

BUSINESS MARKETING - TECHNOLOGY FOCUS
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Lecture 29 : Marketing as Strategy - II

Hello. So we are back to our session on B2B marketing with technology focus.

The Objective of Marketing Strategy:
Competitive Advantage

- **Sources**
 - **Tangible assets:**
 - *Products*
 - *Facilities*
 - *Financial Resources*
 - **Intangible assets:**
 - *Brands/reputation*
 - *Know-how*
 - *Culture*
 - **Competencies:**
 - *Routines*
 - *Processes*

We have been discussing the strategic role that are played by marketing organizations in B2B companies today. And we discussed the competitor analysis, competitive intelligence gathering and acting on those in the previous session.

We are going to look at this issue about competitive advantage now in a little bit more detail from the internal perspectives. We discussed in the previous session more with respect to external focus on competitive intelligence and response mechanisms to that we are now going to look at competitive advantage and its source coming from internal aspects. These internal aspects could be by way of looking at tangible assets. Tangible assets are our products, our manufacturing and other service facilities, our financial resources and so on. And then we have intelligent assets, intangible assets that contribute to our competitive advantage. These intangible assets are brands, reputation, our know-how, our engineering capabilities, our corporate culture, and so on.

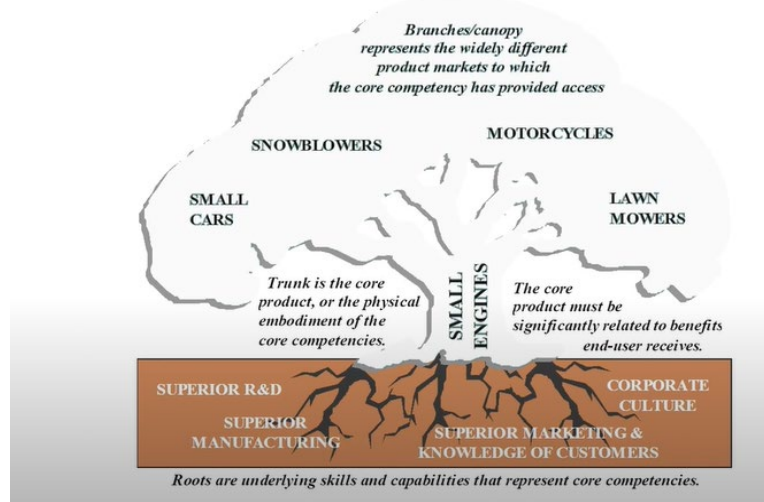
And then, most importantly, we are going to discuss it in a little bit depth, what we call our competencies. That kind of acts as a conglomeration of our tangible assets and intangible assets and our way of utilizing those tangible and intangible assets. So, competencies happen through various routines that we perform in the organization and the processes that we follow.

Three Characteristics of Core Competencies

- Difficult for competitors to imitate
- Significantly related to benefits end-user receives
- Allow access to a wide variety of disparate product-markets.

We are going to particularly focus on this concept of core competencies made famous by the work of C.K. Prahalad and Gary Hamel. And these core competencies are competencies that are difficult for competitors to imitate, that are significantly related to benefits the end users receive and allow access to a wide variety of product markets and that actually creates for us our current competitive scenario and helps us to build future competitive moves and scenarios.

Tree Analogy to Core Competencies: Honda



This is borrowed from their work, Hamel and Prahalad's work, where they use this tree analogy to explain the core competencies of Honda, and explaining how they were able to address somewhat apparently unrelated markets of snow blowers, snow removers, motorcycles, small cars, lawn mowers and so on. In their analysis, they showed that actually what happens is that you have to look at the organization.

If this whole competency concept is looked at as a tree, then the roots are the superior R&D capabilities of Honda. Their superior manufacturing capabilities, their marketing and knowledge of customers. So, their marketing capabilities going hand in hand with their R&D and superior manufacturing. This importance of the interaction between marketing and R&D in technology-focused organizations, we will take up in a separate session in more detail. But here, coming back to Honda, we can see that all these superior R&D, superior manufacturing, their understanding of customers, etc., all put together created their unique core competency in small engines.

