

Strategic Marketing - Contemporary Issues
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Lecture - 9

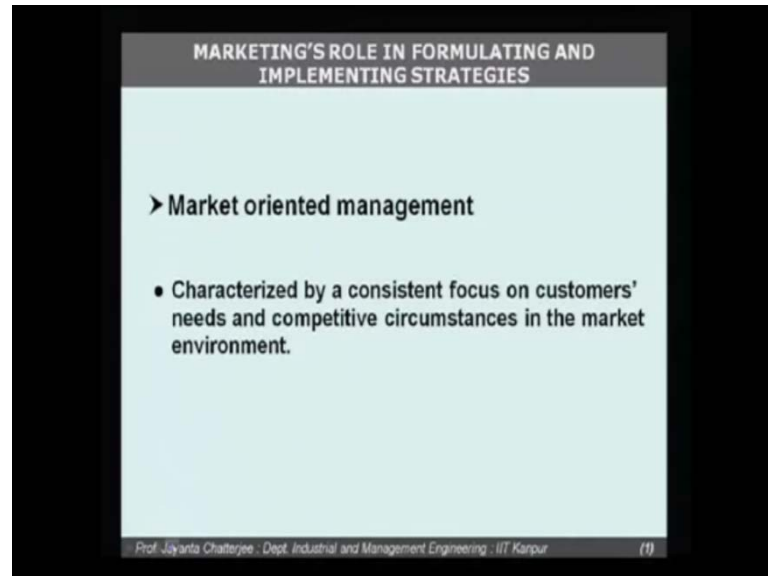
So, we are now embarking on our next level, which is module 3. As you know, the module 3 is about the inter-relationship between corporate strategy. The strategy of a business division, we often call it SBU, a Strategic Business Unit that means a large corporation can be divided into number of key business units, we call Strategic Business Units. So, strategy at the overall corporate level, strategy at the next level at an individual is SBU level, and then how that has implication and interaction with the marketing strategy.

So, as you can see marketing strategy is therefore, a subset of the SBU strategy and the SBU strategy is a subset of the corporate strategy. And we will just now look at these inter-relationships and how they play interplay with each other. So for example, these important considerations we had that the depending on a certain discount factor the net present value of two marketing options what will be its implication with respect to corporate strategy or what part of the corporate strategy will actually allow us to choose between option A and option B these are the kinds of things that we are going to discuss in this particular case.

Now, to understand some of these implications, we can easily take up anything that is currently happening. By the way one of the text book that is referred in your course outline is this book which is strategic marketing problems cases and comments by Roger Karen and Robert Peterson, this is available in Indian low cost edition from Pearson. And the discussion that we had on those financial considerations for formulating marketing strategy mainly what we have discussed in the later part of module 1 as well as in module 2 these will be available in Karen and Peterson's book in chapter 2 as well as chapter 3. And I would request you to also look at this text book and go through the more detailed descriptions that are given and concepts that have been clarified there and there are some easy way to work out examples and problems given at the end of that chapter number 2 which I think you should engage in and if you have any problem then please

do get back to me with individual questions. Module 3: Strategy Decisions and Marketing Implications.

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I think this first slide is self evident we have been discussing this continuously, we had a pervious discussion that what is the meaning of market oriented management.

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And these are the factors that mediate marketing strategic role. So, competitive conditions can enable a company to be successful in the short run without being particularly sensitive to customer desires or as we saw in that chart that we discussed just

in the beginning of today's session, that some times in the short run a particular decision may give immediate payback but, in the longer run that may not be a good option because the growth rate may be higher in the later years.

So, these are the considerations that are important inputs that marketing can provide to the overall strategic plan. That sales growth rate in the later years is a piece of knowledge that will come from marketing, very important the next two bullets that you see here, one what we call product orientation or production orientation. The product orientation is sometimes today's success may be a trap leading to tomorrow's failure.

We have briefly talked about the marketing myopia. For example, people who were doing great developments for say, camera with different kinds of films and different kind of cartridge film cartridge and different types of lenses and higher and higher range of camera, kind of ignored the emergence of the digital camera and in the initial stage companies like say Kodak or companies like Fuji who had major stake in films cameras films the old style films which needed for the chemical processing to produce the prints they had major investment in production of films and as a result, they had this product orientation they were looking at the marketing strategy that how they could enhance the sale of film because that was the major revenue source.

