to be sensitive to changes in price.
- New products are far more prevalent today than in the past. Pricing a new product can represent a challenge, as there is often no historical basis for pricing new products. If a new product is priced incorrectly, the marketplace will react unfavorably and the "wrong" price can do long-term damage to a product's chances for marketplace success.

- Technology has led to existing products having shorter marketplace lives. New products are introduced to the market more frequently, reducing the "shelf life" of existing products. As a result, marketers face pressures to price products to recover costs more quickly. Prices must be set for early successes including fast sales growth, quick market penetration, and fast recovery of research and development costs.

16.3 PRICING OBJECTIVES

Firms rely on price to cover the cost of production, to pay expenses, and to provide the profit incentive necessary to continue to operate the business. We might think of these factors as helping organizations to: -

1. Survival: It is apparent that most managers wish to pursue strategies that enable their organizations to continue in operation for the long term. So survival is one major objective pursued by most executives. For a commercial firm, the price paid by the buyer generates the firn1's revenue. If revenue falls below cost for a long period of time, the firm cannot survive.

2. Profit: Survival is closely linked to profitability. Making a $500,000 profit during the next year might be a pricing objective for a firm. Anything less will ensure failure. All business enterprises must earn a long-term profit. For many businesses, long-term profitability also allows the business to satisfy their most important constituents-stockholders. Lower-than-expected or no profits will drive down stock prices and may prove disastrous for the company.

3. Sales: Just as survival requires a long-term profit for a business enterprise, profit requires sales. As you will recall from earlier in the text, the task of marketing management relates to managing demand. Demand must be managed in order to regulate exchanges or sales. Thus marketing management's aim is to alter sales patterns in some desirable way.

4. Market Share: If the sales of Safeway Supermarkets in the Dallas-Fort Worth metropolitan area account for 30% of all food sales in that area, we say that Safeway has a 30% market share. Management of all firms, large and small, are concerned with maintaining an adequate share of the market so that their sales volume will enable the firm to survive and prosper. Again, pricing strategy is one of the tools that is significant

in creating and sustaining market share. Prices must be set to attract the appropriate market segment in significant numbers.

5. Image: Price policies play an important role in affecting a firm's position of respect and esteem in its community. Price is a highly visible communicator. It must convey the message to the community that the firm offers good value, that it is fair in its dealings with the public, that it is a reliable place to patronize, and that it stands behind its products and services.

16.4 DEVELOPING A PRICING STRATEGY

While pricing a product or service may seem to be a simple process, it is not. As an illustration of the typical pricing process, consider the following quote: "Pricing is guesswork. It is usually assumed that marketers use scientific methods to determine the price of their products. Nothing could be further from the truth. In almost every case, the process of decision is one of guesswork."

Good pricing strategies are usually based on sound assumptions made by marketers. It is also based on an understanding of the: two other perspectives discussed earlier. Clearly, sale pricing may prove unsuccessful unless the marketer adopts the consumer's perspective toward price. Similarly, a company should not charge high prices if it hurts society's health. Hertz illustrates how this can be done in the Integrated Marketing Box that follows. A pricing decision that must be made by all organizations concerns their competitive position within their industry. This concern manifests itself in either a competitive pricing strategy or a non-price competitive strategy.

a) Non-price Competition: Non-price competition means that organizations use strategies other than price to attract customers. Advertising, credit, delivery, displays, private brands, and convenience are all example of tools used in non-price competition. Businesspeople prefer to use non-price competition rather than price competition, because it is more difficult to match non-price characteristics. Competing on the basis of price may also be wiser not to engage in price competition for other reasons. Price may simply not offer the business a competitive advantage (employing the value equation).

b) Competitive Pricing: Once a business decides to use price as a primary competitive strategy, there are many well-established tools and techniques that can be employed. The pricing process normally begins with a decision about the company's pricing approach to the market. Approaches to the Market Price is a very important decision criteria that customers use to compare alternatives. It also contributes to the company's position. In general, a business can price itself to match its competition, price higher, or price lower. Each has its pros and cons.

c) Pricing to Meet Competition: Many organizations attempt to establish prices that, on average, are the same as those set by their more important competitors. Automobiles of the same size and having equivalent equipment tend to have similar prices. This strategy means that the organization uses price as an indicator or baseline. Quality in production, better service, creativity in advertising, or some other element of the marketing mix are used to attract customers who are interested in products in a particular price category, The keys to implementing a strategy of meeting competitive prices are an accurate definition of competition and a knowledge of competitor's prices. A maker of hand-crafted leather shoes is not in competition with mass producers. If he/she attempts to compete with mass producers on price, higher production costs will make the business unprofitable. A more realistic definition of competition for this purpose would be other makers of handcrafted leather shoes. Such a definition along with knowledge of their prices would allow a manager to put the strategy into effect. Banks shop competitive banks every day to check their prices.

d) Pricing above Competitors: Pricing above competitors can be rewarding to organizations, provided that the objectives of the policy are clearly understood and that the marketing mix is used to develop a strategy to enable management to implement the policy successfully. Pricing above competition generally requires a clear advantage on some non-price element of the marketing mix. In some cases, it is possible due to a high price- quality association on the part of potential buyers. But such an assumption is increasingly dangerous in today's information-rich environment. Consumer Reports and other similar publications make objective product comparisons much simpler for the consumer. There are also hundreds of dot.com companies that provide objective price comparisons. The key is to prove to customers that your product justifies a premium price.

e) Pricing below Competitors: While some firms are positioned to price above competition, others wish to carve out a market niche by pricing below competitors. The goal of such a policy is to realize a large sales volume through a lower price and profit margins. By controlling costs and reducing services, these firms are able to earn an acceptable profit, even though profit per unit is usually less. Such a strategy can be effective if a significant segment of the market is price-sensitive and/or the organization's cost structure is lower than competitors. Costs can be reduced by increased efficiency, economics of scale, or by reducing or eliminating such things as credit, delivery, and advertising. For example, if a firm could replace its field sales force with tele-marketing or online access, this function might be performed at lower cost. Such reductions often involve some loss in effectiveness, so the tradeoff must be considered carefully. Historically, one of the worst outcomes that can result from pricing lower than a competitor is a "price war."

16.5 NEW PRODUCT PRICING

A somewhat different pricing situation relates to new product pricing. With a totally new product, competition does not exist or is minimal. What price level should be set in such cases? Two general strategies are most common-penetration and skimming. Penetration pricing in the introductory stage of a new Product Life Cycle means accepting a lower profit Jl1argin and to price relatively low. Such a strategy should generate greater sales and establish the new product in the market more quickly. Price skimming involves the top part of the demand curve. Price is set relatively high to generate a high profit margin and sales are limited to those buyers willing to pay a premium to get the new product.

Which strategy is best depends on a number of factors. A penetration strategy would generally be supported by the following conditions: price-sensitive consumers, opportunity to keep costs low, the anticipation of quick market entry by competitors, a high likelihood for rapid acceptance by potential buyers, and an adequate resource base for the firm to meet the new demand and sales.

A skimming strategy is most appropriate when the opposite conditions exist. A premium product generally supports a skimming strategy. In this case, "premium" doesn't just denote high cost of production and materials; it also suggests that the product may be rare or that the demand is unusually high. An example would be a $500 ticket for the World Series or an $80,000 price tag for a limited-production sports car. Having legal protection via a patent or copyright may also allow for an excessively high price. Intel and their Pentium chip possessed this advantage for a long period of time. In most cases, the initial high price is gradually reduced to match new competition and allow new customers access to the product.

Price lining serves several purposes that benefit both buyers and sellers. Customers want and expect a wide assortment of goods, particularly shopping goods. Many small price differences for a given item can be confusing. If ties were priced at $1 5, $15.35, $15.75, and so on, selection would be more difficult; the customer could not judge quality differences as reflected by such small increments in price. So, having relatively few prices reduces the confusion.

From the seller's point of view, price lining holds several benefits. First, it is simpler and more efficient to use relatively fewer prices. The product/service mix can then be tailored to selected price points. Price points are simply the different prices that make up the line. Second, it can result in a smaller inventory than would otherwise be the case. It might increase stock turnover and make inventory control simpler. Third, as costs change, either increasing or decreasing the prices can remain the same, but the quality in the line can be changed. For example, you may have bought a $20 tie fifteen years ago. You can buy a $20 tie today, but it is unlikely that today's $20 tie is of the same fine quality as it was in the past. While customers are likely to be aware of the differences, they are nevertheless still able to purchase a $20 tie. During inflationary periods the quality/price point relationship changes. From the point of view of salespeople, offering price lines will make selling easier. Salespeople can easily learn a small number of prices. This reduces the likelihood that they will misquote prices or make other pricing errors. Their selling effort is therefore more relaxed, and this atmosphere will influence customers positively. It also gives the salesperson flexibility. If a customer can't afford a $2,800 Gateway system, the $2,200 system is suggested.

16.6 PRICE FLEXIBILITY

Another pricing decision relates to the extent of price flexibility. A flexible pricing policy means that the price is bid or negotiated separately for each exchange. This is a common practice when selling to organizational markets where each transaction is typically quite large. In such cases, the buyer may initiate the process by asking for bidding on a product or service that meets certain specifications. Alternatively, a buyer may select a supplier and attempt to negotiate the best possible price. Marketing effectiveness in many industrial markets requires a certain amount of price flexibility.

a) Discounts and Allowances: In addition to decisions related to the base price of products and services, marketing managers must also set policies related to the use of discounts and allowances. There are many different types of price reductions-each designed to accomplish a specific purpose. Quantity discounts are reductions in base price given as the result of a buyer purchasing some predetermined quantity of merchandise. A noncumulative quantity discount applies to each purchase and is intended to encourage buyers to make larger purchases. This means that the buyer holds the excess fl1erchrdise until it is used, possibly cutting the inventory cost of the seller and preventing the buyer from switching to a competitor at least until the stock is used. A cumulative quantity discount applies to the total bought over a period of time. The buyer adds to the potential discount with each additional purchase. Such a policy helps to build repeat purchases. Building material dealers, for example, Lad such a policy quite useful in encouraging builders to concentrate their purchase with one dealer and to continue with the same dealer over time. It should be noted that such cumulative quantity discounts are extremely difficult to defend if attacked in the courts.

Seasonal discounts are price reductions given or out-of-season merchandise. An example would be a discount on snowmobiles during the summer. The intention of such discounts is to spread demand over the year. This can allow fuller use of production facilities and improved cash flow during the year. Electric power companies use the logic of seasonal discounts to encourage customers to shift consumption to off-peak periods. Since these companies must have production capacity to meet peak demands, the lowering of the peak can lessen the generating capacity required.

Cash discounts are reductions on base price given to customers for paying cash or within some short time period. For example, a two-percent discount on bills paid within ten days is a cash discount. The purpose is generally to accelerate the cash flow of the organization.

Trade discounts are price reductions given to middlemen (e.g., wholesalers, industrial distributors, retailers) to encourage them to stock and give preferred treatment to an organization's products. For example, a consumer goods company may give a retailer a 20% discount to place a larger order for soap. Such a discount might also be used to gain shelf space or a preferred position in the store.

Personal allowances are similar devices aimed at middlemen. Their purpose is to encourage middlemen to aggressively promote the organization's products. For example, a furniture manufacturer may offer to pay some specified amount toward a retailer's advertising expenses if the retailer agrees to include the manufacturer's brand name in the ads.

Some manufacturers or wholesalers also give prize money called spiffs for retailers to pass on to the retailer's sales clerks for aggressively selling certain items. This is especially common in the electronics and clothing industries, where it is used primarily with new products, slow movers, or high margin items.

Trade-in allowances also reduce the base price of a product or service. These are often listed to allow the seller to negotiate the best price with a buyer. The trade-in may, of course, be of value if it can be resold. Accepting trade-ins is necessary in marketing many types of products. A construction company with a used grader worth $70,000 would not likely buy a new model from an equipment company that did not accept trade-ins, particularly when other companies do accept them.

16.7 PRICE BUNDLING

A very popular pricing strategy, price bundling, is to group similar or complementary products and to charge a total price that is lower if they were sold separately. Dell Computers and Gateway Computers follow this strategy by combining different components for a set price. Customers assume that these computer experts are putting together an effective product package and they are paying less. The underlying assumption of this pricing strategy is that the increased sales generated will more than compensate for a lower profit margin. It may also be a way of selling a less popular product by combining it with popular ones. Clearly, industries such as fi zulTIcial services and telecommunications are big users of this.

