Strategic Marketing - Contemporary Issues
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Lecture - 34

At the concluding part of this topic, of on strategic marketing, we have to look at issues relating to closing the loop, which means, that once the marketing strategy has been formulated and deployed and as it proceeds in the market place, as the implementation evolves, situations change and as the situation evolves, we need to adapt, we need to retune, recalibrate our marketing strategy as necessary.

The discussion today will be on the tools and methods and concepts that we would normally utilise to do this dynamic adaptation of marketing strategy based on feedback from the market place, based on analysis of performance data to evolve corrective actions, so that we stay the course, we continue to execute the strategy in the evolved context. At this stage it is important to note, that the way we originally formulated the strategy, we would have adopted one of the two frameworks.

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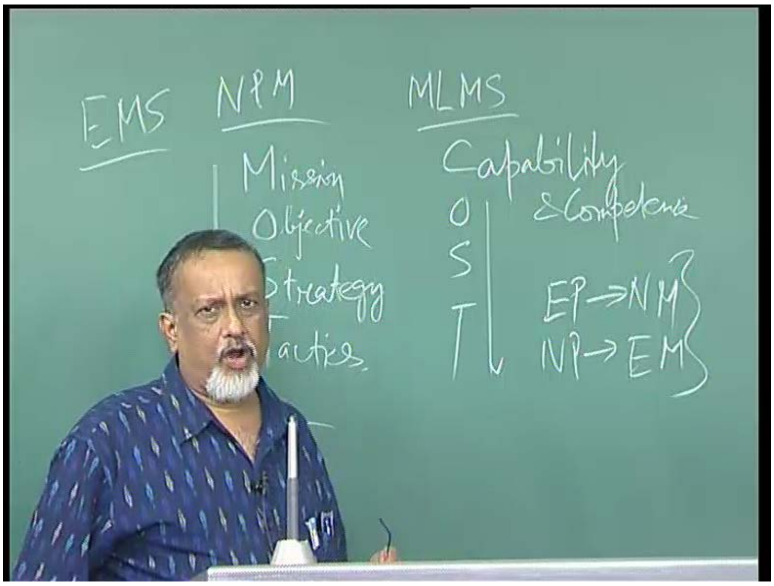

If it is a new product marketing situation or if it is a marketing strategy of a start-up company and an entrepreneurial marketing situation or relating to the unsoft matrix, if it is a new product-new market or a new product in an existing market situation, then normally our strategy formulation would have taken the process of, what we say, a sort of a waterfall of M, O, S, T. This M stands for mission; the O stands for objectives derived out of the mission and that would have given rise to our strategy and our tactics.

So, this is normally the case when we are dealing with a new product marketing strategy situation or an entrepreneurial marketing strategy situation. But on the other hand, if it is the strategy paradigms of an existing company, an incumbent, a market leader, the other paradigm, which becomes, which we often call the resource-based approach to strategy formulation and strategy implementation. So, this is actually for market leaders, marketing strategy will often be based on what we call is C, O, S, T frame work, which means, here we look at capabilities and competence first.

So, this is a very, and then of course, the other three things at objective strategy tactic that remains the same, but this approach is usually quite suitable when we are looking at existing product to a new market or even in some cases new product to an existing market, both of which actually assumes, that it is an ongoing operation. The organization already has built up some capabilities, some competencies, then the framework will be this. However, whatever might have been the way the strategy was originally formulated, as I said, in the opening remarks situations change. Situations change in different ways for example, the market itself might change. It results from changes in the primary demand from a, for a, today a product class.

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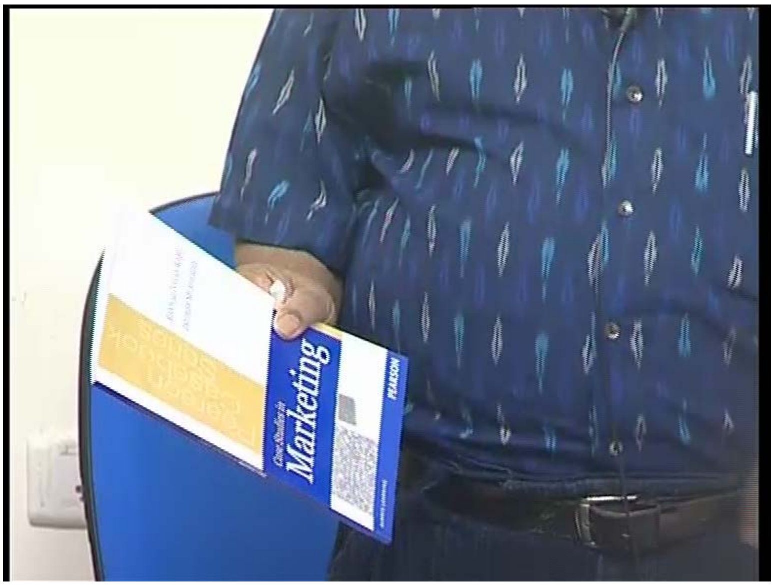

Today, many of the, I will continue to use the textbook that we had suggested, strategic marketing problems by Kerin and Peterson, published from Pearson India, but I will also use examples from various case studies given in this slim, but interesting book, called Case studies in Marketing, also published by Pearson, written by K. N. Kapil and J. Mukherjee.

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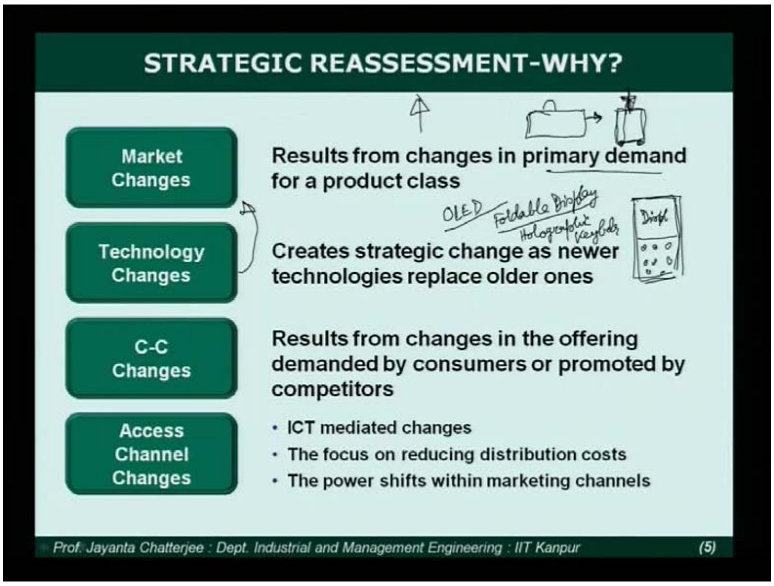

