Chapter 3

Competitive Advantage and Analysis

3.1. IDEA INCUBATION

Idea incubation is a process for bringing ideas into reality. It starts on a very fundamental level, often with a single individual who comes up with a concept he or she thinks should be further explored. This individual brings others in on the idea incubation process, making the idea stronger and more viable. Ultimately, the idea may be turned into a product, assuming that funding can be secured and that the idea is commercially viable.

Many companies foster idea incubation by clustering workers together in collaborative environments. Cooperative groups work best for idea incubation because other members of the group can identify strengths and weaknesses of the idea, resulting in a stronger finished product. Some companies offer their services as professional idea incubators. These companies use a staff of individuals who are trained to think innovatively. Idea incubation firms often provide support for product development all the way through the process from the initial vague concept to commercial production.

Successful idea incubation can result in products ranging from clothespins to computers. Ultimately, strong leadership and executive skills are required along with an entrepreneurial spirit. Once an idea has been incubated, it needs to be developed, prototyped, and commercially presented. Appointing a team leader can encourage this, along with creating a work environment in which all employees are encouraged to make contributions.

In order to turn the idea into product several ground level operations need to be executed by the entrepreneurs. These include determining the competitive advantage of the idea or product, identifying market segments and target, establishing new marketplaces if required, and in the last industry and competitor analysis.

3.2. DETERMINING COMPETITIVE ADVANTAGE

3.2.1. Introduction

Competitive advantage can be defined as the superiority that is enjoyed by a firm over its competitors in an industry. Hence, it can be thought of as a strategic advantage of a business. It allows a firm to build its position stronger than before.

The terms 'strategic advantage' and 'competitive advantage' can be used synonymously. It is a superiority of a firm in a specific competitive area. With the help of this supremacy, the firms are able to find a favourable market position. This supremacy can be developed in any of the functions or areas that a firm deals in. Therefore, this implies that there are many ways through which the firm can acquire the competitive edge.

Through competitive advantage, the organisation is able to make the target market aware about the supposed value which it can provide more efficiently than the competitors. It can be attained in many ways, such as by presenting goods or services of better quality, competitive pricing, innovative marketing, etc. When an organisation maintains the competitive advantage in a long-run, then it is called 'sustainable competitive advantage'. It establishes the firm and improves its image among the general public as well as increases the possibility of success in future.

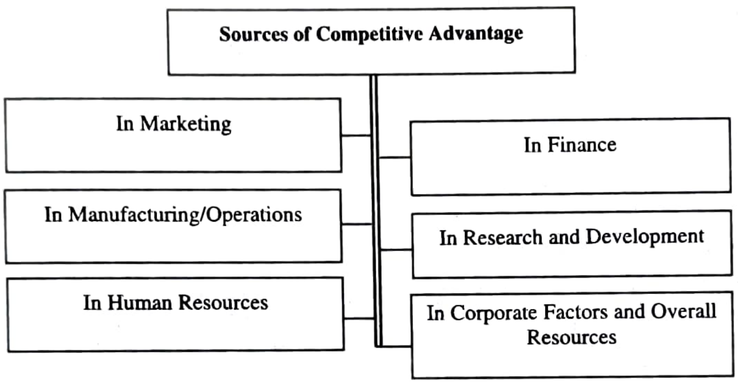
A firm is said to have a competitive advantage when it has an access to the superior quality resources with some additional benefits, such as skilled and trained employees, latest technologies, natural resources, etc. All these resources lead to achievement of competitive advantage by the firm.

3.2.2. Sources of Competitive Advantage

Analysing strategic advantage can be regarded as a process which helps the strategists to assess the resources and capabilities of the firm in the major functional areas in order to determine major strengths and weaknesses of the firm. It helps the organisation to utilise the opportunities and counteract the threats. By pursuing a different process, developing unique tactics, creating the barriers for the rivals, etc., competitive advantage can be achieved.

Competitive advantage can originate from any of the functions performed by the firm such as productic marketing, R&D and personnel. Competitive advantage can emerge from any of these functions and the su functions existing under them.

The sources from which the competitive advantage is achieved should not be stretched beyond a certain limi that they stop providing competitive advantage to the firm. Some of the major sources of competitive advantag are as follows:



1) **In Marketing**
   i) Launching new product,
   ii) Offering low price,
   iii) Larger market share,
   iv) Applying creativity and innovation in marketing activities,
   v) Increasing the level of customer satisfaction,
   vi) More prompt customer service,
   vii) Improving marketing channel,
   viii) Innovative promotional strategies,
   ix) Increasing efficiency of advertisement,
   x) Effective and productive sales activities,
   xi) Continuous market research,
   xii) Collaborations with other marketing organisation,
   xiii) Reducing the costs in marketing,
   xiv) Improving the product-mix and product lines of the firm,
   xv) Market standing,
   xvi) Product-wise position in following areas:
      a) Brand power,
      b) Product quality,
      c) Product design,
      d) Profitability,
      e) Product's sophistication/ technological strength,
      f) Positioning,
      g) Stage of the product in the life cycle,
      h) Differentiation, and
      i) Marketing capability.

2) **In Finance**

i) Liquidity,
ii) Assets,
iii) Gearing,
iv) Leverage,
v) Costs,
vi) Cash flow,
vii) Profitability,
viii) Cost of capital,
ix) Efficient tax planning, and
x) Quality of financial management,

3) **In Manufacturing/Operations**

i) Improved production capacity,
ii) Better plant location,
iii) Better production facilities,
iv) Post-production facilities,
v) Full capacity utilisation,
vi) Efficient utilisation of raw materials,
vii) Maintenance,
viii) Reduced cost of production,
ix) Achieving break-even position,
x) Improved productivity,
xi) Better inventory management,
xii) Experience curve benefit,
xiii) Value engineering capability,
xiv) Improved flexibility, and
xv) Automation.

4) **In Research & Development**

i) Features, quality and depth of research facilities,
ii) Proper allocation of financial and other resources for R&D activities,
iii) Skills, knowledge and experience of researchers,
iv) Promptness in research activities,
v) Technical skills and abilities for carrying-out research and development,
vi) Maintaining records about patents and copyrights, and
vii) Comparing the cost input and outcome obtained in terms of product.

5) **In Human Resources**

i) Skills, knowledge and experience of employees,
ii) Dedication and motivation in employees,
iii) Low personnel turnover,
iv) Minimal labour costs, and
v) Improved industrial relations.

6) **In Corporate Factors and Overall Resources**

i) Size of the company,
ii) Corporate image,
iii) Capability of management,
iv) Capable and experienced top level management,
v) Efficient and co-operative board of directors who can make policies and take decisions.
vi) Impressive record of organisation's performance,
vii) Continuous effort towards innovation and creativity,
viii) Effective strategic planning,
ix) Productive organisational culture,
x) Flexible and adaptable organisational structure, and
xi) Implementation of latest technology.

3.2.3. Factors Determining Competitive Advantage

1) **Product/Service Advantage:** At the time of purchasing, consumers compare the products, services and even the performance of an organisation with the offerings of the competitors. Therefore, the organisation needs to strengthen or change the perception of their customers or prospective customers about their products/services. The competitive advantage of an organisation is considered significant while formulating the marketing strategy. Overall, competitive advantage joins the internal corporate analysis to competitive analysis, segment analysis and market analysis.

2) **Capabilities/Resources Utilisation:** To establish and match a market change, various resources are integrated, rearranged, acquired and released. The importance of the competitive advantage and capabilities of an organisation is described by the organisational processes which are formed and shaped by its asset position and trends in evolution.

3) **Differentiation Advantage:** The various elements of marketing (except price) are blended in an appropriate manner to achieve product differentiation. This means that both the tangible and intangible properties of products are modified by the organisation to achieve differentiation.

4) **Distribution Advantage:** The distribution channels which are a perfect blend of location, equipment and human resources, also play a vital role in influencing competitive advantage. To achieve technological competitive advantage and to analyse the technological trends in the market, the human skills need to be developed so that the organisation can make maximum possible benefits out of the opportunities available in the market.

5) **Competitive Advantage through Innovation:** Competitive advantage is gaining importance due to the rise in demand for innovation and technology. Many challenges are faced by the organisations when they are not able to innovate and keep up with the rapid changes in technology. As a result, they lose their advantages over their competitors.

3.2.4. Importance of Competitive Advantage

The significance of competitive advantage is discussed below:

1) **Acts as a Support for Strategy:** As the competitive advantage is closely related with the strategy, it can be observed that both the factors are complementary to each other. In fact, the competitive advantage provides a support to the strategy as it tries to create a balance between the organisation and the strategy adopted by it.

2) **Effective Placement of Strategy:** An organisation cannot operate vigorously, if it lacks in terms of competitive advantage, as it becomes difficult for the organisation to implement the required strategy.

   This leads to the failure of even the most creative and well-planned strategy. Hence, competitive advantage is essential for effective placement of the strategy.

3) **Provides Value to the Customers:** A competitive advantage that is able to generate and provide value to the customers and thus satisfy their needs is considered as the biggest strength of the firm.

   A firm with competitive advantage provides products that are superior than the offerings made by the competitors and delivers unmatched strategic benefits to the customers. It is especially helpful to enhance the competitive position when the customers are striving low cost products.

4) **Provides Sustainable Advantage:** By providing value to the customers, the organisations are able to enhance their level of satisfaction and are able to strengthen relationships with them. It will also help the firms in attaining competitive advantage which would result in producing long-lasting returns and profits by retaining the customers.

5) **Provides Power to Set Price:** A competitive advantage which is supported by exclusive feature of the product or its limited availability provides the organisation to enjoy the power to set the price irrespective of the competitors, as it acquires unique and distinctive resources.

6) **Outperforms Existing Competitors:** A strong competitive advantage helps in dealing with the present and the evolving competitors. In order to compare their performance with that of the rivals, the firms make use of the customer value analysis, which throws light on the factors that are rated high by the customers while selecting a product or a supplier. These factors help in providing a measure for developing competitive advantage. Strong competitive advantages are built by the firms by creating entry barriers and by beating existing rival firms.

7) **Increases Investor Value:** The competitive advantage of an organisation helps in finding-out the capability of the organisation to bring back surplus gains on capital for the shareholders. The relation between the business strategy and its financial and investment strategies helps the shareholders to ensure that they can continuously invest in a resource that provides and maintains the competitive advantage.

3.3. IDENTIFYING MARKET SEGMENTS AND TARGET

3.3.1. Introduction

The awareness about the product amongst the consumers is the basic requirement of marketing. It is the responsibility of the marketer to effectively communicate with customers in order to inform them about the products and services being offered by the company. Since, requirements and demands vary from individual to individual; marketing planning cannot afford to be a clean sweep. The marketing planning has to have such campaigns made so that USPs (Unique Selling Prepositions) are logically and clearly communicated to the customers. A single product cannot satisfy all customers. Therefore, due to the varying needs and requirements, it is essential to make different segments of consumers and plan for each segment separately. This process in marketing is called **'Target Marketing'** which is also termed as **STP (Segmentation, Targeting and Positioning)**.

3.3.2. Steps in Target Marketing

After segmenting the market, the marketers have to select the segments to create their target market. This is known as targeting a target market. This makes the consumer aware of the product. The products are placed into the minds of the customer, which is called positioning of the product. The entire process of segmenting, targeting and positioning is referred as market selection. These three activities in the target marketing of market selection are as follows:

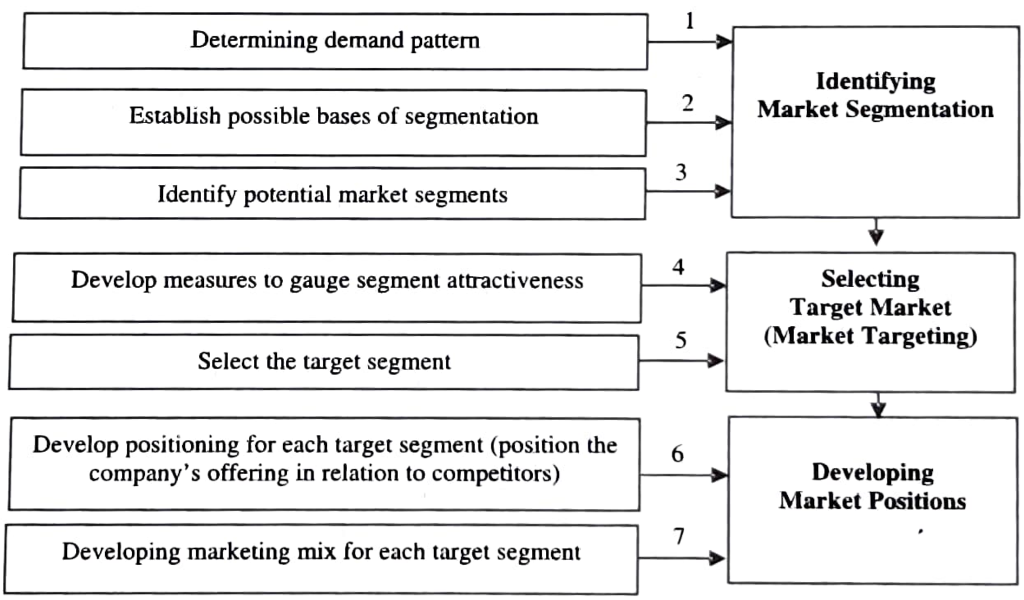


Figure 3.1: Steps in Target Marketing

1) **Identifying Market Segments (Market Segmentation):** The first and foremost action in target marketing is to locate the target markets which have not been served yet. The unsatisfied needs of such markets become the basis of segmentation. Following three phases are involved in segmentation:
   i) Analysing the pattern of demand,
   ii) Determining the segmentation bases, and
   iii) Identifying the available market segments.
2) **Selecting Target Market (Market Targeting):** After dividing the market into homogenous segments, the marketers aim at identifying those segments for which they could develop their products. This involves:
   i) Analysing the segments to determine their attractiveness, and
   ii) Selecting the potential segment(s).

