Strategic Marketing-Contemporary Issues
Prof. Jayanta Chatterjee
Department of Industrial and Management Engineering
Indian Institute of Technology, Kanpur

Lecture – 10

This was our concluding slide, we had taken our original hands of matrix concept and added some different activities in each of the quadrants. So, we call that current market, current product class of activities called that market Penetrations strategy. New product in the current market, we call that product development strategy and the various actions entailed there in front of you. And market development strategy when we are looking at taking current products to new markets, could be new geography, could be a new type of a buyer and so on.

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ALTERNATIVE CORPORATE GROWTH STRATEGIES

	Current products	New products
Current markets	Market penetration strategies • Increase market share • Increase product usage Increase frequency of use Increase quantity used New applications	Product development strategies • Product improvements • Product-line extensions • New products for same market
New markets	Market development strategies • Expand markets for existing products Geographic expansion Target new segment	Diversification strategies • Vertical integration Forward integration Backward integration • Diversification into related businesses (concentric diversification) • Diversification into unrelated businesses (conglomerate diversification)

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So, like if you take personal computers originally developed for scientific professional business use. But, now you want to take it to a new market which is say young teenage market for games and entertainments, or if you want to take it to the market for home makers house wife, or if you want to take it to the market, children looking at an educational toy, or an education related device. Then, it is a current product in the new market, but it means some new targeting, some new value proposition.

Even if cosmetic, some new packaging, which could be in color, which could be new additional features, which could be bigger keyboards, which could be options with respect to better screen resolution could be a better sound system and so on. So, these are the different activities that are marketing strategies coming out of the corporate strategy or corporate strategy that can create new market strategy.

So, a company might be interested, so the say if the TATA conglomerates want is to expand its reach within the market in China. Then there are action that are to be taken by the different TATA businesses, they will have to prioritize which SBU is going to make the first for a and how that is going to be supported, but accordingly one of this quadrants may come into play.

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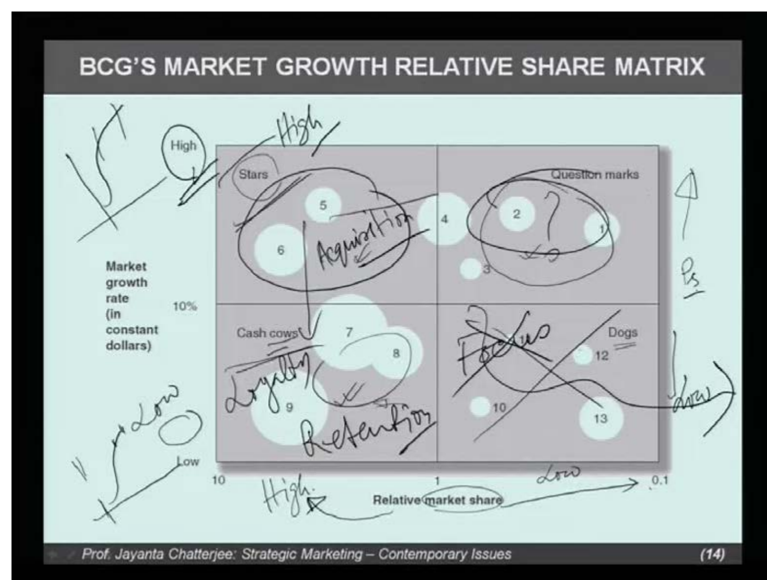

We will now develop this into a bit more interesting dimension. This is quite famous in the strategy literature originally developed by the Boston Consulting Group popularly known as BCG. And they actually looked at a similar, it is not exactly the hands of matrix, but it is similar, it looks as a 2 by 2 matrix of relative market share and market growth rate.

So, it gives us lot of insights into what we need to do with marketing, how we can formulate our marketing strategies under different circumstances, overall strategic circumstances as depicted by this particular diagram. If you are relative market share is low, if your relative market share. So, here we have low to high and here we have low to

high. So, if your relative market share is high, if you relative market share is high and the market growth rate is low, what does it mean; it means the market growth rate low means that you are actually somewhere, when the market is saturating.

