

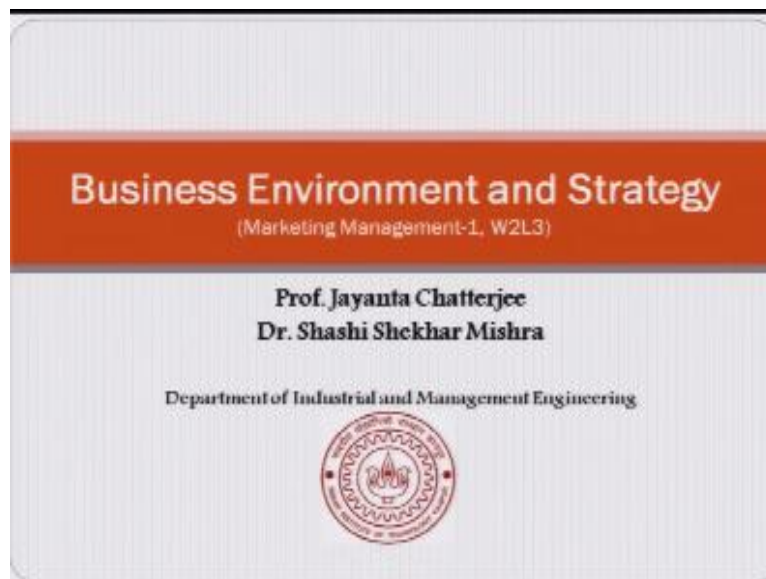
Indian Institute of Technology Kanpur
National Programme on Technology Enhanced Learning (NPTEL)
Course Title
Marketing Management – 1

Lecture: W2.I.3
Business Environment & Strategy

by
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Dr. Shashi Shekhar Mishra: Hello and welcome to our course, marketing management part 1.

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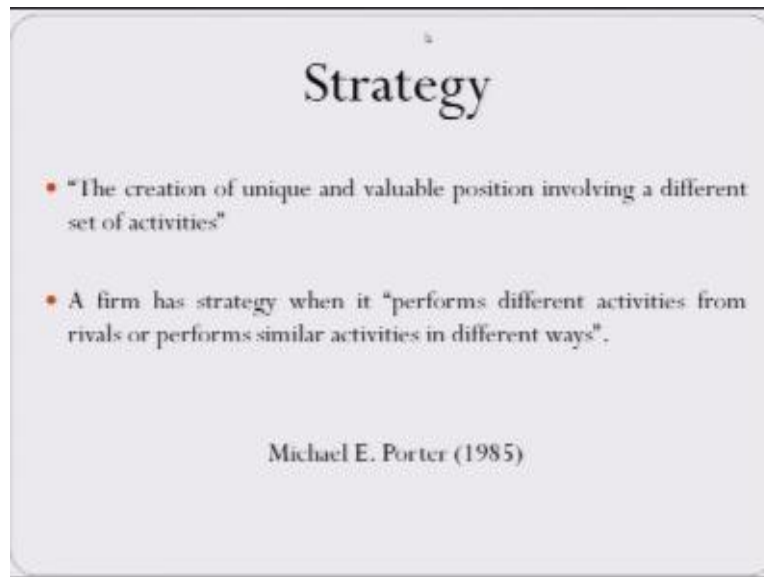
Dr. Shashi Shekhar Mishra: This is the second module of this course business environment and strategy and this is Lecture 3 of this module. So in the last class we started discussing about marketing objectives, competitive advantage, some of those concepts, and we started talking about the strategy and its connection with the marketing strategy part.

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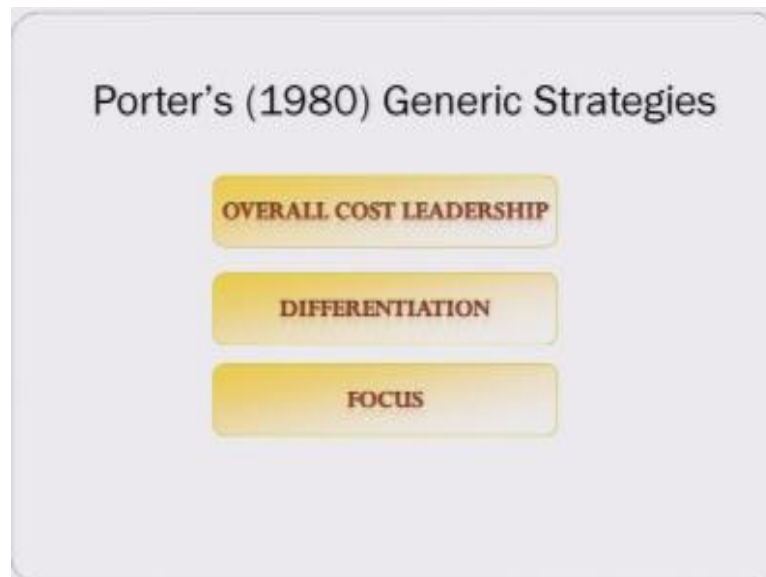
Dr. Shashi Shekhar Mishra: So what is a strategy?

