Block II

Marketing Management

Market Analysis and Marketing Strategies

Block

II

MARKET ANALYSIS AND MARKETING STRATEGIES

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BLOCK II: MARKET ANALYSIS AND MARKETING STRATEGIES

The second block to the course on Marketing Management deals with the concepts related to the analysis of the markets and the various marketing strategies like market segmentation. The block contains four units. The first unit deals about marketing research, marketing information systems and demand forecasting. The second unit focuses on market segmentation and targeting. The third unit deals with the strategic planning process in marketing. The fourth examines the competitive strategies in marketing.

The 7th unit, *Marketing Research, MkIS, and Demand Forecasting,* introduces the various research and forecasting tools. Marketing research and marketing information systems helps the marketers to understand the markets better and provide the goods and services needed by the customers. This unit gives a clear understanding of the concepts like marketing research, marketing information systems and demand forecasting.

The 8th unit, *Market Segmentation and Market Targeting,* deals with the segmentation and targeting of markets. Segmentation of the markets is necessary to serve the markets which are made up of different types of customers with diverse tastes and preferences. Segmentation of the markets will also help in targeting the markets which are suitable for their products. This unit provides a detailed discussion related to market segmentation, criteria for effective segmentation, and the selection process of target markets.

The 9th unit, *Strategic Planning Process in Marketing,* provides the concepts related to the strategic planning process in marketing. Strategic marketing plan assists the company in achieving its organizational objectives. Strategic planning in marketing provides answers to questions like where the company wants to reach in the next five to ten years, the markets to be served and the product portfolio the company should maintain. This unit deals with the strategic planning process in marketing.

The 10th unit, *Marketing and Competitive Strategies,* discusses the competitive strategies related to marketing. Development of strategies that enable the companies to gain an edge over competitors is key to succeed in the competitive environment. Companies also need to continuously analyze the customers, the competitive environment, and their own performance to stay ahead of competition. This unit deals with the competitive strategies in marketing.

Unit 7

Marketing Research, MkIS, and Demand Forecasting

Structure

7.1. Introduction

Till now we have discussed delivering value and satisfaction to customer, the marketing environment of an organization, marketing budgets and cost and the concepts of consumer and organizational buying behavior. In the previous block of last unit, we have learnt different organizational markets and the organizational buying behavior. In this unit, we shall discuss the concepts of marketing research, marketing information system and demand forecasting and measurement.

Marketing research is a tool that helps an organization to understand and analyze the changing attitudes of customers towards its product, price, promotion, and distribution strategies. Marketers gather the required information regarding the problems relating to the marketing of goods and services through marketing information system. Marketing information system provides three types of information to marketers like recurring, monitoring, and current information.

Marketing research is done to identify market potential of a product, acceptance levels of buyers, sales patterns, and forecast future sales of a product. The future sales of a product are estimated based on current and future demand. Current demand is estimated using environmental factors. The techniques used for future demand estimation are: composite sales force opinion, survey of buyer intentions, expert opinion, past sales analysis etc.

In this unit, we will first discuss the concept of marketing research and the different stages in marketing research process. We shall then discuss the concept of marketing information system and its scope. We shall conclude the unit by discussing the concepts of current and future demand estimation.

7.2.Objectives

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

- Define marketing research
- Analyze the process involved in marketing research
- Describe the concept of marketing information system and its scope
- Identify the different kinds of market based on their size
- List the techniques available for future demand estimation

7.3. Meaning and Scope of Marketing Research

According to the American Marketing Association, marketing research refers to "the systematic gathering, recording, and analyzing of data about problems relating to the marketing of goods and services."

It can be conducted for all aspects related to marketing, be it new product conception or after sales service. It can be used for both internal purposes and strategic decisions. It helps marketers to analyze the market scientifically and take relevant decisions for their survival. All industries like information technology (IT), pharmaceuticals, manufacturing, and telecom use marketing research as a solution to their marketing issues.

Example: Market Research agencies analyze the market situation for their clients. One such organization is AC Nielsen, which is a leading marketing information company in the world. It offers a wide range of services to its customers, such as market research information and analysis. Many companies hire AC Nielsen's services to obtain crucial information like the current and future trends in the marketplace and growth rate of industries, which are helpful in taking important business decisions.[1]

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[1] Source: www.acnielsen.com

Check Your Progress-1

1. Marketing Research provides information about various markets and consumer reaction to various products, prices, distribution, and promotion strategies. How does the American Marketing Association define Marketing Research?
   a. It is a process of finding solution to a problem through use of scientific tools or techniques
   b. It is a process which helps marketers to make business decisions effectively and efficiently
   c. It is a process of collection of data in organized manner to meet organizational needs
   d. It refers to the systematic gathering, recording, and analyzing of such data that will help the business manager in effective decision making process.

7.4. The Marketing Research Process

There are five stages in the marketing research process. These are described below:

4.1 Formulating the Problem

The main purpose of marketing research is to find solutions to the problems of marketers. For this purpose, the problem should be clear. The reason for conducting the research should be defined clearly. This will eliminate any confusion between the decision makers and the researchers.

4.2 Developing Objectives of the Research

The objectives of the research study should be properly outlined so that the purpose, methodology, and information needs are clear.

4.3 Designing an Effective Research Plan

The design of a research plan can be exploratory, descriptive, or causal. Exploratory research identifies the possible opportunities and threats for an organization. It is based on primary sources like interviewing and secondary sources like magazines, journals, and case histories. Descriptive research identifies the extent of the problem. Causal research involves analysis of cause and effect relationships. Understanding consumers of a market and designing the product in tune with consumer needs, is the key to success of any company.

For example, ever since Gillette entered Indian markets, it relied heavily on extensive research and development to create a single product for global distribution, The company spent hours visiting and interviewing consumers in order to understand the role of grooming in their lives and their needs. Their study findings reveled that apart from affordability, customers also valued safety and ease of use. Those customers' needs would not be satisfied by Gillette's existing offering - most lacked running water, had to manage longer facial hair and sit on the floor while shaving. Nor were they satisfied with the existing double-razor solution as they caused frequent cuts. Thus came into picture Gillete Guard, fully customized for Indian market at Rs.15. From 2010 to till date Gillete has dominated the market for razors and blades in India, like it has globally.

Research Instruments:

The research instruments are used to collect primary data. This data is useful in conducting marketing research. The following are the different kinds of research instruments:

1. Questionnaire: It is a set of questions that is aimed at providing information. These questions should be carefully worded and sequenced to achieve the required objectives.

2. Mechanical Instruments: Galvanometers and tachistoscope[2] are instruments that are used to identify the level of responses on parameters like emotions and interests.

3. Sampling: A sample means a depiction of a population that needs to be tested. The process of collecting samples is known as sampling. Marketers have to come up with an appropriate sampling design to conduct the market research effectively. Researchers conducting the market research need to select a certain portion of the target market. To cover the entire target market, they select sampling units in such a manner that everyone (in the target market) has equal chances of being included. The size of the sample should be appropriately selected to give effective research results. Samples can be selected through various methods, such as stratified and unstratified sampling, single stage and multi-stage sampling, single unit and cluster unit sampling, and equal unit probability and unequal unit probability sampling.

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[2] A scientific instrument used by psychologists for vision experiments to present an image or images for very short periods of time.

Activity: Bancor Corporation, an international bank, wants to launch certain financial services in India. However, before launching these financial services, the bank wants to conduct a market research to know the viability of launching these services in India. Discuss the various instruments available to Bancor Corporation for conducting this research.

Answer:

4.4 Data Collection Techniques

Data can be collected from primary and secondary sources.

Primary data collection: Primary data is the first-hand information collected by the marketer. For example, if a salesman gathers feedback from a consumer regarding a particular product and conveys the same to the company, it is known as primary data. However, this method of data collection is expensive and time consuming.

Primary data can be collected with the help of:

- Mail interviews: Under this method, the marketer sends questionnaires to consumers through mail and requests them to fill the questionnaires. This is aimed at knowing customer perceptions about the products or services of the company. In fact, this is a less expensive means of collecting primary data.
- Telephonic interviews: Telephonic interviews are conducted by marketers when the data has to be collected quickly. The cost of conducting telephonic interviews is less when compared with the costs incurred in conducting personal interviews.
- Personal interview: In personal interview, the interviewer asks certain questions and records the responses given by the interviewee. An interviewer may interview one or many candidates at a time. However, personal interview is a costlier method when compared to other methods of collecting primary data.
- Observation: A highly trained and intelligent interviewer is capable of drawing conclusions through active observation of the respondents.

Corporate companies gather information about their prospective consumers in various ways. Exhibit 7.1 explains how Apple Inc plans to gather data, to device its new products.

Exhibit 7.1: Apple Takes Bigger Bite Into Healthcare Tracking, Renewing Debate on Data Privacy

On 21st September 2021, The Wall Street Journal reported that Apple Inc. "is working on technology to help diagnose depression and cognitive decline, to create tools that could expand the scope of its health portfolio," and adding that "using sensor data that includes mobility, physical activity, sleep patterns, typing behavior and more, researchers hope to obtain digital signals associated with the target conditions so that algorithms can be created to detect them reliably."

Pharmaceutical giant Biogen announced a multi-year observational research study with Apple, in the form of a cognitive health research study, powered by iPhone and Apple watch in Jan 2021. It builds on an August 2020 announcement that Apple and UCLA are conducting a three-year study to understand how factors like sleep and physical activity can impact depression and anxiety symptoms. Biogen said its partnership is "driven by the powerful technology in Apple Watch and iPhone and Biogen's in-depth knowledge of neuroscience," adding that "the study's primary objectives are to develop digital biomarkers to help monitor cognitive performance over time and identify early signs of MCI," an acronym for "mild cognitive impairment."

Source: https://www.pymnts.com/healthcare/2021/apple-takes-bigger-bite-into-healthcare-tracking/

Secondary data collection: When companies collect information through published sources, it is known as secondary data collection. The company may collect information from internal or external sources. Internal sources of information could be sales reports and annual report. Companies may also collect data from external sources like magazines, journals, legal documents, and government gazettes. When compared to primary data collection, secondary data collection is cheaper and less time consuming.

4.5 Evaluating the Data and Preparing a Research Report

The collected data is edited, coded, and tabulated for evaluation. Data is evaluated by using certain statistical tools. The evaluated data is converted into a research report. This research report has to be aligned with the objectives set for the research process.

Example: Aventis Inc., decided to develop a promotional campaign. The objective of the campaign was to improve the recall of the drug 'Taxotere', among oncologists and breast cancer patients. Aventis hired the services of an agency to conduct a research study, to identify the primary concerns of breast cancer patients undergoing treatment. The study revealed that the patients, wanted to stay in touch with their family members and friends during the course of treatment. In addition, they wanted to know more about their disease and interact with other breast cancer survivors, who had been treated successfully.

This prompted the company to launch a unique sales promotion campaign 'Connection Cards'. The 'Connection Cards' were a set of gift packages that were given to the patients using 'Taxotere'. The packages consisted of note-cards and long-distance phone cards, which enabled them to write letters or make phone calls to their relatives or loved ones. The gift packages also included more information related to the disease of the patients.

Activity: Assume your educational institution is planning to introduce new subjects in the present curriculum. Prepare a questionnaire to ascertain the views of the students of the institution, about the introduction of the new subjects.

Answer:

Check Your Progress-2

2. Marketing Research Design is broadly classified into three categories. Which one of the following alternative is **not** a type of marketing research design?
   a. Causal research design
   b. Sampling research design
   c. Descriptive research design
   d. Exploratory research design.

3. Identify the basic research instruments generally used to collect primary data?
   a. Questionnaire and sample
   b. Questionnaire and web research
   c. Questionnaire and mechanical instruments
   d. None of the above.
4. That portion of the population that researchers need to target and that represents the entire population is called ___________.
   a. Sampling unit
   b. Sampling procedure
   c. Sample size
   d. Sampling process.
5. Evaluating data is the last step in the marketing research process. Identify the correct sequence of steps involved in this step.
   a. Editing data - coding data - tabulating data - preparing research report
   b. Coding data - editing data - tabulating data - preparing research report
   c. Editing data - coding data - tabulating data
   d. Coding data - tabulating data - preparing research report.
6. Which is **not** a method of collection of primary data?
   a. Mail interviews
   b. Telephonic interviews
   c. Financial reports from website
   d. Physical observation.
7. Secondary data is collected from the company's internal and external sources. Which of the following is **not** a characteristic of secondary data collection?
   a. It is less time consuming
   b. It is usually very expensive
   c. Can be quickly compiled
   d. Can be collected from both internal and external sources.

7.5. Meaning and Scope of Marketing Information System (MkIS)

The American Marketing Association defined MkIS as, "the systematic gathering, recording, and analyzing of data about problems relating to the marketing of goods and services."

Through MkIS, the employees of an organization collect, evaluate, analyze, sort, and tabulate data to prepare a report that helps managers in effective decision-making.

MkIS provides marketers with three types of information. They are recurring, monitoring, and current information. In recurring information, MkIS supplies information to the marketers on a periodic basis and includes information related to market share and customer satisfaction. The information that is obtained by scanning the environment (industry trends and competitor moves), on a continuous basis, is known as monitoring information. Requested information is the information that is provided in response to the explicit request by the marketing department. This information could be on competitors or level of customer satisfaction.

MkIS Components

The following are the components of MkIS:

Internal record system: It provides information about demand and supply, price, and stock status. The internal record system has the following components:

- *Order to payment scale:* Provides information about the company's supply and logistics system. This information can be used by the company in serving its customers at the right time and at the right place.
- *Sales reporting system:* Companies receive the latest information about their products and customers from sales personnel. In return, companies send the latest information about prices and product specifications to the sales personnel.

Marketing intelligence system: The marketing intelligence system is developed through constant interactions with customers, dealers and suppliers, and information available from trade journals and other such publications. In addition, constant monitoring of competitors and their strategies also helps in the development of the marketing intelligence system.

Marketing decision support system: It involves collecting and processing data with the help of computer software programs, advanced statistical tools, and other such techniques with a view to obtain a scientific solution to marketing problems.