16.8 PSYCHOLOGICAL ASPECTS OF PRICING

Price, as is the case with certain other elements in the marketing mix, appears to have meaning to many buyers that goes beyond a simple utilitarian statement. Such meaning is often referred to as the psychological aspect of pricing. Inferring quality from price is a common example of the psychological aspect. A buyer may assume that a suit priced at $500 is of higher quality than one priced at $300. From a cost-of-production, raw material, or workmanship perspective, this may or may not be the case. The seller may be able to secure the higher price by non-price means such as offering alterations and credit or the benefit to the buyer may be in meeting some psychological need such as ego enhancement. In some situations, the higher price may be paid simply due to lack of information or lack of comparative shopping skills.

For some products or services, the quantity demanded may actually rise to some extent as price is increased. This might be the case with an item such as a fur coat. Such a pricing strategy is called prestige pricing. Products and services frequently have customary prices in the minds of consumers. A customary price is one that customers identify with particular items. For example, for many decades a five-stick package of chewing gum cost five cents and a six-ounce bottle of Coca-Cola cost five cents. Candy bars now cost 60 cents or more, a customary price for a standard-sized bar. Manufacturers tend to adjust their wholesale prices to permit retailer; in using customary pricing. However, as we have witnessed during the past decade, prices have changed so often that customary prices are weakened. Another manifestation of the psychological aspects of pricing is the use of odd prices. 3 We call prices that end in such digits as 5, 7, 8, and 9 "odd prices" (e.g., $2.95, $ 15.98, or $299.99). Even prices are $3, $16, or $300. For a long time marketing; people have attempted to explain why odd prices are used. It seems to make little difference whether one pays $29.95 or $30 for an item. Perhaps one of the most often heard explanations concerns the psychological impact of odd prices on customers. The explanation is that customers perceive even price: such as $5 or $1 0 a~ regular prices. Odd prices, on the other hand, appear to represent bargains or savings and therefore encourage buying. There seems to be some movement toward even pricing; however, odd pricing is still very common. A somewhat related pricing strategy is combination pricing. Examples are two-for-one, buy-one-get-one-free. Consumers tend to react very positively to these pricing techniques.

a) ALTERNATIVE APPROACHES TO DETERMINING PRICE: Price determination decisions can be based on a number of factors, including cost, demand, competition, value, or some combination of factors. However, while many marketers are aware that they should consider these factors, pricing remains somewhat of an art. For purposes of discussion, we categorize the alternative approaches to determining price as follows: (1) cost-oriented pricing; (2) demand-oriented pricing; and (3) value-based approaches.

- **Cost-Oriented Pricing, Cost-Plus and Mark-Ups**: The cost-plus method, sometimes called gross margin pricing, is perhaps most widely used by marketers to set price. The manager selects as a goal a particular gross margin that will produce a desirable profit level. Gross margin is the difference between how much the goods cost and the actual price for which it sells. This gross margin is designated by a percent of net sales. The percent selected varies among types of merchandise. That means that one product may have a goal of 48% gross margin while another has a target of 33YJ % or 7.%. A primary reason that the cost-plus method is attractive to marketers is that they do not have to forecast general business conditions or customer demand. If sales volume projections are reasonably accurate, profits will be on target. Consumers may also view this method as fair, since the price they pay is related to the cost of producing the item. Likewise, the marketer is sure that costs are covered. A major disadvantage of cost-plus pricing is its inherent inflexibility. For example, department stores have often found difficulty in meeting competition from discount stores, catalog retailers, or furniture warehouses because of their commitment to cost-plus pricing.

Another disadvantage is that it does not take into account consumers' perceptions of a product's value. Finally, a company's costs may fluctuate so constant price changing is not a viable strategy. When middlemen use the teon mark-Up, they are referring to the difference between the average cost and price of all merchandise in stock, for a particular department, or for an individual item. The difference may be expressed in dollars or as a percentage. For example, a man's tie costs $4.60 and is sold for $8. The dollar mark-up is $3.40. The mark-up may be designated as a percent of selling price 0; as a percent of cost of the merchandise. In this example, the mark-up is 74% of cost ($3.40/$4.60) or 42.5% of the retail price ($3.40/$8).

There are several reasons why expressing mark-up as a percentage of selling price is preferred to expressing it as a percentage of cost. One is that many other ratios are expressed as a percentage of sales. For instance, selling expenses are expressed as a percentage of sales. If selling costs are 8%, this means that for each $100,000 in net sales, the cost of selling the merchandise is $8,000.Advertising expenses, operating expenses, and other types of expenses are quoted in the same way. Thus, there is a consistency when making comparisons in expressing all expenses and costs, including mark-up, as a percentage of sales (selling price). Middlemen receive merchandise daily and make sales daily. As new shipments are received, the goods are marked and put into stock. Cumulative mark-up is the term applied to the difference between total dollar delivered cost of all merchandise and the total dollar price of the goods put into stock for a specified period of time. The original mark-up at which individual items are put into stock is referred to as the initial mark-up. Maintained mark-up is another important concept. The maintained mark-up percentage is an essential figure in estimating operating profits. It also provides an indication of efficiency. Maintained mark-up, sometimes called gross cost of goods, is the difference between the actual price for which all of the merchandise is sold and the total dollar delivered cost of the goods exclusive of deductions. The maintained mark-up is typically less than the initial mark-up due to mark-downs and stock shrinkages from theft, breakage, and the like. Maintained mark-up is particularly important for seasonal merchandise that will likely be marked-down substantially at the end of the season. Although this pricing approach may seem overly simplified, it has definite merit. The problem facing managers of certain types of businesses such as retail food Stores is that they must price a very large number of items and change many of those prices frequently. The standard mark-up usually reflects historically profitable margins and provide,; a good guideline for pricing. To illustrate this cost-based process of pricing, let's look at the case of Johnnie Walker Black Label Scotch Whiskey. This product sells for about $30 in most liquor stores. How was this price derived? $5.00 production, distillation, maturation + $2.50 advertising + $3.1 1 distribution + $4.39 taxes + $7.50 mark-up (retailer) + $7.50 net margin (manufacturer) Certainly costs are an important component of pricing. No firm can make a profit until it covers its costs. However, the process of determining costs and then setting a price based on costs does not take into consideration what the customer is willing to pay at the marketplace. As a result, many companies that have set out to develop a product have fallen victim to the desire to continuously add features to the product, thus adding cost. When the product is finished, these companies add some percentage to the cost and expect customers to pay the resulting price. These companies are often disappointed, as customers are not willing to pay this cost-based price.

- **Break-Even Analysis:** A somewhat more sophisticated approach to cost-ba3ed pricing is the break-even analysis. The information required for the formula for break-even analysis is available from the accounting records in most firms. The break-even price is the price that will produce enough revenue to cover all costs at a given level of production. Total cost can be divided into fixed and variable (total cost = fixed cost + variable cost). Recall that fixed cost does not change as the level of production goes up or down. The rent paid for the building to house the operation might be an example. No cost is fixed in the long run, but in the short run, many expenses cannot idealistically be changed. Variable cost does change as production is increased or decreased.

For example, the cost of raw material to make Lhe product will vary with production. A second shortcoming of break-even analysis is it assumes that variable costs are constant. However, wages will increase with overtime and shipping discounts will be obtained. Third, break-even assumes that all costs can be neatly categorized as fixed or variable. Where advertising expenses are entered, break-even analysis will have a significant impact on the resulting break-even price and volume.

Target Rates of Return Break-even pricing is a reasonable approach when there is a limit on the quantity which a firm can provide and particularly when a target return objective is sought. Assume, for example, that the firm with the costs illustrated in the previous example determines that it provide no more than 10,000 units of the product in the next period of operation. Furthermore, the firm has set a target for profit of 20% above total costs. Referring again to internal accounting records and the changing cost of production at near capacity levels, a new total cost curve is calculated. From the cost curve profile, management sets the desirable level of production at 80% of capacity or 8,000 units. From the total cost curve, it is determined that the cost for producing 8,000 units is $18,000. Twenty percent of $18,000 is $3,600. Adding this to the total cost at 8,000 units yields the point at that quantity through which the total revenue curve must pass.

Finally, $21 ,600 divided by 8,000 units yields the price of $2.70 per unit; here the $3,600 in profit would be realized. The obvious shortcoming of the target return approach to pricing is the absence of any information concerning the demand for the product at the desired price. It is assumed that all of the units will be sold at the price which provides the desired return. It would be necessary, therefore, to determine whether desired price is in fact attractive to potential customers in the marketplace. If break-even pricing is to be used, it should be supplemented by additional information concerning customer perceptions of the relevant range of prices for the product. The source of this information would most commonly be survey research, as well as a thorough review of pricing practices by competitors in the industry. In spite of their shortcomings, break-even pricing and target return pricing are very common business practices.

- **Demand-Oriented Pricing:** Demand-oriented pricing focuses on the nature of the demand curve for the product or service being priced. The nature of the demand curve is influenced largely by the structure of the industry in which a firm competes. That is, if a firm operates in an industry that is extremely competitive, price may be used to some strategic advantage in acquiring and maintaining market share. On the other hand, if the firm operates in an environment with a few dominant players, the range in which price can vary may be minimal.

- **Value-Based Pricing:** If we consider the three approaches to setting price, cost-based is focused entirely on the perspective of the company with very little concern for the customer; demand-based is focused on the customer, but only as a predictor of sales; and value-based focuses entirely on the customer as a determinant of the total price/value package. Marketers who employ value based pricing might use the following definition: "It is what you think your product is worth to that customer at that time." Moreover, it acknowledges several marketing/price truths:

• To the customer, price is the only unpleasant part of buying. • Price is the easiest marketing tool to copy.

• Price represents everything about the product. Still, value-based pricing is not altruistic.

It asks and answer two questions:

(1) What is the highest price I can charge and still make the sale? And

(2) Am I willing to sell at that price?

The first question must take two primary factors into account: customers and competitors. The second question is influenced by two more: costs and constraints. Let's discuss each briefly. Many customer-related factors are important in value-based pricing. For example, it is critical to understand the customer buying process. How important is price? When is it considered? How is it used? Another factor is the cost of switching. Have you ever watched the TV program "The Price is Right"? If you have, you know that most consumers have poor price knowledge. Moreover, their knowledge of comparable prices within a product category--e.g., ketchup-is typically worse. So price knowledge is a relevant factor. Finally, the marketer must assess the customers' price expectations.

How much do you expect to pay for a large pizza? Color TV? DVD? Newspaper? Swimming pool? These expectations create a phenomenon called "sticker shock" as exhibited by gasoline, automobiles, and ATM fees. A second factor influencing value-based pricing is competitors. Of course there are like-category competitors such as

Toyota and Nissan. We have already discussed the notion of pricing above, below, and at the same level of these direct competitors. However, there are also indirect competitors that consumers may use to base price comparisons.
For instance, we may use the price of a vacation as a basis for buying vacation clothes. The cost of eating out is compared to the cost of groceries. There are also instances when a competitor, especially a market leader, dictates the price for everyone else. Weyerhauser determines the price for lumber. Kellogg establishes the price for cereal. If you're building a picnic table, it is fairly easy to add up your receipts and calculate costs. For a global corporation, determining costs is a great deal more complex. For example, calculating incremental costs and identifying avoidable costs are valuable tasks. Incremental cost is the cost of producing each additional unit. If the incremental cost begins to exceed the incremental revenue, it is a clear sign to quit producing. Avoidable costs are those that are unnecessary or can be passed onto some other institution in the marketing channel. Adding costly features to a product that the customer cannot use is an example of the former. As to the latter, the banking industry has been passing certain costs onto customers.
Another consideration is opportunity costs. Because the company spent money on store remodeling, they are not able to take advantage of a discounted product purchase. Finally, costs vary from market-to-market as well as quantities sold. Research should be conducted to assess these differences. Although it would be nice to assume that a business has the freedom to set any price it chooses, this is not always the case. There are a variety of constraints that prohibit such freedom. Some constraints are formal, such as government restrictions in respect to strategies like collusion and price-fixing. This occurs when two or more companies agree to charge the same or very similar prices. Other constraints tend to be informal. 5xamples include matching the price of competitors, a traditional price charged for a particular product, and charging a price that covers expected costs.
Ultimately, value-based pricing offers the following three tactical recommendations:
• Employ a segmented approach toward price, based on such criteria as customer type, location, and order size.