3) **Developing Market Positions (Market Positioning):** Each selected segment differs from the other one on the basis of different types of customers and their expectations about the product. Thus, positioning includes:
   i) Identifying possible positioning concepts for each target segment, and
   ii) Developing marketing mix for each target segment.

3.3.3. Market Segmentation

The market contains variety of products and they differ from each other in their specifications, quality, durability as well as prices. The customers also differ from each other in their habits, preferences, hobbies, income, culture, purchase decisions, etc. In order to streamline the marketing process, the consumers of similar characteristics are grouped together in segments. This is termed as 'market segmentation'. Market segmentation means division of market into smaller groups having similar needs and qualities.

This helps the company to modify the products or services to suit the different groups more effectively. Even, the advertisement messages and promotional methods are needed to be modified so that they are well-understood by the group. **For example**, a product being sold in the State of Tamil Nadu is required to be advertised in Tamil language. Here, getting the endorsement of local popular film star will be an added advantage.

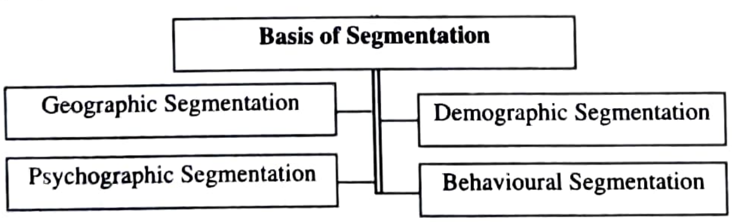
According to Philip Kotler, "Market segmentation is sub-dividing a market into distinct and homogeneous subgroups of customers, where any group can conceivably be selected as a target market to be met with distinct marketing mix".

According to Philip Kotler, "The purpose of market segmentation is to determine difference among them or marketing to them".

The quality of precision in market segmentation is helpful in accurately defining the customer needs. The actual objective of segmentation is to develop separate marketing plan for each segment so that consumers can be better served and their expectations are met effectively. In marketing planning, the market segmentation is perceived as the first step towards betterment. After identification of a particular consumer group and application of four Ps, i.e. product, price, place, and promotion, in proper manner, the marketers are able to design products and services according to the target market.

3.3.3.1. Bases of Segmentation

The bases for segmentation are as follows:



1) **Geographic Segmentation:** This includes the segmentation of market based on location, size, population density, climate, etc. This type of segmentation enables the planning for better marketing. Rural and urban markets can be easily segmented by such segmentation. The geographic location is very helpful for marketers to design the marketing plan.

   For example, there are different regions in India like Assam, Bengal, Punjab, Gujarat and Tamil Nadu which prefer clothes and food-items based on their regional culture and food habits. Marketers must be very much conversant with regional languages. Also, places known for extreme climate conditions affect the need as well as the buying behaviour. **For example,** in cold climate, there is permanent need for woollen garments and heating systems whereas for hot climate, air-conditioners are needed.

2) **Demographic Segmentation:** Another important basis commonly used for market segmentation is the demography, i.e. age, gender, income, education, religion, family size, social class, nationality, etc. This type of division of market is admired by most marketers.

These are discussed below:

i) **Age and Life Cycle Stage:** Under this segmentation, the requirements of consumers are related to age group and this can be divided into four categories, i.e. children, young, adult and old. **For example**, Dabur produces oils especially for children.

ii) **Gender and Sexual Orientation:** Males and females have different requirements and it is inherent in their nature. **For example**, females generally prefer to spend on expensive clothes, cosmetics, jewellery whereas males prefer to purchase cars, hot drinks, going to clubs, etc.

iii) **Marital Status:** Lifestyle of married and unmarried individuals is totally different. A bachelor normally spends his earning on entertainment, hotels, whereas, a married person will generally spend on home furnishing, children education or purchase of house, etc.

iv) **Income:** Buying behaviour of consumers is derived from their income. In our country, it varies from few thousands rupees to even millions. Therefore, individuals have different buying behaviour.

v) **Social Class:** As per the social status of a person, the buying patterns change. A business tycoon will prefer Mercedes, Audi, BMW cars, expensive cell phones, spacious and luxurious apartments or bungalow. A commoner will go for economy cars, common cell phones and a suitable accommodation for family.

vi) **Family Size:** The purchase requirements vary with family size. The consumption-level are different for joint family and nuclear family.

vii) **Occupation:** Occupation of an individual affects the buying behaviour to a great extent. **For example**, people related to glamorous film world have totally different orientation in buying behaviour in comparison to researchers and academicians.

viii) **Educational Level:** People with same educational background and income have different preferences for certain products but it cannot be taken as a thumb rule.

ix) **Religion:** Certain rituals, festivals, eatables, clothes, colours, etc. are related to religion. The market can also be segmented on such considerations.

3) **Psychographic Segmentation:** Psychographic segmentation of the market is not absolutely correct and it is generally found that persons of same age, financial status, educational background and occupation, adopt different procedures in purchasing the products, selecting a new product or choosing a shop. This is due to some psychographic factors which include personality, values, lifestyles, beliefs, etc. These are described below:

i) **Lifestyles:** Lifestyle of a person greatly affects his/her buying behaviour. The lifestyle is associated with the standard of living and the way in which money and time is spent by a person. This is also a result of social background, culture, religion, psychology and demography. It is an important factor in dividing the market and should not be ignored. **For example**, corporate icons prefer to buy costly suits and luxurious cars, whereas an executive goes for normal clothes and shoes.

ii) **Personality:** Another variable in psychographic segmentation is personality. Different individuals have different personality which determines their buying behaviour. Marketers utilise this phenomenon to design products having brand personality. Thus they segment the market according to the personality of individuals.

For example, Levi's Jeans, Vimal Suiting's, Tanishq Jewellery, Sabyasachi and Gaurang Shah for Sarees, Paris perfumes, etc., have personality statement which automatically attracts a particular segment of the society.

iii) **Values:** Values are the belief systems of individuals, which affect their buying behaviour. These are also utilised for segmenting consumer market. This is the most appealing strategy to attract the customers because it touches their inner-self due to which selection of the product becomes easy.

iv) **Beliefs:** Marketers know the fact that belief plays an important role in buying and hence they accordingly divide the market. People adopt certain characteristics from childhood which gradually becomes their firm conviction or belief that govern their buying behaviour. **For example**, it is a common observation that people exhibit buying behaviour and lifestyle as per their religion, irrespective of festivals or normal days.

The psychographic segmentation reveals that consumers' attitudes, values, motivation, life style are responsible for their buying behaviour for a particular product. Many marketing research companies are engaged in studying the individual clients for psychographic effect.

4) **Behavioural Segmentation:** It involves segmenting the market on the basis of understanding how customers use a particular product, how they respond towards a particular product, what they know about product or what their attitude towards a product is. The market segmentation is based upon the analysis of behavioural variables like occasions, benefits, user status, usage rate, loyalty and attitude of the consumers.

   The analysis of these variables helps in developing the market segments. These derivatives are described below:

   i) **Occasions:** The marketers do recognise the occasions that are helpful in developing needs. The household items are regularly purchased by the salaried people on every first working day of the month. Festivals, family functions or celebrations for specific events develop needs for purchase. The companies can plan to enhance the supply of products based on these occasions. Two types of occasions are common:

      a) **Regular:** These include occasions like Republic Day, Holi, Diwali, Dushehra, Eid, Christmas, Independence Day, etc.

      b) **Special:** These include marriage, anniversary or any happy occasion like winning an award, promotion, etc.

   ii) **Benefits:** The market is also segmented on the basis of benefits derived by the consumer. A consumer may purchase a watch as an essential need to know the exact time or to gift someone or use it as a status symbol, wear it to match with the dress or even wear it as a jewellery item. The marketers do recognise this fact and provide different brands of the product to take care of each segment separately.

   iii) **User Status:** The market can also be segmented on the basis of user status. **For example**, the users for deodorant can be categorised as:

      a) **Non-user:** This category is not interested in using the given product. **For example**, children and aged people generally do not use deodorants.

      b) **Potential User:** This category heavily relies on given product consumption. **For example**, deodorants are frequently used by fashionable teenagers and corporate executives.

      c) **First Time User:** There are consumers who use a new product for the change. **For example**, deodorants used by college going students.

      d) **Regular User:** There is a section in the society who leads a lifestyle which requires regular use of deodorants or other cosmetics like film stars, models, corporate big-wig and fashion conscious ladies.

      e) **Ex-user:** Some people give up using a particular product (like deodorants) because of allergy or medical advice.

   iv) **Quantity Consumed/Usage Rate:** The quantity consumed or the rate of consumption of a product is also an established basis for segmentation of market. This segmentation is commonly used in tea, coffee and soft drink markets. There are three categories:

      a) **Light:** The frequency of consumption of the consumer is not constant but occasional. **For example**, use of cosmetics by a housewife who is not so fashionable.

      b) **Medium:** The frequency of consumption of product is frequent. It is observed that teenagers frequently use cosmetics.

      c) **Heavy:** The consumption of product is regularly made in large quantity. **For example**, the celebrities working in the film industry, models, etc., use cosmetics regularly since it is a part of their profession.

   v) **Buyer Readiness Stage:** There are different readiness stages of consumers regarding a product purchase. Some consumers may be unaware, others may not be interested, and some might be interested while some might be ready to buy the product definitely. The market is segmented as per the readiness of the consumers.

vi) **Loyalty Status:** There are different levels of loyalty of consumers for specific brands as described below:

a) **Hard Core Loyals:** Such consumers always buy the same brand of product, like newspaper, coffee, certain brand in clothes and sarees. They get hooked to these products due to their long experience and develop a sort of addiction and do not switch to other brands.

b) **Soft Core Loyals:** Such consumers limit themselves to two or three type of brands of the product. **For example**, a consumer using Sony, LG, Voltas products is a soft core loyal consumer.

Such consumers need to be motivated by marketers to stick to one brand so that they could be turned into hard core loyalist.

c) **Split Loyals:** Such consumers shift their loyalty for a change. **For example,** majority of customers prefer Colgate tooth paste but some also use Pepsodent or Close Up.

d) **Switchers:** Such consumers never stick to a brand rather they enjoy switching to new brands for experience and thrill.

vii) **Attitude:** Attitude is the principal driver behind a product purchase. Some people lose interest in life due to some sad events, while some lead a very simple life as directed in scriptures. Such people do not indulge in fun or luxuries of life and behave differently.

However, normal persons want to enjoy their life to the fullest and have fun. Keeping these things in mind, the customers are categorised as enthusiastic, positive, indifferent, negative and hostile.

3.3.3.2. Identification of Market Segment: The Process of Market Segmentation

As per the universally accepted view, market segmentation process primarily includes three stages, which are as follows:

1) **Determining Demand Pattern/Survey Stage:** It is crucial to ascertain the demand patterns related to products and services as they signify the changing needs of customers as well as their consistent or non-varying tastes and preferences for a definite class of products and services. There are following three demand patterns which are usually encountered by a company:

i) **Homogeneous Preferences:** Homogeneous preferences can be understood as a marketplace where majority of the customers have similar tastes and preferences. There is no indication of any natural segments in such a marketplace. It is quite easily envisioned that the present brands would be identical and concentrated around the middle of the scale both in terms of positive and negative effects.

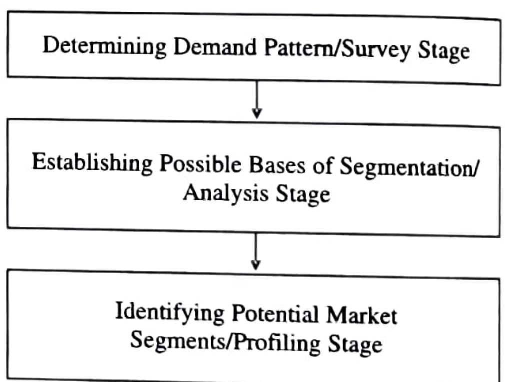


Figure 3.2: Process of Market Segmentation

ii) **Diffused Preferences:** In contrast with homogenous preferences, consumer preferences may vary greatly from each other. Such type of preference is known as diffused preference. It symbolises that consumers have a wide range of preferences which are altogether different from each other. The first firm to enter the market will hold the central position in the market and can have the potential to attract most of the consumers.

iii) **Clustered Preferences:** A particular market can be divided into different preference clusters. Such preference clusters can be termed as market segments. The first company or brand to enter the market has three alternatives, viz. to position itself in the centre position so as to engage most of the customers, to come up with different brands and position them at different market segments or to position itself in the largest market, i.e., concentrated marketing. In case the first company entering the market is engaged in developing a single brand in a particular segment, then the other entrants (competitors) would try to develop and launch their brands in the other market segments.

Furthermore, the survey stage is categorised into following segments:

i) In-depth interviews and focus group discussions with an intention to know or understand consumer behaviour, attitude, preferences and motivation.

ii) On the basis of the information gathered from the above mentioned activities, a questionnaire is developed which is dispensed or issued to a sample group of customers. The main purpose of this questionnaire is to gather data related to:
   a) Patterns in which customers make use of a product.
   b) Attitude of customers towards a general product or the entire class of product.
   c) The priority ratings of customers associated with different products and to know on what basis they prioritise a particular product.
   d) Prevailing habits of customers, namely, their psychographic, demographic and media habits.
   e) Brand awareness among customers and ratings given by them to different brands.