So, like one of the cases given in this book relates to Samsonite. So, if you take a company like Samsonite, then some of these ideas, which are here, that what kind of changes happen, why it is important to do strategic reassessment. For example, we know, that the luggage industry, a leader like Samsonite, the core product would have been what we used to earlier call suitcases. But then came a new design, which basically we call now strolleys, which means, that earlier we had suitcases, which were like this and it had handle and it had various sizes. But nowadays, mostly we use what we call the upright design and you have handles, which kind of comes out and you have wheels.

So, the whole industry has shifted from the so called suitcase design to this trolley design and that has happened because this is much easier to handle. It is a, if there are situations, which is more and more true, that you do not have porters available easily. This is almost self sufficient design, and so the primary demand in this product class has shifted from this design to this design and there are various circumstances, which you know, one can refer to the case study to understand, that this has changed the demand pattern. So, this is very simple example.

Of course, if we go to a more sophisticated industry, like say the mobile phone, we know that there is a high growth and the market shift towards feature phones and smart phones from the earlier design or earlier concept of voice and text based phones. Today, we are looking at smart phones with very many features and lot of data oriented capabilities. In fact, it is, we do not know whether the phone will be more of a computer or whether the tablets and phones will get integrated. So, there is a, there is a flux in the market and because of that flux the market changes, which is often caused by that kind of a technology change, which we discussed just now.

In fact, the whole display area in a phone, which earlier was something like this, this is the display and these were the buttons on a phone and this is what we called usual candy bar sort of design. Now, as technology develops for the display and we get more and more organic LED and other similar technology is evolving, which can actually give us something like affordable display, we can actually have more and more use of holographic keyboards.

Then, this whole concept of a phone, that you put inside your pocket or put in a pouch is gone, maybe you can, you, not just like this, you know, small pocket diary, you can have a folded phone, which you, you can then unfold and you can actually have a phone, which is as thin as this. Already, the phone, the thickness of the device has already reached about 20 percent of what it used to be. That means, if it was 10 millimetre, we are already looking at something like 2 millimetre thickness; it is kind of a scale. So, it can become even thinner when we have these technological developments and accordingly, the whole industry or whole marketing strategy will have to be evolved to replace the older one just as the technology will change and a new technology will replace the older one.

And sometimes it can be changed in the consumer segment, consumer preferences or it can be even promoted by competitors. So, Nokia which actually held onto its original strategy, was quite surprised by the consumer preference for technologies and devices promoted by its competitors like Samsung or Apple and was, and the predominance of software, which is now guiding the consumer choice, has kind of blindsided and, and and

Nokia is now fighting hard to catch up, even though they remain one of the top three players. But until and unless they are able to significantly evolve there marketing strategy and respond to the new situation, they will have loss of market share and, and various other ramifications that result from it.

Similarly, there can be changes that will demand new marketing strategy due to change in channel structure, due to, like, like the information and communication technology mediated changes has made a huge impact on the, say book and music selling industry. So, the, the physical stores are now under a lot of pressure, big, big store bookstores, so they are, we are now seeing more and more blended business models like Barnes and Noble, which actually has big-big bookstores, but as well as they have a strong presence on the net. And they are fighting hard with the Amazon model, which is based on, totally an internet based model and perhaps we will see new strategy is evolving in this domain where the big format stores may only exist in places like airports and, and the other physical stores can now reappear in the form like a book cafe and, and, and some other evolved format store inside the store and so on.

And then of course, there is this continuous pressure on reducing distribution cost and the shift of power in favour of the marketing channel, that we have discussed in a couple of previous sessions in-depth where the channel partners are now also partnering very much on behalf of the consumers and, and they are becoming the gateway to consumers. So, they are no longer playing the subservient role, which they are, we have played to the manufacturers.

So, the power equation between manufacturers and distribution distributers in the marketplace and therefore, in the formulation and deployment of marketing strategy, the power equation has changed and that means, that it will need readjustment if in some industry. Like for example, if now foreign investment comes in a big way in multiband retail in the Indian market place, it will change some of the power structure between manufacturers and distributors and some distributors will now become a stronger advocate of on, on behalf of the customers and that will change demand, change in the marketing strategy for companies, like most of the FMCG companies or consumer durable companies.

Therefore, to deal with strategic change one has to look at the capabilities and competencies and readjust with respect to the capabilities and competencies and sometimes acquire new competencies or form new alliances.

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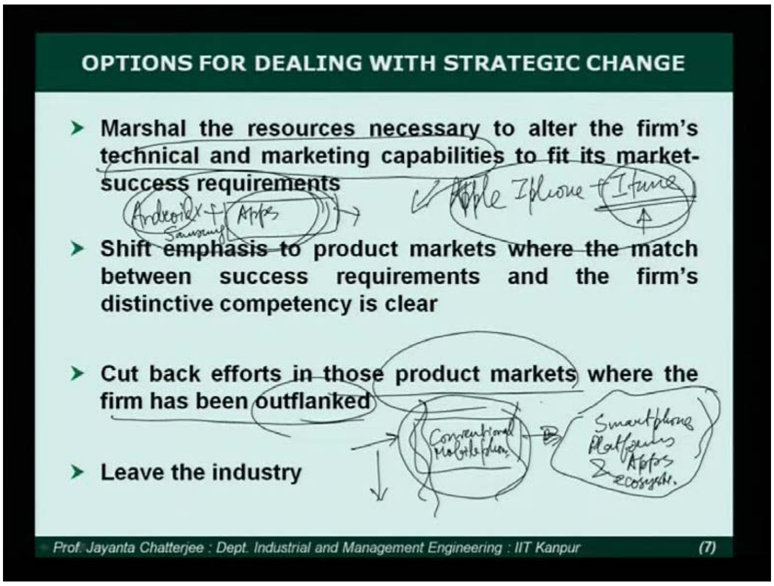

For example, we were discussing just now about Nokia. When Nokia was, over the last two, three years, these incessant challenge it has faced on one hand from, say, an Apple with the Iphone and Itunes combination and whole lot of applications, software applications that could be downloaded from the Itunes store created a new situation and similarly, we have the android platform-based, the android from Google, that platform based phones from companies like Samsung. And android with whole lot of apps, that could be downloaded from their app stores, a large number of independent developers who have been feverishly developing various kinds of games, applications, productivity tools, which could be used on android phone.

