

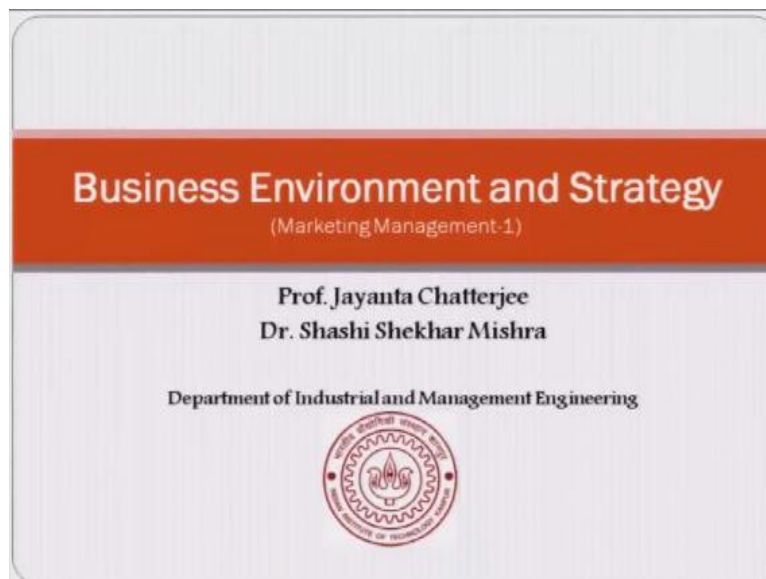
**Indian Institute of Technology Kanpur**  
**National Programme on Technology Enhanced Learning (NPTEL)**  
**Course Title**  
**Marketing Management – 1**

**Lecture: W2-I.6**  
**Business Environment & Strategy**

by  
**Prof. Jayanta Chatterjee**  
**Dr. Shashi Shekhar Mishra**  
**Dept. of Industrial Management and Engineering**  
**I.I.T. Kanpur**

Prof. Jayanta Chatterjee: Welcome back and this is the last session, sixth session of week 2, second week of our course on marketing management part 1.

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Prof. Jayanta Chatterjee: And this particular weeks overall title is business environment and strategy. And as you have realized when we talk about environment we talk about both internal and external environment. Now as promised I am now going to take up a sort of a case study, this is almost real I have only change the names et cetera, a little bit for confidentiality reasons.

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## Strategic Competitor Analysis of JC Electrical Contractors Ltd.

Prof. Jayanta Chatterjee: So for example, there is this company in electrical contracting named after me JC electrical contractors limited. And we will see how JC electrical contractors limited will analyze its competition or as we call it competitive landscape, and how it will map the current and future possible competitors and how they will actually formulate and deploy their strategy now.

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## Overview

- **Founded in 1997, by JC, current CEO**  
- **Wife JJ is current CFO**
- **Does electrical contracting for heavy industrial installations, commercial and office buildings, educational institutions, public works, and many specialized systems including maintenance services**
- **Competes in the E.Region electrical-contracting industry**
- **Well established company known for excellent customer service**

Prof. Jayanta Chatterjee: Now this company was founded by 1997, by me and my wife is now the current CFO. And it is mainly engaged in -- now by the way that me and my wife we are managing this company is not a reality today, but today it is an imagination, but there is no reason why he cannot become a reality two years from now. So this company does electrical contracting for heavy industrial installations commercial and office buildings.

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## Overview

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Prof. Jayanta Chatterjee: Educational institutions, public works, and many specialized systems including maintenance services, it mainly competes in the eastern region Bengal, Bihar, Orissa that site for electrical contracting industry and it is a well established company known for good customer service.

