Strategic Marketing - Contemporary Issues

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Lecture - 4

If you remember in the last session, we were talking about strategy in the context of marketing and we used the analogy of strategy as a journey from location A to location B. Applying it to marketing strategy we often talk about that it is actually from a position A going to position B. And we define this position A that this is actually at a certain time, whenever we are starting our planning at the time T 0 we have a position, which we say let us call it P 0. And we want to go to a desired position which we can within a certain frame of time.

So, we can say that this is t 1 and this is p 1, so p 0 is our current position and p 1 is our intent or desired position or this is what we can call is our strategic journey. And as I explained in the previous session that this is never actually a very linear progression from position A to position B.

There will always be number of evolutions number of uncertainties situational dynamics and therefore, as marketing strategists we have to talk about and plan about many different alternatives, many different variations if then if this happens then what do we do and so on. These are all part of our strategic marketing planning and so on; this is what we will be discussing in today's session and the for the next few sessions.

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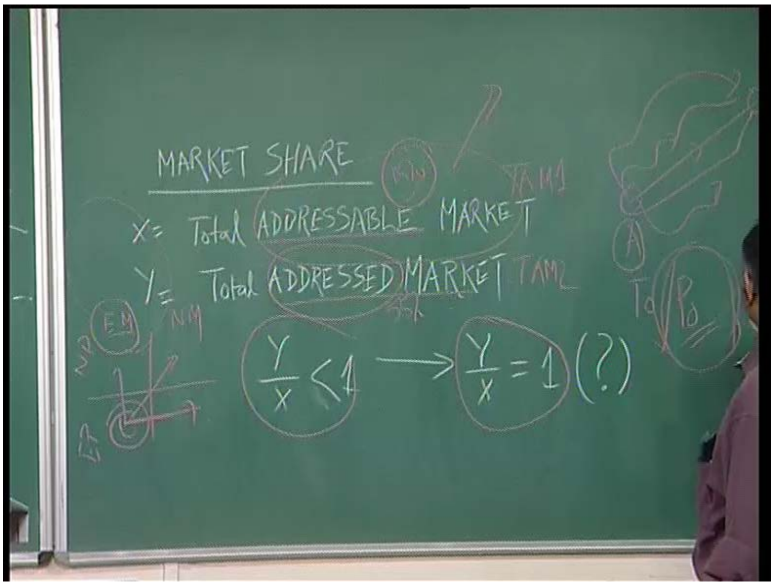

Now, I was also mentioning in the last session that it is very important for us to be brutally honest, to be very sincere when we try to assess at what is our current position. Because, if we do not do this analysis well, if we are not completely, totally, brutally honest and sincere to assess our current position then, we will often make wrong strategies with respect to the implement ability of that strategy.

So, there are very seldom there are good strategies, bad strategies, but most often strategies failed due to bad implementation. So, it is better to be clear about where we are, what are our current strengths and weaknesses, before we actually try to look at the opportunities which will take us a for which we want to go to this intended changed position. What are the things I was talking about in the last session towards the end is that about to be brutally honest.

We have to understand that market share is define by the unit sales of firm A divided by unit sales of all the competitors in the market A, B, C, etcetera. However, we should not forget that which market are we talking about, when we are talking about this market share, it is very important to define that it is share of which market. And in that context I talk to you about 2, I often call it tam 1 and tam 2. So, it is the total addressable market and it is the next is total addressed market.

At any point of time if we remember the answer of metrics, then we have a situation if this is on this side existing market and new market and existing product and new product. Then usually this is where we are like existing product, the basket of existing products being offered to an existing market. Our strategy is our journey is about either going here or going there or going here and we discussed briefly that different risks and rewards associated with all these different journeys.

But, at the moment let us understand that this existing market which we are serving is the market which we are addressing today. And most often this Y which is the addressed market, the address market of today is actually a subset, a fraction of the total addressable market. If you remember in the previous session we were discussing about at company marketing shampoos in the southern Indian market right.

Now, it may be a very dominant player in southern India, but the market addressable market is not only the market that it is addressing maybe Tamil Nadu, Kerala and Andhra Pradesh. But, it might be leaving out in its calculation the entire country which theatrically or even almost practically it can serve. And that will be the whole the all India market which is the total addressable market, we are not even talking about the Asian market that the global market and so on.