So, they even give away the camera in some cases free so, you had those so called throw away camera as or single use cameras which basically was just a roll of film with an attached camera mechanism at very low cost. And this product orientation made them ignore the rapid emergence of the digital imaging and storage technology and the rapid decline in this mis conductor storage price. So, as the result even though Fuji or Kodak they were leaders they were very successful. Within a few years, a new entrant Sony or new entrants like cannon.

Cannon story is little different but, there were number of people who came into the market with digital camera and wiped away the significant part of the film business and created major problem for Kodak or Fuji. So, Kodak which was almost synonymous with photography and even though they actually had in their own laboratory good development, good RND for digital imaging, the vested interest in the film business made them ignore the aggressiveness that they could deploy with respect to the digital camera. And as a result, we know were a company like Kodak is today. They have to

now move into perhaps in the more sophisticated professional photography domain where the film as suppose to the digital imaging still retains significant value. So, today therefore, they have become in a way knish or specialty market player as supposed to main stream market player.

On the other hand they were a company like cannon which was also in the camera business but, they did not have this vested interest in the film production. And therefore, they could keep pace with the change in the market, change in the consumer preference and they were successful earlier with conventional high-end camera the single SLR, a single lens reflects another different high-end camera and they also remain significant player and retains there significant market share in the digital camera of today. And of course, they are now introducing like other players in this market associated products with respect to storage, storage on the web photo, sharing applications remote applications and so on and so forth.

So, we can take this example of Kodak and understand that the product-orientation, as supposed to mark the orientation, as supposed to focusing on the customer and what the customer is preferring currently and responding to that is remains a very important part of marketing strategy so, product-orientation can become a liability. So, as I mentioned right in the beginning that sometimes the success of a product today can be a trap leading to a failure tomorrow.

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MARKETING'S ROLE IN FORMULATING AND IMPLEMENTING STRATEGIES

> Factors that mediate marketing's strategic role

- Different levels of economic development across industries or countries may favour different business philosophies.
- Firms can suffer from strategic inertia—the automatic continuation of strategies successful in the past, even though current market conditions are changing.

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Production-orientation, another kind of related issue that if you have high investment in certain productions facility and you want to maximize, optimize your production capability that can also lead to so, we were discussing this case of Kodak. So, the production facility of film became a liability or became a hindrance or kind of forces that company to become sluggish in responding to the new orientation.

Sales-orientation is kind of again related and that is that it is possible that you can be blindsided by your sales growth in a particular business that because as you know that as you approach this segment the business looks very good, sales is growing, profit is growing, market share appears to be growing, but you maybe not aware of some other new development that is taking place which is going to disrupt your market so, instead of coasting along and then declining it may happen a short fall that this stage so, again sales-orientation as supposed to market-orientation.

So, that means whether it is product-orientation whether it is production-orientation whether it is a sale-orientation, what we are talking about here is looking away from your primary orientation that is bed-rock of the strategic marketing which is continuous focus on the customer and tracking the change in the customer's choice making process, tracking costumers preferences, tracking the impact of competing products, even adjacent products or even substitution products on the consumers buying behavior. This is therefore, an outside focus that is very important to compliment it is not that you should ignore the product-orientation, you should not ignore the sales-orientation, you should ignore the growth that you can maximize at this stage. But, be equally aware of the changes that are taking place in the market place due to competitive activities, due to technological change activities, due to consume consumer profile changes and therefore, you must be aware.

So, you have to as we often say that, you must have peripheral vision look at your side look at that what is happening in adjustment market as well as you must have a long range vision and you must have a micro vision on your immediate next quarter this current year's results and so on. So, all three peripheral visions, distant vision and focus on the present, all three must be maintained on the same time, internal focus on your product line growth, internal focus on your production strategy, internal focus on your sales growth in each territory all of these must also be complemented with the customer choice making pattern.

