Strategic Marketing Management

Block

2

STRATEGIC MARKETING CHOICES

Editorial Team

Prof. R. Muthukumar
IFHE (Deemed-to-be-University), Hyderabad

Prof. Madhavi Garikaparthi
IFHE (Deemed-to-be-University), Hyderabad

Dr. Sunny Bose
IFHE (Deemed-to-be-University), Hyderabad

Dr. Sudeepta Pradhan
IFHE (Deemed-to-be-University), Hyderabad

Dr. Rishi Dwesar
IFHE (Deemed-to-be-University), Hyderabad

Content Development Team

Dr. Krishna Chodimella
IFHE (Deemed-to-be-University), Hyderabad

Dr. Mukesh Kumar Mishra
IFHE (Deemed-to-be-University), Hyderabad

Dr. Sweta Singh
IFHE (Deemed-to-be-University), Hyderabad

Dr. Pankaj Kumar Mohanty
IFHE (Deemed-to-be-University), Hyderabad

Dr. Mohd Moinuddin Mudassir
IFHE (Deemed-to-be-University), Hyderabad

Prof. Sweta Anand
IFHE (Deemed-to-be-University), Hyderabad

Proofreading, Language Editing and Layout Team

Ms. M. Manorama
IFHE (Deemed-to-be-University), Hyderabad

Mr. K. Venkateswarlu
IFHE (Deemed-to-be-University), Hyderabad

Mr. Chandra Sekhar Rao
IFHE (Deemed-to-be-University), Hyderabad

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Our E-mail id: cwfeedback@icfaiuniversity.in

Centre for Distance and Online Education (CDOE)
The ICFAI Foundation for Higher Education
(Deemed-to-be-University Under Section 3 of UGC Act, 1956)
Donthanapally, Shankarapalli Road, Hyderabad- 501203

BLOCK 2: STRATEGIC MARKETING CHOICES

Two important aspects of strategic business planning are setting objectives and making strategic choices to reach those objectives. Winning organizations understand the importance of evaluating all of the strategic options in the process of deciding how to address various issues and reach the objectives. The second block to the course on Strategic Marketing Management deals with the choices that are to be made in various organizational contexts.

The block contains six units,

Competitor analysis helps an organization assess the strengths and weaknesses of existing and potential competitors. Further, a firm can assess its own standing amongst the competitors. Such an analysis shapes an organization's strategy. The seventh unit, *Competitor Analysis,* discusses various competitive forces defined by Michael Porter. The unit covers the importance of competitor analysis and components of competitor analysis. It also discusses the methods for information gathering. The unit deals with objectives of the competitors and the types of competitors. The unit finally concludes with a discussion on the competitive information system.

While analyzing the competitive environment is important, knowing the customer is even more important. Customer Analysis helps in understanding what customers want and how a firm can provide products and services that meet customer needs. The eighth unit, *Customer Analysis,* discusses the buyer behavior model and the buying decision process. It deals with the organizational buying behavior and various dimensions involved in the organizational buying behavior. It discusses the influence a product has on the marketing strategy. The unit finally concludes with a discussion on importance of relationship marketing and various techniques involved in developing relationship marketing.

Insights gained from customer analysis lead us to market segmentation. A mass market is made up of customers, who are varied and unique with distinct needs, tastes and preferences. It is therefore important for marketers to divide the market into different segments based on similarity of needs and preferences. The ninth unit, '*Segmenting Markets',* deals with markets and marketing approaches. It goes on to explaining the concept of market segmentation and niche marketing. It also discusses the bases for segmentation and the criteria for segmentation of industrial markets. The unit concludes with a discussion on strategic analysis of market segments.

After segmenting the market into different customer groups, the next logical step is to select one or more segments for target marketing. A firm may choose those segments whose needs and desires closely match with the firm's offering. Target Marketing optimizes use of resources and provides a focus to marketing activities. The tenth unit, *Targeting and Positioning Strategies,* discusses the different targeting strategies. It goes on to explaining how targeting helps companies decide on which segments to enter. It defines positioning and the types of positioning strategies. It discusses various steps in the positioning process.

It finally discusses the factors that determine the effectiveness of positioning.

Segmenting and targeting enable focus and pave way for better relationship with customers. However, in the dynamic marketing world that is full of challenges, organizations often need to work together. The inter-organizational relationships established by a firm with other firms in the form of partnerships, joint ventures or strategic alliances is crucial to success. The eleventh unit, *Relationship Strategies,* discusses the key influence on inter-organizational relationships. It goes on to explaining various types of inter-organizational relationships. It discusses the concept of strategic alliances and joint ventures. The unit finally discusses the types of marketing exchange organizations.

According to Michael Porter, firms could improve competitive position and gain strategic advantage by pursuing three generic strategies. The twelfth unit, *Generic Strategies,* discusses Porter's five competitive forces. It goes on to explaining Porter's generic competitive strategies, which determine the competition in the industry. It also discusses the concept of value chain analysis and how firms sustain their competitive advantages. It then discusses various competitive strategies followed by firms. Finally, the unit will discuss the concept of strategic wear-out.

Unit 7

Competitor Analysis

Structure

"Whether it's Google or Apple or free software, we've got some fantastic competitors and it keeps us on our toes."

— Bill Gates

7.1 Introduction

Competitors motivate some companies like Microsoft, but many companies view competition as a challenge and a threat, as they face vulnerable forces of competition. Every organization faces fierce competition from the external environment. Competitor analysis, which enables understanding of strengths and weaknesses of present and potential competitors, plays a key role in shaping the strategies of a company.

The previous block gave an overview of strategic marketing management. It dealt with marketing strategy and planning, business strategy, competitive advantage, marketing audit and SWOT analysis. It finally discussed the marketing costs, financial analysis & the market and environmental analysis.

In this unit, competitor analysis and various competitive forces defined by Michael Porter will be discussed.

7.2 Objectives

By the end of this unit, you should be able to:

- Define competitive forces and discuss the types of competition.
- Elucidate the importance of competitor analysis and the components of competitor analysis.
- Analyze and spell out various methods of information gathering.
- Discuss the competitor's objectives and understand the types of competitors.
- Expound the importance of competitive information systems.
- Discuss the pitfalls in the use of competitive intelligence.

7.3 Competitive Forces

Michael Porter developed a competitive forces model. According to him, there are five forces that impact the intensity and nature of competition in a market. These five forces are the threat of new entrants, the bargaining power of the suppliers, the bargaining power of the customers, the threat of substitute products and rivalry among the competitors.

In order to make profit an organization should make use of the collective strength of these five forces. Types of competition based on Porter five forces model are:

- Horizontal competition: Three of the forces (threat of new entrants, intensity of rivalry and threat of substitutes) relate to horizontal competition.
- Vertical competition: Two forces (supplier's bargaining power and bargaining power of buyers) relate to vertical competition.

To formulate a strategy for dealing with these forces and to grow despite their presence, a company must understand the nature of the industry in which it operates and how it will affect it in a particular situation. The underlying idea of strategy formulation is to deal with the competition. It is generally assumed that competition in an industry arises only from the rival players in the market. However, competition can exist at many levels in an industry.

The five forces defined by Porter are:

7.3.1 Threats from New Entrants

New entrants bring in more competition to an industry. The new entrants compete for market share and generally have substantial resources.

Market entry barriers: The degree of threat from the new entrants depends upon the market entry barriers for an industry. The higher the market entry barriers, the lower are the threats from new entrants.

Some of the market entry barriers are:

- Economies of scale
- Government policies

- Product differentiation
- Capital requirements
- Cost advantages
- Access to distribution channels.

7.3.2 Bargaining Power of the Suppliers

Suppliers can exert pressure on a company by increasing the prices of raw materials or by reducing the quality. Powerful suppliers can increase the prices of raw materials. A supplier group is said to be powerful if there are only a few suppliers in an industry. The suppliers become even more influential when the switching costs are high for a buyer company or when the product is unique or differentiated from the competitors' products.

Bargaining Power of the Buyers

Buyers generally demand a lowering of prices and an improvement in the quality of the products. Hence, the bargaining power of the buyers has an effect on the profitability of the industry. The buyers have greater bargaining power when they purchase large volumes and if the products being purchased are standardized or undifferentiated, they will have many alternative options and may easily drift from one company to another.

7.3.4 Threat of Substitute Products

Substitute products limit the potential of an industry to earn profits. Therefore, a company has to upgrade the quality of its product or differentiate it from its substitutes.

7.3.5 Rivalry among Competitors

Existing competitors too pose a major threat to a company. The competitors use tactics like price wars, new product introduction, and extensive advertising programs to gain a stronghold on the market. The threats from the existing competitors can be greater if they are of the same size, and provide similar products as the company does. Competition can be even more in industries of slow growth. In such industries, the competitors fight bitterly for a higher market share.

Exhibit 7.1 illustrates the application of Porter's Five Forces to Hindustan Unilever Ltd in the Indian market.

Exhibit 7.1: Applying Five Forces to HUL in India

HUL, in spite of huge competitive forces, managed its market leadership position in some segments like Soaps and sustained it through many decades in India.

Contd….

Threats from New Entrants:

It faced threats from new entrants like Patanjali, ITC, and Supermarkets private label products (More, Reliance etc.).

Bargaining Power of the Suppliers:

As HUL has been in the Indian market for more than 85 years, it has a deep rooted relationship with suppliers and suppliers have less bargaining power.

Bargaining Power of the Buyers:

As HUL has many loyal customers, the bargaining power of buyers is less.

Threat of Substitute Products:

Lot of rivals in the market like Patanjali, ITC, supermarkets, private label products etc., were posing threats to HUL, as substitute products.

Rivalry among Competitors:

Its global rivals, P&G, Colgate and Indian rivals pose intense competition across the globe and India.

Source: https://www.hul.co.in/our-company/ accessed on 27/12/2021

7.3.6 Types of Competition

An increase in the number of players in the market who target the same customer segment, leads to an increase in competition. To succeed in such a competitive environment, companies have to understand the nature of the competition.

There are four types of competition, as discussed below:

Monopoly

A monopoly is present in situations where a single seller or company controls the supply of goods and services and as a result prevents other companies from entering the industry.

Being the sole player in the industry (with no direct competitors), the company can have considerable control over the price. Monopoly can arise due to acquisition of patents, government licenses or having ownership or control over scarce resources or inputs.

Oligopoly

An oligopoly exists when there are only a few players in the market. High entry barriers like huge investment costs ensure that there are only a few players. However, the products sold by the oligopolies can be similar or different.

Perfect Competition

Perfect competition is a situation where a large number of players produce and sell similar types of products. This is also known as pure competition. Many players exist in such markets, and they are generally small-scale players who have no control over product prices.

Market entry and exit is very easy for the players because of the low investment and operating costs. Agricultural products come under this category.

Monopolistic Competition

This is a situation where there are a large number of players offering similar products or services, which are, however, perceived to be different from each other by the consumers (due to product differentiation). The products are differentiated based on price, quality, or any other feature.

Activity 7.1

Tel-talk is a multi-million dollar company offering cellular phone services in the US. The company is planning to enter into the UK mobile phone market. The company found that the UK mobile phone market was largely dominated by Cell UK Ltd., garnering a 90 percent share in the market and the rest was captured by small-scale mobile phone companies. What is the type of competition that the company would face? Also discuss other types of competition.

Answer:

Check Your Progress - 1

1. Which of the following competitive forces based on Porter's model does a company need to overcome and upgrade with regard to the quality of its product or differentiating itself?
   a. Threat from new entrants.
   b. Bargaining power of the suppliers.
   c. Bargaining power of the buyers.
   d. Threat of substitute products.
   e. The threats posed by technology.
2. Which of the following is not among the five forces defined by Porter?
   a. Bargaining power of new entrants.
   b. Threat of substitute products.
   c. Rivalry among competitors.
   d. Bargaining power of the suppliers.
   e. Bargaining power of buyers.

3. Which types of competition from the following represents the situation where there are a large number of players offering similar products or services, which are, however, perceived to be different from each other by the consumers (due to product differentiation)?
   a. Monopoly.
   b. Monopolistic.
   c. Oligopoly.
   d. Perfect competition.
   e. Duopoly.

7.4 Competitor Analysis

The objective of competitor analysis is to analyze the competitor's strategy, the competitor's response to the strategic moves made by other competitors and its reaction to the broad changes in the environment.

A good competitor analysis should provide answers to the questions like:

- 'Who would we like to compete with?'
- 'What is the meaning of the strategic move of the competitor?'
- 'What are the areas that should be ignored to avoid an emotional response from the competitors?'

7.4.1 Importance of Competitor Analysis

After 30 years of liberalization in India (as of 2021), the domestic organizations are facing fierce competition from foreign players. Also the number of domestic players in every industry had grown substantially, leading to fierce competition. In such a huge clutter of competition, the organizations should possess great knowledge about the competitors. Importantly, the management planning should be competitor analysis centered. Competitor analysis should focus on the objectives of the competitor, their resources and strategy.

Advantages of Competitor Analysis:

- It helps to identify why customers are buying competitors' products and to design a proper positioning strategy for its own customers.
- The insights from the competitor analysis can also be used to formulate effective competitive strategies.

Disadvantages of Avoiding Competitor Analysis:

- The management of a company assumes that it knows everything about the competitors and puts more effort into customer analysis rather than into competitor analysis, which is actually not the case.

- The management feels it does not need to analyze the strategies of its competitors, as long as it is doing well in the market.
- Failure to analyze a competitor's strengths and weaknesses would result in poor performance of the organization.
- Lack of knowledge about the competitors' actions can force a company to become a follower rather than a market leader, which can also trigger aggressive marketing strategies from the competitors.

Ignoring/Neglecting Competitor Analysis

Many companies neglect the competitor focus and get themselves into trouble in the long run. Competition is the greatest threat to any organization. Only the organizations which were able to tackle their competitors had survived and the rest had vanished from the business landscape.

Important reasons for the negligence of competitor analysis by the firms are:

Overconfidence: The past success of managers (CEOs) lead to their overconfidence. This overconfidence could lead to ignorance of competitor analysis and hence failure.

Confusion: Confusion leads to managers neglecting the competitor analysis. Some managers have confusion related to process and some get confused on how to conduct the analysis. They might hire external consultants for the analysis and formulate strategies.

Concern: Managers are concerned with obtaining competitor information by illegal tactics. Many of the CEOs follow such unethical ways, but they should be avoided and legal sources such as annual reports of the competitors, newspapers, websites and so on can be utilized. Some offer bribes and some recruit competitor's executives by offering high pay and obtaining competitor information. This practice is known as 'Poaching'.

Example

General Motors accused Hyundai, alleging that latter poached the former's top safety executive during 2019[1] to gain access to self-driving vehicles and electric cars. Through the investigation, GM found that the executive had transferred the information from a company laptop to unregistered USB devices violating the company policy.

Source: ICFAI Research Center

Misinterpretation: Lack of experience in analyzing competitor information could often lead to misinterpretation, which could be dangerous as it results in making wrong decisions posing potential threat to the firm.

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[1] https://www.bloombergquint.com/onweb/gm-says-hyundai-poached-exec-who-took-self-driving-car-secrets accessed on 27/12/2021

7.4.2 Components of Competitor Analysis

The components of competitor analysis like future goals, current strategy and assumptions provide information about the likelihood of success of the competitor's strategy. Identification of competitors is an important aspect here. The firm should also fix its competitors and identify present and potential competitors.

Competition may arise from the following situations:

- Between companies which offer a similar product or service to the target market, while utilizing similar technology and are vertically integrated in a similar manner.
- Between companies which operate in the same product or service category.
- Between companies competing for the same spending power

Some of the areas where potential competitors can be identified are:

- Customers or suppliers who may vertically integrate i.e. integrate either forward or backward, in the future.
- Firms that are not present in the industry, can overcome the market entry barriers cheaply.
- Firms that can achieve synergy by being in an industry.
- Firms for which the presence in an industry could be an extension of their corporate strategy.

The possible mergers and acquisitions among well-established competitors and new entrants should also be forecast. A merger can give a prominent position to a weak competitor and strengthen the position of a strong competitor.

The four key components of competitor analysis are:

Future Goals

The identification of future goals can help the firm to forecast and compare themselves with competitors' satisfaction levels to improve. They can predict competitor responses by this. The firm can formulate strategies for achieving their future goals.

Current Strategy

Based on the current strategies of the firm, their competitors can be analyzed as the strategies are related to the operating practices in the functional areas. This can help to understand the key focus areas of competitors.

Assumptions

Competitors' assumptions can be exploited by formulating a strategy and finding out assumptions about themselves and the industry and other companies operating in it.

Capabilities

The capabilities of a competitor allow a company to identify what a competitor can do. The capabilities help to identify the strengths, weaknesses and core competencies of the competitor.

Check Your Progress - 2

4. Which of these options given below is not a suitable approach or action to analyze the competitive environment?
   a. Analyze the competitor's strategy.
   b. Analyze the competitor's response to the strategic moves made by the given firm and other competitors.
   c. Analyze competitor's possible response to the broad changes in the environment.
   d. Casual knowledge of competitors.
   e. Gather more information about potential competitors.
5. Which of the following is not a reason for the absence of competitor analysis in firms?
   a. Overconfidence.
   b. Confusion.
   c. Lack of Concern.
   d. Appropriate interpretation.
   e. Misinterpretation.
6. Which of the following is a key component of competitor analysis?
   a. Past goals.
   b. Future strategies.
   c. Assumptions.
   d. Incapability of a competitor.
   e. Supplier's agenda.

7.5 Information Gathering

For competitor analysis, information is the key to success. Gathering information efficiently is vital and to be utilized effectively in decision making, otherwise it would increase costs to the company.

Information gathering can be conducted using the following techniques:

7.5.1 Observation

In order to know competitors better, observation is the best method.

Example

Before setting up Marriott's new chain of hotels, the Fairfield Inn, Courtyard Inn and Residency Inns, the management of Marriott Hotels conducted an extensive analysis of its competitors in the hotel industry and observed the gaps in services provided by the competitors like budget business travel and extended stay. The company had then filled these gaps in its new hotels, thus ensuring their success.

Source: ICFAI Research Center

7.5.2 Secondary Data

"Secondary analysis involves the use of existing data, collected for the purposes of a prior study, in order to pursue a research interest which is distinct from that of the original work; this may be a new research question or an alternative perspective on the original question". Secondary data is cost effective and readily available and can be obtained from government publications, periodicals, or from professional data providers like D&B, AC Nielsen and so on.

Example

AT Kearney is a global research firm which specializes in market research and market intelligence studies across the globe, like in retail sector it developed GRDI - Global Retail Development Index - for every year which is an annual study that ranks the top 30 developing countries for retail expansion worldwide and in its GRDI 2021[2] India was ranked 2nd. This is a secondary data for retail firms in the emerging countries.

Source: ICFAI Research Center

7.5.3 Primary Data

When secondary data is not sufficient to solve the problem or the specified data is not available, inaccurate, or unreliable, then primary data is collected. The gathering of primary data involves high costs.

Some of the methods used for primary data collection are:

One-on-one Interviewing

Marketers collect information through conducting extensive interviews with individuals, focusing on a problem or a specific issue. They consist of questions, which are open or close-ended. This method is both expensive and time consuming.

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[2] https://www.kearney.com/global-retail-development-index/2021 accessed on 27/12/21

Focus Group Research

This paid method gathers information in a group of six to ten respondents through discussions on a problem or situation or marketing strategy under the guidance of a skilled moderator who keeps the main focus on competitor information. This is a potential method to identify needs of customers and explore new ideas.

Mail and Telephone Surveys

These surveys are best suited for descriptive research. Surveys are conducted to learn about the knowledge people have about the company, its products and those of its competitors. However, in such surveys, many issues have to be dealt with like wrong answers by the participants, biased respondents, poorly framed questions, etc.

Check Your Progress - 3

7. Which of the following is the least suitable technique for gathering information during the competitor analysis?
   a. Observation of competitor activities.
   b. Accessing magazine articles and industry reports about competitors.
   c. Annual reports of competitors.
   d. Questionnaires and surveys to study comparative perception of brands.
   e. Focus Groups.
8. In which type of research, a group of six to ten people, put in their collective efforts to discuss a problem, situation, or marketing strategy, under the guidance of a skilled moderator?
   a. Mail survey.
   b. Telephone survey.
   c. Focus group research.
   d. One-on-one interview.
   e. In-depth interview.
9. Which of the following is a secondary data collection method?
   a. Mail survey.
   b. Government publications.
   c. Focus group research.
   d. One-on-one interview.
   e. Telephone interview.

7.6 Analyzing the Competition

The organization can face competition in many forms. To identify these forms of competition, it is important to analyze customer needs, buying pattern and the ways in which they can be satisfied.

Competitor analysis is useful in the following areas:

- To identify the competitors in the market.
- To identify why the customers choose a particular company over its rivals.
- To analyze how the present strategies of a company compare with those of its competitors.

7.6.1 Identifying the Competitors' Objectives

A company should understand the corporate situation and the strategic intentions of its competitors. The competitors' objectives depend on various factors like diversification, specialization etc.

Process of Identifying the Competitors' Objectives:

- In this process the firms have to identify the competitors' opportunities by analyzing their financial position and portfolio.
- The process is simpler for single industry companies than for multiple industry firms.
- Through such analysis of competitors' portfolios, its segments can be determined.
- Each firm should identify the important industries of its competitors, where the objectives and strategic purpose of competitors like growth, generation of earnings and contribution to cash flow can be identified.

7.6.2 Types of Competitors

There are four types of competitors according to Philip Kotler[3] on the basis of competitor response to a strategic move of a firm, which are as discussed below:

Laid-back Competitor

These competitors respond very slowly to the strategic moves of a firm. They assume that customers will remain loyal to the firm and don't find any necessity to respond.

Example

The Air-India which created a monopoly before privatization of airlines was a laid-back competitor. Its response was very slow to the competitor's strategic moves as it was a public sector airline. Due to its slow response, it was bankrupt and Tata Sons acquired 100% stake in it during October 2021.

Source: ICFAI Research Center

[3] Philip Kotler, Kevin Lane Keller, "Marketing Management", Pearson Education India, Fifteenth Edition, 2017.

Aggressive Competitor

These competitors respond immediately to the strategic moves of rivals. They are very aggressive and always aggressive ones win. The firm should also identify its aggressive competitors.

Selective Competitor

These competitors are selective while responding to the strategic moves of the firm. A selective competitor may react to the price cuts of the company, but may not to its extensive marketing campaign. This type of a competitor reacts only in areas that it feels are important. A company must therefore identify the areas in which a competitor reacts aggressively before formulating a marketing strategy.

Unpredictable Competitor

These competitors are very unpredictable in their response to the strategic moves of a firm. Their reactions don't have a pattern and often it is difficult to forecast their responses and anticipate their moves.

7.6.3 Process of Competitor Analysis

Competitor analysis is a systematic process. The process consists of five main stages as discussed below:

Identifying the Customers

Here, the focus should be on:

- 'Who the customers are'?
- 'How they are being served' by the company?

Identifying the Current and Potential Competitors

This involves identification of all the types of competition.

Some of the questions that can be posed to the customer are:

- What are the other companies that you consider as alternatives?
- Who are the target customers of other companies?
- Who are already customers for other companies?
- Which company does your friend/colleague prefer with respect to a product?

After identifying all the areas from where competition could arise, a few i.e. four or five main competitors should be selected.

Collect Information about each Competitor

This involves the collection of information about each of the shortlisted four or five competitors. Information should be collected on gross revenue, geographical location, services offered, etc., of each of the competitors.

Competitors provide information about themselves in various forms like company websites, product brochures, press reports, media releases and so on.

The company can use this information to compare and contrast its activities with those of its competitors.

Conduct an in-depth Analysis of each Competitor

After collecting information about the competitors, a company has to conduct an in-depth analysis of each one of them. This involves analyzing the reasons for the success of the competitors. This step marks the beginning of the actual analysis of the competitors.

The in-depth analysis should involve the following:

- What are the specific markets or market segments in which the competitor serves?
- Which of the competitor's products or services are most valued by the customers?
- Why do the customers prefer a particular competitor to the rest?
- What are the strengths and weaknesses of the competitor in terms of services offered, marketing strategies pursued, technology used in operations, etc.?
- What is the main focus of their strategy? Does it focus on being the market leader or a market follower?
- What are the goals of the competitor and how are the results measured?

Advantages of Conducting an in-depth Analysis of Each Competitor:

- This enables the company to work out its expansion plans in a market, to introduce new products or services or improve the existing ones.
- This helps the company to identify the expectations of the potential customers from a product or service offering, the areas where improvement is needed for it.
- This helps the company to analyze the stance of the competitor in the market and also to determine how it can compete with it.
- The goals specify what is important to the competitor, how it will react to the competition and the other changes in the market environment.

Comparison with the Competitors

The final step in the analysis is for the company to compare itself with the competitors. The comparison with the competitors must include the following:

- What are the company's strengths and weaknesses in comparison with its competitors?
- Are services that are not being offered by the company important to the customers?
- What are the competitors' weaknesses that the company can exploit?
- What services can the company offer better than the competitors?

- What are the niche segments that have the potential for growth, but have not been identified by the competitors?
- What are the areas in which the company is weak?

Activity 7.2

ABC Health Ltd., (ABC) is a leading health drink company in India. Of late, it is facing competition from another health drink major XYZ Drinks Ltd., (XYZ). To drive away consumers from ABC, XYZ launched a television campaign that referred to its health drink products to be far more superior to the leading health drink company hinting indirectly at ABC. ABC reacted quickly to the communication strategies of XYZ and launched a television campaign highlighting the benefits of its health drinks to growing children, adults and old men and women. Which type of competitor is ABC? Why? Also discuss other types of competitors.

Answer:

7.7 Competitive Information System (CIS)

With the business environment becoming increasingly competitive and with the technological advancements, many companies are deploying systems for competitive intelligence. Successful companies know the importance of competitive intelligence.

Features of Competitive Intelligence: Competitive intelligence can help a company to identify potential markets by singling out the less crowded markets and to venture into these markets. The sources of competitive intelligence include press reports, government reports, trade shows, industry expertise, competitor's activities and so on.

Example

Air Asia offers flight tickets for cheaper prices than its competitors due to better competitive intelligence. But its competitors like SilkAir increase its flight tickets price for a certain route which is easy for its competitors to track and they quickly follow it by increasing their flight tickets prices also to secure higher margins.

Source: ICFAI Research Center

Reverse engineering: It is 'the process of discovering the technological principles of a mechanical application through analysis of its structure, function, and operation'. It is one of the popular methods for competitive intelligence. The basic requirement for competitor analysis is information about the competitor. Information about competitors can be gathered from various sources, as mentioned earlier.

However, it is not enough to just gather competitor information once; it should be done regularly. The Competitive Information System (CIS) comprise collection of information regarding the competition and it is not as simple as it may sound. To be effective, it has to be well structured.

There are six important steps in developing a CIS. They are:

- Setting up the system and deciding the information requirements.
- Collecting data based on the requirements.
- Evaluating and analyzing data.
- Disseminating the information collected.
- Utilizing the insights gained from the CIS for strategy formulation.
- Obtaining feedback and modifying the existing CIS.

7.7.1 Pitfalls in the Use of Competitive Intelligence

Some of the pitfalls in the usage of the competitive intelligence are discussed here:

- Sometimes organizations spend their resources in collecting information that they already have and increase unnecessary spending on information.
- At times, organizations are bombarded with some reports that can influence their decisions.
- Some organizations do not conduct the analysis of information properly and result in poor decision making.
- Organizations confuse ‘instant’ information with ‘current’ information. However, this is not true.
    - *Instant information*: It is readily available information, which is not the same as present information. It may be obsolete information, which has not been updated.
    - *Current information:* It is the latest information. The organizations use this information on which they base their key management decisions.

Check Your Progress - 4

10. Which of the following is the fourth step in the process of conducting competitor analysis?
    a. Comparing the performance of one’s company with the competitors.
    b. Conducting an in-depth analysis of each competitor.
    c. Identifying current and potential competitors.
    d. Collecting information about each competitor.
    e. Rate the competitors.

7.8 Summary

- The nature and intensity of competition in a market depends upon five main forces – the threat of new entrants, the bargaining power of the suppliers, the bargaining power of the customers, the threat of substitute products and threats from the present competitors.
- Competitor analysis helps a company to identify the key competitors in the market, their strengths, weaknesses and what makes the competitors successful.
- The main activities in competitor analysis are identifying competitors and gathering information.
- The process of competitor analysis involves identifying customers, identifying current and potential competitors, collecting information, carrying out an in-depth analysis of each competitor and comparing the company with the competitors.
- The process of developing the Competitive Information System involves the setting up of the system and identifying the information requirements. The next step involves the collection of information based on the requirements specified. The collected data is then evaluated and disseminated. These insights are used in the strategy formulation and feedback is obtained.

7.9 Glossary

Monopoly: A monopoly is present in situations where a single seller or company controls the supply of goods and services and as a result prevents other companies from entering the industry.

