Market Expansion Strategies- A Study of Select Consumer Products

THESIS

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By

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Under the Supervision of
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CERTIFICATE

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This is to certify that the thesis entitled **'Market Expansion Strategies– A Study of Select Consumer Products'** and submitted by **Vasant Vijaykumar Bang** ID No **2004PHXF032P** for award of Ph.D. Degree of the institute, embodies original work done by him under my supervision.

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ABSTRACT

Market expansion strategy is an important strategic option in Asian countries like India and China. But there are glaring gaps in research on market expansion strategy for consumer products. There are hardly any studies which examine link between market expansion strategy and performance in a developing country like India. In this research an attempt has been made to create a systematic understanding of (1) reasons for which a market expansion strategy is pursued or not pursued, (2) methods of market expansion and (3) relationship between market expansion strategy and performance.

The research focuses on select consumer products like two-wheelers, other consumer durables (televisions, refrigerators and water purifiers), non-durables like bath soaps, washing products (powders and bars) and oral care products (toothpastes and toothpowder) besides mobile telephone services.

Extensive literature survey has been carried out in areas related to market growth and primary demand. In this research a market expansion strategy has been conceptualized from the point of view of delivery of standard of living in developing economies. It aims at increasing primary demand for a product category by converting non-customers into customers and/ or by increasing the usage rate of low quantity users of a given product category.

Since there is no existing metric that can be used to capture a holistic view of the extent to which a company practices market expansion strategy at a product category level a multi-item market expansion scale has been developed. This 18 – item scale (MAREX) has been tested for its reliability and validity through a primary research.

Primary data has been collected for 30 product categories (15 durables and 15 non-durables including 3 mobile service companies) using depth interviews as well as a structured questionnaire. The questionnaire consists of three sections. First section consists of 12 Likert

scale type statements related to reasons for pursuing or not pursuing market expansion strategy. Second section is devoted to market expansion scale and the last section is related to performance measures. Due to unavailability of performance related data, subjective measures of performance have been used. Ratings have been obtained on a 7 – point scale. All the respondents are marketing professionals of the rank of product manager and above.

The reasons are classified into four categories: (1) market size and growth related reasons, (2) competitive considerations, (3) financial considerations and (4) non-financial considerations. Big market size (despite low per capita income) is a major motivation for pursuing market expansion strategy. A very important finding is that at least 50% of the managers feel that if a product category has a large existing customer base, it may act as a deterrent to market expansion strategy. In a large country like India, even a small penetration level leads to reasonably large base of existing customers of a product category. Hence a market expansion strategy becomes a strategic alternative to targeting replacement and up-gradation demand of a given category's existing customer base. Generally a market leader is considered to be better equipped to expand a market. Managers also believe in first mover's advantage. There is almost a consensus that sales and distribution cost in reaching out to under-served segments is high though same can not be said about promotional cost. But companies do innovate once they decide to target under-served segments. Managers are of the opinion that targeting under-served segments is primarily a business decision and non-financial considerations do not matter much.

As regards methods of market expansion four components of market expansion strategy are identified as: improving consumption & purchasing ability, improving willingness to buy, creating affordability and improving sustainability. Extent of market expansion efforts is measured as a market expansion score which is a simple average of rating on 18 scale items. Component wise score has also been worked out. There is no significant difference between average market expansion scores of durables and non-durables But on an average higher consumption & purchasing efforts are made in case of durables while higher affordability improvement efforts are made in case of non-durables.

Overall market expansion strategy score shows a positive correlation with sales revenue and profits in case of consumer durables studied. But there seems to be a mismatch between market expansion efforts and satisfaction with sales growth rate in selected consumer durable categories. In case of non-durables studied in this research correlation between market expansion score and satisfaction level with sales to marketing expenses ratio and profit is negative..

Correlation of individual components with performance indicators has also been studied. Consumption & purchasing ability improvement and willingness improvement components have positive correlation with sales revenue and profit in case of durables studied. In case of chosen non-durables consumption & purchasing ability improvement component has positive correlation with sales growth rate. On the other hand willingness improvement component has a positive association with cost of customer retention. This is significant since consumer non-durables are bought repeatedly. Consumption & purchasing ability improvement and sustainability improvement components have negative association with sales to marketing expenses ratio and profit. A very important finding is that affordability improvement component has no significant association with any of the performance measures in both durables as well as non-durables.

A detailed analysis of market expansion efforts undertaken by companies is presented under each of the four components of market expansion strategy. This analysis has been supplemented with relevant secondary data to obtain additional insights.

Unlike in case of the “blue ocean” strategy framework, in this research market expansion strategy is not conceptualized as an alternative to market share growth strategy. Rather it is visualized as an alternative to targeting a product category's existing customer base. This kind of conceptualization is useful from analysis and implementation point of view. An attempt has been made to synthesize extant knowledge on the subject with primary research and provide a generic conceptual framework for implementation of market expansion strategy which can be useful for expansion of market of any type including BOP markets. Probably the most important contribution of this research is development of a holistic framework for product category level primary demand creation as against brand level selective demand creation which is the prime focus of extant marketing literature especially in developed countries.

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CHAPTER ONE

INTRODUCTION

1. 1 Background

A firm's sales are derived from the market potential of the industry to which it belongs. To select growth strategies, firms try to fill gaps between their sales and industry market potential (IMP) there by increasing a firm's market share. On the other hand some strategies aim at increasing firm's sales through increase in the size of IMP rather than closing any of the existing gaps (Weber 1976) [1]. Such strategies are particularly relevant in markets like India where product penetration (number of households who own or use a product) and consumption levels are very low. As per census of India (2001), only 51.8% population lived in permanent type houses, 55.8% households had electricity connection, 39% households had access to safe drinking water in their premises, 17.5% households had LPG connection, 31.6% households owned a TV set, 9.1% households had a telephone connection, 35.5% households used banking facilities, 11.7% households owned a two-wheeler and only 2.5% households owned a car/jeep/van [2].

Low product penetration and consumption levels make emerging markets attractive for marketers. Goldman Sachs brought out a report on emerging markets of Brazil, Russia, India and China (BRIC), which highlighted the growth potential of these markets. (Wilson and Purushothaman 2003) [3]. The McKinsey Quarterly (2007) in its global survey of business executives reports that 84 percent of executives consider growing number of consumers in emerging markets as an important trend but a lesser number of executives (63 percent) view these consumers as a future source of profits and a still lesser number (41 percent) of executives say that their companies have pursued this opportunity [4]. Billions of people with unmet needs could be a source of growth and profits for those companies willing to experiment with as-yet unimagined ways to create customer value (Kumar, 2004) [5].

Traditionally, strategy researchers and practitioners have focused their attention on the problem of dealing with competition and how to get and keep market share (Hamel and Prahalad 2002; Kim and Mauborgne 2005) [6, 7]. According to Ghoshal, Piramal and Bartlett (2000) Indian companies need to compete not only for existing markets but also for dreams i.e. vision of future markets [8].

Bradenburger and Nalebuff (1996) believe that business games are not necessarily 'zero – sum' games in the sense that they afford opportunities for both cooperation and competition. According to them cooperation among firms can lead to making the (market) pie bigger rather than fighting with competitors over a fixed pie [9]. But research on market expansion strategies is in its nascent stage.

Pure market growth (non-zero sum type) has been of central concern to economists, but with a few notable exceptions, has not been discussed in the marketing literature. Most of the research on primary demand creation is stimulus-response type research and focuses on advertising and neglects other important marketing activities (Bharadwaj, Clark and Kulviwat 2005) [10]. Research on primary demand creation is important not only from strategic perspective but also from social perspective. Paul Mazure (1947) defined marketing as 'delivery of standard of living to the society'[11]. Scholars think that empirical and normative questions can be asked about whether marketing is performing the societal function of delivering standard of living to the world's populations "well," whereby wellness can include equity across consumer groups. This increasingly becomes important in the macro-marketing context in which it can be asked whether marketing systems and practices benefit some populations or geographies over others. For example, is marketing meeting Western needs but not the needs of people in Sub-Saharan Africa? (Andreasen, 2005) [12]. For instance, in 2006, there were 32 cell phones and 14 fixed-line telephones per 100 people in developing countries versus 91 cell phones and 51 fixed-line telephones in developed countries [13]. In India nearly 68% of households in the top 20 Indian cities have colour televisions compared to 47% in other cities and 17% in rural areas (Shukla 2009) [14].

Kotler and Keller (2007) write “The challenge is to think creatively about how marketing can fulfill the dreams of most of the world’s population for a better standard of living [15].” In a country like India this is a very relevant issue where on one hand product penetration and consumption levels are far lower than in developed countries. On the other hand a mere top 10% households mean a population of around 11 crore, which in itself is a market large enough to not to look beyond it. For instance, taking cognizance of Tata Motor’s Nano car Business Week wrote that this ultra low-cost car is aimed at a new category of Indian consumer: someone who couldn't afford the $5,000 sticker price of what was then the cheapest car on the market and instead drove his family around on a $1,000 motorcycle (Scanlon 2009). "Just in India there are 50 million to 100 million people caught in that automotive chasm," says vice-president Vikas Sehgal, a principal at Booz & Co. And yet none of the automakers in India were focused on that segment (Scanlon 2009) [16].

According to Sheth (2005) “marketing has not focused on the non-buying, non-consumption of people as a great opportunity. We fight market share battles in a tiny sliver of the overall market [17].” Jha (2006) laments the fact that most of Indian marketers sit on huge untapped market with a mindset of a saturated market. He argues that this may be because management education and practice in India is guided by Europe and America which are basically saturated markets. This manifests itself in obsession with market share [18]. Jha’s argument finds support in one of the most widely used text books in marketing by Kotler and Keller (2007). They write “most products are in maturity stage of product life cycle and most marketing managers cope with the problem of marketing the mature product [15].” Though this may be true of developed markets, situation in developing countries is different. For instance, in their analysis of general insurance industry in India, Das and Raveendra (2004) report that non-life insurance premium in India as percentage of GDP stands at 0.56 and per capita premium at USD 2.4. Existing players in general insurance industry appear to be too pre-occupied with fighting for market share in same set of institutional accounts instead of focusing efforts on market expansion in retail segment. By 2003, retail premiums accounted for just 8 to 10 percent of total premium in India, while the figure in developed countries is 70% [19].

Sarin (2004) writes "India offers major challenges to the marketing fraternity to improve the quality of life of nearly 700 million economically disadvantaged people… the Indian marketing fraternity is in a unique position to do major primary/basic research to develop a knowledge base applicable to a majority of the world's population. By virtue of their proximity, scholars in India should have a distinct edge to their counterparts in the West who might lack the insight and sensitivities. To me, this represents a gold mine of opportunities to do something meaningful and also produce the relevant intellectual capital [20]."

1.2 Objectives

The proposed study aims to develop a holistic framework for product category level primary demand creation as against brand level selective demand creation which is the prime focus of extant marketing literature especially in developed countries. This study also aims to develop appropriate metrics, which can be used to find out the extent to which a company makes efforts towards market expansion.

This study specifically attempts to create a systematic understanding of:

- The reasons for and against choice of market expansion strategy
- The methods used for market expansion.
- The relationship of market expansion strategy with corporate performance

1.3 Scope of the Study

This study focuses on marketing strategies of consumer products in India. In this research terms products & services are used interchangeably. Attempt has been made to study select consumer durables, non-durables and services. Following criterion are applied while choosing products for study:

- Products which can be bought by middle and lower income segments.
- Products which enhance productivity like two-wheelers, mobile telephone services, refrigerators (particularly for working women) or offer informational & entertainment benefits like television or products which offer health & hygiene related benefits like water purifiers, non-durables like soaps, washing products & oral care products.

1.4 Organization of the Thesis

The thesis is organized around following chapters.

Chapter 1: Introduction: This chapter throws light on the background, objectives and scope of the research.

Chapter 2: Literature Survey: Survey of literature has been carried out in areas such as marketing theory, diffusion of innovation, market response models, competitive position based strategies, market driving strategies, blue ocean strategy, marketing to BOP and managerial economics.

Chapter 3: Conceptualization of Market Expansion Strategies: On the basis of survey of literature a conceptual framework for market expansion strategy has been developed by identifying antecedents and moderators of market expansion in a developing economy. It serves as a basis for development of a market expansion scale.

Chapter 4: Research Methodology: This chapter provides details of research methodology including process of development of a market expansion scale. But results of reliability and validity tests are presented in chapter on data analysis.

Chapter 5: Data Analysis: Analysis of data is presented in three parts: (1) reasons for and against market expansion strategy, (2) reliability and validity analysis of market expansion scale (3) market expansion score of companies.

Chapter 6: Methods of Market Expansion: This chapter describes various methods employed by companies to expand market. Information obtained from companies is supplemented with relevant secondary data.

Chapter 7: Market Expansion Strategy – Performance Relationship: Analysis of association between market expansion efforts and performance of a company is presented in this chapter.

Chapter 8: Conclusions: This chapter contains conclusions and specific contribution of the research. Limitations and scope for future research are also discussed.

Chapter 9: Suggestions: Based on the research some suggestions are made specific to the three phases of a market expansion strategy.

Epilogue: Market Expansion Strategy an Antithesis to Exclusivist Marketing

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CHAPTER TWO

LITERATURE SURVEY

2.1 Meaning of Market Expansion Strategy in Extant Literature

Kotler and Singh (1981) suggest ‘market expansion’ as one of the strategic alternatives for market leaders. They define market expansion strategy as a strategy of attracting new customers or increasing usage of existing customers of a product category [1]. A company can search new users among three groups: those who might use it but do not (market-penetration strategy), those who have never used it (new-market segment strategy), or those who live elsewhere (geographical expansion strategy) (Kotler and Keller 2007) [2].

Many scholars use the term ‘market expansion strategy’ in the context of geographic (domestic or foreign) business expansion of a company (e.g. Ayal and Zif 1979, Haydu and Hodges 2001) which may or may not lead to increase in the total market size for a particular product category [3,4]. Robinson and Lundstrom (2003) use the term market expansion to mean expansion by a domestic firm into a foreign country. They define market expansion strategy as a fit between the organization and the external market [5].

Depending on the stage of product life cycle, Walker, Jr; Mullins, Boyd and Larreche (2006) use the term market expansion strategy in different ways. In growth stage they consider it to be an aggressive and proactive version of a market share maintenance strategy for a market leader [6]. But at the maturity stage of the life cycle they consider market expansion strategy as one of the three alternatives for creating primary demand. Other two strategic alternatives are increased penetration strategy and extended use strategy. They define increased penetration as a strategy of converting current nonusers in one or more major segments while extended use strategy as a strategy of increasing frequency of use or developing new ways to use the product. At the maturity stage market expansion strategy is defined as ‘a strategy of gaining new customers by targeting new or underdeveloped geographic markets or new customer or application segments.' The two versions of market expansion strategy seem to be different in terms of difference in the emphasis among elements of marketing mix. In Walker Jr. et al. (2006) version, market expansion strategy at growth stage seems to place more emphasis on product element of marketing mix, while at maturity stage the emphasis seems to be more on place element. Promotion appears to be more important element of marketing mix in the two alternatives to market expansion strategy. But conceptually these definitions appear to be overlapping.

Walker, Jr. et al contention that market expansion strategy is a proactive form of gaining competitive advantage is similar to what Narver, Slater and MacLachlan (2000) describe as proactive marketing orientation. Proactive marketing orientation involves focus on latent customer needs and hence leads to high level innovation [6,7].

In the past too terms similar to market expansion have been referred to by different authors in different ways. For example, Ansoff (1957) talked about 'market extension' strategy [8]. Weinberg (1969) had identified strategic trade off between 'penetration of existing markets' and 'development of new markets'[9]. According to McKay (1972) there are just three fundamental marketing objectives of which one is 'market enlargement', other two being market share increase and profitability improvement [10]. Weber (1976) wrote that a company may try to increase its sales by 'increasing the size of industry market potential' rather than fighting for market share [11].

'Expansion' and other similar terms used in the business and corporate strategy literature do not always mean expansion of market for a particular product category. For example, Glueck and Jauch (1984) suggest concentration, integration, diversification, cooperation and internationalization as different routes to expansion. But these strategies do not necessarily lead to expansion of market for a particular product category though it may lead to overall corporate level expansion of sales revenue and profitability [12]. Similarly, Ansoff (1957) in his product-market growth matrix talks about ‘market extension strategy’ and ‘market penetration strategy’[8]. But extension of market by reaching out to new market segments in present geographic markets is not the same as regional, national or international geographic expansion of a company’s sales. Former option leads to increase in primary demand for the product category. But in the later case a company might grow its sales by gaining market share from existing competitors in new geographic markets. Similarly, if market penetration is sought by converting non-customers into customers of the industry’s products, it leads to increase in the primary demand. But if market penetration is brought about by attracting competitor’s customers, it leads to increase in the selective demand for a specific brand.

2.2 Major Contributions to Market Expansion Related Literature

Proposed study is concerned with product category level expansion within a defined geographic market. Though scholars describe market expansion strategy in different ways in the extant literature, there appears to be a broad consensus that it is aimed at over all growth of market or creation of primary demand. Major references to market growth and primary demand are found in literature on marketing theory, demand management, diffusion of innovation, market response and other models, market driving strategies, competitive position based strategies, endogenous growth theory, blue ocean strategy, marketing to emerging markets in general and the bottom of the socio-economic pyramid in particular and managerial economics. In case of diffusion of innovation and market response models the survey of literature is largely restricted to understanding of applications of models in the context of market growth or primary demand creation.

2.2.1 Marketing Theory

Alderson’s (1957) functionalist theory of marketing is considered to be the pioneering effort in marketing (Baumol 1957) [13,14]. Alderson viewed marketing as an organized behaviour system and emphasized the successive sorting transformations needed to match the diverse variety of goods produced by different firms with the heterogeneous product requirements of individual consumers. This theory is based on the logic that in a market-based economy, survival of firms depends on a firm's ability to gain some advantage over other firms in seeking the patronage of specific intermediate buyers and /or ultimate households. This theory makes provision for market expansion through the suggestion that competing firms can use market segmentation as one of the bases of differential advantage by identifying segments of demand that competitors are not servicing (or servicing poorly).

After Alderson, many authors based their theories on the assumption that competition is the natural state of existence and the theories should enable firms to develop a competitive advantage. Hunt and Morgan (1996) proposed their Resource Advantage Theory of Competition as the conceptual basis for development of a general theory of marketing [15]. According to Hunt (2002) "because marketing takes place within the context of competition, a general theory of marketing should be consistent with the most general theory of competition [16]." Sheth (1996) argued that Hunt and Morgan's theory should be rechristened as the Resource Advantage Theory of Marketing [17]. Hunt and Morgan (1996) in their Resource – Advantage Theory of Competition, use the term competition primarily as a source of benchmarking of financial performance by one firm against others so that the firms can determine how efficient they are in utilization of resources as compared to competitors [15]. Hunt and Morgan (1995) define competition as the disequilibrating, ongoing process that consists of constant struggle among firms for a competitive advantage in resources that will yield a marketplace position of competitive advantage, and thereby superior financial performance [18]. Hunt (2002) clarifies that a firm's actions are motivated by desire for superior financial performance and not necessarily by the objective of harming competitors [16]. Hunt and Morgan (1996) emphasize the fact that a firm need not always innovate in response to competitor’s actions. It can pursue proactive innovation and anticipate potential market segments (unmet, changing, and/or new needs, wants and desires), envision market offerings that might be attractive to these segments, and foresee the need to acquire, develop or create the required resources to produce the envisioned market offerings [15]. Thus in marketing theory the term competition is not used in the context of existing markets only and it does not hinder growth of market.

Kotler (1976) does not use competition as the conceptual basis of marketing. He talks about marketing in terms of exchange and transactions. According to this theory marketing is specifically concerned with how transactions are created, stimulated, facilitated, and valued. While on one side of the exchange process is marketer, on the other side lies market [19]. According to Kotler role of marketing is to bring about mutually beneficial exchanges between two parties.

2.2.2 Demand Management

Kotler (1973) visualized a marketing manager as essentially a manager of various levels of demand. He identified specific situations in which a marketing manager is required to create demand. Four specific demand states make up under-demand: negative demand, no demand, latent demand, and faltering demand.

Negative demand is defined as a state in which all or most of the important segments of the potential market dislike the product and in fact might conceivably pay a price to avoid it. Kotler suggests conversional marketing in such a situation. Marketer’s chief task is to analyze the sources of the market's resistance; whether they lie largely in the area of beliefs about the object, in the values touched upon by the object, in the raw feelings engendered by the object, or in the cost of acquiring the object. If the beliefs are misfounded, they can be clarified through a communication program. If the person's values militate against the object, the object can be put in the framework of other possible values that are positive for the person. If negative feelings are aroused they may be modifiable through group processes or behavioral therapy. If the costs of acquisition are too high, the marketer can take steps to bring down the real costs.

No demand is a state in which all or important segments of a potential market are uninterested or indifferent to a particular object. Three different categories of objects are characterized by no demand. First, there are those familiar objects that are perceived as having no value. Second, there are those familiar objects that are recognized to have value but not in the particular market. Examples would include boats in areas not near any water, snowmobiles in areas where it never snows, and burglar alarms in areas where there is no crime. Third, there are those unfamiliar objects which are innovated and face a situation of no demand because the relevant market has no knowledge of the object. Examples include trinkets of all kinds that people might buy if exposed to but do not normally think about or desire. The task of converting no demand into positive demand is called stimulational marketing. A marketer can proceed in three ways. One is to try to connect the object with some existing need in the marketplace. The second is to alter the environment so that the object becomes valued in that environment. Thus sellers of motor boats can attempt to stimulate interest in boats in a lakeless community by building an artificial lake. The third is to distribute information or the object itself in more places in the hope that people's lack of demand is really only a lack of exposure.

At the beginning of the product's life, there may be only latent demand and the task is one of developmental marketing. A state of latent demand exists when a substantial number of people share a strong need for something which does not exist in the form of an actual product. The latent demand represents an opportunity for the marketing innovator to develop the product that people have been wanting. The process for effectively converting latent demand into actual demand is that of developmental marketing. The marketer must be an expert in identifying the prospects for the product who have the strongest latent demand and in coordinating all the marketing functions so as to develop the market in an orderly way. The sheer existence of a personal need may not be sufficient to justify its being served and satisfied. There are needs that people have which, if satisfied, are harmful to others or themselves through the spillover effects of consumption. Satisfying those needs may hurt a lot of people's interests. Thus it is no longer sufficient for a developmental marketer to say that his new product is justified because there is a real need for it. He may have to show that the need is salutary and the product will not lead to more social harm than private good.

All kinds of products, services, places, organizations, and ideas eventually experience declining or faltering demand. Faltering demand is a state in which the demand for a product is less than its former level and where further decline is expected in the absence of remedial efforts to revise the target market, product, and/or marketing effort. The challenge of faltering demand is revitalization, and the marketing task involved is remarketing. Remarketing is based on the premise that it is possible in many cases to start a new life cycle for a declining product. Remarketing is the search for new marketing propositions for relating the product to its potential market. Remarketing calls for a thorough reconsideration of the target market, product features, and current marketing program (Kotler 1973) [20].

2.2.3 Diffusion of Innovation

Diffusion models conceptualize market growth in terms of how many purchasing units adopt a product, as a function of time, and of the market’s propensity to innovate and to imitate. The diffusion of an innovation is defined as the process through which the innovation is communicated through certain channels over time among the members of a social system (Rogers, 1983) [21]. Communication channels constitute the means through which the innovation expands among the members of a social system. The underlying behavioral theory suggests that a time-lag exists during the adoption period among the different members of a social system. In the first stage of the diffusion process, the new product is discovered and adopted by a small group of innovative consumers, known as innovators who, with time, begin to influence others, known as imitators. Adoption refers to commitment to and continued use of the new product over time. For durable products, the adoption takes place after the first purchase. For non-durable products, it is necessary for the consumer to make several purchases (Conde, Maria del Enar Ruiz 2004) [22].

Bass (1969) pioneered the introduction of diffusion models into the marketing literature [23]. He suggests that the adoption process of a new durable consumer product is similar to the spread of an epidemic, in which people who have not adopted the innovation are “infected” by those who have (previous adopters) and are influenced by external sources like advertising. Mathematically, the central idea of the Bass model is that the conditioned probability of an individual adopting at time t, given that this individual has not already adopted, is a linear function of the number of previous adopters. Considering the rate of customer flow between two segments of the diffusion process, the potential market and the current market, Bass (1969) proposed the following growth model for durables:

$$n(t) = p[N - N(t)] + (q / N) [N - N(t)] N(t)$$

where $n(t)$ is probability of an individual adopting a new product at time t, $N(t)$ is number of adopters and $[N-N(t)]$ is potential adopters.

According to this model, the message about the product (through the mass media) is first picked up by a select few innovators who then "pass the word" to other members of the social system. Bass identified the constant p as the coefficient of innovation since the term containing the constant p in this equation represents adoptions without "interaction" with adopters. Similarly, he termed the constant q as the coefficient of imitation to reflect the word-of-mouth communication between adopters, N(t), and potential adopters, [N-N(t)]. He further illustrated that for a successful product, the value of q should be greater than the value of p.

Unlike basic diffusion model, Mahajan and Peterson (1978) consider the effect of marketing efforts on the product growth, and suggest that market potential changes over time and may even be affected by the exogenous variables [24]. The objective of advertising and distribution channels is to increase the awareness and availability of a new product. The effect of this activity may result in an expansion of the total potential market. They further suggest that due to increased competition and reduction in production costs as a result of learning, price reductions will place the product within the budgetary limitations of a great number of potential customers, thus expanding the total potential market of the product. Furthermore, they argue that the objective of product modifications and technological changes is to tailor the product to different segments as the interests of those segments become apparent. All this manifests itself in an expansion of the potential market (Mahajan and Peterson 1978) [24].

Mahajan and Muller (1979) conceptualize market as consisting of three segments [25]:

Untapped Market: This segment consists of consumers who do not know that the innovation exists or who, for whatever reason, are not considered as possible consumers of that innovation in the time period t.

Effective Potential Market: This segment consists of consumers from segment one who are potential consumers of the innovation in the time period t.

Current Market: This segment consists of consumers who have already bought the innovation in the time period t: the adopters of the innovation.

In general, five transfer mechanisms, which effect the flow of individuals from one segment to the next are; (1) mass-media communication, (2) word-of-mouth communication, (3) other marketing efforts, (4) individual experience with the product, and (5) exogenous factors (e.g., general economic environment).

In modeling the growth of the first-time buyers of a product, the basic diffusion models consider only two segments in the diffusion process: potential market and current market—and two transfer mechanisms to influence the potential customers to adopt the product—mass-media communication and word-of-mouth communication. Furthermore, these models assume a constant total population of potential customers over the entire life of the product. Mahajan and Muller (1979) consider flow of customers among all three segments.

A number of efforts have been made to extend these basic diffusion models. Robinson and Lakhani (1975) were pioneers in incorporating decision variables into diffusion models [26]. Olson and Choi (1985) extend the model of diffusion by incorporating replacement and, by considering a dynamic potential market. They introduce replacement into the model by adding replacement demand to the number of first-purchase buyers [27]. Kamakura and Balasubramanian (1988) extend the diffusion models by considering a dynamic potential market and by explicitly incorporating price. They report that price does not impact adoption probability of the lower-priced durables, while it impacts adoption probability for the relatively higher-priced durables [28].

Bass, Krishnan and Jain (1994) propose the Generalized Bass Model (GBM). They assume that price and advertising affect adoption rate. By incorporating effect of marketing decision variables on the coefficients of external (p) and internal influence (q) they show that price and advertising have significant effects for room air conditioners and clothes dryers, and price has a significant effect for color televisions [29]. Mesak (1996) extends the general diffusion model by incorporating distribution besides price and advertising. He finds that price affects external influence, advertising affects diffusion rate, and distribution affects the potential market [30].

As regards categorization of adopters on the basis of their timing of adoption Rogers (1983) assumes a normal distribution and five categories of adopters [21]. As compared to Roger's classification that assumes that the percentage of adopters for the five categories is invariant across innovations, Mahajan, Muller and Srivastava (1990) suggest that the percentage of adopters in each of the five categories vary across innovations [31]. This is shown in Table 2.1.

Table 2.1: Percentage of Adopters in Five Categories

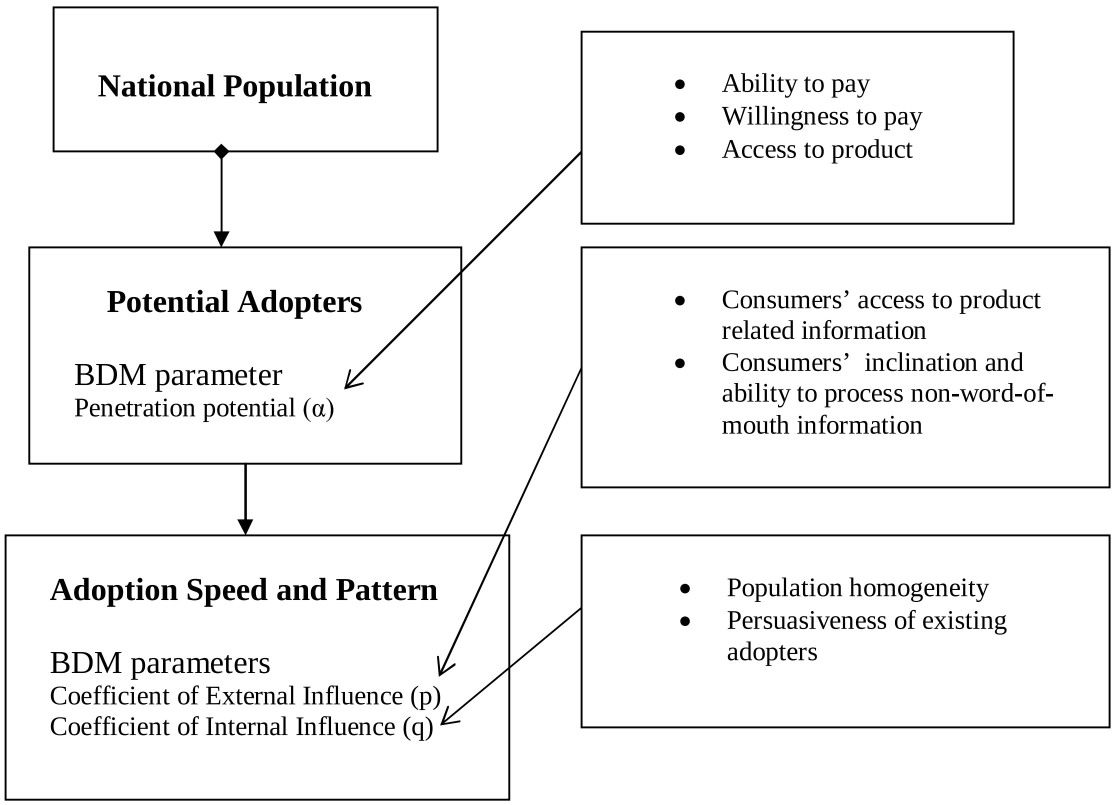
Categories of adopters	Innovators	Early adopters	Early Majority	Late Majority	Laggards
Roger's classification	2.5	13.5	34	34	16
Mahajan, Muller & Srivastava's classification	0.2 - 2.8	9.5 - 20	29.1 - 32.1	29.1 - 32.1	21.4 -23.4

2.2.3.1 Diffusion Models in the Context of Developing Countries

Most of the research on diffusion models is limited to industrialized countries. Little is known about the nature of the diffusion process in developing countries (Dekimpe et al. 2000) [32]. Only one comprehensive research was found on diffusion of products in developing countries. This study by Talukdar, Sudhir and Ainslie (2002) investigates the impact of a wide range of macro-environmental variables on diffusion of six product categories -VCR players, CD players, microwaves, camcorders, fax machines, and cellular phones [33]. To reduce the impact of repeat purchases on their estimates, authors of this study use sales data only from within the first nine years of product introduction in a country. Figure 2.1 shows a conceptual framework used in this study to operationalise BDM parameters in the context of developing countries.

In this study ability to pay has been operationalised through Purchasing Power Parity (PPP) adjusted average income per capita, while willingness to pay for a new product has been oerationalised in terms of number of substitute (landline phones Vs Cellphones) and complementary products (landline phones and fax machines). Access has been measured in terms of openness of economies (share of exports and imports in GDP) and levels of urbanization (% population in urban areas).

Figure 2.1: Conceptual Framework for Study of Diffusion of Innovation



Source: Talukdar, Sudhir and Ainslie (2002)

The strength of coefficient of external Influence (p) is assumed to increase with: (1) consumers' access to product-related information (number of minutes of incoming and outgoing international telephone calls and penetration level of TV and newspapers), and (2) consumers' inclination and ability to process information from non-word-of mouth communication channels (illiteracy level across countries).

The strength of coefficient of internal influence (q) is assumed to increase with: (1) population homogeneity and (2) the persuasiveness of consumers who have adopted the product. Three measures used for population homogeneity and opportunities of interaction are: Gini Index as a measure of income heterogeneity, the number of distinct ethnic groups, and number of working women in a labour force. The persuasiveness of recommendations is likely to increase with the satisfaction and familiarity of existing adopters with the new product. Authors in this study operationalize the relative level of satisfaction and familiarity of existing adopters in a country for a new product in terms of the number of years that the new product introduction in that country lags behind the introduction in the lead country.

For consumer durables the average penetration potential for developing countries is about one-third (0.17 versus 0.52) of that for developed countries. Horsky (1990) finds the mean value of alpha to be 0.805 with a range of 0.57-1.0 across four product categories for the USA [34]. However, given the high populations in many developing countries, even a penetration potential of 0.17 signifies huge market opportunities in major emerging markets. It takes developing countries on average 17.9% (19.25 versus 16.33 years) longer to achieve peak sales (Talukdar et al 2002) [33].

Talukdar et al (2002) report that the penetration potential has strong positive relationship with PPP adjusted per capita income as also with openness of economy (trade) and level of urbanization. For every 1% change in PPP adjusted per capita income, the market penetration potential for a country is likely to change by about 0.3%. Similarly, a 1% change in international trade or urbanization level can potentially change the penetration potential by about 0.5% and 0.2% respectively. While the relationships between penetration and the presence of complementary products were not found to be significant, many of those relationships are in the right direction. With respect to the estimated effects of the various variables on the coefficients of external and internal influence (which determine the speed of diffusion), a strong negative result for illiteracy level is found. Authors find evidence that an increased ethnic diversity in a country is likely to inhibit the social communication process by which consumers learn about a new innovation.

Results of this study show that developing countries have lower coefficients of innovation and higher coefficients of imitation than developed countries. With respect to the coefficient of internal influence (imitation effect), the Gini Index becomes significant in case of consumer products [33].

An important application of this study is that managers can decide what experience they should weigh more strongly when forecasting market potential and diffusion speed. Authors report that past experiences of other products in a country (country effects) are relatively more useful to explain the ultimate penetration level, past experiences in other countries where a product was introduced earlier (product effects) are more useful to explain the coefficients of external and internal influence (and thus the speed with which the product can be expected to attain peak sales). It will be interesting to see if these findings can be extended to learnings from within and among various states of India. For instance, can past experience of Television category in Maharashtra be used for explaining the ultimate penetration level (cumulative sales) of a relatively under-penetrated category like microwave ovens in the same state. Similarly, can past experience of Television category in Maharashtra be used to understand the speed with which the same product can be expected to attain peak sales in under-penetrated state like Bihar.

Another important application in the context of market expansion strategy is that managers can identify the macro environmental factors which limit the penetration potential and the speed of adoption and subsequently decide what can they do about (at firm and/or industry association level) it to make the environmental factors more conducive to increase market potential and speed of diffusion. There are two schools of thought on the relationship between marketing and environment: the determinist and the activist (Duhaime et al. 1985) [35]. The determinist school believes that marketing responds to the environment and plays an essentially passive role in development. By and large, companies market to profitable segments and wait for macroeconomic and social conditions to increase the numbers of that segment (Prahalad and Lieberthal 1998) [36]. The activist school believes that marketing influences the environment and plays an active role in development. Some scholars advocate activist school of marketing in the context of developing countries like India (Vaswani et al. 2005) [37]. Activist school of marketing forms the basis of marketing to the bottom of the pyramid. Long ago Drucker (1954) observed “Managing implies responsibility for attempting to shape the economic environment, for planning, initiating and carrying through changes in that economic environment for constantly pushing back the limitations of economic circumstances on the enterprise’s freedom of action” [38].

2.2.3.2 Affordability Based Model

Based on affordability Golder and Tellis (1998) propose an alternative to diffusion models [39]. Generally new consumer durables first appear as very expensive items. Even though information about these products is available, they become attractive, first only to wealthy consumers, when their prices drop a little. Further, only when prices drop substantially do they appeal to the mass market (Holak, Lehmann and Sultan, 1987) [40]. By observing the history of new product introductions over time, consumers can learn that if they wait long enough, they can get today's hot item at a substantial discount tomorrow (Narasimham, 1989) [41]. Therefore, many consumers may delay their purchases until prices decline or incomes rise sufficiently.

Affordability based model uses four explanatory variables- price, income, consumer sentiment, and market presence as the major determinants of sales growth for consumer durables. The short-term sales fluctuations may happen due to changes in consumer sentiment. As the aggregate economy changes, so do consumers' confidence in their current or future economic security. This confidence affects consumers' tendency to spend, especially for large discretionary items, such as durables. The market presence variable captures the effect of interest and excitement among consumers and the opportunity to observe the product (Golder and Tellis 1998) [39]. Affordability based models highlight the importance of forecasting of learning curve and experience curve effects.

2.2.3.3 Product Life Cycle

Product life cycle concept is an extension of diffusion theory. Though product life cycle is one of the most widely used normative frameworks in marketing and business strategy (Hofer 1975, Rink and Swan, 1979) critics argue that it considers growth rate as an independent variable (Dhalla and Yuspeh 1976, Lambkin and Day 1989) [42, 43, 44, 45]. Never the less this framework is included in the literature survey because among the strategy prescriptions corresponding to various life cycle stages it includes strategies and programmes for primary demand creation and market expansion. Traditionally literature in marketing strategy has recommended creation of primary demand as a strategic marketing objective in the introductory phase of life cycle. Market expansion strategy is recommended at the growth stage. It involves new product offerings or line extensions aimed at variety of new user segments and increased distribution coverage (Kotler and Keller 2007) [2]. Stimulation of primary demand is again recommended in the late growth and early maturity stage by promoting new or more frequent uses, and by entering new geographic or application segments. Two important tasks have been identified for primary demand creation: (1) increasing customer's awareness and willingness to buy and (2) increasing customer's ability to buy. Marketing programmes to increase customer's awareness and willingness include: stressing generic benefits of a product over other solutions being used by the customers, sales promotion campaigns to induce product trial, free product trial, liberal return and extended warranty to policies to reduce customer's perceived risk of adopting a new product. In order to increase customer's ability to buy a penetration pricing is suggested if the broad strategy is mass or niche penetration. Other suggested marketing programmes include: extended credit terms to encourage initial purchase, trade promotion to obtain shelf space, and service support to increase new product's compatibility with customer's current operations, if any, so that switching cost can be lowered (Walker, Jr et. al. 2006) [6]. Generic advertising increases primary demand by attracting new consumers, increasing per capita consumption of the product, and lengthening the product life cycle (Friedman and Friedman 1976) [46].

2.2.3.4 Limitations of Diffusion Models

Despite efforts of Hahn, Park, Krishnamurthi and Zoltners (1994) to extend diffusion models to non-durables [47], use of diffusion of innovations has largely remained restricted to consumer durables. Conde, Maria del Enar Ruiz (2004) observes that the results obtained by various authors suggest that the validity of the alternative diffusion models can not be generalized; it depends on the type of products and even the type of brand [22]. There is no unified framework to provide guidelines on which marketing variables to include or where and how to specify marketing variables within diffusion models (Dockner and Jorgensen, 1988) [48]. In marketing, the normative use of diffusion models has focused mostly on developing optimal strategies for two marketing variables: price and advertising, and for the timing of product introductions (Conde, Maria del Enar Ruiz 2004) [22].

Scholars point out that the forecasting inaccuracy of Bass model and its extensions is most acute when it is most important i.e. at the sales peak. Most managers would like to know when sales of their new product will slow down (Golder and Tellis 1998) [39]. This is an important point for a consumer durable firm as it affects its choice of customer mix in terms of first time buyers and replacement buyers.

2.2.4 Market Response and Other Models

Some market response models investigate the effects of marketing effort on primary demand or market growth. These models are based on the distinction between the market share switching and primary demand stimulation effects of marketing efforts (Hanssens 1980) [49]. According to Schultz and Wittink (1976) when the effect of a brand's advertising is to increase its own sales without affecting competitive sales, it is called primary sales effect of selective advertising [50]. When the effect of a brand's advertising is to increase its own sales and that of its competitors, it is called the primary demand effect of selective advertising. In addition, the situation where the effect of a brand's advertising is to increase its own sales and to decrease sales of its competitors can be referred to as competitive advertising. Schultz and Wittink proposed a theoretical model to isolate the primary and secondary effects of advertising.

A study of a city pair of the U.S. domestic air travel market, where three major airlines compete on the basis of flight scheduling and advertising, was one of the first attempts to empirically validate Schultz and Wittink's ideas. The conclusions of this study were: First, the advertising expenditure did not generate any previously untapped markets or market segments, which means that any potential advertising effects in these markets were competitive. Second, the primary demand effects of number of flights existed, but they were not symmetric; the two large competitors in this market were able to expand the market size by offering more flights. In contrast, the smaller competitor did not influence industry demand. A tentative conclusion for flights as a marketing variable was that all three airlines could increase passenger sales by manipulating flight service, but for different reasons: the two major airlines drew upon new customers (or more frequent purchases by current customers), whereas the smaller airline caused brand switching by current users.

These findings indicated that number of flights affected passenger levels positively, although with decreasing returns to scale. The reasons for this positive effect were market expansion in the case of the two major carriers and competition in the case of the smaller airline. There was no evidence, however, that advertising had a direct impact on market share or total industry demand (Hanssens 1980) [49].

A study of Italian market of an alcoholic drink (whisky) conducted over a 7 year period reports that the effectiveness of the aggregate advertisement on the aggregate consumption of whisky seems to be weak; advertising can influence the market shares of some of the companies belonging to the sector, but cannot influence the overall whisky consumption (Cavaliere and Tassinari 2001) [51]. Similar results, finding no effect of advertising on consumption, are reported by several authors, such as Franses (1991) [52], with regard to the primary demand in the Dutch beer market, Lee and Tremblay (1992) [53], who investigated the US beer market, and Duffy (1999), who addressed the influence of advertising on the patterns of food consumption in the UK [54]. Authors of the Italian study conclude that advertising is non-effective at the overall market level, it could be effective only in driving selective demand, e.g. in expanding brand market shares at the expense of competitive brands. On the contrary they concluded that sales drive advertising, as usual in many markets where market shares are stable [51]. However these kinds of findings are highly product category and market specific.

Advertising can also be used to encourage new or different use of a brand. It is referred to as usage expansion advertising (Wansink 1994) [55]. The most typical forms of usage expansion advertising are non-comparison, product comparison, and situation comparison ads. A non-comparison ad simply states that the target brand is a reasonable choice for the target situation (e.g., "Eat Campbell's soup for breakfast because it is hot and nutritious"). A product comparison ad associates the target brand with the target situation by comparing the target brand with another product already favorably associated with that situation (e.g., "Eat Campbell's soup for breakfast because it is hot and nutritious like hot cereal'). A situation comparison ad associates the use of the target brand in the target situation with its use in another situation that is already favorably associated with the brand (e.g., "Eat Campbell's soup for breakfast because it is as hot and nutritious as it is with lunch"). Product comparison ads associate the target brand with the target situation by comparing the target brand with another product already favorably associated with that situation. Situation comparison ads associate the use of the target brand in the target situation with its use in another situation that is already favorably associated with the brand. Situation comparison ads essentially frame the new behavior as a complement to an existing behavior, whereas product comparison ads frame the new behavior as a substitute for an existing behavior (Wansink and Ray 1996) [56].

In an experimental study it was found that subjects who saw situation comparison ads increased their overall usage more than those who saw product comparison ads (2.7 versus 0.8). Advertisements that frame the new behavior as a complement to an existing behavior (i.e., a situation comparison ad) are more effective at generating stronger attitudes and influencing behavior than those that frame the new behavior as a substitute for an existing behavior (i.e., a product comparison ad). These findings indicate that advertisements that try to change usage behaviors may fail if they attempt to alter existing usage patterns too directly (Wansink and Ray 1996) [56].

Effect of media scheduling on product usage has also been studied. Scholars suggest that the ideal timing of an exposure should coincide with when a usage choice has the highest likelihood to be made (Deighton, Henderson, and Neslin 1989) [57]. For instance, Campbell's soup schedules its radio advertisements to be broadcast just prior to lunch and dinner (Wansink and Ray 1996) [56].

Because generic advertising promotes the general qualities of the product category, it benefits all the firms in the category regardless of whether or not they paid for the advertising. Competing firms can benefit from the firm’s contribution by free-riding, i.e., by not spending significant amounts of their own money on generic advertising (Krishnamurthy 2000) [58]. On the basis of their theoretical model Bass, Krishnamoorthy, Prasad and Sethi (2005) conclude that a firm must properly coordinate generic and brand advertising, and neglecting one of the two will lead to suboptimal allocation of the advertising budget [59]. Although there is free-riding, the stronger (with more effective generic and brand advertising) firm is better off tolerating this free-riding because this does not affect its long-term profitability greatly.

Sales promotions are often used by marketers to grow sale. But the sales increase for a brand due to price promotion could be due to consumers accelerating their purchases (forward buying purchase incidence), or buying more than usual (stock piling), or consumers switching brands. A seminal contribution to modeling sales promotion effects is Gupta's (1988) study in which he distinguishes three components of household response: category purchase timing, brand choice, and purchase quantity [60]. In the coffee category, Gupta finds that the percentage of own-brand sales elasticity with respect to a particular promotion that is due to brand-switching elasticity is 84%, that is due to purchase acceleration elasticity is 14% , and that is due to quantity elasticity is 2%. Ailawadi and Neslin (1998) show that promotions lead to increased consumption in yogurt category [61].

In a study involving 173 brands across 13 different product categories it was found that in total sales elasticity 75% of the effect is due to secondary demand (brand switching) and 25% due to primary demand (Bell, Chiang, and Padmanabhan 1999) [62]. Authors of this study have made a maiden attempt to make some empirical generalizations about effect of price promotions on nature of demand. They report that price promotions result into demand dynamics that vary systematically across categories and this variance is related to the apparent effect on consumption. Some categories (e.g., bacon, potato chips, soft drinks and yogurt) show increased average quantity on promotions but no subsequent change in inter-purchase time, which implies that promotions increase consumption in these cases. In other categories (e.g., bath room tissue, coffee, detergent, and paper towels) stockpiling effects are more consistent with forward buying only (i.e., increased purchase quantity and increased inter-purchase time leading to no increase in total consumption)

Factors which explain variability in promotional response have been identified as follows:

(1) Category factors capture consumer perceptions about assortments on offer and influence consumer's budget allocation process, (2) Brand factors capture consumer perceptions of the brand's quality per unit price, (3) Consumer factors are the demographic profile of consumers expressed in terms of income, age and education.

Category specific factors are reported to explain most of the responses to price promotions. Brand specific factors play a modest role and the characteristics of a brand's core clientele have relatively little explanatory power. Share of budget and storability are two category specific factors that play a large role. Share of budget decreases the switching elasticity, but increases quantity elasticity, while storability increases both. However, greater the storability of a product, greater is stockpiling. That means even though promotions increase purchase quantity, inter-purchase time also increases resulting into no apparent increase in total consumption (Bell, et. al. 1999) [62]. Price promotion effectiveness is higher in perishable product categories (Ailawadi and Neslin 1998, Bell, et. al. 1999, Nijs, Dekimpe, Steenkamp, Hanssens, 2000) [61, 62, 63].

In a study based on household panel data for the ketchup and yogurt categories, scholars have tried to probe deeper into stockpiling effects of sales promotion. The resultant extra inventory can have four effects: "consumption effect" (extra household inventory leads people to consume more of the category), "loyal acceleration" (extra inventory preempts future purchases of the promoted brand), "preemptive switching" (extra inventory preempts future purchases of competing brands) and "repeat purchase effect" (extra inventory affects future brand choice after the promotion). Consumption effect is a benefit to the marketer (Ailawadi, Gedenk, Lutzky and Neslin 2007) [64]. But loyal acceleration is a cost to the marketer because the marketer's profit margin is typically lower during promotion periods than during non promotion periods (e.g., Neslin, Powell, and Stone 1995) [65]. Preemptive switching is a benefit to the marketer because it takes consumers out of the market for competing brands. If the extra inventory affects future brand choice after the promotion, this can either benefit or hurt the marketer, depending on whether the brand's future purchase probability increases or decreases (Ailawadi et.al.2007) [64].