Now, once that has been identified and that has been understood, then using this internal capability of superior high performance small engines and which are also very competitively priced, they were able to penetrate and create very inimitable positions in small cars, motorcycles, lawnmowers and so on.

So, understand this therefore that this small engine their position there became inimitable because it is sustained by the roots of that organization by way of their excellent integration between their R&D manufacturing and their marketing. So this inter-departmental integration, their superior interactions actually created this inimitable, as we are saying, the very easy, not at all easy to emulate position of Honda.

Implications of Core Competencies in Strategic Planning

- **Resource allocations may defy conventional logic**

- Violate ROI criterion

- **High-tech firms' competencies often reside in their technological skills**

- R&D processes; technical personnel; etc.

- **They must develop marketing-related competencies**

- The combination of marketing + technological competencies maximizes the odds of success

So, the important thing here is that when organizations have this kind of integration between marketing and other technical departments, they can often go beyond the conventional financial return on investment criterion.

They can allocate resources which may apparently look like a full hardiness, but they often in high-tech firms competencies reside in their technological skills and they can make strong bets on that technological skills and its integration with marketing. And therefore, this market-related competencies and internal research and development manufacturing competencies together can create capabilities that maximize the odds for their success. And they can therefore take risks and go beyond the conventional return on investment logic and create spectacular returns as Honda did over number of decades in the last century.

Tests of Superior Competitive Advantage

- **Customer Value**

- Cost-benefit analysis among target market
- May be driven either by
 - Effectiveness in customer operations (deliver superior benefits)
 - Efficiency in customer operations (focus on cost side of value equation)

- **Rareness**

- Competitors cannot offer same set of benefits/value

And they continue to dominate those markets even today after 40-50 years. And that shows the power of core competency and this marketing and R&D and manufacturing integration in technology focused organizations. We will discuss this in more detail at a later session.

So, the test of superior competitive advantage therefore can be seen in terms of the customer value creation, cost benefit analysis that is established in front of the target market and it may be driven by either by effectiveness, creating effectiveness in the customer operation. That means value creation for the customer operation for their benefit.

And it could also be by way of improving efficiency of customer operations. Please mark the distinction between these two that this integration, the core competency-based integration of an organization's marketing, manufacturing, R&D capabilities can deliver results which on one hand in the customer's operation will increase effectiveness and also will enhance efficiency.

And if this can be coupled to some kind of a rareness, that means not easily found in the outside competitive world, and the competitors cannot offer the same set of benefits and value easily, Because that integration of superior marketing, superior manufacturing,

superior R&D capability focused on a particular dimension, on a particular arena can create this kind of inimitable capability. And that becomes a core competitive advantage.

Tests of Sustainable Competitive Advantage

- **Durability**

- How rapidly valued resources become obsolete
- Length depends on the industry
 - Slow-cycle: slow rate of change
 - Fast-cycle: resources rapidly depreciate

- **Inimitability**

- How easily a competitor can copy/obtain valued resources
- Ways to enhance inimitability (next slide)

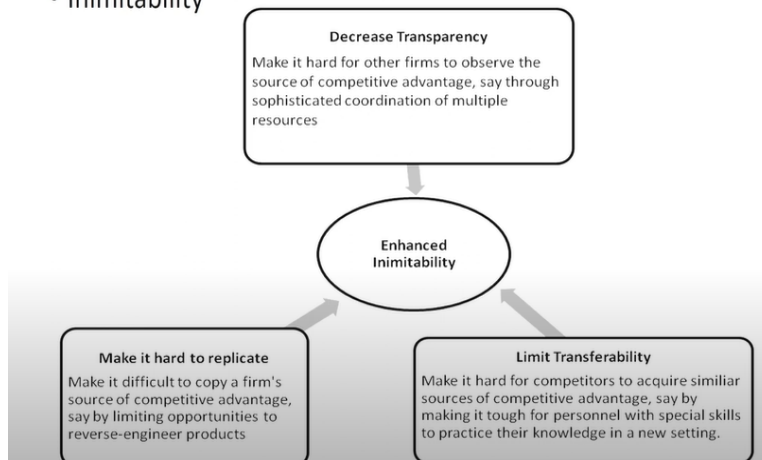
Of course, one has to look at that how sustainable and durable are these advantages that are created whether some of those resources will not stand the test of time but most of the time some of these organizations who have really excelled in their core competency. We have seen that over the last 40-50 years, many of them are able to also track the technological changes and keep working towards higher and higher goals.