These two pressures demanded that Nokia, which was a hardware master, created so many standards, created a fantastically popular user interface yet lack perhaps the competency or perhaps the focus on this application stores, and, and, and perhaps lack the ecosystem of developers who have been working on android platform. And therefore, to readjust their technical and marketing capabilities they had to develop a new alliance with Microsoft and the jury is still out, that what exactly is going to happen in that marketplace with this revised and recalibrated strategy of Nokia, how they will fair against competition from this ecosystem and this ecosystem. Sometimes it may be necessary to cut back efforts in those product markets were the farm, where the company has already been outflanked.

So, there are already critics and analysts who are saying, but perhaps Nokia which has really dominated the, the so called conventional mobile phone, now this was quite unconventional just five years back, but today we are saying this is conventional mobile phone because we have now a whole, and I deliberately draw this as a cloud because we now have a smart phone platform, either this so called Apple operating system and the android operating, so smart phone platform and the apps ecosystem.

Right now if this is going in this direction and Nokia is already fighting this battle, that we were just discussing against these two growing competitive forces, some critics and analysts are saying, that maybe they need to they have been already been outflanked because there are many low cost manufacturers from countries like India or China or Korea or Taiwan who are flooding the market in this market place. So, the margins are coming down and that the revenue is still strong, but the percentage recovery is going, becoming smaller and smaller. So, it may be necessary to leave this market. So, this is the kind of decisions that need to be taken due to evolving situation.

But the way I described just now the situation with respect to Nokia or I described the situation faced by Samsonite, so whether it is a very traditional high volume or high technology, high volume, relatively lower velocity as well as in a very high velocity industry when situations change, then the new strategic decisions cannot be taken only based on anecdotal evidence. It has to be, the new strategies must be based on meticulous analysis and I will discuss a few examples.

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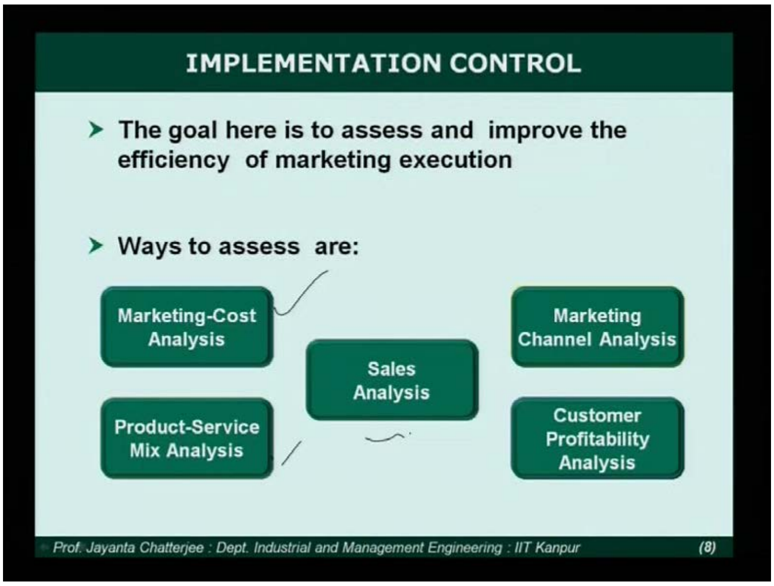

But fundamentally, the assessment has to be done on the basis of product and service mix analysis, marketing cost analysis, channel analysis, customer profitability analysis and sales analysis. These are the kind of five building blocks of the whole area of what we call marketing analytics and I will take up a few examples in this area.

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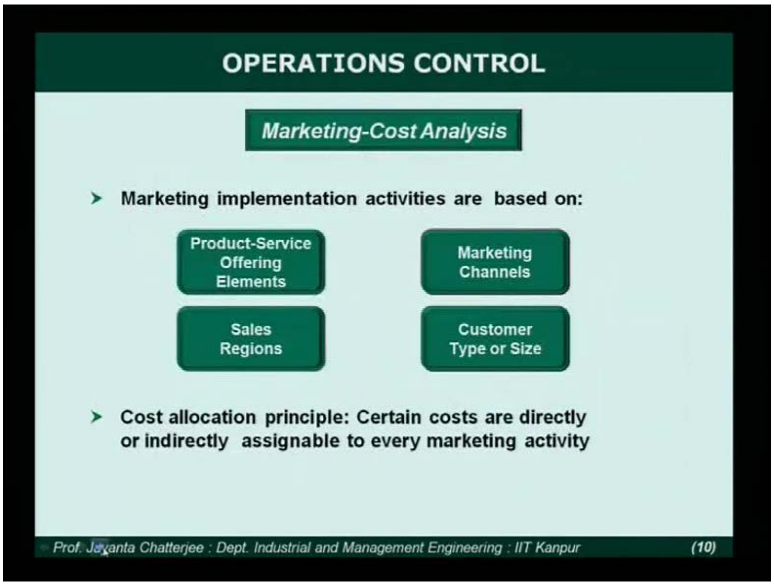

So, in marketing cost analysis, which will be the kind of main discussion point today, we can look at these four blocks. One is this product service offering and then the marketing channel, the sales regions and the customer type or size.