Unusually therefore, Y by X is less than 1, it is just a fraction of the total addressable market and our marketing strategy is to try to make it same. That means, we are able to address the entire market, so; obviously, for our market share the market in which we at today, of this existing market that we are serving today, our market share maybe 55 percent. But, if we take the total addressable market then it might drop to 15 percent right and this is 1 honest assessment we must do because it may often happen that we are very happy in our existing market in our little Nish.

But, the market that is outside, this market often maybe growing at a pace which is much faster, than the market that you are addressing today. Because, as we were discussing that maybe the tier 2 tier 3 cities, the villages in northern India are now opening up faster to the concept of using shampoo. And therefore, that market maybe expanding faster and therefore, when you are looking at your market share then you not only should look.

At therefore, your addressed market, you should look at that addressable market, you should look at that growth rate of the 2 markets. And then understand that where exactly you stand with respect to your potential. So, therefore, this is the potential that you want to realize your t 1 p 1 the intended position, at the end of your strategic plan period. Then it is very important to understand it in the contest of the total addressable market and that growth rate differential between what you are addressing today and the rest of the market.

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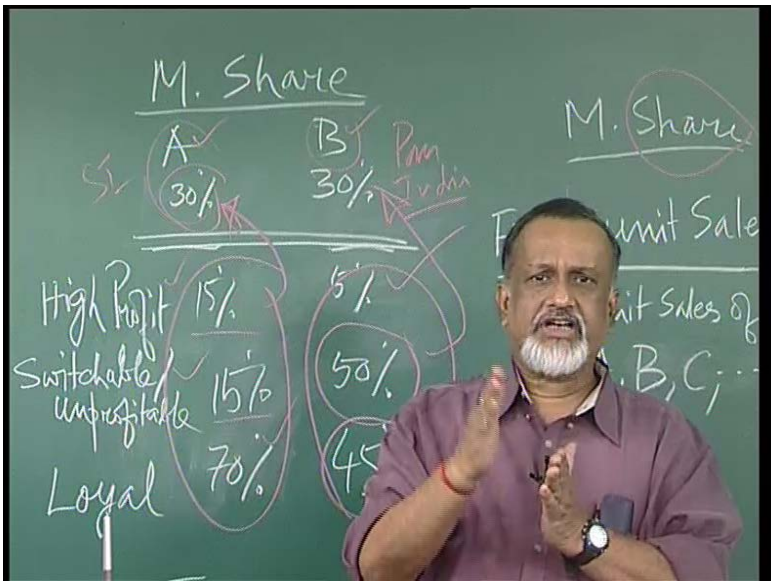

Another important point is here that two companies A and B may have the same market share of the same addressed market, maybe both of them are in southern India. And both of them or maybe this company is all India Pan India Company and this is a southern Indian company and they both have 30 percent market share. So, this is a primarily south Indian company and this is A Pan or national all India player right. And in your market in the southern Indian market both have now 30 percent market share, but this is not the end.

To understand our t 0 p 0 position to understand, where we are today really, we should look at also the composition of types of customers which is giving us this 30 percent share. If company A within this 30 percent, if they have this 15 percent of this 30 percent is the high profit customers, 15 percent is switchable or unprofitable customers. And loyal customers at 70 percent and compare to that suppose this new Pan India entrant in the south Indian market which is quickly have acquired 30 percent market share, because of that strategy they have followed.

Maybe they are high profit customer content is only 5 percent switchable are unprofitable customers constitute 50 percent and maybe only 45 percent where that they have been able to develop some form of loyalty. So, obviously, this basket resulting to this same market share is much better than this basket resulting to the same 30 percent market share. So, this is a short discussion to understand that when we are assessing our current position and when we are trying to plan for an intended strategic objective position.

It is very important to be sincere honest and deeply analytical to understand our current position and I showed some simple issues with respect to market share. And try to explain we will see in much better dept when we discuss some of the cases about this strategic analysis, position analysis kind of tools that we can understand in which allows us to understand in-depth our current positions.

I will now get back to a little deeper discussion on the concept of swot that was introduced in the previous session the strength, weakness, opportunity, threat, matrix. So, we will now get into a little deeper discussion, we will take up the case and try to understand that how do we apply this to swot analysis, strength, weakness, opportunity, threat analysis. And how it can give us a has sort of a marketing plan, this journey that A to B that we talked about that how do we understand where we are today and where we need to go.