And therefore, they are able to sustain their inimitability. That it becomes very, very difficult for. So that's why even today Honda remains a very, very strong player and in their chosen domains of using small engines. So be it car, be it motorcycle, sometimes in some markets they may focus more on two wheelers, in some markets they may focus more on four wheelers, in some markets they may focus on both. In some market, they may focus on water boats and other types of water vehicles.

But everywhere, actually, they are deriving their benefit from that integration of capabilities of marketing, manufacturing and R&D and creating a particular domain of super excellence and they continue to maintain that.

Tests of Competitive Advantage (cont.)

- Inimitability

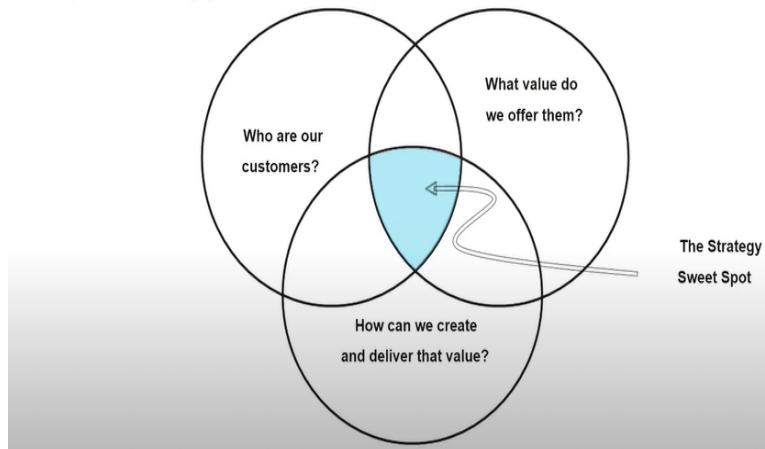


So, to enhance in inimitability these organizations actually follow three approaches. They make it very hard, first of all they make it very hard for other organizations to replicate it and that the irreplicable situation often arises from their capability of integration and also they decrease transparency. This, of course, is becoming more and more difficult in today's world because in this internet era, there are very little sustainable secrets.

So, unless of course, they are protected by patents, but even patents necessitate very detailed divulgence of information, technical information. So, people actually often do patent mining and come up with alternatives bypassing the patent barrier. So the transparency containment is not a very sustainable area but this making hard to replicate and the limit of transferability these are often maintainable because sometimes, for example, this limit of transferability can be derived by creating excellent relationship-based sourcing capabilities. It can be also based on other kinds of special skills within the organization.

So, as you see, in core competency, most of the time the competitive advantage are being derived by way of focusing on internal factors, internal competencies, internal integration of different activities and so that becomes a very, very strong and powerful barrier against competitors penetrating the competitive position that people like Honda are able to create.

Market Strategy: Key Strategy Decisions



And then we now move to a little bit extended dimension where we are continuing to look at internal competencies and how we will use it in a strategic sense. For example, we can ask this question that who are our customers? And remember here, we have to use both our zoom lens as well as our wide angle lens.

That means when we look at ask this question that who are our customers, we not only look at our current prominent customers or our key customers but we also look at our peripheral customers we also look at who could be our customers and that's how actually for example there is a the case study which Prahalad and Gary Hamill developed they showed that how Honda penetrated the pleasure boat and professional boat market and how they became an unassailable position holder in that, where they actually looked at new customers. But they were customers they could be addressed because of the capabilities they had internally created. So they could answer effectively this question that what value can we bring to this new set of customers or this adjacent set of customers.

