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

Lecture: W8 - L1
Generic Modeling Strategy

by
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Prof. Jayanta Chatterjee: Hello, welcome to our 8th week the last week of this particular course on marketing management part one. Last week we discussed about segmentation, we discussed about targeting, what we are going to discuss this week first will be how to take the next step in this segmentation targeting leading to a marketing strategy.

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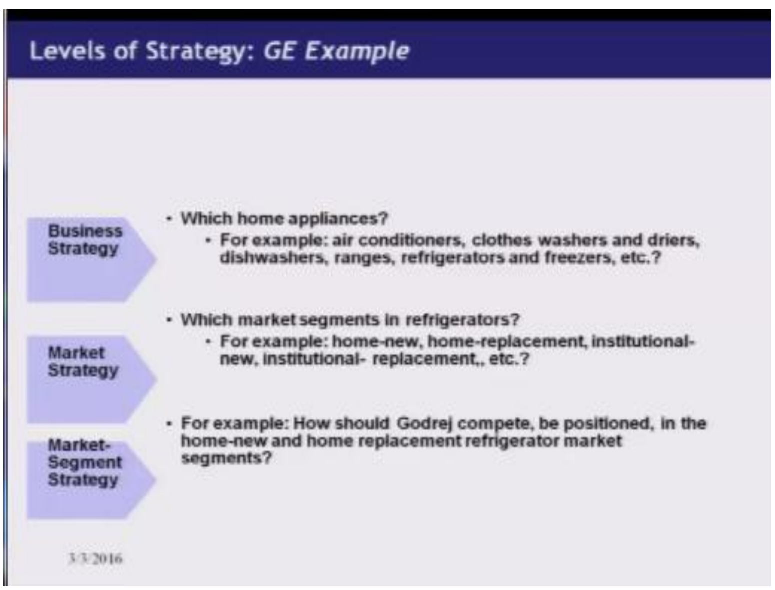

Prof. Jayanta Chatterjee: And how to implement that strategy will be the main topic, the details of implementation will be the main topic of our next part that is marketing management 2 and 3, but now briefly during this week to start with I will discuss about the implementation issues that arise from segmentation and targeting which we call positioning or developing the value proposition or matching the customer segment with what that segment wants expressed through the product and service attributes and so on. One point should be made clear at this stage that as this particular view graph shows.

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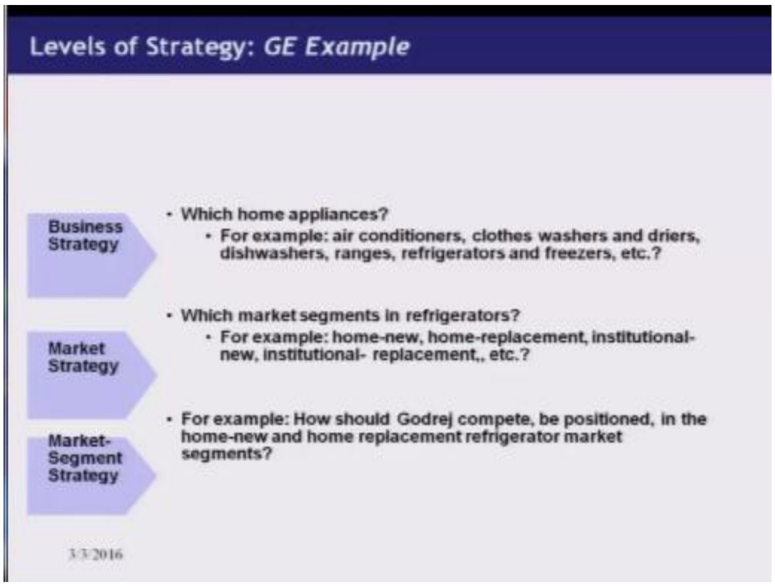

That marketing strategy arising out of the market segmentation is actually a subset of corporate strategy, the market strategy, and then the segmentation based positioning strategy, so for example at the business level strategy will be that we want to be in the business of home appliances out of many different types of consumer durables or consumer asset oriented business possibilities we have decided to focus on home appliances like refrigerators or like washing machines or like say microwave ovens or cooking range and so on out of all that, so this air conditioner, washing machine, dryers, dishwashers, refrigerators.

This is the consideration at the business level, the next level comes we decide that okay we want to be in refrigerators but then refrigerator itself has different types of market segments. There is a segment for consumer first-time homebuyer, there is a business for refrigerator which is replacement of some old refrigerator, there is a refrigerator market for institutional clients like hotels or hospitals or hostels and so on.

So if we decide to focus on domestic first time refrigerator buyer, if we want to focus on the replacement market for refrigerators that means an refrigerator which is 10 years old being replaced by the new model then that is our segmentation strategy, coming out of the business strategy, market strategy we come to the segmentation strategy, so in a way we move from this left to right and so once we have decided that this is the customer segment we want to serve.

