Indian Institute of Technology Kanpur
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Course Title
Marketing Management – 1

Lecture: W2.I.2
Business Environment & Strategy

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Prof. Jayanta Chatterjee: Hello I am Jayanta Chatterjee from IIT Kanpur industrial management engineering department and I have here with me my colleague Dr. Shashi Shekhar Mishra. As you know we are discussing management of marketing, the introductory part of it as our first module, and in our week 2 we have started discussing about the different interactions between marketing and the overall strategy of the organization. So this is our third session of the week.

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Prof. Jayanta Chatterjee: And today our topic is marketing objectives and strategy and their interrelationships.

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Prof. Jayanta Chatterjee: So marketing fundamentally has the strategy of ensuring revenue growth, ensuring profit growth. But today we put it into a little bit more broader term, because there are other important aspects that now we realize. First of all marketing must engage in activities that perform in socially and economically useful exchange, and ideally such exchange must have follow on impact, positive impact on society.

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Prof. Jayanta Chatterjee: Secondly marketing's objective is that to develop, a marketing organization to carry out the marketing functions and implement marketing strategies. And above all – as I was saying in the beginning we have to earn sufficient surplus or profit as the case may be. In case of a not for profit organization we would call it surplus, and we need that bottom line, we need that net earnings to survive and grow.

And taking this growth must come taking minimum resources and from nature, from the organization itself, and it must generate ultimately optimum satisfaction of people. Now if we look at the company objectives these three objectives that we just discussed with respect to marketing objective, if we now put it in the broader framework of company objectives then as you see on your screen.

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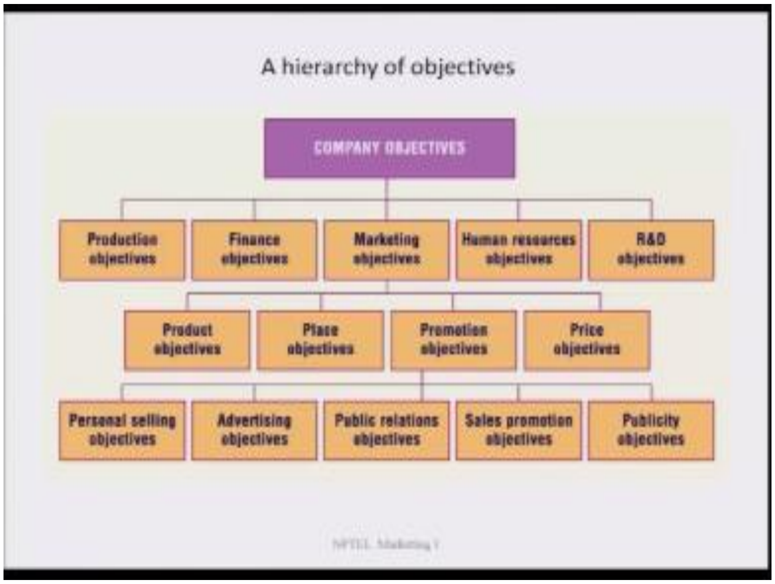

Prof. Jayanta Chatterjee: You have production objectives, finance objectives, you have human resource objectives, R and D objectives, so marketing objective is a subset of the overall set of corporate objectives. Now within marketing objective we have different other objectives like, these are the second line and the third line, details like product objective, place objective, those we have already discussed in the previous week.

And then we can go further down say and the promotion objective, we can look at details like personal setting objective, advertising objective, and so on. So fundamentally what we are saying is that there is a hierarchy of objectives, first is the organizations overall objective, in that there are number of objectives according to different functions. So marketing is a primary function, we have a set of marketing objectives.

And those marketing objectives can be further subdivided. And this is in a way also shows the structure of our course, because we will follow this hierarchy that is from marketing objectives, later on in the later weeks we will go into the details of each objective.

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Prof. Jayanta Chatterjee: As I discussed in the first session of this week that just as we see marketing strategy employment or the tactical part of marketing in terms of the 4 P's the strategic part of marketing, we actually see in terms of 3 C's, and other factors like political, economic, et cetera which have been discussed in the previous two sessions of this week. Now of the 3 C's the C that we are concerned with most at this stage into today's session is the C of competition.