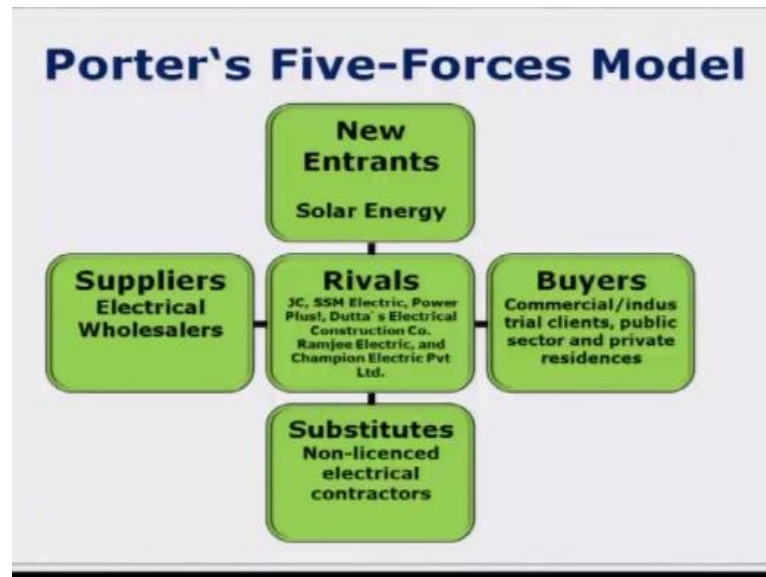
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Prof. Jayanta Chatterjee: Now if we look at the environment of the electrical contracting industry it is a growing industry as Indian economy expands. It is regulated by local electricity rules and there are number of laws which are national laws as well as state laws. So with respect to safety, and with respect to consumer rights, with respect to laws of contracting, there is a framework in which, a legal frame work which is within which a regulatory framework within which such companies operate.

There is a lot of change happening in this industry like most other industries due to expansion of the economy, due to cross over of competition and we will see just now. But as you can immediately realize that this electrical contracting industry as such is quite a fragmented industry. That means you go to any state or you go to any city or you go to any industry there will be number of contractors who will be competing with each other, now Porter's Five-Forces model.

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Prof. Jayanta Chatterjee: We had discussed earlier, now let us see how it actually operates, so here is on the left hand side as you see there this is the electrical wholesalers who supply the contractors, or switches, or starters and so on, or lights and fixtures and so on. And this is the competitive arena the rivals, so there is my company there is Prof. Mishra's company and there are many other companies Dutta's electrical construction company, Ramjee electrical all, imaginary names, but quite real I mean if you go to Delhi or go to Calcutta this is how it will be.

And then there are buyers as we have said that commercial buyers, industrial clients, public sector and private sector residences. So as you can see mostly for a contracting company the buyers and the builders, this builders can be for public large projects can be for private residence projects or it can be factories or offices. And then there is a new entrant coming which is the solar energy based competition which is coming, and there are of course substitution which is non- licensed or unlicensed local small electrical contractors.

So if we look at each one of these blocks the intensity of rivalry is very high, the bargaining power of buyers is very high, because there are so many people who are competing. So the intensity of rivalry higher is the bargaining power of customers. And then barrier to entry is

obviously low, because that is the nature of most service industries and in this particular industry, because there are refund existences of unlicensed electrical contractors. So the -- and again as you see the lower the barriers to entry, higher will be the intensity of revelry.

This is how it goes, and so if we go to main power of buyers will be high threat of substitute at this moment will be letting very important.

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Industry Attractiveness			
Factors	Weight	Rating	Product
Degree of Regulation	5	0.5	2.5
Degree of technological innovation	15	0.6	9.0
Intensity of competition	30	0.7	21.0
Industry growth rate	30	0.7	21.0
Size of potential market	20	0.8	16.0
Totals	100	-	69.5

Prof. Jayanta Chatterjee: Then this is one of the ways we can study industry attractiveness. So here we put all the factors degree of regulation, degree of technological innovation, intensity of competition industry growth rate, size of potential market, and then we can give relative weight age. So for example here relative weight age has been given high relative weight age to intensity of competition and industry growth rate both are positive that and high. So that is why even though there are many competitors people are still coming in, because the industry growth rate is high.