Check Your Progress-2

8. The information obtained by scanning of information sources on a continuous basis is known as_________.

    a. Recurrent information

    b. Monitoring information

c. Requested information
d. None of the above.

9. MkIS has four components. Identify the alternative that is **not** one of those four components.
   a. Marketing decision support system
   b. Marketing research system
   c. Management information system
   d. Marketing intelligence system.

10. 'It is a set of efficient procedure techniques utilized by the employee of the organization to collect, evaluate, analyze, tabulate, sort and generate proper reports for marketing managers to assist them in effective decision making.' Which concept does the definition refer to?
    a. Marketing information system
    b. Management information system
    c. Internal record system
    d. Marketing decision support system.

11. The MkIS supplies various types of information to the marketing department. What are they?
    a. Recurrent information
    b. Monitoring information
    c. Requested information
    d. All of the above.

12 MkIS generates three types of information. Match the types of information with their respective definitions.
   i. Recurring information
   ii. Monitoring information
   iii. Requested information.
   p. Information generated in response to an explicit request of the marketing department
   q. Information generated by scanning of information sources on continuous basis
   r. Information supplied on periodic basis.
   a. i/r, ii/q, iii/p
   b. i/r, ii/p, iii/q
   c. i/q, ii/p, iii/r
   d. i/p, ii/q, iii/r.

7.6. Demand Forecast and Measurement

Companies conduct marketing research with a view to identify the market potential of a product, acceptance levels of buyers, sales patterns and, most importantly, to forecast the future sales of a product.

Market Classification

Markets are classified based on the size of the market the marketer is planning to enter. The size of the market refers to the number of consumers who are likely to become customers, and buy the products of the company. The following are the different types of market:

- Potential market: It represents the set of buyers who are interested in purchasing the product of the company.
- Available market: It represents the set of buyers who are interested in the product and have the financial means to purchase it.
- Qualified available market: It represents the set of buyers who are required to have certain minimum qualifications in order to consume the product. For example, people who are below 21 years of age are not allowed to enter pubs or bars.
- Target market: It represents that part of the qualified available market on which the company focuses its sales and promotional activities.
- Penetrated market: It represents consumers who have purchased the product.

The Concept of Market Demand for Marketing

The market demand for a product under a specified marketing activity is the sales volume of the product in the target market, for a specified time period, in a particular region.

Market Potential

Market potential refers to the optimum sales that can be reached, where any further increase in marketing efforts will not lead to any significant increase in sales, in the given environment.

Company Demand

When companies measure their demand in comparison to the competitors' products, it is known as company demand.

Company Sales Forecast

This refers to the volume of sales the company expects to obtain with the help of a particular marketing plan, in a specified marketing environment.

Sales Quota and Sales Budget

The sales quota is the budget that has been set for a particular marketing parameter. For example, the parameter could be the sales of a particular product, required to be achieved within a specified period.

Companies prepare their sales budget based on the estimates of the sales forecast. Often, the sales budget is prepared in such a manner that the expenditure involved in sales and promotional activities is optimal.

Current Demand Estimation

The current demand is estimated with the help of environmental factors, such as total market potential, area market potential, and total industry sales. The total market potential is the maximum market available to an industry, under a given set of conditions.

Future Demand Estimation

Estimation of future demand helps marketers in taking effective steps to obtain sales. Demand estimation can be performed effectively, with the help of the following techniques:

Composite sales force opinion: Under this technique, the marketer asks sales personnel to estimate the demand based on their past sales experiences. Although this method is considered reliable and beneficial, it has certain drawbacks also. For example, a sales man's estimation of demand may be negatively influenced by his bad experiences in the past.

Survey of buyer intentions: Companies also attempt to estimate consumer demand patterns with the help of consumer surveys. Through these surveys, companies try to gather the opinions of consumers and estimate the future demand patterns for a product.

Expert opinion: Sometimes, companies seek the opinion of experts like dealers, suppliers, and consultants on the future sales of a product.

Past sales analysis: Companies may also analyze the past sales pattern of the product, to estimate its future demand.

Exponential smoothing: This method looks at the weighted average of past sales, giving a higher weightage to more recent sales.

Statistical demand analysis: This method determines the effect of factors, such as marketing expenditure and price of the product, on its sales.

Econometric analysis: This type of analysis determines the sales system by using statistical tools for developing sets of equation.

Test marketing method: Under this method, the marketer tests the sales of the product in the market for a few days, to estimate its future demand.

Activity: Bold 'n' Beautiful is a cosmetics manufacturing and marketing company. The company has developed a new variant of moisturizing cream and wants to use test marketing to forecast the demand for its product. What techniques can the company use to forecast demand for its product?

Answer:

Check Your Progress-3

13. Estimation of future demand is an essential part of any business activity. Which of the following alternatives is **not** a technique of future demand estimation?
    a. Composite sales force opinion
    b. Expert opinion
    c. Sales quota
    d. Past sales analysis.

7.7. Summary

- Marketing research is a tool that helps an organization to understand and analyze the changing attitudes of customers towards its product, price, promotion, and distribution strategies.
- The process of marketing research involves five stages. They are: formulating a problem, developing objectives of the research, designing an effective research plan, data collection, and evaluating the data and preparing a research report.
- MkIS consists of a set of procedures and techniques utilized by the employees of an organization to collect, evaluate, analyze, tabulate, sort,

and generate reports for marketing managers, to assist them in effective decision-making.

- The components of MkIS are internal record system, marketing intelligence system, and marketing decision support system.
- Demand forecasting helps companies in determining future sales and draft a suitable marketing plan to achieve the sales. The various techniques that facilitate demand forecasting are: composite sales force opinion, survey of buyer intentions, expert opinion, past sales analysis, exponential smoothing, statistical demand analysis, econometric analysis, and test marketing method.

7.8. Glossary

Exploratory research: A type of research conducted to clarify the problem definition and prepare for additional research to prove or disprove the hypothesis.

Feedback: Communication from the audience back to the source.

Marketing decision support system (MDSS): A computerized system of accessing and handling MIS data and other data so that marketer can apply analysis and modeling methods and immediately see the results.

Marketing Information System (MIS): An established series of procedures and methods to collect, sort, analyze, store, and distribute marketing information on an ongoing basis.

Marketing research: The systematic collecting, recording, and analyzing of information to support marketing, decision making.

Primary data: Data that are gathered directly from the subjects or through on-site research for a specific marketing research program.

Sales analysis: Comparison of current sales with past sales, industry sales, sales by competitors, and forecast sales as a method of evaluating a firm's performance.

Sales forecast: An estimate of a firm's sales volume in dollars or units for a specified future period.

Sales promotion: Techniques that are used to stimulate product demand, including special events and activities such as coupons, celebrity appearances, and contests.

Test marketing: Marketing products on a small scale in order to test sales potential and the various elements of the marketing mix before paying for a full-scale introduction.

7.9.Self-Assessment Test

1. What is marketing research? Explain briefly the stages involved in the process of marketing research.
2. What is MkIS? What are the different components of MkIS?
3. What is demand forecasting? Explain the importance of current and future demand estimation for a marketer.

7.10. Suggested Reading / Reference Material

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7.11. Answers to Check Your Progress Questions

Following are the answers to the Check Your Progress questions given in the Unit.

1. **(d) It refers to the systematic gathering, recording, and analyzing of such data that will help the business manager in effective decision making process**

According to American Marketing Association, marketing research is the systematic gathering, recording, and analyzing of such data that will help the business manager in effective decision making process.

2. (b) Sampling research design

Normally the research design is broadly classified into exploratory research, descriptive research and causal research.

3. (c) Questionnaires and mechanical instruments

The research instruments generally used are questionnaires and mechanical instruments. Web research method is used for secondary data collection.

4. (a) Sampling unit

In sampling, researchers decide who will be surveyed. Most often, it is not possible to collect information about the entire population. Therefore, researchers need to identify the portion of the population that is to be targeted. The portion of the population that researchers need to target and that represents the entire population is known as the sampling unit.

5. (a) Editing data - coding data - tabulating data - preparing research report

Once the information is collected, it is edited and coded. The data after coding is tabulated and evaluated using statistical applications. After data analysis, a detailed research report is submitted to the management and this can contribute to effective decision making.

6. (c) Financial reports

Financial report is not a method of collection of primary data but a source of secondary data.

7. (b) It is usually very expensive

The collection of primary information is expensive and time consuming. Secondary data can be easily collected without excessive expenditure.

8. (b) Monitoring information

This information is obtained by scanning of information sources on a continuous basis is called monitoring information.

9. **(c) Management information system**

   The four components of MkIS are internal record system, marketing research system, marketing intelligence system, and marketing decision support system.

10. **(a) Marketing Information System**

    Marketing Information System (MkIS) is a set of efficient procedure techniques utilized by the employee of the organization to collect, evaluate, analyze, tabulate, sort and generate proper reports for marketing managers to assist them in effective decision making.

11. **(d) All of the above**

    The various types of information supplied are recurrent information, monitoring information and requested information.

12. **(a) i/r, ii/q, iii/p**

    Recurrent information is the information that is supplied on a periodic basis and includes information on market share, customer satisfaction etc. Monitoring information is the information that is obtained by scanning of information sources on a continuous basis and includes information on the industry, competitors, etc. Requested information is the information that is generated in response to an explicit request by the marketing department and includes information pertaining to market share, competitors, level of customer satisfaction, etc.

13. **(c) Sales quota**

    The different techniques for future demand estimation are composite sales force opinion, expert opinion, survey buyer intention, and past sales analysis. Sales quota is normally defined to encourage efforts to push sales to the maximum possible limit.

Unit 8
Market Segmentation and Market Targeting

Structure

8.1. Introduction

In the previous unit, we discussed marketing research, marketing information system and demand forecasting and measurement. In this unit, we shall discuss the concepts of market segmentation and market targeting.

Organizations use market segmentation to effectively serve market which is made up of customers who have diverse tastes and preferences. Market segmentation refers to the division of market into segments of customers with similar tastes and preferences. The different levels of market segmentation based on marketing approach and nature of products are: segment marketing, individual marketing, niche marketing, and local marketing. Consumer markets are segmented on the basis of geographic, demographic, and psychographic features of the customer. The characteristics of effective segmentation are that they should be measurable, substantial, accessible, differentiable, and actionable. After proper segmentation, marketers target the market segments which are most relevant for their products. Targeting of segments is done at different levels like single segment concentration, selective specialization, product specialization, market specialization, and full market coverage.

In this unit, we will discuss the concept of market segmentation, the need for market segmentation and the different levels at which markets are segmented. We shall also discuss the basis for segmenting consumer and organizational markets, characteristics of effective segmentation, and the different levels at which the selected markets are targeted.

8.2. Objectives

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

- Define the concept of market segmentation
- Discuss the levels of market segmentation
- Analyze the basis for segmenting consumer and organizational markets
- Describe the characteristics of effective specialization
- List the various levels at which selected segments are targeted

8.3. Need for Segmenting Markets

Modern day consumers are more aware of their needs and are always on the look-out for products that suit their requirements. There is, therefore, a greater need for market segmentation, which is done by grouping consumers who have similar tastes. Market segmentation is considered to be the best strategy for targeting markets. If the organization decides which segment to target, it could design its product mix in such a way as to appeal customers of the target segment. The concept of segmentation raises questions like whether the products of the same firm in different segments will reduce the market share of the firm. Research has shown, however, that market share can actually increase if the products are launched carefully. For example, HUL has soaps like Lifebuoy, Liril, Dove, Lux, Pears, and Rexona each of which targets a different customer segment.

To be successful in the competitive business world, companies need to develop products which satisfy the wants and needs of customers in different segments. Market segmentation might also be adopted by some companies that lack the resources to cater to the mass market. Segmentation helps a company in effectively and efficiently targeting the market.

8.4. Market Segmentation Levels

Marketers can adopt different levels of market segmentation based on their marketing approach and nature of products. These levels are:

- Segment Marketing
- Individual Marketing
- Niche Marketing
- Local Marketing

Segment marketing: To divide the market into segments, marketers take into account customer attributes such as tastes, preferences, etc. And since differences exist at an individual level, segmentation is done based on a broad similarity. If it is difficult to develop products particularly for a single segment, marketers target more than one segment.

Individual Marketing: In this level of segmentation, marketers target individual customers. Due to the advances in information and communications technology, like the Internet and cellular phones, e-mails or SMSs are used to interact with customers at an individual level. All business-to-business (B2B) marketing is individual marketing.

Niche Marketing: A niche is a small part of the market — a sub-division of a market segment. Customers in niche segments have unsatisfied needs, as most companies have not targeted them due to the small size of the group. Niche markets should have the potential to be profitable to companies that plan to target them.

Local Marketing: Many multinational companies with a global presence have adopted a 'think global, act local' policy. Products that are successful at the global level may fail in some local markets if they differ from the local tastes and preferences. For example, when McDonald's entered the Indian market in 1996, it realized that it had to adapt its menu to suit local tastes and preferences. McDonald's had to substitute mutton for beef in its products. The fast food chain also had to introduce products like Aloo Tikka, Chicken Patties, Paneer Salsa, etc., which were specific to India.

Activity: Beauticon Ltd. is a cosmetics manufacturing and marketing company. The organization has plans to introduce a new lipstick brand in the market. Should Beauticon adopt a local marketing level of segmentation? What other levels of segmentation do you think will be more appropriate for the company?

Answer:

Check Your Progress-1

1. Radiant Technologies markets customized IT-solutions based on the requirements of customers, irrespective of the market segment in which they operate. What level of segmentation does Radiant adopt?
   a. Segment marketing
   b. Individual marketing
   c. Niche marketing
   d. Local marketing.
2. Depending on their marketing approach and the nature of the products, marketers can adopt different levels of segmentation. Which of the following is **not** one of those levels?
   a. Segment marketing
   b. Global marketing
   c. Niche marketing
   d. Local marketing.
3. McDonalds introduced a range of products like Mc Aloo and Maharaja Mac to suit the taste of Indian customer. This is an example of which level of segmentation?
   a. Segment marketing
   b. Individual marketing
   c. Niche marketing
   d. Local marketing.
4. Quasar Videos markets educational videos for adults. Recently it began marketing videos produced exclusively for hearing impaired people. What level of segmentation is Quasar using?
   a. Segment marketing
   b. Individual marketing
   c. Niche marketing
   d. Local marketing.