The first time refrigerator buyer or the first time refrigerator replacer then we have to decide how we are going to position our business to match with the buying characteristics and buying priorities of those customers. As you can easily see therefore that this is also dependent on geographical variations so for example the refrigerator buyer in Europe may be different from in characteristics from the refrigerator buyer in China or in India, similarly there are also imperatives of the form that means what is the priority as we discussed

For example a particular company may have priority with respect to cash flow particular with respect to profitability, with respect to sales volume or revenue generation and so on, by combining those internal priorities and for combining and combining with the characteristics of the market segment we want to address we will actually come up with the package of different attributes of the product and service bundle which will try to match as far as possible.

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Prof. Jayanta Chatterjee: With our priority requirements of that particular market segment so therefore this positioning or value proposition development tries to balance between among product features, company requirements, and customer requirements, so accordingly you deploy your resources, you go for execution of your market strategy.

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Prof. Jayanta Chatterjee: So the key point therefore is that the marketing strategy based on segmentation is fundamentally a differentiation based strategy which allows us to focus our resources in those particular areas which will give us a distinctive position or unique selling position in the marketplace.

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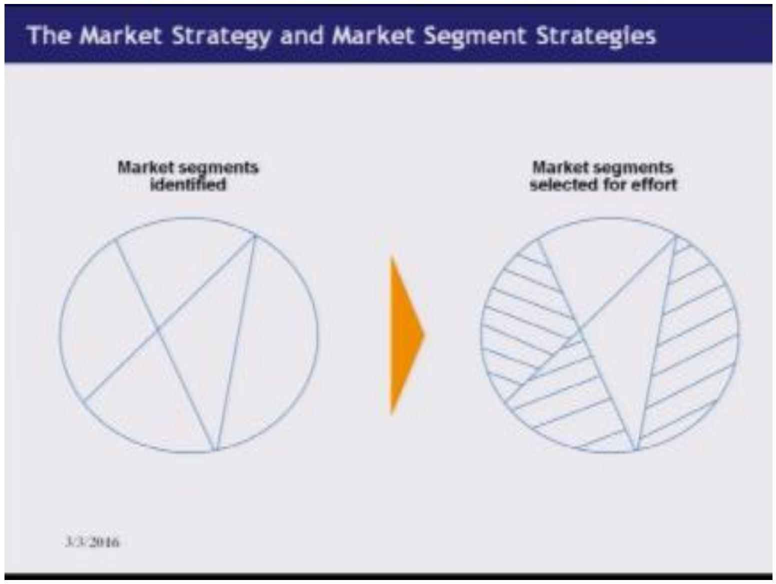

Prof. Jayanta Chatterjee: So this diagram kind of represents that I can divide the market in many different ways and I can finally get these as the major segments, some segments may be overlapping or adjacent, some segments maybe completely away from each other and then the shaded part sort of represents the three different types of market segments which we would, we would like to address, so this is the first segmentation and from that making a choice of which segments.

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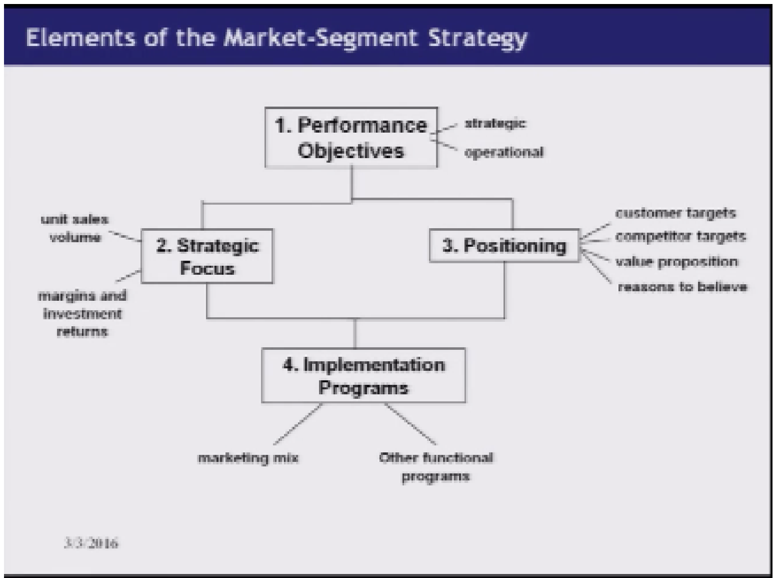

Prof. Jayanta Chatterjee: And then we can try to develop this particular diagram which shows us that what are our performance objectives at a company level strategic operational then what are our strategic focus in terms of market results like unit sales volume, margins, return on investment and so on, this is interactive and leads us to positioning so that means we know which customers we are going to target, what kind of competition will come in our way, therefore our target competition, the value proposition which will allow us to battle with that competitive positions and the reason the main reasons why customer will prefer us.