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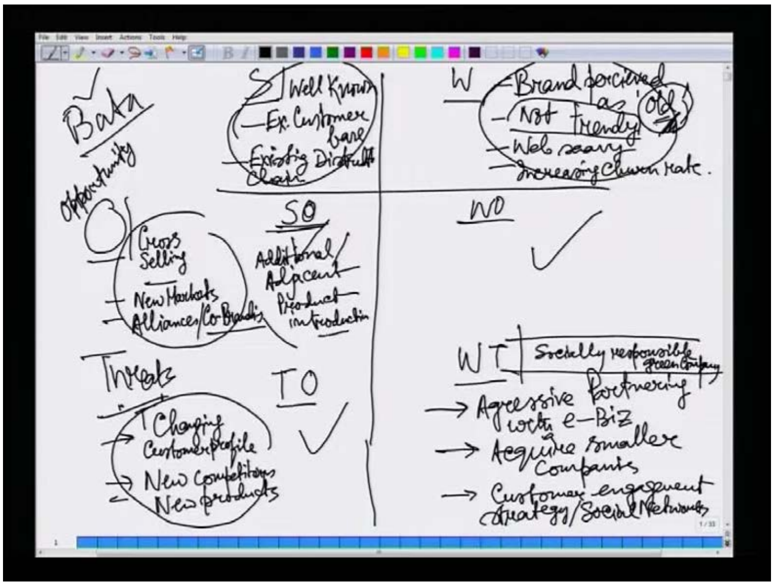

Let us take this example of a very well-known shoe company, Footwear Company, perhaps the oldest surviving brand. This domain in India which is say Bata right, now what are Bata strengths; obviously, you will say that well-known as a brand existing customer base. Because, there are many people around the country who have been using Bata shoes maybe for the last 50 years and that often they will use this as their first choice.

And also again a very important point that they have existing distribution chain, similarly you can also say they have an existing supply chain long standing suppliers, long-standing relations with them. And they have a good manufacturing base, expertise in this domain, so these are all strengths. Now, very interestingly sometimes your strengths are also the flip side of your weakness, because Bata is a very well known brand and there are people who are using Bata shoes for 50 years.

For the children for the children of these 50 year old parents maybe the weaknesses, the brand is perceived as kind of old and not trendy also. Maybe, there is a certain set structure of at a company which is several decades old and they may not be very this remember, this is just this is not the real situation we are talking about we are just building a scenario. So, I am not saying that a Bata is not tech savvy with respect to web marketing, let us say let us assume that they are not web savvy.

That means, they do not because they have a very large physical distribution chain they are not, so focused on and e-marketing or electronic marketing or e-business a channel. Also their weakness can be that they have an increasing churn rate, what we mean by that is that there maybe number of there existing customers who are now by all this smart looking, different looking. So, called sport shoes and casual shoes and many other attractive positioning that are now in the market, companies coming from all over the world companies like Nike, Addidas and so on, and so forth.

And in certain way therefore, there are people who are now feeling the need of having a pair of shoes for jogging, having a pair of shoes for their tennis session, lessons having a separate pair of shoes for the golfing and so on and so forth. May be some people have need of have more funky party shoes and there are therefore, different companies who are positioning themselves as a key players in these different types of Nish.

As you can well imagine that if we draw the product life cycle of shoes, then for customers who have been buying shoes for last 50 years in metros, in urban locations. Maybe, the market is already kind of approaching may not be declining because our populations is increasing, but on the other hand the market maybe at a initial growth stage in the rural market. So, there are different markets have different characteristics, but let us at the moment focus on say the urban, metro market where Bata to has been marketing for last several decades.

New opportunities that 1 can look at one of the opportunities, that you can actually see in Bata shops their out lets, cross, sending. What does it mean? That means, that when people come to buy shoes it is quite likely they will buy polish, shoe polish, they will buy socks. These are all adjacent products, but it is also now quite possible to sell say rucksacks, school bags, luggage, because they are associated with the this particular basket the products.