8.5. The Selection of Segmentation Variables

Criteria for segmenting consumer market: Before segmenting the market, of the company has to evaluate factors such as the profitability of the segment, its size, and accessibility. The size of the market segment should be optimal. The segmentation of consumer markets is based on features like the geographic, demographic, psychographic, and behavioral patterns of customers.

Geographic segmentation: In this type of segmentation, the market is divided into geographical areas like countries, states, cities, regions, etc.

Demographic segmentation: The demographic variables used for market segmentation include age, gender, occupation, income, nationality, religion, social class, and family life cycle. When the geographic area in which the customer lives influences the socio-economic and lifestyle factors, geo-demographic segmentation is used.

Age and life cycle stage: Generally, the tastes and preferences of customers change according to their age. Marketers need to understand these differences and align their products which appeal to a particular age-group.

Gender: Some products like garments, magazines, jewelry, watches, etc. are segmented according to gender. Marketers are developing products and services that aim to satisfy the needs of a particular gender. For example, SBI Business Loan for Women -2021 (Stree Shakti Scheme), is unique customized scheme, is a boon for women opting for business loans.

Income: Income forms the basis for segmentation of products like automobiles, apparels, travel, etc.

Generation: Marketers can segment the market based on generation. For example, people belonging to the baby boomers' generation show similar purchase behavior. The same is true of those belonging to Generation X.

Social class: Segmentation according to social class is more beneficial for products such as cars, home furnishings, apparels, etc.

Psychographic segmentation: Though consumers may belong to one segment such as income, sex, age, etc., their psychographic profile may vary significantly. Segmentation variables such as lifestyle, personality, values, etc. explain the psychographics of customers and help in understanding what motivates buyers to make a purchase.

Lifestyle: People's lifestyles vary depending on their income, social groups, etc. and they look out for those products that fit into their lifestyle. For example, many workingwomen in India find dresses other than saris more comfortable to wear to work.

Personality: Personality traits such as aggression, extroversion, and masculinity influence the behavior of buyers. Marketers highlight those characteristics that they assume most customers aspire to have. For example, 'Yamaha' bikes are projected as bikes for men who are daring and stylish.

Values: Marketers believe that if they can influence the values of customers, the impact they make on the customers will be for a longer period. This is because values affect a customer's long-term choices and desires.

Behavioral segmentation: Here, segmentation is done based on the behavior of customers toward usage of products. This segmentation takes into account the kind of purchases made by customers in the past. This type of segmentation is suitable for product driven organizations. Variables like occasions, benefits, usage rate, etc. are used in behavioral segmentation.

Occasions: Customers need different products for different occasions. Marketers can cater to these needs by developing products which are required for specific occasions like festivals, marriages, etc.

Benefits: Segmentation can also be done based on the benefits which the customers look for in a product.

Usage rate: There can be heavy, medium, or light usage rates for a particular product or service and marketers can segment customers based on their usage rate. Generally, marketers offer special service and incentives to heavy users.

Loyalty status: The customers for a product or service can have varied loyalty status. They may be hardcore loyals, split loyals, shifting loyals, or switchers. Marketers should adopt marketing strategies that take into account the loyalty status of the customers.

Buyer-readiness stage: The buyer-readiness stage varies from customer to customer. Some customers may be aware of a product or service while others may not be aware of it. Some customers may intend to buy the product while others may only have a desire to buy. Marketers should take actions according to the segment targeted based on the buyer-readiness stage.

Attitude: Marketers can devise effective marketing strategies considering different attitudes of customers like enthusiastic, positive, indifferent, negative, and hostile.

Multi-attribute segmentation: Marketers can consider multiple variables as the basis for segmenting the market to operate profitably.

Tanishq's Rivaah – A Jewel for every Tradition' campaign explains how segmentation variables set the basis for promotional campaigns (Exhibit 8.1).

Exhibit 8. 1: Tanishq Highlights The Thought Process Of The Millennial Brides-To-Be In New Campaign

Jewellery brand Tanishq has launched a new campaign film for its wedding exclusive sub-brand Rivaah – 'A Jewel for every Tradition'. Understanding the significance of wedding jewellery in Indian marriages and its role as a symbol of rituals, Rivaah for Tanishq unveiled the new brand proposition for the millennial brides-to-be.

The company's new proposition conveys the significance of every ritual and jewellery the bride wears. The film provides a canvas to the thought process of today's bride who wants to wholeheartedly celebrate and participate in her

Contd. .....

> wedding. The film portrays how the modern Indian bride wishes to immerse into traditional rituals of Indian weddings while being thoroughly participative and true to her progressive self.
>
> The campaign film presents a series of brides from six communities - Punjabi, Bihari, Marathi, Bengali, Telugu and Tamil. Though these stories showcase cultural diversity integral to Indian weddings, they all conform to – our rich heritage that forms the foundation of our weddings.

Source: Adapted from, Tanishq highlights the thought process of the millennial brides-to-be in new campaign, www.brandequity.com, April 09, 2021

Criteria for segmenting organizational markets: The segmentation of organizational markets is more complex than that of consumer markets. The variables for segmentation of organizational markets as suggested by Bonoma and Shapiro are as follows-

Demographics: The demographic variables based on which organizational markets are segmented are industry, company size, and customer location.

Industry: Different industries differ in their needs. Knowledge about the purchase patterns of customers in certain industries can help marketers to segment the market.

Company size: Markets can be segmented based on the size of the company. Marketers should target the particular segments that they have the capacity to meet.

Customer location: This segmentation variable is useful in segmenting markets for industries where the customer requires personalized service. Hence proximity to the customer is critical to carry out business.

Operating variables: Operating variables like company technology, product and brand use status, and customer capabilities can be used to segment organizational markets.

Company technology: The technology used by the company affects the purchase of products. Segmentation can be done by the marketers to serve companies with similar requirements depending on the technology being used.

Product and brand use status: Organizational markets can be segmented based on product and brand use status. Organizations using particular brands or products would share similar experiences.

Customer capabilities: Knowledge about customers' capabilities in financial, technical, and operational matters helps marketers to segment the market according to the requirements of customers.

Purchasing approaches: The purchasing approaches of an organization which help marketers to segment industrial markets are the organization's purchasing activity, its power structure, the relationship between the purchaser and the seller, and the company's general purchasing policies.

Situational factors: Situational factors which influence segmenting of organizational markets are urgency of order fulfillment, product application, and size of the order.

Urgency of order fulfillment: Segmentation of markets can also be done depending on their frequency of requirement of the product.

Product application: A product can be used for different purposes by different organizations. Marketers can do the segmentation based on product application by organizations.

Size of the order: Segmentation of organizational markets can be done based on usage patterns. Marketers should target organizations whose size of order is in accordance with their capacity.

Personal characteristics of the purchasers: The purchase decisions in organizations are made by individuals who are guided in the task by the purchase patterns, philosophies, and policies of the organization. The personal characteristics of decision makers such as risk taking and risk aversion can be the criteria based on which marketers can segment the market. Although it is difficult to collect data on personal characteristics, the sales force of companies should be used efficiently to gather such information.

Activity: Humayun owns and operates a restaurant chain in India. He wants to expand his business overseas. What segmentation variables should he select to operate efficiently?

Answer:

Online Market Segmentation

Dimira Teneva identifies the following e-commerce market segments

High Spenders: The online customers who purchase very often and place large orders fall in this segment. These customers exhibit highs pending on online shopping and hence constitute a profitable customer segment. Marketing communication should focus on the appreciation of these customers and priority in handling their concerns.

Cart abandoners: These people are leaving the merchant's website after adding items to the cart due to reasons such as interruption, product no longer desired or extra shipping fee. Marketers focus on the recovery of these abandoned orders by sending them reminder emails or offering discounts on purchase.

Coupon lovers: This segment looks for a purchase only when discount coupons are available so that they don't have to pay the full price. That's why they are called coupon lovers. Marketers can get the sales from such segment by offering discount through coupons but limiting the quantity of product purchase.

Thrifty Shoppers: Some people shop online with low spending but they shop often. They purchases on a regular interval due to exhaustion of the previous supply. Hence, marketers can send them reminders by capturing their purchase interval data.

One-timers: This is the segment of customers who order once. Such customers can be engaged in repeat sales through strategies such as upselling, cross-selling, and offering discount on second purchase.

Registered Browsers: The people in this segment show interest in products and get registered to browse content related to those products. Marketers can make such people buy the product through discounts on first order and posting products related content and emailing the same.

By location: Location not only shows weather conditions but also denotes certain cultures and lifestyles. Hence, location can be an important criterion for finding the segments of season related products, skin care, sports, outdoor gear, food and clothes and promoting culturally related offerings such as products during Christmas, Diwali and Eid etc.

The Indecisive Buyers: This segment finds it difficult to make a purchase decision even after browsing product related content several times, chatting with live assistance. Marketers can facilitate their decision making by providing more content such as videos, detailed images of the product and mentioning the info related to delivery and returns.

Idle Customer: This is the group of customers who have not been active on website for a particular period of time say two months or six months. They can be potential buyers if some strategies are applied such as offering complementary product or new version of previous product purchased and send them marketing message informing them to use the product in a better way.

Loyals: The difference between this segment and high spenders is that Loyals spend a lot and shop often through high number of browsing sessions and orders. They also recommend the products they have purchased to others. Markets should always keep a track of such customers and make them feel special through loyalty rewards, priority in order placement, asking for product feedback to improve product features.

The trendy: These people go with the trends in the market and shop any new collections offered by companies. Marketers can allow them to access the new collection early than other consumers.

Check Your Progress-2

5. Size of the order is a segmentation factor in organizational markets. With which segmentation variable is it associated?
   a. Demographics
   b. Operating variables
   c. Purchasing approaches
   d. Situational factors.
6. Organizational markets are generally divided on the basis of certain factors. Which of the following is **not** one of those factors?
   a. Demographics
   b. Operating variables
   c. Location
   d. Situational factors.
7. Buyers are divided into different groups basing on lifestyles. This comes under which type of segmentation?
   a. Demographic segmentation
   b. Psychographic segmentation
   c. Behavioral segmentation
   d. Geographic segmentation.
8. An Indian FMCG company marketed a soap that assured the use of Ganga water in the manufacturing process. The soap soon became quite popular among the religious elderly Hindus. Which consumer segmentation variable did the company use in this case?
   a. Age
   b. Lifestyle
   c. Values
   d. Personality

9. 'Consumers are influenced by socio-economic and lifestyle factors of their surrounding geographical area'; what type of segmentation is in use here?
   a. Geographic
   b. Psychographic
   c. Geo-demographic
   d. Behavioral.
10. Titan Industries markets two different ranges of watches - Fastrack and Nebula - to meet the requirements of upper and middle class customer segments. On what basis did Titan decide upon targeting two distinct groups of customers?
    a. Generation
    b. Social class
    c. Behavior
    d. Income.
11. Attitude is one of the variables used in behavioral segmentation. Marketers usually find five attitude groups among customers. Which of the following is **not** one of them?
    a. Enthusiastic
    b. Positive
    c. Indifferent
    d. Switcher.
12. Which of the following combinations are associated with the operating variables that are used to segment organizational markets?
    a. Company size, Product and brand use status, Company Location
    b. Company technology, Product and brand use status, Customer capabilities
    c. Company size, Product application, Customer capabilities
    d. Company technology, Product application, Customer capabilities.

8.6. Effective Segmentation

If all the potential customers exhibit homogeneous needs and wants, the market need not be segmented. But when marketers decide to go in for segmentation the segments need to be selected in such a way that the communication programs developed will help to convert potential customers into real customers. Effective segmentation can be done by considering certain characteristics in segmentation variables. They should be measurable, substantial, accessible, differentiable, and actionable.

Measurable: Marketers should select a variable which is measurable to decide whether the segment is worth targeting. For example, a variable like the age of customers is measurable.

Substantial: While selecting a segment, the marketer should ensure that there are a substantial number of customers to cater to. A segment should be of optimum size so that it can be served economically.

Accessible: Accessibility to a segment has to be taken into consideration in reaching and catering to customers. A marketer should select the segment where the media coverage and distribution facilities are accessible to him/her.

Differentiable: Different segments of the market have different needs. The marketer should be capable of differentiating between the segments and develop effective marketing strategies for a particular segment.

Actionable: Marketers should select those segmentation variables which enable them to develop marketing programs and take effective actions to serve their customers efficiently.

Example: The market for oral care products can be segmented extensively. For example, Colgate has many oral care products targeted at kids. The Colgate Magik augmented reality based toothbrush for kids, gives an interactive fun brushing experience. Colgate kids Batman toothbrush, Barbie tooth brushes are well received by Indian markets.

Target Market Selection Process

After segmentation, marketers should target those market segments which are most relevant for their products.

Evaluating the market segments: While evaluating market segments, marketers should consider the potential of the segment and their ability to tap it. The evaluation of a particular segment by marketers should be in accordance with the fulfillment of organizational objectives.

Selecting the market segments: A company should evaluate the different market segments before selecting a particular segment. Targeting the right market segment is tough in the highly competitive business environment. Marketers should select those segments with optimum potential to cater to the target customers.

Single segment concentration: Targeting a single segment can benefit the marketer with high sales as all his marketing efforts are concentrated on the segment. However, if the customers of the segment stop patronizing the product for some reason, the marketer will face severe losses. The marketer can serve a single segment successfully if improvisations are made to the product in keeping with changes in the tastes and preferences of customers.

Selective specialization: When a company selects a few market segments to operate in instead of a single segment, it is called selective specialization. The company develops products to fulfill the needs of a few selected segments, thereby minimizing the risk of depending on a single segment. Even if one segment becomes unattractive, other segments can compensate for the overall profits of the organization. For example, HLL has different detergent brands like Rin, Wheel, and SurfExcel, each of which targets people of different income levels.

Product specialization: Specializing in the manufacture of a single product category and supplying it successfully to different segments of the market earns a company a good reputation. However, there is a risk involved in product specialization. If a competing firm develops a breakthrough technology, it can replace the existing product in the market.

