

Indian Institute of Technology Kanpur
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Course Title
Marketing Management – 1

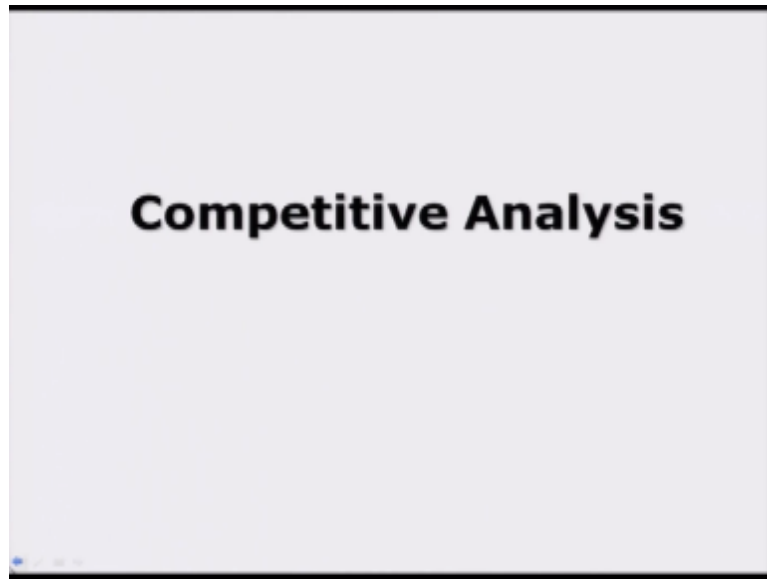
Lecture: W2.I.5
Business Environment & Strategy

by
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Prof. Jayanta Chatterjee: So we will now embark upon that concluding sessions, two sessions a session five and six of this second week of our course on marketing management part 1. As you have realized that in this week we are looking at both internal environment and external environment of a business to frame a good marketing strategy. So you have seen that how we talked a little bit about the competitor analysis, the external environment subsequently we talked about the internal environment and strength weakness opportunity and threat.

We also discussed about the political economic, social, technical analysis that are necessary to frame a good marketing strategy. Today in the concluding two sessions we would like to go deeper and wider in this important arena of competitive strategy formulation, and competitive strategy deployment.

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Prof. Jayanta Chatterjee: So competitive analysis is an analysis of the competitors with respect to your current position.

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Prof. Jayanta Chatterjee: Now obviously competitors can be direct competitors and or can be indirect competitors. Indirect competition is a particular phenomenon which fastly has permeated almost all businesses. For example, if you go back 10 years then people who were competing in the music industry were quite distinct from the people who were competing in the phone industry. But today if you take any mobile phone service company, whether they are only doing telephony as we understood earlier which is basically a voice application, or they are in the business of digital content delivery which includes music and various other forms is a question very difficult to answer.

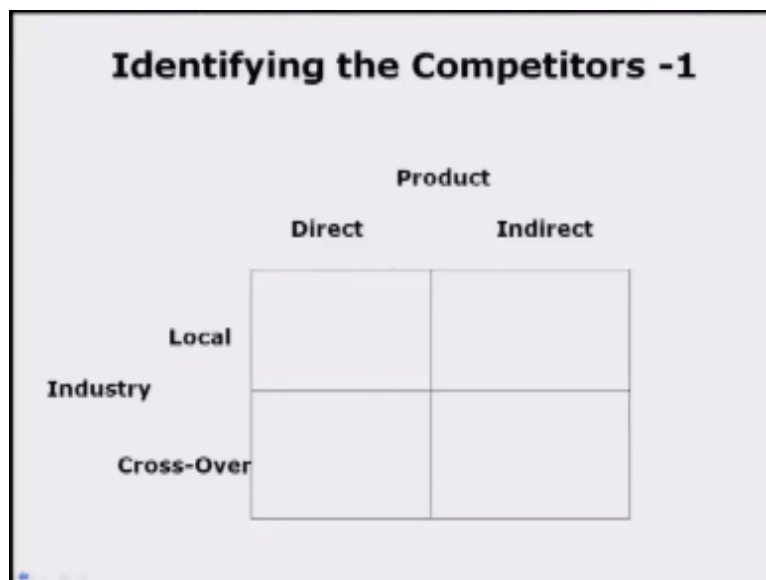
So perhaps in years to come we will see that the traditional distribution channel of music industry in the form of CDs, DVDs, cassettes et cetera will all merge into, on this platform of mobile telephony or the mobile internet as we often call it. So with the 4g and other advanced systems coming in for mobile content delivery, music the predominant way of delivering music will be now that mobile telephony platform.