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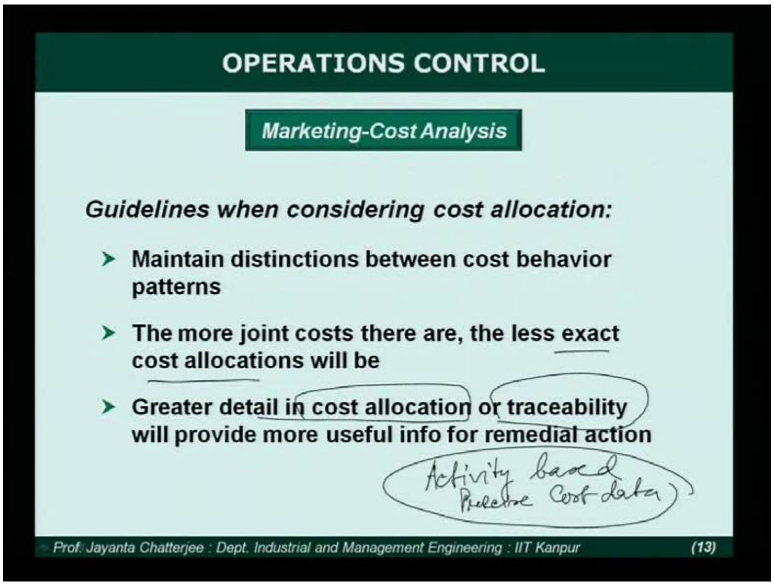

I think if we take some example it will become clearer, but very important at this stage, that we are going to do a cost database analysis and which basically means, that we must allocate the precise cost to a precise activity. Many times the costs are kind of merged together and if we make our decision based on such join costs, then the cost allocation will be in exact and can drive us to a wrong decision. So, as much detail as we can get with respect to cost allocation and trace it to exact activities. So, this activity based precise cost data will be essential to do this kind of analysis.

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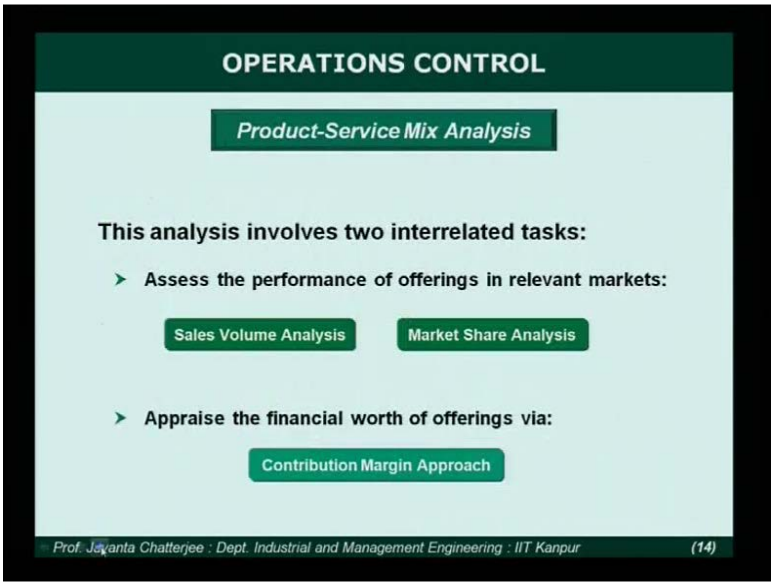

Let us take for example, some simple alternatives where we can look at this sales volume, market share and then contribution margin, which we have discussed before.

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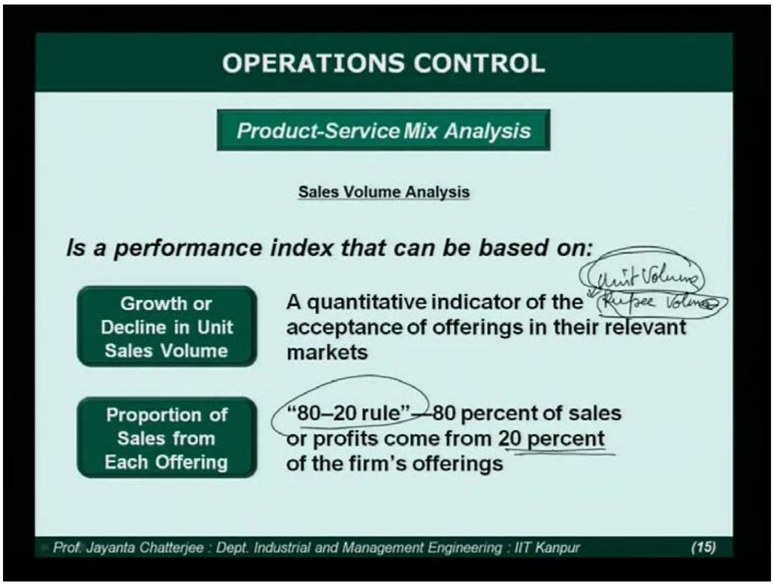

But before I get onto the, the some sample calculation, it is important to understand few simple concepts like that the, we always look at the revenue growth in terms of rupees, percentage growth year upon year, quarter upon quarter, this quarter versus the same quarter of the last financial year and so on. But it is very important, that we pay attention to unit volume as well as the rupee volume.

We often tend to pay more attention to this because this is what gets reported in the, attracts our attention first in any financial statement, but often the story is here in the unit volume. And also, it is very important, that when we look at unit volume we should not forget about this famous 80-20 rule, that there will always be these core products, core offering, which will contribute to the major part of the volume.

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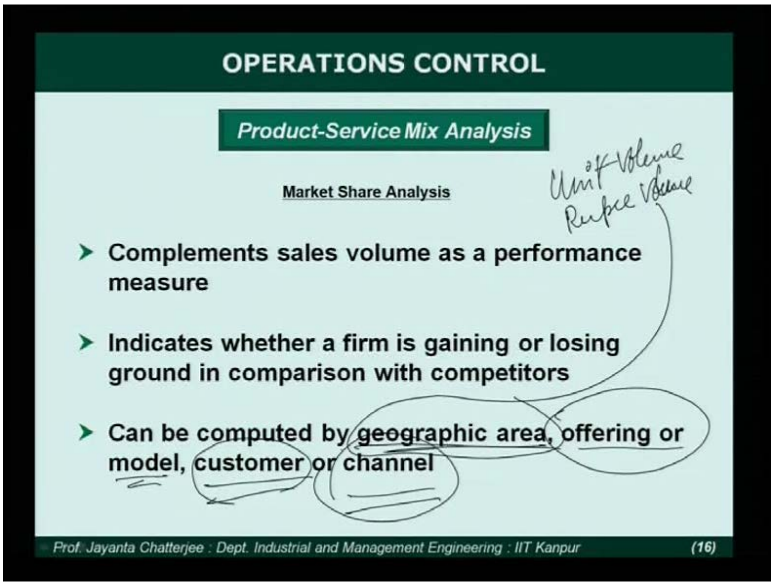

Sales volume can also be seen in terms of geographic areas or by a model, by a particular type of customer segment, by channel. So, we have to slice and dice the volume data, the unit volume as well as the rupee volume. These data, national data or regional data, we have to then go into more precise slices going by the geographic area, by different types of offering or model, by different customer segments, by different channel and that is how we should not go by the one number of market share.