• Establish highest possible price level and justify it with comparable value.

• Use price as a basis for establishing strong customer relationships

16.9 SELF CHECK EXERCISE

1. Write a short-note on Pricing.
2. Why Price important to marketers? Discuss in brief.
3. What do you mean by survival of business? Write a short-note.
4. Write a short-note on competitive pricing.
5. Write a short-note on Price Flexibility.
6. Discuss in brief Price Bundling.
7. Write a short-note on Break Even Analysis.

16.10 SUMMARY

Pricing, as the term is used in economics and finance, is the act of setting a value on a product. While the basic concept is extraordinarily simple, many wonder about two things: price vs. cost and how to set price. Although the two are used almost interchangeably in informal speech, in more formal business discussions price and cost are not at all the same. Price is what the buyer pays for the product or service. Cost is the seller's investment in the product subsequently sold. Note that this difference between the price the buyer pays for the product and the cost to the seller to acquire or make the product is contextual.

16.11 GLOSSARY

- **Economy pricing** is no-frills price. Margins are wafer thin; overheads like marketing and advertising costs are very low. Targets the mass market and high market share.
- **Penetration pricing** is price is set artificially low to gain market share quickly. This is done when a new product is being launched. It is understood that prices will be raised once the promotion period is over and market share objectives are achieved.
- **Premium pricing** is high price is used as a defining criterion. Such pricing strategies work in segments and industries where a strong competitive advantage exists for the company.

- **Price** is the quantity of payment or compensation given by one party to another in return for one unit of goods or services.
- **Pricing** is the process you need to go through to figure out what price to attach to each unit. Pricing, therefore, is a strategic process that you must learn, and use, for business success.
- **Skimming strategy** is high price is charged for a product till such time as competitors allow after which prices can be dropped. The idea is to recover maximum money before the product or segment attracts more competitors who will lower profits for all concerned.

16.12 ANSWERS TO SELF CHECK EXERCISE

1. For answer of question number 1 refer to section 16.2.
2. For answer of question number 2 refer to section 16.2 (d).
3. For answer of question number 3 refer to section 16.3.
4. For answer of question number 4 refer to section 16.4 (b).
5. For answer of question number 5 refer to section 16.6.
6. For answer of question number 6 refer to section 16.7.
7. For answer of question number 7 refer to section 16.8.

16.13 TERMINAL QUESTIONS

1. Define Pricing. What are the objectives of Pricing? Discuss.
2. Discuss the process of developing a Pricing Strategy.
3. Define Penetration Pricing. Differentiate it from Skimming Pricing Strategy.
4. What do you understand by Price Flexibility? Discuss in detail.

16.14 SUGGESTED READINGS

- Carvens, D. W., Strategic Marketing Homewood Illiois, Richard D.?Irwin
- Kayank E. and Savitt R., Comparative Marketing Systems, New York, Praegar.
- Kotler Phillip, Marketing Management: Analysis, Planning, Implementation
- Porter, M. E., Competitive Advantage: Creating Sustaining Superior Performance, New York, Free Press.
- Porter, M. E., Competitive Strategy: Techniques for Analysing Industries Competitors, New York, Free Press.

LESSON-17
ADVERTISING

STRUCTURE

17.0 LEARNING OBJECTIVE
17.1 INTRODUCTION
17.2 NEWSPAPER ADVERTISING
17.3 MAGAZINE ADVERTISING
17.4 RADIO ADVERTISING
17.5 TELEVISION ADVERTISING
17.6 CABLE ADVERTISING
17.7 YELLOW PAGES
17.8 OUTDOOR ADVERTISING
17.9 DIRECT MAIL
17.10 SPECIALTY ADVERTISING
17.11 SELF CHECK EXERCISE
17.12 SUMMARY
17.13 GLOSSARY
17.14 ANSWERS TO SELF CHECK EXERCISE
17.15 TERMINAL QUESTIONS
17.16 SUGGESTED READINGS

17.0 LEARNING OBJECTIVE

After studying this lesson you should able to understand: -

- The concept of advertising and
- What type of advertising media a company should use for popularizing their products and services in order to be the king of the market.

17.1 INTRODUCTION

A wise man once said, "The person who saves money by not advertising is like the man who stops the clock to save time." In today's fast-paced, high-tech age, businesses must use some form of advertising to make prospects aware of their products and services. Even a famous company like Coca-Cola continually spends money on advertising to support recognition of their products. In 1993, Coca-Cola spent more than $150 million to keep its name in the forefront of the public's eye. So the question isn't whether or not you can afford to advertise, you simply must if you want your business to succeed. Some questions you should consider before buying ads are:

1. What media is the best to use?
2. How important is creativity?
3. Is there a way to buy space and time that will stretch my advertising budget?

When it comes to advertising, a lot of people really don't know what they want, where to get it or what to do with it after they have it. This publication will help you learn to determine what type of advertising media is best for you. It also provides guidelines you can use to obtain the advertising exposure you need and win help you identify ways to make your advertising more cost efficient. Advertising is an investment in your business' future. And, like any investment, it's important to find out as much as you can before you make a decision. You'll be able to use this publication often as a reliable reference toot in the months and years to come.

17.2 NEWSPAPER ADVERTISING

Every advertising medium has characteristics that give it natural advantages and limitations. As you look through your newspaper(s), you'll notice some businesses that advertise regularly. Observe who they are and how they advertise their products and services. More than likely, their advertising investment is working if it's selling! Almost every home in the United States receives a newspaper, either by newsstand or home delivery. Reading the newspaper is a habit for most families. And, there is something for everybody -- sports, comics, crosswords, news, classifieds, etc. You can reach certain types of people by placing your ad in different sections of the paper. People expect advertising in the newspaper. In fact, many people buy the paper just to read the ads from the supermarket, movies or department stores. Unlike advertising on TV and radio, advertising in the newspaper can be examined at your leisure. A newspaper ad can contain details, such as prices and telephone numbers or coupons. There are many advantages to advertising in the newspaper. From the advertiser's point-of-view, newspaper advertising can be convenient because production changes can be made quickly, if necessary, and you can often insert a new advertisement on short notice. Another advantage is the large variety of ad sizes newspaper advertising offers. Even though you may not have a lot of money in your budget, you can still place a series of small ads, without making a sacrifice.

a) Disadvantages with Newspaper Advertising

Advertising in the newspaper offers many advantages, but it is not without its inherent disadvantages, such as:

- Newspapers usually are read once and stay in the house for just a day.
- The print quality of newspapers isn't always the best, especially for photographs. So use simple artwork and line drawings for best results.
- The page size of a newspaper is fairly large and small ads can look minuscule.
- Your ad must compete with other ads for the reader's attention.
- You're not assured that every person who gets the newspaper will read your ad. They may not read the section you advertised in, or they may simply have skipped the page because they were not interested in e news on it.

b) How Should I Work with my Newspaper Representative?

Every newspaper has its own sales staff, and you're normally given a personal newspaper "sales representative." A newspaper sales rep can be very helpful. He or she can keep you posted on special sections or promotions that may apply to your business, but always keep in mind it is the sales rep's job to sell you advertising. Your sales rep might say that the newspaper can lay out any of your ads, pre-prepared or not. But these ads are assembly line products and are not often very creative or eye-catching. Consider using an artist or agency for your ads. In addition, your sales rep can sometimes be instrumental in making sure your story or upcoming announcement "finds" the right reporter because the relationship between the advertising and editorial staff is chummier than most people think, despite claims of total independence.

c) Buying Newspaper Advertising Space

Since the Expanded Standard Advertising Unit System was adopted back in 1984, it is now easier to buy advertising space in newspapers. Advertising is sold by column and inch, instead of just line rates. You can determine the size ad you want just by looking in

the newspaper in which you want to advertise. If you can't locate an ad that's the size you want, just measure the columns across and the inches down. For example, an ad that measures 3 columns across and 7 inches down would be a 21-inch ad. If the inch rate is $45.67, your ad will cost $959.07. In case your newspaper is still on the line rate system, remember there are 14 lines to an inch. So, if the line rate is $3.75, multiply it by 14 and you will have the cost of an inch rate. (The rate would be $45.50 an inch.)
Here are some other things to remember:

- Newspaper circulation drops on Saturdays and increases on Sundays, which is also the day a newspaper is read most thoroughly.
- Position is important, so specify in what section you want your ad to appear. Sometimes there's a surcharge for exact position ... but don't be afraid to pay for it if you need it.
- Request an outside position for ads that have coupons. That makes them easier to cut out.
- If a newspaper is delivered twice daily (morning/evening), it often offers "combination" rates or discounts for advertising in both papers. You usually can reach more readers, so this kind of advertising may be something to consider.

Other important tips to remember are:

- Before you advertise, have in mind a definite plan for what it is you want to sell.
- Create short, descriptive copy for your advertisement include prices if applicable. Consider using a copywriter or ask your newspaper for free copy assistance.
- Face your products toward the inside of the ad. If the product you want to use faces right, change your copy layout to the left.
- Be sure to include your company name and logo, address and telephone number in the ad.
- Neat, uncluttered and orderly ads encourage readership. Don't try to crowd everything you can in the layout.

If the newspaper helps you with the layout, be sure to request a proof of the final version so you can approve it or make changes before it is printed. ! Always make sure you are satisfied with what your advertising says and how it looks before it goes to print.

17.3 MAGAZINE ADVERTISING

Many of the same "print" principles which apply to newspaper advertising also apply to magazine advertising. The biggest differences are:

- Magazines are usually weekly or monthly publications instead of daily.
- Advertising messages are more image-oriented and less price-oriented.
- The quality of the pictures and paper are superior to newsprint.
- Advertisements involve color more often.

The general rule that you can run the same ad 3-5 times within a campaign period before its appeal lessens applies to magazine advertising as well, even with a monthly publication. So it makes sense to spend extra time and money to prepare a worthwhile ad that can be successfully repeated. Over long terms such as these, however, be aware that the client (you) often tires of the ad before the audience does. Because ads in magazines are not immediate, they take more planning. Often, an ad for a monthly magazine must be prepared at least a month in advance of publication, so ads detailing prices and items must be carefully crafted to ensure accuracy.

Since the quality of the magazines is superior, the advertising that you generate must be superior as well. Negatives are usually required instead of prints or "PMTs" (photo-mechanical transfers). Consider obtaining assistance from a graphic artist or an advertising agency. There are two categories of magazines: trade magazines and consumer magazines. Trade magazines are publications that go to certain types of businesses, services and industries. Consumer magazines are generally the kind you find on the average newsstand. Investigate which type would do your business the most good. An agency can also purchase the magazine space for you, often at no charge, because the magazine pays the agency a commission directly. If you wish to purchase the advertising yourself, contact the magazine directly and ask for an "Ad Kit" or "Media Package."

They will send you a folder that includes demographic information, reach information, a current rate card and a sample of the publication. Although most magazines are national in nature, many have regional advertising sections that allow your business to look like it purchased a national ad when it only went to a certain geographical area.

This can be especially useful if your product or service is regional in nature as well and could not benefit from the magazine's complete readership. Each magazine does this differently, so contact the one(s) you are interested in and ask them about their geographic editions. Some sophisticated magazines even have demographic editions available, which might also be advantageous.

17.4 RADIO ADVERTISING

Since its inception, radio has become an integral part of American culture. In some way, it touches the lives of almost everyone, every day. Radio, as a medium, offers a form of entertainment that attracts listeners while they are working, traveling, relaxing or doing almost anything. A farmer, for example, may listen to the radio while he is having breakfast or plowing his field. People driving to work often listen to the radio. Radio offers information such as: news, weather reports, traffic conditions, advertising and music for your listening pleasure. What Are Some of the Good Things About Radio? Radio is a relatively inexpensive way of reaching people. It has often been called the "theater of the mind" because voices or sounds can be used to create moods or images that, if crested by visual effects, would be impossible to afford. You can also negotiate rates for your commercials, or even barter. Stations are often looking for prizes they can give away to listeners, so it's possible to get full commercial credit for the product or service you offer. Advantages to radio advertising include:

- The ability to easily change and update scripts are paramount to radio broadcasting, since news stories can and often do happen live.
- Radio is a personal advertising medium. Station personalities have a good rapport with their listeners. If a radio personality announces your commercial, it's almost an implied endorsement.
- Radio is also a way to support your printed advertising. You can say in your commercial, "See our ad in the Sunday Times," which makes your message twice as effective.

