Strategic Marketing Management

Block

1

STRATEGIC MARKETING AND ITS ENVIRONMENT

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COURSE INTRODUCTION

Marketing is the core of all businesses. It requires strong marketing knowledge and precision in decision making to outperform the competition. In the present competitive business environment, organizations that develop and implement effective marketing strategies can create more value for their customers. An effective marketing strategy provides direction, improves the brand image, helps in developing the right goals and enhances the overall performance of an organization. Positioning of the organization and its products and services depend on the formulation and implementation of its strategic marketing plans. For developing effective marketing strategies, the organization has to first decide the customer segments it wants to serve, the customer needs it wants to fulfill, and establish the price that the customers are willing to pay for its products and services.

Strategic marketing management is all about helping the organization develop a unique identity in the market, grow its businesses geographically and serve the customers better than the competitors. Strategic marketing is a continuous process of developing marketing strategies taking into consideration the constantly evolving trends in the business environment and by giving utmost importance to customer satisfaction. It helps the organization to achieve competitive advantage and sustain it over a longer period of time. One of the important objectives of the organization is to strategically respond to the opportunities and threats in the business environment, which can be successfully achieved with the help of strategic marketing management.

Strategic Marketing Management gives an overview of the formulation and implementation of the strategic marketing plans in an organization. It deals with the study of the market and marketing environment, the competitive advantage, marketing mix, marketing choices, marketing costs and their analysis, implementation and control of a marketing strategy and the need for any business entity to be an effective marketing organization. It also explains the importance of competitor analysis, customer analysis, SWOT analysis, which helps the organization in framing strategies for segmenting, targeting, positioning and other generic strategies. It further discusses various strategies like new product planning, positioning and branding, customer service, pricing, promotion, advertising, public relations, direct marketing and sales force strategies. It explains the importance of research and learning that a marketing organization should have and explains about the care and control that has to be kept during the implementation of several strategies. Finally it discusses new age strategic marketing management covering, relationship marketing strategies, online marketing strategies, social media marketing strategies and emerging trends in strategic marketing.

This edition has added a large number of contemporary examples and deleted old examples and exhibits. It has simplified the language and text layout to make it more readable.

BLOCK 1: STRATEGIC MARKETING AND ITS ENVIRONMENT

The first block to the course on Strategic Marketing Management deals with the fundamental concepts related to Strategic Marketing. The block contains six units.

The success of an organization depends on its ability to deliver superior value to customers and also outperform competitors in customer's eyes and strategic management helps and guides an organization in performing this task effectively. The first unit, *Strategic Marketing Management - An Introduction,* defines marketing, explains various concepts of marketing and the role of marketing in business. It then goes on to define strategy. It then explains the evolution of strategic marketing management. The unit finally discusses the concept of strategic marketing.

A strategic plan begins from a firm's current position and lays the road map for the future destination with the designated resources during a stipulated time period. The second unit, *Marketing Strategy and Planning,* discusses the criteria that help a company in deciding on how to compete in the marketplace. It then discusses the components of marketing orientation and how a market-orientation is developed. It then explains the relationship between business strategy and marketing. The unit then explains marketing situation analysis and how a marketing strategy can be designed. The unit concludes with a discussion on marketing planning and marketing plans.

A business strategy is a carefully documented plan that includes components like target customers, mission and vision of the company, market strategy, etc. This document serves as a guideline to a firm to increase sales and achieve sustained competitive advantage. The third unit, *Business Strategy and Competitive Advantage,* discusses the needed organizational change and the factors that influence this change. It then goes on to explain the importance of competitive advantage for an organization. Finally, the unit discusses business strategy and its components.

Marketing audit and its most important tool, 'SWOT Analysis' enables a firm to analyze the internal and external environment and recognize its strengths and weaknesses in the context of these environments. The fourth unit, *Marketing Audit and SWOT Analysis,* discusses marketing audit and its evolution. The unit then discusses various components of marketing audit. Finally, the unit discusses SWOT analysis.

Marketing cost analysis tracks the optimal use of financial resources on marketing activities and customer profitability analysis helps a firm to maximize customer profitability. The fifth unit, *Marketing Costs and Financial Analysis,* discusses and analyzes the financial implications of marketing decisions. It then goes on to explain the process of customer profitability analysis. It then discusses key financial ratios and finally discusses the concept of productivity.

Environmental analysis is a strategic tool to identify major changes in the marketing environment (that impacts a firm). Through such an analysis, a company can suitably align its marketing strategies with the marketing environment. The sixth unit, *Market and Environmental Analysis,* discusses the nature and structure of the marketing environment and the process of environmental scanning. It also discusses the evolution of environmental scanning. It then goes on to explain the PEST framework that is used for analysis of the external environment. The unit finally concludes by discussing the benefits of environmental scanning and the barriers to effective environmental scanning.

Unit 1

Strategic Marketing Management – An Introduction

Structure

"Marketing's job is never done. It's about perpetual motion. We must continue to innovate every day."

– Beth Comstock, GE

1.1 Introduction

As Beth Comstock has put it, marketing and innovation go together, the companies must strive to innovate every day to create more value to customers. Marketing is an important function for an organization, which creates offerings of high value to the customers.

Strategic marketing is a game plan for creating customer centric business by delivering superior value to the target customers and achieving sustainable competitive advantage in the market.

This unit deals with defining marketing & strategy, evolution of strategic management and concepts of strategic marketing.

1.2 Objectives

After reading through this unit, you should be able to:

- Define marketing and its various concepts and understand the role of marketing in business.
- Define strategy.

- Explain the phases of planning in the evolution of strategic management.
- Trace the evolution of strategic marketing
- Elucidate the concepts of strategic marketing.

1.3 Marketing

Definitions of Marketing:

- The Chartered Institute of Marketing (CIM) defines marketing as '*the process of discovering, expecting, and suiting the customer needs and at the same time making profits.'*
- According to management guru Peter Drucker, '*the aim of marketing is to know and understand the customer, so well that the product or service fits him and sells itself.'*
- The American Marketing Association (AMA) has defined marketing *as the organizational activities of creating, communicating, and delivering value to the customers and its stakeholders.*
- Marketing is defined as *the process of utilizing organizational resources to meet the needs of the customer in the target market in a mutually beneficial way.*
- Marketing *is identifying changing customer requirements and meeting those requirements in a manner better than the competitors.*

The process of marketing requires the following three aspects:

- Identifying customer needs
- Identifying the target market
- Identifying the sources of competitive advantage.

Differential advantage can be achieved and sustained by manipulating the elements of the marketing mix. The marketing mix is the unique combination of the four Ps. The Marketing Mix elements are; Product, Price, Promotion Place. However, as the four Ps do not seem to provide a complete framework for marketing activities, hence another three Ps included are: People, Physical evidence and Process management.

1.3.1 Concepts in Marketing

Marketing concepts have evolved over a period of time as the following five concepts:, selling concept, marketing concept and societal marketing concept.

Production concept:

According to this concept, consumers will prefer to buy goods that are easily available and are cheap. Businesses should focus on improving production efficiency, reducing costs and increasing the availability of the product. High availability will automatically create demand and low cost will increase market share.

Product concept

According to the product concept, consumers will prefer to buy goods that are of the best quality. Businesses should focus on producing the best quality goods. They give importance to constant innovation in product or improvement in performance. Product-oriented businesses often tend to overlook changes in the market environment. This myopic view may result in the failure of products.

Selling concept

According to this concept, a business should aggressively promote products. The underlying assumption of this concept is that a consumer needs to be pushed into buying products and this can be done through the use of promotion campaigns. Selling-oriented businesses use various media like print, television, radio and the internet for promoting their products through advertisement campaigns.

Marketing concept

According to this concept, an organization should focus on being more effective than its competitors in providing customer value in the target markets. The underlying idea of the marketing concept is to meet the needs of the customers profitably. Market-oriented businesses focus on customer satisfaction.

Societal marketing concept

According to this, an organization should identify the requirements of the target market and deliver them more efficiently than the competitors, keeping in mind the society's well-being. The societal marketing concept focuses on the ethical issues to be considered in marketing.

1.3.2 Role of Marketing in Business

Marketing plays a crucial role in the success of any product or business.

Key Aspects: Some important aspects of marketing are:

- It involves activities ranging from market research and product development to customer management and sales, identifying the needs of the customer, developing products to meet those needs and generating profitable relationships.
- For a company to grow, the marketing strategy should be aligned with the corporate strategy.

- The role of marketing in a business is to ensure maximum customer satisfaction by exceeding the expectations of the customers, anticipating their requirements, and fulfilling them.

Let us study the customer-centric marketing strategies of a leading company, Delta Airlines.

Example

During October 2021, Delta Airlines massively canceled nearly 100 flights. As most of the pilots were taking COVID vaccine, there was a shortage in flight crew. Delta Airlines apologized to their customers due to the inconvenience caused. It immediately acted upon the situation by rebooking for majority people on the same day. It also temporarily opened the middle seat option to re-accommodate them on the same day.

Delta Airlines provides world class experience to travelers across the globe. It had a dedicated team especially for customer service to assist passengers 24/7, to make their travel convenient and more memorable. Delta Airlines ranked highest in Customer Satisfaction with a score of 860 on a 1,000 point scale, according to the North America Airline Satisfaction Study conducted by J D Power during 2021.

The study was conducted by taking eight factors into consideration viz., baggage, check-in, boarding, in-flight services, flight crew, cost & fees and reservation.

Source:https://www.jdpower.com/business/press-releases/2021-north-america-airline-satisfaction-study Accessed on 25.10.2021.

Activity 1.1

Cell Ltd., is one of the leading mobile phone manufacturers in India. The company also manufactures the batteries of its cell phones. Of late, the consumers have complained that its batteries were getting heated up. To keep up the reputation and brand image of the company, the top management decided to recall all the batteries of its cell phones. It also replaced the batteries of consumers for free of cost. This step by the company made consumers feel that the company has taken responsibility for the damage and has benefited the consumers by replacing their batteries. Identify and discuss the strategy adopted by the company.

Answer:

Contd. .....

Check Your Progress - 1

1. Which of the following is **not** a concept associated with business?
   a. Societal production concept
   b. Product concept
   c. Selling concept
   d. Marketing concept
   e. Societal marketing concept
2. Which of the following is focused by production-oriented businesses?
   a. Increasing costs
   b. Improving production efficiency
   c. Decreasing the availability of the product
   d. Improving product
   e. Improving promotion
3. Which of the following marketing concepts focuses on the ethical issues to be considered?
   a. Production concept
   b. Product concept
   c. Selling concept
   d. Marketing concept
   e. Societal marketing concept
4. Which of these is a suitable measure that helps in achieving the marketing objective to ensure maximum customer satisfaction?
   a. Increasing promotion costs
   b. Advertising regularly
   c. Fulfilling customer requirements
   d. By introducing substitutes to existing products so that customers have choice
   e. Offering discounts and promotion offers

1.4 Definition of Strategy

- A strategy *is a formulation for organizational success*. A strategy *helps an organization to accomplish its objectives, goals, mission and future vision. It is a success plan to outwit a competitor by employing tactics and achieve sustainable competitive advantage.*
- Walker in 2003 defined strategy as a *"fundamental pattern of present and planned objectives, resource deployments and interactions of an organization with markets, competitors, and other environmental factors."*
- Michael Porter defined strategy as *Strategy helps a business to develop and sustain its competitive advantage, build a brand image, enhance performance, define market position, and create a unique selling proposition (USP).*

The basic questions that a good strategy needs to answer are:

1. What objectives need to be achieved?
2. Which short-term and long-term goals need to be achieved?
3. Which industries and product markets need to be focused on?
4. How methods, allocation of resources, etc., needs to be addressed?
5. When and where (which products and markets) tactics need to be employed against competitors?

1.4.1 Components of a Strategy

Strategy can also be defined as a set of the major goals and policies of an organization. In order to succeed, an organization should have a well-defined strategy. In order to develop a good strategy, an organization should identify its goals and policies.

A good strategy has the following components:

Scope

The scope of a company indicates the number of businesses and the types of industries in which it is involved. It refers to the breadth of the company. It also indicates the product lines and market segments the company operates in, or plans to enter.

The scope of the organization should indicate the company's strategic vision. The strategic vision acts as a cohesive force that binds the various activities and product-markets, which in turn define what businesses a company operates in and what it should enter in future.

Exhibit 1.1 illustrates the strategic vision of ITC, India's one of the most valued organizations.

Exhibit 1.1: ITC and its Strategic Vision

ITC is a multinational conglomerate of India. It started as Imperial Tobacco Company of India Ltd in 1910 at Kolkata. Later it was changed to India Tobacco Company Ltd in 1970. Then to I.T.C. Limited in 1974 and finally in 2001 it became ITC Limited.

ITC is globally ranked no.1 amidst peers. It ranked overall as no.3 for its performance in 'Food Products Industry'. It is also no.1 in the paper and paper boards industry.

The company's strategic vision is to be one of the most valuable companies of India. It is exhibiting world class performance, through creation of increasing value for the economy of the country and its stakeholders.

To achieve its vision, it has formulated some of the following strategies:

i) Creating multiple growth drivers with world class business portfolio development, that suits organizational competency and opportunities in domestic markets & export markets.
ii) Continuous emphasis on the portfolio already chosen.
iii) Benchmarking the well-being of each business.

The Strategic Business Units of ITC are:

i) FMCG: ITC, one of the FMCG market leaders in India, has more than 25 mother brands with increasing growth in market standing. Its FMCG portfolio consists of foods, personal care, education and stationery, lifestyle retailing, agarbattis, safety matches and cigarettes.
ii) Hotels: ITC Hotels, a luxury chain of hotels, are regarded as the most 'Responsible Luxury' chain with LEED Platinum Certification. For its luxury segment, it has a strategic tie-up with Marriot's 'The Luxury Collection', most of which are at leisure and strategic business locations.
iii) Paper, Specialty Paper Business & Packaging: ITC is a market leader in this category with respect to market reach, volume, product range and environment friendly nature. Paper boards are made from renewable sources, recycled boards and sustainable sources. Its packaging uses sustainable resources.
iv) Agri Business: ITC is leading in the agricultural sector, with strong relations and partnerships with farmers. Its agri business is considered to be the second largest exporter of agro-products.

Contd. .....

v) Information Technology: ITC Infotech is a technology solution and services provider at a global level. People first being its philosophy, it provides various training and development programs, nurturing an innovation-friendly culture, empowering its employees to be the brand ambassadors.

The following are few awards and honors received by the company:

- ITD's Munger factory had won the 'Excellence in Practice Award' by the 'Association for Talent Development' (ATD), USA, 2020, for crafting a structure to correlate skill-development inputs with business outcomes.
- 'Bingo! No Rulz' was awarded the 'Nielsen Breakthrough Innovations Award' in the 'Crowd Pleaser' category during 2019.
- Aashirvaad had won a 'Silver Effie Award' for 'Integrated Marketing' in 2019.
- 'Savlon' brand had won the 'EMVIE gold award' for Best 'Integrated Campaign' for converting mass media into Braille, in 2019.

By 31st March 2021, ITC recorded a Net Profit of Rs. 13,032 crores and Gross Sales Value of Rs. 74,979 crores. ITC had a sustainable strategy of 'Nation First; Sab Saath Badhein', meaning that 'Let us all grow together'. It creates around 6 million sustainable livelihoods.

Its renewable energy consumption stood up to 41% of its total energy consumption. Its high environmental focus is demonstrated by being water positive, carbon positive, solid waste recycling positive for more than a decade. Its hotels are LEED Platinum certified and majority buildings are rated green. With such initiatives, it exhibits global sustainable practices.

Source: https://www.itcportal.com/ Accessed on 25/10/2021

Goals

A strategy should specify the goals and objectives of the organization. It should also clearly specify the dimension in which performance has to be accomplished, like the increase in volume, growth of market share and return on investment.

Resource Allocation

Any organization has limited financial and human resources. A good strategy specifies how these limited resources are to be optimally allocated throughout the organization. The company should consider various businesses, functional units and product markets before allocating the resources.

Sustainable Competitive Advantage

Sustainable competitive advantage can be defined as an organization's relative advantage over competitors in the market that usually results from its core competency. A good strategy specifies how an organization can compete in each of its businesses. It should also specify how a company can position itself in the product market and how it can sustain its competitive advantage over present and potential competitors. For this purpose, a company should identify its core competencies and strengths with respect to its competitors.

Synergy

Synergy is defined as "the combined effort of many groups working toward a common goal". It exists among the company's businesses, market segments and resource allocation and they strengthen one another. Synergy helps enhance the total performance of the related businesses. For this purpose, strategy should be formulated in order to exploit the potential sources of synergy across the businesses.

1.4.2 Levels of Strategy

Generally, people believe that strategy formulation is the responsibility of the top management alone which is untrue. Strategy formulation can take place at all levels. In some organizations, strategy formulation involves the senior executives, middle level managers and also lower level supervisors.

Based on the organizational level, strategy can be broadly classified into corporate level strategy, business-level strategy and functional level strategy.

Corporate Level Strategy

Corporate strategy is the strategy that deals with a company's overall objectives. It acts as a game plan for a company that is involved in many businesses and is used to manage these various businesses. Corporate level strategy depicts the moves made to establish or strengthen the position of a company in the market.

The strategic issues that are dealt with are:

- What businesses are we in?
- What businesses should we enter into?
- What is the quantity of resources we can allocate to each of these businesses?

The corporate level strategy can be formulated based on the following four initiatives:

Diversifying:

The type of corporate strategy to be followed depends on:

- The number of businesses
- The type of businesses a company is presently in
- What businesses it should enter into in future.

The management should define its path of entry into a business or an industry, i.e. through acquisitions or through a new establishment. The management has the choice of acquiring a company which is an established market leader or an emerging company or a company making losses but with potential for a turnaround. The corporate strategy should specify whether the company plans to diversify into related or totally unrelated businesses.

> **Example**
>
> Disney, for instance, uses acquisition and mergers as a strategy to diversify and expand. By 2021, the company acquired around 19 companies including Fox, Pixar and Marvel, ESPN. Recently in (2019) it acquired 21st Century Fox and launched Disney + in November 2019 giving a very tough competition to its rivals[1].

Coordination between various businesses:

For better coordination the corporate strategy of the company should undertake the following activities:

- It should focus on strengthening the position of the company throughout its businesses.
- It should focus on improving the overall performance of the company.
- It should help its subsidiary companies in the financial, operating and managerial aspects, apart from sharing resources, knowledge and expertise.
- It can employ rapid growth strategies for its most promising businesses, acquire a company in the same industry and strengthen its current market position or acquire a company which can provide the skills that are missing and managerial know-how.

Identifying strategic fit to find a competitive advantage:

"Strategic fit," in terms of business planning indicates how well a company's objectives and strategies match with its competencies and external environment. Generally, when a company diversifies into related businesses, it gains the competitive advantage of related technologies, common distribution channels, and similar operational characteristics.

> **Example**
>
> GE is one of the biggest conglomerates in the world, with businesses in energy, health, transport & finance. The GE crisis started in 2008 after the departure of Welch. Also due to diversification in unrelated business areas, its stock price plunged. Then it started divesting billions of dollars. It went back to its roots by cutting down a lot of jobs and dividends. By 2021 the company was managing its basic core businesses of aviation, power and healthcare and renewable energy.[2]

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[1] https://www.complex.com/pop-culture/2019/11/disney-acquisition-timeline

[2] https://www.investopedia.com/insights/rise-and-fall-ge/

Identifying priorities for allocating the resources:

The corporate strategy must identify the profitable businesses as this helps the company to allocate resources to such businesses. A business that is unproductive or operating in an increasingly unattractive industry needs to be divested. Corporate level strategy may also involve the divestiture of businesses

Business Level Strategy

The strategy that deals with the company's plan of action to compete within its industry is called business level strategy. Business level strategy focuses on the approaches that can be used to enhance the performance of a business. The main aim of a business level strategy is to develop and sustain the competitive position of the company in the market in the long-run.

At this level, the strategy deals with issues like:

- How should a company compete in its industry?
- What does a customer need?
- What are the customer's expectations? .

The following aspects should be considered when formulating a business level strategy:

Responding to changes in the environment:

Business level strategy is formulated after taking into consideration the internal and external environments. An ideal business level strategy will be in sync with the changes in the environment. The managers must take actions that are appropriate to the internal and external situations; as the internal situations of the company change, the strategy also needs to be modified accordingly.

Attaining sustainable competitive advantage:

Business strategy should be formulated to help a business attain sustainable competitive advantage. A sustainable competitive advantage helps a business to yield above average profits and gain market share. For the purpose of achieving a competitive advantage, the business should:

- Identify the product/service attributes that can offer a competitive advantage
- Develop unique capabilities that are not present in the competitors
- Protect the business from the tactics of competitors and threatening developments in the market.

A business can adopt either an attack or defense strategy to deal with the challenges made by competitors:

- An attack strategy is an aggressive approach of directly challenging the competitors. It is a proactive strategy.

- A defense strategy focuses on the counter actions to be taken to deal with the competitive pressure and competitors' tactics. The defense strategy is a more reactive strategy and it focuses on retaining the present position of the business.

The common competitive advantages are:

- To be the low-cost producer in the industry
- To develop distinguishing characteristics like superior product/service quality, enhanced performance, etc.
- To concentrate on a narrow niche market and gain dominance in that market.

Developing distinctive competencies:

An ideal business level strategy aims at developing distinctive competencies. A distinctive competence in one or more areas gives a business initial success that can be developed into a competitive advantage for the business in the long run. Technological innovations, defect-free manufacturing, superior and specialized marketing or other features that are distinct from the other players in the market will help the company in developing such competencies. *Coordinating strategic initiative of various functional units*:

Business level strategy must aim at coordinating strategic initiatives across various functional units of the organization. The synergy among various functional units enhances the effectiveness of the strategy.

Dealing with the strategic issues of the business:

The manager should take care that the supporting strategies of each of the main functional areas in the business are well defined and are in harmony with each other. The top management's approval must be obtained for implementing major strategic actions. The top management should also be informed of the developments, modifications and revisions in the strategies.

Functional Level Strategy

A strategy formulated to focus on the smallest unit of a business, i.e. product or market is called functional level strategy. Functional level strategy focuses on the functional unit, department, or a process within a business. Functional level strategy has a narrow focus when compared to corporate and business level strategies.

It focuses on developing and enhancing the competencies that play a vital role in strengthening the company's position in the market. When formulating a functional level strategy, managers work closely with subordinates and give priority to each activity performed by the functional unit. Therefore, marketing strategy, financial strategy, product development strategy, personnel strategy, and production strategy should work in collaboration, rather than focusing on individual functional objectives. A company makes effective use of the combination of three levels of strategy. Each level of strategy complements and supports the other two levels.

Check Your Progress - 2

5. Which of the following is not a component of a good strategy?
   a. Scope
   b. Goals
   c. Resource Allocation
   d. Unsustainable competitive advantage
   e. Synergy
6. For an organization, which of the following corporate level strategy initiatives deals with the issues pertaining to types of businesses it is currently operating and what future businesses it should enter
   a. Coordination between various businesses
   b. Diversifying
   c. Identifying strategic fit to find a competitive advantage
   d. Identifying priorities for allocating the resources
   e. Divestiture of businesses

1.5 Evolution of Strategic Management

Strategic management has been vaguely defined as a systematic approach of relating strategic planning and decision making with the everyday operations of the business. Strategic management can be better understood by analyzing the planning phases in organizations. McKinsey conducted a study (2000) of planning systems followed by several large firms and found that there are four phases of planning from which strategic management has evolved. They are as follows:

1.5.1 Phase I

The first phase of planning is basic financial planning. In this phase, planning is considered as a financial activity alone.

The characteristics of Phase I are:

- In financial planning, forecasts about costs, revenues and the capital requirements are made.
- The forecasts are made on a yearly basis and the actual expenses are regularly compared with the forecasted costs.

- Many organizations initially follow phase I planning and are successful in their businesses.
- Though these organizations lack a formal planning system, they have an inherent strategy formulated generally by the CEO and a few senior level managers.
- The superiority of the strategy determines the level of success of the organization.

1.5.2 Phase II

The second phase of planning is forecast based planning. As organizations expand operations, it is difficult to adopt phase I planning. Large organizations have to consider the number of products, target markets and the level of technology used in planning. When the managers find it difficult to prepare the financial plans or make intuitive decisions taking into consideration several factors, they resort to forecast based planning.

The characteristics of Phase II are:

- Phase II planning does not differ much from phase I planning, except that in this kind of planning, scientific tools such as trend analysis, regression models and simulation models are used. These tools are used to extrapolate the plans.
- Phase II planning introduces the basic concept of strategic planning.
- In this phase, not much importance is given to financial budgeting; the focus is more on how to deal with the strategic issues faced by the management.
- A strategic issue can be identified by sensitivity analysis, gap analysis, or contingency planning.
- An important activity in phase II planning is the optimal allocation of resources.
- This ensures that there is proper flow of capital and other resources among the various business units of a company. For this purpose, the company uses portfolio analysis as a tool.

1.5.3 Phase III

The third phase of planning is externally oriented planning. This involves the analysis of the internal and external environments and competitive strategies of the business. Unlike the deterministic, static phase II plans, phase III plans are dynamic.

The characteristics of phase III planning are:

- The allocation of resources is dynamic.

- The plans are creative. Rather than adopting standard plans like investing for growth, phase III plans look for creative ways to develop a business.
- Plans here, try to define and satisfy the customer needs in new and innovative ways, which allow the introduction of new products or services and enable a company to compete effectively.
- The effectiveness of a strategy can only be measured once the results are obtained.

The activities a manager has to conduct in Phase III are:

- Identify opportunities to make the business successful.
- Develop new capabilities that will help to improve the ability of the company to satisfy the requirements of the customer or by redefining the market segment.
- Identify alternatives and present them to the top management for selection of the best alternative, some of which are highly risky but highly rewarding.
- Provide innumerable alternatives on several issues to the top management.
- The top management in such situations tends to feel that most of the issues pertaining to the firm are dealt with by the managers from the lower levels of the hierarchy. Thereby they can devote more time on critical aspects.

1.5.4 Phase IV

Phase IV combines strategic planning and management into a single process. In this phase, planning is not considered as a once-a-year activity; it becomes an integral part of the management.

The characteristics of phase IV planning are:

- The main characteristic that differentiates phase IV from the other three phases of planning is the effort made to relate strategic planning with decision making at the operational level.
- A well-defined strategic planning framework
- Extensive capability to think strategically
- A planning process that requires a negotiation of objectives based on reasonable alternatives
- A performance review system that holds the attention of the top management on strategic issues
- A system to motivate the employees.

1.5.5 Components of Strategic Management

Strategic management is a series of decisions and activities that determine the performance of an organization in the long run. It involves three components, namely, strategic analysis, strategic choice and strategic implementation.

Strategic Analysis

Strategic analysis focuses on understanding the strategic position of the business. This analysis should be designed to answer the following questions:

- What are the changes taking place in the business environment?
- How will these changes affect the company and its activities?
- What are the resources required to meet these changes?
- What do the top-level managers wish to achieve?

The characteristics of strategic analysis are:

- The main purpose of strategic analysis is to observe, collect and forward information about the internal and external environments of a business to the top level management.
- It identifies the key factors that affect the business and its future operations. Generally, this analysis consists of a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis that identifies the strategic factors.
- The strengths and weaknesses determine the internal factors while the opportunities and threats determine the external factors that are beyond management's control.

Strategic Choice

Strategic choice involves selecting an option from various strategic options identified and formulating a strategy based on this. The strategic choice is made for optimally utilizing the opportunities and reducing the threats in the business environment. Strategic choice has three characteristics and they are:

- Identification of options that are unique and not always obvious.
- Evaluation of the options being based on either building on the strengths or on overcoming the weaknesses of the company.
- Selection of a strategy that will enable a company to utilize the opportunities within the environment and sustain the competitive advantage.

Strategic Implementation

Strategic implementation is also referred to as tactical planning as it deals with the day-to-day activities that need to be performed. Strategic implementation involves the implementation of the strategies and policies through the development of plans, budgets and processes.

Plans:

A plan is a series of activities that needs to be performed to achieve the strategic goals of the company. It makes the strategy action-oriented. It involves restructuring the organization, changing the culture of the organization, etc.

Budgets:

A budget is the forecast in financial terms, of the costs of implementing the plan. It is generally used in planning to determine the cost of each activity or program. Many organizations set a minimum amount of return on investment, generally called the 'hurdle rate,' before getting the approval of the management of a new plan or activity. The budget ensures that the new plan enhances market performance and builds the market share of the business. A budget also helps to forecast the financial situation of a business.

Processes:

A process is the detailed description of how the activities are to be performed in order to achieve the organizational objectives. The processes are generally several activities that need to be performed as part of the plan.

Check Your Progress - 3

7. Which of the following differentiates the focus on the components of a strategy?
   a. Nature of goals
   b. Number of resources
   c. Level of strategy
   d. Technology support
   e. Geographic applicability of strategy
8. Which of the following is an aspect of corporate level strategy?
   a. Coordination between various businesses
   b. Coordinating strategic initiative of various functional units
   c. Focus on smallest unit of business
   d. Responding to changes in the environment
   e. Conducting a survey on changes in customer behavior
9. Which of the following is **not** a phase of planning from which strategic management has evolved?
   a. Financial planning
   b. Forecast based planning

   c. Internally oriented planning
   d. Externally oriented planning
   e. Strategic planning and management

10. Which of these is a component of strategic management?
    a. Strategic interpretation
    b. Strategic choice
    c. Strategic assessment
    d. Strategic study
    e. Strategic evaluation

1.6 Strategic Marketing

Strategy and marketing should work in tandem for the success of a company. Strategic marketing is the dynamic process of strategy development taking into consideration the constantly changing market environment and the vital factor of customer satisfaction.

Exhibit 1.2 illustrates the strategic marketing of Philips Professional Display Services on how it communicated its rebranding exercise to its customers in the North American Market.

Exhibit 1.2: Strategic Marketing at Philips Professional Display Services

Philips Professional Display Services is a world class technology firm. It provides solutions that improve the lives of consumers, it caters to approximately 400 million 'underserved communities'. Philips Professional Display Services was rebranded to PPDS in the North American Market. By the year 2030, it wants to help more than 2.5 billion lives per year. Over the past 20 years,

For a company like Philips with a diversified product portfolio, it became necessary to communicate a proposition of business to necessary target audiences and other stakeholders. The communication of its rebranding and repositioning gave more clarity to its target audience in the market.

The following were its strategic marketing initiatives:

- During 2021, as part of its growth strategy, it wanted to rebrand its 'Philips Professional Display Solutions' company as 'PPDS' in North America.
- It showcased PPDS as a new visual identity for its North American market.

Contd. ……

- It was growing at a faster pace in the Global AV market, providing Professional TV solutions, LED and digital signage products.
- It is the exclusive seller of Philips Display products.
- By rebranding exercise, Philips conveyed PPDS as an evolutionary advancement of Philips.
- It positioned it as a customer and industry supportive business and a forward-thinking company.
- As part of its new brand strategy, Philips wanted to give more momentum to its core strategic businesses.
- It provided enhanced value to the consumers and AV industry as a whole.
- It was growing exuberantly over the past 20 years.
- It wanted to create more value to its stakeholders.
- These rebranding and repositioning exercises gave more clarity to its target audience in the North American Market.

Source: https://www.mytechmag.com/news/philips-professional-display-solutions-announces-rebranding-as-ppds-to-reflect-new-total-solutions-strategy-for-the-av-industry-in-north-america-2138.html Accessed on October 20, 2021

1.6.1 Advantages of Strategic Marketing

Strategic marketing gives a competitive advantage to business. It helps the business survive in an intensely competitive environment. The main aim of any business is to create long-term financial value, i.e. to earn profits. Strategic marketing helps organizations to earn monetary profits.

Differences between Strategic Marketing and Marketing Strategy

Many managers use strategic marketing and marketing strategy as synonyms. However, they are not the same. Marketing strategy is a part of strategic marketing. Table 1.1 depicts the main differences between strategic marketing and marketing strategy.

Table 1.1: Differences between Strategic Marketing and Marketing Strategy

Strategic Marketing	Marketing Strategy
● Strategic marketing is the formulation of a strategy taking into consideration the constantly evolving trends in the business environment and by giving customer satisfaction utmost importance.	● Marketing strategy is the analysis, development and implementation of the selected market target strategies for product markets in which the organization has an interest. *Contd. ……*

● It involves monitoring the environment constantly to identify the changes and to modify the strategy accordingly. ● It focuses on the performance of the organization as a whole. ● It views marketing as the key activity of the entire business rather than the specialized function. ● Strategic marketing has a broader perspective, i.e. it is concerned with the changing trends in business, changes in consumer needs and customer satisfaction. ● It is about 'how' to do.	● It involves implementing and managing the marketing strategies that have been formulated to meet the marketing objectives and customer needs. ● It focuses on the performance of a product/service in the target market. ● It combines the customer-influencing strategies with market-focused activities to gain a competitive advantage in the industry. ● Marketing strategy has a narrow perspective: it is concerned with the customers, organizational boundaries, market and competitors. ● It is about 'what' to do.

Adapted from Cravens, David W, "Strategic Marketing", 10th ed., ebook, McGraw Hill/Irwin, 2021.

Activity 1.2

ABC Automobiles Ltd., (ABC) is a leading automaker in the US. Of late, the company is facing increasing competition from Japanese automakers in the US. In order to regain its market leader position, ABC adopted a new product strategy and launched a sports car that had a spunky image with innovative features. The car was targeted at youth. This strategy worked in its favor and within a year, ABC was able to regain its market leader position. Identify and discuss the strategy adopted by ABC. Also state its advantages.

Answer:

1.6.2 Strategic Marketing Process

The strategic marketing process involves marketing analysis, designing a marketing strategy, marketing program development and implementing and managing marketing strategy.

1.6.3 Marketing Analysis (Internal Analysis of the Organization)

The first step in the strategic marketing process is marketing analysis which involves analyzing ‘where’ an organization stands in its marketing function. A systematic marketing analysis helps an organization to compete effectively in turbulent markets. Marketing analysis involves identifying the internal dynamics of the firm in terms of finances and operations.

This analysis acts as a basis on which a marketing strategy can be formulated. Marketing analysis covers the following:

Marketing audit and SWOT analysis: Its key aspects are:

- Marketing analysis involves the use of marketing audit and SWOT analysis. Marketing audit is a tool for keeping track of an organization’s current market situation, operations and its ability to cope with changes.
- It provides valuable insights for effective strategy formulation like past marketing successes and failures. The SWOT analysis, on the other hand, brings to light the organization’s strengths and weaknesses. This ensures that an organization builds on its strengths and minimizes its weaknesses.

Marketing costs and financial analysis: Its key aspects are:

- Financial analysis helps in identifying the available resources and how they can be optimally utilized. Financial and operational analysis gains much importance when an organization has many alternatives (marketing activities) and at the same time has limited resources. This analysis helps in selecting the best viable alternative.
- The financial and operational analysis involves marketing cost analysis, customer profitability analysis, financial situation analysis, identifying the key financial ratios, contribution analysis and a model for financial analysis.

1.6.4 Analysis of Marketing Situation (External Analysis of the Organization)

The second step in the strategic marketing process is analysis of the market environment, which includes the socio economic conditions of the market and competitors. The market situation analysis ensures that an organization has up-to-date information about the markets and the changes in the marketplace. The marketing situation analysis covers the following topics:

Market and environmental analysis: Its key aspects are:

- An organization cannot formulate a marketing strategy isolating itself from the market. The analysis of the market and the environment plays a vital role in strategic marketing. A market is a place where an organization sells products that people are willing to purchase.
- The organization cannot be successful unless it is able to identify or meet the requirements of the customer. An analysis of the environment will help the organization to identify the changes in the political, social, economic, and technological fields, as they have a major effect on the business. This analysis also helps the organization to identify attractive opportunities to enter new markets and to exit from unattractive markets.

Competitor analysis: Its key aspects are:

- Competitor analysis is another important activity in strategy formulation. The strategy should be designed to exploit the weaknesses of the competitors and thrash their strategic moves. For this, the competitor analysis is very important. This involves the analysis of the competitors' strengths, weaknesses, limitations and opportunities.
- Competitor analysis involves the analysis and evaluation of every competitor individually. This analysis brings out the key issues of the competition, their competitive advantages and the areas in which they have an advantage. The main aspect of competitor analysis is in identifying how a competition is going to affect one's business in the future.

Customer analysis:

The main focus of any marketing activity is the customer. The main task of marketing is to identify and satisfy the needs of the customer. Customers differ in their age, gender, sex, buying behavior, needs and preferences. This makes identifying customer needs a complicated process.