So the competitive environment from economics as you know can that be that of pure competition, that means there are number of companies and none of them old, over arching power of WWB position, so then it is a highly competitive fragmented market situation where different companies start off with different offerings, different strategies and the market is always in a turmoil.

Then we have Oligopoly where few companies maybe dominating the market, so usually something like an 18/20 rule that apply here that 20% of the competitive players will dominate 80% of the market. And in this 20 and 80 can vary 30, 70 and so on but fundamentally Oligopoly means that few dominate and others kind of are scattered. Then we have monopoly which today hardly exists except in the state controlled businesses, so monopoly means that there is only one company and they control the complete, dominate that entire market and offer, their offerings are the complete set of offerings. And monopolistic.

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Prof. Jayanta Chatterjee: Competition where actually there is a controlled competition, there may be two companies so in a state controlled markets like for example saying electricity or coal we see this kind of maybe two state units competing with each other so it is not really a competetion, the first type of pure competion it is a very control limited competion, most markets which we will be dicussing will have usually a, an oligoplistic structure.

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Prof. Jayanta Chatterjee: To undersrtand not only the competition but also other important players in the field of, in the realm of strategy we can borrow this famous diagram of five forces from Michael Porter of Arbor and here as you see in the middle we have what we call the industry competitors and the intenisty of rivalry in a competitive market, olygoplistic or pure competition, and then this is a result.

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Prof. Jayanta Chatterjee: Of several vectors, that means forces with a certain direction, so we have suppliers and they have cetain influence on how the strategy and the competitive strategy play out. Then there are new entrance who are try to come into the market so they are the challengers, then they are different types of substitutes which might be completely changing the nature of the industry, like for example as you see now that the music indutry which was earlier dominated by music supply, cassettes and cd’s et cetera now is totally dominated by the.

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Prof. Jayanta Chatterjee: The music industry which earlier was delivered to customer delivering their products and services to customers in bundles like the sets, CD’s, and other kinds of transmission now totally dominated by the mobile telephoning industry because most music today are downloaded from the internet on the phone by customers and enjoyed accordingly, so that is changing, that is becoming almost a substitute for totally replacing the CD’s and cassettes and all the other different media that existed before, and this is now becoming the dominant substitute for music platform, music delivery, so that is what we mean.

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Prof. Jayanta Chatterjee: By substitutes as they influence competitive structures and then of course there are buyers the most important part of the competitive force, and the changing nature of the buyers and the changing tastes and the competitive forces they have reached therefore.

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Prof. Jayanta Chatterjee: Competitive advantage, the company has a marketing mix that the target market sees as better, better competitor’s mix. So as you see this is where we link up tactics and strategy so the way customer sees the strategy or feels or perceives the strategy marketing strategy of an organization is through those four P’s of price and product features and promotion and distribution and so on.

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Prof. Jayanta Chatterjee: The formulation however of the strategy comes from various environmental factors and other internal or external analysis which we will be discussing just now, so to create that tactical bundle the company is required to understand current competitors offerings, anticipate the existing competitors and new competitors and their likely plans, and they have to also monitor as the effects of changes in the competition, like appearance of substitutes or new suppliers coming in with new kinds of raw materials or components or sub systems.

So as you see therefore analyzing the competitive landscape is a continues internal occupation of the marketing function in an organization, and the way then they respond to that competitive function gets understood by the customers in terms of the four P’s.

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Prof. Jayanta Chatterjee: Competitive strategies can carry different risks, we discussed the Ansoff metrics in the previous weeks section so from that we you already know that unrelated diversification, that means not only it is a new product in a new market but it is unrelated to the products that you have been dealing insofar, that is the most.

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Prof. Jayanta Chatterjee: Risky business, so a petroleum company if that now that gets into say fast food business that will be an unrelated diversification, new type of products, new types of customers, a new market segment and that is the most risk. Market penetration which is going with existing products to existing customers and covering more of them is the most usual strategy that is what we are doing day in and day out, and then in-between other two areas where either market development or product development, the routes through which you can go for this diversifications or un-related diversification.

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Prof. Jayanta Chatterjee: And which route we will take, from where we are today market penetration to the blue ocean or the complete new area market, this trajectory of our journey, marketing journey will depend on those political, economic, social, technical, and other factors that we have discussed in the previous session.