So this is one of the paradoxes that there are already more people playing in that, but more and more people like bees getting attracted towards honey the more high growth, high potential is the

market, higher number of competitors will fly into. And this is where actually we give rating to your own situation, so therefore if your degree of regulation and degree of technological innovation, all these with respect to these factor you can then give rating.

So this is the importance of the factor and this is the rating of the factor in this particular situation. And therefore that will give you a composite situation, so 69.5 we are getting multiplied that means weight into rating, which means that that this is a fairly good competitive, highly competitive, but attractive area to plain you can also do this with respect to competitive strength of this electrical company.

So there we can take this success factors like management, financial strength, customer service, brand image, marketing, we can give factor weights and we can then find the rating of JC company. And that gives us 74 that means it shows that this is obviously, as you can see the higher this score, the better is that companies competitive strength. Similarly higher is the score, more attractive is that particular industry, very simple two factor analysis this is called and this tells us that whether you want to play the particular competitive arena and to play in that market, what is that you need to develop; what kind of competences that you have already discussed core competence, right?

Dr. Shashi Shekhar Mishra: Yes.

Prof. Jayanta Chatterjee: So what kind of competencies you need to have? These are the competencies and their results. So having got this, we can now see we can actually put the company in this or this G.E Matrix, this also we have discussed earlier. So if we plot industry attractiveness on that side and the strength on this side, then so as you see here this is coming from these two charts.

The industry attractiveness was 69.5, the competitive strength was 74, and that can be now computed here 69 verses or this should actually go up a little bit more, this a little bit of a typo, but as you can see you can position. And now you can do this for all the competitors, and you



can actually put them here and you can understand that who are your direct competitors and who are your indirect competitors.

Who are the competitors who might flow into your segment and so on. So as you see this company is in a high strength position, because this is the company's competitive strength. So all companies coming on this side of sixty will say that they are very strong competitive. But there will be a number of people who will be here. So and there will be a number of people who will be this blue's.

Because those are companies who are high on competitive strength as well as an industry which is quite attractive. So depending on where the numbers of competitors get cluster, the dynamics of competition changes the nature of competition changes. So if we summarize put it qualitatively from this earlier chart if we want to now therefore describe.

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Prof. Jayanta Chatterjee: That what is the competitive situation of JC company it shows that, it is in an arena, in an industry which is intensely competitive, low barriers to entry many competitors basic of competition, basis of competition be here we are bringing in more

information collected from the industry like what is -- this is a new factor which is introduced, that what is the basis of competition?

What how come customers choose a particular supplier. So in for example in public sector with where JC company mostly operates, this we have discussed described earlier in this session. As you know in public sector most purchases are done through a tendering process, and the lowest price bit among the technically qualified suppliers will win the contract, in such a situation this is the basis of competition lowest price.

And you need to be lowest popularly known as L1 even when your quality must be of up standard, quality must be acceptable as per the specification and preferably will go beyond should go beyond, because often customers make this in public sector they make a choice by saying L1, T1 that means a company which is lowest in price and highest in technical rating, that is the most preferred combination.

So L1, T1 may not be true for in every case, but you cannot be L1 and T5 then possibly according to the rules of computation of the price bits are commercial evaluation you will lose out, sometimes often there is a two-stage process where first they will take all the people and rank them technically and suppose there are 15 competitors they will say okay we are only going to T1 to T5.

That means five top competitors in terms of technical features and technical capabilities will be considered for the second round and among those T1 to T5 the person who will then become L1 will be the winner. So therefore this is a kind of a paradoxical, earlier we used to think that price and quality are correlated that means higher price means higher quality lower price mean lower quality.

But here it is just opposite that is what is demanded by this market which is that lower price higher quality combination. And the most preferred being lowest price highest quality. So reputation is often based on that combination.