Learning in marketing organization:

For any business to succeed, it should be in constant touch with its environment, i.e. the markets. In other words, a business should continuously learn about markets and competitors. The main aim here is to identify and understand the changes in the market. The continuous analysis helps businesses to anticipate and exploit opportunities and meet the challenges of the competitors.

1.6.5 Designing/Formulating Marketing Strategy

The third step in the strategic marketing process is the formulation of marketing strategy. Insights about the internal and external environment act as inputs for the formulation of a marketing strategy.

The formulation of marketing strategy covers the following topics:

Segmenting markets:

Market segmentation is a tool to identify various needs of the buyers in the market. The main aim of segmenting markets is to differentiate and classify various buyers, depending upon their specific needs. Segmentation helps organizations to focus their efforts on a segment for a given product or service.

Targeting and positioning strategies:

After identifying the segments, an organization should select the targeting strategies. Targeting strategies allow an organization to define the market it wishes to serve. Targeting strategies help the organization in setting marketing objectives and in developing positioning strategies. Positioning strategies are various combinations of the seven Ps of marketing that help an organization to position itself strongly over key competitors in the market.

Relationship strategies: Its key aspects are:

- The aim of relationship strategies is to achieve customer satisfaction with the joint efforts of various parties involved. The underlying idea of these strategies is that an organization can maximize its customers' satisfaction and ability to cope with changing environments by collaborating with its business partners.
- Relationship strategies emphasize the need for relationship marketing. With the increasing demands of the customer and cut-throat competition in the market, organizations need to develop long-term relationships with their suppliers, distributors, etc., to provide superior customer service.

Generic strategies:

Generic strategies deal with factors that affect the marketing strategy of an organization. Michael Porter identified three generic competitive strategies, namely cost leadership strategy, focus strategy and differentiation strategy.

New product planning:

In order to keep up with the changing customer needs, businesses need to regularly come up with new products. New product planning therefore should meet the requirements of the customer. The key issues in planning for new products are collecting and evaluating ideas and selecting potential ideas for product development. It then involves designing marketing programs and testing the products before taking up product development on a large scale.

1.6.6 Marketing Program Development

The fourth step in the strategic marketing process is the development of a marketing program. The aim of the marketing program is to optimally allocate resources to the markets, customers, and products effectively and efficiently.

Marketing program development includes the following topics:

Product branding and customer service strategies:

Organizations should be aware of customer perception of their products and their expectation of a product/service, etc. This kind of information helps them to develop plans for new products and management of successful products. A product strategy should help in creating a brand name and maintaining product quality.

Pricing strategy:

Pricing plays an active role in the marketing strategy. It is vital for positioning a product or a service. The pricing strategy analyzes a change in prices, the pricing of competitors, etc. Some organizations focus on the price, while some focus on other factors of the marketing mix, like product, quality, etc.

Advertising and sales promotion strategies:

Advertising strategies are used to communicate product information to the customer. The main aim of promotion is to position the product appropriately in the market. A promotional campaign informs potential customers about a product and reminds and convinces them to purchase the product.

Public relations and direct marketing strategies:

One of the main activities in marketing is product-related communication. Therefore, public relations (PR) play a vital role in developing a successful marketing program. An organization should use its PR optimally in its marketing program.

Sales force strategies:

It is the sales force that actually engages with customers and drives revenue for the company. Sales force strategies should be designed to complement the marketing strategies of the organization. A strategic plan for sales would help a company in evolving various steps to ensure that the salesmen make a sale.

Distribution strategy:

Buyers can be contacted directly or by intermediaries like wholesalers, retailers, etc. This strategy mainly deals with the distribution channels an organization should adopt in order to compete more effectively in the marketplace.

1.6.7 Implementing and Managing Marketing Strategy

The final step in the strategic marketing process is implementing and managing the marketing strategy.

Strategic issues in marketing:

Marketing is an organizational activity that is not very easy to plan and control. A marketing activity basically involves forecasts and expectations.

Designing effective marketing organization:

An effective marketing organization provides a supportive environment for marketing. An organization should be designed to support the marketing strategies of the organization. An effective organization design should support people in achieving their marketing objectives. An effective marketing organization should be flexible and dynamic to adopt the changes in the market or the strategic requirements.

Marketing strategy implementation and control:

A marketing plan contains details regarding the targeting, positioning and various marketing mix activities. It is a blueprint of 'what is to be done, who is responsible and what are the costs involved.' For the implementation to be effective, important aspects like the skills of the people involved, organizational design, etc. should be considered. After the implementation, the plan should be evaluated and proper feedback must be obtained.

Check Your Progress - 4

11. Which of the following is **not** an advantage of strategic marketing?
    a. Competitive disadvantage
    b. Competitive advantage
    c. Monetary profits
    d. Learning
    e. Competencies and strength

1.7 Summary

- Marketing is the process of identifying and developing products that suit the needs of the customer even as the organization makes profits.
- The marketing mix is a unique combination of the four Ps of marketing, namely, product, price, place, and promotion. After taking into consideration the other factors that affect business, another three Ps –

people, physical evidence and process management have been added to the four Ps.

- There are five basic concepts in marketing, namely, the production concept, product concept, selling concept, marketing concept and the societal marketing concept.
- Production-oriented organizations focus on low cost and high availability of products. These organizations feel that high availability creates its own demand.
- Product-oriented organizations focus on the quality of the product. These organizations believe that buyers prefer quality products to low cost products.
- Selling-oriented organizations believe that products need to be advertised and aggressively sold. These organizations believe that when left alone, buyers do not purchase enough of an organization's products. They therefore focus on the selling concept.
- The marketing concept focuses on customer satisfaction and customer requirements.
- The societal marketing concept focuses on the ethical issues of an organization while marketing.
- For an organization to be successful, the marketing plan has to be aligned with corporate strategy.
- Strategy helps an organization to use the resources optimally. Business strategy helps to plan with the objective of achieving long-term objectives.
- The components of a well-defined strategy are scope, goals, resource utilization, sustainable competitive advantage and synergy.
- There are three levels of strategy, namely corporate level strategy, business level strategy and functional level strategy.
- Corporate strategy deals with strategy formulation and planning at the top level. It is about coordinating activities across various businesses.
- Business level strategy deals with the strategies that allow a company to deal with competition in its industry or business.
- Functional level strategy deals with the strategy for a particular product or market.
- The strategic management process involves strategic analysis, strategic choice and strategic implementation.

- Strategic marketing is the process of strategy development by regularly considering the marketing environment and customer satisfaction. It gives an organization the competitive advantage over its rivals.
- Marketing strategy involves identifying the marketing objectives and developing and implementing marketing programs.
- The strategic marketing process involves the marketing analysis, analysis of the marketing situation, designing/formulating a marketing strategy, market program development and implementing and managing marketing strategy.

1.8 Glossary

Budget: A budget is a forecast in financial terms, of the costs of implementing the plan. It is generally used in planning to determine the cost of each activity or program.

Business Level Strategy: The strategy that deals with the company's plan of action to compete within its industry is called business level strategy.

Corporate Level Strategy: The strategy that deals with coordinating various activities across different businesses is called a corporate level strategy.

Corporate Strategy: The strategy that deals with a company's overall objectives is defined as a corporate strategy.

Functional Level Strategy: A strategy formulated to focus on the smallest unit of a business, i.e., a product or a market is called functional level strategy.

Marketing: According to the American Marketing Association, marketing is defined as the organizational activities of creating, communicating and delivering value to the customers and its stakeholders.

Plans: Plans are a series of activities that need to be performed.

Processes: A process is a detailed description of how the activities are to be performed in order to achieve the organizational objectives.

Strategic Management: Strategic management is a systematic approach of relating strategic planning and decision making with the everyday operations of the business.

Strategic Marketing: Strategic marketing is the dynamic process of strategy development taking into consideration the constantly changing market environment and the vital factor of customer satisfaction.

Strategy: Strategy is a fundamental pattern of present and planned objectives, resource deployments and interactions of an organization with markets, competitors and other environmental factors.

Sustainable Competitive Advantage: Sustainable competitive advantage can be defined as an organization's relative advantage over competitors in the market that usually results from its core competency.

Synergy: Synergy is the combined effort of many groups working towards a common goal. It helps enhance the total performance of the related businesses.

1.9 Self-Assessment Test

1. Define marketing and its different concepts. Also discuss the role of marketing in business.
2. Define strategy and its purpose. Explain in brief the components of a strategy.
3. Explain the evolutionary phases of strategic management and various components of strategic management.
4. Explain strategic marketing and its advantages. Enumerate the differences between strategic marketing and marketing strategy. Explain in detail the strategic marketing process.

1.10 Suggested Readings / Reference Material

1. Cravens, David W, "*Strategic Marketing*", 10th ed., ebook, McGraw Hill/Irwin, 2021.
2. O. C. Ferrell, Michael Hartline, Bryan W. Hochstein, "Marketing Strategy", 2021, Cengage South-Western.
3. Strategic Marketing : Making Decisions For Strategic Advantages by Musadiq A. Sahaf, PHI Learning, 2019.
4. Alexander Chernev, Philip Kotler, "Strategic Marketing Management", Cerebellum Press, 2018.
5. Srinivasan R, Lohith C P, 2017, Strategic Marketing and Innovation for Indian MSMEs, Springer.
6. O. C. Ferrell, Thomas W. Speh, 2017, "Marketing Strategy, Loose-Leaf Version", Cengage Learning.

1.11 Answers to Check Your Progress Questions

1. (a) Societal production concept

Every business is associated with one of the five concepts: production concept, product concept, selling concept, marketing concept and societal marketing concept. Hence a business is not associated with a societal production concept.

2. (b) Improving production efficiency

Production-oriented businesses focus on improving production efficiency, reducing costs and increasing the availability of the product.

3. (e) **Societal marketing concept**

   The societal marketing concept focuses on the ethical issues to be considered in marketing.

4. (c) **Ensure maximum customer satisfaction**

   The role of marketing in a business is to ensure maximum customer satisfaction. The other options do not directly support this objective.

5. (d) **Unsustainable competitive advantage**

   Scope, goals, resource allocation, sustainable competitive advantage, and synergy are the five components of a good strategy. Hence, the unsustainable competitive advantage is not a component of a good strategy.

6. (b) **Diversifying**

   The Diversifying initiative deals with types of businesses the organization is currently operating and which businesses it is going to enter in future.

7. (c) **Level of strategy**

   Based on the level of strategy formulation, the focus on the components of a strategy differs.

8. (a) **Coordination between various businesses**

   The corporate level strategy can be formulated based on four initiatives, which are as follows: Diversifying, Coordination between various businesses, identifying the strategic fit to find a competitive advantage and identifying the priorities for allocating the resources.

9. (c) **Internally oriented planning**

   There are four phases of planning from which strategic management has evolved. They are as follows: financial planning, forecast based planning, externally oriented planning and strategic planning and management. Thus internally oriented planning is not a planning phase from which strategic management has evolved.

10. (b) **Strategic Choice**

    Strategic management involves three components, namely, strategic analysis, strategic choice and strategic implementation. The other options given are not valid components of strategic management.

11. (a) **Competitive disadvantage**

    Strategic marketing gives a competitive advantage to the business. It helps the business survive in an intensely competitive environment. The main aim of any business is to create long-term financial value, i.e. to earn profits. Strategic marketing helps organizations to increase revenue and profits.

Unit 2

Marketing Strategy and Planning

Structure

"In marketing I've seen only one strategy that can't miss - to market to your best customers first."

- John Romero

2.1 Introduction

As rightly quoted by John, companies have to keep on changing to meet changing tastes and preferences of its consumers, especially its best customers. Marketing strategy forms the foundation of a well formulated marketing plan. In fact the marketing plan provides the strategy and spells out the meticulous details of achieving the strategic objectives.

A marketing plan, which is a part of the overall business plan, is a written document that clearly spells out the action plan for the achievement of long-term marketing objectives of the company.

The previous unit explained the evolution of strategic marketing management, its relevant concepts and its role in business.

This unit discusses the marketing strategy in detail and the planning that is required for formulating and implementing a marketing strategy.

2.2 Objectives

After reading through this unit, you should be able to:

- Explain the criteria that help a firm in deciding how to compete in the marketplace.
- Discuss the concept of market-orientation as a strategy to enhance customer satisfaction.
- Appreciate the link and the need for alignment between business strategy and marketing strategy for perfect business plan execution.
- Elaborate on how firms carry out a marketing situation analysis by conducting a thorough examination of internal and external factors that affect business.
- Elucidate the various components of marketing strategy and explain how it is designed.
- Explain the marketing planning process and state the various hindrances that come across in implementing the marketing plans.

2.3 Deciding How to Compete

A firm's decision on how to compete has an effect on the activities to be performed, responsibilities to be undertaken, skills and resources to be acquired, etc. And strategy plays a vital role in deciding how to compete in the market. The success of a business in any industry depends upon the vision and competitive advantage it has.

2.3.1 Mission & Vision

Mission

The best mission statements are those that connect with both employees and customers and build brand loyalty by communicating the core values of the brand. A mission is the basic purpose for which one is in a business, whereas a vision is *where* a company expects to be in future.

Vision

Vision guides a business and its intentions for the future. An organization without a vision is likely to react to situations rather than being proactive and identifying opportunities. To make an effective choice, a business should have in-depth knowledge of the requirements, trends and competition in the market.

The vision of a business determines its choices regarding:

- Where to compete?
- Where not to compete?
- When to compete?
- How to compete?

A company's vision can be realized only if there is proper leadership. Leaders have to communicate the vision for the organization to the employees and involve them in the pursuit of the vision. The vision of a leader should be built on a proper value system.

The characteristics of a proper vision are:

- **Informed:** A vision should be based on a proper understanding of the company's business and serve as the basis of strategic plans of the company.
- **Shared:** An organizational vision is more powerful than the strong conviction and motivation of an individual. Therefore, in order to realize a vision, the leader should share it at all levels of the organization.
- **Competitive:** The vision should create a passion in the employees for winning the competition. It should help a business to set objectives and measure the achievements against the objectives. It should also serve to constantly motivate the organization to perform better and gain a competitive advantage.
- **Enabling:** A vision can only be realized if the managers of the organization have the proper authority to deploy strategies and tactics in the market. The managers should identify the opportunities and threats based on the vision of the organization.

Exhibit 2.1 demonstrates the best aspects of Tesla's Mission and Vision statements. It also narrates the inspiring story of Tesla, how it transitioned to a global company with sustainable goals.

Exhibit 2.1: Tesla's Growth: Vision and Mission Statements

Tesla's inspiring story starts way back in 2003, with a small group of engineers creating it. They demonstrated their passion towards Electric Vehicles (EVs) to the world. They also exhibited more sustainable initiatives for a less emission better future. Their passion was also reflected in the mission and vision statements of the company.

The Mission of Tesla is "to accelerate the world's transition to sustainable energy".

The Vision of Tesla is "to create the most compelling car company of the 21st century by driving the world's transition to electric vehicles[3]."

The sustainable practices of Tesla aimed at its mission & vision are:

- Tesla's 'Roadster' showed the world the power of battery technology using electric power in 2008.

Contd. .....

[3] http://panmore.com/tesla-motors-inc-vision-statement-mission-statement-analysis

- Tesla launched Model S, the World's first premium sedan which is fully electric powered in 2012.
- Followed by Model X in 2016, the safest car with 5 star safety rating from National Highway Traffic Safety Administration-NHTSA.
- Later in 2017 the company launched a low priced electric vehicle Model 3. It became the best selling car in Europe, with a sales of 24,600 units across 26 countries, in 2021.
- Tesla's semi-truck would offer its consumers savings of $ 2 lac per million miles through fuel costs. In 2019, it introduced Model Y which is an SUV in the medium size category.
- Tesla had manufacturing facilities in California and Shanghai. Apart from vehicles, it also produces energy solutions like Solar Roof, Power Pack and Powerwall.
- Through these sustainable products, it encourages consumers to use renewable energy. Its 'Gigafactory 1' works on reducing battery cell costs, with in-house battery cell manufacturing.

Through all the above mentioned sustainable practices it transitioned to a global company. Tesla ranked 100 in Fortune 500 rankings in 2020, with a profit of $ 721 million. Its sales brought $ 31.5 billion to the company with a hike of 28% in 2020.

Sources: (i) https://www.techdigest.tv/2021/10/tech-digest-daily-roundup-tesla-model-3-becomes-best-selling-european-car.html accessed on 29/10/2021.

(ii) https://fortune.com/company/tesla/fortune500/ accessed on 29/10/2021

2.3.2 Identifying the Competitive Advantage

The underlying idea of strategic marketing is that, to be successful, a business needs to have a competitive advantage over its rivals in the market.

A business can achieve competitive advantage over its rivals by offering superior value to the customers either by pricing the products low or by providing unique benefits at a premium price.

Activities for gaining a competitive advantage and achieving customer satisfaction are:

- The process of identifying the competitive advantage should focus on the customer.
- The analysis of the requirements of buyers with similar preferences should be considered.

- Identifying gaps in the services provided by the competitor's products/services and the requirements of the customer have to be identified.
- Identifying the unmet requirements of the customer helps in finding opportunities.
- The customer satisfaction analysis should be conducted aiming at identifying the opportunities to create and provide superior value.

To sum up, a company can gain competitive advantage by leveraging on its low cost advantage or product leadership position or by differentiating on quality and customer service or by even focusing on a certain market segment or niche,

Example

Consider Mercedes Benz, the world's best selling luxury brand. It is a product leader in the segment. It provides the most sophisticated technology and quality. It achieved over 2.2 million sales globally in 2020, including smart cars and marched ahead of BMW AG and Volkswagen AG's Audi. It was successfully crowned as the world's best selling luxury car brand for the fifth year in a row. It gained competitive advantage through product leadership.

Competitive Position-Introspection

Having a competitive advantage helps a business in gaining a large market share and profits and to build up such an advantage.

A company must first identify its distinctive competence or competitive advantage. Top management must identify the current advantages and drawbacks in the business, to utilize them in the future.

Top management spends an optimal amount of time introspecting the competitive position of the business. The introspection helps the business to simplify and give selective attention to the target markets.

There are two different approaches for identifying the competitive advantage, one of which focuses on the customer and the other, on the competitor.

Customer-oriented analysis:

In this analysis, the top management focuses on the benefits for the customer. In the customer-oriented analysis, the management works backward, i.e. starting from the customer, to identify the areas where customer value can be added. This customer-oriented analysis is more suited to industries wherein the products or services are hard to differentiate like investment banking, etc. The managers in such businesses pay attention to enhancing relationships with customers, customer satisfaction and customer loyalty.

Example

Consider Pizza Hut, one of the popular fast food chains. The ACSI[4] (American Customer Satisfaction Index) scores for limited service restaurant chains in the USA from the years 2000 to 2021 revealed that Pizza Hut was not rated very high with respect to customer satisfaction as compared to its competitors.

For the year 2021, the ASCI score for all limited service restaurants was 78. Pizza Hut had obtained a satisfaction score of 78 (2021).

- McDonald's was rated the least with a score of 70. 'Chick-Fill-A' was top rated with 83 points.
- The study also revealed that the customers of Pizza Hut are very happy with the offerings like very delicious food, usage of fresh ingredients which were handmade and of generous size.
- The study also found that the customers were quite unhappy with the price, as they felt it to be too expensive. It was not as widely spread as its competitors.

Competitor-centered analysis:

In this analysis, the top management compares its business directly with the businesses of a few target competitors. The analysis involves comparing the capabilities of and services provided by the company with those of the competitors.

Businesses that follow this approach, focus on cutting costs, deploying counter marketing tactics (like reducing prices, offering free products) and using sustainable technology. Managers in such businesses monitor the changes in the market and the moves of the competitors carefully as also their effect on the competitive position of the business.

In addition, the competitor-oriented and customer-oriented analyses help managers to analyze the market environment, collect the necessary information, screen and interpret them and as a result identify the competitive position.

Check Your Progress - 1

1. Without which of these, an organization is likely to react to situations rather than being proactive and identifying opportunities?
   a. Mission
   b. Plan

[4]https://www.theacsi.org/index.php?option=com_content&view=article&id=147&catid=&Itemid=212&i=Limited-Service+Restaurants accessed on 21/10/2021

   c. Vision
   d. Money
   e. Resources
2. Which of the following is **not** a characteristic of the vision of an organization?
   a. Informed
   b. Exclusive
   c. Competitive
   d. Enabling
   e. Shared
3. Competitive advantage helps businesses gain which of these?
   a. Large market share and more profits
   b. Less Profits and large market share
   c. Low market share and more profits
   d. More market share and less profits
   e. More profits maintaining the same market share

2.4 Market-Orientation

Many businesses are focusing on market-orientation in order to be successful. Market-orientation refers to a focus on the customer. It is the implementation aspect of the marketing concept. Here, the marketing concept refers to understanding the customer needs and meeting them. Market-orientation focuses on customer satisfaction rather than on competition.

The degree of market-orientation is directly proportional to the business performance of the company. It involves the use of the organizational resources to increase customer satisfaction. Market-orientation is an organizational culture that creates superior values for customers and superior performance for the business.

Exhibit 2.2 illustrates the Market Orientation Approach of Amazon.

Exhibit 2.2: Market Orientation Approach of Amazon

Amazon is the World's largest Online Retailer. It is the world's 2nd ranked company by Fortune 500 rankings, in 2021. Its revenue growth was 38% in the year 2020.

The amazing story of Amazon started way back in 1994, when its founder and CEO Jeff Bezos launched an online book store, later he incorporated Amazon in 2005. Then he increased the portfolio by adding more products

Contd. .....

year on year. It is a very market oriented company with 'Customer-Centricity' as its primary strategy.

Marking its 25 years journey, Jeff Bezos stepped down as President & CEO in July 2021. He is now the Executive Chairman and Andrew R. Jassy is the new President and CEO.

Customer Orientation:

The growth and development of Amazon is primarily due to great understanding towards its customers.

It consistently changes the processes and features towards addressing consumer concerns.

Some examples like introducing Amazon Locker - a network of self-pickup boxes for working people who are not available at home during package delivery.

The same day delivery option for most urban locations is a very great customer-friendly initiative.

It has annual delivery charges for most of its products giving good savings to its customers.

Its Prime subscription offers also lure the consumers.

Competitor Orientation:

Amazon's another important focus is giving a tough competition to its rivals.

With a huge focus on competitors, it is dominating the US e-commerce market with a majority market share of 40.4% keeping its competitors at a great distance, with Walmart at 7.1%, EBay at 4.3% and Apple at 3.7% market share respectively, by February 2021.

Hence, Amazon became World's largest e-retailer by its market orientation approach. It achieved a revenue of $ 113.080 billion by June 2021, leveraging its best weapon-technology.

Sources: i) https://fortune.com/company/amazon-com/fortune500/ Accessed on 29/10/2021
ii) www.investopedia.com/terms/m/market-orientation.asp Accessed on 29/10/2021
iii) https://www.statista.com/statistics/274255/market-share-of-the-leading-retailers-in-us-e-commerce/ Accessed on 29/10/2021
iv) www.macrotrends.net/stocks/charts/AMZN/amazon/revenue Accessed on 29/10/2021

2.4.1 Components of Market-orientation

In order to be successful, a business should provide superior performance and this it can do when it has a competitive advantage over its rivals. Initially, companies achieved competitive advantage on the basis of structural characteristics, like economies of scale, market share, product breadth, etc. In today's business environment, competitive advantage is achieved by the ability of a business to provide superior value consistently to its customers.

The three important components of market-orientation are customer focus, competitor focus and coordination across functions.

Customer Focus

The core value of market-orientation is focus on the customer. For a business to provide superior value to the customer, it has to understand the needs of the customer and analyze how they may evolve in the future. The employees of a market-oriented organization spend time on understanding customers' needs and give importance to customers' suggestions.

Some important aspects of market-oriented organizations are:

- The main aim of a market-oriented business is customer satisfaction. Such a business analyzes the buying behavior of the customer. A market-oriented business must identify the fact that the demand for the products is derived from the buyers' requirement of the product. A business should identify what the customers' needs are and provide them accordingly. Market-oriented businesses focus on meeting the requirements of their customers.
- A market-oriented business is concerned about the customer both before and after the sales. It constantly tries to improve customer satisfaction by providing superior product quality and excellent after sales service. This constant need for delivering superior value to the customer drives the management to hire only the best people.
- It takes care to retain the best people and provide them with regular training to upgrade their skills. A market-oriented business works closely with the customers to identify new ways to satisfy their requirements. Finally, such a business regularly monitors and tries to enhance customer loyalty.

Competitor Orientation

The process of creating superior value also involves the competitors, as the focus on the customers alone cannot result in superior value.

The characteristics of competitor-oriented companies are:

- A market-oriented business focuses on identifying its competitors, their strengths and the attitude of the customers toward such competitors.
- The business should also analyze how its existing customers perceive the competitors?

- What the switching costs for the customers (to switch from products of one company to another) would be?
- What kind of technologies are used by the competitors and the services provided by the competitors as alternatives to its own products/services?

In order to deliver superior customer value, a business should undertake the following:

- Identify the strengths, weaknesses, short- term plans and strategies of its competitors.
- Make effective utilization of competitor information.
- Make employees from all the departments and levels of the organization exchange information about the competitors.

Example

- Consider the case of Marriott International, which tasted success due to its intense focus on competitors. The Marriott group is known for its luxury class hotels. In a strategic move to make the Marriott experience affordable, it decided to start an economy chain of hotels. It collected information about customers' needs, the strengths and weaknesses of competitors, etc., by sending its employees to competitor's hotels.
- After a thorough analysis of this information, Marriott started a new hotel chain named Fairfield Inn. For many years, Fairfield Inn has been a well-established leader in the mid-economy segment. During the last two and half decades, the brand has shown outstanding performance and is known for its consistent high quality service.

Coordination across Functions

A business can create value for the customer at any point in the value chain. Therefore, every activity in the process of creating a product can result in value being added for the customer.

According to Michael Porter, every business unit, department, function, etc., has a role that should be described and understood. He adds that all the employees, irrespective of their position in the organization, should identify how they can help the firm in achieving and sustaining a competitive advantage.

A business can encourage a market-oriented culture by adopting a horizontal organizational structure. An organization with a horizontal structure involves small multi-functional teams that can work quickly and efficiently. This horizontal structure encourages coordination across various functions.

Coordination among various functions helps a business to deliver superior value to the customer.

2.4.2 Developing Market-Orientation

An organization should not just focus on formulating policies and on passing instructions down the management hierarchy, but should also consider the insights and suggestions given by the employees at other management levels. It should effectively combine the top-down instructions with the bottom-up insights and activities.The support of the top management is essential for a firm to become market-oriented.

However, the top management may not have a clear understanding of the information on hand about the marketing activities and tactics that deliver superior value to the customers. This may result in inaccurate strategy formulation. The top management should therefore involve the employees, who are in direct contact with the market environment or the customers, for the purpose of strategy formulation.

It must ensure that there is a smooth transition from a business to a market-oriented organization. An ideal method to develop market-orientation is by providing an environment that encourages contributions from employees to enhance customer satisfaction from all the levels of the management. The top management should guide the managers of the functional units to adopt a market-oriented culture and allow them to formulate strategies to enhance customer value.

The top management should take the responsibility and set some standards for customer satisfaction. It should also evaluate the performance of the organization in the market. The role of the top management should be supportive and instructive in the organization.

Apart from providing a supportive culture, there are two strategies for developing market-orientation in an organization. They are:

Planned strategy:

In the planned strategy, the managers adopt the market-oriented culture directly in the organization. The underlying idea of this strategy is that the organizational culture can be changed with a change in the beliefs and ideas of the individuals. Organizations adopting the planned strategy conduct regular change programs (programs that train employees to deal with the changes in the organizational culture) to bring about the change in the organization.

Adjust strategy:

The adjust strategy combines the effort of the management and the employees to create superior value for the customer. The organizations that adopt this strategy set performance standards, goals for improvement, etc. The adjust strategy enables an organization to make relevant adjustments in the strategies by using customer knowledge.

The activity given below provides an opportunity to students to understand and apply the concept of market orientation in a real life business situation.

Activity 2.1

QTDC is a courier company in India. It has its delivery network and destinations across India and in many countries worldwide. In some countries where it was not allowed to set up its operations as an individual entity, the company had developed tie ups with local players. Keeping in view the nature of the industry in which it operates, what kind of marketing orientation should the company have? Why? If you were the CEO of the company, what would be your vision for the company (taking into consideration all the requirements for a proper vision and nature of the industry)?

Answer:

Check Your Progress - 2

4. Which of the following constitute the important components of market-orientation?
   a. Customer focus, Competitor focus, Investor focus
   b. Competitor focus, Coordination across functions, Quality focus
   c. Coordination across functions, Quality focus, Customer focus
   d. Customer focus, Coordination across functions, Competitor focus
   e. Customer focus, quality focus, investor focus
5. To develop market orientation, which of the following should the top management avoid?
   a. Misguide the managers
   b. Guide the managers of the functional units to adopt a market-oriented culture

c. Allow them to formulate strategies to enhance customer value
d. Set some standards for customer satisfaction
e. Evaluate performance periodically

2.5 Business Strategy and Marketing

A firm should have a well-defined business strategy before formulating a marketing strategy. It should identify the purpose for which it is in business, its scope, objectives and vision. A clear understanding of the business scope, objectives, and vision helps the top management in formulating a strategy that is consistent with the corporate and business action plans.

According to Peter F. Drucker (Drucker), marketing *is a very basic function that cannot be isolated from other functions within a business.* He also said *that though marketing requires distinct activities to be performed and is treated as a separate functional unit, it is one of the core activities on which a business depends.* Drucker said that *for a business to become market oriented, it should view itself from the perspective of the customer.*

In a market-oriented organization, the manager of the marketing unit should work along with the top management in designing the strategy. In a market-oriented organization, the chief marketing executive's main responsibilities will be:

- To participate in the process of strategy formulation.
- To formulate marketing strategies those are in harmony with the business strategy of a company.

The important roles of the marketing manager are as given below:

- He has to act as a representative of the customer at the top management level.
- The manager should make decisions based on the interests of the customer.
- He/she should give utmost importance to the customer and communicate this message throughout the organization.
- The marketing manager must make efforts to identify the changes in the customer needs through regular analyses.
- He/she should analyze the attractiveness of the markets to which the company has access.
- The role of a marketing manager also involves providing superior value to the customer and ensuring customer satisfaction.

Example

Lexus, a division of Toyota Motor Sales, U.S.A, Inc. entered the US luxury car market in 1989. Within a short span of time, Lexus became America's bestselling luxury motor vehicle. Lexus sold 1,57,713 for the first half of 2021 in US and 7,18,715[5] cars globally for the year 2020**,** occupies the fourth in the global luxury car market. Toyota's Lexus topped the chart in the JD Power's annual (2021) US Vehicle Dependability Study that was released in February 2021. Through market orientation Toyota, a late entrant in the luxury car market, jumped over competition and achieved this feat by focusing on customer centricity.

Check Your Progress - 3

6. Which of these is not an advantage of having a horizontal structure in an organization?
   a. Employee morale is low.
   b. Involve small multi-functional teams that can work quickly and efficiently
   c. Encourage coordination across various functions
   d. Encourage a market-oriented culture
   e. Most suitable when customers demand quick response and better service
7. The marketing activity is influenced by various factors such as those given below. Which of the following factors has the least influence on the marketing activities of a company?
   a. Characteristics of the industry and size of the company
   b. Nature of business and the extent to which the buyers' needs can be differentiated
   c. The performance of company shares in the share market
   d. The competitive advantages the company has.
   e. Changes in Customer behavior

2.6 Marketing Situation Analysis

To formulate a marketing strategy, the top management needs information about the markets and the marketing situation. The marketing situation analysis helps

[5] https://newsroom.lexus.eu/lexus-announces-2020-global-sales-results/

in designing a new strategy or to bring about changes in the existing strategy. The marketing situation analysis should be conducted regularly, i.e. even after a strategy has been formulated.

An analysis done after the strategy has been implemented guides the changes to be made in the strategy in response to the changes in the marketing situation. Marketing situation analysis consists of analyzing the markets and competition, market segmentation and learning about markets regularly.

2.6.1 Analyzing Markets and Competitors

The analysis of the markets and competitors plays a vital role in the marketing situation analysis. If a business is to focus its resources in the volatile environment, it should define its target markets clearly.

Example

Mercedes Benz is the world's best selling luxury brand and a product leader in the segment. It achieved over 2.2 million sales globally in 2020, including smart cars and marched ahead of its rivals BMW and Volkswagen. One of the main factors for its success is that in every international market, Mercedes defines its target markets clearly. Its important target groups are HNIs (high net worth individuals), celebrities, and executives etc.

Some important aspects of markets are:

- A well-defined market helps in appropriate analysis of the buyers and the competitors. A market for any given product exists when there are people with needs that the product can satisfy and those people are willing to purchase the product to satisfy their needs. A market consists of products or services that meet the requirements of people who are willing and have the ability to purchase them.
- The marketing situation analysis, in particular, focuses on the analysis, forecasts and anticipation of the changes in the markets. This analysis helps in determining the decisions to enter new markets, serve the existing markets and exit from a particular market segment. The basic objective of analyzing markets is to identify the customers, define their requirements, understand their product preferences and estimate the size and growth rate of the market.
- A company should be aware of its competitors' moves so that it can make changes in its own strategy accordingly. A company with in-depth competitor knowledge has an edge over others while developing strategies. The marketing situation analysis involves the analysis of the competitors, by singling out each one of them.

- This analysis should bring out the strengths and weaknesses of the existing and potential competitors. It must help the management in anticipating the future moves of the competitor.

2.6.2 Segmenting Markets

The market situation analysis also considers the basis on which the markets have been segmented. Market segmentation refers to the nature and the diversity of the buyers in the market. It allows a business to focus its capabilities on meeting the needs of customers in a specific market segment.

The segmentation brings to light various differences in the needs and demands of customers. The market situation analysis helps the business to identify new market segments and formulate strategies to tap these new segments.

2.6.3 Continuous Learning about Markets

A business should learn about the markets on a continual basis. An understanding about the markets helps a business to track market changes and the competition. The objective of the marketing situation analysis, here, is to identify what is happening in the market, develop marketing strategies to grab the opportunities and deal with threats and forecast the future market situation.

2.7 Designing Marketing Strategy

A marketing strategy is designed after collecting the insights from the marketing situation analysis. This strategy describes how the business should compete, where to compete, etc. The marketing strategy includes targeting and positioning strategies.

2.7.1 Targeting and Positioning Strategy

The marketing activity is influenced by several factors such as characteristics of the industry, size of the company, nature of business, the extent to which the buyers' needs can be differentiated and the competitive advantages the company has. The vital issue for a company is to decide where, when, and how to compete.

Targeting Key Aspects: Some important aspects of targeting are:

- The main objective of targeting is to select the buyers to whom the company wishes to offer its product/services. When the needs or demands of the buyers differ in a market, then the market is divided into two or more segments. After dividing the market into segments and analyzing their relative importance to the organization, the targeting strategy is selected.
- The decisions relating to the targeting strategy involve targeting only a few segments or targeting many segments. The targeting strategy may be

influenced by the maturity of the market, the diversity of the buyers' needs and the company's size compared to the competitors.

- The objectives set for each target market implies the results expected by the management in that particular segment.

Positioning Key Aspects: Some important aspects of positioning are:

- The targeting strategy plays a vital role in setting the objectives for the positioning strategy.
- The positioning strategy, also called the marketing mix strategy, is a mix of product, promotion, price and channel of distribution strategies that a company uses to position itself against the competitors to meet the needs and wants of target customers.
- The positioning strategy focuses on differentiating the company's products from those of the competitors. It relates to how a company wants its customers to perceive its brand or products.

Example

Apple is the leading technical company in the world. It disrupted the world's music industry with its innovative high technology like 'i-pod' with digital mp3 music, it disrupted the world's smartphone market also with its 'i-phone' and 'i-pad', and it also disrupted PC and laptop market with products like Mac Books. Customers purchase Apple's products after thorough research and information based on product features. Even its advertising positioning is on the high quality features of its products. Customers perceive Apple to be of high technology products.

2.7.2 Implementing a Marketing Strategy

Once the marketing strategy has been designed, it has to be implemented carefully, in order to be effective. This involves developing a marketing organization and implementing and monitoring the marketing strategy.

Marketing Organization

The structure of the organization plays a vital role in the implementation and success of a marketing strategy. It should match the people and their goals with the marketing strategy in the best possible manner. Organization structure signifies the flow of command, systems and policies in relation to the marketing strategy.