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Prof. Jayanta Chatterjee: Because that will make a particular opportunity either less attractive or more attractive. So as you see currently the way we are looking at strategy, we are looking in terms of where we want to be, that means our current position versus the new position that we want to be at. Here we do not consider so much about our capabilities or internal resources etc.

We assume that those can be arranged. But in today's world that is not always true. So tomorrow we will look at another view of strategy which we call the resource view of strategy but that, let us take that up tomorrow.

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Prof. Jayanta Chatterjee: So today in this within this resource, within this position view or position school of strategy, in that frame work adoption of a particular strategy will be an introduction between the tactical part and the formulation part. So for example if there is a company which want to introduce disposable nappies in the Indian market, it has to see whether it wants to come in with a distinctive product.

That means whether it wants to play with feature based competition or it has to decide whether it has to play a, it wants to compete on the basis of price, coming up with a lower price or it wants to compete in terms of a wider distribution or a new type of promotion.

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Prof. Jayanta Chatterjee: So it has to look at the competitors, current competitors, their strengths and weaknesses, their strategic emphasis, and what will be the kind of response from them if you come into that market of disposable nappies, and depending on your strategy what kind of strategic response your competitors might have, based on that you will have to decide that whether you will make a combination of a product and prize based entry strategy, or you will make an entry strategy where all four factors will be playing and so on. Now this, this is a very interesting diagram I find.

Dr. Shashi Shekhar Mishra: Yeah.

Prof. Jayanta Chatterjee: This actually we will have to several aspects of it we can take it up in the subsequent sessions.

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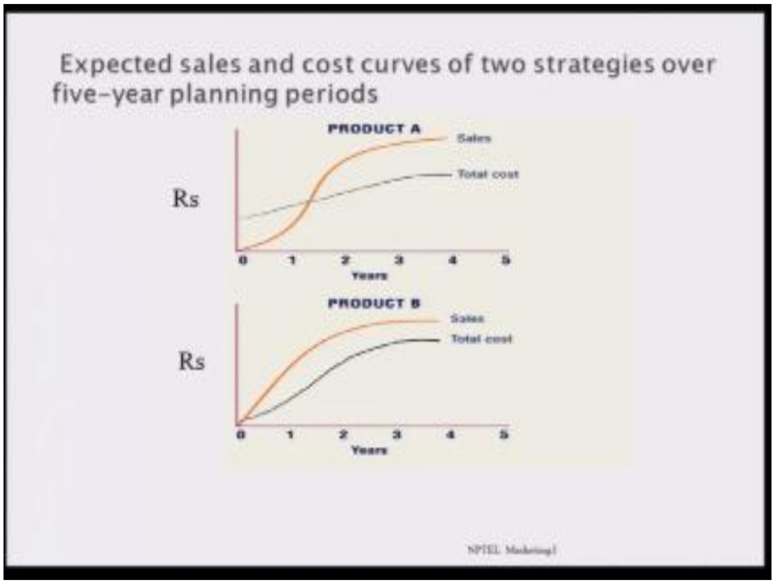

Prof. Jayanta Chatterjee: So the entry into Indian markets as a, I was discussing about this nappies, disposable nappies. So on one hand it will be determined, the strategy will be determined by competitive analysis, understanding that what the competitors price, positions, the current competitors, promotion strategies, or distribution strategies etc are.

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Prof. Jayanta Chatterjee: And what kind of response the competitors might offer in response to your entry into that market, but side by side or rather simultaneously as we were discussing as we do this competition based external analysis we have to also do internal analysis, for example if the product, the life cycle of the product, the product life cycle as a concept and what it means in strategy we will discuss in more detail later on.

But usual it comes as an S shaped graph and this shows the complete life cycle structure. So if it is going like this the entire strategy and you are, we are coming in at say some point here. And then the total cost build up line will be this, then we will have to determine the pricing strategy, the promotion stagey.

Dr. Shashi Shekhar Mishra: Yeah.

Prof. Jayanta Chatterjee: The distributional strategy, understanding where we have entered the market with respect to the life cycle.

Dr. Shashi Shekhar Mishra: Yeah.