Market specialization: Market specialization is different from product specialization in that it involves concentrating on a customer group and (?) catering to different needs. The innate risk in concentrating on a specific market is that if there is a downturn in the market due to external environmental factors, the company's performance gets adversely affected.

Full market coverage: Some companies target the full market instead of concentrating on segments. For example, Hewlett Packard offers printers for all segments from home usage to heavy duty color printers at costs ranging from Rs.2000 to Rs 1,55,000.

Other considerations: The other considerations of marketers in targeting markets are discussed below:

Ethical choice of market targets: Marketers should not try to influence people to consume products which are not good for them. For example, it is unethical to encourage children to consume high-fat foods or to promote lotteries to poor people.

Segment interrelationships and super segments: Marketers can take the advantage of the interrelationships between segments by targeting all the related segments as a super segment. They should use the similarity in segments to increase sales.

Segment-by-segment invasion plans: Marketers can plan to invade one segment after another so as to finally capture the super segment. This helps in not revealing the steps of organizations to competitors.

Inter-segment cooperation: With mutual cooperation and information sharing between the various segments targeted by the marketer, developing marketing programs to serve customers of each segment efficiently is possible.

Activity: Assume you have been appointed as the marketing head of an apparel manufacturing company which is launching a new product in international market. What steps in the targeting process would you follow to target the most lucrative segment of the market?

Answer:

Use of CRM in Targeting

Companies nowadays use software to capture and organize customer data as a tool to manage customer relationship. The purpose of customer relationship management is to retain the profitable customers. Information like demography of consumer, what do they like or dislike and their purchase patterns are captured and monitored in the process of customer relationship management. At one hand, CRM is useful in building loyal customer database; on the other hand CRM can be used in devising effective marketing strategies. In this context, use of CRM in targeting customers is quiet considerable. The information gathered through CRM software can facilitate in targeting the preferred customer so that marketers can deliver the marketing message to the right customer. The data related to customers can be segmented on the basis of some attributes such as how recently the customer has bought a product or service, what are the monetary values of their transaction etc. In relationship marketing, this is known as Recency, Frequency, and Monetary value (RFM) analysis. Where Recency data give the information of customers with recent transactions, Frequency data shows the number of transactions of a customer in a time period, and monetary value data exhibit the money spent by a customer in a given period. The recency, frequency and monetary value scores of each customer are captured, and the customers with highest RFM score needs to be targeted.

CRM can be also be used in re-targeting of customers who display cart abandonment behavior i.e. they leave the merchant website after adding products to the cart without closing the transaction. Marketers reach such customers with an SMS or an email giving a reminder to complete the transaction and sometimes offering discounts on purchase of cart items. Marketers can also target the anonymous persons who possess the attributes similar to their existing customers.

Thus, the in-depth understanding of customers using CRM data can help companies in maintaining long term relation with the customers as the customers will be benefitted in the following ways:

1. As the CRM offers personalized data of customers, the unique needs of the customers can be fulfilled.
2. The use of direct and personal marketing also saves the time of customers and the saved time can be utilized by customers in doing other important things.
3. CRM helps companies find their best customers in terms of profitability and the profitable customers are rewarded for their loyalty. Hence, customers are benefitted.
4. Use of database technology and advances in marketing research helps companies visualize their individual customers among millions of customers hence; companies can pay individualized attention to customers and recommend them the products and services based on their interest.

The increased use of CRM in market targeting with personalization can result in decreased mass-marketing campaigns. However, the relevance of mass-marketing in brand building activities such as enhancing brand awareness will keep it in business.

<u>Check Your Progress-3</u>

13. The Malayala Manorama Group publishes various books and magazines like 'THE WEEK' that concentrates on the urban readership, 'Vanita' that caters to the educated female urban population and 'Magic Pot' that targets children. This is an example of which kind of marketing strategy.
    a. Single segment concentration
    b. Selective specialization
    c. Product specialization
    d. Full market coverage.
14. After evaluating different market segments, the company or the marketer should decide which segments to target. Match the following marketing strategies with their corresponding characteristics.
    i. Product specialization
    ii. Selective specialization
    iii. Market specialization
    iv. Full market coverage.

    p. Here the full market is targeted instead of a segment.
    q. It involves concentrating on the various needs of a customer group
    r. Here the company specializes in a particular product
    s. Here the company focuses its resources on few market segments.

a. i/r, ii/s, iii/q, iv/p
b. i/s, ii/r, iii/q, iv/p
c. i/s, ii/r, iii/p, iv/q
d. i/p, ii/q, iii/r, iv/s.

8.7. Summary

- Segmentation is the process of dividing the market into groups with homogeneous needs and wants as segments. This is done in order to serve the customers better.
- The different levels of segmentation are segment marketing, niche marketing, individual marketing, and local marketing.
- Segmentation of markets can be done based on various geographic, demographic, psychographic, and behavioral variables.
- Consumer markets and organizational markets are segmented depending upon different sets of variables.
- The market segment variables need to have certain characteristics like being measurable, substantial, accessible, and actionable.
- After effective segmentation of market, marketers should evaluate the segments so as to target the segment which has the optimum potential and can be catered to profitably. Selection of target segments should be done such that marketers can capture the maximum market share while operating according to their potential.

8.8. Glossary

Baby boom: The increase in births that started in 1945, when World War II ended, and extended into the early 1960's.

Behavioral segmentation: A way of dividing large markets into smaller groupings according to consumer behavior.

Demographic segmentation: A way to divide large markets into smaller groupings according to the elements of size, composition, and distribution of the population.

Demographics: The characteristics of populations.

Geographic segmentation: A way to separate large markets into smaller groupings according to country, region, state, city, community, or block divisions.

Market segmentation: A way of dividing a large market into smaller groupings of consumers of organizations in which each subset has a common characteristic such as needs, wants or behavior.

Psychographic segmentation: A way of dividing large markets into smaller grouping according to consumer lifestyles, activities, opinions, and beliefs.

8.9. Self-Assessment Test

1. Explain the need for segmentation and different levels of it.
2. How is efficient targeting of segments done by marketers?

8.10. Suggested Reading / Reference Material

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8.11. Answers to Check Your Progress Questions

Following are the answers to the Check Your Progress questions given in the Unit.

1. **(b) Individual marketing**

   Individual marketing represents the extreme level of segmentation in which marketers focus on individual customers. Almost all the business-to-business marketing is individual marketing.

2. **(b) Global marketing**

   The four levels of market segmentation are segment marketing, individual marketing, niche marketing, and local marketing.

3. **(d) Local marketing**

   To gain acceptance locally, McDonald's had to modify its menu – substitute beef for mutton in burgers, choose names like McAloo and Maharaja Mac, and introduce variations and dishes that were not available at McDonald's outlets anywhere else in the world.

4. **(c) Niche marketing**

   Quasar Videos is selling its new product to a very small group of customers (hearing impaired people) neglected by most of marketers. This is characteristic of niche marketing.

5. **(d) Situational factors**

   Segmenting organizational markets on the basis of situational factors involves various factors like order fulfillment urgency, product application and the size of the order.

6. **(c) Location**

   The factors on the basis of which organizational markets can be segmented are demographics, operating variables, purchasing approaches, situational factors, and personal characteristics of purchasers. Geographic segmentation (location) is primarily used in consumer markets.

7. **(b) Psychographic segmentation**

   Psychographic segmentation is done on the basis of psychographics such as motivation, values, belief, lifestyle and personality.

8. **(c) Values**

   Values affect customer behavior in the long run and marketers believe that if the values of customers can be influenced, their impact on the customer will be long-lasting. The company has segmented the market and targeted those consumers who symbolize 'The Ganges' with purity.

9. **(c) Geo-demographic**

   When consumers are influenced by the socio-economic and lifestyle factors of their surrounding geographical area, they are segmented under geo-demographic segmentation.

10. **(d) Income**

    Marketers tend to segment products and services on the basis of income groups. Fastrack and Nebula are targeted at the lower income and the affluent class respectively.

11. **(d) Switcher**

    Based on the loyalty status customers can be divided into different levels. One of them is a switcher. The other three options are associated with consumer attitudes. Marketers generally find five attitude groups among customers – enthusiastic, positive, indifferent, negative and hostile. Keeping these attitudes in mind help develop effective marketing strategies.

12. **(b) Company technology, Product and brand use status, Customer capabilities**

    Organizational markets can be segmented on the basis of operating variables. These include factors like company technology, product and brand use status, and the customer capabilities.

13. **(b) Selective specialization**

    After evaluating different market segments, the company or marketer should decide which segments to target. Selective specialization is a process where the company focuses its resources on a few market segments and develops expertise in fulfilling the needs of those segments. Thus, by concentrating on more than one segment, the company can minimize its risk so that even if one segment becomes unattractive, it can concentrate on the other segments and fulfill its organizational objective of earning profits.

14. (a) i/r, ii/s, iii/q, iv/p

A company specializing in a specific product category (product specialization) supplying to different segments effectively will gain a substantial reputation in manufacturing such products. Market specialization involves concentrating on the different needs of a customer group. In full market coverage strategy, the company targets the full market rather than any specific segment. Selective specialization is a process in which the company focuses its resources on a few market segments and develops its expertise in fulfilling the needs of those segments.

Unit 9

Strategic Planning Process in Marketing

Structure

9.1. Introduction

In the last unit, we discussed the concepts of market segmentation and market targeting. In this unit we shall discuss the strategic market planning, marketing process, and marketing planning process.

Strategic planning helps organizations to design a pathway for the achievement of their long-term and short-term goals and objectives. Strategic market planning involves communicating and sharing data between the various departments in the organization for formulating and implementing future strategies with maximum efficiency. It can be drafted at both corporate and divisional levels. Corporate strategic planning involves corporate mission, establishment of SBUs, resource allocation, and planning new businesses and downsizing existing businesses. The success of strategic business planning process depends upon the successful understanding of existing as well as future technologies by the managers.

Marketing process of a company involves identifying the opportunities, developing strategies to utilize these opportunities, devising proper marketing strategies, and supervising the implementation of these strategies. The marketing process is done through proper marketing planning. The marketing plan of a firm involves functions like content, executive summary, opportunity and issue analysis, marketing strategy, action programs, projected profit and loss statement, and controls.

In this unit, we will first discuss the concept of strategic market planning process and strategic business planning. We shall then discuss the marketing process of a company and conclude the unit by discussing the marketing planning process.

9.2. Objectives

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

- Define strategic market planning
- Analyze corporate and divisional strategic planning
- List the different stages in a strategic business plan
- Discuss the marketing process of a company

9.3. Defining Strategic Market Planning

Strategic market planning is the process of communicating and sharing data between various departments of an organization, to collectively formulate future strategies and implement them with maximum efficiency.

Check Your Progress-1

1. _________ is the process of communicating and sharing data between different departments of an organization to collectively formulate future strategies and implement them with maximum efficiency.
   a. Strategic planning
   b. Strategic market planning
   c. Corporate planning
   d. Operational planning.

9.4. Corporate and Divisional Strategic Planning

Strategic plans can be drafted at the corporate as well as the divisional levels. However, strategies at divisional units are drafted on the basis of guidelines provided by the corporate headquarters. Usually, while devising a strategic plan, managers must consider the following:

- What is the reason behind the plan?
- Has the human element been given appropriate importance?
- Is it necessary to develop strategic plans based on market research?

Corporate strategic planning involves the following five basic activities:

9.4.1 Corporate Mission

It is a statement that describes a company's business and aims. It discusses the core values that form the basis of organizational activities. In the opinion of Patrick M Lencioni, mission statements of companies should be such that they are easily understandable by its employees. Mission statements must not include 'decorative' words like 'integrity' and 'teamwork', and must be as authentic as possible.

Example: Mission Statements of Some Popular Companies

Google – "To organize the world's information and make it universally accessible and useful."[3]

The Coca-Cola Company– Coca Cola's mission statement is "to refresh the world in mind, body, and spirit, to inspire moments of optimism and happiness through our brands and actions, and to create value and make a difference."

9.4.2 Establishment of SBUs

A strategic business unit (SBU), is an individual business unit. It has its own mission statement and is self-sufficient in conducting its business. For example, Honeywell International, a leading manufacturer of aerospace products, segments its major operations into various strategic business units. Furthermore, a company may have various business segments within each of its SBUs. These business segments are referred to as strategic business entity or enterprise (SBEs).

9.4.3 Resource Allocation

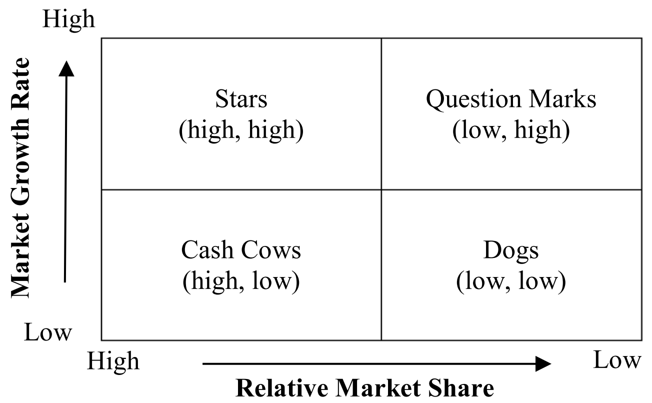
Companies allocate resources among the various SBUs based on their profitability and growth potential. The two popularly used models for estimating the feasibility of SBUs are the BCG competitive advantage matrix and the General Electric Model.

BCG competitive advantage matrix: The BCG growth-share matrix presents four cells, each representing the position of business units on a graph, where x-axis represents relative market share and the y-axis represents market growth

[3] http://www.google.com/corporate/

rate. The four cells are known as question marks, stars, cash cows, and dogs (Refer Figure 9.1).

Figure 9.1: BCG Market Growth/Market Share Matrix



Question marks – The business units appearing in this cell have huge potential for market growth, however, they have a low market share.