There is growth rate it is a low growth rate, so it may be the flat path of the so you may be somewhere here. Now what happen is at this stage, at this stage usually people who are having smaller market share they do not find a business attractive enough. So, usually there is a shake-out when the market starts maturing, either relatively weaker competitor are observed acquired by bigger competitors or maybe 2 or 3 smaller players can merge together.

So, with the Nokia was rapidly raising in the mobile hand set market, the dominant position of Nokia and Motorola forced Sony Ericson smaller players in the market, that stage to come together for a merger called Sony Ericson. Over the years they almost walked out of the mobile hand set market. Today, we see Nokia which had a very dominant position a high growth track record for 15 years under pressure from new entrance like Samsung or apple, some of the market analysis are predicting that they might go the way that, so Sony Ericson in 2012 or 2030.

Of course, Nokia is a great company they are also positioning a significant response strategies and so the jury is still out that what will happen really. But the point here, I am trying to make is that, even today when the handset market is quite matured in the developed countries in the western market, because there are very few players at this stage. Though the market growth rate is quite small, it is no were comparable to growth rate of hands mobile hands set in India, where 10 of millions of people are becoming new subscriber and buying new handsets.

But in country like Finland or in a country like Germany or in a country like United States, where the penetration is almost 100 percent, almost everybody in countries like Hong Kong or Territories like Hong Kong or Singapore or they have may be 2 or 3 phones. In such a situation the growth rate is small the market may be growing only 2 to 3 percent, which is may be just coming from replacement and coming from very few new customers joining the fray. But, because there are very few players even that the small growth rate your margins can be significant.

And therefore, the cash flow can be very significant, because you are not investing any more in new plant and machinery, you are not investing in new market channels and so on. Remember, I am talking about only the develop market for mobile handsets. So, the few players are still there they are racking in cash, that is why this segment where the market share is high, growth rate is low, the business is often termed as cash cow.

There are many people who have later on protested against these use of cow, dog and such terminologies, but let us stay with the traditional terms, that were used for this segments in the original BCG matrix. So, if the market share is low and the industry growth rate is also low. So, the industry growth rate is low, market share is also low, then that business obviously is not attractive, sometimes you need to retain that business, because so it is no longer cash cow it is actually you have to do something to retain your position there, because your market share is low the market is not growing.

So, it could have been better to completely to get rid of this part but it is not always possible to do that you may still have to but obviously this is not going to be our focus, not going to be our focus. Our focus will obviously, be first of all here which is the industry growth rate is high, and your relative market share is high. So, this is where I PAD for example is today, tablets this handled tablets with multiple functions, which is somewhat a communication device, somewhat a internet appliance, somewhat an entertainment device, somewhat a personal digital assistant.

IPAD had somewhere, somehow created a compelling value bundle and it is still a very small percentage of P C owners or laptop owners own a tablet and there is still a possibility out there that, these types of devices represented by the IPAD might completely replaced the note book, the laptop the notebook, the net book, the ultra book and so on. So, this is a market which is growing rapidly even in developed countries, the growth potential emerging countries like India and in China the growth rate is explosive.

And Apple has obviously, a very strong market share the closest may be Samsung and this is therefore, a star this is focus. But as you can see you do not get business like every day, this kind of phenomenon success examples are few and far between an also 20 year’s back Motorola with their mobile handset had a business, which was a star business. 10 years back Nokia with their mobile handsets had a business which was a

star business but over time technology changes, new value propositions emerges particularly in these types of industries.

And today in most industries, rapid change compressed life cycle so what is star today become cash cow tomorrow, there is a another type of business where the relative market share is low, but the market is growing rapidly. So, a company likes Micromax in India or some of those other Indian mobile phone manufacturer, they have 2 percent, 5 percent, 6 percent market share the market itself is growing rapidly, but there are so many other factors what will Apple do will they introduce low end phone in the I phone category.

Will that be a revolutionary new product from Nokia, where they will be able to truly leverage there are alliance with Microsoft. Will the display technology change, so radically in 2014 that that the structure or the form of the mobile phone will change. So, these people that the domestic manufacturers of mobile phones at that stage may have to set up a complete new supply chain they may not have the access to the new display technology. There may be swamped by the consumption pattern are customer preferences for such products.