As a result what is competition in the music industry, and what is competition will be in the telephony industry will be indistinguishable, and this is the nature of direct, indirect competition

or local and crossover competition. So as you see today who is your competitor, and who is your supplier, and who is your collaborator, these questions are often very difficult and very complex to answer.

In many industries you will be working with companies who will be your competitor in one field, and will become your collaborator or supplier in another field. For example, we know that Samsung and Apple for mobile phones with android phone and iOS phones they are fiercely competing with each other, but in many other areas Samsung is a prized supplier, is a coveted supplier of iPhone and other phone manufacturing companies, because they are very strong in semiconductors and components.

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Prof. Jayanta Chatterjee: And similarly in display systems and others these emerging happen and therefore it is quite difficult these days to understand the nature of your competition until and unless you use something like this diagram. And you meticulously plot all the different people who are directly had on competing with you or indirectly competing in some form of the other or might actually cross over from their current position to come directly into your almost direct competition line so people are all the time transiting from here to there or from here to there.

So this is the graph a view graph that will be your quite useful often to map out your entire competitive what we call competitive landscape, so you fill up all these blocks and know your competition where who is situated so too.

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Prof. Jayanta Chatterjee: Identify competitors you have to analyze them in terms of their product features and quality with respect to your product features and quality similarly there customer relationship strategies, there customer retention strategies and as you see here maybe five years back this discussion on CRM strategies would have come somewhere here but we have now brought it up right next to the product or service feature and quality because this is the primary mode of competition today as we have discussed earlier.

Then you have to also study R&D strategies of your competition and what kind of marketing mix this is a tactical site of the strategy that what is their your competitor's price, promotion distribution, supply chain management strategies all these data collection at it must happen continuously, so usually today in any large organization or in some cases even for startups you have to deal with the massive amount of data collected on all these heads for all the competitors

the competitors not only direct competitors earlier it would have been an enough to do a comparative analysis here.

But today we have to do this for the whole map and we have to take data collect data for all of these heads, so data analysis marketing information system has become a very complex exciting and very important arena which we will take up next week in more detail, so once have all these data about customer.

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Prof. Jayanta Chatterjee: And we will discuss next week some of the techniques of the analyzing the data but once you have the outcome of your analysis then basically competitive analysis will have to be merged with customer analysis, so understand customer.

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Prof. Jayanta Chatterjee: Needs and wants identify current and potential competitors.

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COMPETITIVE ANALYSIS FLOWS OUT OF CUSTOMER ANALYSIS

- ◆ Understand customers needs and wants
- ◆ Identify current and potential competitors
- ◆ Perform industry analysis, identify suppliers and common intermediaries
- ◆ Understand your competitors
- ◆ Determine competitor strategies (present and future)

So which means customer needs is a fountainhead that is where marketing starts because all marketing as we have discussed is an approach towards the need fulfillment whether an articulated need or a latent or unarticulated need and what we are saying is that you have on one hand the customer need analysis on the other hand you have to see which competitor is meeting those sets of needs in which different way and you have to therefore creating whole metrics of these are the needs and competition A this is how they are meeting the needs.

Competition B this is how they are meeting the needs and then you have to do your position analysis we will discuss that in with, with some example very soon and also off course this whole segment about positioning we will discuss in much more detail when we discuss segmentation targeting positioning differentiation etc...

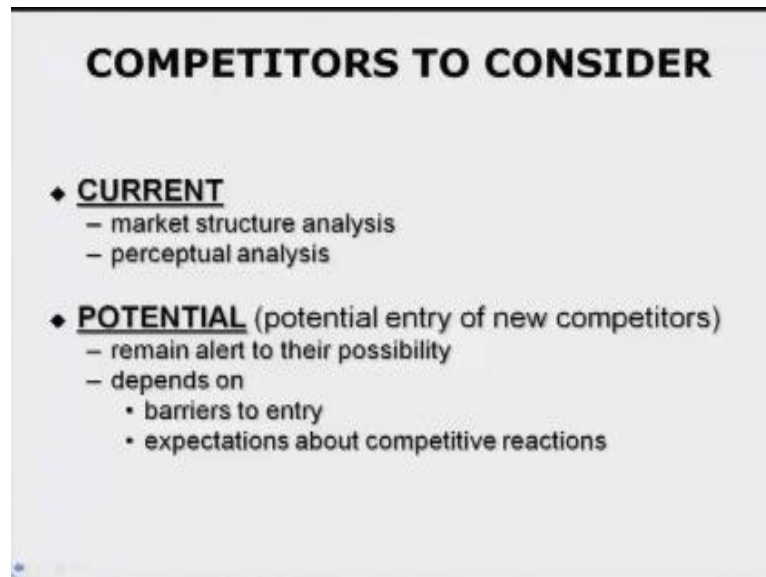
So now as you can see here on this graph understand customer needs and once identify current and potential competitors do that together, so industry analysis which we have already discussed you have to also now merge that with supplier analysis and.