Authors of ketchup and yogurt study report that in both categories, increased consumption dominates, followed by preemptive switching and loyal acceleration and, finally, repeat purchases. Market leaders, such as Heinz (in Ketchup category), experience substantial acceleration of their own future sales, but the financial benefit of stockpiling is still high for these brands because the absolute size of their promotion bumps is large and so is the consumption component. Loyal acceleration is an important cost of stockpiling, but it can be offset by benefits of increased category consumption, preemptive switching and a potential benefit of repeat purchase of a stockpiled brand after the promoted. The large magnitude of loyal acceleration in case of Heinz is consistent with Macé and Neslin's (2004) finding that high-share brands experience the largest post promotion dips. But the longer-term consumption effect is not negative for a leader brand, Heinz [66]. A negative effect can occur if the household switches to a less preferred brand on promotion, which lowers future purchase incidence (Ailawadi et.al.2007) [64]. One of the limitations of this study is that it does not consider post promotion effect from long term perspective.

In another much broad based study involving 560 product categories over a 4 year period, scholars have tried to study short term and long term effects of price promotions. In short run, price promotions significantly expand product category demand in 58% of the cases.

Price promotion effects typically last for around 10 weeks, and their long term effect converges to zero in 98% of the 560 categories investigated (Nijs et.al. 2000) [63]. The frequent use of price promotions makes them a more important component in consumers' motivation to buy from a category, as they are conditioned to look for, and rely on, future promotions for a product purchase (Mela, Gupta, and Jedidi 1997) [67].

Use of non-price advertising is found to be an influencing moderator. Advertising creates differentiation among brands in the category, which reduces consumers' price promotion sensitivity at the category level (Nijs et al. 2000) [63]. This is consistent with some previous studies (e.g., Cavaliere and Tassinari 2001, Hanssens 1980) [54, 50]. However, advertising might have different type of effect on new usage pattern (e.g., Wansink and Ray 1996) [56]. Overall effectiveness of the advertising campaign is also reported as an important factor affecting category level demand (e.g., Bass et al. 2005) [59].

The successful introduction of new products is more frequently associated with a permanent increase in category demand. In 496 out of 560 categories a major new product was introduced, and in 30% of these categories new product introduction had a significant expansive effect on category demand. In another study it was found that larger pack sizes increase the amount of product use at one time (Wansink 1996) [68].

A very important finding of study by Nijs et al. (2000) is that category demand is predominantly stationary over a four year period. Only in 7.5% of cases (i.e. 42/560) the category demand was found to be evolving [63]. This explains why Kotler and Keller (2006) state that most marketing managers deal with mature products [2]. However an important point to be noted is Nijs et al. study is based in developed markets like The Netherlands, where product penetration and consumption levels are pretty high and hence results of these kinds of studies need to be looked upon very carefully in the context of a developing country like India. In fact authors of this study state that “it remains to be seen whether these findings can be generalized to other countries [63].”

A frequently used interpretation of decomposition of a promotional elasticity is that if a brand gains 100 units during a promotion, and 74% of the sales elasticity is attributable to brand switching, other brands in the category (are estimated to) loose 74 units. Scholars argue that that this interpretation is incorrect because the secondary demand component of the elasticity decomposition cannot be interpreted as the ratio of the loss in sales of competing brands to the gain in sales of the promoted brand (i.e., 74% of the elasticity is not equal to 74 of 100 units). The incorrect interpretation is due to the fact that category volume is held constant when the cross-brand (secondary demand) effect is assessed. The measure for the cross-brand effects should account for a changing category volume (van Heerde, Gupta and Wittink. 2003) [69]. The elasticity decomposition approach keeps the category constant when the brand-switching percentage is calculated (Bucklin, Gupta, and Siddarth 1998) [70].

van Heerde et al. (2003) present an alternative approach of decomposition of sales promotion effect in terms of unit sales [69]. The unit-sales decomposition accounts for the possibility that part of the category expansion effect goes to non promoted brands. Other brands may have a net gain in sales from the promotion of the focal brand. This occurs if the loss in sales for a non promoted brand due to brand switching effect of promotion of focal brand is smaller than the gain from the total category expansion that goes to the non promoted brands. van Heerde et al. (2003) report that the cross-brand component which is approximately 75% of the total effect in sales elasticity decomposition approach, translates to a 33 % using unit-sales decomposition approach. That is, if the promoted brand gains 100 units, other brands lose 33 units if the net effect is used [69].

In another study price promotion was studied with two other variables: feature addition and display. Further the primary demand effect was split into a cross-period and a category-expansion effect (van Heerde, Leeflang, and Wittink 2004) [71]. Cross-period effects are the part of primary demand effects that represent temporal shifts in sales, due to both lead effects and lagged effects. Category expansion is the part of the primary demand effect that is not due to temporal shifts, and it may include increased consumption (Ailawadi and Neslin 1998) [61], category switching (Walters 1991) [72]. This study is based on two American (tuna, tissue) and two Dutch (shampoo, peanut butter) weekly, store-level, scanner datasets. It confirms finding of an earlier study that on average across four categories, if a price promoted brand gains 100 units, the net loss for other brands is 33 units, so the secondary demand effect is about 1/3. The cross-period effects and category-expansion effects on average also capture about 1/3 each of the effect in increased sales of promoted brand. The cross-period and category-expansion effects are based on a time window of 6 weeks (van Heerde, Leeflang, and Wittink 2004) [71].

The study further reports that on average the largest category expansion effects occur for price cuts supported with feature and display followed by display-only supported discounts, feature-only-supported discounts in that order. Unsupported price discounts appear to have negligible effect on category expansion (van Heerde, Leeflang, and Wittink 2004) [71].

Price cuts as a most preferred type of sales promotion scheme has also been reported in a study of toilet soap category in India. The role of word of mouth and television advertising was also underlined in providing information inputs to the consumers regarding sales promotion activities. This finding was based on high unaided recall of sales promotion schemes which were widely advertised. However, sales promotion schemes seemed to be aimed at upgrading consumers of economy/ popular brands to popular/premium soap brands respectively rather than trying to promote higher usage (Kureshi and Vyas 2002) [73].

Another study reports that the bonus pack scheme (extra quantity for same or reduced prices) is the most frequently used sales promotion tool in fast moving consumer products categories followed by the free gift offers and price offs. Based on their observation that more often, medium to large pack-size was promoted in all categories (except the toilet soap category), scholars concluded that the main objective of these schemes was to ‘load the consumer’ and thereby warding off competition temporarily (Vyas 2005) [74]. However in neither of these studies conclusions about the objectives of sales promotion schemes are based on pre and post promotion sales analysis.

These results can be explained using customer perceived value construct. Customers tend to be value maximizers within the bounds of search costs and limited knowledge, mobility and income (Kotler and Keller 2007) [2]. The most effective combination of price cuts supported by features and display offers maximum value to the customer. A combination of price cuts and feature addition is similar to what Kumar (2004) describes as discontinuous leap [75]. It appears that price cuts are more effective than feature addition as far as category expansion is concerned. These findings have two important lessons. First, a discontinuous leap in the value proposition may help in category expansion. A discontinuous leap in value proposition and a unique value network are the essence of a market driving strategy (Kumar 2006) [75]. Second, a value enhancement without adequate communication support may not be effective. That is the reason value communication is an integral part of value creation and delivery process (Kotler and Keller 2007) [2].

Scholars caution that for marketers strong cross-brand effects are beneficial in the short run, but these could evoke severe competitive reactions after some time that nullify the initial benefit (Leeflang and Wittink 1996) [76].

Like in case of consumer non-durables, primary demand for consumer durables can originate from new customers (first time buyers) and/or more purchases from existing customers. First time purchases of durables have been largely accounted for in literature on diffusion of innovations. Generally, replacement purchases can occur as a result of situations that are "forced" or “unforced" (Bayus1988) [77]. A product failure, for example, would create a forced purchase situation, whereas unforced situations could include replacements of working units because of changes in style preferences. A consumer who already owns a product that is still functional may “upgrade” to an enhanced product (Okada 2001) [78]. The consumers who purchase an enhanced product may not necessarily dispose of the existing product (Okada 2006) [79].

Because of the long expected life-time of durables, replacement decisions can often be postponed by the consumer (Bayus 1988) [77]. As a result most modeling studies in the context of consumer durable replacement sales focus on identifying consumer characteristics affecting replacement decisions. For instance one study reports that home appliances are held for a shorter period of time if the household is of higher income, the head of household is younger in age, the children live in the household, and the family has moved recently (length of stay at current address) (Tippett, Magrabi, and Gray 1978) [80]. In a study of automobile industry it is found that reports that "early" automobile replacers generally have high incomes and are concerned with brand styling and image, whereas "late" replacers have high educational and occupational status and are concerned with cost-related product attributes. In addition, search activity and usage of mass media sources differ across replacer segments (Bayus 1991) [81]. In case of heating equipments and air conditioners age of the head of the household is an important variable in replacement decision. In particular, older heads of households tend to replace their equipments later than younger ones. It is reported that variables like income, living in an urban area and poor credit rating are not significant variables. But cost of electricity and equipment characteristics appear to be relevant besides climatic differences across regions of United States of America (Fernandez 2000) [82].

Based on identified consumer characteristics, Bayus and Mehta (1995) propose a segmentation model for targeting potential consumer durable buyers [83]. This model takes into account the timing of replacement purchases (i.e. the age of the current unit in use), as well as household information. Using this model a marketer can identify prime segments of durable owners for which targeted marketing strategies can be developed.

Scholars have also examined effects of marketing mix variables on replacement sales. For instance, Hofer and Reilly (1984) examine the relationship between automobile sales growth and styling changes. They find that styling changes are significant in explaining variations in sales growth between various categories of cars. Though they do not explicitly examine forced replacements, rate of styling change is unlikely to have a strong influence on either forced replacements or first-time buyers [84]. Hence, the reported relationship is likely to be due to unforced replacements (Steffens 2001) [85]. Bayus (1988) explicitly measures forced and unforced replacement ages for colour televisions [77]. He reports that the mean replacement age for unforced replacements to be less than that of forced replacements. He further shows that the marketing variables of price, advertising, new features and styling are related to the timing of discretionary replacements. Price has the most impact in accelerating replacement purchase (Bayus 1988) [77]. Promotional efforts (i.e., price deal and special financing offered) are associated with accelerating automobile replacement purchases. Magazine advertising may be an effective way to reach early replacers, whereas newspaper advertising may have more influence on the late replacers (Bayus 1991) [81].

Steffens (2001) argues that changes in factors such as product reliability/durability, price, repair costs, scrapping values, styling and economic conditions result in changes in the mean replacement age of units [85]. He develops a model for such time-varying replacement behaviour and empirically tests it in the Australian automotive industry. He demonstrates that there has been a significant increase in average aggregate replacement age of motor vehicles in Australia over the last 20 years. The model further demonstrates that average new car prices have a significant impact on replacement behaviour.

2.2.4.1 Limitations of Market Response Models

Most of the market response models are stimulus-response-type models. Most models involve one or two marketing variables at a time. Most of the research focuses on advertising and neglects other important marketing activities such as new product development and marketing research (Bhardwaj, Clark and Kulviwat 2005) [86]. Overall the market expansion role of advertising has been understudied relative to its share expansion role. Bass et al (2005) model is restricted to a duopoly situation and it has not been empirically validated [59]. Most generalizations are category and country specific (mostly developed countries). Most models are based on aggregate or household level data which is not easily available in developing countries like India. While literature on diffusion of innovation is dominated by consumer durable studies, market response models deal more with consumer non-durables.

2.2.5 Market Driving Strategies

Market orientation forms the basis of modern marketing. However scholars note that the interpretation of market orientation has been mainly in terms of market-driven strategies that are based on a firm’s reaction to changes in the marketplace (Jaworski, Kohli, and Sahay 2000) [87]. When a market orientation philosophy is carried out through a market-driven strategy, there is no guarantee that a sustainable competitive advantage can be achieved (Slater and Narver 1995) [88]. If every actor in the market follows a market-driven strategy and every firm adapts to competitors’ strategic moves and stays aligned with consumers requirements, then no actor will be able to offer a value proposition superior to the competition. To achieve a superior business performance, firms need to actively influence the market rather than being only reactive to it (i.e., be capable of driving markets) (Jaworski et al. 2000) [87].

Market-driving strategy involves offering products or services that do not necessarily correspond to existing consumers' needs. Market-driving firms engage in forward sensing of the market. The activity of forward sensing implies that market-driving firms strive for understanding the market not only in order to respond to it but also in order to modify its structure and the behaviors of customers and competitors through interactive learning. Through interactive learning, market-driving firms are successful at launching radically new products because they are able to educate consumers about the existence and value of the innovations (Kumar et al. 2000) [89].

The enhancement of the firm's capabilities and the creation of new customer value opportunities correspond with the two dominating perspectives on market-driving (Carrillat, Jaramillo, and Locander 2004) [90]: (1) an internal focus that refers to the strengthening of the firm's ability to create innovative products delivered through unique business systems (Kumar et al. 2000) [89], and (2) an external focus that consists of the firm's ability to disrupt the market (Jaworski et al. 2000) [87].

Market-driving firms have the ability to generate intra-firm innovations valued by customers (Kumar et al. 2000) [89]. Radical innovations strengthen the capabilities of the firm through two dimensions: (1) a discontinuous leap in value proposition made to customers, and (2) a unique business system (Kumar et al. 2000) [89]. A discontinuous leap in value proposition involves a leap in benefits, while reducing the sacrifices and compromises that customers make to receive those benefits (Stalk, Pecaut, Burnett. 1996) [91]. The leap in customer value is produced by innovations that translate into superior technological and/or marketing capabilities (Kumar et. al. 2000) [89].

A discontinuous leap in value proposition does not necessarily mean offering products with added features. Christensen (2003) gives several examples of what he describes as disruptive technologies which generally underperform established products in the mainstream markets [92]. Products based on disruptive technologies are typically cheaper, simpler, smaller, and frequently, more convenient to use. For instance, desktop personal computers had much lower computing capacity than IBM’s mainframe which IBM kept on improving by listening to best of its customers. He cautions marketers that technology can improve to a point that market demand for a given dimension of performance is satiated. Customers may become less willing to pay for further improvement in performance on that dimension. This is called as “performance oversupply.” On the other hand there may exist an untapped market at the lower end which accepts lower (as compared to established) product performance on that dimension albeit at reduced price.

Based on a study of twenty five market driving firms (Kumar et al. 2000) [89] following marketing strategies have been suggested by Kumar (2004) [75]:

1. Lead by vision rather than market research: Customers can not visualize the revolutionary products, concepts, or technologies themselves. Market driving firms are led by people with a compelling vision, who see an opportunity where others do not – an opportunity to fill latent, unmet needs or to offer an unprecedented level of customer value. For instance, Aravind Eye Hospital in India, led by a retired eye surgeon Dr. G. Venkataswamy, devised a plan in 1976, to serve 20 million residents of India who were blind from catracts. In 2002, Aravind Eye Hospital served 1.4 million patients and performed 2 lakh eye surgeries.

2. Redraw industry segmentation: For instance, Arvinda Eye Hospital did not accept the normal segmentation based on income (rich and poor).

3. Create new price points for value: For instance, Arvinda Eye Hospital perform almost free surgeries on poor patients. It has a gross profit margin of 50% despite the fact that 65 % of the patients served do not pay.

4. Educate customers for sales growth: Since market driving firms create radically new product customer awareness creation and education on benefits and usage becomes important.

5. Reconfigure channels: For instance, FedEx transports packages using its own planes via a "hub and spokes" airfreight system rather than "point –to-point" commercial flights used by competitors.

Jaworski et al. (2000) visualize two dimensions of market driving strategy: (1) shaping the market structure and (2) shaping behaviors of the market players. Market structures can be modified either by deconstruction (eliminating players in the value chain), construction (adding players into the industry value chain), or functional modification (shift the functions performed by players in a market) [87]. Market behaviors can be shaped directly or indirectly by changing the mindsets of players in the market (i.e., customers, competitors and other stakeholders). There are four strategic options for shaping the behavior of the market directly: (1) building real or imagined customer constraints, (2) removing customer constraints, (3) building competitor constraints and (4) removing competitor constraints. (Jaworski et al. 2000) [87]. On the other hand, there are four possible strategies to shape market behavior indirectly: (1) creating new customer preferences, (2) reversing existing customer preferences,(3) building new competitor preferences and (4) reversing existing competitor preferences.

Hills and Sarin (2003) observe that market driving activity might take place at three levels: industry level, market level and product level [93]. Hence, it is evident that some of the market driving activities go beyond altering an industry structure in terms of competitive advantage and market share of served markets. Because market driving strategy can lead to creation of new market demand (Kumar 2004) [75], it is relevant in the context of market expansion.

2.2.6 Competitive Position Based Strategies

Depending upon the competitive position and the competitive stance that a firm wants to adopt, it may chose to expand the total market or concentrate on defending or expanding its market share. A firm with largest market share is called market leader. One or more other firms are market challengers in that they are large and willing to fight one another and the leader for territory. Still other firms are large but play the role of market followers, being content with their current positions in the market and wishing not to rock the boat. Finally, several smaller firms are market nichers that serve small market segments which usually do not attract the interest or actions of the larger firms (Kotler and Singh 1980) [1]. Market leaders can decide to expand the total market by targeting new customers or by promoting more usage from existing customers of a product category.

A challenger firm can also try to gain major share of first time buyers by mounting what is called as a flanking attack. A flanking attack can be directed against a competitor along two strategic dimensions - geographical and segmental. A potentially powerful, flanking strategy is to spot uncovered market needs not being served by the leaders: German and Japanese automakers chose not to compete with American automakers by producing large, flashy, gas-guzzling automobiles, even though these were supposedly the preference of American buyers. Instead, they recognized an unserved consumer segment that wanted small, fuel-efficient cars, and moved vigorously to fill this hole in the market (Kotler and Singh 1980) [1]. Though flanking attack was originally conceptualized as a market share growth strategy it ultimately leads to market growth. For instance, Philip Morris steadily improved its share of the cigarette market throughout the 1970s due to company's heavy support for Merit, a low-tar brand that apparently had special appeal for health-conscious smokers. With similar heavy support, Philip Morris's Miller Beer subsidiary introduced the first successful "light" beer in the mid-1970s. Miller enjoyed substantial gains in market share, thanks in part to aggressive advertising aimed at diet-conscious drinkers. Honda entered the U.S. motorcycle market in 1959 by offering high-quality small motorcycles at a time when the established producers regarded such products as toys. Moreover, promotion for Honda was directed to an entirely new type of customer: the suburban, middle-class male. By the mid-1960s Honda's market share was 63%—a position achieved by discovering a new market segment rather than by attempting to compete head-on with the American and British producers that had previously dominated the industry (Buzzel and Wiersema 1981) [94]. In fact, Buzzel and Wiersema's observation that most successful share-building strategies, are based both on emphasizing specific market segments and designing products and marketing programs to meet the special needs or interests of these segments means even market nichers can aim for market expansion.

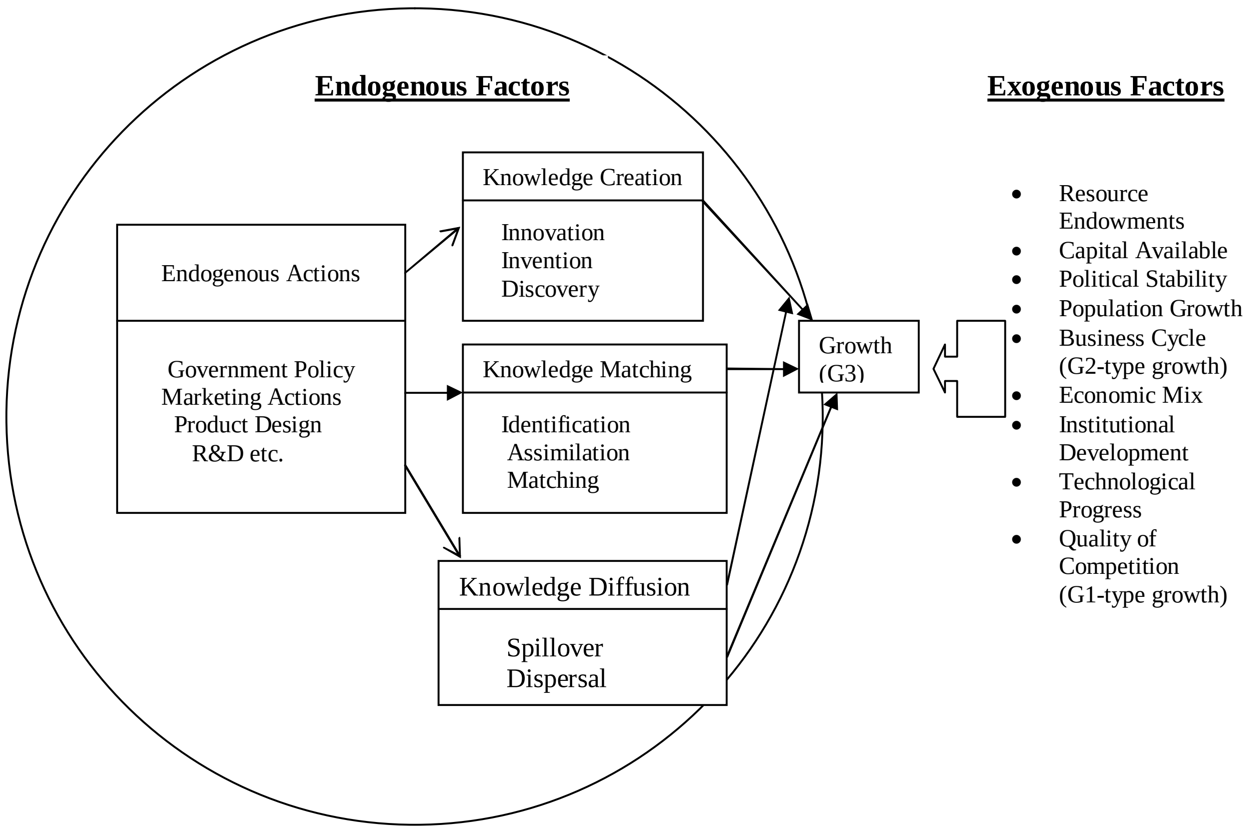
2.2.7 Endogenous Growth Theory

Economic growth is commonly thought of in three related ways: (1) firm growth attributable to competitive aggression and market share shifting—zero-sum games (G1); (2) growth attributable to the business cycle, affecting all firms and all markets (G2); and (3) pure growth (G3), not strictly explainable in terms of either G1- or G2- type growth. Clearly, G1-type growth can and does occur in otherwise growth-static contexts—one firm takes market share away from another and so experiences growth, but their net growth to the system is zero. On the other hand, G2-type growth may occur repeatedly, but with a flat trend line—indicating that the business cycle is simply oscillating around a fixed mean. G3-type growth—what is referred to as “pure growth”—is the long-term upward trend across business cycles (Bhardwaj, Clark and Kulviwat 2005) [86].

In traditional economic theories the term exogenous is used to imply that key drivers of growth are assumed to be beyond human control (i.e., externally controlled). However Robert Solow (1956) showed that only a small part of economic growth could be explained by increase in inputs (i.e., labor and/or capital investment) [95]. Based on Solow’s work new endogenous growth theories have been conceptualised. The term endogenous is used in these theories to convey the notion that growth is driven largely by human decisions and activities—primarily inventions, innovations and discoveries (i.e., ideas)—which combine the world’s tangible and intangible resources in novel and ever more efficient combinations. Based on the endogenous growth theory Bhardwaj et al. (2005) argue that three routine marketing activities facilitate pure growth (G3-type) growth : (1) knowledge creation (e.g. marketing research and market analysis), (2) knowledge matching (e.g. new product development and marketing research), and (3) knowledge dispersal (e.g. marketing in general, advertising in particular). This is shown in figure 2.2. Although such activities are “routine”, they are critical in bringing new ideas, technologies, and applications to the attention of both of competitors and the general public. Absolute market growth necessarily produces firm-level growth (but not vice versa).

Bhardwaj et al. use the term routine marketing activities. Activities like promotion, new product development, marketing research, and product differentiation are certainly routine activities from macro-marketing perspective. But this does not mean that all firms follow all these activities in the same manner and to the same extent. For instance, market orientation is cited as a routine marketing activity. But firms do differ in the extent to which they are market oriented. This precisely is the reason for development of measures of market orientation (e.g., Kohli and Jaworski 1990, Kohli, Jaworski and Kumar 1991, Narver and Slater 1990) [96, 97, 98].

Figure 2.2 : Marketing and Endogenous Growth



Source: Bhardwaj, Clark and Kulviwat (2005)

Bhardwaj et al. write that “Regardless of the level of absolute market growth, the firm that neglects its competitive position in the market will not be around to enjoy growth. So the firm is forced to engage in zero-sum market share shifting activities. However, doing so fosters competitive intensity, firm and product proliferation, and innovation. The result is that although firms seek market share, they unwittingly promote real market growth… Endogenous growth theory does not assume cooperation between firms. What it does assume is that innovation be encouraged, and as wide a dissemination of useful knowledge as possible be fostered. Thus, it is probably in society’s best interest to handle these issues at the policy level, by developing formulations that encourage both innovation and dissemination, leaving firms to struggle competitively within the policy framework. [86]" That means Bhardwaj et al. refer to unintentional growth effects of marketing activities whereas the proposed doctoral research tries to investigate firm level actions and conscious attempt by a company to grow sales of a product category as a whole.

2.2.8 Blue Ocean Strategy

Kim and Mauborgne (2005) conceptualise a market universe composed of two sorts of oceans: red oceans and blue oceans [99]. Red oceans represent all the industries in existence. This is the known market space. Blue oceans denote all the industries not in existence. According to Kim and Mauborgne, this is the unknown market space. In the red oceans, industry boundaries are well defined and accepted. Companies try to outperform each other to grab a greater share of existing demand. Kim and Mauborgne conceptualise blue ocean strategy as reconstruction of industry boundaries and creation of uncontested market space as against red ocean which is used as a metaphor for market share battles with competitors. Blue oceans are defined by uncontested market space, demand creation, and the opportunity for highly profitable growth.

Kim and Mauborgne observe that the dominant focus of strategy work over the past twenty five years has been on competition oriented red ocean strategies. The result has been fairly good understanding of how to compete skillfully in red waters, from analyzing the underlying economic structure of an existing industry, to choosing a strategic position of low cost or differentiation or focus, to benchmarking the competition.

According to Kim and Mauborgne there are several driving forces behind a rising imperative to create blue oceans. First, in several industries supply exceeds demand. Second, with the advent of globalization monopoly situations tend to disappear. Third, population in many developed markets is declining. All this results into accelerated commoditization, increasing price wars and shrinking profit margins.

Kim and Mauborgne (2005) view the issue of target market selection for blue ocean strategy from two perspectives viz. from the customer side and from industry side. They suggest that new market space can be created by capitalizing on commonalities among non customers rather than focusing on the existing customers. They have identified three tiers of non customers. First tier customers are the ‘soon to be’ non customers in the sense that they only purchase an industry’s offering out of necessity but are not satisfied with it. Second tier customers are called the ‘refusing customers’ because they do not use or can not afford the current market offering. The third tier consists of ‘unexplored customers’.

As regards industry perspective, Kim and Mauborgne (2005) suggest looking across rather than within industry boundaries. To look across the industry boundaries they suggest six dimensions viz. across alternative industries (ex. Southwest Airlines concentrated on driving cars as an alternative to flying), across strategic group within the same industry (ex. Toyota’s Lexus offers quality of the high end Mercedes at the price closer to lower end Cadillac), across the chain of buyers (ex. Novo Nordisk shifted the focus from doctors i.e. influencers to the users of insulin by launching Nova Pen), across complementary products and services (ex. A movie theatre with baby sitting services), across emotional - functional orientation of an industry (ex. Swatch transformed functionally driven watch industry into emotionally driven fashion statement) and across time (ex. Apple capitalized on the trend of illegal music file sharing by launching iTunes).

Kim and Mauborgne (2005) have developed an analytical tool called strategy canvass which can be used to plot the value curves of different players. A value curve is the graphical depiction of a company’s relative performance across industry’s factors of competition. A company can differentiate itself and expand the market by asking four questions viz. which of the factors that industry takes for granted can be eliminated, which factors should be reduced well below the industry's standard, which factors should be raised well above the industry's standard and which factors should be created that the industry has never offered. First two questions are aimed at reducing the cost structure while the last two are aimed at increasing benefits to the consumers.

Kim and Mauborgne (2005) emphasize importance of right strategic sequence while implementing blue ocean strategies. They suggest that companies need to follow a sequence of buyer utility, price, cost and adoption. A buyer utility map consisting of buyer experience cycle and the six utility levers as two dimensions has been proposed. Six stages of buyer experience cycle have been identified as purchase, delivery, use, supplements, maintenance and disposal. The six utility levers to cut across the buyer experience cycle are customer productivity, simplicity, convenience, risk, fun and image and environmental friendliness. A buyer utility map can be used by a company to decide whether it offers exceptional utility to the buyer or not.

As regards price, Kim and Mauborgne suggest asking a question whether price is easily accessible to the mass of buyers or not? They suggest that a company should follow price minus strategy rather than a cost plus pricing strategy meaning reworking the cost structure to fit the acceptable price level in the market. While deciding the price of the product it is recommended that the companies should not only benchmark themselves against competitors, but also against alternatives and substitutes. In order to meet the cost targets they recommend cost innovations in manufacturing and distribution. They also emphasize role of partnerships to reduce costs. However a price-minus approach to pricing is not conceptually comprehensive because it leaves out scope of improving purchasing abilities of the consumers by means other than price reduction. Although other means are very much practiced by the organizations, in theory conceptualization of pricing strategies has not gone beyond ‘price – minus’ approach. One of the reasons may be that price is set for a product which belongs to the marketer, and hence considered to be under the purview of organsational strategy, but purchasing ability relates to the consumer and hence considered as given.

To quantify the impact of creating blue oceans on a company’s growth Kim and Mauborgne studied business launches of 108 companies. They found that only 14 percent of the launches were aimed at creating blue oceans. Remaining 86 percent launches were line extensions that is red ocean strategies. The blue ocean launches accounted for 38 percent of total revenue and 61 percent of total profits. However this performance impact analysis is done at business launch strategy level and not at product category level. Burke, Stel and Thurit (2008) observe that Kim and Mauborgne’s empirical analysis is based on case study evidence and hence has been limited in its ability to generalize [100]. They studied Dutch retail industry and concluded that instead of encouraging managers to adopt either/ or decision between blue ocean strategy and competitive strategy, the optimal strategic approach appears to involve a blend of both strategies. Other studies on strategic orientations have also preferred to conceptualize strategic orientation as a continuum rather than presence or absence of it (ex., Kohli, Jaworski and Kumar 1993, Narver and Slater 1990) [97,98].

2.2.9 Emerging Markets and Bottom of the Pyramid (BOP) Marketing

Several scholars see bottom of the socio-economic pyramid as untapped market and hence a target for market expansion (ex. Prahalad 2005, Prahalad and Hammond 2002, Prahalad and Hart 2002, Prahalad and Lieberthal 1998) [101, 102, 103, 36]. In India urban markets in general and affluent markets in rural areas are relatively well penetrated in terms of the ownership/ purchase of consumer durables (Bijapurkar, 2001) [104]. This leaves scope for expansion in lower middle and lower income segments. Hence conceptualization of market expansion strategy can draw useful insights from literature on marketing to the bottom of pyramid markets

Prahalad and Lieberthal first introduced the term bottom of the pyramid (BOP) [36]. They attempted to raise awareness about the world economic pyramid and the vastly untapped market especially in emerging countries like India, China and Brazil. They described Western companies' view of the emerging markets as corporate imperialism these companies tended to gear their products and pitches to small segments of relatively affluent buyers who resembled their Western counterparts. The multi-national companies (MNCs) considered their corporate head quarters as the sole locus of product and process innovation. Dawar and Chattopdhyay (2000) wrote about emerging markets in general and not about BOP in particular [105]. But since most of the BOP markets reside in emerging and developing economies, their contribution is relevant in the context of market expansion strategies.

Though Prahalad and Lieberthal coined the term bottom of the pyramid (BOP) market in their focus was more on middle class consumers in emerging markets [36]. Prahalad and Hart (2002) brought focus on bottom of the pyramid customers [103]. They wrote about four billion people living on less than $1,500 purchasing power parity (PPP) per capita income in the world. They observed that multinational companies were not able to visualize potential of BOP markets because perception of market opportunity is a function of the way many managers are socialized to think and the analytical tools they use. Prahalad and Hart identified six assumptions which according to them were obscuring multinational companies' view of BOP markets. These assumptions were: With the current cost structures it is not possible to profitably serve the poor customers, poor customers can not afford and have no use for products and services sold in developed markets, only developed markets can afford and pay for modern technology, the bottom of the pyramid is not important to the long term viability of MNC businesses, managers are not excited by the business challenges having humanitarian dimensions, and intellectual excitement is in developed markets.

Prahalad and Hammond (2002) argue that by pursuing a BOP strategy multi-national and domestic large companies can serve the world's poor in a profitable manner [102]. They argue that while individual incomes of poor people in developing economies are low, the aggregate buying power of poor communities is quite large. They observe that consumers at the bottom of the pyramid often pay more than middle class consumers because they are largely dependent on informal economy. They point out that it is a misconception that multinational companies exploit poor people. They argue that multinationals can in fact not only serve the poor at far lower cost than informal sectors but they can also provide better quality products and services. They highlight three important advantages by serving the poor – a new source of revenue growth, greater efficiency and access to commercial and technological innovation. However Prahalad and Hammond lament that managers in multinational and large corporations are traditionally conditioned to operate in high margin markets and as a result they fail to see the potential of untapped BOP markets.

Though, not strictly a contribution to bottom of the pyramid marketing, Rosenblum et al. (2003) talk about the potential of seemingly unprofitable segments [106]. According to them established companies have great difficulty in seeing how seemingly unprofitable segments can be served profitably, particularly if those established companies have been very successful. They describe this phenomenon as business model myopia. Business model myopia starts with management's decision about who its best customers are, what offering they need, how it can be delivered to the customers in a way that is attractive to the customers yet economical for the company. Once this model succeeds in the form of strong financial results, it is followed by an influx of imitators which reinforces a company's decision about which customer segments are viable. Sunk costs in the form of infrastructure investments further reinforce the myopia.

The World Bank launched a “sustainable livelihood” initiative. Sustainable livelihood (SL) is defined as doing business with the poor in ways that benefit the poor as well as the company. SL business is about spurring economic development and helping low-income communities and families build more secure livelihoods. World Bank Council for Sustainable Development (WBCSD) developed a guide for doing business with poor (WBCSD 2004) [107]. This guide contains six learning journeys undertaken by WBCSD member companies, and a number of smaller examples. This study by World Bank reports that companies are guided by a mix of motivations.

Beshouri (2006) analysed a few cases of successful involvement in BOP markets to identify successful business models [108]. London and Hart (2006) observe that although an increasing number of firms are exploring the economic opportunities at the base of the pyramid, strategies in these markets have neither been empirically examined in the literature on global strategy, nor subsidiary strategies for emerging economies [109]. They sought to examine how MNCs and other enterprises pursue opportunities at the base of the pyramid, and which strategies appear to be the most successful in emerging economies. Simanis and Hart (2006) focus on rural poor [110]. They also adopt a case based approach to identify a set of design and marketing criteria that are inherently “appropriate” for the rural poor.

In 2006, United Nation’s Development Programme (UNDP) launched a growing inclusive markets initiative [111]. Based on analysis of 50 case studies it came out with a report in 2007 titled ‘Creating value for all: strategies for doing business with poor’. Inclusive business models include the poor on the demand side as clients and customers, and on the supply side as employees, producers and business owners at various points in the value chain. They build bridges between business and the poor for mutual benefit.

Concerned with the fact that over 70% of the population of Latin America and the Caribbean (LAC) is both deprived of access to opportunities for wealth creation and underserved by the products and services that effective markets provide, in June 2006 the Inter-American Development Bank (IDB) launched an initiative, “Opportunities for the Majority” (OM), to engage the private sector in addressing the needs of this majority (Preston, Libow, Bruno, Meade and Wells 2007) [112]. With the intention that national private sector companies that address majority markets effectively should be recognized by capital markets, IDB developed a opportunity for majority index (OM Index). The study involved review of 75 publicly traded firms in Brazil, Argentina, Chile, Colombia, El Salvador, Nicaragua, Jamaica, Peru, Trinidad & Tobago, Mexico, and Honduras. The study notes that among multinational companies, a focus on majority markets is considered innovative; but for many of the national companies the majority is the company’s traditional market (Preston et al. 2007).

Simanis and Hart (2008) developed a BOP Protocol. It describes procedures for companies to engage effectively with communities, establish “ecosystems” of relationships within these communities, and develop effective enterprises that “co-create” value for the companies and the communities they serve [113].

Vachani and Smith (2008) conducted a case based research on rural India to identify elements of what they describe socially responsible distribution strategies [114]. They refer to socially responsible distribution to describe initiatives that provide poor producers and consumers with market access for goods and services by helping neutralize the disadvantages they suffer from inadequate physical links to markets, information asymmetries, and weak bargaining power.

In order to identify components of sustainable business models, Monitor group surveyed more than 300 BOP market initiatives, mostly in India (Karamchandani, Kubzansky, and Frandano 2009) [115].

2.2.9.1 BOP Market Size and Composition

Under the aegis of World Resources Institute (WRI) and International Finance Corporation (IFC) Hammond et al. (2007) have created a comprehensive document for defining and understanding BOP markets: 'The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid.' [116] Aggregate data are presented for four developing regions—Africa, Asia (including the Middle East), Eastern Europe, and Latin America and the Caribbean as well as for the world as a whole. The BOP population segment is defined as those with annual incomes up to and including $3000 per capita per year (2002 PPP). The mid-market population segment is defined as those with annual incomes above $3,000 and up to and including $20,000 PPP. The high income segment includes annual incomes above $20,000 PPP. The wealthier mid-market population segment, the 1.4 billion people with per capita incomes between $3,000 and $20,000, represents a $12.5 trillion market globally. This market is largely urban, already relatively well served, and extremely competitive.

BOP markets are often rural—especially in rapidly growing Asia—very poorly served, dominated by the informal economy, and, as a result, relatively inefficient and uncompetitive. The BOP makes up 72% of the 5,575 million people recorded by available national household surveys worldwide and an overwhelming majority of the population in the developing countries of Africa, Asia, Eastern Europe, and Latin America and the Caribbean—home to nearly all the BOP.

The report uses annual income increments of $500 PPP within the BOP to distinguish six BOP income segments, denoted as BOP500, BOP1000, BOP1500, etc. As per this report the development community has tended to focus on meeting the needs of the poorest of the poor—the 1 billion people with incomes below $1 a day (in local purchasing power). This analysis argues that a much larger segment of the low-income population—the 4 billion people of the BOP, all with incomes well below any Western poverty line—both deserves concern and is the appropriate focus of a market-oriented approach. This work underlines the fact that the low income market includes far more people than the very poor (living on less than $ 1 per day).

Within BOP market are large variations across regions, countries, and sectors in size and other characteristics. Asia (including the Middle East) has by far the largest BOP market: 2.86 billion people with income of $3.47 trillion. This BOP market represents 83% of the region's population and 42% of the purchasing power—a significant share of Asia's rapidly growing consumer market.

There are disagreements about the definition and size of BOP markets (e.g., Jenkins 2005, Karnani 2007 and Warnholz 2007) [117,118,119]. Warnholz (2007) is highly critical of WRI/IFC's definition of BOP at $8 per day. He argues customers with incomes between $5-8/day are already relatively well catered for by big business, while the poorest are likely to remain underserved. In fact, given the yawning gap between their monthly budgets and consumer goods currently on offer, they are marginalized in the present discussion. Those below $1/day, have a share of less than 6% in the total BOP market, if the broadest $8/day measure is used. The middle income groups, rather than the true BOP, are likely to attract business attention. Virtually everyone in Bangladesh lives below $8/day, yet there are still considerable intra-country differences both in the quality of life and in purchasing power. In most of the countries studied, at least 95% of the population fall below the BOP cut-off used in WRI/IFC report of Hammond et.al. (2007) [119, 116]. Seen in this light, the BOP argument could simply be restated as a call for big businesses to sell their products in low and middle-income countries (Warnholz 2007) [119].

Similar arguments have been advanced in Indian context. Some marketing professionals observe that in many success stories of the "bottom of the pyramid" markets the BOP has actually been defined somewhere above 35 million poorest (or even 100 million considering next income bracket) households (Singhal 2008) [120]. In India's context, the discretionary retail consumption in 2009 is estimated to be about about Rs 18 lakh crore out of about Rs 31 lakh crore of private consumption. Of this, about 45 per cent (about Rs 850,000 crore) is urban, and the balance is rural. However, this consumption — in absolute financial terms — is largely accounted for by the middle and upper tiers of the pyramid. According to NCAER estimates, in 2009, of the 222 million households in India, the absolutely BOP households (annual incomes below Rs. 45,000) account for 15.6 per cent of them or about 35 million households (about 200 million Indians). Another 80 million households are in income levels of Rs. 45,000-90,000 per year.

Of the Rs 18 lakh crore projected retail consumption in 2009, the bottom BOP (35 million) households account for only 5 per cent or about Rs 90,000 crore. To further complicate the situation, only 9 per cent of this consumption (i.e. Rs 8,600 crore) is in urban India, spread across 5,500 towns, and the balance 91 per cent (or about Rs. 82,000 crore) is spread across the 6,00,000 plus villages in rural India. Of the Rs 90,000 crore retail consumption from these 35 million BOP households, as much as 72 per cent is accounted for by food, another 4 per cent by tobacco and other intoxicants, and about 7 per cent by clothing, and about 8 per cent by basic durables. In absolute terms, it means a market potential of no more than Rs 6,300 crore for clothing, and about Rs 7,200 crore for durables. Food, is not really an opportunity for marketers since the product basket is extremely basic and served through the public distribution system and other government support channels. The BOP customer purchase frequency is much higher and from a business perspective, the transaction costs are therefore much greater if any organised attempt is made to reach out to this group (Singhal 2008) [120]. For similar reasons Karnani (2007) argues that the "true BOP" doesn't represent a profitable business opportunity [118].

2.2.9.2 Characteristics of BOP Markets

Dawar and Chattopdhyay (2000) identify three important characteristics of emerging markets as: low incomes, infrastructural variability, and the unique trade-offs created by the substitution of labor for capital [105]. Other scholars who have specifically focused on BOP markets have identified following characteristics.

1. Significant unmet needs. Most people in the BOP have no bank account, no access to modern financial services, and do not own a phone. Many live in informal settlements, with no formal title to their dwelling and many lack access to water and sanitation services, electricity, and basic health care (Warnholz 2007) [119]. 24% of BOP households lack access to electricity, as against only 1% of mid-market households. (Hammond et al. 2007) [116].

2. Dependence on informal or subsistence livelihoods. Most in the BOP lack good access to markets to sell their labor, handicrafts, or crops and have no choice but to sell to local employers or to middlemen who exploit them. As subsistence and small-scale farmers and fishermen, they are uniquely vulnerable to destruction of the natural resources they depend on but are powerless to protect (Warnholz 2007) [119].

3. Impacted by a BOP penalty. Many in the BOP, and perhaps most, pay higher prices for basic goods and services than do wealthier consumers—either in cash or in the effort they must expend to obtain them—and they often receive lower quality as well. This high cost of being poor is widely shared: it is not just the very poor who often pay more for the transportation to reach a distant hospital or clinic than for the treatment, or who face exorbitant fees for loans or for transfers of remittances from relatives abroad (Warnholz 2007) [119]. Wealthier mid-market households are seven times as likely as BOP households to have access to piped water (Hammond et al 2007) [116].

4. Food dominates BOP household budgets. As incomes rise, however, the share spent on food declines, while the share for housing remains relatively constant—and the shares for

transportation and telecommunications grow rapidly. Half of BOP household spending on health goes to pharmaceuticals. In all except Eastern Europe the lower income segments of the BOP depend mainly on firewood as a cooking fuel, the higher segments on propane or other modern fuels (Hammond et al. 2007) [116].

5. Relative to wealthy consumer markets, BOP markets are characterized by a completely different set of geographic (e.g., predominantly rural based), structural (e.g., absence of roads, telecommunications network), institutional (e.g., absence of Western property rights regimes) and cultural (e.g., different life aspirations) factors (Simanis and Hart 2006) [110].

6. Besides low disposable income, collection of payment (for goods and services sold on credit) is a major problem in BOP markets. Large concentrations of low income consumers who endure high unemployment and receive minimal government support are ripe targets for radical political and social groups that encourage resistance to contracts and threaten corporate assets (Beshouri 2006) [109].

7. Social contracts and social institutions dominate: In the informal economy, which dominates low income markets, relationships are grounded primarily on social, not legal, contracts (Simanis and Hart 2006) [110].

8. Traditional partners may lack relevant experience: Local partners come from a relatively small subset of organizations – typically large domestic firms, government entities, or a combination of both, such as state-owned enterprises – whose primary business experience is centered on dealing with the local, and mainly urban, elite. Non-profit organizations and other socially oriented institutions can play an important role in business development (London and Hart 2006) [109].

9. Societal performance matters: The fact that the developed world consists of 20% of the population, yet uses 80% of the world's resources, suggests that raising the economic

condition of those in the developing world will require a different model of development (Hart 1997) [121].

In addition to the aforementioned characteristics and constraints UNDP (2007) report identifies other constraint as limited information about needs and wants of poor, how much they can afford to pay and what are their competencies which can be used as employees, entrepreneurs etc, lack of knowledge and skills among poor which makes it difficult for them to understand product benefits and to use the product effectively and restricted access to financial services like credit and insurance [111].

Characteristics of BOP markets in India are: they reside mostly in rural villages and urban slums, absence of legally held assets, low levels of literacy and low incomes which are subject to variation (Jose 2008) [122].

2.2.9.3 Marketing Strategies for BOP

Prahalad and Lieberthal (1998) emphasize that MNCs need to develop new business models to tap markets in emerging economies [36]. They suggest rethinking about price/ performance equation, brand management, costs of market building, product design, packaging and capital efficiency. They observe that due to inefficient distribution systems, poor banking facilities and inadequate logistics, supply chain management becomes an important tool for changing the capital efficiency of a multinational’s operations. Prahalad and Lieberthal sum up suggesting that multi-national companies need to reconfigure their resources bases, rethink their cost structures, redesign their product development process and challenge their assumptions about the cultural mix of their top managers.

Dawar and Chattopadhyay (2000) present a framework for redesigning business models to suit emerging markets [105]. Their framework is derived from their analysis of the effects of each of the three characteristics of emerging markets (low incomes, variability and availability of cheap labour) on segmentation and elements of marketing mix. Elements of their framework are as follows:

Segmentation and Positioning: Segments are coarse and diverse. Costs of fine segmentation are justified if consumers are both able and willing to pay for specialized products. But the mass market in emerging economies is unable to afford this level of segmentation. The fine level of segmentation assumes requires finely differentiated communications. There exist about 18,000 magazine titles in the USA for a population of 250 million as against 300 in India, with a population of 1 billion. Income disparities and income flow variability lead to co-existence of very different market segments. Despite huge differences in consumers' cost of time, the market cannot be segmented on this dimension because the market for time-savings is served through inexpensive manual services rather than products.

Product and Packaging: Products need to be functional, built to last, and basic. Rapid new product development and deployment, continuous product innovation, and accelerated obsolescence that are part of the competitive apparatus in developed markets, are unsuited to emerging markets. Here, consumers dislike products becoming obsolete too fast. Design and package need to be compatible with income and infrastructural variability. A significant proportion of the working population in emerging markets is paid daily wages. This affects not only pack sizes, and price points but also leads to competition among product categories. Products can be reengineered to replace some elements with consumers' labor to make the product more affordable to the mass market.

Pricing: Large volumes and low margins drive profitability. Price promotions yield large volume gains. But it is worthwhile to launch second tier brands rather than occasional promotions. By the mid-1990s Sony and Matsushita had captured 75% of the top end of the Chinese market for televisions. But local manufacturers who achieved significant economies of scale by catering to the mass market, later used their strong position to attack Japanese manufacturers in the higher priced segments. Consumers' make versus buy decisions drive value perceptions. To motivate consumers in emerging markets, to buy rather than make products, the product or service must be priced competitively with homemade products, or must offer a benefit not easily incorporated in to homemade products.