Customer will believe us so this kind of leads us finally to the development of the marketing mix and other different functional programs that will be working along with marketing like finance or operations and distribution. We will go in to much more detail of these parts in the next course but right now we are actually focusing today on the interaction of these 3, 1, 2, 3, the block. Let us I would like to point out and maybe tomorrow or day after I will have a little bit more detailed discussion about this positioning aspect also its interrelation with this product lifecycle.

So usually at this stage the growth stage obviously the priorities growth, so the positioning strategy will be growth oriented whereas at this stage positioning strategy will be cash-flow oriented, or with retention oriented, with relationship oriented, with micro segmentation oriented and so on whereas in the middle part where there is growth along with profit we would like to maximize our footprint, so accordingly one can create this sort of a chart.

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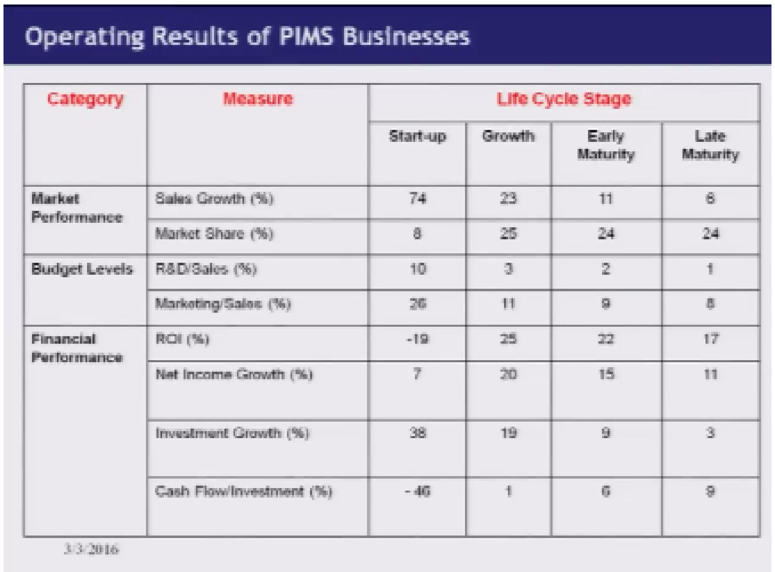

Operating Results of PIMS Businesses

Category	Measure	Life Cycle Stage			
		Start-up	Growth	Early Maturity	Late Maturity
Market Performance	Sales Growth (%)	74	23	11	6
	Market Share (%)	8	25	24	24
Budget Levels	R&D/Sales (%)	10	3	2	1
	Marketing/Sales (%)	26	11	9	8
Financial Performance	ROI (%)	-19	25	22	17
	Net Income Growth (%)	7	20	15	11
	Investment Growth (%)	38	19	9	3
	Cash Flow/Investment (%)	- 46	1	6	9

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Prof. Jayanta Chatterjee: As you see here this is just a different stages in the life cycle and the different kind of priorities that come up and the typical figures that we will see, this is done from a huge study that was done across many industries over a long span of time in Europe and, and as well as America.

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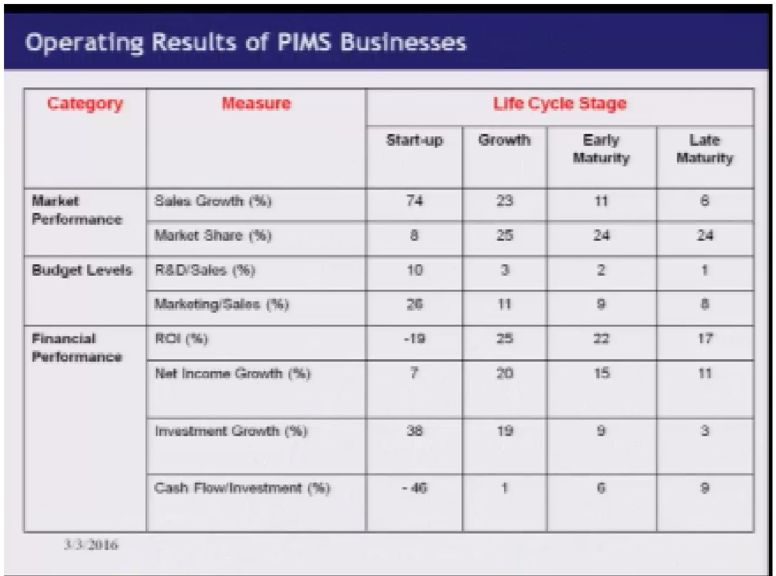

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Prof. Jayanta Chatterjee: So that shows that the for example at the start-up stage sales growth seventy-four percent sales growth sort of accent is normal, whereas in the late maturity stage that will come down to something like six percent.