So, it is quite possible to cross-sell; that means, to sell to the same customer who is coming into the shop buy shoes convince them to buy also something like a back nice-looking, funky backpack or certain special type of insoles or socks for different occasions and so on and so forth. So, there are cross-selling opportunities there are also opportunities for new markets, like markets in rural markets for example, and because of this problem that they are considered as a kind of an oldies brand.

So, in a way therefore, this can also be an opportunity of alliances or co-branding; that means, Bata can take products from smaller manufactures who are making this, so called trendy products. And have either a joint brand name or create a new brand name, so there is there are possibilities of utilizing the strength of Bata's distribution chain to do this cross-selling utilizing products coming from alliance partners and co brands.

Now, what are the threats not this is opportunity right, threats t, so the treats maybe changing customer profile. As you know that the percentage of young buyers in the marketplace is now continuously on the rise and it will continue to rise for the next maybe 30 years in India. This is what we call often that demographic dividend of India that there are more because of our huge population because of the birth rate and so on.

We are currently in this situation back the next over the next 20, 30 years, there will be a huge number 100 million or more young people in the age group of 20 to 35 will be entering into the market as buyers. Now, this changing customer profile means that they have, they may not exactly be excited by a brand is considered kind of a 50 year old brand. They are looking for a brand which represents them right and it is also possible that the market will new competitors and new products.

If you actually look at the design of shoes in today's market you will immediately realize that today what is sold as a shoe would not have been sold as you know would not have been considered. Today there are, so many, so many variance at which are a blends of what could have been earlier called a household domestic or indoor use or garden slipper. And that is now can be blended and it can become your you know open shoes for morning walk and so on.

Anyway the main point is that there are many new varieties coming many new competitors to coming into this market. So, we have now a sort of a map that there are certain strengths for this brand for this company Bata, there are certain opportunities, there are certain threats and there are certain weaknesses. And now this is the important part that we can therefore, develop various kinds of marketing actions by combining S and O W and O threat and O and weakness and threat. So, we often call it S O strategy, W O strategy, T O strategy, and W T strategy.

Let us take WT weakness and threat, what are the weakness that there are the band is perceived as an old brand, it is not trendy. If the brand is not web-savvy the company is not web savvy be there is not enough activity on the for internet marketing. And there is an increasing churn rate and threats are related because there are changing customer profile, new competitors, new products and so on. So, what does it mean what can we do?

So, we can say that we can have an aggressive partnering with e business companies who sell all kinds of products on the internet. There are say you know you know, so many of them, internationally there are people like Amazon there are people like eBay and today fortunately in India we have large number of very successful young companies in this domain and making this e-market for consumer products. Products like even shoes apparels they created a vibrant marketplace on the internet.

So, Bata could actually therefore, go for some aggressive partnering with these different the e-marketers like Flipkart or Myntra or Jabong and so on. Similarly, they could actually may be acquire smaller companies, now these are all alternatives one will have to do further analysis that which one is better at this particular point of time. And we can create at different new customer engagement strategy using social marketing, social networks. And it could also try to reposition itself in the eyes of the newly emerging customers as very socially responsible green company.

It can create a whole new position for itself in that domain that how they are actually recreating themselves for the environmentally responsible, socially responsible new world. You can see older companies like I T C in India have very successfully deployed this in their as part of their marketing strategy, we can discuss this at a later date. The same way you should be able to develop a this stuff that you can do in the combination of S O; that means, when you can combine your strength and opportunity.

So, give me some examples of what you can do in this area for example, we have already looked at this right that there is a because existing distribution chain. And since, there is opportunity for cross-selling you can actually create additional and adjacent product introduction. You can expand and this is what we call the we discussed in the previous session, this would be a very good wallet share strategy; that means, you already have a loyal customer base.

They come into your shops at your different out this the coming to the outlets for you know twice thrice in a year during the festive season or during the other gifting season and so on. And at that point of time you can utilize your existing relationship and also market to that customer base luggage, travelling luggage, associated products, adjacent products and so on.

So, what I would like you to do is take this as your or exercise and I would like to hear from you that how what would you like to do? And W O domain and T O domain and in this quadrant S O quadrant expand and give me a full picture, so that we can discuss it in air subsequent session. I would like to take up another interesting thing that you can do to use an understanding of the market share that we did here and develop from that some marketing objectives.