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Dr. Shashi Shekhar Mishra: A strategy has been defined by Porter, the creation of unique and valuable position involving a different set of activities. So when a firm has a strategy it means that it performs different activities from rivals, its competitors are performed similar activities in a different ways.

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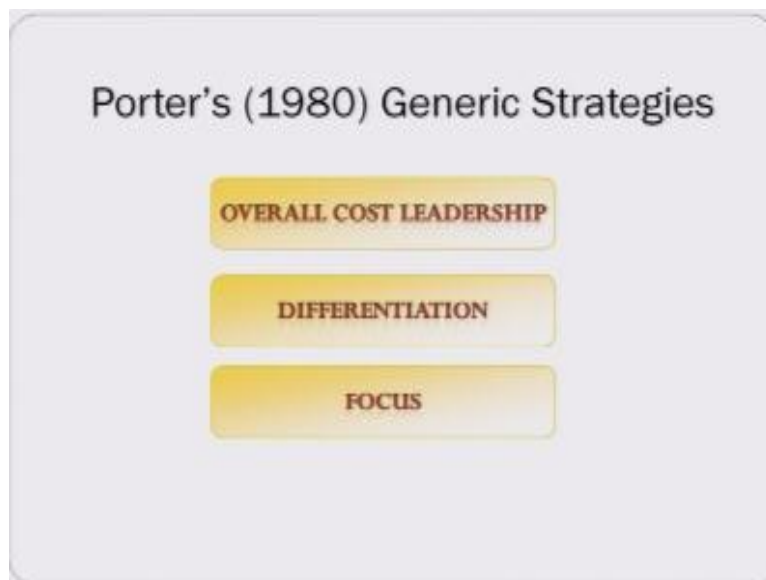
Dr. Shashi Shekhar Mishra: Porter defines there are three types of a generic strategy that firms can adopt to, or they can pursue three different types of a strategy. So the first among these three different generic strategies are overall cost leadership. Overall cost leadership means that as a firm you are the lowest cost provider of an offering, it could be product, it could be services. So there are many examples like many retails chains claim to be the everyday low price provider.

There are many e-retailers or e-commerce based business which claim to provide the product at the lowest prices, so those are basically the companies which are trying to pursue this strategy of overall cost leadership. However you should note here, that in overall cost leadership this kind of competitive strategy is susceptible to any kind of a competitive threat, in the sense if there is a second competitor or another competitor other than you, who comes out with a new production technology or does something different, that they can offer your product at a lower prices.

Then you are competitive edge is lost, so just based on the competing just based on the cost may not be a very advisable situation in many business environments. On the other side there is a second generic strategy which talks about being a differentiated offering. So that is differentiation, you offer product which has superior features or additional features that

consumers value, the customer value, and there is a image shade differentiation in the minds of the consumers, that is differentiation. So if we look at the companies like Apple or if we look at a company like.

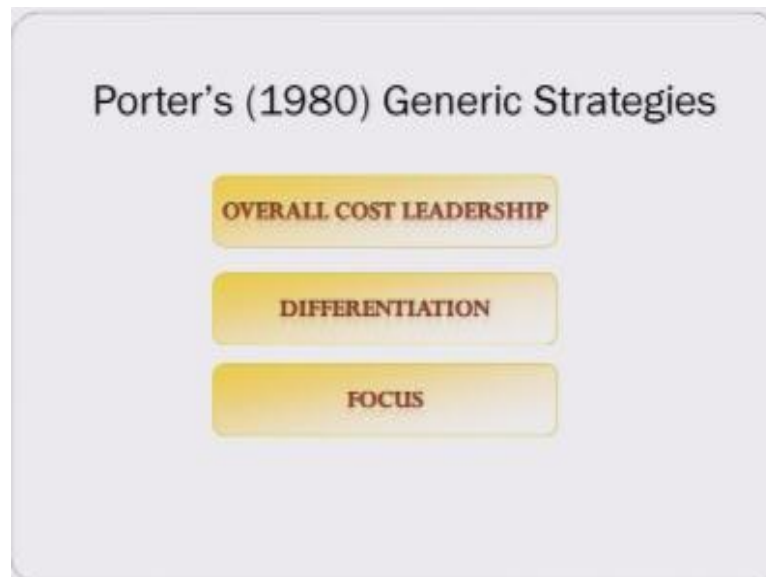
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Dr. Shashi Shekhar Mishra: So one good example of differentiation is Apple which differentiate itself on the design and the user experience, there could be other companies which can come out with a similar product like in terms of the features and other things like product as Apple produces however you will find out that image in the minds of the consumer that its product are very different in terms of its design and it is that overall user experience.

That is something which provides that an additional competitive advantage to this Apple and they are able to charge premium for that. This is not something strategy which can be easily replicated by competitors because the differentiation lies not only in terms of offering the product or the service, it also lies in the minds of the consumers. So overcoming that image differentiation in the minds of consumer will not be an easy task for any new competitor in the market.

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Dr. Shashi Shekhar Mishra: Then you have a third type of generic strategy which is focused, focus strategies is about focusing on a set, a small set of customers and understanding them in the best possible way and coming out with a product that best suits the requirement of that customer segment, and when you serve those customers in such a way that you are probably better than any other competitor which is offering their product in the market.