So, therefore, when your market share is low even though the market growth rate is high we put a question mark there. Now, you see these bubbles some of the bubbles are big, some bubbles are small these are various businesses. And somehow they can represent the relative allocation of resources attention and so on. The BCG matrix comes from an era where businesses mostly were conglomerates many business while conglomerates, the market was on the whole rising the growing post second world war for 20, 30, 40 years world wide the market was in a growth mode.

So businesses therefore, wanted to develop a portfolio approach, so this is often also called portfolio. So, it understood that you need to invest in some question mark, because this can become tomorrow is big winners. You obviously, need to focus on your stars, but businesses where you have high market share and the ca and the market is growing rapidly it is like a jet engine, jet plane taking off it needs huge amount of resources if you need that continuous injection.

So if these business says even though they have high growth, even though their market share market itself is expanding, your market share is expanding you have to continuously invest therefore, there may be cash negative or cash neutral; at least

demanding a very high cash flow cash input. So, you need to also nurture these businesses where your market share is high the growth rate is low, but; that means, there are few are competitors and therefore, this is big cash generator.

So, businesses understood in the long run you need to have few of these, few of these and few of these. And gradually get out of these cannot switch off sometimes overnight. So, this is a portfolio approach, which is related to hands of matrix, but accordingly gives us marketing strategies for these various options. Obviously, the promotion that you will have to do here for your star will be quite different from here because here your focus has to be more on loyalty on retention of customers where as on here, your focus has to be on here your focus has to be on acquisition of new customers right.

So, the BCG matrix the portfolio approach gives us a portfolio of marketing strategies to be used for different segments. And therefore, our budget allocation for marketing across the different piece of marketing will be different in different segment.

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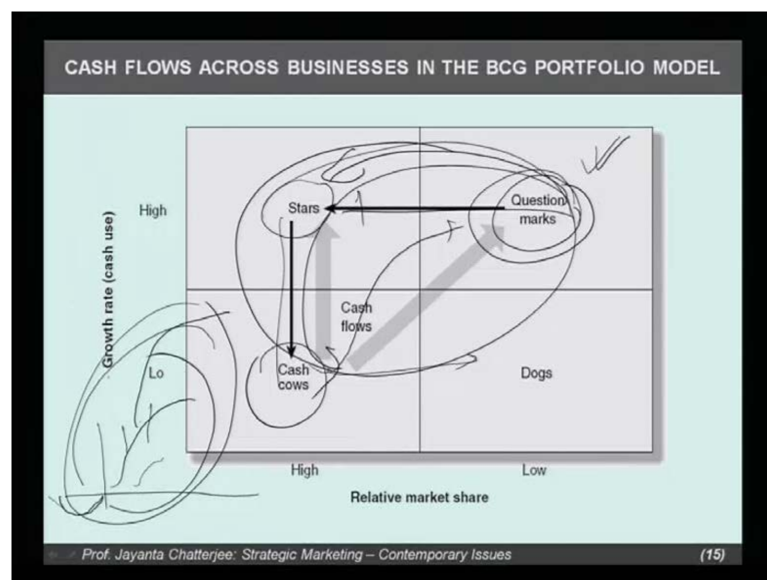

So, this is what I was talking about that stars over time become cash cows. So, Nokia had a star business 10 years back, today they have a cash cow business and sometimes what was a question mark business; that means, will it fly when I PADS were introduced even during the first 6 months people were skeptical, but when I PAD 2 was introduced, it already moved from the question mark status to the star status.

So, this is the point that we discussed that, the stars overtime becomes cash cows and some of the question marks overtime becomes stars. So, this is kind of a cycle that goes on and unfortunately it also goes there, so you need to create new activities. So, you see it is actually not different from some discussion that we had in the product life cycle that this s curve needs to become an e curve. So, while the market is maturing at the same time you need to nurture new businesses. So, while you are actually generating cash here you have to have developmental activity, which is absorbing cash and ultimately therefore, this concept that we discussed in an earlier session is almost same as the concept that we are discussing here.

So, this concept is very familiar at the strategy level, at the corporate strategy level in the strategy literature. Whereas, this concept is more prevalent in the marketing literature, but they are obviously, related and based on the same fundamentals.