Monopolistic Competition: Monopolistic competition is a situation where there are a large number of players offering similar products or services, which are, however, perceived to be different from each other by the consumers (due to product differentiation).

Oligopoly: An oligopoly exists when there are only a few players in the market.

Perfect Competition: Perfect competition is a situation where a large number of players produce and sell similar types of products. This is also known as pure competition.

Reverse Engineering: Reverse engineering is the process of discovering the technological principles of a mechanical application. It is done through analysis of the application's structure, function and operation.

7.10 Self-Assessment Test

1. Define competitive forces. Describe the types of competition.
2. Explain the importance of competitor analysis.
3. Describe the components of competitor analysis.

4. Briefly explain the various methods of information gathering.
5. State the competitor's objectives. Explain the types of competitors.
6. Explain the importance of competitive information systems.
7. State the pitfalls in the use of competitive intelligence.

7.11 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. 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.

7.12 Answers to Check Your Progress Questions

1. (d) Threat of substitute products

A company has to upgrade the quality of its product or differentiate it from its substitutes.

2. (a) Bargaining power of new entrants

According to Michael Porter, the nature and intensity of competition in a market depend upon five forces. These five forces are the threat of new entrants, the bargaining power of the suppliers, the bargaining power of the customers, the threat of substitute products, and rivalry among the competitors. Hence option 'a' is correct.

3. (b) Monopolistic

Monopolistic competition is a situation where there are a large number of players offering similar products or services, which are, however, perceived to be different from each other by the consumers (due to product differentiation).

4. (d) Casual knowledge of competitors

All other options except option 'd' are suitable approaches or actions to analyze the competitive environment. Casual knowledge of competition is not sufficient and not a suitable approach to competitive analysis.

5. (d) Appropriate interpretation

Some of the reasons for the absence of competitor analysis in firms are: overconfidence, confusion, lack of concern and misinterpretation. Hence option ‘d’ is correct answer.

6. (c) Assumptions

The four key components of competitor analysis are: Future goals, current strategies, assumptions and capabilities of a competitor.

7. (e) Focus Groups

All other techniques like observation of competitor activities, studying of annual reports of competitors, industry reports, survey of customers, etc. are suitable methods to study competitor activities. However, Focus Groups is the least suitable method to gather data about competitors.

8. (c) Focus group research

Focus group research is a group of six to ten people, putting in their collective efforts to discuss a problem, situation, or marketing strategy, under the guidance of a skilled moderator.

9. (b) Government Publications

Secondary data is cost effective and readily available and can be obtained from government publications, periodicals, or from professional data providers.

10. (b) Conducting an in-depth analysis of each competitor

There are five main steps in the process of conducting competitor analysis, which are identifying the customers, identifying current and potential competitors, collecting information about each competitor, conducting an in-depth analysis of each competitor, and comparing the performance of one’s company with the competitors.

Unit 8
Customer Analysis

Structure

"We don't want to push our ideas on to customers, we simply want to make what they want."

- Laura Ashley

8.1 Introduction

As quoted by Laura, business firms have to be customer-centric, as customers are the main source of profits for a business firm. Customer Analysis (CA) tool will help organizations in their strategic marketing to analyze customers, their profiles and buying behavior. It is a customer centric tool that enables firms to provide customized products.

The previous unit discussed Michael Porter competitive forces model, importance of competitor analysis, components and methods for gathering information, objectives and types of competitors and competitive information system.

This unit details the buyer behavior model, buying decision process, organizational buying behavior, its dimensions, influence of product on marketing strategy, importance of relationship marketing and its development techniques.

8.2 Objectives

By the end of this unit, you should be able to:

- Conceptualize the buyer behavior model.
- Analyze and interpret the buying decision process.
- Explain the organizational buying behavior.
- Discuss various dimensions of organizational buying behavior.
- Explicate the influence of the product on marketing strategy.
- Discuss the importance of relationship marketing and understand the techniques for developing relationship marketing.

8.3 Buyer Behavior Model

A marketer, whether operating in an industrial market or a consumer market, has to understand the buyer behavior.

Basic questions for understanding consumer behavior are:

- Who are the customers?
- Who are the persons involved in the actual buying?
- What are they buying?
- Why are they buying?
- From whom are they buying?
- How are they buying?

Stimulus-Response model of buyer behavior:

Stimulus-Response model of buyer behavior (Refer to Figure 8.1) is used to understand the buyer behavior. The external stimuli, the consumer mind (black box) and his buying decision are studied in the model.

External stimuli:

It is the stimulus from the external environment and the marketing mix factors. The buyer characteristics are a result of the influence of cultural, social, personal and psychological factors on an individual. External stimuli, buyer characteristics and buyer decision process together impact the buying decision of a consumer.

Black box:

The external stimuli enters the consumer's mind (black box). The term ‘black box’ is used because the marketer cannot identify what actually goes on in the mind of the buyer during the decision-making process.

Buying Decision:

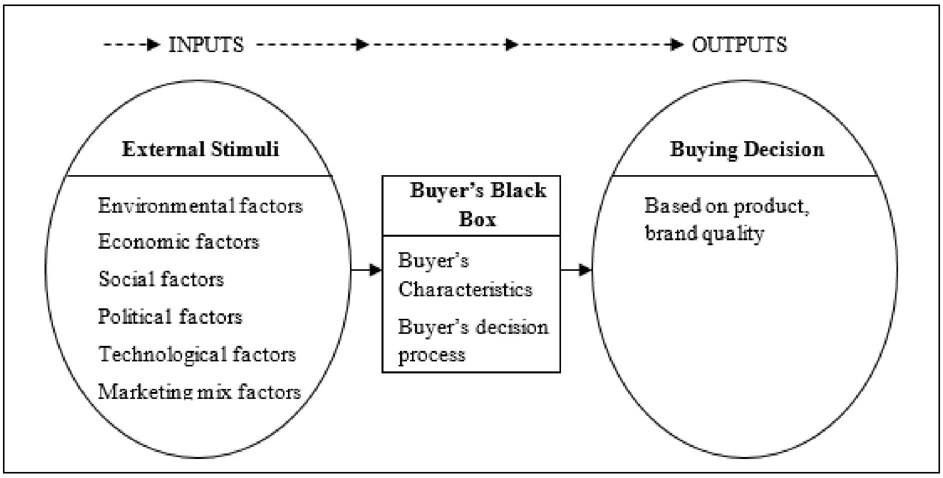
The buyer decision process will aid the consumer in making better buying decisions. The buyer potential is generally low in a majority of the consumer markets while the supply is high. On the other hand, buyer potential is high in a majority of the industrial markets while the supply is low.

Example

Kumar and his family wanted to purchase a car. The external stimuli like his economic factors and social factors influenced them to purchase. As the family wanted to buy an affordable and economical car to fit their budget they decided to buy a Maruti Suzuki Alto.

Source: ICFAI Research Center

Figure 8.1: A Stimulus-Response Model of Buyer Behavior



Source: Gary Armstrong, Stewart Adam, Sara Denize, Michael Volkov, Philip Kotler, "Principles of Marketing", Pearson, 2018

Check Your Progress - 1

1. To gain a competitive advantage in the market, in the process of understanding buyer behavior, which one of the following should the company use effectively?
   a. Information about the raw material.
   b. Information about the competitors.
   c. Information about the customers.
   d. Information about the product innovations taking place in the market.
   e. Information about the economic environment.
2. The buyer characteristics are a result of the influence of which of the following factors on an individual?
   a. Cultural.
   b. Social.
   c. Personal.
   d. Psychological.
   e. Socio-cultural, personal and psychological.

8.4 The Buying Decision Process

There are five main steps in the buying decision process which are identifying the problem, searching for information (both internal/external), evaluating alternatives, purchasing processes and post purchase analysis.

8.4.1 Identifying the Problem

The buying decision process starts with a customer's need for a particular product or a service, which is known as identifying the problem/need.

In this stage, the consumer identifies the problem or perceives the need which can be satisfied with a product or a service. This perception triggers the buying decision process.

The consumer looks to fill the gap between his/her actual state (the present state the person is in) and the desired state (a state in which the person aspires to be).

Example

A student wants to commute to his college on a new bike. His need for commuting is the ‘problem’ in the situation and it is identified. In order to satisfy his need or problem, he has to go through the next buying decision process steps and make a decision to buy a bike of some brand in the market.

Source: ICFAI Research Center

Reasons leading to Buying Situations:

If the consumer neither perceives a need nor faces a problem, then the buying situation does not arise. Here are some reasons leading to buying situations:

- **Changing Situations**

  The change in situations can be in the form of a financial situation or needs or wants. The change in financial situation can be in the form of either increased income or decreased income. Either of these changes can affect the buying decision making process of the consumer.

- **Stock-out Problems**

  When a consumer accumulates goods for use in future, the accumulated goods are called stock. The stock can deplete over time due to constant consumption. This stock depletion can trigger the identification of the problem for the consumer. Here, the consumer may feel the need to restock the products.

- **Dissatisfaction with the Current Stock**

  The dissatisfaction of the consumer with the existing stock can lead to identification of the problem. Here, the consumer may want to replace the existing stock with innovative or better quality products.

- **Marketing Influences**

  The marketing efforts of a company can influence the buyer decision process. The marketing helps the customer to identify his/her unmet needs or wants.
- **Derived Need**

  The purchase of one product can trigger the need for another.

8.4.2 Searching for Information

Once the problem has been identified, the consumer starts searching for information. The searching and subsequent collection of information increases the alternative options for the consumer and in turn complicates the buying decision process.

Types of information search:

There are two types of information search. They are internal information search and external information search, which are as discussed below:

Internal Information Search

Internal search is the basic information search activity. It can be an undirected search or a directed search.

Undirected Search: The undirected internal search involves learning about things without any specific intention. Psychologists term such learning as incidental learning. Undirected learning can happen while watching television commercials, reading books and newspapers and so on. Such learning happens unconsciously.

Directed Search: Directed search occurs when an individual consciously makes an effort to recollect specific information from his/her memory. In directed search, the consumer uses his/her learning and knowledge to derive specific information.

External Information Search

If the internal search does not present sufficient information, consumers may rely upon information from an external search. This search is generally undertaken when a person is a first time user or has had no experience with the product or service. It can be collected from family, friends, sales personnel, advertisements, etc. In-depth information can be collected from technical and research reports. The external search is always directed.

Factors influencing external information search:

There are two specific factors that can influence the external information search. These factors may increase or decrease the extent of information search.

The two factors influencing external information search are:

- **Individual factors:** Individual factors like access to information or personal involvement in decision-making can increase the search for information, while the loyalty toward a particular brand or low involvement in the decision-making process can reduce the search for information.
- **Situational factors:** These are like the high product cost or easy availability of information can result in increased search for information, whereas time constraints, low price of the products and so on, can result in decreased search for information.

8.4.3 Evaluating the Alternatives

The third stage of the buying decision process is evaluating the alternatives. This involves identifying the criteria for evaluating the alternatives, selecting the alternatives, assessing them and then choosing a decision-making rule.

Recognizing the Criteria

The criteria based on which the consumer makes a decision to purchase a product or service is important in evaluating the alternatives. The criteria may vary from product to product and from consumer to consumer.

Choosing the Alternatives

On the basis of the previously identified criteria for evaluation, the customers must select which of the available alternatives to choose. These available alternatives are called the evoked set. An evoked set is a set of products or brands that the consumer may be considering to buy in the buying decision process. The evoked set varies from customer to customer and depends on the customer's brand loyalty.

Evaluating the Alternatives

The identified alternatives are generally assessed in terms of product attributes or brands. This assessment of alternatives can involve the product attributes of different brands being compared directly or different brands being compared based on common criteria.

Selecting a Decision-making Rule

A decision-making rule is a strategy used for taking decisions. Two important decision-making rules are compensatory and non-compensatory rules.

Compensatory Decision-making Rules: These compensate for the weaknesses of a product with the strengths of the product.

Non-compensatory Decision-making Rules: In the non-compensatory decision-making rules, the strengths and weaknesses of a product are not directly offset by each other.

There are four types of non-compensatory decision-making rules:

- *Setting up the acceptable level:* Consumer sets cut-off level for each attribute of a product, which acts as a benchmark to reject alternatives. Decisions involving a large number of alternatives use such types.
- *Selecting the alternative:* In this type, the consumer selects the alternative that meets the cut-off level. In situations where many alternatives meet the criteria, the cut-off level is changed.
- *Assessing the alternatives:* In this type, the alternatives are assessed based on their relative importance. Example: The consumer may give importance to quality first and then to price.
- *Purging:* In this type, certain standards are mentioned for each attribute. Any alternative which does not meet the acceptable standard even on one attribute is rejected or eliminated. Example: The consumer may want a mobile that has a camera, MP3 player and Bluetooth technology. If a mobile has a camera and Bluetooth technology but does not have an MP3 player, then the customer eliminates that particular alternative.

Purchase Processes

This is the fourth stage of the buying decision process. A purchase process describes what a consumer experiences at the point-of-sale, whenever and wherever that may be.

The purchase processes can arise in two situations:

- In-store purchasing: This refers to the purchase of products or services through retail outlets like supermarkets, shopping malls, etc. People are now increasingly visiting supermarkets and malls as it has become a favorite pastime for many people.
- At-home purchasing: This refers to the purchase of the products or services from the comfort of one's home. This type of purchasing usually involves online-shopping, tele-shopping and so on.

Post Purchase Analysis

The fifth stage of the buying decision process is post-purchase analysis. After the purchase has been made, the customer uses the product. His/her product experience helps in the post-purchase analysis.

Stages of Customer Satisfaction:

In this analysis, an important factor is customer satisfaction, which can be measured by the difference between 'what one expected' and 'what one experienced'.

There are three stages of customer satisfaction as discussed below:

- **Satisfied:** If 'what one experienced' is more than 'what one expected', then the customer is satisfied.
- **Dissatisfied:** If 'what one expected' is more than 'what one experienced', then the customer is dissatisfied.
- **The Evaluation stage:** Depending on the customer satisfaction or dissatisfaction, the consumer goes back to the third stage, i.e. the evaluation stage.

If the customer is extremely satisfied, there may be a repeat purchase. If the customer is dissatisfied, he/she may look for alternatives for future purchases.

Activity 8.1

Alex is a student pursuing engineering. As part of his course, he has to work on several projects and assignments. He realized that working on a personal computer in the computer laboratory at his college was a time-consuming process. Thus he decided to buy a laptop to carry out his assignments and project work with ease. Having identified the problem, state and discuss the other stages Alex would go through during the buying decision process?

Answer:

8.4.4 Roles in the Consumer Buying Decision Process

There are six buying roles in the consumer decision-making process. They are the initiator, influencer, decision maker, buyer, user and gatekeeper.

Initiator

The person who first identifies the need or gives the idea of buying a product or service is referred to as initiator.

Influencer

The person who influences the purchase decision of an individual by providing information about what to buy and why to buy is referred to as an influencer.

Decision-maker

The person with authority to make a buying decision is referred to as the decision maker. This person decides whether the purchase of a product is appropriate or not.

Buyer

The person who actually makes the purchase is referred to as the buyer. Example: The head of the family may make the purchase.

User

The person who actually uses the purchased product is called 'User'. He/She is the consumer of the product or service.

Gatekeeper

The person who controls the buying decision by monitoring the flow of information is referred to as gatekeeper. The gatekeeper can choose whether or not to let out the crucial information affecting the purchase. A person can play more than one role in the buying decision process.

8.4.5 Types of Buying Behavior

Henry Assael identified four types of buying behavior based on customer involvement and perceived product differentiation, which are complex buying, dissonance reduction, habitual buying and variety seeking buying.

Complex Buying

The complex buying behavior is characterized by high product differentiation and high customer involvement. The products in this category are expensive, frequently purchased.

Issues in Complex Buying:

- Consumers invest time and effort in gathering information and form opinions before making their purchasing decision.
- In such buying situations, marketers should provide information on the quality, performance and other factors that are likely to influence the consumers' purchase behavior. However, price is generally not a key factor.

Dissonance Reduction

This is featured with low product differentiation and high customer involvement. The products are expensive and not frequently purchased. Price plays a key role in this type.

Habitual Buying

The habitual buying behavior is characterized by low product differentiation and low customer involvement.

Issues in Habitual Buying:

- The individuals do not consider alternative products. They simply repeat the purchases from habit. The products are regularly used and are frequently purchased.
- Customers prefer familiar brands. In such buying situations, the marketers should focus on increasing the brand familiarity.

Variety Seeking Buying

The variety seeking buyers shop for variety and customer involvement is low. They frequently change their brands for variety. Competitors can attract these buyers with sales promotion offers to encourage them to buy their brands.

8.4.6 Understanding Buying Behavior

The life cycle of an individual plays a vital role in understanding buying behavior. The requirements of the consumer change with time and age. The lifecycle of the consumer is divided into eight main stages, which are:

Bachelor: A relatively low income and they do not have many financial burdens and responsibilities. Much of their income is spent on personal gratification on products like electronics, music, travel, etc.

Newly Wed: A good financial condition, due to the increased number of double income couples. They have minimal responsibilities and have no children. Much of their income is spent on developing their new household, some amount on furniture, electronics, home appliances, etc., and some amount on personal gratification like travel, eating out and so on.

Full Nest I: The couples welcome their first child into the family. They have increased responsibilities, decrease in income and increased expenses. The pattern of spending on personal gratification is reduced drastically. The income at this stage is spent on insurance and investment plans.

Full Nest II: More children arrive into the family and are old enough to attend school. In this stage, the individuals have high income, most of which is disposable. The income is spent on children’s education and interests like music, entertainment, etc.

Full Nest III: This is an extension of the previous stage, except that the sources of income increase. Income levels and expenditure are high. Individuals look to replace old products, which have been affected by the wear and tear of time, with new and advanced ones.

Empty Nest: The families leave their homes to start an independent life, leaving the nest empty. Individuals at this stage have high levels of disposable incomes and low expenditures. The income, in this stage, is spent on recreational activities, purchase of luxury items, etc.

Loner: The death of a spouse makes the other partner a loner. There is a high level of disposable income. The income, in this stage, is spent on medical care, health insurance and recreational and gift giving activities.

Survivor: At this stage, the individual has retired and is alone. Income is drastically reduced, in some cases limited to pensions. In such a stage, the major expenditure is on medical care and other expenses are intentionally reduced.

8.4.7 Factors influencing Consumer Buying Decision Process

Understanding of factors influencing consumer buying decision process helps marketers to formulate effective strategies as they cannot control many of these factors. Factors influencing the consumer buying decision process are perception, personality, motivation, cultural factors and social factors, which are discussed below:

Perception

An individual processes the information captured and gathered from the environment. This frames his/her perception. The perceptions of the individual have a major influence on his/her buying decision process.

Perception Processes: There are three perceptual processes which are:

- *Focused attention:* Even though audiences are in a clutter of numerous stimuli form advertisers and media, they focus only on few stimuli which catch their attention. Marketers should try to draw their selective attention and frame strategies accordingly.
- *Selective distortion:* The individuals usually distort the communication message of advertisers according to their perceptions or beliefs. The individual is receptive only to selected messages that are according to his preconceived notions. This affects the interpretation of the message and brand.
- *Selective retention:* The consumers or audience may not remember all the advertisements they watch. Hence advertisers should create ads that consumers can recall and remember.

Personality

'*Personality*' describes the psychology and behavior of an individual. It is how an individual perceives himself/herself or wants others to perceive him/her. The personality defines the self-image of an individual. It is believed that consumers are influenced by their self-image in different situations.

The four main considerations in analyzing the personality of an individual are as follows:

Actual self-image: It is how individuals perceive themselves.

Ideal self-image: It is how individuals would like to see themselves.

Actual social-image: It is how individuals are perceived by others.

Ideal social-image: It is how individuals would like others to see them.

Motivation

Motivation is a key factor to fulfill the need of a consumer in the buying process. Needs are of two types - primary or 'physiological' needs and secondary or 'psychological' needs.

Hierarchy of Needs Theory:

Abraham Maslow[4] propounded 'Hierarchy of Needs Theory' to understand levels of needs and their hierarchy according to the individuals. After fulfilling the needs at one stage/level, the individuals get motivated to move to the next stage and fulfill those needs. There are five stages/levels of needs as discussed below:

- **Basic / Physiological Needs Stage:** Any individual struggles to meet his basic or physiological needs like hunger, thirst, sleep, reproduction etc., for survival.
- **Safety Needs Stage:** The individuals in this stage try to fulfill their physical, financial and social safety or security.
- **Social Needs Stage:** The individuals try to get motivated by fulfilling social needs like love, affection, friendship, relationships, family etc.
- **Self-Esteem Stage:** This is a very crucial stage where the individual seeks social recognition and respect from others, achievement and self-respect etc.
- **Self-Actualization Stage**: In this final stage the individual realizes his self-growth (both creative and personal) like his full potential/abilities, acceptance of self and others realizing both good and bad deeds etc.

This theory will be useful for marketers to understand buyer behavior in a better way.

Cultural Factors

Culture is a major influencing factor in the consumer buying decision process. The set of cultural, subcultural and social factors affects the buying decision process. Among these, the culture of the society in which one lives, plays a vital role. Cultural factors affect the values, beliefs and perceptions of an individual.

Social Factors

Social factors, social roles and status have a major influence on the buyer decision process. Reference groups also have an influence on the purchasing process of an individual. They can be defined as 'the groups, which have a direct or an indirect effect on an individual's attitude or behavior.' Reference groups can be divided into four types:

Primary membership groups: These are informal groups, which generally include the family, friends, neighbors and colleagues.

Secondary membership groups: These are formal groups, which generally include the special interest groups, trade unions, etc.

Aspirational groups: These are the groups to which an individual aspires to belong.

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[4] Maslow, A. H. (1970a). *Motivation and personality*. New York: Harper & Row.

Dissociative groups: The groups whose values and ideas an individual rejects or does not intend to associate with are called dissociative groups.

Check Your Progress - 2

3. Which of the following is **not** involved in the buying decision process?
   a. Identifying the problem.
   b. Searching for information (both internal/external).
   c. Evaluating the post purchase analysis.
   d. Purchasing processes.
   e. Evaluating alternatives.
4. Which of the following is a reason that leads to a buying situation?
   a. Internal information search.
   b. Dissatisfaction with the current stock.
   c. External information search.
   d. Evaluating the alternatives.
   e. Comparing the alternatives.
5. Which type of learning do the Psychologists term “the undirected internal search involving learning about things without any specific intention”?
   a. Accidental learning.
   b. Incidental learning.
   c. Identical learning.
   d. Internal learning.
   e. Useful learning.

6 Which of the following is **not** a type of non-compensatory decision making rule?

   a. Setting up the acceptable level.
   b. Selecting the alternative.
   c. Assessing the alternative.
   d. Purchase analysis.
   e. Purging.

7 Which of the following is the role of a ‘decision-maker’ in the process of consumer buying decision process?

   a. First identifies the need.
   b. Has the authority to make buying decisions.
   c. Controls buying decisions by monitoring the flow of information.
   d. Actually uses the product.
   e. Opinion leader.

8 Henry Assael identified four types of buying behavior based on customer involvement and perceived product differentiation. Which of the following is **not** among the four types of buying behavior?

a. Compulsive buying.

b. Dissonance reduction.

c. Habitual buying.

d. Variety seeking buying.

e. Complex buying.

9 Which of the following is the perception or belief of an individual that makes it difficult for the marketers to communicate their desired message and could distort the message communicated by the marketer?

a. Focused attention.

b. Selective retention.

c. Selective distortion.

d. Focused retention.

e. Selective perception.

8.5 Organizational Buying Behavior

Companies started realizing the importance of organizational buying behavior in early industrialization during the 1980s. Fierce competitive environment pushed industrial firms to develop their business practices like outsourcing, purchasing, supplier relations etc. B2B (Business to Business) organizations have to understand their buying decision process to formulate marketing activities effectively suiting the needs of industrial consumers.

Definition: According to the American Marketing Association (AMA), organizational buying behavior can be defined as *'the buying decision-making process of an organization rather than by an individual customer.'*

Characteristics of Organizational Buying:

- Organizational buying involves multiple individuals in the decision process. It is governed by rules or standards. It occurs as a result of derived demand.
- The industrial buying process is influenced by the budget allocated, cost, and the profit matters of the organization.
- This buying process involves the collective decision of individuals who are focused on meeting the organizational interests and goals.

Buyer Behavior Model: A B2B organization can also use the Stimulus-Response Model to understand buyer behavior and can achieve the following objectives:

- To identify the responses to its marketing activities.
- To specify the targets for the marketing activities of the organization.
- To identify the information required for purchasers in decision-making.
- To identify the criteria used by the purchasers in decision-making.

8.5.1 Buying Center

A 'Buying Center' consists of all the members of the organization, who are directly or indirectly involved in the B2B buying process. B2B marketers need to identify the importance of the roles played by the members of the organization and target them to influence the decision-making process.

There are five roles in a buying center, which are as discussed below:

Roles in a Buying Center

- **Users:** Users are the members of the organization who will use the purchased products and services.
- **Buyers:** Buyers are the people with the formal responsibility and authority for negotiating with the suppliers.
- **Influencers:** Influencers are the people who influence the organizational decision process either directly or indirectly. They generally influence the decision process by providing the information and suggesting the criteria for evaluating alternative options.
- **Deciders:** Deciders are the people who take the final decisions. They have the authority to select an option from various alternatives available.
- **Gatekeepers:** Gatekeepers are the people who control the flow of information in the buying center.

Dimensions of a Buying Center

The industrial buying behavior consists of multiple communications and has a complex communications network. This network is the result of the regular communication pattern among the individuals, but not due to formal organizational structure.

The five dimensions of a buying center are discussed below:

- *Vertical involvement:* This dimension measures the involvement of the people from various levels of the organizational hierarchy in the communication process of the buying center. The levels of the organizational hierarchy are the top management, policy level management, upper level operating management, lower level operating management and production employees.
- *Lateral involvement:* This dimension measures the involvement of different functional units and divisions in the buying communication process. It ensures that different functional units and divisions are involved in the organizational buying process.
- *Extensivity:* This dimension specifies the number of individuals involved in the buying communication network. The communication network can be described by the total number of people involved in the buying decision process.

- *Connectedness:* This dimension measures the degree to which the individuals in the buying center are connected to each other. It involves identifying the level of shared thinking between the members of the buying center. The connectedness dimension indicates the level of influence the members of the buying center have on one another.
- *Centrality of the purchasing manager:* This dimension measures the role of the purchasing manager in the communication network of the buying center. The centrality or the importance of the purchasing manager is related to the perceived leadership, status and influence. This centrality of the purchasing manager can be measured based on the successful purchases made by him/her previously.

8.5.2 Stages of Buying Decision Process

Many models were proposed in the 1980s and 1990s to explain the organizational buying process. The two important models out of them are as discussed below:

- *Supplier Choice Model:* Academicians Arch G. Woodside and Niren Vyas proposed the Supplier Choice Model in 1987 based on the study of buyer behavior in six American factories. In this model, there are five stages – preparation of the request for quotations, identification of the potential suppliers, evaluation & selection of approved vendors for bidding products, analysis of quotations received and evaluation & selection of suppliers.
- *Matbuy Model:* In 1986, Moller[5] proposed the Matbuy model, based on the process of component supplier selection of six Finnish firms. This model has eight stages – initiation of the purchase, developing the criteria for evaluation, searching for information, inviting quotations from the suppliers, evaluating the quotations, negotiating, selecting suppliers and implementing the choice.

8.5.3 Factors influencing Organizational Buying Behavior

The organizational buying behavior is affected by the environmental, organizational, social and individual influences as discussed below:

Environmental Influences

- *Environmental influences*: The environmental influences on the B2B buying behavior like political, cultural, economic, geographical and legal are difficult to identify. These factors influence the buying process through information and enable the firm to identify opportunities and limitations in the environment.

[5] Peter Turnbull, "Research in International Marketing", Routledge, 2013

Four ways of impact of environmental influences on buying behavior:

- They identify and define the availability of goods and services.
- They identify the economic and political conditions in which a business is operating
- They set the norms or standards for organizational buying by guiding inter-organizational and interpersonal relationships between the players.
- They affect the flow of information about the potential suppliers into an organization.

- *Players in the environment*: The players affecting B2B buying behavior are suppliers, competitors, governments, trade unions, trade associations, professional groups and educational & medical institutions, whose nature differs from one country to another.

Organizational Influences

These factors influence the individual decision making process. The organizational buying is governed by financial, technological and human resource constraints. An organization is a collection of systems. Each of these systems has four sets of interacting variables as discussed below:

Buying tasks*:* These are the tasks for achieving the organizational goals and solving a firm's buying problems. They are involved in the buying decision process and are affected by the process.

The buying tasks are identifying the need, ascertaining the specifications that will satisfy the need, identifying the alternatives, evaluating the alternatives, and selecting the suppliers.

They are also affected by other factors like organizational purpose of the purchase, nature of the demand and the authority of the purchasing department in an organization.

Organizational structure*:* The components of organizational structure are communication systems, delegation of responsibility and line of command.