Then again you are able to charge a premium for this kind of strategy. So you see the focus strategy could be pursued by a company in India like Cafe' Coffee Day, which basically relies on the customer intimacy and customized product to the requirements of the customers. Similarly Dell also offers you this kind of flexibility that you can design your own laptop, or any other device that you are trying to purchase, you can specify or you can change the specification as per your requirement.

So that kinds of focus strategy is just is based on focusing on certain set of customers and serving their needs better.

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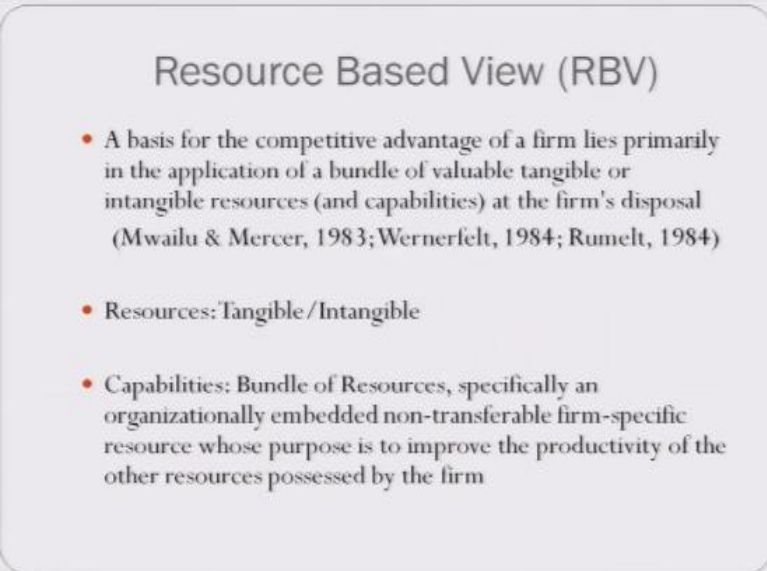


Dr. Shashi Shekhar Mishra: Now if we talk about strategy, then we need to understand that a strategy formulation happens at the different levels, at the topmost level we have the corporate strategy where a conglomerate which has a different business, they have this corporate strategy which determines the mission, and vision, and objectives, of the organization and provides the resource LOK, provide the necessary resources to its different businesses.

Then you have a different SBU's are strategic business unit which operates in different industry sectors so as per the requirement of different industry sectors these strategic business unit formulate their plans to compete in the market and they basically require a different set of competencies or a different set of, set of activities that they require to compete or do better than their competitors in the market.

And then you have function level strategy which are like your marketing, manufacturing, R and D, financial and HRM strategy, these are functionally specific strategy and one thing you should note is that this strategy at the functional level should be aligned in line with the strategic business unit strategy and the corporate strategy.

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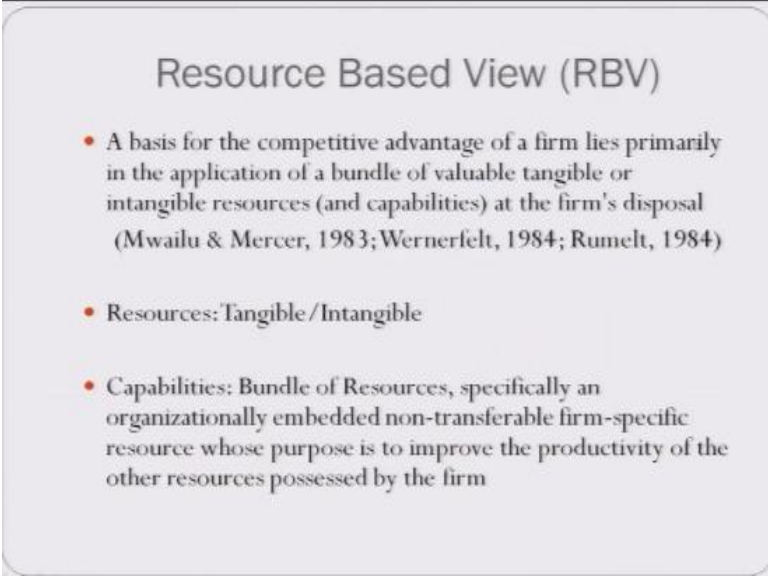
The slide is titled "Resource Based View (RBV)" in a bold, black font. Below the title, there are three bullet points, each preceded by a red dot. The first bullet point discusses the basis for competitive advantage, citing Mwailu & Mercer (1983), Wernerfelt (1984), and Rumelt (1984). The second bullet point defines resources as tangible or intangible. The third bullet point defines capabilities as a bundle of resources that are organizationally embedded, non-transferable, and firm-specific, aimed at improving productivity.