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There are some criticisms about this marketing this portfolio approach, because for example the market growth rate of the industry growth rate, is often an is not a good depiction of the attractiveness. Because there maybe some technology changes that are brewing at the back that can disrupt the attractiveness of the current industry, there are great examples that for example, when steel plants were growing bigger and bigger. The steel industry in the post second world war was a major industry, because worldwide there was construction activity, but these steel mills going bigger and bigger ignored.

The smaller mini mills that were growing that were getting developed, because the mini mills were initially focused on low-end products like flat parts required in the constructions industry or bar and rod used for low-end application. But, over time the mini mills became more sophisticated and the famous book by Christensen talks about his innovators dilemma and he talks about how the major players or a major industry which is growing very well can be disrupted by a new development.

So, the market growth rate is not a not always in absolute depicter of the industry attractive. So, it because the market growth rate, may ignore or may hide, the possible disruption that may be brewing in an adjacent field or in related field. Similarly the relative market share all also some times is not a good descriptor for example, the relative market share of Nokia is very high in India, but that may not save their game, because the high pressure on their market share in United States or in Europe, which has been there home market.

So, as they lose market share in Europe due to competitors like Apple or Samsung even though they may have high relative market share in India, the overall competitive strength may get marred. So, in a globalized world today therefore, looking at the market share in an individual SBU, sometimes may not gives us a complete picture. And there are some of these criticisms, which are there on your screen, but in spite of these criticisms, the BCG matrix still remains a very important framework for co-relating corporate strategy with marketing strategy.

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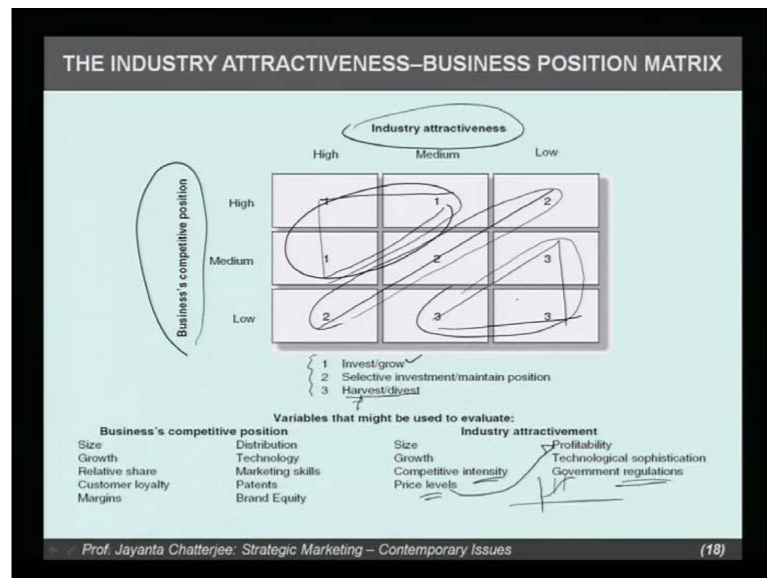

This is a little better depiction on the same concept where we have actually taken the industry attractiveness not just high low, but we have also created high medium and low. And a business competitive position now this is a higher level concept than market share because within this it not only looks at the market share of today, but it looks like customer loyalty, it looks at technology, it looks at patents or intellectual property.

And it looks like some of the issues like brand equity which we will discuss later, but at this point it is important to note that your competitive position is not only depicted by your current market share or even your projected market share growth. It has to be substantiated by the technological position of your product or your whole product portfolio, the changing nature of underlining technologies, semi-conductor technologies change or if display technologies change, televisions will change.

But, we were saying that compared to BCG matrix where we mainly look at the market growth rate versus the relative market share. Compare to that our diagram that we have just been discussing the industry attractiveness the business position matrix the portfolio approach is a superior concepts. Because when we look at the business competitive position that is in fact, a better concept than current market share or the growth rate of the market and industry attractiveness also is a higher level concept.

Just as in business competitive position, we look at marketing skills, knowledge, intellectual property the brand equity and so on. In the same way industry attractiveness,

we look at not only the current size, but also the growth rate that is there, the competitive intensity, the price level and profitability. And these two concepts are actually in a way also connected with life cycle position of that particular industry, because obliviously if the price levels are better and profitability is good than it is perhaps somewhere in this region of the product life cycle.