- *Communication systems:* B2B-marketers must understand how the communication system is structured in the customer's organization. They must identify the way of communicating buying problems in customer's firm.

  Functions of the communication systems:

  1) It provides information & instructions.
  2) It persuades & influences the buying decisions of the organization.

- *Delegation of responsibility and line of command*: The marketer must also understand the flow of authority and its delegation in the customer's organization. The line of command which is usually carried from top to bottom should provide clear reporting relationships with employees designated as responsible for communicating information, providing direction and delegating authority and responsibility.

Buying technology*:* It is the technology used in the B2B buying process, which influences purchased items and the B2B buying process.

Buying center*:* It is very crucial for B2B buying. To influence the buying decision process the marketers must identify key responsible members of the customer's organization buying process, analyze buying center composition and understand roles and authority in the buying center.

Social Influences

To identify the social influences on B2B buying, the marketer has to analyze three factors: roles in the buying center, interaction and identifying the nature of functioning, which are as discussed below:

Roles in the buying center: As mentioned earlier, the various roles in the buying center are the users, buyers, influencers, deciders and gatekeepers.

Interaction: The interaction between the members of the buying center and the suppliers or vendors has to be identified by the following:

- The role expectations.
- The role behavior of an individual.
- The relationships among the participants of the buying center.

Identifying the nature of functioning: The nature of functioning of the buying center should be identified as a whole. Main attention must be on the purchasing agent, who uses tactics based on the buying situation and conditions.

The nature of functioning is influenced by the following factors:

- Individuals' goals & personal characteristics
- Nature of leadership within the group (the persons involved in the purchase process)
- Structure of the group & tasks performed by the group
- External influences

Individual Influences

B2B buying is influenced by the Individual. An individual can also influence the organizational buying behavior. Either alone or as a member of a group, the individual can influence the buying behavior of the organization by communicating the buying situations.

Individual is influenced by the following factors:

- Personal and organizational goals.
- The organizational buyer's personality.
- Level of knowledge and learning.
- Cognition and psychology.
- Preconceived notions of the individual, his/her beliefs and the basis on which he/she makes decisions.
- Cultural, organizational and social factors.

Organizational buyer is influenced by the following factors:

- *Objectives:* A combination of both the individual and organizational objectives.
- *Other people:* B2B buyers are dependent on others. These other people define the role expectations, determine the rewards for the performance of the B2B buyer. They influence the goals of the buying decision and provide information to the individual, who evaluates risks and makes a decision.
- *Motives of organizational buyer:* The organizational buyer rarely makes a buying decision based on personal considerations. Motives are of two types:
- *Task motives:* They are the motives related to the specific buying problem, which is to be solved. It specifies the criteria for buying i.e. the quantity, the quality, the price, etc.

  Non-task motives: They are the personal motives of the organizational buyer. They have a great impact on the task motives. The non-task motives can be categorized into two types:

  i. *Achievement motives:* These are related to personal advancement and recognition.

  ii. *Risk reduction motives:* These are related to minimizing the uncertainty in the organizational buying process. The uncertainty can be about the available alternatives, the outcomes of the various alternatives and the reaction of other organizational members to the outcomes and the unavailability of appropriate information.

Check Your Progress - 3

10. Which of the following statements relating to how the organizational buying behavior is different from the individual buying behavior is not valid?

    a. Organizational buying involves multiple individuals in the decision process.

    b. It is governed by rules or standards.

    c. It occurs as a result of derived demand.

d. It is governed by the prejudices of the final authority who confirms the purchase order.

e. Often a purchase committee comprising experts is constituted to make purchase decisions.

8.6 Dimensions of Organizational Buying Behavior

The dimensions of the organizational buying behavior are; the characteristics of organizational transactions, the concerns of the organizational buyers, methods of organizational purchases and types of organizational buying.

8.6.1 Characteristics of Organizational Transactions

Organizational transactions can take place in industries such as the manufacturing, construction, transportation and banking & financial services. Organizational transactions are different from the transactions in the consumer markets.

The main characteristics of the organizational transactions are as follows:

- Close relationships between the customer (buying organization) and the supplier, involve customizing the product according to the needs of the customer.
- The purchases are on a large scale.
- A smaller number of customers (buying organizations) are present, compared to the consumer markets.
- The demand for goods and services is inelastic, especially over the short term.
- The purchase process takes place as team work.
- The long-term relationships between the suppliers and customers make it difficult for new suppliers to enter the industrial markets.
- The industrial purchases depend on the derived demand from the consumer markets.

B2B brands have to focus more on customer experience to make organizational transactions successful. The following Exhibit 8.1 illustrates the customer experience excellence insights of B2B organizations.

Exhibit 8.1: Customer Experience Excellence of B2B Organizations

Improving customer experience in an exceptional way can lead to a 30% to 50% increase in key aspects like renewing the purchase transaction or purchase of another product.

Contd….

B2B International had conducted a B2B Marketing & Insight Study based on online surveys with 302 professionals at businesses across North America and Europe in Q4 of 2019.

The pillars to enhance customer experience excellence as per survey are:

- **Commitment:** B2B brands best perform with commitment and 49% of companies cited strong performance due to commitment.
- **Fulfillment:** 38% B2B firms increased performance by proper understanding of consumers and fulfillment.
- **Seamlessness:** 25% B2B firms enhanced performance by making life easier for customers through seamlessness.
- **Responsiveness:** 34% is the score for responsiveness with timely delivery and response.
- **Evolution:** 33% of B2B firms increased performance through continuously improving or evolving.
- **Proactivity:** 24% of B2B firms hiked performance through anticipating customer needs and resolving issues proactively.

Through all these pillars of customer experience excellence the B2B firms are enhancing their organizational transactions thereby improving their performance.

Source: https://www.b2binternational.com/publications/customer-centricity/ Accessed on 05-01-22

8.6.2 Major Concerns of Organizational Buyers

Considerations before supplier selection: Before selecting suppliers the factors to be considered by the B2B buyers are price, quality and delivery.

Evaluation criteria for selecting suppliers are:

- Vendor stability
- Geographic affinity
- Attendance services
- Assurance mechanisms
- Basic economic criteria.

The major concerns in organizational buying are:

- Uninterrupted supply of raw materials.
- The transportation costs involved.
- The vendors’ ability to supply quality goods.

8.6.3 Methods of Organizational Purchases

There are four methods of organizational purchases, namely spot purchases, leveraged purchases, critical purchases and strategic purchases.

Spot Purchases

Spot purchases are made for products or services that are commoditized to some extent. This means that the products or services can be obtained from multiple suppliers without much differentiation other than cost. This can be followed at company level to minimize administration costs.

Leveraged Purchases

It helps to reduce the costs for the organization and as well as increase the value to the supplier. Large-scale purchases can help in gaining discounts from the suppliers.

Issues in Leveraged Purchases:

- This involves the grouping of similar procurement needs.
- A company that is planning to go in for leveraged purchases should initially enter into short-term contracts.
- Later, when the company is satisfied with the services provided by the supplier, it can enter into a long-term contract with it.
- However, a company must take care to keep the duration short enough, so that it allows it to be flexible and to react according to the changes in the market situation.
- The company should also regularly review and identify its requirements.

Critical Purchases

These are made to reduce the risk when only a limited number of suppliers are available.

Issues in Critical Purchases:

- A company must enter into a contract with the suppliers and specify the acceptable service levels, which will help it to reduce the uncertainty associated with critical purchases.
- These suppliers provide services or products that are critical to the business operations of an organization.
- Due to the dependence on certain suppliers, who provide reliable and timely supplies, the pricing may be high.
- In such situations, where there are limited suppliers, the purchases are made when the products are available.

Strategic Purchases

Strategic purchases involve the establishment of cross-functional procurement teams, which develop long-term relationships with the suppliers.

Issues in Strategic Purchases:

- The procurement teams develop programs for enhancing the service quality and business performance of the company as a whole, while reducing the overall operating costs in the purchase process.
- Strategic purchases involve partnering with the suppliers and maximizing cost reduction, while minimizing the risks.
- This type of purchase requires a high level of trust between the supplier and the customer (the Buyer Company).
- A company should regularly review the performance of its suppliers and poor performance should be immediately communicated to the suppliers.

Activity 8.2

Prince Automobiles Ltd., is a car manufacturer in the US. The company is planning to launch its cars in the Indian market. After conducting research about the Indian car market and identifying the tastes and preferences of the Indian consumers, the company planned to launch cars in two segments – middle-level and premium segments. Since bringing all the components from the US was a costly affair, the company decided to outsource component manufacturing to premium suppliers in India in order to reduce cost. The top management of the company entered into deals with four top-level suppliers. A committee was also set up by the company in order to review the performance of the suppliers. Identify the type of purchase the company is engaged in. Discuss all types of purchases.

Answer:

8.6.4 Types of Organizational Buying

‘**Buygrid’ / RFW Model of Organizational Buying:** This model was proposed by Patrick J Robinson, Charles W. Faris and Yoram Wind in 1967. The model compares the three buying classes with the eight buy phases. The stages of decisions that a buyer goes through the buying process are known as buy phases.

Buying Classes’ Types: The three classes of buying according to the Buygrid model are; straight rebuy, modified rebuy and new task.

- **Straight Rebuy**

  This describes the buying situation where the purchasing department places orders on a regular basis. The buyer selects a supplier from the list of the suppliers based on the satisfaction of the previous buying experience. The suppliers in the list make an effort to maintain product and service quality.

- **Modified Rebuy**

  In this type of purchase, the buyer may modify/customize or confirm the product specifications like price, terms of purchase, etc. This may involve more participants of the buying organization in the decision making process and inputs from the operational, marketing and other functional units.

- **New Task**

  This is the purchase of a product or service for the first time. The cost and the risk in this type of purchase are directly proportional. As the risk increases, the number of participants in decision making and need for the information also increases. In order to meet the high information requirements of buying organizations, the suppliers' organizations employ a well-trained special sales force called 'missionary sales force'.

  Buy Phases Types: The eight buy phases of the 'Buygrid' model are:

  1) Identification of the problem
  2) Specification of the needs
  3) Specification of the product
  4) Identification of the suppliers
  5) Request for proposals
  6) Selection of a supplier
  7) Placement of the order
  8) Reviewing the performance of the supplier.

Aggregated 'Buygrid' Model: In 1987, E. Anderson aggregated the buy phases of the 'Buygrid' model from eight phases to three phases. The three buy phases in the aggregated 'Buygrid' model are:

1) Identifying the information requirements of the buying organization,
2) Analyzing the newness of the purchasing task,
3) Identifying the alternatives.

Based on these buy phases, the buy classes were also redefined as:

- New task: This involves high level involvement in all the three phases.
- Modified rebuy: This has moderate levels of involvement in the three phases.
- Straight rebuy: This has low levels of involvement in the three phases.

Check Your Progress - 4

11. Which of the following is an organizational buying method?

    a. Derived Buy
    b. Rebuy
    c. New Task
    d. Buying Task
    e. Retask

8.7 Influence of the Product on Marketing Strategy

The product has an effect on the nature of marketing and it is important to understand its characteristics.

Product Characteristics: There are five product characteristics, which provide the basis for formulating an effective marketing strategy as discussed below:

- The rate at which the product is purchased, consumed and replaced.
- The number of changes that have to be made to the product, in order for it to meet the requirements of the customer.
- The consumption period over which the product delivers its utilities to the customer.
- The amount of time the customer is willing to spend on the product buying process and the gross margin.

Product Classification: In an effort to further simplify the process of strategy formulation. The products were classified into three categories, based on the product characteristics. A color is assigned for each product category.

The categories are as follows:

- **Red goods:** Goods that have a high replacement rate and a low gross margin are called red goods. These goods require minor product changes and have a limited consumption period. The customers generally spend a limited amount of time searching for these goods. Example: Low value products like coffee, tea which are consumed on a daily basis.

Example

Tetley tea[6] brand is the favorite of many households in India. Indians start their day with a cup of Tea. Tetley tea is the 2nd highest producer and seller of tea in the world. It belongs to the Tata group and is a subsidiary of Tata Global beverages.

Contd….

[6] https://digitalmarketingdeal.com/blog/tea-brands-in-india/

It is the first in the Indian market brand that launched drawstring tea bags. It has various tea products, such as green tea, flavored tea, black tea etc. Low value products such as Tea are examples of Red Goods.

Source: ICFAI Research Center

- **Orange goods:** Goods that have a medium replacement rate, require normal changes to the product and have a medium consumption period are called orange goods. Customers generally spend the optimal amount of time searching for these goods, which have a medium gross margin. Example: Household goods like furniture, clothing etc.
- **Yellow goods:** Goods that have a low replacement rate and require substantial changes to be made are called yellow goods. These goods have a high gross margin. The customers spend a significant amount of time searching for these goods and consuming them. Example: Bulldozers, tractors.

Check Your Progress - 5

12. Which of the following is not a product characteristic?

    a. The number of changes that have to be made to the product, in order for it to meet the requirements of the customer.

    b. The consumption period over which the product delivers its utilities to the customer.

    c. The amount of time the customer is willing to spend on the product buying process and the gross margin.

    d. The amount of time the customer is willing to spend on the sales.

    e. The amount of time the customer is willing to spend on the gross margin.

8.8 Relationship Marketing

Relationship marketing is a relatively new term in ‘marketing literature,’ and debuted in the early 1980s. It aims to deploy marketing tactics to attract and retain customers. The credit for introducing the concept of relationship marketing is given to Leonard Barry.

Despite all the differences between traditional and relationship marketing, a majority of the marketers feel that relationship marketing is the best alternative to traditional marketing.

Definitions:

- Relationship marketing is defined as the efforts *'to identify and establish, maintain and enhance and terminate relationships with customers and other stakeholders at a profit so that the objectives of all parties involved are met'*.
- It can also be defined as 'the understanding, explanation and management of ongoing collaborative business relationships between suppliers and customers'.

All the marketing activities of an organization are focused on developing mutually beneficial relationships. In some situations, relationships over a period can develop into partnerships.

Relationships for an organization should be:

- Between the sellers and the buyers. The relationships can exist in the form of supplier partnerships (with goods and service suppliers)
- Lateral partnerships (with competitors, government and other organizations)
- Internal partnerships (between business units, employees and departments)
- Buyer partnerships (with intermediate and final customers)

8.8.1 Importance of Relationship Marketing

Relationship marketing is becoming increasingly important to present day firms serving the consumer markets.

Some of the reasons for this increasing importance are:

- The growing importance of the consumer products and their service aspects.
- The need to measure customer value and customer loyalty so as to provide better services to the customers.
- The allocation of resources based on the new organizational structure.
- The development of a market-oriented organizational culture.
- Increased segmentation and niche marketing.

8.8.2 Developing Relationship Marketing

Relationship marketing is about understanding the customers on an individual level, identifying their needs and fulfilling them. Some of the techniques for developing relationship marketing are discussed here:

Improving Service: An organization can develop a relationship with its customers by providing superior services and continuously improving on them. A company providing a good product cannot gain customer loyalty without proper customer service.

Improved Public Relations: Another technique to develop relationships is to communicate information about the company. The repeated communication of company information regarding its policies, procedures and technological innovations helps in developing a relationship.

Visiting the Customers: One more technique for developing relationships is customer orientation. Customer orientation should be communicated by giving importance to the customers and their preferences.

Loyalty Programs: Another technique to ensure that customers keep coming back is the loyalty program.

Exhibit 8.2 illustrates the loyalty programs of Starbucks during the pandemic and how strategically Starbucks attracted and retained its customers in this tough time.

Exhibit 8.2: Starbucks Number 1 in Loyalty

Starbucks is popular for its loyalty programs and a very loyal consumer base across the world. It generates mostly 50% of its revenues from its loyal consumers. Its Rewards program as of October 2020 had generated 19.3 million members.

Due to the pandemic, Starbucks experienced a 25% reduction in transactions during 2020, last quarter. Then they leveraged their loyalty program with mobile ordering seamlessly and increased each average ticket by 21% through individual and relevant offers.

Loyalty Practices of Starbucks are:

- **Individually Personalized Offers:** By this they provide the best experience for the customers and easily retain them.
- **Offer Optimization Platform:** Through this the firm can automate, create and measure the offers to the individual customer level.
- **Formation:** It collects consumer data from various sources and stores it to make customized offers according to customers tastes and preferences.

Source: https://formation.ai/blog/how-starbucks-became-1-in-customer- loyalty/# Accessed on 5.01.22.

Proactive Approach: A company should be proactive in developing relationships with the customers. Customers may shy away from a company because of their lack of knowledge about the product.

Check Your Progress - 6

13. Between which one of the following should the relationships for lateral partnership for an organization be?

    a. Between the sellers and the buyers.

    b. With goods and service suppliers.

    c. With shareholders and society.

    d. With competitors, government and other organizations.

    e. Between business units, employees and departments.

8.9 Summary

- In the stimulus-response model, there are three components – the external stimuli factors, buyer's black box and the buying decision.
- The consumer buying decision process consists of five main stages, namely, the identification of the problem, searching for internal and external information, evaluating alternatives, purchasing processes and post purchase analysis.
- Henry Assael identified four types of buying behavior, which are based on customer involvement and perceived differentiation, namely the complex, dissonance reduction and habitual and variety-seeking buying behaviors.
- Some of the factors influencing the buyer behavior of the consumer are perception, personality, motivation, cultural and social factors.
- Organizational buying behavior can be defined as the buying behavior of an organization as a whole.
- The main responsibility of the organizational buying process lies in the buying center. The buying center takes the purchase decisions on behalf of the entire organization.
- The buying center has to have vertical involvement, lateral involvement, extensivity, connectedness and centrality dimensions, if it is to be successful in an organization.
- The industrial buying process is influenced by the environmental, social, organizational and individual factors.
- Some of the methods for organizational purchases are spot purchases, leveraged purchases, critical purchases and strategic purchases.
- Various types of organizational purchases are straight rebuy, modified rebuy and new task.
- The marketing strategy depends upon the nature of the product.
- Relationship marketing is the effort to identify and establish, maintain and enhance and terminate relationships with customers and other stakeholders at a profit so that the objectives of all parties involved are met.

8.10 Glossary

Complex Buying Behavior: The complex buying behavior is characterized by high product differentiation and high customer involvement. The products in this category are expensive, frequently purchased and also highly differentiated.

Critical Purchases: Critical purchases are made to reduce the risk when only a limited number of suppliers are available. These suppliers provide services or products that are critical to the business operations of an organization.

Derived Need: Derived need is the one where the purchase of one product can trigger the need for another.

Dissonance Reduction: Dissonance reduction is a buying behavior which is characterized by low product differentiation and high customer involvement.

Habitual Buying Behavior: The habitual buying behavior is characterized by low product differentiation and low customer involvement. The individuals in this category do not consider alternative products. They simply repeat the purchases from habit. The products in this category are regularly used and are frequently purchased.

Leveraged Purchases: Leveraged purchase involves the grouping of similar procurement needs. It helps to reduce the costs for the organization and as well as increase the value to the supplier.

Modified Rebuy: Modified rebuy describes the situation where the buyer may want to customize the product specifications. In this type of purchase, the buyer may modify or confirm the product specifications like price, terms of purchase, etc.

Orange Goods: Goods that have a medium replacement rate require normal changes to the product and have a medium consumption period are called orange goods.

Red Goods: Goods that have a high replacement rate and a low gross margin are called red goods.

Spot Purchases: Spot purchases are made for products or services that are commoditized to some extent. This means that the products or services can be obtained from multiple suppliers without much differentiation other than cost.

Strategic Purchases: Strategic purchases involve the establishment of cross-functional procurement teams, which develop long-term relationships with the suppliers.

Straight Rebuy: Straight rebuy describes the buying situation where the purchasing department places orders on a regular basis as, for instance, for office supplies like stationery.

Variety Seeking Buying: The variety seeking buyer shops for variety. The customer involvement is very low in variety seeking buying. These buyers often seek a change in their products. Such buyers frequently change their brands, not due to dissatisfaction, but for the sake of variety.

Yellow Goods: Goods that have a low replacement rate and require substantial changes being made are called yellow goods. These goods have a high gross margin.

8.11 Self-Assessment Test

1. Describe the buyer behavior model.
2. Describe various stages involved in the buying decision process.
3. Discuss in detail various types of buying behavior. What are the factors influencing the consumer buying decision process?

4. What is organizational buying behavior? Explain the factors influencing it? How is it different from the individual buying behavior?
5. Describe various dimensions of organizational buying behavior and the methods used in organizational purchases.
6. Explain the influence a product has on the marketing strategy.
7. Explain the importance of relationship marketing. Discuss the techniques for developing relationship marketing.

8.12 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.

8.13 Answers to Check Your Progress Questions

1. (c) Information about the customers

Any company which is able to use information about the customers effectively, gains a competitive advantage in the market.

2. (d) Socio-cultural, personal and psychological

The buyer characteristics are a result of the influence of cultural, social, personal and psychological factors on an individual.

3. (c) Evaluating the post-purchase analysis

The buying decision process consists of five main stages, namely identifying the problem, searching for information (both internal/external), evaluating alternatives, purchasing processes, and post-purchase analysis. Hence option 'c' is the correct answer.

4. (b) Dissatisfaction with the current stock

Some of the reasons that may lead to buying situations are: changing situations, stock-out problems, dissatisfaction with the current stock, marketing influences and derived needs.

5. (b) Incidental learning

The undirected internal search involves learning about things without any specific intention. Psychologists term such learning as incidental learning.

6. (d) **Purchase analysis**

There are four types of non-compensatory decision-making rules: setting up the acceptable level, selecting the alternative, assessing the alternatives and purging. Hence option 'd' is the correct answer.

7. (b) **Has the authority to make buying decision**

There are six buying roles in the consumer decision-making process. They are the initiator, influencer, decision maker, buyer, user and gatekeeper. The decision-maker is the person with authority to make a buying decision. This person decides whether the purchase of a product is appropriate or not.

8. (a) **Compulsive buying**

Henry Assael identified four types of buying behavior based on customer involvement and perceived product differentiation. The four types of buying behavior are complex buying, dissonance reduction, habitual buying, and variety seeking buying. Hence option 'a' is the correct answer.

9. (c) **Selective distortion**

An individual could distort the message communicated by the marketer based on his/her perceptions or beliefs. The selective distortion makes it difficult for the marketers to communicate their desired message. The perception of the individual thus influences the interpretation of the message.

10. (d) **It is governed by the prejudices of the final authority who confirms the purchase order**.

The American Marketing Association specifies how the organizational buying behavior is different from individual buying behavior: B2B buying involves multiple individuals in the decision process. It is governed by rules or standards. It occurs as a result of derived demand. Organizational buying involves collective decision making and hence it is not governed by the prejudices of one individual whether he is the final authority as stated option 'd.'

11. (c) **New task is the purchase of a product or service for the first time.**

As there are three types of organizational buying methods - New task, Modified rebuy and Straight rebuy.

12. (d) **The amount of time the customer is willing to spend on the sales.**

There are five product characteristics: i) The rate at which the product is purchased, consumed and replaced. ii) The number of changes that have to be made to the product, in order for it to meet the requirements of the customer. iii) The consumption period over which the product delivers its utilities to the customer. iv) & v) The amount of time the customer is willing to spend on the product buying process and the gross margin.

13. (d) With competitors, government and other organizations.

Lateral partnerships form relationships with competitors, government and other organizations which is one of the important types of business relationship.

Unit 9
Segmenting Markets

Structure

"Market segmentation is a natural result of the vast differences among people."

- Donald Norman

9.1 Introduction

As quoted rightly by Norman, there are a lot of differences among consumers, and similar groups have to be identified through market segmentation for better targeting. Segmentation is the process of dividing a broad consumer or business market into small homogeneous groups with shared characteristics like common needs, age, income, personality traits, etc.

The previous unit discussed the buyer behavior model, the buying decision process, organizational buying behavior & various dimensions involved in it, a product's influence on the marketing strategy, importance of relationship marketing and various techniques involved in developing relationship marketing.

This unit will discuss markets and marketing approaches, market segmentation, niche marketing, the bases for segmentation, the criteria for segmentation of industrial markets and strategic analysis of market segments.

9.2 Objectives

By the end of this unit, you should be able to:

- Define a market and discuss the different marketing approaches.
- Elaborate on the approaches to market segmentation and understand the requirements for effective segmentation.
- Define niche marketing.
- Elucidate the bases for segmentation.
- Discuss the segmentation criteria for industrial markets.
- Explain how strategic analysis of market segments is being done.

9.3 Markets and Marketing Approaches

Market: A market is a *"public gathering that is held for buying and selling merchandise".* Marketing is one of the most important activities of an organization. The need to retain customers and offer them products and services based on their needs and preferences is one of the basic objectives of companies across the world.

Changing needs of the customers:

Organizations should develop organization-wide marketing strategies that are suitable to the changing needs of the customers. Some changing needs of customers are:

- Customers have become more knowledgeable and demanding. With the advent of advanced technological facilities, customers are expecting companies to serve them with greater attention and individual focus.
- The popularity of the internet along with call centers has increased their expectations. Customers expect round the clock customer service and companies to provide tailor-made products and services to suit their individual needs.

Marketing Approaches: Traditional Methods Vs Modern Methods	
Traditional Methods	**Modern Methods**
1) Here the organization has a perception of marketing as a narrow function. 2) Methods like mass marketing, product-variety and target marketing are traditional methods. 3) Here the complete focus is on the product.	1) Marketers are giving more importance to applying new methods and techniques to develop better customer relationships and retain customers. 2) Methods like customer targeted marketing and customization of products are some modern methods. *Contd….*

4) Mass Marketing: In this method, producers produce one single product for the entire market. 5) Product-variety Marketing: Here the organization produces different products for the market. The last method is Target Marketing where the target audience' needs are fulfilled.	3) Here the complete focus is on the customer. 4) Customer Targeted Marketing: The company gathers data regarding the changing needs and preferences of customers by adopting different methods like customer surveys, focus groups and in-depth interviews and analyzing ways and means of catering to those needs effectively. 5) Customization of products and services: The products can be made according to the tastes and preferences of the customers.

9.3.1 Segmentation, Targeting and Positioning

Segmentation: Segmentation *is the method of dividing the market into distinct subunits of customers with similar needs.* Then, it needs to identify the most profitable segments that its products and services can cater to.

Segmentation Strategies: Three broad segmentation strategies are:

- Undifferentiated marketing (where the company tries to serve the entire market with a single product),
- Differentiated marketing (where the company serves different segments with customized products for each segment),
- Concentrated marketing (where the company serves very few segments with an intense focus on them to gain maximum market share in such segments).

Targeting: After segmentation, the marketer focuses on serving that particular segment with its existing resources. Such a *focus on the market segment to satisfy the needs of customers and attain the objectives of the organization is* known as targeting.

Positioning: The process of the company creating an image or a specific identity for the product or brand in the minds of customers is called positioning.

Exhibit 9.1 illustrates the segmentation, targeting and positioning strategies of Nike.

Exhibit 9.1: Segmentation Targeting & Positioning of Nike

Nike, the leading sports brand in the world, was in the global market for decades through its special marketing tactics and strategies.

Contd….

Let us understand Nike's STP (Segmentation, Targeting and Positioning).

- **Segmentation:** Nike has segments of customers like

  i) *Runners:* Nike segmented a large group of runners.

  ii) *Peacocks:* These want to be the leaders in whatever they do, very self-focused and stand-out in the crowd.

- **Target audience**: Nike targets a variety of customers like

  i) *Prospective athletes and sports people:* It targets sports people.

  ii) *Children/girls who are sports aspirers:* It targets children and girls who aspire to be in sports.

- **Positioning:** It positions among its brand to the audience as given below:

  i) To bring inspiration and innovation to every athlete in the world.

  ii) Just do it, but differently.

Sources: https://thesocialgrabber.com/positioning-and-segmentation-strategies-of-nike/# accessed on 5.01.22
https://www.lonefircreative.com/blog/nikes-brand-positioning-just-do-it-but-differently

Check Your Progress - 1

1. The segmentation strategy where the company tries to serve the entire market with a single product is called as which one of the following?
   a. Concentrated marketing.
   b. Differentiated marketing.
   c. Undifferentiated marketing.
   d. Mass customization.
   e. Focused marketing.
2. The process of creating an image or identity for a product in the minds of customers, which is taken up after segmentation and targeting are done, is called as which one of the following?
   a. Market segmentation.
   b. Positioning.
   c. Targeted marketing.
   d. Customer profiling.
   e. Product development.

9.4 Market Segmentation

Market segmentation is based on the premise that all customers in the market are not equal. They differ on different parameters based on their income, age, lifestyle, and so on. Market segmentation does not mean that one segment is selected and others are not focused upon.

Issues in Segmentation: There are a lot of issues in segmentation which need to be addressed by the marketers for succeeding in proper segmentation, which are as follows:

- It is important to identify different clusters in the market that are clearly distinct, i.e., each cluster should have different characteristics when compared to other clusters.
- However, within each cluster, customers should have similar characteristics.
- If the market segments are properly designed then the customers within those segments will behave in a similar manner, have common interests and attitudes and generally respond positively to the sales and promotional strategies of the company.
- A properly designed market segment helps the company in developing a marketing framework that is common to the entire organization.