Key Aspects of Organization Structure are:

- For the successful implementation of a marketing strategy, the organization should be strategically driven. After designing a marketing strategy, the top level management should focus on developing an organizational structure that provides a supportive environment. The marketing organization should be flexible and must respond quickly to the changing market conditions and the strategy needs.

- The implementation of a marketing strategy involves preparing the marketing plan and allocating a budget, implementing the plan, and monitoring the strategy on an ongoing basis. The marketing plan gives the details about the targeting, positioning and marketing mix activities.
- The plan specifies what is going to happen, who is responsible, what are the costs involved and the results expected. It specifies the instructions and schedule for the implementation of the strategy. The implementation of the marketing strategy involves monitoring the marketing activities and their performance.

Barriers to Successful Implementation of Marketing Strategy

Usually there are many barriers to the successful implementation of marketing strategy from different levels of the organization. These barriers can be viewed as a failure to make changes after developing the plans. The implementation of the marketing strategy requires a combination of both skills and resources.

Some important barriers to the successful implementation of marketing strategy are:

Lack of interest in the organization:

The lack of interest in the organization acts as a potential barrier to the marketing strategy implementation. The experiences of the organization in the implementation (success or failure) of its previous marketing strategies play a vital role in the approach of the organization toward marketing strategy implementation. A previous experience of a marketing strategy that was unsuccessfully implemented acts as a barrier to the implementation of a new marketing strategy.

Myopic view within the organization:

The myopic view of each of the functional units acts as a barrier to the implementation of marketing strategy. Each functional unit or department has its own specific objectives. These objectives are different from the objectives of the marketing strategies. This results in the development of faulty perspectives in the organization.

Resistance to change by the middle management:

Resistance to change in organizations is one of the major barriers to the successful implementation of marketing strategies. This resistance to change is usually more evident in the case of middle-level managers. This is because the strategies formulated by the top-level management may not appear to be attractive or agreeable to the middle-level management.

Flawed outlook by various departments and persons in the organization:

The managers of different functional units develop faulty perspectives about the organization, which may be due to their cognitive biases. These perspectives are quite different from the perspective from which the marketing strategies have been formulated. These managers accept only that information which is congruent with their beliefs.

Such managers criticize the strategies and will not be dedicated to their successful implementation as these are against their beliefs. It is often assumed that strategic plans are not practical and are just big ideas that the top management has come up with. Such assumptions arise when the strategic vision and the marketing strategy are not properly communicated throughout the organization by the top management.

Inadequate information flow:

In most organizations, the parties mainly involved with the execution of the marketing strategy include those who deal with the products, distribution channels, and those who provide services to customers before and after sales. The information needs, the type of information required, and the way in which the available information is used by each of these parties vary. However, all these parties need to work together and the inadequate information flow can act as a barrier to the implementation of marketing strategy.

Variance in the activities:

In most organizations, the implementation of marketing strategy involves at least three groups of people: the people who manage the product, the people who manage the sales and the people who manage the after sales customer service. The performance measurement systems for each of these groups are different.

Activity 2.2

Chocky is a confectionery company based in India. It chiefly manufactures chocolates. Its chocolates range included dark chocolates and milk chocolates. The company is planning to expand its business in China. Prior to setting up its business, the company did an analysis of the Chinese confectionery market in order to know the size of the industry, major players and the competitive advantage it would gain. The analysis also revealed how the company would place its products to differentiate it from those of the competitors. Identify and explain the marketing strategies

Contd. ……

adopted by Chocky. State the barriers the company could face while implementing these marketing strategies. **Answer:**

Check Your Progress - 4

8. Which of the following is **not** a barrier to the successful implementation of marketing strategy?
   a. Lack of interest in the organization
   b. Myopic view within the organization
   c. Adequate information flow
   d. Resistance to change by the middle management
   e. Departments operating in isolation

2.8 Marketing Planning and Marketing Plans

In the highly competitive environment, it is necessary for any organization to plan for marketing. The ability to anticipate and compete in a market requires a careful evaluation of the market.

Key Aspects: Some important aspects of marketing planning are:

- In order to deal with unforeseen situations, a business should involve itself in marketing planning. The present market situation demands a more cautious approach to planning for the future. Many managers mistake the short-term budgets, forecasts and other marketing activities for marketing planning.
- The process of marketing planning is concerned with identifying what activities are to be performed and at whom they are targeted and how sales are to be achieved in the long-term to generate revenues and such other issues. Marketing planning is not a simple activity. It involves taking into consideration many issues that have an influence on the organization.
- Marketing planning is a complex process that considers every aspect of the organizational activity. It is a logical series of activities that involve the setting of marketing objectives and of designing plans to achieve them.

Importance of marketing planning:

The importance of marketing planning was realized in the early 1990s. Before the 1990s, it was relatively easy for a business to be successful because of the easy marketability of products, high economic prosperity and little competition in the market. In that period, the businesses dealt with issues as they arose and did not feel the need for long-term plans. They were more bent toward tactical or operational plans.

However, the scenario in the 1990s changed due to the globalization and liberalization of the business world. The market became characterized by uncertainties, rapid changes in the requirements of the customer and immense competition. Post liberalization, the success of a business depended on its ability to anticipate, compete and deal with unforeseen situations.

Strategic Marketing Planning and Tactical Marketing Planning

The marketing environment has witnessed the following major changes in the last two decades of the twenty first century:

- Globalization and the high interrelatedness of the global economy have increased the vulnerability of nations to economic and financial crisis originating in other parts of the world. The 2008 financial crisis that impacted many nations is a case in the point.
- Continuous and rapid technological developments have led to shorter product life. The extremely short product life cycles, which gives a very narrow window for profit making, pose major challenges to firms.
- New technologies, breakthrough products, market disruptions and intense competition have led to uncertainty in the marketing environment The acronym ‘VUCA’ (Volatile, Uncertain, Complex and Ambiguous) is used to best describe the challenging modern marketing environment.
- To face the challenges in the VUCA world, firms are moving away from more stable, vertical hierarchical structures to dynamic and flexible organizational forms. Innovation has become the key to survival in the market. Marketing strategies of firms focus on product and service differentiation to make their brands unique for customers.
- Many marketers prepare tactical plans and extrapolate them for a long period, if they are successful. They mistake this for strategic marketing planning. However, there is a clear distinction between strategic and tactical marketing planning.
- A plan prepared for a long period (usually for over three years) is called a strategic plan. On the other hand, a plan prepared for a short period (usually for a year or less) is called a tactical plan

(Refer to Table 2.1 for differences between strategic and tactical plans).

Table 2.1: Differences between Strategic and Tactical Plans

Strategic Plan	Tactical Plan
• A plan prepared fora long period, usually for over three years	• A plan prepared for a short period, usually for a year or less
• This plan has a very broad perspective	• This plan has a very narrow perspective
• This covers many functional areas	• This covers limited functional areas
• This represents the objectives of the business	• This represents the day-to-day operations to be performed
• This is concerned with both the inputs and the outputs	• This is concerned only with the inputs
• This is a blue print for achieving marketing objectives	• This acts a tool for achieving the pre- defined marketing objectives

Source: Cravens, David W., "Strategic Marketing", 10th ed., McGraw Hill/Irwin, e-book 2021

To understand the difference between strategic and tactical marketing planning, one must consider the meaning of strategy and tactics. Strategy means 'doing the right things' whereas tactics means 'doing things right.' Strategy is about 'effectiveness,' tactics are about 'efficiency.'

Figure 2.1: Strategy vs. Tactics Matrix

	Tactics		
		Efficient	Inefficient
Strategy	Ineffective	Perish (Immediately) (A wrong plan executed brilliantly)	Perish (Gradually) (A wrong plan executed badly)

Contd. .....

	Effective	Flourish (A right plan executed brilliantly)	Endure (A right plan which is not executed properly)

Source: "The SBI Strategy-Tactics Matrix", Tools and Solutions, Thesalesbenchmarkindex.com, 2017

Refer to Figure 2.1 for the strategy vs. tactics matrix. The 'Strategy vs Tactics Tool' explained in Figure 2.1 helps a firm understand whether or not its strategies are effective or ineffective and tactics are efficient or inefficient. In the strategy vs. tactics matrix, the vertical axis represents strategy and the horizontal axis represents tactics.

The four scenarios illustrated in Figure 2.1 are explained in the following points:

- **Ineffective strategy and effective execution**: This is a situation where a firm implements a wrong strategy and executes it very brilliantly. Since the strategy is ineffective, it results in the firm perishing or dying quickly.
- **Ineffective strategy and poor execution**: This situation delays the death of the firm. Poor execution is next to doing nothing and therefore the firm doesn't perish immediately.
- **Effective strategy brilliant execution:** Here the firm executes the right plan brilliantly and hence the firm flourishes.
- **Effective strategy and poor execution**: Here, the firm pursues the right strategy, but poor execution of the plan creates problems for the firm and hence the firm is forced to face hurdles and endure them.

To sum up, the 'Strategy vs. Tactics Matrix', helps a firm understand whether or not a firm's strategies and tactics are efficient. If a firm pursues the wrong strategy, its fate is sealed. Companies that pursue effective strategies therefore flourish or survive, depending on the level of effectiveness of tactics.

2.8.1 Marketing Planning

Marketing planning is a systematic process that involves market analyses, strategy formulation, and the design and implementation of marketing programs. It enables a business to assess the marketing opportunities available and plan appropriate marketing programs to utilize these opportunities. Marketing planning, therefore, is the process of analyzing the marketing opportunities and studying the market trends and customer requirements.

It can also be viewed as a process of developing, coordinating and monitoring the marketing activities. These activities help a business to achieve the objectives of the marketing planning.

Some of the basic objectives of marketing planning are given here:

- Analyzing the resources required for the implementation of the marketing activities to prepare a financial plan.
- Indicating the expected results so that the business can prepare to deal with situations at the end of the current planning period.
- Focusing on the strengths of the business and gaining a competitive advantage over rivals in the market.
- Understanding the major weaknesses and threats to the business and overcoming them.
- Briefing the top management about the marketing programs and activities that need to be carried out in order to prepare a detailed schedule.
- Monitoring and controlling the marketing activities.
- Ensuring coordination between marketing activities, customer requirements, and the market environment.

Example

Let us understand how Starbucks effectively used its marketing plan to continue to be the largest coffee chain. Refer Table 2.2 below for the marketing plan of Starbucks

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Table 2.2: Marketing Plan of Starbucks

Audience	Strategies	Activities
Target Market: ● Urban people ● Men & Women aged 25-40 ● High income people	**Marketing Goals:** ● Increase global active loyal members ● Grow same store footfall by +3%, year on year ● Increase mobile-orde r-& pay	**Marketing Channels:** ● In store environment, ● Mobile App, ● Social Media, Music streaming services & Outdoor advertising
Customer Journey: ● Anticipate	Key Strategies: ● Create sustained	Tactics & Activities:

Contd. ……

• Enter • Engage • Exit • Reflect	personal relationships with customers • Expand mobile-order -&pay capabilities	• Personalized digital relationships with customers • Mobile-order-& pay on streaming services
Value Proposition: • Urban people should think of Starbucks after Home and Office to relax.	Pricing & Positioning: • Premium price • Superior convenience • No touch service	Measures of Success: • Daily/Weekly/Monthly/ Quarterly/Annual plans • Average revenue per store • % transactions on mobile-order-& pay

Source: https://get2growth.com/marketing-plan-example/ (Accessed on: January 20th 2022)

Need for Marketing Planning

The four vital objectives of a business are maximizing profits, maximizing revenues, maximizing the return on investment and reducing costs. These objectives vary in importance to the managers, depending on their level in the hierarchy and their functional unit.

Investing in an extensive advertising campaign may be the objective of a marketing manager, whereas investing in new product development may be the objective of a technical manager.

Each one of them has their own objectives. In such situations, a business must achieve a trade-off between these objectives.

A trade-off between various objectives requires managers to make rational decisions.

Many managers agree that a systematic approach to marketing planning helps them to take rational decisions, by minimizing the complexity of the operations of the business and by channeling the future of the business in the proper direction.

Benefits of Marketing Planning

The marketing plan has a profit-related motive in business. On the basis of Michael Porter's generic strategies, every company uses any one of the cost-leadership, product differentiation, or focus strategies along with different marketing mixes to compete in the market. However, some businesses like petrol, cement and flat glass are such that differentiating the product from that of the rivals is difficult.

In such a situation, lowering the costs must be the objective of the business. In these businesses, the company can make profits by cutting production costs. But, if a business has products that are different or can be differentiated, then the objective of minimizing costs should take a back seat. A business has its own range of products, which are divided into successful, niche and failure products.

The advantages of marketing planning are:

- Marketing planning helps a business to be flexible and respond to the market opportunities, to take timely decisions and to ensure the achievement of pre-determined objectives. It also ensures the smooth functioning of a business by proper allocation of resources. Marketing planning also helps a business to compete effectively in the market.
- Marketing planning helps in gaining enhanced interpersonal relationships within the organization. Marketing planning helps in effective utilization and application of marketing intelligence. Marketing planning helps in gaining enhanced communications within and outside the organization.

Marketing Planning Process

Marketing planning is defined as "the planned application of marketing resources to achieve the marketing objectives". This marketing planning process is a series of activities involving the setting of marketing objectives and the formulating of plans to achieve them. However, many organizations prefer to update their marketing plans annually.

The marketing planning process has the following three stages:

The basic analysis:

The basic activity in the marketing planning process for an organization is analysis. A systematic analysis of the market environment plays a vital role in marketing planning. The analysis should include important factors like market size, structure, customer requirements, etc.

This also involves the analysis of the political, economic, social and technological aspects (PEST analysis) of the environment. The extent of the details (from such an analysis) used in the marketing planning has a direct effect on the effective implementation of the marketing strategies and activities. When these analyses are combined with the internal analyses of the company they provide a strong foundation for the marketing planning process.

Strategy formulation:

This involves making important strategic decisions based on the knowledge gained from the previous analyses. Strategy formulation involves identifying the target markets and deciding how to compete and where to compete. The decisions regarding how to compete and where to compete channel the efforts of a business toward achieving the objectives of its marketing plans.

Implementation of marketing programs:

It involves the formulation and implementation of marketing activities.

Exhibit 2.3 explains the process of market planning and the points that need to be considered in formulation of strategies.

Exhibit 2.3: Marketing Planning Process
Marketing Planning Process involves the basic analyses of the following points:
● Current market situation
● ABC sales-contribution analysis
● Common trends in the market and marketing environment
● Requirements and the buying pattern of the customers
● SWOT
● Strategies to compete
● Balancing the portfolio of a product
● Current positioning Then they have to move to strategy formulations.
Strategy Formulation has to consider the following points:
● Identifying new or existing target markets
● Selecting the target markets
● Deciding how to compete
● Identifying the positioning strategies
● Setting marketing objectives
● Analyzing the pitfalls Once the marketing strategy is evolved the implementation is the next step. The implementation involves the following points. *Contd. ....*

Implementation of Marketing Programs:
● Programs on marketing mix that includes promotional strategies, pricing, product range, etc.
● Allocating the resources and preparing a schedule on-process requirements like marketing research, training and monitoring etc.

Source: Dibb, Sally, Lyndon Simkin, William M Pride, O.C.Ferrel, "Marketing Concepts and Strategies", 8th edition, Cengage Learning, 2019.

Hurdles in the Marketing Planning Process

In the marketing planning process there are many issues like company size, culture, market conditions, economic policies, etc. However, there are certain issues that lead to the failure of the marketing planning process.

Some of the hurdles in the process of marketing planning are:

Misunderstanding tactics as strategy:

Many marketers do not identify the difference between a tactic and a strategy. They use strategy and tactic as synonyms. As mentioned earlier, tactic is doing things right while strategy is doing the right things. Many managers prepare plans for the short-term and then extend them (i.e. they prepare tactical plans and extrapolate them), if they are profitable.

This approach leads to a situation where the environmental changes are not taken into consideration. The marketing plan can therefore fail. A business should prepare a strategic plan first. This plan gives a broader view of the future situation while taking the environmental factors into consideration. A strategic plan should be developed for a span of 3 to 5 years. Only after the preparation of the strategic marketing plan should a tactical plan be developed. A tactical plan should be developed for one year.

Treating marketing as an independent function:

Many organizations treat marketing operations as the sole responsibility of the marketing department. Product development, pricing, customer service, etc., are considered functions of the R&D, finance and distribution departments respectively. As a result of this, the marketing department has very little control over the final product.

Independent Vs Collaboration:

To become market-oriented, the marketing department needs the collaboration of all the departments that are involved in the development of the product. Therefore, the marketing function cannot be treated as an independent function. In an organization where marketing is treated as an independent function, the requests for information and strategies from managers of the marketing department are considered as a waste of time by the managers of other functional units.

The managers in such organizations believe that investing resources in marketing activities is an additional expenditure. A business should be market-oriented and customer-focused for achieving success in marketing planning. Coordination between various functional units can be achieved by the common objective of customer satisfaction.

Defining marketing function:

Many managers fail to define the marketing function properly. Some managers confuse marketing with sales. Some confuse marketing with advertising, while some feel marketing is customer service and product management. Such managers believe that an increase in the expenditure on advertising or product management alone defines marketing. Marketing is too broad a concept when compared to sales, advertising, customer service and product management, all of which are a part of the marketing function.

Hence, marketing is defined as making the optimal utilization of resources to meet the requirements of the customer.

Example

Harley Davidson bikes, which were in the Indian market since a decade, left the market in 2020.

The company created many innovative advertising campaigns in the Indian market to attract the customers.

During 2020, it created a community called Harley Owners Group (H.O.G.) and made an advertisement campaign "#FreedomStoriesIndia".

In the ad campaign, the bike owners narrated their lifestyle with Harley.

In spite of such innovative advertising, the company could not get good business and left the Indian market in 2020[6].

Organizational structure hurdles are as given below:

- An organization has different departments like finance, marketing, personnel, production, distribution and operations. In such an organizational structure, each department has its own objectives like the profit targets of the finance department, production targets of the production department, etc.

6 https://www.exchange4media.com/advertising-news/harley-davidson-transforms-bikers-into-brand-ambassadors-in-new-campaign-103038.html

- In such a situation, it might be difficult for the employees to shift their focus from narrow departmental objectives to broader organizational objectives like customer satisfaction, superior value, etc. The top management has to play a vital role in reducing the myopic view of the departments and focusing on the broader goals of customer satisfaction. It should make efforts to make a business market-oriented.
- The company activities should be focused around customer groups rather than around the functional units.

Overcoming Organizational Hurdles:

One of the methods to overcome organizational hurdles is to define specific strategic business units. A strategic business unit (SBU) will have common segments and competitors. It is a distinct and separate business entity. Corporate level marketing planning can only be successful if the marketing planning in the SBU is effective. Therefore, a company should initially focus on marketing planning at the SBU level. It must then relate the marketing planning of the SBU with corporate planning..

The following are the hurdles in marketing planning:

Lack of proper analysis:

The most common hurdle in marketing planning is the lack of proper analysis. The collection of too much or too little information results in improper analysis. A proper analysis should include the analysis of the markets, market share, competitors and the environment, including internal strengths and weaknesses.

The analysis should provide adequate information about the growth in the market share, growth in the market size, increase in prices and cost reductions. Businesses should make the maintenance of marketing audit mandatory. The analysis should have specific or quantitative results and not vague explanations.

Lack of proper knowledge:

Managers who do not have proper knowledge about the marketing concepts are generally not effective at marketing planning.The management has to ensure that people with adequate marketing knowledge and skills are assigned the responsibility of marketing planning.

Absence of a methodical approach to marketing planning:

Marketing planning is a methodical approach. Some organizations prefer to have a very informal mode of planning. This results in the formulation of poor plans as it lacks the standards of a systematic approach. A marketing planning method ensures that activities are actually performed when they are supposed to be performed.

Every business should have a set of procedures on paper and maintain a standard format for marketing planning. The management should ensure that the significant issues are dealt with systematically. It should also consider the significant elements of each SBU.

Failure in prioritizing goals:

The marketing plans that organizations generally prepare have many objectives. These objectives are generally the sub objectives of the main marketing objective of an organization. Each of these objectives leads to a set of other sub-objectives. Therefore, the managers fail to prioritize the objectives and allocate resources as the needs arise. Failure to prioritize and the improper allocation of resources act as a hurdle in marketing planning.

An organization must make sure that the marketing objectives are prioritized based on their importance and the impact they have on the organization. It must also ensure that the resources are allocated based on the priorities.

2.8.2 Marketing Plan

After going through the marketing planning process, managers prepare a marketing plan.

Key Aspects: Some important aspects of marketing plan are:

- A marketing plan is a written document that businesses develop to record the output of the marketing planning process.It gives a detailed account of various marketing activities and programs that need to be carried out. It provides details about the analysis undertaken (i.e. of the markets and the environment) and outlines the marketing objectives.
- It also specifies the marketing mix for implementation of the plan. A marketing plan is important to notify members of the organization about the plan and the role and responsibility they have in it. It provides information regarding the resources required, limitations in implementation of the plan, etc.
- The marketing plan acts as a guiding force for the top management in the proper implementation of the marketing programs and activities.The marketing plan specifies the result of the marketing planning process. It helps managers to monitor the marketing activities in order to meet the marketing objectives.

Exhibit 2.4 gives a list of the important points covered in the marketing plan, which is a blueprint that outlines the marketing activities of the following year.

Exhibit 2.4: The Documentation of a Marketing Plan
What should be covered in documenting a marketing plan? There could be a number of models. The following important points are to be covered in documenting the marketing plans:
● Executive summary
● Marketing objectives of the business
● Product/market conditions
● Results of the SWOT analysis
● Customer and competitor information
● Segmenting, targeting and positioning strategies
● Sales forecast and results
● Marketing activities for implementation
● Evaluating and monitoring the marketing performance
● Financial forecast and allocating a budget
● Considerations in operations

Source: Dibb, Sally, Lyndon Simkin, William M Pride, O.C.Ferrel, "Marketing Concepts and Strategies", 8th edition, Cengage Learning, 2019.

Steps for Creating a Marketing Plan

The marketing plan differs from company to company in terms of format and content. It depends on the size of the company, the top management participation in the planning, market scope and other factors.To develop a fool proof and well-crafted strategic market plan, it would be beneficial to follow certain critical steps in a proper sequence.

Exhibit 2.5 lists the critical steps in the appropriate sequence.

Exhibit 2.5: Steps for Creating a Marketing Plan
While documenting a marketing plan, the following sequence may be followed:
1. Summarize the strategic situation
2. Describe the target markets
3. Set objectives for the target markets (in terms of sales, profits etc.)
4. Formulate a marketing program considering the following:
● Product strategy
● Price strategy
● Distribution strategy
● Promotion strategy *Contd. ....*

• Marketing research
• Coordination with other business functions
5. Forecast sales and profit, allocate a budget
6. Draw up contingency plans

Source: ICFAI Research Center

Steps for creating a marketing plan:

Summary of the strategic situation:

This part of the plan gives an outline about the strategic situation. It includes a description of the market, characteristics, size and estimates of the growth of the market. The market segmentation analysis indicates the segments to be targeted and their importance to the company. The competitor analysis indicates the strengths, weaknesses and their competitive advantages in every segment of the market. This part has to be brief and informative. The additional information required for the summary may be placed in the appendix.

Description of the target markets:

This part of the plan provides information about the target markets. The analysis gives an overview of the target markets, their size, growth rate, characteristics of the end-user, and other additional information. In situations where there are two or more target markets involved, the management should specify the priorities (to allocate resources appropriately).

Setting objectives for the target markets:

This part of the plan specifies what the marketing plan is expected to achieve. This specifies the objectives for the planning period. The objectives are set for each target market in terms of sales or profits or market position.

Marketing program:

This part of the plan indicates the positioning strategy of the company. The positioning strategy specifies *how* the management wants the target customers and prospective customers to perceive the company's products. The strategies are detailed in this part along with the actions to be taken, responsibilities, schedules and other implementation information.

Forecasting sales and profit, allocating a budget:

This part of the plan specifies the financial plans of the company. The management forecasts the sales and profits and also prepares an estimate of the costs involved in implementing the marketing plan. It also involves the independent forecasts depending on either geographical location or functional unit or market segments.

Contingency plans:

This part of the plan outlines the actions that can be taken in unforeseen situations. A contingency plan is prepared keeping in mind the fact that situations may not always go according to plan. The plan will indicate the course of actions if the future is different from the anticipated one.

Check Your Progress - 5

9. Which of the following plans is prepared for a long period (usually for over three years)?
   a. Marketing Plan
   b. Tactical Plan
   c. Strategic plan
   d. Long term budget
   e. Future plan
10. Which of the following is correct with respect to preparation of a tactical plan?
   a. A year or less
   b. More than a year
   c. Up to 10 years
   d. More than 10 years
   e. For two years

2.9 Summary

- A company should decide how to compete, in order to face competition in the markets. The long-term vision of a company determines the how, when, where and where not to compete in the markets.
- A business should identify its competitive advantage and differential competence abilities over its rivals in the market.
- There are two different approaches to identify competitive advantage, namely, customer-oriented analysis and the competitor-oriented analysis.
- Market-orientation is an organizational culture that focuses on the customers to understand their requirements and provides superior value.
- The three main components of market-orientation are customer orientation, competitor focus and coordination across functions.

- There are two strategies for developing market-orientation, namely, the planned strategy and the adjust strategy.
- The marketing strategies should be formulated in line with the business strategy of a company.
- Some of the barriers to the successful implementation of marketing strategies are resistance to change by the middle management, flawed outlook by various persons and departments in the organization, inadequate information flow and variance in performance measurement systems.
- Marketing planning is a systematic process that involves considering several organizational factors.
- Strategic marketing planning refers to planning for a period of three years or more. Tactical marketing planning is usually for a period of a year or less.
- The objectives of marketing planning are to analyze the requirement of resources, to indicate the expected results, to focus on the strengths of business, etc.
- Some of the hurdles in the marketing planning process are misunderstanding tactics and strategy, treating marketing as an independent function, etc.
- A marketing plan is a written document used to record the output of the marketing planning process. It gives the details of the activities to be performed and the programs to be undertaken to meet the marketing objectives.
- The process of preparing a marketing plan involves summarizing the strategic situation, describing the target markets, setting objectives for the target markets, preparing a marketing program, positioning strategy, forecasting sales and allocating budgets and preparing contingency plans.

2.10 Glossary

Adjust Strategy: The adjust strategy combines the effort of the management and the employees to create superior value for the customer. The organizations that adopt this strategy set performance standards, goals for improvement, etc.

Marketing Plan: A marketing plan is a written document that businesses develop to record the output of the marketing planning process.

Marketing Planning Process: The marketing planning process is a series of activities involving the setting of marketing objectives and the formulating of plans to achieve them.

Marketing Planning: Marketing planning is a systematic process that involves market analyses, strategy formulation and the design and implementation of marketing programs. It enables a business to assess the marketing opportunities available and plan appropriate marketing programs to utilize these opportunities. Marketing planning, therefore, is the process of analyzing the marketing opportunities and studying the market trends and customer requirements. It can also be viewed as a process of developing, coordinating and monitoring the marketing activities.

Marketing Situation Analysis: The Marketing situation analysis consists of analyzing the markets and competition, market segmentation and learning about markets regularly, which helps in designing a new strategy or to bring about changes in the existing strategy.

Market-orientation: Market-orientation is an organization culture that creates superior values for customers and superior performance for the business.

Mission: A mission is the basic purpose for which one is in a business.

Planned Strategy: In the planned strategy, the managers adopt the market-oriented culture directly in the organization. The underlying idea of this strategy is that the organizational culture can be changed with a change in the beliefs and ideas of the individuals.

Positioning Strategy: The positioning strategy, also called the marketing mix strategy, is a mix of product, promotion, price and channel of distribution strategies that a company uses to position itself against the competitors to meet the needs and wants of target customers.

Strategic Plan: A plan prepared for a long period (usually for over three years) is called a strategic plan.

Tactical Plan: A plan prepared for a short period (usually for a year or less) is called a tactical plan.

Vision: A vision guides a business and its intentions for the future. These intentions provide an insight into what a business can and should become in the future.

2.11 Self-Assessment Test

1. Identify and explain the criteria that help a company in deciding how it should compete in the marketplace.
2. What is market-orientation? Discuss the components of market orientation and also explain how an organization can develop it.
3. Explain how business strategy and marketing are interrelated.
4. Marketing situation analysis consists of analyzing the markets and competition, market segmentation and learning about markets regularly. Explain these in detail.

5. Explain the process involved in designing a marketing strategy.
6. Explain the marketing planning process and the various hindrances that a company can come across in implementing the marketing plans.

2.12 Suggested Readings/Reference Material

1. Cravens, David W, "Strategic Marketing", 10th ed., ebook, McGraw Hill/Irwin, 2021.
2. O. C. Ferrell, Michael Hartline, Bryan W. Hochstein, "Marketing Strategy", 2021, Cengage South-Western.
3. Alexander Chernev, Philip Kotler, Musadiq A. Sahaf, "Strategic Marketing Management", "Strategic Marketing: Making Decisions for Strategic Advantages", PHI Learning, 2019.
4. Dibb, Sally, Lyndon Simkin, William M Pride, O.C.Ferrel, "Marketing Concepts and Strategies", 8th edition Cengage Learning, 2019.
5. Alexander Chernev, Philip Kotler, "Strategic Marketing Management", Cerebellum Press, 2018.
6. Srinivasan R, Lohith C P, 2017, Strategic Marketing and Innovation for Indian MSMEs, Springer.

2.13 Answers to Check Your Progress Questions

1. (c) Vision

An organization without a vision is likely to react to situations rather than being proactive and identifying opportunities.

2. (b) Exclusive

A proper vision should be informed, shared, competitive and enabling. It should not be exclusive because that characteristic can be restrictive.

3. (a) Large market share and more profits

Having a competitive advantage helps a business in gaining a large market share and profits and to build up such an advantage, a company must first identify its distinctive competence or competitive advantage.

4. (d) Customer focus, Competitor focus, Coordination across functions

The three important components of market-orientation are customer focus, competitor focus and coordination across functions.

5. (a) Misguide the managers

For a firm to become market-oriented, the top management should guide the managers of the functional units to adopt a market-oriented culture and allow them to formulate strategies to enhance customer value. The top management should take the responsibility and set some standards for customer satisfaction. It should also evaluate the performance of the organization in the market.

6. (a) **Employee morale is low**

   A business can encourage a market-oriented culture by adopting a horizontal organizational structure. An organization with a horizontal structure involves small multi-functional teams that can work quickly and efficiently. This horizontal structure encourages coordination across various functions and also facilitates high quality service and quick response to customers. In horizontal structure organizations, employee morale is high because unlike in vertical structure organizations, here employees are empowered and take decisions. Hence the option ‘employee morale is low’ is not valid.

7. (c) **Performance of the company shares in the stock market**

   The marketing activity is influenced by several factors such as characteristics of the industry, size of the company, nature of business, the extent to which the buyers’ needs can be differentiated, and the competitive advantages the company has. However, the factor stated in option ‘c’ does not directly influence the marketing activities of a company.

8. (c) **Adequate information flow**

   Some of the barriers to the successful implementation of marketing strategy are as follows: Lack of interest in the organization, variance in the activities, inadequate information flow and flawed outlook by various departments and persons in the organization, resistance to change by the middle management, and myopic view within the organization.

9. (c) **Strategic plan**

   A plan prepared for a long period (usually for over three years) is called a strategic plan.

10. (a) **A year or less**

   A plan prepared for a short period (usually for a year or less) is called a tactical plan.

Unit 3

Business Strategy and Competitive Advantage

Structure

"To be strategic is to concentrate on what is important, on those few objectives that can give us a comparative advantage, on what is important to us rather than others, and to plan and execute the resulting plan with determination and steadfastness."

\- Richard Koch

3.1 Introduction

As quoted rightly by Richard, many leaders focus on unimportant issues and lose out to competition. Very few leaders focus on important issues that provide competitive advantage. Organizations with such leaders succeed.The business strategy of an organization is utmost important for its success.

To sustain and grow in the long run, a business needs to acquire resources, skills and competence that provides it with the necessary competitive advantage over competitor products in the market.

The previous unit discussed the criteria that help a company in deciding on how to compete in the marketplace, the components of marketing orientation, how a marketing strategy can be designed, and the details about marketing planning and marketing plans.

In this unit, we shall discuss the organizational change needed, the importance of competitive advantage for an organization and business strategy along with its components.

3.2 Objectives

After reading through this unit, you should be able to:

- Outline the concept of organizational change.
- Underline the importance of competitive advantage and its components.
- Discuss business strategy and its components.

3.3 Organizational Change

Organizational change involves analyzing business strategy and identifying the terms of global competition and restructuring.

Example

- Hangzhou Wahaha group, the largest Chinese food & beverage (F&B) producing company, founded in 1987, is a company that successfully competes in its domestic markets.
- It is a brand leader in the Chinese F&B industry as of October 2021.
- The advantage that the company has over global companies like Pepsi and Coke is that it is a domestic player.
- However, if the company plans to become a global player, it needs to restructure itself as the terms of competition are not the same for the local and global markets

3.3.1 Business Strategy

Business strategy attempts to identify ways and means to achieve a competitive advantage. It consists of the decisions made by the top management and the resulting actions taken to achieve the objectives of the business. An organization's business strategy must be aligned with its vision, mission and objectives.

Businesses should focus on utilizing their competitive advantage to achieve customer satisfaction. This ensures that they are successful in the long term.

Global Competition

In a global environment, the organizations have to be market-oriented and customer-oriented. This orientation results in a new structure for the organizations.In order to succeed in the global competition, the organization has to implement the following activities:

- Check whether the company has the resources and relevant capabilities to compete globally.

- Check whether the company has knowledge of customer requirements to sustain its competitive position in the global markets.
- Give importance to being flexible.
- Adapt to changes in the business environment.
- Focus on reducing costs.
- Focus on developing a competitive advantage.

3.3.2 Organizational Restructuring

In order to compete globally, a company needs to restructure itself. Organizational restructuring can take the form of downsizing, expanding operations, etc.

However, any organizational restructuring focuses mainly on three major areas which are as given below:

Minimizing the Structural Layers

Minimizing the layers in the traditional organizational structure is necessary. It reduces the redundancy in jobs and eliminates unnecessary hierarchies. The resultant organizational structure is horizontal.

Features: The horizontal structure has the following features:

- It has more specialized units that perform various functions.
- Work teams in such organizations have multiple capabilities and are oriented to providing superior value to the customer.
- Such an organizational structure ensures that the employees are in close contact with the customers and the suppliers.

Restructuring

In restructuring, the existing structure is modified and a new structure is designed. The organizational structure is designed in such a way that it is sensitive to the needs of the customer and is flexible to changes in the market environment. The new organizational structure aims at identifying the needs of the customers, providing superior value to the customers and retaining existing customers.

Forming Networks

Forming networks and forging new relationships is an important activity for the renewal of an organization. The relationships with other organizations in the renewed organizational structure are called networks. These networks are formed with suppliers, distributors and customers.

Check Your Progress - 1

1. Which of the following is not a focus of organizational restructuring?
   a. Minimizing the structure
   b. Positioning
   c. Restructuring
   d. Network formation
   e. Flow of communication and authority

3.4 Competitive Advantage

Competitive advantage plays a vital role in the success of a company in any industry. The basic school of thought in strategic thinking is that superior performance helps a business gain an advantage over competitors and sustain it. Even though competitive advantage plays a vital role in designing a marketing strategy as well as in the success of a business, it is not specifically defined in the literature of marketing strategy.

Characteristics: The characteristics of competitive advantage are:

- It is the resultant market share or profitability due to the ability of a firm to provide superior value to the customer or the achievement of low costs relative to the competitors.
- It focuses on the positional and enhanced performance that is a result of appropriate allocation of capabilities and resources in the business.
- It cannot be easily imitated, as rivals try to imitate it.
- It should be constantly developed and sustained, as barriers to imitation are less.
- It is used synonymously with distinctive competence, however, these two terms are different. (Distinctive competence means the relative and unique advantage a firm has over its rivals in terms of its capabilities and resources).

Developing Competitive Advantage: In order to develop a competitive advantage, the firm's management should identify the following elements:

- Present competencies
- Bases for these competencies
- Susceptibility of these competencies to imitation by rivals

- And develop unique competencies. (These competencies enable the business to position itself differently from its competitors in the market.)

3.4.1 Obtaining Competitive Advantage

Competitive advantage can be obtained and can be sustained as well. The main components of competitive advantage are the bases of advantage, advantageous positions and results.