If your overall sales is declining and you have a high market share, your strategic response will be different from a very high growth market where you have a high market share. So, some of these points are mentioned here, that when we look at data, then we have to always understand the micro precision of the data. That means, as I mentioned, that if you are looking at unit volume, we have to look at by different sectors, by different channel, by different customer segment, by different model, by different region and so on.

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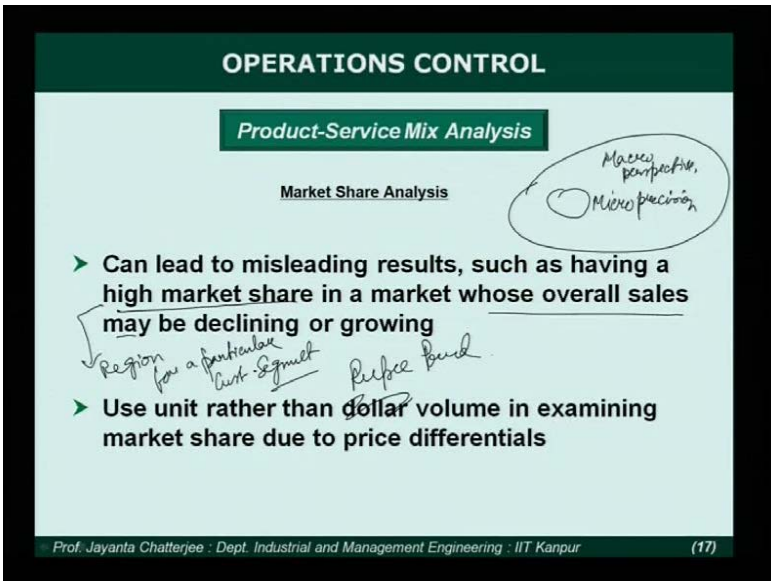

So, we need that micro precision when we are looking at the data, that we have to also put it in the context of the macro perspective just like, therefore a high market share in a particular region or for a particular customer segment will be a good indicator. But it must also be seen in the context of the overall sales of the national sales or the regional sales and this unit rather than dollar, rupee, a pound or whatever is, is often a, of a higher importance.

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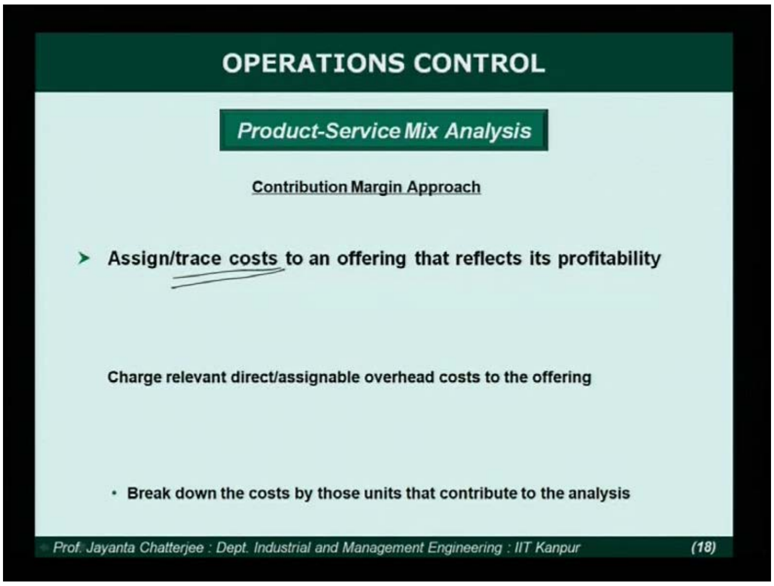

And as I mentioned, that we have to trace each cost to that precise activity where it emanates from and then break down the cost by those activity units.

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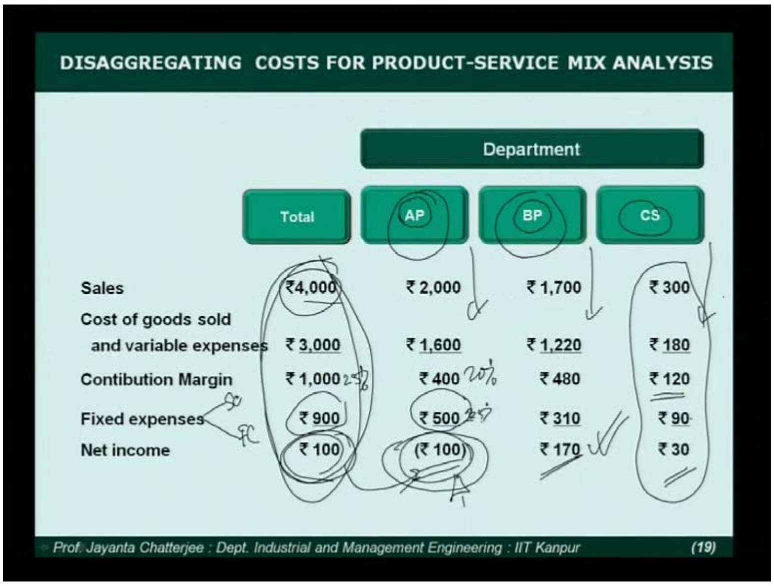

And so I think it will become clear if we look at this. For example, if we take a particular organization where there is a product class A, product class B and service associated with it. So, it can be these days, you know, you have this integrated and fuel stations where we have this convenience stores located there, often there are other stores. So, it comes as the complex or it can be like a, what we call today, multiplex. That means, there can be a movie theatre, which is like a service and there can be grocery store, so, which is a product business and there can be product and that can be a food store, mean, restaurant. So, there would be a grocery store, a restaurant or a cafe and movie hall, all put together.