Place: Retail distribution is highly fragmented, but nevertheless, powerful. Firms need special expertise to deal with a fragmented trade consisting of millions of small independently owned grocery shops that have limited working capital and, typically, occupy fewer than 300 square feet. Successful manufacturers creatively develop new revenue activities for the retailer. United Phosphorous Limited (UPL), an Indian crop protection company, started a practice of renting of pesticide application equipments which were out of reach of small farmers. UPL arranged for bank loans for its rural retailers to purchase application equipment. This resulted into added revenue stream for rural retailers and additional sales of pesticides for UPL. It pays to be first on the retail shelves in rural markets because retailers stock limited number of brands. People rather than machines provide a cost effective means of delivering products to consumers.

Promotion: A key communication decision is whether to target existing consumers to consume more, or to draw non-consumers into the market. Typically, multinationals choose to target existing consumers because it is easier to sell more of an existing product to current consumers than to develop new products and brands to appeal to non-consumers. But some multinationals are not averse to seizing local opportunities. Creating own channels of communication where no mass media exist to cater to large swathes of the market. The existence of a multiplicity of languages, and varying levels of illiteracy complicates the task of communication. Mass media don't always have a cost advantage over face-to-face customer interaction. Sales forces can be used to communicate product benefits and usage more effectively (Dawar and Chattopadhyay 2000) [105].

Other scholars also observe that in emerging markets impact of a face-to-face message (e.g. word-of-mouth) from interpersonal sources or social contacts may carry more weight than the same message from mass media sources (Ennew, Banerjee and Li 2000) [123]. Increasing consumer skepticism of the advertising industry and fragmentation of television audiences has decreased the effectiveness of traditional mass media advertising. Consequently, companies are relying more on WOM communication and other nontraditional communication approaches to increase their return on marketing investment (Court, Gordon, and Perrey 2005) [124].

Prahalad and Lieberthal as well as Dawar and Chattopadhyay presented a business case in emerging markets purely from a multinational company's viewpoint [36,105].

Prahalad and Hart (2002) identify four elements of a BOP strategy as creating buying power, shaping aspirations, improving access, and tailoring local solutions. For creation of buying power provision of access to commercial credit and increasing earning potential of the poor are considered to be two key strategies. Consumer education and sustainable development are considered as strategies for shaping aspirations of poor. Better distribution system and communication links are considered as essential strategies for improving physical and economic access for poor in emerging markets. In order to develop tailored local solutions need for combining advanced technology with deep local insights has been emphasized.

Prahalad and Hammond (2002) further highlight the role of technology in making the services affordable [103]. They also suggest that companies should look at aggregate demand rather than low individual per capita income and follow shared access model like Grameen Phone of Bangladesh. Other scholars also suggest that companies need to change their focus from increasing asset ownership by customers to one of increasing benefit ownership (Jose 2008) [122]. Prahalad and Hammond (2002) suggest that in addition to expanding managers' understanding of BOP markets, companies need to make structural changes in the way they operate. They highlight importance of partnerships in minimizing risks and maximizing benefits of physical and social infrastructure [102].

Rosenblum et al. (2003) suggest following principles for redesigning the business model to suit seemingly unprofitable bottom of the market segments [106]:

- Simplified product offering by taking out features which customers don't need or wont pay for
- Minimal marketing expenses by encouraging positive word of mouth
- Pleasant surprise to customers (who are otherwise used to being shunned) by organizing services around specific sets of customers rather than around products, functions or geographies
- Judicious use of technology
- Structural efficiencies in delivering the products
- Setting realistic financial targets. Rather than evaluating these businesses by their revenue potential, the companies should look at the operating margins.
- Keeping separate business models for different segments rather than going for economies of scale by consolidating back office operations and information systems.

WBCSD (2004) report notes that in order to understand needs and wants of poor, traditional market surveys and market segmentation fall short of providing the company with an accurate picture of real needs and priorities in low-income communities [107]. Instead it suggests interaction with local community leaders, representatives, or development NGOs. WBCSD observes that selling in smaller chunks may be crucial to ensuring affordability. But products which cannot be physically sub-divided, require creative thinking about shared ownership or sales based on a service rather than a product itself. Companies can consider ways to offer financial support such as government subsidies, micro-loans, or credit schemes. Companies can also think of partnering with micro-credit institutions. It is observed that traditional payment schemes may not be suited for communities lacking postal addresses, phones, credit cards, or bank accounts. Prepayment for ongoing services (through token, prepaid cards or similar mechanisms) can reduce credit risk and give customers flexibility. Companies can provide incentives to encourage payments (e.g., a discount on the next bill for payment in due time). They can establish a collective billing system that allows the community to make a common investment and decide how to split the costs among themselves.

WBCSD observes that distribution systems may not be able to cover their costs based on one product alone, so cooperation and leveraging of existing resources becomes important. WBCSD points out that profitability horizon in emerging and BOP markets needs to be medium to long term. It has identified three major elements of successful corporate effort to generate sustainable livelihoods (SL) business: (1) a strong focus on core company competencies, (2) an active participation of the local workforce and local SMEs and entrepreneurs, (3) a strategy of partnering with external resources, whether the expertise of a development organization or the complementary skills of another corporation [107].

According to Prahalad (2005) converting poor into consumers require creation of capacity to consume [101]. Capacity to consume in turn can be improved by increasing affordability without sacrificing quality or efficacy, providing access by designing distribution pattern based on where the poor live and their work pattern and ensuring availability in such a way that poor are not required to defer their purchase decision. Prahalad (2005) has identified 12 principles for developing bottom of the pyramid markets [101] viz.

1. Price – performance envelop which may be radically different from the one exists in developed markets.

2. Hybrid innovations i.e. combining most advanced technology with existing or evolving infrastructure,

3. Commercial scalability and transportability of operations across countries, cultures and languages is a prerequisite in BOP markets. With a stringent price-performance equation and low margins per unit, the basis for returns on investment is volume.

4. Sustainable and ecologically friendly solution to the needs of poor based on different patterns of resource use as compared to the developed world. All innovations must focus on conserving resources: eliminate, reduce, and recycle.

5. Recognizing the difference between the functionality requirement of BOP markets and developed markets.

6. Process innovations are just as critical as product innovations in BOP markets. Often innovation must focus on building a logistics infrastructure, including manufacturing that is sensitive to prevailing conditions.

7. Deskilling of work is critical in BOP markets. The design of products must take into account the skill levels of BoP customers, poor infrastructure and difficulty for service in remote areas.

8. Education of customers on product usage is a key.

9. Products must work in hostile environments. It is not just noise, dust, unsanitary conditions, and abuse that product must endure. Products must also be developed to accommodate low quality of infrastructure, such as electricity (e,g., voltage fluctuations, blackouts etc.) and water (e.g., particulate, bacterial and viral pollution).

10. Careful design of interface between customers and products / services because of heterogeneity of the customer base in terms of language, culture, skill level etc.

11. Innovative distribution to access poor at low cost is critical both in highly dispersed rural market and a highly dense urban market.

12. Platform based approaches to product development and delivery. Product developers must focus on the broad architecture of the system so that new features can be easily incorporated.

Prahalad (2005) also conceptualizes partnerships into a market based ecosystem comprising of a wide variety of institutions such as extra legal, NGO enterprises, micro enterprises, small and medium enterprises, cooperatives, large local firms, MNCs and NGOs.

A majority of BOP customers belong to rural markets. Vaswani et al. (2005) suggest that it is time to reconceptualize 'rural marketing' and move it towards a paradigm that not only enhances its contributions to the process of rural development but also imparts it much desired sustainability to its outcomes [37]. In India rural marketing originated to exploit the vast, largely untapped consumer goods market in rural India (Balakrishnan 1977) [125]. However, Vaswani et al. (2005) observe that it is simply a case of trying to sell to non-existent customers whose incomes and consumption capacities are limited. To break this impasse, the only alternative for the marketers is to 'create customers'. Vaswani et al. (2005) suggest that 'producer's empowerment' perspective should replace the 'buyer behaviour' perspective in conceptualization of rural marketing [37]. They define rural producers' empowerment as enhancing the rural producer's productivity as a seller in the marketing transactions he undertakes to rationalize his gains from the exchange. Producers' empowerment is considered necessary to overcome the extreme asymmetry of relation between a number of rural producers and few middlemen, and in turn enhance producers' share in the consumer rupee. Improving producers' productivity as sellers in marketing transactions can help in improving their incomes and transition to productive customers (Vaswani et al. 2005) [37]. The International Fund for Agricultural Development (2001) has observed that "today, more than ever before, enhancing the ability of the rural poor to reach markets, and actively engage in them, is one of the most pressing development challenges."[126]

ITC Limited, a diversified company, has addressed some of the critical challenges faced by farmers. ITC set up an IT-enabled procurement system that empowers farmers in two ways: by providing them with real-time information on commodity prices so that they can obtain better prices for their produce, and giving them an alternative selling channel, direct to ITC. The centerpiece of the system is the "e-Choupal," which is a gathering place built around a computer located in the village to provide farmers with information on commodity prices, weather forecasts, farming practices and other important topics in the local language ("Choupal" means village gathering place in Hindi, so e-Choupal stands for a computer-enabled gathering place). ITC pioneered the concept in 2000 in Madhya Pradesh in Central India, where it has large soya procurement operations. By May 2007, ITC had nearly 6,500 e-Choupal kiosks in nine states (Andhra Pradesh, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Rajasthan, Uttar Pradesh, and Uttarakhand) covering over 38,500 villages with more than 3.5 million farmers (Vachani and Smith 2008) [114].

Beshouri (2006) has identified three types of community based models to target bottom of the pyramid segments [108]. He describes first model as "collective accountability model" which focuses on collection problems associated with either direct lending or post paid services. This approach involves developing small groups of potential customers who substitute for the monitoring efforts of the business itself and provide "social insurance" to one another. The second model is described as "scalable embedded distribution model." This model reduces cost and enhances company's reputation by enlisting trusted community's members (such as entrepreneur women in Hindustan Unilever's Project Shakti) to provide distribution infrastructure. The third model "livelihood partnerships" surrounds a core product or service with additional benefits. In this model companies provide low cost productivity enhancing assistance. These initiatives bridge cultural gaps between a company and a community, create positive associations with a company’s brand, raise switching costs and promote micro market activity.

London and Hart (2006) report that important elements of successful low-income market strategies, include collaborating with nontraditional partners, co-inventing custom solutions, and building local capacity [109]. They suggest, firms will need to develop a fourth capability, social embeddedness, which allows them to understand and leverage the strengths of the market environment at the base of the pyramid. This capability involves the ability to create a web of trusted connections with a diversity of organizations and institutions, generate bottom up development, and understand, leverage, and build on the existing social infrastructure. Many of the most successful micro-loan programs targeting the poor, rely on group lending and peer pressure to ensure payback. If one person in the group defaults, no one else in that group is eligible for a future loan.

London and Hart conclude that scalability, flexibility, decentralization, knowledge sharing, local sourcing, fragmented distribution, non-traditional partners, societal performance, and local entrepreneurship appear to be important to the success of business ventures in low-income markets in emerging economies. This is a significant departure from the current transnational business model based on world-scale production, global supply chains, and local adaptation of centrally developed solutions.

Simanis and Hart (2006) challenge an assumption that recipe for success in rural BOP markets is: an income-generating technology which is simple, labor and time intensive in its use, priced sufficiently low to allow individual ownership, have low energy requirements, and be environmentally sustainable [110]. They analyse three cases: Kick Start’s Money Maker pump in Kenya, Grameen Phone in Bangladesh and n-Logue in India.

KickStart’s MoneyMaker pump has empowered over 30,000 poor people to start or expand their own income-generating businesses on their own terms in the process boosting country’s GDP by 0.5%.

Grameen Phone, launched in 1997 in Bangladesh, provides “phone ladies” in villages with a mobile phone and a solar recharger unit, the cost of which (approximately $175) is financed through microloans from Grameen Bank. By August 2004, there were some 75,000 phone ladies with each operator generating additional income of approximately $1000. Through the phone ladies, half of Bangladesh’s rural population now enjoys access to telephony. Grameen Phone’s revenues are estimated at half a billion dollars.

The India-based company n-Logue, piloted a locally engineered wireless-in-loop (WLL) voice- and data-splitting technology in India in 2001 called corDECT. The company relies on a micro-franchise model to equip rural entrepreneurs with a computer, monitor, printer, digital camera, back-up battery and application suite, all in local language. The franchisees are connected to a central node that provides access to India’s internet backbone and national telecommunications network. The cost of the package is approximately $1,200. Franchisees generate income by selling a variety of internet-based services, telephony, computer training, digital photographs and video showings. By 2004, n-Logue was operating in seven states and 1,900 villages.

Simanis and Hart (2006) observe that technology design and marketing approaches of Grameen Phone and n-Logue, are practically the reverse of KickStart’s. They believe that KickStarts success is the result of an organizational strategy, one that accepts and integrates ambiguity and uncertainty [110]. They call such a strategy a “real options” strategy. A real-options strategy responds to uncertainty through a staged process of rapid, low-cost continuous learning supported by a flexible resource allocation and organizational structure. In place of a single-product approach, which can lead to over-commitment, a portfolio of products and technologies would be developed and tested, thereby spreading risk while increasing the number of “probes” in the market. Within a real-options framework, product or business failures are not considered wasted efforts, but valuable sources of information. Organizational growth and expansion—in people and infrastructure—would be limited until the experiments and small-scale pilots yield sufficient insight into the business model to justify scaling up or discontinuing (Simanis and Hart 2006) [110]. This point is endorsed by a manager of a company which has successfully adopted BOP model. According to him “being committed to the BOP is very important since getting the right model takes time. The motto should be to think big, start small and move fast” (Sharma 2008) [127]. On the basis of their case analysis Simanis and Hart (2006) argue that “appropriateness”, is not determined by the technology or the marketing approach but by the imagination of its user —the owner of the MoneyMaker pump or the cell phone [110].

Hammond et al. (2007) identify four broad strategies used by enterprises operating in BOP markets [116]: First, focusing on the BOP with unique products, unique services, or unique technologies that are appropriate to BOP needs and that require reimagining the business, often through significant investment of money and management talent. Second, localizing value creation through franchising, through agent strategies that involve building local ecosystems of vendors or suppliers, or by treating the community as the customer, all of which usually involve substantial investment in capacity building and training. Third, enabling access to goods or services—financially (through single use or other packaging strategies that lower purchase barriers, prepaid or other novel business models that achieve the same result, or financing approaches) or physically (through novel distribution strategies or deployment of low-cost technologies). Fourth, unconventional partnering with governments, NGOs, or groups of multiple stakeholders to bring the necessary capabilities to the table.

The UNDP (2007) report outlines five strategies to deal with various constraints in doing business with the poor [111]. First strategy is to adapt product and processes particularly to regulatory environment and the physical infrastructure. Companies can effectively use information and communication technology for this purpose. At times a company is also required to restructure its processes. Second strategy is to invest to remove market constraint though this is generally considered to be a government responsibility. This strategy is generally used to overcome the constraint related to knowledge and skills of people both as employees and as potential customers. Third strategy is leveraging strengths of poor especially their social networks. By engaging them as intermediaries and building on their social networks, a company can increase access, trust and accountability. Next strategy is combining resources and capabilities with others. Firms can partner with not only other businesses but also with non-governmental organizations and public services providers. The fifth strategy is to engage in policy dialogue with government individually as well as collectively.

Opportunity for majority (OM) studies conducted on behalf of IDB found that main strategies deployed by the companies to target low income segments include innovation in products, services and business models [112]. Majority products and services are in many cases becoming standardized and reaching scale. Companies are using value chains to provide access to majority communities. For instance, Inka Cola has developed a very strong distribution chain in majority communities to provide access to customers. Farmeacias Similares has developed a franchising model to promote local ownership. Companies are also strengthening supply chains in majority communities to improve the quality of products sold to non-majority markets. Companies are also using cross selling strategy. They use their existing customer bases and market knowledge to extend product offerings to majority markets. Environment is often linked to a majority market focus as part of an overall “social” focus. Companies operating in majority markets believe that strong engagement with local communities creates customers and employees. Companies are supporting low income sectors through credits and other measures in order to allow them to access their products. (Preston et al. 2007) [112].

The BOP Protocol developed by Simanis and Hart (2008) is a co-venturing process that integrates within a corporate entrepreneurship framework thinking across a range of fields, including economics, anthropology, international development, empathy-based design, and environmental management [113]. The BOP Protocol are the principles of "mutual value" and "co-creation." Mutual value, means each stage of the process, not simply the new business, creates value for all partners in terms important to each. The "co-" component of "co-creation" captures the need for the company to work in equal partnership with BOP communities to imagine, launch, and grow a sustainable business. Co-development catalyzes business imagination and ensures the business model is culturally-appropriate and environmentally sustainable by building off of local resources and capabilities. It also expands the base of local entrepreneurial capacity. The "-creation" half of this logic reflects the view that a co-generated business concept has to be enacted through an evolutionary and highly interactive approach that ultimately crystallizes the new value proposition. In the absence of an existing product market that can be researched to reveal customer preferences and needs, the BOP Protocol uses action-learning techniques to roll-out a business concept in a low-risk manner. A "seed" value proposition is progressively evolved by the corporation together with community (Simanis and Hart 2008) [113].

Vachani and Smith (2008) have identified three creative market-based alternatives for socially responsible distribution [114]:

▪ Taking cost out. This approach increases access by lowering the costs of distribution.

▪ Reinventing the distribution channel. This approach increases access through innovation, by identifying different routes for reaching rural consumers and for rural producers to get their products to market. New technologies and business process redesign provide solutions.

▪ Taking the long-term view and investing for the future. This approach entails increased private sector investment anticipating a long-term payback and/or as a social commitment.

Five components of investment and operating costs for rural distribution have been identified as: Investment, Operating Cost, Incremental Investment per Location, Fixed Operating Cost (per location), Variable Operating Cost (as activity increases at locations)

The following set of procedures for setting up rural distribution network is suggested by Vachani and Smith (2008) [114].

▪ Develop a scalable delivery system. Facilitate scalability by having: low investment per additional village location (for example, rent facilities by the hour rather than purchasing real estate to set up a school); and low fixed costs and variable operating costs at the village level (for example, set up shop in the franchisee's home rather than paying rent, and compensate representatives with commissions and allowances rather than hiring fulltime staff.)

An important feature in enhancing feasibility is selectivity in bridging the infrastructure gaps such as lack of Internet access and reliable electric power. The Department of Post or ITC carefully chose technologies that were appropriate to the specific narrow objectives of providing chosen services (such as delivering information via a web portal) that contained cost.

▪ Set up strong centralized service design, supervisory, and control systems. The organizations invest heavily in the central system to design, set up, manage, and control the distribution system. They then incur only moderate levels of operating costs in keeping the central system functioning. At the same time, incremental investment in setting up each rural distribution location at the village level is low.

▪ Cluster retail locations. Cluster village-level locations in a way that the infrastructural and supervisory backbone is efficiently and economically utilized.

▪ Develop benchmarks for retail locations. Ensure that proposed village-level operations meet benchmarks for activity level and financial performance. Organizations use benchmarks to evaluate potential retail locations before setting up operations.

▪ Derive higher volume by shared distribution. The feasibility of distribution can be improved by bidirectional distribution which means the two-way flow of different products using the same logistics. Bidirectional distribution also has an information component, not about returned products but about information on the consumer's needs for a wider range of products and services. Once a distribution channel is in place and can carry additional products at low incremental cost, contribution earnings can be raised by widening product range to derive greater economies of scope.

A detailed study of 300 cases related to BOP marketing by Monitor group reports that business models aiming for the poor as customers must address the primary challenges of affordability, cost to serve, and matching customer cash flows (Karamchandani, et al. 2009).[115] It has identified four successful business models:

(1) A Pay-Per-Use approach in which consumers pay lower costs for each use of a group-owned facility, product, or service. This limits the impact on their cash flow while the sheer numbers of consumers makes the proposition sufficiently attractive for third party providers. Features of this model are:

• Accommodating terms, in which customers pay as they have cash available (or may subscribe for a set quantity of product or service).

• Group infrastructure, which is provided not for individuals or families but for a larger aggregation. Local (village-level) management provides day-today operations of facilities, distribution, accounts, equipment maintenance etc., and a collective local entity often serves as a means of enforcement (e.g. timely payments).

• Third-party administration, which an external entrepreneur — e.g. an individual, firm, NGO, village consortium — undertakes to organize and provide services or products to a low-income market (typically a village or group of villages).

(2) <u>A pared-down, no frills service</u> that meets the basic needs of the poor at ultra-low prices and still generates positive cash flow and profits through high volume, high asset utilization, and service specialization. No Frills models serve low-income markets by economizing at every stage of an offering:

• Setup and service, in which the provider reduces or minimizes non-core capital and expenses to provide "bare bones" service and lower the unit cost of delivery.

• High throughput/high asset utilization in which high customer volume drives capacity utilization and provides economies of scale.

• Service specialization, which enables the provider to focus on a limited array of services, standardize processes and reduce the need for additional procedures or multi-functional (and thus more expensive) personnel and training.

• Services/protocols, which are highly standardized, documented, routinized, and easy to deliver for lower-skilled staff.

(3) <u>Paraskilling</u> entails all of the elements of No Frills Model plus:

• Key processes reengineered into smaller, often disaggregated, discrete parts that can be performed by lower-skilled workers.

• Simplified and codified processes that lower-skilled workers can perform on a high-volume basis many times per shift or per day.

• Cultivation of a paraprofessional cadre that has less education or skills than the professionals who customarily perform services. Paraskilling requires finding suitable staff members who see the business proposition as attractive and making substantial continuous investment in staff training, and heavy investment in segmenting the labor market. Retention through promotion or expansion is generally a key to success.

(4) Shared Distribution channels piggyback the distribution channels of other enterprises, reducing costs and increasing reach through:

• Use of existing distribution platforms, which can be already functioning channels or networks created for other purposes.

• Increased field force responsibility to carry multiple products from a single hub deeper into the rural areas.

• Proper incentives to all participants in the distribution chain so that margins approach levels competitive with existing products/services sold.

• New alliances to allow specialization by task or capability — e.g., those with better logistics and fulfillment capability might handle physical delivery, or a channel can provide group-customer introductions to product-specific field forces (Karamchandani, et al. 2009) [115].

This is one of the most detailed studies about successful BOP business models and issues related to scaling.

2.2.9.4 Criticism of Marketing to the BOP

Some scholars argue that the BOP initiative could result in the poor spending money on products such as televisions and shampoo that would have been better spent on higher priority needs such as nutrition and education and health (Karnani 2007) [118]. But a blanket condemnation of all BOP initiatives of companies is also undesirable. For instance, Hindustan Unilever has launched a hand washing campaign and set itself a target that no child in India should die because of diarrhea (Sharma 2008) [127].

Karnani (2007) emphasizes need to consider bottom of the pyramid customers "primarily as producers". He argues that the only way to help the poor and alleviate poverty is to raise the real income of the poor. In fact very nature of some products (e.g., two-wheelers, mobile phones) is such that they are used as productivity enhancement devices that help customers in raising their incomes [118]. Scholars have made a strong case for selling productivity enhancing devices as a means of improving lives of poor (Bijapurkar 2007, Letelier et.al. 2003) [104,128]. Corbett (2008) reports a study by Nokia researchers which included speaking to rickshaw drivers, shopkeepers, day labourers and farmers who confirmed that their income gets a big boost when they have access to a cellphone. She further quotes a 2005 study by London Business School which found that for every additional 10 mobile phones per 100 people, a country's GDP rises 0.5%.[129] Philips has initiated a Sustainable Model in Lighting Everywhere (SMILE) with the aim of improving productivity of rural households. Company's internal research revealed that people with a PPP of less than Rs 80 per day, spend almost Rs 100 per month on kerosene for lighting. Company set itself an objective of providing a better source of light than kerosene lamp, which would cost less than Rs 100 per month. Hence, instead of passing a single judgment on marketing to the BOP market, one needs to categorize the products in a two-dimensional space consisting of focus on increasing economic bottom lines of the companies and on improving lives of customers (health, education, poverty and environment). Products which benefit customers as well as companies are the ones which can be targeted at BOP markets (Ramakrishnan 2008). [130]

Karnani (2007) argues that there are only three ways to reduce prices: reduce profits, reduce costs without reducing quality, and reduce costs by reducing quality. Here also Karnani's argument can be countered by Prahalad's suggestion that companies should look at large volume based return on capital employed rather than gross margin or per unit margin. As regards cost- quality trade off, Prahalad (2005) him self highlights the need for right price-performance relationship [101]. But Karnani's argument that low income customers are even willing to put up with a detergent that sometimes causes blisters (he cites example of Nirma detergent powder in India) sounds as morally hazardous an argument as his objection to looking at poor as customers rather than producers. On the contrary, Prahalad (2008,) clearly states that affordability of products should not be at the cost of quality or efficacy [101].

A study done in India showed that 77.6 percent of respondents had experienced some kinds of skin irritation due to use of detergents. Of these the majority comprised of washermen (dhobis) and rural women. Chemical residues left by detergents on clothes cause many common health problems including allergies, skin infections and in rare cases, cancer. (Toxics Link, 2002) [131].

Critics also point out that some companies have chosen to simply adapt environmentally unsustainable products and services to sell in the BOP mass market. If 6.5 billion people (8-9 billion by mid-century) consume at the levels of today's typical American, 3-4 planet Earths will be needed to supply the raw materials, absorb the waste, and stabilize the climate (Simanis and Hart 2008) [113]. Negative impact of the proliferation of single serve plastic packages on the environment has not been addressed by companies. This problem is exacerbated in poor villages and slums where trash collection facilities are grossly inadequate (Karnani 2007) [118]. The initial conceptualization of BOP models, limited the issue of sustainability to reducing resource intensity, the use of renewable sources of energy and recyclability as strategies for ensuring sustainability. Scholars argue that it is an economic and environmental view of sustainability and does not include social impact [123].

Karnani (2007) argues that usually small to medium-sized local enterprises are best suited to exploiting these opportunities [118]. Jose (2008) argues that scalability can be achieved by local entrepreneurial efforts that are replicated in different locations and work as separate units [122].

Jaiswal (2008) [132] suggests a middle path between Prahalad and Karnani's arguments [101, 118]. He says marketers should avoid both undesirable inclusion and exclusion. Undesirable inclusion means marketing products to the BOP that are not likely to enhance their wellbeing or that they are likely to abuse. Exclusion means failing to offer them products or services that are likely to enhance their well-being.

2.2.9.5 Extent of Efforts and Corporate Performance

Prahalad (2005) points out that the basic economics of the BOP market are based on small unit packages, low margin per unit, and high return on capital employed [101]. In support of his thesis that BOP markets result into high return on capital employed (ROCE), Prahalad (2005) gives a few case based evidences like Nirma and Wheel detergents, Arvind Eye Hospital etc. However there is no sample study based empirical support for this argument. Inter-American Development Bank developed an Opportunity for Majority Index (OM Index) with a view to help investors to know the extent of efforts made by a company to provide opportunity to majority [111]. The OM Index criteria examine four areas: strategic governance, human capital, stakeholder capital, and the environment. Elements included in strategic governance include the extent to which a company sees the majority as a market rather than a philanthropic endeavor. Elements included in human capital include the company's willingness and ability to attract and retain staff with interest and passion to work in majority markets. Stakeholder capital deals with the issue of does the company have procedures and performance with respect to key stakeholder groups that enable it to build and maintain its reputation with these groups? A key issue in very large volume low-income markets is that, unless products for these markets are designed to minimize environmental impacts, their very large volume means that they can have large environmental footprints.

In the OM Index, weightages assigned to strategic governance, stakeholder capital, human capital, and environmental pillar are 0.4, 0.3, 02 and 0.1 respectively. A weighted average score is calculated for each company. Companies are scored on a scale of 1 to 5 with 5 indicating the strongest performance in meeting majority markets. However, this study does not link OM Index to the performance of a company.

2.2.10 Managerial Economics

According to Samuelson and Nordhaus (2005) factors behind the demand curve for a particular commodity are: the average income of consumers, the size of the market, the price of substitute commodities, individual and social tastes, special influences like climatic conditions, infrastructural condition etc. and expectations about future economic conditions, particularly prices. [133] Salvatore (2004) notes that the substitution effect (increase in the consumption of one commodity because of reduction in its price as compared to a substitute commodity) is generally larger than the income effect (when price of X commodity falls but money income and price of substitute Y does not change) [134]. As a result while trying to expand market for a product category, marketers need to develop strategies to deal with substitutes.

Samuelson and Nordhaus (2005) point out the effect of change in the price of complements (e.g. effect of price of petrol on sales of automobiles) on a particular good besides effect of change in the price of substitutes [133]. They point out 'network' as an important case of complementary products. In network markets, consumers derive benefits not simply from their own use of goods but also from the number of other consumers who adopt the good. For example, telecommunication systems, credit cards and ATM cards, since they can be used at multiple locations. Hence, marketers need to design strategies to deal with compliments and networks just as they do it for dealing with competition. Since, network markets enforce switching costs on consumers which in turn leads to inertia; businesses try to establish an early lead making it difficult for others to catch up later.

Decision to adopt aggressive price strategy for market expansion depends upon economies of scale and / or learning curve. Economies of scale refer to the situation in which output grows proportionately faster than the inputs and the long run average cost (LAC) declines. In the real world the LAC curve is often found to have a nearly flat bottom and to be L -shaped rather than U- shaped. This implies that economies of scale are rather quickly exhausted and constant or near constant returns to scale prevail over a considerable range of outputs in many industries

The learning curve shows the decline in the average input cost of production with rising cumulative total outputs over time. If the managers believe that their firm will benefit from the learning curve effect, besides the effect of economies of scale, they may keep unit prices low in order to increase absolute and cumulative output rapidly. Hence, managers need to develop the ability to forecast and manage economies of scale and learning curve effects. The firms can also use a related concept called economies of scope, to reduce the cost. This involves production of two or more products together rather than each alone. (Salvatore 2004) [134].

Some apprehensions exist about efficacy of price cutting as a strategy for market expansion. Porter (1996) warns against too much reliance on what he calls operational effectiveness (cost cutting through productivity gains) [135]. He says competition based on operational effectiveness shifts the productivity frontier (state of best practices) outwards, effectively raising the bar for everyone in the industry. But although such competition produces absolute improvement in operational effectiveness, it leads to relative improvement for no one. He cites the case of commercial printing industry in USA in which productivity gains are being captured by customers and suppliers but not the competing firms. He warns that competition based on operational effectiveness alone is mutually destructive, leading to wars of attrition that can be arrested only by limiting the competition.

Similar situation prevailed in India in soft drinks industry. To wean away customers from tea to soft drinks, Coca Cola India launched 200 ml packs at a reduced price of Rs 5. The move that was followed by competitors did expand the soft drink market but it resulted into losses for the players in the soft drink industry. Ultimately Coca Cola India reversed its decision in 2005 and hiked the price of 200 ml bottles to Rs 7. Though the price increase resulted into decreased sales volume for three successive quarters, it helped Coke in arresting losses (Pande, 2009) [136].

2.3 Research Gap

Bhardwaj, Clark and Kulviwat (2005) establish contribution of marketing discipline towards market growth [86]. They argue that the move from exogenous to endogenous explanations of market growth is significant for two reasons: (1) the endogenous theory places the initiative for growth on policy decisions rather than uncontrollable events and circumstances, and (2) endogenous growth emphasizes human capital and knowledge. It is these aspects of endogenous theory that make it particularly useful in investigating market growth from a marketing perspective. But Bhardwaj et al. acknowledge that it is not known as to what combination of marketing mix is most effective in promoting market growth [86]. Marketing models offer insights into effect of only tactical variables on primary demand.

Since literature on competitive position based strategies and market driven strategies has not been developed specifically for expansion of product category level demand, it can also be used only selectively. Similarly Kotler’s (1973) prescriptions about demand creation tasks need to be synthesized with the work on blue ocean strategy and marketing to the BOP [20].

Some of the strategies suggested in blue ocean framework do not lead to market expansion for a product category as a whole. For example, Kim and Mauborgne’s idea of looking across strategic group within the same industry (ex. Toyota’s Lexus offers quality of the high end

Mercedes at the price closer to lower end Cadillac) may only lead to expansion of market for a product form without any change in the market size for product category as a whole [99]. A "blue ocean" strategy framework provides tools and techniques for dealing with competition at different levels. But it does not pay enough attention to the exogenous factors affecting market demand such as the purchasing and consumption abilities of potential customers. There is also lack of conceptual clarity as to whether geographic expansion of business by a firm can be considered as market expansion.

In the context of developing country like India 'bottom of the pyramid (BOP) marketing framework' is relevant because it puts strong emphasis on the creation of consumption capacity among the poor. But involvement of large businesses in marketing to bottom of the pyramid (BOP) may only result into shifting of market shares from unorganized to organized sector rather than expansion of market. Like a "blue ocean strategy" framework it does not adequately address a very important consumer behavior related issue of how to bring an unwilling customer into the market. "BOP" framework also ignores the competitive dimension in the formulation of market expansion strategy. The proposed research tries to synthesize ideas from extant literature to develop a holistic framework for market expansion which can be used for any type of market including the BOP.

Exponents of BOP marketing and blue ocean strategy believe that current strategic thinking is preoccupied with market share rather than market expansion. But survey of literature offers mixed indications as to whether market expansion strategy is a strategic alternative to market share growth strategy.

Exponents of marketing to BOP markets cite several reasons which motivate or demotivate a company to expand markets. But these opinions need to be empirically validated. There is hardly any empirical study of the managers in consumer product companies in India which throws light on the reasons for targeting or ignoring untapped and underserved segments.

Most scholars highlight limitations of the existing business models of western companies as a major hindrance in market expansion. Some ideas about probable routes to market expansion have been documented but very little empirical probing of these ideas has been done.

The financial viability of market expansion strategy is a crucial issue in the developing countries because most untapped market segments are located in the rural areas. There have been studies on impact of market share on a company's profitability (e.g., Buzzell, Gale, and Sultan 1975; Szymanski, Bhardwaj, and Varadarajan 1993). [137,138] But there are hardly any studies linking market expansion strategy in India to financial performance. In fact there is no existing method to determine an extent to which a company practices market expansion strategy. Most models of diffusion of innovation and market response have been developed using a few marketing variables at a time. There is no existing metric to capture a holistic view of marketing strategy of a company.

A study of the corporate strategic behaviour in response to economic reforms in India, evaluated the extent to which a company uses a specific strategic alternative and how it affects the performance. The five strategies alternatives studied are: change in business scope, geographical scope, scale of operation, diversity of operation, and sharing of resources. Of all the alternatives scale expansion strategy was found to be the most effective, as it yielded superior profit and market performance (average market return) (Ray 2004) [139]. However, this is a study of corporate level strategies and not product category level strategies. For instance, in this study change in geographical scope means not only geographic market expansion but also sourcing lower cost inputs through geographical dispersion. Similarly scale of operation is an aggregate concept and may not necessarily reflect expansion of market for a specific product category. Even in case of single product category firms, scale of operations can be increased through increase in sales volume which may come from market share growth in a static market.

Treacy and Sims (2004) have developed a tool – the sources of revenue statement (SRS) – to identify the sources of revenue [140]. They have identified five distinct sources of growth viz. continuing sales to company's established customers (base retention), market share growth, new sales in an expanding market, entry into adjacent markets-where firm's core capabilities can be leveraged and new lines of businesses. But it does not reveal the extent of efforts made by a firm in expanding the market.

'Opportunity for majority index' measures the extent to which a company makes efforts at targeting low income segments (Preston et al. 2007) [112]. But involvement of multinationals in many cases might just shift market from unorganized sector to the organized sector. Lack of penetration by goods and services of big business at the BOP, does not imply that these markets are necessarily underserved (Warnholz 2007). Hence, it may not be correct to look at the issue of market expansion only from a perspective of income based segmentation [119].

Kim and Mauborgne (2005) report that blue ocean strategic moves (targeting such markets segments that are not targeted by the competitor brands) generate higher profit than red ocean strategic moves (trying to gain market share from competitor brands). Their analysis is at strategic move level rather than product category level. Like in case of studies on market orientation (e.g., Kohli, Jaworski, Kumar 1993, Narver and Slater 1990) it is better to look at market expansion strategy as a continuum rather than a simple yes or no [97,98]. Hence an attempt has been made in this research to determine the extent to which market expansion strategy is pursued at a product category level and study its relationship with performance.

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CHAPTER THREE

CONCEPTUALIZATION OF MARKET EXPANSION STRATEGY

3.1 Introduction

An attempt has been made to conceptualize a market expansion strategy in such a way that a generic framework can be developed which should be useful for the expansion of markets of any type, including the bottom of the pyramid markets in developing countries. The framework development begins without making any assumption as to whether market expansion is a strategic alternative to market share or not. In order to develop a framework a few fundamental issues such as: what is a market and what is market expansion are addressed. Some significant contributions to the market expansion-related strategy literature have been synthesized with relevant concepts and theories from literature in other areas. On the basis of the survey of the literature, first the domains of the market expansion construct and market expansion strategy have been clarified. Then the antecedent conditions that drive market expansion have been identified. The moderating conditions under which the effect of antecedents is enhanced or ameliorated have also been identified. On the basis of the identified antecedents and moderators, a process-based framework for implementation and measurement of market expansion strategy has been developed.

3.2 What Is A Market?

In marketing literature, there are broadly two approaches to definition of the term market. One approach highlights conditions necessary to establish exchange. This approach is consistent with the definition of market in economics literature. Etzel, Walker and Stanton (2004) define market as people or organizations with needs to satisfy, money to spend, and willingness to spend it [1]. Other approach focuses on definition of market in terms of target customers and/ or competitors. Kotler (2001) defines market as the set of all actual and potential buyers of a market offer [2]. Markets have also been defined as a set of customers served by a set of suppliers, where both sets are defined in terms of products and services and in terms of geographic locations (Brooks 1995) [3].These two approaches have different implications for conceptualization of market expansion strategy. While first approach helps in identifying activities necessary for market expansion, second approach helps in identifying benchmarks (in terms of competitors) for planning these activities.

Size of the market is measured in terms of demand. Demand for a product category as a whole is termed as primary demand while demand for a particular brand of a product is called selective demand. The upper limit of market demand is called market potential (Kotler 2001) [2].

3. 2.1 What Is Market Expansion Strategy?

In the marketing and strategy literature, primary demand creation and selective demand creation have been identified as distinct strategic options. Companies selling in mature markets often take primary demand as given. They concentrate their marketing resources on building selective demand. However in countries which are characterized by huge but largely untapped market potential, some companies attempt to build primary demand as well as preference for their brands (Kotler 2001) [2].

Demand for a product category can be expressed in terms of volume (i.e., quantity or number of units) or value (i.e., monetary units). Various sources of the growth in the demand for a product category are: (1) demand from the first time buyers i.e., existing non-customers of the industry, (2) increase in the usage rate of existing customers of the industry, and (3) value growth because of some customers upgrading to higher priced products (Bijapurkar 2007) [4].

If viewed from supply side perspective, primary demand is supposed to increase with the increase in number of units sold irrespective of the source of increase. In the strategy literature, the term ‘market expansion’ has generally been used in the context of increase in primary demand irrespective of source of growth. But from the perspective of marketing’s societal function of delivering standard of living, source of growth in primary demand makes a difference. Scholars suggest that marketers need to ask whether marketing is performing this function well enough or not (Andreasen 2005) [5]. For example, addition of a car to an existing car owning family or faster replacement of existing cars or up-gradation of cars does add to primary demand and improves the standard of living. But going by the principle of marginal utility, it can be argued that a first time buyer of car is likely to experience higher improvement in his standard of living than an existing customer who upgrades.

A study of rural consumers in India regarding the impact of consumer durables on their life reports that respondents were almost unanimous in their opinion regarding these products’ having a positive impact as 89.7% agreed that these products have made life easy. 90.1% respondents believed that they have improved the standard of living. About 79.4% believed that people have become happier and felt important having bought these products. And 70% agreed that these products add social status to their life. Where as 65.6% agreed for these products are having an impact on efficiency, 72.9% were having an opinion that these products have become a necessity in modern time, and 84% respondents were of the view that these products have become instrumental in the happiness of the family members. About 61.7% believed that these products have brought positivity in life. For 56.6% respondents, buying these products were like a dream coming true. And 59.8% respondents held the opinion that these products are purchased out of requirement. However, there was sizeable percentage of respondents believing (51.4%) that people purchase these products out of fashion, though very little percentage of respondents agreed for it being a waste of money (11.6%) and only 18.5% agreed that they are being show-off (Kumar and Bishnoi 2007) [6].

Another study on the adoption of mobile phones by the fishing community in India —among the poorest of the poor— reports that using mobile phones at sea, fishermen are able to respond quickly to market demand and prevent unnecessary wastage of catch—fish being a highly perishable commodity—a common occurrence before the adoption of phones. Fishermen spend less time idling on shore and at sea, whereas owners and agents go to the landing centers only when they receive information (via mobile phones) that their boats are about to dock. 80% of the total number of respondents perceived mobile phones to be useful. Every segment (fishermen, merchants and transporters) of the fishing population perceived their usefulness (Abraham 2007) [7].

Hence, in a developing country a market expansion strategy needs to be viewed as a means of improving the standard of living of as many people as possible. Market expansion strategy should mean bringing such people into the market that was not there in it i.e. converting non-customers into customers. But in hugely populated countries like India and China, even low product penetration levels translate into a large customer base in absolute terms. In many industries the existing customer base is sufficiently large for a company to cater to their replacement or up-gradation demand. For instance, penetration level of cars in India is just 8 per 1000 people, but in absolute terms it is a fairly large volume of around 88 lakh cars. As a result 2/3 rd of annual demand of 12 lakh cars comes from existing customer households because of their desire to replace, up-grade or possess multiple number of cars (Sinha 2008) [8]. Maruti Suzuki Ltd, the leading passenger car maker which at one point of time expanded passenger car market in India in a big way, now has an option of targeting its own existing customer base for their replacement or up-gradation demand and demand arising out of desire for owning increased number of cars. For this purpose, the company extensively uses its customer relationship programme, which has more than a million existing owners of Maruti cars (Sinha 2008) [8].

In case of consumer non-durables a household is classified as a user even if it buys the product just once in a year or six months in case of all other products. It can be argued that those customers who use low quantity (less than desirable) of non-durables like bath soaps, detergents and toothpaste/ toothpowder are deprived of a certain level of standard of living and hence increasing their usage rate amounts to market expansion. For example, around two million people succumb to diarrhea every year in the world. In India alone, hand-washing before meals and after defecation can save the lives of over 250,000 people annually, says WaterAid (2008) an international NGO [9]. In 2002, Hindustan Lever Limited (now HUL) launched a rural health and hygiene educational programme titled 'Lifebuoy *Swasthya Chetna*'. Objective of this programme is to educate people about basic hygienic habits, including washing hands with soap. The programme has covered 50,676 villages across 9 states of India, accounting for over 12 crore people. HUL reinforced this programme further through 'The Lifebuoy Swasthya Chetna 2007- Your City is Calling' programme to create awareness about cleanliness, health and hygiene in urban India [10]. Hence, promotion of increased usage can be considered as a part of market expansion strategy in case of select consumer non-durables.

In this study market expansion strategy has been defined as a strategy of increasing primary demand for a product category by converting non-customers into customers and/ or by increasing the usage rate of category's existing customers (Bang and Joshi 2008) [11]. Unlike Kotler's (2001) definition of market expansion strategy this conceptualization of market expansion strategy considers increasing usage rate primarily in case of select non-durables [2].

3.2.2 Market Expansion Strategy as Opposite of Market Share Growth/ Competitive Strategy

Quite contrary to other scholars who consider market expansion as an alternative to market share growth (e.g. Kim and Mauborgne 2005, Hamel and Prahalad 2002) Walker Jr. et al. (2006) consider market expansion strategy as a means of maintaining market share when a product is at the growth stage of its life cycle [12,13,14]. Even a flanking attack strategy which was originally conceptualized as a market share growth strategy by Kotler and Singh (1980) ultimately leads to market growth [15].

Among several reasons given for targeting market share growth one important reason is double jeopardy (DJ) effect. DJ effect means a small market share brand is punished twice for being small: It has fewer buyers, and these few buyers are somewhat less loyal to the brand. But the DJ effect is not due to the buyers of a small share brand being light users of the product category as a whole (Ehrenberg and Goodhardt 2002) [16]. Existence of double jeopardy has been confirmed by a study in non-durable product category in India. Since low share brands suffer from lesser brand penetration, less frequent purchasing and less brand loyalty, high market share is a beneficial objective for brand managers to strive for (Bhatia and Bawa 2002) [17]. However, aiming for higher market share does not seem to be a conflicting objective with market expansion. For instance, sometimes marketers try to increase people's frequency of buying their brand by finding and promoting new uses for it. The new use when succeeds, is likely to carry over to competitive brands. The result is higher purchase frequencies across the board and a reestablished DJ effect (Ehrenberg and Goodhardt 2002) [16]. This underlines the importance of a market expansion strategy.

In literature evidence is mixed as to whether market expansion strategy is opposite of competitive strategy. In fact competition based marketing theories provide for market expansion by suggesting targeting of potential market segments with unmet needs as a source of competitive advantage. For instance, Nirma washing powder launched in 1969 expanded the washing powder market. Nirma was launched at a price of Rs 3.50 per Kg as against Surf's price of Rs. 15 per Kg. (Pai and Kaul 2004) [18]. It can be argued that a lot of non-customers of washing powder got converted into customers because Nirma offered a better value proposition than the competitors. That means to expand the market; Nirma had to keep in mind competitor's value proposition and delivery process. Thinking of market expansion strategy as opposite of market share growth or competitive strategy does not bring in conceptual clarity. On the contrary an impression gets created that a market expander company does not aim for market share and it does not benchmark itself against competitors.

There is something unique about market expansion strategy vis-à-vis other marketing strategies. Product category level primary demand creation requires different set of activities than brand level selective demand creation. Hence, in this research market expansion strategy has been conceptualized in terms of certain activities and not as opposite of market share growth or competitive strategy. In fact some overlap between market expansion strategy and market share growth or competitive strategy is assumed (Bang and Joshi 2008) [11].

3.2.3 Levels of Market Expansion

In order to measure market potential, it is necessary to define boundaries of a market. For defining market boundaries, Brooks (1995) conceptualizes "market" as a set of customers served by a set of suppliers, where both sets are defined in terms of products and services and in terms of geographic locations [3]. This means for each of its products in a chosen geographical area, a company can have different estimates of market potential depending on the definition of respective product's market boundaries in terms of competition.

There exist two approaches to the definition of competition. Demand-oriented approaches define competitors with respect to customer needs and wants, while supply-oriented approaches focus on physical product and manufacturing processes (Day, Shocker, and Srivastava 1979) [19]. Levitt (1960) highlights importance of demand side perspective when he asks companies to focus on customer needs rather than the products that they sell [20].

Lehman and Winer (2005) define competition at four different levels: product form level, product category level, generic level, and budget level [21]. Product form level competition includes all those products and services which typically pursue the same market segments and their features offer similar values. All brands within a product form are competitors at the product form level. Product category competition includes all those products and services which have similar features. But these features may differ in perceived value. All product forms within a product category are competitors at the product category level. Generic competition includes all those products and services which satisfy the same customer needs. Various product categories satisfying a particular need are competitors at this level. Budget level competition includes all those products and services which compete for the customer's budget. At this level various customer needs are the competitors.

Different levels of market expansion can be conceptualized by using four levels of competition as a framework. Market potential can be measured for a product form (i.e., low cost airlines/motorbikes/ herbal shampoo) or for a product category (i.e., airlines/two wheelers/shampoos) or for a generic need (i.e., travel/personal transport/hair wash). At one extreme end, a firm may try to increase sales of its specific brand without attempting to increase the market potential of the product form to which the brand belongs. Resultant increase in the sales of that brand can not be termed as market expansion. A company can make efforts to increase the sales of a product form within a product category. For example, Air Deccan popularized the low cost air travel format in Indian domestic air travel market. As per proposed definition of market expansion, an increase in the sales of a product form also does not constitute market expansion unless it leads to increase in the sales of the product category as a whole. Market can be expanded by increasing the sales of a product category within a generic need. For example, an airline can try to persuade the customers to travel by air rather than by train. Market can be further expanded by raising aspirations of customers for satisfaction of a particular generic need vis a vis their other needs. For example, airlines can try to persuade customers to travel and see the world. Four levels of competition provide a systematic framework for benchmarking of value proposition and value chain.

In addition, an increase in market potential can also be brought about by increasing the size of the wallet or budget of the customers. For example, Tyagi (2006)**,** Head – Rural Marketing, ITC- International Business Division says, “marketers today are trying to get a share of the same wallet while what we are trying to do in the eChoupal model is to look at how we can enhance the size of the wallet and then garner a share of it.”[22]

A market expansion continuum can be conceptualized across which the market expansion strategy can be practiced (Bang and Joshi 2008) [11]. As shown in figure 3.1, at one end of the continuum lies the prospect of increasing sales for a product form which may or may not lead to market expansion. At the other end lies the prospect of expanding the market by increasing the size of wallet/ budget of the consumers and acquiring a share from it.