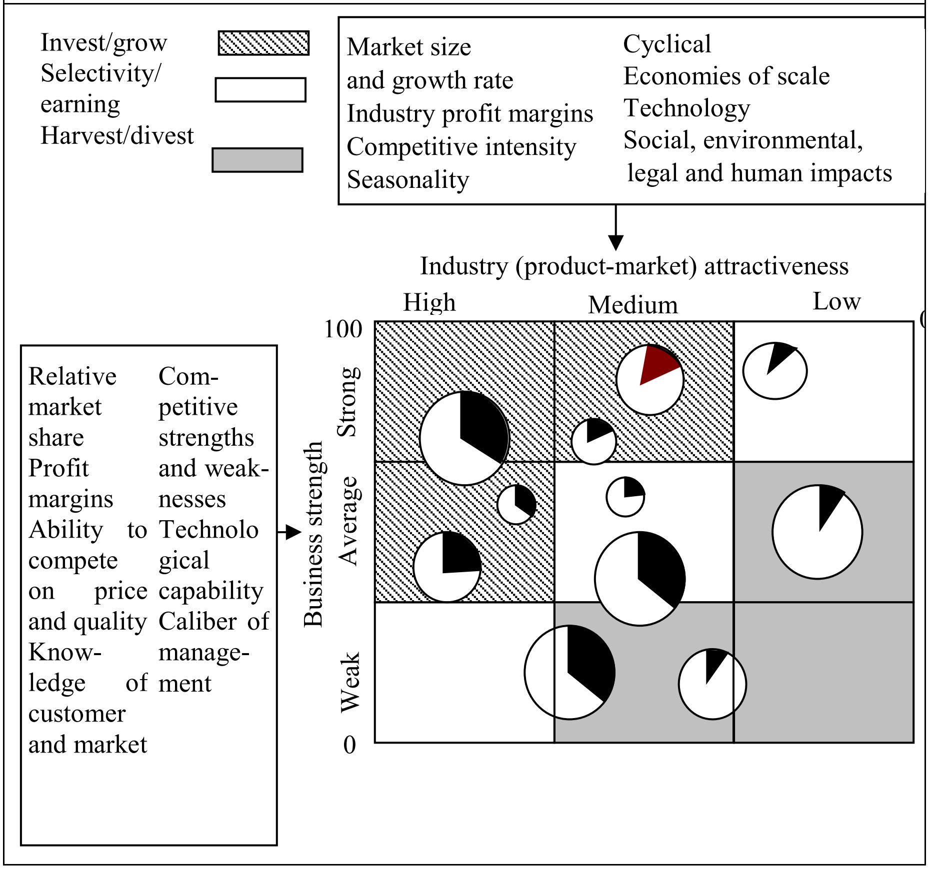
Stars – The business units that fall under this category function in an emerging market that has huge potential for growth. In addition, they enjoy considerable market share and also fetch huge revenues for the company.

Cash cows – Business units functioning in a mature market (i.e., low potential for growth) and having a large market share are referred to as 'cash cows.' These units do not require much investment, but they contribute huge revenues to the company.

Dogs – Such business units operate in a highly competitive market and in a mature industry. In addition, these units do not hold a major share of the market. The best option available to companies is to divest the units as early as possible.

General electric model: In this model, the business units are mapped out in a matrix containing nine cells. A SBU's feasibility is measured on the basis of industry attractiveness and business unit strength. Factors that influence industry attractiveness could be market growth, market size, industry potential, and demand conditions. A business unit's strength depends upon its relative market growth, market share, and brand value. Each SBU is represented by a circle, where the shaded portion depicts the market share of the unit in its industry. Figure 9.2 gives a diagrammatical representation of the GE model.

Figure 9.2: General Electric's Nine-Cell Planning Grid



Source: John A. Pearce II and Richard B. Robinson, Jr., Strategic Management Strategy Formulation and Implementation (Delhi: AITBS, Third edition) 287.

9.4.4 Planning new Businesses and Downsizing Existing businesses

Planning new businesses: Companies are required to devise new plans when the business is experiencing a wide gap between actual and projected sales. Usually, a company can improve sales through:

Intensive growth: Under this method, the company explores new opportunities in the existing area of business, to improve its business activities. The Ansoff product/market expansion grid is a useful model that helps companies in identifying new opportunities. The grid consists of four quadrants that can be used by marketers to analyze the various market opportunities. Each quadrant denotes a specific strategy for existing or new products in existing or new markets --

- First quadrant: It denotes a penetration strategy for existing products in an existing market.

- Second quadrant: It denotes a product development strategy for new products in an existing market.
- Third quadrant: It denotes a market development strategy for existing products in new markets.
- Fourth quadrant: It denotes a diversification strategy for new products in new markets.

Integrative growth: Firms may adopt forward, backward, horizontal, or vertical integration as a growth strategy. For example, if a manufacturing company aims to produce its own raw material, then it is known as backward integration. On the other hand, if the same company intends to start its own distribution network, then it amounts to forward integration. In horizontal integration, companies expand their businesses by acquiring the businesses of their competitors. Vertical integration is a growth strategy where companies grow by acquiring unrelated businesses. For example, if a textile manufacturing company acquires a biscuit manufacturing company, then it can be called vertical integration.

Diversification growth: This method is applicable when companies function in markets with huge growth opportunities and are also willing and able to invest in huge amounts. Companies may adopt concentric diversification strategy (serve new customer base by introducing products related to its existing products), horizontal diversification strategy (attract current customers through new products), or conglomerate diversification strategy (performs unrelated business activities).Exhibit 9.1 depicts the diversification strategies adopted by BYJU's, India's largest ed-tech company and the creator of India's most loved school learning app

Exhibit 9.1: Byju's views its acquisitions as integrations

Byju's has acquired around 15 companies since it was founded in 2011. On 7th September 2021, the company acquired Gradeup, an online test preparation platform. This is Byju's 8th acquisition of the year and is intended to help Byju's expand its offerings to 25 categories in test preparation space. Byju's has acquired Epic, a California-based online reading platform, for $500 million cash-and-stock deal in July 2021. BYJUs partnership with Epic will enable the company to create engaging and interactive reading and learning experiences for children globally. BYJU's mission is to fuel curiosity and make students fall in love with learning. Epic and its products being rooted in the same mission, Byju Raveendran, founder, and CEO, Byju's believes that it was a natural fit and it will create the opportunity to

Contd. ....

create impactful experiences for children to become life-long learners," said. BYJU'S also acquired upskilling startup Great Learning for $600 million. Byju's plans to invest $400 million into Great Learning to accelerate its growth. This is BYJU'S first acquisition in the upskilling segment beyond the K-12 and test prep segments.

Source: Adapted from, "BYJU's buys coding site tynker to beef up US expansion" www.economictimes.com, 16th Sep 2021

Activity: Identify the type of strategy adopted by marketers in each of the following cases:

- Pillsbury, a wheat flour manufacturer, introduced 'cooker cake mixes.'
- PaCk!, a packaged food company, purchased land to grow vegetables.
- LG Electronics India Ltd., an electronic goods company, introduced 'LG Care' and offered products, such as toothpaste, shampoo, detergents, and soaps.
- XYZ Co., an Indian company, set up a business division in the US to sell its products.
- Liberty Shoes Limited (LSL), a leading shoe manufacturing company in India, started a subsidiary called Liberty Retail Revolution Ltd. (LRR). LRR opened numerous retail outlets across the country that stored products produced by LSL only.
- Adidas Salomon AG (Adidas), a German athletic shoe company acquired Reebok, a global sports and fitness company.

Answer:

Downsizing Older Businesses: Companies must also be able to quickly identify older unproductive units and dispose them off. Through downsizing their units by selling unviable older units, companies can divert the resources from older business units to newer and more lucrative units.

Check Your Progress-2

2. There are five basic strategic activities that an organization has to undertake as part of its strategic planning to achieve organizational objectives. Which of the following is **not** one of these activities?
   a. Setting corporate mission
   b. Planning new business activities
   c. Establishing communication links between SBUs
   d. Forming SBUs.

3. With increasing competition and volatility in the business environment, more and more organizations are setting up Strategic Business Units (SBUs). Select the alternative that **best** describes an SBU.
   a. It is the business that undertakes the strategic planning process
   b. It is a separate and self-sufficient business unit operating in the market
   c. It is a business unit headed by a CEO
   d. It is a business unit that implements plans given by headquarters.

4. In a BCG matrix, what is the term given to a company having high market share in a low growth market?
   a. Question mark
   b. Stars
   c. Cash cows
   d. Dogs.

5. Match the quadrants of the BCG growth share matrix with the respective characteristics.
   i. Question marks
   ii. Stars
   iii. Cash cows
   iv. Dogs.

   p. Low market growth rate, Low relative market share
   q. Low market growth rate, High relative market share
   r. High market growth rate, High relative market share
   s. High market growth rate, Low relative market share.

   a. i/p, ii/q, iii/r, iv/s
   b. i/s, ii/r, iii/q, iv/p
   c. i/q, ii/r, iii/s, iv/p
   d. i/r, ii/s, iii/q, iv/p.

6. To fill the gap between projected and actual sales, a firm has to device certain growth strategies. Correctly match the strategies with their respective characteristics.
   i. Intensive growth
   ii. Integrative growth
   iii. Diversification growth.

   p. Focus on identifying business opportunities in related business areas
   q. Focus on opportunities with vast potential but unrelated to present business
   r. Focus on opportunities to increase market share of existing business.

   a. i/r, ii/p, iii/q
   b. i/p, ii/r, iii/q
   c. i/r, ii/q, iii/p
   d. i/q, ii/p, iii/r.
7. Integrative growth strategies are quite popular and are frequently used by businesses. Identify the alternative that is **not** a type of integrative growth strategy.
   a. Forward integration
   b. Backward integration
   c. Diagonal integration
   d. Horizontal integration.

9.5. Strategic Business Planning

Steps in Preparing Strategic Business Plan

Step 1: Prepare a statement describing the nature of the business, types of products produced, and customers' needs and preferences.

Step 2: Develop a mission statement.

Step 3: State the bases on which the plan is to be developed.

Step 4: Analyze the company's past performance.

Step 5: Understand the impact of market changes on business

Step 6: Compare the image of company with the customer's expected image.

Step 7: Search for critical success factors and try to add value to them.

Step 8: Analyze opportunities available with the firm.

Step 9: Check the performance of the management.

Step 10: Search for ways to enhance performance throughout the organization.

A strategic business plan can be successful, if it is drafted keeping in mind the present and future technological advancements in the market place. It must also contain achievable organizational goals and objectives. A plan can be successful when it involves the efforts of all the employees. Therefore, the management must strive to gain the confidence and support of the employees of the organization.

A strategic business plan involves the following stages:

Business Mission: A mission statement, as discussed earlier, must describe the activities of the company. An important feature of the mission statement is that it must reflect the core values of the company. A mission statement should answer the following 10 Questions:

1. What needs does the company want to fulfill and what are the problems it wants to solve?
2. What does the company want to sell to its customers and how does the company generate revenues?
3. What is the company's Unique Selling Proposition?
4. To whom does the company plan to sell its products/services and what is its target market?
5. What are the company's economic and financial goals?
6. What are the company's social/community goals?
7. What should be the image of the company in the eyes of the public?
8. What are the future prospects of the company with respect to product/service offerings?
9. What are the company's short-term strategies? What are the company's long-term strategies?
10. Does the company want to go public in future? What would be the company's exit strategy?

SWOT analysis: SWOT stands for strengths, weaknesses, opportunities, and threats. While strengths and weaknesses are internal to an organization, opportunities and threats are external factors present in the environment of the organization. SWOT analysis refers to the process, where an organization identifies the opportunities available with it and analyzes the challenges in the environment it has to deal with.

Strategies: These are methods and techniques used to achieve the long-term and short-term goals and objectives of the company.

Strategic alliances: It refers to tie-ups between two or more organizations to achieve a common objective. The companies collaborate with each other by sharing resources and ideas to accomplish a common objective.

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Implementation: Sometimes, even a well drafted plan leads to insufficient or ineffective results due to improper implementation. Therefore, successful implementation of a plan is as crucial as designing an effective plan. Richard Pascale (in his article "The Art of Japanese Management") and McKinsey (the 7-S model) have proposed certain ways for successful implementation of strategic business plans.

Feedback and control: Implementation of a business plan must be followed-up with continuous monitoring. Managers must ensure that the plan is being implemented in the right direction. For this, the management must obtain regular feedback and employ control mechanisms.

Activity: Ram & Shyam are planning to set up a cosmetics company called RS & Co. They would like to devise a strategic business plan for RS & Co. What are the various stages involved in devising a strategic business plan?

Answer:

Check Your Progress-3

8. It is the process of analyzing the company and the environment in which it is operating. What does '**it**' refer to here?
   a. SWOT analysis
   b. Feedback mechanism
   c. Environmental analysis
   d. Industry analysis.

9. Strategic business planning involves certain stages through which effective business plans are formulated. Identify the correct combination of the stages.
   a. Business mission - SWOT analysis - Strategy formulation - Implementation of strategy - Evaluation
   b. Business mission - SWOT Analysis - Strategies - Strategic alliances - Implementation - Feedback and control

c. Business mission - Formulation of strategies - Strategic alliances - Implementation - Feedback and control

d. Business mission - Business objective - Strategies - Strategic alliances - Implementation – Control.

9.6. Marketing Process

The marketing process of a company, typically, involves identifying the viable and potential marketing opportunities in the environment, developing strategies to effectively utilize these opportunities, evolving suitable marketing strategies, and supervising the implementation of these strategies.

Value delivery sequence: Michael J Lanning and Edward G Michaels of McKinsey stated that there are two types of value delivery sequences. They are:

Focus on product: Here, the organization emphasizes on manufacturing the product first, fixing the price and, then, attempting to sell it. This is the traditional value delivery activity.

Focus on customer: Here, the focus is on the marketing process, and importance is given to creation and delivery of value to customers.

Steps in the Planning Process

The following are the steps in the planning process:

Analyzing marketing opportunities: An organization must evaluate and understand the environment in which it is functioning and recognize the marketing opportunities available to it. For example, Coca-Cola India (Coke) identified the increasing growth prospect of the juice market. Therefore, it began positioning the drink '*Maaza*' as a juice drink. In addition, the company also introduced two new flavors – *Maaza Pineapple* and *Maaza Orange*, to further push Maaza's growth initiatives.