Resource Based View (RBV)

- A basis for the competitive advantage of a firm lies primarily in the application of a bundle of valuable tangible or intangible resources (and capabilities) at the firm's disposal (Mwailu & Mercer, 1983; Wernerfelt, 1984; Rumelt, 1984)
- Resources: Tangible /Intangible
- Capabilities: Bundle of Resources, specifically an organizationally embedded non-transferable firm-specific resource whose purpose is to improve the productivity of the other resources possessed by the firm

Dr. Shashi Shekhar Mishra: The next concept I am going to talk about is resource based view of the firm, many scholars see the organization as a bundle of resources and according to them that organization draw their competitive advantage or the edge from their resources, so a basis for.

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Resource Based View (RBV)

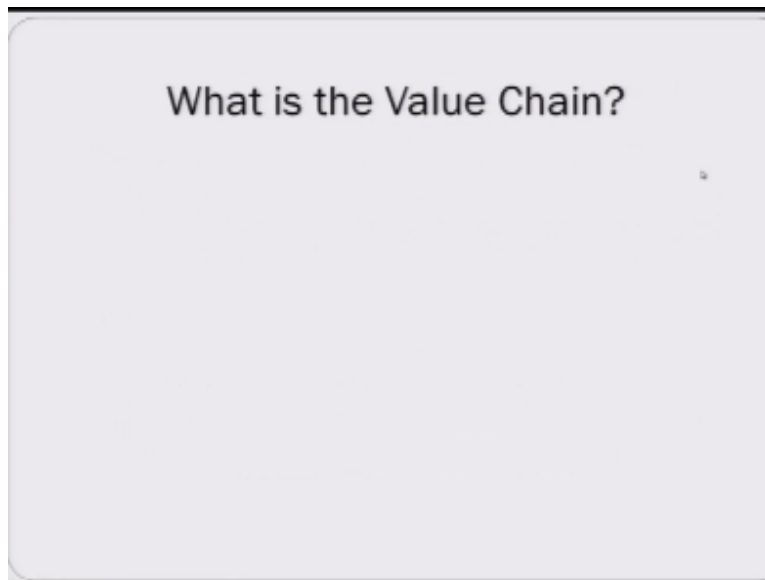
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Dr. Shashi Shekhar Mishra: Competitive advantage of a firm lie primarily in the application of bundle of valuable tangible or intangible resources and capability and forms disposable. Resources could be of two type, tangible resources, intangible resources. Tangible resources in the form of plant, machinery, equipment, so those are basically the tangible resources and then you have intangible resources in the form of brand, pretense, knowledge inside the organization these are basically the intangible resources, having intangible resources superior intangible resources provide a long and competitive advantage as compared to tangible resources.

Now one thing which you should note here is that about resource-based view of the farm is that capabilities is a bundle of resources specifically an organizationally embedded non-transferable from a specific resource whose purpose is to improve the productivity of other resources possessed by the firm, so what is said about the resources is that if a resource possesses four characteristics in the form of we call it as a framework V-R-I-N if it is a valuable resources that it creates a value for the customers then it is rare, R stands for the rare so if it is a valuable and rare and the third thing is that inimitable.

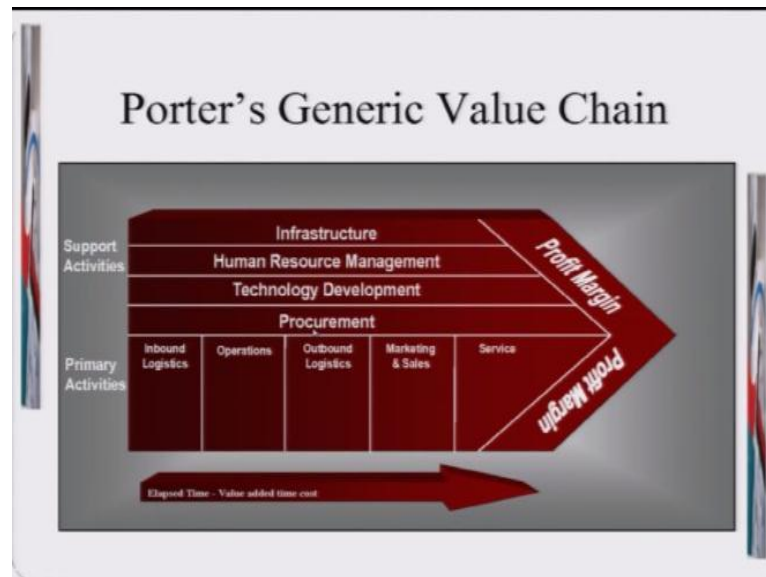
So it cannot be easily copied by or the competitors cannot easily replicate it, and the fourth characteristics if a resource has that it is non substitutable so if a resource possesses this kind of four characteristics then that provides a competitive advantage to a firm.

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Dr. Shashi Shekhar Mishra: Another concept and quite a important concept in this strategy formulation is the concept of value chain, value chain concept was Porter and here you see that the value chain is a tool for identifying ways to create more customer value because every firm is a synthesis of a primary and support activities performed to design, produce, market, deliver, and support its product so in this framework.

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Dr. Shashi Shekhar Mishra: Of Porter's generic value chain you will see if firm is conceptualized of something which delivers value to the customers and it delivers the value by performing a set of activities, now this set of activities has been classified in this value chain framework in two categories, there is a primary or primary activities and then you have the secondary activities, inside the primary activities as you can see there are five activities, inbound logistics that you get the raw material inside the organization.