Figure 3.1: Market Expansion Continuum

Increase in sales of a product form	Market expansion for product category	Market expansion for generic need	Market expansion by expanding size of customer’s wallet & acquiring share from it

Neither the “blue ocean strategy” framework nor the “bottom of the pyramid marketing” framework is applicable throughout the proposed continuum of market expansion. The “blue ocean strategy” framework is useful for increasing the sales of a product form and a product category. But the “blue ocean strategy” framework pays less attention to the possibility of expanding a market for a generic need and expanding a market by increasing the size of the wallet of the customers. The “bottom of the pyramid marketing” framework extends the scope of market expansion up to the level of increasing the size of the wallet of potential customers. But the “bottom of the pyramid marketing” framework almost ignores the competitive dimension in the formulation of a strategy.

3.3 Antecedents to Market Expansion

Antecedents to a market expansion are the factors that drive market expansion. Examination of the literature reveals three antecedents to market expansion: (1) unfulfilled needs and wants of the potential customers, (2) their purchasing ability and (3) access to the desired products and services.

3.3.1 Unfulfilled Needs and Wants

If demand for a product is to exist, the customers should recognize an unfulfilled need which can be satisfied by a given product (Etzel, Walker, and Stanton 2004; Kotler 2001) [1,2]. Need or problem recognition is the first step in the consumer decision making process (Blackwell, Miniard, and Engel 2006, Loudon and Della Bitta 2002) [23, 24].

Customers recognize an unfulfilled need only when they perceive a difference of sufficient magnitude between their desired and the actual state of affairs (Blackwell, Miniard, and Engel 2006) [23]. Out of the several factors influencing the actual and desired state of affairs (Bruner II 1988), reference group, culture, and social class are especially important in the developing market context [25]. In low income segments in developing countries, decisions to buy or not to buy a product are affected by conflict between traditional values (i.e., belief that personal identity is based on place in the society given at birth) and emerging values (i.e., belief that possessions, education, and work status define identity). Poor customers try to resolve the value conflicts by buying such products that make qualitative differences in their lives and enhance their productivity (Letelier, Flores, and Spinosa 2003) [26].

At a given point of time, several needs compete for the share of a customer's resources. For a customer, motivation to satisfy a need depends on the relative importance of that need (Hawkins, Coney, and Best 1980) [27]. As a result, demand for a product is affected by the competition from "non-comparable alternatives," i.e. product categories which satisfy different needs (TV versus Refrigerator) but compete for the customer's resources (Corfman 1991) [28]. Competition among non- comparable alternatives is an important issue in developing countries because of the lower incomes of the customers. As per one study 17 product categories accounted for 80% of the discretionary consumer spending of socio-economic (SEC) A and B strata in 2002 as against seven categories in 1991. As a result, inter-category competition has become very strong (Singhal, 2003) [29].

Even after customers recognize a need which a given product can satisfy, demand for that product is not assured because there can be more than one product category capable of satisfying a given need. Competition from substitutes is discussed in economics, marketing and strategy literature. A customer's desire for a specific product category becomes his want (Kotler 2001) [2]. At times demand for a product is negatively affected because of undesirable beliefs, values, or feelings associated with the product (Kotler 1973) [30]. Many products can be used in a wide variety of situations. But usage attitudes toward products are situation-specific (Belk1975) [31].

If the customers are to consider a product category as one of the alternatives for satisfaction of a chosen need, the given category should exist in his consideration set. First time buyers in a product category may lack knowledge about what alternatives are available to choose from and they may not be able to construct a consideration set solely based on the internal search of the memory. The products like deodorant which are taken for granted in developed countries might be unknown to many customers in developing countries (Blackwell, Miniard, and Engel 2006) [23].

New product adoption is determined by consumers' perceptions that the product has a relative advantage in purchasing and usage, is compatible with their existing values, beliefs, past experiences, and needs, has advantages that are observable, and is easy to use or obtain the desired results (Rogers 2003) [32]. A study of adoption of food products in India looks at cultural influences. The results reflect the interdependence of consumers' individual/personal views and beliefs with those of the 'group', although global influences have weakened the traditional societal characteristics of India. The study reports that interpersonal communication is more important than mass media in influencing a person's decision to accept new ideas. This social influence is a different phenomenon from western countries and consumers (Yun et al. 2008) [33]. Another study involving consumers of sea food in India reports that consumers who consider 'religion' as an important factor were 4.1 times more likely to purchase seafood on some particular days (Sunday, Wednesday and Friday) of the week on which religion does not act as a barrier to purchase seafood (Redkar and Bose 2004). These kinds of beliefs and value systems affect frequency of purchase and usage rate of product categories [34].

Scholars highlight effect of psychographics on the frequency of purchase of products which is closely related to product usage rate. In a study of college going youth in Kolkota, India it was found that cosmetics, mobiles, pre-paid cards for mobiles, fuel for automobile were frequently purchased by outdoor enthusiast, fashion-conscious, intellectual and hobby lover individuals, who were not variety-seekers and sports enthusiasts. Frequent purchasers of CDs, cassettes and DVDs were fashion-conscious, computer buffs, outdoor enthusiasts, intellectual and hobby lovers, and laid importance on outer directed values (Roy and Goswami, 2007) [35].

CavinKare, an Indian company when launched ‘Chik’ shampoo in 1983 experienced many of the aforementioned consumer behaviour related hurdles in expanding market for shampoos. Chik was targeted at the lower middle class and semi-rural population with monthly income of Rs.1500–3000. Though at that time more than 100 brands of shampoo were available, shampoo as a product was perceived to contain harsh chemicals (beliefs). Many consumers used shampoo only on special occasions such as weddings, parties, etc. Shampoo companies found it tough to convince consumers to switch over from ordinary toilet soaps and other traditional alternatives and natural conditioning agents such as henna (substitutes) to shampoos (Jaiswal and Venugopal 2008) [36].

3.3.2 Purchasing Ability

Demand for a product exists when needs and wants of the customers are backed by the purchasing ability (Etzel, Walker, and Stanton 2004; Kotler 2001) [1,2]. Purchasing ability depends on the income, savings, assets, debts, and borrowing power (Kotler 2001) [2].

Per capita incomes in the developing countries are much lower than the developed countries. However, per capita income and consumption expenditures in developing countries in purchasing power parity terms are much higher than what appears in real terms. For example, in 2005 an average Indian middle class family spent approximately $6500 annually in real terms but in purchasing power parity terms it meant $35000 (Beinhocker, Farrell, and Zainulbhai 2007) [37].

Poor customers in the developing countries not only have low per capita income but their income streams are unpredictable. Many of them subsist on daily wages. Because of this bottom of the pyramid customers prefer buying many products like shampoo, biscuits, toothpaste, soaps, etc. in small packets at lower price points (Prahalad 2005) [38].

Demand for products is affected not only by the current income of the customers but also by their borrowing power. However, access to formal credit depends on creditworthiness of the borrowers. Poor customers who lack collateral find it difficult to access credit through formal credit sources. Access to informal financial institutions like Rotating Saving and Credit Association (Roscas) helps poor customers in reducing the waiting time to purchase (Callier1990) [39]. Poor customers also depend on the local retailers and money lenders for their credit needs though such credit can be exorbitantly expensive (Prahalad 2005) [38].

3.3.3 Access

The mere existence of willing and capable customers does not constitute a market. According to economists, markets exist only when at least two parties (i.e., customers and marketers) are willing to enter into an exchange (Rosenbaum 2000) [40]. At times customers recognize an unfulfilled need but marketers do not offer a product which can satisfy the felt need. Such a situation represents latent demand (Kotler 1973) [30]. Potential market for a product offer gets converted into available market only when the potential customers have access to the product offer (Kotler 2001) [2]. For example, scholars point out that the bottom of the pyramid markets in the developing countries can expand if companies increase their distribution reach especially in the geographically dispersed rural markets (Prahalad 2005) [38]. The term access not only means distribution reach but more importantly it means availability of the products with desired value propositions. For example, when companies started offering shampoo in single serve packs priced at as low as $ 0.02, the percentage of households consuming shampoo in rural India went up from 13.3 in the year 2000 to 31.9 in 2005 (Bijapurkar 2007) [4]. Hence it can be said that access is a marketer-side antecedent to market expansion. It is influenced by the target market definitions of the companies.

For some products a company or the whole industry may not target a certain market segment. For example, companies that sell higher end products such as financial services or computers have generally not targeted low income segments in developing countries (Letelier, Flores, and Spinosa 2003) [26].

The market for a product category can expand if a company targets non-customers of the industry's products. Market for consumer durables can expand if companies target lower income segments, where product penetration levels are low. But if consumer durable companies target higher income segments then it can be said that they are primarily catering to replacement or up-gradation demand. Markets for non-durables like soaps, detergents and toothpaste/ toothpowder are well penetrated. Further expansion can take place if companies try to increase the usage rate of the existing customers of the product category.

Survey of literature reveals that three important factors influence a company's decision to target untapped and/or underserved market segments or not.

3.3.3.1 Estimate of the Potential Market Size and Growth

The size and growth rate of the potential market are important determinants of the choice of target market (Etzel, Walker and Stanton 2001; Kotler 2001) [1,2]. However the estimate of the size of potential market depends upon the metric used by the marketers. As shown in table 3.1, in terms of GDP per capita, the emerging economies of Brazil, Russia, India and China rank very low in the list of countries. However, in terms of population and GDP, these countries rank very high.

Table 3.1: Population and GDP Ranking

Country	Population rank	Purchasing power parity	
		GDP rank	GDP per capita rank
China	1	3	108
India	2	5	153
Brazil	7	11	97
Russia	10	10	81
USA	4	1	10

Source: The World Factbook 2007, in Bijapurkar R. 2007. *We are like that only*. New Delhi: Penguin Portfolio. p. 57

A company's estimate of market size may be affected by its perception of purchasing power rather than by the real purchasing power of the customers. For instance, some multinational companies tend to think of the middle class in India and China as similar to the middle class in Europe or the USA. In reality upper class customers of the developing countries match the middle class customers of the developed countries in terms of their income. As a result many companies end up targeting only the upper income segments in the developing countries (Prahalad and Lieberthal 1998) [41].

On the other hand, companies tend to under estimate the purchasing power of poor people. Poor customers buy many products and services at much higher prices than their rich counterparts. For example, poor people in Dharavi, a shantytown of more than 1 million people in the heart of Mumbai, India, pay several times more to use credit than rich people staying in the same city (Prahalad 2005) [38].

A company's strategies are also affected by the rate of growth of the market. If a company thinks that its product is at the maturity or saturation phase in its lifecycle, it may become market share focused. Sometimes lifecycle stage can be a matter of perception. Critics argue that a product may appear to be mature when actually it has reached only a plateau prior to another upsurge. Dhalla and Yuseph (1976) write "PLC (Product Life Cycle) is a dependent variable which is determined by marketing actions; it is not an independent variable to which companies should adapt their marketing programmes." [42] But if marketing strategies are driven by PLC concept it is possible that once a company believes that a product category has reached maturity phase, as a strategic choice it may start focusing on replacement buyers rather than trying to find first time purchasers.

3.3.3.2 Financial Considerations

Pursuit of superior financial performance is assumed to be the ultimate goal of a firm's strategies including the decision about which segments to target (Hunt and Morgan 1996) [43]. Scholars caution about financial viability of certain tactics used to expand markets. For instance, as a result of price wars in the 1990s markets in the airline and telephone industries in the USA expanded but firms suffered huge losses (Salvatore 2004) [44]. Sheth and Sisodia (2007) argue that any benefits accruing to marketers or customers at the expense of each other are short lived at best and usually lead to subsequent losses that more than offset previous gains [45]. Hence it is necessary to understand relationship between market expansion strategy and performance of a company.

Scholars argue that financial viability can be a matter of managerial perception, especially if they are used to operating in the higher margin markets of developed countries. In the developing countries per unit margins are lower but the loss of margin is more than compensated by the volumes and higher return on capital employed (Prahalad 2005) [38]. For instance, Nirma washing powder successfully used the principle of 'low price backed by low cost and high volume.' Nirma helped expand the entire soaps and detergents market to Rs 82 bn in 2002, in which Nirma had a share of Rs 17 bn in 2002 (Pai and Kaul 2004) [19]. But established companies have great difficulty in seeing how unprofitable segments (i.e., small and low income customers) can be served profitably, particularly if those established companies have been very successful (Rosenblum, Tomlinson, and Scott 2003) [46]. For instance, reacting to Nirma, Hindustan Unilever (HUL) executives said "That is not our market." Nirma's return on capital employed (ROCE) for the project was 121%. After some time HUL retaliated with its new product Wheel, which ultimately became its largest selling washing powder by volume. HUL's low end detergent line produced a ROCE of 93% as against 22% by its high-end detergents. Unilever, the parent company, successfully extended this insight to other markets like Brazil by launching 'Ala' detergent (Prahalad 2005) [38].

3.3.3.3 Competitive Considerations

A company's choice of target market is also affected by its competitive position. Generally market expansion strategies are suggested to market leaders (Kotler and Singh 1980) [33].A challenger firm can also try to gain major share of first time buyers by mounting a flanking attack by discovering a new market segment rather than attempting to compete head-on with the leader (Buzzel and Wiersema 1981) [47].

Some scholars believe that when a company focuses too much on competition, it fails to target untapped and/or underserved segments (Jha 2006; Kim and Mauborgne 2005) [48, 12]. But marketing theorists do not use the term competition in the context of only the existing markets. They suggest that competing firms can derive competitive advantage by identifying segments of demand that competitors are not servicing or servicing poorly. Developing countries provide more scope for gaining competitive advantage by targeting the untapped market segments than developed countries.

Then how it is that competition orientation is blamed for companies remaining confined to the served markets. One of the explanations could be that scholars like Hamel and Prahalad (2002) and Kim and Mauborgne (2005) use the term competition from the supply side perspective [13,12]. When they exhort companies to not to remain confined to existing markets served by the competitors, they indirectly mean that the companies should shift their focus on to the demand side of competition. For instance, Kim and Mauborgne (2005) cite example of market expansion by Southwest Airlines which targeted car travelers in USA and made competition from other airlines irrelevant [12]. South West Airlines expanded market for low cost airlines by gaining market share albeit outside the product form and category. This means for expanding market at one level of competition, companies are required to gain market share at next level.

Another explanation could be that the studies which report the positive impact of competitor orientation on a company’s profitability (e.g., Dawes 2000; Noble, Sinha and Kumar 2002) use the term competition from the supply side perspective [49,50]. However, Armstrong and Green (2007) offer a different view on competitor orientation. They accept that many studies have shown a positive correlation between market share and profitability (e.g., Buzzell, Gale, and Sultan 1975; Szymanski, Bharadwaj, and Varadarajan 1993) [51,52,53]. But they argue that such correlations can be logically interpreted as showing that companies with better offerings tend to achieve higher market share. Even in their study competitors are defined from the supply side perspective.

3.4 Moderators of Market Expansion

Survey of the literature revealed some moderating conditions under which the effect of antecedent variables on market expansion is enhanced or ameliorated. One moderator that surfaced in the literature survey is the ability of customers to use a product. Belzowski, Henderson, and Koppinger (2007) in their study of the Indian automotive market quote an executive working in an automobile company who listed a combination of issues that are dissuading potential buyers in India from actually buying a car [54]:

> They (potential buyers) don’t need a car, they are uncertain about the cost of operation, roads are not good enough, congestion makes driving unappealing, parking space is not sufficient, they don’t know how to drive, they are unsure whether some manufacturers will last as long as the vehicle, creating a trust gap.

Four components of consumption ability can be elicited from the above quotation: (1) customer’s competence, i.e., knowledge and skills needed to use a product (ability to drive a car), (2) cost of operation, (3) consumption context, i.e., infrastructure and other conditions excluding the complements (road condition, congestion, parking space) and (4) customer service (will manufacturer last as long as the vehicle?).

The size of the total market for a product is affected in part by its complements i.e. other products and services which increase or decrease the effectiveness of the usage of original product (Yoffie and Kwak 2006) [55]. There are many products for which the utility that a user derives from consumption of the good increases with the number of other customers consuming the good (Katz and Shapiro 1985) [56]. This network externality effect is found in many product and service categories like telecommunication systems, credit cards, ATM cards.

From the theory of diffusion of innovation it can be deduced that macro-environmental factors affecting coefficient of innovation and coefficient of imitation are moderators in the context of market expansion strategy. Talukdar et al (2000) report that literacy rate and penetration of mass media have positive influence on adoption rate. [57] But income and ethnic diversity in a country are found to have negative effect on social interactions and hence adoption of new products.

Another important moderating condition is the social and political support for business. Business practices and their consequences are subjected to political and social scrutiny in democratic societies (Chua 2003) [58]. At times government and social groups discourage consumption to protect the environment. Kotler (1973) warns that satisfaction of a need should not lead to more social harm than private good [30]. Writers on marketing ethics also raise questions like should new needs be created before existing needs are satisfied, how to prioritize needs, who should define them, etc. (e.g., Sele 2006) [59].

Other macro environmental factors also affect the needs and preferences of customers. Since the objective in this research is to develop a conceptual framework for market expansion strategy, search of moderators is limited to such factors that a company can influence. For example, although customer competence is an exogenous factor, companies can make attempt to educate the customers. While launching shampoo in single serve packs in rural India, a company used a two-minute film to educate the customers about method of using shampoo and its benefits (Banerjee 2008) [60].

3.5 Framework for Implementation of Market Expansion Strategy

On the basis of the identified antecedents and moderators a conceptual framework for implementation of market expansion strategy is developed. An important antecedent to market expansion is that potential customers should have access to the offerings of an industry. This in turn depends on the willingness of a company to target untapped and/or under-served market segments and its willingness to look beyond the competition from other brands and product forms. Hence, for implementation of market expansion strategy, a company needs to first make a decision about its market scope in terms of customers and competitors i.e. will it target untapped segments, and non-customers in tapped segments? Will it compete with other brands or define its competitive scope beyond that? The term market scope is used instead of target market because the term target market generally has customer connotations and it does not indicate the level of competition at which a company competes. However definition of market scope is only a decision which is implemented through certain activities. These activities form the components of market expansion strategy.

From the discussion of other antecedents and moderators, it is clear that in the untapped and/or under served market segments of the developing countries, the conditions necessary to establish exchange with potential customers may not exist. For example, potential customers may not realize the need and/ or they may not possess the ability to buy and to use a given product category. Hence, creation of willingness and ability to buy a given product category is considered as an important component of the framework for implementation of market expansion strategy.

McKinsey Global Institute (2007) in its report on consumer markets in India observes that companies in India need to not only offer products with appropriate features and prices but also design distribution, logistics, and services networks capable of reaching out to customers not just in large cities but in several small cities and towns [61]. Creation of affordable value propositions coupled with creation of willingness and ability to buy and use a product may result into demand creation. Demand creation needs to be followed by demand fulfillment in a sustainable manner. While designing the value delivery mechanisms for untapped/ under served market segments in developing countries, a company needs to pay special attention to its financial viability. Since market expansion strategy is susceptible to socio-political opposition, the sustainability of this strategy needs to be viewed from the point of view of a company as well as the society at large.

Hence it can be said that a conceptual framework for implementation of market expansion strategy consists of a decision related to definition of market scope which is implemented through two sets of activities: (1) creating willingness and ability in the target market to enter into exchange with the marketer, and (2) fulfilling demand in a sustainable manner.

3.5.1 Definition of Market Scope

If a company wishes to expand the market, it needs to provide access to customers in the untapped and/or underserved market segments. However, as discussed previously, choice of target markets is influenced by several factors.

If a company decides to pursue market expansion strategy a first step will be to identify potential market segments with unmet, changing, and/or new needs, wants and desires, and envision market offerings that might be attractive to these segments. In order to implement a market expansion strategy a company needs to study geographic market product penetration and consumption levels. Geographic market segments are the most widely used bases for allocation of sales efforts. This may be because of a reported positive association between territory sales potential and the sales results of a company (Beswick and Cravens 1977; Cravens, Woodruff, and Stamper 1972) [62,63]. For the same reason, geographic markets can be used as unit of analysis to determine the extent to which a market segment is served. Table 3.2 shows state wise penetration level of consumer durables in India.

Table 3.2: Ownership of Consumer -Durables in India (% of Households)

States	Radio/ Transistor	Television	Telephone	Bicycle	Scooter/ Motorcycle/ Moped	Car/ Jeep/ Van
All India	35.1	31.6	9.1	43.7	11.7	2.5
Jammu and Kashmir	65.1	40.7	6.8	12.8	7.8	3.1
Himachal Pradesh	48.0	53.3	16.5	9.1	7.4	2.6
Punjab	39.4	67.7	18.9	71.8	31.6	5.8
Uttaranchal	49.7	42.9	9.9	30.9	11.9	2.7
Haryana	39.4	53.0	12.7	50.1	19.0	4.3
Delhi	50.0	74.5	34.7	37.6	28.0	13.0
Rajasthan	34.3	28.1	8.0	36.2	13.1	2.5
Uttar Pradesh	39.6	25.0	5.6	69.5	10.4	2.2
Bihar	27.8	9.1	2.2	40.6	3.6	0.9
Sikkim	36.3	30.9	13.2	0.4	1.7	2.3
Arunachal Pradesh	39.0	25.7	9.2	17.4	6.8	2.4
Nagaland	32.5	18.1	5.2	8.1	2.8	3.5
Manipur	43.0	24.2	5.3	38.0	11.1	3.1
Mizoram	42.0	20.4	14.1	3.1	6.2	3.4
Tripura	28.5	23.7	5.2	30.6	3.9	1.1
Meghalaya	32.0	20.9	6.0	11.0	2.9	2.7
Assam	30.2	18.3	4.3	46.4	5.2	2.0
West Bengal	38.6	26.6	6.7	52.6	5.0	1.9
Jharkhand	26.4	17.2	3.3	50.3	9.3	1.5
Orissa	23.7	15.5	3.9	52.0	7.9	1.1
Chattisgarh	23.4	21.5	3.8	59.8	10.8	1.4
Madhya Pradesh	20.9	29.6	6.2	42.8	12.1	1.8
Gujarat	30.2	38.7	12.5	37.3	21.1	3.4
Maharashtra	35.9	44.1	14.1	30.1	13.2	3.4
Andhra Pradesh	21.6	31.5	8.6	32.8	10.0	1.3
Karnataka	46.2	37.0	12.8	30.1	14.4	3.1
Goa	57.8	63.5	29.1	31.5	38.7	10.6
Kerala	59.2	38.8	19.1	18.5	10.0	4.0
Tamil Nadu	43.5	39.5	11.2	42.4	16.1	2.2

Source: Census of India 2001 in *The Marketing White Book 2005*, Businessworld, New Delhi, pp.32-36

A company which spends greater marketing efforts in geographic areas having less than national average product penetration level can be considered as making more efforts at expanding the market than other companies. However, within a relatively untapped geographic market, if a company targets existing customers of the industry for their replacement or up-gradation demand the market may not expand. Scholars lament that although non-customers constitute an important source of new demand in an industry, very few companies know anything about non-customers (Drucker 1999; Kim and Mauborgne 2005) [64,12].

When a company tries to expand the market for a product category, it has to compete with other product categories which satisfy a given need. That is why Kim and Mauborgne (2005) suggest looking across rather than within industry boundaries [12]. The market expansion continuum shown in figure 3.1 can be used to define the competitive scope. Definition of competitive scope has implications for both performance standards and strategy. For instance, in his speech delivered at Hindustan Lever's annual general meeting in 2003, Chairman, M.S. Banga said "we are redefining the way we look at our categories. For example, we have traditionally measured our presence in shampoos by our market share of more than 50%. Our real opportunity however is to view this as the hair wash market-indeed consumers often use soap, natural products or just water to wash their hair, apart from shampoos. Seen this way our share of hair wash market is only 7% providing enormous space for growth." [65]

As an indicator of market potential at the product category level, a company can study sales trends for various brands and product forms. But when a company competes at generic need level, it needs to study sales trends of various product categories that satisfy a given need. Competing at the budget level requires understanding of trends in customer's per capita income and spending on satisfaction of various needs. Depending upon the level to which a company aims to expand a market, it can choose appropriate benchmarks for its value proposition and value chain.

3.5.2 Creation of Willingness and Capability to Consume

A company's willingness and capability creation efforts may include (1) need awakening, (2) creating desire for a given product category, (3) improving consumption ability, and (4) improving purchasing ability.

A company can make need awakening efforts and/or it can make efforts to promote its brands to those customers who already feel a need for the product category. A company can make need awakening efforts by changing the potential customer's desired state of affairs. At times potential customers are unaware of the change in their actual state of affairs. In the developing countries low income customers become resigned to their living conditions (Letelier, Flores, and Spinosa 2003) [26]. Due to low literacy levels they fail to notice the change in their actual states. For example, many people fail to realize that washing hands without using a soap only gives an impression of clean hands without killing the germs. Hindustan Lever Limited's (now HUL) Lifebuoy Swasthya Chetana program uses a number of tools like a pictorial story in a flip chart format, the Glo-germ demonstration and a quiz with attractive prizes to reinforce the message among school children and opinion leaders like head of the village (Sarpanch). The Glo-Germ demonstration is used to make unseen germs visible and emphasize the need to use soap to wash hands and kill germs (HLL 2002) [10].

If potential customers associate some negative beliefs, values, or feelings with a need or a product, a company is required to alter such beliefs, values, or feelings. Sometimes it helps to remind the customers about all such occasions when a gap between the desired and the actual states occurs (Blackwell, Miniard, and Engel 2006) [23]. Besides communication a company also needs to provide affordable pack sizes which are appropriate for the occasion. For example, a large number of women in India regularly use shampoo- not at fixed periodicity but once in a while- for special occasions when they want their hair to look good. The rest of the time they use cheaper traditional products or regular toilet soap. Similarly, babies are made to wear diapers for special occasions, when they are taken out to formal functions, or for long distance travel (Bijapurkar 2007) [4].

Several product categories may compete for the satisfaction of a given need. The customer's desire for a given product category becomes his want. Hence, a company can make efforts to deal with competition from substitute product categories. Some product categories have no demand because these products are perceived as having no value or the relevant market has no knowledge of the product. Marketing task in such situation is to connect the object with some existing need in the marketplace or to distribute information or the object itself in more places (Kotler 1973) [30].

A discontinuous leap (substantial increase in benefits and/ or reduction in cost) in the value proposition can help in category expansion. In order to develop products with discontinuous leap a company can draw a strategy canvass and plot the value curves of different players within and outside the industry. To offer a discontinuous leap in value proposition a company may eliminate some of the factors that industry takes for granted, and/ or reduce some of the factors well below the industry's standard, and/or raise some factors well above the industry's standard and/ or create such factors that the industry has never offered (Kim and Mauborgne 2005) [12].

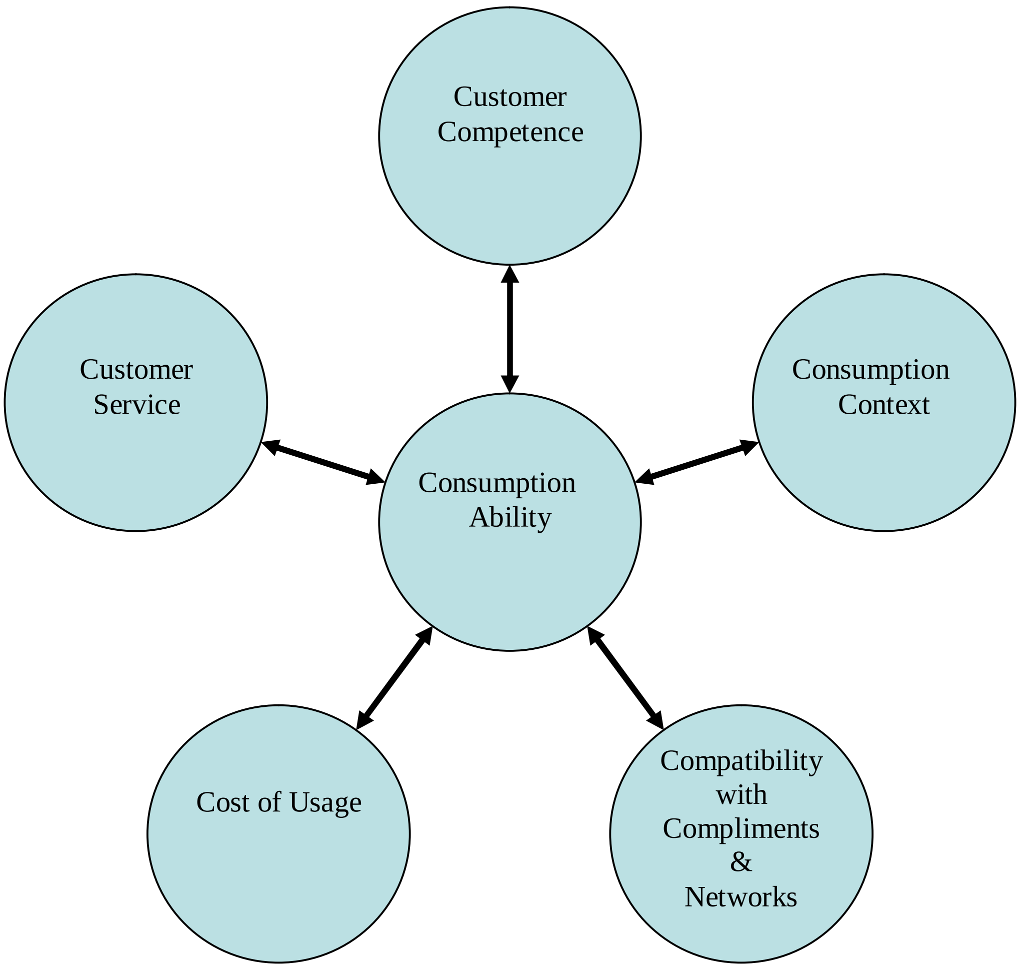
Instead of competing with substitutes a company may choose to concentrate on those customers who already have the desire to buy the given product category. The company can then make efforts to promote its brands to such customers.

A customer's want becomes a "qualified want" only when it is backed by consumption ability. As shown in figure 3.2 a customer's consumption ability is influenced mainly by five factors: (1) his/ her own competence to use the product, (2) the consumption context and (3) compatibility with complementary products and networks (4) cost of using the product and

(5) customer service. Complements can be identified by looking at the three stages of consumption viz. before, during and after.

A company can try to improve consumption ability by adapting its products to the existing level of the aforementioned factors.

Figure 3.2: Dimensions of Consumption Ability



Note: Bi-directional arrows indicate adaptation and alteration strategies.

A company may even try to alter the factors which influence consumption ability. For example, Maruti Suzuki India Ltd, the leading car manufacturer in India, has opened car driving schools in some cities and towns. However, some other efforts like providing complementary products/services or creating infrastructures needed to use the product, might appear to be exogenous factors and hence outside the scope of marketing strategy.

However scholars have been writing about these possibilities. For example, Kim and Mauborgne (2005) suggest that a movie theater can expand the market for movies by providing baby sitting services [12]. Kotler (1973) considers the altering of infrastructure as a part of “stimulational marketing.” He says sellers of motorboats can stimulate interest in boats in a lakeless community by building an artificial lake [29].

Alternatively a company may target only those market segments where requisite consumption ability exists.

Survey of the literature reveals several innovative ways of improving the purchasing ability of potential customers. A company can make its products affordable by choosing the right combination of price and performance levels (Prahalad 2005) [38]. In India, cellular service providers offer prepaid telecom services, which enable lower income customers to buy these services to the extent they can afford to pay at one time.

In 1999 when CavinKare tried to convince rural customers to use shampoo (sachets priced at Rs 2) instead of ordinary soap for hair wash, per person spending on washing hair worked out to Rs.8 per month (at 4 washes per month). A family of five had to invest a total of Rs.40 for hair wash alone. As against this the average cost of soap was around Rs.8 which could be used for a longer duration by the entire family and for bathing as well. CavinKare conducted a survey in rural areas and got the feedback that if the total cost of hair wash per person could be cut down to Rs.2 per month, the rural consumer would be willing to try out shampoos. CavinKare developed a new formulation at reduced cost by substituting some raw material without sacrificing quality and efficacy. This enabled the company to launch a 4-ml sachet of Chik shampoo priced at 50 paise in September 1999. Market share of Chik after the launch jumped from 5.61% in 1999 to over 23% in 2003. This led to shampoo usage growing in rural markets at a rate almost twice that of the urban market. In the late 1980s, the contribution of the rural market was in the region of 15%. It had grown to 35% in 2002 (Jaiswal and Venugopal 2008) [36].

A company can cut price if it hopes to benefit from economies of scale and/or the learning curve effect. Levitt (1960) cites the example of Henry Ford, who believed that he would be able to sell millions of cars if priced at around $500 [20]. It is argued that Korean companies like LG and Samsung follow the philosophy of amortizing costs over much larger volumes bringing down per unit cost substantially. Business Today quotes Girish Rao and Ravindra Zutshi, then Vice President (sales) of LG, and deputy managing director of Samsung respectively that their companies have been able to sell products at lower price and still make profits because they sell higher volume as compared to others (Mitra 2005) [66].

Prahalad (2005) cites examples of innovative strategies like the shared access model based on the principle of aggregation of demand and a pay-per-use pricing strategy [38]. In the Philippines, Manila Water a water supply company installs common water meters for a number of households facilitating sharing of cost of a water meter (Beshouri 2006) [67].

A company can help the customers by facilitating access to the formal or informal sources of credit. Some companies allow its customers to make payments in small installments for a purchase in future. Yeshasvini, a cooperative farmers' micro health insurance scheme in south India, uses this scheme (Jacob 2006) [68].

Scholars suggest that a company can involve itself in the wealth creation efforts for its potential customers. ITC's e-Chaupal initiative is a step in that direction.

Besides low disposable income, collection of payment (for goods and services sold on credit) is a major problem in BOP markets. Scholars suggest developing relationship with community using it as a substitute for the monitoring efforts of the business itself and provide "social insurance" to one another (Beshouri 2006) [67]. London and Hart (2006) suggest, firms need to develop a capability of social embeddedness, which allows them to leverage the strengths of the market environment at the base of the pyramid [69].

From the foregoing discussion, variables at the customer's and the company's end can be identified for directing the purchasing ability improvement efforts. Variables at the customer's end are expected value proposition, income & spending pattern, assets (i.e., land, old used goods, etc.), access to credit and social pressure which helps in contract enforcement and compliance. Variables at the marketer's ends are value proposition (price-performance level), offering size, payment timing (at the time of purchase, pre or post purchase), payment quantum (amount to be paid per unit time), payment basis (ownership or usage),social embeddness (relationship with community and insights from it), inter firm cooperation (cooperation among non-competing firms, trade association/ industry level cooperation). These variables give several options to a company to improve the purchasing ability of its potential customers.

A company can target such market segments that have been ignored by others in the industry because of their low purchasing ability. The company can adopt appropriate strategies to improve the purchasing ability in such chosen segment. Alternatively the company may target only such market segments that possess adequate purchasing ability.

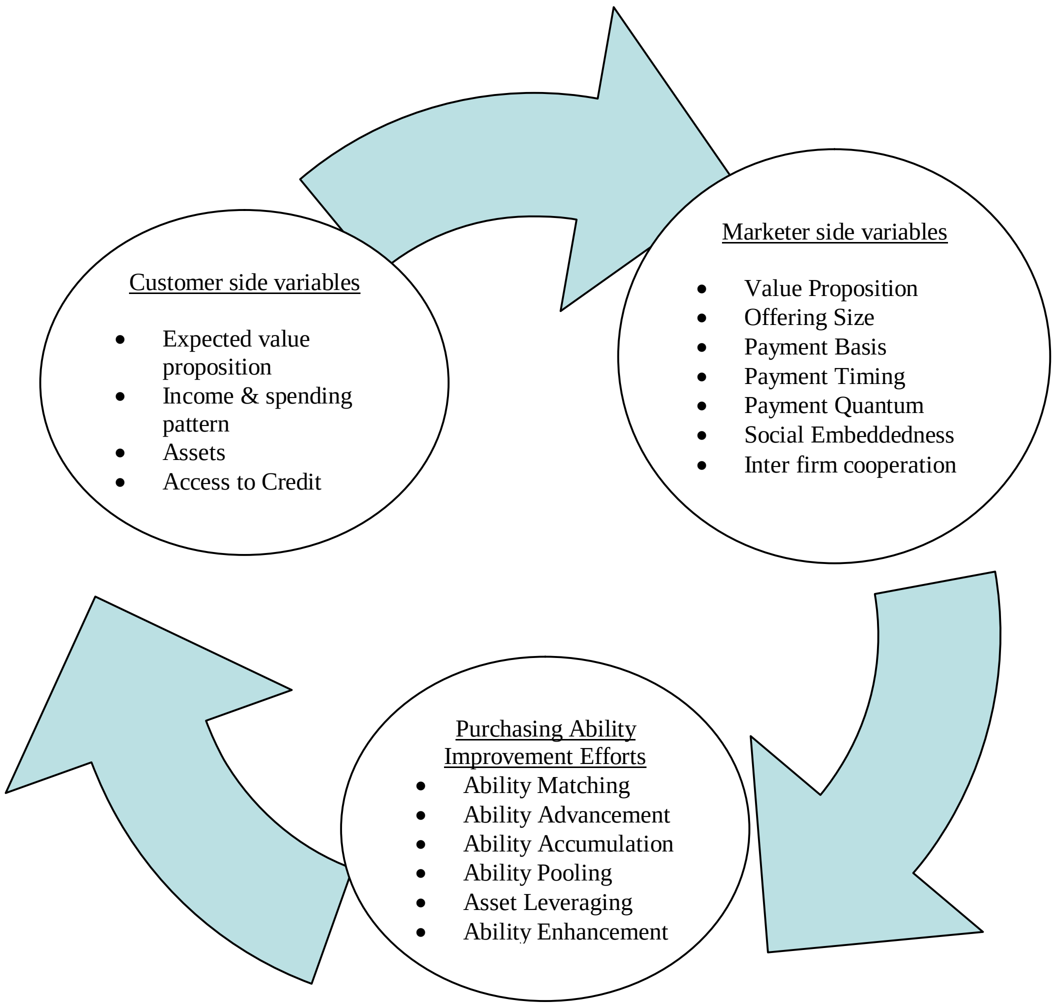
As shown in figure 3.3, purchasing improvement efforts can be broadly classified as follows:

<u>Ability matching</u> - By studying the disposable income of potential customers and understanding their pattern of spending on various needs, a company can offer products of such value and/or size that can be afforded by potential customers. A company can also charge prices on the basis of usage or temporary ownership of products rather than permanent ownership.

<u>Ability advancement</u> – In order to cut down the waiting time for the purchase of a product, a company can facilitate payment in installments rather than a one-time payment by customers.

Installment amounts and payment timing can be worked out to suit the disposable income of customers. The company can facilitate potential customers' access to credit through formal or informal sources. Several consumer durable companies follow this approach.

Figure 3.3: Framework for Purchasing Ability Improvement



Ability accumulation – A company can facilitate prepayment in small installments for financing a future purchase.

Ability pooling – A company can sell to a group of customers rather than an individual customer. This joint ownership of products can enable many such customers to enter markets which they cannot afford individually.

Asset leveraging – A company can facilitate the use of 'non-financial assets' to partly or fully finance purchases. For instance, Baron International launched an exchange scheme in India which enabled customers to part finance their new TV purchase by exchanging the old used TV.

Ability enhancement – A company can involve itself in wealth creation efforts for potential customers. Such efforts can facilitate an increase in the disposable income of potential customers.

3.5.3 Fulfilling Demand in a Sustainable Manner

Creation of willingness and ability to buy and use a product leads to demand creation, which in turn needs to be fulfilled in a sustainable manner. To make a business sustainable, a company needs to be concerned about triple bottom-lines: economic, social, and environmental. This triple bottom-line framework is one of the most widely accepted frameworks of business sustainability (Colbert and Kuruc 2007) [70]. Since market expansion strategy leads to increased consumption, socio-environmental issues become all the more important.

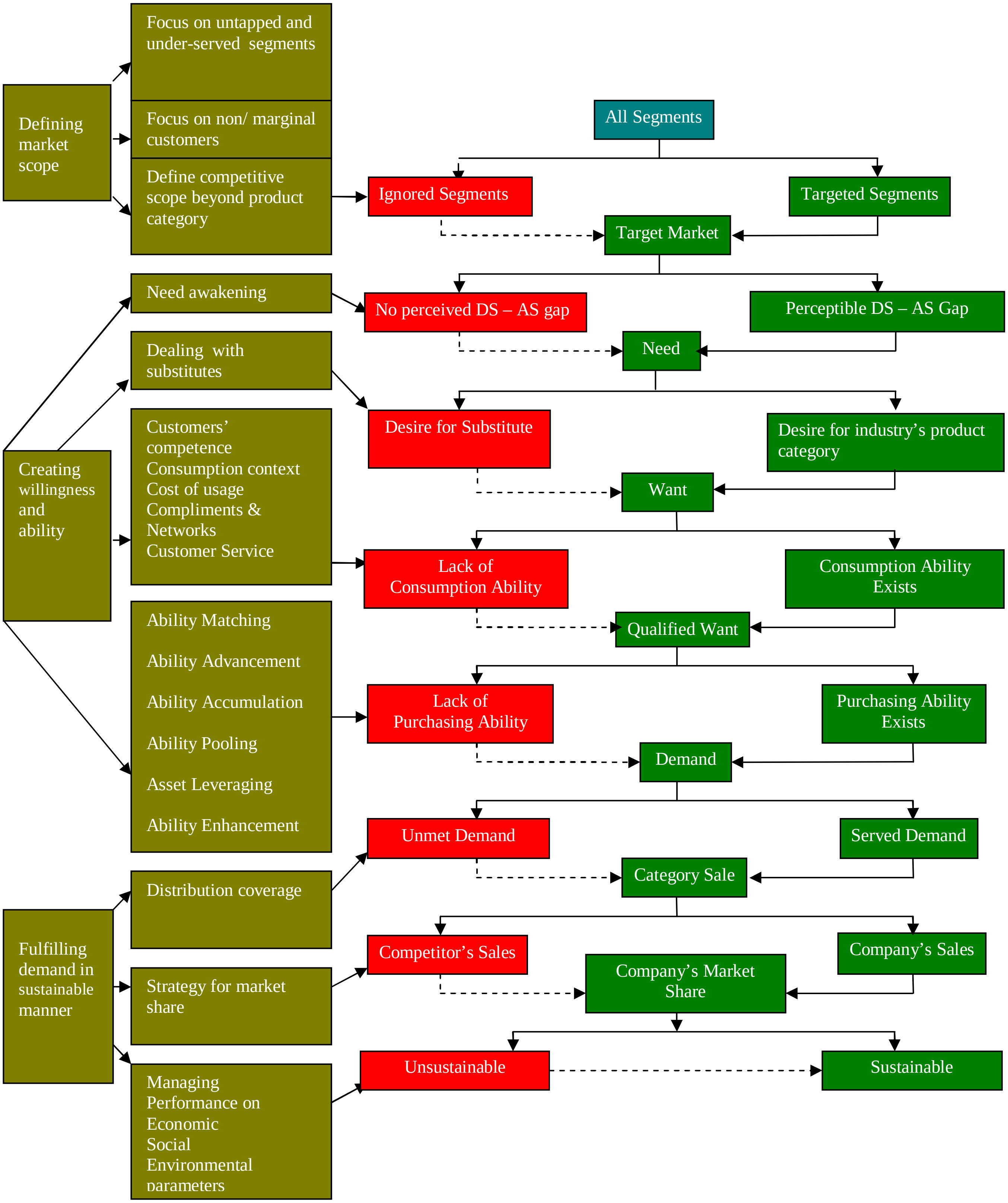
In order to improve the economic sustainability of a market expansion strategy, scholars suggest that while targeting untapped markets a company should innovate its business model. Due to the demand creation and fulfillment efforts of a company, sales of the entire category increases. This attracts imitators. Hence, a market expander company needs to defend and grow its share in the expanding market. If the market expander company is not able to gain a major part of the expanded market, it fails to benefit from its investment in market expansion efforts. For instance, it is suggested that a firm must properly coordinate generic and brand advertising, and neglecting one of the two will lead to suboptimal allocation of the advertising budget. Although there is free-riding, the stronger (with more effective generic and brand advertising) firm is better off tolerating this free-riding because this does not affect its long-term profitability greatly (Bass, Krishnamoorthy, Prasad and Sethi 2005) [71].

Partnering is suggested as an important strategy to improve the sustainability of market expansion efforts. Partnering helps a company to leverage other organisations' assets, expertise, and economies of scale (Hagel 2002) [72]. Partnerships with NGOs and community groups can lead to cost reduction and improvement in distribution efficiency (Chesbrough et al. 2006) [73]. Partnerships, especially with the communities in low income markets help in invoking collective accountability. This in turn helps a company in dealing with the problems of the safety and security of the company's assets and business systems in developing countries (Beshouri 2006) [67].

On the basis of this review of literature a process based framework for implementation of market expansion strategy has been conceptualized. It is presented in the form of a flow chart as shown in figure 3.4. Dotted lines in the flow chart indicate the effect of the market expansion strategy. The starting point of market expansion framework is definition of market scope followed by activities related to demand creation and fulfillment. Although various activities appear sequentially in the flow chart, it may not be the case in practice. The framework is useful for implementation and measurement of market expansion efforts at the product category level. A strategic business unit (SBU) level or a company level evaluation requires studying the strategies used for all the product categories of the SBU/ the company.

Various activities identified in the framework have been used as a basis for development of a measure of the extent to which market expansion strategy is pursued at the level of a product category

Figure 3.4: Conceptual Framework for Market Expansion Strategy



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CHAPTER FOUR

RESEARCH METHODOLOGY

Research methodology involves following steps (Churchill, Jr and Iocabucci, 2005)[1]:

1. Research problem formulation
2. Determining research design
3. Determining the data collection method and designing forms
4. Designing the sample and collecting data
5. Analyzing and interpreting the data
6. Preparing the research report

Some authors (e.g. Boyd, Jr, Westfall and Stasch 2004, Burns and Bush 2006) specify listing of information needed and sources of information as a separate step in research process [2,3].

4.1 Research Problem Formulation

A problem consists of a set of components: (1) decision maker and his objectives, (2) the context of the problem, (3) alternative courses of action, and (4) a set of consequences that relate to the course of action. The objectives of the decision maker provide motivation for the decision. Most of the objectives which are dealt with in marketing research involve monetary considerations (Green, Tull and Albaum 2007) [4]. In the proposed research various monetary objectives which are likely to be pursued by a company have been identified under the heading of types of performance measures used in the study. As regards the context of the problem, Indian market poses a unique situation to marketers in the sense that on one hand product penetration and consumption levels in India are much lower than in developed countries. On the other hand due to large population base effect, even a small penetration/ consumption level results into a reasonably large base of existing customers. In this context two alternative courses of actions can be thought of. Companies can have a strategic option of expanding the market or going after larger share of existing market. Consequences of the market expansion strategy can be understood in terms of its association with various important performance indicators which have been identified in later sections.

The proposed study tries to understand: Why does a company decide to expand market for its product category or why it decides not to do so? What are the methods used by a company to expand market for its product category? To what extent does a company make market expansion efforts and how is it associated with performance?

4.2 Information Needs and Sources of Information

Each research objective requires specific set of information. Objective wise list of required information is as follows.

4.2.1 Objective 1: To understand the reasons for and against choice of market expansion strategy.

Decision about whether to pursue market expansion strategy or not is akin to decision about choice of target market. Choice of target market is influenced by two factors: a segment's overall attractiveness and company's objectives and resources. Attractiveness of a segment is generally evaluated in terms of size, growth rate, profitability, scale economies and low risk (Kotler 2001) [5]. Hence, information was sought on reasons related to market size, growth rate, cost consideration and profitability, competitive and other considerations. Information was also sought on penetration and consumption level of various product categories in India.

4.2.2 Objective 2: To understand the methods used by a company to expand market for a product category.

Information was sought on efforts made by a company to target untapped and under-served market segments related to marketing mix variables (product, price, place and promotion).

Information was also sought on innovations made by companies while targeting untapped and under served market segments.

4.2.3 Objective 3: To understand the linkage between market expansion strategy and a company's performance.

Information needed to achieve this objective was broadly divided in two parts: (1) extent to which a company practices market expansion strategy and (2) performance measures.