This adjacent set of customers and our ability to answer their requirements, respond to their special requirements are really very important strategic moves that are often made by technology-focused organizations. And therefore, you see this Venn diagram, as we call it, that these three circles where they intersect, is called the strategic sweet spot. That who are our customers? What value do we offer to them?

Or how can we create new value sets and deliver that value? If we can answer these three questions in the intersection point becomes a strategic sweet spot. Again, I emphasize that to be able to follow this approach, you have to have the internal integration of marketing, technology, R&D, manufacturing and all those functions together so that you can create the value that will utilize this understanding of the sweet spot. Who are our customers?

Market Strategy: Who are Our Customers?

- **Focus on assessing customers' articulated and unarticulated needs;**
 - Focus less on technology and more on customer value
- **Identify key market segment(s) rather than diluting efforts across multiple segments**

I will take a little bit more time to answer, look at some of these questions. Those three questions that we highlighted just now that who are our customers? We have to focus on assessing customers articulated as well as unarticulated needs. This I think I have discussed today in a little bit more detail. This voice of customer when we discussed, we discussed that how we can capture our articulated customer needs as well as unarticulated needs.

So, we have to understand that we don't get into the technology per se, but we look at what the customer wants to derive. We have to always understand that no customer is looking for any product or service. The customer is always looking for resolving a pain point. The customer is always looking for solving a problem that they may have, some work that they may want to get done. And from that perspective, we can understand and unravel more easily new value streams that will give us competitive advantage.

And in this, of course, another important thing is the focus strategy is important. When we discussed about crossing the chasm in an earlier session we understood that actually we have to always have this strategy of creating a beach head that means we create a very precise and elaborate focus on a particular competitive arena where we are going to land and then we also develop quick strategies how to enter into adjacent domains.

So, this is the beachhead and strategy and the expansion by way of the bowling alley strategy. So we explained that in that session and that kind of also applies so this sort of new initiatives created by focus not on technology but on the customer value, what the customer is looking for, what pain points the customer has, what unarticulated needs the customer has and what kind of work they can get done that will give them more higher degree of satisfaction. So the wow factor should be sought after in this kind of scenario.

Market Strategy:

Who are Our Customers? (Continued)

- **Avoid tyranny of the “served” market**
 - Excessive focus on serving current customers
- **Adopt bifocal vision**
 - Simultaneous focus on current AND future customers
- **Search for “blue ocean” strategies**
 - New market space
 - Base-of-the-pyramid markets

So, it is very important that we should not be totally terrorized or dominated by our current served market. This is an important issue when we answer the question that who are our customers. So we have to understand that there is a great example that is given that at one point of time there was DEC, the Digital Equipment Corporation as it was called in, it was a dominant player because it had a huge dominant market share in the mini computer market. So when they asked for their market intelligence, they went to their served market, they went to the major steel plants, banks and other large organizations and the customers always said that we want faster, more capable computers

which will be cheaper and they completely disregarded the emergence of the personal computer because they thought that those are hobby machines.

And so coming from the periphery, these small computers, these personal computers who were ignored by dominant organization like DEC became more and more capable and started entering from the hobby market or the home market into the professional market, into the office market, industry market and at one point in time became the dominant player and DEC became bankrupt.

So, we have to understand these tyranny of the served market has to be avoided. And this point that I was talking a little while back about utilizing both the zoom lens as well as the wide angle lens. So it is also called here in this slide we have called it the bifocal vision. That means simultaneous focus on near arena as well as the distant arena. Simultaneous focus on current and future possible customers.

And so if DEC had actually followed that approach, then they would not have ignored the home market and the personal computer and then they would not have defined their business as a mini computer manufacturer's business, but they would have defined their business as a business that solves customer's computational needs.

So, not in terms of a particular technology format but they would have defined themselves as what kind of problem they solve and what kind of jobs they get done for the customer and that would have given them the recognition that this new personal computer is an emerging format which can be very powerful. Then they would not have been blown away. And of course, this other important concept that has been introduced a few decades back, and that is of the Blue Ocean Strategy.