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**Competitive Analysis (cont.)**

- A few very large national competitors
  - But they go after large contracts
- More direct competitors include SSM Electric, Power Plus!, XYZ Electrical Construction Co., Ramjee Electric, and Champion Electric
- SSM Electric specializes in solar photovoltaic
- Most competitors are doing residential construction, whereas J C Electric is focused more on commercial and public sector [Analyse later]

Prof. Jayanta Chatterjee: Now if we continue our competitive analysis from the given data you will know, that this is a kind of industry where there are very few large national contractors mostly there are regional contractors, and direct competitors include professors Mishra's company XYZ electrical company, Ramjee electrical or etc, etc and for example his company specializes in solar photovoltaic.

So which means that this is a challenger company coming in with the latest technology, or new form of technology. So this is a company which will change the nature of the competition and most competitors are doing residential construction whereas JC electrical is focused more on commercial and public sector this we will analyze later what is the meaning of that, and target market is all residential commercial public sector.

Price sensitivity is high, especially in public sector bidding which I discuss just now, growth rate is higher in residential construction, because since May 2010 the industrial growth rate has been quite sluggish not many new investments are coming in the facilities of commercial or industrial type. The market where JC electrical place is going through a slow growth face, whereas an

adjacent market which is the residential construction is going through a high-growth phase at the moment.

And the current customer needs our price superior finish, on time completion, initial installation these are again sorts of data from that market which you have to gather, and you have to understand that how customers rank these various requirements that will be a very good input to your competitive strategy final formulation and deployment. And future customer needs are known, assurance for renovation add on and so on.

So there is some data here that how JC company's revenues have grown from 2001 to 2005, the current ratios you know, current asset to current liability ratio, when in a later week we discuss about the finance part of marketing then maybe you know the importance of these will become, at that time we can revisit this particular organization and their situation. So this is the debt-to-equity ratio.

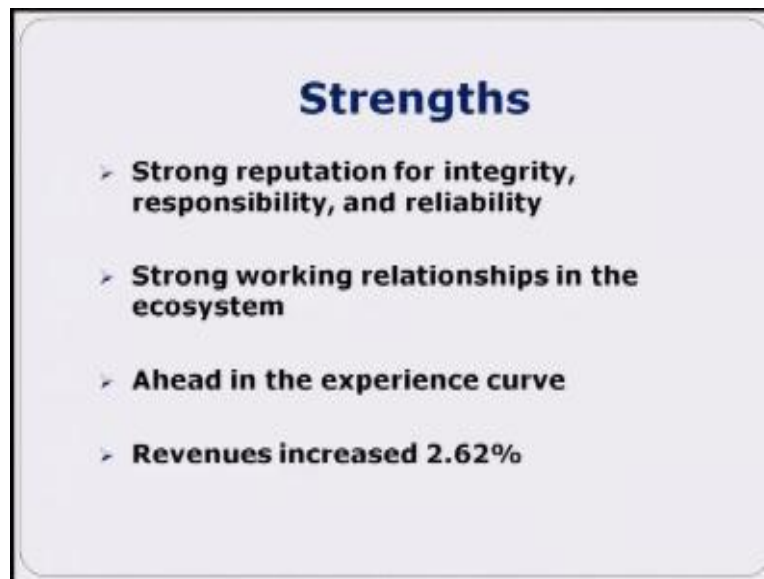
This is very important day in today's market which is sluggish and liquidity is low. This is called the free cash flow. So the, as you see JC company has a problem with free cash flow, it had an excellent performance in 2002, but usually free cash flow can go through big swings. So currently it is facing a lot of squeeze in free cash flow and we will just see why that happens is because of this, this average collection period.

If the collection period goes up then the free cash flow goes down. So as you see here they are, so this is an interesting thing later on when we discuss about the financial strategy with respect to marketing strategy. We will see that even though this ratio that we - I showed current ratio this is current asset divided by current liability. So receivables, customer receivable is a kind of asset, so but it is not always true that a better current ratio is that means having more current asset is, is often not a strength. It actually is a weakness, so they this is the picture of that, that as your collection period goes up so you may be having a lot of customer receivable.