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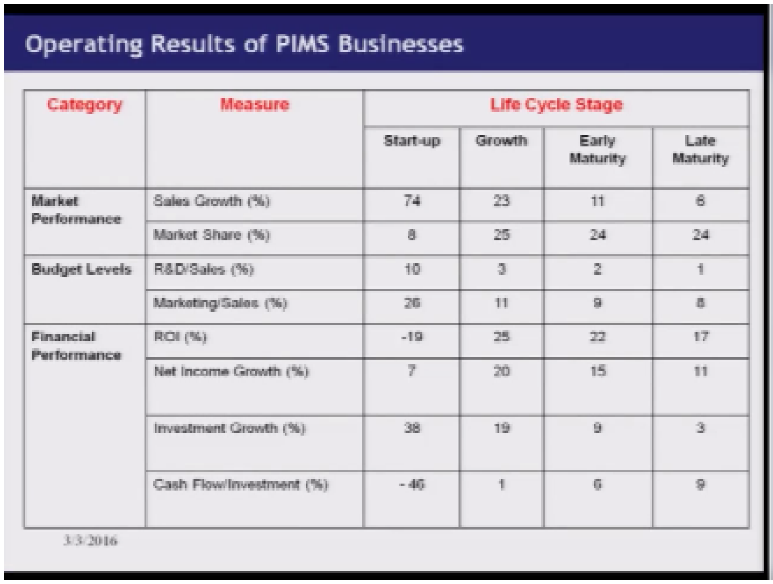

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Prof. Jayanta Chatterjee: Or the market share objective at the start-up stage will be 8 percent whereas at the late maturity stage could be 24 percent even the early maturity stage a company has been able to achieve the 24, 25 percent dominant position. Similarly the R&D to sales ratio, the marketing to sales ratio those budget levels change as, as you go across from start-up to late majority stage.

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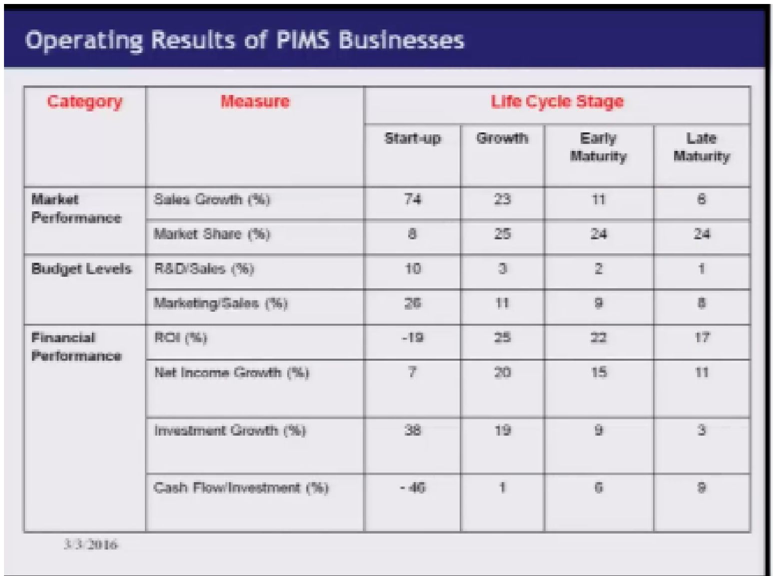

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Prof. Jayanta Chatterjee: And there are these financial performances that also keep changing, the financial performances keep changing as you grow from the left to right from start-up to the late majority stage and you can see that the priorities with respect to cash flow or investment growth etcetera change also across the lifecycle. So as a result your positioning, segmentation target positioning that package.

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Prof. Jayanta Chatterjee: But also, must also lead to this kind of statement that increase our primary market share from 18% to 21%, while holding to our margin on sales at the current 20 percent level. So this is a kind of a typical very crisp, clear strategic statement that will come out from the STP exercise and that will help us to understand.

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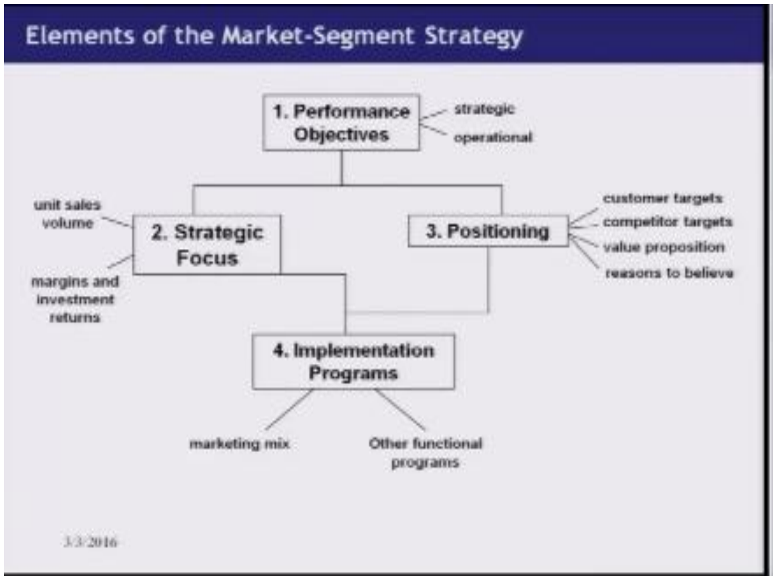

Prof. Jayanta Chatterjee: That what are the different priorities in this diagram that we will go for or what kind of resource allocation we will go for.