Bases of Advantage

These sources are concerned about 'how' an advantage can be achieved. When taken together, they result in enhancing the performance of a company with respect to its competitors. The bases of advantage include the following three elements-enhanced resources, improved skills and better controls as given below:

Enhanced resources:

Enhanced resources are tangible requirements in the competition; they have a physical presence and are accounted for in the financial reports. Often, competitive analysis is conducted to understand the relative size of the resources. This analysis helps a company to make direct comparisons with competitors on issues such as:

- Distribution network
- Cost of raw materials and the amount of raw materials purchased, including the agreements involved with the suppliers
- Size of manufacturing facilities and the capacity utilization
- Investment in new technology
- Amount spent on advertisements and promotions
- Financial structure
- Number of sales and service personnel based on the markets, regions, or territories

Improved skills:

Improved skills are the unique capabilities of the key personnel that help to develop competitive advantages. It is 'what one can do better than others'. Enhanced resources are only the inputs that go into the process; improved skills are the ones that transform these resources into superior products. A company should also provide a supportive environment that helps to obtain an advantage from the improved skills and resources.

A company can have improved skills in the following areas:

- In-depth knowledge of the requirements of a specific market segment
- Ability to maintain good relations with the customers and retailers
- Capability to respond quickly to changes in the environment
- Ability to manage complex information systems and deliver information to remote locations over a network
- Ability to identify, negotiate, and manage alliances

Apple developed an acquisition strategy to gain competitive advantage. Exhibit 3.1 elaborates Apple's acquisition strategy.

Exhibit 3.1: Gaining Competitive Advantage through Acquisitions

Apple, ranked as the most innovative company in the world, in 2021, started its journey with the launch of Apple I computers in 1976. It was established by Steve Jobs and Steven Woznaik as Apple Computers Inc.

It changed the way people listen to music with the launch of its revolutionary product, the famous I-Pod in 2001. It changed the way people communicate, with the launch of its superior technology product, I-Phone, in 2007.

Apple was able to produce such technically superior products through competitive advantage strategies, one of them being acquisition strategy.

According to its CEO Tim Cook, Apple acquires one company per month or three weeks.

It rapidly acquired almost 100 companies in the last 6 years.

The major acquisitions of Apple are:

- It acquired Beats Electronics at around USD 3 billion, which was its largest acquisition, in the last decade.
- It acquired 'Shazam', a large music recognition software firm during 2018 for $ 400 million.
- It also acquired 'PrimeSense', a small 3D sensing technology company.
- In 2019, it acquired 'Drive.ai' an Artificial Intelligence firm, with self-driving shuttle technology.

Apple's strategy behind acquiring the small and large tech companies is to leverage their technical expertise to innovate its products. Thus Apple created world class innovative products through rapid acquisitions and ranked World's Number 3 by Fortune 500 rankings, in 2021. It also recorded all time highest fiscal revenue of $ 275 billion, for 2020.

Sources: i) https://www.bbc.com/news/business-56178792 Accessed on 29/10/2021
ii) https://fortune.com/company/apple/fortune500/ Accessed on 29/10/2021

Better controls:

Key Aspects: The key aspects of better controls are:

- They determine 'how well' the enhanced resources and improved skills are able to achieve a synergy to deliver superior performance.
- They include cost controls, quality controls, customer satisfaction monitoring, inventory controls, etc.
- These controls help in identifying the profitable market segments based on which crucial decisions can be made.
- They also play the role of communicating to the employees the management's expectations by setting standards for performance.
- A properly designed control system is neither rigid nor inappropriate for business. (As, the term 'control' generally has a negative undertone to it. Managers feel control is rigid and therefore, inappropriate for the business environment, which is characterized by constant changes).

Advantageous Position

- Superior bases of advantage can be used to attain positions of advantage and these positions can be achieved by providing superior customer value or by achieving lower relative costs. A company pursuing the value strategy should provide superior value that exceeds the premium price that the customer is willing to pay. And the company pursuing the cost strategy should deliver value to the customer that is near the average value provided by the competitors. However, if a company compromises too much on quality the customers may demand a reduction in prices.

The positions of advantage can be as follows:

Higher value to the customers:

- A firm can differentiate itself from its competitors by providing superior value to the customers at a premium price. The higher value should be provided in areas that are important for the customer. The value provided by the product should exceed the price paid by the customer.

Lower costs relative to the competitors:

A company can achieve a competitive position by reducing its costs compared to that of its competitors. A company that has achieved cost leadership provides standard or economy products.Cost advantage can also be gained by operating in low wage areas.

Example

H&M gained a cost leadership by outsourcing manufacturing facilities for its textiles businesses to Bangladesh. It can get labor for cheapest rates from Bangladesh. Every year it sources garments worth USD 3[7] billion from Bangladesh.

Results

Market share and profitability are indicators of a company's competitive advantage. The positions of advantage are measured by the market share and profitability and are not based on the response of the customer to the positions of advantage.

Market share:

Market share is considered a very important indicator of a company's success. Although market share is generally a measure of the competitive advantage of a company, it is not a very reliable indicator of measurement. This is because the market environment is dynamic and changes over a period.

- Though market share is considered as an indicator of the previous performance of a company, it cannot be used to predict future advantage. It is dangerous to use the figures of the previous market share in forecasting future advantages as the market and competitive situations may not remain static.

Example

The market share of Unilever with respect to the global antiperspirant market, in 2013 was 36%, whereas by 2020[8] its market share in the given segment was only 26%. Hence, market share cannot predict future advantage.

Profitability:

Profitability is a result of past advantages of a company. Since it is a result of the activities performed in a different time period, it cannot be relied upon to measure present advantages and predict future ones.

Consider a situation in which a company records high revenues because it harvested an unprofitable business or division. In such a situation, the revenues are considered as the company's profits. In such situations, using profitability to measure competitive advantage may be misleading. It is thus

[7] Bangladesh needs to diversify products: H&M | The Daily Star
[8] Unilever - Statistics & Facts | Statista

clear that profitability cannot always be used to measure the competitive advantage of a company.

3.4.2 Analysis of Competitive Position

To identify a potential opportunity or the competitive advantage of a company, there is a need to carry out an analysis of the competitors and customers. The analysis of the competitive position can be centered on the competitor or the customer. The analysis of the competitive position of a company involves competitor-oriented methods and customer-centered methods and these are discussed below.

Competitor-oriented Methods

The analysis of the competitive position based on competitor-oriented methods involves a direct comparison with the target competitors. The comparison is made in aspects like skills, resources and the resultant cost position. The focal point of competitor-oriented methods is to find activities that a company can perform better than its competitors.

Some of the competitor-oriented methods for analyzing competitive position are identifying the unique competencies, identifying the enhanced position, and identifying the Important Success Factors (ISF) of the company.

Let us understand each of these methods of analyzing competitive positions.

Identifying unique competencies:

Unique competence is the unique capability of a company to deploy the skills and resources in a manner which cannot be imitated or adopted by the competitors. However, a unique competence does not always lead to a competitive advantage. A company can have unique competence in activities that are relatively unimportant for the customers or the competitors.

The identification of unique competencies should involve:

- The ability to adapt to change as a result of exit barriers, cost of unused capacity and the structure of fixed versus variable costs.
- Forecasts of the investments to be made by the competitors.
- Functional capabilities of the competitors.
- Time taken by the company to respond to the strategic moves of the competitors.

Example

ITC Agribusiness[9] is having strong farmer linkages and long-standing presence in the commodity business. These are the unique competencies of the company, through which ITC Agribusiness presents a tough competition to the rivals and creates unique value propositions for their customers.

Some of the common methods for identifying unique competencies are discussed here:

Analysis of strengths and weaknesses:

Many companies analyze their strengths and weaknesses in order to identify their unique competencies. However, this analysis does not help in identifying the few important unique competencies that are valued by the customer.

Direct comparison of resources and capabilities:

Sometimes only limited information about the competitors is available to a company. In such situations, a company resorts to direct comparison of the obvious factors like market share, annual revenue, net income, etc.The direct comparison is very limited in its ability to identify the unique competencies and provides a narrow perspective of the competitor's capabilities.

Example

Consider the gaming market, where Sony and Microsoft were dominating. Nintendo[10] being a small player, it had less resources than its competitors. Through direct comparison of resources and capabilities, it developed a capability to run successful video game franchises like Pokemon, Mario and Zelda.

The franchises of Sony and Microsoft were not as successful as Nintendo's franchises.

Assessment of skills:

The unique skills of a company also help in identifying its unique competence. Unique skills help an organization to transform its unique competence into a competitive advantage.The unique skills of the entire organization should be concentrated toward total customer satisfaction and continuous innovation.

In order to achieve the objectives of total customer satisfaction and continuous innovation, a company has to identify the changing requirements of the customer and meet them accordingly. For this purpose, a company has

[9] ITC ABD :: Core Competencies

[10] Resources and Capabilities - Definition and helpful Examples (consuunt.com)

to maintain a marketing audit (a tool to record all the marketing activities, strategies of a business from time to time).

Identifying the enhanced position: The identification of enhanced position based on competitor-oriented methods relates to 'how a company can compare itself, 'viz a viz', its competitors'. The answers are generally framed by the comparison made in terms of the following:

- The choice of the activities undertaken
- The way of performing activities (cost effectiveness, minimized production wastages)
- The cost of each activity and the total costs incurred.

Measures: The focus in competitor-oriented methods is generally on costs. Given below is a set of measures that could help a company in identifying the cost differences among the competitors:

Comparison of costs of the value chain:

A value chain is a series of value creating activities. Cost leadership in the value chain can be achieved by performing all the activities in the value chain at a cost lower than that of competitors.Analyzing the value chain of the competitors involves assigning costs to every activity in the competitor's value chain.

It may be difficult for a company to gather information about the costs incurred by the competitors. However, it is possible to get a rough idea about such costs by interacting with the suppliers, distributors, etc. Reverse engineering of competitors' products (a process of learning how a product is made by taking it apart and examining it) is also a method to estimate the costs incurred by competitors.

Experience curves across sections:

Experience curves can also be used to identify positions of superiority. Experience curves help to estimate the relative profitability of each competitor based on the current market prices. This comparison can only be made if the competitors have similar scope and value chain configuration.

Identifying Important Success Factors - ISFs:

The key factors that have the greatest influence on performance and positional advantage are the important success factors (ISFs). The ISFs are the important areas for the success of a business. They can be identified by relating the present sources of advantage with the positional advantage or superior performance.

One of the important methods for identifying the ISFs is:

Comparing winning competitors with the losing ones: The ISFs can be identified by analyzing the difference in performances of the winning and losing competitors. Some of the reasons for the differences in the performance of competitors could be a unique vision, resources acquired, differences in assumptions about the environment, etc.

This comparison involves three important issues:

- The first is the identification of competitors to be included in the comparison.
- The second issue is the criteria that must be used to distinguish the winners from the losers, i.e., profitability, market share, growth rate, etc.
- The third issue is identifying the reasons for the differences in the performance.

Example

Consider the global FMCG market, where Unilever and P&G are arch rivals. Both the companies can be compared for their competitive position with respect to revenues.

During 2020, in the North American market, P&G dominated the market with 45% of revenues and Unilever was in second position with 30%.[11]

In the US market, P&G was a winning competitor for Unilever and Unilever was the losing competitor for P&G. Whereas in the European market both are at similar positions with 20% of revenues.

Customer-centered Methods

The analysis of competitive position-based customer-centered methods involves the judgment of the customer. The focus in the competitor- centered methods is on the cost factors and internal value chain activities.The focus in the customer-centered method is on the segment differences and differential advantages.

Customer-centered methods use insights from customers to identify the firm's relative competitive position in the market. They involve the use of feedback obtained after a purchase is made, judgments based on value and the choices of the customers. The buying behavior of the customer is not predictable. Therefore, many companies depend upon formal and informal customer surveys to analyze their competitive position from the perspective of the customer.

[11] Better Buy: Procter & Gamble vs. Unilever | The Motley Fool

Customer-centered methods involve identifying the positional advantages and relative performance measures, which are discussed here:

Positional advantages:

The positional advantages that a company has from the perspective of the customer allows for the identification of the competitive advantage of a company.

Some of the methods for identifying the positional advantages are preference models, conjoint analysis and market mapping, as given below:

Preference models:

In the preference model, the various attributes that are important to the customer are listed. The customer's perception of the performance of each company related to these attributes is listed, with each attribute being given a weight. The total weight given to a company by the customer is calculated. This is an attribute by attribute comparison method.

The basic assumption in such models is that the superior performance of a company on one important attribute can offset its poor performance in another attribute. However, most of the preference models do not provide for a mechanism to identify the tradeoffs between various levels of attributes. Also, these models do not measure how an attribute affects the buyer's cost or product performance. Therefore, the preference models do not show how improvements in a particular attribute have affected a company's performance.

Example

Consider 'The 2021[12] Global Automotive Consumer Study' conducted by Deloitte. The survey was conducted with 24,000 consumers from across 23 countries. It was about consumer preferences about engine type, electric vehicles etc.

It was found out from the study that 74% of consumers would prefer gas or diesel engine type in their next purchase.

For electric vehicles, the highest concern is for charging EV, for which 71% of them prefer charging at home rather than at public charge stations or at the workplace. Such 'Preference Models' help automobile firms to understand changing consumer preferences towards automobiles.

Conjoint analysis:

The conjoint analysis provides an answer to the problems faced by the use of the preference models. This analysis decomposes the overall preferences or value for money of the customer into utility value for each attribute.The

[12] 2021 Global Automotive Consumer Study | Deloitte US

conjoint analysis is ideal for analyzing the competitive position of a company from the customer's perspective

However, this analysis is not widely used because of the constraints in collecting specialized information. The need for the specialized information collection restricts the number of attributes that can be analyzed.

Market mapping:

The pictorial maps that represent the judgment of the customer and the relative attributes in a few composite dimensions are called market maps. These maps represent the relationship among the competitors from the customer's perspective. The maps are very useful in revealing the patterns of perceived differences in the competition, and in identifying the market boundaries. These maps provide the purpose of the customer's preference for one company over the other.

Relative performance measures:

Relative performance can be measured with direct inputs from the customer.

The areas in which relative performance can be measured are:

Customer satisfaction:

The main objective of any business is generally the achievement of customer satisfaction. Many companies carry out surveys for measuring customer satisfaction. However, such surveys do not focus on the factors of competitive advantage. Often they measure the total satisfaction level and not the relative contribution of each attribute to the resultant satisfaction.

Example

Consider the American Customer Satisfaction Index (ACSI), for automobiles and light vehicles conducted during 2020 to 2021[13].

Honda is at number one rank with a customer satisfaction score of 82, better than the industry satisfaction score of 78.

Around 4,888 customers were interviewed at random through email, in this study.

Customer loyalty:

A company that has strong customer loyalty has an advantage over its competitors. However, the criteria for measuring customer loyalty are not clear.

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[13] Honda Races Into First and Lexus Gains Competition in Luxury American Customer Satisfaction Index (theacsi.org)

Pitfalls in Analysis of Competitive Position

The competitor and customer perspectives differ mainly on whether the management relies on the judgment of the customer or its own analysis while comparing itself with its competitors. It is, however, better for the company to adopt a balanced perspective of the customer-centered and competitor-oriented methods.

Managers must choose the perspective based on the situation and the one which provides the best information. The choice of the perspective for analyzing the competitive position is generally based on the information available in the market.

There are, however, a few pitfalls in both the competitor-oriented and customer-centered methods and these are mentioned here.

Pitfalls in Competitor-Oriented Methods:

- Competitor-oriented methods are appropriate when the market demand is predictable and the competitive structure is stable. However, these methods lack the essential factor of customer focus, which can have a negative effect on the success of a company in the long run, because it is the customers who ultimately buy the product.
  - They focus on costs and internal factors and hence overlook the opportunities for innovative selling and new distribution channels. In such methods, a company tends to lose track of the changes in the market environment and the changes in the requirements of the customers.
  - The companies adopting competitor-oriented methods tend to imitate or adopt the practices of the competitors. This affects the company's ability to innovate.

Pitfalls in Customer-Centered Methods:

- Customer-centered methods are appropriate in the turbulent markets characterized by intense competition, highly segmented markets and many competitors. However, such methods may, at times, de-track the business activities of a company.
- In addition, a company using customer-centered methods for identifying its competitive position may fail to consider the position of competitors in the market.

3.4.3 Developing a Sustainable Competitive Advantage

According to Emerson, one invention makes way for another invention. The competitive advantage of a company can be easily imitated by rival companies. It is not enough for a company to gain a competitive advantage; it has to also sustain it.

The company should think in terms of 'what holds back its rivals from imitating or improving its advantages'. The answer to this question plays a key role in developing a sustainable competitive advantage. It is a universally known fact that for a company to succeed, it must have a competitive advantage.

Generally, companies achieve a competitive advantage in three areas, namely – innovation of products, manufacturing process and marketing.

Competitive Advantage through Innovation of Products:

It is difficult for a company to sustain a competitive advantage through product innovation because it is easily imitable. On an average, the competitors collect information and know-how of the new products within a year of their introduction in the market.

This process of collecting information and developing new products costs the competitors less; therefore they can price the products (developed through imitation) lower and gain an advantage in the market.

Example

Toyota was ranked 21st in the most innovative companies ranking for 2021[14] conducted by BCG.

Toyota jumped twenty ranks as compared to 2020. It announced an investment of USD 400 million in a flying electrical cars company 'Skydrive' during January 2020.

It tested the first human piloted drone vehicle during August 2020.

Competitive Advantage Through Manufacturing Process:

The manufacturing processes are also easy for competitors to imitate. In fact, they are even more vulnerable to imitation than the product innovations. It is believed that competitors imitate 60-90 percent of the production processes used by a successful company.

Competitive Advantage Through Marketing:

Marketing is less vulnerable to imitation than production and product innovations. This is because the competitors generally react to the marketing moves by realigning their marketing mix and advertising strategies. Here availability of information on marketing strategy is limited and hence the counter moves of the rivals are less effective. A major threat to a company's

[14] Ranked: The World's Most Innovative Companies in 2021 (visualcapitalist.com)

competitive advantage is imitation by rivals. Therefore, a competitive advantage should be hard to imitate.

The three major areas for sustaining competitive advantages are:

Size of the Company:

As the markets are finite, the advantage of size exists. When a company is committed to being large, the competitors are forced to remain small. The issue that holds back competitors is the fear of excess supply in the market, i.e. if they want to match the market leader's size, they have to draw up expansion plans and increase production.

Increase in production may result in an excess supply of products in the market. This excess supply may lead to a gradual decrease in demand for the particular products and therefore result in losses for the entire industry. To have a vast market presence, a company has to make long-lasting investments in the business.

It should identify the opportunities and exploit them profitably. It should anticipate the moves of the rivals and their investment efforts. The large size of a company is an advantage only if there are economies of scale, scope and experience.

Economies of Scale:

The economies of scale in a business need not be confined to the production or manufacturing department alone. They can be achieved in any of the activities of the business.

Economies of Scope:

The economies of scope enable a company to share resources across various markets while keeping the costs constant as far as possible. Economies of scope can be derived from the activities in interrelated markets.The sustainable advantage a company has in one market can be used to create a sustainable advantage in another market.

This requires a company to coordinate activities across various markets. This makes the economy of scope difficult for a company to implement.

Example

- Walmart achieves sustainable advantage through its Everyday Low Price (EDLP) strategy in the US market.
- Walmart uses the sustainable advantage it achieved in the US market, in other markets.

Contd. ....

- It acquired Indian company Flipkart by investing a huge investment of USD 16 billion in 2018[15] through economies of scope from the US market.

Advantages of experience:

Experience plays a vital role in the right investments being made. The size of a company and its experience are positively related. A company that is large but relatively new does not have much experience in the marketplace and cannot successfully pursue the sustainable advantage of size.

On the other hand, a company that has grown over a period and has experience in the marketplace is more successful at developing a sustainable competitive advantage. The experience helps a business to reduce the production costs, launch successful products and increase operational performance.

Accessibility

Access to superior resources can help a business develop a sustainable advantage independent of the size of the company. Accessibility can be a source of competitive advantage if two conditions are met: the resources should be obtained on better terms than the competitors have got them; the advantage has to be enforceable in the long run.

For this purpose, a company that has access to superior resources (for example, suppliers) should enter into agreements and contracts with suppliers and bind them through switching costs, etc. In the absence of such contracts or limitations, the boundaries for competitive advantage will be eliminated.

Superior resources could include:

Know-how:

Superior access to information can help a company have sustainable advantages. The information can be used to learn about and identify the issues that competitors are unaware of. The insights gained from the superior access to information must be kept secret in order to gain and sustain the competitive advantage.

Inputs:

A company can block inputs only if they are limited and the company has the right to use them. The inputs can be of limited supply of superior quality or of elastic supply of varying quality. In both situations, the supply of the input is limited; therefore, blocking the inputs is very advantageous.

Markets:

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[15] Walmart completes its $16 billion acquisition of Flipkart | TechCrunch

A company can have better access to markets by using agreements and contracts. It can also enforce mechanisms like switching costs, reputation, relationships and product complementarities.

Restrictions on the Competitors

Apart from the size in the target market and access to superior resources, sustainable advantage can also be gained by exploiting the restrictions that the competitors have. These restrictions prevent the competitors from imitating the market leader.

Restrictions on competitors could be in the form of government policy, defensive actions and slower responses, as given below:

Government policy:

The government's intervention in the markets changes the equation of competition. At times, government policies have an effect on the competitive positions in the market. Some government policies that act as barriers to imitation are patent laws, anti-trust laws, market entry barriers, etc.

Defensive actions:

A company can also sustain its advantage if its competitors are stuck with past investments like obsolete technologies that are difficult to upgrade, huge investments in manufacturing technologies, etc.Such competitors may find it hard to adopt the changes of the market leader due to lack of resources or capabilities.

These competitors, then resort to defensive actions and strive to manage their existing business. They would rather stay in the present position and defend the market than pursue the market leader's strategies.

Slow response:

A company can be as competent in terms of size and accessibility as another company, but less prepared to make a specific move. In such a situation, the company that makes the first move gets the advantage and can build on the lag in the competitor's response to develop a sustainable advantage. The slower the response of the competitor, the better for the company.

A company should adopt non-price innovations like economies of scale and superior production processes, which cannot generate immediate responses from the competitors.

Some of the strategies for developing a sustainable marketing advantage are:

Developing Customer Orientation

The secret of the success of many organizations is their indisputable concern for customers. Customer orientation should be developed across every function at every organizational level and should not be confined to the

marketing department. The top management should communicate the importance of customer orientation throughout the organization
. Practices such as Total Quality Management (TQM) and lean production will be of no use if they are not customer oriented. Ultimately, it is the customer who decides the quality and value of the product. Therefore, the utmost importance should be given to the customer

Understanding the Competition

Competitor orientation along with customer orientation is important for the success of a company. The competitor's strategic moves and plans play a vital role in sustaining the company's competitive advantage.

Very often, companies focus only on the direct competitors, i.e. other companies in the same industry. However, competitors can be present in different industries and at a number of levels.

Sensitivity to Changes in the Market Environment

An organization should constantly monitor the changes in the market environment.In today's volatile environment, it has become mandatory for a company to track market changes in order to survive.

Monitoring of the environment involves the analysis of the political, economic, socio-cultural and technological aspects of a market. It also involves identifying the key trends, market size, changes in the requirements of customers, changes in the market structure and market segments, etc.

Segmenting Markets

The ability to segment the markets by identifying similarities in preferences and then developing a product is the key to the success of a company. After targeting the segments, the markets have to be regularly monitored. Over time, the market segments tend to get fragmented into new sub-segments. Therefore, the changes in the requirements of the customers have to be identified and products developed to meet such requirements.

Product Differentiation

A company must differentiate its product from that of its competitors. Product differentiation ensures that a company is not competing on the same terms, i.e. with similar products in the same target markets, with its competitors. A company can differentiate itself by offering superior product quality, superior service, wide distribution coverage, low prices, innovative product features, etc. Differentiation of a product requires an understanding of customer requirements and a strong customer orientation.

Identifying the Strengths and Weaknesses

An organization should perform an internal and external analysis to know its strengths and weaknesses and the threats and opportunities in the environment. Internal analysis helps a company to identify its own strengths and weaknesses. On the other hand, external analysis helps to identify the opportunities and threats

In order to develop a sustainable competitive advantage, the top management should use the strengths of a company to exploit the existing or emerging opportunities in the market. A company has to conduct regular audits to identify its strengths and weaknesses in every market segment in which it is operating.

Understanding the Evolution of Product/Markets

Markets are volatile and they change continuously due to technological advances, changes in customers' attitudes and competitive pressures. Therefore, it is important for a company to understand how a market has evolved to date and also how it will evolve in future. The nature of evolution of the product/market helps the management to sustain a competitive advantage based on the phase of the evolution.

Analyzing the Product Portfolio

A company should have a balanced portfolio that has both cash cows and stars that enable it to develop new products. It should optimally allocate resources in the portfolio to sustain a competitive advantage.

3.4.4 Market Entry Barriers

Market entry barriers tend to slow down the speed with which potential players can enter a particular market segment. These market entry barriers give a competitive advantage to the existing players in the market.

The market entry barrier analysis includes:

- Identifying the barriers and their relative importance to the company
- Analyzing the effect of entry barriers on different stages of a product life cycle
- Identifying the differences in entry barriers in different markets

There are six major sources of market entry barriers that are given as follows: (Refer to Table 3.1 for the implications of market entry barriers).

- Capital requirements
- Switching costs for the customers
- Accessibility of the distribution channels

- Cost advantages for the existing companies
- Product differentiation of the existing companies
- Government policies.

Table 3.1: Six Major Market Entry Barriers

Market Entry Barriers	Implications
Capital investment needed	The financial resources and investments in infrastructure required to enter a new market.
Switching costs for the customers	The costs for the buyer to switch from one supplier to another. The switching costs generally include the cost of installing new equipment, the cost of redesigning the product, etc.
Availability of the channels	The extent of availability of the distribution channels of a product for a well-established firm in the market.
Advantages for existing companies in terms of costs	The decline in unit cost of a product, with the increase in absolute volume of production and reduction in unit cost of product due to product know-how, favorable access to raw materials and vertical integration, Experience curve, and government subsidies.
Product differentiation	The product differentiation, brand identification, customer loyalties of the well- established companies, due to their previous marketing efforts.
Policies of the government	The extent to which the government imposes a limit on the entry with the licensing requirements, limited access to raw materials, ownership of patents.

Source: Philip Kotler, "Marketing Management", (International Economy Edition), Prentice Hall, 14th Edition, 2012.

Market entry barriers depend on the nature of the competition in the markets. In pure monopoly and strict oligopolistic conditions, the market barriers range from high to low. On the other hand, there is free market entry in monopolistic and pure competition markets.

Despite the presence of market entry barriers, companies that try to enter new markets sometimes perform better than the existing players. Based on their time of market entry, the firms can be classified into early entrants and late entrants.

Early Market Entry

Early market entry refers to entering a market immediately after the first market entrant, i.e. the market leader. Usually the market leader/pioneer enters a new market with a new or existing product. The early entrant follows the market leader entry, by entering the new market.

The strategies for early market entry are as follows:

- Entering a market through the creation of a new business entity in the industry
- Entering a market through acquisition
- Sequenced entry, which involves initial entry into one group and subsequent mobility from one group to another.

Late Market Entry

Late market entry refers to entering the market when it is in the saturation phase. The late market entrant has to deal with significant competition in the market.

In such situations, the strategies that a late market entrant can pursue are:

- Entering a market by imitating the market leaders' products or strategies
- Entering a market by adopting innovative and unconventional strategies
- Entering a market with an enhanced product or service compared to those existing in the market.

Early Market Entry vs. Late Market Entry Barriers

The early market entrant has a competitive advantage over the late entrants. However, being an early entrant does not always ensure profitability or smooth sailing in the markets. Though early entry offers many opportunities, it also involves taking risks.

The early entrants may be prone to making mistakes. Late entrants, on the other hand, have the benefit of learning from the mistakes of the early entrants and avoiding them.

Activity 3.1
Wheeler Motors is an automobile manufacturing company based in India. It has a presence in the four-wheeler market (cars), in small as well as premium car segments. It also has a strong distribution network and brand name in the Indian market. The company is planning to foray into the two-wheeler market. The two-wheeler market in India is intensely competitive with established players having a major presence in the market. In view of this competition, explain how the company can differentiate its two-wheelers and gain competitive advantage? Also, explain the components through which the company can gain competitive advantage. **Answer:**

Check Your Progress - 2

2. Which of the following is not a component of competitive advantage.
   a. Market share
   b. Bases of advantage
   c. Advantageous position
   d. Results
   e. Low cost
3. Which of these may not be a base of advantage?
   a. Enhanced resources
   b. Improved skills
   c. Better controls
   d. Competition
   e. Low cost
4. Which of the following is not an action that would result in building the competitive advantage of a company?
   a. Charge premium price for a high end product
   b. Offer products with features and benefits in which customers see value
   c. Aim at becoming the market leader
   d. Aim to internally perform value chain activities differently as compared to competitors.
   e. Improve operational efficiencies to reduce cost
5. Which of the following is not caused by the efficient implementation of the business strategy of a company?
   a. Strengthening the competitive position of its products
   b. Weakening the competitive position of a company
   c. Developing and sustaining competitive advantage
   d. Managing the company's portfolio
   e. Sustaining competitive advantage

3.5 Business Strategy

A business strategy helps to strengthen the competitive position of a company or its products in a specific industry or market, in which the company operates. It plays a vital role in developing and sustaining the competitive advantage. It also helps in managing the company's portfolio.

The process of developing a competitive advantage involves a chain of activities. The main activity in the formulation of a business strategy is the definition of the corporate mission of the business. Each functional unit of a business has separate goals and objectives

A business strategy aligns with the various activities of the functional units. It should include the corporate mission, the core competencies, the corporate development alternatives and the corporate strategy of the business.

Exhibit 3.2 illustrates how Yoga Guru Baba Ramdev crafted the business strategy of Patanjali.

Exhibit 3.2: Business Strategy of Patanjali

Baba Ramdev, a very popular Yoga Guru of India along with Bala Krishna, started 'Patanjali Ayurved Ltd.' in 2006. The aim of Patanjali is to create a healthy society and to develop urban & rural areas of India.

Patanjali's Business Strategy

Patanjali expanded with a 'Growth Hacking Strategy' or 'Growth

Marketing Strategy'. This strategy uses less investment and reaches quick growth by attracting customers of competitors with the help of a growth hacker.

Baba Ramdev is considered as the growth hacker of Patanjali, as he is more popular than a celebrity in India. He has millions of followers in India and overseas. He empowers farmers by providing technical support and information for production of herbal ingredients.

Patanjali, being an Indian firm, challenged the businesses of MNCs like HUL, Colgate, P&G etc.

Product Strategy: **Ayurvedic and Herbal Products**

Baba Ramdev, through his teachings on Yoga practices to millions of Indians, is popular as Yoga Guru. In the product portfolio, he embedded herbal products with natural ingredients for better health of his consumers.

During 2019, he acquired the bankrupt company 'Ruchi Soya' at a rate of 4,350 crores and gained huge profits through it.

Pricing Strategy: Patanjali applies penetration pricing strategy, by launching its products with less price than the competitors' products in most of the segments.

Contd. ....

Promotion Strategy: Baba is an advantage for promotion of Patanjali, as Baba is very popular and has wide and deep reach across the country.

Distribution Strategy:

Patanjali has wide distribution of products through its stores with great reach even in rural areas. Its products are available at major retail chains in India like Big Bazaar.

By the financial year 2021, Patanjali has a revenue of Rs. 30,000 crores, where the contribution of 'Ruchi Soya' itself is Rs. 16,318 crores. Being very successful in the domestic market, Baba is now looking for its foray into global markets too.

Sources:(i) https://myvoice.opindia.com/2021/06/rise-of-patanjali-and-its-impact- on-the-indian-market/ Accessed on 29/10/2021

(ii)https://www.businesstoday.in/latest/corporate/story/no-walk-only-run-baba-ramdevs-patanjali-all-set-to-go-global-301987-2021-07-21 Accessed on 29/10/2021

3.5.1 Corporate Mission

According to Peter Drucker, *a corporate mission is the basis for formulating strategies and preparing plans. It is the starting point for designing the managerial structure and managerial jobs along with the responsibilities.The mission statement is for the short term – usually for one to three years and it should define 'what business one is in'. Though this question may seem simple, it is actually difficult to answer.*

A proper answer can be obtained by answering the following questions from the perspective of the customer:

- Which customers are being satisfied?
- What are their needs?
- How are their needs being satisfied? A corporate mission statement
- Acts as a common purpose for the entire organization
- Helps in developing an organizational culture
- Sets a standard for allocating organizational resources
- Helps individuals to identify with the organizational purpose and contribute accordingly
- Ensures that the costs, time, and other resources are carefully monitored when directed toward achievement of organizational objectives.

Key Aspects: Some important aspects of mission are:

- A corporate mission statement should also reflect "Who one is, what one does, to whom one offers products and services and how one will be offering those products and services in terms of being different and better than one's competitors."

- It should help a company obtain a competitive advantage. A mission should help to influence the behavior of the employees for achieving the organizational objectives.
- The mission statement is a road map for the company in its journey toward realizing its vision. In order to develop a mission statement, the company first has to define the kind of business it wishes to operate in.
- The mission statement must also include *what* is considered as success in the particular business, which could be the market share, growth rate, or sustainable advantage. Then the company must define the markets in which it plans to operate. Now the capabilities that are necessary to attain success should be identified.
- A company should also ask itself how it wants to be perceived by its customers and competitors. A good mission statement is developed after taking the vision of the company into consideration. It should be short and easy to understand.
- The development of a mission statement should start at the top management level, though with the involvement of employees from every level of the organization.

Example

Consider the mission statement of ITC, one of the most valuable Indian companies. ITC Mission statement:

"To enhance the wealth generating capability of the enterprise in a globalizing environment, delivering superior and sustainable stakeholder value.[16]"

3.5.2 Core Competence

Core competence is communication and commitment throughout the organization. The core competency needs to be supported and improved over time. The success of an organization lies in its ability to identify, develop and take advantage of its core competencies.

Consider the company as a tree, in which the trunk and the big branches are the core products, the small branches are the business units, the leaves, flowers and fruits are the end products. However, it is the roots that provide the necessary support and nourishment to the entire tree. The roots, thus, are the core competencies of the organization.

The core competency of a company can be defined as the one thing it can do better than its competitors.

[16] ITC's Vision, Mission and Values (itcportal.com)

Methods for Identifying: There are three methods for identifying core competency:

- It provides access to a wide variety of markets.
- It should contribute by providing benefits that are perceived as important by the customer.
- It should be difficult for competitors to imitate.

The link between the core competencies and the final products is the core product. For a company to be successful, it has to be successful at these individual levels also. A company that wants to develop core competency needs to design and develop a particular product, which is of a superior standard. In order to sustain the core competency, the company has to develop core products. A company can have one or more core competencies.

Process of Identifying: The process of identifying the core competency of an organization involves the following activities:

- Defining the needs of the customer
- Planning for a product or service that meets the needs of the customer
- Developing the product
- Manufacturing the product
- Distributing and selling the product
- Providing after sales service for the product.

Corporate Objectives

Corporate objectives act as a tool for the measurement of organizational performance. The corporate objectives are generally set in the major functional areas of marketing, R&D, production, manufacturing, sales, etc.The objectives are set at various levels in an organization and each of them reflects the objectives of the organization as a whole.

Some of the typical corporate objectives of firms can be to increase market share, improve product quality, provide training to employees to enhance their capabilities, lower the costs, etc.

A corporate objective should have the following components:

- The dimension of performance
- A measurement for evaluating progress
- A target to be achieved
- A time span within which the target has to be accomplished.

3.5.3 Corporate Development Alternatives

There are many alternatives for corporate development. However, a company must select an appropriate alternative for corporate development based on its vision, mission and corporate level strategy. A business can introduce new products in the existing market or introduce an existing product in a new market. It can also diversify and enter either related or unrelated businesses.

Core Business

The initial venture of an enterprise is its core business. Initially, the venture starts out in one product or market segment. This gives the enterprise the much needed leverage in an industry. Then, as the business grows, the company expands and enters new markets or develops new products.

New Products for Existing Markets

Businesses planning to expand in their existing markets by launching new products, can make optimal utilization of the existing distribution channels, R&D, market research and other synergies in the existing markets. The new products can either be developed internally or acquired. Both these require supportive infrastructure.

New Markets for Existing Products

Another strategy to expand a business is to enter new markets. In this strategy, the existing products are targeted at new customer groups in new market segments. This is the most common way of expanding a business. This strategy reduces the risks which come with depending on one particular market.