Prof. Jayanta Chatterjee: And we have to do this competition based analysis obviously if we are here the competition is intense there are many, many competitors.

Dr. Shashi Shekhar Mishra: Yes.

Prof. Jayanta Chatterjee: Whereas if we are entering somewhere here then the competition has become very oligopolistic, it has become very set, few competitors will be totally dominating the market. So as you see this graph is kind of this part. So if this is the graph, this is where you have entered that means you have entered here instead of here, then this is that will going to be your cost build up.

So your pricing strategy has to therefore take in account that in that marketing strategy has to take into account the external factors and the internal factors simultaneously. Because the internal factors will determine the, the cost and how the cost will grow over time or the cumulative cost, so the cumulative sales will depend however on the lifecycle position of entry, and accordingly we will have to manage the other P's. The other, other marketing mix factors ultimately to, what I am trying to say therefore is that the, the composition of the tactical package.

In terms of the four P's determine, is determined by the overall strategy framework, and the overall strategy framework depends on simultaneous understanding and analysis of external factors and internal factors. To conclude this particular session I would now like to just show.

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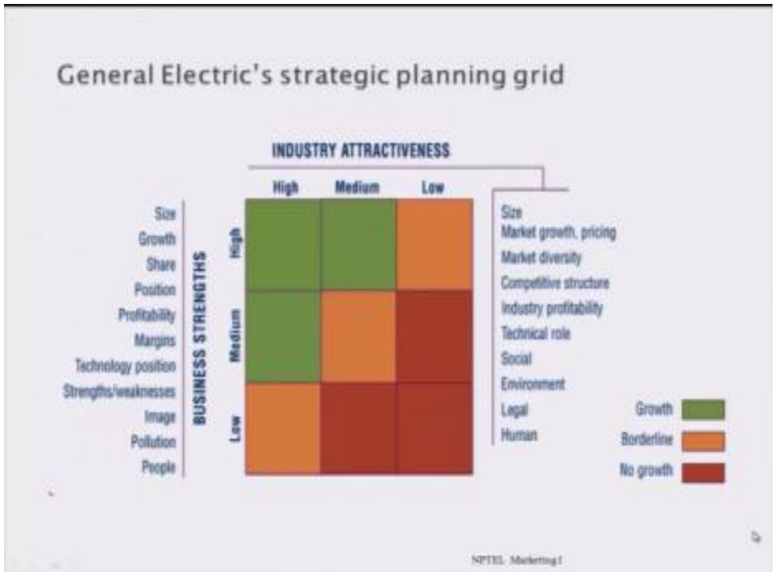

Prof. Jayanta Chatterjee: The famous two models, this is the first model which is in fact perhaps.

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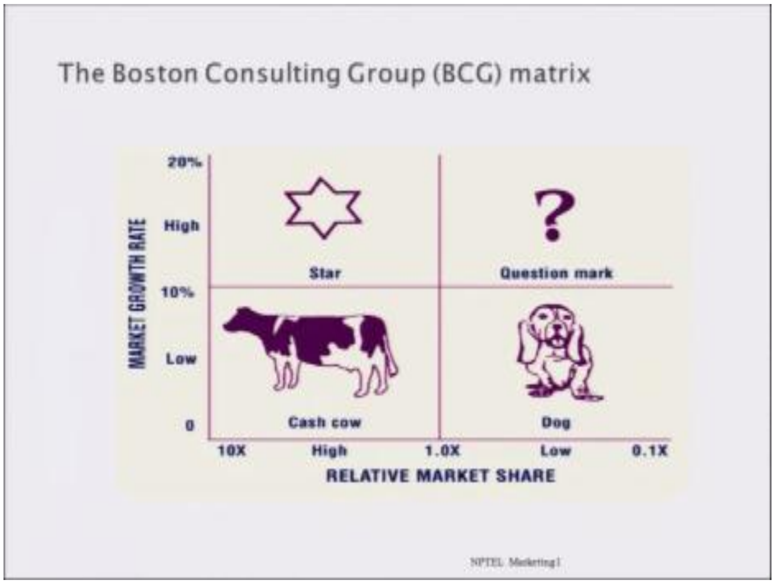

Prof. Jayanta Chatterjee: I would take this model first, this is the famous BCG matrix where they actually put again in a two by two matrix or relative market share versus market, market growth rate. So if the market growth rate is high and the relative market share is high, then that is the star position that is the most desired position. And if the relative market share is low and the market growth rate is low, then that is kind of the, the most the worst market position which they call dog. And this is where the relative market share is high but the market growth rate is low, which means that we are on that upper side of the graph which I was discussing.