But ultimately what makes sense is to have money in your bank, so your competitive strength is more when you have free cash flow, higher free cash flow because that gives you much better

maneuverability. So this will always mean, this going up means you will actually go into board debt and you will have more debt servicing and there are other various, we will discuss that in more detail when we discuss in a later module this financial aspects of marketing. So if we look at now we are now applying that swat which we saw in a previous session.

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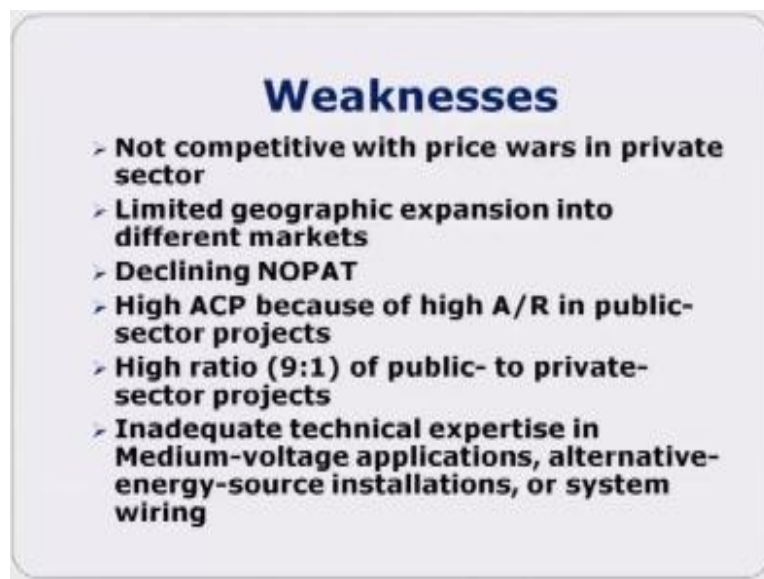
Prof. Jayanta Chatterjee: Professor. Mishra session, strengths are strong reputation for integrity, responsibility, and reliability. So is, as you can see these are some terminologies which are important for assisting strength of a competitor. Strong working relationship in the ecosystem, meanings with suppliers and with other contractors, they are ahead in the experience curve revenue increased by 2.6%. This is now the core competence analysis, we have discussed the concept of core competence and as you can see here the competence, these are the attributes of the competence which makes that competence valuable.

So capability is this capability valuable, is this capability there, is this capability costly to imitate? So these are the points which Prahalad Hamel framework made it very useful is the capability, non-substitutable competitive consequences and performance implications. So for example here, many contractors like the JC electrical are now using software, and so master

builder is one such software which makes the process, the construction process a lot more regulated, a lot more planned and understands as the different situations change it tells you that which is the best critical path that needs to be followed or how a particular delay can be overcome by what is known as crashing.

The next schedule so, so these are some of the capabilities and, and then it this has been done, so this is just an example, just a part, you have to look at your company and your competitors and then you have to determine that what are these capabilities that you should list as the most important capabilities for competing effectively in that particular industry. And then you have to ask all these questions, this rareness, imitability, sustainability and so on. So weakness the company's weaknesses is that it is not still very.

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Prof. Jayanta Chatterjee: Competitive with price war in the private sector, because in private sector as opposed to the tendering process which we were discussing about closed sealed bit, in private sector often negotiation is done so one competitor is played against the other competitor and it sort of prices are brought down, down, down, so not all companies are comfortable with that situation. So JC companies not competitive with.

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Prof. Jayanta Chatterjee: Price wars in private sector and it, it has a declining net operating profit after tax, and it has a this collection period is high and as a result because in normally in this kind of public sector projects this collection is collection period actual collection period is often elongated due to various reasons. And they have a high ratio of public to private that means 90% of their business is coming from public sector, 10% is coming for, so what it means is that they are not taking enough advantage of the higher rate of growth in the private sector project. And, and this is another recognition that medium voltage, they may be very strong in low voltage application.