Now, if we look at the total sales data, then it tells us the sales is 4000 rupees and cost of goods sold is 3000, contribution is 1000 and if there are fixed expenses like rent and then, etcetera, etcetera salaries and so on, and then we can say the net income is 100. So, I mean, here we can say this is just contribution and these are all the (( )) costs and the fixed costs. Now, this does not tell us, that what is happening by each business.

So, if we look at here, I mean, one type of business here, which we have called product business, we can see here, that the net income is 100. The B product, the net income is 170 and the service business, the net income is 30. This is just an imaginary example. So, obviously, if we are not happy with our net income of 100 on 4000, so which means our, it is not even 10 percent, we are at just about 2.5 percent return on sales, then how we can improve on this. Once we have this kind of breakdown, then we can say ok, we have to focus on this, what can we do here and maybe, here as a percentage it looks like maybe the fixed expenses are too high. So, maybe we focus on this in terms of the marketing expenses and try to improve upon that because in terms of that it is 25 percent contribution margin here and it is about 20 percent here. So, there may not be much difference here and the net income is also, here of course, differential is, this is a loss of 100 and this is again positive of 100.

So, perhaps there is an opportunity to increase here, perhaps one should get out of this part of the business. Now, this can mean a complete change in the, if suppose this is actually a multiplex and this is the movie hall where we had actually incurring this kind of loss and we say, let us close down the movie hall and then the whole business structure changes and then one will have to look and they say, is that feasible strategically maybe if we close this down. Then, these two businesses also will disappear because people would not come to that multiplex.

So, which means, that maybe it is necessary for us to see how we can improve our contribution here, maybe that is where because, or maybe the fixed expenses are too high here, compared to 300 if it is 90 and so we are looking at something like 30 percent compared to the fixed expense, which was like 25 percent here and, and therefore, something needs to be done here. So, the main point here is that we should not look at only the gross data, but we have to divide it in terms of, get the data in terms of every activity and understand the product-service mix and then we take independent strategic decisions for each one of these activities.

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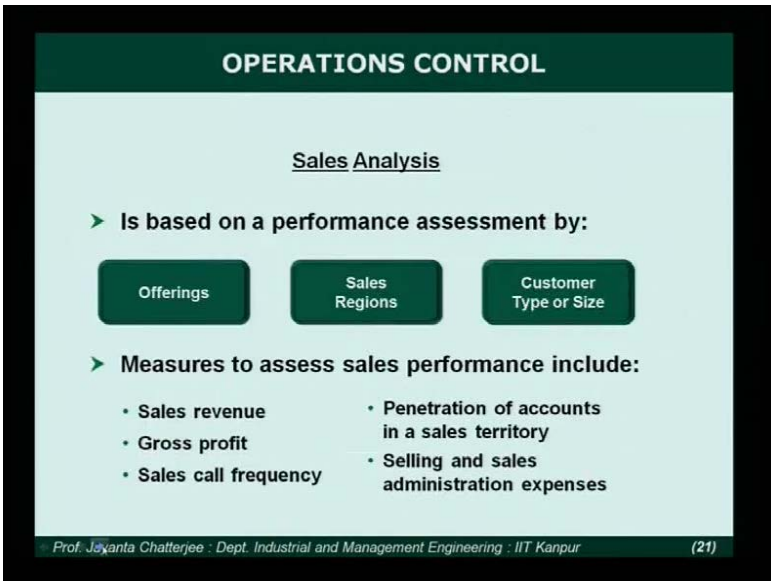

Next part, of course, will be with respect to sales analysis and sometimes we can have an overall set of data, that how we are performing, but until and unless we break it down, we cannot get good understanding. So, sometimes we have to break it down by sales regions or by customer type or size and understand it in terms of actions, that need to be done, taken with respect to sales call frequency or administration expenses. So, that ultimately we can improve upon our sales revenue or gross profit.

So, one kind of analysis that we have to do to understand how we are performing, how the marketing strategy that has been deployed is panning out in the marketplace, will be done on this way looking at product group A, product group B, service group C and so on. So, this is what we call by product type or category type and service type revenue gross profit contribution net income analysis.

The other kind will be based on the activities, like the frontline activities, that means, activities that are incurred because of the sales calls. Field marketing people going out to support the distributors and the other kind of marketing expense, that we now have to look at, what we call backend cost, that is, consists of all the performance and administration of the sales function related costs. Now, this per type of performance analysis is therefore, done by way of performance in different regions for different types of marketing channels or by a particular customer group in a particular market segment. So, we are looking at the same set of data like the sales revenue or gross margin or contribution and the fixed expenses. But this time, instead of analyzing by type of product or type of service, we would like to look at by way of the customer type, other frontline activities.

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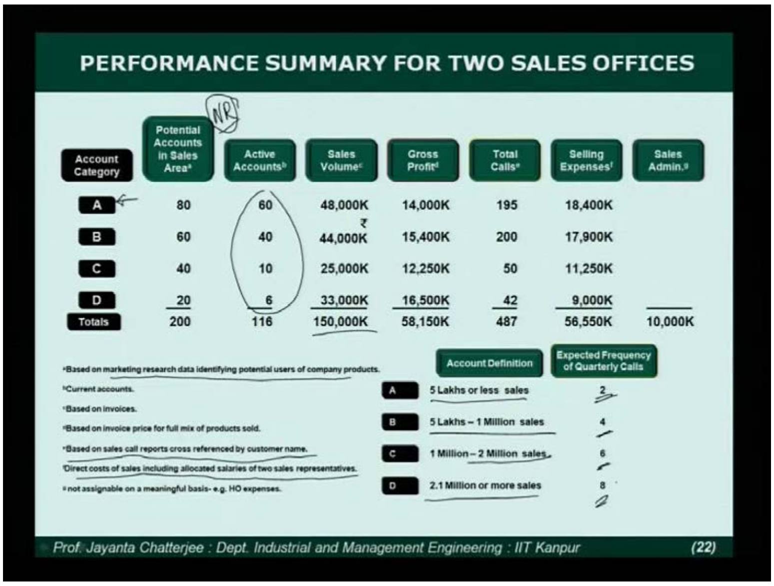

So, let us look at this example and the numbers in detail. So, we have four types of account categories. It becomes easier to understand if it is, we take the industrial marketing or B to B marketing context. So, it could be, you know, account category: A, B, C, D. This A, B, C, D could be in terms of, say, steel plant, cement plants, petrochemical plants and machine tool plants and so on. That means, by account category, by way of the, by way of usage classification; it could also be done by way of volume of business.