Benefits of Market Segmentation: Market segmentation offers a host of benefits to the marketer. Some of the benefits are listed below:

- Helps in clear understanding of the characteristics of each market segment and the firm can develop highly customized solutions for serving customers in each of these segments.
- To understand the behavior of different market segments and develop the marketing mix to suit the individual needs of those segments.
- It allows a company to utilize its scarce resources in such a way that it can attract and retain customers with the most potential.
- It helps a company in customizing products and services that are most suitable to its prospective customers.
- It helps a company in enhancing the retention rate of the customers and as a result, it improves the profitability of the company.

Customer Loyalty: To raise the retention rate, the company has to identify the customer loyalty levels in each of these different segments.

Issues in Loyalty:

- Wherever the loyalty rates are low or completely absent, the marketing department should focus on such segments and identify the causes that are affecting customer loyalty.
- The company can identify the levels of loyalty in each segment by using techniques such as multidimensional analysis.

- A major reason for low customer loyalty and higher customer turnover ratio could be a mismatch between the products offered by the company and the needs of the customers.
- In such situations, it is important for the company to study the market and focus on the opportunities to enhance and introduce products to suit the needs of the customers.

Activity 9.1 Kerala Tourists Ltd., is a private tourism agency in Kerala. To attract tourists within and outside India, the company placed an advertisement in the newspaper and showcased a television campaign promoting Kerala as a tourist spot for health and wellness. The company showed Kerala's rich heritage in Ayurveda and Yoga. What is the segmentation strategy adopted by the company? Do you think this segmentation strategy would help the company in attracting tourists? Why (not)? Suggest and discuss how the company can use other segmentation strategies and attract more tourists. **Answer:**

9.4.1 Approaches for Segmenting Markets

It is important for companies operating in a competitive market scenario to identify and target specific market segments. Companies generally resort to two broad types of approaches as discussed below:

'A priori approach': This approach is *the process in which the marketer decides the basis for segmenting the market prior to the study of the markets (before conducting the market research) to identify the needs of potential customers*. If the marketer has prior knowledge about the market, then the *a priori* approach may be feasible.

A Priori Approach Process Steps:

- The marketer may thus divide the market based on certain categories like the usage rate of customers (heavy users, medium users, light users and non-users) or demographic profile of customers (age, gender, income, etc.) or psychographic profile of customers (lifestyle, personality characteristics, etc.).
- Once the market has been divided on this basis, market research is conducted to understand the size and potential of each segment.
- The marketer then takes a decision regarding which segment to concentrate upon.

***Post hoc* approach:** This approach is the opposite of the '*a priori'* approach which means that *the marketer divides the market based on the results of the research.* The research may give details regarding the characteristics and attitudes of different types of customers and the marketer may segment the market based on these details. This approach is more suitable when the market is changing or the marketer has no prior experience or knowledge of the market.

Multidimensional Segmentation: It is one of the recent approaches to segmentation. In this type of segmentation, marketers usually segment the markets based on a single set of variables such as usage rates of customers, demographics, psychographics or attitudes of the customers and so on. But segmentation based on a single set of variables may not be useful. Segmentation based on multiple dimensions is more beneficial for developing a marketing strategy.

9.4.2 Requirements for Effective Segmentation

Although segmentation is important for a company, it needs to assess the feasibility of market segmentation.

Criteria for Effective Segmentation:

- *Differences in Customer Responses:* The customers' response to the company's product and the product's positioning in the minds of customers are important attributes based on which decisions related to market segmentation have to be taken.
- *Segments must be Identifiable**:*** The firm should be able to identify customer groups that respond differently to the company's offerings, which is a difficult task as the marketer may not know the exact variables based on which to segment the market.
- *Actionability of the Segment**:*** Marketers have to focus their products on the specific market segments that they have selected. They have to ensure that they focus only on their target buyers and not waste their resources on buyers who are not from the targeted segment, which could create cannibalization.

  Cannibalization*:* It is the phenomenon where the customers targeted by a firm for a particular product gets attracted to other products for which they are not targeted or they are from other segments. This results in loss and eats into the sales of an existing product which could be devastating when the existing product has loyal customers.

  Example

  Apple constantly releases a new series of iPhones to its customers and ultimately customers forget its previous version-iPhone, as they are more excited for new series.

  Contd….

In March 2022[7], it launched Apple iPhone SE 2022 which is a 5G phone model. So the customers targeted for old iPhone series are drawn towards new series and this resulted in cannibalization of previous models sales.

Source: ICFAI Research Center

- *Financial Strength of the Segment*: The market segment which the company is planning to target should be financially attractive. The revenues generated from the segments should be more than the costs incurred on them.
- *Stability of the Segment:* The stability of the segment is an important criterion for the company. It should be stable over a relative period of time so that the company can realize the returns on the expenditure incurred in marketing. This may not be viable if the customer's needs and preferences change quickly.

9.4.3 Development of Segments

As segments develop over a long period, after segmentation the marketer has to adjust its strategies according to market segment changes to cater to the needs of the segments.

Limitations of Segmentation

Although segmentation is a useful strategy for targeting the right group of customers, it has two major limitations as discussed below:

- *Technical Limitations:* Under these limitations, it is difficult analyzing the suitability of the segmentation to the marketer and finding the exact number of market segments a marketer should target. As segmentation is experience and judgment based, the psychographic (behavioral data) based segmentation is not reliable.
- *Organizational Limitations:* These limitations arise due to lack of coordination among the three important activities of the strategic planning process: market segmentation, product positioning and the new product development process. Marketing researches, Ad agencies and Creative teams conduct research for the above three activities respectively and they should coordinate for better results.

Check Your Progress - 2

3. Which of the following is not a criterion for effective segmentation?
   a. Actionability of the segment.
   b. Stability of the segment.
   c. Segments must be unidentifiable.
   d. Financial strength of the segment.
   e. Size of the segment.

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[7] https://www.gadgetsnow.com/mobile-phones/Apple-iPhone-SE-2022

9.5 Niche Marketing

Definitions:

- Niche marketing can be defined *as the process of identifying and serving small but profitable market segments and developing tailor-made products and services for them.*
- According to the American Marketing Association, a niche strategy is *"A game plan employed by a firm that specializes in serving particular market segments in order to avoid clashing with the major competitors in the market".*

Benefits of Nichers / Niche Marketing:

- "Nichers" pursue market segments that are of sufficient size to be profitable while at the same time are of less interest to the major competitors and can prevent direct competition.
- They are small but highly profitable market segments. Several companies, irrespective of their size, adopt niche marketing to market their products.
- This helps a company in cutting down on communication costs as it can select communication channels that are specific to those niche segments.
- The firm can maximize its marketing budget as it has a defined market segment to target.
- A clearly defined niche market helps marketers in developing new product ideas that specifically appeal to the customers in that niche.
- Niche marketers have to develop positive and long-term relations with their customers and provide them with the best possible service; such activities will preempt competition and help companies in performing successfully in the markets.

Exhibit 9.2 illustrates the success story of Swiggy, the "Food Delivery Service" Niche Marketer of India.

Exhibit 9.2: The Niche Marketer Swiggy

Swiggy is a niche marketing company under the Niche category "Food Delivery Services Industry" in India.

Its journey started with its launch in Bangalore in 2014 as a startup in a niche category in the Indian market. Indian young entrepreneurs Sriharsha and Nandan launched B2B e-commerce website Bundl. Due to some issues, Bundl was halted and they rebranded it as Swiggy to cater to the services of the food delivery market.

Some important success factors of Swiggy are:

- *Technology:* Extensive use of technology for food delivery gave it success.

Contd….

- *Innovative practices:* It implemented innovative logistics practices like:
  i) *'Swiggy Go':* It was launched in 2019 for instant pick-up and drop services across India.
  ii) *On-Demand Delivery Service:* Through this platform, it enhanced its speed and efficiency by networking.
  - *Worker care:* It played a vital role during pandemic for taking utmost care of its workers by facilitating vaccination.
  - *Acquisitions:* It made four acquisitions and kept expanding.
  - *Investments & funding:* It made huge investments through VC funds. Its recent VC funding was during April 2021 with a total of 13 rounds of fundraising.

Through the above practices, the Niche Marketer Swiggy expanded its business rapidly and achieved Unicorn status at an early period (2018).

Source: https://moneyinc.com/swiggy/# Accessed on 5.01.22

Check Your Progress -3

4. Which of the following is not a characteristic feature of Niche marketing?
   a. Identifying and serving small but profitable market segments.
   b. Developing tailor-made products and services.
   c. Catering to specific market segments and thus avoiding competition with major firms.
   d. Treating every customer as a segment and offering personalized products and services to customers.
   e. Entering into areas of specialization where customers are in most cases affluent.

9.6 Bases for Segmentation

Marketers should not try to segment the entire market for selling their products. They should identify only those segments in the market that may be attracted to their products and need not focus on those customers in different segments who may never purchase them.

Market segmentation is done basically for two main purposes:

- To identify new product opportunities
- To understand the customers better.

Consumer markets can be segmented based on the geographic, demographic, psychographic and behavioral characteristics of customers, as discussed below:

9.6.1 Geographic and Geo-demographic Segmentation

Geographic Segmentation: It is a relatively easy and flexible method which is widely used, but by using it the purchase motives of the consumers cannot be determined completely.

The various variables for segmenting consumers geographically are:

- Region (country, state, city and so on)
- Size of the population
- Density of population (rural, urban, semi-urban)
- Climatic conditions

After segmentation, the marketer can operate in a few or all of these segments and the marketing mix has to be made for each segment to cater to the needs and preferences of each segment's customers respectively.

Geo-demographic Segmentation: It evolved as a major development in segmentation. First time it was developed in the UK for public sector usage. It should have a sufficient number of clusters and significant differences between the groups. These clusters help marketers in analyzing buyer behavior.

Cluster is *a group of households with similar demographic and lifestyle characteristics and are designated by a label.*

Geo-demographic systems:

There are two geo-demographic systems ACORN & PRIZM, as discussed below:

ACORN: Consolidated Analysis Centers Inc., (CACI) was the first firm to use a geo-demographic system in the UK. It developed a database of the public who were divided based on age and gender and led to development of ACORN. It made improvements to the ACORN system (A Classification of Residential Neighborhoods).

Salient features of *ACORN*:

- This system segments the market based on general parameters like age, income etc., to specific parameters like consumer durables owned, preferred automobiles etc.
- It divides people based on the places where they live. It provides three levels of targeting addresses, along with six major groups, which can be segmented into 17 and then further into 54 neighborhood types.

PRIZM: During 1970, Jonathan Robbin applied multivariate regression to US census data and this led to the development of a geo-demographic system ‘PRIZM’ by ‘Claritas’. Later Nielsen[8] acquired it and widely applied for customer segmentation in the USA during the 1990s and used it till date (2022).

[8] http://www.geomarketingsolutions.com/prizm.html (accessed on 5-01-2022)

Salient features of *PRIZM:*

- The geo-demographic segmentation system divides the country's population into different groups based on certain similarities.
- This is done almost like the way biologists divide living organisms into different orders, species and classes.
- The geo-demographic classification system is based on the classification system of biological sciences and that of zip code classification done by the US Postal Service.

Advantages of Geo-demographic segmentation:

- Its ability to integrate data obtained from different sources.
- It has a dominant effect on marketing analysis and the decision-making of organizations.
- Lot of applications were developed based on it, like customer profiling (identifying the customer groups which are likely to purchase the company's products), branch location analysis (taking decisions regarding the location of a branch based on the type of customers in the neighborhood of the branch), credit scoring (analyzing the financial credibility of customers) and so on.
- Geo-demographic classification is a neighborhood and details regarding age and gender of people are essential to determine the buyer behavior.

9.6.2 Demographic Segmentation

Demographic segmentation divides the market based on variables like family life cycle, income & occupation, and sex. This segmentation is easy as the data for these variables is available easily and the buyer behavior has high correlation with these variables.

Variables for demographic segmentation are, as discussed below:

Family Life Cycle

The family life cycle typology that marketers generally use was developed by Wells and Gubar (1966). They developed nine stages of the family life cycle based mainly on the marital status and the presence/absence of children.

Income and Occupation

The income of a person plays a vital role in the purchase decisions of customers. The growing Indian middle class is now becoming the target of many multinational companies. Occupations like IT are booming and incomes are rising and Indians are spending more which is a great opportunity for marketers.

Sex

Gender is an important demographic segmentation variable for marketers of cosmetics, jewelry, magazines, clothes and so on. There has been a greater focus on this variable by marketers in recent times.

9.6.3 Behavioral Segmentation

Behavioral segmentation is defined as a segmentation conducted based on the behavior of customers towards the products/services of the firm.

The variables of behavioral segmentation are as discussed below:

- *Purchase Occasion Segmentation:* When consumers are grouped based on specific reasons or times at which they purchase the product then it is called purchase occasion segmentation.

Example
Cadbury is Britain's chocolate maker which manufactures delicious chocolates and confectionary products. It segments its customers based on occasions, like Valentine's Day, across the globe. In India, it segments based on Indian occasions and celebrations. The company endorsed most popular Bollywood Star Shah Rukh Khan for 2021[9] Diwali occasion so that he can influence the target group of kids, youngsters, and chocolate lovers. The ad went viral and greatly influenced the target audience positively.

Source; ICFAI Research Center

- *Benefit Segmentation:* When the market is segmented based on the benefits such as economic price, convenience, or prestige sought by the customers from the products, then it is called benefit segmentation. For dividing the market based on benefit segmentation, it is necessary to identify the different benefits sought by customers and also to analyze which benefit attracts a particular group of buyers and why, so as to effectively communicate the relevant benefits to different customer groups.
- *User Status:* They could be non-users of the product, first time users, users in the past, current users, potential users and so on. Marketing communication to these different types of users will also be different.
- *Usage Rate:* Usage rate segmentation divides the customers (users) into light, medium and heavy users. Based on this rate, the company can design its marketing message.
- *Brand loyalty:* If some customers of a company are brand loyal and share similar characteristics, then the company attempts to segment such customer segments based on their loyalty and develops suitable marketing messages for them.
- *Readiness Stage of the Buyers:* Some people may be willing to purchase the product, while others may be unaware of the product's existence. Therefore the firm has to design its marketing communication based on such knowledge about the customer groups.

[9] https://indianexpress.com/article/trending/trending-in-india/cadburys-diwali-shah-rukh-khan-7587613/

9.6.4 Psychographic Segmentation

Psychographic segmentation is defined as a segmentation based on their activities, interests, attitudes, opinions and values. It is adopted if no clear market segments emerge through demographic segmentation. The basic purpose of psychographic segmentation is to understand the customers better and to use such understanding to better serve and market the products to them.

Lifestyle segmentation: It is defined as segmentation based on the psychological aspects such as a person's values, beliefs, attitudes and personality characteristics. Data related to above variables can be collected using questionnaires with specific questions.

Values and Lifestyle System (VALS) & VALS II

VALS: It was developed during 1983, by Stanford Research Institute to segment and correlate consumer attitudes and purchase behavior of the American public based on their lifestyles. Data collected from 800 respondents was used for this. People come across various development stages in life and their attitudes, psychology and behavior are influenced by each life stage. VALS found to be most useful in the advertisement industry.

Nine Lifestyle Segments (of American Population) through VALS:

Survivors: These people were about 4% of the US population, aged 18 and 21 Years of age). They were financially incapable and tended to be depressed and were in despair.

Sustainers: These people formed about 7% of the US population. They were also financially incapable, but were struggling hard to overcome their poverty.

Belongers: Comprising 39% of the US population, Belonger were traditional and conservative in nature and disliked experimenting with new products.

Emulators: They were 8% of the US population. They were status conscious and upwardly mobile.

Achievers: They were the second largest segment of the US population at 20%. Those people were self-driven and successful individuals.

I-Am-Me: Those were about 3% of the US population. They were young and fell in the age group between 17 and 25. Those people were not sufficient earners and were generally self-engrossed.

Experientials: They formed 6% of the US population who were focused on experiencing different facets of life.

Societally conscious: About 11% of the US population was socially responsible and had an urge to develop the society.

Integrateds: They were the people who had enough psychological maturity and inner and outer directedness; they comprised 2% of the US population.

Stages in VALS: There are four stages in VALS as given below. People generally move from need driven stage to either an outer driven or an inner driven stage.

- *Need Driven Stage:* Survivor and Sustainer lifestyle segments are in this stage. From a marketer's perspective, the need driven group is not attractive as it is a financially incapable segment.
- *Outer Driven Stage:* Belonger, Emulator, Achiever segments are in this stage. The outer directed group is the one which is most attractive as people in this group are successful and resort to conspicuous consumption. They spend money on products that increase their status and those that can be flaunted.
- *Inner Driven Stage:* I-am-me, Experiential and Societally Conscious segments are in this stage. People in this stage spend money to fulfill their individual needs.
- *Last Stage:* Very few people reach the last 'integrateds' stage.

VALS II: Advertisers use VALS II (developed by Stanford Research Institute) to develop advertising campaigns that are consistent with target customers.

Drawbacks of VALS II:

- VALS II has also been criticized by marketing experts stating that it is culturally too specific for international markets.
- The utility of VALS II in predicting purchases and aiding decision making has also been questioned (Daniel Yankelovich[10]).

AIO Framework

This is similar to VALS, where the lifestyle groups are further divided, with the help of a questionnaire that measures the activities, interests and opinions of people. Different studies are conducted to analyze customers based on the AIO framework.

Some of the typical lifestyle dimensions that can be considered are:

- **Activities:** Work, Social events and Sports.
- **Interests:** Family, Job and Fashion.
- **Opinions:** Politics, Education and Social issues.

Using such variables, questionnaires can be developed with questions regarding religion, shopping habits, culture and so on. The responses can be given on a four-point Likert scale ranging from 'strongly agree' to 'strongly disagree'. Studies like these provide a better understanding of the customers and immensely help marketers in segmenting markets and positioning their products successfully.

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[10] Yankelovich, Daniel; David Meer (February 6, 2006). "Rediscovering Market Segmentation" (PDF). *Harvard Business Review*: 1–11. Retrieved 7 June 2011.

Some sample statements could be as given below:

- "Certain television channels like MTV and Channel V are spoiling the culture of the country",
- "Shopping at a supermarket is better than at a local grocery",
- "Religion should not be an obstruction to marriage",
- "Branded goods are of better quality than those that are unbranded" and so on.

Activity 9.2

SM Beverages is a leading soft drink and beverage company in India. Of late, the company noticed that consumers were switching to other brands that offered fruit juices and various health drinks. Thus, the top management of the company decided to launch organic fruit juices and health drinks in various flavors. Since the price of organic fruit juices and health drinks was higher, the company decided to test the market in order to gather the opinions and interests of consumers regarding organic fruit juices and flavored health drinks. The consumers in four cities in India – Delhi, Mumbai, Chennai, and Kolkata were given questionnaires for their opinions. Based on this survey, the company decided to segment the consumers.

Identify the type of segmentation. Explain how this segmentation will help the company in serving its consumers in a better way. Also discuss other bases for segmentation.

Answer:

<u>Check Your Progress - 4</u>

5. Market segmentation is based on the premise that all customers in the market are not equal. Which of the following variables forms the bases of Behavioral Segmentation?
   a. Income.
   b. Age.
   c. Lifestyle.
   d. Occasions.
   e. Family Life Cycle.

6. Gupta, a jeweler, targets customers who are willing to pay a price for the designer jewelry he creates. Based on which of these criteria has Gupta segmented his customers?
   a. Age.
   b. Lifestyle.
   c. Income.
   d. Occasions.
   e. Fashion and Style.
7. Which one of the following is called "The segmentation that is based on variables like user status, brand loyalty, purchase occasion, etc"?
   a. Geographic segmentation.
   b. Behavioral segmentation.
   c. Demographic segmentation.
   d. Personality.
   e. Psychographic segmentation.

9.7 Multi-attribute Segmentation

Multi-attribute segmentation models are developed based on the information obtained about the customers through surveys which are used in several areas. Customers generally do not make purchase decisions by considering only a single characteristic; they take several issues into consideration. If a company can successfully identify those issues that the customers consider important, then it can design products to suit these needs.

There are four types of multi-attribute segmentations as given below:

- *Product Use Model:* In this model, the company's sales across different product lines are used for segmentation.
- *Customer Satisfaction Models:* These help in locating dissatisfied customers; here the segmentation is done based on the different variables that create overall satisfaction with the company and its products.
- *Product Design Segmentation Models*: These are developed based on the conjoint analysis conducted to identify which product attributes are most important to which group of customers.
- *Attitude and Behavior Models*: In these models, the attitude of the existing profitable customers is analyzed to develop marketing communication in such a way as to attract potential customers who share a similar attitude.

9.7.1 Segmenting Industrial Markets

Segmenting industrial markets is very challenging as compared to consumer markets. Shapiro and Bonoma segmented industrial markets using five criteria: demographics, operating variables, purchasing approach, situational factors and personal characteristics.

Demographics

The demographic variables are as given below:

- *Industry:* Having knowledge about a particular industry helps in understanding the needs of the customers and purchase situations. Marketers may sometimes have to subdivide a single industry to identify the different segments present in it.

Example

Although the financial services industry is a single industry, it comprises banking, insurance, stock broking, etc., with differing needs and the marketer has to identify such differences in needs for segmenting the markets.

Source: ICFAI Research Center

- *Company Size:* Small suppliers may not be able to meet the demand of large companies. Therefore, while segmenting the markets, the average size of the companies in a particular market should be kept in mind.
- *Customer Location:* For some products where the profit margins are low, it is better to cater to those customers who are not far off, so as to reduce overall costs.

Operating Variables

Operating variables for an organization include technology, user-non user status and capabilities of customers.

Bases for Segmenting Operating variables:

- *Purchase Requirements:* A marketer has to segment the markets based on purchase requirements of the companies.
- *Customer's Characteristics:* Customer's characteristics like preferences of certain brands or products can also be a basis of segmentation.
- *Customer Capabilities:* The financial, technical and operational capabilities of customers can also be a basis of segmentation.

Purchasing Approach

The purchasing process of one company may completely differ from that of another. The following bases have to be kept in mind while segmenting industrial markets.

The bases for segmenting purchase approach are as given below:

- *Consumers and their Philosophies:* The purchasing approaches of consumers and their philosophies can be used to segment industrial markets.

- *Purchasing Power Structure:* Certain companies may have a centralized purchasing process, while others may have a power structure where certain individuals or departments wield considerable power in the purchasing decisions of the company.

Example
The engineering department in an organization may be powerful enough to influence the purchasing decisions of the company.

Source: ICFAI Research Center

- *Buyer Seller Relationship:* The relationship existing among the buyers and sellers also plays a significant role in the purchasing process of an organization.

Situational Factors

These factors necessitate detailed knowledge of the customers. Some of the situational factors are the time required for order fulfillment, order size and application of the products.

The bases for segmenting Situational Factors are:

- *Time required for Order Fulfillment:* Some companies may require products on a more urgent basis than other companies.
- *Order Size:* The average order size of different companies can act as a cue for segmenting the markets.
- *Application of Products:* Application of products may differ with customers, since the usage of a similar product may vary among customers.

Personal Characteristics

The personal characteristics of the people involved in organizational purchasing is crucial. Organizational policies and procedures, provide guidelines for these individuals in decision making. *'Risk taking ability'* is an important personal characteristic for an individual involved in organizational purchasing.

Check Your Progress -5

8. Which of the following is not a suitable basis for segmentation for industrial markets?
   a. Psychographic variables.
   b. Demographics.
   c. Geographic location.
   d. Customer purchasing approaches.
   e. Size of the company.

9. Which of the following is a segmentation criterion for the industrial markets, according to Shapiro and Bonomo?
   a. Situational factors.
   b. Fashion.
   c. Education.
   d. Lifestyles.
   e. Psychographic.
10. Time required for order fulfillment, order size, and application of the products are
    a. Personal characteristics.
    b. Operating variables.
    c. Purchasing approach.
    d. Situational factors.
    e. Habitual factors.

9.8 Strategic Analysis of Market Segments

The strategic analysis of the market segments involves a detailed analysis of each market segment that has been selected for its potential attractiveness. The types of analyses are:

9.8.1 Customer Analysis

Customers are analyzed for their specific needs regarding products and services and served accordingly, by gathering as much information as possible about them.

Issues in Customer Analysis:

- Some firms develop solutions to gather customer data at individual level and store it to provide customized solutions to its customers.
- Customer satisfaction, which is important, is usually measured by comparing customer expectations about the products with the products' actual performance.
- Customers establish performance standards for products by observing competitors' products. Analyzing customer satisfaction across the segments is a critical task for marketers, when standards vary across segments.
- The standards set by the customers may also change over a period and customer satisfaction may not relate to factors influencing purchase decisions.

9.8.2 Competitor Analysis

The firm has to analyze the existing competitors in the market segment and also any of the potential entrants into the market. Competitor analysis helps a company in developing effective competitive strategies.

Issues in Competitor Analysis:

- The strengths and weaknesses of competitors have to be analyzed in detail.
- Information about the financial, operational, technical capabilities, the market position, the customer base, the strategic vision and objectives of the competitors has to be collected and analyzed.
- The nature of competition in a particular market segment and its intensity helps a marketer in taking a decision regarding market entry or exit.

Example

Amazon's another important focus is giving a tough competition to 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[11]. Hence, Amazon became World's largest e-retailer giving tough competition to its rivals.

Source: ICFAI research Center

9.8.3 Positioning Analysis

The following two analysis help to arrive at good positioning of the firm's products:

Market Segment Analysis: The market segment analysis helps in developing an effective positioning strategy, when adopted should help the company meet the needs of the customers profitably.

Positioning Analysis: Decisions regarding how to position the product and the company in the market can be arrived at using this analysis. This helps in developing an effective combination of marketing mix elements for the product in the market.

Estimating Attractiveness of a Segment

This can be done by assessing and estimating the financial and market potential of each segment considering the risks involved. Assessing different parameters like the cost, revenue, profitability and the growth rate of each segment gives segment-wise attractiveness of the market.

9.9 Summary

- A market is a public gathering that is held for buying and selling merchandise.
- The two most important approaches to market segmentation are the *a priori* approach and the *post hoc* approach.

[11] https://www.marketingcharts.com/industries/retail-and-e-commerce-117225

- The criteria for effective segmentation are that the segments must be identifiable and that there should be differences in customer responses, actionability of the segment, financial suitability of the segment and stability of the segment.
- Consumer markets can be segmented based on the geographic, demographic, psychographic and behavioral characteristics of the customers.
- Niche marketing can be defined as the process of identifying and serving small but profitable market segments and developing tailor-made products and services for them.
- According to Shapiro and Bonoma, the industrial markets can be segmented based on five segmentation criteria – demographics, operating variables, purchasing approach, situational factors and personal characteristics.
- The strategic analysis of the market segment involves a detailed analysis of each market segment that has been selected for its potential attractiveness. This analysis involves customer analysis, competitor analysis and positioning analysis.

9.10 Glossary

Market: A market is a public gathering that is held for buying and selling merchandise.

Multi-attribute Segmentation: Customers generally do not make purchase decisions by considering only a single characteristic; they take several issues into consideration. Segmentation done based on more than one consideration is called multi-attribute segmentation.

Niche Marketing: Niche marketing can be defined as the process of identifying and serving small but profitable market segments and developing tailor-made products and services for them.

Niche Strategy: According to the American Marketing Association, a niche strategy is a game plan employed by a firm that specializes in serving particular market segments in order to avoid clashing with the major competitors in the market.

Positioning: The process of the company creating an image or a specific identity for the product or brand in the minds of customers is called positioning.

Segmentation: Segmentation is the method of dividing the market into distinct subunits of customers with similar needs. Once the company has divided the market into different segments, it needs to identify the most profitable segments that its products and services can cater to.

Targeting: Once the segmentation has been done, the marketer focuses on serving that particular segment with its existing resources. Such a focus on the market segment to satisfy the needs of customers and attain the objectives of the organization is known as targeting.

9.11 Self-Assessment Test

1. Define a market and describe the different marketing approaches.
2. What are the requirements for effective segmentation? Explain them in detail.
3. Define niche marketing.
4. Describe the bases for segmentation.
5. Explain the segmentation criteria for industrial markets.
6. Describe how strategic analysis of market segments is done.

9.12 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. Alexander Chernev, Philip Kotler, "Strategic Marketing Management", Cerebellum Press, 2018.

9.13 Answers to Check Your Progress Questions

1. (c) Undifferentiated Marketing

A company can generally follow three broad segmentation strategies. They are: undifferentiated marketing (where the company tries to serve the entire market with a single product), differentiated marketing (where the company serves different segments with customized products for each segment) and concentrated marketing (where the company serves very few segments with an intense focus on them to gain maximum market share in such segments).