Developing marketing strategies: Marketing strategies are developed after analyzing market opportunities and product development. Every company has to tailor its strategies to suit the specific needs of the target market. For example, Coke recognized that the target customers for its product '*Maaza*' are home consumers and, accordingly, began selling its product in large family pack PET bottles.

Planning marketing programs: Organizations have to devise appropriate marketing programs for effective implementation of their marketing strategies. The management must take into consideration the 4Ps of marketing viz. product, price, place, and promotion while drafting an effective marketing program.

Managing the marketing effort: A marketing program has to be properly managed for its successful implementation. The management must continuously monitor the marketing program and take measures to correct deviations, if any, and any other wrong steps. However, the success of marketing depends upon the collaborative efforts of all the employees of the organization.

Activity: Arun, the marketing manager of Cool Foods, a frozen food company, is assigned the task of working out a marketing program for the company's new product, 'Very Berry – Frozen Strawberries.' Identify yourself as the marketing manager of Cool Foods and plan an effective marketing program for the new product.

Answer:

Check Your Progress-4

10. According to Michael J. Lanning and Edward G. Michaels, there are two types of value sequences. Which of the following is given greater emphasis in the customer-oriented delivery activity?
    a. Designing the product
    b. Segmenting, targeting and positioning
    c. Manufacturing the product
    d. Getting raw materials.

11. Choose the correct arrangement of steps in the marketing planning process.
    a. Developing marketing strategies - planning marketing programs - analyzing marketing opportunities - managing the marketing effort
    b. Planning marketing programs - developing marketing strategies - managing marketing effort - analyzing marketing opportunities

c. Developing marketing strategies - planning marketing programs - analyzing marketing opportunities - managing the marketing effort

d. Analyzing marketing opportunities - developing marketing strategies - planning marketing programs - managing the marketing effort.

9.7. Marketing Plan

Marketing planning is the process of developing a logical process to establish marketing goals and objectives, and the accomplishment of these goals. However, analysts have identified various barriers like confusion between tactics and strategies, between marketing function and marketing concept, and various other barriers that hinder the smooth functioning of a marketing program. Therefore, organizations are required to overcome these barriers.

A marketing plan involves the following functions:

Content: Includes executive summary, opportunity and issue analysis, marketing strategy, action programs, projected profit and loss statements, and control measures.

Executive summary: It is a brief description of an entire report containing the details of a marketing plan.

Opportunity and issue analysis: It involves analyzing the available opportunities and identifying the possible threats in the marketing environment.

Marketing strategy: It involves formulating a strategy to achieve the objectives and goals of the marketing plan.

Action programs: It specifies the details of strategies adopted, to achieve the goals and objectives of the marketing plan.

Projected profit and loss statement: It contains details of budgeted expenses that are to be allocated to different functions, such as advertising, sales, and distribution..

Controls: The final stage in the marketing plan is the process of controlling the activities that are deviating from the planned track.

Check Your Progress-5

12. The marketing plan of a business firm involves several functions: a chart specifying contents, opportunity and issue analysis, marketing strategy, action programs, projected profit and loss statements and control measures. Which of the following is **not** part of the content of a marketing plan?

    a. Opportunity and issue analysis

b. Action programs
c. Marketing strategy
d. SWOT analysis.

9.8. Summary

- Strategic market planning is the process of communicating and sharing data between various departments of an organization, to collectively formulate future strategies and implement them with maximum efficiency.
- Corporate strategic business planning consists of activities like defining the corporate mission, establishment of SBUs, resource allocation to SBUs, planning new businesses, and downsizing existing businesses.
- Optimum allocation of resources to various SBUs can be achieved by adopting any of the following two methods – BCG growth-share matrix or General Electric model.
- Strategic business planning is essential for smooth functioning of SBUs. A strategic business plan consists of stages, such as establishing the business mission, SWOT analysis, formulating strategies, adopting strategic alliances, implementation, and feedback and control.
- The marketing process involves various steps like analyzing the marketing opportunities, developing marketing strategies, planning marketing programs, and managing the marketing effort.
- A marketing plan involves functions, such as content, executive summary, opportunity issue analysis, marketing strategy, action programs, projected profit and loss statement, and controls.

9.9. Glossary

Boston Consulting Group (BCG) approach: A method developed by a management consulting company that evaluates strategic business units based on market growth rate and relative market share.

Concentric diversification: A growth strategy based on introducing into new markets new products that are technologically related to a firm's present products.

Core values: Pervasive and enduring values within a culture.

Horizontal diversification: A diversified growth approach based on introducing to current markets new products that are technologically unrelated to the firm's current products.

Horizontal integration: The integration of intermediaries in one level of the marketing process, such as retail outlets.

Intensive growth: A growth approach that depends on products or markets that have not yet achieved full potential; it might involve further development of existing products in current markets, introduction of current products into new markets, or development of new products for current markets.

Positioning: The process of achieving a desired spot in the minds of customers and potential customers; you can position your company, your products, your technologies, or any other entity that commands customer attention.

Strategic business unit (SBU): A unit of the firm that can be considered a separate entity for planning purposes; it may be a single product, a product line, a division, or the entire company.

Vertical integration: The process of developing a marketing system that includes both the source of production and the distribution capabilities; the result of vertical integration is called a vertical marketing system.

9.10. Self-Assessment Test

1. What are the basic activities in corporate strategic planning?
2. What is strategic business planning? What are the different stages involved in strategic business planning?

9.11. Suggested Reading / Reference Material

1. Philip Kotler, Kevin Lane Keller, Alexander Chernev, Marketing Management, 16th edition Pearson 2021
2. Roger Kevin, Steven Hartley, Marketing: The Core, 9th edition McGraw Hill 2021
3. Callie Daum. Marketing Management Essentials You Always Wanted To Know. Vibrant Publishers; Second edition (1 January 2020)
4. Saxena, Rajan. Marketing management. McGraw-Hill Publishing Co Ltd, 2019.
5. V S Ramaswamy and S. Namakumari. Marketing Management: Indian Context Global Perspective. Sage Publications India Pvt Ltd; Sixth edition, 2018
6. Gupta Prachi, et al., Marketing Management: Indian Cases. Pearson Education; First edition, 2017
7. Warren J. Keegan. Global Marketing Management. Pearson Education; Eighth edition, 2017.

9.12. Answers to Check Your Progress Questions

Following are the answers to the Check Your Progress questions given in the Unit.

1. **(b) Strategic market planning**

   Strategic market planning is the process of communicating and sharing data between different departments of an organization to collectively formulate future strategies and implement them with maximum efficiency. Strategy formulation helps decision-makers of an organization be proactive and respond to market needs, thereby staying ahead of competition.

2. **(c) Establishing communication links between SBUs**

   The five basic activities are: setting a corporate mission, forming SBUs, allocating resources to SBUs, planning new business activity and downsizing existing business activities. Establishing communication links between SBUs is a secondary activity associated with formation of SBUs.

3. **(b) It is a separate and self-sufficient business unit operating in the market**

   SBU is a separate and self-sufficient business unit operating in the market. Each SBU should be an individual business entity with an individual planning process.

4. **(c) Cash cows**

   Cash Cows are business units with a large market share in a mature and slow-growing industry.

5. **(b) i/s, ii/r, iii/q, iv/p**

   Question marks are characterized by low market share and high growth rate. Stars are business units with a large market share in fast growing markets or industries. Cash cows are business units that hold a large market share in a mature and slow-growing industry. Dogs are business units with low market share in an intensely competitive, mature industry characterized by low profits.

6. **(a) i/r, ii/p, iii/q**

   Companies have to deal with situations where there is a tremendous gap between actual and projected sales. The firm then has to devise strategies to fill this gap and increase sales. The organization can focus on identifying opportunities to increase the market share of existing businesses (intensive growth), or on identifying business opportunities in related business areas (integrative growth). It can otherwise identify opportunities that have vast potential but are unrelated to the present business activity (diversification growth).

7. (c) **Diagonal integration**

Most firms try to adopt integration strategies for growth. These include forward integration, backward integration or horizontal integration.

8. (a) **SWOT analysis**

SWOT analysis is the process of analyzing the company and the environment in which it is operating. It refers to Strengths, Weaknesses, Opportunities, and Threats faced by a company.

9. (b) **Business mission - SWOT analysis - Strategies - Strategic alliances - Implementation - Feedback and control**

Strategic business planning involves stages through which effective business plans are formulated. These stages are: determining the business mission, SWOT analysis, strategies, strategic alliances, implementation, feedback and control.

10. (b) **Segmenting, targeting and positioning**

The value delivery sequence concentrating on the customer focuses on the marketing process, where value is created and delivered to the customer. The most important process in this sequence is the strategic marketing process. The market is segmented, targeted and positioned and the product is then developed along with the service. The next phase is pricing, distribution, sales promotion and advertising. All other options are associated with the traditional product-oriented value delivery.

11. (d) **Analyzing marketing opportunities - developing marketing strategies - planning marketing programs - managing marketing effort**

The marketing process of a company typically involves identifying viable and potential marketing opportunities in the environment, developing strategies to effectively utilize them, evolve suitable marketing strategies and supervise implementation of these marketing efforts.

12. (d) **SWOT analysis**

The contents of a marketing plan are executive summary, opportunity and issue analysis, marketing strategy, action programs, projected profit and loss statement and control measures. SWOT analysis is associated with strategic business planning.

Unit 10

Marketing and Competitive Strategies

Structure

10.1. Introduction

In the earlier unit we discussed about the strategic market planning and the different levels at which strategic plans can be drafted. We have also discussed the strategic business planning, marketing process, and marketing plan. The present unit is about marketing and competitive strategies.

In a competitive business environment, marketers need to develop strategies that will enable them to gain an edge over competitors. Continuous analysis of customers, the competitive environment, and their own internal performance by the firms is necessary to stay ahead of competition. Competitive advantage refers to the significant advantage that a firm enjoys over its competitors in the industry. There are three basic competitive strategies identified by Michael Porter ─ cost leadership, differentiation, and focus. Michael Porter also identified the five forces which influence the competition in an industry viz.

barriers to entry/threat of new entrants, intensity of rivalry among firms, threat of substitutes, bargaining power of buyers, and bargaining power of suppliers.

The analysis of competitor resource analysis is important to gauge their strengths and weaknesses. Competitors can be classified into different categories like generic competition, form competition, industry competition, and brand competition. While designing competitive strategies the strategies adopted by market leaders, market challengers, market followers, and niche marketers are different in nature. Firms have to setup competitive intelligence systems to collect information about competitors and the business environment they are operating and develop strategies to achieve competitive advantage.

In this unit, we will discuss the concept of competitive advantage and Porter's Five Forces model. We shall then move on to discuss generic competitive strategies and designing of competitive strategies. We will conclude the unit by discussing maintaining competitive intelligence system, and the concept of total quality management.

Before studying this unit, student should recall the concept of competitive forces (Unit 3) and strategic market planning (Unit 9).

10.2. Objectives

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

- Define the concept of competitive advantage
- Describe the five forces identified by porter which identify competition in an industry
- Explain how competitors are analyzed
- Discuss the Porter's generic competitive strategies
- Explain the designing of competitive strategies
- Explain the concept of competitive intelligence system
- Define the concept of total quality management

10.3. The Concept of Competitive Advantage

The competitive advantage that a firm has in a market is the significant advantage it enjoys over competitors in the industry. Michael Porter identified three basic competitive strategies – cost leadership, differentiation, and focus. A firm possesses cost advantage when it offers the same value to customers as its competitors but at a lower price. It is said to have a differentiation advantage when it offers superior value to customers compared to its competitors. These two advantages are also called positional advantages of the company as they represent the firm's capability to lead the industry by having either of these advantages.

An organization's unique competencies are created by its resources and skills. The resources of an organization include patents, trademarks, technical know-how, and brand value. The skills include the service quality of the firm, employee skills, and efficiency. The competencies of the organization help it in identifying its positional advantages and ultimately in creating value for customers.

Activity: Effervent Inc., a manufacturing and marketing company of consumer durables, has the patent rights for the de-frost technology used in refrigerators. The company has exclusive rights to use the technology in its products for two years. How do you think this patent will help Effervent Inc. to gain a competitive advantage in the market? Justify your opinion.

Answer:

Check Your Progress-1

1. Competitive advantage is the unique advantage that a firm possesses over a competitor in the industry. What, according to Michael Porter, are the two types of competitive advantages that business firms can possess?
   a. Positional advantage - Differentiation advantage
   b. Cost advantage - Differentiation advantage
   c. Price advantage - Positional advantage
   d. Cost advantage - Positional advantage.

10.4. Porter's Five Forces Model

Competition in an industry may not only be from existing competitors but also from market forces like suppliers, customers, potential entrants, and existence of substitute products. As the profits of a firm depend on the level of competition, understanding it is important for the firm to measure its strengths and weaknesses.

The five forces which influence competition in an industry are:

- Barriers to entry / Threat of new entrants
- Intensity of rivalry among firms
- Threat of substitutes
- Bargaining power of buyers
- Bargaining power of suppliers

Barriers to Entry/Threat of New Entrants

The entry barriers for new entrants into an industry are economies of scale, access to distribution channels, product differentiation, high capital cost, government policy, etc. There can be other barriers like patents too. Firms can enter and exit an industry at will unless there are restrictions like the barriers discussed here. The entry of new players increases the competition for existing players. For example, the market share of Parle-Bisleri in the branded water business came down significantly with the entry of new players like Pepsi's Aquafina, Coca-Cola's Kinley, etc.

Intensity of Rivalry among Firms

The extent of rivalry among existing firms in an industry depends on the number of business units operating within the industry. The intensity of rivalry will be less if a few firms enjoy a large market share. On the contrary, if there are a large number of small players, rivalry among them will be high. This rivalry leads to price wars, competitive advertising, increase in warranties, and competition to provide customer services. Rivalry among firms is also high when the switching costs for customers are low.

Firms which aim to gain a competitive advantage in an industry where the rivalry is low adopt strategies of differentiation in products, prices, and usage of distribution channels. If there are a large numbers of players operating in an industry with almost equal market shares, the rivalry is bound to be high.