And the Blue Ocean Strategy is looking at completely new market, completely new competitive arena, which is not bothered by the current red ocean or very intensely fought competitive marketplace, but try to look for a marketplace which is free of current competition. And create new possibilities. So, in a way, when DEC was bogged down in their red ocean of competing with other mini computer manufacturers whom they were regularly defeating, people like Apple, they were actually creating a blue ocean of a new

market which is the home computer market or the hobby computer market or the game computer market.

All that actually later on submerged and penetrated into the original red ocean of DEC. So, these three new coinages that I have introduced to you are the tyranny of the served market, the adoption of the bifocal vision, and the search for the blue ocean strategy. These are all areas where marketing departments play a very, very key role to make the organization's understanding happen. In fact, If the boundary role of marketing was recognized and the signals that are coming to the marketing people could reach the inner core of the organization, in case of DEC and their emerging competition from Apple, then they would not have ignored the emergence of Apple as a competitive phenomenon.

They would have given due weightage to their approaches and their technologies and so on.

Market Strategy: What Value?

- **Products, services and technologies are mere vehicles for value creation**
 - They do not have intrinsic value in and of themselves
- **Requires understanding the customer**
 - Value of products, services, and technologies
- **Requires understanding competitors' value propositions**
 - Look beyond direct competitors
 - Include competition from outside existing industry boundaries ("product form competition")

So, we have to ask always just like we have to ask those three questions we just now looked at that what is the surf market the bifocal vision and the blue ocean strategy we have to also ask that what value are we talking about So the products and services and technologies, as we said, they do not have any intrinsic value in themselves. They are only problem solvers. We have to understand that what customer wants to get done and how that work can be done.

That is the most important and that is the whole issue about value proposition. And it captures the essence of why a customer should purchase a particular product. And remember again I am saying the customer is never actually looking to purchase a product or a service.

Market Strategy: What Value?

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They are actually looking to acquire a solution to their pain point. So therefore we have to look at the benefits.

Market Strategy: What Value? (cont.)

- **Value Proposition:** Captures the essence of why a customer should purchase the product
- **Three types of value propositions:**
 - "All Benefits"
 - Articulates customer benefits
 - "Favorable Points of Difference"
 - Contrasts advantages with competition
 - "Resonating Focus"
 - Addresses buyer's key needs AND documents the value explicitly

We have to look at the points of difference and points of parity. And we have to create the resonating focus addressing buyers key needs and document that very very explicitly.

Strategy Types:

Product Leader

- ▶ **Strategy is first to market with innovative new products**
- ▶ **Successful Product Leaders:**
 - Target innovator and early adopter customers
 - Are creative and use novel sources of information
 - Exhibit a culture of innovativeness
 - Have technological foresight
 - Commercialize ideas quickly—engineered for speed
 - Willing to “leapfrog” their own products
 - Have marketing acumen
 - Understand competitors’ strengths and weaknesses
 - Benefit from a bit o’luck

And strategy is first to market with innovative new products to become successful product leaders. This is the product leadership strategy that we have discussed earlier when we discussed those three types of core strategies of product leadership, operational excellence and customer intimacy.

So, here we are looking at that what the successful product leaders do and we are actually when we are looking at people like Honda we are looking at people who by superior integration of their marketing R&D and their manufacturing capabilities they create and stream of successful products and because they remain competitive because they are able to combine those two fantastic capabilities of product leadership as well as operational excellence.

Strategy Types: Product Leader

PROS

- ▶ Entry barriers
 - Economies of scale
 - Experience effects
 - Reputational effects
 - Technological leadership
 - Buyer switching costs
 - Higher profits and higher share
 - Define product exemplar
 - Higher consumer awareness

CONS

- ▶ Large development costs
- ▶ Market uncertainty
- ▶ “Wait-and-see” attitude among consumers

Failure rate of pioneers is 47%, with an average market share of 10%.