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So, marketing role in formatting and implementing strategy therefore, factors that mediate this, this, this is what exactly we have been talking about. At the same time marketing also has this task of looking at what is happening in the industry which they operate. So, if you are in the biscuit industry and I mean then you define itself not as a biscuit company but, maybe as Snacks Company, may as an food company or maybe as fast moving consumer goods company, depends on the different context. But, within that one has to look at that what is happening with respect to economic development across other industries in that range or in the developments.

For example, today there is growing demand for biscuits which are healthier so, you see people are now becoming more conscious about health, they are more conscious about sugar intake so, low sugar biscuits, multigrain biscuits, these are now becoming important and therefore, if you do not have these products in your range and you are continuing with your current strong sales in glucose biscuits you might be blindsided.

So, these are the things that were marketing has a role to bring to the organization, the pitfall of what we call the Strategic Inertia. So, you may be extremely successful in the glucose biscuit which is still a very high percentage constitutes a very high percentage of biscuits sales. But if we ignore the growing trend of healthier options then, you might actually get into trouble.

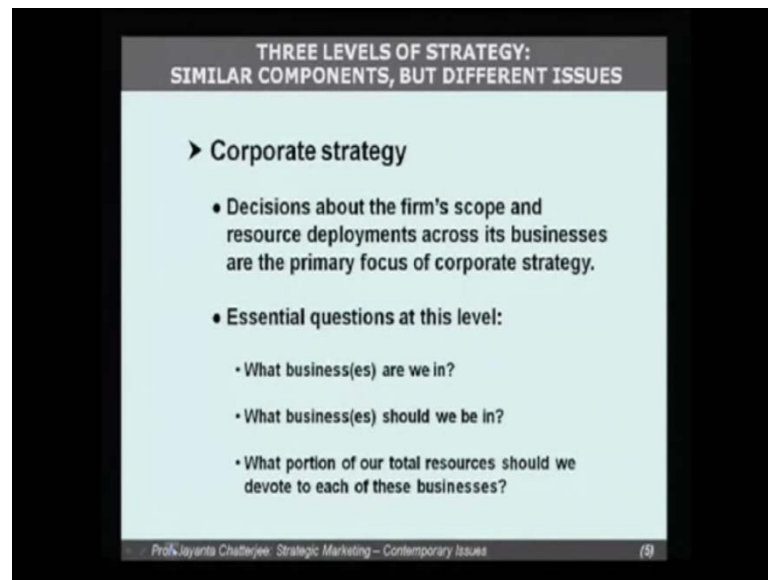
So, Strategic Inertia of the organization is an area where marketing has to often provide the counter talk or as we know from the laws of motion that everybody continuous in its state of rest or of uniform motion in a straight line, the concept of Inertia until and unless compelled by external force to change that direction and that external force bringing that into the strategy making board room or strategy making discussion within the organization it is a role that marketing has to play.

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So, the hierarchy of strategies introduced to you in the beginning that the top-level over encompassing is the corporate strategy. A subset of that is the business-level strategy we often also call it the SBU the Strategic Business Unit and then, below that the functional strategies of which marketing is a part. Similarly, they may be functional strategy like manufacturing strategy or supply chain strategy and so on.

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So, corporate strategy deals with the decisions about the firm about the organization scope and resource employment across the different business units. At this level we must answer that what business are we in? Do we want to be conglomerate? For example, like Tata's they are in steel, they are in financial services, they are in auto mobile, they are in chemicals, they are in agro business and so on. So, that is a conglomerate strategy. At that stage Tata Motors, Tata Steel, they are all become in a way strategic business units. So, within those are very large companies so, within them within Tata Motors they maybe SBU dealing with passenger vehicles and there maybe another SBU dealing with commercial vehicles that is trucks and so on, there maybe another SBU dealing with off-road vehicles like tractors and so on if they decide to get into that business.

But, the corporate level or at the SBU level we have to always ask these questions that what is our business? Is this the right business to be in? Is this business growing? Is it a sunrise business or a sunset business? Do we need to complement with some other business and all of these issues that we take up at this stage. And then of course, comes if there are 4 SBU's, how do we allocate our annual resources, our five year development budget. So, there is a maintenance budget all SBU's are supposed to be self-sufficient. But there is always some impetus needed, some investment needed for growth and this is where actually that investment fund, that investment budget allocation across different SBU's is something that we do at the corporate strategy level.