The second activity is operations where you perform a, or execute processes on the inbound material and then convert that inbound material into the finished product, then you have outbound logistic that is distribution network or taking the finished product from your factory or the manufacturing unit to the customers nearest point or to the nearest convenient place to the customer is, is related with the outbound logistics and the fourth part is marketing and sales that which, which deals with the probably as we have already discussed creating, communicating, and delivery, delivering of value to the customers and the service relates to the after sales service which, which is required for use of the product.

So these are the five primary activities, along with this you have some additional secondary activities or the support activities in the form of procurement technology development, human resource management, and infrastructure, so you see each of these support activities support different of each of these five primary activities, they can contribute in increasing the efficiency of each of these are any of these five activities.

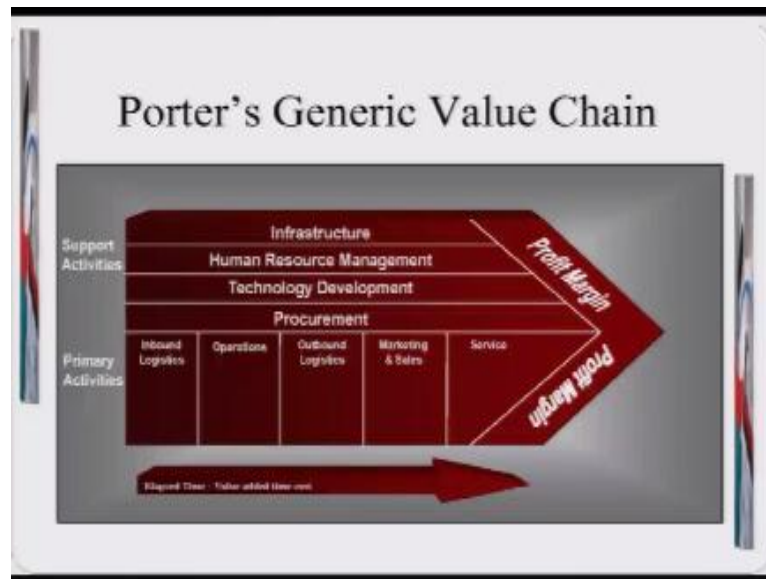
So technology development can help in probably reducing your costs in inbound logistics, it can improve your operations to produce a better quality product, technology can enable you to serve your customer or deliver your product in the best possible ways to your consumers, marketing and sales effectiveness and efficiency can be improved by technology in the sense you can sense the market or you can understand the customer needs better and the services how you can be more responsive to your customers can, can be solved by their technological advancement or deployment of technologies that help you in serving the customer need and being a more responsive organization.

So these support activities provide support to this primary activities, now the use of this Porter's Generic Value chain is that as an organization you need to identify your activities that you perform as an organization while delivering value to the customers, and once you have identified the activities then you have to understand what is the customers want and then you also understand what is basically the cost drivers of those activities.

And the interrelation between these activities. So by doing these things you will be able to understand which activities are unnecessary or which can be removed from the process. So that you can bring down the cost or you can do probably a better job in certain activities so that they improve the rest of the process like, for example if you in the design of a product if you remove certain component or if you modify the design of one component.

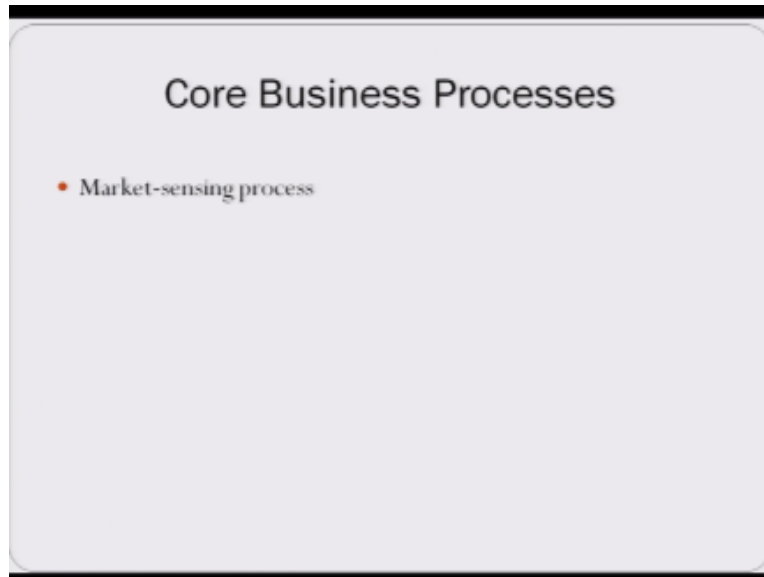
It can lead to significant saving in the remaining stages of the production process or it can save you a lot of money in terms of packaging and the portability of the product so that, that might be very much appreciated by the customers.

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Dr. Shashi Shekhar Mishra: This way you can either create the cost advantage or you can create a differentiation by analyzing this Porter's value chain, along with this Porter's value chain the, we identify five core business processes.