Failure rate of Fast Followers is 8%, with an average market share of 28%.

So, product, this I think we have discussed in a previous session when we discussed that what the product leaders do and what are the pros and cons of those product leadership strategies. And because we are discussing about core competency and we are discussing that as a strategic role where marketing plays a key role, we are again repeating this particular slide where we are looking at the pros and cons of product leadership.

Complications for Pioneers in High-Tech Industries

- Risks of pioneering greater for incremental innovations in markets with network externalities
 - Customers take a “wait-and-see” attitude
 - Delays revenue stream.
 - Later entrants gain disproportionately because of the larger network effects that exist later in the market’s development
- Risks of pioneering lower with incremental innovations than radical innovations
 - “First to market with radical innovation is first to fail”
 - Unless market is characterized by network effects—
Then pioneering a radical innovation may succeed.

Complications for pioneers in high-tech industries is our next visual where we are actually looking at risk of pioneering often is greater than incremental innovation. Often actually the leading edge can become a bleeding edge. And so in high-tech market where

particularly marketing departments play a key role, organizations often take a rapid follower or fast follower strategy. Because the marketing input that may often come that their customers at that life cycle stage of that industry may take a wait and see attitude because they are pragmatic buyers at that stage who are more cautious and they are looking for secure buying decisions.

And in that case, therefore, so the purpose of this particular slide is to highlight to you is that while technologically you may be in a pioneering position, you can actually often pay heed to marketing inputs who can actually give you an accurate and better understanding of where the customers are and what they are looking for. So that you don't become first to market and become the first to fail so therefore this is another way of explaining the importance of understanding of the marketers and sharing of that understanding with the other parts of the organization. So fast followers actually imitate product leaders with some key improvements.

So, fast followers are good analyzers. They target the early adopters and early, more than the early adopters, they focus on the early majority customers.

Strategy Types: Fast Follower

- ▶ **Strategy is to imitate Product Leader, with some key improvement**
- ▶ **Successful Fast Follower/Analyzers**
 - Target early adopter and early majority customers
 - Identify overlooked product position
 - Innovate superior products
 - Undercut the leader on prices
 - Out-advertise or out-distribute
 - Innovate business/marketing strategies that change the rules of the game

Therefore, they are actually bringing in pragmatism and more secure performance. They take out all the bugs. So they actually, again, don't look at it as a technology solution, but they look at it as a problem-solving approach and thereby they identify overlooked

product positions. They innovate superior product, often undercut the pioneer in terms of pricing and they innovate business marketing strategies that change the rule of the game.

Again, we can see here that the core competency dominated organizations often again and again rely on good integration of their marketing activities with their internal development, technological, R&D and manufacturing capabilities.

Strategy Types: Fast Follower

- Relative to Product Leaders, Fast Followers:
 - Grow faster
 - Have higher market share

So the fast followers actually often produce, in fact, The entire Japanese automotive industry has displayed again and again the superiority of the fast follower strategy in that kind of industry.

Strategy Types: Differentiated Defender

- ▶ **Strategy is to focus more narrowly on specific customers/market niches**

- ▶ **Successful Differentiated Defenders/Customer**

Intimate:

- Target early and late majority customers
- Emphasize long term relationships
- Exhibit intimate customer knowledge
- Deliver superior customer service
- Follow appropriate “tiering” of customers

I will take a few more minutes to explain some of the other positions that can be created based on competency using marketing's input. One is that of a differentiated defender. So, here strategy is to focus more narrowly on specific customers and market niches that we were talking about a little while back in the context of crossing the chasm. But here we are talking about it in a little bit different fashion. That means when you are a fast follower strategy, you can often actually start at one particular point at a beachhead and then rapidly expand.

For example, when the Japanese two-wheeler manufacturers entered the European market, at that time the European two-wheeler manufacturers were focusing on very high power machines and these Japanese two-wheeler manufacturers came in at a low end of the market and they came up with very light and very fast and very economically priced mobikes that were actually useful for often called the ladies vehicle and so on or the children or teenagers vehicle and so on.