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Prof. Jayanta Chatterjee: Finally you have to understand the competitors in terms of the customer needs and then you have to determine the competitor strategies present and future and so it is not written here but we should add here then you have to do the competitive swat analysis of you versus your competitor A, B, C, D and so on we will take up as I said an actual example and show how this is done.

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Prof. Jayanta Chatterjee: To conclude theory or conceptual aspect of it that competitors we have to understand current competitors we have to understand potential competitors and potential competition the at that stage one very important is to look at barriers to entry, sometimes when you launch a new product or you are strengthening a new product they not only you look at the features etc.

You will also look at the barriers different types of barriers and as when we discuss this pest concept or we discuss the swat concept then you would have understood that there are not only direct price barrier or a barriers with respect to distribution chain, there are various other types of barriers that can be created like for example using your relationship you can make it very difficult or very inconvenient for the customer to switch.

So creation of barrier is also now not a reactive strategy but more a proactive strategy. So often these days one actually maps out that okay, these are the people who might come into my field and what kind of barrier can I build. So that they will have less incentive to come into my market, sometimes you may actually go forward and compete and a nip in the bud a potential competitor.

Because you can offer so much competitive heat to them they will be busy and not think about coming and attacking into your market. So these as you see in general we can say that competitive strategy today has to become a lot more proactive rather than reactive to competitive moves.

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Prof. Jayanta Chatterjee: So this barriers that we were talking about can be created by economies of scale, you can set up such a large facility that in future anybody who tries to come into your market you can make them almost bankrupt because you can manipulate your pricing because you have the economy of scale so you have the cost leadership. So you will have a lot more ability to sustain for a certain period after discounts.

Which will make the new entrance life very difficult so these are actually all these active reactive strategies competitive moves and counter moves we will discuss this again at this moment we look at these at the various ways of creating barrier by economic scale, economies of scale, lack of product differentiation, capital requirement, distribution channel, the switching costs.

This is not only the monetary cost but often actually convenience itself can be a I mean take for example in that mobile phone industry, even today the service companies are resisting more this what we call number portability because once your number becomes independent of your supplier, people do not want to change supplier because their mobile phone number is going to change.

And it is hassle to inform all your contacts about your new number. Now if the number can be now made portable which is what a telecom regulated your authority they want but the and that will actually dissolve a certain aspects barriers to end entry barrier today which exists because of that number and familiarity and so on, switching costs the regulatory authorities or customers.

They want this switching costs to become lower and lower and competitors they would like to increase this switching cost as far as possible or make it as inconvenient as possible because that is a proactive strategy to enhance loyalty. So these are you can see some there are things that are what we normally portrait in a positive light, which is that, you know open competition as much competition as possible.

Also has a set of a dark underbelly were actually compete companies have to deliberately strategize, so that they are back is protected their flank is protected we will discuss that in more detail at this moment important to understand that these are the important ways to create barriers.

Dr. Shashi Shekhar Mishra: Yeah, I would just like to add probably this some of the examples like you have talked about mobile telephony. We take this DTS service provider, so today what happens is, if you want to just wants to change your service provider from your current service provider aid to current service to the next part is that.

Prof. Jayanta Chatterjee: Direct to home television.

Dr. Shashi Shekhar Mishra: Yeah, so you have a set up top box and then you have wiring and then have an investment in a.

Prof. Jayanta Chatterjee: The dish.

Dr. Shashi Shekhar Mishra: Yeah, so all those are basically are they again a sort of physical barriers to switching from one service provider to the other, so these are. But however probably in future the technologies can make even those switching costs are barriers will come down, supposedly your.

Prof. Jayanta Chatterjee: The same set-up-top box should be able to serve.

Dr. Shashi Shekhar Mishra: Serve.

Prof. Jayanta Chatterjee: And technically we can easily see.

Dr. Shashi Shekhar Mishra: Yeah.

Prof. Jayanta Chatterjee: That there is no, no reason why that cannot happen.

Dr. Shashi Shekhar Mishra: Yeah, it cannot happen, another thing is probably supposedly more and more people probably in metros are having this Wi-Fi inside the home so, if the your TVs are now going a smart TVs and they start receiving those signals like.

Prof. Jayanta Chatterjee: So just like on, on my phone I can go from one Wi-Fi zone to the other Wi-Fi zone.

Dr. Shashi Shekhar Mishra: And you start using.