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Prof. Jayanta Chatterjee: So market segment strategy gives us a strategic focus, it helps us to put together the package of attributes expressed through sales and service offerings, positioning and it also gives us the clues towards the implementation program.

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Prof. Jayanta Chatterjee: And there will be some tradeoffs sometimes between growth and market share or profitability and cash flow but one does not mean that it will be either or but there will be some change in the mix of accent or focus. So there may be some times we are never going to go for zero cash flow and very high profitability, this is an absurd situation but sometimes we may give profitability the preference over cash flow or cash flow the preference over profitability.

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Prof. Jayanta Chatterjee: As we showed in the life cycle diagram that is kind of determined by where we are.

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Prof. Jayanta Chatterjee: Or where that particular industry is or the market is, operational objectives will come out of these strategy objectives will result into specific numbers.

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Prof. Jayanta Chatterjee: And statements like this that from 81 percent to 18 percent to 21 percent market share increase.

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Prof. Jayanta Chatterjee: Or while we hold the current level of 20 percent margin and so on.

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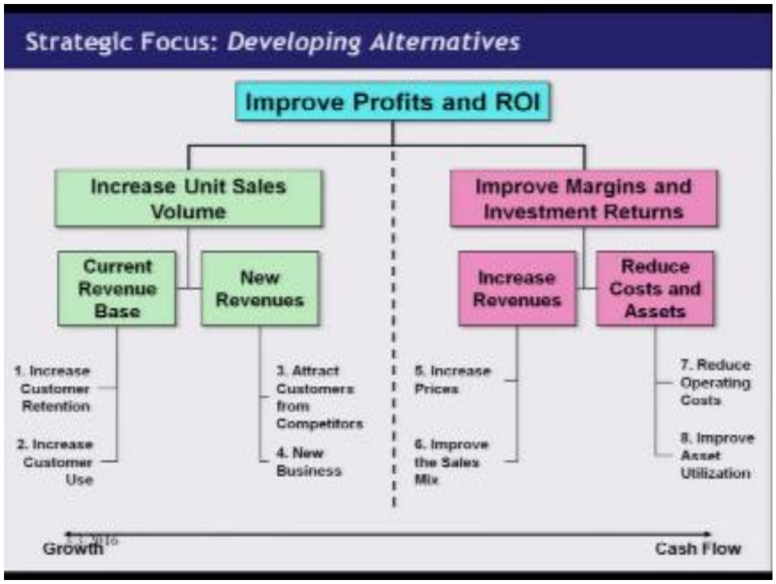

Prof. Jayanta Chatterjee: So you see then once we have this profit ROI market share growth, margin etcetera determined from the discussion which is based on our STP from the understanding the segment, the size, the growth rate of the segment and how well we match the requirement of that segment with respect to the competition etc.

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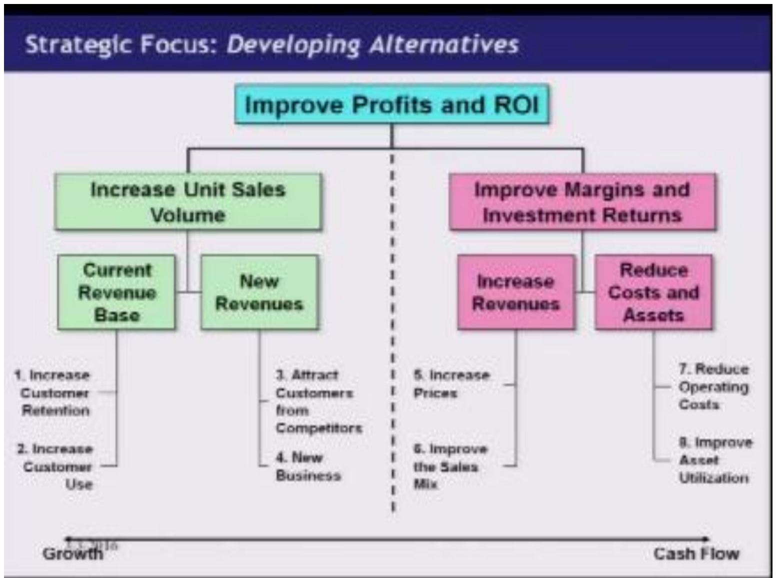

Prof. Jayanta Chatterjee: Then we can this kind of a very clear-cut diagram that our super ordinate goal or the top goal, strategic goal is to improve profit and ROI, and that we are going to going to achieve through emphasis on increase in unit sales volume as well as improving margins and return on investment. And then you can see therefore we create emphasis on new revenue as well as create emphasis on reduced costs and assets.