Radio advertising is not without its disadvantages too, such as:

- You can't review a radio commercial. Once it plays, it's gone. If you didn't catch the entire message, you can't go back and hear it again.

- Since there are a lot of radio stations, the total listening audience for any one station is just one piece of a much larger whole. That's why it's important to know what stations your customers and prospects probably listen to. Moreover, most of the time, you'll need to buy time on several radio stations to reach the market you seek.
- People don't listen to the radio all the time ... only during certain times of day. So, it's important to know when your customers or prospects are listening. For example, if you want to reach a large portion of your audience by advertising during the morning farm report, you must specify that time period to the radio station when you buy the time.

One of the most popular times to reach people is during "drive time" (from 6 a.m. to 10 a.m. and 3 p.m. to 7 p.m.). It's called that because most people are going to or from work during this period, and because most people listen to their radio when they drive. Unfortunately, radio stations know that this is a favorite time to advertise, so commercial costs are much higher during this time.

- Radio as a broadcasting medium, can effectively sell an image ... or one or two ideas at the most. It is not, however, a detailed medium ... and is a poor place for prices and telephone numbers.
- Radio listeners increase in the spring and summer, contrary to television audiences which increase in the fall and winter and decrease in the summer. This is most important aspect to consider when you are choosing advertising media.

How Should I Buy Time on the Radio?

Like a newspaper, each radio station has its own advertising staff. Each wants you to believe that their station is the absolute best buy for your money ... and many will go to great lengths to prove it. But if you've done your research, or you are using an advertising agency, you probably have a good idea of the station you want to buy time on and when. If you don't know which stations you want to use, ask each station for its own research, that is, the type of programming, musical format, geographic reach, number of listeners and station ratings. By getting the station ratings and the number of people it reaches, you can figure out the cost-per-thousand people (CPM) by simply dividing the cost of a commercial by the thousands of people you are reaching.

Without getting complicated, here are two cardinal rules for radio advertising: -

- It's better to advertise when people are listening than when they are not.
- It's better to bunch your commercials together than to spread them apart.

A lot of radio sales reps will try to talk you out of advertising during specific times. They'll offer you a reduced rate called TAP (Total Audience Plan) that splits your advertising time into 1/3 drive, 1/3 mid-day and 1/3 night. This may sound like a good deal, but airing commercials during times when your audience isn't listening is bad advertising. If however, you are sponsoring a show such as Paul Harvey or the Morning Farm Report, it makes sense to advertise once or twice a day on a regular basis, since those programs have regular listenership. Frequency is a vital element for effective radio advertising.

Since you can't automatically recall the radio commercial and hear it again, you may hear the same commercial two, four, or maybe six times before the message sinks in. If you missed the address the first time, you consciously or subconsciously are hoping the commercial will be aired again so you can get the information you need. That's the way radio advertising works. And that's also the way you buy it.

Most of the time, radio advertising should be bought in chunks. High frequency over a short period of time is much more effective than low frequency over a longer period of time. It's important for your audience to hear your spot again to get more information out of it. For example, if you wanted a two-week advertising campaign and you could afford 42 radio commercials, the following buy would serve you well: On Tuesdays, Wednesdays and Thursdays, place three spots between 7-9 a.m. and four spots between 3-6 p.m. for two weeks. Notice that both day and hour periods are concentrated.

By advertising in concentrated areas in tight day groups, you give the impression of being larger than you really are. And, people hearing your concentrated campaign for two or three days will think you're on all the time. The radio sales reps may try to sell you three spots every day on the station for 14 days (a total of 42 spots). But your campaign won't be nearly as effective.

- Here are a few tips to help you plan your commercials:

- If you're including your address in the commercial, simplify it. Instead of "134525 East Pines," say "at the comer of First & Pines, next to Gumbies." It's easier to remember.
- Don't use phone numbers in your commercial. If you mention your phone number, refer to the Yellow Pages in the local phone book.
- Radio works better when you combine it with other advertising media.
- Check out the price differences between 60-second and 30-second commercials. Normally, 30-second commercials are only 1/3 less than 60's, which makes a 60-second commercial a better buy.
- Be creative with your radio advertising, too. If it sounds like all the rest of the commercials, it won't stand out. Your message won't be heard nearly as well. Advertising agencies are usually quite good at producing creative radio commercials.

If you decide to write your own radio scripts, remember these basic copy writing rules:

- Get your listener's attention immediately.
- Write in conversational style.
- Avoid using buzz words or jargon.
- Repeat your important points.
- Make your ending strong and positive with call-to-action for response.

17.5 TELEVISION ADVERTISING

Television is often called "king" of the advertising media, since a majority of people spend more hours watching TV per day than paying attention to any other medium. It combines the use of sight, color, sound and motion ... and it works. TV has proven its persuasive power in influencing human behavior time and time again. But it's also the "king" of advertising costs.

Some advantages of television advertising include the following: -

- Advertising on television can give a product or service instant validity and prominence.
- You can easily reach the audiences you have targeted by advertising on TV. Children can be reached during cartoon programming, farmers during the morning agricultural reports and housewives during the afternoon soap operas. A special

documentary on energy sources for heating homes and business will also attract viewers interested in heating alternatives.

- TV offers the greatest possibility for creative advertising. With a camera, you can take your audience anywhere and show them almost anything.
- Since there are fewer television stations than radio stations in a given area, each TV audience is divided into much larger segments, which enables you to reach a larger, yet, more diverse audience.

Disadvantages in Television Advertising

Because TV has such a larger ADI, the stations can charge more for commercials based on the larger number of viewers reached. The cost of television commercial time is based on two variables:

- The number of viewers who watch the program.
- The time during the day the program airs.

One 30-second television commercial during prime time viewing (8 p.m. to 11 p.m.) can cost 10 to 30 times more than one radio spot during drive time (which is considered prime listening time).

While the newspaper may cover the city's general metropolitan area, TV may cover a good portion of the state where you live. If such coverage blankets most of your sales territory, TV advertising may be the best advertising alternative for your business.

Producing a commercial is also an important variable to consider. On the whole, television audiences have become more sophisticated and have come to expect quality commercials. A poorly produced commercial could severely limit the effectiveness of your message, and may even create a bad image in your customer's mind.

Advertising agencies or TV commercial production facilities are the best organizations for creating a commercial that will be effective for the goods or service you are offering. But the cost of a well-produced commercial is often more expensive than people think. Some TV stations will claim they can put together commercials for "almost nothing." Before agreeing to this, find out what "almost nothing" means. Then, determine if the commercial quality and content they are proposing will represent your firm's image.

Many companies use the station's commercial production facilities for creating "tag lines" on pre-produced commercials. Often, the station will help you personalize the spot for little or no cost ... if you advertise with them. Remember, more than anything else, when it comes to making a TV commercial, you get what you pay for. And, when you're buying commercial time for one 30-second TV spot costing from $600 to $1,200, it makes sense to have the best sales presentation possible.

a) Buying Television Advertising Time: There are many things to know and consider before buying a TV programming schedule. That's why, in most cases, using an advertising agency or a media buying service is recommended when advertising on TV. If these services are unavailable, find a TV representative that you can trust. Your agency or representative can help you select the programs you should advertise on in order to reach your market. Also, ask about "fringe" time, adjacencies and package plans. When you are engineering your schedule, remember that repetition (or frequency) is a very important ingredient to use. Make sure your audience sees your commercial with the context of the programs you're buying. Ask for a commercial affidavit. Normally, it doesn't cost any more and the station will provide you with a list of the exact times your commercial was ran.

b) Other Considerations

For an effective and inexpensive way to get your message on the TV screen, consider using pre-prepared TV commercials that may be available to you through a manufacture or distributor you deal with. You can add your name and logo to the end of the commercial for little or no cost. Look at cooperative advertising too. Many companies offer prepared advertising materials you can use and at the same time may pay for a portion of the advertising schedule.

17.6 CABLE ADVERTISING

Cable advertising is a lower cost alternative to advertising on broadcast television. It has many of the same qualities as broadcast television and, in fact, since it offers more programming, it's even easier to reach a designated audience. The trouble with cable is that it doesn't reach everyone in the market area, since the signal is wired rather than broadcast and, also, because not everyone subscribes to cable. If cable does reach a large part of your market, have an advertising agency investigate its cost or call the cable company's advertising sales department. Chances are the cable commercial time will be 10 to 20 percent of the costs of regular broadcast time.

17.7 YELLOW PAGES

Telephone book advertising is another way to reach your market area. It allows you to place your business listing or ad in selected classifications within the book, with the theory being that when people need your product or service, they will look up the classification and contact you. Much of the "sell" copy for a product or service, therefore, is not needed in your ad content, since the people who have looked up your classification are already in the market to buy. What you must be aware of when you write the ad is the other firms' ads within your classification.

In other words, why should the reader select your firm over your competition? That is the crucial question -- and your ad should provide the answer. Telephone Yellow Pages salespeople often employ the technique of selling as large an ad as possible to one company, then showing the other companies in the same classification what the one company is doing so that they can match it or beat it. This is not the best criteria for determining ad size, but is definitely good for the ad salesperson.

To determine the size you should use, consider the following:

- Your ad should be large enough to incorporate the vital information the reader needs to make a contact decision (as mentioned above).
- Remember your lessons in print advertising. Keep your ad clean, creative and eye-appealing. Even though the phone company will "design your ad for free," some firms employ graphic artists and advertising agencies to create a Yellow Pages ad that really stands out.
- Give yourself a budget to work with. Figure out how much you want to spend on Yellow Pages advertising for the entire year, and then divide it by 12. That will give you the payment that is automatically attached to your phone bill every month.

Do something unique or different. If no one else is using color, use color. Even shades of gray can make an ad look better and more appealing.

Advantages of Yellow Pages Advertising

- One ad works all year long.
- Gives your prospect a method of easily locating and contacting your business, even if they didn't initially know your name.
- Can help you describe the differences between you and your competition.
- You pay by the month instead of one large payment.

Disadvantages of Yellow Pages Advertising

- You must commit to an entire year of advertising.
- You are immediately placed with a group of your competitors, making it easy for the prospect to comparison shop.
- Some classifications are so cluttered with advertising, your ad is buried and ineffective.
- It is only effective when a prospect looks you up in the correct classification, assuring the prospect knows what classification to look for in the first place.

If you require more than one classification, your Yellow Pages representative often has packages and programs that can save you some money. In addition, the same is often true if you need to be advertising in more than one city or market. Yellow Pages advertising is an important medium to consider in our fast-paced, information-hungry society. People really do let their "fingers do the walking" instead of driving around blindly. Make sure your Yellow Pages ad is attractive and informative enough to be the one or two businesses the prospect actually does select to call. And then make sure you have the resources to deal with the inquiry. After all, there is nothing more annoying than being put "on - hold" by a busy receptionist or being served by an uninterested or unknowledgeable employee.

17.8 OUTDOOR ADVERTISING

When people think of outdoor advertising, they usually think of the colorful billboards along our streets and highways. Included in the "outdoor" classification, however, are benches, posters, signs and transit advertising (the advertising on buses, subways, taxicabs and trains). They all share similar advertising rules and methods. Outdoor advertising reaches its audience as an element of the environment. Unlike newspaper, radio or TV, it doesn't need to be invited into the home. And, it doesn't provide entertainment to sustain its audience.

Some Outdoor Advantages

- Since it is in the public domain, outdoor advertising assuredly reaches its audience. People can't "switch it off" or "throw it out." People are exposed to it whether they like it or not. In this sense, outdoor advertising truly has a "captured audience."
- It's messages work on the advertising principle of "frequency." Since most messages stay in the same place for a period of a month or more, people who drive by or walk past see the same message a number of times.
- Particular locations can be acquired for certain purposes. A billboard located a block in front of your business can direct people to your showroom. Or you can reach rural areas efficiently by placing it billboard in each small town.
- Outdoor advertising is an excellent adjunct to other types of advertising you are doing. In fact, it is most effective when coupled with other media.