2) **Establishing Possible Bases of Segmentation/ Analysis Stage:** According to marketing school of thought, segmentation is extensively considered as an art and not as science. The most significant activity is to locate the variable(s) that are responsible for dividing the market into prospective segments. Generally, there are two kinds of segmentation variables, which are as follows:
   i) Needs
   ii) Profilers

   Customer needs are the fundamental basis for any market segmentation. Market research is essentially required to discover the needs and wants of consumers in a market. Illustrative and computable consumer attributes like age, location, gender, income, nationality, etc., are known as profilers, which are useful in informing a segmentation exercise. For the purpose of identifying factors that can distinguish different customer groups, factor analysis is used. That is, once the data collection process is complete, it is reviewed with the help of factor analysis. However, for clustering customers into different groups, cluster analysis is used.

3) **Identifying Potential Market Segments/ Profiling Stage:** This stage involves profiling each cluster of customers on the basis of their behaviour, attitude, consumption pattern, alongwith their psychographics, demographics and media habits. Every segment can be named by the marketer either on the basis of dominants or unique characteristics. Customer segmentation helps the marketer to understand the potential customers of the firm from a demographic viewpoint. In order to understand the penetration rates and the market potential for different products and services, a perfect and explicit profile of consumers is required.

   It helps in analysing a particular market as well as gives an idea about the closely related markets. Such analysis enables the marketer to explore the market opportunities and implement the market penetration strategies. Highest market penetration can be achieved by identifying and understanding the customers in clusters which helps in target marketing. It also helps in planning business activities for the prospective buyers. Moreover, the ROI and response rates can be increased by specifically marketing to the potential customers with attractive offers. Profiling the customers becomes a necessity in the process of evaluating the entire market opportunities and the profits that can be generated from such markets. Further, it also helps in identifying the potential customers present in the selected market. It is possible only for few companies to make effective site selection decisions in the absence of appropriate information of customer profiles.

3.3.4. Targeting

Market segmentation helps the company to identify various opportunities. On the basis of these market segments the marketer can determine the specific markets to be targeted. Market targeting is a process of ascertaining groups of customers who are likely to purchase the products and services of the company. This is done in ways where some companies can cater to the entire market while others can focus on developing products and services for small niche markets which are profitable. Targeting is undertaken by companies of all sizes in order to retain and maintain their customers.

Marketing is all about understanding the customers' needs and wants, and developing the products that satisfy them. Both market segmentation and targeting is practised by all organisations, ranging from the small corner book store to large MNCs. A successful marketing plan can be developed by the company only when there is complete synchronisation between what the customer wants and what can be provided by the company.

Process of Targeting the Market

The market targeting process involves the following steps:

1) **Evaluating the Market Segments:** In the process of evaluating various market segments, the company must identify the potential of the segments and also its own capability to target these segments. The marketer needs to make sure that while serving the segments of market, the organisational objectives are achieved. While deciding on the market segments, the firm must consider three factors, such as:

   i) **Segment Size and Growth:** The potential of the segment can be assessed by using forecasting techniques. Market segmentation analysis involves demand forecasting for each element of the product market other than for the product market as a whole. The potential of the entire market can be identified by aggregating the potentials of each market segment. This can be shown as follows:

   $$MP = \sum_{i=1}^{n} SP_i$$

   where,

   MP = Market potential for the product market,

   SP_i = Segment potential in the i^{th} segment,

   n = Number of segments formed for the product market.

   ii) **Segment Structural Attractiveness:** The structural factors influencing the attractiveness of the segment must be assessed along with its size and growth. **For example,** if the segment already has many powerful competitors, then the market becomes less attractive. These competitors offer potential substitute products and may also limit prices and profits that one can earn.

   Buyers with strong bargaining power also influence the attractiveness of market segment as they force the company to slash down their prices, demand for more products and services, and try to raise disputes among competitors all at the expense of seller's profitability.

   iii) **Company Objectives and Resources:** If a company is satisfied with its market size, growth and structural attractiveness, then it must not compromise with its objectives and resources. Some segments of the market can be terminated if they are not appropriate for fulfilling long-term objectives of the company. Even if a segment fits the company's objectives, the skills and resources required for the company's growth must be ensured.

2) **Selecting Target Market(s):** When the evaluation of segments is over, the company has to decide in which market segments to enter. That is, the company decides on which and how many segments to enter. This task is related with selecting the target market. Target market consists of various groups of buyers to whom company wants to sell the product; each tends to be similar in needs or characteristics.

3.3.5. Positioning

Positioning is a marketing approach which creates a distinct position for a brand or a product in the minds of the customers. It aims to provide a different and new product to the customers in comparison to the other competing brands or products. Here, the organisation decides the basis on which the product offers have to be placed in front of the consumers.

David Ogilvy explains the importance of product positioning that, 'the results of your campaign depends less on how we write your advertising than on how your product is positioned.'

According to Kotler, "Positioning is the act of designing the company's offering and image to occupy a distinctive place in the target market's mind".

According to Ries and Trout, "Positioning starts with a product a piece of merchandise, a service, a company, an institution, or even a person. But positioning is not what you do to a product. Positioning is what you do to the mind of the prospect. That is, you position the product in the mind of the prospect".

Tasks Involved in Positioning: Process of Positioning

Positioning involves the fulfilment of many objectives. The marketer can generate a successful positioning strategy only if the various required tasks for positioning a product are done properly. These tasks are as follows:

1) **Competitor's Identification:** The company has to be very careful in the way in which it defines the competition. The definition of the competitor has to be broad. It need not only be limited to companies which are making the same type of products as the company. It should actually include all companies which are the likely competitors of the company. A company should analyse this keeping the customers in mind and the way they use the products.

2) **Determining How Competitors are Perceived and Evaluated:** After the definition of the competitor, the next task is to map the perception of the customers with regard to these competitors and products. One needs to understand the various features/ attributes that are considered important by the customers. These have to be analysed through marketing research techniques. The customers indicate their preference via focus groups and other survey method and this helps the company to understand their perceptions.

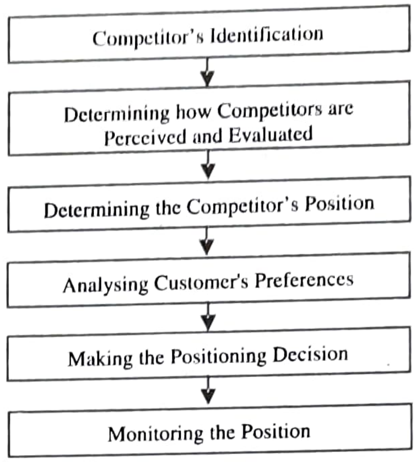


Figure 3.3: Process of Positioning

3) **Determining the Competitor's Position:** Once the various attributes and their importance to customers is understood, the next step is to rate each competitor on these attributes. This helps us to understand how each competitor is positioned with respect to the attribute. This also helps to understand the relative positioning of the competitors, i.e., which competitors are similar and which are not so similar in terms of an attribute.

4) **Analysing Customer's Preferences:** By the process of segmentation it is possible to classify the customers into various segments based on age, income, psychographics, education, etc. These various segments have different motivation to purchase and also have different ratings for the attributes that have been identified.

   Marketers generate the ideal preference for each segment, which is nothing but the ideal product or brand that the customers seek among all available alternatives, including those that are not available. Once the ideal product is recognised, it is very easy for the marketers to recognise the ideals for different segments. It also helps to identify segments which are similar in terms of ideal points.

5) **Making the Positioning Decision:** The next task involved in positioning is about making positioning decision. It is not easy for the marketers to take clear and accurate positioning decision. Even market research is not so helpful to determine the positioning. Therefore, some subjective decisions are taken by marketers by keeping in mind the following questions:
   i) Whether the segmentation is suitable or not?
   ii) Whether enough resources are available for communication or not?
   iii) What is the level of competition?
   iv) Whether the present positioning strategy is productive or not?

6) **Monitoring the Position:** Once the positioning strategy is generated, the company needs to check how successful the strategy is in the marketplace. These are typically noted through tracking studies. These studies check the change in the image of the company over a period of time. The perceptions of consumers are noted without any lag time. The competitive impact of the positioning strategy is also noted.

3.4. ESTABLISHING NEW MARKETPLACES: BLUE OCEAN STRATEGY

3.4.1. Introduction

Blue Ocean Strategy is a business strategy which is aimed at establishing new marketplaces for the organisation at the stage of product development. It is designed in a way to stimulate organisations towards the development of new and uncontested markets for their products. A majority of strategic models are centred around creating competitive advantage for the organisations with the central theme of how to beat the market competition. Contrary to such models, the blue ocean strategy attempts to make the competition irrelevant by establishing 'blue ocean' opportunities in the marketplace, rather than focusing upon beating the market rivals.

Blue oceans can be considered as uncontested marketplaces where the main focus is on satisfying the new demands of customers. Contrary to this, the concept of 'red oceans' signifies severely contested marketplaces, where organisations are in constant battle for market shares and sales. The blue ocean strategy affects the focus of strategy development and promotes innovation. It forces the organisations to go beyond their horizons of what their immediate competitors are doing and focus upon new opportunities having potential of creating new value for the customers. Thus, according to blue ocean strategy, managers must try to develop new offerings through innovation and new concepts, thereby creating new marketplaces, instead of trying to contest with competitors for the existing market.

Blue ocean strategies are different from other strategies as they do not consider the practices of any existing industry as benchmark. Conventional strategy tends to suggest that an organisation should either try to provide greater value at a greater cost (differentiation approach) or provide the same product or service at a lower cost (cost leadership approach). These assumptions were opposed by **Kim and Mauborgne** as they suggested that organisations should strive for uncontested markets, create new demands and attempt to provide superior value to customers by reducing costs.

3.4.2. Characteristics of Blue Ocean Strategy

Features or characteristic of blue ocean strategy are described below:

1) **It is Grounded in Data: W Chan Kim** and **Renee Mauborne** developed Blue Ocean strategy by undertaking prolonged research based on large scale data. In the past century, these professors researched various strategic moves covering more than 30 industries.
2) **It Pursues Differentiation and Low Cost:** This strategy follows 'and-and' and not 'either-or' strategy. Under Blue Ocean strategy it is possible to be both a differentiator and a low cost strategy adopter.
3) **It Creates Uncontested Market Space:** Blue Ocean strategy aims to go beyond the prevailing competition in the industry. Hence, it looks at ways in which the definition of the industry can be redefined.
4) **It Empowers through Tools and Frameworks:** The Blue Ocean strategy creates a framework and methodology which can be used to create a unique and uncontested space in the industry.
5) **It Provides a Step-by-Step Process:** This strategy also charts out a step-by-step process which can be followed to create a unique space in the industry. It looks at the existing state in the industry, and tries to discover ways in which new market space can be created, the means through which non-customers can be converted into customers. In fact the Blue Ocean strategy lays down a clear cut way in which this new Blue Ocean of opportunities can be created.
6) **It Maximises Opportunity while Minimising Risk:** The Blue Ocean strategy shows a way in which the new ideas of an organisation can be evaluated and how the entrepreneur can reap the maximum benefits while curtailing the associated risks.
7) **It Shows how to Create a Win-Win Outcome:** The Blue Ocean strategy leads to a win-win outcome for all the stakeholders. It looks at three viewpoints (value, profit and people) and ways to align them. The formulated strategies aim at creating a winning proposition for buyers, the company, for the employees and the organisation.

3.4.3. Principles of Blue Ocean Strategy

The six main principles guide companies through the formulation and execution of blue ocean strategy in a systematic, risk-minimising manner. Blue ocean strategy can be formulated on the basis of following six main principles:

Six Principles of Blue Ocean Strategy

Formulation Principles Attenuates	**Risk Factor of each Principle**
Recreate market boundaries	↓ Search risk
Focus on the big picture, not the numbers	↓ Planning risk
Reach beyond existing demand	↓ Scale risk
Get the strategic sequence right	↓ Business model risk
Execution Principles Attenuates	**Risk Factor of each Principle**
Overcome key organisational hurdles	↓ Organisational risk
Convert execution into strategy	↓ Management risk

The first four principles focus upon the blue ocean strategy ideation and formulation, while the last two principles are based on the execution of the blue ocean strategy. These are as follows:

1) **Recreate Market Boundaries:** Recreating market boundaries means to identify new avenues through which the managers can steadily develop untapped marketplaces across various industrial dimensions so as to minimise the search risk. This is based on a six paths framework.
2) **Focus on the Big Picture, not the Numbers:** Conventional strategic thinking is often criticised as being incremental in nature and for the kind of improvements that it seeks to create. Very often it is relegated to a number crunching exercise. Using a four step approach, the blue ocean strategy looks at the larger picture in front of the organisation with the objective of identifying uncontested spaces in the market where blue ocean strategies can be conceptualised and implemented.
3) **Reach beyond Existing Demand:** According to this principle, the organisations must challenge the traditional business practices of focusing upon segmenting the consumer markets and try to customise their product offerings and services to meet the needs of the identified segments. They need to aggregate common traits of customers instead of looking for differences. This also eliminates the scale risk.
4) **Get the Strategic Sequence Right:** The fourth principle of the blue ocean strategy suggests a sequence that the organisation should employ so that the devised business model is sustainable and profitable. This sequence is as follows:
   i) Utility,
   ii) Price,
   iii) Cost, and
   iv) Adoption requirements.
5) **Overcome Key Organisational Hurdles:** With the help of tipping point leadership, managers know how the organisation can be mobilised to overcome key managerial obstacles that usually restrict the implementation of blue ocean strategy. This reduces the organisational risks and also allows the organisation to overcome various political, logical and motivational issues confronting it.
6) **Build Execution into Strategy:** This principle aims at that part of the management risk which is concerned with the motivations and attitudes of the people. It suggests that the organisations must make attempts to motivate its employees for participating in the execution of the blue ocean strategy. This can be done by integrating execution into strategy formulation.