So therefore the strategic goals that emerge from the STP exercise will often be multidimensional, sometimes they may appear to be relative conflict with each other but we often have to balance these conflicting requirements or trade-offs through different types of combinations because the business may need cost reduction as well as achievement of new revenues.

So one has to creatively think it may lead to some new models, it may lead to some deep mining of certain types of market segments and so on, that will become clear through different types of examples. So if we are wanting to now come into say for example in entry level hatchback car, we know that we are going to be against formidable competition from Maruti or from different other player in that segment like Hyundai etcetera and if we want to be a player in that market then against their sales level at million units we will have to do an uphill movement and therefore their, our market growth achievement will be slower, so there may not be much of a point there, reduce margin.

So one has to therefore come up with the right kind of cost and see if one can at the ruling price level, at the competition determine price level if one can generate higher margin to create higher leverage or strategic kitty by, by virtue of which one can do more advertising, more promotion, more different kinds of penetration activities so that the market expands. On the other hand if one is going to focus on say the designer car where actually you know there are companies who take a normal chassis from Maruti or Tata's or Fiat or whatever and they create a completely beautiful super luxury body of a car that looks different, feels different, operates different.

Even though the chassis the engine etcetera may be the same, but they make some significant improvements and thereby create a high attraction for a particular kind of luxury or collector buyer. Now in this kind of a market one can have obviously a different sort of strategic objective or balancing price margins etcetera. So this may be this, this possibly could be segment that will yield a high price as well as a high margin, but obviously it became very narrow and specific segments it will be, it will lead to maybe lower number of units but higher price per unit sort of combination.

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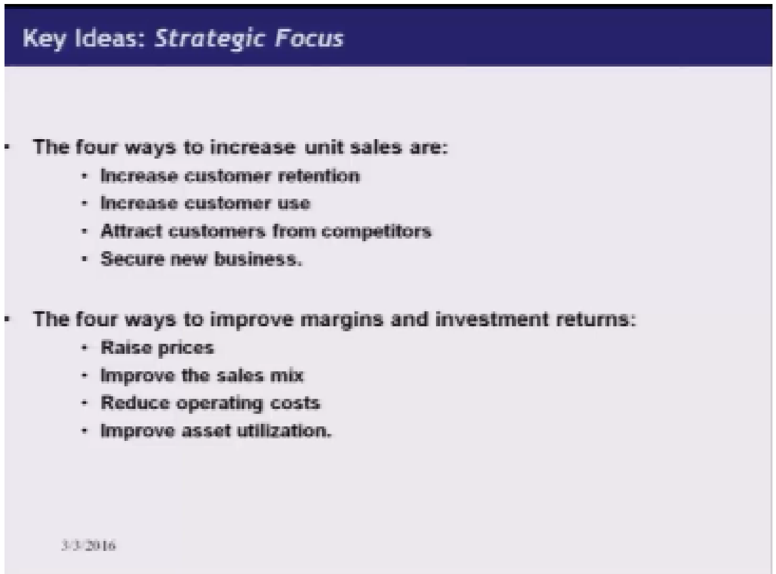

Prof. Jayanta Chatterjee: Therefore if one looks at that objective is to increase unit sales, then you can either do it through increasing customer retention or increase the customers frequency of usage, you know this kind of strategy we apply in toothpaste etcetera, we can try to take some customers away from the competition which is normally very tough when the market is in a stable state or we can try to open up complete new business areas like say penetrate the rural market for toothpaste and so on.

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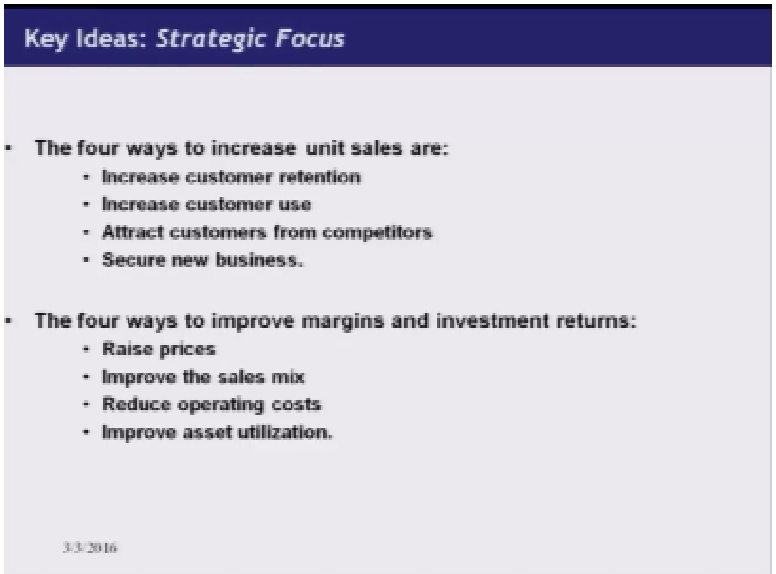

Prof. Jayanta Chatterjee: And similarly there can be ways to improve margin and investment, return on investment by raising prices stuff, improve the sales mix possible, reduce operating cost, normally the top focus area or improve asset utilization, also well-practiced focus area.