Disadvantages of Outdoor Disadvantages

- Outdoor advertising is a glance medium. At best, it only draws 2-3 seconds of a reader's time.
- Messages must be brief to fit in that 2-3 second time frame. Ninety-five percent of the time, either the message or the audience is in motion.
- The nature of the way you buy outdoor advertising (usually a three-month commitment) is not conducive to it very short, week-long campaign.

When you buy outdoor advertising, remember that location is everything. High traffic areas are ideal. A billboard in an undesirable area will do you little good. Keep your message concise (use only five to seven words) and make it creatively appealing to attract readership. Few words, large illustrations (or photos), bold colors and simple backgrounds will create the most effective outdoor advertising messages.

17.9 DIRECT MAIL

What makes "direct" mail different than regular mail? Nothing. It's just a way the advertising world describes a promotional message that circumvents traditional media (newspaper, radio, TV) and appeals directly to an individual consumer. Usually through the mail, but other carriers also participate. Direct mail may be used more than you think. Studies indicate that it is the third largest media expenditure behind television and newspaper.

Rules to Remember

- Define your audience. Figure out who you want to reach before developing your direct mail program. This allows you to specifically target your message to fit common needs. It is the best advertising medium for "tailoring" your appeal.
- Locate the right mailing list. You can either build a "house list" by doing the research yourself and compiling the information on a computer -- or you can purchase an "outside list" from a list house or mailing organization already pre-prepared and ready to go.
- There are many ways to purchase lists. You can buy them demographically (by age, profession, habits or business), or geographically (by location, state and zip code). Or you can buy a list with both qualities. More than likely, there is a mailing list company in your area that would be happy to consult with you on your needs. If not, there are a number of national mailing lists available. On the average, you should pay between 4 to 5 cents a name.
- For assembly, addressing and mailing your project, you also have the choice of doing it yourself or locating a mailing service company to do it for you. As the numbers of your direct mail pieces increase, the more practical it is for you to enlist such an organization for assistance. They also are very good at getting you the lowest postal rates.
- Consider using a self-addressed reply card or envelope to strengthen returns. Use a Business Reply Postage Number on the envelope and you'll pay only for the cards which are returned to you.

The curse of direct mail is that there are no set rules for form or content. The task of deciding what your mailing should have as content, its design and its message(s) is up to you. However, remember to attract the reader's attention with color and creativity. Use clear, comfortable writing and make your appeal easy to respond. And, of course, coordinate the mailing with other advertising media if you are also using them in the same campaign. It can significantly increase the potential return.

17.10 SPECIALTY ADVERTISING

"Giveaways" -- the pencils, pens, buttons, calendars and refrigerator magnets you see everyday - - are called "specialty advertising" in the trade. Chances are, you have some specialty advertising items right at your desk. Businesses imprint their name on items and give them away (or sometimes sell them at very low cost) in order that:

- You notice their name enough times on the item to build "top-of-the-mind" awareness, so when you need a restaurant, for instance, you think of their name first.
- You appreciate the goodwill of the company giving you the item and eventually return the favor by giving them some business.

These are both long-term advertising investments that can take months or years to turn into actual sales. First, select the best item that will tell your story most effectively. While an accountant can give away an inexpensive calculator, the same item may not be ideal for a hairdresser. A comb or brush might be more appropriate in that case.

Second, decide what you are going to say on the item. A company slogan? Address directions? Since you have a relatively small area, you must be very concise and direct.

Third, figure out your method of distribution. Are you going to send them to each customer through the mail? If so, how much will that cost? Will you have them in a big bowl that says "take one"? Distribution is just as important to consider as buying the item. Just as there are many reputable specialty advertising professionals in your area, the industry is notorious with a lot of high-pressure telephone and mail solicitors who often give specialty advertising a bad name. Don't buy specialty advertising through the mail without checking the quality and prices with trusted local representatives first. And, buying specialty advertising over the telephone is not recommended at all.

Specialty advertising is a unique way to generate goodwill and put your name on items that people remember. But don't do it unless you have an item and distribution plan that will benefit your business.

17.11 SELF CHECK EXERCISE

Write short notes on the following: -

1. Advertising.
2. Newspaper Advertisement
3. Magazine Advertisement
4. Radio Advertisement
5. Television Advertisement
6. Cable Advertisement
7. Yellow Pages
8. Outdoor Advertisement
9. Direct Mail
10. Specialty Advertisement

17.12 SUMMARY

There is no one -- sure-fire -- best way to advertise your product or service. It is important to explore the various advertising media and select those which will most effectively convey your message to your customers in a cost-efficient manner. Always remember, advertising is an investment in the future of your business.

17.13 GLOSSARY

- **Advertising** is a marketing tactic involving paying for space to promote a product, service, or cause. The actual promotional messages are called advertisements, or ads for short. The goal of advertising is to reach people most likely to be willing to pay for a company's products or services and entice them to buy.
- **Direct mail** means a marketing effort that uses a mail service to deliver a promotional printed piece to your target audience. Direct mail encompasses a wide variety of marketing materials, including brochures, catalogs, postcards, newsletters and sales letters.
- **Newspaper** is a printed media usually distributed weekly or daily in the form of a folded book of papers. The publication is typically sectioned off based on subject and content. The most important or interesting news will be displayed on the front page of the publication. Newspapers may also include advertisements, opinions, entertainment and other general interest news. Some of the most popular newspapers are the Wall Street Journal, the Washington Post, and the New York Times.

- **Radio Advertising** that is, buying commercials, frequently called spots in the radio industry, to promote their products or services. Advertisers pay commercial radio stations for airtime and, in exchange, the radio station broadcasts the advertiser's commercial to its listening audience
- **Yellow Pages** means a telephone directory, or a section of one, printed on yellow paper and listing businesses and other organizations according to the goods or services they offer.

17.14 ANSWERS TO SELF CHECK EXERCISE

1. For answer to question number 1 refer to section 17.1.
2. For answer to question number 2 refer to section 17.2.
3. For answer to question number 3 refer to section 17.3.
4. For answer to question number 4 refer to section 17.4.
5. For answer to question number 5 refer to section 17.5.
6. For answer to question number 6 refer to section 17.6.
7. For answer to question number 7 refer to section 17.7.
8. For answer to question number 8 refer to section 17.8.
9. For answer to question number 8 refer to section 17.9.
10. For answer to question number 10 refer to section 17.10.

17.15 TERMINAL QUESTIONS

1. Define Advertising. What are the various types of advertising media used by business organisations to advertise its products/services? Discuss.
2. Discuss the process of buying space in Newspaper for advertising.
3. Distinguish between: -
    a) Newspaper and Magazine Advertisement.
    b) Radio and Television Advertisement.
    c) Cable and Outdoor Advertisement.
4. Discuss the significance of Yellow pages for business organisations.
5. What do you mean by specialty advertisement? Why business organisations are following it? Discuss.

17.16 SUGGESTED READINGS

- Carvens, D. W., Strategic Marketing Homewood Illiois, Richard D.?Irwin
- Kayank E. and Savitt R., Comparative Marketing Systems, New York, Praegar.
- Kotler Phillip, Marketing Management: Analysis, Planning, Implementation
- Porter, M. E., Competitive Advantage: Creating Sustaining Superior Performance, New York, Free Press.
- Porter, M. E., Competitive Strategy: Techniques for Analysing Industries Competitors, New York, Free Press.

LESSON-18

SALES PROMOTION

STRUCTURE

18.0 LEARNING OBJECTIVE
18.1 INTRODUCTION
18.2 PURPOSE OF SALES PROMOTION
18.3 OBJECTIVES OF SALES PROMOTION
18.4 CRITERIA TO SET OBJECTIVES
18.5 TOOLS OF SALES PROMOTION
18.6 SELF CHECK EXERCISE
18.7 SUMMARY
18.8 GLOSSARY
18.9 ANSWERS TO SELF CHECK EXERCISE
18.10 TERMINAL QUESTIONS
18.11 SUGGESTED READINGS

18.0 LEARNING OBJECTIVES

After studying this lesson you will able to understand: -

- The concept and meaning of sales promotion
- What tools you have to use to promote your products and services.

18.1 INTRODUCTION

Sales promotion consists of all promotional activities other than advertising, personal selling and publicity that help to increase sales through non repetitive and one time communication. In other words, it includes marketing activities other than personal selling, advertising, and publicity that stimulate consumer purchasing and dealer effectiveness, such as point of purchase displays, shows and exhibitions, demonstrations and various non-recurring selling efforts not in the ordinary routine

18.2 PURPOSE OF SALES PROMOTION

The ultimate aim or purpose of sales promotion is that of increasing the volume of sales and profits but it differs from advertising and personal selling both in approach and techniques. Personal selling involves face to face contact with specific individuals, while advertising is directed at a large number of potential customers. Sales promotion serves as a link between two by focusing selling efforts on selected small groups of people. Sales promotion usually involves non-recurring and no-routine methods, in contrast with the routine and recurring nature of advertising and personal selling. Under advertising, the media is not owned and controlled by the advertiser except in direct mail advertisings. But sales promotion methods are controlled by the advertiser. Sales promotion covers various stimulants directed to the consumers and dealers, that is why it is of two types-consumers sales promotion and dealers sales promotion. The former stimulates consumer's buying at the point of sale, and latter improves dealer's effectiveness at the retail outlets.

18.3 OBJECTIVES OF SALES PROMOTION

Sales promotion has dual objective:

(A) Basic objectives of sales promotion are: -

- Increasing the buying response of ultimate consumers.
- Increasing the selling efforts and intensity by dealers as well as by sales personnel.
- supplementing and coordinating the efforts of advertising and personal selling

(B) The other objectives are: -

- Calling attention to new products and product improvements.
- Informing buyers of new brand and new packaging.
- Improving market share.
- Obtaining dealer outlets.
- Meeting competition.

18.4 CRITERIA TO SET OBJECTIVES

These objectives are set on the basis of following criteria.

(i) Cost of reaching an audience member.

(ii) Acceptability of the tools to be used.

These criteria are developed taking into consideration the following variables/factors:-

(i) Kinds of product: The product is one of the factors determining the form of promotion. Toys, toilet soaps and cosmetics are effectively shown on television. Mass selling consumer goods can be easily promoted through radio and television. Industrial and specialty goods should be promoted through technical journals and through sales engineers.

(ii) The buyer: If the marketers are to provide realistic solutions to the problem of buyers, they must know their customers, their needs and desires, their attitude, values, aspirations and expectations. Hence marketers must have up-to-date information about customer demand and customer behaviour. If the buyers are educated then demonstrations or instructions can be used as sales promotion technique. Similarly, contests and quizzes can be used if buyers are of young age and educated.

(iii) Nature and size of market: The number, geographical location and purchasing power of potential customers exercise a significant impact on the sales promotion. Sampling, coupon, money refund orders, premium offer, price-off and trading stamps etc., are suitable for sales promotion in local markets. On the other hand, fairs, exhibitions and fashion shows are more appropriate for sales promotion on the national level particularly for garments, books and electronic items.

(iv) Stages in product life cycle: This is an important managerial tool in sales promotion. Product life cycles consist of four stages. (a) Introduction of the product requires lot of energy to create awareness, acceptance and demand for the product. Introducing a new product for most companies is a costly and difficult exercise that is why they mostly depend on middlemen, (b) Growth. It includes a fast growth both in sales volume and profit. (c) Maturity (Saturation).This stage is longer. But the speed in achieving sales volume reduces during this stage. Profit also starts declining much faster than the sales. (d) Declining. This is the last stage in product life cycle.After a period of stability, the buyers loose interest on the product, and sales start falling more quickly. At this stage either high cost sales promotion technique may be used or existing product may be improved.

(v) Management policy: In the management policy, first of all, sales promotion objectives are set, then communication tools required to achieve these objectives are designed, and the third step is to determine the cost required to execute promotional activities and programmes. In short sales promotion expenditure is directly related to the objectives to be achieved.

(vi) Budget allocation available: The decision on how much to spend on promotion is externally difficult on account of multitude of promotion tools, on the one hand, and varieties of products and markets on the other. For example, the greater the geographical dispersion of a target market, the greater the communication expenditure required. Similarly, if an offering is in its early life cycle, there is a greater need of expenditure. But promotion budget should always justify the tasks to be undertaken. A basic principle would be the cost and returns of sales promotion tools to be adopted. Hindustan Lever has its well drawn up sales promotion budget. If any business house does not have its promotion budget fixed, then promotion programmes will have to be designed to support the marketing plan.