So, there is lot of steam left in that particular growth engine. And of course, there are issues related to government regulations, so even if the an industry is doing quite well today it might tomorrow under government regulation become a restricted industry say for example, for many years, ship breakage that means, taking old sea vessels and then breaking up those ships for reusable parts, used to be a good business in certain parts of Gujarat. An India kind became a global destination for a this salvage operation.

But there are now government regulations with respect to workers health, safety and other environmental issues. And such businesses are therefore, are not that attractive as they used to be, many times as develop markets create more stricter regulations with environmental sensitivity, some of those types of operations shift to emerging countries, where the regulations may be lacks. But, as time go by the emerging countries also adapt strict regulations with respect of safety health environment and then some of those industries may not be as attractive as they were before rightly so.

So, if you actually use this sort of high medium low in industry attractiveness, an if you use business competitive position also this high medium low, then you can actually get not a 2 by 2 matrix, but a 3 by 3 matrix. And which gives us some interesting ways to built our overall business portfolio, product portfolio different marketing approaches or a portfolio for marketing strategies. So, as you can see here you can then divide your options in 3 classes the first being the business which is showing a high growth potential.

So, this is where actually your combining your strengths with opportunities, these are the case were your actually taking your high competitive position with high attractiveness in the industry. So, maybe you have some unique technology and that business is going. So, today for example, an apple with their IPAD or Samsung with their various forms of combinations of Tablet and Mobile phones maybe in this kind of a quadrant.

So, obviously, this is the quadrant for invest and grow; then in the second which is kind of follows, I between this is where you are hold your positions or you try to selectively

invest in further subsections of that market. So, at this stage for example, for Nokia high level feature phone, but not as attractive as smart phone as there competitor Apple or Samsung has. For that it may be a good idea to selectively invest for high growth in a market like India, but it may not be a good idea to go gung-ho with that product in china where I phone has a very significant position ahead of Nokia is offering.

So, therefore, the position for Nokia is still strong, but at this stage it has to either maintain it is position in some markets like it is own market in Finland or certain parts of Europe. And selectively invest in some emerging markets, but not be as gung-ho across the world as Samsung would be or Apple would be with their offerings. And then you have the other category where you say harvest or divest, harvest means that as we discussed while discussing that where your market share is high the industry growth rate is low, your competitive intensity has come down.

So, that market is excellent for cash generation, so that cash cow market therefore, is an operation is what we call harvesting operation. That means, you try to get everything that you can get from that market place and it is still has good money flowing in for some years to come. So, in fact, for example, while many parts of the world would have shifted to high end 5 blades 3 blades racers the single bade blade through away razor from Gillette from the same company.

So, while the 5 blade what we call I think Gillette max or something that may be that may be positioned in this in certain develop market, but it may be the single blade through away option, but still we are good options for years to come in emerging markets like say India or Bangladesh or Nepal or Srilanka. So, this will allow us to look at our business in terms of, sort of 3 segments as you see. So, you have this one cluster where you have a different combination of high industry attractiveness with medium competitive position or medium industry attractiveness with high competitive position these will constitute what we will call an invest and grow.

The middle which are twos these are the businesses where we will like to selectively grow or maintain our current position because these are the so-called cash generating cash cow business. And then there are business where we have to manage the exit their might be still be good for revenues as well as profits for certain number of years and this is where we have what we say is this is a managed exit strategy. And you can combine

these three strategies that is invest and grow selectively grow or maintained or hold position and divest and harvest these 3 clusters can be maintained.

And obviously, as you can see that your strategy for the group 3 that is for harvest and divest will be different from the strategy in terms of marketing that you would follow for the invest and grow. So, invest and grow your promotion investment will be high, your distribution expansion a enlisting new channels going in for incentives, going in for different promotions all will be valid in that segment.

Where as when you are trying to diverse and harvest your main idea will be to maximize your availability to ensure that your product are on the shelf and getting a proper attention from the retailers, across those markets where they still have significant value. And so all 3 types of business need strategic attention, but those attention will be the profile of you attention strategy will be different for different segments.