2. (b) Positioning

The process of the company creating an image or a specific identity for the product or brand in the minds of customers is called positioning.

3. (c) Segments must be unidentifiable

For segmentation to be effective, the market must meet the following criteria: Differences in customer response, segments must be identifiable, actionability of the segment, financial strength of the segment and stability of the segment. Hence option 'c' is the correct answer.

4. (d) **Treating every customer as a segment and offering personalized products and services to customers**

All Options except ‘d’ give the definition and also describe the overall characteristic features of niche marketing. Option ‘d’ is not a feature of niche marketing. Improvements in technology have enabled marketers to offer individual tailor made products to customers.

5. (d) **Occasions**

Market segmentation is based on the premise that all customers in the market are not equal. The buying behavior of customers differs based on variables like: Occasions, benefits sought, buyer readiness stage, user status, loyalty status and user status. Thus, based on what occasions customers buy (behavior), customers could be segmented and this is a type of behavioral segmentation.

6. (c) **Income**

Gupta is targeting affluent customers, charging high prices and therefore he is targeting the high end segment of customers based on income based segmentation.

7. (b) **Behavioral Segmentation**

Segmentation done based on the behavior of customers toward the products/services of the company is known as behavioral segmentation. Some of the variables of this segmentation are purchase occasion segmentation, benefits sought, user status, usage rate, brand loyalty and readiness stage.

8. (a) **Psychographic variables**

Industrial markets can be segmented based on the geographic (location of industry), demographic (size of the industrial buyer, revenue, profits etc.), etc. However, psychographics are not a suitable basis for segmenting industrial buyers.

9. (a) **Situational factors**

According to Shapiro and Bonoma, the industrial markets can be segmented based on five segmentation criteria – demographics, operating variables, purchasing approach, situational factors, and personal characteristics.

10. (d) **Situational factors**

Situational factors necessitate detailed knowledge of the customers. Some of the situational factors are the time required for order fulfillment, order size, and application of the products.

Unit 10

Targeting and Positioning Strategies

Structure

"In a competitive crowded world market, it's the well positioned brands that Stands Out!"

- Bernard Kelvin Clive

10.1 Introduction

As quoted by Bernard, to be successful in the clutter of global competition, brands have to be well positioned. *Market Positioning refers to a firm's marketing activities that facilitates consumers to perceive the firm's brand in a certain way*. Based on the brand's differentiating features and benefits, *customers create a certain identity*, *image and position in their mind for the firm's brand as against competitor's brand.*

The previous unit discussed markets and marketing approaches, explained the concept of market segmentation and also the concept of niche marketing, discussed the bases for segmentation & the criteria for segmentation of industrial markets and discussed strategic analysis of market segments.

This unit discusses the different targeting strategies, explains how targeting helps companies decide on which segments to enter, defines positioning & the types of positioning strategies, discusses various steps in the positioning process and discusses the factors that determine the effectiveness of positioning.

10.2 Objectives

By the end of this unit, you should be able to:

- Discuss various market targeting strategies.
- Explain how targeting helps companies decide on which segments to enter.
- Define positioning and understand different positioning strategies.
- Elucidate the process of positioning and discuss how the effectiveness of positioning is determined.

10.3 Market Targeting Strategy

Having grouped the market into various homogeneous segments (segmentation), the next logical step is targeting.

Evaluating Market Segments for Targeting: To evaluate various market segments and select one or more segments to enter and target, the following criteria will help the firm:

➢ It is very important for companies to be clear about who their customers are and who will purchase their products.

➢ Identify target markets of the firm.

➢ Understand the reasons why customers purchase their products. (People purchase products for three main reasons – to fulfill their basic needs, to find solutions to their problems, or for the feel good factor associated with the product). The company has to determine what its product or service is doing with respect to these three reasons and then market it in that direction.

➢ At times, it may also happen that the product serves more than one of these reasons and the marketer should identify such instances while formulating a targeting strategy.

Targeting Strategies

There are three major targeting strategies, namely, the undifferentiated strategy, the concentrated strategy and the differentiated strategy. These strategies are discussed here:

Undifferentiated Strategy

A business adopting an undifferentiated strategy *uses the same marketing mix for targeting different market segments.* It believes that a standard marketing mix can satisfy the needs and requirements of potential customers. It will develop a product that will be able to meet the needs of the majority of customers.

Concentrated Strategy

The concentration strategy normally helps the company to give more attention to the customers. Companies using this strategy depend on a niche customer segment and cannot afford to lose them to the competition. Some of the features of concentrated strategy are:

- A business adopting a concentrated strategy focuses its marketing effort on a single segment.
- It is able to specialize and it designs the product and marketing mix according to the needs and requirements of customers within the selected segment.
- It focuses on a specific customer group.
- The emphasis on a single group of customers allows the business to invest its entire resources on developing an excellent understanding of the segment.

Differentiated Strategy

A business adopting a differentiated strategy targets two or more segments and designs a separate marketing mix for each segment. This strategy allows a company to target different customer segments effectively.

Activity 10.1

Royale Cosmetics Ltd., is a premium cosmetic brand in the US. The company is very successful even though it operates in a niche segment. The company is planning to expand itself in the Indian market. A research by the company in the Indian cosmetic market revealed that there were several local and international players already existing in the market. But the company decided to go ahead with its niche segment and opened its stores in the Indian market targeting only premium customers. Identify and discuss the targeting strategy adopted by the company. Also discuss other targeting strategies.

Answer:

10.3.1 Factors Affecting Targeting Decisions

Various factors affect the targeting decisions of the organizations and by posing some basic questions as given below, the firm can arrive at a clear understanding of them.

Questions for Targeting: While formulating the targeting strategy, a marketer should try to answer the following questions:

- First question pertaining to the potential for targeting different segments

- Second on how the company should target a market. The second question can be further expanded into the following:
  1) Should the company target a single segment?
  2) Should it target selective segments?
  3) Should it target all or most of the segments?

Factors influencing Targeting: Some of the important factors affecting the targeting decisions are as given below:

- Product's stage in the product life cycle
- Market's maturity for the product
- Extent of diversity in the preferences of the customers
- Structure of the industry.

10.3.2 Ethics in Targeting

Marketing Ethics: According to marketing ethics, a company should not knowingly harm the customer. Targeting *when harmful products are involved is known as unethical targeting.* As the media, the social groups and public organizations monitor the ethics in targeting a firm should resort to ethical targeting.

Components for Ethical Targeting: The key components to be considered while formulating ethical targeting strategies are:

- *The product:* Depending on whether the product is harmful and the vulnerability of the consumer, certain targeting practices are considered unethical. Such situations may arise in the case of targeting products like cigarettes, fast food, alcohol products, etc. Types of harm caused by the products can be as given below:
  1) Physical harm
  2) Psychological harm (as when a person uses a hair product and ends up with bizarre colored hair)
  3) Financial harm (overpaying taxes because of a faulty tax calculating software), etc.
- *The target:* Marketers should have respect and concern for the welfare of those consumers who could be affected by the targeting.

Factors influencing the components: The components for ethical targeting depend upon the following factors:

- The perceived harmfulness of the product.
- The perceived vulnerability of the target customers.

Exhibit 10.1 illustrates the unethical targeting of tobacco products by Philip Morris to kids.

Exhibit 10.1: Unethical Targeting of Tobacco to Kids in US

Many tobacco companies in the US are unethically targeting kids for their tobacco products.

Internal company quotes regarding targeting kids for tobacco products of various US tobacco companies are as given:

Philip Morris: "Today's teenager is tomorrow's potential regular customer, and the overwhelming majority of smokers first begin to smoke while still in their teens…The smoking patterns of teenagers are particularly important to Philip Morris."

RJ Reynolds: "Evidence is now available to indicate that the 14-18 year old group is an increasing segment of the smoking population. RJR-T must soon establish a successful new brand in this market if our position in the industry is to be maintained in the long term."

Brown & Williamson: Kool's stake in the 16- to 25-year-old population segment is such that the value of this audience should be accurately weighted and reflected in current media programs. All magazines will be reviewed to see how efficiently they reach this group.

Lorillard Tobacco: "The base of our business is the high school students."

The above quotes show the unethical targeting of tobacco companies to kids which is against government rules and regulations and also unethical.

Source: https://www.tobaccofreekids.org/assets/factsheets/0008.pdf Accessed on 10/01/22

<u>Check Your Progress - 1</u>

1. Which of the following is not related to targeting strategy?
   a. Differentiated strategy.
   b. Revamped strategy.
   c. Undifferentiated strategy.
   d. Concentrated strategy.
   e. Unique selling proposition.
2. The strategy which targets two or more segments and designs a separate marketing mix for each segment is:
   a. Differentiated strategy.
   b. Undifferentiated strategy.
   c. Concentrated strategy.
   d. Customized strategy.
   e. Niche strategy.

3. What strategy is determined based on variables like market and product variability and the company's strengths and competencies?
   a. Market Segmentation.
   b. Targeting strategy.
   c. Positioning strategy.
   d. Differentiation strategy.
   e. Low cost strategy.
4. Hindustan Unilever Ltd (HUL) produces shampoos positioned for consumers with different needs like: Shampoos for dry hair, dandruff, broken hair, oily hair, etc. What strategy has HUL adopted in this context?
   a. Differentiated marketing strategy.
   b. Mass Marketing strategy.
   c. Undifferentiated marketing strategy.
   d. Focused marketing strategy.
   e. Niche marketing strategy.

10.4 Deciding on Segments to Enter

Targeting involves taking decisions regarding the choice of segments in which the resources are to be focused. Organizations which do not have the resources to target a large number of segments, should be careful regarding which segments they will target and how they will target them.

Successful targeting strategies w.r.t. resources: The secret of formulating a successful targeting strategy is to identify and analyze the resources of the company. Some strategies are:

- Identify and analyze the resources of the company.
- Decide how it can deploy its resources.
- Identifying how attractive a segment is.
- Deciding which customers not to target. (This, however, does not mean that the customers from other market segments will be neglected. It is only that the marketer will not put in special efforts to attract such customers).

10.4.1 Emerging Markets

Developed Markets: Most businesses focus on entering and selling their products in developed countries like the US or Japan because of spending power of the people in those countries. The markets in these countries are getting saturated and are highly competitive.

Emerging Markets: The businesses are turning to the developing countries like India and China, which are emerging and are potential markets for most global organizations because of the following salient features as given below:

- The market definition and size are not easy to forecast in the emerging markets because the customer lacks experience in using the product.
- It is also difficult for marketers to segment the markets based on the customers' requirements or needs.
- The growth and size of emerging markets too are not easy to determine.
- A company entering an emerging market is more likely to be successful by offering unique benefits than by offering an undifferentiated product at a lower price.

Targeting Strategies for Emerging Markets: A company can target new markets or existing markets with a single product or with multiple products.

Some of the targeting strategies are:

- The first market entry situation arises when a company enters the market with a product that meets the previous unmet needs of the customers.
- As countries develop and economies grow and industrialize, the issue of environmental sustainability throws up challenges.
- In the second market entry situation, the company targets the market with a product with which the customers are already acquainted. Here, the marketers have to use focused strategy.
- The third market situation involves entering a market by targeting several substitute markets.
- The fourth market entry situation involves a company targeting a few broad segments with multiple products.

Example

Kearney is an international research organization. In retail sector it develops GRDI - Global Retail Development Index - for every year. It is an annual study that ranks the top 30 emerging markets/developing countries for retail expansion worldwide. In GRDI 2021[12] India ranked in the 2nd position, China in the top 1st rank, Malaysia in 3rd, followed by Indonesia, Bangladesh, Morocco, Egypt, Ghana, Vietnam and Dominican Republic positioned in ranks 4 to 10 respectively.

Source: ICFAI Research Center

[12] https://www.kearney.com/global-retail-development-index

10.4.2 Growth Markets

Growth Markets: The growth market evolves from a highly uncertain to a moderately uncertain environment. In such markets, though the market environment may change in the future, the marketer has information about the size and composition of the market.

Salient features of Growth Markets:

- Segments are identifiable in growth markets.
- The patterns of usage and the characteristics of the buyers can be identified.
- The targeting decisions are influenced by the capabilities and resources of the organization.
- A marketer should consider the degree of competition in the market environment and the extent to which the market can be segmented.
- The marketer should also consider the future potential of the market and the entry barriers confronting the potential entrants into the market.

Targeting Strategies for Growth Markets: The three targeting strategies that can be used in growth markets are as given below:

- *Extensive Market Coverage:* A company can extensively cover a market by entering into relationships with established businesses in the related markets.
- *Selective Targeting:* A company with a diverse product portfolio can resort to selective targeting.
- *Niche Marketing:* Small companies serving in a few market segments can adopt market niche strategies.

10.4.3 Mature and Declining Markets

The needs and characteristics of the buyers change and the markets become mature or enter the declining stage. Segmentation is essential in these markets, because the preferences of customers and the competitive structure of the market are well established. At this stage, the size and growth of the market are predictable. Such a market may not expand or decline rapidly but it may gradually decline over time.

Mature Markets Characteristics: The mature markets are characterized by the following characteristics:

- Intense competition for market share.
- Focus on reducing costs.
- Development of long-term relationships with channel partners, etc.
- The customers in the mature markets are experienced and very demanding.
- The customers have good knowledge about the competitors and their products.

Benefits of Mature or Decline Markets: A company operating in a mature or declining market will have the following benefits from:

- Environmental scanning.
- Identifying the changing needs of the customers.
- Identifying the potential opportunities in new market segments.
- Enhancing the existing products.

Targeting Strategies for Mature or Decline Markets: The most appropriate strategy for a company in these markets is to enhance the brand value of its products and make such brands the preferred choice of the customers.

10.4.4 Global Markets

It is important for a company to understand the global markets, even if it is operating only in its home country due to competition from MNCs. The companies operating on the global platform should enter into collaborative relationships across national boundaries to achieve a competitive advantage.

Targeting Strategies for Global Markets: The global targeting strategies range from targeting a single country, similar group of countries, or targeting on a global basis. The key issue here is how to compete globally, i.e. by standardization or by adaptation. A company can use both strategies.

The two targeting strategies for global markets are as given below:

- *Standardization and Global Reach:* This strategy considers the extent to which the product can be standardized in the global markets.
- *Local Adaptation:* This strategy is to target based on the requirements of the local market.

Check Your Progress - 2

5. Which of the following is not considered when deciding on a successful targeting strategy?
   a. Identify and analyze the company’s resources.
   b. Identify how attractive a segment is.
   c. Deciding which customers not to target.
   d. Make a note of the number of segments and aim to target a fourth of the number of segments.
   e. Try to fit the company's core strengths and target market needs.
6. Which of the following is not a characteristic feature of a mature market?
   a. It is not easy to forecast in this market because the customer lacks experience in using the product.
   b. Intense competition exists among companies to increase their market share.

c. Companies focus on price reductions to remain competitive.

d. Companies focus on development of long-term relationships with channel partners.

e. There is a slowdown in the rate of growth in the markets.

10.5 Positioning

Al Ries and Jack Trout coined the word 'positioning' in1969. The positioning strategy was considered as the marketing strategy of the era.

Definition: They defined it as, *'positioning is creating an image or identity in the minds of the target market for a particular product, brand, or organization'.*

Positioning is not only about creating an image. It is the process of distinguishing a company or its products from that of its competitors based on certain factors that are meaningful to the customers in the market. Positioning enables the customers to identify the differences between competing products.

Exhibit 10.2 illustrates the positioning strategies of toothpaste brand Colgate and how it is attracting its target audience.

Exhibit 10.2: Positioning Strategy of Colgate

Toothpaste market is very competitive. Let us try to understand the positioning strategy of market leader Colgate brand which belongs to Colgate-Palmolive India Ltd.

Colgate-Palmolive India Ltd., is the market leader with 46.9%, followed by HUL (15.91%), Dabur (14.23%), Patanjali (9.62%), GSK (5.51%) and other companies in the Indian market as on April 2021.

Positioning Strategy of Colgate

Target Audience: The target audience are *'Traditionalists'*, who are usually married and middle-aged people for whom family is the first priority. They work hard for the good education of their children and pass on values and morals to the next generation.

Positioning Strategy of Colgate: During an ad campaign on social media Instagram on National Coffee Day that *"Coffee in our cups. Smiles on our faces",* Colgate promises that it will take care of the teeth hygiene of coffee lovers.

This shows that Colgate adopted the *'Everyman'* brand archetype, which shows that *"All men and women are created equal"* and commonality being the main idea in this.

Sources: i) https://thesocialgrabber.com/positioning-strategies-of-colgate-and-sensodyne/ Accessed on 10/01/22

ii) https://www.bloombergquint.com/business/colgates-herbal-push-fails-to-stem-decline-in-toothpaste-market-share Accessed on 10/01/22

Types of Positioning: In order to have a clear understanding about positioning, marketers have made a distinction between market positioning and psychological positioning.

- *Market positioning: Market positioning is the process of identifying and selecting a market or segment which represents good business potential.* It involves identifying potential competitors and formulating a strategy to compete with them. It also involves identifying the market requirements and analyzing the strengths and weaknesses of the company as well as its competitors. This analysis helps a company in meeting the market requirements better than the competitors.
- *Psychological Positioning:* Psychological positioning involves creating a unique identity for the company or the product, based on the marketing mix factors. It also involves the communication of the identity with the customers. The advertising, public relations, promotions, etc. are used for psychological positioning. Generally, psychological positioning takes place after market positioning.

10.5.1 Positioning Concept

The positioning concept can be well understood by factors like its attribute, price/quality, use or applications, product-user, product-class and the competitor.

Positioning by Attribute

The most commonly used positioning strategy is the positioning by attribute, product feature, or customer benefit. A company can position itself on the basis of two or more attributes.

Positioning by Price/Quality

Price and quality are very important considerations in the buying process of customers. Therefore, a company can consider price or quality as an attribute for positioning a product.

- *Quality:* A company can position itself by providing better quality or better services than its competitors.
- *Price:* On the other hand, a company can position itself with its low-priced products.

Positioning by Use or Applications

Another most commonly used positioning strategy is associating the product with its uses or applications.

Positioning by the Product-user

Another strategy for positioning is associating the product with the user or user groups.

Positioning by Product-class

Some products are always associated with a product class. Such products are positioned as exclusive products.

Positioning with Respect to a Competitor

Another strategy for positioning is the explicit or implicit reference to the competition.

10.5.2 Types of Positioning Strategies

Bases for Positioning Strategy Development: Positioning strategies can be developed on the following two bases:

- *Product Life Cycle:* The stage of the product life cycle is used as a basis for developing positioning strategies for products.
- *Product Category:* The positioning strategy can also be developed based on the product category.

Positioning Strategy Types: Youngme Moon (Moon), a Harvard Business School professor, identified three positioning strategies which could cause a mental shift in customers in 2005, which are as discussed below:

➢ **Revamped Positioning Strategy:** The basic assumption of this strategy is that customers focus on the basic product or service and do not give much importance to the added features. In this strategy, the marketers initially provide the basic product. After the product has attained maturity in the market, the marketers add one or more features,

  Benefits of this strategy: The firms get the following benefits by applying this strategy:

  - It will boost product sales.
  - It allows the product to gain a new competitive position within the market and move to the growth stage (i.e. backward) in the product life cycle.

➢ **Break free Positioning Strategy:** This strategy focuses on changing the way in which products are consumed. The product must be positioned in such a way that it escapes from categorization and manipulates the customer's perception. This is communicated by elements of marketing mix like; design, distribution channels, promotion and pricing.

  Benefits of this strategy: The firms get the following benefits by applying this strategy:

  - The manipulation of these factors can help in break free positioning of a product.
  - This strategy allows a product to break away from its perceived category membership.

- **Concealed Positioning Strategy:** Firms following this strategy conceal the exact nature of their products and try to link them up with a different product category. This strategy involves repositioning without actually making any changes in the product.

  Benefits of this strategy: The firms get the following benefits by applying this strategy:

  - It enables a company to sneak products into the market and gain acceptance, something that would otherwise not have been possible.
  - It is used to remove the prejudices/fears of the customer, encourage product acceptance and deliver value to the customers.

Check Your Progress - 3

7. Which of the following is **not** used for psychological positioning?
   a. Advertising.
   b. Public relations.
   c. Promotions.
   d. SWOT analysis.
   e. Social media engagement.

10.6 Choosing the Positioning Strategy

The identification and selection of a positioning strategy depend upon the positioning process which is as discussed below.

Identification of the Competitors

The first step in the positioning process is identifying the competitors. It can be conducted by two approaches:

- *Primary Approach:* Asking the buyers what they would have preferred if the company's product was not available in the market. This approach helps in identifying the immediate competitor a company has with respect to the customers.
- *Secondary Approach:* By using secondary data also they can identify the competition.

Perception about Competitors

The next step in the positioning process is determining how competitors are perceived and evaluated by the customers or buyers. Here, the key is to analyze the competitors from the perspective of the customers.

Approaches for finding perception: Through the following approaches competitors perception can be understood:

- One approach is to place similar products of various companies together and to ask the customers to select the two most similar ones.
- Then the customers must be asked to explain why they perceive the products to be similar.
- This provides an insight into how the competitors and their products are perceived by the customers.

Determination of the Competitor's Position in the Market

This involves determining where a company and its competitors stand in terms of a product offering, product association and with respect to each other. The determination of the competitor's position involves methods like *Multidimensional Scaling.*

Analysis of the Customers

The understanding of the customer and the market segments is instrumental in developing effective positioning strategies. This analysis provides information regarding the basis of market segmentation, the role the product plays in the customers' life, the factors that motivate customers to purchase the product, and so on.

Approaches for Analysis of the Customers: The following approach is used for analyzing the customers.

- *Benefit Segmentation:* Benefit segmentation focuses on the benefits or the product associations that will be perceived as important by the customers. The benefits that the customer earns can be identified by asking the customers to rank the product associations.
- The customers can also be asked, which according to them, is the ideal brand (combination of various benefits).

Positioning

Positioning means the concentration of resources on one or more selected segments. Here, the focus should be on the target segments. At the same time, the potential buyers from other segments should not be repulsed. This positioning strategy should be aimed at a sizeable market segment.

Monitoring the Position

Like any other marketing objective, the positioning objective should be measurable. To evaluate the effectiveness of the positioning strategy, it is important to monitor the positioning strategy of the company over time. Generally, *Multidimensional Scaling* is used in monitoring the positioning of a company.

10.6.2 Selecting a Positioning Strategy

An effective positioning strategy is a combination of experience, judgment, and a certain amount of experimentation.

Example

Consider Mercedes Benz, world's bestselling 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[13], including smart cars and marched ahead competitors like Volkswagen AG's Audi. It was successfully crowned as the world's bestselling luxury car brand for the fifth year in a row. Its success can be mainly attributed to its proper positioning.

Source: ICFAI Research Center

Steps in Selecting a Positioning Strategy: The selection of a positioning strategy involves the following steps:

- Identifying competitors.
- Identifying relevant attributes.
- Identifying the competitor's position.
- Identifying the market segments.

Marketing Mix Decisions for Selecting a Positioning Strategy: The selection of a positioning strategy involves making effective marketing mix decisions like product, pricing, distribution, sales force and advertising strategies as discussed below:

- *Product Strategy:* The product strategy should indicate how the products will be positioned in the market, with respect to competitors' products.
- *Pricing Strategy:* The pricing strategy should indicate the price positioning of a product relative to that of the competitors.
- *Distribution Strategy:* The distribution strategy should indicate the sales channels to be employed in distributing the product.
- *Sales Force Strategy:* The sales force strategy should indicate how the sales force and direct marketing activities are used in the positioning process.
- *Advertising and Sales Promotion Strategy:* The advertising and sales promotion strategy should indicate the objectives of advertising and promotion that need to be achieved.

10.6.3 Determining Positioning Effectiveness

Determining the effectiveness of the positioning strategy helps in analyzing the actions to be taken in the future positioning strategy.

[13] https://www.statista.com/statistics/262921/global-production-of-luxury-cars-by-make/

Methods for Determining Positioning Effectiveness: There are many methods for determining the positioning effectiveness. The four common methods used are as discussed below:

Customer/Competitor Research

Market research studies provide useful information about the customers and competitors. This information can be used in developing effective positioning strategies.

Test Marketing

While conducting test marketing, a company will have to deal with the risk of revealing its new product plans to the competitors, who may respond immediately. The decision to test market depends upon issues such as the costs and risks involved and the likely response of competitors to test marketing. If the costs and risks involved are low, then the product can be launched without test marketing.

Benefits of Test Marketing: It provides important benefits for a company, as given below:

- It allows a new product to be tested in real market conditions.
- It also allows the company to identify any weaknesses and to overcome them, before commercializing the product on a large scale.
- It provides the company with information about the feasibility of the new product.
- It also enables the company to make appropriate changes to the marketing program components on the basis of the test results.

Positioning Models

The collection of information about customers, its analysis and subsequent development of strategies based on such analysis is the focus of positioning activity. Some positioning models have been developed for simplifying decision-making.

Positioning Effectiveness

The main aim of positioning is to create a distinct image for the company and its products in the minds of customers. Therefore, the positioning effectiveness can be determined by the company's ability to create a unique and distinct image in the perception of the customer. It can be measured using the market share and profitability of the company in the market.

10.6.4 Problems in Positioning

Positioning also faces certain problems. Poor positioning can lead to the failure of even the most innovative product. Positioning plays a vital role in the success of a product in the market.

Activity 10.2

SW Mobiles Ltd., is a mobile phone manufacturer that sold mobile phones targeting only the premium segment. Though the company is a leading manufacturer in the premium segment, it noticed that its sales were stagnant. The management of the company found that many mobile companies sold mobile phones in the premium segment at lower prices and with innovative features. Thus the management decided to position its mobile phones as a fashion accessory as opposed to a phone targeting only premium consumers. Identify the positioning strategy adopted by the company. Also discuss other positioning strategies.

Answer:

<u>Check Your Progress - 4</u>

7. Which of the following is **not** used for psychological positioning?
   a. Advertising.
   b. Public relations.
   c. Promotions.
   d. SWOT analysis.
   e. Social media engagement.
8. Pharmaceutical companies face price limits while marketing lifesaving drugs in third world countries. Under what bases of segmentation would you classify this example of segmentation of markets?
   a. Economic factors.
   b. Demographic.
   c. Geographic.
   d. Political and legal.
   e. Income.
9. Which positioning strategy conceals the exact nature of the product and tries to link it up with a different product category?
   a. Break free positioning strategy.
   b. Concealed positioning strategy.
   c. Revamped positioning strategy.
   d. Surrogate positioning.
   e. Associated positioning.

10. Which of the following is the correct order of steps in the positioning process?
    a. Analysis of the customers, positioning, monitoring the position, identification of the competitors, perception about competitors, determination of the competitor's position in the market.
    b. Monitoring the position, identification of the competitors, perception about competitors, determination of the competitor's position in the market, analysis of the customers, positioning.
    c. Identification of the competitors, perception about competitors, determination of the competitor's position in the market, analysis of the customers, positioning, monitoring the position.
    d. Determination of the competitor's position in the market, identification of the competitors, perception about competitors, analysis of the customers, positioning, monitoring the position.
    e. Identification of the competitors, determination of the competitor's position in the market, perception about competitors analysis of the customers, positioning, monitoring the position.

10.7 Summary

- Three types of strategies are adopted to target the markets, namely, the undifferentiated strategy, the concentrated strategy and the differentiated strategy.
- The four types of markets include the emerging, growth, mature and declining markets.
- 'Positioning' is a term introduced by Jack Trout and Al Ries in 1969. It means creating an image in the mind of the buyer in the target market about the product or service of a company with an advantage over the competition.
- A company can position its product based on various factors. Some of them are positioning by attribute, price, quality, use or applications, product-user, product-class and the competitor.
- There are three types of positioning strategies, namely, the revamped positioning strategy, the break free positioning strategy and the concealed positioning strategy.
- The positioning process has six steps which are identifying the competitors, determining how the competitors are perceived and evaluated, determining the competitor's position, analyzing the customers, positioning, and monitoring the position.

10.8 Glossary

Concentrated Strategy: A business adopting a concentrated strategy focuses its marketing effort on a single segment. Such a business is able to specialize and it designs the product and marketing mix according to the needs and requirements of customers within the selected segment.

Differentiated Strategy: A differentiated strategy is one in which a business targets two or more segments and designs a separate marketing mix for each segment.

Positioning: According to Al Ries and Jack Trout, positioning is creating an image or identity in the minds of the target market for a particular product, brand, or organization.

Undifferentiated Strategy: A strategy where the business adopts the same marketing mix for targeting different market segments is called undifferentiated strategy.

10.9 Self-Assessment Test

1. Describe the various market targeting strategies. Explain the factors affecting targeting decisions.
2. Explain how targeting helps companies to decide which segments to enter.
3. What is positioning? Explain the factors based on which the positioning decision is taken by any company?
4. Describe various types of positioning strategies.
5. Explain the process that is followed in identifying and choosing an appropriate positioning strategy.
6. State the problems faced in the positioning a product or service?