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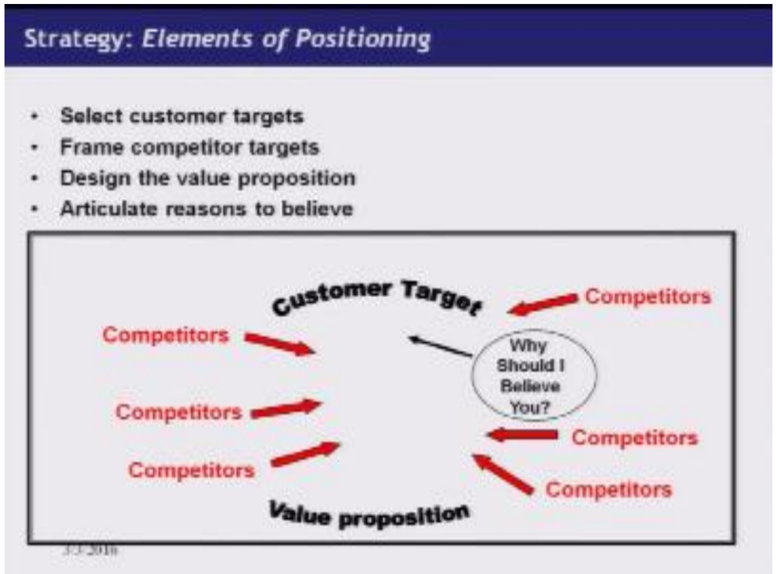

Prof. Jayanta Chatterjee: So you can see the importance of positioning from this animated chart that the customer is here, and customer is bombarded with messages from competitor A, B, C, D, E, F, G, H and therefore you can see here the question if you are coming into this market, like we were discussing just now about entering into the hatchback entry level car market. Then the customer obviously, we like to know why you, I already have all these options, what is it that you bring to the table. See that is where this value proposition come into the picture.

And you have to come up with some value, whether it is automatic transmission at that price level or some kind of safety feature, or some kind of increased warranty feature, or some kind of additional facilities inside the car and so on, you have to come up with the kind of extras, kind of emphasis which will be appealing as a value proposition to this customer who is here. And you can immediately see therefore, there will be different shapes of customers here, different segments, sub segments of customers here.

As first-time buyer of the entry-level car and your value proposition design will change accordingly

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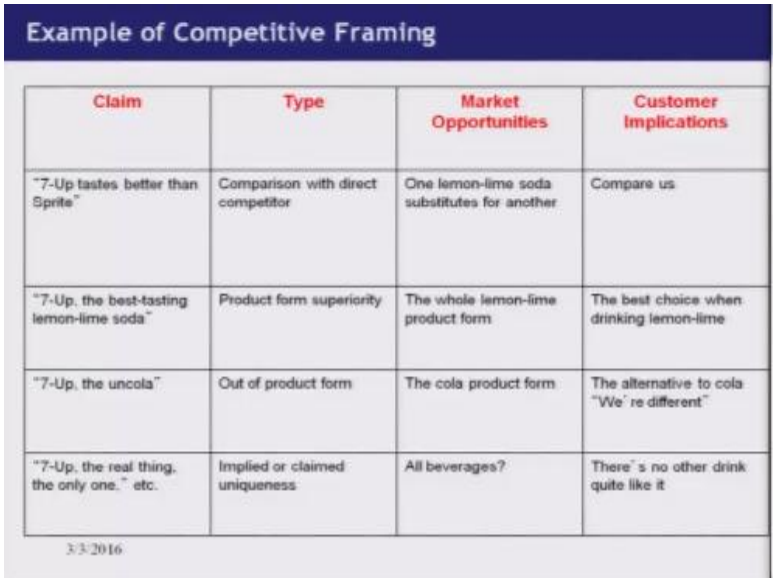

Example of Competitive Framing

Claim	Type	Market Opportunities	Customer Implications
"7-Up tastes better than Sprite"	Comparison with direct competitor	One lemon-lime soda substitutes for another	Compare us
"7-Up, the best-tasting lemon-lime soda"	Product form superiority	The whole lemon-lime product form	The best choice when drinking lemon-lime
"7-Up, the uncola"	Out of product form	The cola product form	The alternative to cola "We're different"
"7-Up, the real thing, the only one," etc.	Implied or claimed uniqueness	All beverages?	There's no other drink quite like it

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Prof. Jayanta Chatterjee: Therefore you or you can see in this chart for example if you are trying to introduce a soft drink a beverage which is lime and lemony it will be competing against 7- Up