So, for example, we have here, that in this account category, maybe this could be steal plant and so on, this could be cement plant, so the potential number of accounts in that sales area. Suppose this we are looking at, say, the northern region, right, of India. So, there are potential number of accounts, that means, the potential number of large steel and metal accounts in northern region for a particular, suppose this is a company for which is manufacturing, say gears, industrial gears or geared motors. So, there are 80 accounts in this account category; in this region 60, 40, 20.

And then, say out of, now this has been derived based on the market research data identifying the potential users of the company products in this particular region for this particular type of industry. Active accounts, that is kind of easy, because you have to only look at your own database, the companies own database and you know, that I have 60 metallurgical clients in northern region. Similarly, I can, I may have 40 chemical plants to whom I am now actively marketing, I have sales relationship. Similarly, in C we may have 10 active accounts and D we have 6 active accounts.

Now, I have kind of merged the sales volume in rupees with this data. So, suppose in this sales volume, based on our invoices are 48000, 48000, that is, 48 million and 44 millions here, 25 million and 33 million rupees. But the overall sales volume is 150 million rupees, but each one has a different type of profit result. Now, this again is based on our own invoices and the kind of mix that we are offering to these customers. And we have suppose these numbers, 14 million, 15.4 million, 12.2 and 16.5 million. So, against 150 million sales volume, we have gross profit up 58.15 million. And suppose, we have total number of calls that are necessary based on sales call reports cross referenced by customer name, so you can see all the different kinds of database analysis, that we have to do here.

So, we can have here, these are the total number of calls that are necessary or that have been made for these different types of account categories and then we have the selling expenses, which again has been calculated by direct cost of sales including salaries of the two sales representatives who might have been involved in these, serving these account categories and we come to this 56.55. And we have, as I said, that we have created this account categories, could be by steel, cement, petrochemical and so on, or it could be done by way of A category, will be 5 lakhs or less and B category will be 5 lakhs to 10 lakhs, 10 lakhs to 20 lakhs and above, 20 lakhs and it means, that this kind of customer, they need at least 2 calls per quarter, 4 calls, 6 calls, 8 calls per quarter and so on.

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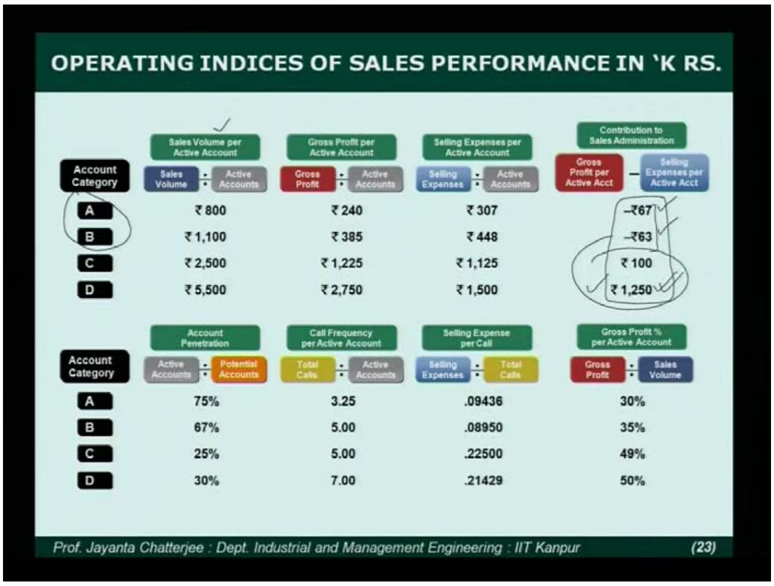

If we have this set of data, then the analysis, that we need to do is, this is the kind of analysis is that we have to do. So, we, we therefore can see, that we take sales volume per active account. So, basically, take the sales volume data that we saw in the previous example, sales value we have 48000 and we need to make 2 calls. So, sales volume divided by active accounts that we had here, number of active accounts are 60, so accordingly we arrive here 800. So, this is sales volume per active account.

Now, we can see obviously, sales volume per account because we have defined that the account itself is, means, that 2.1 million or more in sales, so obviously, the sales volume per active account. So, this gives us some kind of a strategic frame how to allocate our attention or other support resources and so on. This gives us some gross profit per active account, selling expenses per active account and we can see here. Then, if we did the gross profit per active account and selling expenses we deduct from, that we see, that in A and B category we are actually making a loss and obviously, we are making a handsome game compared to this in the D category. The interesting thing here is, that this set of your number crunching will not actually, it can tell us, therefore, forget about this small customers A and B and let us focus totally on this C and D.

Now, clearly, going by this column one can say, that decision will be a good rational decision, but it may not be, in many cases it will not be a right decision because even though this contribution maybe not attractive here, but the velocity of money, that is, this can be, you know, small, quick, beautiful, rapid turnaround business and this can be a business with the long sale cycle. And even though the contribution is good, contribution is good, but the velocity or the cycle maybe, but the velocity might be much lower here. It could be a segment, which is rapidly growing. It may be today representing a small account, right.

At this moment, this business, which is say metallurgical business is, we are looking at accounts, which are 5 lakhs or less, but maybe this is the business, which is very rapidly growing and also very interesting to look at. At the same time is our account penetration, that is also derived out of the previous this thing, that if we take that potential number of accounts are 80 and our active accounts are 60, it means, we have 75 percent penetration and if this market is a rapidly growing market, then this, inspite of these negative numbers will be highly attractive for us.