3.4.4. Difference between Blue and Red Ocean Strategies

The concept of 'blue ocean strategy' is very large and deep. Under blue ocean situations, there is no competition as no company is focussing on the existing market. There are no market segments and there is complete freedom for the new entrants to enter. The objective of blue ocean strategy is to create new demand by focussing on innovation, thereby creating greater value propositions for the customer. On the other hand, red ocean strategy means to compete in the existing market space, beat the competition through some unique offers, win more share of existing demand, and reach customers through attractive value cost trade-off. The red colour signifies the bloody war (or intense competition) that exists in the regular markets between different market players. Under 'red ocean' circumstances, companies fight for the same market share and try to outlast each other by adopting different market strategies such as giving more discounts and schemes, spending more on advertising, etc. As a result, the profits for all the market players are reduced. In a nutshell, red ocean strategy is focussed at snatching market share from the competitors and driving them out of the market.

The distinction between blue ocean and red ocean strategy is as follows:

Blue Ocean Strategy	Red Ocean Strategy
1) Companies tend to create new and uncontested marketplace.	1) Companies compete with each other in the existing marketplace.
2) Creating situations where the competition is irrelevant.	2) Defeating the competition.
3) Creating and capturing new consumer demands.	3) Exploiting the existing consumer demands.
4) Breaking the trade-off between cost and value.	4) Making the trade-off between cost and value.
5) The firms' activities are centred around innovation and thereby creation of superior value propositions.	5) The firms' activities are centred on achieving either differentiation or low cost.

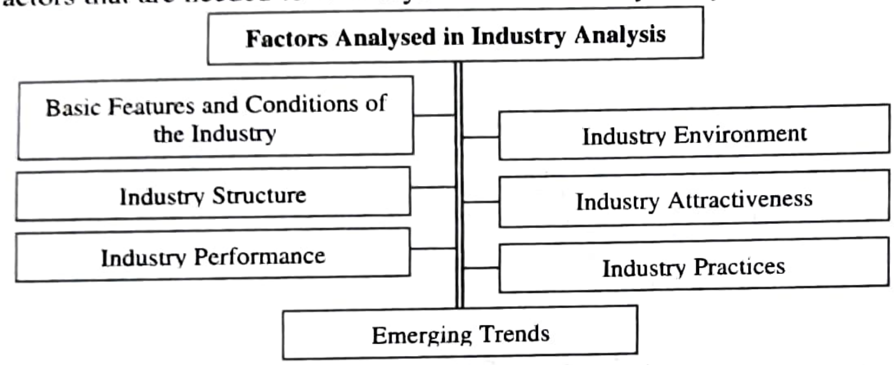
3.5. INDUSTRY ANALYSIS

3.5.1. Introduction

A number of environmental factors influence the organisations. It is up to managers to ensure that this influence is harnessed in a positive way, leading to organisational success. For the firm to make profit, it must create value for customers or buyers. Hence, the firm needs to understand its customers. While creating value, the firm has to obtain goods and services from suppliers. So, it must value its suppliers and form enduring business relationships with them. While creating value for its buyers, the firm must closely look at the rivals who are there in the arena competing for the same 'space'. Hence, the firm must understand the competition. Thus, buyers, suppliers and competitors form the substance of a firm's industry environment.
Forces from the industry environment directly affect the firm, and the amount of influence the firm has over its industry is dependent on the dominance of its competitive position. Most strategic management books utilise Michael Porter's Five Forces Model as a framework for analysing the competitive forces within the industry. As so many other models used to make strategic decisions today, the implicit assumption of this model is that the industry is operating within an economy closed to the greater society and ecosystem. From the view of the Five Forces Model, industry analysis is traditionally portrayed in strategic management books from the rather static perspective of "what is" within the industry. This model suggests that strategic managers scan the product market segments in which they compete for opportunities and threats without much regard for context.

3.5.2. Factors Analysed in Industry Analysis

Some of the major factors that are needed to be analysed in the industry analysis are as follows:



1) **Basic Features and Conditions of the Industry:** The most basic task is to analyse the general features and condition of the industry. The basic feature of an industry involves the size of industry, the products and services offered by the companies, variants of the products and services, past performances of the industry, current industry position, future expectation, etc.
2) **Industry Environment:** Another factor that must be studied in the industry analysis is the environment of the industry. Environment of industry can be classified according to **Michel Porter** as – fragmented, emerging, matured, declining and global industries.
3) **Industry Structure:** In order to analyse the industry in a better way, the structure of that particular industry should be understood. Every industry has a specific market size, certain number of companies and each company has its own market share. The firms in an industry compete with each other to capture the market. These characteristics determine the severity of competition in the industry, the extent of profitability and attractiveness of the industry.
4) **Industry Attractiveness:** Industry attractiveness is determined by factors like industry potential, industry growth, the profitability, future trends for the industry, the entry and exit barriers in the industry, etc. All these play a vital role in developing the attractiveness of an industry.
5) **Industry Performance:** The determinants of an industry's performance are its annual production, profitability per year, technological advancements, etc.
6) **Industry Practices:** The practices of an industry can be defined as the products or services in which the companies deal in, the type of markets they share, the business practices they carry-out, such as pricing, promotion, selling, research and development, etc. All these factors affect the overall industry in significant ways.

7) **Emerging Trends:** The trends that are going to define the industry in future also impact the business practices indirectly. Some of the important factors like product life cycle, industry life cycle, changes in needs and preferences of the consumers, changes in laws, possibilities of new entrants, innovation, changes in technology, etc., are some variables that have a significant impact on the industry.

3.5.3. Porter's Five Forces Model of Competition

For analysing an industry efficiently, it is essential to consider various competitive forces and how they interact with each other to create pressure on one another. These factors decide the nature of competition in the industry. The study of these competitive forces is necessary because without scrutinising them, an industry cannot be analysed thoroughly.

Michael Porter developed a model which explains that the industry of a firm is affected by five forces. The strategic business manager can use Porter's model to analyse an industry on these five forces and then judge the strengths and weaknesses of his firm based on his industry analysis. The industry analysis will basically enable the manager to review how strong each force is in a particular industry. This model thus helps the firm to gain an edge over its rivals in the industry. An industry can be very loosely defined as a group of firms who are all producing similar products and services – so that the customer can substitute one for the other. This five forces model is a widely used technique for analysing the industry. It also illustrates the nature and level of competition existing in the industry along with the forces that shape a business and its functions. An industry consists of number of firms that produce and sell similar products or services to the consumers. Therefore the five force model is quite significant in understanding the complex and diverse characteristics of the competition in different industry areas.

Components of Porter's Five Forces Model

The five forces of the Michael Porter Model are as follows:

1) **Rivalry inside Industry:** According to perfect competition model, no firm can enjoy super normal profits, and in the long run the competition drives the excess profits to zero. In the real market, the competition is not perfect and the firms are not just the entities interested in charging money from the consumers, they actually attempt to seek a competitive advantage over their rivals. The level of rivalry in an industry is of great importance to economists and strategic analysts. One such ratio which gives an idea of the prevalent state of competition in an industry is the concentration ration (CR).

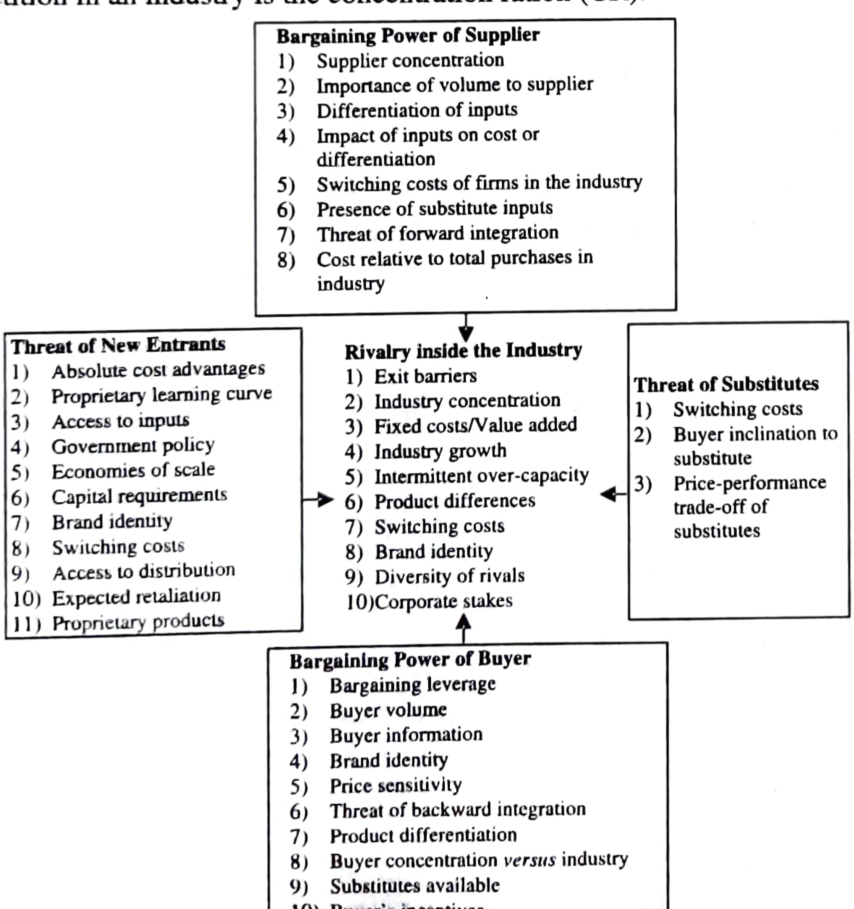


Figure 3.4: Components of Porter's Five Forces Model

A high industry concentration ratio means that a very few firms command a very high market share in that industry. **For example,** the petrochemical industry in India is dominated by Reliance Industries and has a very high concentration ratio. If the concentration ratio is low, then the industry is considered to be a disciplined one. This discipline might be a result of a code of conduct or mutual amenability among the firms. This discipline results from the history of competition in the industry, the presence of a great leading firm, an informal or tactical understanding between the players to not to break rules. However even in a disciplined industry a rebel firm can cause havoc with its business activities.

2) **Threat of Substitutes:** The substitutes can be defined as the products of other industries that have the ability to satisfy similar needs. **For example,** coffee can be a substitute for tea, as it can also be used as a caffeine drink in the morning. When the price of a substitute product changes the demand of a related product also gets affected. When the number of substitute products increases, the competition also increases as the customers have more alternatives to select from. This forces the companies to raise or lower down the prices. Therefore, it can be concluded that the competition created by the substitute firms is price competition.

   The presence of a number of substitutes impacts the ability of the company to increase the price of its products as increasing the price will make the substitutes more attractive for the target market. Since, the substitute products serve the same or similar purposes; therefore a close substitute may act as a negative competitive force in the market. Hence, the industries which have no close substitutes are more attractive for various firms as they can charge higher prices when required. **For example,** when Coca-Cola came out with a pricing of ₹5 for its 200ml bottles it was able to acquire customers from substitute products like – coconut water, mango and fresh juice etc.

3) **Buyer Power:** The bargaining power of buyers also has a very important effect on the manufacturing industry. When there are many producers and there is a single customer in a market, then that situation is termed as a "monopsony". In these markets, the position of buyer is very strong and he sets the price. In reality, only a few monopsony markets exist. The buyers' power or bargaining power of buyers compels the firms to reduce the prices. They may also demand a product or service of higher quality at low price or may demand added value in exchange of their money.

   The buyers have more power in following conditions:
   i) When the number of buyers is relatively less.
   ii) When buyers purchase in bulk.
   iii) Availability of alternate suppliers who can provide the same product or service at a competitive price.
   iv) When the cost of switching from one producer to the other is quite low.
   v) When the buyers, i.e., wholesaler, retailer, etc., charge low price from the consumers and are unlikely to pay high prices.
   vi) When the buyers pay the maximum share in the total cost of product. This may lead the organisations to search for cheaper alternatives.
   vii) If the buyer is capable of starting new alliance by integrating backwards with other firms making itself a powerful supplier.

4) **Supplier Power:** Since the company needs raw material for producing, therefore the producers have to build relationship with its suppliers. When suppliers have the power in their hands, they can exert influence on the producing firms by selling them raw materials at higher prices. **For example,** Walmart as an organisation thrives on the basis of its relationship with its suppliers. Bargaining power of the suppliers is their ability to influence and industry either through individual or group interaction with the company. The suppliers have a bargaining power with which they can raise the prices of products or services or force the customers to purchase a low quality product or service. This empowers the position of suppliers in the industry.

5) **Threat of New Entrants:** The market is full of competition. Not only the existing firms pose threat to the business, but the arrival of new entrants is also a challenge. As per the ideal scenario, the market is always open for entry and exits, resulting in comparable profits to all the firms. But, this is not applicable in the real picture market. In reality, all industries have some traits that protect their high profits and help them in warding off potential new entrants by erecting barriers.

Various factors that hinder the entry of new firms in the industry are called as "barriers to entry". These barriers prevent the new firms from entering into the industry. This helps in maintaining profit levels for the existing firms. These barriers can either be developed or fully utilised to improve the performance of organisation. These entry barriers can be a source of competitive advantage for the firms.