Threat of Substitutes

Substitute products can regulate the price a firm can charge from its customers. The substitutes influence the level of competition in an industry. For example, tea and coffee are substitutes. If the price of coffee increases, customers have the option of switching to tea. The switching costs are also negligible in this case.

Bargaining Power of Buyers

Michael Porter specified the following circumstances in which bargaining power of buyers will be high:

- When purchases of buyers are in large quantities.

- When there are a few large buyers and many suppliers.
- When the suppliers' industry is dependent on buyers for a large percentage of total orders.
- When the switching costs for buyers are low and so suppliers are forced to bring down prices.
- When the buyers can purchase input from several companies at a time economically.
- When buyers have the capacity to vertically integrate to provide their own needs and use it as a threat to force down prices.

Bargaining Power of Suppliers

The circumstances under which bargaining power of suppliers is high are as follows:

- When the product supplied has few substitutes and is important for the buyer.
- When the suppliers do not have a single industry as a major customer.
- When the costs of switching from one supplier to another are high for the buyer as product differentiation is very high and the products are not easily substitutable.
- When suppliers can use threats to vertically integrate forward to raise prices and compete with the buying company.
- When buyers cannot vertically integrate backward to supply their own needs and reduce input prices.

Activity: Identify the competitive forces influencing the business of the following organizations:

- Q-Mart, a national retailing firm, has started operating in Nasik and the business of Neednext, a local retailing firm is under threat.
- When Jentil Technologies reduced the prices of personal computers, Accent Computer services was forced to bring down the prices of computers offered by it.
- Automobile manufacturers came together and forced the suppliers to bring down the cost of steel, a major item used in the manufacture of automobiles.

Answer:

Check Your Progress-2

2. Michael E. Porter of Harvard Business School has developed a framework known as 'Five Forces Model.' Identify the alternative that is **not** one of the five forces mentioned in the model.
   a. Threat of forward integration
   b. Bargaining power of buyers
   c. Bargaining power of suppliers
   d. Rivalry among existing players.
3. Porter specified various situations in which the bargaining power of buyers will be higher. Which of the following circumstances is incorrect?
   a. When the supplier's industry depends on the buyers for a large percentage of its total orders
   b. When the buyers can switch orders between supply companies at low cost, thereby playing companies off against each other to force down prices
   c. When it is economically feasible for the buyers to purchase the input from very few companies at a time
   d. When the buyers can use the threat to provide for their own needs through vertical integration as a device for forcing down prices.
4. Similar to buyer power, suppliers too exert power. Suppliers are **not** influential under which of the following circumstances?
   a. When the products sold by supplier has few substitutes
   b. When a single industry is a major customer for the suppliers
   c. When products in the industry are differentiated to such an extent that they are not easily substitutable and it is costly for a buyer to switch from one supplier to another
   d. When the buying companies cannot use the threat of vertically integrating backward and supplying their own needs as a means to reduce input prices.

10.5. Analysis of Competitors

The analysis of competitors includes collecting information about the competitors. Understanding competitors' strategies regarding products, prices, distribution, promotion, etc. helps an organization to develop effective strategies. Identification of competitors, their long-term and short-term objectives, their strengths and weaknesses helps the organization to recognize the opportunities and threats in the market. However, before analyzing the competition in the industry, organizations need to analyze the external environment.

To carry out a systematic analysis of competitors, organizations should first know who the existing competitors are and who would be possible competitors in the near future. Current competition can be analyzed by understanding all the ways in which a customer's needs or wants can be satisfied. The role of an organization's buyers and suppliers may also change in the future with forward or backward integration in the supply chain.

After identifying the competitors, organizations need to rank them. Later, information about competitors' financial positions, their portfolio, and the information related to relative strengths and weaknesses of competitors need to be collected. Depending on the type of company, the level of difficulty in collecting this information differs. A single industry concentrates on niche market segments and information about it can be collected easily. Information about multi-industry and multinational companies is hard to collect as these companies are involved in a wide range of businesses. It must be understood that each business in the portfolio has its own investment objectives and these should be analyzed to know about the competitors' potential.

Competitor resource analysis is essential to know about their relative strengths and weaknesses.

Classes of Competitors

Competitors can be classified into categories based on generic, form, industry, and brand competition.

Generic competition: In this type of competition, companies compete for the same disposable income of customers. Marketers compete to ensure that their products are on the purchase list of customers with limited disposable incomes. For example, Whirlpool Corporation, manufacturer of various consumer durables, and TVS Motor Company are vying for the same disposable income of customers.

Form competition: In form competition, a company competes with all other companies which offer similar benefits to customers. For example, TVS Motor Company competes with all companies providing transportation facility to customers, which could be companies producing cars, buses, autos, etc.

Industry competition: In this kind of competition, a company competes with similar products manufactured by other companies. For example, TVS Motor Company competes with Bajaj Auto Ltd., Hero Honda Motors Ltd., Kinetic Motor Company Ltd. and other companies, which produce motorcycles.

Brand competition: In brand competition, a company competes with companies offering products to the same segments of market. For example, TVS Motor Company, which manufactures fuel-efficient bikes, competes with companies manufacturing only fuel-efficient bikes and will not be engaged in competition with other bike manufacturing firms that come out with other types of motorcycles targeted at different segments of the market.

Identifying Competition

Identifying competitors can be done based on the products and services of a company. Being aware of new entrants into the industry is essential while identifying competition. For example, watch companies are facing competition from mobile phones as more and more people are using them as timekeepers. This may lead to mobile users stop purchasing watches in the future.

Analyzing Competition

Competition should be analyzed based on different criteria. Technological breakthroughs can severely affect the competitiveness of a firm. For instance, the innovation of compact disc (CD) technology caused a loss in market for VCPs and VCRs.

Strategies

Efficiency in framing strategies helps a company to stay ahead in the competition. Firms operating in the same market segments need to develop distinguishing strategies to gain an edge over other competing firms. In order to withstand competition, firms should monitor the strategies of competitors continuously and should formulate counter strategies to deal with the competition. Further, changes in the operating environment need to be monitored by the companies to grab opportunities.

Objectives

Objectives form the basis of the planning process and state the end results to be achieved by an organization. They can be long-term or short-term and they depend on environmental factors. For setting objectives, organizations can adopt either a top-down or bottom-up approach. While setting objectives for an organization, competitors' objectives also need to be considered. A firm's objectives also depend on the state of the industry in which it is operating.

Strengths and Weaknesses

Strengths are the distinctive competencies of a firm, which give a comparative advantage to the firm in the marketplace. Some of the sources of strength are technical superiority, skills of personnel, brand value in the market, and good distribution network. The weaknesses of a firm include those factors that impede a company's performance. A weakness could be limitation of financial resources, lack of management capabilities, poor marketing skills, etc.

Understanding its own internal strengths and weaknesses helps an organization in framing the best strategies for itself. Analyzing the competitors' strengths and weaknesses is useful in narrowing down the choice of alternative strategies.

Reaction Patterns

The types of reaction from competitors can be varied. The competitors can be classified as slow reactors, selective competitors, tough competitors, and unpredictable competitors.

Table 10.1: Checklist for Competitor Resource Analysis

Management	Innovation	Financing	Production	Marketing
Key people • Objectives and priorities • Values • Reward systems	**Technical resources** • Concepts • Patents and copyrights • Technological sophistication • Technical integration	**Long-term** • Debt/equity ratio • Cost of debt	**Physical resources** • Capacity • Plant - Size - Location - Age • Equipment - Automation - Maintenance - Flexibility • Processes - Uniqueness - Flexibility • Degree of integration	**Sales force** • Skills • Size • Type • Location
Decision making • Location • Type • Speed	**Human resources** • Key people and skills • Use of external technical groups	**Short-term** • Line of credit • Type of debt • Cost of debt		**Distribution network** **Research** • Skills • Type
Planning • Type • Emphasis • Time span	**Funding** • Total • Percentage of sales • Consistency over time • Internally generated • Government supplied	**Liquidity** **Cash flow** - Days of receivables - Inventory turnover - Accounting practices		**Service and sales policies** **Advertising** • Skills • Type
Staffing • Longevity and turnover • Experience • Replacement		**Human resources** - Key people and skills - Turnover	**Human resources** • Key people and skills • Workforces - Skills mix - Unions - Turnover	**Human resources** • Key people and skills • Turnover
Organization • Centralization • Functions • Use of staff		**Systems** - Budgeting - Forecasting Controlling		**Funding** • Total • Consistency • Percentage of sales • Reward systems

Source: Rothschild, William E, "Competitor Analysis: The Missing Link in the Strategy," McKinsey Quarterly, Autumn79, Issue 3, 42 – 53.

Slow reactors are very slow in reacting to the competition. Selective competitors react only to certain types of strategy changes by competitor firms. A tough competitor strongly retaliates to every move of the competitor. For example, Pepsi and Coca-Cola can be considered as tough competitors, since any move by either of the parties results in a swift counter-move by the other. Unpredictable competitors are those who may or may not respond to the strategies of their competitors. Analyzing the reaction of competitors appropriately is essential for long-term sustenance of firms in the market.

Check Your Progress-2

5. A firm sees its competitors as companies that are vying with it for the same consumer dollars. What kind of competitive scenario is described here?
   a. Brand
   b. Industry
   c. Form
   d. Generic.

10.6. Porter's Generic Competitive Strategies

If the resources of a firm are utilized optimally it can operate beneficially even when the industry is not profitable. The strategies adopted by a firm affect the success of the firm in an industry. According to Michael E. Porter, all strategies are derived from three generic strategies. They are cost leadership, differentiation, and focus.

Cost Leadership Strategy

If a firm manages to keep its cost of production lower than that of its competitors by managing its resources efficiently, it gains cost leadership in the industry it operates in. Control of costs can be through efficient methods of production, procuring materials at low prices, curbing overhead and administrative costs, monitoring and controlling costs of distribution, promotion, and services. The firm with cost leadership can gain an edge over competitors by offering products at a low cost to customers. Due to cost leadership, the firm can also earn higher profits due to increased profit margins or through increase in sales volume. However, the firm with cost leadership faces a threat to its position when new technology is introduced or if its competitors further reduce the prices of products.

Differentiation Strategy

Firms which adopts the differentiation strategy should possess skills and abilities to differentiate their products from that of competitors so that consumers can perceive the products of the company as being different from those of competitors. Differentiation of a product can be done in terms of design or brand image (Pepsi), features (Mercedes Benz), technology (Intel), quality (Toyota), customer service (Hilton hotels), etc. A firm can attract customers using the differentiation strategy by influencing the customers' perception instead of reducing prices. However, the risk in adopting the differentiation strategy is that competitors may attract customers with the same kind of differentiation strategies.

Focus Strategy

The firm which adopts the focus strategy serves a specific segment of a market. It may be a specific geographic area or a special group of customers or a particular service or product line. The entry of a new player into the market will be difficult as customers will be loyal to the firm that serves them using the focus strategy. However, the risk associated with focus strategy is that it is replicable by other firms. Exhibit 10.1 delineates the focus strategy the BVLGARI adopted to market its Managalsutra for modern Indian bride.

Exhibit 10.1: BVLGARI's Mangalsutra for Modern Indian Bride

On 1st September 2021 Mauro Di Roberto, managing director (jewellery business unit) at Bvlgari, launched its first India exclusive jewellery – Managalsutra, through online presentation in the presence of brand's global ambassador and actor Priyanka Chopra Jonas. Bvlgari designed the traditional and sacred ornament of Indian married woman with a contemporary twist. It is made of 18 carat yellow gold with round black onyx and pave diamonds. The piece is a perfect blend of tradition and modernity. It helped Bvlgari strike a connection with Indian cultural traditions. To maintain the traditional appeal of the mangal sutra, Bvlgari team worked closely with their team in India and Priyanka Chopra. The company wants to ensure that it resonates with the lifestyles of modern bride today. On the occasion of launch Roberto said that they took several years to design BVLGARI's interpretation of the mangalsutra for the modern Indian woman. Bvlgari designed it in such a way that modern Indian bride can wear it from morning to night, and pair it with Indian as well as western wear. The piece at ₹3,49,000 worth, is meant to cater to the high income group and elite class of the society.

Source: Adapted from "Why Bvlgari recreated the "mangalsutra" www.livemint.com. 25th September 2021

Generic Strategy Mix

Generic strategies are not always compatible with one another. If the firm adopts all three strategies at a time, it may not gain an advantage. For example, if a firm focusing on a niche market differentiates itself by offering quality products and wants to be a cost leader at the same time, it may project a confusing image to customers. Therefore, Porter suggested that firms should select a single generic strategy to be successful in the long-term. Porter said firms which are able to succeed with multiple strategies have usually applied a separate strategy for each business unit. However, firms cannot always be successful with a single strategy as the customers seek multi-dimensional satisfactions from the same product. Some of the firms which followed a differentiation strategy by providing high quality products suffered when new firms offered products of lower quality that could satisfy the overall needs of customers.

Check Your Progress-4

6. According to Michael E Porter all strategies applied in firms are derived from three generic strategies. Which of the following is **not** a generic strategy?
    a. Cost leadership strategy
    b. Integration strategy
    c. Focus strategy
    d. Differentiation strategy.

7. Match the three types of generic strategies with their corresponding characteristics.
    i. Cost leadership strategy
    ii. Focus strategy
    iii. Differentiation strategy.

    p. A strategy to serve a specific segment instead of catering to the entire market
    q. A strategy that focuses on minimizing the costs on every aspect of the business
    r. A strategy that allows the consumers to perceive the product as different from that of the competition.

    a. i/p, ii/q, iii/r
    b. i/q, ii/r, iii/p
    c. i/r, ii/p, iii/q
    d. i/q, ii/p, iii/r.

8. Which of the following is **not** a characteristic of the focus strategy specified by Porter?
   a. The firm serves a specific segment of the market
   b. Entry barrier is high
   c. Low level of customer loyalty
   d. Chance of pricing the product higher.

10.7. Designing Competitive Strategies

The strategies adopted by market leaders, challengers, followers, and niche marketers are different in nature.