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**THREE LEVELS OF STRATEGY:
SIMILAR COMPONENTS, BUT DIFFERENT ISSUES**

➤ **Business-level strategy**

- A major issue in a business strategy is that of sustainable competitive advantage.
- It must address appropriate scope.
- Synergy should be sought across product-markets and across functional departments within the business.

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At the business levels strategy, we do the same thing with a little bit of at the focus level of the SBU.

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**THREE LEVELS OF STRATEGY:
SIMILAR COMPONENTS, BUT DIFFERENT ISSUES**

➤ **Marketing strategy**

- The primary focus is to effectively allocate and coordinate marketing resources and activities to accomplish the firm's objectives within a specific product-market.
- A critical issue is specifying the target market(s) for a particular product or product line.

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And the marketing strategy therefore, as one of the functional strategies, as a subset of the SBU strategy, the primary focus therefore, is an allocation of resources again across the different marketing activities. So, we have discussed yesterday if you remember we were looking at woodland and their foray into the china market and they are focused on strengthening their domestic market share and there are additional effort that they are

engaged in today is to introduce adjacent product or related products important to the same core customers. So, they have position themselves as tough shoes for rough use and suitable for adventure for tracking, for hiking and so on and therefore, they are also looking at associated products of skincare products when you are out in the open or different other maybe raincoats, maybe ruck sacks and similar other associated products.

And now, marketing strategy will have to define, will have to decide, that how are we going to allocate our developmental budget, our growth budget across these different activities for the trust in to the China market, for strengthening the domestic market position, for bringing in these new products or associated products. Each one of these activities for its growth will need some fund and some attention. So, how do we allocate that these everything always is whether money or attention time effort. These are all finite and so you have to allocate a portion depending on what are your priorities. This is the role of the marketing strategy.

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So, what is our business? Who are our customers? What kind of value can be provided to this customer? What should be our business over next 1, 3, 5 years? This is what we have to determine and we will now see that if these are the questions that need to be answered then, what role will marketing play in that?

There are some new issues that are coming up now and those are relating to that besides this growth objectives or financial objectives that can be derived by what is our

business? Who are our customers? What kind of value we are providing to these customers? How can we enhance that value? What is the current growth rate of the business that we are in and therefore, are we at maturing stage? Do we need to get into some new business, create some new revenue streams? All these are important questions that need to be answered at the corporate strategy as SBU strategy level which will result into marketing efforts.

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But, there are some new issues that we are now more concerned with, are like for example, social values. And this can lead to various innovative marketing strategy I am sure you are watching that many consumer products today are sold say feminine care product can actually also give a message that every time you buy this product a certain percentage of the revenue goes for the care of the girl child or for female education or for village schools.

In a same way every time you buy a certain companies writing note books or you buy pens and pencils from a company a percentage of that revenue goes for supporting village schools or schools for disadvantage. So, what was earlier the real of social marketing that means, marketing for social benefit social development oriented marketing can now be well integrated into your regular marketing strategy. In the same way there are now green strategies which will also influence the marketing strategy, the environmental sensitivity.

So, if you have a product which has lower carbon foot print, if you have a product which is less polluting, these products can now have addition appeal in the global market place and in some cases due to regulatory reasons this might become essential part of your marketing strategy. And we are going to look into this in greater depth. Few others related but, different concepts that we must also introduced about the marketing implication of corporate objective.

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One is that how marketing manages can help prioritize the alternatives among the strategic possibilities. One of them is this concept of PLC-ILC analysis. PLC stands for the Product Life Cycle and ILC stands for Industry Life Cycle. So, if the mobile handset industry is now at matured stage in a particular western market, in that market introducing a product however attractive it maybe at a lower end or at a low feature level will be a wrong decision.

Therefore, it is the role of marketing management to constantly track what is happening in the industry in which they are this issue about peripheral vision not only in their own industry but, what is happening in the associated industry. If music industry is now getting reconciled to selling not CD with 15 songs but, they are now strategizing themselves to sell individual songs on per unit basis then obviously, it has implication for the mobile phone industry that are now combining the music entertainment facility with the mobile handset.