3.5.4. Importance of Industry Analysis

Industry analysis is helpful to the firms in the following ways:

1) **Analysis of Industry Attractiveness:** Industry analysis studies the level of attractiveness of a particular industry. It determines whether it is profitable to invest in certain market or not. It highlights the attractiveness by analysing the potentials of the industry, scrutinising its profitability, and by identifying the strengths and weaknesses of competitor firms in the industry.
2) **Studies the Competitive Position of a Firm:** Industry analysis strives to understand the competitive position of a firm in relation to other firms in the market. Analysing competitive position specifies the strengths and weaknesses of a firm along with the values it can provide to its customers as compared to the competitors. The firm can use the knowledge to enhance the products and services and improve its market position.
3) **Analyses the Environmental Variables:** Analysing industry allows the marketers to understand the structure of the industry and identifies the immediate environmental factors as well as the factors that indirectly affect the business and its operations. It also allows the firms to know about the rival firms which in turn help in formulating competitive strategies.
4) **Helps in Strategy Formulation:** Industry analysis acts as a framework under which the strategists formulate various strategies to compete with the rival firms in the market. It facilitates a deep understanding about the environmental forces that are working for and against the organisation. These characteristics help the firms in identifying their own strengths and weaknesses which ultimately leads to better strategy formulation and implementation.

3.6. COMPETITOR ANALYSIS

3.6.1. Introduction

In the field of marketing and strategic management, competitor analysis is a process of evaluating the strengths and weaknesses of present and potential competitors. It is considered as a crucial part of company's marketing plan. By combining all the important sources of competitor analysis into a single framework, an effective profiling of competitors can be done in order to formulate, implement, monitor and adjust the strategy in an efficient manner.

While designing the business strategy, the strategies of company's competitors must be considered by the managers. In case of segmented commodity industries, the strategy of competitors is of less significance compared to the concentrated industries where analysis of competitor's strategy is highly recommended. The two main activities of competitor analysis are as follows:

1) Attaining information regarding the main competitors, and
2) Utilising that information to forecast the behaviour of competitors.

There are numerous firms competing in a single market. Therefore, the main motive of competitor analysis is to determine and forecast the competitive level and market behaviour of the companies competing in the same marketplace. The recognition of existing and potential competitors is essential for analysing their relative strengths and weaknesses or marketing strategies. If a company is only concentrating on the present competitors' analysis, then it will not be able to trace the capabilities and strategies of future rivals. However, the decision of choosing the right basis for analysing the rivals and the level of competition is a complex one.

In the company's potential market, the suppliers of both kinds, i.e., the ones, which are considered as substitutes and the ones, which supply related products, must be included in the competitor analysis. The identification of competitors is an important activity of managers in scrutinising the level of competition, preparing against the competitors' moves and building counter strategies.

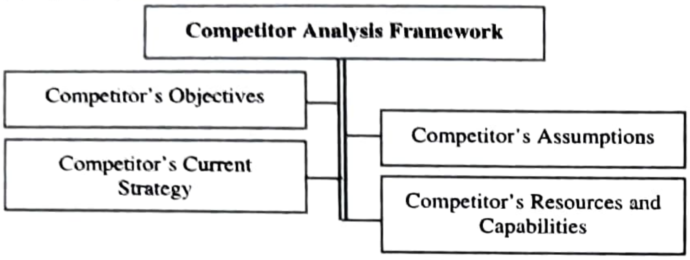
At the time of preparing a competitive plan, the company must be clear about its present, potential and indirect competitors. The level of satisfaction that the consumers are deriving from the company's products and services and the other competitive company having similar capabilities also assists in identifying the competitors.

In recent times, competitor analysis has gained advantage on grounds of various reasons such as increased competition from sophisticated competitors and foreign companies, continuously changing business environment mainly technology-based and short product life cycles. Many companies are implementing a process for identifying competitors, tracking their activities, and assessing their strengths and weaknesses by adopting formalised methods, which is specifically known as 'competitive intelligence'.

Competitor analysis results in anticipating the moves and the responses of the competitors towards the strategies implemented by the company which is conducting the analysis.

3.6.2. Competitor Analysis Framework

Michael Porter introduced a framework for analysing the competitors. Typically, this framework is based on four key aspects of competitors, which are as follows:



1) **Competitor's Objectives:** A company can anticipate the moves of its competitors in a better way if it is aware of competitor's objectives. These objectives are mainly short-term and long-term. A competitor having short-term objective would not waste its time and money defending against competitive strategies and would rather focus on positioning its products strongly in the market. Whereas, a competitor having long-term objective ignores short-term profit making and only focuses on price-based competition.

   The objectives of competitors can also be financial or of other types like market share, growth rate, technology leadership, etc. In addition, these objectives vary at every strategic level, *viz*., corporate, business unit and functional level.

   The most relevant functions of the competitors can be identified by a company through their organisational structure. **For example,** the functions, which are reported directly to the higher officials, hold much more importance than others. Other factors, which indicate the competitors' objectives, are management incentives, tolerance for risk, composition of the Board of Directors, legal restrictions, background of the executives and some corporate level objectives. The tendency of the competitor to modify its strategy is indicated by whether it is achieving the objectives or not.

2) **Competitor's Assumptions:** The competitor's strategies are based upon the assumptions that their manager has about the industry and the organisation. **For example,** if a new product launched by a firm fails to do well in the market, it is assumed that there is no demand for such product. This type of assumption may be correct and may be wrong. If it is wrong then this will block the future opportunities of the firm and create new opportunities for other rival firms. A product similar to the previous failed product may be launched by new companies creating a high demand for the product. **For example,** US manufacturers made an assumption on their experiences that there was no demand for small bikes. Then, Honda decided to enter the US market by launching a small motorbike.

   Following are the bases for competitor's assumptions:
   i) Beliefs about its competitive position,
   ii) Past experience with a product,
   iii) Regional factors,
   iv) Industry trends, and
   v) Rules of thumb.

Other than the assumptions made by a competitor about a specific market, it can also make assumptions about its competitors in the analysis. Alongwith this, it may also assess whether the assumption made is right or not.

3) **Competitor's Current Strategy:** 'What the competitor says' and 'what it does' are the two main sources of competitor's strategy. Following points highlight 'what the competitor says' about the strategy:
   i) Managerial statements,
   ii) Annual shareholder reports,
   iii) Press releases, and
   iv) Interviews with analysts.

   There is sometimes a variation between 'what the competitor says' and 'what it does'. The following points are the activities indicating what the competitor actually does:
   i) Hiring activity,
   ii) R&D projects,
   iii) Capital investments,
   iv) Promotional campaigns,
   v) Strategic partnerships,
   vi) Mergers and acquisitions.

4) **Competitor's Resources and Capabilities:** The resources and capabilities of a competitor define its ability to respond against the competitive market environment. For this, it is important for a competitor to have adequate knowledge of its competitor's assumptions, objectives and current strategy.

   The strengths and weaknesses of a competitor determine its capabilities in different functional areas, **e.g.**, SWOT analysis. A competitor's capabilities are governed by its strengths. In order to increase the competitor's capabilities in specific areas the analysis can be further carried out. The rate at which the competitor is growing depicts its capabilities. Other than this, a financial analysis can also be performed to identify its sustainable growth rate.

   Since, the competitive environment is dynamic in nature. The ability of competitor to respond quickly towards the changes must be evaluated. There are firms who adapt and mobilise things quickly whereas, there are some firms which have a slow speed and take years to adapt a particular change. The factors which affect the firm's capabilities to adapt swiftly can be large investments in fixed assets, low cash reserves and an organisational structure.

3.6.3. Sources of Information for Competitor's Analysis

There are three categories in which the sources of information for competitor analysis can be grouped:

1) **Recorded Data:** The internal and external published information like annual reports and brochures are called recorded data.
2) **Observable Data:** This type of data is attained by conducting a comprehensive research using several sources, **e.g.**, competitor's pricing
3) **Opportunistic Data:** For this type of data, a detailed planning and organisation is required. The opportunistic data can be attained by having discussions with the suppliers, customers and previous officials of competitors. Possible sources of competitor's information using Davidson's categorisation are summarised as follows:

Table 3.1 Sources of Information for Competitor's Analysis

Recorded Data	Observable Data	Opportunistic Data
Annual report and accounts	Pricing/price lists	Meetings with suppliers
Press releases	Advertising campaigns	Trade shows
Newspaper articles	Promotions	Salesforce meetings
Analysts reports	Tenders	Seminars/conferences
Regulatory reports	Patent applications	Recruiting ex-employees
Government reports		Discussion with shared distributors
Presentations/speeches		Social contacts with competitors

Single information holds no value until it is accumulated and organised in a meaningful manner to know the exact situation of the competitor. This analysis also helps to recognise the missing information.

3.6.4. Steps in Competitor's Analysis

The firm must carefully examine the various elements of competitor analysis in order to transform its competitive analysis activities into the firm's profitability. Therefore, the firm must consider the following steps involved in competitive analysis:

1) **Defining Competitors:** The first and foremost step in this process is to define the competitors. It is advised by many business professionals and consultants that companies should examine the competencies of its present and potential competitors.

   Some companies offer products and services which are less similar, while others may offer the same type of products or services offered by one's own company. Therefore, the companies have to choose whether the competition is an opportunity or a threat (either in present or in future) to the company financially.

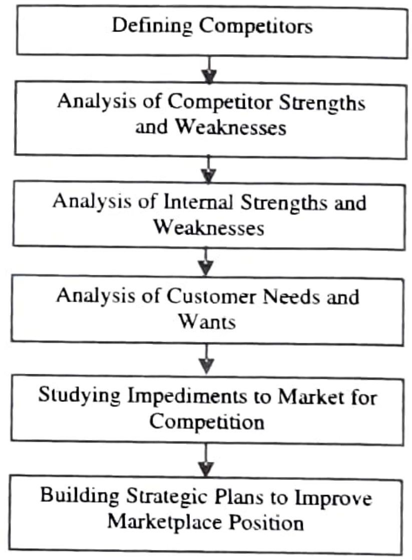


Figure 3.5: Steps in Competitor Analysis

2) **Analysis of Competitor Strengths and Weaknesses:** After defining the company's competitors, the company must identify and analyse their strengths and weaknesses. Here, main focus of the company is on its competitor's strengths and weaknesses and partially on the products and services offered by them. In reality, all the elements of customer preferences like product's quality, price, distribution, service, etc., are considered as the first half portion of competitive analysis. While, other half of the analysis is to examine the internal strengths and capabilities of its competitors. In the long run, it is difficult for the company, to compete with its competitors who have substantial financial resources, highly motivated or creative individuals and have several other operational assets.

3) **Analysis of Internal Strengths and Weaknesses:** The next important step in the process is to analysis the internal strengths and weaknesses of the company. The points to be considered by company while analysing its internal strengths and weaknesses are:
   i) Involvement of highly motivated, confident and creative employees.
   ii) Participation of talented marketing and advertising personnel.
   iii) Identification of various companies' processes that provide benefits to the company in the market environment.
   iv) Introduction of updated stock management system.

   Once the company's strengths are identified, then it can further be utilised by the company to improve and enhance its market position.

4) **Analysis of Customer Needs and Wants:** In order to be successful in the competitive market, every company should carefully analyse the needs and wants of the customers. Customer's priorities should be considered as the main priority of the company. Apart from determining the customers' current needs and wants, business firms must also anticipate the future demands of the customers. Moreover, many small organisations alongwith analysing priorities that is already available in the market, must also focus on new product development and innovation in services to attain success in the competitive market environment.

5) **Studying Impediments to Market for Competition:** The companies that are willing to enter into new markets have to face several challenges. There are some challenges which can be dealt easily, while others may prevent launching of a campaign. Some of the common barriers to enter a new market are as follows:
   i) **High Start-Up Costs:** High costs for start-up is most challenging and formidable for companies, especially small companies.
   ii) **Patents:** This protects the new products and processes from competitors.
   iii) **Market Saturation:** It is more challenging to create a niche in a crowded market than establishing one's existence in the less competitive market.
   iv) **Knowledge:** One of the major barriers to make a successful market entry is knowledge. This may involve lack of expertise in manufacturing, marketing, technical and engineering areas.

6) **Building Strategic Plans to Improve Marketplace Position:** The last step involved in the process for competitor analysis is building various strategic plans that enhance the small company's position in the market. A well-defined strategic plan must cover all the aspects of business processes or operations like production, pricing, distribution and marketing of various products or services in the competitive market.

3.6.5. Importance of Competitor's Analysis

In the competitor's analysis, adequate knowledge about competitors is very essential. It is a systematic process of analysing the strengths and weaknesses of competitors in order to find out opportunities and threats for their own organisation. The importance of competitor's analysis is as follows:

1) **Identifies Competitive Information:** It helps to identify the future plans and strategies of competitors and forecasts possible actions towards various competitive plans. Alongwith this, it also determines the competitors' reaction towards the activities and plans of the company.
2) **Provides Motivation:** Competitor's analysis motivates the company to set-up a definite, hostile and proactive standpoint towards several competitive strategies and the entire business environment.
3) **Chooses Competitors:** Competitor's analysis defines the competitor's capabilities and strategies and ascertains the most appropriate competitor to compete with the company. Moreover, it states the weaknesses and inabilities of competitors.
4) **Reveals Hidden Opportunities:** There are numerous opportunities which are present in the market but remain hidden. Through competitive analysis, companies come across its different functional areas, their visions and outlooks. This encourages the companies to become more competitive.
5) **Develops Strategy:** The information about the competitors helps the company to formulate their strategy in accordance with the competitor's moves. By using competitive analysis in an appropriate, brief and timely manner, an exceptional communication strategy can be developed. This way, company can design an effective and competent strategy.
6) **Strategy Implementation:** By analysing the competitors, companies can apply its offensive strategy towards capitalising its strengths and exploiting the opportunities available. Likewise, companies can manage its threats and overcome its weaknesses by implementing the company's defensive strategies.