10.10 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", Cengage South-Western, 2021
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.

10.11 Answers to Check Your Progress Questions

1. (b) Revamped strategy

Revamped strategy is not a targeting strategy. All other options state valid points relating to targeting strategies

2. (a) **Differentiated strategy**

A business adopting a differentiated strategy targets two or more segments and designs a separate marketing mix for each segment.

3. (b) **Targeting Strategy**

Targeting strategy of a company is determined based on variables like market and product variability and the company's resources and competencies.

4. (a) **Differentiated Marketing Strategy**

The strategy followed by HUL in the case of shampoos as given in the question is called differentiation strategy. People face different hair problems and need different solutions. Hence HUL is differentiating its shampoo brands to provide solutions to consumers with different needs.

5. (d) **Make a note of the number of segments and aim to target a fourth of the number of segments**

The secret of formulating a successful targeting strategy is to identify and analyze the resources of the company and also evaluate how attractive a segment is. The targeting strategy also involves deciding which customers not to target. However, a successful targeting strategy seldom aims to target a certain number of segments, based on the total number of segments in the market.

6. (a) **It is not easy to forecast in this market because the customer lacks experience in using the product**

The mature markets are characterized by intense competition for market share, focus on price reduction, development of long-term relationships with channel partners, etc. In a mature market, customers have experience using the product and hence forecasting in this market is not so difficult as in the case of product for which markets are evolving.

7. (d) **SWOT analysis**

Psychological positioning involves creating a unique identity for the company or the product, based on the marketing mix factors. It also involves the communication of the identity with the customers. The advertising, public relations, promotions, etc., are used for psychological positioning.

8. (d) **Political and legal factors**

When pharmaceutical companies group countries based on price limits and other monetary regulations, they are segmenting markets based on political and legal factors.

9. (b) Concealed positioning strategy

Companies following a concealed positioning strategy conceal the exact nature of their products and try to link them up with a different product category.

10. (c) Identification of the competitors, perception about competitors, determination of the competitor's position in the market, analysis of the customers, positioning, monitoring the position

The positioning process has six steps. They are identifying the competitors, determining how the competitors are perceived and evaluated by the buyers, determining the competitor's position, analyzing the customers, positioning, and monitoring the positioning.

Unit 11
Relationship Strategies

Structure

"Joint Ventures, Alliances, and other Corporate Partnerings are fueling the growth of the world's most successful companies."

- Curtis E. S.

11.1 Introduction

As rightly quoted by Curtis E. Sahakian, in order to achieve success the organizations should also build Alliances, Joint Ventures and other modes of Corporate Partnerships. They help in navigating the uncertainties and challenges in the external environment.

The previous unit discussed the different targeting strategies, explained how targeting helps companies decide on which segments to enter, defined positioning & the types of positioning strategies, discussed the various steps in the positioning process and discussed the factors that determine the effectiveness of positioning.

This unit will discuss relationship strategies that companies can take up & the various types of strategies followed, discuss the key influence on inter-organizational relationships, explain various types of inter-organizational relationships, discuss the concept of strategic alliances & joint ventures and discuss the types of marketing exchange organizations.

11.2 Objectives

By the end of this unit, you should be able to:

- Describe the key influences on inter-organizational relationships.
- Elaborate on the concept of strategic alliances.
- Discuss joint ventures and discuss the challenges in joint ventures.
- Identify various types of marketing relationships among organizations.

11.3 Inter-organizational Relationships

Business organizations which are operating on their own will not be succeeding, as they need to collaborate to beat out the huge competition through competitive advantage. They should fill gaps like lack of resources, skill or capabilities through organizational partnerships.

Issues in inter-organizational relationships:

- These can form in different modes like JVs (Joint Ventures), Strategic Alliances and Collaboration with Suppliers etc.
- Inter-organizational relationships help business firms to acquire resources, skills and capabilities through which they could develop new product or process technology, new markets, enhanced productivity or quality, or other improvements in the activities of the value chain.

11.3.1 Key Influences on Inter-Organizational Relationships

An understanding of the characteristics, features and limitations helps in analyzing *when* and *how* relationships can be formed and what factors make the relationships effective. There are mainly two types of key influences on inter-organizational relationships, which are i) Diverse & Turbulent Environment ii) Skills and Resource Disparities, as given below.

Diverse and Turbulent Environment

The market environment is becoming diverse and increasingly turbulent due to globalization. There are three main aspects in this environment: Diverse Environment, Increased Knowledge and Turbulent Environment. They are discussed below.

Diverse Environment

It refers to the diversity with reference to individuals, organizations and the social forces which are the environmental elements impacting the firm's resources. Due to globalization, the markets are exposed to high levels of diversity.

Concerns in the Environmental Diversity: There are three main concerns in the environmental diversity, which are as discussed below:

- First concern is the usage of **technology** for meeting different requirements of the customers. Technology like robotics, CAD/CAM and expert systems make it easier for an organization to customize product manufacturing according to the market/customer requirements.
- The second concern is how a firm organizes itself in a diverse environment. This implies that a global organization should utilize the **diverse skills, resources and capabilities optimally**.

  A global organization should acquire raw materials at the cheapest rates, manufacture at locations where the costs are the lowest and sell wherever the products can fetch the highest price.
- The third concern is the ability of the organization to optimally utilize its **information processing** capabilities. An efficient information processing ability helps a firm to monitor and identify the changes in the market environment effectively.

  It gives the firm the flexibility to adapt to the market changes while providing customized and immediate responses, which is crucial for the success of the firm.

Example

Toyota has in-built capabilities to design and launch a car faster than (from concept to market, usually within three years) any other automotive company which could take more time than Toyota.

Source: ICFAI research Center

Increased Knowledge

There is a knowledge explosion in the environment in the information age and businesses should increase knowledge and use of information, which are wealth-creating assets. The firm can manage increased knowledge through specialization by coordination among functional units.

Turbulent Environment

There is a lot of disruption in the market environment due to technology and the changes and innovations are for the short term. Lots of turbulence in the environment and rapid technological changes have made firms behave interdependently.

Skills and Resource Disparities

The main aim of the organizations entering into collaborative relationships is to take advantage of the complementary skills and resources of the partners.

Therefore, the success of a relationship between two organizations depends upon the complementary skills and resources of those involved.

11.3.2 Inter-organizational Arrangements

The basis for classifying the inter-organizational arrangements are the key influences as discussed above. Depending on the level of these key influences, various inter-organizational arrangements such as collaborative relationship, acquisition/merger, joint venture and strategic alliance can arise.

Collaborative Relationship

When there is low environmental diversity, low turbulence gap, low skills and low resource gaps then the firms may not collaborate with other firms. But, collaborative relationships enhance the competitive advantage of both the firms. It may be financially lucrative and can reduce time for achieving strategic objectives. This strategy does not require a company to lose its independence.

Acquisition/Merger

When there is a low environmental diversity, low turbulence gap, high skills and high resource gaps, then the organization should acquire or it can merge with another organization.

Merger: The organization pursues this arrangement, if it has to obtain new skills or resources that are required for a product/market. A merger may represent the combination of two organizations to strengthen their competitive advantage in an industry.

Acquisition: On the other hand, in an acquisition, a large business buys a smaller business.

Joint Venture

When there is a high environmental diversity, high turbulence gap, low skills and low resource gaps, then the firms enter into a JV (Joint Venture) with two or more firms which results in the creation of a new entity. It can exploit market opportunities, acquire knowledge, access new markets, share technology, etc.

Strategic Alliance

When environmental diversity, turbulence gap, skills and resource gaps are all high, then the firms pursue a strategic alliance due to its flexibility. It is not just a mere investment or purchasing stock of another firm, but requires active participation of the firms in a complementary way to each other.

Activity 11.1

HK Mobiles Ltd., is a Hong Kong-based mobile phone company offering 3G services. The company is very successful in the market. The company is however keen to have a presence in the growing Indian market.

The company is looking at options to enter the Indian mobile market. After conducting some research, the company found that an Indian mobile phone company, Tel Mobiles Ltd., offering CDMA and GSM services is planning to enter the 3G segment. However, the company lacked the resources to make a foray into this segment. In this situation, which inter-organizational relationship would help both the companies to solve their problems? Also discuss how both the companies would benefit from inter organizational relationships. **Answer:**

11.3.3 Basis for Entering into Collaborative Relationships

The rationale for entering into collaborative relationships is to lower the costs and/or develop mutually beneficial relationships. Before deciding to enter into a collaborative relationship, one should take the following factors into consideration:

Philosophy of Doing Business

The partners in the business should have a common business philosophy.

If one partner has adopted the Total Quality Management (TQM) program while another partner does not give priority to TQM, then conflicts may arise.

Relative Dependence among Partners

The partners in the relationship should have significant and an equal amount of dependence among themselves. In a collaborative relationship, each partner puts in efforts to add value or reduce costs in the relationship, keeping in mind their mutual interests.

Technological Edge Contributions

Technology-based product manufacturers find it easy to develop relationships with the firms that can easily adapt to the technological changes taking place in the environment due to the very dynamic technological environment. But most of the firms find it difficult to adapt to the rapid changes taking place in the environment.

Analyzing Relationships

A relationship should be analyzed in a systematic and comprehensive manner for its profitability to be identified.

Steps in Analyzing Relationships: The steps in analyzing the relationship from supplier perspective are as given below: (from customer perspective also the same can be applied)

- *Segmentation:* The supplier firm conducts market research and segments the market using common bases like demographics (size and industry). But to arrive at the value of the customer firm, the value of the product offered by the customer firm should be assessed.
- *Value Assessment:* Value is defined as *'the perceived worth in monetary terms of the economic, technical, service and social benefits received by a customer firm in exchange for the price paid for a product offering'.* Value offered by the product to the customers in each segment is assessed through methods like conjoint analysis and focus groups which will help the supplier firm in identifying and enhancing the product offering.
- *Identification of the Segments and Customer Firms:* To develop various kinds of relationships, the firm has to identify the segments and customer firms. Due to prior assessments made, the firm can take decisions regarding the number of market segments to be targeted, the specific customers to be targeted in each segment, the transactional and collaborative relationships, etc.
- *Specific Product Offerings:* Relationship specific product offerings should be developed and implemented where the supplier firms customize their offerings in order to develop collaborative relationships. In this process the product offering evolves into customized products from the core product.
- *Evaluation of the Value of the Relationship:* Due to lack of a proper evaluation method, supplier firms perceive to be successful in their relationship. But, the value of a relationship can be measured or evaluated on the basis of an equitable amount of value added or costs reduced among the partners.
- *Enhancement of the Value of the Relationship:* A supplier firm should evaluate the relationship (both transactional and collaborative relationships) periodically.

Check Your Progress - 1

1. Which of the following may not necessarily be a benefit of acquisition?

   a. May have access to new product or process technology.
   b. May have access to new markets.
   c. May lead to enhanced productivity or quality.
   d. May acquire employees whose skill sets duplicate that of existing staff.
   e. The local partner may have knowledge of the local market.

2. Which of the following is a concern for an organization in terms of environmental diversity?
   a. Collaborative relationships.
   b. Increased knowledge and the increased use of information.
   c. Complementary skills and resources of the partners.
   d. The usage of technology for meeting different requirements of the customers.
   e. Raising capital for various requirements.
3. Under what circumstances does a company opt to merge or acquire with another organization?
   a. Low environmental diversity and resource gap.
   b. Inter-organizational turbulence.
   c. Severe competition due to lowering of prices.
   d. Change in social and cultural environment.
   e. Constant technological changes.
4. Which of the following factors should be taken into consideration before deciding to enter into a collaborative relationship?
   a. Philosophy of doing business.
   b. Assessing value of the customer.
   c. Measuring contribution.
   d. Relative independence among partners.
   e. The value of partnership to competitors.

11.4 Types of Inter-Organizational Relationships

Types of Organizational Relationships: These can be of two types, namely transactional relationships and collaborative relationships.

- Transactional Relationships: The relationships in which both the customers and the supplier focus on timely exchange of products at a highly competitive price are called transactional relationships. These focus on the ongoing transaction but not on developing a relationship with the other parties involved.
- Collaborative Relationships: Relationships which focus on developing partnerships are called collaborative relationships. In these, the parties involved focus on developing strong ties over a long term.

Types of Inter-Organizational Relationships: There are several types of inter-organizational relationships like Manufacturer-supplier Relationships, Distribution Channel Relationships, End-user/Customer Relationships, Relationships within the Organization and Collaborative Learning, which are as discussed below:

11.4.1 Manufacturer-supplier Relationships

The relationship between an organization and its suppliers is called the customer-supplier relationship.

Salient features of manufacturer-supplier relationships: The following are some important features of manufacturer-supplier relationships:

- The relationships with the suppliers have various influences on the firm. Therefore, companies must develop long lasting relationships with the suppliers.
- However, relationships between companies and suppliers are not easy to develop and will not happen in a short span of time.
- Manufacturer-supplier relationships help companies involved to reduce costs.
- Such relationships can be used to implement quality enhancing management techniques.
- The good manufacturer-supplier relationship not only benefits the firm but also the supplier firm.

11.4.2 Distribution Channel Relationships

The vertical relationships that occur between manufacturers and intermediaries are called distribution channel relationships. The various intermediaries can be the wholesalers, retailers, stockists, agents and so on. The distribution channels provide the product to the ultimate customers.

Types of distribution channel relationships: Distribution channel relationships are of two types as discussed below:

- *Highly Collaborative Relationship-VMS:* A highly collaborative relationship exists in a vertical marketing system (VMS). According to the American Marketing Association, a VMS is *'a long-term channel relationship in which two or more firms acknowledge and desire interdependence'.* A VMS is owned by a channel partner on the basis of a contract or by franchising.

Example

McDonald's is a vertical marketing system through franchising. The company has many franchisees that sell McDonald's fast food.

Source: ICFAI Research Center

- *Transactional Relationship-Non-VMS*: A non-VMS distribution channel has a transactional focus rather than a collaborative focus. Such a distribution channel primarily focuses on the buying and selling transactions between each other rather than on developing long-term relationships.

11.4.3 End-user/Customer Relationships

The marketing relationships enhance their ability to satisfy their customers. They enable a firm to cope well with the rapid changes in the environment through partnering. These partnerships allow the firms to gain a competitive advantage.

Key considerations in customer relationships: The two important key considerations in customer relationships are as discussed below:

Customer Focus

Organizations have to develop strong customer focus by enhancing strong customer relationships.

Requirements for developing customer relationships: Some of the requirements for developing strong customer relationships are:

- The identification of who the customers are, what their requirements are, and how they can be satisfied.
- The need for understanding the requirements of the customers encourages an organization to develop a collaborative relationship with them.
- This relationship with the customers enables an organization to stay in close contact with the customers.
- An organization can become customer focused by developing an organization-wide commitment to the customer.
- The top management should also communicate its customer-oriented values throughout the organization and encourage customer orientation among the employees.

Assessment of Customer Value

A supplier firm must identify with whom it wishes to develop a relationship. This identification, however, must be based on the assessment of the customer value.

11.4.4 Relationships within the Organization

The success of inter-organizational relationships requires the development of strong relationships within the organization.

Salient features of relationships within the organization:

- The relationships across various functional units are internal relationships.
- Many companies involve personnel from various functional units in the new product development process, order processing and delivery of products.

- This helps in enhancing relations between the internal functions of an organization.
- Effective internal relations can be developed when the top management shows complete commitment and strives to maintain better internal relations.
- The employees from different functions can be divided into small and cohesive teams.
- The skills and capabilities of the team members should be complementary to each other's performance.
- Besides these, the team members should be motivated and encouraged to improve their performance in order to develop effective internal relations.

11.4.5 Collaborative Learning

Active collaborations are a result of well-developed mechanisms like structures, processes and skills by the partners involved. They help to bridge the gap between the organizational and interpersonal differences among the partners. Successful collaboration requires understanding and open communication at multiple organizational levels.

Levels of Integration:

The partners in collaborative relationships should make efforts to integrate operations at various levels. The five levels of integration are as given below:

Strategic Integration

Integration at this level requires coordination among top leaders to discuss goals of their companies in a relationship. The top leaders, after forming an alliance, should not leave the responsibility of nurturing the alliance to others. They should be informed about the changes in their firms and take measures accordingly, which ensures the partnership to be complementary, but not conflicting.

Tactical Integration

The integration at the tactical level, which involves the communication between the middle level managers to develop plans for specific projects or joint activities, is called tactical integration. This integration helps the middle level managers to identify the organizational changes or any other changes, which are of importance to both the partners.

Operational Integration

The integration at the operational level, which involves integration between people who perform day-to-day operations, is called operational integration. This integration enables the operational personnel to have timely access to the information and resources they need to perform the tasks.

Interpersonal Integration

The interpersonal integration involves developing interpersonal relationships between the employees of the partner organizations, so as to maximize interpersonal relations.

Cultural Integration

The integration of the organizational culture of the partners is cultural integration. This integration requires the partners to bridge their cultural differences. The cultural differences can be ironed out easily with the efforts of the top - level management of both the partners. The lack of cultural integration can force the failure of an inter- organizational relationship.

Check Your Progress - 2

5. In the year 2012, Amazon acquired a material handling company Kiva Systems. Which of the following best describes Amazon's objective of acquiring Kiva Systems?
   a. Vertical Integration.
   b. Diversification alliance.
   c. Expansion alliance.
   d. Share supply alliance.
   e. Complementary alliance.
6. Which of the following is **not** an inter-organizational relationship?
   a. End-user/customer relationship.
   b. Distributor-channel relationship.
   c. Manufacturer-supplier.
   d. Shareholder relationship.
   e. Manufacturer-Retailer relationship.

Activity 11.2

Ken Ltd., a China-based semiconductor manufacturer merged with another China-based semiconductor company, TNT Corp., to design and manufacture a chip for desktop and laptop PCs. The company joined forces in order to develop a chip with excellent speed and memory. The merger would also help them to combat competition with other domestic and international semiconductor manufacturers in China. The top management of both the companies had integrated their operations and strategies in the merged entity.

Since there was no issue of cultural clashes, the company did not focus on creating an amicable working environment. Of late, the company has witnessed employee-related problems. The miscommunication between employees also led to conflicts in the company. What level of integration have both the companies ruled out when they entered into a merger? Discuss how the companies can reduce conflicts and make it a great place to work for.

Answer:

11.5 Strategic Alliances

Strategic alliances can take place between companies which are from different locations of the world.

Some of the important features of strategic alliances are as given below:

- The two partnering firms are independent entities before entering into a strategic alliance.
- The partners become mutually dependent due to the shared control and management once they enter into an alliance.
- Some alliances take place for only a short period of time while others can develop into long-term fruitful relationships.
- For an organizational relationship to be successful, there must be proper understanding and communication between the companies involved.
- Strategic alliances are 'cooperative relationships between two or more independent organizations, which are designed to achieve mutually beneficial goals'.
- In the competitive business environment, strategic alliances are the best way to face the competition regardless of the industry in which one operates.
- Strategic alliances can take many forms. Some forms of strategic alliances are franchising, licensing, joint ventures, etc.

Benefits of Strategic Alliances

Some of the important benefits of strategic alliances are as given below:

- They can provide quick revenue growth.
- They increase the speed with which the new products can be introduced into the markets.

- They can have expert knowledge in the constantly changing and complex business environment.
- The partners can share their domain expertise with each other.
- The research and development costs can be shared among the partners involved.
- They can help to gain access to new and potential markets.

Exhibit 11.1 illustrates the growth of Starbucks through Strategic Alliances.

Exhibit 11.1: Starbucks Fifty Years of Explosive Growth by Strategic Alliances

Starbucks is a global company succeeded by the partnerships or strategic alliances it made since its inception fifty years ago as of 2021. It has spread its products and brand into grocery stores, airlines, hotels etc. Strategic partnerships are crucial to Starbucks' explosive growth of 33.83 thousand stores worldwide as of Nov 2021.

Key Strategic Alliances of Starbucks:

- It started a strategic alliance way back in 1993 with Barnes and Nobles bookstores as its in-house coffee shop.
- Then it continued a strategic alliance with PepsiCo.
- Strategic alliance with Kraft Foods made its product reach grocery stores and contributed to its business growth.
- Strategic alliance with Dreyer's Ice Cream, and Unilever to market and distribute its ice creams in markets like US and Canada.
- Strategic alliance with United Airlines to make its products available in airlines.
- Strategic alliance with Starwood Hotels etc., for penetrating its products in hotels.
- In 2021, it was focussing on robust growth in its lead markets US and China.
- It also expanded its global reach through its Global Coffee Alliance with Nestlé as of 2020.

Sources: i) https://www.powerlinx.com/blog/strategic-partnership-business-growth/ Accessed on 16-01-22.

ii) https://www.statista.com/statistics/266465/number-of-starbucks-stores-worldwide/#: Accessed on 16-01-22.

11.5.1 End Results of Alliances

More and more managers are considering strategic alliances as a good option for expanding their company's operations.

Issues in Managing Alliances: There are some issues in managing alliances which are as given below:

- The average age of an alliance is around seven years, after which, one of the partners is bought by the other.
- This acquisition after alliance is a major concern in strategic alliances.
- Therefore, the top management has to anticipate the end result of the alliance.
- For this purpose, a company has to analyze its strengths, how they have changed over time, what the potential for competition in the alliance is, etc.
- This analysis helps to anticipate or protect the sale of the business in the future.

Types of Alliances: Based on their outcomes, there are six types of alliances, which are discussed here:

1. Alliances with Competitors

In this type of alliance, a company enters into a partnership with a direct competitor. This type of partnership generates a short-term synergy due to the common product and market positions. In such an alliance, the partners can share control; it does not involve either of the partners giving up control.

2. Weak Alliances

In this type of alliance, two or more weak companies combine together with the hope of improving their present positions. However, experts feel that the combined forces of weak companies cannot result in profitable business and as a result, they are acquired by a third party. They feel that a company should either divest itself of a weak business or concentrate on improving that business rather than entering into an alliance.

3. Hidden Sales

In this type of alliance, a weak company joins a strong company, which either is a direct competitor or will become one in the near future. In such an alliance, the weak partner is usually acquired by the stronger partner, so they should search for the best partners. These alliances tend to be short-lived, rarely lasting more than five years.

4. Weak and Strong Alliances

Here a weak firm joins with a strong firm and usually the stronger one acquires the weaker one. The weak firm leverages on the alliance to enhance its capabilities and becomes stronger and the alliance succeeds developing into a partnership of equals and after some time they might separate. The weak company should design the alliance in such a way that it has control over crucial factors like customer relationship, customer service, etc.

5. Alliances between Strong Companies

In this type of alliance, two strong companies enter into a partnership. The bargaining power of the partners may shift and finally one partner may buy out the other one. However, if such alliances succeed, they deliver value to everyone involved and may exceed the seven-year life span of the alliance.

6. Alliances of Equals

In this type of alliance, two strong and complementary companies enter into a partnership. Such an alliance normally remains strong, with both partners trying to build on each other's strengths. These alliances last longer than the life span of seven years.

Stages of a Strategic Alliance

There are three stages in forming a strategic alliance. They are identification, design, and manage stages. Each stage has different information needs for its success. Each of these stages are discussed here:

Identification stage: This stage involves formulating an alliance strategy. It also involves identifying and selecting the potential partners.

Issues in Identification Stage: Some of the important issues in this stage are as given below:

- A thorough knowledge of the industry helps an organization in selecting potential partners.
- An organization should have a clear understanding of its own objectives, along with the knowledge of its own capabilities, resources and disparities.
- The prior knowledge of the objectives, capabilities, resources and disparities is very important for identifying potential partners.
- In this stage, the top management will consider the records of the past and present alliances to understand the resource disparities and the capabilities of the company.
- Partners in an ideal alliance will have compatible objectives, complementary resources and skills and synergistic organizational cultures and processes.

Design stage: The second stage, i.e. the design stage, involves structuring and negotiating the agreement with the partner and key staffing decisions. During this stage, partners should evaluate and align their strategic objectives. The knowledge about the partner's strategic objectives, products, or services is very important for an organization at this stage.

Manage stage: This stage involves the development of a suitable work environment along with the partner, which lays a good foundation for the actual work to be performed. The management of the relationships and trust are very important in this stage. The partners should encourage open communication regarding one's organizational performance and to use the feedback effectively.

11.5.2 Making Strategic Alliances Work

In order to make the strategic alliances work, the common pitfalls encountered in the strategic alliance process should be avoided.

Pitfalls Encountered in the Strategic Alliance Process: Some of these pitfalls are as follows:

- In most situations, organizations do not have an alliance strategy that is in alignment with its business strategy. This results in the failure of the alliance.
- Most organizations do not develop a collective effort along with the partners while formulating a strategy. This results in the stronger partner of the alliance dominating the relationship.
- At times, the financial aspect of the alliance is given too much attention. This results in neglecting or overlooking the strategy and its implementation in the alliance. As a result, the ability of the partners to compete with the competitors is compromised.
- The lack of proper commitment from the partners may poorly affect the alliance. For example, it is a signal of lack of commitment when a partner refrains from providing key resources or the best personnel to the partnership. An alliance that lacks commitment from the partners is not likely to sustain itself for too long.

Factors for strategic alliance success: Some of the factors that will ensure the success of a strategic alliance are as follows:

- **Set a clear strategic purpose:** A strategic alliance should have a clear strategic purpose. It should be aligned well with the business strategy of the partners.
- **Select a suitable partner:** An organization should search for a partner with compatible goals and complementary capabilities.
- **Make a proper allocation:** The activities in a strategic alliance should be properly allocated. Each party should be allocated only those activities which they perform best.
- **Set rewards for cooperation:** An organization should reward its partner organizations for cooperating. In a situation where former rivals enter into a strategic alliance, working together may not seem easy. Therefore, in order to encourage healthy cooperation among the partners, rewards should be set.
- **Reduce the conflicts between the partners:** The partners in an alliance should reduce the conflicting situations between them. For example, the partners should avoid competing in the same markets with similar products.
- **Information sharing:** The constant sharing of information helps in developing trust and building healthy relationships among the partners.

- **Personnel relationships:** Proper communication and trust are the key factors in the success of any inter-organizational relationship. Therefore, there must be communication and trust between the members of partner organizations.
- **Flexibility:** A strategic alliance is a dynamic relationship that is affected by the environment. Therefore, the partner organizations should be flexible and adapt themselves according to the changes in the environment.

Check Your Progress - 3

7. Which of the following is not a benefit gained by a strategic alliance?
   a. It can provide quick revenue growth.
   b. New product launch might involve high costs.
   c. It can have expert knowledge in the constantly changing and complex business environment.
   d. It can help to gain access to new and potential markets.
   e. It can result in sharing of core strengths and capabilities.
8. Which of the following factors ensures success of a strategic alliance?
   a. Set rewards for competing with one another.
   b. No personal relationships.
   c. Maintain secrecy of information.
   d. Select a suitable partner.
   e. Avoid discussions on mode of operations.
9. In which stage of a strategic alliance does the structuring and negotiating the agreement with the partner?
   a. Design stage.
   b. Manage stage.
   c. Identify stage.
   d. Break up stage.
   e. Launch stage.

11.6 Joint Ventures

A joint venture can be successful only when the organizations complement each other. Many managers use the terms ‘joint venture’ and ‘strategic alliance’ interchangeably. However, both the terms are not synonymous.

Salient Features of Joint Ventures:

- A joint venture is the creation of a new entity by two partners to achieve their objectives.
- It is a structured 50:50 partnership or a newly formed company in which two or more parties are brought together to achieve the specified strategic objectives.
- Each partner company actively contributes to the joint venture based on its capabilities, skills and resources.
- Reasons for entering into a joint venture are new product development, entering new markets, developing and sharing technology and pooling resources.

Exhibit 11.2 illustrates the joint ventures of MNCs with Indian firms in the insurance industry.

Exhibit 11.2: Indian Insurance Industry Flooded with Foreign JV Partners

The Indian Life Insurance sector started way back in 1818, with Oriental Life Insurance Company in Calcutta being the first. Later on LIC, established in 1956, got hold on the entire market and had a monopoly till the 90s.

General Insurance also dated back in 1850, with Triton Insurance Company Ltd., in Calcutta being the first.

FDI restrictions promoting Foreign JV partners growth:

- Till 2015, the FDI restriction was 26%, but in 2015 it was hiked to 49%, from then the Indian insurance sector was flooded with joint ventures from foreign partners.
- In 2017, the Indian government permitted foreign reinsurers to set up wholly owned branches in India.
- In 2021, Indian parliament passed the Insurance Amendment Bill 2021 increasing the foreign direct investment (FDI) limit in the insurance sector from 49% to 74%.

List of Foreign Partner Joint Ventures in Life Insurance Sector in India: (IRDA data 2019)

- HDFC Life Insurance Co. Ltd.
- Max Life Insurance Co. Ltd.
- Kotak Mahindra Life Insurance Co. Ltd.
- Aditya Birla SunLife Insurance Co. Ltd.

Contd….