Businesses pursuing this strategy have the benefit of existing technical and production facilities. However, it has to formulate marketing strategies to target the new customer and market segments.

Example

- Tata Motors,[17] being most valuable Indian company, expanded internationally with existing products.
- Its mid-sized sedans - Indigo and Manza - are sold in other markets like Latin America.
- Its hatchback Xenon is sold in other markets like Latin America and Middle East. It also sells its buses, trucks and commercial vehicles across the globe.

[17] Market of Tata Motors - Top Car Manufacturers in the World

Diversification

Another important corporate development alternative is diversification. The diversification strategy is the most expensive and risk inherent strategy.Diversification is the entry into a new market with a new product. This strategy is adopted either by internal development or by acquisition. While diversifying, a business may enter either a related or an unrelated business sector.
Some of the diversification strategies are discussed below.

Vertical integration: Vertical integration comprises forward integration and backward integration.

Forward integration: Forward integration takes place when a firm moves forward and closer to the customer.

Example

Amazon acquired Whole Foods[18], which provide Whole Foods outlets for Amazon. Amazon was a small player in groceries, but after this acquisition, it became a top player.

Backward integration: Backward integration occurs when a firm moves backward by acquiring the supplier as in the case of an automobile manufacturing company acquiring a tyre manufacturing company. It enables a firm to have better control over the marketing, distribution and service of the products.

Related diversification: Related diversification occurs when a firm internally develops or diversifies into another business that does not have products or customers in common with its current businesses. However, the diversification may contribute to internal synergy through the sharing of production facilities, brand names, R&D know-how, or marketing and distribution skills.

Unrelated diversification: Unrelated diversification occurs when a firm enters a business that has no commonalities with its current businesses. A firm pursuing this strategy does not have common customers, production facilities, or other synergies, which are present in the case of related diversification. Unrelated diversification may occur when the present businesses are facing decreased demand or increased competition or are present in an increasingly unattractive industry.

Composition of a Business

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[18] Amazon's Retail Expansion Strategy (twentify.com)

The composition of a business is helpful in formulating a corporate level strategy. The composition of a business specifies how a firm is divided into business segments and strategic business units.

When firms serve different markets with different products then the composition of the business plays a vital role in strategic planning. It is difficult for the management to formulate the corporate level strategy effectively at such a broad level. Therefore, huge companies divide themselves into business segments and strategic business units (SBUs).

Business Segment, Group or Division

When a business entity receives revenues and incurs expenditure and its segmental performance is evaluated on the basis of such revenues and expenditure, it is called a business segment, group, or division. A business segment can provide diverse products in a market. The business segment is different from the market segment.

Strategic Business Unit

It is difficult for a company that is diversified, to analyze and formulate strategies for each of its business segments, groups, or divisions. Therefore, the business segments are divided into what are called strategic business units (SBUs). This makes the strategic analysis in a diversified portfolio simpler. Generally, the SBUs display product and customer group similarities.

An SBU can be defined *as a single product or brand, line of products, or a combination of related products that meets the requirements of common groups, for which the SBU's management is responsible.* The strategy of an SBU is usually different from the corporate strategy. However, both these strategies are formulated in such a way that they complement each other.

The characteristics of an SBU are as follows:

- It serves a common set of markets. This helps the manager to formulate and implement strategies that are internally consistent throughout the SBU.
- It serves a unique set of markets. This helps the business units to avoid focusing on the same markets with similar products.
- It has control over factors such as R&D, marketing, production and distribution. This helps the SBU to plan its resources, so that they are utilized optimally.
- It is responsible for its own profitability. This helps the top management to monitor the relative performance of the managers based on the performance of an SBU in the market.

Corporate Strategy

The top management plays a vital role in strategic planning. It sets guidelines on the basis of which the strategic plans are to be prepared. A company that has more than two SBUs has to formulate strategies at two levels. The top management of the company must decide how to allocate resources to each of the SBUs.

The corporate strategy should help a business to compete effectively. It should provide the resources and synergies among the SBUs so that they can establish a competitive advantage.

Example

Consider some corporate strategies of ITC[19]:

- "Create multiple drivers of growth by developing a portfolio of world class businesses that best matches organizational capability with opportunities in domestic and export markets".
- "Continue to focus on the chosen portfolio of FMCG, Hotels, Paper, Paperboards & Packaging, Agri Business and Information Technology".

3.5.4 Strategy Analysis and Choice

The performance of a business depends to a large extent on strategic analysis and choice. The corporate strategy determines how a business will compete in the market. The generic strategies, capabilities approach and the comparative advantage help a business to make strategic choices, which are as given below:

Generic Strategies

According to Herbert and Deresky, there are four generic strategies – the develop strategy, stabilize strategy, the turnaround strategy and the harvest strategy.

Develop strategy:

Focuses on identifying and utilizing opportunities, which can result in the growth of a business. This strategy is adopted by businesses that are new. The activities that are used to implement this strategy are coordinating activities and people for new product development and investing in the introduction and development of the new product.

[19] ITC's Vision, Mission and Values (itcportal.com)

These activities result in the maintenance of good relations with the internal and external environment of the organization to provide information about the opportunities along with the necessary support. This strategy requires the top management of an organization to have open communication with the employees, so that the employees can provide insights about the potential opportunities in the market and thereby, help the management to exploit the opportunities.

Example
Phonepe is targeting higher payment value stores like lifestyle and consumer electronics for developing its business. It also is planning to launch 'Phonepe for Business' app as a CRM solution[20].

Stabilize strategy:

Focuses on sustaining the competitive position of a company. This strategy is adopted by mature businesses. It involves developing and implementing cost control programs, planning and controlling production and operational efficiency, developing and implementing technical programs and improving product quality.

Example
Consider how McDonald's implemented cost control and achieved operational efficiency. The company decreased labor cost through assembly line machines, standardizing the preparation of ingredients (by semi processing and delivering it to the stores), and testing equipment for patties. Through these measures the company saved a lot of time, reduced cost and increased quality and hygiene.

Turnaround strategy:

It is applied to survive or rebuild the company when it is running at a loss. It focuses on analyzing the reasons for the decline of the organization and identifying the strategic changes that need to be implemented. It involves major decisions such as those relating to securing and committing resources, expansion plans, diversifying, and improving the efficiency of the operations.

[20] PhonePe is the first UPI app that can be used at Walmart India's B2B stores (yourstory.com)

Harvest strategy:

It is used when a business is to be removed from the portfolio of the company. It focuses on maximizing cash flow or by milking profits, avoiding any future investments in the business, reducing operating and marketing expenses, etc. It may lead to a loss of market share and a decline in sales. It is adopted when there is poor financial performance of the business, lack of synergies of the business with the core business of the company, and lack of a competitive advantage.

Example

Consider Harley Davidson, American motorcycle manufacturer, which entered the Indian market in 2009.

It exited from India during 2020[21], as part of the company's 'Rewire Strategy'. As it incurred losses (losses of USD 96 million between April 2020 and June 2020) from Indian business, it ceased its operations.

Choice of Strategy

The strategic choice has a strong impact on the performance of an organization. Some companies are successful even in the intense competitive and volatile market environment. The reason behind their effective performance is strategic choice.

Activity 3.2

MobiCorp is a telecom company in India. The company offered wired and wireless telecom services. Of late, the management noted that its mobile phone division is suffering losses. The top management made efforts to identify the reasons for the losses. It was found that the mobile phones manufactured by the company were outdated while its competitors were coming out with innovative handsets. Having identified the problem, the management decided to commit more resources to the division in a bid to revamp the division.

Identify and discuss the generic strategy adopted by the top management of MobiCorp. Also discuss other generic strategies.

Answer:

[21] Case Study | Harley's exit from India: What's the future like? | Passionate In Marketing

Some of the approaches for choosing a strategy are the capabilities approach to strategy and the comparative advantage approach. These are discussed below:

The Capabilities Approach to Strategy

Capabilities can be defined as a collection of skills and learning which are utilized in the organizational processes, to ensure the coordination of the activities of various functional units.A market-oriented organization utilizes its superior capabilities to understand and meet the requirements of the customer. A market-oriented business focuses on identifying the changing needs of the customer and on providing superior value to the customers.

The concentration in such businesses is basically on the customer. However, the market-oriented culture in the organization has to be sustained. The capabilities approach to strategic management enables a business to formulate various organizational change programs and therefore helps to enhance market orientation.

Activities: The capabilities approach to the strategic management includes the following activities:

Analysis of the present capabilities of the organization:

An analysis of the present capabilities of the organization involves the measurement of the sufficiency or adequacy of the present capabilities. Such a measurement is made in terms of the outcome of the process. The measurement process involves identifying where and how the activities are performed.

Forecasts about the capabilities that will be required in the future:

The analysis of present capabilities will enable an organization to forecast the capabilities that will be required in the future.

Some of the capabilities provide unique competence, while some provide a competitive advantage. Some require continuous improvement while some require immediate attention. The changes in the market force require changes in the capabilities needed by the organization.

Redesigning the organizational structure:

Redesigning of the organizational structure involves bottom-up activity. It involves the formation of teams and communicating and delegating responsibilities to the teams in the organization. In the new organizational structure, employees at every level should focus on providing satisfaction to the customer.

The commitment of the top management:

The top management must communicate its commitment to customer orientation throughout the organization. It should do this by setting ambitious goals and by setting standards that are to be met by the employees, in order to achieve customer satisfaction.

The use of technology in an innovative manner:

The use of information technology can help a company in sharing databases, enhancing the communication networks, decision-support systems, etc. Therefore, information technology can be used in market research and customer need sensing activities, innovatively.

Regular monitoring of progress:

Organizational activities should be regularly reviewed. This helps both in monitoring the progress and identifying the new capabilities of an organization.

Comparative Advantage

When a resource is available to a company and at the same time is unavailable to its competitors, it gives the company the opportunity to develop a comparative advantage. A comparative advantage in resources exists when a company's exclusive resource assortment allows it to produce a market offering that, when compared to the offerings of the competitors, is perceived to have superior value and/or can be produced at lower costs.

Superior value for the product offering or low costs is directly dependent on the distinctiveness in the resources that are utilized in the production of the product. The comparative advantage can be translated into a competitive advantage in the marketplace.

Check Your Progress -3

6. Which of the following is **not** a component of the corporate objective?
   a. The dimension of performance
   b. A measurement for evaluating progress
   c. A target to be achieved
   d. Departmental strategies
   e. A time span within which the target is to be accomplished
7. Vertical integration is a strategy related to which of the following corporate development alternatives?
   a. Core business
   b. Diversification

c. New product for existing markets
d. New markets for existing products
e. Product Innovation

8. Which of the following is **not** a generic strategy?
   a. Develop strategy
   b. Stabilize strategy
   c. Turnaround strategy
   d. Competitive strategy
   e. Harvest strategy
9. Great Lakes is an educational institution that believes in delivering superior value to its target customers, who are students. Great Lakes could be classified as
   a. Profit Centered College
   b. Student/Customer Centered College
   c. Market Centered College
   d. Competitor centered college
   e. Image centered college
10. Golden Gates Higher Secondary School purchased a fleet of 25 buses to ferry their students from their homes to school. The fleet of buses owned by Golden Gates (GG) earns them consistent profits because existing students invariably use the bus service because of convenience and the distance they have to cover. Under which of these strategies would you classify GG's foray into transportation business?
    a. Related diversification
    b. Conglomerate diversification
    c. Backward integration
    d. Unrelated diversification
    e. Forward integration

3.6 Strategic Analysis in a SBU

Strategic Analysis is a process of conducting a thorough study of the internal and external environment in which the firm operates to understand its present position. To move forward and reach desired destinations, it is important for a firm to understand the present position. By mapping the current position, a firm can formulate strategies for future direction and growth.

The strategic analysis helps the management in prioritizing and allocating the resources among the various SBUs. The strategic analysis in an SBU involves the situation analysis of the mission and objectives. The strategy of an SBU indicates the market target priorities, the availability of resources, the financial limitations and other strategic guidelines that are required to develop functional plans.

Example

P&G operates through five industry-based SBUs, which are: 1) Baby, Feminine and Family Care; 2) Beauty; 3) Health Care; 4) Grooming; and 5) Fabric and Home Care. It manages its 10 product categories within these SBUs. These SBUs have sales, profit, cash and value creation responsibility for its largest and most profitable markets, called Focus Markets which accounts for about 80% of the company sales and 90% of after-tax profit. The rest of the world is organized into enterprise markets which is a separate unit with sales, profit and value creation responsibility. The SBUs provide innovation plans, supply plans and operating frameworks for the enterprise markets to deliver these mutually agreed business goals.

Objectives: There are two objectives for the strategic analysis of an SBU:

- To identify the strengths and limitations and
- To select the strategies to maintain and enhance the performance of the SBU.

Tools: Strategic Analysis is conducted through various tools like:

- **SWOT analysis:** A strategic planning technique that helps a SBU understand its competitive position by identifying its strengths, weaknesses, opportunities and threats.
- **PESTLE analysis:** This is an analytical tool to identify and understand the various external influences on a firm.
- **Porter's five forces framework** is an analytical tool that helps a SBU understand competition.
- **Value chain analysis:** A tool to analyze SBUs internal activities to identify and recognize the most valuable activities that give competitive advantage.

Check Your Progress - 4

11. Which of the following is not a tool for strategic analysis?
    a. PESTLE analysis
    b. SWOT analysis
    c. Strategic Business Unit (SBU)
    d. Porter's five forces model
    e. Value chain analysis

3.7 Summary

- Organizational change involves analyzing business strategy and identifying the terms of global competition and restructuring.
- Competitive advantage helps a business gain market share and profitability. A business can gain a competitive advantage by providing superior value or lowering the relative costs.
- The components for obtaining competitive advantage are the bases of competitive advantage, the advantageous position and the results.
- The strategy should define the mission statement, core competence and the corporate objectives.

3.8 Glossary

Business Strategy: Business strategy attempts to identify ways and means to achieve a competitive advantage. It consists of the decisions made by the top management and the resulting actions taken to achieve the objectives set for the business.

Comparative Advantage: When a resource is available to a company while at the same time being unavailable to its competitors, it gives the company the opportunity to develop a comparative advantage.

Competitive Advantage: Competitive advantage is the resultant market share or profitability due to the ability of a firm to provide superior value to the customer or the achievement of low costs relative to the competitors.

Core Business: The initial venture of an enterprise is its core business. Initially, the venture starts out in one product or market segment. This gives the enterprise the much needed leverage in an industry.

Core Competency: The core competency of a company can be defined as the one thing it can do better than its competitors.

Corporate Mission: According to Peter Drucker, a corporate mission is the basis for formulating strategies and preparing plans. It is the starting point for designing the managerial structure and managerial jobs along with the responsibilities.

Distinctive Competence: Distinctive competence means the relative and unique advantage a firm has over its rivals in terms of its capabilities and resources.

Diversification: Diversification is the entry into a new market with a new product.

Market Mapping: The pictorial maps that represent the judgment of the customer and the relative attributes in a few composite dimensions are called market maps.

Mission Statement: The mission statement is a road map for the company in its journey toward realizing its vision.

Strategic Business Unit (SBU): An SBU can be defined as a single product or brand, line of products, or a combination of related products that meets the requirements of common groups, for which the SBU's management is responsible.

Unique Competence: Unique competence is the unique capability of a company to deploy the skills and resources in a manner which cannot be imitated or adopted by the competitors.

3.9 Self-Assessment Test

1. Organizational change involves analyzing business strategy and identifying the terms of global competition and restructuring. Explain this in detail.
2. Define competitive advantage and state the importance of competitive advantage for an organization? Explain how an organization analyzes its competitive position in the market place and how it can develop sustainable competitive advantage?
3. Define business strategy. A business strategy includes the corporate mission, core competencies, corporate development alternatives and the corporate strategy of the business. Explain these activities in brief.

3.10 Suggested Readings / Reference Material

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3. O.C. Ferrell, Michael Hartline, Bryan W. Hochstein, "Marketing Strategy", 2021, Cengage South-Western.
4. Alexander Chernev, Philip Kotler, Musadiq A. Sahaf, "Strategic Marketing Management", "Strategic Marketing: Making Decisions for Strategic Advantages", PHI Learning, 2019.
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6. Fred R. David "Strategic Management Concepts: A Competitive Advantage Approach", Sixteenth Edition, Pearson, 2018.

3.11 Answers to Check Your Progress Questions

1. (b) Positioning

Any organizational restructuring focuses mainly on three major areas – minimizing the structure, restructuring, and network formation.

2. (a) Market share

The main components of competitive advantage are the bases of advantage, advantageous positions, and results.

3. (d) Competition

The bases of advantage include enhanced resources, improved skills, and better controls. Competition is not a base for advantage

4. (b) Offer products with features and benefits in which customers see value

A firm can build competitive advantage by offering benefits in which customers see value. All other options are not suitable for building competitive advantage.

5. (b) Weakening the competitive position of a company

A business strategy helps to strengthen the competitive position of a company or its products in a specific industry or market, in which the company operates. It plays a vital role in developing and sustaining the competitive advantage. It also helps in managing the company's portfolio.

6. (d) Departmental Strategies

A corporate objective should have the following components: The dimension of performance, a measurement for evaluating progress, a target to be achieved and a time span within which the target has to be accomplished. Corporate objectives are for the whole of the company. Departmental objectives on the other hand could be aligned with the corporate objectives, but they are not a component of the corporate objective.

7. (b) Diversification

There are many alternatives for corporate development. However, a company must select an appropriate alternative for corporate development based on its vision, mission, and corporate level strategy. A business can introduce new products in the existing market or introduce an existing product in a new market. It can also diversify and enter either related or unrelated businesses.

8. (d) Competitive strategy

According to Herbert and Deresky, there are four generic strategies – the develop strategy, stabilize strategy, the turnaround strategy and the harvest strategy.

9. (b) Student centered / Customer centered strategy

By delivering superior value to its students, Great Lakes is following a Customer Centered strategy.

10. (d) Unrelated diversification

When a business adds new and unrelated products or services to existing business, it is classified as unrelated diversification. GG's entry into transportation business is therefore classified as unrelated diversification.

11. (c) SBU

The tools for strategic analysis are SWOT analysis, PESTLE analysis, Porter's five forces framework and Value chain analysis.

Unit 4

Marketing Audit and SWOT Analysis

Structure

"The nature of the global business environment guarantees that no matter how hard we work to create a stable and healthy organization, our organization will continue to experience dramatic changes far beyond our control."

- Margaret J. Wheatley

4.1 Introduction

As quoted aptly by Margaret, the global business environment is experiencing dramatic change, which creates challenging situations for the organizations. They have to be more dynamic and adapt to the changes, failing which will lead to being obsolete. Another danger associated with not being dynamic is losing competitiveness in the long run. Two important tools to assess the dynamic business environment are; Marketing Audit and SWOT Analysis.

The previous unit discussed the needed organizational change and the factors that influence this change, explained the importance of competitive advantage for an organization, the business strategy and its components.

In this unit, we shall discuss marketing audit, its evolution, various components of marketing audit and the SWOT analysis.

4.2 Objectives

After reading through this unit, you should be able to:

- Define and elucidate the concept of marketing audit
- Present and elaborate the evolution of marketing audit since the 1950s
- Discuss various components of marketing audit
- Explain how marketing audit effectively helps in measuring the performance of the marketing activities of a company
- Explain SWOT analysis

4.3 Marketing Audit

An audit is a tool for recording, analyzing, and interpreting information. *Management Audit:* Management audit is an organization-wide audit program which assesses the availability of internal resources vis-à-vis the requirements of the external business environment. To make it easier, the audit is conducted for each functional unit separately. Both the management and auditor should be deeply involved in conducting a successful audit.

Marketing Audit: It is one of the important functional units of management audit. With the help of this tool, all the marketing activities of the organization can be recorded and analyzed. Marketing planning activity starts with it. Marketing audit serves as a vehicle for communication, an analytical framework to help make decisions and for framing policies.

Marketing audit process starts with framing a series of questions and collecting their answers. The questions are framed in such a way as to guide the auditor in carrying out an extensive analysis of the present and past marketing activities and to forecast the growth opportunities for the organization.

Stages of Marketing Audit: Marketing audit has three stages, which involve the following activities:

- Extensive analysis of the present and past marketing activities of the organization.
- Forecast of the organization’s growth relative to the changing market conditions.
- Suggestions for improving the quality of plans and the marketing performance.

Advantages of Marketing Audit: The uses of marketing audit are:

- It can be used for measuring as well as recording the past performance and enhancing the future performance of marketing activities of an organization.
- It helps the organization to make strategic choices in its market positioning decisions.
- It is not only a monitoring tool; it can also be used to learn about an organization's external business environment and the industry.
- It can be used in the organization's planning and decision-making process as it provides information regarding the market environment to the top management and supports their strategic decisions.

Example

In 2020[22] Harley Davidson, an American bike company, decided to exit from India, due to weak sales and lack of future demand. The customer perception was that these bikes were difficult to maintain, expensive and unsuitable for Indian roads.

It is usually when companies are in deep trouble that they wake up to deal with their problems. In such a situation, a marketing audit helps in identifying the underlying problem. Later they conducted a marketing audit and found out that their business model needs to be changed.

Its earlier business model was setting up assembly operations through dealerships. But, now it wants to sell its bikes through partnerships with local Indian two wheeler companies to reduce assembly operation costs. In 2021, they partnered with Hero MotoCorp for selling their bikes.

4.3.1 Benefits of Marketing Audit

Marketing audit is a powerful tool for improving the marketing effectiveness of an organization.

It plays two important roles:

- It introduces or changes the market orientation and practices of the organization and hence acts as an intervention strategy.
- It acts as a framework for organizational analysis and control.

Exhibit 4.1 describes the benefits of marketing audit for Coca-Cola.

[22] https://www.ecellnmims.com/post/harley-davidson-s-exit-from-india

Exhibit 4.1: Benefits of Marketing Audit for Coca-Cola

Due to the COVID-19 Pandemic, businesses across the globe were affected. Coca-Cola also had witnessed decline in its earnings during 2020. In this regard, Coca-Cola conducted a marketing audit on how to increase its earnings in 2021, through promotions.

The results of the audit suggested Coca-Cola to launch multi-channel advertising campaigns to increase its earnings.

Coca-Cola initiated the following multichannel advertising campaigns:

- It launched a high technology video advertisement during the basketball season of 'March-Madness'.
- It used unique digitally inserted images of various coca cola flavors into the footage of basketball tournament memorable moments. This campaign was so successful.
- It launched an omni-channel for Coca-Cola Zero Sugar, by musician Tyler. The campaign titled "Tyler, the creator" attracted the audience.
- It launched the first advertisement for its new Sparkling Water beverage brand 'Aha'. The campaign was titled "Can I Get an Aha?" Aha was its first new brand in the last 10 years.
- The advertisement campaign starred comedy stars Luren Lapcus and Colton Dunn and was created very humorously to attract the audience in a different way.

The marketing audit suggestions improved Coca-Cola's earnings. The marketing audit benefitted Coca-Cola, to grab a market share of 8.3%, while other companies were not able to get a decent market share.

Source:
https://www.marketingdive.com/news/coca-cola-builds-on-sparkling-water-momentum-with-first-aha-campaign/599921/, May 11, 2021

4.3.2 Variables of Marketing Audit

There are many variables that can affect the process of conducting a marketing audit.

Types of Variables: These variables can be broadly divided into two types:

- Controllable variables:

The variables over which the company has total control like production capacity and budget allocations are called controllable variables.

- Uncontrollable variables:

Variables like market demand, the business environment, customers and competitors are those over which the company has no control. Therefore, they are called uncontrollable variables.

Types of Marketing Audit: Based on these two types of variables, marketing audit can be divided into two types – external audit and internal audit.

External Audit

Analyzing an organization's external environment is termed as External audit. The experts with adequate knowledge and expertise on the industry and company should be selected as auditors. Auditors should suggest current marketing activities undertaken by the firm. It should be able to identify the strengths and weaknesses of the company in the marketing area.

It should also help in identifying the marketing resources, skills and assets, which the company should acquire.The marketing requirements of the company and the problem areas as defined by both the top management and the middle-level management should be clearly communicated to the auditor. A review of the current marketing activities of the company is very important in the external audit.

For an effective external audit, the auditor should:

- Be provided with accurate information regarding the organization's current marketing resources.
- Identify the relevant issues to deal with.
- Identify the sources from which the information about the issues can be collected.
- Interpret the collected data with respect to the objectives.
- Formulate strategies and activities after analyzing the results.

Internal Audit

Analyzing the internal environment of the organization is termed as an internal audit.It includes the analysis of the positioning, pricing and targeting strategies of the company for a given product. It includes the analysis of the marketing activities of the company and the analysis of the marketing channels (i.e. e-marketing, direct selling), advertising media used and analyzing the marketing budget of the company.

It helps to analyze the direction in which the business is heading and where it stands at present. It involves the analysis of the strengths and weaknesses of the company and its product/s in the market. It also involves identifying and analyzing the changes in the marketplace and their negative effects on the business.

Auditing Marketing Effectiveness

The marketing effectiveness of the organization is reflected through its performance in terms of sales growth, market share and profitability. However, not all successful organizations are effective in their marketing activities and vice versa.

Marketing effectiveness depends on the following activities:

Customer philosophy:

Customer orientation is the main prerequisite for marketing effectiveness of an organization. To be successful, the customer philosophy of a firm should involve the study of the market, identifying opportunities and selecting the best market segments. Customer philosophy differs from organization to organization.

A company that takes the marketplace requirements into consideration when designing its organizational structure and formulating its marketing plans, is more effective in its marketing efforts.

Marketing-oriented organization:

The organization structure should be oriented towards its marketing philosophy, to achieve marketing effectiveness. The marketing department should work in harmony with the other departments. The organization should develop a structure which will help meet the requirements of the market segments and the target markets.

This requires the organization to have a well-defined structure of developing, evaluating, testing, and introducing a new product in the marketplace. This structure has an effect on the long-term success of a business.Top level management executives should be assigned to integrate and control the major marketing functions of the firm.

Information about marketing:

For marketing to be effective, adequate information is required for planning and implementing the marketing activities. The information should be up-to-date about the preferences of the customers and their buying behavior.

Many managers are of the perception that they do not need to use marketing research, they feel that their extensive experience in the industry and the organization is adequate. But the markets are dynamic and marketing research is a very important tool to obtain market related information.

Strategic orientation:

The marketing effectiveness also depends on whether the management can formulate a marketing strategy based on the company's philosophy, organization and information resources. To have a strategic orientation, the organization should have a formal planning system that can operate on a long-term basis.

Operational efficiency:

It is not enough just to formulate the marketing plans. The plans also have to be implemented carefully. The marketing activities should be implemented in a cost-effective manner. This determines the operational efficiency of the organization. The efficiency in implementing the marketing plans should be regularly monitored and corrective actions should be taken wherever necessary.

Check Your Progress - 1

1. An audit is not a tool for which one of the following?
   a. Forecasting
   b. Recording information
   c. Analyzing information
   d. Interpreting information
   e. Reviewing performance
2. Which of the following is not true of marketing audit?
   a. Acts as a framework for organizational analysis and control
   b. Improves marketing effectiveness
   c. Changes the market orientation and practices of the organization
   d. Marketing audit analyzes only the external environmental influences on marketing
   e. Identifies gaps in performance
3. Which of the following is a variable that can affect the process of conducting a marketing audit?
   a. External variable
   b. Internal variable
   c. Controllable and uncontrollable variables
   d. Dynamic variable
   e. Extraneous variable

4.4 Evolution of Marketing Audit

The term 'marketing audit' was introduced by Abe Shuchman (a pioneer in the field of marketing) in 1959. Since then, it has become a vital tool in the control and evaluation of marketing programs.

According to Shuchman, marketing audit is an organized, critical, and impartial review and appraisal of all the marketing activities of an organization. Since its introduction in the 1950s, it has evolved into a very sophisticated tool.

4.4.1 First Stage

Definition: Marketing Audit was formally introduced during the late 1950s by the AMA (American Management Association). Marketing audit was defined as *"a tool for analyzing the main objectives and policies of the organization along with the underlying assumptions, methods, procedures and resources employed to implement those policies"*. But analysts argue this definition to be incomplete.

Marketing audit is useful for both successful companies and those struggling in the marketplace. Successful companies use marketing audits to improve their present marketing activities while struggling companies use them to identify the problem areas.

The marketing audit, during this stage, was conducted on a regular basis and the main aspects in the audit were the objectives, policies, resources, methods, and procedures of an organization. The marketing audit was considered as a total evaluation program.

Example

When a gas utility company in the US was struggling in the mid-1970s (due to the energy crisis), it conducted a marketing audit in 1978. This audit helped the company to identify potential opportunities.

The company again conducted a marketing audit in 1987. At this time, the company, which was facing opposition from environmentalists and also dealing with low gas prices in the market, was able to chart out an effective marketing campaign.

Problems: Main problems while conducting a marketing audit are:

- The selection of marketing auditors who had the required knowledge.
- The scheduling of the marketing audit and the challenge of sticking to the scheduled time-table within the context of the organization's operations.

- The impact of conducting the marketing audit on the organization and the marketing executives' performance.
- The marketing audit could disrupt the operations of the organization and marketing personnel and, as a result, affect their performance.

A marketing audit reveals:

- The extent to which the market position of a company can be improved.
- A detailed description of the time and event schedule of marketing activities and programs.
- The resources required to implement the marketing activities and programs based on the time and event schedule.

4.4.2 Second Stage

Key Aspects: Important aspects of this stage are:

- During the 1960s, focus on marketing audit increased due to emerging prominence the organizations were giving to the marketing function.
- During this stage, marketing audit was defined as "a complete, detailed, and a non-routine appraisal of the marketing activities of the organization".
- Managers felt that marketing audit was a part of their appraisals and that it should be used along with other appraisals like accounting audit and process audit.
- Marketing audit at that time also involved focusing on some objectives, programs, activities and their implementation in the organization.
- It analyzed what was being performed, assessed the performance and helped in making suggestions to improve the marketing activities.

New Concepts of Marketing Audit: In this stage, Philip Kotler, an author and marketing professor, introduced two new concepts in marketing audit called system level and activity level marketing audit.

System-Level Audit: The audits had to be conducted not only at the time of a crisis but also at regular intervals.The analysis had to take place within the framework of the marketing unit and its performance. The analysis had to focus not only on the problem areas but also on all the marketing operations.

Activities: The system-level audit activities are as given below:

- Understanding the marketing objectives of the company.
- Determining the effectiveness of the marketing program.
- Analyzing the implementation of the marketing program.

- Appraisal of the personnel and the structure of the organization.
    - *Activity-Level Audit:* The activity-level audit reveals; a detailed analysis of only a part of the marketing program of an organization, things from a broader perspective, insights gained from the system-level audit and analysis of the activities of the organization and to provide insights that would help enhance its future performance.

4.4.3 Third Stage

In the 1970s, the marketing audit was considered as a review of the marketing function. The companies in this stage usually conducted activity audits instead of marketing audits. As mentioned earlier, an activity audit was a detailed analysis of only a part of the marketing program of an organization.

This type of marketing audit did not consider the interrelationships between various marketing activities and other functional units. Such a marketing audit resulted in the company taking a myopic view and therefore overlooking potential problem areas. In this stage, the aim of marketing audit was to improve the efficiency of marketing activities by suggesting new measures.

In this stage, it was identified that the lack of proper standards and policies for conducting marketing audits was the reason why companies were not embracing this audit tool. Therefore, the need for standards and policies for conducting marketing audits was identified. These standards and policies were similar to those of financial audits.

Activities: Marketing audit activities in third stage are:

- The review of the marketing environment, which involves the market structure, competitors, customers, etc.
- The review of the marketing system of the company.
- A detailed review of the specific areas that were identified from the two previous reviews.

Types of Measures: The following two types of measures were suggested:

- Short-term measures were suggestions for bringing about improvements in the present operations.
- Long-term measures were suggestions for improving the total marketing plan. A marketing audit had to be regularly reviewed in light of the company's marketing operations.

4.4.4 Fourth Stage

In the 1980s, marketing audit was considered as a tool for measuring the effectiveness of the marketing activities of the company in the face of competition.

In this stage, the marketing audit results were integrated with the planning activities of the organization. This added another dimension to the existing marketing audit. In the 1980s, the marketing audit involved identifying the strengths and weaknesses of the organization in its operations and communicating them to the top management.

However, the main problem that marketers faced in this stage was lack of information. Lack of information and lack of proper knowledge about how to perform an audit made the process of conducting a marketing audit very difficult.

In this stage, the marketers were forced to think about the alternative ways in which the marketing audit could be used by the organization. This stage focused on the importance of the level of interaction between the auditors and the marketing executives.

Activities: Main audit process activities in Stage 4 are:

- Collection of information.
- Analysis of information.
- Interpretation of information.

Checklist Approach:

To simplify the process of auditing, the marketers integrated marketing audit with the checklist approach. The checklist approach is a reliable method, which ensures that every issue is definitely addressed. It provides a simple method for the collection and analysis of information. The fundamental framework of the checklist was generally the same, which made it popular as a standard approach for conducting an audit.

Some of the fundamental questions in the checklist for the area of Marketing Strategy and Planning are as follows:

- Does the organization have a formal marketing plan?
- Are the marketing plans coordinated with the operational plans?
- For what time span are the marketing plans formulated?
- When the marketing plan was last reviewed and updated?

- Are there separate quantitative and qualitative objectives for the organization?

4.4.5 Fifth Stage

In the 1990s, organizations started diversifying into new businesses and forming Strategic Business Units (SBUs). So, the marketing audit in SBUs gained importance. In this stage, the marketing audit was developed based on the nature of the industry. The audit generally resulted in an action plan and provided the analysis of the competitive position of the SBU.

In this stage, the management identified the benefits of the audit conducted by a person external to the company. Industry-specific marketing audits were introduced in this stage. Marketing audits were prepared for service organizations.The fifth stage also saw the use of computer-based marketing audits (CMA). The motive behind computerizing marketing audits was to reduce the time lags between the audits.

CMA:

The Computerized Marketing Audit (CMA) was defined as a complete, logically consistent, computer driven appraisal of the marketing plans.Though CMA did not solve the marketing problems of the organization, it helped to enhance the interaction between the managers and their consultants (i.e. the external auditors). The CMA laid the perfect foundation for developing strategic marketing plans and simplified the process of conducting a marketing audit.

Steps involved in the CMA process are:

- The first step involved the collection of information, as in traditional marketing audit, by conducting interviews etc.
- The second step involved the participants responding to the computerized questionnaires. Here, the CMA provided the aggregate results of the participants, in each aspect of the audit.
- The third step involved the preparation of the final report. This report was analyzed by the participants.

The insights gained from the analysis of the final report helped the management to take appropriate action to enhance the performance of the organization. In the 1990s, marketing audit was defined as 'the way in which marketing activities are performed'. The marketing audit of a service organization focused on the service, quality, internal communications, interpersonal relations and selling.

The result of this audit could be used to improve internal communications and to fill in the gaps between the existing and expected marketing plans. Marketing audit had a special role to play in the strategic planning process and helped in setting objectives and benchmarks.

4.4.6 Marketing Audit in the 21st Century

Over five decades, marketing audit has evolved from being a monitoring tool into a constructive, analytical and control mechanism tool. At the same time, it is being increasingly used in various industries.

The concept of marketing audit has also broadened and it is being used as a tool for appraising various marketing programs.

Major Areas: The five major areas that need to be addressed while conducting a marketing audit are: the globalization of marketing audit, support for the marketing head in an organization, environmental friendly marketing programs undertaken by the organizations, integration of routine and periodic marketing control mechanisms and broadening of the concept of marketing audit, as given below:

Globalization of the Marketing Audit

Globalization has brought down the barriers between various markets. Marketing audit has to be modified to suit the increasing complexities in the business environment. The scope and nature of marketing activities have to be widened to effectively assess the marketing efforts in the global markets. Some of the key issues can be divided into the following categories:

- ‘Having’ capabilities - products, brand image, goodwill, etc.
- ‘Doing’ capabilities - customer service, R&D, etc.
- Dependence on people - customer loyalty, employee loyalty, etc.
- Factors independent of people - research programs, etc.
- Factors governed by the law - trademarks, patents, etc.
- Factors that are not governed by the law - relationship with the distributors, suppliers, etc.

Support for the Marketing Head in the Organization

The marketing head should gain support for the marketing activities in an organization. For this purpose, he/she can effectively use marketing audit. The determination of profitability of various marketing activities helps the marketing head to gain support from the personnel of other functional units.

In the 21st century, the marketing head should develop a means to monitor various markets, channels and products simultaneously. The focus should be on establishing a continuous marketing control system. The system would help the marketing head to make optimal utilization of resources. The marketing head will become the vital communication link between the organization and those conducting the marketing audit.