Hence, from the above benefits it is clearly understood that the companies implementing systematic competitor's analysis and profiling gain substantial advantage. For having a successful competitive business environment, a comprehensive profiling capability is very essential

3.7. MARKET ANALYSIS

3.7.1. Introduction

Entrepreneurs need to attract customers and it is important when setting up a business that sufficient research is undertaken to assess the potential demand for the service or product being offered. Marketing embraces the function of meeting customer requirements and getting the right product in the right place at the right time. It is important for businesses to make decisions which are based on the findings of market research. A market analysis is a documented investigation of a market that is used to inform a firm's planning activities particularly around decision of: inventory, purchase, workforce expansion/contraction, facility expansion, purchases of capital equipment, promotional activities and many other aspects of a company. A large number of market analysis techniques are related to sales forecasting, others are more general techniques for analysing markets. The literature defines several areas in which market analysis is important. These include: sales forecasting, market research and marketing strategy. Sales forecasting and market analysis are complementary skills that any marketing manager should possess. The goal of a market analysis is to determine the attractiveness of a market and to understand its evolving opportunities and threats as they relate to the strengths and weaknesses of the firm.

3.7.2. Dimensions of Market Analysis

Dimensions of market analysis are as follows:

1) **Market Structure:** Market structure relates to the number of rivals participating in an industry. It is important to consider the number of rivals as well as their size. In other words, it is important to gain a thorough understanding of the type of market that we intend or are currently operating in.

It is essential to learn about the industry's structure, whether or not it is changing and why. Apart from the selling side of the market, the number and size of the buyers is also significant and ought to be included in the analysis of a market structure.

2) **Market Size:** The size of the market can be evaluated on the basis of present sales and potential sales. The following are some information sources for determining market size:
   i) Government data,
   ii) Trade associations,
   iii) Financial data from major players, and
   iv) Customer surveys.

3) **Growth Rate/ Potential:** A simple means of forecasting the market growth rate is to extrapolate historical data into the future. While this method may provide a first-order estimate, it does not predict important turning points. A better method is to study growth drivers such as demographic information and sales growth in complementary products. Such drivers serve as leading indicators that are more accurate than simply extrapolating historical data. Important inflection points in the market growth rate sometimes can be predicted by constructing a product diffusion curve. The shape of the curve can be estimated by studying the characteristics of the adoption rate of a similar product in the past.

   Ultimately, the maturity and decline stages of the product lifecycle will be reached. Some leading indicators of the decline phase include price pressure caused by competition, a decrease in brand loyalty, the emergence of substitute products, market saturation, and the lack of growth drivers.

4) **Market Profitability:** While different firms in a market will have different levels of profitability, the average profit potential for a market can be used as a guideline for knowing how difficult it is to make money in the market. **Michael Porter** devised a useful framework for evaluating the attractiveness of an industry or market. This framework, known as Porter's five forces, identifies five factors that influence the market profitability:
   i) Buyer power,
   ii) Supplier power,
   iii) Barriers to entry,
   iv) Threat of substitute products, and
   v) Rivalry among firms in the industry.

5) **Industry Cost Structure:** The cost structure is important for identifying key factors for success. To this end, Porter's value chain model is useful for determining where value is added and for isolating the costs.

   The cost structure is also helpful for formulating strategies to develop a competitive advantage. **For example,** in some environments the experience curve effect can be used to develop a cost advantage over competitors.

6) **Distribution Channels:** The following aspects of the distribution system are useful in a market analysis:
   i) **Existing Distribution Channels:** It can be described by how direct they are to the customer.
   ii) **Trends and Emerging Channels:** New channels can offer the opportunity to develop a competitive advantage.
   iii) **Channel Power Structure: For example,** in the case of a product having little brand equity, retailers have negotiating power over manufacturers and can capture more margin.

7) **Market Trends:** Changes in the market are important because they often are the source of new opportunities and threats. The relevant trends are industry-dependent, but some examples include changes in price sensitivity, demand for variety, and level of emphasis on service and support. Regional trends also may be relevant.

8) **Key Success Factors:** These are those elements that are necessary in order to achieve marketing objective of the firm. A few examples of such factors include:
   i) Access to essential unique resources,
   ii) Ability to achieve economies of scale,
   iii) Access to distribution channels, and
   iv) Technological progress.

3.7.2.1. Market Structure

The term "market" refers to a particular place where goods are purchased and sold. But, in economics, market is used in a wide perspective. In economics, the term "market" does not mean a particular place but the whole area where the buyers and sellers of a product are spread. In economics, markets are classified according to the structure of the industry serving the market. Industry structure is categorised on the basis of market structure variables which are believed to determine the extent and characteristics of competition.

Market structure refers to the nature and degree of competition in the market for goods and services. The structures of market both for goods market and service (factor) market are determined by the nature of competition prevailing in a particular market. It also refers to the features of a particular market. There are various types of markets having their own specific features. The behaviour and performance of the firms in the industry is influenced by its market structure.

Determinants of Market Structure

There are a number of determinants of market structure for a particular good. They are:

1) **Number and Nature of Sellers:** The market structures are influenced by the number and nature of sellers in the market. They range from large number of sellers in perfect competition to a single seller in pure monopoly, to two sellers in duopoly, to a few sellers in oligopoly, and to many sellers of differentiated products.
2) **Number and Nature of Buyers:** The market structures are also influenced by the number and nature of buyers in the market. If there is a single buyer in the market, this is buyers' monopoly and is called monopoly market. There may be two buyers who act jointly in the market. This is called duopoly market. They may also be a few organised buyers of a product. This is known as oligopoly.
3) **Nature of Product:** It is the nature of product that determines the market structure. If there is product differentiation, products are close substitutes and the market is characterised by monopolistic competition. On the other hand, in case of no product differentiation, the market is characterised by perfect competition, and if a product is completely different from other products, it has no close substitutes and there is pure monopoly in the market.
4) **Entry and Exit Conditions:** The conditions for entry and exit of firms in a market depend upon profitability or loss in a particular market. Profits in a market will attract the entry of new firms and losses lead to the exit of weak firms from the market. In a perfect competition market, there is freedom of entry or exit of firms. But in monopoly and oligopoly markets, there are barriers to entry of new firms.
5) **Economies of Scale:** Firms that achieve large economies of scale in production grow large in comparison to others in an industry. They tend to weed out the other firms with the result that a few firms are left to compete with each other. This leads to the emergency of oligopoly. If only one firm attains economies of scale to such a large extent that it is able to meet the entire market demand, there is monopoly.

Types of Market Structures

The type of market depends on the degree of competition prevailing in the market. These are:

1) **Perfect Market/Competition:** A perfectly competitive market is one in which the number of buyers and sellers is very large, all engaged in buying and selling a homogeneous product without any artificial restrictions and possessing perfect knowledge of market at a time. **According to R.G. Lipsey,** "Perfect competition is a market structure in which all firms in an industry are price- takers and in which there is freedom of entry into, and exit from, industry." This market is considered to be unrealistic but it is nevertheless of special interest for hypothetical and theoretical reasons.
2) **Monopoly:** Monopoly is a market situation in which there is only one seller of a product with barriers to entry of others. The product has no close substitutes. The cross elasticity of demand with every other product is very low. This means that no other firms produce a similar product. **According to D. Salvatore,** "Monopoly is the form of market organisation in which there is a single firm selling a commodity for which there are no close substitutes." Thus, the monopoly firm is itself an industry and the monopolist faces the industry demand curve.
3) **Monopolistic Competition:** Monopolistic competition refers to a market situation where there are many firms selling a differentiated product. "There is competition which is keen, though not perfect, among many firms making very similar products." No firm can have any perceptible influence on the price-output policies of the other sellers nor can it be influenced much by their actions. Thus monopolistic competition refers to competition among a large number of sellers producing close but not perfect substitutes for each other.

4) **Oligopoly:** Oligopoly is a market situation in which there are a few firms selling homogeneous or differentiated products. It is difficult to pinpoint the number of firms in 'competition among the few.' With only a few firms in the market, the action of one firm is likely to affect the others. An oligopoly industry produces either a homogeneous product or heterogeneous products.

The former is called pure or perfect oligopoly and the latter is called imperfect or differentiated oligopoly. Pure oligopoly is found primarily among producers of such industrial products as aluminium, cement, copper, steel, zinc, etc. Imperfect oligopoly is found among producers of such consumer goods as automobiles, cigarettes, soaps and detergents, TVs, rubber tyres, refrigerators, typewriters, etc.

3.7.2.2. Market Size

Market size is an estimate of the market for a product or service. Estimates of market size are used in business planning, product development and marketing areas such as sales planning. For any start up, apart from developing a unique product or hiring the right talent, doing some market research is also very crucial. A part of this market research should include market size analysis. It is very difficult to make money for a start up without any market size analysis. Market size estimation helps to distinguish between two categories, the market that has to be addressed and the available market. The addressable market provides the opportunity for product or service and the available market is the one for which people compete realistically. Market sizing gives a sense of key market trends.

The total size of a market is indicated by industry capacity, production, product demanded or consumed, or sales. The first three concepts of size are measured in physical units of weight or volume such as pounds, kilograms, or tons. Sales are the summation of buyer-seller transactions over a period of time, measured in monetary units. Capacity and production are supply-side concepts, whereas consumption views a market from the buyers' perspectives. Sales can be either the total revenues of sellers in a market or the total procurement expenses of buyers.

Types of Market Size

The type of markets size is as follows:

1) **Total Addressable Market:** The total size of a market at the industry or product category level. **For example**, the size of the global market for women's formal shoes. This typically serves as a reference for smaller firms and is potentially relevant to the revenue estimates of large firms with significant market share.
2) **Serviceable Available Market:** The total size of the market that can reach with distribution channels. **For example**, the size of the market for women's formal shoes in France.
3) **Serviceable Obtainable Market:** A conservative estimate of the percentage of the market you can realistically win given your brand, product position, marketing capabilities, customer base and distribution channels. **For example**, 6% of the market for women's formal shoes in France.

3.7.2.3. Growth Potential

Market Growth rate is defined as the rise in sales or market size within a given customer base over a specific period of time. When a business analyses its market it requires interpreting its market growth rate. The sales growth is compared with the market growth rate. When the sales growth is greater or equal to the market growth rate then the business is said to be performing well. The company is said to be healthy and called to be in growth phase. On the other hand when business is not doing well the sales growth will be lesser than the market growth rate in such a case the manager needs to analyse to possible reasons.

Growth potential is an organisation's future ability to generate larger profits, expand its workforce and increase production. In the business sense, an organisation's growth potential depends heavily upon its leadership's expectations for success, and the quantitative and qualitative measures used to determine expansion readiness. Market growth is the increase or decrease in the size of a market for a product or service over time. It is typically measured as the percentage change in total sales in an industry or product category.

The market growth rate can be used along with the drivers like demographics, sales of the other products to get the better analysis of a product. The market growth rate depends largely on the product life cycle, when the product is in introduction or growth stage the market growth will be higher. On the contrary the growth rate will decline at the inflection point. The managers need to make wise decisions to maintain the higher sales of the product.

3.7.3. Market Analysis Process

Following are the steps of market analysis process:

1) **Identify Target Markets:** Whom are we selling to? Who are our ideal customers? Our target market should be defined in terms of demographics, psychographics, and special characteristics of niche markets, if applicable. We will be guided through a full listing of marketing research sites with hot links to each of the resources.
   i) **Demographics:** It refers to population characteristics, regarding age, income, and education. Government census data is a common source of demographic information.
   ii) **Psychographics:** It is used to determine the attitudes and tastes of a particular segment of a population. Psychographics examines lifestyles: where people spend their vacations, where they shop, how they spend their disposable income, what sports they participate in or watch, which clubs/organisations they join, and more.
   iii) **Niche Markets:** These are small segment of the population that shares common characteristics, interests, spending habits, etc. Successful niche marketing focuses on a small segment of a total market. It is best strategy for a small business to achieve a market leadership position. It is expensive, and bland, to try all things to all people.
2) **Research the Competition:** Who is competing with us? After we have identified our target market, it is important to discern what other companies are after the same market. In researching our competitors, check-out the general health of the business, their approach to marketing and their financial information. In addition, specifically investigate the following in depth:
   i) **Check-Out their Websites:** Examine their design, format, and content. Is the site professional and complete? What features and benefits do they promote? How do they position their product/services to their target market? What websites do they link to? What is the nature of the content they provide? Do they offer any community-building, message boards, or chat rooms? Do they feature special events?
   ii) **Investigate the Prices of their Products and Services:** How do they compare to ours? Do they offer the same products/services? Do they offer discounts? Any other special offers?
   iii) **Determine who their Advertisers are:** Who advertises on their website now? What rates do they charge for advertising? What are the terms of their affiliate programs, if any?
3) **Assess Market Trends:** Our marketing plan should reflect our observations and insight about trends in our industry and target market. Information about the general direction of the marketplace can help us to target what people want. What market trends will have an impact on our business, influencing the demand for our products and services?
   i) **Industry Trends:** It influences almost every business within its segment. These are major trends such as the increase in service businesses in the U.S., the decline of manufacturing, the pre-curious position of Internet pure-plays, to name a few.
   ii) **Target Market Trends:** Trends can be influenced by demographics, such as the aging of our population and huge number of baby-boomers reaching age 50 every minute, or by cultural and social influences outside the realm of demographics. Examples of market trends that evolve from demographic shifts include the increase in the number of assisted-living facilities and the growth of innovative products and services designed for a more "youthful" retired population.
   iii) **Conduct Market Research:** Market research can prevent our company from making erroneous decisions that result in expensive design mistakes in new products, marketing campaigns and more. Market research has traditionally been conducted through techniques such as questionnaires, polls, surveys and focus groups.