- TATA AIA Life Insurance Co. Ltd.
- SBI Life Insurance Co. Ltd.
- Exide Life Insurance Co. Ltd.
- Bajaj Allianz Life Insurance Co. Ltd.
- PNB MetLife India Insurance Co. Ltd.
- Reliance Nippon Life Insurance Company
- Aviva Life Insurance Company India Ltd.
- Shriram Life Insurance Co. Ltd.
- Bharti AXA Life Insurance Company Ltd.
- Future Generali India Life Insurance Company Limited.
- Ageas Federal Life Insurance Company Limited.
- Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited.
- Aegon Life Insurance Company Limited.
- Pramerica Life Insurance Co. Ltd.
- Star Union Dai-Ichi Life Insurance Co. Ltd.
- IndiaFirst Life Insurance Company Ltd.
- Edelweiss Tokio Life Insurance Company Limited.

Sources: i) https://www.financialexpress.com/industry/74-fdi-in-insurance-sector-boost-in-insurance-distribution-jobs-creation-what-it-means-for-consumers/2278429/ Accessed on 16-01-22.

ii) https://www.irdai.gov.in/ADMINCMS/cms/NormalData_Layout.aspx? page=PageNo4&mid=2 Accessed on 16-01-22.

iii) https://www.irdai.gov.in/ADMINCMS/cms/NormalData_Layout.aspx? page=PageNo129&mid=3.1.9 Accessed on 16-01-22.

11.6.1 Challenges in a Joint Venture

In a joint venture, conflicts may arise due to multiple controls and ownerships. Some of the challenges that may arise in joint ventures are discussed here:

- *Strategic Alignment*: Maintaining a strategic alignment among their respective organizations is a challenge in a JV. As each organization has its own identity, separate strategic objectives, market pressures and shareholders, these issues must be handled properly in the initial stages itself.
- *Governance System:* The designing of a proper governance system is another major challenge for the partners in the joint venture. The system should allow shared decision-making between the two parent companies.

- *Economic Resources:* A joint venture and the parent companies may be interdependent for resources. In such a situation, the partnership should be structured in such a way that the financial support, resources, marketing, and other services provided by the parent companies are not duplicated.
- *High Performing Joint Venture:* The partners may face the challenge of building a cohesive and high performing joint venture. This is because many CEOs consider the ventures as dumping grounds for underperforming executives, rather than deploying high performance executives. Therefore, to avoid such situations, the partners must identify and deploy their best personnel in a joint venture.

Check Your Progress - 4

10. What is the challenge encountered when entering into a joint venture?
    a. No revenue is generated.
    b. Inability to find new markets.
    c. Designing of a proper governance system.
    d. Wastage of resources.
    e. Differences on what areas to expand.

11.7 Global Relationships among Organizations

The dynamic environment and global competition is forcing companies to maintain global relationships. These relationships have resulted in new and highly flexible organizational structures. The main focus for an organization is the customer under any circumstances.

Unusual Forms of Organizations: Customer orientation in such a dynamic environment requires unusual forms of organizations, as given below:

- *Marketing Information Network Organization:* A multinational company can develop its worldwide network of various marketing offices and information centers through computerized information systems. In such an organization, the information is gathered, analyzed and utilized in an efficient manner.
- *Marketing Exchange Company:* It is centered on the consumers and the markets with networking ability. It is a huge repository of marketing information regarding the customer needs, marketing services, etc. Such firms focus on scanning the environment and conducting consumer research programs.

Types of Marketing Exchange Organizations: There are two types of marketing exchange organizations, namely – the hollow corporation and the trading company. A company can include the features of both these types, as discussed below:

11.7.1 Hollow Corporation

Increased competition and industrialization led to the restructuring of business markets in the 1980s. This restructuring led to many changes, which included increased outsourcing, creating labor-intensive plants and opening of manufacturing plants in different global locations. This resulted in the emergence of hollow corporations.

Salient Features of Hollow Corporations: The following are some important features of Hollow Corporations:

- They have little or no in-house manufacturing and are mostly marketing organizations.
- They focus on their marketing activities and are well known for their pioneering work in marketing.
- They focus on networking, i.e., they procure resources from low cost sources, manufacture where it is cost effective and sell them in potentially lucrative markets.

11.7.2 Trading Company

The trading company is the Japanese style of companies also known as *sogo-shosha.* Trading companies have extensive global operations and are efficient at information management.

Salient Features of Trading Company: The following are some important features of trading companies.

- These companies supply large volumes of goods from the manufacturers to the distributors and retailers.
- These companies are oriented toward the suppliers rather than the customers.
- They focus on minimizing the risks involved in transactions by distributing the risks.
- They reduce the costs of transactions by taking advantage of economies of scale.

11.7.3 Host Government Intervention in MNCs

During the 1950s and the late 1960s, the host governments rarely intervened with the operations of multi-nationals.

However, from the early 1970s onward, some of the governments started taking a closer look at the MNCs operating in their countries.

Issues in Host Government Intervention in MNCs:

- The intervention of the host government in the operations of MNCs was aimed at limiting their freedom of strategy formulation.
- In developed countries, these limitations tend to be administered only in certain industries, which are of key importance to the government like defense equipment.
- In developing countries, there is a lot of pressure from activists and political groups and hence, the legal restrictions limiting the operations of MNCs are many.
- The governments in developing countries intervene in MNC operations with the aim of protecting their nation's interests.
- Developing nations are pursuing growth objectives and during the last two decades more and more countries have been embracing globalization and have become open economies.

Types of Interventions

The intervention of the host government in the operations of MNCs is very critical. It is important for an MNC to learn about the specific government regulations of the countries in which they plan to operate. The intervention of the host government in the business operations of an MNC can be divided into two types which are as discussed below:

Limitations to strategic freedom*:* The intervention of the host government in the operations of MNCs has a great influence on the functioning of the company.

Threats to managerial decision-making: Apart from strategic intervention in MNC operations, the host government can also involve itself in the managerial activities of an MNC. This intervention in the managerial activities gains even more importance when the industry in which an MNC is operating is of prime importance to the government.

Types of Threats: There are three types of threats to managerial decision-making, which are as discussed below.

Sources of bargaining power: An MNC can bargain with the host government while entering a country and vice versa. For striking an effective deal, the sources of bargaining power for both the MNC and the host government should be identified. The bargaining power influences the choice of the counter response strategy of each player in an industry.

MNC's bargaining power: The key sources of an MNC's bargaining power are technology, economies of scale and product differentiation.

Issues in managing MNC bargaining power:

- The ability of an MNC to provide products or services of advanced technology, which the players in the local markets are unable to provide under the competitive conditions, is a key source of bargaining power for an MNC.
- This results in situations where the host government has to agree to the terms of the MNC or look for costly alternatives (like investing in R&D etc.).
- The economies of scale, which result from the size of the MNC and its experience curve, are also a great source of bargaining power.
- Besides, the differentiation of the product in terms of technology can give bargaining power to an MNC.

Host government's bargaining power: The host government has the control over market access and subsidy offers. The market access and subsidy offers provide sources of bargaining power to the government.

Check Your Progress - 5

11. Which is not the feature of a Hollow Organization?
    a. They have little or no in-house manufacturing.
    b. They are mostly marketing organizations.
    c. They focus on marketing activities and are well known for their pioneering work in marketing.
    d. They are not customer friendly.
    e. They focus on networking.

11.8 Summary

- The strategic relationship between two or more organizations is called an inter- organizational or hybrid--organizational relationship.
- Organizations entering into collaborative relationships can take advantage of the diverse skills, capabilities and resources of the various players involved. These collaborative relationships are based on the environmental diversity and turbulence and skill and resource disparities.
- There are four types of inter-organizational arrangements, namely, in-house strategy, acquisition/merger, joint venture and strategic alliance.
- There are many types of inter-organizational relationships like the manufacturer-supplier, distribution channel, end-user/customer and internal relationships.

- A strategic alliance can be defined as the cooperative relationship between two or more organizations, entered into to forge mutually beneficial relationships.
- A joint venture is the creation of a new entity by two partners to achieve their objectives.
- Globalization has led to the growth of new forms of global relationships among the multinational corporations. The new organizational forms are hollow corporation and trading company.

11.9 Glossary

Cultural Integration: The integration of the organizational culture of the partners is cultural integration. This integration requires the partners to bridge their cultural differences.

Diversity: Diversity refers to the degree of similarity or difference in the elements of the environment, with reference to the individuals, organizations, and the social forces affecting the organizational resources.

Interpersonal Integration: The interpersonal integration involves developing interpersonal relationships between the employees of the partner organizations, so as to maximize interpersonal relations.

Joint Venture: A joint venture results in the creation of a new entity (involving two or more partners). Organizations enter into joint ventures in situations where there is high environmental diversity & turbulence and low skills & resource disparities.

Merger: A merger may represent the combination of two organizations to strengthen their competitive advantage in an industry.

Operational Integration: The integration at the operational level, which involves integration between people who perform day-to-day operations, is called operational integration.

Strategic Alliance: Strategic alliances are cooperative relationships between two or more independent organizations, which are designed to achieve mutually beneficial goals.

Strategic Integration: The integration at the **s**trategic level, which involves the constant coordination among the top leaders to discuss broad goals or changes in each of their companies in the relationship, is strategic integration.

Tactical Integration: The integration at the tactical level, which involves the communication between the middle level managers to develop plans for specific projects or joint activities, is called tactical integration.

Vertical Marketing System: According to the American Marketing Association, a Vertical Marketing System (VMS) is a long-term channel relationship in which two or more firms acknowledge and desire interdependence.

11.10 Self-Assessment Test

1. What are inter-organizational relationships? Explain the key influences on inter-organizational relationships.
2. Discuss the various types of inter-organizational relationships.
3. Define strategic alliances. What are the stages in forming a strategic alliance? What are the factors that make an alliance a success or a failure?
4. Define joint ventures. What are the challenges in forming a joint venture?
5. Explain the type of marketing exchange organizations.

11.11 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. Alexander Chernev, Philip Kotler, "Strategic Marketing Management", Cerebellum Press, 2018.

11.12 Answers to Check Your Progress Questions

1. (d) May acquire employees whose skill sets duplicate that of existing staff.

The acquisition of resources, skills and capabilities may involve access to new product or process technology, new markets, enhanced productivity or quality. When the acquiring company acquires a set of employees whose skill sets are similar to that of the existing employees, with no apparent benefit the operating costs would increase. Options like lay off etc., may be difficult to implement.

2. (d) The usage of technology for meeting different requirements of the customers

The global markets are characterized by an increasing level of diversity and are increasingly becoming borderless. There are three main concerns in the environmental diversity. The first concern is the usage of technology for meeting different requirements of the customers. The second concern is how a firm organizes itself in a diverse environment. The third concern is the ability of the organization to optimally utilize its information processing capabilities.

3. (a) Low environmental diversity and resource gap

In a particular situation, where there is a low environmental diversity and a high skills and resource gap, an organization can acquire or merge with another organization.

4. (a) Philosophy of doing business

The following factors should be taken into consideration before deciding to enter into a collaborative relationship – philosophy of doing business, relative dependence among partners, technological edge contributions, and analyzing information.

5. (a) Vertical Integration

Amazon’s acquisition of Kiva is an exercise to own all operations from the front end of operations (website) to the back end, i.e. customer order fulfillment. Hence this is Vertical Integration.

6. (d) Shareholder relationship

The most common inter-organizational relationships include end-user/customer, manufacturer-supplier and distributor-channel relationship. Hence option 'd' is the correct answer.

7. (b) New product launch might involve high costs

A strategic alliance provides quick revenue growth, speeds the launch of new products in the markets, etc. In a strategic alliance, it cannot be assessed if a new product will involve high costs. Hence option 'b' is the correct answer.

8. (d) Select a suitable partner

The very basis of success of an alliance is selection of a suitable partner. All other options stated are not healthy practices in managing relationships in a business collaboration.

9. (a) Design stage

The second stage, i.e. the design stage, involves structuring and negotiating the agreement with the partner. During this stage, partners should evaluate and align their strategic objectives, if the alliance has to be successful. As a result, the knowledge about the partner’s strategic objectives, products, or services is very important for an organization at this stage.

10. (c) Designing of a proper governance system

The designing of a proper governance system is a major challenge for the partners in the joint venture.

11. (d) They are not customer friendly

As it is not true that a hollow organization is not customer friendly.

Unit 12

Generic Strategies

Structure

"Competitive advantage is a company's ability to perform in one or more ways that competitors cannot or will not match."

\- Philip Kotler

12.1 Introduction

As quoted by 'Marketing Guru' Philip Kotler, firms have to develop competitive advantage in such a way that the competitors cannot match. A firm can gain competitive advantage by systematically building and developing its business with the help of Porter's Generic Strategies.

The previous unit had discussed the key influence on inter-organizational relationships, various types of inter-organizational relationships, strategic alliances and joint ventures, and the types of marketing exchange organizations.

In this unit we shall discuss Porter's five competitive forces, Porter's generic competitive strategies, concept of value chain analysis, how firms sustain their competitive advantages, various competitive strategies followed by firms and the concept of strategic wear-out.

12.2 Objectives

By the end of this unit, you should be able to:

- Discuss the five competitive forces defined by Porter.
- Explain Porter's generic competitive strategies.
- Define the value chain and understand how firms sustain their competitive advantage.
- Elaborate on various competitive strategies followed by firms.
- Define strategic wear-out.

12.3 Porter's Five Competitive Forces

According to Michael E. Porter (Porter), the attractiveness of an industry depends upon five important factors which determine the competition in the industry. (Refer to Figure 12.1).

These factors are:

a. Potential entry of new competitors

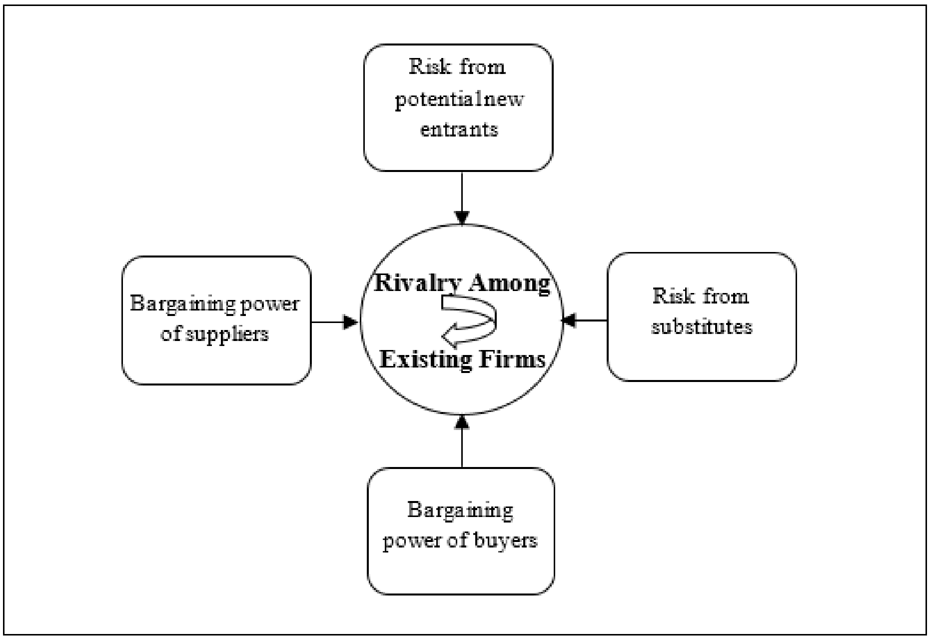
b. Threat of substitutes

c. The bargaining power of buyers

d. The bargaining power of suppliers

e. The competition between already existing firms

Figure 12.1: Porter's Five Competitive Forces



Adapted from Competitive Strategy: Techniques for Analyzing Industries and Competitors, Michel E. Porter, Reprint 2008.

12.3.1 Potential Entry of New Competitors

The potential entry of new competitors into an industry depends upon two factors – barriers to entry and reaction from existing players in the industry.

Barriers to Entry: There are mainly six types of barriers to entry – economies of scale, product differentiation, capital requirements, switching costs, access to distribution channels and cost disadvantages independent of scale.

Economies of Scale: A firm can obtain the benefit of economies of scale as a result of a decrease in per unit cost of production when there is an increase in the scale of production in a certain period.

Product Differentiation: Product differentiation acts as a barrier to entry as the existing firms will have loyal customers on account of the unique features of their products and new entrants may have to incur additional expenditure on attracting these customers.

Capital Requirements: Some industries like oil extraction, cement manufacturing, etc. require huge capital investment and this acts as a barrier for other players who want to enter the industry.

Switching Costs: It is the one time cost involved in changing from the products of one manufacturer to another, which may prevent consumers from trying the products of new entrants. When the supplier is changed, companies may have to incur additional expenditure in training the employees, cost for testing the supplier’s product, etc.

Access to Distribution Channels: Another major barrier to entry into an industry is the difficulty in establishing distribution channels. This is because the existing players in the industry will be using all the existing distribution channels and the new entrants have to incur higher costs to gain access to them. This will, in turn, reduce their profitability.

Cost Disadvantages Independent of Scale: Existing firms in a market will have specific cost advantages in the form of suitable location, experience in producing a product, government subsidy, etc., which potential new entrants may not have.

Reaction from Existing Players in the Industry: The entry of new players into a market is also influenced by the expected reaction of the existing players in the market if the existing players are likely to react strongly.

12.3.2 Threat of Substitutes

The threat of substitute products, according to Porter's model, comes from products which are from a different industry. Substitute products are those products which can carry out the same function as the product of the industry. Substitute products put a limit on the price that firms can charge in an industry and thereby limit their potential revenue.

12.3.3 Bargaining Power of Buyers

The profitability of an industry can be severely affected if the buyers have bargaining power or if they can force the players in the market to bring down prices. In a situation where there are just a few buyers and a large number of suppliers, as in the case of defense contracts, the buyers will have greater bargaining power.

12.3.4 Bargaining Power of Suppliers

When there is a high concentration of suppliers or when there is a threat of their forward integration, the suppliers are powerful and enjoy a good deal of bargaining power.

12.3.5 Competition between Already Existing Firms

Already existing firms in an industry will be competing with each other to increase their profitability and market share.

Example

The average amount spent by Coca-Cola, towards advertising and promotions in the last six years from 2014 to 2020[14], is around US $4 billion per year worldwide. PepsiCo also spends almost the same advertising budget like Coca-Cola. But Coca-Cola is market leader with 43.7% market share in US market and Pepsi being at second position with 24.1% market share by September, 2020. Coca-Cola gives tough competition to its rival PepsiCo in many markets.

Source: ICFAI Research Center

Issues in competition between already existing firms:

- Competition takes the form of price discounts to customers, heavy advertising, new product introductions, etc. Competing on the price front can generally erode the profitability of the firms.
- The price competition started by one firm may cause other firms in the industry also to follow suit. This will cause a fall in the revenue of all these firms if the price elasticity of demand in the market is not high. Thus price competition can adversely affect the profitability of an industry.
- On the other hand, heavy advertising can cause the expansion of the market, which can be beneficial for all the firms in the industry. Once the firm determines the attractiveness of an industry on the basis of the above factors, the next step is to determine its positioning within the chosen industry. The generic competitive strategies developed by Porter can give an insight into this aspect.

[14] https://www.statista.com/statistics/286526/coca-cola-advertising-spending-worldwide/

Check Your Progress - 1

1. According to Michel E Porter, the attractiveness of an industry and the competition in an industry does not depend on which of the following factors?
   a. Potential entry of new competitors.
   b. Threat of substitutes.
   c. The bargaining power of buyers and suppliers.
   d. The competition between already existing firms.
   e. The change in the marketing environment
2. Which of the following is not a barrier to entry of a new competitor into the market?
   a. Economies of Scale.
   b. Homogeneous Products.
   c. Huge gestation period.
   d. High Switching costs.
   e. Exclusive Patents.

12.4 Porter's Generic Competitive Strategies

The profitability of an organization depends a lot on its relative position within the industry in which it operates. It can be above or below the industry average. Firms can adopt various strategies to achieve profitability above the industry average.

Porter has identified three generic strategies – cost leadership, differentiation, and focus – which can help a firm achieve a sustainable competitive advantage.

Refer to Table 12.1 for understanding the influence of industry forces on generic strategies.

Table 12.1: Influence of Industry Forces on Generic Strategies

Generic Strategies	Industry Forces				
	Entry Barriers	**Supplier Power**	**Buyer Power**	**Substitute Power**	**Competition**
Cost Leadership	A cost leader can reduce the price which may act as a barrier to new entrants.	A cost leader is well protected against powerful suppliers.	A cost leader can reduce the price for getting a large customer base.	A cost leader can reduce the price to ward off threats from substitute products.	A cost leader can engage in price competition.
Differentiation	Brand loyalty of customers	When suppliers increase	Close substitutes are not	Threat of substitute products is	Brand loyalty of customers can keep

	may discourage the potential entry of competitors.	price, it can be easily transferred to buyers.	present and hence large buyers cannot easily negotiate price.	less, as customers are brand loyal.	competitors at bay.
Focus	Core competency developed through focus can act as entry barrier.	As volumes are less, suppliers have more power.	Fewer alternatives are available and this reduces buyer's power for negotiation.	There is good protection against substitutes as products are specialized.	It is not easy for competitors to match differentiation focused needs of the customers.

Adapted from Porter, Michael E., Competitive Strategy – Techniques for Analyzing Industries & Competitors. New York: Free Press, 2009

Exhibit 12.1 illustrates the Porter's generic competitive strategies of Maruti Suzuki.

Exhibit 12.1: Porter's Generic Competitive Strategies of Maruti Suzuki

Maruti Suzuki India Limited (MSIL) was incorporated as a joint venture between the government of India and Suzuki Motor Corporation of Japan in 1981. As of January 2022, Suzuki owns 56.2% stake, making MSIL a subsidiary of Suzuki Motor Corporation.

Cost leadership: Capital investment is required for economies of scale. It set up two well equipped plants for manufacturing facilities in India. One at Gurgaon Facility (300 acres) housing the 'K' engine plant and another at Manesar Facility (600 acres).

Differentiation: It provided quality fuel efficient cars at affordable prices. It also provided excellent after sales services at various service centers across India.

Focus: It is mainly of two types as given below:

Cost Focus: It tried to offer low price products to small and specialized groups. Eg. Maruti 800, Alto etc.

Differentiation Focus: It offered niche premium products at premium price.

In the above mentioned way, Maruti Suzuki managed to be the market leader for the past two decades.

Sources: i) https://www.marutisuzuki.com/corporate/investors/details-of-the-business Accessed on 20-01-22

ii) https://mbasupplements.com/2020/06/21/maruti-suzuki-india-limited-competitive-strategies-of-the-market-leader/ Accessed on 20-01-22

12.4.1 Cost Leadership Strategy

A firm which adopts a cost leadership strategy tries to become the lowest cost producer in the industry in which it operates. According to Porter, it is not possible for all the players in an industry to gain cost leadership. Only one firm can be the cost leader at a given point of time and other firms will be trying hard to gain cost leadership.

Features of Cost Leadership:

- Cost advantage can be obtained by minimizing cost in areas like research and development, services provided, promotional activities, sales personnel, etc. The management has to pay a great amount of attention to achieving cost minimization in all these areas.
- The whole focus of an organization will be to produce goods and services at the lowest cost in comparison with competitors, without compromising on aspects like quality or service. A firm which has cost leadership will be able to gain returns which are higher than the industry average.
- The lowest cost position will enable the cost leader to withstand competition from other players more effectively. A business which is aiming to achieve cost leadership has to put into practice all the possible ways to achieve cost benefits over competitors. This can be achieved by being able to produce products at the lowest possible cost.
- Some of the ways by which cost can be reduced are increasing the efficiency of the production process and gaining unique access to a large source of raw materials. If a price war is started by the competitors, the producer who incurs the lowest cost for production can endure it fairly well compared to those who incur higher costs for the production process.
- The cost leader in an industry can sell products at the lowest cost and this gives them an advantage over the competitors. Firms may have to depend on continuous innovation to lower the costs. This kind of innovation to lower the costs may be difficult in industries which are in a mature state.

Advantages for Cost Leader:

- The cost leader has the advantage that the strong buyers in the market can force it to reduce prices only to the level of the nearest competitor.
- It also has certain advantages when it comes to suppliers. If the suppliers increase the price of raw materials, the cost leader can easily withstand it as it incurs a low cost of production.
- The cost leader may have invested heavily in machinery, etc., which helps it to reduce the overall cost. This acts as a barrier for competing firms to attain cost leadership.

12.4.2 Differentiation Strategy

The differentiation strategy involves coming up with a unique feature for the product or service which will serve to make it different from the product or service of competing firms in the industry.

The various features of differentiation strategy are:

- Features which are considered to be valuable to the customers are identified and they are offered in the product in order to gain uniqueness for the product. Uniqueness can be in the form of innovative technology, design, image, customer service, etc.
- The incentive for the firm to offer such additional features is in the form of premium pricing. The differentiating aspect in the product should be something which is entirely different from that offered by the competing firms.
- Offering product differentiation can create brand loyalty among customers and this, in turn, can help to ward off competition. For a single product, several differentiation factors can be identified and offered to the customers, unlike the cost leadership strategy in which the sole aim is cost reduction.
- Firms offering differentiated products generally have skilled product development teams and access to the latest technology, which helps them to produce high quality products.

12.4.3 Focus Strategy

Focus strategy deals with focusing on a particular buyer group, segment of the market, or geographic market. The selected market segment should have some special needs which are not met by the cost leader or those firms which adopt a differentiation strategy.

The various issues in focus strategy are as given below:

- Focus strategy is aimed at catering very well to the specific needs of the selected target. The motive behind using this kind of strategy is the belief that the firm which adopts this strategy can serve the selected target better than competitors who compete in a much broader market.
- Focus strategy is different from cost leadership or differentiation strategy in that it aims to achieve cost leadership or differentiation or both in the selected small market segment and not in the whole market. Those firms which adopt a focus strategy usually have high levels of customer loyalty.
- This prevents other firms from entering the same segment to compete with them. Firms that adopt a focus strategy are also able to gain higher margins for their products, as substitute products are usually not available in the market.
- In focus strategy, it is very important to have some genuine differences between the selected segment and the rest of the market. The segment should have needs that are not fulfilled by other marketers.

Types of Focus Strategy: Focus strategy is of two types: cost focus and differentiation focus.

- Cost Focus Strategy: Cost focus strategy *is using the cost leadership strategy or cost focus to serve the selected market segment.* The firm adopting this strategy achieves differentiation through cost leadership in the target segment.
- *Differentiation Focus Strategy:* Differentiation Focus Strategy is using differentiation strategy or differentiation focus to serve the selected market segment. The firm adopting this strategy achieves differentiation by meeting the needs of the target segment in a better way.

12.4.4 Risks Associated with Generic Strategies

Types of Risks Associated with Any One Generic Strategy: There are basically two major risks associated with the adoption of any one of the generic strategies.

- First is that the firm may meet with failure in its attempt to adopt or continue with a particular generic strategy.
- The second is that the firm may not enjoy the advantages obtained as a result of adopting a strategy if the market develops and the market condition changes.

Types of Risks Associated with Three Generic Strategies: It is to be noted that the three generic strategies – cost leadership, differentiation and focus involve risks of different types and these are discussed here:

Risks Associated with Cost Leadership Strategy

It requires great attention on the part of the management to ensure that cost declines with an increase in volume. The firm will have to invest in equipment, discard old equipment and adopt the latest technological developments to reduce costs.

The various risks associated with cost leadership strategy are:

- All the investments made to achieve cost leadership may become useless in the face of rapid technological changes. The new entrants to an industry may come in with the latest technology, which may help them to reduce costs to a good extent.
- Another threat to a cost leader is that the new entrants may adopt the same methods that it does to reduce costs. Also, the cost leader, in its attempts to reduce costs, may fail to see the emerging trends in the market or to keep track of the latest products introduced in the market.
- Another risk factor is the possibility of an increase in production costs with time, which might nullify the advantage that the cost leader has over other competitors who adopt differentiation or focus strategy.

Risks Associated with Differentiation Strategy

There can be a considerable price difference between the products of firms which adopt the cost leadership strategy and those that adopt differentiation strategy. This is because the differentiator provides various additional features in the product that are not provided by the cost leader.

The various risks associated with differentiation strategy are:

- When the price difference is very high, some of the buyers may be willing to forego the additional features offered in the products in order to obtain products at a lower price.
- Another risk associated with the differentiation strategy is that the needs of customers keep changing and the differentiated features offered in products may lose their significance after some time.
- The entry of low quality, low priced products into the market that are imitations of the differentiated products, also contribute to the risk associated with the differentiation strategy.

Risks Associated with Focus Strategy

A risk associated with the focus strategy is that competing firms may enter the target market after identifying the different needs of the market.