Dr. Shashi Shekhar Mishra: Later stage of the product life cycle.

Prof. Jayanta Chatterjee: Later stage of the product life cycle in that matured condition number of competitors have come down.

Dr. Shashi Shekhar Mishra: Come down.

Prof. Jayanta Chatterjee: Whereas number of competitors will be much higher when the market growth rate is higher.

Dr. Shashi Shekhar Mishra: Yeah.

Prof. Jayanta Chatterjee: So here and here there will be many competitors and here and here there will be few competitors. But if you have few competitors, low growth market but your market share is very high that can generate a lot of cash, so that is why they called it cash cow. But this particular model is kind of not used that much, because many.

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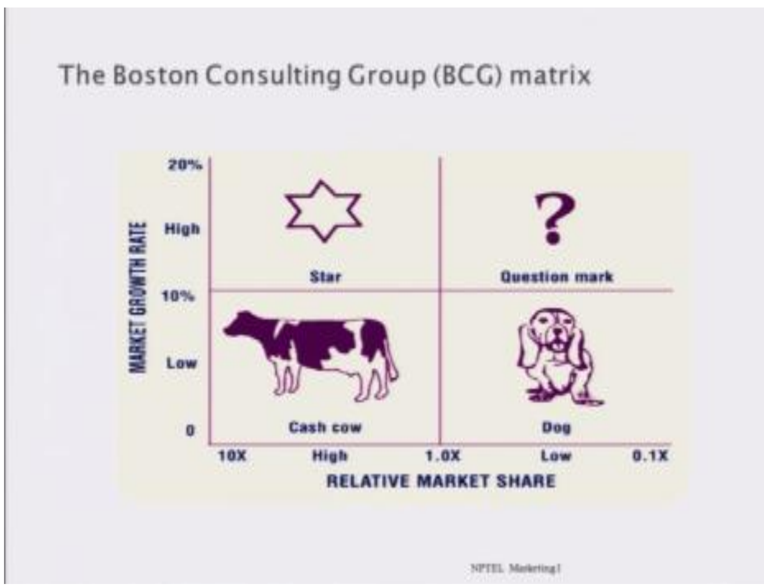

Prof. Jayanta Chatterjee: Authors later on, many researches and managers have criticized this use of these animal models because that brings in some additional you know sort of values that are not correct, but if we go.

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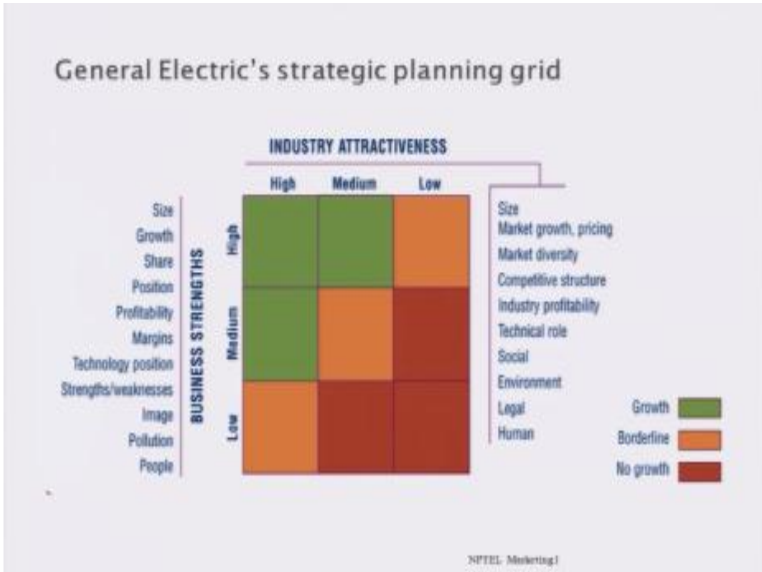

Prof. Jayanta Chatterjee: This model, this is a much better model for understanding because here we have taken industry attractiveness and divided it into three parts the famous, this is the famous GE strategic planning grid, this very nicely brings together the internal factors as well as external factors.