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THE MARKETING IMPLICATIONS OF CORPORATE STRATEGY DECISIONS

- **Value-based planning**
  - A resource allocation tool that attempts to address such questions by maximising the NPV .
  - The amount of return a strategy or operating program generates in excess of the cost of capital is commonly referred to as its Economic value added, or EVA.
  - EVA= ROIC- Capital employed x av cost of C

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Let us look at some of the other aspects of strategy planning that goes into formulating market strategy. One of them we have already seen when we discussed that those two options option a and option b with different kinds of net present value, different types of cash generation velocities where we saw that accumulated cash deficit. Or that means, initial investment in the two marketing options, but the same to start with the rate of cash generation.

And the both strategies yielded after 5 years positive net present value, but one had a faster pick up at the later stage and one had a faster pick up at a earlier stage and then a bit of slow down. So, as we discuss depending on your companies cash reserve cash position and growth objectives, and some of those can come from this analysis. So, if you actually are in a market which is this 1 category that is invest and grow you are prepared to take some initial slow star.

But, you know that, because that is a market where maybe due to your technology maybe due to your patents may be due to your customer loyalty or may be due to the growth rate you feel that it is worthwhile to stay put in the long run in that particular business. So, that is what we call one type of value base planning that is the net present value which is quite important because it pays good attention to cash flow as oppose to mayor profitability and for new types of businesses cash flow is or liquidity is of higher level of importance often for entrepreneur marketing area again cash flow is the king.

So, even has to pay more attention to therefore, to NPO oriented strategy, but you not need not necessarily focused on that strategy, which gives you the faster payback. Because if you are in the class type type of you may be interested in payback period, but if you are in the class 1 you may be looking at a more longer range view. Another important concept that is to be introduced is called the EVA or economic valued added.

The idea here is that you may generate profit out of a business, your marketing effort may be generating sufficient revenues as well as margins, but you have to always compare your return on invested capital. And what you would have got if you just put that money in the bank and therefore, sort of risk free return that you would have got from that investment. So, if you have 1000 100 rupees or you have a 10 million rupees and if you put that in an bank today you will get interest maybe at the rate of t10 percent or a even may be higher or if you be more safe may be 89 percent.

So, let us take 10 percent, so you have this 100 million rupees you will you can get 10 million rupees just a risk free almost risk free interest and if we use that as a proxy of what we call cost of that capital then. So, which is actually calculated by capital employed into average cost of capital, so this is the 100 million and if the cost of average of about 10 percent, then your return if it is not more than 10 million rupees than you have a negative economy value added.

And therefore, that strategy is actually value eroding as we say on paper you have revenue good revenues you have good margin, but if you are not beating the risk-free return that you have would have got from the investment. Then why be in that business and this is often the reason why we decide to diverse or from certain businesses.

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So, this is again another important measure when we look at our calculations for choosing between strategic options in marketing. Of course, these are very sort of packed these value based NPV or EVA, but as you see in all of these cases particularly NPV your are looking at a forecast because you are looking at a 5 year projection and then using the discounting rate you are reflecting to the net present rate. So, if the forecasts are wrong either they are more pessimistic or they are too optimistic you will actually end up picking a wrong decision.

And we generally have a tendency to always look at a future is always rosier and that optimism among the business executives often created flout plans when it was a value base planning. So, value based planning are good to making comparative evaluation, but to make absolute judgment, because when you are making comparative evaluation. Then you are making use of same frame of mind if you have a more optimistic frame of mind than all your forecasts will be optimistic and than, if you compare if one is better than the other than that may be a way to proceed.

But, if you have only one decision that you are looking at and you use this value based planning than you have to be far more careful that you are objective and not by objective perceptions.