So, this is an adjacent, this comes out from marketing peripheral vision. On the other hand, if there are technological moves that are going to take or going to make phones because of the new development of organic LED, it is becoming feasible to fold phones and you can actually instead of having a solid block you can have as thin and as playable as an item like a note book in your pocket. This development in technology will mean a change, a shift in the product design and that can change the customer preference and therefore, that can change the industry itself. As we have seen and we will be discussing later how products like iPhone have changed the industry definition itself.

On the other hand, some of the organizational constraints can impose some priorities on marketing and there by marketing we need have to decide between in option A and option B will have to look at that particular constraint imposed by the overall organizational situation. So, if your organization needs higher rate of cash accumulation in one business in which you are to support the long range growth objectives in another strategy business unit then, the corporate may want your business to provide a higher rate of generation of net present value and higher accumulated cash generation.

And therefore, it can actually prefer or create a condition of preference in a marketing strategy for that plan which has lower average. Remember in earlier section, we discussed that a higher high leverage plan which means a high fixed cost plan versus a low average plan which means a low fixed cost and high variable cost plan. The high fixed cost low variable cost plan is very sensitive to sales growth or sales fall. It is a riskier plan and if the organization has this need of certainty of cash flow from your to business to support the growth objective of other SBU. It is important therefore, to take that into consideration and maybe go for the lower leverage plan so, this is another aspect.

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THE MARKETING IMPLICATIONS OF CORPORATE STRATEGY DECISIONS

- **Corporate growth strategies**
- **A firm can go in two major directions in seeking future growth:**
 - Expansion of its current businesses and activities.
 - Diversification into new businesses, either through internal business development or acquisition.

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So, now this is something that we have already discussed in terms of the hands of matrix and we will now start developing this the original hands of matrix of remember which is the EP, NP existing product new product and existing market new market. Now, we will further develop on this and just see some of the implication of these considerations. So obviously, if you are going into your taking a new product in the existing market is a kind of a diversification of your product range. If you are taking an existing product into market it is an expansion of your marketing foot print.

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ALTERNATIVE CORPORATE GROWTH STRATEGIES

	Current products	New products
Current markets	Market penetration strategies <ul style="list-style-type: none">• Increase market share• Increase product usage• Increase frequency of use• Increase quantity used• New applications	Product development strategies <ul style="list-style-type: none">• Product improvements• Product-line extensions• New products for same market
New markets	Market development strategies <ul style="list-style-type: none">• Expand markets for existing products• Geographic expansion• Target new segment	Diversification strategies <ul style="list-style-type: none">• Vertical integration<ul style="list-style-type: none">Forward integrationBackward integration• Diversification into related businesses (concentric diversification)• Diversification into unrelated businesses (conglomerate diversification)

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So, there are some regular terminologies you should be now familiar with. So, it is the same matrix which you have now put it in little bit more conventional terminologies, in terms of conventional terminologies. So, when we say current product in current market then we say our strategy is market penetration because as we discussed yesterday with respect to woodland plan it has a dominant market share in the adventure footwear.

In India 75 percent of its current revenue comes from domestic sales and therefore, it needs to have a constant focus on increasing this current market share because the itself is expanding so, it has to keep pace with that growth rate. If the market is expanding at a rate of 20 percent per annum because of more and more younger adventure enthusiasts coming into the market place then, you would like to have your sales volume should be go by grow by 25 percent more than 20 percent because your sales growth maybe 15 percent then as growth it may be defined.

But, remember that if the market is growing at 20 percent and if you are growing at 15 percent you are actually losing market share. So, increasing market share, increasing the product usage, increasing frequency of use, increase quantity used, increase new applications develop new applications. So, if there is a fairness cream that is now being used once in a day when a person is going out in the sun then you might like to promote a variant and say this is fairness cream over for overnight use. So, this is the strategy or we say that brush your teeth once in the morning and once at night sometimes these maybe based on good scientific principles, sometimes they maybe just an incentive from the marketing to the costumer and sometimes it may be on solid footing on the basis of need and sometimes it can be triggered by pandering to desire or pandering to some emotion of the customer.