4.2.3.1 Information on the extent to which a company uses market expansion strategy

In order to develop a metric for measuring the extent to which a company practices market expansion strategy, avialble options were explored. For instance, in a research on market growth rate Bhardwaj, Clarke and Kulwiwate (2005), use percentage change in unit sales as measure of growth but without breaking it into first time purchases, replacement purchases and purchases of multiple units by existing owners [6]. To reduce the impact of repeat purchases on the estimates of parameters of Bass Diffusion Model (BDM), Talukdar, Sudhir and Ainslie (2002) use sales data only from within the first nine years of product introduction in a country. They acknowledge that although adoption (first purchase) data is ideal for estimating the BDM, such data is very difficult to obtain across a wide range of countries, especially for developing countries. As a result all the existing international diffusion studies use sales data [7]. Though product penetration level data is available in India, the penetration data is likely to be contaminated by repeat sales. Scholars have reported unavailability of data on proportion of first time and repeat purchases (Phadtare 2008) [8]. In any case, sales data reflects outcome of strategy as well as exogenous variables.

In order to make a list of information required to understand the extent to which a company practices market expansion strategy, a conceptual framework developed by the researcher was used. Following specific information was sought:

- To what extent a company is making promotional efforts in untapped and under served market segments.
- To what extent a company is making sales and distribution efforts in untapped and underserved market segments.
- To what extent a company is making efforts to study behaviour of non-customers or low quantity users of a product category.
- How does a company define its competitive scope?
- To what extent a company is making efforts for awakening need for a product category?
- To what extent a company is making efforts for creation of want for a product category?
- To what extent a company is making efforts to improve consumption ability of potential customers?
- To what extent a company is making efforts to improve purchasing ability of potential customers?
- To what extent a company is making efforts to improve environmental sustainability of increase in penetration/ consumption levels of its product category?
- To what extent a company is making efforts to improve social sustainability of increase in penetration/ consumption levels of its product category?

4.2.3.2 Information on A Company's Performance

Sales level, sales growth rate (e.g., Covin and Slevin 1989, Michael and Louis 1991) and profit (e.g., Covin and Slevin 1989) are commonly used performance measures in strategy research [9,10]. Some scholars specify sales level in terms of sales revenue (e.g., Subramanian and Gopalakrishana 2001) [11]. Growth in sales reflects how well an organization relates to its environment. Return on total assets is commonly viewed as an operational measure of the efficiency of a firm with regard to profitable use of its total asset base (Ansoff 1965) [12]. Scholars have highlighted greater need for monitoring return on marketing investment due to fragmentation of audiences and channels needed to reach them (Court, Gorden and Perrey 2005) [13]. However, return on investment and return on asset are seldom used at product category level analysis. Some scholars emphasize ability to control operational expenses as a surrogate measure of efficiency (e.g., Subramanian and Gopalakrishana 2001) [11]. Most product managers use sales to marketing expenses ratio as an indicator of efficiency.

Subramanian and Gopalakrishana (2001) have also used ability to retain customers as a performance measure [11]. It is very important for a market expander firm to possess the ability to retain customers lest the pioneer's advantage is siphoned off by an imitator firm. Subramanian and Gopalakrishana (2001) quote from a study by Prahalad and Liberthal (1998) which found that Indian consumers tried on an average 6.2 brands of packed-goods products in 1 year, in contrast to 2 for American consumers [11,14].

In the pre testing phase of questionnaire several useful insights were obtained. It was found that managers relate better to the term sales revenue rather than sales level. Similarly sales to marketing expenses ratio was considered to be a popular measure of efficiency among marketing and product managers. One of the managers pointed out that ability to retain customers can be better thought in terms of cost of retaining customers. Hence it was decided to collect data on five performance measures: sales revenue, sales growth rate, sales to marketing expenses ratio, profit margin and cost of retaining customers.

4.2.4 Sources of Information

Both secondary and primary information sources were used. Secondary information sources included journals; text books; data bases like Census of India 2001; The Max-NCAER India

Financial Protection Survey 2008, Indian Readership Survey reports; reports of National Council for Applied Economic Research; ORG reports; reports of McKinsey Global Institute, corporate websites, business magazines, newspapers etc. Other secondary sources included reports of IBM Institute for Business Value, World Business Council for Sustainable Development (WBCSD), United Nations Development programme (UNDP), The Inter-American Development Bank, World Resources Institute & International Finance Corporation. Primary sources included product category managers and higher ups in chosen consumer durable, consumer non-durable and mobile telephone services companies.

4.3 Research Design

A research project may use multiple research designs (Burn and Bush 2007) [3]. In the proposed study a combination of exploratory research and descriptive research designs have been used. Exploratory design is used because the study involves clarification of the concept of market expansion strategy and its association with the performance of a company about which little is known. Bharadwaj, Clark and Kulviwat (2005) observe that most of the research on primary demand creation is stimulus-response type research and focuses on advertising and neglects other important marketing activities. With a few notable exceptions, pure market growth has not been discussed in the marketing literature [6].

In the proposed study exploratory research was used to clarify the concept of market expansion strategy. On the basis of the conceptualization certain hypotheses related to reasons for and against market expansion strategy were generated. A cross-sectional study was carried out to test these hypotheses and study market expansion – performance relationship.

4.3.1 Hypotheses

Survey of literature revealed various considerations which affect choice of target market strategy. In marketing theory, pursuit of superior financial performance is considered to be the ultimate goal of a firm’s strategies including the decision about which segments to target (Alderson 1957; Hunt and Morgan 1995) [15,16]. According to Prahalad and Hammond (2002) major reason for relatively lower preference for untapped or underserved market segments is the rigid conditioning of the managers to operate in higher-margin markets [17]. Rao (2001) is of the opinion that the mindset of Indian companies was formed by over 40 years of industrial licensing which limited production capacities. Capacity limitations made premium products the response [18]. In developing countries, geographical and infrastructural challenges in reaching out to widely disperse untapped rural markets make market expansion strategy more expensive and less attractive to the marketeers (Bijapurkar 2007) [19]. The BOP customer purchase frequency is much higher and therefore the transaction costs are much greater (Singhal 2008) [20]. However, Prahalad and Hammond offer a different view point [17]. According to them cost of reaching out to poor communities in urban areas is not as high as thought by many multinational companies because majority of these communities live in densely populated slums. They argue that even rural poor can be reached at low cost by deploying modern technology. According to Rosenblum et al. (2003) established companies have great difficulty in seeing how seemingly unprofitable segments can be served profitably, particularly if those established companies have been very successful [21]. Scholars point out that BOP customers pay higher prices for basic goods and services than do wealthier consumers. (Warnholz 2007) [22]. For instance, wealthier mid-market households are seven times as likely as BOP households to have access to piped water (Hammond et al 2007) [23].

The size of the potential market (untapped as well as existing customer base for their replacement demand) is an important determinant of the choice of target market (Kotler 2001) [5]. In terms of per capita income and per capita consumption, the untapped or underserved market segments in the developing countries do not appear attractive, but at the aggregate level these countries are big markets. For instance, just top 10 % of India's population (in terms of income) is equivalent to three times total population of Canada, five times that of Australia, a little less than double that of France , and about 60% of the population of Brazil (Bijapurkar 2007) [19]. According to Prahalad and Hart (2002) most multinational companies automatically dismiss the bottom of the pyramid because they judge the market based on income or selections of products and services appropriate for developed countries [24]. A company's strategies are also affected by the rate of growth of the market. If a company thinks that its product category is at the maturity or saturation phase in its lifecycle, it may become market share focused though sometimes lifecycle stage can be a matter of perception (e.g. Jha 2006) [25].

Some scholars believe that when a company focuses too much on competition, it fails to target untapped and/or under served segments (Jha 2006; Kim and Mauborgne 2005) [25,26]. However, marketing theorists clarify that a firm's actions are motivated by desire for superior financial performance and not necessarily by the objective of harming competitors (Hunt 2002) [27]. One of the reasons for strong competitor orientation may be positive impact of competitor orientation (e.g., Dawes 2000; Noble, Sinha and Kumar 2002) and market share on a company's profitability (e.g., Buzzell, Gale, and Sultan 1975; Szymanski, Bharadwaj, and Varadarajan 1993) which has been reported in many studies [28,29,30,31]. Traditionally market expansion strategies have been recommended for market leaders in growth markets (Kotler and Singh 1981) [32].

Some scholars cite social reasons for pursuing market expansion strategies. According to them, conspicuous consumption of majority of manufactured goods by an elite minority can lead to social disharmony and chaos (Chua 2003) [33]. Some scholars, which even include exponents of marketing to the bottom of the pyramid have raised ethical and environmental issues in the context of market expansion strategies (Jose 2008, Sele 2007) [34, 45].

On the basis of above discussion factors influencing choice of market expansion strategy can be broadly classified into four categories: (a) Market size and growth rate, (b) Competitive considerations, (c) Financial considerations and (d) Non-financial considerations.

(a) Hypotheses related to market size and growth rate

Hypothesis 1: Low per capita income of untapped/ under-served market segments is a deterrent to market expansion strategy.

Hypothesis 2: If existing customer base of a product category is large, it discourages a company from practicing market expansion strategy.

Hypothesis 3: A company's decision to not to practice market expansion strategy is born out of a belief that a product category has reached maturity phase.

(b) Hypotheses related to competitive considerations

Hypothesis 4: A market leader company takes initiative in expanding market.

Hypothesis 5: Strong competitor orientation prevents a company from expanding a market.

Hypothesis 6: Fear of imitation prevents a company from taking market expansion initiative.

(c) Hypotheses related to financial consideration

Hypothesis 7a: Untapped or underserved market segments are ignored because of relatively high sales and distribution cost of serving these segments.

Hypothesis 7b: Untapped or underserved market segments are ignored because of relatively high promotional cost in these segments.

Hypothesis 8: Untapped or underserved market segments are ignored because of relatively low profit margin on products meant for these segments.

(d) Hypotheses related to non-financial considerations

Hypothesis 9a: A company may target untapped or underserved market segments for social reasons.

Hypothesis 9b: A company may target untapped or underserved market segments for egoistical reasons.

Hypothesis 9c: A company may decide not to expand market out of socio-environmental concerns.

All these hypotheses were tested using a cross sectional survey.

4.4 Methods of Data Collection

Since the research involved a combination of exploratory and descriptive research design, methods of data collection used were: desk research through survey of literature, experience survey using depth interviews and personal interviews of product managers and higher ups.

4.4.1 Phase 1: Desk Research Using Literature Survey

An analysis of secondary data is often the core of exploratory research (Davidson 1985) [36]. Literature has been studied in areas related to market growth and primary demand. Unlike in case of the "blue ocean" strategy framework, the proposed research is not based on any premise as to whether market expansion is a strategic alternative to market share or not. On the basis of survey of literature market expansion strategy has been conceptualized as a strategy of increasing primary demand for a product category by converting non-customers into customers of a product category and/or by increasing the usage rate of the product category's existing customers. A market expansion continuum has also been conceptualized. At one end of the continuum lies the prospect of increasing demand for a product form and at the other end lies the prospect of increasing demand by increasing the size of wallet of the consumers (Bang and Joshi 2008) [37].

4.4.2 Phase 2: Experience Survey Using Depth Interviews & Questionnaire

Experience surveys are a commonly used method in exploratory research (Churchill, Jr. 79) [38]. Experience surveys were conducted using depth interview techniques. These unstructured-direct interviews help in understanding motives. Though the interview schedule used for this purpose was largely flexible, researcher used a following outline for depth interviews.

1. Why does a company target or ignore under penetrated segments in your industry?
2. Which segments are under penetrated?
3. To what extent your company is trying to target the under penetrated segments in your industry?
4. How does it affect your company's performance?
5. What are the strategies and tactics deployed by your company to target under penetrated segments? (Product, Pricing, Placement, Promotion, Purchasing ability , Consumption ability, and Sustainability related)

For attainment of research objectives it was necessary to use a combination of depth interviews and personal interviews. Personal interviews were a part of descriptive research design which was used to test the hypotheses related to reasons for practicing or not practicing market expansion strategy, methods used for market expansion and satisfaction level of management with the performance of a given product category. A structured questionnaire was designed for this purpose. The questionnaire is shown in annexure 1.

Besides, researcher participated in a doctoral consortium at Strategic Management Society's India Special Conference at Indian School of Business held from 12 to 14 December 2008.

Speeches delivered at the conference also served as an important source of information. The researcher could get an opportunity to have brief personal informal interaction with two speakers from industry.

4.5 Questionnaire Design

The questionnaire was titled strategic orientation questionnaire. It was divided in three sections. First section focused on reasons for pursuing or not pursuing market expansion strategy. Second section focused on determining the extent to which a company practices market expansion strategy. Third section comprised of performance measures and a validation scale. Questionnaire has been revised thrice on the basis of pre-testing.

In the first section in order to collect information on reasons for pursuing market expansion strategy 12 statements were generated related to market size, its growth rate, cost consideration and profitability, competitive consideration etc. The statements were presented in the form of a 7-point Likert scale. Respondents were asked to state their level of agreement or dis-agreement on scale where 7 meant strong agreement and 1 meant strong dis-agreement.

In the absence of secondary data on strategy variables for Indian firms, scholars have used rating scales. (e.g.,Ray 2004) [39]. The notion that judgments of knowledgeable respondents about variables is at least as likely to produce useful answers as quantitative estimates is well accepted by researchers (Levin, 1987) [40]. Hence, to study the extent to which a company practices market expansion strategy it was decided to use a multi-item scale. According to Churchill, Jr. (1979) single item-measures suffer from various drawbacks [38]. First, individual items usually have considerable uniqueness or specificity in that each item tends to have only a low correlation with the attribute being measured and tends to relate other attributes as well. Second, single item tends to categorize objects into relatively small number of groups. Third, individual items typically have considerable measurement error; they produce unreliable responses. These measurement difficulties can be diminished with multi-item measures: (1) the specificity of items can be averaged out when they are combined, (2) by combining items, one can make relatively fine distinctions among people, and (3) the reliability tends to increase and measurement error decreases as the number of items in a combination increases.

4.5.1 Developing Market Expansion Scale

The scale was developed by following steps suggested by Churchill, Jr (1979) for development of a marketing construct [38]. These steps are described as follows.

4.5.1.1 Clarifying the Domain of Market Expansion Strategy

In this study market expansion strategy has been defined as a strategy of increasing primary demand for a product category by converting non-customers into customers and/ or by increasing the usage rate of marginal users of a category. A process based conceptual framework has been developed for implementation of market expansion strategy (Bang and Joshi 2008) [37]. The framework has been discussed in last chapter and is presented as figure 3.4. What separates market expansion strategy from other strategies is that market expansion strategy aims at creation of willingness and ability to enter into an exchange among non-customers and/ or low quantity users with the marketer and profiting from it as against a marketing strategy aimed at promotion of a brand to those customers who are willing and capable of entering into exchange and hence are targeted by other companies.

As a first step in implementation of market expansion strategy, a company needs to define its market scope in terms of customers and competitors. Creation of willingness and ability to buy and use a given product category are considered as important parts of market expansion strategy. In order to improve consumption/ usage ability of customers in an untapped or underserved market segments a company needs to study non-customer behaviour. To make a business sustainable, a company needs to be concerned about triple bottom-lines: economic, social, and environmental. Since market expansion strategy leads to increased consumption, socio-environmental issues become all the more important (Bang and Joshi 2008) [37].

4.5.1.2 Generating Scale Items

A conceptual framework of market expansion strategy has been used for generating scale items. As suggested by Selltiz (1976) literature and experience survey were used to generate scale items in the form of statements reflecting specific marketing mix and other tactics corresponding to the steps in implementation of market expansion strategy [41]. Originally 29 scale items were generated as shown in Annexure 2. In order to offset affirmation/ negation response bias, items were phrased to describe both favourable and unfavourable practices. A 7-point Likert scale was used to record responses with a 1 indicating strong disagreement and a 7 indicating strong agreement with a statement.

4.5.1.3 Purifying Scale Items

A. Face Validity

Scale items were submitted to a panel of four academicians two of whom had considerable prior industrial experience. Their opinion was obtained on each item for its consistency with market expansion strategy construct. Panelists were specifically asked to report if there were any replications and ambiguities in phrasing of scale items. From the first list of 29 items, 5 were deleted and some scale items were reworded. In the second pretest 24 items were submitted to a panel of 3 professional managers, one of whom is a director in a market research organization. In this round opinion was also obtained from one academician from a foreign country who is also editor of a reputed marketing journal. Finally 19 items were retained in the instrument.

B. Reliability Analysis

Reliability analysis was carried out on all 19 items together. While calculating market expansion score (MARKEX) of a company It was decided to exclude such items that have a very low item-to-total correlation. Coefficient alpha for remaining items was calculated to see whether it crosses the threshold (0.7) suggested by Nunnally (1978) [42]. Split half reliability test was also carried out to see whether both the halves exceed 0.7 or not.

In order to understand the underlying factor structure an exploratory factor analysis was carried out. Factor analysis has been used in small sample researches. For instance, in one study it was reported that almost 1/6th of researches in which factor analysis was used had a sample size with a subject to variable ratio of 2:1 or less (Costello and Osborne 2005) [43].

A widely used statistical test of appropriateness of a sample for factor analysis is Bartlett's test of sphericity. Tobias and Carlson (1969) recommend that the test be applied prior to factor analysis [44]. It is computed by the formula:

$$Bartlett's\ test = -[(N-1)-(\frac{2p+5}{6})]\log_e |R|$$

p = Number of variables

|R| = Determinant of correlation matrix.

N = Sample size.

The statistic is approximately distributed as a chi square. The hypothesis tested is that the correlation matrix came from a population of variables that are independent. In other words the original correlation matrix is an identity matrix (i.e. all correlation coefficients = 0). Rejection of the hypothesis is an indication that the data are appropriate for factor analysis (Stewart 1981) [45].

A Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy i.e. MSA is also recommended before undertaking factor analysis (Stewart 1981) [45]. KMO tests sum of partial correlations relative to the sum of correlations. Sum of partial correlations has to be small relative to sum of correlations. The MSA provides a measure of the extent to which the variables belong together and are thus appropriate for factor analysis.

KMO statistic was calculated to see whether it exceeds the minimum acceptable level of 0.5 recommended by Kaiser and Rice (1974) or not [46].

KMO measure of sampling adequacy

$$KMO, MSA = \frac{\sum\sum_{j \neq k} r_{jk}^2}{\sum\sum_{j \neq k} r_{jk}^2 + \sum\sum_{j \neq k} q_{jk}^2}$$

q^2_{jk} – square of the off-diagonal elements of the anti image correlation matrix

r^2_{jk} – square of the off-diagonal elements of original correlations.

Based on the results of both these tests it was decided to proceed with exploratory factor analysis. Kaiser’s eigen value based criterion as well as scree test were used to decide the number of factors to be retained (Field 2005) [47]. Coefficient alpha value was worked out for each of the extracted components to see whether each of these values exceeds 0.7 or not.

A market expansion strategy score (MARKEX) was assumed to be a simple average of the scores of selected scale items. Score on each of the sub-scales is also calculated as simple average of ratings on variables underlying respective factors. For studying association of market expansion strategy with the performance of a company an analysis of composite market expansion strategy score as well as individual components of market expansion strategy is presented.

4.5.1.4 Assessing Construct Validity

Construct validity of scale can be proven by checking its convergent and discriminant validity (Churchill, Jr. 1979) [38]. Convergent validity is indicated if the Chronbach Aplha value attained by considering all the selected scale items together exceeds 0.7. Convergent validity is also indicated by one-factor analysis

Convergent validity of a scale is also proven when it correlates with some other measure of the same construct. In the absence of any readily available global measure of market expansion strategy it was decided to use Kim and Mauborgne's (2005) description of blue ocean strategy [26]. They describe blue ocean strategy as a strategy of extending industry boundaries and creating uncontested market space as against market share battles with competitors. A statement based on this description of blue ocean strategy was developed and presented to the respondents in the form of a 7-point Likert scale. The statement was mixed with other scale items in section II of the questionnaire. It appears as statement number six in section II of the questionnaire which is presented in annexure 1. Pearson's correlation coefficient was worked out between market expansion score (MARKEX) and rating given by respondents on similarity of their company's strategy with blue ocean strategy. The identified sub-scales were also correlated with blue ocean strategy description. It was checked whether the Pearson's correlation coefficients are significant or not.

To assess discriminant validity a method similar to the one used by Deng and Dart (1994) was used [48]. Ideally a market expansion strategy scale should be able to discriminate between a company which predominantly uses market expansion strategy and a company which uses an alternative strategy. In introductory stage of a product's life cycle there is no choice but to opt for market creation. Question of choice of strategy comes only when replacement or up-gradation buyer segments become large enough for companies to survive solely on new demand from existing customers. For instance, in 2004 Director of Samsung Electronics, Ravinder Zuthshi observed that the urban market in India had become a replacement and up-gradation market (Sharma 2004) [49]. Hence, a market expansion strategy should be viewed as an alternative to a strategy of targeting an industry's existing customer base.

This conceptualization is important from the point of view of planning and tactical implementation. For instance, a company can have two separate estimates of market potential, one on the basis of study of first time buyers and other on the basis of study of replacement behaviour and/or up-gradation behaviour of industry's existing customer base. In order to target first time buyers (or low quantity buyers in case of consumer non-durables) a company needs to spend higher distribution and promotional efforts in its industry's untapped/ underserved segments. On the other hand in order to target industry's existing customer base, a company needs to spend higher efforts in markets where the product penetration and consumption levels are high. In order to target first time buyers (or low quantity buyers in case of non-durables) creation of consumption and purchasing ability is likely to be an important marketing task.

Scholars report that first time buyers and repeat buyers differ in their preferences. Okada (2006) reports that consumers who already own a product but want to upgrade have stronger preferences than first time purchasers for enhanced products with new features rather than for improvement in existing features, and they prefer enhancements that focus on a few key features rather than a general enhancement of all features [50]. In a study of two-wheeler markets in India, Phadtare (2008) reports that first time buyers and repeat buyers form two mutually exclusive groups in terms of their preferences. While first time buyers are inclined towards cost effective products, repeat buyers prefer sophisticated products. He observes that the two segments may be approached with different marketing programmes in line with their preferences [8].

On the basis of above discussion a description of two companies A and B was developed. Company A primarily targets existing customer base of the industry and tries to gain market share in the replacement and up-gradation demand where as company B tries to increase market potential for product category as a whole. These two company profiles were presented in section III of the questionnaire which is presented in annexure 1. Respondents were asked to distribute 100 points between the two companies depending on the similarity between their company's strategy and the two companies described in the questionnaire as A and B. A similar approach has been used by Kohli, Jaworski and Kumar (1993) for validation of their market orientation scale [51]. Proposed scale can be considered as valid if it correlates positively with score of company B and negatively with company A. The questionnaire is presented in Annexure 1. Pearson's correlation coefficient was worked out between identified sub scales and the scores of two profiles i.e. Company A and Company B. An evidence of convergent and discriminant validity is necessary for ascertaining construct validity of market expansion strategy scale and also its subscales.

4.5.2 Assessment of A Company's Performance

Due to unavailability of data on objective measures like after tax profit, ROI etc particularly in case of privately held companies, several strategy researchers (e.g., Covin and Slevin 1989, Dess and Robinson 1984, Kirchoff 1979, Michael and Louis 1991, Narver and Slater 1990, Wall et al. 2004, Wooldridge and Floyd 1990) use subjective measures of a company's performance [9,52,53,10,54,55,56]. Subjective measures of financial performance have been used in the Indian context also (e.g., Subramanian and Gopalakrishna 2001) [11]. Wall et al. (2004) point out that financial data of companies are aggregated in a way that is not compatible with the level of analysis needed. Scholars also argue that use of objective measures is not free from errors [55]. Dess and Robinson (1984) observe that if performance comparisons are made across firms without controlling for industry profitability, the effect of inter industry and intra industry variations or alternatively business-level and corporate-level strategies on performance are confounded [52]. They also point out that accounting procedures differ on issues like owner compensation. They further argue that problems are faced in allocating the assets, sales etc of multi-industry firms among the various industries within which they do business. Wall et al. (2004) caution the researchers that audited accounts do not reflect actual performance [55]. Smith (1996) illustrated that a wide range of profit levels can be reported in a company's accounts depending upon the assumptions made on such matters as depreciation rates and stock options [57]. According to report prepared by India Forensic Consultancy Services, at least 1200 companies (out of a total 4900 companies examined) listed on domestic stock exchanges forged their financial results (Mukherji 2008) [58]. Hence, strategy researchers have to make sure that they report the impact of strategy and not the other factors on the financial performance of a company.

In the Indian consumer product space there are many joint venture companies like Hero Honda Ltd etc. In a study on performance of international joint ventures Michael and Louis (1991) observe that international joint venture parents commonly generate financial returns through mechanisms other than dividends, including supply contracts, management fees, technology license fees, royalties and transfer pricing [10]. If available these figures are seldom incorporated into calculations of international joint venture performance. International joint ventures may be formed to achieve variety of objectives from technology transfer and joint research to access materials, new markets or scale economies. Chakravarthy (1986) showed that traditional accounting measures like profitability figures are unable to discern excellent from ordinary firms [59]. Anderson (1990) argues that financial measure evaluate only one dimension of performance [60]. Other factors including qualitative ones must also be examined in order to adequately evaluate international joint venture's performance. Despite poor financial results, an international joint venture may have been meeting or exceeding parents's objectives and thus be considered successful by parents.

Conversely some international joint ventures may show good financial results but they may not be meeting the expectations of parents. Kirchhoff (1979) argues that because aspirations of companies are used to guide their actions, the actual results of these actions should be measured relative to the desired results [53]. Hence, it is appropriate that a company's performance is evaluated as satisfactory or otherwise by comparing it with its own expectations rather than some ideal of the investigator.

Scholars have reported a significant correlation between objective and subjective types of measures (Dess and Robinson, 1984, Robinson and Pearce 1988, Venkatraman and Ramanujam 1986, Wall et al. 2004) [52,61,62,55]. Wall et al. (2004) observed that there is little evidence based on current findings to suggest that studies based on subjective measures lead to erroneous conclusions [55]. Bommer (1995) et al. meta-analysis shows that the relationship between objective and subjective measures is stronger when the objective measure assesses performance quantity, rather than performance quality [63]. In this research all the five performance measures (sales revenue, sales growth rate, sales to marketing expenses ratio, profit margin and cost of retaining customers) selected are of quantitative type. A company's performance was assessed on five identified performance measures using a 7-point Likert scale where 1 indicates "Needs Big Improvement" and 7 indicates "Very Satisfactory." Performance measures were included in section III of the questionnaire.

4.6 Sampling Plan

Universe for this study was defined as organized sector firms operating in India in consumer durable (two-wheelers, TV, Refrigerator and Water Purifiers), non-durables (bath soaps, washing cakes & powders and toothpaste & toothpowder) mobile services categories.

Following criterion were applied while selecting products for this study:

- Products which can be bought by middle and lower income segments.

- Products which enhance productivity like two-wheelers, mobile telephone services, refrigerators (particularly for working women) or offer informational & entertainment benefits like television or products which offer health & hygiene related benefits like water purifiers, non-durables like soaps, washing products & oral care products

Sampling Unit : The sampling unit forms the basis of actual sampling procedure. The sampling unit may contain one or more population elements (Green, Tull and Albaum 2007) [5]. For instance a consumer electronics firm may contain several population elements such as TV, Refrigerator etc. In this study sampling unit was defined as a consumer product firm in selected product categories. From each of the sampling units information was sought about following sampling elements.

a) Consumer durables: Two-wheelers, TV or Refrigerator, Water Purifiers.

b) Consumer non-durables: Bath soaps or washing cakes & powders, toothpaste & powder

c) Mobile Services: Basic mobile services

Sampling Method: Judgment sampling method was used to select sampling units. The relative advantage of judgment sampling are that it is low cost, convenient to use, less time-consuming, and as good as probability sampling (Vichas 1982) [64]. Due to time and financial constraints the researcher attempted to contact as many sampling units per location as possible. But at the same time attempt was made to make the sample representative of universe.

Sample Size : Attempt was made to carry out a census of all the organized sector companies in selected consumer durable and mobile telephone services categories and major companies in selected non-durable categories. But out of a total of 50 sampling elements from 44 companies contacted, information could be obtained for 30 sampling elements from 29 different companies. Response rate turned out to be around 70 % at sampling unit level while 60% at sampling element level.

Sample profile is as shown in table 4.1.

Table 4.1: Sample Profile

Sampling Unit	Number of sampling elements
Consumer Durables (Two-wheelers, TVs, Refrigerators & Water Purifiers)	15
Non-durables (Soaps, Washing Products & Oral Care Products)	12
Mobile Telephone Services	3
Total	30

For each sampling element in the chosen companies one such respondent was interviwed who could provide comprehensive information. Respondent profile is as shown in table 4.2.

Table 4.2: Respondent Profile

Type of respondent	Number
Director, Managing Director	2
Head of Marketing (President, VP & GM)	15*
National/ Zonal Sales Heads	4
Product Manager/ Category Marketing Manager	8
Total	29

* President of one company responded for two product categories

4.7 Data Collection

A list of target companies was prepared and names of potential respondents were identified. To seek the appointment managers were contacted through emails and telephone. In most cases several telephone calls were needed to be made to get the appointment. Two of the managers sent their replies through email. Rest twenty eight managers were personally interviewed by the researcher. For this purpose the researcher visited Mumbai, New Delhi, Gurgaon, Noida, Ghaziabad, Bangalore and Nagpur besides companies in Pune. In order to get unbiased responses, as suggested by Narver and Slater (1990) the respondents were assured that individual company names would not be identified in data analysis and interpretation [54].

4.8 Data Analysis and Interpretation

For each of the statement related to reasons for pursuing or not pursuing market expansion strategy, weighted average score has been worked out. For samples of size less than 30, t-test has been suggested as a test of hypothesis for interval data (Boyd et al. 2004) [2]. Accordingly to test the hypotheses related to reasons for pursuing market expansion strategy t-test of significance has been used.

Exploratory factor analysis using principal component analysis technique is used to understand the factor structure and to test the hypothesis related to methods of market expansion. Initial factor solution has been rotated using varimax technique of orthogonal rotation.

Average score of 18 scale items has been used as indicator of the extent to which a company uses market expansion strategy (MAREX). Like in previous studies on consumer product (durables) penetration level (e.g., Ford, Karande and Seifert 1998) [65], in this research Pearson's correlation coefficient has been used as a measure of association between market expansion strategy score (MARKEX) and score on performance indicators. Pearson's correlation coefficient has also been used to carry out construct validity analysis as discussed above. Churchill Jr and Iacobucci (2007) observe that it is perfectly legitimate to use correlation analysis to measure the closeness of the relationship or joint variation between two variables at a time [1].

Correlation coefficient between individual sub-scale scores and performance indicators has also been studied. Test of significance for correlation coefficient has been carried out. A relationship is said to be strong if the correlation coefficient is larger than 0.8, moderate-to-strong if it is between 0.4 to 0.8 and weak if it is less than 0.4 (Luck and Rubin 2005) [66]. All the statistical calculations have been performed using SPSS software version 10.

In addition to the personal interviews using a structured questionnaire, depth interviews were also carried out. Analysis of the depth interviews was carried out to gain deeper insights into methods of market expansion used by a company.

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CHAPTER FIVE

DATA ANALYSIS

Analysis of data is presented in three parts: (1) reasons for and against pursuit of a market expansion strategy, (2) reliability and validity analysis of the scale used for measuring the extent to which a company pursues market expansion strategy and (3) market expansion score of companies. Analysis of data obtained through depth interviews is presented in next chapter on methods of market expansion. Analysis of association between market expansion efforts and performance of a company is presented in chapter seven.

As it was promised to the participating companies in the primary data collection phase, identity of individuals and companies is not disclosed. Respondents are identified as belonging to durable or a non-durable company using codes described in Annexure 3. Names are mentioned only in such cases where data is obtained from secondary sources or from a conference speech. In all such cases where data is obtained from both the primary and as well as secondary sources identity is disclosed only in the context of secondary data.

5.1 Reasons for and against Market Expansion Strategy

Reasons for and against market expansion strategy are classified into four categories: (1) market size and growth related reasons, (2) competitive considerations, (3) financial considerations and (4) non-financial considerations. In each of the four categories, a statement of hypothesis is presented. There are several reasons for choosing a target market. However hypotheses have been formulated only for such reasons which have been discussed in the literature but have not been tested empirically.

On the basis of survey of literature 12 statements have been developed reflecting reasons for pursuing or not pursuing market expansion strategy. Based on each statement in the questionnaire the hypotheses and corresponding null hypotheses have been statistically restated. This is followed by a table showing number of responses on a 7-point scale where a 1 indicates strong disagreement and a 7 indicates strong agreement with the statement. Mean rating is worked out for each statement using weighted average method as follows:

$$Mean\ rating = \frac{\sum R_{ij} * F_{ij}}{N}$$

where Rij : Rating of statement i at level j.

Fij : Frequency of rating of statement i at level j

N : Total number of respondents

The analysis is presented separately for consumer durables and non-durables. Out of a total sample of 30, due to paucity of time two respondents did not attempt section 1 of the questionnaire which contained statements related to reasons.

A test of significance is carried out for each statement using t- test. All the hypotheses excepting the first one have been tested to check whether estimated mean rating of the statement is greater than or equal to 5 on a 7-point scale. Statement related to first hypothesis is reverse coded and hence it has been tested to check whether estimated mean rating is less than or equal to 3. While carrying out t-test for unidirectional hypotheses using SPSS software, a "greater than" and a "less than" type null hypothesis can not be rejected when t – values are positive significant and negative significant respectively (Burns & Bush 2007) [1].

5.1.1 Market Size and Growth Rate Related Reasons

Hypothesis 1: Low per capita income of untapped/ under-served market segments is a deterrent to market expansion strategy.

Statement in questionnaire: Many a times a company decides to target untapped or underserved market segments despite its low per capita income, because these segments are very big in size.

Since the statement is reverse coded, statistically hypothesis and corresponding null hypothesis can be stated as follows:

H1: Mean rating of statement ≤ 3

H0: Mean rating of statement > 3.

Table 5.1: Number of Responses for Per Capita Income Related Reason (N=28)

Rating	1	2	3	4	5	6	7	Total	Mean	t statistic (Test Value = 3)
Durables	-	1		1	4	8	-	14	5.29	10.988*
Non-durables	-	-	1	-	1	9	3	14	5.93	7.510*

* t statistic is significant at the 0.01 level (2-tailed), ** t statistic is significant at the 0.05 level (2-tailed), *** t statistic is significant at the 0.10 level (2-tailed).

Findings:

1. Positive significant t – statistics indicate that a "greater than" type null hypothesis can not be rejected in case of consumer durables as well as non-durables.

2. Managers of consumer durable and non-durable categories generally agree (mean ratings 5.29 and 5.93 respectively on 7 point scale) that many a times a company decides to target untapped or under-served market segments despite its low per capita income, because these segments are very big in size.

Discussion:

Managers of consumer durable and non-durable categories opine that many a times a company decides to target untapped or under-served market segments despite its low per capita income, because these segments are very big in size. For instance, Manoj Kohli (2008), MD of Bharti Airtel says his company successfully confronted basic paradigms of mobile telephone business 15-20 years back: (a) Rural markets and Eastern India are no markets, (b) Only post-paid customers lead to profit and (c) Cell phone business is for deep pocket companies [2]. Kohli claims that today Airtel is the lowest cost producer in the world of telephony by developing a new business model. Despite low pricing Airtel's margins is 40-41% as against 30% in Western countries. Prahalad (2008) says "You have to innovate, there is no way you can do things if you are in a resource constrained country like India and at the same time you have high aspirations about what you want to do. 800 million Indians live in poverty. You could ask the question- Can business use this as an extraordinary opportunity for doing well and doing good? I think India is slowly proving that it can."[3]

Hypothesis 2: If existing customer base of a product category is large, it discourages a company from practicing market expansion strategy.

Statement in questionnaire: If an industry's existing customer base is big enough, a company prefers to concentrate on replacement and up-gradation demand rather than trying to increase market potential of a product category.

Based on above statement statistically the hypothesis and corresponding null hypothesis can be stated as follows:

H2: Mean rating of statement $\geq$ 5

H0: Mean rating of statement < 5.

Table 5.2: Number of Responses for Reasons Related To Existing Customer Base(N=28)

Rating	1	2	3	4	5	6	7	Total	Mean	t statistic (Test Value = 5)
Durables	-	1	4	2	3	4	-	14	4.36	-1.727
Non-durables	3	2	3	2	3	1	-	14	3.21	-3.995*

* t statistic is significant at the 0.01 level (2-tailed), ** t statistic is significant at the 0.05 level (2-tailed), *** t statistic is significant at the 0.10 level (2-tailed).

Findings:

1. A non-significant t – statistic in case of consumer durables indicates that null hypothesis can be rejected. However, a negative significant t-statistic in case of non-durables indicates that a "less than" type null hypothesis can not be rejected.

2. In case of consumer durables till further evidence is found it can be said that a large existing customer base of a product category may discourage a consumer durable company from practicing market expansion strategy. But managers in consumer non-durable industry seem to disagree though weakly (mean rating 3.21 on 7 point scale) that a large existing customer base of a product category discourages a company from practicing market expansion strategy.

Discussion:

It can be said that possibility of a large existing customer base of a product category becoming a deterrent to market expansion strategy is higher in case of consumer durables as compared to non-durables. On the face of it this is surprising because penetration level of non-durables in general is far higher than durables. One of the explanations can be that non-durable companies realize that in spite of high product penetration levels, consumption rates in India are pretty low and hence there is a scope for expanding market by increasing usage rate. Two respondents from fast moving consumer goods industry observed that existing customer base does look attractive to most companies because of the possibility of value growth by upgrading the customers from low price brands to the higher price ones (N13, N10). But there is still large scope for increasing per capita usage of consumer non-durables in India. Many companies in soaps and detergents categories have developed application specific products to promote increased usage like hand wash, face wash, shower gels etc says one of the respondents(N13).

Since consumer durables are high ticket purchases (as compared to non-durables) the estimated size of potential market might be considered far smaller than the size of actual un-penetrated segments. Consumer durable companies (as compared to non-durable companies) might be considering low income segments less attractive than high income segments from where replacement or up-gradation demand emanates. A respondent from two-wheeler industry observes that large customer base of a category especially of a company or a brand is easier to maintain if its customer satisfaction level is high. It is cheaper than targeting first time buyers. However according to him the ideal way is to target first timers and then use the same base for up-gradation (D1). Respondent from another company makes an interesting observation. He says even if a company offers feature rich products, a first time buyer may not prefer it if the brand is not the market leader. According to him such a brand may target existing customer base of a category because replacement and up-gradation buyers can better appreciate added features (D7).

One of the respondents from CTV industry observed that some times companies get inspired by future potential and hence look beyond existing customer base of a category (D14). A respondent from a mobile services industry sums up nicely. He says in his industry the churn rate of customers from one operator to other is pretty high in some cases as high as 5 % per month, which amounts to almost 60% per annum. Strategies to deal with churn basically involve aggressive pricing and sales promotion schemes which often lead to blood bath in the industry. Because of this in some categories companies have to maintain a balance between market share in existing market and expanding the market itself (N14).

Hypothesis 3: A company’s decision to not to practice market expansion strategy is born out of a belief that a product category has reached maturity phase.

Statement in questionnaire: When a company reduces search for untapped or under-served market segments it is an indicator of the company's belief that a product category has reached maturity phase.

Based on above statement statistically hypothesis and corresponding null hypothesis can be stated as follows:

H3: Mean rating of statement $\geq$ 5

H0: Mean rating of statement < 5.

Table 5.3:Number of Responses Related to Effect of Maturity Phase of a Product(N=28)

Rating	1	2	3	4	5	6	7	Total	Mean	t statistic (Test Value = 5)
Durables	1	10	1	1	1	-	-	14	2.36	-9.808*
Non-durables	-	9	1	-	4	-	-	14	2.93	-5.597*

* t statistic is significant at the 0.01 level (2-tailed), ** t statistic is significant at the 0.05 level (2-tailed),*** t statistic is significant at the 0.10 level (2-tailed).

Findings:

1. Negative significant t – statistics indicate that "less than" type null hypothesis can not be rejected in case of consumer durables as well as non-durables.

2. Managers in consumer durable as well as non-durable companies seem to disagree (mean rating 2.36 & 2.93 respectively on 7 point scale) that a company's decision to not to practice market expansion strategy is born out of a belief that a product category has reached maturity phase.

Discussion:

Managers do not seem to accept arguments that many companies operate with a mindset as if they are dealing with mature product categories. They argue that there can be several other reasons for not targeting untapped/ under-served segments. For instance, a respondent from two-wheeler industry said that decision about whether to target a segment or not depends on value proposition that a company has got and the distribution infrastructure (D1). A respondent from CTV industry observed that a company's search of untapped markets is affected not only by feeling of category's maturity phase but also by its own resources and viability of expanding category sales. According to him penetration levels in CTV category are almost touching maturity (D14). But another respondent from the same industry adds a note of caution saying that many companies simply harbour a belief that there is no market in the untapped market segments. He says when in Tamil Nadu a political party won the election after promising free CTV to low income households, companies realized that even in the untapped market there was an aspiration (latent unmet need) to own a TV. This prompted companies to target untapped segments with affordable products for this segment (D13).

A respondent from FMCG sector specifies three important factors affecting choice of target market. According to him, first factor is the price barrier. Second, is a value proposition that a company wants to offer. Third factor is value chain and cost of entering a market which includes cost of getting shelf space in terms of retail margins, credit, more frequent servicing of outlets, schemes, replacement guarantee and brand promotion cost besides physical distribution (N13). Point about value proposition is highlighted by another respondent from the same industry (N15). But a respondent from another FMCG company says market leaders do tend to find new ways of expanding markets even when a category is perceived to have reached maturity phase (N10).

5.1.2 Competitive considerations

Hypothesis 4: A market leader company takes initiative in expanding market.

Statement in questionnaire: Generally a market leader company takes initiative in expanding market potential of a product category.

Based on above statement statistically hypothesis and corresponding null hypothesis can be stated as follows:

H4: Mean rating of the statement $\geq$ 5

H0: Mean rating of the statement < 5

Table 5.4: Number of Responses Related To Effect of Competitive Position (N=28)

Rating	1	2	3	4	5	6	7	Total	Mean	t statistic (Test Value = 5)
Durables	-	-	1	1	2	1	9	14	6.14	3.166*
Non-durables	-	-	-	1	2	7	4	14	6.00	4.266*

* t statistic is significant at the 0.01 level (2-tailed), ** t statistic is significant at the 0.05 level (2-tailed), *** t statistic is significant at the 0.10 level (2-tailed).

Findings:

1. Since t – statistics are positive significant "less than" type null hypothesis can be rejected in case of durables as well as non-durables.

2. Till further evidence is found it can be said that managers in consumer durable as well as non-durables companies strongly agree that a market leader company takes initiative in expanding market.

Discussion

There is a strong belief that a market leader company takes initiative in expanding the market. There are advantages on supply side as well as demand side which a market leader enjoys. For instance, in 2003, speaking about Hindustan Lever's (now Hindustan Unilever) growth strategy against the backdrop of decline in sales by 6.7 %, Chairman M.S. Banga said that the power of his company's scale is derived from its combined volume of about 4 million tones, sales of Rs. 10,000 crore, its presence across more than 20 distinct consumer categories and availability in 3 million outlets [4]. Such scale of operations gives a distinct cost benefit in buying raw and packaging material for company as a whole rather than separately for categories. Scale in the areas of logistics and transportation enables greater efficiency.

A respondent from a FMCG company says market expansion for soaps, detergents and toothpastes requires creating health and hygiene awareness. This is a mammoth task and returns are expected over along term and hence cash rich market leaders are well suited to do so. He says leaders also need to expand a market because they need to defend themselves against small players (N13). Another respondent from the same industry observes that large companies (not necessarily leaders) can have a portfolio of products and hence they can cross-subsidize expenses and can expand market which may be difficult for a small or single brand company (N5).

Talking about demand side advantages a market leader enjoys a respondent from a two-wheeler company says a first time buyer avoids psychological risk by buying a market leader brand. Market leader brands enjoy high resale value, an important criterion for Indian customers of two-wheelers. He further adds high resale value helps a leader brand to get consumer finance easily since in case of default in repayment of loan, the financier finds it easier to recover his money by reselling the product (D8). A respondent from FMCG sector adds, in rural areas retailers have limited shelf space due to low inventory carrying capacity and hence less number of brands are carried per retailer. He says in such a scenario being a leader helps (N9). Another respondent from the same sector agrees but he points out examples of Nirma and Ghari which expanded detergent market at two different points of time (N10). A respondent from mobile services industry points out benefits of network externality effect which a market leader company enjoys, especially since many companies offer lower rates on calls made between their own customers (N1). A respondent from consumer durable sector offers a holistic perspective on this issue. He says either market leaders or local companies are better suited to expand markets. Local companies if adopt right strategies can become big players after a time like Nirma (D13).

Hypothesis 5: Strong competitor orientation prevents a company from expanding a market.

Statement in questionnaire: Too much of focus on dealing with competition from the competitor brands prevents a company from targeting untapped or underserved market segments.

Based on above statement statistically hypothesis and corresponding null hypothesis can be stated as follows:

H5: Mean rating of the statement ≥ 5

H0: Mean rating of the statement < 5.

Table 5.5: Number of Responses Related To Effect of Competitive Orientation (N=28)

Rating	1	2	3	4	5	6	7	Total	Mean	t statistic (Test Value = 5)
Durables	-	3	4	4	2	1	-	14	3.57	- 4.372*
Non-durables	-	3	2	4	1	4	-	14	4.07	-2.253**

* t statistic is significant at the 0.01 level (2-tailed), ** t statistic is significant at the 0.05 level (2-tailed), *** t statistic is significant at the 0.10 level (2-tailed).

Findings:

1. Since t – statistics in case of durables as well as non-durables are negative significant “less than” type null hypothesis can not be rejected.

2. Managers in durable and non-durable companies do not agree that strong competitor orientation prevents a company from expanding a market.

Discussion:

Contrary to the opinion of scholars managers do not believe that strong competitor orientation acts as a deterrent to market expansion. Some of them do agree that companies become competitor oriented and start aping each other. As a result they end up fighting for market share in the existing market space rather than extending industry boundaries. But one of the respondents offered a holistic perspective on effect of competition. He says competition also helps in growing the market and leads to conservation of resources at individual company level (N13).

Hypothesis 6: Fear of imitation prevents a company from taking market expansion initiative.

Statement in questionnaire: Many companies do not wish to be first in targeting the untapped or underserved market segments because they do not want imitators to reap the benefits at their cost.

Based on above statement statistically the hypothesis and corresponding null hypothesis can be stated as follows:

H6: Mean rating of the statement ≥ 5

H0: Mean rating of the statement < 5

Table 5.6: Number of Responses Related To Imitation (N=28)

Rating	1	2	3	4	5	6	7	Total	Mean	t statistic (Test Value = 4)
Durables	1	8	1	-	2	2	-	14	3.00	-4.377*
Non-durables	1	11	1	1	-	4	-	14	2.14	-16.125*

* t statistic is significant at the 0.01 level (2-tailed), ** t statistic is significant at the 0.05 level (2-tailed), *** t statistic is significant at the 0.10 level (2-tailed).

Findings:

1. Since the t – statistic is negative significant in case of durables as well as non-durables, “less than” type null hypothesis can not be rejected.

2. Managers in consumer durable as well as non-durable companies do not believe that fear of imitation prevents a company from taking initiative in expanding a market.

Discussion:

Most managers believe that a market expander benefits from first mover's advantage. One of them says first movers advantage helps not only in end customer market but in trade channel as well. But he adds a note of caution that the first mover company has to back itself with marketing communication and product placement lest imitators benefit at the cost of original market expander (D3). Another respondent from FMCG sector says by being pioneer a company creates entry barrier for followers in the form of cost of brand development, product acceptance and infrastructure creation. He elaborates saying costs of market development may be high for ITC's E-Chaupal initiative but the company looks at returns in the long term and hence evaluation of performance of company can not be done in absolute terms of costs and profit rather it should be done based on a company's expectations (N13). But some respondents from FMCG sector observe that entry barriers in FMCG industry are lower than in consumer durable industry. One of them says that majority of imitators are regional and unorganized players who have low cost value chains, which more often than not is a result of regulatory violation (N8). Other respondent cites problem of fake products especially in rural markets (N9). One of the sampled FMCG companies successfully convinced the government for strict enforcement of regulations related to fat (TFM) content in soaps, which helped it fight unorganized sector players (N6).

5.1.3 Financial Considerations

Hypothesis 7a: Untapped or under-served market segments are ignored because of relatively high sales and distribution cost of serving these segments.

Statement in questionnaire: Many a times untapped or under-served market segments are ignored because sales and distribution cost in these segments is relatively high.