Roles of Marketing Audit: A marketing audit has three important roles to play in the organization:

- First, it has to help to forecast the costs involved in implementing the marketing activities.
- Second, it has to measure the effectiveness of the marketing activities implemented.
- Third, it has to determine the profitability of the marketing activities.

Environmental Friendly Marketing Programs Undertaken by the Organizations

In the 21st century, more and more organizations are becoming aware of the growing concern for the environment. Therefore, the marketing managers take environmental factors into consideration while making decisions on their marketing activities. The marketing audit must therefore measure the effect of the company's marketing activities on the environment.

Example

The evaluation of a product can be conducted based on the raw materials used, the resources required for production, byproducts of the process, after-use impact on the environment and so on.

The companies which do not monitor the environmental aspect of a product lose out on a unique opportunity to achieve a competitive advantage in an increasingly environmental conscious marketplace.

The marketing audit would enable an organization to document the environmental friendly characteristics of each of its products in a systematic manner.

These documents could help it in dealing with the regulatory bodies of the country in which it operates.

Integration of Routine and Periodic Marketing Control Mechanisms

Marketing audit is a monitoring tool. However, in a global business environment, a larger system for monitoring and controlling the marketing activities is required. For effective monitoring, the marketing audit must be integrated into the marketing control system of an organization.

To continuously monitor and control activities, the marketing system should include marketing standards. These standards are the approaches for measuring marketing performance. The marketing control system should also involve techniques for identifying the reasons for effectiveness or ineffectiveness of the marketing activities and to take appropriate action to improve the marketing performance.

Broadening the Concept of Marketing Audit

The traditional concept of marketing audit is concerned with the analysis of the marketing environment, marketing system and marketing functions.It is well suited for a company functioning in one market. However, in the global environment, the role of marketing audit is more wide ranging. The audits are used for resource allocation and control of marketing activities in various markets in which the company operates.

Characteristics of Effective Audits

A marketing audit is a detailed and systematic analysis. It helps the senior management to identify the strengths and weaknesses of their organization, along with the opportunities and threats in the marketplace. In preparing a marketing audit, the initial activity is a meeting between the person from the top management of the company and the auditor. Together, they identify the objectives of the audit, the format of reporting and other related issues.

The auditor then reviews the business plans, the financial data of the company, and the structure of the organization; conducts interviews with customers and competitors; and analyzes the marketing budgets, product costs and sales.

An effective marketing audit is:

Systematic:

A marketing audit should follow a logical sequence of analytical steps. It should have a well-defined framework and should suggest improvements for the accomplishment of the objectives of the organization. The audit should help the management in designing plans to meet the short- and long-term marketing objectives of the organization.

Comprehensive:

A marketing audit should take into consideration all the factors that have an impact on the marketing performance of an organization. This means that a marketing audit should go beyond obvious factors like sales turnover and market share. At times, the marketers are tempted to address the symptoms rather than the underlying problems. A comprehensive marketing audit helps to identify and solve the underlying problems.

Independent:

A marketing audit conducted internally by the managers may have biased results. Such audits do not meet the purpose for which they are conducted. Therefore, for an audit to be effective, it has to be conducted by people external to the organization. Audits conducted by specialists or external consultants are more objective. Also, the external consultants have a broader knowledge about different industries.

Periodic:

The market environment is dynamic and ever changing. A marketing audit is usually carried out in crisis situations, i.e. when sales have fallen or when the morale of the personnel is very low. However, audits conducted regularly are very beneficial.

Check Your Progress - 2

4. During which of the following stages, the companies conduct activity audits rather than marketing audits?
   a. First stage
   b. Second stage
   c. Third stage
   d. Fourth stage
   e. Fifth stage

4.5 Components of Marketing Audit

Definition: According to Philip Kotler, *"Marketing audit is a systematic examination of an organization's marketing objectives, strategies, organization, and performance."*

Marketing audit is used to identify the improper utilization of resources and to then suggest methods to improve the utilization. According to Kotler, for a marketing audit to be effective, it has to be used as a neutral analytical tool. Marketing audit is the best method for evaluating the marketing performance of a firm. Prior to the 1970s, it consisted of questions and responses regarding marketing activities. But later, for effective conduct of marketing audit, six components were identified.

Components of Marketing Audit

The six components of marketing audit are as given below:

4.5.1. Marketing Environment Audit

There are two elements of marketing environment audit - macro environment audit and the task environment audit.

Macro Environment Audit

The macro environment consists of the factors affecting the organizational performance like the demographic, economic, political and cultural factors. Macro environment audit identifies the opportunities and threats arising due to the changes in the above factors.

The macro environment audit should ; specify the actions that the company has taken to exploit the emerging market opportunities, specify the major changes in the economic structure that will affect the company and the industry, include information about the availability of the resources and the cost of obtaining the resources, identify the breakthroughs in the product and the process technology and the replacements for the product in the market and mention the changes in the attitude and the lifestyles of the customers. s.

The macro environment audit consists of the following questions:

- What are the demographic changes that can pose a threat to the company?
- What are the demographic changes that can create more opportunities for the company?
- How will changes in income and savings of the customers and price changes affect the company?
- What are the resources required by the company and what is their availability in the market?
- What are the environmental concerns and what are the steps taken by the company to deal with them?
- What are the major changes in the product or process technologies? Where does the company stand in terms of technology?
- What are the changes in the laws and regulations that may have an effect on the marketing strategies of the company?
- What kind of changes in the attitudes and lifestyles of the customers have an effect on the company?

Task Environment Audit

The task environment consists of the factors affecting the organizational performance in the short-run like, competitors, customers, markets, dealers, distributors and the marketing characteristics. It deals with the factors that have a direct effect on the performance of a company. It provides information about the growth rate of the market, market size and various distribution channels available.

It also identifies the requirements of the customers, their buying behavior and their perception of the company's products in comparison with competitors' products. It identifies the major competitors, their strengths, weaknesses and market shares. It identifies the alternatives in the distribution channels for the company, the transportation costs involved and the warehousing facilities.

The task environment audit consists of the following questions:

- What are the important market segments? How are market share, growth, distribution and profits changing?
- What are the requirements of the customer? What is the buying behavior of the customer?
- What are the basic differences in the buying behaviors of the customers in different market segments?
- Who are the major competitors for the company in each market segment?
- What are the strengths, weaknesses and market shares of the competitors?
- What are the key distribution channels for the company?
- Who are key suppliers of raw materials for the company?
- What are the actions that the company has taken to maintain good public relations?

4.5.2 Marketing Strategy Audit

The marketing strategy audit checks how consistent the marketing strategy is with market conditions. This audit determines if the marketing strategy is consistent with the opportunities and threats faced by the company.

Mission Statement:

A marketing-oriented business takes the mission statement into consideration while conducting a marketing strategy audit. The mission statement audit consists of the following questions:

- Is the mission statement clearly stated?

- Does the mission statement of the company reflect its market orientation?

Marketing Objectives:

The audit identifies the marketing objectives of the company, which helps to measure the company's marketing performance.

This audit helps in formulating a marketing strategy to achieve the marketing objectives, after considering key issues like the strategies and tactics of the competitors and the present business environment.

The marketing objectives audit consists of the following questions:

- What are the marketing objectives of the company?
- Are the marketing objectives stated clearly, so as to guide the marketing strategy formulation process?
- Did the company formulate strategies to achieve the marketing objectives?
- Are the marketing resources allocated optimally to achieve the marketing objectives?

4.5.3 Marketing Organization Audit

The marketing organization audit measures the effectiveness and quality of interaction between the various functional units of the organization.

The components of marketing organization audit are:

- *Structure: The organizational structure specifies the role and responsibility of the top management in the marketing activities. It specifies how the marketing activities are formulated i.e. whether they are based on the functionality of the product, market segment, customer groups, or geographical locations.*

The structure audit consists of the following questions:

- Does the chief marketing officer have proper authority and responsibility over the marketing activities of the company? How are marketing activities affecting customer satisfaction?
- Are the marketing activities well structured, based on the market, segment, and product?
  - *Functional Efficiency:* This audit provides information about the efficiency of communication between the marketing and sales units of the organization. The audit helps to identify the training, motivation, and evaluation that are to be provided to the personnel of the sales and marketing units.

The functional efficiency audit consists of the following questions:

- Are there free communication channels between the sales and the marketing departments of the organization?
- Are the product managers able to forecast profits in addition to the sales volumes?
- Do the marketing personnel require additional training, evaluation, or supervision?

  - *Interface Efficiency:* This audit provides information about the efficiency of communication between the various functional units in the organization like the personnel department, operations, etc. It also helps to identify the problems or gaps in communication between the sales, marketing and other functional units.

The interface efficiency audit consists of the following questions:

- Are there problems in communication across functional units?
- Which of the problems require legal attention or the attention of the management?

4.5.4 Marketing Systems Audit

The marketing systems audit appraises the system which implements the marketing strategies and activities. This system's audit identifies the problems in the areas of planning, implementation and control of marketing activities.

The various components of Marketing System Audit are:

- *Marketing Information Systems:*

The marketing information systems provide accurate, reliable, adequate and timely information about the marketing activities of the company as well as about its competitors, suppliers and dealers. These systems help in conducting marketing research. They ensure that the best methods are employed in conducting marketing research and in measuring marketing activities.

The marketing information systems audit consists of the following questions:

- Is the marketing intelligence system providing accurate and timely information?
- How effectively is the company using the information provided by the marketing research results?

- Is the company employing reliable and standard methods for measuring the market and for forecasting sales?
  - *Marketing Planning Systems:*

Marketing planning should be a well-structured and well-defined process in the organization. The planning system should set achievable sales targets.

The marketing planning systems audit consists of the following questions:

- Is the marketing planning system well-structured and being effectively utilized?
- Does the planning result in setting achievable sales targets?
- ***Marketing Control Systems:***

The marketing control system develops the policies and procedures for monitoring the marketing activities. The audit analyzes if the control system is adequate for monitoring various activities.

The marketing control systems audit consists of the following questions:

- Is there a well-structured system to monitor the achievement of the marketing objectives?
- Does the system involves regular monitoring of the profitability of the products, markets and channels of distribution?
- Are the costs and productivity of the marketing activities regularly monitored?
- *New Product Development Systems:*

The audit should specify the company's abilities to gather, analyze, and develop new product ideas. The company should specify the efforts made to analyze the viability of developing new ideas.

The new product development systems consist of the following questions:

- Does the company have a well-defined process for new product development?
- Does the company carry out adequate research before investing in new product development ideas?
- Does the company involves itself into market testing before launching a new product in various markets?

4.5.5 Marketing Productivity Audit

The marketing productivity audit analyzes the productivity of the marketing activities. This audit identifies the profitable areas of business after analyzing the financial information of the company.

The audit also suggests measures for reducing the costs of the company. The common benchmarks measured in this audit are profitability and cost-effectiveness, which are explained in the following points.

Profitability Analysis:

The profitability of various products, markets, and channels of distribution are analyzed in the marketing productivity audit. This audit helps the company in taking decisions regarding expansion, diversification or divestment.

The profitability analysis audit consists of the following questions:

- What is the profitability of the company for different market segments and products?
- What are the profitable businesses, markets and products of the company?

Cost Effectiveness Analysis:

The cost effectiveness analysis involves analyzing the costs incurred on the marketing activities. This analysis helps to cut costs wherever possible in the marketing activities.

The cost effectiveness analysis audit consists of the following questions:

- What are the costs involved in the marketing activities? Are the costs of the marketing activities justified?
- What are the areas in which the costs can be reduced?

Example

Consider how Unilever makes use of cost-effectiveness and cuts its supply chain costs.

Unilever revised its supply chain strategy to focus more on sustainability (ESG) for long term financial success and growth of the organization.

In 2021, [23]Unilever achieved cost effectiveness globally by saving €1.2 billion of cost by following sustainable sourcing and eco-efficiencies in their factories.

During May 2021, it announced its climate transition action plan in its AGM and 99% shareholders voted in favor of the plan, for reducing greenhouse gas emissions across its supply chains and targeted to achieve net zero emissions by 2039.

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23 *https://www.msn.com/en-in/money/topstories/hul-saved-1-2-billion-of-cost-due-to-sustainable-sourcing-eco-efficiencies-at-factories/ar-AAQEe5s*

4.5.6 Marketing Function Audit

The marketing function audit analyzes the key marketing functions based on the previous audits. It helps a firm keep check and monitor the core competencies relating to marketing functions like product, price, distribution and promotion.

Product:

This audit analyzes the objectives for the products and reviews if the current strategies help in meeting these objectives. The marketing function audit helps to formulate strategies related to the expansion or contraction of the product line. The knowledge that buyers have about the company and its products and the attitude of the buyers toward the products of the company as well as its competitors are analyzed. The audit also reports how buyers perceive the product quality, packaging and the advertising of the company.

The product audit consists of the following questions:

- What are the objectives of the company for its products?
- Are the product objectives sound? Are these objectives being achieved? Should the product line be extended? If yes, how?
- What are the products that are profitable in the product portfolio?
- What are the products that are resulting in losses and need to be got rid of?
- How much knowledge does the customer have about the company's products?
- How can the existing products be improved?

Price:

This audit analyzes the company's pricing objectives and policies. It specifies to what extent the prices set are driven by the costs, market competition and demand for the product. This audit analyzes if the price set for a product is justified, seen in conjunction with the value provided by the product to the customers.

The price audit consists of the following questions:

- What are the pricing policies, objectives and strategies of the company? How far do the prices set depend on the cost, demand and competition? Are the customers getting value for the price paid?
- Does the company consider factors like pricing elasticity of demand, experience curve effects and competitors' pricing policies while pricing its products?

Example

Consider the example of Harley Davidson as discussed earlier, during 2020 it followed Rewire strategy to focus on pricing in various international markets.

In the Indian market it stopped manufacturing and had tied-up with Hero MotoCorp for selling its bikes at a premium price.

In markets like Thailand, it planned to lower prices of its bikes. Through this 'Rewire' strategy it wanted to increase its revenue and market share.

Distribution:

This audit analyzes the distribution objectives of the company. The audit mentions the market coverage of the company and the effectiveness of the distributors, retailers, etc. It should help to make decisions related to the changes in the distribution channels.

The distribution audit consists of the following questions:

- What are the distribution objectives and strategies of the company? Is there optimal market coverage?
- Are the distributors, retailers effective?
- What are the alternative distribution channels for the company?

Promotion:

This audit analyzes the promotional activities undertaken by the company. Promotion involves advertising, sales promotion, publicity and direct marketing activities. The audit specifies the promotional objectives of the company and the efforts made to meet the objectives. This audit helps to identify the resources spent on promotional activities and to analyze their optimal utilization.

The promotion audit consists of the following questions:

- What are the advertising objectives of the company? Are they sound? Is the amount being spent on the advertising justified?
- What is the response of the customers to the advertising campaigns? Is the response positive or negative?
- What are the various media used for advertising? Have they been well chosen? Is the public relations staff competent and creative in its approach?

Example
Let us consider how Coca-Cola revised its promotion policy after a Promotional Audit. During 2020[24], due to COVID-19 Pandemic, Coca-Cola, the world's largest beverage manufacturer and largest ad spender, had cut down 35% annual advertising spend. It called it a marketing pause for various reasons like to redeploy funds to local communities, fall in revenues during pandemic etc.

Sales Force: This audit analyzes the information regarding the sales force of an organization. It specifies the strengths and objectives of the sales force.

This audit consists of the following questions:

- What are the sales force objectives of the company?
- Is the company well-staffed to meet the sales force objectives? Is the sales force well trained and motivated?

4.5.7 Problems and Pitfalls in Marketing Audit

The marketing audit analyzes past performance, helps to forecast future performance and also enables enhancement of present performance.

Pitfalls in Internal Audit:

- Identifying the marketing auditor is very important in the marketing audit process. Experienced and larger firms generally employ internal auditors for conducting an audit. These firms conduct regular audits and integrate the audit with their marketing planning process.
- It may be difficult for a company new to the market to conduct an audit internally. Lack of experience and lack of market/industry knowledge may act as barriers in the conduct of the audit.
- Internal auditors could be top-level managers or a group of managers from various functional units. Internal audit needs to be independent from the operating management and must serve as an effective control tool.
- When a scandal or mismanagement occurs, it is natural to rely on internal audit to get to the bottom of truth and take corrective steps to restore confidence. When a scandal occurs, the stakeholders and the public too demand to know the truth.

Please refer to Exhibit 4.2 for details on Daimler's pitfalls in Marketing Audit.

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[24] *https://www.campaignasia.com/article/coca-cola-eyes-more-efficiency-after-35-adspend-plunge- in-2020/468311*

Exhibit 4.2: Daimler AG - Pitfalls in Marketing Audit

The Environmental Protection Agency (EPA), Justice Department imposed a fine of approximately US $ 1.5 billion to Daimler AG in September 2020.

Cheating Emissions test using defeat devices:

It violated the 'Clean Air Act'. The company was charged for cheating emissions tests, with illegal defeat devices on more than 2,50,000 diesel vehicles. These were sold during 2009 to 2016. Finally it evaded The State Law of California.

The emissions from the Mercedes vehicles contain Nitrogen Oxides (NOx) which produce ground level ozone and cause lung problems like asthma and cardiac problems.

During 2021, Daimler AG of Germany agreed to settle fines amounting to US $ 1.5 billion towards emissions cheating cases. Daimler agreed to repair and recall Mercedes diesel vehicles sold during the mentioned period. It also agreed to extend the warranty of the spare parts that were repaired.

Pitfalls in internal marketing audit and actions needed to be taken:

Daimler faced these charges as it did not conduct proper Internal Audit procedures.

Daimler agreed to conduct an Internal Audit with compliance. It would conduct rigorous testing on new vehicle variants of diesel and gasoline with the help of Auxiliary Emission Control Device (AECD). It would provide training to its employees on defeat devices.

It was warned by the authorities that the internal audit had to be reviewed by external compliance agents.

Sources: i) accessed on 30/10/21.
ii) https://www.epa.gov/newsreleases/us-reaches-15-billion-settlement-daimler-ag-over-emissions-cheating-mercedes-benz Accessed on 30/10/21.

Pitfalls in External Audit:

- An external audit may be very useful for companies that are new to the industry.
- However, even though the external audit may provide the expert outsider perspective, a company should take care to have some authority for its intervention or involvement in the audit process.
- It is generally believed that an audit is conducted only at the time of crisis and therefore, whenever an audit is conducted, employees of an organization perceive it as a crisis situation.

Employee's issues:

The audit can be conducted by an employee of the company or by an external auditor. External Auditor may not have in-depth knowledge about the market environment and this may defeat the purpose of conducting the audit.The employees may perceive the audit process as an initiative for major changes in the organization, or as a weapon used by the management to justify its selected course of action, which the employees may feel is against them.

In such situations, the employees may try to obstruct the process of audit. This could lead to biased results. To avoid such a situation, an audit should be conducted at regular intervals.Identifying the employees who are to be involved in the audit. Since the audit process involves the collection of information based on responses for the interviews or questionnaires, it requires participants who are willing to cooperate and are neutral while communicating information.

The purpose of the audit must be communicated to the participants prior to the auditing process in order to seek their complete cooperation in the process. Here, the auditors should take care to meet diverse groups of employees in the organization apart from the marketing personnel. This allows the auditor to have a clear picture of the entire organization rather than of the marketing unit alone.

Activity 4.1

i-Cell is a Chinese company which manufactures low-end mobile phones. Its phones are low in cost and are affordable to the consumers. Since the company offered only basic features in its phones, it offered some applications for users in its phones. But the users found that the applications were not of great quality and were not much useful to them. The company found that its inability to cater to the consumers led to a decline in its market share while the market share of its competitors offering low-end phones has increased considerably. Suggest a suitable marketing audit to the company which can help the company arrest the decline in its sales and increase its market share? Which components of the marketing audit process would you recommend to be taken up by the company? Why?

Answer:

Check Your Progress – 3

5. In the second stage of the evolution of marketing audit, the system-level audit does **not** entail which of the following activities?
   a. Understanding the marketing objectives of the company
   b. Determining the effectiveness of the marketing program
   c. Implementation of the customer-benefit program that was analyzed
   d. Appraisal of the personnel and the structure of the organization.
   e. Evaluation of the usefulness of the marketing program

4.6 SWOT Analysis

Generated by George Albert Smith Jr. and C Ronald Christensen (business policy professors in Harvard Business School) in the early 1950s. A little later, another professor Kenneth Andrews (from the same business school), extended the use of the SWOT analysis to organizations. According to him, organizations should define specific objectives and must keep up with them. A distinctive competency of a company could be its strength whereas a liability could be its weakness.

The SWOT analysis helps a company to identify its internal strengths like brand image and market share and to make use of them in exploiting the opportunities in the market and avoiding external threats. .

Example

Let us understand more about this analytical tool, through a SWOT analysis of Flipkart, India's largest E-Commerce company (refer Table 4.1.).

Flipkart, an early entrant in E-Commerce, which is also credited with popularizing online shopping in India.

In May 2018, US retail giant Walmart acquired Flipkart by paying USD 16 billion for a 77% stake in Flipkart. In 2020, the Indian E-Commerce market touched USD 60.5 billion. Flipkart was valued at USD 35 billion, by 2020.

SWOT analysis of Flipkart has provided us insights on the company's strengths and weaknesses that made it an attractive target firm for acquisition for both Amazon and Walmart.

Table 4.1: SWOT Analysis of Flipkart

Strengths	Weaknesses
• Early entrant and market leader. Has 31.9% market share of E-Commerce market in India (2020) • Strong brand • Owns logistics arm ekart and has its own payment service • Has its own marketplace model • Strategic acquisitions of Myntra, Lets Buy, Chakpak and Adiquity • Dominant in fashion apparel sale (Jabong and Myntra) • Has more than 100 million registered users	• Flipkart has accumulated huge losses and this has hurt the image of the company. • Focus is on expansion, rather than profit making. • Flipkart is forced to sell at discounted prices due to high customer expectations and competition • The Enforcement Directorate raid found that the company had violated Foreign Exchange Management Act (FEMA)
Opportunities	**Threats**
• E-Commerce is growing at a fast pace in India • Electronics and apparel are two areas in which E-Commerce in India is witnessing tremendous growth. Flipkart can leverage its inherent strength in these areas.	• Ever since Global E-Commerce leader, 'Amazon', entered India in 2013, Flipkart had to focus on defending its market leader position • Snapdeal, Infibeam, etc. also pose competition • Most brick and mortar retail companies have started their own e-commerce portals and are luring customers through omni-channel services

Sources: i) Compiled from various sources by ICFAI Research Center.

ii)https://www.modernretail.co/platforms/how-the-pandemic-strengthened -walmart-owned-flipkarts- marketshare/

4.6.1 Purpose and Use of SWOT Analysis

SWOT analysis is a tool for analyzing the strategies of a business. This tool can be used to analyze the company's position with respect to its competitors and also to formulate strategies to outperform them.

Example

US based PC manufacturer, Dell Computers, has made effective use of its strengths to achieve success in its business. An important strength of Dell is its direct selling business model.

The company formulated a strategy around this strength, by pricing its hardware components lower than the prices set by other hardware vendors or resellers. Dell also introduced customization that allowed customers to design their own computers.

A SWOT analysis should answer the questions given in Table 4.2.

The advantages of SWOT analysis are as follows:

- It is a simple tool and can be readily used
- It requires no special skills or technical resources
- It can be used along with both quantitative and qualitative information
- It can be used in conditions of in-depth knowledge and as well as in ambiguous situations
- It is a flexible tool that can be used in a formal or informal organizational structure.

Table 4.2: Questions in SWOT Analysis

Strengths

1. What do we do best?
2. What unique knowledge, talent, or resources do we have?
3. What advantages do we have?
4. What do other people say we do well?
5. What resources do we have available?
6. What is our greatest achievement?

Weaknesses

1. What could we improve?
2. What knowledge, talent, skills and/or resources are we lacking?
3. What disadvantages do we have?
4. What do other people say we don't do well?

Contd. ....

5. In what areas do we need more training?
6. What customer complaints have we had about our product/service?

Opportunities

1. How can we turn our strengths into opportunities?
2. How can we turn our weaknesses into opportunities?
3. Is there a need in our company that no one is meeting?
4. What could we do today that isn't being done?
5. How is our field changing? How can we take advantage of those changes?
6. Who could we support? How could we support them?

Threats

1. What obstacles do we face?
2. Could any of our weaknesses prevent our company from meeting our goals?
3. Who and/or what might cause us problems in the future? How?
4. Are there any standards, policies, and/or legislation changing that might negatively impact us?
5. Are we competing with others to provide service/product offering?
6. Are there changes in our field or in technology that could threaten our success?

Source: https://www.civilservice.louisiana.gov/files/divisions/Training/Job%20 Aid/Supervisor%20Toolbox/Questions%20for%20Professional%20SWOT.pdf Accessed on 6th Dec 2021

4.6.2 Developing a SWOT Analysis

The SWOT analysis consists of two key lists – One is the strengths and weaknesses (SW) that lists the major strengths and weaknesses of the company (internal factors). Another is the opportunities and threats (OT) that lists the key opportunities and potential threats in the environment (external factors), as given below:

- *List of OTs:* The SWOT starts by analyzing the OT. The idea behind this is that the OT analysis helps in identifying the areas of the business which require more attention. It also helps to exploit the opportunities by using the strengths of the company. While conducting this analysis, if the managers do not find any potential opportunities for a product, they should question the motive behind managing the product.
- If the product has no immediate opportunities, the managers must use innovative ideas to create opportunities in the market. According to Kotler, managers who lack imagination and are not innovative fail to identify the potential and attractive opportunities in the market. The list of OTs should give at least five potential opportunities.The analysis

should also list five potential threats from the environment and the managers should be prepared to minimize the effects of these threats.

- *List of SWs:* The SWs have then to be identified. The company should identify which of the strengths must be enhanced and how the weaknesses can be reduced.

Example

Let us understand how Amazon[25], a US based E-Com and Cloud Computing Company, leveraged on its strengths to emerge as a global E-Com giant.

Amazon's strength lies in its customer centric processes[26] which by itself was carefully created based on the Big Data System that gathered information on past customer purchase behavior.

Amazon's recommendation system made useful personalized suggestions by presenting customers with products that they wanted or liked.

Amazon has created strategic alliances with logistic providers and the strong value chain helps the company to control costs.

The company has also increased its revenue by acquiring the following companies: Zappos (2009), Junglee and Planetal (2012), Good Reads (2013), Cluster K, Cloud Technology (2015), Harvest ai and Thinkbox Software (2017), Ring (2018).

In India during 2019, it acquired a 49% stake in Future Coupons of Future Retail Ltd. After Reliance proposed to buy Future Retail, there was a legal issue between Reliance and Amazon. By 2021 December, the legal case was still pending. In 2020, it acquired Zoox, a self-driving company based in California.

With over 200 million Amazon Prime subscribers, Amazon Prime video had more than 175 million viewers by 2021.

Making SWOT Analysis More Effective

The SWOT analysis is an important tool in business. If used properly, it can help in making key changes in the business, which can result in long-term success. In order to make the SWOT analysis more effective, the following steps have to be taken:

Focusing on critical areas:

The SWOT analysis should focus on some critical areas of businesses, such as pricing policy, market segment strategies, customer service strategies, etc. The critical area must be clearly defined in order to produce effective results.

[25] https://www.forbes.com/sites/haydnshaughnessy/2012/04/29/why-amazon-succeeds/#47a672ff385a

[26] http://www.businessinsider.in/Amazons-CFO-perfectly-summed-up-Amazons-greatest-strength-in-one-sentence/articleshow/55133059.cms

Each critical area must be focused on individually. The results of each of these analyses can be combined together to complete a SWOT analysis

Developing teams:

In organizational structures where the roles and responsibilities are based on the functional units and departments, teamwork plays a vital role. The SWOT analysis helps to develop a common vision among employees in the process of planning. Therefore, teams composed of people from cross-functional units help in developing a common perspective. They also help to identify the common priorities while conducting an analysis.

Focusing SWOT analysis on the customer:

An organization should develop customer orientation while conducting a SWOT analysis. It should identify the strengths and weaknesses that are valued by the customer. However, it is important to differentiate between what one perceives as important for the customer and what actually is important to the customer. The underlying principle of this differentiation is that it is ultimately the customer who purchases and uses the product and not the management or the employees

Explanations:

It is not enough for a company to simply identify the strengths, weaknesses, opportunities and threats. The SWOT analysis should involve introspection, by always asking 'why'.

Example

The mission of the US-based pharma company Merck is to provide society with superior products and services through innovations and solutions that improve the quality of life and satisfy customer needs and to provide employees with meaningful work and advancement opportunities, and investors with a superior rate of return.

The company can analyze why satisfying the needs of the customers is their mission, why it can be a strength, how it can be a weakness, how it can help to identify opportunities and how it can reduce threats to the company.

Ranking SWOT analysis:

The results generated from the SWOT analysis should be ranked based on their importance to and impact on the organization.

Formulating Strategy from SWOT Analysis

After conducting a SWOT analysis, the results can be used to formulate strategies and for planning marketing activities.

The strategy formulation involves the following:

Matching: The strengths of the organization should be matched with its opportunities. A strength that does not help in exploiting an opportunity is of no immediate use to the organization. An attractive opportunity that cannot be exploited due to the lack of suitable strengths is an indicator of the improvements necessary in the company.

Translation: The threats and the weaknesses should be neutralized. Those threats and weaknesses which cannot be neutralized act as limitations for an organization.

Creativity: The SWOT analysis should leave some room for innovative ideas. The innovative ideas generated can be used at a later stage of the analysis. Creativity brings to light many good ideas, which can be recorded for use at a later time.

Discovery: A company may have strengths that are not obvious or known. In order to discover these strengths, some strategies and tactics have to be used.

Iteration: The process of matching, translating, creating and discovering is a continuous process. After identifying the potential strengths to exploit the opportunities, neutralizing the threats and weaknesses, the manager must go back to the SWOT analysis to check how the emerging changes have affected the SWOT structure of the company.

Reasons for Failure of SWOT Analysis

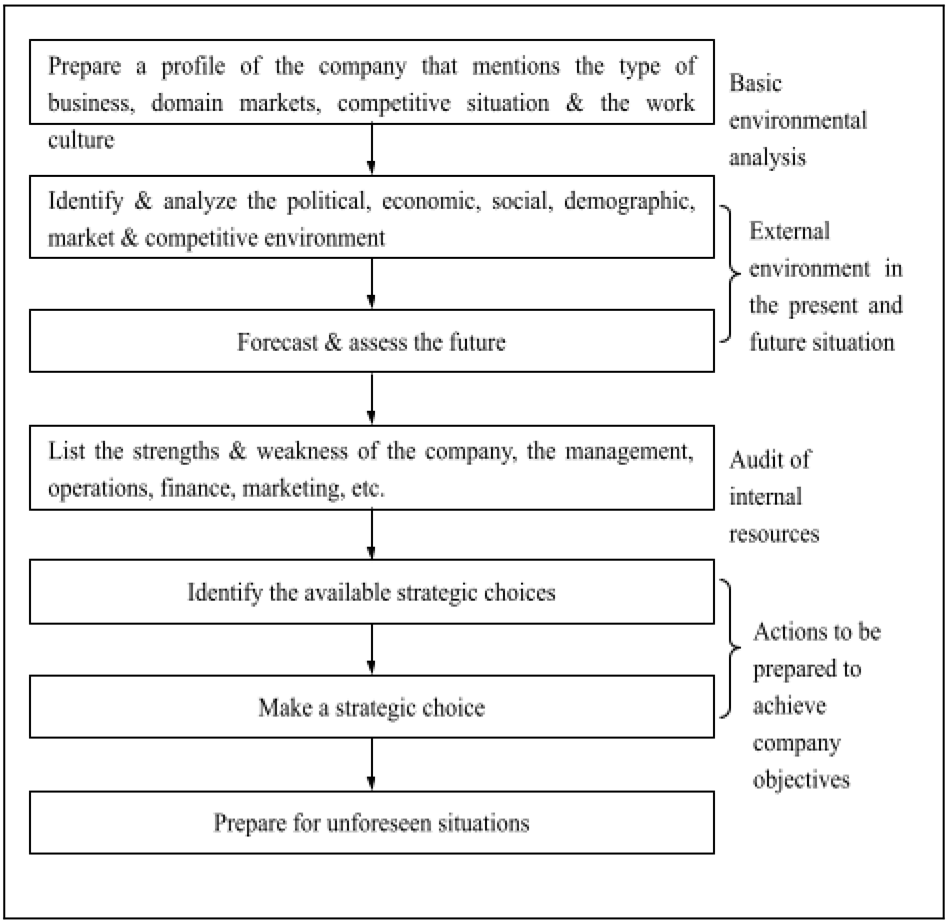
Some of the reasons for the failure of SWOT analysis are:

- An analysis conducted without a purpose or objective or critical area of focus may not generate effective results.
- The management generally conducts a SWOT analysis, but seldom takes the findings from the analysis into consideration while formulating marketing strategies.
- The SWOT analysis does not take into consideration all the influencing factors in the business environment. This analysis is said to produce vague results.
- The exhaustive list of factors which are taken into consideration while conducting a SWOT, acts as limitations in the analysis.

- With the increasing complexities in the market environment (like the new competition, new technologies in the market), SWOT analysis does not seem sufficient any longer.

From SWOT to TOWS: Many experts felt that SWOT analysis had several limitations. Therefore, SWOT gave place to TOWS. (Threats, Opportunities, Weaknesses, Strengths) The series of activities involved in the TOWS analysis is depicted in the Figure 4.1.

Figure 4.1: The TOWS Framework



Source: Wilson, Richard M.S. and Collin Gilligan, "Strategic Marketing Management", VivaBooks Ltd., 2012, pg-59.

The TOWS matrix enables a company to use its organizational strengths to formulate strategies to overcome weaknesses, exploit opportunities and avoid threats. The strategies that an organization has to adopt depending on the situation are depicted in the Figure 4.2.

Figure 4.2: The TOWS Matrix

Internal Factors External Factors	**Strengths (S)**	**Weaknesses (W)**
Opportunities (O)	(**SO**) Strategies to use the strengths to exploit potential and existing opportunities must be formulated.	(**OW**) Strategies to overcome the weaknesses should be formulated so that existing or new opportunities can be exploited.
Threats (T)	(**ST**) Strategies to use the strengths to minimize the threats from the environment must be formulated.	(**WT**) Strategies should be formulated to help to overcome the weaknesses and minimize the threats as far as possible.

Source: Wilson, Richard M.S. Collin Gilligan, "Strategic Marketing Management", Viva Books Ltd., 2012.

Activity 4.2

Coffee House is a leading coffee chain in India, which has hundreds of outlets across the country. Of late, the company is facing increasing competition from international coffee chains like Coffee In, Coffee Shop Ltd. Assume that you are the manager of Coffee House and conduct a SWOT analysis to see how it can withstand the increasing competition and sustain itself in the market.

Answer:

Check Your Progress - 4

6. An effective marketing audit is not:
   a. Systematic
   b. Comprehensive
   c. Dependent

   d. Periodic
   e. Independent

7. Which of the following is not a component of marketing audit?
   a. Marketing environment audit
   b. Marketing strategy audit
   c. Marketing organization audit
   d. Marketing interface audit
   e. Marketing function audit
8. Which area of the marketing systems audit should specify the company's abilities to gather, analyze, and develop new product ideas?
   a. Marketing control systems
   b. New product development systems
   c. Marketing planning systems
   d. Marketing information systems
   e. Marketing performance evaluation system
9. Which of these is not a challenge faced in the process of marketing audit?
   a. No statutory bodies or governing principles exist
   b. Auditors may not have in-depth knowledge about the market environment
   c. Employees may try to obstruct the audit process
   d. Marketing audit is control tool
   e. Employees do not take marketing audit seriously as other activities
10. Which of the following factors is least likely to influence the company's survival?
   a. Political and economic changes
   b. Internal changes made in the organization structure
   c. Market and environmental changes
   d. Competitor's strategies
   e. Technological changes

4.6 Summary

- An audit plays a vital role in imparting knowledge about the market and its environment. It is a tool for recording and analyzing information.