At this stage we are not discussing the good or bad of such issues, that we will discuss on when we discuss about marketing ethics but, at the moment we are talking about current market, current product activities we call them market penetration strategy. If you are talking about current product, current market and bringing new product to that market, as we were discussing yesterday earlier about woodland bringing associated products like skincare for their adventure and enthusiast that is a new product coming to the current market here we call about market development, sometimes it can also be done by product line improvement or product line extension.

So, we know that many of these comfort shoes or sports shoes; they have a problem with respect to bad odour due to sweating side. So, you bring out a new variety which is a breathing shoe so, you change that upper the shoe upper and use a new type of fabric and use the new type of structuring so that there is constant air exchange between the inside of the shoe and the outer environment and thereby you can should recreate a variant which provides the same level of comfort for walking, trekking, running, jogging but, at the same time it actually takes care of the sweating feet and prevents bad odour and it might cost higher but, it will be product line extension which will bring additional revenue because there will be some customers who will be ready to pay that extra for that extra feature.

And so, in a way new products for the same market which is if today Britannia is a leader in the biscuit market and they want to introduce now a healthier choice, a more nutritional choice they introduce a multigrain biscuit as supposed to simple wheat based biscuit or a low sugar or sugar free biscuit then, you know this is new product for the same market bringing in additional revenues. So, we call that product development strategy. New market current product woodland going to China or Britannia making deeper trust into the rural market with different packaging, smaller packaging or Parle-G which is in Parle glucose biscuit now introducing a very high-end chocolate chip variant catering to the luxury end of the market, these are all taking current products to the new market. So, earlier Parle's consideration where the lower-end, the mass-end of the market now, they can come into the cookie-end high-end luxury-end of the market. It could also mean, you know going into a new geography that is woodland is going to china that also be considered in this current product to new market.

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And finally, we have of course, new market to new product this is the diversification strategy. Now, this new market to, new product to new market, this diversification can be done vertically upwards that means, you can add more value, and you can now get into higher systemic level. So, like if you are now offering say breakfast cereal; and now you can move upwards and you can provide a whole range of other breakfast products, and so this is and as well as now come up with ready to cook food for lunch or for dinner usage. So, in this case, what is happening is that you are actually taking your current pocket position and you are exploring opportunities, which are going. So, from breakfast you can actually now try to get a share of the food package food business for lunch or dinner.

At the same time you can get into go diversified downwards and therefore, you can actually either get into smaller package smaller units, you can get into ingredients in case of breakfast cereal that is not applicable but, there are other businesses where from the current level of packaging you can provide a component level option. So, diversification therefore, can go vertically upwards, it can go sidewise and but, it can be a completely new product for a new market. For example, we know HUL as a fast moving consumer goods company. So, they make cosmetic products, they make personal care, personal hygienic shampoo, soap, toothpaste and all these types of products.

But, they have now also introduced successfully a water-filter which does not need electricity and is at a very comparative price, it can offer clean drinking water to the mass-market as you can see it actually poses a number of marketing challenges and I would like you to write a short analysis that therefore, what are the strategic challenges to HUL in marketing this new water-filter range.

There are issues that are to look at using all those piece of marketing that means, there is a new product but who is the purchaser? Where will one buy this product? Will somebody buy this product from the same place? Where they buy their toothpaste or are the distributor? Who is now your trusted partner for marketing your soap and detergent products? Will they be interested to market your water-filter or if you are taking it to a new market channels, which were household or consumer durables are sold then, how will they consider your brand because they are not familiar with your brand, they are familiar with the traditional brands who make refrigerators or pressure cookers or microwave ovens or washing machines or so on.

So, how are we going to therefore, develop your strategy to take this interesting product which can be significant revenue generator in this new product in the new market category. So, this is not a diversification in the related business, this is diversification into unrelated business. Should they get into it? If so, how or what should be the steps, this is an exercise that you must engage in before we get to our next discussion. So, I will expect yourself-initiative in developing this mini strategic plan for the water-filter range from HUL, an interesting product offering interesting challenges in terms of the marketing mix and the current market situation of HUL.

Thank you.