Based on above statement statistically the hypothesis and corresponding null hypothesis can be stated as follows:

H7a: Mean rating of the statement ≥ 5

H0: Mean rating of the statement < 5

Table 5.7: Number of Responses Related To Effect of Sales & Distribution Cost (N=28)

Rating	1	2	3	4	5	6	7	Total	Mean	t statistic (Test Value = 5)
Durables	-	6	1	2	3	1	1	14	3.64	-2.924**
Non-durables	-	2	2	3	4	2	1	14	4.36	-1.605

* t statistic is significant at the 0.01 level (2-tailed), ** t statistic is significant at the 0.05 level (2-tailed), *** t statistic is significant at the 0.10 level (2-tailed).

Findings:

1. Since the t – statistic is negative significant in case of durables "less than" type null hypothesis can not be rejected. But the same is non-significant in case of non-durables and hence null hypothesis is rejected.

2. In case of durables managers do not think that untapped/ under-served market segments are ignored because of high cost of sales and distribution. But in case of non-durables till further evidence is found it can be said that untapped/ under-served market segments may get ignored because of high cost of sales and distribution.

Discussion:

There is almost consensus among non-durable marketers that sales and distribution costs in under-served market segments are high and per capita consumption is low. This may deter a company from going deeper in the interior markets. One of the respondents says one has to develop low cost distribution mechanisms and also play a volume game (N10). Another respondent says that sales and distribution cost is relatively smaller problem in case of categories like bath soaps and detergents as compared to other FMCG products like soft drinks etc which involve reverse distribution cost (bottle collection) and may require some specific infrastructural conditions like refrigerators and uninterrupted power supply (N8).

In case of consumer durables managers do not think that high sales and distribution cost deters a company from market expansion. A peculiar feature of durable industry (including two-wheelers) is that rural customers pose more faith in a bigger showroom as well as bigger town/ city and hence a deep distribution network in villages may not be necessary for market expansion says another respondent (D3). Besides, many companies follow hub and spoke model of distribution and instead of appointing dealers, they appoint sub-dealers under main dealers located in cities and big towns. This helps in sharing of cost of transportation with dealer (D1,D7,D5). But as two respondents point out logistics cost and return on investment to dealers become feasible only on certain minimum volume. Hence not all the companies go for market expansion (D8, D10).

Hypothesis 7b: Untapped or underserved market segments are ignored because of relatively high promotional cost in these segments.

Statement in questionnaire: Many a times untapped or underserved market segments are ignored because promotional cost in these segments is relatively high.

Based on above statement statistically the hypothesis and corresponding null hypothesis can be stated as follows:

H7b: Mean rating of the statement $\geq$ 5

H0: Mean rating of the statement < 5

Table 5.8: Number of Responses Related To Effect of Promotional Cost (N=28)

Rating	1	2	3	4	5	6	7	Total	Mean	t statistic (Test Value = 5)
Durables	1	2	1	6	1	2	1	14	4.0	- 2.248**
Non-durables	-	5	3	2	3	-	1	14	3.5	- 3.606*

* t statistic is significant at the 0.01 level (2-tailed), ** t statistic is significant at the 0.05 level (2-tailed), *** t statistic is significant at the 0.10 level (2-tailed).

Findings:

1. Since the t – statistics are negative significant in case of durables as well as non-durables, "less than" type null hypothesis can not be rejected.

2. Managers in consumer durable as well as non-durable companies do not think that untapped or underserved market segments are ignored because of relatively high promotional cost in these segments.

Discussion:

One of the respondents from a durable company says promotional costs in untapped/ under-served segments may not be very much higher than in other segments. He adds once a company reaches out to one segment it can virtually reach out to others at very low incremental cost because TV as a medium has wide reach today as compared to in the past (D3). Respondent from a water purifier company makes an interesting observation. He says promotional expenses are a function of penetration level because normally the territories having higher penetration level are the one's where media costs (newspaper or local media) are high. Hence even if a company wishes to spend less efforts in areas with high penetration and more efforts in low penetration area eventually it ends up spending more in high penetration areas. Hence, allocation of promotional budget is not just based on intentions of a company (whether it wants to expand market or not) but also on cost of promotions in an area (D2).

At least two respondents from FMCG sector point out that wall paintings which are most widely used in rural markets are not only cheap but also long lasting (N15, N13). But other two respondents from the same sector take a more long term view. They say if one looks at effect of promotions on speed of product category adoption then the cost works out to be high. They also observe that though wall paintings are cheap, in terms of product category expansion it has limited utility. Market development needs video vans, demonstrations, and folk based activities etc. which are expensive (N9, N6,N7). Probably it is believed that brand promotion cost in under-served segments is less than product category promotion cost. Effect of promotional cost might vary depending on buyer readiness stage as regards category.

Hypothesis 8: Untapped or underserved market segments are ignored because of relatively low profit margin on products meant for these segments.

Statement in questionnaire: Many a times untapped or under-served market segments are ignored because of relatively low profit margin on products meant for these segments.

Based on above statement statistically the hypothesis and corresponding null hypothesis can be stated as follows:

H8: Mean rating of the statement ≥ 5

H0: Mean rating of the statement < 5

Table 5.9: Number of Responses Related To Effect of Profit Margin (N=28)

Rating	1	2	3	4	5	6	7	Total	Mean	t statistic (Test Value = 5)
Durables	1	2	1	3	3	4	-	14	4.21	-1.758
Non-durables	-	4	3	2	4	1	-	14	3.64	-3.646*

* t statistic is significant at the 0.01 level (2-tailed), ** t statistic is significant at the 0.05 level (2-tailed), *** t statistic is significant at the 0.10 level (2-tailed).

Findings:

1. Since the t – statistic is not significant in case of durables null hypothesis can be rejected. But the same is negative significant in case of non-durables and hence "less than" type null hypothesis can not be rejected.

2. In case of consumer durables till further evidence is found it can be said that untapped or under-served market segments may be ignored because of relatively low profit margins in these segments. But in case of non-durables managers do not think that untapped or under-served market segments are ignored because of relatively low profit margins in these segments.

Discussion:

One of the respondents from consumer durable industry says since customers in rural markets can not make out a difference in the quality, it is difficult to differentiate and charge higher prices which affect margins. As a result those companies which are not price players lose interest in market expansion (D14). But another respondent says since capacity constraints have been removed in post liberalization era, companies look at all possible sources of growth. He says when companies had limited capacities they used to focus on premium end segments (D1).

A respondent from FMCG sector disagrees that profit margins in lower income segment are not satisfactory. He adds even if per unit margins are low, a company more than makes it up by very high volumes. He says a market expansion strategy may produce lower returns in the short run but in the long run (3 to 5 years) such a strategy is profitable. In his opinion HUL's project Shakti and ITC's E-Chaupal, will be profitable initiatives in the long run. But he agrees that many a times pressure to give consistently high return to shareholders becomes a deterrent to market expansion strategy (N8). Resource requirement in tapping rural markets do not match the return on investment (ROI) says another respondent from FMCG sector.

But he clarifies that ROI for the year when a company starts tapping these markets may not be the right yardstick because ROI over a long term is generally better (N11).

A respondent sums it up very nicely. He says “large volumes in untapped segments offer economies of scale and if a company succeeds in having a low cost distribution model, margins are not low. But it’s a matter of a company’s expectations about profitability i.e. earnings before tax and depreciation (EBITDA). Some may be satisfied with 8%, other may require 25%. It depends on company’s portfolio, its long term objective and financial position.” (N13)

A company may change its strategy if its profit expectations are not met. For instance, after loosing leadership position in two-wheeler market to Hero Honda, Bajaj Auto Ltd used the strategy of lowering prices to push volumes between1999 and 2003. Up to 2002 Bajaj’s bike volume rose from 2 lakh units to over 6.5 lakh units. Over this period the average selling price of bikes dropped by 14% (Philip, 2003) [5]. In 2002, to compete with Hero Honda’s CD-Dawn, Bajaj started offering a discount of Rs 1500 to 2000 on its entry level bike Boxer, which then contributed 57% of company’s total bike sales (Business Standard 2003a) But after reporting a rather flat growth in net profits (Rs. 150.61 Cr versus Rs 148.45 Cr a year before) the company decided to modify its strategy [6]. It decided to increase its sales of high margin products like Pulsar in its portfolio to 60 % as against 35% in 2002-03 (Business Standard 2003b) [7]. The company pursued this strategy pretty aggressively from 2008. It started moving away from 100 cc bikes. As a result its market share declined from around 36% in 2007 to mid 20% in 2009. But the company reported a profit of around Rs 455 Cr in first quarter of 2009, which is best ever in the history of Bajaj Auto. A healthy EBITDA margin of 19.5% is attributed to the strategy of pushing bigger bikes aggressively (Das 2009) [8].

5.1.4 Non-financial Considerations

Hypothesis 9a: A company may target untapped or under-served market segments for social reasons.

Statement in questionnaire: Many a times a company targets untapped or under-served market segments for social reasons like desire to satisfy the needs and wants of the underserved.

Based on above statement statistically the hypothesis and corresponding null hypothesis can be stated as follows:

H9a: Mean rating of the statement $\geq$ 5

H0: Mean rating of the statement < 5

Table 5.10: Number of Responses Related To Social Reasons (N=28)

Rating	1	2	3	4	5	6	7	Total	Mean	t statistic (Test Value = 5)
Durables	1	6	5	1	-	1	-	14	2.71	-7.101*
Non-durables	-	4	2	1	4	3	-	14	4.00	-2.314**

* t statistic is significant at the 0.01 level (2-tailed), ** t statistic is significant at the 0.05 level (2-tailed), *** t statistic is significant at the 0.10 level (2-tailed).

Findings:

1. Since the t – statistics are negative significant in case of durables as well as non-durables, “less than” type null hypothesis can not be rejected.

2. Managers in consumer durable as well as non-durable companies disagree that a company may target untapped or under-served segments for social reasons.

Discussion:

Managers in consumer durable sector are almost unanimous in their view that choice of target market is not influenced by social reasons. But a few respondents in non-durable sector do believe that a company may target under served markets for social reasons. A possible explanation can be that consumer durables are high ticket purchases and probably with the exception of water purifiers, are not considered necessities. Two respondents from consumer durable sector cite example of a refrigerator. They say typically a refrigerator comes very low on the priority list of a middle or lower income Indian family (D14, D12). Another possibility is that since the non-durable sample included two public sector undertakings and one cooperative unit, responses might be affected. Besides, mobile services which have been clubbed with other non-durables, have some regulatory obligation as regards rural penetration.

Hypothesis 9b: A company may target untapped or under-served market segments for egoistical reasons.

Statement in questionnaire: Many a times a company targets untapped or under-served market segments for egoistical reasons like desire to dominate a market.

Based on above statement statistically the hypothesis and corresponding null hypothesis can be stated as follows:

H9b: Mean rating of the statement $\geq$ 5

H0: Mean rating of the statement < 5

Table 5.11: Number of Responses Related To Egoistical Reasons (N=28)

Rating	1	2	3	4	5	6	7	Total	Mean	t statistic (Test Value = 5)
Durables	2	9	-	1	-	2	-	14	2.57	-5.667*
Non-durables	4	6	2	1	1	-	-	14	2.21	-8.711*

* t statistic is significant at the 0.01 level (2-tailed), ** t statistic is significant at the 0.05 level (2-tailed), *** t statistic is significant at the 0.10 level (2-tailed).

Findings:

1. Since the t – statistics are negative significant in case of durables as well as non-durables, “less than” type null hypothesis can not be rejected.

2. Managers in consumer durable as well as non-durable companies disagree that a company may target untapped or under-served segments for egoistical reasons.

Discussion:

Managers in durable as well as non durable companies do not believe that a company may expand market for egoistical reasons like desire to dominate the market or to pull the competition down. One of the respondents from non-durable sector made an interesting observation. He says some brands which are aimed at economy segment help in boosting market share of the company in overall category. This in turn helps in boosting share price and market capitalization. However, he does not consider this to be an egoistical reason (N5).

Hypothesis 9c: A company may decide not to expand market out of socio-environmental concerns.

Statement: Many a times a company decides not to expand the market because it considers market expansion to be socially and environmentally unsustainable.

Based on above statement statistically hypothesis and corresponding null hypothesis can be stated as follows:

H9c: Mean rating of the statement ≥ 5

H0: Mean rating of the statement < 5

Table 5.12: Number of Responses Related To Environmental Reasons (N=28)

Rating	1	2	3	4	5	6	7	Total	Mean	t statistic (Test Value = 5)
Durables	6	4	1	1	-	2	-	14	2.36	-5.554*
Non-durables	4	7	3	-	-	-	-	14	1.93	- 15. 742*

* t statistic is significant at the 0.01 level (2-tailed), ** t statistic is significant at the 0.05 level (2-tailed), *** t statistic is significant at the 0.10 level (2-tailed).

Findings:

1. Since the t – statistics are negative significant in case of durables as well as non-durables, “less than” type null hypothesis can not be rejected.

2. Managers in consumer durable as well as non-durable companies disagree that a company may decide not to expand market out of socio-environmental concerns.

Discussion:

Managers in durable as well as non durable companies do not believe that a company may decide against market expansion out of socio-environmental concerns. Many of them argue that companies are trying to lower environmental harm, if any. They also cite compulsion for companies to abide by government rules and regulations which indirectly takes care of socio-environmental concerns. Social and environmental issues are likely to become major issues in future. But whether companies decide not to expand a market because of this concern is doubtful. In fact this finding underlines importance of creating greater awareness and sensitivity among corporates about environmental cost of increased consumption.

5.2 Reliability and Validity Analysis of Scale

5.2.1 Reliability Analysis

Reliability analysis was carried out on all 19 items together by calculating Chronbach Alpha. Item-to-total correlation has been worked out for each scale item. Chronbach Alpha and item-to-total correlation are shown in Table 5.13. Split half reliability test has also been carried out. Results of the test are as shown in Table 5.14.

Table 5.13: Reliability Analysis of 19-Item Scale (N=30)

Scale Item Number	Scale Item	Chronbach Alpha	Item-to-Total Correlation
	19-Item Scale	.8654	
1	Promotional efforts in category's under-served markets		.3179
2	**Value proposition for low income segments**		**.0825**
3	Sales & distribution efforts in industry's under-served markets		.7300
4	Focus on study of non-customer behaviour		.7848
5	Keeping track of substitutes		.3827
6	Regular analysis of customer spending pattern		.3767
7	Promoting superiority of a product category over substitutes		.5809
8	Making need awakening efforts		.3022
9	Educating customers on product usage		.4954
10	Product design compatibility with end-use environment		.5265
11	Helping community in income improvement efforts		.5323
12	Making products available at low price points		.4011
13	Lowering product usage cost		.3968
14	Innovative approach to credit financing		.5107
15	Austerity and cost reduction as a key result area		.4633
16	Involvement in social projects		.6638
17	Complying with environmental specifications		.3478
18	Periodic assessment of environmental impact of product usage		.4011
19	Educating customers in socially responsible consumption		.4967

Table 5.14: Split Half Reliability Analysis (N=30)

9 Items in part 1	9 Items in part 2
Alpha for part 1 = .7934	Alpha for part 2 = .7738

Findings:

1. Overall Chronbach Alpha of 19-item scale is 0.8654.

2. Scale item number 2 i.e. ‘Suitability of value proposition for low income segments’ has very low item-to-total correlation. Hence, this item has been deleted while calculating market expansion strategy score (MARKEX) of a company.
3. After dropping scale item number 2, overall Chronbach Alpha of 18-item scale further improves to 0.8710. It exceeds 0.7, the limit recommended by Nunnally (1967) [9]
4. Chronbach Alpha of the two halves of 18-item scale also exceed 0.7.

5.2.2 Factor Analysis

As shown in table 5.15 Kaiser-Meyer-Olkin (KMO) test of sampling adequacy and Bartlett’s test of spherecity were carried out before undertaking exploratory factor analysis.

Table 5.15: KMO and Bartlett's Test (N=30)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.615
Bartlett's Test of Sphericity	Approx. Chi-Square	291.939
	df	153
	Significance	.000

Findings:

1. KMO statistic worked out to 0.615 which exceeds the minimum acceptable level of 0.5 recommended by Kaiser and Rice (1974) [10].
2. Bartlette’s test also proved significant which means there are some relationships among variables.

In order to understand the underlying factor structure an exploratory factor analysis was carried out using Principal Component Analysis technique and Varimax method of rotation. Kaiser’s eigen value based criterion indicates 6 factors having eigen value more than 1. However, three of these factors consist of only two variables each. Another approach based on scree test involves the plotting of the eigen values against component numbers. A large break in the plot is taken to indicate the point where factoring should stop. The point where the factors curve above the straight line gives the number of factors, the last factor being the one whose eigenvalue immediately precedes the straight line (Field 2005) [11]. As evident from figure 5.1 four factors can be selected. Results of factor analysis are as shown in Table 5.16 and 5.17.

Figure 5.1: Scree Plot

Table 5.16: Factor Analysis - Total Variance Explained (N=30)

	Initial Eigenvalues			Extraction Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.859	32.551	32.551	5.859	32.551	32.551
2	2.667	14.818	47.369	2.667	14.818	47.369
3	1.817	10.092	57.461	1.817	10.092	57.461
4	1.430	7.943	65.404	1.430	7.943	65.404
5	1.109	6.160	71.564			
6	1.059	5.886	77.450			
7	.891	4.948	82.398			
8	.680	3.780	86.178			
9	.644	3.576	89.754			
10	.434	2.410	92.164			
11	.372	2.065	94.229			
12	.273	1.518	95.747			
13	.202	1.120	96.868			
14	.167	.928	97.795			
15	.146	.812	98.607			
16	.115	.637	99.244			
17	9.055E-02	.503	99.747			
18	4.556E-02	.253	100.000			

Extraction Method: Principal Component Analysis.

Table 5.17: Single Factor Solution and Rotated Component Matrix (N=30)

Scale items	Single factor solution	Component			
		1	2	3	4
1. Promotional efforts in under-served markets	.351	7.403E-03	**.447**	.354	-7.449E-02
2. Sales & Distribution efforts in under-served markets	.760	.300	**.726**	.403	5.760E-02
3. Focus on Non-customer behaviour	.811	**.774**	.369	.166	.138
4. Tracking of substitutes	.461	**.365**	.318	-2.873E-02	.165
5. Monitoring customer spending pattern	.493	.333	6.795E-02	-7.741E-02	**.684**
6. Promoting superiority over substitutes	.622	**.494**	**.476**	.233	-9.914E-02
7. Need awakening communication	.377	5.914E-02	**.827**	-.201	-9.510E-02
8. Educating customers on how best to use a product	.576	**.750**	.220	-.250	.182
9. Designing products keeping mind consumption environment	.614	**.758**	1.796E-02	9.714E-02	.216
10. Participation in income generation efforts for community	.629	.109	**.691**	.178	.292
11. Offering products at low price points	.456	-7.459E-03	.253	**.912**	-4.220E-02
12. Reducing product usage cost	.471	.180	5.144E-02	**.858**	2.471E-02
13. Innovative approach to financing	.577	**.743**	8.475E-03	.308	-3.638E-02
14. Austerity & cost reduction	.560	1.553E-02	.146	**.667**	.557
15. Participation in social projects	.728	.196	**.718**	.260	.286
16. Complying with environment specifications in operations	.450	-2.219E-02	.140	.149	**.832**
17. Environment impact assessment of products	.504	.540	-.133	-9.502E-02	**.673**
18. Educating customers to be socially responsible while using product	.593	**.533**	.152	-2.007E-02	**.448**

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
Rotation converged in 9 iterations.

5.2.2.1 Factor description

For a sample of fewer than 100, factor loading has to be greater than 0.3 to be considered statistically significant (i.e. the factor accounts for at least 9% of variation in the variable). Decision about variables that have significant loadings (shown in bold in table 5.17) on more than one factor needs to be made on the basis of purpose of study as well as judgment as to whether mixed pattern of loading makes sense (Churchill Jr and Iacobucci 2007) [12]. Kohli, Jaworski and Kumar (1990) observe that from measurement theory point of view there is no intrinsic need to eliminate such variables that load on more than one factor [13]. Variable evaluation should be both data driven as well as theory driven (Mahat 2008) [14]. Scale items that cross load on more than one factor, including such items that have a loading difference of less than 0.1 on two factors (e.g., Scherer et al. 2008) [15], have been retained by scholars if there is a theoretical support for such scale items (e.g., Shaik, Lowe and Pinegar 2006) [16] or if dropping an item leads to lowering of internal consistency of the scale (e.g., Gartner, Shaver and Gatewood 2000, Helfrich et al. 2007) [17,18]. Some scholars argue that increasing variables when number of factors remains constant will actually improve pattern reproduction for the same sample size (Velicer and Fava 1998) [19].

Table 5.29 shows that variables 1, 4, 6 and 18 have a cross loading difference of less than 0.1. However, all these variables are considered important from conceptual perspective of market expansion strategy. A one factor solution shows that all variables have a factor loading in excess of 0.3 on single factor, the lowest being variable 1 with a loading of 0.351 which means single factor accounts for 12% variation in this variable. This indicates an underlying common construct. This is further evident from the fact that Chronbach Alpha of 18-item scale is reasonably high i.e. 0.8701. Further improvement in Chronbach Alpha is not possible by dropping any of the variables excepting variable 1. However dropping variable 1 leads to a negligible (0.0022) improvement in Alpha value. Hence, it was decided to retain all the scale items. Highest significant primary factor loadings are used to assign variables to factors, except in case of variables 6 and 18. Variable 6 and 18 are assigned to factor 2 and 4 respectively because of better theoretical fit.

Study of non-consumer behaviour (variable 3) and tracking of substitute products (variable 4), helps a company in designing products that can suit customer competence level and end-use environment (variable 9). Variable 8 corresponds to customer education on how best to use a product. In developing countries like India where a large part of population does not have access to banking, innovative financing options (variable 13) like rotating credit, microfinance etc play important role in improving purchasing ability. Though this option is generally used to provide finance to end customers of consumer durables, some companies use it to meet financing needs of retailers in consumer durable as well as non-durable sectors. Variables 3, 4, 8, 9 and 13 seem to be pointing towards a common construct which can be described as 'improving consumption and purchasing ability.'

Variables 1 and 2 correspond to promotional and sales & distribution efforts in relatively untapped market segments. Variables 6 and 7 respectively correspond to promotional campaigns to establish superiority of a product category over substitutes and need awakening efforts. Variable 10 corresponds to participation of a company in some sort of income generation activities. Variable 15 corresponds to different types of social projects undertaken by a company.

Sales & distribution reach is more of a hygiene factor as far as improvement in purchasing ability is concerned. But access and availability of a product has another important fall out in higher visibility. Likelihood of purchase increases as products become more visible and available to consumers. Scholars report that market presence reflecting product visibility, product promotions or availability is a major determinant of the sales of new durables. The market presence variable captures the effect of interest and excitement among consumers and the opportunity to observe the product (Golder and Tellis 1998) [20]. A respondents in an automobile company made an important observation “though rural customers prefer buying two-wheelers from near by towns and cities, they expect after sales service to be available in their village it self. Otherwise they are reluctant to buy.” This means widespread sales & distribution efforts help in ‘improving willingness of customers to buy a product.’

As discussed in previous chapters scholars have highlighted need for community based initiatives and involvement in social projects which create positive associations with a company’s brand, raise switching costs and promote micro market activity. Some projects like free dental check up camps, community water purification systems help in educating customers and also in raising their aspiration level. Income generation activities may help in convincing potential customers to spend a larger share of their wallet on a product category. Pure corporate social responsibility initiatives also help in creation of goodwill. This in turn helps a company in gaining larger share of an expanding market. Hence, variables 1, 2, 6, 7, 10 and 15 seem to be pointing towards a common construct which can be described as ‘improving willingness to buy a product.’

Variables 11 and 12 respectively correspond to low price points and low total usage cost. Variable 14 corresponds to austerity and cost reduction efforts of a company. All these variables seem to point towards a factor which can be termed as ‘creating affordability’. Variable 5 corresponds to tracking of customer spending pattern. Since number of product categories which compete for a customer’s wallet are increasing, by keeping a track of customer spending pattern a company can monitor changes in demand pattern and take necessary action. Variables 16 and 17 correspond to environmental and social sustainability issues. Variable 18 corresponds to customer education in promoting socially responsible consumption. Besides environmental and social sustainability a company also needs to look at sustainability of increased demand. Hence, variables 5, 16, 17 and 18 seem to be pointing towards a factor which can be termed as ‘improving sustainability’.

Table 5.18 shows scale items corresponding to the four components of market expansion strategy: (1) improving consumption and purchasing ability, (2) improving willingness to buy, (3) creating affordability and (4) improving sustainability. There exists theoretical support for the identified factors.

Coefficient alpha value has been worked out for each of the extracted components. As shown in Table 5.18 each of these values exceeds 0.7, the threshold suggested by Nunnally.

Table 5.18: Reliability Analysis of Extracted Components (N=30)

Variable	Chronbach Alpha	Item-to-Total Correlation
Improving consumption and purchasing ability	.7905	
Focus on study of non-customer behaviour		.7299
Keeping track of substitutes		.3410
Educating customers on product usage		.5861
Product design compatibility with end-use environment		.6398
Innovative financing facility		.5711
Improving willingness to buy	.8089	
Promotional efforts in industry’s underserved markets		.3835
Sales and distribution efforts in industry’s underserved markets		.7962
Promoting superiority of a product category over substitutes		.4763
Making need awakening efforts		
Helping community in income improvement efforts		.5178
Involvement in social projects		.5977
Creating affordability		.6753
Making products available at low price points	.8303	
Lowering product usage cost		.7743
Austerity and cost reduction as a key result area		.6969
Improving sustainability		.6224
Regular analysis of customer spending pattern	.7416	
Complying with environmental specifications		.5509
Periodic assessment of environmental impact of product usage		.5153
Educating customers in socially responsible consumption		.6654
		.5204

5.2.3 Construct Validity

As discussed in the research methodology construct validity has been checked through convergent and discriminant validity.

5.2.3.1 Convergent Validity

Convergent validity is indicated by the high Chronbach Aplha (.8710) attained by considering all the 18 scale items together and one-factor analysis (eigenvalue =5.9, 32.6% variance explained). Each of the four extracted factors also has Chronbach alpha value exceeding 0.7.

As discussed in the research methodology description of blue ocean strategy was used as 'other' measure of the same construct for performing convergent validity check. As shown in table 5.19 convergent validity has been ascertained from Pearson's correlation coefficient of 18-item market expansion strategy scale score with the ratings given by respondents on similarity of their company's strategy with blue ocean strategy.

Table 5.19: Correlation of Market Expansion Strategy & Its Components with Blue Ocean Strategy (BOS) (N=30)

Scale	Blue Ocean Strategy Description
MARKEX (18 Item score)	.753*
Improving consumption and purchasing ability	.508*
Improving willingness to buy	.672*
Improving affordability	.570*
Improving sustainability	.466*

* Correlation is significant at the 0.01 level (2-tailed).

Findings:

1. There is a high correlation between 18-Item scale and the ratings given by respondents on similarity of their company's strategy with blue ocean strategy.
2. The four sub-scales also show a significant correlation with blue ocean strategy description. This indicates convergent validity of the scale.

5.2.3.2 Discriminant Validity

A market expansion strategy scale should be able to discriminate between a company which predominantly uses market expansion strategy and a company which predominantly targets existing customer base of a product category. Accordingly description of two companies A and B have been developed. Company A primarily targets existing customer base of the industry and tries to gain market share in the replacement and up-gradation demand where as company B tries to increase market potential for product category as a whole. Respondents were asked to distribute 100 points between the two companies depending on the similarity between their company's strategy and the two companies described in the questionnaire as A and B. Correlation coefficient has been worked out between scale scores and scores of company B.

Table 5.20: Correlations of Market Expansion Strategy & Its Components with Company Profile (N=30)

Scale	Company B Description
MARKEX (18 Item score)	.533*
Improving consumption and purchasing ability	.458**
Improving willingness to buy	.570*
Improving affordability	.395**
Improving sustainability	.063

* Correlation is significant at the 0.01 level (2-tailed), ** Correlation is significant at the 0.05 level (2-tailed).

Findings

1. A significant positive correlation has been observed between market expansion score (MARKEX) and predominantly market expansion oriented company (company B) description. This shows that the scale does discriminate between a company which primarily practices market expansion strategy and a company which doesn't.
2. As shown in table 7, out of the four subscales, first three show a significant positive correlation with the description of a predominantly market expansion oriented company.

Discussion:

In summary, evidence of convergent and discriminant validity has been found and thus there exists support for construct validity of market expansion strategy scale and also its three subscales. A subscale on sustainability passes convergent validity test but it fails discriminant validity test. It can be argued that higher score on sustainability component may not lead to increase in the extent of market expansion. But at the same time without adequately addressing socio-environmental concerns a market expansion strategy may become unsustainable in the long run. The McKinsey Quarterly in its global survey on impact of societal issues reports that corporate executives expect the environment, including climate change, to affect shareholder value far more than any other societal issues during next five years (Bonini, Greeny, and Mendonca 2007) [21]. Irrespective of the type of strategy that a company follows, sustainability is likely to become an essential component in future. Since market expansion strategy leads to increased consumption, socio-environmental issues become all the more critical. Hence it was decided to work out two different market expansion scores (MARKEX) for each product category: one without considering sustainability component and other considering sustainability component. When sustainability component is dropped, the market expansion scale consists of 14 scale items. As shown in Tables 5.21 and table 5.22 convergent and discriminant validity check has been repeated for this 14-item scale.

Table 5.21: Correlation of Market Expansion Strategy (without considering sustainability component) with Blue Ocean Strategy (BOS) (N=30)

Market expansion score	Blue Ocean Strategy Description
MARKEX (14 Item score)	0.744*

* Correlation is significant at the 0.01 level (2-tailed),

Table 5.22: Correlations of Market Expansion Strategy (without considering sustainability component) with Company Profiles (N=30)

Market expansion score	Company B Description
MARKEX (14 Item score)	.620*

* Correlation is significant at the 0.01 level (2-tailed)

A market expansion scale without considering sustainability component has better construct validity than a scale considering sustainability component.

5.4 Extent of Market Expansion Efforts

Analysis of extent of market expansion efforts has been carried out at the level of overall market expansion strategy as well as component level. The analysis is presented separately for consumer durable and non-durable categories. Mean scores of durable and non-durable categories have been compared.

5.4.1 Market Expansion Score of Consumer Durable Categories

A market expansion score has been computed as a simple average of ratings on market expansion scale. As shown in tables 5.23 & 5.24 two scores have been computed one with sustainability component (on 18-item scale) and other without sustainability component (on 14-item scale).

Table 5.23: **Market Expansion Score with Sustainability Component - Durables (N =15)**

Market Expansion Score (on 7-point scale)	Number of responses	Percentage	Cumulative Percentage
2.28	1	6.7	6.7
3.83	1	6.7	13.3
4.11	4	26.7	40.0
4.72	1	6.7	46.7
5.11	1	6.7	53.3
5.39	1	6.7	60.0
5.44	1	6.7	66.7
5.67	1	6.7	73.3
5.72	1	6.7	80.0
5.78	1	6.7	86.7
5.94	1	6.7	93.3
6.22	1	6.7	100.0
Mean = 4.8360, Median = 5.1100			

Table 5.24: **Market Expansion Score without Sustainability - Durables (N=15)**

Market Expansion Score (on 7-point scale)	Number of responses	Percentage	Cumulative Percentage
2.36	1	6.7	6.7
3.36	1	6.7	13.3
3.57	1	6.7	20.0
3.71	1	6.7	26.7
3.79	1	6.7	33.3
4.00	1	6.7	40.0
4.64	1	6.7	46.7
4.93	1	6.7	53.3
5.21	1	6.7	60.0
5.36	1	6.7	66.7
5.50	1	6.7	73.3
5.57	1	6.7	80.0
6.00	1	6.7	93.3
6.14	1	6.7	100.0
Mean = 4.6667, Median = 4.9300			

If a market expansion score of 4 is considered as midpoint on a 7 point scale, only 20% of the companies score less than the midpoint. However, if market expansion score is calculated without considering sustainability component, % of companies failing to reach mid point score rises to 40%.

5.4.2 Component wise Scores in Consumer Durable Category

Tables 5.25, 5.26, 5.27, & 5.28 show component wise scores in consumer durable category.

Table 5.25: **Consumption & Purchasing Ability - Consumer Durables (N = 15)**

Consumption & Purchasing Ability Score (on 7-point scale)	Number of responses	Percentage	Cumulative Percentage
2.20	1	6.7	6.7
2.80	1	6.7	13.3
4.40	1	6.7	20.0
4.60	3	20.0	40.0
5.20	1	6.7	46.7
5.40	3	20.0	66.7
5.80	1	6.7	73.3
6.00	1	6.7	80.0
6.20	1	6.7	86.7
6.60	2	13.3	100.0
Mean = 5.0533, Median = 5.4000			

Table 5.26: **Willingness Improvement - Consumer Durables (N = 15)**

Willingness Improvement Score (on 7-point scale)	Number of responses	Percentage	Cumulative Percentage
1.50	1	6.7	6.7
2.17	1	6.7	13.3
2.67	1	6.7	20.0
3.33	1	6.7	26.7
3.50	1	6.7	33.3
3.67	2	13.3	46.7
4.17	1	6.7	53.3
4.50	1	6.7	60.0
4.83	1	6.7	66.7
5.00	1	6.7	73.3
5.33	2	13.3	86.7
5.67	1	6.7	93.3
6.00	1	6.7	100.0
Mean = 4.0893, Median = 4.1700			

Table 5.27: Affordability Improvement -Consumer Durables (N = 15)

Affordability Improvement Score (on 7-point scale)	Number of responses	Percentage	Cumulative Percentage
1.67	1	6.7	6.7
3.00	1	6.7	13.3
3.33	1	6.7	20.0
3.67	1	6.7	26.7
4.33	1	6.7	33.3
5.33	1	6.7	40.0
5.67	1	6.7	46.7
6.00	3	20.0	66.7
6.33	3	20.0	86.7
6.67	1	6.7	93.3
7.00	1	6.7	100.0
Mean = 5.1773, Median = 6.0000			

Table 5.28 : Sustainability Improvement - Consumer Durables (N = 15)

Sustainability Improvement Score (on 7-point scale)	Number of responses	Percentage	Cumulative Percentage
2.00	1	6.7	6.7
4.00	1	6.7	13.3
4.50	1	6.7	20.0
5.00	2	13.3	33.3
5.25	1	6.7	40.0
5.50	2	13.3	53.3
6.00	2	13.3	66.7
6.25	2	13.3	80.0
6.50	1	6.7	86.7
6.75	1	6.7	93.3
7.00	1	6.7	100.0
Mean = 5.4333, Median = 5.5000			

Findings:

1. As regards consumption and purchasing ability improvement efforts are concerned only 20% consumer durable companies score less than 4 on a 7 point scale.
2. Consumer durable companies are lagging behind in terms of willingness improvement efforts. Almost 50% of the companies score less than 4 on a 7 point scale on this component.

3. In terms of affordability improvement efforts less than 30% companies fail to reach midpoint on 7 – point scale.
4. Of all the components of market expansion strategy consumer durable companies seem to be performing best on sustainability. More than 90% companies score more than 4 on a 7 – point scale.

5.4.3 Market Expansion Score of Consumer Non-durable Categories

As shown in table 5.29 & 5.30 two market expansion strategy scores have been computed one with sustainability component (on 18-item scale) and other without sustainability component (on 14-item scale).

Table 5.29: Market Expansion Score with Sustainability - Non-durables (N = 15)

Market Expansion Score (on 7-point scale)	Number of responses	Percentage	Cumulative Percentage
3.44	1	6.7	6.7
3.50	1	6.7	13.3
3.67	1	6.7	20.0
4.11	1	6.7	26.7
4.22	2	13.3	40.0
4.33	2	13.3	53.3
4.61	1	6.7	60.0
4.88	1	6.7	66.7
5.22	1	6.7	73.3
5.39	1	6.7	80.0
5.61	1	6.7	86.7
6.06	1	6.7	93.3
6.17	1	6.7	100.0
Mean = 4.6507, Median = 4.3300			

Table 5.30: **Market Expansion Score without Sustainability - Non-durables (N = 15)**

Market Expansion Score (on 7-point scale)	Number of responses	Percentage	Cumulative Percentage
3.07	1	6.7	6.7
3.29	1	6.7	13.3
3.64	1	6.7	20.0
3.79	1	6.7	26.7
4.07	1	6.7	33.3
4.29	2	13.3	46.7
4.79	1	6.7	53.3
5.00	1	6.7	60.0
5.07	1	6.7	66.7
5.21	1	6.7	73.3
5.36	1	6.7	80.0
5.43	1	6.7	86.7
5.79	1	6.7	93.3
6.43	1	6.7	100.0
Mean = 4.6347, Median = 4.7900			

Like in case of consumer durables, in non-durable sample 20% companies score less than 4 on market expansion scale. Here again the percentage of companies failing to reach midway mark on rises to around 30% on dropping sustainability component.

5.4.4 Component wise Scores in Consumer Non-durable Category

Tables 5.31,5.32,5.33 & 5.34 show component wise scores in consumer durable category

Table 5.31: **Consumption & Purchasing Ability Improvement - Non-durables (N = 15)**

Consumption & Purchasing Ability Improvement Score (on 7-point scale)	Number of responses	Percentage	Cumulative Percentage
1.80	1	6.7	6.7
2.80	2	13.3	20.0
3.00	2	13.3	33.3
3.20	1	6.7	40.0
3.40	1	6.7	46.7
3.80	1	6.7	53.3
4.20	1	6.7	60.0
4.40	1	6.7	66.7
4.60	1	6.7	73.3
5.00	2	13.3	86.7
5.20	1	6.7	93.3
6.40	1	6.7	100.0
Mean = 3.9067, Median = 3.9067			

Table 5.32: **Willingness Improvement - Consumer Non-durables (N = 15)**

Willingness Improvement Score (on 7-point scale)	Number of responses	Percentage	Cumulative Percentage
2.33	1	6.7	6.7
2.83	1	6.7	13.3
3.33	1	6.7	20.0
3.50	1	6.7	26.7
3.67	1	6.7	33.3
4.17	1	6.7	40.0
4.50	1	6.7	46.7
4.67	1	6.7	53.3
5.17	2	13.3	66.7
5.50	1	6.7	73.3
5.83	3	20.0	93.3
6.17	1	6.7	100.0
Mean = 4.5667, Median = 4.6700			

Table 5.33: **Affordability Improvement - Consumer Non-durables (N = 15)**

Affordability Improvement Score (on 7-point scale)	Number of responses	Percentage	Cumulative Percentage
4.00	1	6.7	6.7
4.67	1	6.7	13.3
5.67	3	20.0	33.3
6.00	4	26.7	60.0
6.33	1	6.7	66.7
6.67	4	26.7	93.3
7.00	1	6.7	100.0
Mean = 5.9793, Median = 6.0000			

Table 5.34 : **Sustainability Improvement - Consumer Non-durables (N = 15)**

Sustainability Improvement Score (on 7-point scale)	Number of responses	Percentage	Cumulative Percentage
2.75	1	6.7	6.7
3.25	1	6.7	13.3
3.50	1	6.7	20.0
3.75	1	6.7	26.7
4.00	1	6.7	33.3
4.25	1	6.7	40.0
4.50	1	6.7	46.7
4.75	2	13.3	60.0
5.25	3	20.0	80.0
5.75	1	6.7	86.7
6.50	1	6.7	93.3
7.00	1	6.7	100.0
Mean = 4.7000, Median = 4.7500			

Findings:

1. On consumption & purchasing ability improvement component half the sample of non-durable companies fails to score 4 or less.
2. Unlike in case of durables, the non-durable companies fare better on willingness improvement component. More than 60% companies reach 4 & above on a 7-point scale.
3. Non-durable companies do their best on affordability component. Entire sample score at least 4.
4. On sustainability component more than 70% of the sample scores 4 and above.

5.4.5 Comparison of Market Expansion Efforts of Durable and Non-durables

Table 5.35 shows comparison of market expansion scores of consumer durable & non-durable categories.

Table 5.35: t – Test for Pairs of Average Scores in Durable & Non-durable Categories

Pair Description	Mean	t	df	Significance (2-tailed)
Market Expansion Score with sustainability component (MARKEX)	Durables = 4.8360 Non-durables = 4.6507	.652	14	.525
Market Expansion Score without sustainability component	Durables = 4.6667 Non-durables = 4.6347	1.568	14	.139
Consumption & Purchasing Ability Improvement Score	Durables = 5.0533 Non-durables = 3.9067	2.768	14	.015
Willingness Improvement Score	Durables = 4.0893 Non-durables = 4.5667	-1.210	14	.246
Affordability Improvement Score	Durables = 5.1773 Non-durables = 5.9793	-3.113	14	.008
Sustainability Improvement Score	Durables = 5.4333 Non-durables = 4.7000	1.568	14	.139

Findings:

1. There is no significant difference between average market expansion scores (with and without sustainability component) of consumer durable (4.8/ 4.67 on 7-point scale) and non-durable (4.65/ 4.63 on 7-point scale) categories.

2. Consumer durable categories have a higher average score (5.05 on 7-point scale) on consumption & purchasing ability improvement component than non-durable categories (3.91 on 7-point scale).

3. Consumer non-durable categories (5.98 versus 5.18 on 7 point scale) have a higher average score on affordability improvement component.

5.4.6 Ranking of Companies and Categories on the basis of Market Expansion Score

Table 5.36 shows ranking of companies and categories on the basis of market expansion scores (MARKEX). While calculating market expansion score for the purpose of ranking sustainability component has not been considered. As such the market expansion score is mean rating on 14-item scale.

Table 5.36: Ranking of Companies and Categories on the Basis of Market Expansion Score without Sustainability Component

Rank	Company & category code in durables	MARKEX	Company & category code in non-durables	MARKEX
1	D1	6.11	N1	6.43
2	D2	6.00	N11	5.79
3	D5	5.86	N7	5.43
4	D11	5.57	N10	5.36
5	D3	5.50	N6	5.21
6	D12	5.36	N14	5.07
7	D7	5.21	N4	5.00
8	D4	4.93	N12	4.79
9	D6	4.64	N2	4.29
10	D13	4.00	N5	4.29
11	D9	3.79	N3	4.07
12	D15	3.71	N8	3.79
13	D14	3.57	N15	3.64
14	D10	3.36	N13	3.29
15	D8	2.36	N9	3.07

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CHAPTER SIX

METHODS OF MARKET EXPANSION

This chapter begins with market scope definition of sampled companies. This discussion is divided in four parts: two-wheelers, consumer durables, consumer non-durables and mobile services. Methods of market expansion are discussed with respect to the factors identified in factor analysis: consumption & purchasing ability improvement, willingness improvement, affordability improvement and sustainability improvement. The chapter is primarily based on depth interviews of the respondents. Where ever necessary the discussion is interspersed with secondary data on sectors/ companies and market.

6.1 Market Scope Definition of Companies

6.1.1 Two-wheelers

Two-wheeler industry in India had small penetration level of 15.2 % in 2008, up from 11.7% in 2001. But due to large population base effect as shown in following table 6.1 (approximately 21 crore households), a penetration level of 15 % translates into a large existing customer base of more than 3 crore two-wheelers (without considering multiple unit ownership), bought over a period of time. Figure 6.1 shows change in penetration level of two-wheelers over a period of time.

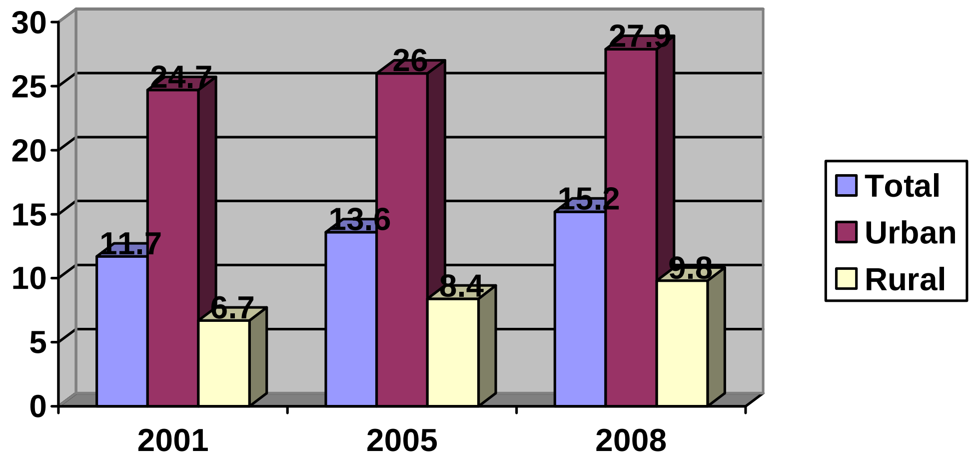
Table 6.1: Estimates of Households and Population

Particulars	All India	Rural	Urban
Households (million)	205.9	144.5	61.4
Population (million)	1,027	732	295

Source: The Max-NCAER India Financial Protection Survey 2008 in *Businessworld* The Marketing White Book 2009 -10, p. 38

This existing customer base forms a lucrative target for replacement and up-gradation demand. Besides, there is a market for multiple two-wheeler ownership.

Figure 6.1: Penetration Level of Two-wheelers In India

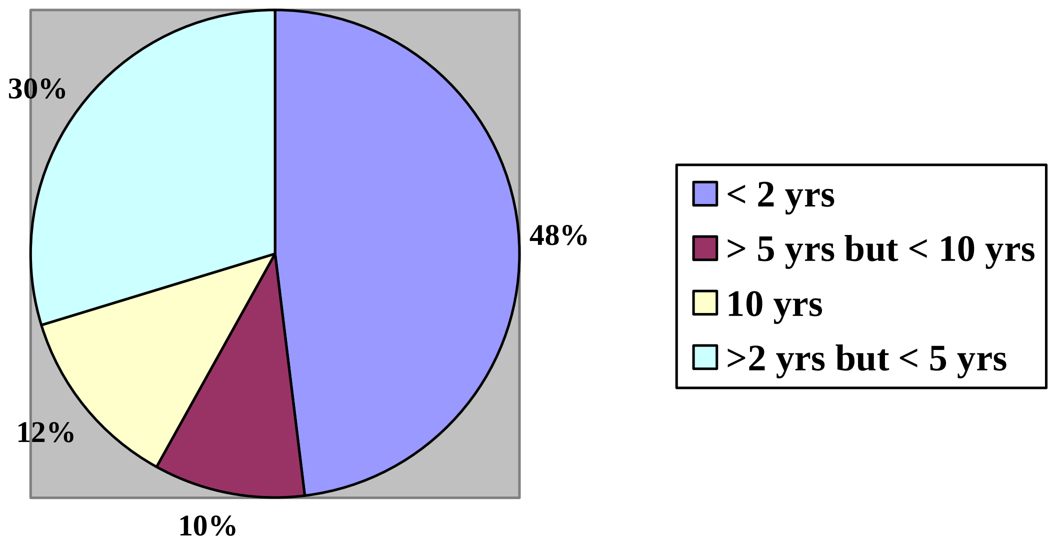


Source:
2001 data: Census of India, in *Businessworld* The Marketing White Book 2005, p.32
2005 data: IRS 2005, in Kashyap, P. and S. Raut. (2007), *The Rural Marketing Book*, New Delhi: Biztantra, p. 329
2008 data: IRS 2008 R2, *The Mudra Media Factbook 2009*. Available: http://www.slideshare.net/slashvelandy/the-mudra-media-factbook-29-01-2009?from=email&type=share_slideshow&subtype=slideshow

As shown in figure 6.2, almost half of the motorcycles plying on Indian roads were less than 2 years old in 2005. One of the respondents says because the replacement cycle has come down, it has become a new source of demand for companies (D7). At least three of the sampled companies said they were primarily targeting replacement and up-gradation market (D7, D10, D8). Out of these three, one company increased its focus on replacement and up-gradation demand since 2004. Though this company continues to push its high end products aggressively in last one and half year it has also developed new products aimed at first time buyers (D7).

The companies which are trying to tap replacement or up-gradation buyers claim that they offer better value propositions than competitor brands. For instance, one of the respondents says one of their products offers 125 cc benefits at 100 cc price. Another product which is targeted at urban customers, offers power equivalent of a competitor brand and yet it offers best mileage in its class (D10). Another respondent makes an interesting observation that a person who has already used competitor's product as a first time buyer can better appreciate superiority (features) of his company's products (D7).

Figure 6.2: Average Age of Motorcycles In 2005



Source: Hansa Research and MRUC, IRS 2005 in *Business Today*, "Statistics, No Lies", 3rd July 2005, p.20.

Even the companies with high market expansion score target replacement and up-gradation demand (D1, D5). One of the companies has a very large customer base. It runs world's largest customer relationship management (CRM) programme. This company also tries to gain from demand for multiple unit ownership by targeting college going male and female members of existing two-wheeler owning families (D1).