(vii) Government regulations: Government has passed various laws and made rules to protect the consumer interest, such as the prevention of Food Adulteration Act, the Drugs and Magic Remedies (Objectionable Advertisements) Act, and Drugs and Cosmetics Act etc. Sales promotion policy must take into consideration the government regulations relating to the particular product, e.g. the commodity rates must be specified on the package and in case of medicines drug contents and date of manufacturing, date of expire, and price must be specified.

19.3 TOOL OF SALES PROMOTION

Sales promotion techniques are known as promotion tools and the mode of their application is known as sales programme. These tools and programmes are divided under two heads: -

a) Tools and programmes for consumer's sales promotion.

b) Tools and programmes for dealer / distributor sales promotion

Tools and programmes for consumer's sales promotion:

a) These tools and programmes are as follow: -

(i) Sample: Usually called consumer sample, free samples and given to consumers to introduce a new product or to expand the market. The consumers can try the product.

(ii) Demonstrations or instructions: These are instructions given to educate the consumers about using the product. This method may be used in products like Vacuum cleaner.

(iii) Coupon: It is a certificate that reduces the price. When a buyer gives a coupon to the dealer or retailer he gets the product at lower price. For example in DCM coupon system if regular price is Rs.20, with a coupon it is Rs.18. These are also known as discount coupons. Coupons are also accepted as cash by retailers.

(iv) Money-refund orders: The technique indicates refund of full purchase price if the buyer so wants. It is helpful in the introduction of a new product. Refund offer creates additional interest and increases sales considerably. It is a good device for creating new user and to strengthen the brand loyalty.

(v) Premium (gift) offers: These are temporary price reductions, which appeal to bargain instinct, e.g., instant coffee sold in carafes by one company was very successful. Towels, dinner ware, hair-brushes, key chains, artificial flowers, ball pens, toilet soaps, blades, were given as unpack premiums. Attractive reusable jars costing separately say Rs. 12 may be given as at an extra charge of Rs. 4 only. Liril gave a soap box almost free with two soap cakes.

(vi) Price-off: The price off label is printed on the package such as Rs. 4 offer a Brooke Bond tea pack of 500 grams. It gives a temporary discount to the consumers.

(vii) Trading stamps: Trading or Bonus stamps are issued by retailers to customers who buy goods from there. The number of stamp given to a buyer depends upon the amount of purchases made by him. For instance, in India Roman Bonus Stamps are issued at the rate of 2-1/2 percent of the purchase amount. These stamps are given free of charge and the customers can redeem them to obtain products out of the specified list. This technique induces customer to buy their requirements from the retailers who offer such stamps. The purpose is to increase customer loyalty.

(viii) Fairs and exhibitions: Trade shows, fashion shows or parades, fairs and exhibitions are important technique/tools of sales promotion. They provide a forum for the exhibitions or demonstration of products. Free literature can be distributed to introduce the firm and its products to the public. Fairs and exhibitions are organized usually by big firms or trade associations. At these fairs and exhibitions, business firms are allotted stalls where in they display their products. Fairs and exhibitions have wide appeal as several people visit there. Customer can be attracted through gifts, special concessions and free demonstrations of technical and specialty products. They provide an opportunity to the visitors to observe the competing products and help to promote sales. For instance, the Trade Fair Authority of India organises Trade Fairs of various types in New Delhi. The National Book Trust organises World Book Fair, where publishers of all over the world are invited to display their publications. Sometimes sales conventions or conferences of dealers are held Producers of garments often organise fashion shows to promote their products.

(ix) Public relations activities: These include greetings or thanks in newspapers, donating space for noble causes, offer of Privileged Citizen Card, etc. Their purpose is not to create immediate demand or to increase sales. They are designed to create a good image of the firm in the society.

(x) Exchange scheme: This technique offers to exchange the old product with new in payment of a fixed amount which is less than the original price for example, exchange of old Black & White Television for Colour Television by paying rupees 8000 only (original price is rupees 10000) was offered by a particular producer of colour TV sets.

b) Tools and programmes for dealers/distributors sales promotion

(i) Free display: There is provision of free display of material either at the point of purchase (POP) or at the point of sale(POS), depending on one’s view point. Display reaches consumers when they are buying and actually spending their money.

(ii) Retail demonstrations: These are arranged by manufactures for preparing and distributing the products as a retail sample, for example, Nescafe Instant Coffee was served to consumers for trying the sample on the spot of demonstration regarding the method of using the product.

(iii) Trade deals: These are offered to encourage retailers to give additional selling support to the product, e.g., tooth paste sold with 30% to 40% margin.

(iv) Buying allowance: Sellers give buying allowance of a certain amount of money for a product bought.

(v) Buy-back allowance: It is offered to encourage repurchase of a product immediately after another trade deal. A buy back is a resale opportunity.

(vi) Free goods: Seller gives free goods, e.g., one piece free with two, or two pieces free with 10, are common free deals.

(vii) Advertising and display allowance: These are also offered to retailers to popularise the product and brand name of the manufacturer.

(viii) Contents: Sales contests are held for salesmen.

(ix) Dealer loader: A gift for an order is a premium given to the retailer for buying certain quantities of goods or for special display done by the retailer.

(x) Training for salesmen: Dealer and distributor training for salesmen, which may be provided to give them a better knowledge of a product and how to use it. Dealer sales promotion provides the selling devices. Sales promotion devices at the point of purchase inform, remind, and stimulate buyers to purchase products. People who see these devices are in a buying mood and thus they can be easily persuaded to buy those products. Tell tags are informative labels affixed on the product, describing in detail the features of the product and its unique selling points. Counter, top racks, posters, mechanised signs are other point-of-purchase displays.

18.6 SELF CHECK EXERCISE

1. Write a short-note on Sales Promotion.
2. Define Personal Selling.
3. Discuss in brief the objectives of Sales Promotion.
4. Write short-note on Coupon.
5. What do you mean by Trade Deals? Discuss in brief.

18.7 SUMMARY

Even though customer satisfaction has become the top priority for businesses, there are times when they need to stimulate demand and increase sales of their products for short-run. This is where sales promotion comes into play. Sales promotion is a part of the promotional mix where the business uses many short-term customer-oriented strategies to stimulate the demand for its product by making it look more attractive and/or worthy. Sales promotion is a marketing strategy where the product is promoted using short-term attractive initiatives to stimulate its demand and increase its sales.

18.8 GLOSSARY

- **Personal selling** is also known as face-to-face selling in which one person who is the salesman tries to convince the customer in buying a product. It is a promotional method by which the salesperson uses his or her skills and abilities in an attempt to make a sale.
- **Publicity** is the public visibility or awareness for any product, service or company. A publicist is someone that carries out publicity, while public relations (PR) is the strategic management function that helps an organization communicate, establishing and maintaining communication with the public.
- **Sales** are the activities involved in selling products or services in return for money or other compensation. It is an act of completion of a commercial activity. A salesman is someone who sells products or services, thus generating sales.
- **Sales promotion** is the process of persuading a potential customer to buy the product. Sales promotion is designed to be used as a short-term tactic to boost sales – it is rarely suitable as a method of building long-term customer loyalty. Some sales promotions are aimed at consumers

18.9 ANSWERS TO SELF CHECK EXERCISE

1. For answer to question number 1 refer to section 18.1.
2. For answer to question number 2 refer to section 18.2.
3. For answer to question number 3 refer to section 18.3.
4. For answer to question number 4 refer to section 18.3 (a).
5. For answer to question number 5 refer to section 18.3 (b).

18.10 TERMINAL QUESTIONS

1. Define Sales Promotion. Discuss its objectives and significance.
2. Discuss the criteria to set objectives of Sales Promotion.
3. Discuss the tools used for sales promotion.

18.11 SUGGESTED READINGS

- Carvens, D. W., Strategic Marketing Homewood Illiois, Richard D.?Irwin

- Kayank E. and Savitt R., Comparative Marketing Systems, New York, Praegar.
- Kotler Phillip, Marketing Management: Analysis, Planning, Implementation
- Porter, M. E., Competitive Advantage: Creating Sustaining Superior Performance, New York, Free Press.
- Porter, M. E., Competitive Strategy: Techniques for Analysing Industries Competitors, New York, Free Press.

CASE STUDIES

CASE STUDY 1: Office Improvements

Office Improvements is a marketing company offering a wide range of office products and services on behalf of its clients to a wide range of businesses and organizations. The firm defines its business as finding ways of making offices in organizations more efficient, more employee-friendly and more economical to run. John Grant, the CEO of Office Improvements, believes that this gives the firm the widest scope possible in terms of the kinds of products he can market. 'Of course,' he says, 'this means we have two kinds of customer. Those whose products and services we market and those who buy the products and services which we market.' The firm does not experience too much difficulty finding businesses which would like to make use of Office Improvements' marketing skills. The main difficulty encountered by the firm is in its marketing to organizations that want to make use of the products and services it has to offer. As John Grant says: 'When you are a small company trying to make your way in the world, you encounter all kinds of problems when it comes to getting new contracts. In our case it isn't a case of hiring sales people to call on wholesalers or retailers, you have to actually get out yourself and talk to your customers. Finding the right person to talk to can often be a nightmare. We define our business as that of helping firms to create healthy working environments for their employees. This means that we actually sell industrial solvents and cleaning materials as well as a variety of different types of equipment—ranging from fans and air extractor units to heating appliances for offices and workshops. We are essentially a marketing outfit and get our products from a variety of sources both in this country and abroad. We do not sell in small quantities but aim to equip other organizations as comprehensively as we can. 'Our major difficulty is locating the decision makers. When you want to get a local authority as one of your customers, whom do you approach? I can tell you it is not that easy. It is not always straightforward when you are dealing with a central buying office. Often the person you approach cannot make the decisions and has to consult with other people. You have a real job on your hands I can tell you.'

Question

What steps do you think John Grant could take to ensure that his approach to users of the products and services he has to offer is optimal?

CASE STUDY 2: Mirela Fashions

Mirela Fashions In 1971, a highly ambitious young woman returned to Cyprus from Greece after obtaining a degree as a fashion designer. With the help of her parents, she bought a shop in the main shopping area in Limassol. The shop specialized in made-to-measure garments for women. The clientele at the time included relatives, friends and customers who wanted to select the design of their clothes and have them specially made. Gradually, the business gained a reputation for high quality and elegance. As the customer base increased, the need to employ more dressmakers became apparent. The owner decided to employ both qualified and untrained women, and according to their knowledge they were assigned to specific tasks. Slowly the volume increased as more people came to the south part of Cyprus following the partition of Cyprus in the 1970s. At the same time the troubles and uncertainty in the Middle East brought wealthy Lebanese to the country, who transferred their businesses to Cyprus. As a result, boutiques started to emerge not only in Limassol but also in other towns, for example Nicosia and Larnaca. The owner identified a market opportunity that developed from various environmental changes: to become a supplier of women's clothes to different boutiques and shops across the country. In order to cope with the high demand, the owner moved out of the shop to a specially converted area at the centre of the town. She bought more equipment, and hired more dressmakers as well as salespeople. The owner of the business also designed the clothes. The business was named 'Mirela Fashions'. Orders were placed after the owner exhibited designs to customers that varied according to the season. More and more boutiques opened and the competition among them intensified. Subsequently, the owner had to develop different designs for each boutique. The business was booming and had gained a reputation acquired through word of mouth and participation at fashion shows across the country. By the early 1990s the Lebanese had left Cyprus. At approximately the same time, as part of the preliminary stages of the entry requirements of Cyprus to the EU, the government gave permission to import foreign brands such as Benetton, Marlboro, Polo, Calvin

Klein and Marks and Spencer. Cypriots became 'obsessed' with imported clothes. However, not all could afford them or were interested in buying them. Big clothes factories started closing down since the demand for local garments started to decrease. Local manufacturers could not export abroad since their prices were not competitive enough due to high labour costs. Many boutiques started closing as well. Some of those that remained built up stocks of both locally made clothes as well as imported brands. The owner had to dispense with the services of some people in order to keep its costs down. It was time to find a new niche for the business. And indeed, a new niche was found. Despite the fact that Cypriots showed much interest in imported clothes, demand for made-to-measure garments was equally high. At the same time, the owner 'spotted' a new opportunity: the increasing demand for made-tomeasure wedding dresses. The reputation of the business acquired over the years for high quality and attention to detail made it easy for the owner to attract customers from these two segments of the market. Meanwhile, the owner identified another opportunity: the big carnival festival in Limassol that lasts for two weeks in February. For two whole months the entire business operations are concentrated on the design, development and production of fancy dresses for shops, private organizations (e.g. the Rotary club), big and small groups and individuals. The business has been in operation for 28 years, and during that time it has had to change in accordance to the market changes and fashion trends..