- The audit for recording, analyzing and measuring the performance of the company's marketing activities is called marketing audit.
- Marketing audit has evolved over a period of time. In its first stage of evolution, marketing audit was considered as a tool for analyzing the main objectives and policies of the organization along with the underlying assumptions, methods, procedures and resources employed to implement those policies. In the second stage, marketing audit was defined as a complete, detailed, and a non-routine appraisal of the marketing activities of the organization. In the third stage, the companies usually conducted activity audits instead of marketing audits. In the fourth stage, the marketing audit results were integrated with the planning activities of the organization. In the fifth stage, the marketing audit was developed based on the nature of the industry.
- A marketing audit has six components: the marketing environment audit, marketing strategy audit, marketing organization audit, marketing systems audit, marketing productivity audit and marketing function audit.
- Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis is the most commonly used tool in organizations. While Strengths and Weaknesses pertain to the internal environment, Opportunities and Threats pertain to the external environment.

4.7 Glossary

Audit: An audit is a tool for recording, analyzing and interpreting information.

External Audit: External audit involves an analysis of the company's external environment.

Internal Audit: Internal audit is the analysis of the internal environment or the controllable factors of the organization.

Management Audit: Management audit is an organization-wide audit program which assesses the availability of internal resources vis-à-vis the requirements of the external business environment.

Marketing Audit: Marketing audit is a systematic examination of an organization's marketing objectives, strategies, organization and performance.

SWOT Analysis: SWOT analysis is a tool for analyzing the strategies of a business. This tool can be used to analyze the company's position with respect to its competitors and also to formulate strategies to outperform them.

4.8 Self-Assessment Test

1. Define marketing audit. Explain how and why it is useful for the organization?
2. Explain in detail the various stages involved in the evolution of marketing audit.
3. Explain in detail various components of marketing audit. Also state the pitfalls in marketing audit.
4. Define SWOT analysis. Explain the purpose and use of SWOT analysis. Describe the ways in which the SWOT analysis can be made more effective.

4.9 Suggested Readings / Reference Material

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2. O.C. Ferrell, Michael Hartline, Bryan W. Hochstein, "Marketing Strategy", 2021, Cengage South-Western.
3. Alexander Chernev, Philip Kotler, Musadiq A. Sahaf, "Strategic Marketing Management", "Strategic Marketing: Making Decisions for Strategic Advantages", PHI Learning, 2019.
4. Alexander Chernev, Philip Kotler, "Strategic Marketing Management", Cerebellum Press, 2018.
5. Srinivasan R, Lohith C P, 2017, Strategic Marketing and Innovation for Indian MSMEs, Springer.
6. O. C. Ferrell, Thomas W. Speh, 2017, "Marketing Strategy, Loose-Leaf Version", Cengage Learning.

4.10 Answers to Check Your Progress Questions

1. (a) Forecasting

An audit is a tool for recording, analyzing and interpreting information.

2. (d) Marketing audit analyzes only the external environmental influences on marketing

Marketing audit is a powerful tool for improving the marketing effectiveness of an organization. It considers both the external and internal influences on marketing planning. Hence option 'd' which states that only external influences are considered, is not valid.

3. (c) Controllable and uncontrollable variables

There are many variables that can affect the process of conducting a marketing audit. These variables can be broadly divided into two types - controllable variables and uncontrollable variables. The variables over which the company has total control like production capacity and budget allocations are called controllable variables. Variables like market demand, the business environment, customers and competitors are those over which the company has no control. Therefore, they are called uncontrollable variables.

4. (c) **Third stage**

   In the 1970s, the marketing audit was considered as a review of the marketing function. The companies in this stage usually conducted activity audits instead of marketing audits.

5. (c) **Implementation of the customer-benefit program was analyzed**

   In the second stage of the evolution of the marketing audit, the system-level audit had four basic activities. The first activity involved understanding the marketing objectives of the company. The next activity was determining the effectiveness of the marketing program. After this, the implementation of the marketing program was analyzed. The final activity was the appraisal of the personnel and the structure of the organization.

6. (c) **Dependent**

   An effective marketing audit is systematic, comprehensive, independent, and periodic. Hence option (c) is the correct answer..

7. (d) **Marketing interface audit**

   There are six components of marketing audit: marketing environment audit, marketing strategy audit, marketing organization audit, marketing systems audit, marketing productivity audit and marketing function audit. Marketing interface audit is **not** a component of marketing audit.

8. (b) **New product development systems**

   New product development systems should specify the company's abilities to gather, analyze and develop new product ideas.

9. (d) **Marketing audit is a control tool**

   The problems in the process of marketing audits include: No statutory bodies or governing principles exist to conduct the audit, selected auditors may not have in-depth knowledge about the market environment and employees may fear major changes in the company and try to obstruct the audit process. Option 'd' states that marketing audit is a control tool. This is not a challenge but a benefit of marketing audit.

10. (b) Internal changes made in the organization structure

In the fiercely competitive markets, which are characterized by rapid external business environment changes, it is difficult for the companies to survive without constantly adapting their marketing strategies to these changes. The political and economic changes, the market and environmental changes, and the competitors' strategies are some of the factors that the companies need to deal with. Option 'b' Internal changes made in the organization structure is least likely to impact the survival of the company.

Unit 5

Marketing Costs and Financial Analysis

Structure

"If you buy things you do not need, soon you will have to sell things you need."

— Warren Buffett

5.1 Introduction

As Warren Buffet rightly quoted, unnecessary spending in marketing or business would lead to losses for the organization. Though marketing is a very important business function, a company should check the expenditure on marketing. The outcome of expenditure on marketing activities should lead to more satisfied customers, which in turn would lead to increase in profits for the firm. In order to track the expenditure on marketing activities there are two important tools;: i) Marketing Cost Analysis and ii) Financial analysis.

In the previous unit we discussed 'marketing audit and its evolution,various components of marketing audit and SWOT analysis.

In this unit we will discuss the importance of marketing cost analysis, the process of customer profitability analysis and the key financial ratios, finally we discuss the concept of productivity.

5.2 Objectives

After reading through this unit, you should be able to:

- Elucidate the importance of marketing cost analysis.
- Discuss types of costs.
- Understand how marketing productivity can be measured.
- Elaborate and provide insights on the process of customer profitability analysis.
- Discuss key financial ratios.
- Explain the concept of productivity.

5.3 Analyzing Marketing Costs

Definition: According to the American Marketing Association (AMA), analyzing marketing costs is *'an attempt to determine the actual costs incurred for marketing and distributing a product'*. Marketing cost analysis helps marketers to take effective decisions in the formulation of marketing strategy, as well as in planning and monitoring marketing activities.

Some evolutionary aspects of analyzing marketing costs are:

- This process, which is now being used widely in most organizations, was introduced in 1924. The importance of marketing cost analysis grew after the 1950s, when the concept of 'marketing' started gaining more importance.
- The US Federal Government identified the need for increased marketing knowledge and so set up the Domestic Commerce Division in the Department of Commerce for the study of customer and product profitability.
- The research study was called the Louisville Grocery Survey conducted in 1928.
  - o It involved functional analysis and the analysis of customer and product profitability.
  - o It showed that product and customer cost analysis helped managers in effective decision-making and allocation of resources in marketing activities.

Example
Let us understand how Marriott International made use of marketing cost analysis to increase customer profitability.
Contd. .....

Marriott International Inc., is a leading hospitality company with worldwide operations. By 2020,[27] it had 7,642 properties worldwide across 131 countries.

The Marriott Vacation Club, of Marriott International Hotel in Orlando (US), developed a marketing program – 'Marriott Linkage program' that focused on relationship marketing. The company generated 50 percent of the business from this program.

Such marketing programs had reduced its marketing costs and increased revenues. The profitability derived from marketing activities helps the management of a company to boost sales.

Marketing Costs

Definitions:

- Marketing costs can also be defined as *'the expenditures aimed at promoting the customer's awareness of a product or customer service and in translating that awareness into one or more purchases and the continuation of that relationship with the organization'*.
- Marketing costs can be defined as '*the expenditure incurred on attraction and retention of customers'*.

Some of the activities where marketing costs are incurred are sales force management, advertising, sales promotions, catalogs and brochures. In the present marketing scenario, marketing of products through digital channels like search engines, websites, blogs, social media, e-mails and mobile apps is getting popular.

Exhibit 5.1 illustrates the importance of marketing spend of CMOs towards managing the marketing mix.

Exhibit 5.1: Marketing Technology Dominates Marketing Spends

Due to COVID-19 Pandemic, cost reductions were a must for every firm. For the year 2020-21, Gartner revealed the study results for Chief Marketing Officer (CMO) spends. The study surveyed around 432 leaders in marketing across the U.K, North America, Germany & France. The firms had to cut budgets among most of the activities except for digital channels and marketing technology.

Contd. .....

[27] *https://www.statista.com/statistics/247285/number-of-marriott-international-hotels-worldwide/ (Accessed on November 30th 2021)*

Some of the findings of the study are:

- Marketers were focusing more on technology, they were spending most of their marketing budgets on technology up to 26.2%.
- Media spend being the next big spend for marketing budgets at 24.8%.
- Then followed by in-house labor at 24.5% of their marketing budgets.
- Their least expenditure was on agencies with 23.7% of their marketing budgets.
- However the companies are not optimally using the technology, as marketers were using only 58% of the existing technology.
- The other costs involved are for up-skilling marketing staff and towards workflow management applications.
- CMOs want to spend around 22% on digital advertising, on social media and ecommerce platforms, paid search, 13.5% for video or display ads on platforms like Amazon and Social Media. Majority of 59% they spend on digital channels like social marketing, website, SEO and mobile marketing.

It could be concluded that the marketing leaders were giving more weightage to technology in their marketing spends.

Source: https://www.gartner.com/en/marketing/insights/articles/gartner-cmo-2020-2021-tech-digital-channels-withstand-budget-cuts

5.3.1 Importance of Analysing Marketing Costs

Usually, marketers measure the effectiveness of marketing activities by the total sales generated for each product line. This may not help in identifying the source of profits, which is important for marketers in order to maximize profits.

Benefits of analyzing marketing costs will help organization to:

- Identify the unprofitable customers, products and orders.
- Channelize its marketing efforts towards profitable customers and thus increase profits.
- Avoid making costly marketing mistakes.

Example

Let us consider how P&G analyzed its marketing costs and reduced unnecessary costs

- During 2020[28] due to Pandemic, P&G hiked its ad spending, as media consumption increased during pandemic.
- But it continued to cut marketing costs and overhead costs by USD 120 million which were unnecessary.

5.3.2 Types of Costs for Analysing Marketing Costs

There are three types of costs crucial for analyzing marketing costs:

- Fixed costs: Fixed costs can be defined as *'the costs which remain unchanged even with changes in the sales volume'*.
- Variable costs: Variable costs are '*the costs that are directly affected by the changes in the volume'*.
- Semi-variable costs: *'Costs which have the elements of both fixed and variable costs are called semi-variable costs'*. Semi-variable costs are fixed over the short run and may vary in the long run.
- *Challenges in understanding various costs:* One of the challenges in performing the marketing cost analysis is the classification of the costs into fixed, variable and semi-variable costs. A company advertising its products on a portal like Yahoo! incurs semi-variable costs. The company has to pay membership charges for having a presence on the website, which is a fixed cost and also has to pay for each click on its banner ad, which is a variable cost.

5.3.3 Steps involved in Marketing Cost Analysis

Marketing cost analysis involves some important steps as given below:

- Proper division of costs: This involves dividing the costs into fixed, variable and semi-variable costs, which helps to analyze as to which product line, distribution channel, or customer segment should be dropped.
- Allocation to different divisions: Allocation of various costs to different divisions of the business on which they were spent.
- Analysis of marketing costs: This should be conducted regularly, at regular intervals which helps in controlling the total costs.

[28] *https://www.marketingdive.com/news/pg-boosts-marketing-as-us-sales-surge-amid-pandemic/576325/*

5.3.4 Challenges in Marketing Cost Analysis

There are several potential challenges involving marketing cost analysis as mentioned below:

- It is difficult to assign costs to the customers (by pricing), products, or operations.
- There is difficulty in collecting marketing information from various sources. There could be a lack of proper analysis of the entire marketing information collected.
- Timely recording and presentation of the marketing data may prove difficult.
- Designing an effective monitoring program for ensuring marketing effectiveness could be tough.

5.3.5 Measuring Marketing Productivity

Definition: Marketing productivity is productivity at the micro-level. Marketing productivity can be defined as '*the ratio of marketing outputs with that of the marketing inputs.'*

Key aspects: Some important aspects of marketing productivity are:

- As in the case of manufacturing, in marketing too, input drives output. In 'selling' for instance, sales calls lead to sales. Likewise advertisements result in creation of awareness and enquiries about the product or brand.
- A brainstorming session can result in product ideas. When a marketing activity, like selling, is practiced over a period of time, learning occurs. Through training, consistent monitoring and refining of the selling approach, the outcome can be improved and there is a greater likelihood of achieving the sales targets (output).

The 'Effective-Efficiency' Approach:

This approach measures marketing productivity with two factors:

- The 'acquiring customer' factor: This factor enables a manager to calculate the resources required to acquire a new customer.
- The 'retaining customer' factor: This factor enables a manager to calculate the resources required to retain the existing customer.

Check Your Progress - 1

1. Which of these is not an aim of analyzing marketing costs?
   a. Identifying unprofitable customers and products
   b. Channel its marketing efforts toward unprofitable customers

   c. Helps a company to avoid making costly marketing mistakes
   d. Identifying profitable customers
   e. Reduce wasteful expenditure
2. Which of the following costs is not used in analyzing marketing costs?
   a. Fixed cost
   b. Direct Costs
   c. Variable cost
   d. Semi-variable cost
   e. Advertising costs
3. Which of the following is not a potential challenge in marketing cost analysis?
   a. The cost incurred by the company to retain customers
   b. There is difficulty in collecting marketing information from various sources
   c. There could be a lack of proper analysis of the entire marketing information collected
   d. Timely recording and presentation of the marketing data may prove difficult
   e. Designing an effective monitoring program for ensuring marketing effectiveness could be a challenge

5.4 Customer Profitability Analysis

Definition: Customer Profitability Analysis (CPA) '*involves the reporting and analysis of the revenues earned from the customers, including the costs incurred for earning those revenues'*.

Features: Some key features of CPA are:

- It focuses on analyzing the profitability generated by the customers.
- It focuses on the downstream activities in the value chain like marketing, distribution and customer service.
- It involves analyzing the costs incurred on the customers and distribution channels.

Benefits: Some important benefits of CPA are:

- It helps the company to expand its business with highly profitable customers.

- It enables the company to evaluate the pricing policies of a product based on the value provided by the product to the customer.
- It helps the company to gain business with customers who can be served at a lower cost, at discounted prices.
- It helps in the development of mutually beneficial relationships with customers who require lower costs-to-serve when compared to other customers.
- It attempts to attract high-profit customers from the competitors.

Let us understand how banks use CPA as a tool to increase profitability of customers through Exhibit 5.2.

Exhibit 5.2: Customer Profitability Analysis in Banks

It is important for banks to have a good understanding of the profitability of its customer base.

Customer Profitability Analysis (CPA) helps a bank to:

- Profitably cross sell to existing customers,
- Acquire new customers, whose profitability is high,
- Upgrade the services provided to existing customers, to make them more profitable,
- Provide differentiated service to customers to enhance the loyalty of profitable customers,
- Make suitable pricing decisions to increase profitability.

Three types of customer profitability analysis (CPA) for banks:

Business Customer Profitability:

At a very basic level, a bank should compare and analyze the cost incurred to serve a certain segment as against its revenue generating potential. Further, a bank also needs to reconsider its decision to provide certain services that yield negative or very negligible returns.

Retail Customer Profitability:

Many banks would be shocked to realize that only a small 20% of customers contribute to the bulk of profits, while 80% of customers contribute to a mere 20% of profits.

Once a bank estimates the retail customer profitability, it becomes easier to target profitable segments and offer differentiated experience to different client base.

Customer Lifetime Value:

This relates to estimation of the lifetime value or net profit that could be generated by a customer during his or her entire future relationship with the bank.

Having a robust ‘Customer Profitability Model’ is important for banks because it gears decisions taken at different levels towards profitability.

Source: Xavier Divi, “Customer Profitability analysis for better decisions”, Banking Strategies, BAI (Bank Administration Institute), 04/05/2015

5.4.1 Process of Customer Profitability Analysis

It is generally believed that CPA is a time-consuming process and requires a significant amount of information about the customers. This, however, is not the truth.

Main Steps of CPA Process are:

- Step 1 - Measurement of Profitability:

  The measurement of profitability of the product and service by including all the costs incurred. This step involves going beyond the gross-margin measures that a company generally uses and including the capital costs also.

- Step 2 - Identifying Customer Buying Pattern:

  Some customers buy from unprofitable categories, while others buy from profitable categories.

- Step 3 - Deducting Customer Specific Costs:

  It involves deducting all customer specific costs from customer profitability. Customer specific costs can come in various forms for a company.

- Step 4 - Inclusion of Overhead Costs in Total Costs:

  It involves the inclusion of overhead costs in total costs. Overhead costs include the shop floor maintenance costs.

Example

Let us consider a fictitious firm that services different customer groups: C1, C2, and C3. Table 5.1 illustrates how the firm can identify its profitable and unprofitable customers.

Table 5.1: Customer Profitability Analysis

Customer	Revenue (000s) ₹	Gross Profit (000s) ₹	Margin	Costs incurred to serve customers (000s) ₹	Net Profit (000s) ₹	Net Margin	Profitability status
C1	510	70	13.72%	90	(-20)	-4%	Highest Revenue

Contd. ….

C 2	380	67	17.63%	45	22	5.78	Highest Net Profit
C3	320	80	25%	120	(-40)	-12.5	Highest Gross Margin

Source: Computed by ICFAI Research Center

In the above example (Table 5.1), it is evident that the final profitability of a customer can be assessed only after calculating the net margin. Accordingly, only Customer C2 contributes to profitability. Serving the other two customers would only lead to erosion of profits due to the negative Net Margin, -4% and -12.5% respectively.

Activity 5.1

ABC Retail has been experiencing steep escalations in its marketing and distribution costs. The company was able to register an increase in sales in the year 2017, but this increase in sales did not increase profits. What steps could the retail firm take to monitor and reduce marketing costs? How will the company benefit by conducting a marketing productivity analysis and customer profitability analysis?

Answer:

Check Your Progress - 2

4. What is the primary focus of which of the following represents the focus area of the customer profitability analysis?
   a. Profitability of the product
   b. Costs incurred by customers
   c. Costs incurred by the company
   d. Profitability of the customers
   e. Overall marketing costs of the company

5. The process of customer profitability involves four main steps. Under which step 'deducting all customer specific costs from customer profitability' could be categorized?
   a. First step
   b. Second step
   c. Third step
   d. Fourth step
   e. Fifth step

5.5 Financial Situation Analysis

The financial situation analysis helps assess the current financial position of a company, which can be measured using various ratios.

5.5.1 Key Financial Ratios

The financial information is very useful for the marketers. In order to enable marketers to take effective decisions, financial information should be provided in a simple format. *Financial information, when used in the form of financial ratios, helps the marketers to take effective decisions.*

The financial ratios are used as yardsticks to measure the performance or financial health of a company (Refer to Table 5.2 that shows the formulae for calculating key financial ratios).

There are four important categories of ratios which are as follows:

1. Profitability ratios
2. Liquidity ratios
3. Leverage ratios
4. Activity ratios

Table 5.2: Key Financial Ratios

Ratio		How to Calculate
I. Profitability Ratios:		
1	Gross profit margin	$\frac{\text{Sales} - \text{Cost of goods sold}}{\text{Sales}}$
2	Operating profit margin	$\frac{\text{Profits before taxes and before interest}}{\text{Sales}}$
3	Net profit margin (or return on sales)	$\frac{\text{Profits after taxes}}{\text{Sales}}$
4	Return on total assets	$\frac{\text{Profits after taxes}}{\text{Total Assets}}$

5	Return on stockholders' equity(or return on net worth)	$\frac{\text{Profit after taxes}}{\text{Total stockholders' equity}}$
6	Return on common Equity	$\frac{\text{Profits after taxes - Preferred stock dividends}}{\text{Total stockholders' equity - Par value of preferred stock}}$
7	Earnings per share	$\frac{\text{Profits after taxes - Preferred stock dividends}}{\text{Number of shares of common stock outstanding}}$
II. Liquidity Ratios:		
1	Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$
2	Quick ratio (or acid-test ratio)	$\frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$
3	Cash ratio	$\frac{\text{Cash \& Marketable securities}}{\text{Current liabilities}}$
4	Inventory to net working capital	$\frac{\text{Inventory}}{\text{Current assets - Current liabilities}}$

III. Leverage Ratios:		
1	Debt to assets ratio	$\frac{\text{Total debt}}{\text{Total assets}}$
2	Debt to equity ratio	$\frac{\text{Total debt}}{\text{Total stockholders' equity}}$
3	Long-term debt to equity ratio	$\frac{\text{Long term debt}}{\text{Total stockholders' equity}}$
4	Times-interest-earned (or coverage ratios)	$\frac{\text{Profits before interest and taxes}}{\text{Total interest charges}}$
5	Fixed-charge Coverage	$\frac{\text{Profits before taxes and interest + Lease obligations}}{\text{Total interest charges + Lease obligations}}$
IV. Activity Ratios:		
1	Inventory turnover	$\frac{\text{Cost of goods sold}}{\text{Inventory}}$ *Contd. ....*

2	Fixed-assets turnover	$\frac{\text{Sales}}{\text{Fixed assets}}$
3	Total-assets turnover	$\frac{\text{Sales}}{\text{Total assets}}$
4	Accounts receivable Turnover	$\frac{\text{Annual credit sales}}{\text{Accounts receivable}}$
5	Average collection period	$\frac{\text{Average Accounts receivable}}{\text{Average credit sales per day}}$

Source: http://research.uvu.edu/management/mcarthur/boilerplate/financeratios.pdf (Accessed on: January 20, 2022)

Profitability Ratios

Definition: The ratios that measure the financial performance of a company are called profitability ratios.'

Profitability ratios are used by firms to understand

- How well the business has been performing during a specific period.
- Insights on whether a firm will be able to generate sufficient profits to continue to serve in the chosen area of business.

Commonly used Profitability Ratios are:

- *Gross profit margin:* This ratio indicates the profit margin of the company after deducting the cost of producing the goods sold. It indicates the efficiency of operations. It measures the profit margin available to cover the operating expenses. For a company to be successful in the long run, maximizing the gross profit margin is very important.
- *Operating profit margin:* This ratio indicates the profitability of the company from current operations without taking into consideration the interest charges accruing from the capital structure.
- *Net profit margin:* The net profit margin shows the profit that a company is making on each sales.
- *Return on total assets (ROTA):* This ratio indicates the rate of return on investment of the total assets of a company.
- *Return on stockholder's equity (ROSE):* This ratio indicates the rate of return on the investment of the stockholders.
- *Return on common equity (ROCE):* This ratio indicates the rate of return on investment made by the owners of common stock in the company.
- *Earnings per share (EPS):* This is the portion allocated to each outstanding share of common stock from the company's profit.

Example

To illustrate how an important Profitability Ratio, NPR (Net Profit Ratio), is calculated and how it is used as a measure to understand the profits made for every dollar of sales.

Consider, net profit after tax and sales revenue of Company A, for the year 2021, are ` 50,000 and ` 5,00,000 respectively.

The Net Profit Ratio = (50,000/5,00,000) X 100 = 10%.

While there is no standard norm to interpret the 'Net Profit Ratio' (NPR), inferences can be made in the following ways:

This ratio indicates the ability of the company to cover the operating costs, which includes indirect costs as well. A high ratio indicates that a firm has managed its business operations efficiently.

Internal analysis of NPR involves comparing the current NPR with multiple accounting periods from the past and also with the budgeted NPR. Such a comparative analysis provides insights on whether or not the firm's profitability has improved.

In the given example if the firm's NPR was 12% in the previous year and if the budgeted NPR for the previous year was 13%, then clearly the firm needs to understand the reasons for the decline in profitability.

External analysis of NPR involves comparing the firm's current NPR with industry average and with the NPRs of the company's key competitors.

If the industry average is also 11%, and if the firm's key competitors have 15% as NPR, then it is a clear indication that the firm needs to introspect and work out an action plan to improve profitability.

Liquidity Ratios

Definition: Liquidity of a company '*is a measure of the short-term solvency of a company'*. '*The ratios that measure a firm's ability to fulfill its short-term obligations are called liquidity ratios'*.

Importance of Liquidity Ratios:

Liquidity ratio is important because if a firm is not in a position to pay expenses and bills on time and meet other short term obligations, it affects its credibility and its credit rating. Also, future access to credit to the firm would be limited. This in turn would negatively impact a firm's ability to leverage operations and growth.

Salient features of Liquidity Ratios:

These ratios are also called working capital ratios. The liquid assets for a company can be cash-in-hand, marketable securities, accounts receivable, inventories and other debts with nearing maturity dates. These assets can be converted into cash quickly for meeting the immediate or short-term obligations of a company.

Some important Liquidity Ratios are:

- *Current ratio: This ratio reflects the company's ability to meet the current liabilities with the current assets.*

Interpretations of current ratio values:

- Sufficient Current Ratio: If the current ratio is more than one, the company is said to be in good financial health. It is generally believed that a current ratio between 1.2 and 2 is sufficient. The ideal ratio, however, varies from industry to industry.
- High Current Ratio: The higher the current ratio, the more liquidity the company has.

Example
In India, cash rich companies of the IT industry (Infosys, Wipro, etc.) have high CR ranging from [29]3 to 5, meaning their current assets are three to five times the level of current liabilities.

- Low Current Ratio: A low ratio (current ratio < 1) indicates liquidity issues, indicating that the firm's chances of defaulting on short-term obligations are high.

Example
A retailer who sells perishables like fruits and vegetables would make daily purchases and hence needs sufficient liquidity to cover current liabilities. Depending on the industry, firms may negotiate longer period of credit (30, 60 or even 90 days) and here liquidity ratio need not be high

- *Quick ratio:* This ratio is also called the acid-test ratio. *It reflects the company's liquidity and its ability to meet obligations (without depending on the sale of its inventories).* Similar to the current ratio, this ratio reflects the financial health of the company. The higher the quick ratio, the better for the company.
- *Cash ratio:* This ratio indicates how long a company can survive without further inflow of funds. *It indicates the company's ability to meet the*

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29 https://economictimes.indiatimes.com/wealth/invest/useful-ratios-to-know-in-the-balance-sheet-of-a-company/articleshow/59606017.cms

short-term obligations and therefore is of importance to the short-term creditors.

- *Inventory to net working capital ratio:* This ratio indicates the amount of net working capital that is tied up in the inventory or stock.

Leverage Ratios

Definition: Leverage ratios typically compare capital invested by owners against the funds provided by lenders. The ratios that are used to examine the capital structure of a business and their ability to handle both long-term and short-term debts are called leverage ratios.

Benefits of Leverage Ratios are:

- They help us understand the extent to which an enterprise utilizes borrowings and the risk level associated with it.
- These ratios help the managers to examine how little or how much debt a company owes.
- For a healthy debt level, this ratio should be equal to or below the industry standard.

Example

Let us take some companies with low and high debt-to-equity ratios

As of September 2021, the companies such as EIL (Engineers India Ltd.), NALCO, NBCC and Shri Digvijay Cement had 'Zero' Debt-to-Equity ratio. This means that these four companies have sufficient funds in the form of equity and the companies do not require debt for financing their businesses.

Whereas for Future Retail Ltd., the debt-equity ratio was 0.6 during 2020, and by 2021 the ratio spiked to an alarming 3.67 (as of December 2021). A debt equity ratio higher than 2 is very risky for business due to too much debt.

Some important Leverage Ratios are:

- *Debt-to-assets ratio:* This ratio measures the company's financial risk by determining how much of the company's assets have been financed by debt. It is calculated by adding the company's short-term and long-term debts and then dividing that by the total assets of the company. This indicates the extent to which the borrowed funds have been used for the company's operations.
- *Debt-to-equity ratio:* This ratio measures the funds provided by the creditors against the funds provided by the owners of the company.

- *Long-term debt-to-equity ratio:* This ratio indicates the equilibrium between debt and equity in the overall capital structure of the company.
- *Coverage ratio:* This measures the number of times a firm can meet its interest obligations from its earnings before interest and taxes. A lower interest coverage ratio reflects a higher debt burden on the company.
- *Fixed charge coverage ratio:* This ratio measures the ability of a company to meet the fixed charge obligations, which is the ratio of (profits before taxes and interest plus long term lease payments) to (total interest charges plus long-term lease payments).

  Since a lease payment is a fixed charge for a company, its ability to meet such a fixed charge obligation is calculated using the formula given for fixed charge coverage ratio in Table 5.2

Activity Ratios

Definition: Activity ratios indicate how well a business is managing its assets. These assets can be cash, accounts receivable, inventory, property, plant, and equipment. Activity ratios indicate how well a firm is managing its assets to pay off its expenses and liabilities.

These ratios are compared with past performances of a firm and also with competitors in the same industry. The higher the ratio, the better it is for a firm, because it indicates the ability of a firm to generate higher revenue on every rupee spent on the assets.

Some important activity ratios discussed here are:

- *Inventory turnover ratio:* This ratio indicates if a company has excess or inadequate inventory as compared to the industry average.
- *Fixed assets turnover ratio:* This ratio measures the productivity and utilization of fixed assets like the plant and machinery of the company.
- *Total assets turnover ratio:* This ratio indicates the utilization of the total assets of the company. When compared to the industry norm of total asset utilization, this ratio indicates the utilization of the assets to the appropriate extent.
- *Accounts receivable ratio:* This ratio indicates the average amount of time required to collect the sales made on credit.
- *Average collection period ratio:* This ratio indicates the average amount of time a company has to wait for receiving the payments for the sales made.

  In sectors such as power and telecommunication, which are very capital intensive, investment made in fixed costs is very high.

  Hence the asset turnover ratio of a telecom company may be much lower than that of a retail or software firm, where the asset base is small.

  Hence, it is important that comparison of ratios need to be made with competitor companies in the same industry.

Analysis of Ratios

Once the ratios have been calculated, they need to be analyzed. A report presenting only the ratios would be useless without proper analysis.

Some important analyses are discussed here:

- *Comparing with industry averages:* The ratios that have been calculated should be benchmarked against the industry averages or standards. There are various sources which provide information related to industry averages. Some of the sources include rating agencies like CRISIL, the government and trade associations.
- *Comparing with competitors' ratios:* The ratios can also be compared with other companies in the same industry. This helps in analyzing where a company stands with respect to the competitors in the marketplace.
- *Comparing ratios over time:* The ratios can be compared with the previous ratios of the company. This helps the company to analyze how it has changed over time and also enables it to forecast its future performance.

5.5.2 Contribution Analysis

Definition: The analysis of the profit contribution on the performance of the products, segments, etc. is called contribution analysis.

In other words, *the contribution margin is sales (revenues) less variable costs. It represents the amount of money available for covering fixed costs. The contribution margin minus the fixed costs gives the net income.*

Example

Let us understand the calculation of contribution margin through an example.

Let us say a mobile phone manufacturer sold 5,000 mobile phones at a price of INR 10,000 per unit. The variable manufacturing costs incurred inclusive of variable selling expenses amount to INR 5,000 per unit.

Contribution margin can be calculated as given below:

Contribution margin per unit = Selling price – Variable cost = INR 10,000 – INR 5,000 = INR 5,000.

Contribution margin in totality for all units = 5,000 units X INR 5,000 = INR 2.5 crores or INR 25 million

Contribution margin ratio = 0.50 or 50%.

Benefits of contribution analysis are:

- It helps 'to evaluate the activities of various functional units in an organization based on their contribution margins'.
- It quantifies the productivity of the activities of various functional units within an organization.
- It helps to analyze the financial status of specific programs and functional units of an organization.
- It enables the allocation of costs to various activities and functional units.
- It helps in comparing the contribution of one functional unit with that of others and to the organization as a whole.
- It indicates the margin of contribution of a functional unit that can be used as a performance indicator and to provide incentives to the employees.

Performing Contribution Analysis

Contribution analysis is a very useful and powerful tool for the management of a firm. *The process of carrying out a contribution analysis or developing a contribution analysis model consists of the following steps which are discussed below.*

- *Establishing structure for analysis:* The first step in performing a contribution analysis is establishing the structure for analysis. This involves deciding on the level at which one wishes to perform the analysis.

  An organization has several functional units. The management must decide in which functional units it wishes to employ the analysis and for which activities. A well-designed contribution analysis model enables a detailed analysis
- *Allocating revenues and expenditures:* There are two types of revenues:
  - o Direct revenues are the contributions, gifts, grants and fees paid for the services offered. Direct expenditures are the salaries, benefit payments, supplies and contracted services.
  - o Indirect revenues can be generated from the payments for membership, etc., while indirect expenditures can be from support payments, maintenance expenses, etc. The key here is to allocate revenues and expenditures appropriately.
- *Develop allocation statistics:* Revenues and expenditures are very important elements of operation for a company. The company should develop an allocation statistic for each indirect revenue and expenditure, so that they can be allocated appropriately.

Maintenance, operation and support services are three different types of indirect expenditures. Maintenance and operation services can be allocated on the basis of per square foot, while the support services can be allocated on the basis of staff headcount.

- *Develop methods of allocation:* Despite the fact that there are various methods of allocation, a company must develop a common method for allocation, which is consistent. The methods of allocation must be simple, reasonable, accurate and up-to-date.
- *Calculation of the contribution margin:* The contribution margin can be calculated by deducting the indirect contribution margin (i.e. indirect expenses from indirect revenues) from the direct contribution margin (i.e. direct expenses from direct revenues).

  The resultant figure is the net contribution margin. Refer to Table 5.3 that gives a simple illustration for calculating contribution margin.

Table 5.3: Illustrative Calculation of Contribution Margin

***(Figures in** Rs.)*

Direct Revenues	30,000	
Direct Expenditure	-(10,000)	
Direct Contribution Margin		20,000
Indirect Revenues	5,000	
Indirect Expenditure	-(15,000)	
Indirect Contribution Margin		-(10,000)
Net Contribution Margin		**10,000**

Source: ICFAI Research Center

5.5.3 Financial Analysis Model

The financial analysis model provides a useful basis for analyzing the financial performance of a company.

Salient features of financial analysis model are:

- It uses many ratios like profit margin ratio, asset turnover ratio, and return on assets for analyzing the financial performance of an organization (Refer to Figure 5.1).
- The product of profit margin ratio and the asset turnover ratio gives the return on assets.

- The product of return on assets, on the other hand, with the financial leverage will give the financial performance of a company.
- The details and data for the financial analysis are available in the historical data, documented in financial statements.
- Based on the historical data, the various ratios could be calculated for the current period and previous time periods and the trends could be studied. The trends could be used for predictions for future.

Figure 5.1: Financial Analysis Model

$$\boxed{\text{Profit margin}} \times \boxed{\text{Asset turnover}} = \boxed{\text{Return on Assets}}$$

$$\boxed{\text{Return on Assets}} \times \boxed{\text{Financial leverage}} = \boxed{\text{Performance or Return on Net worth}}$$

Where,

$$\text{Profit margin} = \frac{\text{Net profits (after taxes)}}{\text{Net sales}}$$

$$\text{Asset turnover} = \frac{\text{Net sales}}{\text{Total assets}}$$

$$\text{Return on assets} = \frac{\text{Net profits (after taxes)}}{\text{Total assets}}$$

$$\text{Return on net worth} = \frac{\text{Net profits (after taxes)}}{\text{Net worth}}$$

Source: Cravens, David W, "Strategic Marketing", 10th ed., e-book, McGraw Hill/Irwin, 2021.

Example

Let us say a firm wants to predict growth in sales in the future.

Sales growth is a function of two variables:

- Sales registered in the previous years and current year's sales. Based on the growth trend and current year's sales, future sales can be calculated.

Financial models are used for various purposes like:

- Scenario preparation for strategic planning, capital budgeting decisions, allocation of corporate resources to various SBUs etc.

Check Your Progress - 3

6. Which of the following is not a category of financial ratios?
   a. Profitability ratios
   b. Productivity ratios
   c. Leverage ratios
   d. Activity ratios
   e. Turnover ratios
7. Which of the following is a profitability ratio?
   a. Current ratio
   b. Debt-to-assets ratio
   c. Inventory turnover ratio
   d. Gross profit margin ratio
   e. Debt equity ratio
8. Which of the following ratios measures the number of times a firm can meet its interest obligations from its earnings before interest and taxes?
   a. Accounts receivable ratio
   b. Quick ratio
   c. Coverage ratio
   d. Earnings per share
   e. Profit after tax
9. Which of these given below cannot be a suitable benchmark to compare and analyze ratios?
   a. Industry averages
   b. Competitors' ratios
   c. Comparing the ratios with the company's previous ratios over a period of time

d. Comparing with the ratio standards and benchmarks of other industries
e. Targets set for achievement by the company with respect to various ratios

10. Which of the following ratios indicates how a business manages its assets?
    a. Financial ratio
    b. Activity ratio
    c. Leverage ratio
    d. Liquidity ratio
    e. Gross Profit ratio

5.6 Productivity

Definitions:

- Productivity: According to the Bureau of Labor Statistics, productivity is defined as '*the ratio of value of goods manufactured when compared with the amount of labor input'*.
- Productivity is usually defined '*as the amount of output produced for a given input'*. Marketing productivity, '*needs to be measured in terms of both quality and quantity'*. '*It is the amount of desirable output per unit of input'*.