So, the purpose of doing this is, that each one of these analysis by itself will not give us the corrective steps that are needed to improve our strategic marketing performance. We have to look at all of these analysis together and then possibly decide, that this is our selling expense here, per call is too high, maybe we can do something here, maybe we can do something to improve our gross profit in account A, account type A or maybe we can increase the number of active accounts account penetration in d that can cause a significant. So, the eighty twenty rule as well as the current penetration the growth rate of that particular market segment our customer type all of these will have to be seen together to decide upon the strategy reformulation steps.

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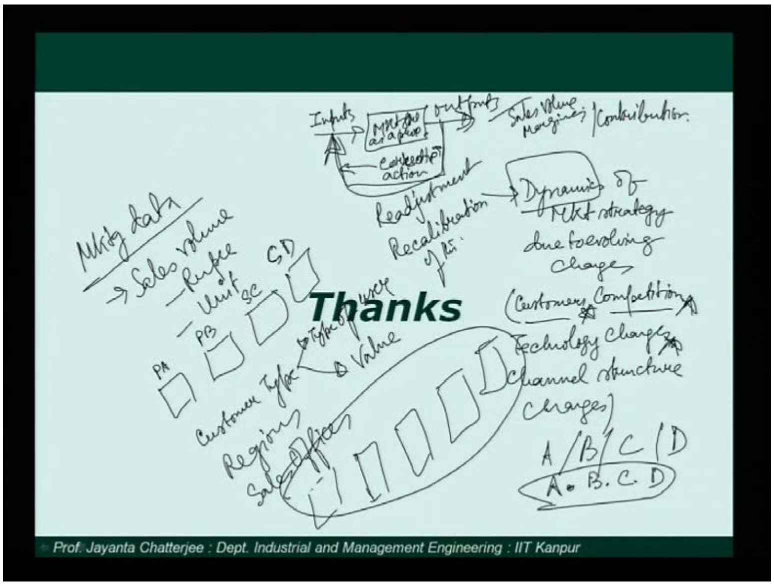

So, the key take away from today's discussion will be few. One will be, that, so the few takeaways are, that we will have to continuously be aware of the dynamics of market strategy due to evolving changes. These changes can come from changing customer preferences, change due to competitive activities, it can come due to technology changes, it can come due to channel structure changes and these changes may not be independent, but they may be actually interactive changes. So, it is not like A or B or C or D, it can be all of them happening together creating this dynamics. So, one will have to be therefore, constantly remember, that the marketing, this is the systems approach to marketing.

So, we have certain inputs to the marketing strategy as a process and there are outputs. So, the outputs are usually sales volume, but the point is, because of these changes one needs to take constant feedback and take corrective action as necessary and therefore, readjust, these inputs are, all the marketing activities, all the sales efforts, all the advertisement, promotion, everything that happens in marketing, but looking at the sales volume, margins contribution, one needs to take the...

The other important point, that we made is, that when we look at the marketing data by way of sales volume we said, that please definitely look at the rupee volume, as well as, that unit volume and all of these we must then slice and dice by product and service groups. We further look at it by customer type. The customer type can be by the type of user or it can be by way of the value, just like we saw in the previous exam in the last chart, that customers giving annual volume of 2 lakhs to 5 lakhs is one category, above 5 to 10 is another category, 20 and above is another category and so on. So, the, the, these are the different ways we can divide or it could be cement, steel, petrochemical, machine tool and so on.

Discrete manufacturing versus continuous manufacturing and all that different type or we can divide it by regions, we can divide it by sales offices, we can divide it by and, and then, we must look at, as we mentioned, that we look at that data and the different analyses, that sales volume per active unit, account penetration, call frequency required per active accounts, sales expense per call and therefore, gross profit per active account contribution to sales administration, selling expenses all these buckets of datasets, we must look together, then only it will tell us, that maybe our focus has to be on increasing our account penetration in this D category.

It may, maybe the marketing action is how to improve our gross profit in this type of active account by perhaps either managing with a reduced call frequency or maybe something to do with, to do with selling expenses here, maybe this account penetration activity for D category can go hand in hand with optimizing the selling expenses here and that will actually tell us the real combination, that we will have to deploy to create the readjustment or recalibration of the marketing strategy.

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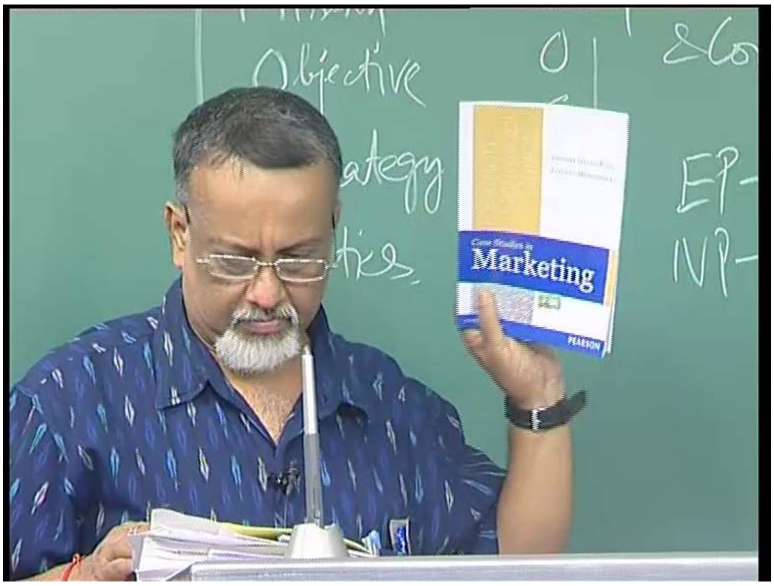

So, as I mentioned, that either in the cases given at the end of, there are some very interesting cases given in your textbook at the end of chapter number 9, which is called marketing strategy reformulation under control process or you can also look at some stand-alone cases given in this booklet. Look at the numbers and I can particularly recommend here for you to do this analysis.

Look at the case, which is at page number 589 or the case, which is a pharmaceutical industries case on hair regrowth treatment, page 562 and, and, and these will give you the number of different activities, the associated costs, the current situation and it will tell you what is the reformulation or refocusing or new activities with respect to either market development or product deferment. An easier case is given at page number 579. So, maybe you can start there and do all the four cases at the end of this chapter and in the next session we will continue with some further analysis of the marketing data sets that will tell us how to recalibrate.

Thank you.