Questions

1. How is the organization trying to get to grips with the problems and difficulties presented by the opening and closing of strategic windows?
2. Does the organization appear to have a strategic marketing management function? Explain.
3. Do you think that Mirela Fashions' current competitive strategy is the correct one? Why or why not?
4. The strategic window of opportunity has remained open for nearly 30 years for this firm. It has met the changes in the market and the industry successfully. What kinds of changes are likely to ensue in the next decade from the association of Cyprus with the EEC? How should the firm seek to meet these changes?

CASE STUDY 3: QUIETSLEEP CORPORATION: CREATIVITY IN ACTION

Quietsleep Corporation is a small company that develops medical technology for treating sleep apnea. The company has created a unique, innovation-focused, riskhonouring environment that has helped it take a leading position in its specialized industry, competing with much larger firms. Its mission statement reads: Innovating to Help People and its tag line is 'Where Sleep Technology Is Headed' since it is committed to staying at the forefront of innovation and technology. In its application, Quietsleep lists the critical skills for innovation as being 'empathy and caring'. It calls the perfect innovation incubator the ability to empathize with customers, suppliers and team-mates and to genuinely care about their passions, fears, concerns and needs. Quietsleep's environment of innovation has allowed it to dominate a profitable market niche in spite of competition from much larger organizations. In analysing its own internal strengths the company feels that it has a good mission statement with focus/vision/clear objectives. It also considers that it has a comprehensive distribution network, with tied houses. The brewery is a market leader in many segments. This, it believes, it has achieved mainly as a result of being a low-cost producer—economies of scale and experience it has gained in the trade. At the same time, the firm recognizes that it has many internal weaknesses. It is a bureaucratic super-tanker—traditional conservative approach to business—predominantly hierarchical in structure. In some market sectors it is losing ground and the company also feels that it is perhaps too dependent on tied estate. Moreover, despite being a low-cost producer, no price leadership exists in the business. Perhaps even more serious is the inertia in the company and internal resistance to change—especially among shareholders.

Questions

1. What kind of mindsets is the firm most likely to experience?
2. What kind of self analysis ought the firm to undertake?

CASE STUDY 4: DACO

Anyone who has visited or lived in south-east Asia knows the major transitions that have taken place in the industrial, business, economic and socio-cultural environments in many of its countries in the past 20 years. On the one hand, giant, international, home-grown firms have developed from apparently nowhere in some countries and huge, down-town skyscrapers dot the horizon in the business districts of the cities, monuments to the expansion that has taken place. Side by side with this, however, poverty or extremely poor living conditions are often to be found in cities that boast the new industrial enterprise. In recent times, the economic miracle has taken a severe knock with large-scale collapses on financial markets, perhaps indicative of the risks of too fast an escalation in business development. Emerging economies have their rewards but they also have their fair share of risks. DACO Engineering has never made a secret of the fact that its strategy of expanding production in emerging economies requires steady job cuts in its established manufacturing centres in Europe. Recently it announced that 10,000 jobs were to go in western Europe and North America. DACO moved faster than it had intended because of economic turmoil in southeast Asia, which includes some of its most important markets. The indefinite postponement of a multi-million pound hydroelectric project in Malaysia was a substantial blow to its enterprise. Since the early 1990s, DACO has pursued expansion in developing countries faster than international rivals. The firm argues that local production in emerging economies brings firms closer to customers and helps reduce costs. DACO cut 60,000 jobs in Western Europe and North America in 1990–96 and created 60,000, mainly in East Asia and eastern Europe. The total payroll stayed roughly constant. The company is reckoned, in the engineering industry, to be comfortably ahead in cost-cutting terms of rivals such as Germany's Siemens and GECAlsthom, the Anglo-French joint venture. However, the economic slowdown in south-east Asia, compounded by the decline of currencies in the region, has made it necessary to accelerate East Asian expansion. The company also says that current weakness makes south-east Asia a more attractive export base for DACO. The axe is to fall mainly in Germany, Italy, Spain, Sweden, Switzerland and the US. The principal cuts and closures will be concentrated in power generation, which accounts for about a quarter of DACO's business. Margins in this sector are under particular pressure from international competition. Its largest European power generation factories are in Switzerland, Germany and Sweden. The company forecasts that south-east Asia will recover from its problems like Mexico which is now ‘booming again’. It remains confident that the Malaysian dam project, the biggest contract in DACO’s history, will go ahead within the next two to three years. Nevertheless, he does not minimize the fact that the postponement is a serious blow. There was 400 DACO staff already on site and another 1,000 engineers working on the project at DACO’s plants. The company had already built a test cable for its high-voltage direct current transmission system, which was to have been the longest in the world. The case highlights the fact that although developing country growth rates are higher than in OECD nations, so are the risks.

Questions

1. Industry structures and life cycles seem a rather abstract concept which does not recognize international boundaries. What kind of dimension to this kind of analysis is brought about by DACO’s international experience?
2. How would you analyse DACO’s experience in terms of the competitive advantage matrix?

CASE STUDY 5: Cometex

Door-to-door selling is something which always seems to have been with us. The tinkers of the Middle-Ages still have their counterparts today. In modern times, door-to-door selling seems to have come in and out of fashion. In the 1950s, for example, even vacuum cleaners were sold in this way. More usual has been the bric-à-brac type of salesman carrying a range of household utensils in an often large case or encyclopedia salesmen with their well rehearsed sales chatter. One of the most popular forms of door-to-door selling has been the Avon representative selling a variety of beauty aids to the appearance-conscious housewife. Cometex, the door-to-door home cleaning company, is planning an expansion strategy into emerging markets, as the firm has suffered drops in sales in the home UK market. The firm said it would invest £5m in expanded joint ventures with a door-to-door cosmetics group. The managing director said sales from the joint ventures could reach ‘several hundred million pounds’ in ten years. Cometex is launching in five East European countries beginning with Hungary, and three Asian countries including Japan. The overseas expansion follows joint ventures with the same cosmetic group in Latin America during the past two years.

South American turnover is expected to rise sharply next year, with this year's launch in Brazil. Cometex has also begun local manufacturing in Mexico, where margins are 10 per cent higher than in Western Europe. In the UK, however, Cometex suffered from recruitment problems which affected its network of door-to-door distributors. The company blamed low levels of unemployment, although it added that its customers were spending on average 6 per cent more than last year. Cometex has tremendous growth prospects with the cosmetic group's management in emerging markets which have yet to show through in its results.

Questions

1. Is door-to-door selling in mature markets and developed economies a dying craft? Why or why not?
2. Do you consider that the strategy being followed by Cometex is the right one? Why or why not?
3. How might Cometex undertake market analysis for its products?

CASE STUDY 6: Cyproswim Limited

A brief history of the company Even if the swimming pool industry in the US and in Europe has a long history, in Cyprus there were no swimming pools until 1967. The first pools that have been constructed were those of the Ledra Palace (Nicosia), Hilton (Nicosia) and Forest Park (Limassol) hotels, between 1966 and 1967. However, there was no specialized business responsible for the construction and maintenance of swimming pools. Construction of the pools mentioned above was undertaken by air-conditioning businesses. In the intervening period, the significant increase in tourism has created the need for more hotels to be built. A hotel is now considered not only as a place where people can stay, but also a place of pleasure and entertainment. Moreover, in Cyprus, a swimming pool in a hotel is an essential feature. Fully equipped hotels have played an important role in the increase of tourism and the development of Cyprus's economy. The first swimming pool business in Cyprus The owner of the first swimming pool business in Cyprus saw the high probabilities of success for that business. He decided to establish such a business in order to satisfy the needs of the market. A specialized swimming pool firm was formed under the name Cyproswim Ltd and undertook the construction of the swimming pools at the Apollonia (Limassol), Golden Sands and Salamis Bay (Famagusta) hotels. The owner specified the main reasons for his decision to establish such a company as follows:

1. The considerable increase in tourism that had led to a considerable increase in the number of hotels.
2. The market potentials were high, as were the probabilities for success.
3. It was expected that the government would encourage and support him, since the satisfaction of tourists was one of the government's primary concerns during that time. These expectations were fulfilled.

Demand for swimming pools was high, people responded positively and the government created no problems for the import of swimming pool equipment and chemicals. The first equipment was imported from the US but had European specifications. In addition to the installation of swimming pool equipment, the maintenance and the chemical treatment were among the responsibilities of the owner of the company. However, the chemicals needed for the treatment and purification of water were imported from Spain. According to the owner of the company, the government of Cyprus encouraged the import of equipment and chemicals, and there were no problems in obtaining import licences. The Cyprus Tourism Organization in its attempt to attract more and more tourists encouraged this. Nevertheless, the firm faced a number of problems during the first years of its operations. The lack of availability of skilled labour and the rapid increase in demand, which was too high to be satisfied, were some of the major problems that are discussed below.

The first problems that faced the first swimming pool company The most important difficulties were as follows: Since the construction of swimming pools was something new, many problems arose, not only for the firm, but also for the Cyprus market. Electrical and plumbing installations are included in the procedures to be followed for the construction of a pool, and skilled labour is essential. However, there was no labour available and there were no specialists in Cyprus to train unskilled labour. For this purpose, a seminar was held by American specialists at the Ledra Palace Hotel. The seminar was organized under the auspices of the American Embassy, and many Greek

Cypriots as well as Turkish Cypriots attended. Another important problem was the maintenance of equipment and chemical treatment of the water, both of which also required skilled labour. However, this problem could be met by meticulous reading of the instructions when using chemicals, or the booklets and leaflets that the manufacturers sent. Moreover, visiting the various exhibitions in the exporting countries proved to be useful. Third, problems arose because of the rapid increase in demand accompanying the increase in tourism. In view of the lack of skilled labour, such a high demand was very difficult to satisfy. In addition to the swimming pools of hotels, there was a great response by the private sector and many pools were constructed in private homes. The partition of Cyprus Apart from the above problems, the partition of Cyprus had a very destructive effect on the company which at the time possessed more than 95 per cent of the market. Since most of the swimming pools were in Famagusta and a significant number in Kyrenia, the partition had a negative effect on the financial position of the firm. Machinery that had a value of CP5000 had been delivered to the Dome Hotel in Kyrenia and never been paid for. This is only one example of how destructive the partition was for the business. Nevertheless, in the aftermath, many hotels were built in Larnaca, Limassol and Paphos and the firm recovered the losses. Most of the problems were overcome and the firm not only survived, but excelled. For many years it was operating in a monopoly market and this enabled the firm to enjoy the advantages of economies of scale. More businesses in the market A few years later, another swimming pool business under the name Poseidon entered the market. However, to this day the firm does not undertake the construction of swimming pools but only chemical treatment, and it does not import much equipment. A similar company, Aphrodite Ltd, was established later still and during the past three years it has undertaken the construction of swimming pools together with the chemical treatment. Furthermore, in the late 1980s two other companies were established to market prefabricated pools. Prefabricated pools are often preferred by individuals for houses. However, they are not preferred or recommended by hotel owners. In 1995, there were 12 swimming pool companies in Cyprus. Even though Cyproswim possesses the highest market share, or in other words is the market leader, the threat from the competition cannot be ignored.

The company's competitors have managed to take a significant market share and this has made Cyproswim's management sit up and take note. In view of the strong competition, the management has started to consider marketing as a factor that plays an important role in the firm's success. Every year more and more effort is placed on marketing, and a higher proportion of the company's budget is absorbed by marketing activities, with the intention of satisfying the company's customers in the best possible way.

Question

1. What kind of competitor analysis would be of most benefit to Cyproswim?
2. How might this analysis be reflected in its marketing strategy??