But in medium voltage application that means today many large projects they are heating, air conditioning, and such applications use medium voltage motors, so you need medium voltage controllers and you need medium-voltage switchgear to handle those, which means 6 KV, 11 KV and that area. There are some segments where even voltages like 690 volt extra are coming into picture due to various other technical reasons. So anything above 415 volt, 240 volt, 415 volt combination is considered as medium voltage.

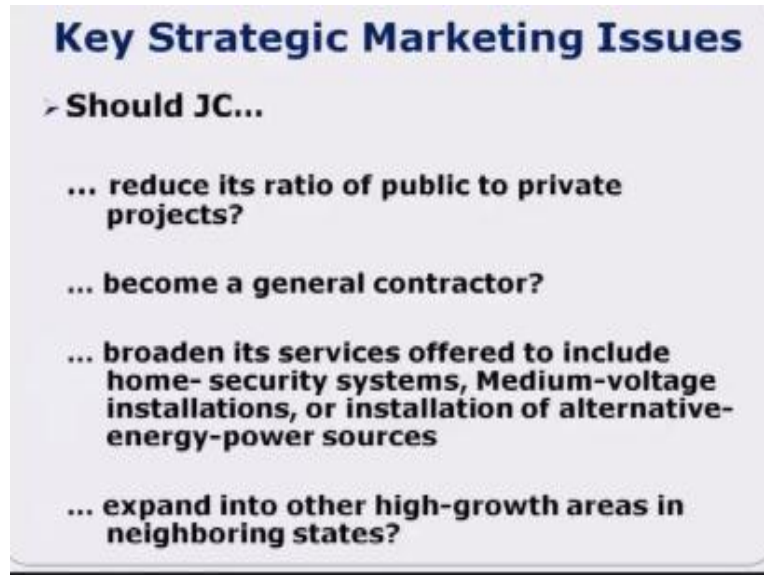
In medium voltage there is like low medium voltage and high medium voltage different factors are there. So usually electrical contractors most of the time and in a domestic situation everything is low voltage 415, 240 volt, so domestic market is does not need a medium voltage that much. But large public sector segments are now moving in many applications more and more into medium voltage. So threats so you see, we saw strength, we saw weakness. Threats are low barriers to entry, increase price of raw materials like copper, silver, etcetera and supply shortage.

So key strategic marketing issues are normally this is how you to have to formulated that how can JC company expand into private projects, expand into other sectors other geographic areas. So these are the various expansion opportunities either expand into the type of business you are in and whether you are -- you can play in the adjacent businesses in public sector, whether you can go into private projects you are in industrial projects, whether you could go into commercial residential or private residential projects.

And whether you can keep up with your competitors, so should JC company these are the strategic marketing issues usually we are ask, and this case is giving you a framework that how to do the analysis and what are the questions to ask.



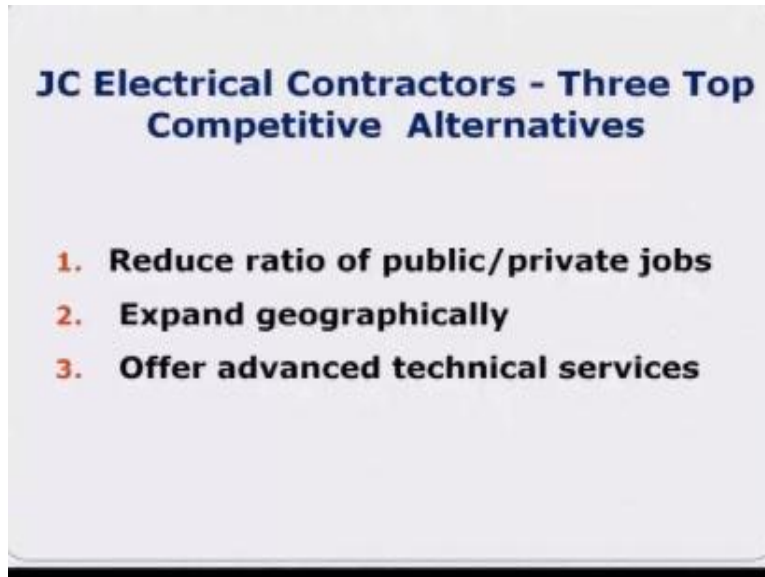
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Prof. Jayanta Chatterjee: So here we are asking that should JC company reduce its ratio of public to private projects should it become a general contractor, should it broaden its services offered to include, these are new competitive areas emerging competitive areas, home security system, medium voltage installation, installation of alternative energy like solar energy, power sources and expanding to other high growth areas in neighboring states beyond the eastern states.