3.8. DEMAND-SUPPLY ANALYSIS

3.8.1. Introduction

Demand-supply analysis quantifies future demand and supply curves in order to predict future prices. In economics, there are different types of analysis theories put down by several different economists. The demand and supply analysis is useful for companies and small businesses to assessing market conditions and subsequently, taking appropriate decisions.

David Ricardo, Adam Smith, and James Denham Steuart are probably the first three, who have advocated and improvised the theory of demand and supply. In any market, the number of units of a commodity that a consumer has the will and ability to pay for, becomes the demand for that particular commodity in the market and any producer that has the will and ability to produce those units becomes the supply.

Following three conditions may arise:
1) **More Supply, Less Demand:** This kind of situation is known as surplus. Prices of goods in such a situation are low; this implies that more the supply, lesser is the cost.
2) **More Demand, Less Supply:** This condition is known as deficit of supply. In such a situation, there is more demand and less supply, which leads to a rise in the price level. The lesser the supply, the more is the price and more the demand, higher is the price.
3) **Equilibrium:** This is the ideal stage in any market. In such a situation, the price is not very less and also not very large; it is precise. Such situation is desirable in any market as it ensures a great level of price stability.

Therefore, demand/supply analysis is concerned much more with short-term disparities than with long-term trends. Demand/supply analysis also attempts to measure imbalances between new stock offerings and expected investment demand for common stocks. An excess of offerings com-pared to demand will depress stock prices.

3.8.2. Demand Analysis

The **demand** refers to a consumer's willingness for such quantity of goods and services and ability to pay for same at various prices dealing within a period of time. In Economics, demand is something more than desire to purchase. **For example,** if any person is feeling hungry but he does not have money to pay for it, in that case his demand is ineffective. Effective demand involves three things:
1) Desire,
2) Means to purchase, and
3) Willingness to use those means for that purchase.

According to Benham, "The demand for anything, at a given price, is amount of it, which will be bought per unit of time, at that price".

According to Bobber, "By demand we mean the various quantities of a given commodity or service which consumers would buy in one market in a given period of time at various prices".

The analysis of such factors which affects the demand of any commodity or service is called **'demand analysis'**. The demand can be forecasted with the help of such factors only. The important phenomenon which are studied under demand analysis are individual and market demand, demand function, demand distinctions, demand estimation, elasticity of demand and methods of its measurement, sales forecasts and different methods to forecast sales or demand, manipulating demand and appropriate change in allocation of resources.

The demand analysis helps the producer to modify his production with respect to the demand to minimise the objective function.

3.8.2.1. Objectives of Demand Analysis

The various applications of demand analysis are as follows:
1) **Demand Forecasting:** Demand forecasting is the process of prediction of future demand of any commodity with the help of present and past behaviour patterns of some related events.
2) **Production Planning:** For any business firm, demand analysis is essential criterion for the production planning, the firm's output is fully based on such estimation of future demand. In the absence of proper estimation, firm has to confront with overproduction and subsequent losses.
3) **Sales Forecasting:** Effecting sales forecasting also depends on demand analysis because advertising function of firm cannot occur without sales forecasting.
4) **Control of Business:** For making effective control on business, it is required to have a proper budget of costs as well as profit which is based on the assessment of annual demand/sales and prices.

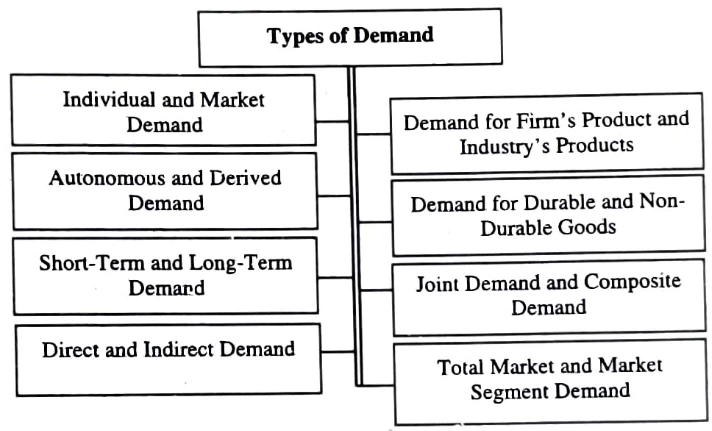
5) **Inventory Control:** For any business there must be adequate control on its inventories such as raw materials, intermediate goods, semi-finished product, finished product, spare parts, etc. Such control on future necessities can be done only through demand analysis.

6) **Growth and Long-Term Investment Programmes:** For significant growth rate and long-term investment planning programme for any firm, demand analysis is quite necessary.

7) **Economic Planning and Policy Making:** For a better planning and easy allocation of country's productional resources, demand analysis helps the economic planners a lot. The long-term demand forecasting and estimation for various goods facilitate the government to establish import and export policies in the country.

3.8.2.2. Types of Demand

The types of demand are as follows:



1) **Individual and Market Demand: Individual demand** refers to such a demand of individual for the quantity of a commodity which he is eager to buy at a particular price during a specific time period, given his money income, his taste and prices of other commodities (particularly, substitutes and complements). On the contrary, **market demand** is the sum of all individual demands for a commodity over a specific period of time and at a given price, other factors remaining the same.

Differences between Individual and Market Demand

Bases of Difference	Individual Demand	Market Demand
1) **Meaning**	Individual demand is the demand raised by an individual for a specific quantum of a specific commodity, which he/she is willing to purchase at a price over a period of time specified by him/her, on the basis of his/her income, individual taste and the prevailing prices of other commodities (substitutes and complements).	Market demand is the aggregate of individual demands taken together for a particular commodity over a particular period of time and at a particular price, provided, other factors remain unchanged (*Ceteris paribus*).
2) **Effect of Income**	Individual demand of a specific commodity gets influenced by the income level of that individual.	The aggregate demand of a commodity in the market gets influenced by the income levels of various groups of individuals.
3) **Represented by**	Individual schedule and curve are the true representatives of the individual demand.	Market schedule and curve are the true representatives of the market demand.

2) **Demand for Firm's Products and Industry's Products:** The demand for the quantity which a firm produce at a given price over a time period is the **demand for firm's product**. The cumulative demand for the product of all the firms of an industry is known as the **demand for 'industry's product'**.

3) **Autonomous and Derived Demand:** The demand for a commodity that is not related with the demand of other commodities is known as **autonomous or direct demand. For example,** the demand for goods such as food, shelter, clothes, and vehicles, etc., is autonomous because it arises due to biological, physical and other personal needs of consumers. The demand for a commodity that is related with the demand of other commodities is known as **derived demand. For example,** demand for petrol, diesel and other lubricants are related with the demand of vehicles.

Difference between Autonomous and Derived Demand

Bases of Difference	Autonomous Demand	Derived Demand
1) **Meaning**	The autonomous demand, also referred to as the direct demand, is a demand which is independent and remains unaffected with the demands of other related commodities.	The derived demand is a demand which is dependent on and gets affected by the demand levels of other related commodities.
2) **Elasticity**	Elasticity of demand is lower in the case of commodities characterised by autonomous demand.	Elasticity of demand is higher in the case of commodities characterised by derived demand.
3) **Determinants**	The demands of autonomous type are precise and explicit.	The demands of derived type are not precise and explicit.

4) **Demand for Durable and Non-Durable Goods:** Goods can be classified into two categories such as durable and non-durable goods. On the basis of these two categories the demand can be classified into two categories such as demand for durable and non-durable goods. **Durable goods** are those which can be used for indefinitely long period of time or continuously over a period. Durable goods may be consumer as well as producer goods. Durable consumer goods include clothes, shoes, owner's-occupied residential house, furniture, utensils, refrigerators, scooters, cars, etc. The durable producer goods include mainly the items under 'fixed assets', such as building, plant, machinery, etc. On the other hand, **non-durable goods** are those which can be used only once. **For example,** food items.

5) **Short-Term and Long-Term Demand: Short-term demand** refers to the demand for products that are used for a very short time period or for current period. **For example,** demand for umbrellas, raincoats, sweaters, etc., is short-term in nature.

   Long-term demand refers to the demand for products over a longer period of time. **For example,** demand for durable goods, demand for producer goods, etc., is long-term in nature.

6) **Joint Demand and Composite Demand:** When demand for two or more than two goods are mutually demanded at the same time to satisfy a single demand then it is called **joint demand**. Demand for bike and petrol, coffee and sugar, pen and ink etc., are the example of joint demand. When a commodity is demanded for two or more distinct uses then it is said to be **composite demand**. **For example,** steel is demanded for the purpose of making car bodies, making utensils, etc.

7) **Direct and Indirect Demand: Direct demand** refers to such demand which is directly used by the end consumer. The demand of such goods is also called consumer's goods demand because these are used for final consumption. Demand for all consumers' goods such as sweets, oil, readymade clothes, motorcycles, house is direct demand. **Indirect demand** is such demand for those goods which are not used by end consumers. These goods are used for producing other goods. Due to this, indirect demand is also referred as producer's goods demand.

8) **Total Market and Market Segment Demand:** The **total market demand** is referred to as the summative demand for the product from all the segments whereas market segment demand would refer to demand for the product in that specific **market segment**. The total market and market segment both are necessary for the purpose of demand.

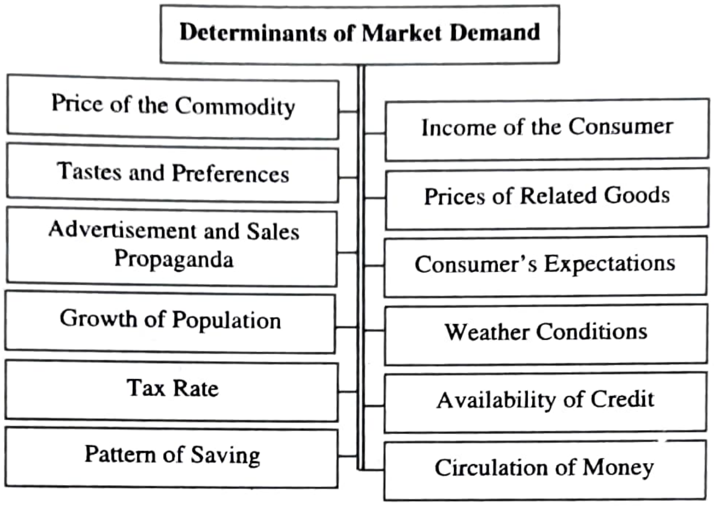
   The market may be segmented on the basis of age, gender, geographical area, etc. **For example,** demand for Vadilal ice-cream in India is total market demand, demand for Vadilal ice-cream in Rajasthan or demand for Vadilal ice-cream by women is a market segment demand.

Table 3.2: Classification of Demand

Basis of Classification	Type of Demand
End use of good	Consumers' goods and producers' goods (Direct demand and derived demand).
Durability	Perishable and durable/non-perishable goods.
Size of buyers	1) Individual and market/total demand.
	2) Demand by market segments and total demand.
Market share	Company and industry demand.
Linkage	Autonomous and induced demand.
Time Period	Short run and long run demand.

3.8.2.3. Determinants of Market Demand

Following are the determinants of demand:



1) **Price of the Commodity:** According to the law of demand, there is an inverse relationship between price and quantity demanded of the commodity. It describes that if price increases then the demand of the commodity decreases and if price decreases then the demand of the commodity increases. It happens because of income and substitution effect.

2) **Income of the Consumer:** The demand is also influenced by the income of the consumer. The purchasing power is affected by the consumer income. If consumer has more income he will buy more and if he has less income he will prefer less to buy. The high income consumer has more purchasing power.

3) **Tastes and Preferences:** The consumer's tastes and preferences are also considered as an important determinant of the demand. If consumers have more preference for any commodity then automatically his demand will increase and *vice versa*.

4) **Prices of Related Goods:** The complimentary and substitute goods are generally known as related goods. Price of such goods is also considered as an important determinant of demand. The demand of a product is also influenced by the prices of substitutes and complementary goods. When a demand is fulfilled by alternative similar goods then these goods are called **substitutes**, such as Coca-Cola and Pepsi. When two commodities are complementing each other then a fall in the price of one commodity (other things being equal) will causes the rise in demand of other commodity such as pen and ink. Therefore, the price of one good and the demand of another good is negatively associated.

5) **Advertisement and Sales Propaganda:** In present scenario, the tastes and preferences of consumers can be changed by advertisement and sales propaganda. The information about the product such as availability of the product, superiority of the product by the competitor's products, provided to the potential consumers with the help of advertisement, increases the demand of the product. The demand for FMCG products is largely triggered by advertisement.

6) **Consumer's Expectations:** The consumer's expectation is considered to be an important determinant of demand. If consumer expects a hike in prices he may prefer to buy more quantity of that particular commodity and *vice versa*. Similarly, expectation of rising income may force him to increase his current consumption.

7) **Growth of Population:** The growth of population is also an important determinant of demand. If population increases the demand of the goods also increases naturally.

8) **Weather Conditions:** Climatic conditions affect the demand most. The demand for certain items purely depends on climatic and weather conditions. **For example,** the demands for cold drinks, fans and coolers during the summer season and the demand for umbrellas and raincoats during the rainy season.