CASE STUDY 7: Union Assurance Company

The Union Assurance Company is reviewing its strategies to take account of current trends in the business environment. It observed the following: Political/environmental factors Government withdrawal from welfare provision Self-help encouragement by government Government may restore welfare ethos Economic environment factors Widening gap between rich and poor Socio-cultural factors Substantial increase in working women in lower income groups Less manual jobs/more office administration jobs Lottery Higher expectations of middle income groups Technological factors New tech not easily accepted by lower income groups Major growth in telemarketing/database marketing Demographic factors Population shift to middle/old ages Less young people Legislative factors Expenses/commission disclosure to every customer Increasingly severe pensions legislation An industry analysis using the Porter framework indicated the following: Bargaining power of suppliers Distribution is powerful Forces vertical integration Costs high to acquire/train Threat of substitute products None for life assurance Money for savings Gambling increasing (lottery) Low switching costs No economies of scale Little differentiation Experience not a barrier—buyable Bargaining power of customers Middle market strong Largely undifferentiated Switching relatively easy Disclosure law gives power of comparison on costs Cashing in is routine in lower market Threat of new entrants Unlikely in home service market Significant in middle market Non-financial players with good reputations (e.g. Marks and Spencer, Virgin, etc.) New technology/lower costs, Degree of competitive rivalry, Fragmented industry, Over-capacity, Few big brands/shares, High costs, Worsening, expense/profit position High exit barriers Traditional life products declining Undifferentiated Poor reputation SHIFTING TO: (Rapid rationalization/consolidation for attractive growth and returns) New players, Big trusted brands, High tech/low cost, Direct sales/low cost, Low entry, barriers Low cost driving low price Greater competition, New competencies Marketing/service. A SWOT analysis revealed the following: Internal strengths Financial—major reserves which could be accessed for development/ improving returns to customers With profit fund—no new player has or can build one, a good capital barrier Loyalty and awareness among industrial branch customer base Investment income and track record (steady) National (locally based) distribution Internal weaknesses Poor sales track record Inefficient, inaccurate and untimely administration/processing Uncompetitive returns/high expenses Management culture Low awareness levels/market profile Reliance on single distribution channel External opportunities Older population—needs care and illness cover Government encouragement of self-help welfare provision New database/telemarketing technology and cost benefits Growing prosperity of middle income/age group Service/marketing emerging as new competencies.

External threats Increasing poverty of traditional customer base Reducing need for home collection of premiums for life and savings products (more in town office working and more women out all day) Less young people—reducing market for savings and life products Cost-reducing technology—not acceptable to traditional low income groups Legislation driving up costs and cost competition—lower margins Substitute expenditure on lottery Political uncertainty—next government Question Suggest possible strategies that the firm might pursue. The Foldaway Company Modern houses are getting smaller and much more compact. They are placed closer together, have smaller rooms, use sliding windows in kitchens instead of back doors and do without vestibules or lobbies altogether. It isn't that people necessarily want smaller houses—they want houses that are cheap and easy to run. However, the trend towards smaller houses does bring with it storage problems. Take, for example, Tony's house. It has a living room with an open plan staircase leading to three upstairs bedrooms and a bathroom. The kitchen is at the back of the house and has a sliding glass window in place of a back door. There is no vestibule and the front door opens straight into the living room. There is a cupboard under the stairs but apart from a small airing cupboard outside the bathroom there are no other cupboards apart from those in the kitchen. Space is at a premium. Tony runs a small firm which produces and markets a number of foldaway products. First, there is the clothes rail with fold-away convenience. This is a clothes rail with an unusual space-saving feature. Not only does the product provide masses of storage but it also folds down to a compact width of 15cm when not in use for easy storage. It comes in handy for ironing, for storing out of season clothes and for use in spare bedrooms. The rail height is adjustable between 96.5cm and 165cm and can hold up to 40kg of garments. It is fully mobile and runs on castors. Second, there is a product which provides instant extra hanging space. Placed over the top of a door, the smart and sturdy steel hooks create hanging space for several garments or clothes hangers. They are perfect for the bedroom, bathroom or utility room (particularly for wet outdoor clothing and for ironed clothes). The hooks require no fixing and can be easily moved from door to door. Third, there is the instant hanging rack. This is excellent for towels and robes in the bathroom (also ideal for extra hanging/airing space in the utility room/bedroom). The rack fits instantly over the top of any door and four heavy-duty suction cups also fix it on to the door for complete stability or can even attach it directly on to a shower screen. The rack comprises five bars, the top one pre-fitted with four sliding hooks for hanging garments. It measures 65×121×12cm. Fourth, a mobile trouser rack which can increase the storage capacity of any wardrobe substantially. In most wardrobes something like 50 per cent of the space is wasted (i.e. below the hanging garments). This compact mobile rack ensures that no space remains unused. It is designed to hang 12 pairs of trousers and measures only 67×53×34cm, fitting into any standard wardrobe to create double-decker storage. Tony has experienced considerable demand for the products and sales and profits of the firm are booming. He is keen to introduce new lines into the business which respond to the changing nature of the home.

Questions

1. What other kinds of products do you think Tony could introduce which respond to the changing environment?

CASE STUDY 8: CHOOSING A HOLIDAY

Choosing a holiday—part of a focus group discussion First Class tour operators based in the West Midlands are trying to find out more about consumer choice as far as choosing a holiday destination is concerned. As part and parcel of the marketing strategy the firm is keen to develop an augmented service package that will appeal to its regular customers as well as pull in new customers. First Class has commissioned a small market research bureau to carry out research for this purpose. The market research bureau initially set up a number of focus group discussions at different locations in the West Midlands for this purpose. The samples of respondents taken were essentially convenience ones comprising people of various ages in different settings, i.e. in youth clubs, social clubs, further education centres, etc. and comprised anyone who was prepared to give an hour or so of their time. Part of the discussion that took place in one such session with a group of people at a social club is shown below. 'I like the sea and the sun. I like to laze on the beach, to dance all night at a disco and do it again and again,' Cheryl smiled. 'That's because you're young. When I was your age, I wanted to do the same thing.' Yvonne spoke with a tone of nostalgia. 'Now it's seeing different places that I like. I like going with John on tours. Last year we took the pilgrimage tour route to Santiago in Spain. We started in France and followed the well known route, stopping at different places on the way. There was a party of thirty of us and we had a whale of a time.' 'Everyone has their own tastes,' Bill grinned. 'I watched Wish You Were Here on Granada TV and ended up getting away from all the traditional holiday destinations altogether. I went on my own to Thailand. I saw the bright lights and did some exploring of the ancient temples at Ankor Wat.' 'Some of us have never been abroad and never will,' Old Mike commented. 'I can't see what all the interest is in going to foreign parts when there is so much to see and do in England. It's expensive to go abroad—and all that foreign food! Not to talk about different languages and the fact that you can't make yourself understood. I like to go to Blackpool at Easter, Blackpool in the summer, Blackpool in September and Blackpool at Christmas. I never get bored of

Blackpool.' 'Flying puts me off going a long way,' Fiona joined in. 'I tried it once. I went with a friend to Paris for a weekend and was sick on the plane. I am just so afraid of flying. If I can't get there by land and sea I do not go. Of course, that has not stopped me visiting places on the continent. I have been to Belgium and France quite often. But that is all.' 'I like doing something really different, but the cost deters me', Wendy broke into the conversation cautiously. 'A couple of years ago I joined a singles party on a trip to Antarctica. I flew to Tierra del Fuego and a boat took a party of us to the Antarctic coast. I didn't like all the people. I also had to share a cabin with an older woman. She was alright, but it would have been difficult if we had not got on well. I regard myself as a bit adventurous but not way out.' 'I go bungee-jumping in New Zealand. That is really exciting. It's a craze over there,' Tom butted in. 'What I like is a cruise. I have done the Caribbean, the Mediterranean, the Baltic and cruised off the coast of Alaska and enjoyed them all. You find all kinds of people on these cruises, make all sorts of friends and thoroughly enjoy yourself,' Winnie put in.

Questions

1. How would First Class make use of such data in formulating marketing strategies?
2. What else might the market research bureau do by way of research?

CASE STUDY 9: Barney Malone Barney

Malone's parents emigrated from Ireland to Australia in the late 1950s. Eventually they settled in Adelaide in the far south-east of the country. Barney was brought up and educated in the suburbs of Adelaide and following a number of 'career offering' jobs in banking insurance, he opted to take up something much more practical in the 1980s by going into partnership in his mother's beauty salon business. Molly Malone had started a beauty salon in Adelaide soon after landing there in 1958. She had worked for several beauticians back in Dublin and knew the trade well. Business was brisk and by the time Barney joined the business in the early 1980s, Molly Malone owned three salons in Adelaide. It wasn't long, however, before Barney learned the skills of the trade and he had an eye for business too. Barney decided that providing a straightforward beautician service was not enough and that the business might consider some form of diversification. Moreover, it was in the diversified interests that he himself was more interested. While his mother Molly was a skilled beautician, she lacked the business acumen to try other things as well. Barney on the other hand was only too keen to try. Early in the 1990s he decided to move into offering hairdressing-related products and contacted an importer of such items in Adelaide. The importer obtained the items from a variety of suppliers in the Far East who were only too keen to get into the growing Australian market. Initially, Barney had decided to take on four different products. The products were sold from each of the three salons in Adelaide. The four products were as follows:

1. An electric cordless hair cutting set retailing for around A$50. The cordless cutter set brought the users everything they needed for effective home haircutting. The rechargeable mains powered clipper came with six attachments which enabled the user to cut hair to pre-selected lengths. The pack also came with a choice of barber's scissors, a comb, clipper lubricating oil and cleaning brush, plus a zippered leather-look storage/ travel pouch. There was also a colour booklet containing step-by-step tips to haircutting.
2. An electric hot air brush and styling system retailing for around A$45. The product was a hot air paddle brush which included a series of flow vents to enable the warm air to be directed on to the hair as it is brushed through. The product was considered to be ideal for controlling and smoothing the hair as well as creating 'flick ups' at the ends. The styling handle came with a set of additional accessories and attachments for creating height, volume, waves and curls plus an exclusive styling booklet to give instructions on use.
3. A big power but small-sized hair dryer which fitted in the palm of the hand. Its high power and micro air-concentrator attachment dries thick hair fast and is compact enough to fold down into a small bag. The product has two speeds and the low speed can also be used for drying finger and toe nails after varnishing. The product has dual voltage for world-wide travel and an extra long power cord, plus a travel pouch.
4. An epilator that retails for around A$60. The epilator removes hair as short as 0.25mm by the root and does the job efficiently and almost painlessly. The whole unit

fits into the hand and its curved micro tweezers glide smoothly over the contours of the body. The product is cordless and comes with a smart storage pouch, cleaning brush and full instructions.

Sales of the products have been extremely good over the past three years and have made a healthy contribution to the sales and profits of the business (around 5 per cent of sales). Barney now faces an important decision. Molly has decided to retire and Barney is unsure as to whether he wants to retain the beauty salon business. Apart from Molly and Barney there are no other members of the immediate family in the business. Barney's brothers and sisters all have other interests and none have expressed any interest in the business. Barney's wife runs a knitware shop with one assistant and although she has experience of retailing, she has no experience of the beauty trade. While she is not against the idea of getting involved in the beauty business she is somewhat worried whether she would have the necessary skills and experience to make a really effective contribution.

Each of the beauty salons is directly managed by Molly. There is a senior, very experienced assistant at each salon who works alongside two or three juniors. However, when one of the seniors leaves it usually means that Molly has to get involved in the day-to-day operation of the business and deal with clients and their needs. Barney's role has been essentially that of business manager, looking after the accounts, purchases, tax returns and expenses.

Question

Given that Molly is going to retire, what do you think Barney's best options are?

ASSIGNMENT

1) Some people view marketing in terms of a decision-making paradigm. How useful is such a perspective when marketing is viewed within the framework offered by strategic windows?
2) Discuss how overlapping strategic windows might be identified and exploited by an organization.
3) What is meant by competitive strategy? How should an organization set about determining its competitive strategy?
4) Given the nature of a rapidly changing environment where new developments take place very rapidly and firms need to react rapidly, is the idea of marketing planning still relevant? Why or why not?
5) Discuss how an organization should set about identifying and selecting competitive strategies.