Prof. Jayanta Chatterjee: Or at in the same mall, there will be 2, 3 people giving Wi-Fi and I can log on to any one of them.

Dr. Shashi Shekhar Mishra: Yeah.

Prof. Jayanta Chatterjee: What you are saying is that it should be possible.

Dr. Shashi Shekhar Mishra: Yeah.

Prof. Jayanta Chatterjee: And I think that is absolutely correct.

Dr. Shashi Shekhar Mishra: Yeah.

Prof. Jayanta Chatterjee: That of ultimately the pressure of the market and the power of the customer is going to.

Dr. Shashi Shekhar Mishra: Reveal.

Prof. Jayanta Chatterjee: Reveal over all other types of these kinds of artificial barriers that have been created.

Dr. Shashi Shekhar Mishra: Yeah, another probably a type of barrier which is very important because this trips regulation across the world is going on. So intellectual property rights regime which is going to be implemented across the countries so that is a sort of one barrier which is, which is going to be there, so if you have your patents or other intellectual property rights that will act certainly as in a barrier for the organization to basically enter into a market are probably inhibits their ability to compete in certain markets to the incumbent who has those intellectual property.

Prof. Jayanta Chatterjee: Absolutely right, absolutely right.

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Prof. Jayanta Chatterjee: As I was mentioning in the beginning of this session that the relationship with the competition earlier was very clear, it was a relationship based on conflict and competition. But today legally there are number of different types of coexistence, cooperation.

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Prof. Jayanta Chatterjee: Approaches that are encouraged by the regulators or by the market place by customers, so that one service providers offerings or one product offerings become compatible with other so today for example, as Professor. Mishra was pointing out that in direct home television each set up box is unique to a particular service provider. But once a new type of box comes into play and technologically we can see that is a, you know a very marginal amount of investment will be necessary to create a box, which should be able to talk to any service provider.

And when that happens then coexistence and cooperation among the content providers, so today Tata Sky, Airtel, Videocon or dish TV all these companies and they will have to sit together along with HBO and star and Doordarshan and NDTV or India today, and they have to sit together and realize that coexistence and cooperation will have to be a reality of their competitive structure. So in a way this intensity at the pressure from customers where they want to dissolve all the artificial barriers to entry will force lot of changes in the nature of competition.

So conflict and competition the older style of competitive strategy formulation and deployment will have to work hand-in-hand the new with the new forms of coexistence, cooperation, so a

new terminology has come in if you search for this terminology will find reference to interesting books and papers, which is called co-petition that means coexistence cooperation that part is combined with competition and it is called co-petition because as I said earlier and during this session that in today's marketplace the same company with your completed in one field maybe your supplier in another field maybe your collaborator in number field, so and therefore these mixed pictures will become an everyday reality and therefore the nature of competition is changing the nature of competition is changing and we are seeing a new forms coming up.


In the earlier years collusion which is when the competitors surreptitiously get together to take advantage of the customer this more happens more in oligopolistic types of markets which we have discussed before where few competitors dominate 80 , 90% of the market then those two or three companies which dominate 80,90% of the market may behind-the-scene work together to hold the price today in spite of costs coming down or may try to push it upwards even when there is no cost push upwards and so on as you can see for example.

In banking often when RBI Reserve Bank of India they reduce the rates then the banks sort of tacitly they have understanding and they do not pass on that reduction very readily to the customer then they are left to be some regulatory pressure from the government from RBI then the banks are they reluctantly then agree this things therefore has made it a little bit the situation has become a little confusing or I would say complex that what used to be earlier is zero-sum game.

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CONFLICT WITH COMPETITORS

- ◆ Focus on opponent
- ◆ Market is viewed as a zero-sum game (one gains only by taking from another)
- ◆ Competitors' objectives are mutually inconsistent



Prof. Jayanta Chatterjee : That means one company gains at the cost of the other company the market is no longer that simple, so that the games that are played and incidentally we have good courses also available on NP tell on game theory and how games are deployed for strategies you can if you are interested you can study it in more detail in our course we will perhaps discuss it in a little in shorter form later on when we go towards the conclusion part concluding part of this session this module the whole marketing one and we will perhaps also discuss it in marketing to this aspect of games as in strategies and how this zero-sum games are giving way to different other types of payoffs and counter pay offs.

So I think what used to be earlier very much frowned upon and called collusion which was actually taking the customer for a ride is now giving way to collaboration and cooperation among competitors under the pressure of customers and under pressure of regulators and a competition game is changing this is where we say end this session and in the next session I will take up a particular case and show you how in reality today analysis is done competitive analysis is done and how competitive strategies are formulated using those analysis thank you.

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