But entering the market at that beachhead, they soon captured the entire European market for these segments and the dominant European players ignored the German players, the British players. They ignored because they thought this is some kind of a hobby market.

Again, the same thing like the way Deck looked at our Apple. In the same way here, these European manufacturers ignored. They said that's a hobby market, that's a light

market, that's a market where we really can't compete because our cost structure is much higher. And they ignored it and these people actually dominated that the Japanese two wheeler manufacturers dominated the low end, mid end of the market and soon actually captured the top end and many of the European two wheeler manufacturers went bankrupt.

So, this differentiated defender and understanding customer intimacy is another way of marketing dominated strategy that can be developed. This customer intimacy is therefore a strategy where you target early and late majority customers, emphasize long-term relationships, exhibit intimate customer knowledge, and deliver superior customer service. And therefore, you can actually totally dominate a particular tier where you enter and then you can expand into the whole market and become the leader.

Strategy Types: Low-Cost Defender

- ▶ **Strategy of technological, production, or distribution efficiencies that allow them to offer low prices**
- ▶ **Successful Low-Cost Defenders/Operationally Excellent**
 - Target early and late majority customers
 - Offer superior combination of quality, price, and ease of purchase
 - Aggressively protect their market with cost leadership in their value chain

So, at this differentiated defender, sometimes you can be the low cost defender where actually you will be operationally excellent. You will have the lowest cost in the industry and you will utilize that, leverage that.

So, this is a very manufacturing excellence, operational excellence dominated strategy.

Caveat on Strategy Types

- Most successful companies have a dominant strategy type and one or two supporting types.

Now most successful companies have a dominant strategy type and one or two supporting types. So, they actually don't follow the either or that either big market or small vehicle market they actually often follow A and with some good plan B options and they go hand in hand. Again another way of talking about that bifocal approach or simultaneous use of today's market and future market, the zoom lens and the wide angle lens.

Creating Innovation in Business Strategy: Approaches and Structures

- ▶ Strategy creation process itself is a deeply embedded skill
- ▶ Seek new, unique, and innovative perspectives to customer-value creation
- ▶ Change the basis of industry competition to create new wealth
- ▶ Envision new opportunities
- ▶ Paradox: Make serendipity happen
- ▶ Take risks, break rules, be a maverick

So, we will conclude now by talking a little bit about the strategy creation process, which itself is a deeply embedded skill, it seeks new, unique and innovative perspectives to customer value creation, change the basis of industry competition to create new wealth and it envisions new opportunities. At the same time, it focuses on current opportunity. So, sometimes it may appear as paradox, but these exemplary players, they make it

happen. So, they are sometimes looked at as mavericks or daring competitors because they make it happen by way of fostering new connections inside and outside the company.

Creating Innovation in Business Strategy: Approaches and Structures
(Cont.)

- Foster new connections inside *and* outside of the company
- Exude passion for discovery and novelty
- Experiment, take risks, and learn!
- Maintain a flexible strategic posture
 - Don't create strategy-making processes that are more complex than the high-tech market situation itself.
 - Planning processes must be simple, fast, iterative, integrated in high-tech industries.

And again, very important roles are played by marketing departments, by customer support and service departments to make this happen. So what we are trying to say here, and we will expand it a little bit more in the following session, that this marketing integration with the technology and functions like manufacturing and R&D and so on can create capabilities that allow organizations to create inimitable strengths, often called core competencies.

The core competencies may get manifested as an integrated market and technology positions. Once you have this kind of strength and this kind of strategy, you can follow both product leadership or defender strategy and many of these types of players are fast followers as opposed to pioneers.

But the key capability they project is this capability of remaining focused on the current business, focused on where they are entering the market, but as well as keep their vision and their target clear that where they want to go, where they want to expand to. So, this beachhead strategy and bowling alley strategy that we had discussed in the context of crossing the chasm, actually is also in a way the kind of strategic capabilities that are

followed by this marketing dominated or at least important role played by marketing oriented, market oriented organizations to implement their strategic excellence.

Thank you.