Market Leader Strategies

The market leader is a firm with considerable market share and is acknowledged by other firms in the industry as a leader. In a book titled 'Marketing Warfare' Al Ries and Jack Trout compared marketing to a football match. If a team identifies the goalpost, and it just moves toward the goalpost without taking the other team into consideration, then it will be blocked by the other team while trying to score the goal. Therefore, it is important for a firm to evaluate competitor moves to sustain itself in the market. The market leader can stay ahead of the competition by constantly guarding itself from competitors through various strategies. For example, Bambino vermicelli retained its position in the market by encouraging customers to use more of the product by propagating a variety of recipes using vermicelli.

Market Challenger Strategies

Firms which occupy the second, third, and fourth positions in the market are termed as market challengers. A market challenger can attack the vulnerable areas of a leader when it has sufficient resources to sustain the attack. Sometimes it may attack the weak spots of a leader to grab maximum market share. The alternative strategy of a challenger is to attack the market leader in the areas where the strength of leader has not been established. For example, the success of microfinance organizations like Share, SEWA, etc. is due to the penetration of these organizations into rural areas of India where multinational banks do not have a stronghold. Captain Cook salt's promotional campaigns explain how new players challenge established players, with their product's distinguished features. When Captain Cook was launched in Indian markets, through its campaigns the company challenged the established player Tata Salt, It stressed its unique feature of free-flowing salt and compared the feature with a pack of salt that bore a close reference to Tata Salt, a well-established brand in the Indian market.

Market Follower Strategies

Unlike market challengers, market followers follow the leader instead of attacking it. Market follower firms develop products utilizing the innovations of the market leader. Usually, a market follower will not attack the market leader unless it has some strong point. The reason is that a market follower will not be able to sustain competition from the market leader if it attacks the leader by offering the same quality products at the same price.

Market Niche Strategies

Firms that have adopted niche marketing strategies operate in a small segment of the market in which the market leader is not interested. Niche marketers gain the loyalty of customers in a small segment of the market by focusing all their resources on ensuring that customers of the segment remain loyal to them.

Check Your Progres-5

9. What is the term given to a company that serves a small market segment that is not being served by the market leader?
   a. Market follower
   b. Market nicher
   c. Market challenger
   d. Market leader.

10. A company attacks the market leader and other competitors in an aggressive bid for more market share. What strategy is the company adopting?
    a. Market leader strategy
    b. Market nicher strategy
    c. Market follower strategy
    d. Market challenger strategy.

10.8. Marketing Strategies during Economic Recession

Economic influence on marketing is often cyclic in nature based on boom or recession. There are companies that have shown positive growth despite economic recession. There are also companies that have reduced marketing budget during recession. Successful companies have made better marketing decisions to thrive during economic recession. Companies can rethink their marketing strategies during recession as follows.

- **Don’t undercut marketing investment:** Successful companies have not reduced marketing expenditure during recession. Even they have increased marketing budget to exploit the opportunity. The companies that have reduced marketing budget during recession have experienced negative growth.

- **Slashing marketing budget create long-term liability:** The econometric studies have shown that marketers who have slashed marketing budget during economic downturn suffer the effects in terms of sales for another four to five years. Marketing decisions to reduce spending in a recession have long term implications for the businesses in terms of relationship with other stakeholders.
- **Be in touch with customer always:** Companies that look at marketing as an investment, and not an expense have invested money based on customer knowledge. For example, Amazon has never reduced marketing budget during recession. Even companies have introduced their new products during recession to be in constant touch with the customers. For example, for customers who purchased or leased a vehicle starting March 14^{th} 2020, Hyundai Motor promised to make up to six car payments if they lose their job due to coronavirus-related issues. The automaker's lending arm, Hyundai Motor Finance, accepted deferred payments for 90 days at the customer's request.
- **Consider recession as an opportunity:** Marketers can consider recession as an opportunity to review their budget allocation. Aggressive marketing in a recession is the best time to gain awareness and momentum. Reallocate budget based on effective spending where underperforming channels can be avoided and better product promoters can be motivated with incentives. Budget reallocation may open up better opportunities and eliminate ineffective strategies.
- **Define value proposition of the product:** Companies jump on reducing price or offer discounts during recession to attract more customers. Instead companies can define the value proposition of the product with more details such as psychological benefits, logistical benefits, financial benefits etc. to enhance the loyalty of customers. For example, American Express defines its ‘credit card’ value proposition as follows.
  - It conveys customers that we are going to get through this recession together
  - Customers are alerted when they are close to going over the limits
  - Invite card members to vote for on which charity that company would support to connect with customers.
- **Build Trust:** Customers seek familiar and trusted brands during difficult times as a safe choice. Educate customers about how to save money during recession by providing useful tips to manage their purchases.

10.9. Competitive Intelligence System

Firms have to collect information about competitors and the business environment in they are operating in order to develop strategies to achieve a competitive advantage. The availability of the latest information technology tools for collecting competitive information has made the task easier over the years. Research conducted to evaluate how the small firms put competitor intelligence system to use found that most small firms collect intelligence information in an informal manner. It was also observed that irrespective of size, evaluating the competition through proper competitive intelligence systems helped companies in strategic decision making.

Setting Up the System

Setting up a competitive intelligence system helps organizations in various decision-making processes. The information in most organizations is collected through two broad sources. They are the employees' knowledge and corporate information. Management Information Systems (MIS) help in efficiently managing the information collected through the source of corporate information.

Assessing which of the individual and corporate information has to be used is necessary to set up a competitive intelligence system (CIS). However, individual information can also be converted into corporate information to develop a competitive intelligence system. The personal knowledge of employees can significantly help an organization to develop an effective competitive intelligence system. Employees can improve the efficiency of CIS if they understand their role in the system and contribute relevant personal information.

To set up a competitive intelligence system, the initial step is to search for information about the competition in areas required. The sources of such information have to then be identified. Finally an employee should collect and maintain the information.

Data Collection

Information about competitors can be collected through the annual reports of competitor firms, material published for public information, from loyal customers, and through various media. However, organizations should ensure that information so collected is done through ethical and legal means.

Analysis and Evaluation of Data

Analysis of data collected from various sources should be done according to its relevance to the firm. The data so collected should be interpreted and presented according to the organization's requirement. Further, all departments of the organization should share the collected information. Finally, such information can be utilized in the strategic planning process to improve product development ideas and also to select target markets.

Information Communication and Response

The information interpreted and evaluated is made available to decision makers as and when information about competitors is required by them.

Check Your Progress-6

11. The four steps in designing a competitive intelligence system are carried out in which of the following sequences?
    i. Collecting the data
    ii. Evaluating and analyzing the data
    iii. Setting up the system
    iv. Disseminating information and responding to it.

    a. i, ii, iii, iv
    b. iv, iii, ii, i
    c. iii, i, ii, iv
    d. ii, iv, iii, i.

10.10. Total Quality Management (TQM)

TQM is a well-defined process for organizational effectiveness, which aligns different business models with the aim of satisfying customers and suppliers, the focus being on development and innovativeness. TQM is a continuous process to produce products according to the wants and preferences of customers by carefully eliminating defects.

Many companies are employing techniques such as Six Sigma[4] to reduce costs and eliminate defects in the production process. Reduction of costs, while improving the production process, is attained through Six Sigma methodology. Quality standards set by companies should be dynamic enough to suit the changing market environment. TQM training is to be provided for all the employees of an organization to improvise the business processes. The following exhibit provides details of TQM at Toyota (Exhibit 10.2).

[4] Six Sigma is a disciplined, data-driven approach and methodology for eliminating defects in organizational processes. http://www.isixsigma.com/sixsigma/six_sigma.asp

Exhibit 10.2: Toyota-Pioneering TQM

Toyota Motor Corporation, USA, started the concept of Total Quality Management (TQM) under the method of Total Productive Maintenance (TPM). In the1960s, there was a practice among workers to operate a machine till there was a breakdown and then to approach an engineer to get it fixed. This practice affected production levels as the level of production used to come down when the machine was waiting to get fixed. In order to overcome this problem, Toyota made its workers fully responsible for individual machines. The workers were required to document the maintenance history of the machines on which they worked. They were then made to clean the machines regularly to keep them free of dust. Technical training was provided to workers to enable them to know about the internal functioning of machines and to react immediately when they noticed a problem. The basic concepts of TQM and problem solving as well as kaizen (continuous improvement) through creative innovation are spread throughout the company and took root, contributing to higher product quality and work quality at all levels and ranks and improving the vitality of individuals and organizations. .

Source: www.https://global.toyota/en/company/vision-and-philosophy/production-system/Accessed on 1st Oct 2021

Check Your Progress-7

12. It is a process for satisfying customers and suppliers by aligning different business models for organizational effectiveness, constant focus on development and innovativeness with dynamic organization. Identify the concept.
    a. Total Quantity Management
    b. Customer Analysis
    c. Total Value Analysis
    d. Total Quality Management.

10.11. Summary

- Organizations need to have a competitive advantage to sustain themselves in the dynamic business environment. There are two types of competitive advantages -- cost advantage and differentiation advantage.
- Michael Porter suggested the Five Forces model for analysis of the competition. The forces which affect competition are threat from new entrants, rivalry among existing firms, bargaining power of buyers, bargaining power of suppliers, threat of substitutes.

- According to Porter, there are three generic strategies to gain a competitive advantage. They are cost leadership strategy, differentiation strategy, and focus strategy.
- Competitive strategies should be developed based on the position of the company in the market. The firm could be in the position of market leader, challenger, follower, or niche marketer.
- A competitive intelligence system helps in analyzing competitors' strategies better.
- TQM is a continuous process to improve all business processes in order to improve customer satisfaction.

10.12. Glossary

Barriers to entry: Competitive conditions that make it expensive, illegal, or otherwise difficult to enter a market as a competitor.

Comparative advantage: The advantage a nation has when it specializes in exporting products it can produce more cheaply than other nations.

Competitive advertising: Advertising that tries to promote specific product features as better than those offered by the competition.

Competitor intelligence: The systematic collection and analysis of data about a firm's competitors, with the goals of understanding the competitors' positions in the market and of formulating strategies in response.

Distinctive competencies: Those things that a particular firm does better than any other firm in its industry.

Price war: A market situation in which competitors constantly try to beat each other's prices; a frequent result is that prices are driven down so low that companies sell at a loss.

Total quality management (TQM): A philosophy and management system that bases everything an organization does on the pursuit of quality.

Trademark: A brand or portion of a brand that is legally registered with the U.S. government for exclusive use by the owner of the brand.

10.13. Self-Assessment Test

1. Porter's Five Forces model is an important concept to understand how a firm is influenced by the different factors in its environment. Explain the concept of competitive advantage with the help of Porter's Five Forces model.
2. A firm should possess one of the generic strategies in order to survive in the market. What are Porter's generic competitive strategies? How are competitive strategies designed?
3. Explain the concepts of competitive intelligence system and TQM.

10.14. Suggested Reading / Reference Material

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2. Roger Kevin, Steven Hartley, Marketing: The Core, 9th edition McGraw-Hill 2021
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6. Gupta Prachi, et al., Marketing Management: Indian Cases. Pearson Education; First edition, 2017
7. Warren J. Keegan. Global Marketing Management. Pearson Education; Eighth edition, 2017.
8. R Srinivasan. Case Studies in Marketing: The Indian Context. PHI Learning; 7th edition, 2018

10.15. Answers to Check Your Progress Questions

Following are the answers to the Check Your Progress questions given in the Unit.

1. **(b) Cost advantage - Differentiation advantage**

   According to Michael Porter, there are two types of competitive advantage – cost advantage and differentiation advantage. A firm that offers the consumer the same value as the competitors but at a lower cost, is said to possess cost advantage, whereas a company that offers superior value to its customers when compared to its competitors, possesses differentiation advantage.

2. **(a) Threat of forward integration**

   The five forces included in the model are; the threat of new entrants, the bargaining power of buyers, the bargaining power of suppliers, the rivalry among existing players and the threat of substitute products. Threat of forward integration is associated with bargaining power of suppliers.

3. **(c) When it is economically feasible for the buyers to purchase the input from very few companies at a time**

   Option ‘c’ is incorrect since bargaining power of buyers is higher when it is economically feasible for the buyers to purchase the input from several companies at a time.

4. **(b) When a single industry is a major customer for the suppliers**

   Option ‘b’ is incorrect. Suppliers are powerful when no single industry/company is a major customer for them and there is no overdependence on few buyers for getting revenues.

5. **(d) Generic**

   Generic competition is where all companies vie for the same disposable income of the customer.

6. **(b) Integration strategy**

   The three generic strategies are cost leadership strategy, focus strategy, and differentiation strategy.

7. **(d) i/q, ii/p, iii/r**

   A firm gains cost leadership in an industry when its cost of production is lower than that of its competitors. This strategy involves attempting to minimize costs in every aspect of the business. The differentiation strategy adopted by the firms aims to possess sufficient skills and abilities to differentiate the product from that of the competitors based on some attributes that allow the consumers to perceive the product as different from that of the competition. A firm pursuing a focus strategy tends to serve a specific segment instead of catering to the entire market.

8. **(c) Low level of customer loyalty**

   A firm pursuing a focus strategy tends to serve a specific segment instead of catering to the entire market. This segment may be a special group of customers, a specific geographic area, or a particular product or service line. The customers will be more loyal to the company and therefore, the entry of a new competitor into that area becomes difficult.

9. **(b) Market nicher**

   Companies following niche strategies do not wish to attack the market leader and therefore, operate in a small segment of the market in which the leader is not interested. A niche marketer usually focuses all his resources to efficiently serve a small market segment and thus gains the loyalty of customers in this segment.

10. **(d) Market challenger strategy**

    A market challenger attacks the market leader and other competitors in an aggressive bid for more market share.

11. **(c) iii, i, ii, iv**

    The steps involved in competitive intelligent system are setting up the system, collecting the data, evaluating and analyzing the data, and disseminating information and responding to it.

12. **(d) Total quality management**

    Total Quality Management is a management approach focused on quality to satisfy customers and suppliers by aligning the different business models for organizational effectiveness through constant focus on development and innovativeness.

Marketing Management

Course Components

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Unit 26	Marketing of Organizations, Individuals, Places, and Ideas
Unit 27	Marketing Management: Ethical and Social Dimensions
Unit 28	Green and Sustainable Marketing
Unit 29	Marketing Analytics