Dr. Shashi Shekhar Mishra: External factors.

Prof. Jayanta Chatterjee: The company's current position and where it wants to be and the competitive structure everything together. So industry attractiveness divided in three parts high mode, medium, low. Business strength in three parts, low, medium, high and obviously therefore if business strength that means relative market share is high industry is very attractive, then this is the most desired position. And here therefore, this whole package of size, growth, share, position, profitability, margins, technology, position, all that.

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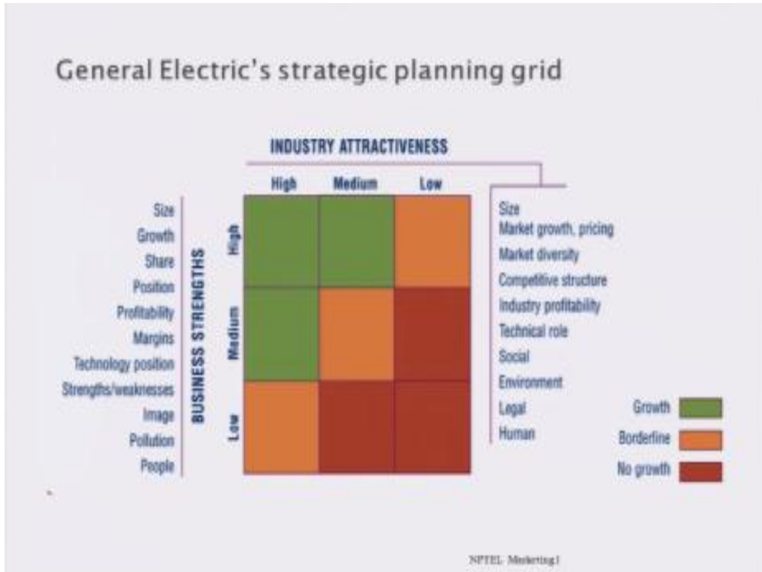

Prof. Jayanta Chatterjee: Will be different in different blocks, determined by both external factors as well as internal factors, and therefore what a company should do in terms of marketing as a strategy, and then how that strategy will be deployed through the marketing mix as tactics will be different under different circumstances. And this is what we will discuss through various sessions in the subsequent days, and see how that generates the different aspects of marketing in terms of positioning, segmentation, targeting, or the other way around, segmentation, targeting positioning, and differentiation.

And so that package of deployment tactics comes out of this overall strategy frame work that we have discussed today. Thank you.

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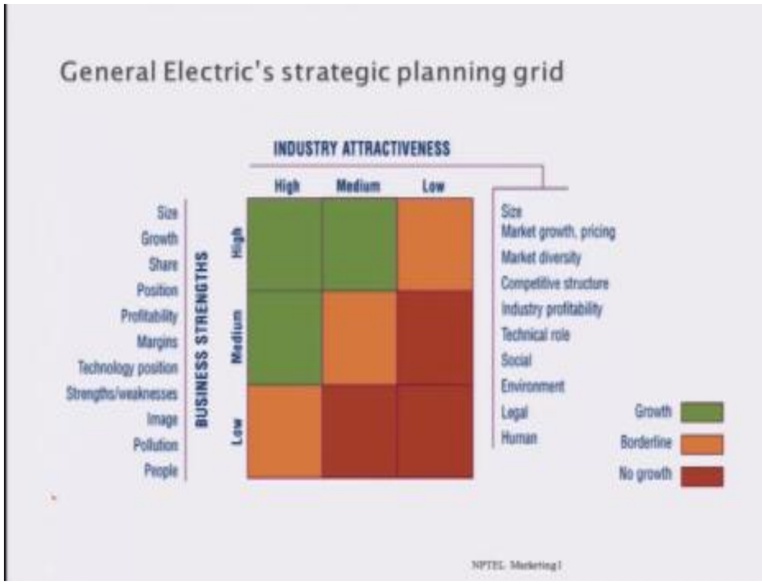

Dr. Shashi Shekhar Mishra: Thank you.

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