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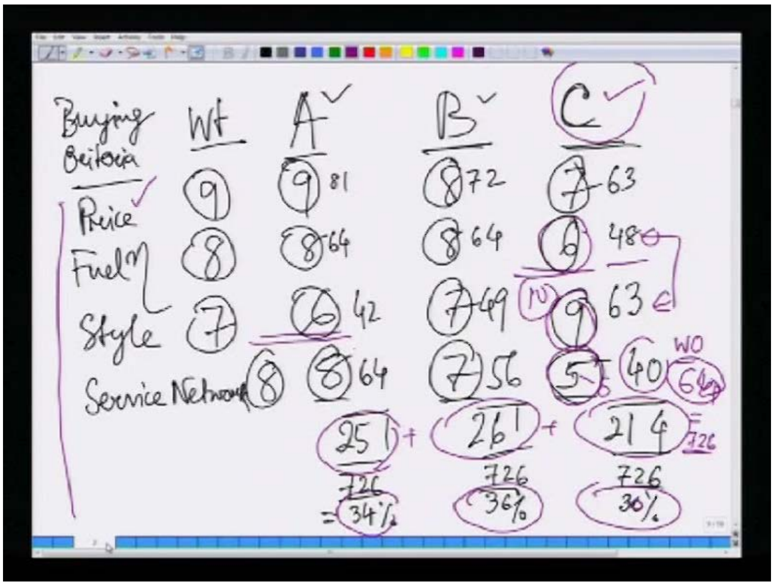

And develop some action agenda and to do that we will look at a very simple chart that let us say in this case let us take a cars, auto mobiles, bus passenger, cars and suppose that we have 3 competitors and we take buying criteria right. Let us say price, fuel efficiency, style, service network, nope be careful here that these criteria that which are the important buying criteria. You should decide through extensive discussions with the customers, because what we would also like to do is assign weight and we can do that on a A S scale of 1 to 10.

And so may be after talking to a large number of customers in across a northern Indian tier 2 and tier 3 cities you find that price is very important. So, price as 9, fuel efficiency maybe 8, style maybe 7 and service network maybe 8 in terms of importance in the eyes of the customers. And now these are the three competing brands competing companies say. And suppose this company A is very competitive in price, so suppose they score 9, the company B is quite competitive, but maybe not that competitive, so they may be 8.

And this is another company which is newly coming to the market very famous all over the world, but their price is that a bit pricey, so maybe their score will be 7. Fuel efficiency maybe A is 8, B is 8 and suppose C is 6, but style wise maybe C is 9, they are globally famous and B maybe style wise 7 and A maybe 6. This simple matrix that you have in front of you is a very interesting tool that can be used to understand that what could possibly be market share of these A B and C.

In this market as because all three companies might have launched their products in this market over the last 6 months and you are trying to say trying to project that what will be the market share 1 year from now. And this is an interesting tool to be able to do that, so I would like you to note down this matrix and use this and tell me how you will be able to do it. I will discuss it in the following session or that how exactly this would be used.

So, we were discussing this imaginary case, to find a marketing strategy for three companies launching their cars in tier 2 tier 3 cities of northern India. Trying to assess what could be their market share a year or 2 years later. This is very important because if you imagine that you can win a market share of 50 percent and deploy resources accordingly. And you actually then land up with their market share to 30 percent or 25 percent then you would have wasted lot of marketing resources, companies precious financial resources.

And you could go quite wrong, if the estimate goes even further away from the reality. So, to understand again this is another way of understanding that where are you today or what is your logical position in the market. And; obviously, we want to understand what is the logical position in the market the best way to assess that is to talk to customers, talk to distributors, talk to you your other possible partners. Observe your customers reaction to competition products and also look at how competitors are positioning themselves.

These are all part of intelligence gathering for creating your strategic marketing plan. So, let us take this example of say small cars being launched 1000 C C to maybe 1500 C C cars, on maybe in the around 1000 C C and engine capacity cars. And we have these three competitors A B C and this is a new entrant in the Indian market very famous for its styling and so on. So, we find that A is very competitive in price B is almost equally competitive C is not that competitive.