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Dr. Shashi Shekhar Mishra: The five core business processes include markets sensing process where you try to understand the needs of the customers, what are their requirements, what is their consumption environment, how they use product. So that comes under the market sensing part.

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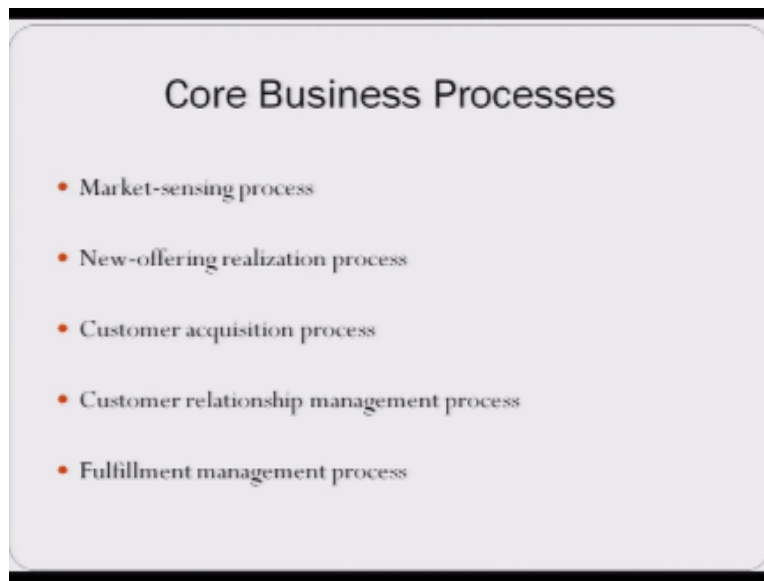
Dr. Shashi Shekhar Mishra: The second part is the new offering realization by understanding customers need you design and develop new products that cater to your targeted customer that comes under new offering realization process, then you have customer acquisition process that how do you acquire or how do you get your product to be used by the customers, so that is customer acquisition process.

And it is important to note that companies these days understand that acquiring customer is much more than retaining the customers and that is why you have customer relationship management process because it is said that many a times the cost of acquiring a customer is as high as 5 time compared to your retaining a customer. So the companies once they acquire the customers.

They maintain or they try to manage their customer in a way that they can they can retain them for a longer time and the cost of managing customers is much less than the cost of acquiring the customers. So the customers profitability increase or you say the customer's lifetime value provides more profitability to the firm. So a firm will like to retain a customer because as customer proceed in its lifetime what happens is.

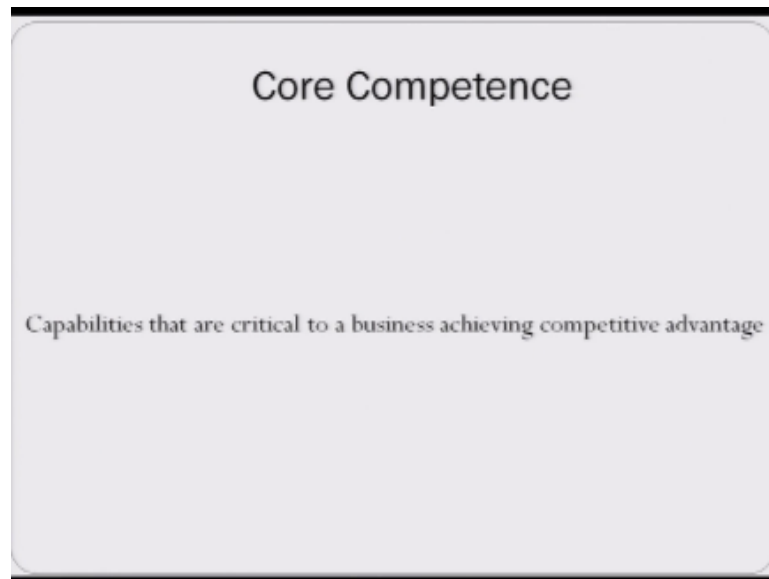
Its initial cost of acquisition is high but the maintenance cost goes down and ultimately the, among that it spends on the company's offering and product also increases on one side it gives you more money on the other side it takes less cost to serve that customer. So the customer relationship is another very important thing.

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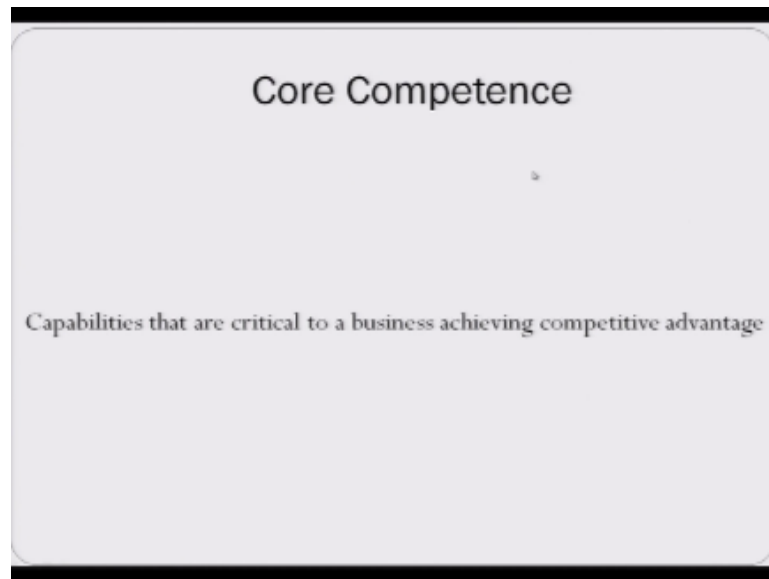
Dr. Shashi Shekhar Mishra: And then fulfillment management process where it is about the logistic and the delivery of the product and services to the customers. So these are five core businesses process.