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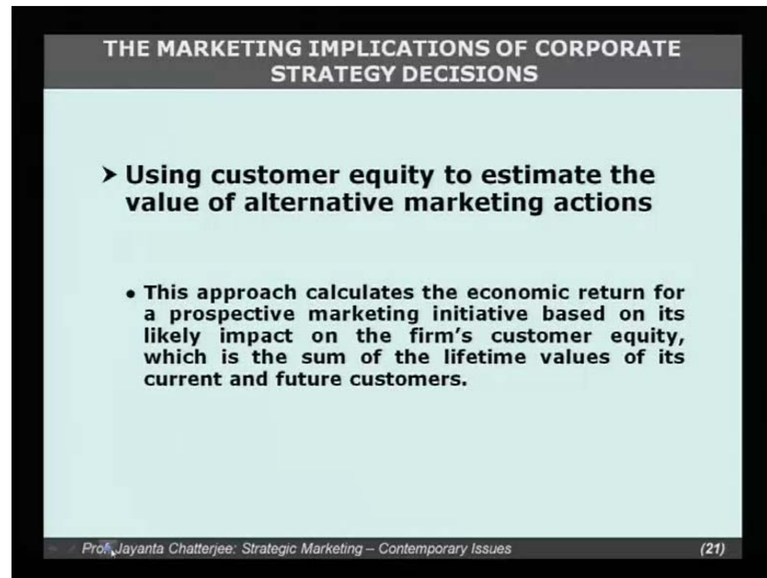

The customer equity which is actually derived from the customer life term value concepts that, these are the two important concepts that we have introduced in earlier 2 sessions which are important for evaluating strategic plan. So, these two tools or concepts are the net present value looking at your cumulative cash flow the payback period the recovery period these are a set of important considerations. The other set of important considerations are looking at the customer life time value.

And therefore, the aggregate of that from that you actually look at the economic return from your prospective marketing initiative. So, if it enhances your customer life time value, when you can say overall it is enhancing the customer equity and it a good plan. So, what we are saying is therefore, if you have a strategy marketing strategy and you are wanting to compare it with respect to some other alternatives, than use your N P V based analysis.

Use your economy value added or E V A based analysis, use your customer life time value aggregated as a customer equity analysis, and based on that you can choose among strategic alternatives. And you can decide, where you want to invest and grow where you want to hold your position or selectively grow and where you want to divest or harvest.

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Finally the role of marketing is therefore, in the overall context of the corporate strategy to produce a map of product market combination and what to do in each one of those market combination. So, we were discussing taking the case of woodland, so you have one set which is looking at Woodland for in China market. And therefore, certain products that you are taking to that market, which in that news item we have discussed talked about adventure products or adventure life style related products from woodland portfolio.

So, china market with that product portfolio will have one set of strategy, the 75 percent revenue coming from the domestic market, where it can may have more than 50 percent market share for tough shoes for rough use in that market. Therefore, you have to hold your position selectively grow your market in very decided areas and accordingly developed another set of marketing strategy. And thirdly if it actually has introduced say I am taking a high hypothetical example here, that they found some mosquito developed some mosquito repellant cream to go with people going with for camping hiking trucking trips.

A good customers of woodland products otherwise they are core product which is footwear. Now that may not be doing very well after two years of launch it maybe still quite behind products coming from Odomos and other such brands. So, it might actually decide for those categories of offerings a strategy for divestment. So, you have to

therefore, look at these 3 sets of combinations; that means, grow harvest and in between selectively grow and maintain position each will should have different sets of budgets, different accountability and responsibilities, which will have to be differently monitored.

To summarize competitive strategy, should have three characteristics it should generate customer value remember customer value is the fountain head the economic value is derived out of the customer value.

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So, the shareholder value is derived out of the customer value, so today remain focused on shareholder value is often what we say a nonmarket oriented strategy it is often a short sighted strategy can lead to wrong directions. So, remain focused on customer value and enhancing that continuously innovating new ways of a enhancing customer value. So, it should good market strategy should generate enhance innovate customer value the superior value therefore, it is to be judged whether you are doing whether you are doing better whether you are doing worst than your plan again test it in the perspective of the customers mind.

So, constant feedback from the market place is a prime responsibility of the marketing department as an input to the company's overall strategy plan and monitoring its progress as implementation un false and very important and we are going to discuss it in later depth in the next session the competitive aspect of your strategy. So, your strategy may look very good on paper, but if it is something that is easily emulated by 15 other

companies and then it is not what we call a sustainable advantage. So, what is the way to create sustainable advantage against competitive on slot in marketing strategy is what we will look at in the following session.

Thank you.