Salient features of Productivity:

- It is believed that the most direct approach to attain a competitive advantage is through increasing productivity and cost-cutting measures.
- Productivity is considered at two levels – macro-level and micro-level. Productivity at the macro-level deals with the entire industry or economy, whereas at the micro-level, it deals with an organization or activities within an organization.

Example

The Japanese car manufacturers are known for their productivity and efficiency in manufacturing operations. Companies like Toyota, Honda and Nissan are giving the Big Three companies (i.e. DaimlerChrysler, General Motors and Ford Motors) tough competition in the US car market

Learning effect and productivity

Learning Effect, which increases productivity, is based on the premise that individuals and organizations learn and acquire knowledge with experience over a period of time. Learning curve graphically represents the rate of learning as a consequence of increase in effort or experience.

Evolution of Learning Effect and Productivity:

In 1936, Theodore Paul Wright observed a positive correlation between the effect of learning over a period of time and the production costs in the Airline Industry.

The concept of 'Experience Curve', a macro concept, was developed by Boston Consulting Group (BCG), a leading consultant group, in the 1960s.

BCG Research observed an experience or learning effect ranging from 10% to 25% for various industries.

Activity 5.2

The following table shows some of the common elements of the Income Statement (also known as a Profit and Loss Statement).

Income Statement (*Figures in $*)

Sample Company		
Income Statement		
January 1, xxxx to December 31, xxxx		
Income		
Gross Sales		346,400
Less returns and allowances		1,000
Net Sales	345,400	
Cost of Goods		
Merchandise Inventory, January 1		160,000
Purchases		90,000
Freight Charges		2,000
Total Merchandise Handled		252,000
Less Inventory, December 31	100,000	
Cost of Goods Sold	152,000	

Gross Profit		193,400
Interest Income		500
Total Income		**193,900**
Expenses		
Salaries	68,250	
Utilities		5,800
Rent		23,000
		2,250
Office Supplies		
Insurance		3,900
Advertising	8,650	
Telephone	2,700	
Travel and Entertainment		2,550
Dues & Subscriptions		1,100
Interest Paid		2,140
Repairs & Maintenance		1,250
Taxes & Licenses		11,700
Total Expenses		**133,290**
Net Income		**60,610**

From the above table calculate as many financial ratios as possible and assess the financial situation of the company.

Answer:

Check Your Progress - 4

11. Which of the following is the level of productivity according to productivity theory?
    a. Micro level
    b. Industry level
    c. Economy level
    d. Outside an organization level
    e. Sector level
12. The macro level of productivity for an organization deals with which one of the following?
    a. Firm level
    b. Entire industry
    c. Within an organization
    d. Between two organizations
    e. Outside an organization

5.7 Summary

- Marketing costs are the costs incurred on the company's efforts to attract and retain customers.
- Marketing cost analysis is the identification of costs incurred while marketing and distributing a product.
- The marketing cost analysis helps the managers in effective decision-making, formulation of marketing strategy and planning and controlling marketing activities. It helps the managers to identify customers who are profitable and those who are unprofitable.
- There are three types of costs that are important in the marketing cost analysis process – fixed, variable and semi-variable costs.
- Marketing productivity is the measurement of the desirable output for a given amount of input. It can be measured by the effective efficiency method.
- Customer Profitability Analysis (CPA) involves the analysis of revenues earned from the customers. This analysis helps managers to identify how the profits are being generated, what the profitable segments are, who the profitable customers are and so on.

- The financial ratios can be used to measure the performance of a company. Some of the key financial ratios that help to analyze the health of a company are the profitability ratios, liquidity ratios, leverage ratios and activity ratios.
- Contribution analysis helps a manager to analyze revenues and expenditures. This analysis helps the management to identify how each of the activities or functional units contributes to the profits of the company.
- Productivity is the ratio of value of goods manufactured when compared with the amount of labor input.

5.8 Glossary

Activity Ratios: Activity ratios indicate how well a business is managing its assets. These assets can be cash, accounts receivable, inventory, property, plant and equipment.

Analyzing Marketing Costs: According to the American Marketing Association (AMA), analyzing marketing costs is an attempt to determine the actual costs incurred for marketing and distributing a product.

Contribution Analysis: The analysis of the profit contribution on the performance of the products, segments, etc. is called contribution analysis.

Customer Profitability Analysis (CPA): Customer Profitability Analysis (CPA) involves the reporting and analysis of the revenues earned from the customers, including the costs incurred for earning those revenues.

Fixed Costs: Fixed costs can be defined as the costs which remain unchanged even with changes in the sales volume.

Leverage Ratios: The ratios that are used to examine the capital structure of business and their ability to handle both long-term and short-term debts are called leverage ratios.

Liquidity Ratios: The ratios that measure a firm's ability to fulfill its short-term obligations are called liquidity ratios. These ratios are also called working capital ratios.

Marketing Costs: Marketing costs can be defined as 'the expenditures aimed at promoting the customer's awareness of a product or customer's service and in translating that awareness into one or more purchases and the continuation of that relationship with the organization'.

Marketing Productivity: Marketing productivity can be defined as the ratio of marketing outputs with that of the marketing inputs.

Productivity: Productivity is usually defined as the amount of output produced for a given input. According to the Bureau of Labor Statistics, productivity is defined as 'the ratio of value of goods manufactured when compared with the amount of labor input'.

Profitability Ratios: The ratios that measure the financial performance of a company are called profitability ratios.

Semi-variable Costs: Costs which have the elements of both fixed and variable costs are called semi-variable costs. Semi-variable costs are fixed over the short run and may vary in the long run.

Variable Costs: Variable costs are the costs that are directly affected by the changes in the volume.

5.9 Self-Assessment Test

1. Define marketing costs. State the importance of analyzing marketing costs.
2. Describe the steps involved in marketing cost analysis. Discuss the challenges involved in marketing cost analysis.
3. State the benefits of customer profitability analysis? Explain the process of measuring customer profitability.
4. Describe in brief the key financial ratios that are used as yardsticks in the analysis of the financial health of a company?
5. Define productivity. Explain the concept of marketing productivity.

5.10 Suggested Readings / Reference Material

1) Cravens, David W, "Strategic Marketing", 10th ed., ebook, McGraw Hill/Irwin, 2021.
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4) Dibb, Sally, Lyndon Simkin, William M Pride, O.C. Ferrel, "Marketing Concepts and Strategies", 8th edition Cengage Learning, 2019.
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6) Fred R. David "Strategic Management Concepts: A Competitive Advantage Approach", Sixteenth Edition, Pearson, 2018.

5.11 Answers to Check Your Progress Questions

1. **(b) Channel its marketing efforts toward unprofitable customers**

   Analyzing marketing costs helps identify the unprofitable customers, products and orders and how unprofitable they are. Thus all options, except option 'b' state the benefits of marketing costs. Hence, Option 'b' is the correct answer.

2. **(a) Direct costs**

   There are three types of costs – fixed costs, variable costs, and semi-variable costs, which are important for analyzing marketing costs. Option 'a' direct cost is not a cost type that is used for analysis of marketing cost because direct cost relate to production.

3. **(a) The cost incurred by the company to retain customers**

   There are several potential challenges involving marketing cost analysis:

   - The management may find it difficult to assign costs to the customers (by pricing), products, or operations. Hence option i is incorrect.
   - There is difficulty in collecting marketing information from various sources.
   - There could be a lack of proper analysis of the entire marketing information collected.
   - Timely recording and presentation of the marketing data may prove difficult.
   - Designing an effective monitoring program for ensuring marketing effectiveness could be a challenge.

     Option 'a' which gives the definition of marketing costs is not a challenge

4. **(d) Profitability of the customers**

   Customer Profitability Analysis (CPA) focuses on analyzing the profitability generated by the customers.

5. **(c) Third step**

   The third step in the process of customer profitability analysis involves deducting all customer specific costs from customer profitability.

6. **(b) Productivity ratios**

   There are four important categories of financial ratios: Profitability ratios, liquidity ratios, leverage ratios and activity ratios.

7. (d) **Gross profit margin ratio**

   Some of the profitability ratios commonly used include gross profit margin, operating profit margin, net profit margin, return on total assets (ROTA), return on stakeholders equity (ROSE), return on common equity (ROCE) and earnings per share (EPS).

8. (c) **Coverage ratio**

   Coverage ratio measures the number of times a firm can meet its interest obligations from its earnings before interest and taxes.

9. (d) Comparing with the ratio standards and benchmarks of other industries

   The ratios can be analyzed by benchmarking them against industry averages, competitors' ratios, and by comparing the ratios with the company's previous ratios over a period of time. Option 'd', standard ratios of other industries are not used as a benchmark for a company in a given industry. This is because the marketing environment in the other industry could be totally different.

10. (b) **Activity ratio**

    Activity ratios indicate how well a business is managing its assets.

11. (a) **Micro level**

    The productivity levels for an organization are micro level and macro level.

12. (b) **Entire industry**

    The macro level of an organization deals with the entire industry or economy.

Unit 6

Market and Environmental Analysis

Structure

"Business is a subset of the environment, not the other way around. You can't have a healthy economy, you can't have a healthy anything in a degraded environment."

- Peter Coyote

6.1 Introduction

As quoted by Peter Coyote, business is a subset of the environment and it depends on the environment. The business environment is hyper competitive in the technology age where the organizations should carefully manage their technological environment. There are a lot of shifts in the demographics, many changes in the regulations and other environmental factors are taking place, which need to be taken into consideration by organizations.

The previous unit discussed the importance of marketing cost analysis and the process of customer profitability analysis.

In this unit, we shall discuss the market and environmental analysis.

6.2 Objectives

After reading through this unit, you should be able to:

- Discuss the nature and structure of marketing environment and the forces.

- Elaborate on the process of environmental scanning and analysis.
- Track the evolution of environmental scanning and its importance in the current marketing scenario.
- Discuss the PEST framework as a tool for scanning the macro environmental factors.
- Explain the benefits of environmental scanning and barriers to effective environmental scanning.

6.3 The Nature and Structure of Marketing Environment

An organization needs to respond to the changes in the environment quickly, if it has to survive and succeed in the competitive environment.

Definitions: The environment can be defined as:

- '*Factors that are external to a system and have an influence on the system'*.
- '*A complex set of external factors, which act on a system and influence its existence and course of action in which it operates'*.

Business Environment: A business environment comprises:

- Inputs of the company like the labor, raw material and other resources
- Demands of the marketplace
- Constraints within which the company must operate
- Opportunities for organizational learning and innovation.

Roles: Important roles of the marketing department:

- To identify the changing needs and preferences of customers, attempt to meet those needs and preferences.
- To identify changing customer preferences requires an organization to be completely familiar with the environment.
- To be aware of changes in the environment helps the organization to forecast changes in patterns of demand for its products and services.

External environment: Environmental changes can arise due to technological innovations or regulatory changes in the market.Every business function of an organization like marketing, production and public relations, is influenced by the external environment to a certain extent. The external environment plays a vital role in the marketing function. Changes in the environment require changes in the marketing activities of the organization.

Example

Let us consider how the businesses were impacted by new technologies like AI (Artificial Intelligence), ML (Machine Learning), Big Data, Analytics and Blockchain technologies.

According to the State of CIO Survey 2021[30], AI is helping businesses to make better decisions and offers more convenience to the customers. 62% of IT leaders opined that AI is a key disrupter in 2021 and beyond.

Machine Learning also has topped the list of technologies that significantly impact the way businesses operate.

IT leaders also see that big data and analytics would create a distinct impact and blockchain being less widely adopted technologies.

6.3.1 Structure of the Marketing Environment

The marketing environment consists of external forces that have a great influence on the marketing activities of a company. Some of these external forces are direct and have an immediate effect on the company, while others are indirect.

The three types of marketing environment are:

Micro-environment

Micro-environment covers the forces that directly influence a company's marketing activities. The various micro-environment forces are:

- *Customers*: Customer is regarded as the 'King', where companies cannot succeed without understanding customer preferences. Customer preferences are very dynamic, the organization has to track the changes with an effective information gathering system and fulfill them for current and future requirements.

Example

Harley Davidson closed its manufacturing facilities in India during 2020 due to losses (a $96 million loss between April 2020 and June 2020[31]), as the majority of potential customers were not buying the bikes. The demand was less for this brand due to the high price of the bike (as a result of high import taxes). In 2021, it tied-up with Hero MotoCorp for sales, service and distribution of its bikes in India.

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[30] *https://www.cio.com/article/228431/technologies-that-will-disrupt-business.html (Accesses on December 20th 2021)*

[31] *https://www.timesnownews.com/auto/bike-news/article/harley-davidson-calls-it-quits-in-india-reports/657497*

- *Competitors:* Competitors pose challenges and threats to the organization's survival. Organizations must overtake its competitors, as competitors grab the market share and the customers. Thereby slowly threaten the existence of organizations which don't counter the competitor activities and strategies.

Example

As on 2021[32] Samsung is the world's number one company in the smartphone market. Last two decades of the smartphone market witnessed Apple leading in the initial run with its I-Phone. But, after ten years consecutively Samsung acquired the top position defeating Apple. The affordability of Samsung phones with more features pushed Apple down to 3rd position.

- *Intermediaries:* Intermediaries link an organization with its customers. Many large organizations depend on their intermediaries for the sale of their products to the end customers. Wholesalers, retailers, etc., form the marketing intermediaries for a company.

Example

Britannia distributes its products to various retail outlets like kirana stores, supermarkets like 'More' and discount stores like 'D Mart'. These kirana stores, supermarkets and hypermarkets are the intermediaries for Britannia.

Suppliers: Suppliers provide resources, which are transformed by a company into final products. In situations, where a product is in demand, the company may lose its sales.

The sales of the company may be affected:

- If the suppliers do not provide raw materials for producing the product on time.
- Due to lack of raw materials and other inputs.
- When there is shortage of the required resources in the market.
- While procuring raw materials at high cost (As at low cost, cost reduction gives the company greater leeway in offering discounts and other attractions to consumers).

Example

Amul managed by GCMMF (Gujarat Cooperative Milk Marketing Federation) is a farmer cooperative based at Anand village, Gujarat. It evolved from a small cooperative to India's biggest dairy brand with the

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[32] *https://bettermarketing.pub/how-samsung-beat-apple-in-the-smartphone-world-33ed430e795b*

support of its suppliers (milk producers). By 2021[33],it procures milk from more than 16 million milk producers across the country. This model was developed to control the supply of raw material by themselves and not to depend on the middlemen.

Other stakeholders: Apart from customers, intermediaries, suppliers, there are other stakeholders too. These may be local community groups, government regulatory agencies, etc. These stakeholders also influence the marketing operations of a company.

Example

ITC, being the most valued Indian company, works not only for profit but also to help the environment and its stakeholders like local communities as part of their business. Through e-Choupal initiative, the company developed an integrated rural development program that enhances sustainable and inclusive growth in India.

Macro-environment

Definition: Macro-environment '*includes those forces, which are beyond the immediate environment but can still affect the company'*.

Macro-environment encompasses the larger market environment. It describes the external forces and general trends that do not have an immediate, but a long run effect on the company and also on the relationship between the company and its customers, suppliers and intermediaries.

The various macro-environment forces are:

- *Economic environment:* The success of a business often depends upon the economic conditions of a country.

  The importance of economic environment is:

  - A business cannot ignore the economic conditions in the country in which it operates as a growing economy would lead to higher incomes and demand.
  - The business firms have to consider the economic performance indicators like GDP growth rate, inflation rate and saving ratios etc. as they might affect its business.
  - During major economic reforms and economic boom, the firms prepare themselves as demand will fluctuate.

[33] *https://www.amul.com/m/about-us*

Example
During 2020[34], Government of India announced fundamental economic reforms in 8 key business sectors to combat negative effects from the pandemic like privatization of Electricity Distribution Companies (DISCOMs) in 8 Union Territories via a competitive bidding process.

- *Political environment:* A stable government enhances the attraction of a country as an ideal business centre. Firms carefully analyse the legislations passed by the governments as these can affect their business to a large extent.

  The Government of India had passed many legislations to encourage and enhance businesses of various organizations.

  PLI (Production Linked Incentive) scheme:
  - The scheme across 13 key sectors had been announced in the Union Budget 2021-22[35].
  - The total outlay of the scheme was INR 1.97 lakh crores.
  - The government wanted to create national corporate champions in manufacturing and generate employment to Indian youth.

Activity 6.1 SW Beverages Ltd., (SW Beverages) is a leading provider of fresh juices. The company sold all kinds of fruit juices in tetra packs. Of late, it noticed that its sales were declining as many consumers were switching to its competitor PL Co., Ltd. The management of SW Beverages found that its competitors had introduced several variants to its existing product line. Hence the management of SW also launched several variants of its fruit juices. It also ventured into beverages such as lime tea and green tea as the consumers were becoming increasingly health conscious. This strategy worked in favor of SW Beverages and the company was soon able to arrest the decline in its sales. Identify the micro-environment force that had led to the success of the organization. Also discuss other forces in the micro-environment. **Answer:**

34 *https://www.reedsmith.com/en/perspectives/2020/05/india-announces-fundamental-reforms-in-eight-key-business-sectors*

35 *https://pib.gov.in/PressReleasePage.aspx?PRID=1776843*

- *Social and cultural environment:* The social and cultural environment plays a vital role in shaping the marketing strategy of a company.

  Social environment: The social forces like family, friends, colleagues etc., of consumers impact the businesses if they don't understand them properly. In its domestic market, a business should understand and respond to changes in attitudes, beliefs and practices of the people. *Cultural environment:* Cultural differences between consumers in different parts of the world are diminishing. Therefore, many companies are adopting the 'one product suits all' policy. However, this policy may not always be viable.

  > **Example**
  >
  > McDonald's in India had to change its menu to vegetarian as the majority of Indians are Hindus. It introduced Maharaja Mac, a local version of standard Big Mac and even offered vegan friendly options like McAloo Tikki, McVeggie etc.

- *Demographic environment:* The study of population in terms of size, age, gender ratio, projected growth rate of the population and their characteristics is called demography. Changes in the size and structure of the populations being served are a vital consideration for a business. *Technological environment:* A rapidly changing technological environment is an important force in the macro-environment. Technological advancements can affect a business in major ways. These advancements allow new goods and services to be offered to the customer. Technological environment is affected by the following issues:

  Increased opportunities for innovation**:** Businesses now have larger scope and more opportunities for technological innovation. They are working towards revolutionizing their production processes by using artificial intelligence, robotics, etc.

  Differing budgets for R&D: Some companies in industries like automobile, pharmaceutical, communications in advanced countries like US, Japan and Korea are technologically ahead. This is to a large extent due to their expenditure on R&D activities.

  Increased regulation of technological change: Technological changes may have to be regulated by governments to protect the consumers and society at large.

Internal Environment

Internal environment refers to forces within the organization.

- *Internal structure of the marketing functional unit:* The internal structure and processes affect the marketing activities of a company. The internal structure determines the allocation of marketing activities and responsibilities to different managers. Marketing activities are generally allocated on the basis of products, customer segments and geographical areas.

- *Relationship of the marketing function with other business functions:* A market-oriented organization does not restrict its marketing efforts to the marketing unit alone. In a market-oriented organization, customer satisfaction is not the sole responsibility of the marketing unit but also of other functional units whose actions may directly or indirectly affect customers' perceptions of the quality and value of the product or service.

For greater customer satisfaction, a company must develop an organization-wide marketing culture. The culture should focus on meeting customer requirements and enhancing customer satisfaction.

Check Your Progress - 1

1. Which one of the following does **not** comprise the business environment?
   a. Demands of the stakeholders
   b. Demands of the marketplace
   c. Inputs of the company like labor, raw material, etc.
   d. Constraints within which the company must operate.
   e. Opportunities for organization learning and innovation
2. Which of the following is **not** a force in the micro-environment that directly influences a company's marketing activities?
   a. Customers
   b. Employees
   c. Competitors
   d. Intermediaries
   e. Company's channel partners
3. Which of the following is not a part of a company's macro-environment?
   a. Economic and political environment
   b. Socio-cultural environment
   c. Technological environment
   d. Suppliers who supply raw materials and components to the company
   e. Demographic environment
4. Which of the following represents the major considerations in an internal environment from a marketing perspective?
   a. Internal structure of the marketing functional unit
   b. Relationship of HR function with other business functions
   c. Relationship of the marketing function with other business functions

d. Internal structure of the production functional unit

e. Both internal structure of the marketing functional unit and its relationship with other business functions

5. The technological environment is **not** affected by which of the following issues?

   a. Fixed budgets for R&D

   b. Increased opportunities for innovation

   c. Differing budgets for R&D

   d. Increased regulation of technological change

   e. The encouragement of the top management to innovation

6.4 Environmental Scanning and Analysis

Definitions:

- *Environmental scanning is a method of identifying, collecting and analyzing information about external forces for formulating business plans and making effective decisions. It forms a vital part of the marketing strategy formulation.*
- *Environmental scanning is the process of communicating information about the market environment within one's organization*.

Key Aspects of Environmental Scanning:

- It communicates the information pertaining to the issues that will influence the decision making process of an organization.
- It involves identification of problems or threats to the organization's business.
- In the process, information on market trends is gathered and provided to the managers of the organization.
- Clearly, the information itself is the most important aspect of environmental scanning and analysis.

6.4.1 Process of Environmental Scanning

Environmental scanning can be conducted by a separate unit in an organization, as the top management cannot spend large amounts of time. This unit should be entrusted with the responsibilities of scrutinizing the trends and monitoring the environment.

Important issues to be addressed before setting up a separate environmental scanning unit:

- Does the organization collect information about the environment at present? What are the ways in which it collects information?
- Is the information used for strategic decision making and planning?
- Is the organization open and flexible to new ideas?
- Does the top management support the idea of environmental scanning?
- Are the resources enough to support the environmental scanning activities?
- In the organizational structure of a firm, where should the environmental scanning unit be coordinated?

Even in the absence of a separate unit, an organization can perform environmental scanning. This scanning will be effective if a structured method is followed.

Environmental scanning process has five basic steps:

- **Identifying the Information Needs of the Organization**

  In this step, the purpose of scanning, participants in the scanning process and the allocation of time and resources are determined. For successful scanning, the top management must define the purpose of the exercise and the requirements of the organization.

- **Collection of Information**

  The requirements of the organization must be translated into specific areas, where information is required to be collected. The information to be collected and the sources to be utilized should be prepared beforehand. Then, the information is collected in the specified areas.

- **Analysis of the Information**

  The information obtained should be analyzed to find trends or issues that may influence an organization. In some situations, there may be gaps in the information, like lack of accurate information, which need to be filled.

- **Communicating the Results**

  The results obtained from the analysis of the information must be communicated to appropriate persons, i.e., decision makers in the organization. These results should be communicated in a simple and clear manner.

- **Making Decisions**

  The decision makers make use of the results of environmental scanning. The decisions should aim at the optimal exploitation of the opportunities and reduces the threats to the firm in the environment.

- **Sources of Information**

Information can be obtained from internal and external sources.

- o Some of the sources for marketing environment are:
- o *Marketing intelligence:* This includes unstructured sources of information. It is used by marketers to study the trends in their changing environment. Marketing intelligence can be gathered from sources like newspapers, employees who are in regular contact with market developments, intermediaries and suppliers of the company and consultants.
- o *Marketing research:* Marketing research is a structured information collection process. While marketing intelligence deals with the collection of information about relatively intangible ideas and trends, marketing research focuses on collection of structured data.
- o Marketing research can be used to monitor the marketing effectiveness of a company. It can be used to survey the change in attitudes, lifestyle, preferences, brand awareness and distribution effectiveness.

Exhibit 6.1 lists the various sources of information necessary for a thorough environmental scan.

Exhibit 6.1: Information Sources for Environmental Scanning

The different sources through which information on the business environment may be collected are:

Secondary sources:

Newspaper, book, research articles, industrial and trade publications, government publication and annual report of the competitors

Mass media:

Radio, TV and Internet

Internal sources:

Internal reports, management information system, data network and employees

External agencies:

Consumers, marketing intermediaries and suppliers

Formal studies:

Formal research and study by the employees, research agencies and educational institutions

Source: https://www.gyankovandar.com/2021/03/Environmental-Scanning-Concept-Types-Approaches-Process-Techniques-or-Methods-and-Importance.html Accessed on 20/12/2021

Check Your Progress - 2

6. ________ is the process of communicating information about the market environment within one's organization.
   a. Market analysis
   b. Environmental scanning
   c. Financial analysis
   d. Consumer behavior
   e. Buying behavior
7. Which of the following is not a step in the process of environmental scanning?
   a. Collection of information
   b. Making a decision
   c. Analysis of consumer behavior
   d. Communication of the results
   e. Financial analysis
8. Which of the following is an internal source of information for environmental scanning?
   a. Journals
   b. Customers
   c. Radio
   d. Sales staff
   e. Marketing Environment Reports of Research agencies
9. Which of the following is an external source of information for environmental scanning?
   a. Internal reports
   b. Newspapers
   c. Internal databases
   d. Managers and employees
   e. It helps to identify the external competitive, social, economic and technical issues, which are otherwise hard to identify

6.5 Evolution of Environmental Scanning

Environmental scanning is the process that aims to collect information about the environment external to the business, knowledge of which would help the top management formulates growth strategies for the organization. Environmental scanning process has evolved over a period of time.

Evolution of environmental scanning process has the following three stages:

- Appreciation stage: In this stage, the organization conducts an in-depth analysis of the political, economic, social and technological factors in the environment.
- Analysis stage: In this stage, the organization identifies reliable sources of environmental data and compiles and examines data to identify trends, developments and key relationships.
- The final stage: This stage is the application stage. In this stage, the organization makes efforts to monitor the environment and incorporate the insights into its business activities.

6.5.1 Environmental Scanning Models

There are three models of environmental scanning:

- **Ad hoc Model**

  This model is used to deal with a crisis situation. The scanning is carried out in response to a crisis. It focuses on past events and on exploring the reasons for the occurrence of an event that has already taken place. It does not deal with future events and trends.

- **Structured Model**

  Organizations following this model need to review the environment regularly. This model is decision or issue oriented. This model does not focus much on future events and trends and is basically an analysis of the present situation.

- **Constant Model**

  Salient features of this model are:

  - Under this model, environment monitoring is a continuous process.
  - It focuses on monitoring political, regulatory and competitive factors and various relevant events in the environment.
  - Organizations adopting this model operate a separate environmental scanning unit.
  - The information gathered through scanning is used for strategic planning activities.
  - It is believed that the constant model is more effective than the ad hoc and structured models.

6.6 PEST Framework

The Political, Economic, Social, and Technological (PEST) framework is commonly used. This is not an analytical technique, but a framework for monitoring changes in the external environment that have an influence on the company.

The factors in PEST analysis are discussed below:

6.6.1 Political (and Legal) Factors

The marketing activities of a company are influenced by developments in the political and legal environment. The political and legal environments involve laws, regulations, pressure groups and government agencies. These environments exert some amount of pressure on the activities of a company as well as on the society. The legal environment is characterized by the laws that govern the functioning of a business.

The aims of the legal environment are:

- To protect the interests of companies.
- To protect the interests of the consumer from unfair trade practices. For example, Indian Consumer Protection Act 1986 aims to protect consumers from unfair trade practices or restrictive trade practices of a trader/company (Sec 2.c (i)).
- To protect the interests of the society and the environment.

6.6.2 Economic Factors

Economic factors in the environment are another important set of factors in the PEST framework. Organizations must analyze the economic conditions prevalent in the country in which they operate.

Some of the indicators of the economic conditions in a country are:

- Real growth in income
- Changes in the debt/savings ratios
- Inflationary pressures, and
- Customer buying behavior.

The economic conditions of a country affect its trade with other nations, currency conversion rates, commodity prices and the capital and labor markets.

Example

Due to COVID-19 pandemic, output declined in India with the GDP down at-7.3% during 2020. RBI reduced interest rate to 4% during this time period. The inflation also was high even for basic commodities like food and

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groceries. Buying behavior of customers also changed, as many people lost jobs and could not spend. Labour markets fully collapsed and laborers were the worst hit by the pandemic.

6.6.3 Social Factors

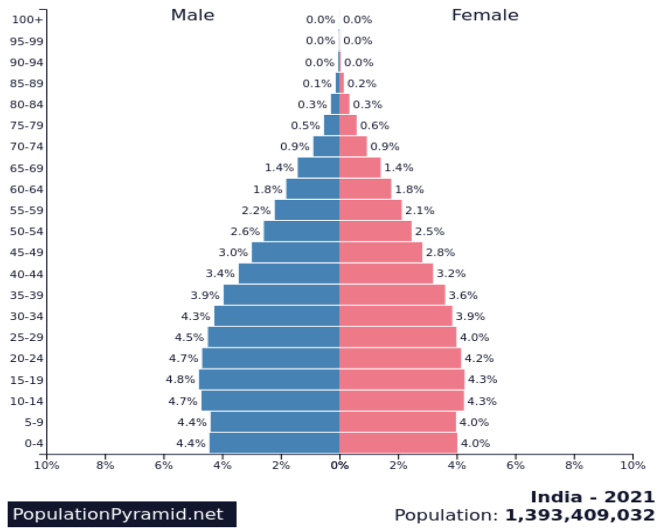
Social factors are based on the demographic and cultural characteristics of a market. Demographic factors, i.e. size, age, gender and other characteristics of the population play a vital role in the analysis of a market. An in-depth study of the population is very useful to the marketing planner.

Social factors are also affected by cultural aspects. Cultural elements include health consciousness, lifestyle and attitude towards career, beliefs and values and so on of the people in the country.

Exhibit 6.2 illustrates the Indian demographics in 2021.

Exhibit 6.2: Indian Demographics (As on Dec/20/2021)

The population of India was approximately 139.35 crores (As on 21/12/2021). The population growth rate was 1.02% during 2020-2021.



- ❖ There are 95.8 crore people over the age 18 in India.
- ❖ As shown in the graph above, the male median age in India was 27.2 and for females it was 28.6.
- ❖ Hinduism is the most common and majority religion in India, which accounts for around 80% of the population.
- ❖ Islam being the second-largest religion at 13% of the population. Other major religious groups being Christianity at 2.3%, Sikhism at 1.9%, Buddhism at 0.8% and Jainism at 0.4%.

Contd. ……

Around 67% of people still live in rural areas. India's quality of life was ranked 49 out of 66, with a quality of life index of 121.61. The health care ratio was 68.04 and the cost of living index was 23.81.

The above demographics of India help marketers to understand the consumers and make products suitable for them.

Sources: i) https://worldpopulationreview.com/countries/india-population Accessed on 20/12/2021
ii) https://www.populationpyramid.net/india/2021/ Accessed on 21/12/2021

6.6.4 Technological Factors

According to Kotler, every technological innovation leads to creative destruction. Some new technologies do not affect a company directly or immediately.

6.7 Benefits of Environmental Scanning

The following are the benefits of environmental scanning:

- Environmental scanning ensures that a company does not develop a myopic view of its business.
- It helps in anticipating changes in the market.
- It helps to identify the internal strengths and weaknesses of a company and to analyze their usage to deal with external opportunities and threats.
- It helps to identify the external competitive, social, economic and technical issues, which are otherwise hard to identify.
- It helps in identifying other major external influences and formulating strategies to deal with such influences.
- It enables a company to respond to environmental changes effectively and on time.

6.7.1 Barriers to Effective Scanning

- Huge amount of information collected may make analysis difficult. There are many sources from which information has to be collected. Sometimes important sources remain untapped while unimportant sources are focused upon.
- The participants may have an overwhelming amount of unorganized information. Researchers may find it difficult to collect the latest information due to dynamic changes in markets. There is a risk of information to be outdated.
- Improper interpretation of information can also prove a barrier to effective environmental scanning. At times, too much emphasis on environmental scanning can make an organization very defensive.

- An organization may focus on reacting to the environment, rather taking proactive steps to improve its processes or enhance the growth of the organization.

Activity 6.2

E-tronics is an Indian company, which manufactures televisions. The company is at par with the top players in the domestic industry, in terms of sales, technology, profits, etc. However the company now plans to enter into the Japanese market. Conduct a PEST analysis on the Japanese television industry and suggest E-tronics whether to enter into the country with its products?

Answer:

Check Your Progress - 3

10. Which of the following may not be categorized under the Demographic environment?
    a. Gender
    b. Age
    c. Growth rate of population and its characteristics
    d. Per Capita Income
    e. Periodic change in the age structure of the population

6.8 Summary

- Marketing is the process of identifying the changing requirements of customers and providing them with the right products and services in a way better than the company's competitors.
- Knowledge of the environment in which it operates helps a company to forecast the changing needs and preferences of its customers.
- The marketing environment includes all the forces that influence the marketing activities of a company. It can be broadly divided into micro, macro and internal environments.
- Environmental scanning is the monitoring and communication of external information within the company.

- The process of environmental scanning includes five steps which are interdependent. These are – the identification of the information needs of the organization, collection of information, analysis of information, communication of results and decision making.
- There are three models for environmental scanning – the irregular, regular and continuous models.
- The irregular model involves environmental scanning only when a crisis arises.
- The regular model involves environmental scanning on a periodic basis, but it focuses on improving the present situation.
- The continuous model involves the constant monitoring of environment to identify changes as they arise.
- The PEST framework is commonly used for environmental scanning. It involves the analysis of the political, economic, social and technological environmental factors in a given market.

6.9 Glossary

Environment: The environment can be defined as factors that are external to a system and have an influence on the system. It can also be defined as a complex set of external factors, which act on a system and influence its existence and course of action.

Environmental Scanning: Environmental scanning is the process of communicating information about the market environment within one's organization.

Marketing Intelligence: Marketing intelligence includes unstructured sources of information.

Marketing Research: Marketing research is a structured information collection process. While marketing intelligence deals with the collection of information about relatively intangible ideas and trends, marketing research focuses on collection of structured data.

6.10 Self-Assessment Test

1. Briefly describe the structure of the marketing environment.
2. Explain the process of environmental scanning.
3. Explain the models of environmental scanning.
4. Describe the factors in the PEST framework.
5. State the benefits of environmental scanning. List the barriers to effective environmental scanning.

6.11 Suggested Readings / Reference Material

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6.12 Answers to Check Your Progress Questions

1. (a) Demands of the stakeholders

A business environment comprises: Inputs of the company like the labor, raw material and other resources, demands of the marketplace, constraints within which the company must operate and opportunities for organizational learning and innovation.

2. (b) Employees

Micro-environment covers the forces that directly influence a company's marketing activities. It includes customers, competitors, intermediaries, suppliers and other stakeholders.

3. (d) Suppliers who supply raw materials and components

A company's macro-environment includes economic, political, socio-cultural, demographic and technological environments. Suppliers are a part of the micro environment. Hence option 'd' is the correct answer.

4. (e) Both internal structure of the marketing functional unit and its relationship with other business functions

The two main considerations in an internal environment are the internal structure of the marketing functional unit and the relationship of the marketing function with other business functions.

5. (a) Fixed budgets for R&D

A technological environment is affected by the following issues: Increased opportunities for innovation, differing budgets for R&D,

and increased regulation of technological change. Option (a) is not an issue which affects the technological environment.

6. (b) **Environmental scanning**

Environmental scanning is the process of communicating information about the market environment within one's organization.

7. (c) **Analysis of consumer behavior**

The process of environmental scanning has five basic steps, each of which is interrelated and interdependent. These steps are: Identifying the information needs of the organization, collection of information, analysis of the information, communicating the results and making decisions.

8. (d) **Sales staff**

Some of the internal sources of information for environmental scanning include internal reports, conference reports, other managers, employees, internal databases, sales staff and meetings/committees.

9. (b) **Newspapers**

Some of the external sources of information for environmental scanning include journals/magazines, radio/television/internet, newspapers, customers, colleagues and professional conferences/personal contacts.

10. (d) **Per capita income**

Demography is the study of population in terms of size, age, gender ratio, projected growth rate of the population and their characteristics. Per capita income is a variable that is a part of the economic environment. Hence the correct answer is option (d) Per capita income.

Strategic Marketing Management

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