So from that analysis that I will show you how that analysis is done, one can come to you know, you cannot do everything at a time, so some focusing becomes necessary for good marketing strategy, so you have to reduce ratio of public private jobs

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Prof. Jayanta Chatterjee: Expand geographically and offer advanced technical services these are from this range of questions that we have asked in the previous two sites we focus on these three.

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Criteria matrix				
Criteria		1. Reduce ratio of private/public jobs	2. Expand geographically	3. Offer advanced technical services
Profitability	P	5	7	9
Growth in revenues	P	5	8	7
Competitive Advantage	P	5	7	9
Investment required	N	-3	-7	-7
Overall riskiness	N	-6	-7	-4
Overall Score		6	8	14

Prof. Jayanta Chatterjee: And how do you do that, among these three again we want to understand that which one is more important so we have to rank them as first, second, third priority. So this is how we will do it, we will take criteria, profitability, growth in revenues, prohibitive advantage, investment required, overall riskiness, so as you see some of them are positive criteria and some of them are negative criteria, so I have been scoring high here will actually reduce your overall score, this is, the sign is very important, sometimes otherwise your whole analysis will go wrong. So profitability, reduce ratio of private to public jobs, after analysis various kinds of financial outcome and possibility etc.

So doing a combination of the swat and then the consequence analysis will bring you to this kind of a matrix so here you can see that profitability is best in advance technical services so it is, that score is high and then growth in revenue obviously is very important and therefore that can happen easily if you expand geographically, you can correlate this also with the M's of metrics that we discussed in last week where we had taken existing product, new product and existing market at New market and created different competitive alternatives so by doing this analysis therefore we can see that advanced technical services like medium voltage or like alternative

energy or getting into home security system these will perhaps give the best strategy at this moment to JC electrical.

So you should again view this step-by-step and as you will see this is a real actual deployable methodology where we do first competitive situation analysis and from that we derive finally what is the best course of action right in front of us, what is the second best course of action and what is the third best course of action and we have to see that this, we came to this three from a series of other various alternatives. So first you develop all the possible alternatives, summarize them or prioritize them in three focus possibilities and then you can further analyze and understand.

Which is the best, second best, third best and so on. So that kind of brings us to the end of the second week and during which we have showed you how to do internal analysis in terms of core competencies, strengths, and weaknesses, and we have showed you how to do external analysis in terms of the environment, political, economic, social, technical, and so on as well as opportunities and threats, and then we have discussed how you actually put these external, internal together and look at current earnings and current financial result and future needs and see how do we go from present to future, which is the best route to follow?

Which is the second best route and which is the third best route, so these are some of the things that we have done during this week. I would like you to therefore also understand at this stage that there are many approaches to strategic supremacy or competitive strength, marketing factors to be understood, concepts have to be understood and they have to be properly fused together to create the best marketing approach. So in the following week, couple of weeks we will look at that how do we gather data, analyze the data and how do you actually use that data in different marketing situation, so having introduced to you in the last two weeks all the major conceptual building blocks we will now go into deeper into each block and also how these blocks interact with each other and to give you a much deeper, better understanding of marketing, thank you.

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