9) **Tax Rate:** The demand is also affected by the tax rate. If there is a high tax rate then there will be a less demand for the goods. The tax is used as a weapon by the government for restricting the consumption of a particular commodity at a certain time. The demand of that commodity will be lower if the imposed tax is high.

10) **Availability of Credit:** One of the most considerable determinants of demand is credit availability. The purchasing power of the consumer is highly affected by the credit availability if there is availability of cheap credit, the consumers try to buy more products.

11) **Pattern of Saving:** The saving pattern also influences the demand. In the case when consumer wants to save more money then his demand will become less for the product and *vice versa*.

12) **Circulation of Money:** The circulation of money affects the demand greatly. As more money circulates among the people, it increases the purchasing power of the consumer and they will buy more products.

3.8.2.4. Demand Function

The **demand function** is represented in the form of algebraic expressions. This expression represents how the demand for a commodity and its various determinants together influence the quantity demanded. The demand functions are categorised into two types:

1) **Individual Demand Function:** The **individual demand function** represents the demand of an individual for a particular commodity at different prices, income level, price of related goods and their taste and preferences. It can represented be as:
D = f (P)

2) **Market Demand Function:** The demand function is basically dependent upon the individual's demand function. **Market demand function** is the combination of the individual demand function present in the market. Therefore, the manager shows their interest more in obtaining market demand function. In this, the quantity demanded for a particular product or services are taken all at once. The mathematical representation of the market demand function is as follows:

Dx = f(Px, Pr, M, T, A, U)

Where,

Dx	= Quantity demanded for commodity x
f	= Functional relation
Px	= Price of commodity x
Pr	= Prices of related commodities, i.e., substitutes and complementary
M	= Money income of the consumer
T	= Taste of the consumer
A	= Advertisement effect
U	= Unknown variables

The demand function represents the functional relationship between the demand for a commodity and its different determinants. It also shows the quantity demanded at a particular price per unit of time. The given demand function helps in determining various factors that affects the demand. It should be understandable and unambiguous so that it can be easily used in taking managerial decision.

3.8.3. Supply Analysis

Supply refers to the schedule of the quantities of a good or service during in a specific period of time that will be offered for sale at various prices. Thus, supply is defined always at a price and at a specific period of time. **For example,** the price of crude oil is changes every day and hence, the supply of crude oil is defined on the basis of daily prices. When the price of a commodity is high then the producer or seller will supply greater amount of the commodity. On the other hand when the price of a commodity is low then the producer or seller will supply less amount of the commodity. Hence, the price and amount supplied is positively correlated.

According to Thomas, "The supply of goods is the quantity offered for sale in a given market at a given time at various prices".

According to Meyers, "Supply means the amount offered for sale at a given price".

Factor of production is supplied by the individuals to the firms. The factor of production is converted into consumable goods by the firms which is the group of individuals. In the production process, the supply of factor of production depends not only on individual's decisions but also it is based on the firms' capability to convert these factors into consumable goods. The supply of goods which is categorised as non-produced is directly associated with the goods market. **For example,** banks provides various services such as taking deposits, locker facility and so on, to the customers.

Supply states the quantity of goods and services which is present for the consumers. In order to present supply on the graph, it can be related with the quantity of goods or services available at a specific price. Further, the supply has a direct relation with the demand of goods or services at a specific price. In case, the supply and demand of goods and services equalises, then producer will increase the price of goods because every producer wants to attain the level of maximum profit.

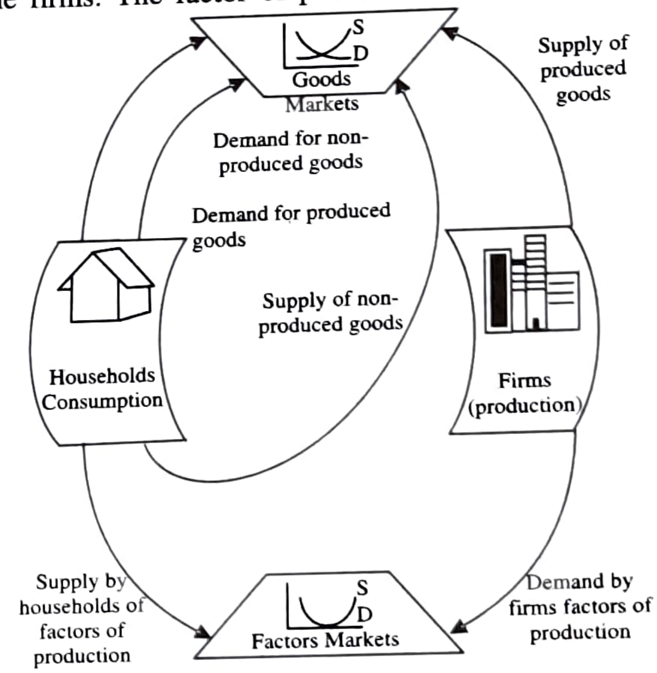


Figure 3.6: Supply Analysis

3.8.3.1. Supply Function

Supply of a good or service is defined under the assumption that if other factor remaining same then the amount of goods or services which is offered by the seller at various prices at a specific time period. The amount of goods and services supplied by the seller or producer is not only affected by the price but also affected by the various factors such as the prices of other commodities, the price of factors of production, the objectives of producers or sellers and the level of technology used. The equation which is formed with the use of these factors is called **supply function**. Supply function can be represented as follows:

$S_x = f(P_x, P_y, C, T, O, F, W, N, T)$

3.8.3.2. Determinants of Supply

Following are the factors that determine the supply:

Determinants of Supply

- Product Price (P_x)
- Costs and Technology (C and T)
- Future Expectations (F)
- Number of Sellers (N)
- Prices of Related Products (P_y)
- Objectives of the Firm (O)
- Weather Conditions and Other Short-Term Factors (W)
- Taxation Policy (T)

1) **Product Price (P_x):** If the other factors remaining constant then the amount of goods which is supplied by seller is directly related to the price. Usually, producer increases the supply of the goods and services to get more profit in the situation when prices are increases. The producers are encouraged to supply of a goods and services because of earn higher revenue from sales.

2) **Prices of Related Products (P_y):** Prices of goods related in production influences firm's to supply goods and services. **For example,** suppose the sellers of pizza notice that the price of hot dogs increases substantially. They may reduce the amount of resources devoted to the selling of pizza in favour of hot dogs. This will decrease the supply of pizza. If the sellers were already selling two (or more) goods, the change in market conditions would prompt them to reallocate their resources towards the more profitable ones.

   The price of a complementary good is expected to affect the supply of the good under consideration in a direct manner. **For example,** if the price of computer hardware increases, other things remaining constant, the supply of software would increase and *vice versa*. This is due to the reason that, an increase in price of computer hardware increases its supply that results in an increase in supply of software.

3) **Costs and Technology (C and T):** If two factors are closely related then they can be treated as one. The cost of the factors which are used in production process is known as costs. If other things are remains constant then any increase in factor price increases the cost of the production. In this situation the firm decreases the supply.

   For example, an increase in the price of labour will increase the cost of production. As a result, the supply of the product is decreases because sellers may charge more than before for any quantity supplied. For reducing the unit cost of production or increasing factor productivity technological improvement or innovations are introduced. Technological improvement reduces the total cost and it increases the supply of the product or services.

4) **Objectives of the Firm (O):** Firms set various goals to achieve. The objective of the firm influences the quantity of the goods or services which are supplied. **For example,** if the objective of the firm is to maximisation of sales then firm supply more amount of goods or services in comparison to firm whcse objective if maximisation of profit.

5) **Future Expectations (F):** As the demand is affected by consumer's expectation, similarly, supply is influenced by seller's expectation. There are various factors such as expectations of prices, costs, sales and the general macroeconomic conditions which affect the supply.

   For example, if a seller expects that the price of the goods or services will be increase in future then he decreases the market supply to gain more profit. Similarly if the seller expects that the production cost will be increased in the future then he increases the market supply to avoid the decrease in profit margin.

6) **Weather Conditions and Other Short-Term Factors (W):** The supply of goods or services is adversely affected by the various short-term factors such as floods, droughts, strikes, lockouts etc. The supply of refrigerator and air-conditioner has a tendency to increase in the summer because there are limited buyers in other months and there are additional carrying costs of inventory. The supply of agricultural goods is reduced in the condition of floods and droughts. Supply of industrial goods is negatively affected in the situation of strikes and lock-outs.

7) **Number of Sellers (N):** The supply of goods or services is directly affected by the number of sellers. Market supply is directly correlated with the number of sellers. If the number of sellers is high then the market supply will be greater. In the condition when sellers make a mutual agreement then they restrict the supply to obtain more profit. In the condition when there are competition among the seller then they increase the supply to capture larger market share.

8) **Taxation Policy (T):** If heavy taxes are imposed on a commodity then the production will be discourages and resulting from this the supply will also be reduces. On the other hand if there are various tax discounts are available then it encourages the producer to increases the supply.

3.9. EXERCISE

3.9.1. Multiple Choice Question

1) **__________ means bringing ideas into reality.**
   a) Innovation
   b) Divergent thinking
   c) Convergent thinking
   d) Idea incubation

2) **All of the following are different types of innovators, EXCEPT:**
   a) Government sponsored
   b) Event sponsored
   c) Privately sponsored
   d) Non- profit sponsored

3) **The term ________ can be used as a synonym of competitive advantage.**
   a) Risk advantage
   b) Opportunity advantage
   c) Strategic advantage
   d) Market advantage

4) **For maintaining competitive advantage, which of these is not a basic block to emphasise?**
   a) Efficiency
   b) Creativity
   c) Quality
   d) None of these

5) ________ is a process of dividing the market into segments that behave in a same way or have similar needs.
   a) Penetration
   b) Targeting
   c) Segmentation
   d) Market analysis

6) **All of them are bases for segmenting the market, EXCEPT:**
   a) Geographic
   b) Psychographic
   c) Differentiated
   d) Behavioural

7) **Which of the following principle focuses on the execution of the Blue Ocean Strategy?**
   a) Overcoming key organisational hurdles
   b) Reaching beyond existing demand
   c) Focusing on big picture
   d) All of the above

8) **Blue Ocean Strategy is based on:**
   a) Execution principles
   b) Formulation principles
   c) Both a) and b)
   d) None of the above

9) **Blue ocean strategy focuses on:**
   a) Creating services and products for which they are no direct peers
   b) Creating services and products in a competitive market
   c) Following the leaders
   d) None of the above

10) **In red ocean strategy,**
   a) Companies compete for a new market
   b) Companies fight for the same market share and try to outlast each other by adopting different market strategies
   c) Companies establish new marketplaces for the organisation at the stage of product development
   d) Companies do not compete with each other

11) **Which of the following is not a determinant of threat of new entrants in Porter's five forces model?**
   a) Product differentiation
   b) Brand identity
   c) Government policy
   d) Access to distribution

12) **All of these are the key aspects of competitor analysis, EXCEPT:**
   a) Competitor's objectives
   b) Competitor's assumptions
   c) Competitor's mindset
   d) Competitor's current strategy

13) **In which of the following market structure is the degree of control over the price is high?**
   a) Perfect competition
   b) Oligopoly
   c) Monopoly
   d) Both a) and b)

14) **For which market structure it is assumed that there is free entry:**
a) Monopoly
b) Oligopoly
c) Perfect competition
d) None of the above

15) **Wheat demanded for producing bread is a ______ kind of demand.**
a) Derived demand
b) Indirect demand
c) Individual demand
d) Joint demand

16) **All of these are important aspects while analysing competitors, EXCEPT:**
a) Market growth
b) Market share
c) Market segment
d) Market size

17) **Among the following, which is the determinant of supply**
a) Taxation policy
b) Income of the consumer
c) Pattern of saving
d) None of these

18) **"Perfect competition is a market structure characterised by a complete absence of rivalry among the individual firms." This was given by:**
a) Koutsoyiannis
b) R.G. Lipsey
c) S P Robbins
d) G.L. Thiekettle

Answers:

1) d	2) b	3) c	4) d	5) c	6) c	7) d	8) c	9) a
10) b	11) a	12) c	13) c	14) c	15) d	16) c	17) a	18) a

3.9.2. Short Answer Type Questions

1) What is idea incubation? Highlight the importance of business incubators.
2) Discuss in brief how competitive advantage can be maintained? Discuss its importance.
3) Explain the bases for segmentation.
4) What is the process of identification of market segments?
5) What are the principles of blue ocean strategy? Compare between blue ocean strategy and red ocean strategy.
6) State the importance and factors analysed in industry analysis.
7) Briefly explain competitor analysis framework.
8) Highlight the characteristics of oligopoly and monopoly markets.
9) What are the determinants of supply and objectives of demand analysis?

3.9.3. Long Answer Type Questions

1) Write a note on industry analysis. Discuss Porter's five forces model in brief.
2) What is competitive advantage? List the sources of competitive advantage. What are the factors determining competitive advantage?
3) Highlight the concept of market segmentation. Also state the need for market segmentation.
4) Write a note on the benefits of market segmentation. Give a comprehensive description on behavioural segmentation.
5) Discuss the bases for segmentation of business markets.
6) What is long tail marketing? How would you develop long tail marketing strategy?
7) Explain segment and local marketing in detail. Discuss the process of market segmentation.
8) What do you understand by blue ocean strategy? Describe its characteristics. Also explain strategy canvas and value curves.
9) Define industry analysis? Explain Porters five force model and its components in detail.
10) Give the meaning of competitor analysis. State the steps in competitor's analysis in detail.
11) Classify markets on the basis of competition. Discuss each of them in detail.
12) Briefly analyse demand and supply alongwith determinants of demand.