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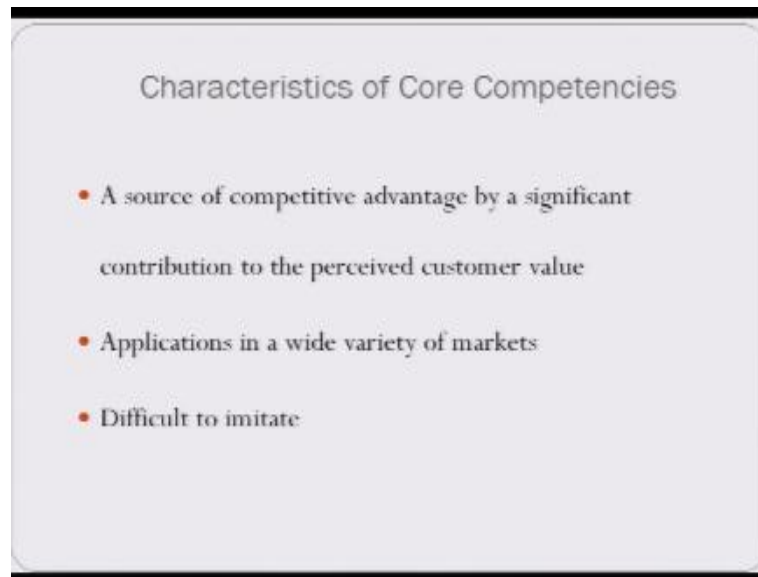
Dr. Shashi Shekhar Mishra: In 1990's two scholars Professor. C.K Prahalad and Gary Hamel came out with the concept of core competence to explain why certain organization in the that time period have done better than some of the bigger organization or those organization they have, they were more intense in the market, they had more market power but eventually they lost to this smaller organization based on this concept of core competence.

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Dr. Shashi Shekhar Mishra: So core competence is capabilities that are critical to a business achieving competitive advantage, it is a basically collective learning inside the organization about it is, how it coordinates different set of operational activities and how it integrates the different technologies.

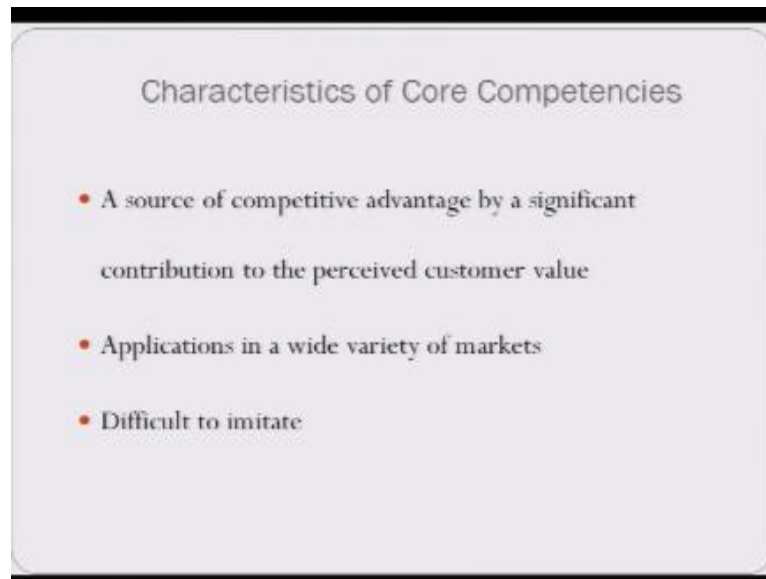
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Dr. Shashi Shekhar Mishra: So that is what the definition of core competence is, a company if a company possesses an organization possesses a core competence it, it will exhibit three characteristics, a core competence is a source of competitive advantage by a significant contribution to perceive customer value. So the core competence is something which is relevant to the customer, a competence which comes out in the form of a core product.