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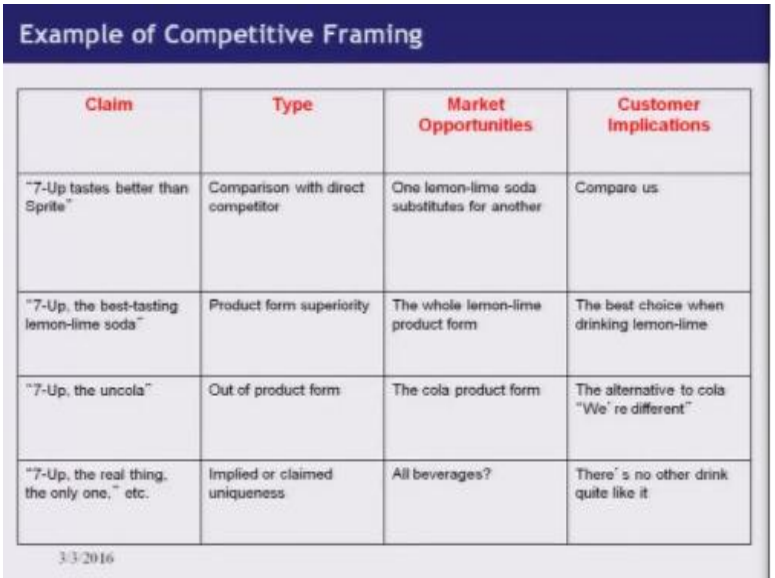

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Prof. Jayanta Chatterjee: And then this is the way we will make our position in statement and if this is a statement of positioning then accordingly our market opportunities are kind of recognized in this fashion and what we are telling the customer also changes in the way the way we are positioning so if we say that 7-up is better than Sprite then we are telling the customer compare and you will see that we do better, or if we see if we do not want to go into that kind of head up you know head to head competition we would say 7-up.

The real thing the only one, so we are claiming that therefore this is unique and therefore we have to create something to say you know convey that particular when the customer actually experienced the 7- up the customer should see that there is a match between what we are saying here and what we are delivering. This is very important because if we make a claim which is not depicted by the product, not delivered by the product or service or product service bundle then obviously we are going to create a post consumption dissonance and that is a major source for failure.

So to conclude the positioning in the market segments means that you have consumers, end users, intermediaries, selected market segment, you arte positioning to address all of them, your positioning also will depend on various kinds of other functions within the company like the supply chain, the delivery chain, the distribution, it will be inter acting with the direct competitors, indirect competitors.

All of these forces and all of these different types of entities and these entities the interaction creates the position, so position therefore, a positioning statement or a position based strategy must look at all these as factors to create the design of the value proposition and the design of the value proposition is therefore kind of almost synonymous with the concept of positioning and the design of the value proposition contains

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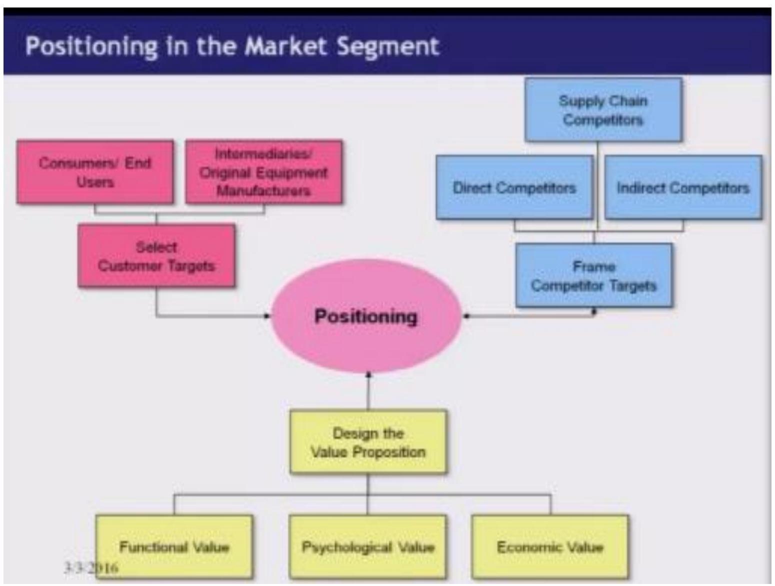

Prof. Jayanta Chatterjee: Functional values, psychological values, economic values, so we say usually cognitive or logical part to the value proposition and effective or emotional part to the value proposition because we know that in segmentation similarly we have used demographic and other kind of fact-based logical segmentation as well as psychographic and other kinds of emotion or cultural or geographic segmentation.

So therefore when we are creating the value proposition it must match that sort of segmentation so this in a way, this particular diagram represents what we have been trying to say in this session that there are a number of issues that will have to be looked at, internal factors as well as external factors to create the positioning target and once that segment for whom we are positioning our product and service bundle are identified then they are matched by proposing a bundle of values which are logical as well as emotional, functional, as well as utilitarian, economic as well as cultural geography specific, so this is in a way the summary of STP as a very important part of the marketing management activity, thank you.

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