In fuel efficiency A very competitive, so is B, but C is not that competitive, but in style C is world famous and B is kind of better then A in this respect. And in service network this is an old established brand relatively older brand and it has a very good service network. So, they have scored 8 out of 10 B is 7 and C is a new entrant they are service network is still quite poor. And so, there may be there are not that good, so there have got 5 and we have earlier assessed with discussion with customers that the relative importance of these 4 factors are this 9 8 7 8.

Now, if we multiply the score of each company on each of these criterion, so we get 81 8 into 8 64 7 into 6 42 and 8 into 8 64. In the same way we get all these other scores of 72 64 49 and 9 into 7 63 8 into 6 is 48 7 into 9 63 8 into 5 40, we add up. And we get there for now 251 261 214, if we add up across then we get 726 I think yes. So, what we do is therefore, this total possible score is in a way this is a proxy of the total market in the minds of the customer.

And therefore, from this we can derive dividing 251 by 726 that with this new threat coming in a very stylish international competitor coming in certain market share will be lost by A and B. And this would be that; obviously, as you can see here we get several interesting inputs for our marketing strategy formulation here, like this company see they can see that they are currently at 30 percent.

And expanding the service network like, so this is their weakness and opportunity combination; that means, if they now develop alliance with independent automobile service providers automotive repair service providers or they buyout some of these prominent players were not already at captive to A or B. So, just by improving this number which means if they can improve there in the minds of the customer perception about their service network, if they can make that improved that this level 8.

Then this will become 64 and this will become a game-changing, so just by simply improving here or on the other hand if A can significantly improve yes its styling. Bring up new products which have you know have winning style it can change it, so position it can try to expand. So, increasing your market share in your submarket is not a you cannot achieve it just by you know going out there just by advertising more just by exhibiting more.

And it is quite dangerous to try to increase your market share usually, by trying to reduce your price because that can lead to price more and so on, We will perhaps discuss that in much better depth when we take up some actual examples. And so, here we can see that this simple matrix can tell us about possible market share without even getting into the real numbers, because so often real numbers it is very difficult to gather the real numbers. In case of cars it is not difficult because these numbers are published on a regular basis by the industry association.

And but, there are many other products where this is this may not be very easy to find. So, for example, number of soaps currently being sold in across 15 cities of northern India and how that each brand or each type of soap how it is how the market is growing at how the market is responding because it is a new market as far as some of the luxury soap are concerned. Now, you can see that same type of list of criteria can be developed through extensive discussions with the customers observing the customers.

So, discussions, surveys and observations all of these will give you this list of criteria, then you should actually have similarly discussion observations a experiments to understand these relative importance. And then you can find these scores and these scores will tell you if you are company C what is are your weakness area and what are the opportunities.

And therefore, what you can do by combining and what other actions you can take therefore, in terms of market share growth in terms of winning customers away from the competition, what you need to do? And you can also therefore, realize certain limitations like for example, it may be it is possible perhaps this 5 to go to 8, but it may be extremely difficult to take this 9 to 10 or it maybe fuel efficiency which is 6 the rewrite out of the engine.

And sometimes these two factors maybe trade-off because of the styling it may be difficult to put in every fuel-efficient engine right. So, one has to also look up this trade-offs and limitations and from that we can understand that what is our market share today and what is really possible what is really possible. What is pragmatic to in terms four ambition? And therefore, you can develop your marketing budget accordingly and the you can understand your what we call marketing cost versus marketing benefit analysis.

Now to get to sum of these cost benefit analysis are what we call return on our marketing spend. That means, the total number of rupees that we will be spending for all marketing effort what do we get out of that; obviously, as we have seen through this analysis today. And also we did the swot matrix earlier the swot matrix that what we did that it is not practical always to think its not rational to think that today we are at 20 percent.

And we can become at 70 percent over the next 2 years that may be a dream, but that may not be a valid marketing strategic ambition. And we need at this stage some deeper understanding of some fundamental financial concepts which you must be knowing because this is an advanced level course. Just as before taking this course you would have done an introduction to marketing course, in the same way I am sure most of you have already done an introduction to corporate finance and finance and accounts course.

However, just, so that we all walk together and we are on the same page, we need to discuss some of those financial concepts, cost benefit concepts particularly a deeper understanding of cost is very important for some of the further strategic analysis that we would like to do. So, that will be the topic of our next session the understanding of financial management fundamentals which are important building blocks for marketing strategy.

Thank you.