Of the six two-wheeler companies which participated in the research, three have strong emphasis on under penetrated rural markets (D1, D5, D7). One of the companies has a special rural vertical with an objective of reaching out to every village and every house (D1). Another company has set a similar target of selling one of its products in every village (D5). Rests of the companies have also targeted at least semi-urban markets. One of the respondents observed that two-wheeler market expansion took place when B and C class towns were targeted in a big way through new models first mopeds and later 4 stroke bikes, which offered relatively lower price and better fuel economy respectively (D10).

6.1.2 Consumer Durables

Refrigerators and TV had a penetration level of 13.3 % and 46.6% respectively in 2008. As shown in figures 6.3 and 6.4 in between 2005 and 2008, refrigerator penetration went up by 1.5% as against 4% of TV. In between a period of 2001 and 2008, TV penetration went up by a massive 15 %. During this period, TV penetration in urban and rural markets increased by 12.7% and 14.7%. Though in % terms this difference is small, in absolute terms the number of TVs sold in rural India were several times more than in urban markets because number of rural households is 2.5 times that of urban India. This means consumer electronics companies have targeted first time buyers in rural India in a big way in last decade.

Figure 6.3: Penetration Level of TV (any)

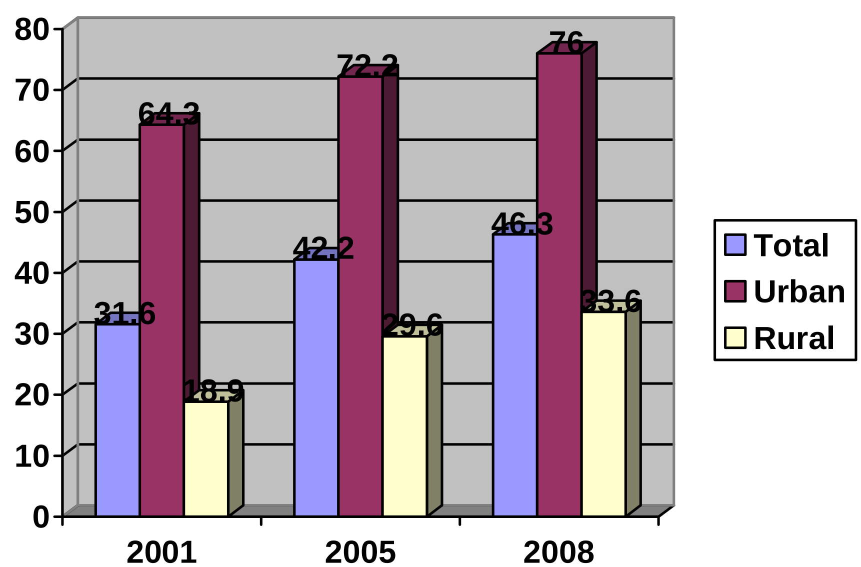
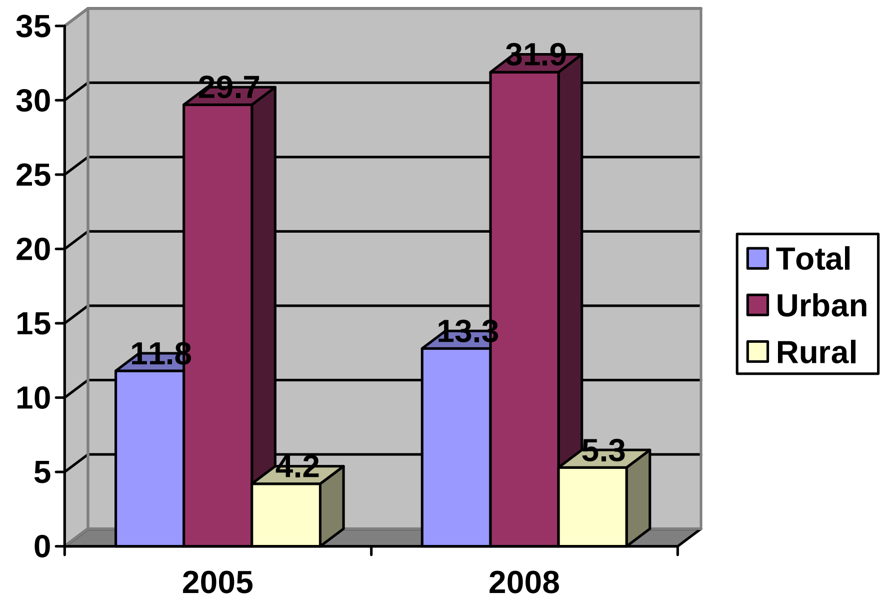


Figure 6.4: Penetration Level of Refrigerators



Source:
2001 data: Census of India, in *Businessworld* The Marketing White Book 2005, p.32
2005 data: IRS 2005, reproduced in Kashyap, P. and S. Raut. (2007), Ibid., p. 329
2008 data: IRS 2008 R2, *The Mudra Media Factbook 2009*.

This has been confirmed in the research. Out of seven consumer durable companies in the sample, only two had low focus on rural markets (D14, D15). But of late one of these companies which used to be a pure premium segment player has started targeting middle and high income segments (annual income Rs. 5 lakh as per this company's definition) in semi-urban and rural segments (D15). Respondent from the other company which has lower interest in rural markets cites commoditization of CTV market as one of the prime reasons. He adds rural markets are heterogeneous in terms of per capita income and road infrastructure affecting logistics cost (D14).

One respondent says that his company does micro market planning which involves mapping each geographic sub segment to isolate pockets of untapped or under-served markets. Semi-urban and rural sector contributes close to 48 % in the overall turnover of this company.

Rural market accounts for almost 60% of new CTV buyers for this company. While targeting rural markets, the company is equally focused on urban markets for its replacement and up-gradation demand in an aggressive manner especially since 2006 (D3).

Another company, which considers it self to be a high end technology driven company started targeting semi-urban markets from 2001 and from 2004 it increased its rural focus (D4). Another consumer durable company after being hit by lower profits in 2000, realized that in order to maintain its leadership position in consumer electronics market it needs to expand the market rather than go after market shares from existing players, which the company thought was more expensive. The premium image of some of the Indian brands was affected because of better quality and new features offered by competitors and snob value of foreign brands (D9). During this period one more company started looking at hitherto neglected low income segments. It designed a no frills product under a new brand name to protect erosion in equity of original brand. This product was a grand success (D13). Another company places almost equal focus on market expansion as well as up-gradation. For up-gradation demand, it uses database marketing approach. The company redefined its target market from socio-economic classes (SEC) A, B and C to SEC D as well in 2004 (N11). SEC A to E are socioeconomic classes in urban India based on education and occupation of chief wage earner in the family. A1 represents upper-most socio economic class while E2 represents lowest socio-economic class. SEC R1 to R4 are socioeconomic classes in rural India based on education of chief wage earner and type of house (Pucca, Semi Pucca, Kuchha). R1 represents upper-most socio economic class while R4 represents lowest socio-economic class.

Scenario in water purifier category is quite different. Respondent from one of the companies informs that only 6.5 million households own an online (running) water purifier and 3 million households own a storage water purifier. Market for low end storage water purifiers like Eureka Forbes' Aqua Sure, HUL's Pure it and Ion Exchange's Zero B Suraksha constitutes 20 % of overall water purifier market of Rs 700 Cr. But in 2008, rate of growth of these low end water purifiers was 100% as against 20% of other water purifiers. But only 30% socio-economic class (SEC) A and B households in urban areas own a water purifier (water filters excluded). This respondent syas that though his company is targeting rural markets, these are more of corporate social responsibility (CSR) initiatives. It also considers rural initiatives as an investment in future since rural population is migrating to urban areas in a big way (D2).

At segment level companies have been targeting only SEC A, B and C segments but at individual customer level, many companies are targeting first time buyers in a big way. On the other hand a few companies like Kent are exhorting existing owners of competitor brands to upgrade to its technologically advanced water purifier through strong advertising campaigns.

6.1.3 Consumer Non-durables

As shown in figures 6.5, 6.6 and 6.7 penetration levels of consumer non-durables are very high. Of the 12 consumer non-durable companies in the sample, 10 reported that at least 40 % of their sale comes from semi-urban and rural markets. In fact 3 companies reported that 75 % or more of their sales comes from these markets (N13, N6, N 7, N12). One of the respondents says being a regional player his company operates within a smaller area but within that it goes deeper. He claims that his company is present even in such places where market leader HUL is not (N12). Another respondent says in terms of distribution and reach his company is ahead of HUL in at least 8 states (N6).

Figure 6.5: Penetration Level of Bath Soaps

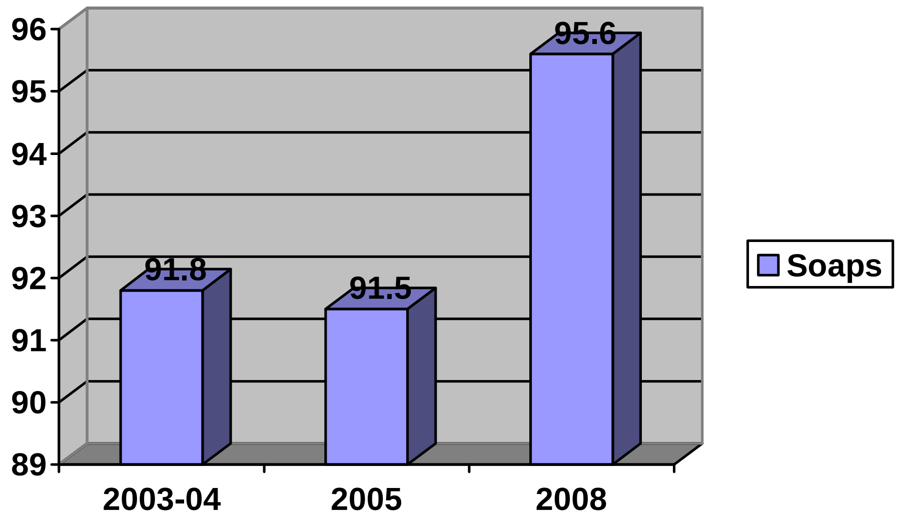


Figure 6.6: Penetration Level of Oral Care Products

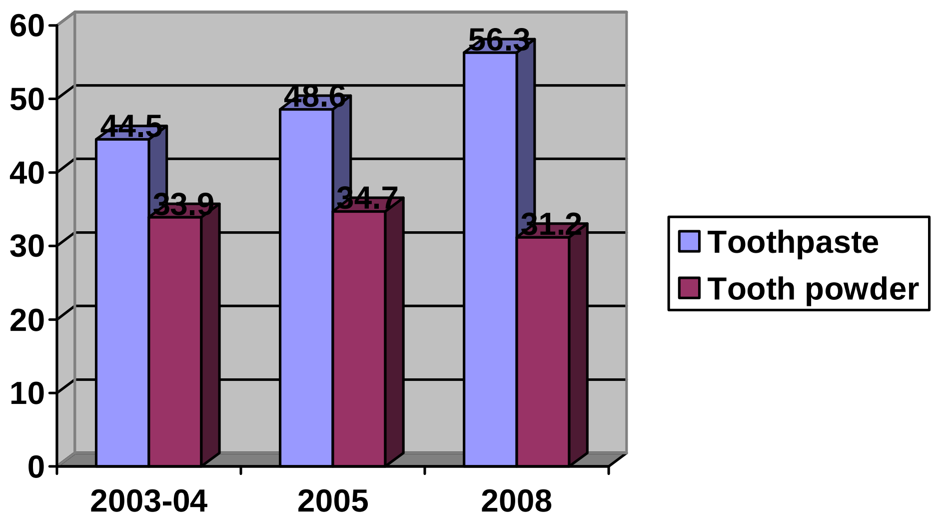
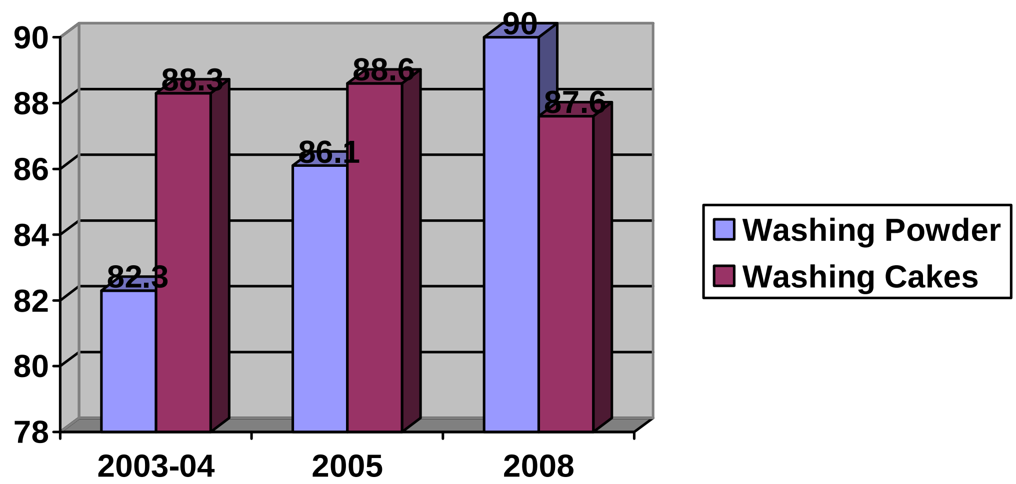


Figure 6.7: Penetration Level of Washing Products



Source:
2003-04: IRS 2003-04 R1, in *Businessworld* The Marketing White Book 2005
2005 data: IRS 2005, in Kashyap, P. and S. Raut. (2007). Ibid.
2008 data: IRS 2008 R2, *The Mudra Media Factbook 2009*.

Table 6.2 shows per capita consumption of non-durable categories India and other countries.

Table 6.2: Per Capita Consumption of Non-Durables in India & Other Countries

Product	India	Brazil	USA
Personal Wash (Kg)	0.5	1.1	2.00
Fabric Wash (Kg)	2.6	7.2	13.1
Toothpaste (ml)	40	358	299

Source: HLL presentation at DSP Merrill Lynch Conference, Cochin, Feb. 2002. Available: http://www.hul.co.in/investor/presentation_index.asp

Not only with respect to other countries but even within India there is a huge difference between per capita consumption of non-durables in urban and rural areas. This is shown in table 6.3. One of the stated strategic objectives behind HUL's Project Shakti (women led direct marketing network in rural markets) is to influence per capita consumption of Unilever categories (FMCG) in rural areas which is 33% of urban levels. (Srinivasan 2008) [1]

Table 6.3: Per Capita Consumption of Consumer Non-durables (Rural & Urban)

Product	Total (gm)	Urban (gm)	Rural (gm)
Toilet Soap	439	887	266
Washing Powder	1331	2523	872
Detergent Cake	1057	2138	641
Toothpaste	76	191	32
Toothpowder	25	51	15

Source: ORG for the period 2002-03 in Kashyap and Raut 2007, Ibid. p. 135.

At least in four of the 12 sampled cases concerted efforts are being made to increase the per capita usage of respective categories (N10, N11, N6 & N7). One of the company's stated purpose of existence is to improve the lives of people. Hence the respondent from this company says there is no question of not trying to expand the market. Though this company withdrew from rural markets in late 90s for low profit margin reasons, it has come back now with Rs 1 sachet (N10). Another company had set up an internal task force to look into the growth opportunities in rural market. Currently 38 per cent of its sales comes from rural markets. To increase the contribution of rural markets the company has launched smaller sizes of this product at a price point of Rs 5. It has also set a target of more than doubling its reach in small towns and villages in next three years. The flagship brand of this company is worth Rs 500 Cr and it is a top brand in five states. (N11).

Respondent from another company which is targeting semi-urban and rural markets in a big way says 55% of the soap market is urban and 45% is rural despite the fact that rural markets account for 70% of India's population. He points out that there is large scope for market expansion. But 45% rural sales comes from 6 lakh plus villages as against 55% from 5000+ towns in urban areas. He adds naturally cost of distribution is high in rural areas. According to him each market has different characteristics. For instance, Punjab needs large packs because for Punjabis bigger is better, while in UP smaller is better. Rajasthan and Gujrath are bargain hunter states. In Tamil Nadu expensive means better. No wonder most companies have regional strengths (N6). Respondent from another company which is located in south India says it was natural for his company to develop strong distribution network in south India. 75% of its sale comes from there. He says another reason for their focus is that south India is a perfume seeking market which suited his company's product mix. But now his company is trying to expand into north and east (N3).

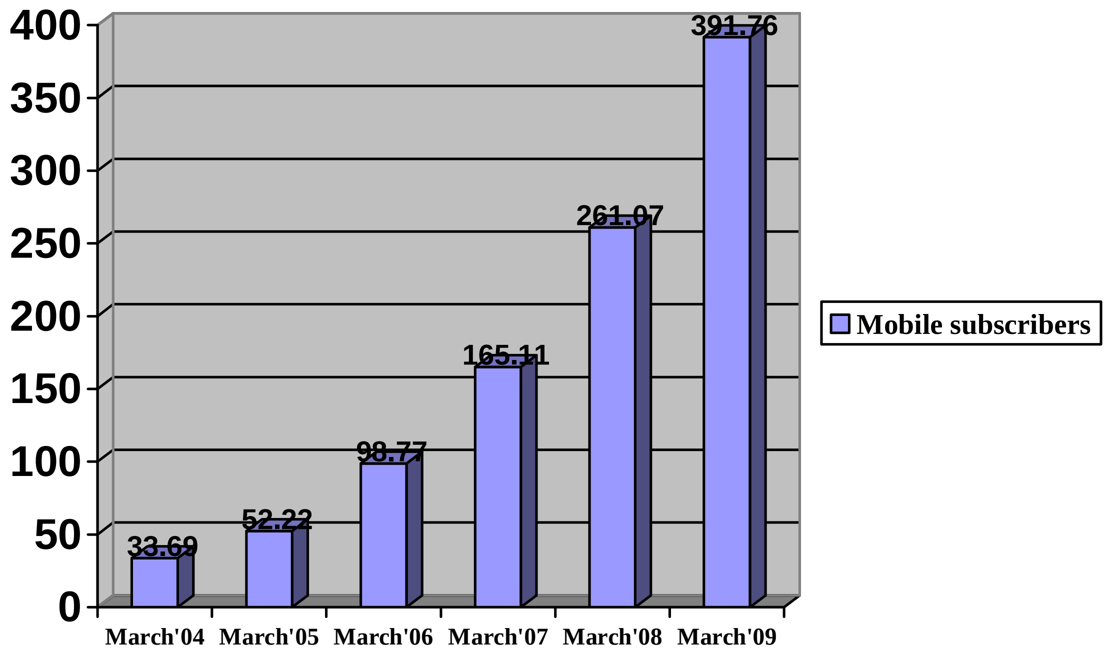
Another respondent says as far as oral care products is concerned south India is well penetrated as compared to east and BIMARU (Bihar, Madhya Pradesh, Rajasthan and UP) states. This is because of low per capita income, lower level of literacy which directly affects health and hygiene related habits and poor road infrastructure in interiors. He also says that these markets are relatively media dark in terms of reach of mass media (N5).

Respondents from two other companies say that since the penetration level in soaps and detergents categories is pretty high there is little scope for further penetration. Their major concern is how to upgrade the customers (N8 & N9). Other companies are concentrating on taking away market share from unorganized sector and local players (N2).

6.1.4 Mobile Services

As shown in figure 6.8 mobile services have seen phenomenal increase in penetration level in last few years. Respondent from one of the mobile services company says generally mobile services companies started with urban areas because of higher population density and purchasing power. Once the urban markets started getting saturated, companies started erecting towers in rural areas. He makes an interesting observation that since his company was a late entrant in the market, it thought that it had no option but to expand the market rather than go after the same existing customer base (N14). Respondent from another company says population is the major criteria for choice of target market. They call it community of interest. Tower network required to cover an area is a very important criteria in choice of target market. Geographic Information Systems (GIS) are used for mapping population covered by a tower. Like the other respondents he says all companies first try to target bigger markets because of high network cost. He claims that around 85% customers are first time buyers in case of his company. Since it has targeted rural markets in a big way, every second new subscriber is from the rural area (N1).

Figure 6.8 : Growth in Mobile Subscriber Base



Source: The Indian Telecom Services Performance Indicators January – March 2009, *Telecom Regulatory Authority of India*, 13th July 2009. Available: www.trai.gov.in.

6.2 Consumption and Purchasing Ability Improvement Efforts

Consumption and purchasing ability improvement efforts are discussed under three headings: study of consumer behaviour and tracking of substitutes, consumption ability improvement efforts (related to customer competence, consumption context and customer service) and purchasing ability improvement efforts using credit finance.

6.2.1 Study of Non-customer/ Marginal User Behaviour and Tracking of Substitutes

1. A respondent from two-wheeler industry highlights importance of understanding non-customer behaviour. He cites example of a product which was launched for low income segment with the aim of market expansion. It failed on the expected value proposition front. Only two people could ride this vehicle whereas the low income segment requires a two-wheeler which can accommodate three with some luggage space which can be used for a child to stand or to carry a gas cylinder or some other material like vegetable bags etc. (D8) But a respondent from a company which scores low on market expansion scale says they can not afford to spend money on extensive market research (D10). On the other hand two-wheeler companies which score high on market expansion scale spend considerable efforts in the form of market research and sales analysis. For instance, one of the respondents says penetration level of two-wheelers is not just dependent on income or affordability it also depends on the (i) geographical distance to be traveled in a city (ii) traffic condition and (iii) availability of public transport (substitute). Some markets like Mumbai have lower penetration level among middle class and below segments because these segments find public transport to be a cheaper and faster option than using a two-wheeler (D1,D7).

2. One of the consumer durable companies which scores high on market expansion scale has invested Rs 30 million in market research (D12). Another company has set up a life style research team which would analyze the needs and preferences of the consumer. One of the respondents says that there is no substitute to a TV. He says in TV industry market expansion has been at product form level first from black and white to CTV and then from CTV to LCD. But another respondent points out that there is a strong competition among ‘needs’ for share of wallet. For example, a refrigerator ranks low in priority of needs. According to him in under served lower middle class and lower income segments, on an average order of priority is bicycle, two-wheeler, TV, house and then a refrigerator. He observes that in India a refrigerator is bought after 17-18 years of marriage when one of the sons in the family is employed and there is an extra source of income. However in middle class and higher segments a refrigerator may become a part of marriage gift (dowry) (D12). Another respondent observes that a TV appeals to sense of vision which is much stronger than other needs. Moreover refrigerator demand is negatively affected in certain climatic conditions, like in colder regions (D14).

3. One of the respondents from a water purifier company observes that for most people water only satisfies a need of thirst quenching and there is high level of unawareness about health connection of water especially with digestive system, kidney and heart. He adds higher the level of education higher is the likelihood of feeling of need for pure water. He makes an interesting observation that generally urban areas have better quality of municipal water than in rural areas. But because of higher awareness about health and hygiene penetration level purifiers is higher in urban areas than in rural areas (D11). Table 6.4 shows sharp difference in education levels in urban and rural areas.

Table 6.4: Distribution of Households by Education Level of Chief Wage Earner (%)

Education of chief wage earner	All India	Rural	Urban
Illiterate	20.6	26.0	7.9
Up to primary	19.2	22.5	11.5
Middle	17.7	19.2	14.1
High School	18.7	17.2	22.3
Higher Secondary	10.1	8.1	15.0
Graduate +	13.7	7.0	29.2
Total	100.0	100.0	100.0

Source: The Max NCAER India Financial Protection Survey 2008 in *Businessworld*, The Marketing Whitebook 2009-10, p. 78.

Respondent from other water purifier company says in urban areas, growing number of societies and flat schemes use borewells and ground water is generally contaminated. He says one of the biggest hindrances in market expansion is a wrong belief that if the water is crystal clear it is pure. He also cites cultural reasons which affect purchase of water purifiers. Many people in Jain community do not buy Ultra-Violet water purifiers because of their religious beliefs (D2).

Water purifier companies keep track of substitutes. One of the respondents estimate 70% households even in higher socio-economic classes (SEC) like A & B use plain cloth filtering, boiling or candle water filters for purifying water. Biggest substitute for water purifiers is boiled water. Doctors play influencers as they suggest people to drink boiled water (D2).

4. From consumer non-durable sample, in all the four cases wherein substantial market expansion efforts are made, companies conduct regular market research and also subscribe to syndicated databases (N6, N7, N10, N11). But one of the respondents from a company which scores average on market expansion scale laments the fact that most companies conduct market research or focus groups in big cities or towns. No serious efforts are made to understand consumer behaviour in deep rural markets. He makes an interesting observation about difference in the average physical build of Indians and westerners. He says it is wrong to expect same kind of per capita consumption in India. Every day bathing or cleaning clothes is not prevalent in India (N9).

One of the respondents observes that washing face with plain water is a substitute to soap which has not yet been recognized by the industry. Water scarcity leads to low per capita usage in India. On the other hand people take bath twice a day in Kerala where availability of water is not a problem. It’s a part of culture also. Winter in some areas is too harsh to encourage daily bathing (N3, N9).

A regional firm doesn’t conduct formal market research. It places emphasis on first hand experiences of the top management to understand consumer behaviour. Feedback from sales staff is regularly sought on consumer behaviour, tracking of usage of substitutes like oil cakes, new products, sales promotion schemes and activities of competitors. For instance, respondent from this firm offers insights such as: poor customers have small houses with no or small bathroom. They find it difficult to keep clothes dipped in bucket. Many of the women work in low income households and hence find paucity of time to wash clothes. Many poor customers don't have water connections at home and wash clothes on tap or rivers and ponds where detergent bar is better suited. Washing clothes daily is not a habit in rural areas hence per family consumption turns out to be lower than in urban areas. Oil cakes made by local manufacturers from the waste of oil mills are the major substitute. It is cheap and also less harmful for clothes though the washing quality is poor (N12). Table 6.5 shows that less than 40% Indian households get water at home. In rural areas the figure is less than 30%.

Table 6.5: Households Getting Drinking Water at Home

Total	Number of Households getting water at home	% of total Households getting water at home
All India	7,48,03,269	38.97
Rural	3,96,98,747	28.71
Urban	3,51,04,522	65.38

Source: Census of India 2001 in The Marketing White Book 2005, *Businessworld*, p. 26.

Another respondent observes that rural poor customers especially in economically backward regions like Bihar, Orissa etc use detergent cakes and bath soaps interchangeably. According to him the reasons can be: lack of awareness about harmful effects of using a detergent in place of bath soap, low purchasing power which restricts consumer's spend among a fewer categories, and convenience in carrying one cake rather than two to rivers/ lakes where they wash clothes and take bath (N8).

Respondent from another company observes that home made concoctions is a substitute to face wash, deodorants are a substitute to soaps, cleaning hands with water or ash/ mud is a substitute in rural areas or even among urban poor. This company has developed some products keeping this in mind (N11).

Respondents from toothpaste companies are aware that non-dentifrice population uses raw Neem, raw Babool or simply charcoal as substitute to a toothpaste/ powder (N5, N7, N15). One of the respondents in a company which has tried to expand market shared important insights: Only 2 % people ever visit a dentist in India. 60% such people who have dental problems do not visit a dentist. 50% people do not use a toothbrush. (N7).

5. Manoj Kohli (2008), MD of Bharti Airtel concurs with a respondent from a regional FMCG firm about employees as a source of information about consumer beahviour [2]. He says “we believe in smell of customers through smell of our employees.” As regards substitutes for mobile services, on the eve of the launch of Reliance mobile services in 2002, Chairman Mukesh Ambani, said in an interview that his father, Dhirubhai Ambani, had observed that market for mobile telephony can expand if long-distance phone calls became cheaper than post cards, which used to cost 15 paise then (Bagchi and Chopra-Karkhanis 2002) [3]. Landline telephones and pagers which were substitutes at one point of time have now lost out to mobile services (N1, N4, N14). But still one of the companies follows a practice of tracking of its own, others’ and entire category sales as well as change in landline connections every 15 days, says one of the respondents (N1).

6.2.2 Consumption Ability Improvement Efforts

6.2.2.1. Customer Competence Related Efforts

According to one of the respondents from two-wheeler industry better compatibility with the customer competence helps in market expansion. He gives examples of two products which are better suited for ladies and elderly people and hence expanded the market or at least led to multiple unit purchases by existing two-wheeler owner households (D10). Two companies informed that they conduct two-wheeler driver training programmes (D1, D5). Respondent from one of the company claims that his company had launched India’s first two-wheeler riding schools in Nagpur and Ahmedabad (D1).

A respondent from a TV company informs that design of remote controller for an entry level product has been kept simple keeping in mind target customers (D13). Customer education on product usage is done by sales & service staff says one of the respondents. He says while launching a colour TV in rural markets operations booklet wass designed in the Devnagari script. This company also came out with Hindi and regional language menus on its TVs (D3). HUL’s Pureit water purifier which is targeted at under-served low income segments is fitted with a germkill battery kit which has an indicator that goes red once 1500 liters of water has been purified, hinting that the battery needs to be replaced. Otherwise a customer may not know when to replace the battery.

Even in consumer non-durables some amount of customer education is necessary about how best to use a product especially in under-served rural segments. A respondent says through advertising his company educates customers to keep soap dry which helps them in lowering product usage cost (N3).

“In order to target ordinary Indians and not the elite, we launched multilingual services and phones in eight Indian languages” says one of the companies (N13). The Economic Times quoted a senior executive from Bharti Airtel that first time buyers in rural areas prefer bundled offering i.e. handset with service connection (Sapre 2008) [4]. This may be because the rural customers possess limited knowledge about mobile phones and features. Another mobile company for its entry in interiors used the folklore art form of Burra Katha (a traveling theatre troupe) to educate the rural subscribers in technology. Respondent from this company says that one should avoid ‘Czechoslovakia element’ while designing products for rural customers. Rural customers should find it easy to use short messaging (SMS) or any other rural service (N1).

6.2.2.2. Consumption Context Related Efforts

Keeping in mind inadequate end-use environment in rural areas one company had designed TVs with power back up. For this model, the company also introduced technology that provided better reception in low signal locations—which is a common problem in rural areas (D3). Products are field tested in unfavourable end-use environments especially for compatibility with voltage fluctuations and weak signal strengths (D13).

Another respondent observes that frost free refrigerators can withstand a power cut for not more than 2 hours while, direct cool types can last 4 to 6 hours. Hence direct cool is better suited for rural markets where continuous power is a problem. Most first time buyers are direct cool buyers (D12).

To tackle the problem of requirement of running water and uninterrupted supply of electricity water purifier companies have designed chemical based storage water purifiers and tap attachments (D2, D11). Water purifier industry increases consumption ability by designing context specific water purifiers. One of the respondents says Punjab has higher levels of pesticides in ground water which increases cancer risk. Hence Punjab requires different water purifier than in other areas. In certain southern states metal content is high in water. Hence water purifiers are designed in various product forms to suit quality of water like:

- Water Filters: Candle filters which remove visible impurities and gives clear water. Suitable in cities where municipal supply of water is reasonably good.
- Water purifiers with sedimentation including carbon block, resin and iodine.
- Ultra violate (UV) Water Purifiers: Kills bacteria but if purified water is stored for a long time the bacteria can rejuvenate.
- Reverse Osmosis (RO) Water Purifiers: permanently kills bacteria but it leads to loss of total dissolved salt (TDS) which affects taste of water. Not recommended where TDS is less than 100 (D11).

A mobile services company provides solar chargers in areas without electricity (N1). Most of the detergent manufacturers including the regional players keep in mind quality of water, for example, bore well water used in rural areas is generally hard water. They try to change product formulation accordingly (N12, N3).

6.2.2.3. Customer Service Related Efforts

Emphasizing the importance of customer service in under-served rural markets head of marketing at Godrej Appliances, Soumitra Ghatak says "The rural market will not be just about pricing but about how the customer is serviced and treated. If one customer is not happy, entire village will know and the company can then kiss that market goodbye." (Sharma 2004) [4] A consumer durable company has more than 2500 mobile authorized service personnel for villages having below 10,000 population besides service centers. Keeping in mind installation problems in rural areas the company had designed TVs with inbuilt antenna so that the very need for customer service during installation can be eliminated (D3).

Storage water purifiers developed for low income markets in semi-urban and rural markets, require replacement of carbon block, filters, chemical etc. Hence, serviceability becomes an important issue says one of the respondents. His company offers 24 by 7 helpline through a team of 1200 service engineers (D11). Another company has a service network across 500 top towns in the country (D2).

6.2.3 Financing to Improve Purchasing Ability

Importance of credit finance in expansion of two-wheeler market was underlined by almost all the respondents in this research. One of the respondents says market in B and C class cities expanded because of easy availability of retail finance in these cities But he observes that in countries like Indonesia, Thailand, Vietnam etc most two-wheeler companies have their financing arms unlike in India (D10).

One of the respondents from two-wheeler industry says when ICICI bank started exiting dealer outlets, the company roped in two other financing firms: Shriram finance with strong rural financing competence and Fullerton which had strong two-wheeler focus (D1). Three companies have tied up with cooperative banks and rural banks (D1,D7,D5). Tie up with nationalized banks is prevalent among many consumer durable companies. One of the company reached rural customers through Kisan (farmer) credit cards administered by government of India. The company created awareness among farmers about utility of these cards issued by government. This company provides a half yearly payment facility to some farmers based on income from crop seasons (D1). Other two companies have got their own financing arm besides tie up with other banks and cooperatives (D5,D7).

Figures 6.9 & 6.10 highlight importance of innovative approach to financing especially in rural areas because only 10.5% households have regular salary/ wages as major source of income as against 36.9% urban households.

Figure 6.9 : Major Source of Income - Rural

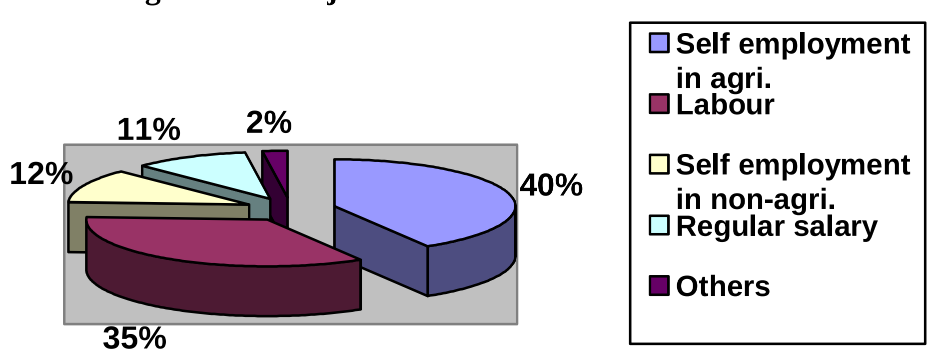
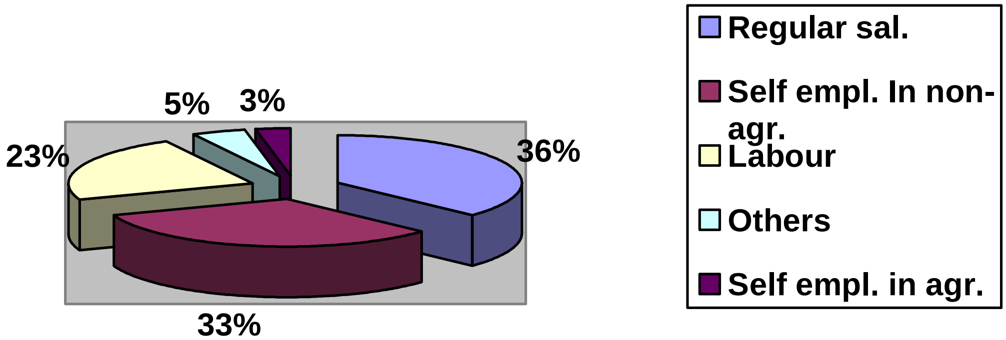


Figure 6.10 : Major Source of Income - Urban



Source: The Max NCAER India Financial Protection Survey 2008, reproduced in Businessworld The Marketing White Book 2009-10, p. 40

One company has tied up with Village Influencing Persons (VIPs) for collection of loans advanced through its financing arm. These VIPs are generally Gram Panchayat Sarpanch, Doctor's wife or Teacher's wife, President of Village Mandies. Criteria for selection of VIPs are: (i) The person should have good image in the village and (ii) he or she should not be employed so that they can concentrate on this job. VIPs are paid 2% of collected amount. The company facilitates cheque-less transactions, it follows pygmy (small) accounts and also allows twice in a year payment to coincide with harvest season (D7).

Most respondents from consumer durable sector observe that unorganized finance is used at distributor level. But the distributors especially in semi-urban and rural markets inflate the price to charge high interest rate (D12). One respondent says local durable manufacturers expand market by appointing influential dealers who operate their own hire purchase financing schemes and are capable of ensuring repayments. He says some big companies also promote these kinds of practices though they may not admit (D13).

Even in the mobile services market, financing is being used. To begin with Reliance launched its package, called Dhirubhai Ambani Pioneer scheme at Rs 600 per month for three years. This included financing at below 10% from ICICI and HDFC banks (Bagchi and Chopra-Karkhanis 2002) [3]. In some areas retailers are encouraged to sell connections on installments and informal financing is taken care by distributors (N1). A respondent from non-durable sector makes an interesting point. He says credit financing has been prevalent in consumer non-durables much before in durable sector. Not only in rural markets but also in cities, most retailers offer credit to the households on their monthly purchases. (N12).

6. 3 Willingness Improvement Efforts

Willingness improvement efforts are discussed under three headings: need awakening, category selling & other promotional efforts, sales & distribution and participation in social projects.

6.3.1. Need Awakening, Category Selling and Other Promotional Efforts

1. Two-wheeler companies which have high market expansion score undertake extensive promotional efforts in rural markets. This includes appointment of rural sales promoters, mass contact programmes, wall paintings, leaflets etc (D1, D5). Realizing that public transport is a substitute to two-wheeler one company used to run campaigns titled “Public Ka Naya Transport” (New transport for public) (D1).

2. Other consumer durable firms which are big market expanders participate in local forms of entertainment like annual haats (local temporary markets) and fairs. One of the sampled companies invested more then US$ 8 million on advertising and marketing in Cricket (D3). While expanding the market a company realized that retailers were promoting local brands. To influence customer attitudes the company ran an advertising campaign with an objective of reversing pro-competitor word of mouth, the body copy of advertisement said ‘why not to use your own judgment rather than rely on some one else’s recommendations’ (D13). Another consumer durable company when decided to increase its focus on semi-urban and rural markets in 2004, organized road shows across the country. These shows promoted the concept of a dream home. One of the companies which earlier used to target only cable and satellite homes, started advertising on Doordrashan (Government of India's national channel) once it decided to target socio-economic class (SEC) D in 2004 (D12). Respondent from another company says at times a trickle down effect of advertising of high end products like LCD takes place on aspirations of untapped market segments. This respondent points out that seasonal sales promotional offers help in swinging the decisions of fence sitting customers in favour of one category over other (D13).

3. Water purifier is one category which requires a lot of need awakening and category selling efforts. "In India people believe that what you can't see can not be harmful. Therefore it is important to do concept selling in water purifier category, which can only be done house-to-house." About 60% of sales and service comes during the rainy season when rains increase threat of water borne diseases says one of the respondents (D2). It can be argued that in rainy season recognition of need for pure water is triggered by the change in colour of water (i.e. perceptible change in actual state of affairs).

One of the respondents says their sales talk is designed to educate customers about limitations of boiling of water (substitute). For instance, water needs to be boiled minimum for 20 minutes at 100 degree. If boiled water is preserved incorrectly its purity gets lost. Besides, there is a cost of boiling water with gas or electricity. This company performs several below –the-line activities like customer meets, consumer fairs, and interactive programmes with school children and free water quality check etc. Direct marketing teams use TDS (total dissolved salt) meters and kits to carry out electrolysis. The respondent points out that demonstrations in schools help because children are not only users (susceptible to dieses) but also they are influencers. Taking child route helps in making an emotional appeal. The company also follows strategy of rewarding existing customers for their referrals which accounts for around 50% of its sales. This is consistent with the theory of social pressure on consumer behaviour (D11).

According to the other respondent many doctors in India are simply not aware or do not emphasize issues related to hygiene and cleanliness. Many of them believe that boiled water is safer than water from a purifier. (D2). Hence some companies opt for endorsement of their water purifiers by Indian Medical Association. To establish association between a water purifier and health, Hindustan Unilever placed its Pureit water purifiers at doctors' clinics in various cities and towns during launch phase with a helpline number mentioned on it.

4. Need awakening and category selling efforts are being made by consumer non-durable companies too. For instance, during its launch in 1997 one company positioned its toothpaste as a pure vegetarian one which appealed to people who were averse to using toothpaste because of their religious beliefs. To reinforce its positioning the company obtained a certificate from London based vegetarian society. Positioning of a vegetarian toothpaste helped the company in gaining 22% volume share in Gujarat and Rajasthan (N7). In these states toothpaste usage was hindered because of religious beliefs of largely vegetarian population.

Rural promotional activities include on-ground activities like nukkad nataks (street plays) etc and at village level they also carry out non dentifrice communication activity (N5). Another company creates awareness about preserving teeth through a message that strong gums are necessary for beautiful teeth. The company believes that this campaign which has been consistently run for several years is a need awakening effort. In 1 minute cinema ad copy, 45 seconds are devoted to promotion of ayurveda and only 15 seconds for brand (N15).

To promote health and hygiene awareness some companies are undertaking specific programmes especially in rural areas. According to one of the respondents Hindustan

Unilever's Lifebuoy Swasthya Chetana programme has succceeded in increasing per capita usage of soaps which according to him is today a 5.5 lakh ton market in India (N13).

5. In the mobile services category the launch campaign of Reliance is an excellent example of need awakening through category association. The ad copy read: "*Roti, Kapada, Makaan aur Mobile* (Food, Clothing, Shelter and Mobile). Like the first three mobile phone must come to me as a necessity and not as a luxary" with Dhirubhai Ambani (who is credited with introducing share market to the masses) being quoted as "Of course. Why Not." (Reliance Infocomm ad, 2002) [5]

By raising the 'desired state of affairs', this was an attempt to raise need for a mobile phone in the priority hierarchy of Indians. This is also a case of category creation by associating the product with well established existing categories in the minds of customers. In case of Reliance the ad copy emphasized consumption goal and a common property among food, clothing, shelter and mobile as a "necessity".

Respondent from a mobile services company says in rural areas a mobile satisfies need for productivity enhancement. The company uses 40 rural vans, nukkad nataks (street plays) to promote productivity enhancing benefits of a cell phone. Most of the advertising communication revolves around consumer welfare rather than brand features (N1).

6.3.2 Sales and Distribution

Effect of sales and distribution on willingness creation is highlighted by two respondents from two-wheeler industry. One of the companies targets opinion leaders through direct marketing in villages. The company has set itself a target to sell at least one of its products in every village. The company believes that this creates visibility and shapes opinions (D5). This is like accelerating product diffusion process by influencing coefficients of innovation and imitation. Other big market expander company has 600 dealers and almost national coverage all across regions. Generally one dealer has 5-6 or more rural areas allocated to it based on tracking of customer queries and sales to villagers. There is a 500 strong sales force on the full-time rolls of dealers to target rural markets specifically. These Rural Sales Executives (RSEs) are required to meet and develop relationships with opinion leaders in rural areas like sarpanch (village head), school teachers, bank managers etc. Each RSE has been given targets for meeting opinion leaders and not necessarily for sales. The company organizes events like sarpanch meet and also organises their tour to dealer showrooms and workshops (D1). Another two-wheeler company has 486 dealers and 2500 Authorised Sales & Service Centres (ASCs) which are tied up with dealers and get their commissions from dealers. The company also has 5000 Rural Sales Outlets (RSOs) (D7).

A consumer durable company in its bid to penetrate deeper into rural markets, opened up 150 branch offices in small towns in 2004. It has one remote sales officer for every district and one Rural Area Officer for every three districts. Marketing initiatives like conducting demonstrations; exhibitions or sending demonstration vans, advertising in local media are taken at the level of RAOs. After opening more branches instead of earlier one catering to Chandigarh, Punjab, Jammu and Kashmir region it's monthly turnover jumped by almost three times. The company strengthened its rural markets through its Central Area Offices (CAO) and Remote Area Offices (RAO). A CAO is established in a class B town and RAO in class C town. These are treated as profit centers and drive sales in the rural markets. An online back-end facilitates the monitoring of the RAOs and CAOs on a daily basis. RAOs operate under the branch offices. The company tripled number of its retail & distributor outlets in rural areas from 2004 to 2008 (D3). Now most of the consumer durable companies follow distributor driven model and provide rural sales support

Water purifier companies have been traditionally using direct marketing because it is considered to be the most effective form of concept selling (D11). But after the launch of storage water purifiers for lower middle class and low income segments some companies have opened up retail distribution channel. One of the respondents says this has helped in better visibility of the category (D2).

Sales and distribution pattern in consumer non-durable sector is best described with the example of one of the sampled companies. The respondent informs that the company launched a special project to penetrate the rural market. Under the project, the company has divided the country into 100 blocks with one super stockist for each block. Each super stockist is reached through vans. The super stockist is expected to service 15 to 20 dealers in semi-urban areas (N8). Another respondent makes an innovative suggestion to establish a low cost sales and distribution system consisting of petrol pumps, which are present throughout the country (N9).

As regards mobile services the market leader Bharti Airtel which is targeting to penetrate 4 lakh villages, has tied up with 38000 cooperative societies along with fertilizers major IFFCO, says Manoj Kohli (2008), the company's MD. The company even provides photocopying machines to some rural dealers so as to expedite documentation process for new subscribers [2]. Respondent from a mobile services company informs that his company appoints around 150 dealers (retailers) per lakh population (DPL) (N1).

6.3.3 Involvement in Income Generation and Social Projects

A remarkable pattern is observed about big market expander companies. All these companies especially if they have a large focus on rural markets are involved in one or other social projects. For instance, a two-wheeler company has sponsored a few Self Help Groups (SHGs). It also promotes women entrepreneurs, unemployed youth for local mechanics panel or as insurance agents or sales agents (D7). Another company has tied up with Indira Gandhi National Open University for technician training course for mechanics. Authorised representative of dealers (ARDs) are appointed among low income influential people. It also offers dealerships and service outlets to defense personnel on priority basis. It also helped soldiers involved Kargil war. The company has adopted schools, organizes health check up camps in areas where it has manufacturing plants. It actively participated in Gujrath earthquake and Tsunami relief efforts (D1).

Other consumer durable firms are also involved in income generation and social projects for underprivileged though these efforts are undertaken at company level and not specifically at product category level. For example, one of the companies says we consider it our duty to contribute appropriately towards the management of the ecology in the Ganga Basin, which has a drainage area of 8,60,000 sq. kms., accounting for over 40% of the country's irrigated land and sustaining 37% of the population. It says this is a step in our endeavour to link business activities with ecological problems (D12).

Water purifier companies in association with non-government organizations and government have been setting up community water purification systems in villages. One of the companies extensively participated in Bihar floods relief programme last year (D11).

A consumer non-durable company operates an educational programme in rural areas with the motto of ‘Live, Learn and Thrive’. It is a very large scale ongoing programme (N10). Providing employment especially to women from lower strata of society is the prime motive at another consumer non-durable firm. In order to provide employment to as many as possible the firm intentionally keeps its manufacturing process manual, though it results into lower productivity and higher wastage. Incidentally this firm is a very strong player in rural markets in Maharashtra having deeper penetration than even HUL (N12).

Some companies have adopted a productivity enhancement approach to help low income customers. For instance, a two-wheeler company uses income enabler (productivity enhancement) positioning for one of its products. It provides customized accessories for carrying LPG cylinder, mineral water jars, milk cans etc. It has also created a few communities like a community of banana sellers (D5). Bharti Airtel has launched an agri-based portal for its rural subscribers, which provides them information on prices and availability of commodities, advice on dos and don’ts, forecasts etc. The company believes that this will result into more money flowing in rural households and education and improved medical services will improve life longevity, says Manoj Kohli (2008), the MD of the company [2].

Willingness creation efforts through a company’s involvement in social projects is best exemplified by Bharti Airtel’s decision to adopt a community based model to handle maintenance and upkeep besides security of towers in rural areas. Company’s executive director (West) Jayant Khosla says that this would help the company in achieving a target of covering all villages with a population of more than 2000 people by March 2009. (Sapre 2008) [4].

6.4 Affordability Improvement

This section has been discussed in four parts: General cost reduction, low cot sales & distribution, low price points and product usage cost reduction.

6.4.1 General Cost Reduction

1. Redesigning the product: Various options reported by two-wheeler companies include reducing the number of platforms in two-wheeler business as also total number of engines used by company from nine to four (D7), value engineering like using special aluminium paint on the bikes instead of plating the metal which saved around 10 to15% (D1).