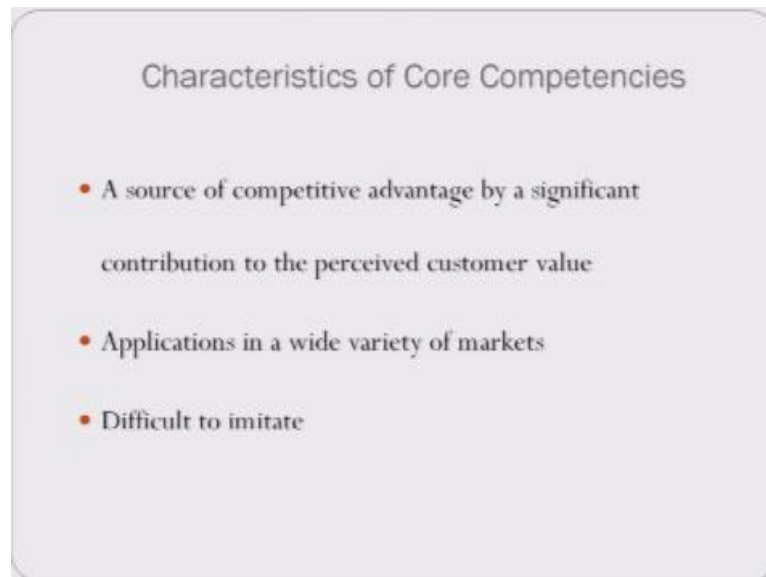
Which is being valued by the customers. So in a sense core competence create a perceive value in the minds of the customers.

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Dr. Shashi Shekhar Mishra: Then core competence second characteristics is that, characteristics that it is applicable to a wide array of product and market. So the result of core competence is said to be core product and you will see that the company which has core competence result in a core product, this core product can be applied to a different, different industry sectors or a different product market. I will explain to you after some time through some examples about this concept and the characteristics of core competence.

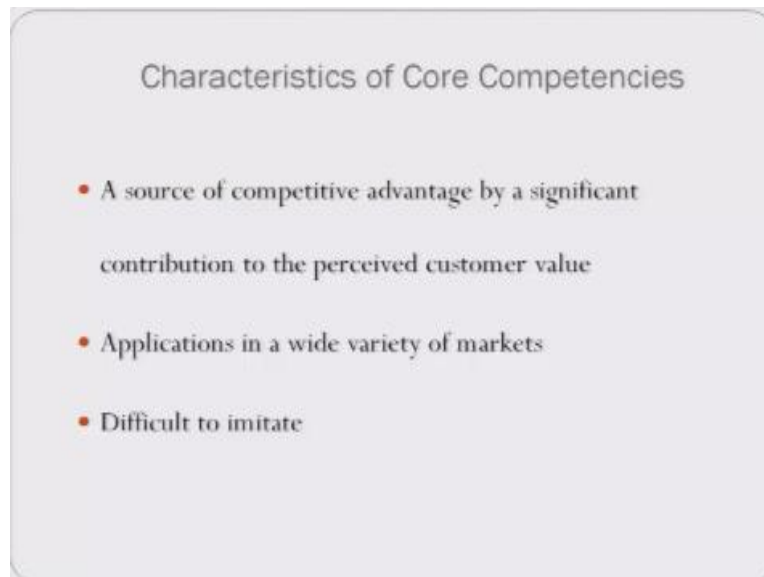
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Dr. Shashi Shekhar Mishra: And the third characteristic of core competence is difficult to imitate. So it is not easy for competitors to imitate and in fact sometimes when competitors try to imitate core competence it makes their way of competing even more difficult. So there are many companies which have competence in certain areas, if we take the example of Apple, Apple has a core competency in designing and user experience, so they can design certain devices which are better than any other company being or offering the similar kind of devices and that is, that design and that which ultimately result in a great consumer experience, result in a competitive advantage.

Another example of core competence could be Honda motors which has a competence in designing better engines. Now you see this better engine which result from their competency of designing a better engine, result can be basically applied or integrated into different industry sectors and under different final product form so this engine can be basically mounted on a two-wheeler, the engine can, can go inside a four wheeler, engine can go inside a generator state, engine can go inside even aircrafts also. So this competence of engine can be applied to a different product markets.

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Dr. Shashi Shekhar Mishra: Another aspect of this difficult to imitate is that, that in certain example of core competence when the competitor try to replicate your core competence it becomes very costly for them to compete also. So another example of core competence could be this Intel's design of microprocessor, so this microprocessor can, can be can go inside a mobile phone, it can go inside the laptop and it can go across so many other product and you will see that microprocessor of Intel has something which, which creates a better product.

So that Intel Inside advertisement is based on that and it creates an image in the minds of the customer that the product is different from any other competitive offering.

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Dr. Shashi Shekhar Mishra: Related with this core competence is that prescription that an organization should only nurture and focus on its core competence, so all the activities which are other than core competence can be outsourced. And in that way you can further strengthen your core competence and you can get other activities or other set of processes done at a lesser cost.

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Dr. Shashi Shekhar Mishra: Then distinct it rip, basically core competence refers to a special technical and pro production expertise. Core competence is one concept that can help you in understanding the competitive edge of many companies in different industries sector, so we have discussed a couple of concept in today's class, we started with a strategy and different level of a strategy. We have looked into this three generic strategy type and then we have looked into the core, this concept of resource-based view where we have looked into this framework that VRIN if, if a resource has these four characteristics it provides a competitive edge to a firm.

And the last concept that we have discussed now is that core competence. So with this I end this session, and when we will meet to in the next session we will look into some other important frameworks of the strategy that are critical to the formulation of marketing strategy. Thank you very much.

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