Activity 12.1

Caramel Chocolates Ltd., is a leading confectionery company in India. The company is known for its confectionery products. Of late the company witnessed a decline in its sales. It found that consumers were attracted to other brands that offered dark and milk chocolates. Thus the company decided to adopt a strategy that would help arrest the decline in its sales. The company conducted a research in order to gather opinions from the customers. After gathering the research results, the company launched new products such as dark and milk chocolates. In addition, the company offered these chocolates in different flavors of apricot, strawberry, orange, grapes, etc. Identify the strategy adopted by the company. Discuss how the strategy would help the company regain its market share. Also discuss other generic strategies.

Answer:

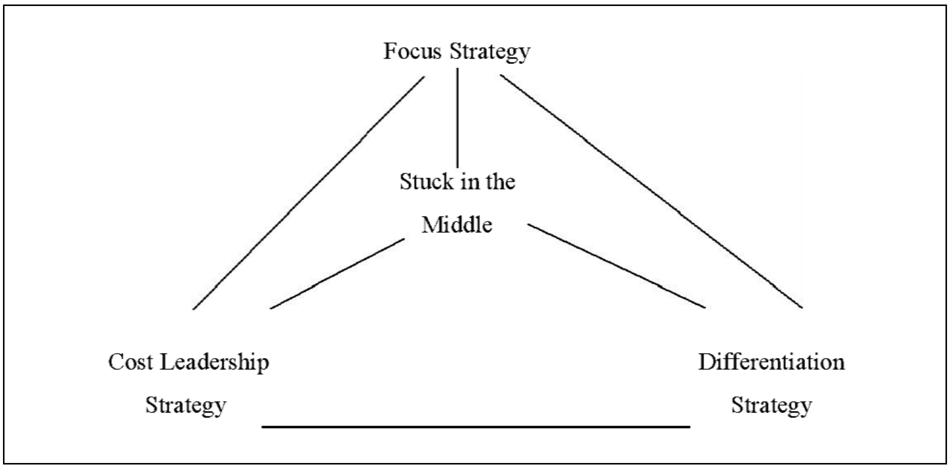
12.4.5 Deciding on the most Suitable Generic Strategy

Porter was of the view that it is suicidal for a firm to try to pursue more than one generic strategy at a time.

Issues in deciding most suitable generic strategy: The various issues in deciding most suitable generic strategy are:

- Firms which try to pursue more than one generic strategy at a time will not gain any competitive advantage and they will get stranded, for lack of a competitive advantage.
- Such firms will be in a disadvantageous position and will be 'stuck in the middle' while competing with other firms which are following any one of the three strategies. Firms which choose the focus strategy can try to achieve cost focus or differentiation focus in their chosen segment.
- If the chosen segment is attractive and if the firm is able to achieve either cost focus or differentiation focus, it will generally be successful in the industry. (Refer to Figure 12.2).

Figure 12.2: Generic Strategies



Adapted from Wilson, Richard M.S., Colin Gilligan. Strategic Marketing Management– Planning, Implementation and Control, Routledge, 06-Aug-2012.

But a pitfall is that after continuing as the best performer for some time, the firm may decide to expand by increasing the sales volume. In the process, it may lose its focus on account of disregarding the factors that gave it the competitive advantage.

12.4.6 Some Criticisms against Porter's Generic Strategies

Porter's generic strategies have been widely criticized on account of various shortcomings in them.

Some criticisms against Porter's Generic Strategies are as given below:

- According to Danny Miller, instead of specializing in any one generic strategy – cost leadership, differentiation, or focus – it is advantageous for firms to adopt a mixed approach.

- Too much concentration on any one particular strategy could open up problems on other fronts. Another pitfall in over-specialization in a particular strategy is that competitors can imitate the strategy and also follow.
- A cost leadership or differentiation strategy can be followed very easily. If the advantages of these strategies are combined in a creative way, it will be difficult for the competitors to follow.
- Similarly, if various organizational skills like procurement, marketing, distribution, etc., are exploited simultaneously, the competitors will find it difficult to follow. The firms that follow only any one of the three strategies at a time are also more at risk when market conditions change.

Example

Walmart was popular worldwide with its EDLP (Everyday low price) strategy and had many retail stores than Amazon in the US. But Walmart's concentration strategy could not help it to dominate the US market with just 6.6% market share, whereas the very much diversified Amazon was dominating the US market with 41% market share, as of October 2021[15].

Source: ICFAI Research Center

Check Your Progress - 2

3. Which of the following advantages of being a cost leader is not valid?
   a. They can reduce the price creating a barrier to new entrants.
   b. They can reduce the price for getting a large customer base.
   c. They are well protected against powerful suppliers.
   d. They can engage in price competition with other competitors.
   e. Being a cost leader also enables product differentiation.

4. In order to serve the selected market segment in a focus strategy, which of the following strategies a business could use?
   a. Cost leadership strategy.
   b. Homogeneous product strategy.
   c. Free entry and exit strategy.
   d. Mass marketing strategy.
   e. Economies of scale.

[15] https://www.statista.com/statistics/274255/market-share-of-the-leading-retailers-in-us-e-commerce/ (Accessed on 27th January 2022)

5. Which of the following is not Porter's generic strategy?
   a. Cost leadership strategy.
   b. Differentiation strategy.
   c. Economies of scale.
   d. Cost focus strategy.
   e. Differentiation focus strategy.

12.5 Identifying Potential Competitive Advantages

The major thrust of marketing is to match the capabilities of an organization with the demands of the customers.

Issues in Identifying Potential Competitive Advantages: Various issues in identifying various potential competitive advantages are:

- The marketing plan of many organizations appears to be good at the beginning, but the organizations fail in the market place after making profits for a few years.
- Firms should have a clear understanding of the competitors. The analysis of competition should also include potential competitors who may emerge in future.
- A company with a competitive advantage will have profitability which is greater than the average profitability of all the organizations in the industry taken together.
- If the organization is able to maintain its competitive advantage for many years continuously, the organization is said to have a sustainable competitive advantage.
- The value chain analysis developed by Porter is very effective in spotting the most important competitive advantages of an organization.

12.5.1 Value Chain Analysis

Porter introduced the term 'value chain' to define the series of activities performed by an organization to create value. The firms achieve competitive advantage in terms of cost leadership by applying value chain practices. It should identify cost factors in the activities listed below and gain cost leadership.

Strategically Important Activities: The value chain of an organization is composed of nine strategically important activities which help to identify the cost behavior and sources of differentiation. These are divided into two types as given below:

- Primary Activities: All the activities which form part of bringing the raw materials to the place of production, converting them into finished goods, selling and distributing them and providing services, all form part of the primary activities.

- Support Activities: The support activities that take place along with the primary activities are procurement, technology development, managing human resources, etc.

12.5.2 Sustaining the Competitive Advantage

Many firms generally obtain a competitive advantage, but find it difficult to sustain it for long periods of time.

Factors for sustaining the competitive advantage: Let us study and understand the factors that help successful business firms in sustaining their competitive advantage.

- Market orientation: Most successful companies exhibit market orientation, which relates to expressing genuine concern for the needs of the consumers. Market orientation is something which permeates not just the marketing department, but to all other departments in the organization.
- Top management support: Top management support is crucial for this. Many firms tend to concentrate more on their own needs rather than the needs of the customers. In some other cases, it is the bureaucracy in the organization that creates hurdles for effective market orientation.
- Understanding competitors: Understanding competitors is as important as understanding consumers. Direct as well as potential competitors have to be identified and studied.
- Marketing environment: The marketing environment of a firm keeps changing. An understanding of these changes like changes in customer behavior, changes in the market segment structure, suppliers and intermediaries is very crucial for a firm to obtain a sustainable competitive advantage.
- Product differentiation: Product differentiation is crucial to create a sustainable competitive advantage, on the basis of noticeable features like high quality, use of innovative technology, superior after sales services, etc. Companies have to ensure that they provide better products to customers on a continual basis.
- Segmentation: The company should segment its customers on the basis of their common needs and identify their target customers and develop products suited to their needs.
- Changing needs and preferences of customers: Firms should have a close watch on the market so as to understand the changing needs and preferences of customers. As, in course of time, new sub segments may be formed in the market segment where the firm is serving.
- Identify their own competitive advantage: To identify their own competitive advantage, many successful companies conduct regular audits in order to identify their strengths and weaknesses in various market segments which they intend to serve.

- Clearly define the target market: In order to gain a sustainable competitive advantage, it is also necessary to clearly define the target market, various sources of revenue, etc.
- Budgets: When budgets are prepared, various aspects like how to achieve them and by whom it is to be achieved, etc. should be clearly specified. All the resources of the company should be spent on achieving sustained growth in profits and sales.

Sustaining Competitive Advantage through Growth

An organization can grow in the market either naturally or through acquisitions. Whatever the manner of growth, it has a great impact on the organization's marketing activities.

Issues in Sustaining Competitive Advantage through Growth: Various issues in sustaining competitive advantage through growth are:

- Natural growth of an organization takes place as a result of its success in the existing market segments.
- This success results in its further expanding to other segments of the market.
- Some businesses grow by developing in one region and then moving on to other geographic regions.
- Some firms try to introduce related products in new market segments.
- The knowledge and experience that the firms had acquired from their operations in a market could help them to achieve success in the newly entered markets.
- The pace of organic growth for most businesses will be very slow and in order to overcome it, they may acquire other businesses.
- Growth by acquisition helps in entering new market segments and to market new products.
- Growth through acquisition is not without risks.

Check Your Progress - 3

6. Which of the following is the most important step in identifying the competitive advantage of an organization is to have a clear understanding?

   a. Suppliers.

   b. Buyers.

   c. Competitors.

   d. Business model.

   e. Business Strategy.

7. The series of activities performed by an organization to create value is known as:
   a. Focus activity.
   b. Value chain.
   c. Cost leadership.
   d. Price leadership.
   e. Revamp of operations.
8. All the activities which form part of bringing the raw materials to the place of production, converting them into finished goods, selling and distributing them and providing services form part of:
   a. Secondary activities.
   b. Primary activities.
   c. Technological activities.
   d. Priority activities.
   e. Related activities.
9. Which of the following expresses genuine concern for the needs of the consumers?
   a. Market strategy.
   b. Market turnover.
   c. Market orientation.
   d. Market cost-benefit ratio.
   e. Efficiency in operations.
10. Which of the following is a key factor which can create a sustainable competitive advantage for a company?
   a. Product differentiation.
   b. Market turnover.
   c. Homogeneous production.
   d. Demand.
   e. High supply.

12.6 Influence of Market Position on Strategy

In an industry, there will be various players who have certain competitive advantages, strengths and also weaknesses.

Influence of Market Position on Strategy: Various influences of market position on the strategy are:

- The firm with the largest market share will be the market leader. There will be one or more market challengers who try to attain market leadership.

- In addition, there will be market followers who are satisfied with their position in the market and who do not cause any serious trouble to others.
- Besides the market leader, challengers and followers, there will be a large number of market nichers, who cater to the needs of small segments in the market.
- The competitive strategies that need to be followed by the market leaders, market challengers, market followers, market nichers and market pioneers are given here.

12.6.1 Market Leader Strategies

A market leader has a considerable market share, a significant presence in the industry and is acknowledged as the leader by other firms in the industry. It has to keep track of the changes taking place not only in its own industry but also in related industries.

Example

A leading television channel has to keep track of the developments not only in the field of television, but also in related entertainment fields like cinema, sports, etc.

Source: ICFAI Research Center

Defensive Marketing Warfare: There are basically three principles that should be adopted in defensive marketing warfare.

- The first is that only the market leader should adopt defensive strategies.
- The second principle is that attacking oneself, or in other words, introducing new products which are better than existing ones can block the likely attacks by the competitors.
- The third principle is that all the strong offensive measures taken by the competitors should be blocked.

Types of Defensive Strategies: There are basically six types of strategies that can be adopted by a market leader to defend its position – position defense, mobile defense, preemptive defense, counteroffensive defense, flank positioning defense and strategic withdrawal.

Position Defense

Position defense involves defending an attack by making use of all the resources at the disposal of the market leader to erect a defense system which is very costly. This is considered as a thoughtless and risky strategy which is generally adopted by a market leader when it is under attack. This is because the entire defense that has been built around a product may fail at one point of time.

Mobile Defense

Mobile defense is a marketing strategy in which the market leader enters new areas that can provide a defense against any attacks by competitors in the future. Such a move provides strength to the strategies adopted by the market leader to counter the attacks from others in the market. It can take the form of market broadening, which involves changing the focus from an existing product and entering into products that satisfy the broad range of generic needs.

Preemptive Defense

This defensive strategy is based on the assumption that 'prevention is better than cure'. In preemptive defense, the market leader can adopt various strategies like flanking attack, guerrilla attack, etc. against those who may attack it.

Types of Preemptive Defense Strategies: There are two types of preemptive defense strategies as given below:

- Flanking attack: In this, the weak spots of the opponent are attacked.
- Guerilla attack: It involves a series of small attacks to pester the opponent.

Counteroffensive Defense

Counteroffensive defense takes place when the attacker has attacked the market leader. The market leader can organize all its resources and counterattack the attacker. The market leader can attack the attacker face-to-face, on the flanks, or launch an attack on the base of the attacker. A face-to-face attack takes the form of responding directly to the attack.

Flank Positioning Defense

The flanks of an organization are usually less protected and this has great implications in strategic marketing. Flanking defense involves identifying the areas which are vulnerable to enemy attack and devising strategies to protect them.

Strategic Withdrawal

Strategic withdrawal involves withdrawal to those areas of the market in which the market leader enjoys more strength. In the face of increased competition, the market leader can trim its product line and concentrate on those products that can provide more returns.

12.6.2 Market Challenger Strategies

A market challenger is the firm which is ready to attack the market leader in order to gain market leadership. The challenger can also choose to attack other firms in the market of its own size or other smaller firms in the market.

There are basically five strategies that can be adopted by a market challenger. They are:

- Direct attack
- Attacking the competitor's weakness
- Attacking the competitor from all sides
- Indirect attack and
- Guerrilla warfare

Direct Attack

It is a direct attack on the strengths of the opponent, rather than on the weaknesses and the party with the maximum resources on its side wins it. It can be costly and risky.

Direct attack usually takes the following two forms:

- In one form, an attempt is made to contest directly against the market leader in terms of product, price, promotion, etc.
- In the other form, an attempt is made to draw away a section of consumers belonging to the leader.

This kind of attack has limited scope and is usually done by price cuttings. This can be done either by offering products of similar quality to those of the market leader at lower prices or by reducing the production costs through innovative technology and offering products at reduced prices to the customers.

Attacking the Competitor's Weakness

In this type of attack which is called the flanking attack, the weakness of the opponent is attacked and as a result, the flanking attack is more effective and incurs less expenditure than a direct attack either geographic-wise or segment-wise. In this, the area in which the market leader is not very strong is identified and is attacked.

Example

The cola rivals, Coca-Cola and Pepsico, have a very intense competition. As Coca-Cola is attacking on the weakness of Pepsico on the taste of its products, Pepsico developed strengths like diversifying to other product areas like snack food items in its product portfolio.

Source: ICFAI Research Center

Attacking the Competitor from all Sides

This is called an encirclement strategy, where simultaneous attacks are made against the market leader on several fronts, forcing the leader into a position where it has to defend all its sides at the same time. The challenger offers a product in the market which is as good as or even more attractive than the market leader's product. The offer is usually too good for the customer to resist.

Indirect Attack

In this strategy, which is also called the bypass attack, the market leader is not directly attacked; instead, the challenger tries to strengthen its organization and develop unrelated products. This strategy can be adopted by entering new geographical segments with the existing products or by entering existing markets with unrelated products.

Guerrilla Warfare

Guerrilla warfare involves making a series of small and blinking attacks against the market leader using either predictable or unpredictable methods, with the aim of damaging its confidence.

Guerrilla Warfare Features: Some of the guerilla warfare features are as given below:

- This can take the form of selective price cuts, creating disturbances in the supply chain, legal action, raids, hiring the key personnel of the market leader, etc.
- Legal action takes the form of finding out whether the market leader has violated any laws like antitrust laws, trademarks, etc., and taking recourse to the law in case it has.
- Guerrilla warfare is also implemented as the groundwork for waging bigger battles.
- This strategy is usually considered as an option that a financially weaker firm can use to topple a market leader, but sometimes conducting a series of small attacks can turn out to be a costly affair for the challenger.

Exhibit 12.2 exhibits the Guerilla Warfare Strategies of Popular Companies.

Exhibit 12.2: Guerilla Warfare Strategies of Popular Companies

McDonalds: McDonald's created a zebra crossing on the streets called "McFries Pedestrian Crossing".

Nike: Nike displayed its logo on roadside benches in the streets.

UberEats: During the 2018 Football World Cup, it endorsed playmaker Pirlo which helped to show that UberEats deliver McDonalds produce. This campaign ran globally and boosted football fan engagement in key international markets.

Contd….

Axe: It placed stickers of women chasing a man in the exit signs on subways and other places to grab attention of people in their busy life and also messaging that men using Axe attract females.

Lego: It strapped a giant Lego to a construction Crane and this guerilla campaign attracted kids as it is easily noticeable to everyone in the locality.

In this way, many brands used guerilla warfare strategies to pull more consumers' attention with less cost.

Sources: i) https://www.sfwpexperts.com/what-is-guerrilla-marketing-top-effective- examples-and-tactics/ Accessed on 20-1-22

ii) https://saleslovesmarketing.co/blog/guerilla-marketing-examples/ Accessed on 20-1-22

Activity 12.2

ABC Corp., (ABC) is a software development company in the US. The company is known for its innovative software products that have many noteworthy applications and functionalities. Since the company is the market leader in the software industry, it offered its products at higher rates. Of late the company noticed that another US-based software company Max Ltd., (Max) was coming out with similar software applications. Moreover, Max offered some of its products at US$ 299 to consumers while ABC offered the same software product for US$ 399. This strategy was expected to decline the sales and challenge ABC's market leadership position in the US software industry.

Thus the management of ABC decided to sell some of its products at US$ 299. In addition, the company offered some software applications for free with the software product. Identify the competitive strategy adopted by ABC. Do you think this strategy would help it retain its position in the US software industry? Why (not)? Suggest and discuss other competitive strategies that would help ABC in this situation.

Answer:

Market Follower *Strategies*

Market Followers: Market followers prefer to follow the leader rather than attack it. Most follower firms manufacture products leveraging on the product innovations of the market leaders.

Market follower strategies: The following are some important market follower strategies:

- Attacking the Market Leader: If the follower tries to attack the market leader with the same quality offerings and at the same price, it might have to face severe attacks in its turn from the market leader. So unless the follower firm has some strong point in its armor, like an innovative technology, it will not dare to attack the market leader.
- Maintain Their Position in the Market: Instead of trying to attack the market leader, followers must try to maintain their position in the market, refrain from taking risks and so do not face any reprisal.
- Imitating the Market Leader: Followers can try to provide products that are almost similar to those of the market leader, at almost similar prices. Almost all the new innovations in the market are followed by a spate of imitations. When something which has been done for the first time in the industry is adopted by the competitors in the same industry, it is a case of imitation.
- Own Strategies: They should also have their own strategies apart from imitating.
- Adequate Resources: If they have adequate resources for research and development, they could use them in those areas for which adequate returns are guaranteed.
- Quality Products: Followers can also concentrate on quality products with value addition rather than focus on quantity and mass production.

Example

In the health drinks market, the market leader brands are Horlicks and Boost that are owned by GlaxoSmithKline. HUL acquired GlaxoSmithKline in 2020. The brand Complan, which is owned by Zydus wellness company, is a market follower and it often imitates the product of HUL (Horlicks) and made many claims in its advertisements that its products were superior and better than Horlicks.

Source: ICFAI Research Center

12.6.3 Market Niche Strategies

Niche Marketer: Companies following niche strategies operate in a small segment of the market in which the leader is not interested. A niche marketer usually focuses all its resources to efficiently serve a small market segment and thus gain the loyalty of customers in this segment.

Features of Niche Marketers:

- The niche marketer tries to ensure that customers in the segment remain loyal to it. It increases its efforts with increased focus and attention.

- The effectiveness of niche marketing comes from the fact that consumers generally feel convinced about dealing with those persons who are specialists in what they require.
- The niche marketer generally can charge a higher price as its products are sought after by regular customers.

Market Niche Strategies: Various strategies can be adopted by market nichers, as given below:

- Focusing on a particular geographic segment,
- Focusing on a particular type of customer,
- Focusing on providing specialized services, etc.

Issues in Niche Marketing:

It is important to ensure that the niche market segment selected is profitable enough to earn sufficient returns.

It should also have prospects for growth while at the same time not being attractive enough for the market leader to enter.

In case other players enter the niche market, the marketer should be able to withstand the competition with the help of the customer goodwill it has generated.

The marketer has to ensure that it has the capacity to serve the niche market selected effectively.

12.6.4 Market Pioneer Strategies

Market Pioneer: Market pioneers are those who enter a particular market for the first time. A firm can become a pioneer by being the first to enter a new market, to produce a new product, or to use a new production process.

Salient Features of Market Pioneers:

- Pioneers take more risks and as a result, they have more chances of failure. But they also have chances of gaining more returns than the followers.
- Pioneers gain a competitive advantage over others, which they may be able to sustain in the growth and maturity stages of the life cycle of the product.
- Being the pioneer in a market also helps them to gain good market share and profit.

Market Pioneer Strategies: Some of the market pioneer strategies are as discussed below:

Entry Barriers

An entry barrier is ‘a cost of production which must be borne by a firm which seeks to enter an industry, but is not borne by firms already operating in the industry’. At the time when competitors are absent in a market, the pioneer can earn more profits, compared to a situation in which the market is highly competitive. Later, when other competitors enter the market, the pioneer has the advantage of being placed conveniently in the market with a good market share.

Behavioral Advantages

Market pioneers may have tried to create a considerable amount of product awareness in the market. Many people who are aware of the product will try it and those who like the product may continue to use it. By the time competitors enter the market, the pioneer may have obtained a considerable market share. Many of the customers who are happy with the pioneer's product may be unwilling to take the risk of switching to a new product.

Economic Advantages

Pioneers generally have a high market share compared to followers and challengers. This motivates companies to enter a market first and gain the advantages resulting from it. Pioneers can gain economic advantages in the form of economies of scale, on account of the high volumes generated in the market. They can also gain considerable experience in the market on account of early entry.

Marketing cost Advantages

When a pioneer enters the market, its promotional messages are heard by the consumers in an environment which is not cluttered with similar messages. When other players enter the market, they vie with each other for the consumers' attention and this decreases the effectiveness of the messages. While the pioneer has only to consolidate its market share, followers have to create brand awareness and increase the market share simultaneously.

Check Your Progress - 4

11. Which one of these is not a market follower strategy?
    a. Attacking the Market Leader
    b. No Imitation of the Market Leader
    c. Own Strategies
    d. Quality Products
    e. Maintain Adequate Resources

12.7 Strategic Wear-out

Strategic wear-out happens when a market leader is not able to meet customers' demands in the same way that it did in the past and when other firms in the market are in a position to outdo the market leader. Strategic wear-out can happen irrespective of whether the company is a market leader, challenger, follower, or nicher.

Causes for strategic wear-out: There are a lot of factors responsible for strategic wear-out which are:

- Stickiness to a winning formula: An important cause for strategic wear-out is the stickiness of a company to a winning formula and the inability to see that conditions may change at any time.
- In addition, various internal and external factors can cause strategic wear-out.
- Internal factors: These include poor management, lack of control over the resources of the organization, etc.
- External factors: These include changes in economic and legislative conditions, changes in the strategies of competitors, changes in distribution channels or suppliers, etc.

Example

Nokia was the world market leader in mobile phones and faced strategic wear-out after Apple launched its smart phones, the iPhones in the market during 2007. Then Apple became the world smart phone market leader after 2007. From 2011 onwards, Apple faced strategic wear-out due to Samsung after 2011[16] and as of 2022 Samsung is the market leader of smart phones worldwide.

Source: ICAFAI Research Center

Check Your Progress - 5

12. Which one of the following factors is responsible for strategic wear-out?
    a. Poor management.
    b. Stickiness of a company.
    c. Lack of control over the resources of the organization.
    d. Economic conditions.
    e. Meeting the customer demand.

12.8 Summary

- The profitability of an industry at a given point of time depends on five important factors which include threat of new entrants, risk from substitutes, the bargaining power of buyers, the bargaining power of suppliers, and the competition between already existing firms.
- The three generic strategies – cost leadership, differentiation, and focus – can help a firm obtain a competitive advantage.

[16] https://www.theguardian.com/technology/2011/oct/28/samsung-overtakes-apple-smartphone

- Sustaining a competitive advantage is a difficult task. Some of the important factors that can help a firm obtain a sustainable competitive advantage are market orientation, proper understanding of direct as well as potential competitors, an understanding of the changes in the marketing environment, product differentiation, market segmentation, etc.
- In an industry, there will be various players who have certain competitive advantages, strengths and also weaknesses. The firm with the largest market share will be the market leader. There will be one or more market challengers who try to attain market leadership. In addition, there will be market followers who are satisfied with their position in the market and who do not cause any serious trouble to others. Besides the market leader, challengers and followers, there will be a large number of market nichers, who cater to the needs of small segments in the market.
- Strategic wear-out happens when a market leader is not able to meet customers' demands in the same way that it did in the past and when other firms in the market are in a position to outdo the market leader.

12.9 Glossary

Cost Leadership Strategy: A firm which adopts a cost leadership strategy tries to become the lowest cost producer of the industry in which it operates.

Differentiation Strategy: The differentiation strategy involves coming up with a unique feature for the product or service which will serve to make it different from the product or service of competing firms in the industry.

Entry Barrier: An entry barrier is a cost of production which must be borne by a firm which seeks to enter an industry, but is not borne by firms already operating in the industry.

Focus Strategy: Focus strategy deals with focusing on a particular buyer group, segment of the market, or geographic market. The selected market segment should have some special needs which are not met by the cost leader or those firms which adopt a differentiation strategy.

Substitute Products: Substitute products are those products which can carry out the same function as the product of the industry.

Value Chain: Porter introduced the term 'value chain' to define the series of activities performed by an organization to create value. The value chain plays an important role in understanding various sources of competitive advantage of an organization. The value chain of an organization is composed of nine strategically important activities which help to identify the cost behavior and sources of differentiation. These nine activities include five primary activities and four support activities.

12.10 Self-Assessment Test

1. Explain Porter's five competitive forces model.
2. Describe in brief Porter's generic competitive strategies. Explain the risks associated with these strategies.
3. Explain the value chain analysis developed by Porter in identifying the potential competitive advantages of a firm.
4. Explain how firms sustain their competitive advantage.
5. Explain the competitive strategies that need to be followed by the market leaders, market challengers, market followers, market nichers and market pioneers.
6. Describe the concept of strategic wear-out. What could be done to avoid it?

12.11 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.
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12.12 Answers to Check Your Progress Questions

1. (e) The change in the marketing environment

According to Michael E. Porter (Porter), the attractiveness of an industry depends upon five important factors which determine the competition in the industry. These factors are:

a. Potential entry of new competitors
b. Threat from substitutes
c. The bargaining power of buyers
d. The bargaining power of suppliers
e. The competition between already existing firms

Option 'e', change in the marketing environment is not a part of the list of factors as stated by Michael Porter

2. (b) Homogeneous products

'Homogeneous products' is not a barrier to entry. All other options mentioned are entry barriers.

3. (e) **Being a cost leader also enables product differentiation**

A cost leader:

- Can reduce the price which may act as a barrier to new entrants.
- Is well protected against powerful suppliers.
- Can reduce the price for getting a large customer base.
- Can reduce the price to ward off threats from substitute products.
- Can engage in price competition.

However, it is very difficult to differentiate the product considerably while attempting to reduce cost.

4. (a) **Cost leadership strategy**

Focus strategy is of two types: cost focus and differentiation focus. To serve the selected market segment, the business can use either the cost leadership strategy (cost focus) or the differentiation strategy (differentiation focus), or both.

5. (c) **Economies of Scale**

There are mainly three Porter's generic strategies: Cost Leadership, Differentiation and Focus Strategy. Focus strategy is classified into cost focus strategy and differentiation focus strategy.

6. (c) **Competitors**

An important step in identifying the competitive advantage of an organization is to have a clear understanding of the competitors.

7. (b) **Value chain**

Porter introduced the term 'value chain' to define the series of activities performed by an organization to create value.

8. (b) **Primary activities**

All those activities which are involved in the physical making of the product, its sale, transport to the buyer, after sales service, etc., are categorized as primary activities. In other words, all the activities which form part of bringing the raw materials to the place of production, converting them into finished goods, selling and distributing them and providing services, all form part of the primary activities.

9. (c) **Market orientation**

Most successful companies exhibit market orientation, which relates to expressing genuine concern for the needs of the consumers.

10. (a) **Product Differentiation**

Product differentiation is a key factor which can create a sustainable competitive advantage for a company.

11. (b) No imitation of the market leader.

The important strategies of market followers are to imitate the market leaders and also have their own strategies.

12. (e) Meeting the customer demand.

Strategic wear-out happens when the firm is not able to meet the customer demand.

Strategic Marketing Management

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