2. Rationalization of vendor base and economies of scale in purchasing: One of the two-wheeler companies employed less number of vendors and high volume (from 1400 to less than 200 by 2004) strategy. It also rationalized production across plants so as to minimize distance from vendors (D7). One of the respondents from mobile services industry observes that CDMA players entered into bulk purchase deal with manufacturers and offered low cost options to the low income customers. Unlike in case of GSM market, the handsets ecosystem is not well established. Hence CDMA operators had to offer mobile services bundled with handset, which became a competitive advantage for them (N14).

3. Locating manufacturing plants in tax friendly locations: Setting up plants in areas like Uttarakhand, Himachal Pradesh etc where financial incentives and tax exemptions are available has become a popular strategy among consumer product makers (D1, D7, N11).

4. Wastage elimination: One of the respondents says in a scenario of low margins when all costs are going up -- 70% of the raw materials cost, employee costs etc. only way a company makes money is through wastage elimination. So, we are having a lot of processes as Six Sigma -- TDR (tear down and reengineering process), one-hundred PPM, etc (D3).

5. Choice of appropriate technology: While launching its mobile services, one company worked backwards keeping in mind what an Indian customer can afford. The customer acquisition cost then was Rs 1500 a month for GSM operators. The company chose CDMA technology which was much cheaper in terms of customer acquisition cost. (N14).

6. Expediting payback period thorough speedy execution: Manoj Kohli (2008), MD of Bharti Airtel says “15-20 years back all we had was a weapon called ‘speed’ - of thinking, of execution, and of employee passion.” He says that innovation, for his company, was a survival issue because the capital cost was almost same as that of Europe and America but purchasing power in India is very low. Hence expanding market required cost cutting at unprecedented levels. It involved high speed of execution. For instance, Airtel builds 3000 towers per month (100 towers per day). Such speed helps in faster billability of assets [2].

7. Management by exception: Bharti Airtel effectively used outsourcing. According to Kohli (2008) the company focused only on what it knew better i.e. motivate employees and build brand. Company outsourced IT services to IBM and the development and management of its telecom network to Ericsson, Nokia, and Siemens. These changes freed up Bharti's capital, made its cost structure much more variable, and allowed the company to target extremely low pricing levels which fueled rapid market growth and penetration [2].

8. Converting fixed cost into variable cost: One of the sampled non-durable firm makes extensive use of principle of converting fixed cost into variable cost. It uses very little automation in manufacturing processes. The loss of productivity and higher wastage is more than compensated by employing housewives looking for part-time employment rather than unionized high paid workers. Labours are paid on piece wage basis to ensure higher productivity and payment is made on daily basis. The firm's human resource practices have typical Indian touch. All women workers are referred to as Bhaginis (sisters). All of them are provided with hot sumptuous lunch by the firm.

9. Close monitoring of finances: One of the sampled non-durable firms prepares profit and loss statement on monthly basis and keeps a close watch on its finances (N3).

6.4.2 Low Cost Sales and Distribution

Most big market expanders think that sales and distribution cost is not a barrier to market expansion since they expand distribution network through distributor driven Hub and Spoke model (D7, D1, D5, D14). Sub dealers or authorized sales and service centers (ASCs) are appointed at smaller towns. Even large villages are covered through rural sales outlets (RSOs). Generally ASCs and RSOs do not incur cost to the company as they get their margins from dealers, who in turn benefit from incremental sales. One respondent informs that RSOs are low cost service centre cum outlets which require low investment by the owner. Generally local mechanics etc are preferred for RSOs. These RSOs sell 3 to 5 units per month and they earn around Rs. 5000 (D7).

Tables 6.6 and 6.7 show population wise distribution of towns and villages in India.

Table 6.6 : Number of Towns in India

Town Class	Population	No. of towns	% of total towns	% of urban population
Class I	1 lakh and above	423*	8.2	61.5
Class II	50,000 – 99,999	498	9.6	12.3
Class III	20,000 – 49,999	1386	29.6	15.0
Class IV	10,000 – 19,999	1560	30.2	8.1
Class V	5,000 – 9,999	1057	20.5	2.8
Class VI	< 5000	237	4.6	0.3
Total		5161	100	100
* 10 lakh + : 27; 5-10 lakh: 42; 1-5 lakh: 354				

Source: Census of India 2001 in Kashyap, P. and S. Raut. 2007. *The Rural Marketing Book*, New Delhi: Biztantra, p.16.

Table 6.7 : Number of Villages in India

Population	No. of villages	% of total villages	% of rural population
< 200	96,855	15.7	1.2
200-500	1,36,454	21.4	5.9
501-1000	1,56,737	24.6	14.5
1001-2000	1,40,751	22.0	25.9
2001 – 5000	87,206	13.7	37.5
5001-10,000	20,363	3.2	15.0
Total	6,38,366	100	100

Source: Census of India 2001 in Kashyap, P. and S. Raut. (2007). Ibid. p.174.

It is argued that national consumer durable players need to ensure distribution to 20,000 population towns, below which the returns diminish and it becomes uneconomical as distribution moves to still smaller towns. According to a study by market research firm, IMRB, 90 % of durables are purchased from 20,000+ population towns as per need to compare products, seek reassurance and product knowledge directly from perceived company representatives, and the 'out of village' experience. Such towns number a mere 2300 all over India (Kashyap and Raut 2007) [6]. In fact respondents in three consumer durable companies pointed out the difference between point of sale and point of usage in the context of rural markets (D1, D5, D7).

"Many companies have increased the number of distributors in urban markets creating competition among them. As a result distributors have been forced to appoint sub dealers and retailers in small towns and villages there by increasing the reach" observed one of the respondents (D14). One of the respondents makes an interesting observation that even if a company is required to share transportation cost or give a share in its margins to sub-dealers this cost is directly linked to sales and hence is considered as a variable cost. But he adds that as return on promotional expenses is not sure it becomes a fixed cost (D7).

But water purifier companies clarify that most of their rural initiatives are in partnership with government and/ or non-government organizations (NGOs) which helps in subsidizing costs (D2, D11). One of the companies uses petrol pumps to sell water purifiers in rural areas.

It is evident that 50 % of rural population resides in the 1 lakh odd large villages (2000+ population). These villages are connected by all-weather roads and they account for 60 % of rural wealth. 2.3 lakh tiny villages (< 500 population) have hardly any shops. Most national non-durable players cover retail outlets in villages up to 2000+ population (Kashyap and Raut 2007) [6]. HUL's Project Shakti is aimed at reaching out to smaller villages.

A respondent from non-durable sector elaborates on low cost distribution model used by companies to reach out to interiors. Stockists are appointed at 20,000 population town. This stockist if is given a margin of 5% can earn reasonable return on investment (ROI). He employs bicycle salesmen who cover around 10 Km distance and carry material worth approximately Rs 5000 daily. If one such salesman travels 20 days in a month, his turnover works out to Rs 1 lakh. With a margin of 5% (Rs 5000 per bicycle salesman), the stockist is left with reasonable amount after paying the salesmen. Normally if a stockist employs 10 bicycle salesmaen, he earns up to Rs 25,000 per month, which at a 20,000 population town is a reasonably good return on investment (N13).

Regional players operate within a smaller area but within that they go deeper and hence control their cost of transportation. One of the respondents informs that his company manages with 2 sales supervisors, 14 salesmen, 175 distributors. Such frugal sales organization structure helps the firm in cost cutting. 75 gm packs are dispatched in cloth bags which are popular in rural areas and are easy to carry on bicycles. These bags also increase brand visibility at retail outlets / haats (N12). Another respondent informs that some of its products are sold at a low price of Rs 9 through public distribution system (PDS) (N3).

6.4.3 Low Price Points

1. Appropriate value proposition: Table 6.8 shows the impact of income on product penetration levels. The lowest income class which accounted for more than 70% of all Indian households had very low product penetration levels in 2001.

Table 6.8: Income Class wise Ownership of Consumer Durables in India

Annual household income (Rupees '000)	% of Indian households in each income class	Number of durables owned per 100 households in each income class				
		Two-Wheeler	Color TV	Refrigerator	Air - Conditioner	Car
Less than 90	71.90	7	5	4	0	0
90-200	21.90	47	40	34	2	4
200-500	4.80	70	74	62	13	29
500-1000	0.91	75	69	64	28	54
1000-2000	0.29	66	89	68	32	66
2000-5000	0.11	77	113	81	40	69
5000-10,000	0.02	91	117	100	38	77

Source: Adapted from data provided by National Council for Applied Economic Research (2002) in Bijapurkar R. 2007. *We are like that only.* New Delhi: Penguin Portfolio p. 93

After the launch of Tata Motor's Rs 1 lakh car Nano, two-wheeler companies are looking at ultra low cost bikes (D1). One durable companies is working on developing a refrigerator for BOP market but details were not disclosed to the researcher. However while developing low price products companies need to be careful. For instance, in 2002, a low priced refrigerator was launched in the market which had only half a freezer. The product was not accepted by rural customers at whom it was targeted (D12).

In order to reach out to low income segments most TV companies offer product range starting from 14'' TV. However respondents from two big market expander companies point out that because of positioning, quality and raw material cost related reasons their prices can not go down as low as regional brands (D3, D4). Companies have also been enhancing their value proposition by offering such features in their low priced products which were offered earlier in high end TVs (D3).

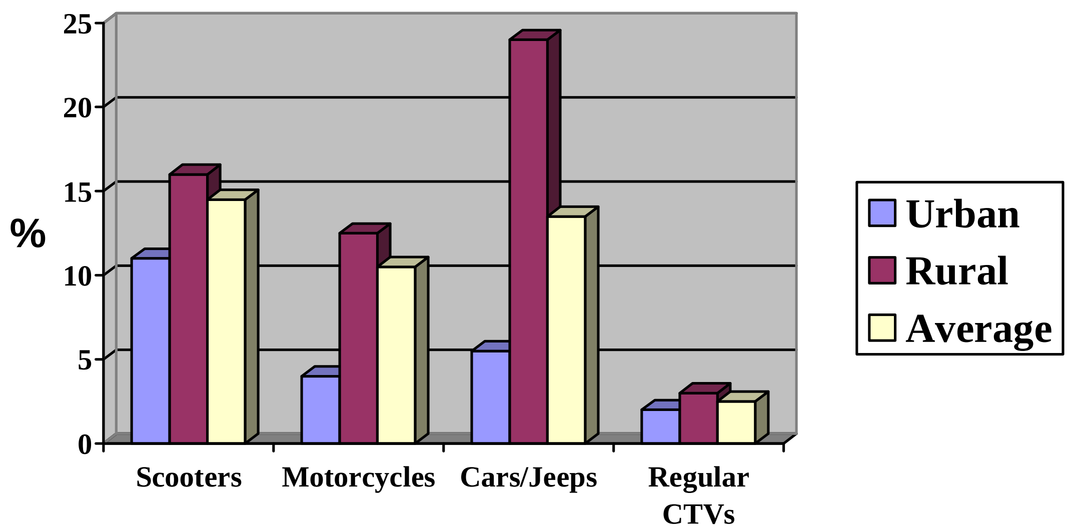
Respondents in consumer non-durable sector also talk about product reengineering and product design changes to meet needs of low income customers. (N8). One of the companies has designed oil based washing soaps because natural oils are cheaper. (N3).

2. Bundled offers: One of the respondents considers price discounts on bundled offers like a TV with a Refrigerator, Washing Machine etc, is a market expansion strategy (D3).

3. Sale of used products: Many durable companies run 'exchange schemes' in which an existing customer of a TV or a refrigerator is given price discount on new purchase in exchange of his used product. Though the customer who exchanges his old TV with a new one doesn't expand TV market, a buyer of the exchanged used TV (second hand purchase) does add to the market if he is the first time buyer of that category. Figure 6.11 shows extent of second-hand durable sales in 2001-02.

Data on consumer durable ownership pattern along with information on extent of second hand purchases gives important insights. Close to 20 % of all purchases of two-wheelers by households earning less than Rs 90,000 per annum in 2001-02 were second hand while the figure was a mere 4 % for households earning over Rs 3 lakh per annum. The lowest income class (< Rs 90,000) had a very small penetration level of two-wheelers (7 per 100 households). 5 % of rural and 16 % of urban households in lowest income class bought second had cars during the same period. Penetration level of cars in this segment was reported as zero before 2001 (Shukla et al 2005) [7]. From these figures one can safely assume that a large portion of second hand purchases are made by first time buyers.

Figure 6.11 : Second-hand Goods as % of Overall Purchases in 2001-02



Source: NCAER 2005, 'The Great Indian Market' reproduced in Jain, S. 2005. There's true value in second hand, Business Standard, 23rd June.

4. Promoting shared product purchase: Some TV companies promote shared product purchase like selling to Gram Panchayat etc (D3, D4). But these efforts have been on a very low scale. Both the water purifier companies included in the sample have installed community water purification systems (D2,D11). One of the companies operates these systems in south Indian states like Tamil Nadu, Andhra Pradesh and Karnataka. These states have higher acceptance of such schemes because of relatively higher literacy. Respondent from this company feels that similar schemes are difficult to operate in northern states like Uttar Pradesh and Bihar. These initiatives are undertaken mostly with government and NGO support. In rural areas the company has installed solar panels because of unavailability of electricity. This is a part of long term strategy to upgrade a customer from shared purchase to individual purchase especially if he moves from rural to urban areas (D2).

Community based water purification systems are better suited and less costlier than individual water purifiers. These “Point of Entry” (entry of purified water in homes) systems are very popular in South Africa but in India such systems have not taken off in a big way because sharing of resources and collective decision making are problem areas in India. Ironically such systems which are low cost maintenance systems and hence more suited for low income classes are easily accepted in high class housing societies. In these societies such systems are perceived as a premium feature of a housing society rather than a water purification system for low income segment (D2).

5. Pricing against substitutes: While launching its mobile services Reliance benchmarked itself against post card which used to cost 15 paise then. Unlike other companies Reliance used a benchmark of three minutes, same as that of then landline phones. Compared to other mobile calls- Rs. 1.49 per minute, Reliance launched its services at 10 paise per 15 seconds or Rs 1.2 per three minute call regardless of distance. A call within Mumbai and a call to Kolkota costed the same if both of the callers were on the Relaince network. Reliance decided to wave off its share of revenue for calls received and made from other networks leading to a decline of STD rates (which used to be pretty high then) by 55% as long as one of the callers was a Reliance customer (Bagchi, Chopra-Karkhanis, 2002) [3]. This move was aimed at creating ‘network externality effect’ in favour of Reliance. Reliance also offered exchange schemes for GSM mobile customers by offering Rs 7200 worth of international talk time (Bagchi, Chopra-Karkhanis, 2002) [3]. While expanding market on one hand the company also concentrated on gaining market share from existing market.

6. Economies of scale based pricing: According to The Economic Times Reliance had targeted a subscriber base of 10 million in the first year of launch of its mobile services. The tariff package was designed in such a way that the company could generate Rs 10,000 Cr if it achieved its subscriber target (Sriram 2002) [8]. This is one example of using economies of scale and learning curve effect to choose target market and decide pricing.

7. Fitting unit size to affordable price point: This method is practiced by almost all the sampled consumer non-durable companies with only one exception. One of the respondents says reducing the unit size to fit the corresponding price point is a most widely used strategy (N8). Respondent from other company says stock keeping units (SKUs) need to be designed in such a way that the product size should last buying cycle (say 3-4 days) of poor daily wage earners. (N13). In 2003 when a company slashed its 20 gm sachet prices of two brands to Rs 2 and Rs 1 respectively, motive of the company was to encourage consumers to use these products not just for “good” clothes, but all clothes (N10). Incidentally penetration level of washing powders on all India basis has increased from 82.3 % in 2003 (IRS 2003) to 90 % in 2008 against a marginal decline in penetration level of washing bars from 88.3 % to 87.6% (The Mudra Media Fact Book 2009) [9].

One mobile services company introduced a rural calling card that charges only 50 paise per minute for a local call. It provides service messages in local lingo of the subscriber and also provides alerts on commodity prices at the nearest wholesale market. This helps customers in using mobile phone services as income enabler or productivity enhancement products (N1).

6.4.4 Product Usage Cost Reduction

1. Product design: A respondent from two-wheeler industry says launch of 4 Stroke fuel efficient bikes was a major step towards expansion of two-wheeler market in India as it led to a sharp increase in average two-wheeler mileage from below 40 Km/liter to above 60 Km/ litre (D10). In order to reduce the total usage cost one company has tried to reduce power consumption of its TVs (D3).

2. Lowering entry cost related to the complimentary products: High cost or unavailability of cable TV (complementary products) is a hindrance in market expansion. According to one of the respondents untapped market is a function of cable penetration. His company tried to offer inbuilt cable connection in its low end product (D13). Another company has tried to tie up with cable content distributors (D3).

In order to reduce cost of usage of toothpaste, a company offered free toothbrush, a complementary product, with its toothpaste during its launch phase in 1998-99. This was a clever move because penetration of tooth paste in rural markets was pretty low and cost of a tooth brush added to cost of entry for first time buyers (N7).

One of the respondents from mobile services sector points out five inflection points in mobile services industry (i) incoming calls being made free of cost, which enabled mobile services to compete with land line phones (ii) launch of Reliance in 2003 at an entry price of Rs 501 which resulted into 1million new connections in a short span of time (iii) launch of Rs 200 per month schemes, which was a steep drop in cost of usage from Rs 330 (iv) launch of life time validity scheme by Airtel in December 2005, which brought in socio-economic classes (SEC) C and D segments into the market and (v) launch of Rs 777 handset by Reliance, a first in the world to launch a mobile handset at a price of less than $15. He points out of the five inflection points three are related to significant reduction in usage cost and two are related to availability of handsets at affordable prices. He points out that unlike in case of other industries from the point of view of a first time buyer of mobile services, the mobile services operators have little control over cost of entry, which is largely dependent on mobile handset prices (complimentary product) (N14).

6.5 Sustainability Improvement

Most big market expander companies follow environmentally sustainable practices. As regards environmental specifications one of the two-wheeler company claims that it is ahead of government norms compliance deadline by four years (D1). Most of the respondents say that they follow all norms related to environmental sustainability. One of the companies has been very active in environmental protection related activities. It maintains a well-stocked Tree Bank which generously distributes saplings free of cost to voluntary organisations engaged in afforestation work. The company has received several awards for its environment related and other social work. It also creates water conservation awareness among its employees at the place of work as well as at their homes. One of the companies claims that it's refrigerator are the only ones to receive five star rating on power consumption. The company is working on development of world's first green refrigerator (D12). All the big market expander companies in consumer non-durable sector try to follow environmental friendly practices.

However on social sustainability front excepting for two-wheeler companies most companies feel that there is nothing much they can do. For instance, one of the respondents says it is impracticable to educate the customers to be socially responsible in usage of a product like TV. "We can't tell customer's to not to watch TV for a long period like 7-8 hrs."(D3) However another respondent from the same industry says expansion of TV market can create social issues because of the content, as people spend more time on TV and less on education and sports. He does not agree that demand for TV will get negatively affected if a company tries to educate people about good TV watching habits. Instead high cost of educating customers in socially responsible consumption is a hindrance (D14).

The big market expander two-wheeler companies organize various safety training events like road safety seminars, national safety week, rallies to promote helmet wearing, braking tips, training on cold start so as to avoid excess use of fuel and pollution (D1, D5, D7). A respondent from mobile services sector says they have tied up with police to promote the concept of not using a mobile phone while driving (N1).

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CHAPTER SEVEN

MARKET EXPANSION SRATEGY - PERFORMANCE RELATIONSHIP

A market expansion strategy score (MARKEX) has been computed for each sampling element (product category) using 18-Item market expansion scale and it is correlated with five performance measures. The market expansion strategy score has also been computed without considering sustainability component, using 14-Item market expansion scale and correlation coefficients are worked out again using this score.

Analysis is presented separately for consumer durables and non-durables. In case of non-durables, analysis has been done first without including mobile services and later for a composite sample of non-durables and mobile services. Within consumer durable and non-durable categories first the overall analysis is presented. This is followed by market expansion strategy component wise analysis.

7.1 Market Expansion Strategy - Performance Relationship: Consumer Durables

7.1.1 Overall Analysis

Table 7.1 shows coefficients of correlation between market expansion strategy score (MARKEX), with and without sustainability component and five performance measures.

Table 7.1: Correlations between Market Expansion Strategy and Performance Measures of Consumer Durable Categories (N = 15)

Performance Measures Scale	Sales Revenue	Sales Growth	Sales to Marketing Expenses Ratio	Profit	Cost of retaining customers
MARKEX (on 18-item scale)	.582**	.393	.332	.528**	.394
MARKEX without sustainability component (on 14-item scale)	.602**	.355	.389	.582**	.372

* Correlation is significant at the 0.01 level (2-tailed), ** Correlation is significant at the 0.05 level (2-tailed), *** Correlation is significant at the 0.10 level (2-tailed).

Findings:

1. Market expansion strategy score has a significant positive correlation with satisfaction level with sales revenue as well as profit. Both correlation coefficients strengthen slightly when market expansion score is computed without considering sustainability component.

2. Though no significant correlation is observed between market expansion strategy score and satisfaction level with other performance indicators, direction of association is positive.

Discussion

Consumer durables like two-wheelers and refrigerators have witnessed around 4% increase in penetration levels between 2001 and 2008. During the same period penetration level of TVs has increased by a whopping 15%. This is reflected in the positive direction of association between market expansion score and all the performance measures. However non-uniform increase in penetration levels of various durable categories is reflected in non-significant association between market expansion score and sales growth rate. This probably indicates a mismatch between companies' market expansion efforts and their expectations about sales growth rate. This is also reflected in lack of significant association between market expansion score and satisfaction with sales to marketing expenses ratio as well cost of customer retention.

In order to study the nature of relationship between market expansion strategy and performance measures, further analysis was carried out by curve fitting using regression analysis in which market expansion scores is considered as independent variable and performance measures as dependent variables. This analysis was restricted to only those performance variables (sales revenue and profit) with which the correlation was found significant. Figures 7.1 & 7.2 show graphs between market expansion scores and sales revenue and profit respectively.

Figure 7.1: Market Expansion Score versus Sales Revenue – Consumer Durables

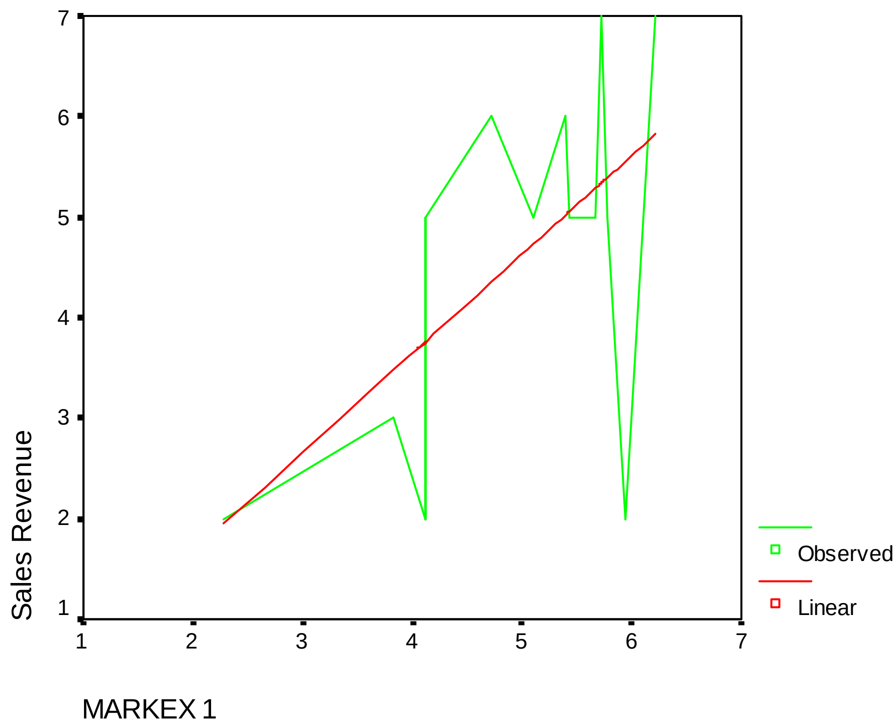
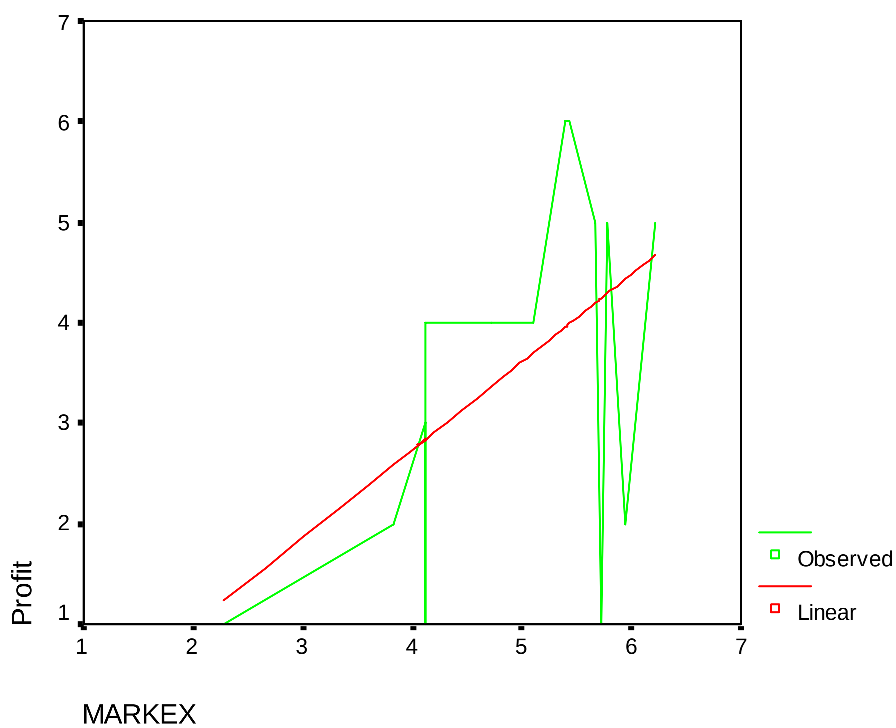


Figure 7.2: Market Expansion Score versus Profit – Consumer Durables



It appears that satisfaction level with sales revenue becomes high and reaches peak (5 and above on a 7 point scale) for categories having market expansion score upwards of 4 (on a 7 point scale). With two exceptions it zooms further for categories having market expansion score upwards of 5.5 (on a 7 point scale). The exceptions are of such companies which are not current market leader in their respective product categories and yet are trying to expand the market.

From the graph showing relationship between market expansion score and profit it appears that optimal level of market expansion strategy score is somewhat lower than the maximum possible market expansion score. Incidentally companies reporting very high level of satisfaction with their sales revenue are the ones which are market leaders in their respective categories and are still trying to expand the market. On the face of it this finding is in tune with an earlier finding that managers believe that market leaders are better placed to expand a market. Though leaders have some inherent advantages, marketing history is replete with examples of new entrants expanding the market through disruptive innovations and also gaining leadership positions. Hence, it may not be right to generalize that market expansion strategy is adopted by and suitable only for the market leaders.

7.1.2 Components of Market Expansion Strategy and Performance Relationship – Consumer Durables

Table 7.2 shows correlations between components of market expansion strategy and five performance measures.

Table 7.2: Correlations between Market Expansion Strategy Components and Performance Measures of Consumer Durable Categories (N = 15)

Performance Measures Scale	Sales Revenue	Sales Growth	Sales to Marketing Expenses Ratio	Profit	Cost of retaining customers
Improving consumption & purchasing ability	.503***	.332	.378	.591**	.370
Improving willingness to buy	.634**	.410	.332	.582**	.289
Improving affordability	.293	.067	.252	.197	.277
Improving sustainability	.311	.372	.029	.167	.320

* Correlation is significant at the 0.01 level (2-tailed), ** Correlation is significant at the 0.05 level (2-tailed), *** Correlation is significant at the 0.10 level (2-tailed).

Findings:

1. Consumption and purchasing ability improvement component is positively correlated with sales revenue and profit. It does not have significant association with other performance measures, though direction of association is positive.

2. Willingness creation component is also positively correlated with sales revenue and profit. It does not have significant association with other performance measures, though direction of association is positive.

3. Ability improvement and willingness improvement components have almost similar coefficient of correlations with profit but with sales revenue, willingness improvement component seems to have stronger association than ability improvement component.

4. Surprisingly affordability improvement component is not correlated with any of the performance measures though direction of association is positive in all cases.

5. Sustainability improvement efforts also do not have significant correlation with any of the performance measures though direction of association is positive in all cases.

Discussion

As discussed in previous chapter consumption ability improvement includes: (a) study of non-customer behaviour, (b) tracking of substitutes, (c) improving customer competence to use a product through product design modification &/or customer education, (d) designing products compatible with consumption context &/ or modifying the context itself and (e) providing customer service support &/or reducing need for it.

1. The big market expander companies have been making efforts to improve consumption ability. For instance, water purifier companies exhibit thorough understanding of non-customer behaviour and substitutes they compete with. On the other hand a two-wheeler company which scores low on market expansion scale cites example of a product which failed to meet first time buyer's expectations about value proposition. Another big expander in TV category adopted product localization strategy (D3).

A company can improve purchasing ability by providing innovative financing options to the customers. One of the respondents in a two-wheeler company very strongly argued that "what is limiting expansion of two-wheeler market in India is limited access to consumer finance (D5)." All the two-wheeler companies that are making market expansion efforts have developed tie ups with cooperative and rural banks for credit financing. In rural markets companies have aligned loan repayment schedule with the harvesting season. One company which has its own financing arm has adopted community based model for recovery of loan amount. Some companies look out for such dealers and retailers who can act as a source of informal finance for poor customers.

It is intuitive that consumption and purchasing ability improvement efforts have positive association with sales revenue for consumer durable categories. This is reflected not only in substantial increase in penetration levels of consumer durables but also in healthy revenue and profit growth of big market expander companies with the exception of two companies which are not market leaders.

2. Willingness improvement efforts include (a) need awakening (b) category selling (c) other promotional activities (d) sales and distribution and (e) participation in social projects. One of the big market expander companies promoted its products as a substitute to public transport. Just like mobile services companies another two-wheeler company which scores very high on market expansion scale is positioning some of its products as productivity enhancing devices. The company has designed special accessories for its bikes which can be used for delivering milk cans, water jars and other items. The company makes it clear that they don't look at these accessories as a business but as a means of creating willingness among customers to buy its bikes by helping them to increase their incomes.

Golder and Tellis (1998) observe that sales and distribution increases product visibility and leads to increased excitement and interest among potential customers [1]. This has been proven correct by a big market expander company which could triple its turnover in one of the north Indian regions by increasing its number of branches and appointing remote area sales officers (D3). One of the market challenger companies has set a target to have at least one of its products in every village. This company believes that such a strategy will pay in the long term (D5).

As compared to ability improvement efforts willingness improvement efforts have slightly stronger correlation with sales revenue. This can be explained by the example of water purifier category. Probably when a company succeeds in its need awakening and category selling efforts it succeeds in creating brand preference too. A respondent from a water purifier company says his company is targeting rural markets in a big way but these markets are unviable especially from return on marketing expenses point of view. He says these rural initiatives which are more of corporate social responsibility (CSR) initiatives, are indirectly an investment in future since rural population is migrating to urban areas in a big way (D2).

Lack of significant correlation between willingness improvement efforts and satisfaction level with marketing expenses probably indicates that companies need to improve their marketing efficiency. This in turn might further improve correlation between willingness improvement component and profit which is now 0.582. In order to deal with high sales and distribution cost in untapped or under served segments, most companies follow distributor driven model. A respondent in a CTV company observed that having exclusive dealers in villages is not feasible because a low purchase frequency of durables means low return on investment for an exclusive dealer (D14).

3. As affordability component has no significant association with any of the performance measures it becomes clear that it is not just sufficient to cut costs or lower the price points. What matters more is whether a company can create willingness among potential customers to buy a product category. One of the respondents argues that low price point is not the sole criterion for attracting new first time buyers in the market. He points out that his company's largest selling product is not the least priced product. According to him two-wheeler industry's categorization of entry level, deluxe and premium models does not match with customer's perception today. There are many first time buyers who straight away start with a deluxe bike. This view has been expressed by two more respondents. (D1, D7, D10).

7.1.3 Inter-Performance Measure Correlations – Consumer Durables

Following table shows inter-performance measure correlations.

Table 7.3: Correlation among Performance Measures for Consumer Durables (N = 15)

Performance Measures	Sales Revenue	Sales Growth	Ratio of Sales to Marketing Expenses	Profit	Cost of retaining customers
Sales Revenue	1.000				
Sales Growth	.797*	1.000			
Ratio of Sales to Marketing Expenses	.827*	.696*	1.000		
Profit	.553**	.369	.489***	1.000	
Cost of retaining customers	.482***	.641**	.520**	.390	1.000

* Correlation is significant at the 0.01 level (2-tailed), ** Correlation is significant at the 0.05 level (2-tailed), *** Correlation is significant at the 0.10 level (2-tailed).

Some companies believe that cost of expanding in low income segments or in rural areas is an investment in future replacement and up-gradation demand. This is evident from a study of inter-performance measure correlations which show high correlation between satisfaction level with sales growth rate and cost of retaining customers as also with ratio of sales to marketing expenses.

Correlation between satisfaction level with sales revenue and profit, though moderately positive is far lower than correlation between sales revenue and sales to marketing expenses ratio (0.553 versus 0.827). Correlation between satisfaction level with sales to marketing expenses ratio and profit is also moderate (0.489).

This probably indicates that factors other than physical distribution and promotional expenses play important role in influencing profitability in consumer durables categories. For instance, respondents in two different consumer electronics companies said that "Colour TV requires more material and hence costs are high but LCD's costs are proportionately low. Reduction in the cost of technologically advanced products like LCD TVs puts pressure on profit margins of colour TVs, leading to commoditization of Colour TV market. Energy consumption of LCD is also lower."(D13,D14) Two-wheeler manufacturers also felt pressure on their margins due to rise in metal prices over the years, though off late metal prices have started to decline. To deal with cost pressure two leading two-wheeler manufacturer have shifted a major part of their manufacturing operations to Uttarakhand state where tax concessions are available (D1,D7).

7.2 Market Expansion Strategy - Performance Relationship: Non-Durables

7.2.1 Overall Analysis

As shown in table 7.4, in case of consumer non-durables scenario is totally different as compared to consumer durables.

Table 7.4: Correlations between Market Expansion Strategy and Performance Measures for Non-Durable Categories (N = 12)

Performance Measures Scale	Sales Revenue	Sales Growth	Sales to Marketing Expenses Ratio	Profit	Cost of Retaining Customers
MARKEX (based on 18-item scale)	.322	.432	-.580**	-.530***	.447
MARKEX without sustainability component (based on 14-item scale)	.320	.460	-.435	-.405	.582**

* Correlation is significant at the 0.01 level (2-tailed), ** Correlation is significant at the 0.05 level (2-tailed), *** Correlation is significant at the 0.10 level (2-tailed).

Findings:

1. Correlation between market expansion score and satisfaction with sales to marketing expenses ratio as well as profit is moderately negative.

2. Unlike in case of consumer durables, correlation between market expansion strategy score and satisfaction level with sales revenue is non-significant but positive in direction.

3. Only similarity with durables is that the correlation between market expansion strategy score and satisfaction level with sales growth rate as well as cost of customer retention is non-significant albeit positive in direction.

4. When market expansion score is computed without considering sustainability component, correlation between market expansion score and sales revenue as well as sales growth rate still remains non-significant. Though correlation with sales to marketing expenses ratio and profit turns non-significant, the direction of association continues to be negative. Only major difference is that correlation between market expansion score without sustainability component and satisfaction level with cost of retaining customers becomes moderately positive significant.

Discussion:

As discussed in last chapter between 2003 and 2008 penetration level of soaps has increased by 3.8 %, of washing powders by 7.7% (against marginal decrease in washing bars by 0.7 %), of toothpaste by 11.8% (against decrease in toothpowders by 1.7 %). But this growth in penetration levels is not reflected in satisfaction levels with sales revenue and sales growth rate at a company level. On the contrary market expansion score has a negative association with sales to marketing expenses ratio and profit. This means increase in category penetration levels has largely been accomplished by heavy marketing expenses and at the cost of profit. An increase of around 4 % and 7.5% in penetration levels of soaps and washing powders respectively in 5 years is quite an achievement for categories which already had 91.8% and 82.3% penetration levels in 2003. However the downside is that in all probability this increase in penetration levels has been achieved by going further down the income segments and/ or reaching out to hitherto excluded geographic segments. This might have resulted into lower per unit margins, higher incremental cost of promotion and sales & distribution.

Only saving grace seems to be that market expansion efforts (without considering sustainability component) are correlated positively with customer retention cost. This is an important finding because unlike consumer durables, non-durables are purchased repeatedly and their penetration levels are very high. Hence if a company makes market expansion efforts it is likely to benefit to the extent that its customer loyalty improves. Extending the logic of ‘double jeopardy effect’ this means from customer loyalty point of view a large market share firm will benefit more from its market expansion efforts than a small share firm. But since association between market expansion score and profit is negative a firm will have to look at double jeopardy benefit holistically.

Figures 7.3 and 7.4, show results of curve fitting using regression analysis.

Figure 7.3: Market Expansion Score versus Sales to Marketing Expenses: Non-durables

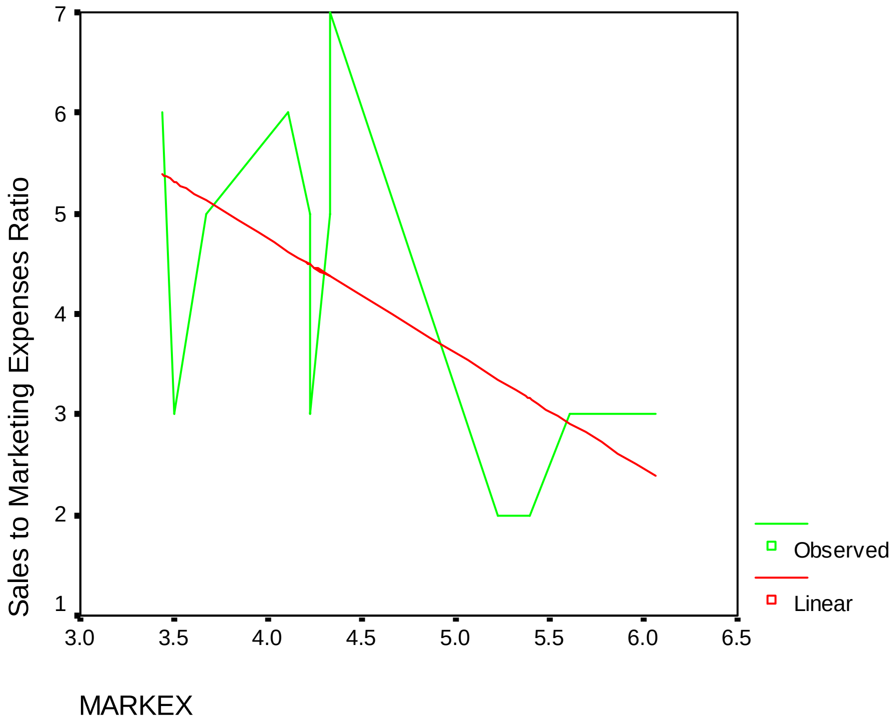
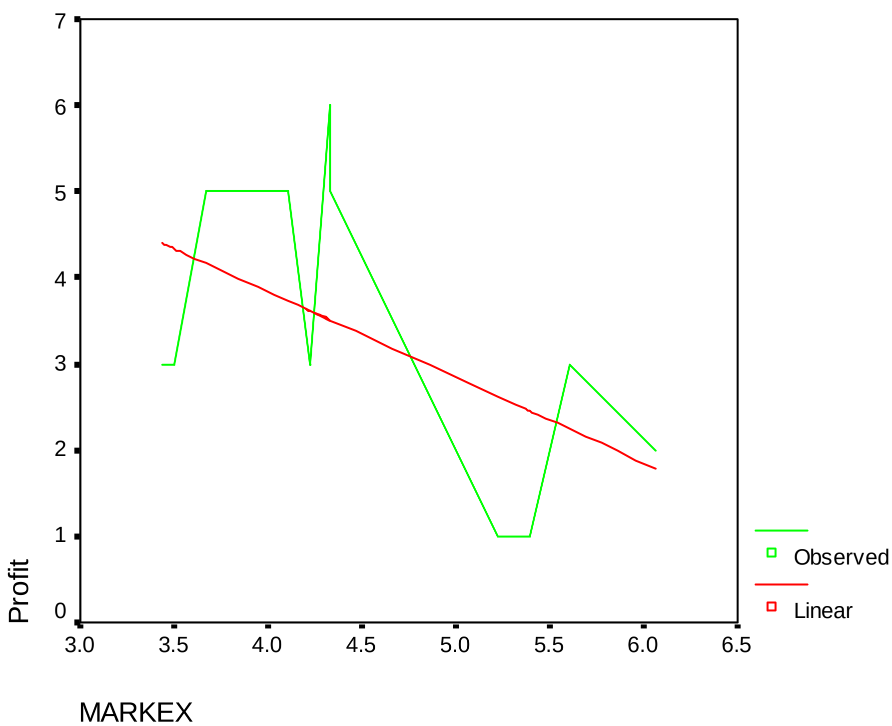


Figure 7.4: Market Expansion Score versus Profit :Non-Durables



From both the graphs it appears that optimal level of market expansion strategy score is 4.5 or less. Since in consumer non-durable category, a negative association between market expansion strategy and satisfaction with profit is observed, it is understandable that none of the companies studied have attained maximum possible market expansion strategy score.

7.2.2 Components of Market Expansion Strategy and Performance Relationship: Non-durables

Correlations between market expansion strategy components and performance measures are as shown in table 7.5.

Table 7.5: Correlations between Market Expansion Strategy Components and Performance Measures for Non-Durable Categories Excluding Mobile Services (N = 12)

Performance Measures Scale	Sales Revenue	Sales Growth	Sales to Marketing Expenses Ratio	Profit	Cost of Retaining Customers
Improving consumption & purchasing ability	.339	.526***	-.747*	-.550***	.436
Improving willingness to consume	.296	.385	-.260	-.359	.622**
Improving affordability	-.057	-.078	.004	-.134	.118
Improving sustainability	.296	.261	-.704**	-.544**	-.088

* Correlation is significant at the 0.01 level (2-tailed), ** Correlation is significant at the 0.05 level (2-tailed), *** Correlation is significant at the 0.10 level (2-tailed).

Findings:

1. It is noteworthy that correlation between all the four components of market expansion strategy and satisfaction level with profit is negative in direction. In fact two of these correlations are significant also.

2. ‘Consumption & purchasing ability improvement’ and ‘sustainability improvement’, have moderately significant negative correlation with profit. Both these components have fairly strong negative association with sales to marketing expense ratio also.

3. Direction of association of even ‘willingness improvement’ component with sales to marketing expenses ratio is negative, though non-significant.

4. **‘**Consumption and purchasing ability improvement component’ has moderately positive association with sales growth rate.

5. Correlation between ‘willingness improvement’ component and satisfaction level with cost of customer retention is significantly positive. This component does not have significant association with any other performance variable.

6. Affordability improvement component, like in case of consumer durables, does not show significant correlation with any of the performance measures.

7. There is a negative correlation between sustainability component and sales to marketing expenses ratio as well as profit.

Discussion:

1. It appears that by improving consumption and purchasing ability consumer non-durable companies have been successful in growing the sales but the sales growth rate is probably coming through dis-proportionately high marketing expenses. The sales growth also seems to be failing to translate into satisfactory levels of profit. As a part of their efforts to improve consumption and purchasing abilities two companies which have very high market expansion score produce “grade I” soap. A grade I soap contains at least 70% total fatty material (TFM) and less than 30% fillers. Both the companies claim that a grade I soap provides better value for money to the customers and hence helps in market expansion. One of the company’s decision to launch a grade I soap in popular segment was inspired by the fact that not only most of the regional brands but also even some very popular national brands are grade II and grade III soaps. A grade I soap requires less water than other soaps and hence helps in increasing usage rate in areas where water scarcity is hindering market expansion.

Grade I soap produces less foam, which is actually not required for cleaning dirt. However, customers mistake foam to be an indicator of cleaning power of soap. Respondent from this company observes that in India awareness about personal hygiene is low and most people do not understand meaning of grade of soap. This company is trying to create awareness about both the aspects. It has launched print advertisements in vernacular magazines with a catchy headline: 'Reading is good for your skin.' The ad copy educates customers about fillers in soaps which in no case should be more than 40% (grade III soap). The company has roped in a famous actress as its brand ambassador. As a result its soap sales volume in terms of tonnage in a short span of time has reached almost 35% of the country's largest selling soap which is grade II soap. Secondly, it has been successful in taking on unorganized regional players through strict enforcement of regulations related to TFM content (minimum 60% to be called soap – grade III), for which the company claims to have made efforts. This has reduced unfair cost advantage to the unorganized sector which used to be passed on as additional margins for trade push especially in rural markets (N6).

Another company which has very high market expansion score also markets a grade 1 soap (D12). Both these companies have reported reasonably high level of satisfaction with their sales growth rate as also with the cost of customer retention. But they report pretty low satisfaction with their sales to marketing expenses ratio as well as profit. Probably offering a good quality product in popular segment is affecting their sales revenue.

Both the soap manufacturers which scored high on market expansion scale do not market different product forms of soap. For instance, HUL's product mix contains shampoos, liquid soaps, face washes besides regular soap. Those consumer non-durable marketers which have soap as well as shampoo in their product mix may not mind increase in sale of shampoos at the cost of bath soaps. Hence a strategy of increasing usage rate though different product forms (ex., liquid soap for hand wash, special fabric wash in case of detergents) might be considered as an alternative to a strategy of trying to promote existing product forms in different situations. However, a study conducted by Sarangapani and Mamatha (2008) in south India concludes that in absolute terms amounts spent by rural consumers on bath soaps, washing powders and cakes are increasing indicating increase in usage rate in low income segments in spite of increased usage of shampoos [2].

2. Among the sampled companies in all four cases in which product categories have reported high market expansion score strong willingness improvement efforts of one or other type have been undertaken. As argued in section on factor description, sales & distribution helps in improving willingness to buy. For instance, even in a 'more urban' category like feminine hygiene, Stayfree was able to increase its market share by increasing its distribution while keeping price constant. This also reflected in almost 25% growth of sanitary napkins category as a whole in rural India in 2004 (Das-Munshi 2005) [3]. Among the sampled companies, those companies which had high market expansion score have strong national sales network. One of the respondents from a non-durable company observes that in north and east India logistics is a bigger problem than in south and west India. Road conditions beyond 60 Km of an urban centre are bad and hence there are major constraints in reaching out to far flung areas. Four of the biggest states (in terms of population) in India namely Uttar Pradesh, Bihar, Madhya Pradesh and West Bengal have poor road infrastructure, which makes distribution difficult and costly for a national player (N6,N7). Hence, unless and until a company works out really low cost distribution model or achieves economies of sale and/or scope, return on marketing expenses might not be very satisfactory for a national player.

Another important difference is the cost of transactions. One of the respondents made an interesting observation "Disposable income for poor customers needs to be estimated on daily basis rather than monthly or yearly basis. A customer in a rural area can afford to buy only 75 gm of bath soap at a time though he may eventually consume 200 gm per month. As a result there are three selling transactions involved rather than one."(N13) The BOP customer purchase frequency is much higher and from a business perspective, the transaction costs are therefore much greater if any organised attempt is made to reach out to this group**.**

Respondent from a firm which is a regional player says sale per outlet in rural markets is very low as compared to urban markets. This increases the cost of servicing outlets (transportation as well as salesmen visit for supply and credit collection). (N12) That is why regional players with local value chains and lower levels of economies of scale are best equipped to cater to widely dispersed and low density rural customers. Many strong regional players (ex., Kanpur based "Ghari" detergent) prefer limited geographic expansion though within chosen geographic areas these companies are better placed to expand market, a point strongly argued by Karnani (2007) [4]. A 2004 AC Nielsen study of rural markets revealed that on the average product categories stocked by a rural and an urban store do not vary significantly (19 versus 27) but what does vary is number of companies servicing the retail stores (42 versus 92) (Dobhal 2005) [5]. As shown in table 7.6 less than 40 % retail outlets in rural areas have a monthly sale of Rs 10,000 and above.

Table 7.6. : Distribution of Rural Retailers by Monthly Sales in 2004

Monthly Sales	Percentage
Above Rs 10,000	38
Rs 5,000 to 10,000	29
Up to Rs 5,000	33
Total	100

Source: Singh, P. 2005. 'The Emerging Retail Landscape', Business Today, 3rd July.

Targeting urban poor is different from targeting rural poor. Urban areas have very high population density and rich and poor do not necessarily buy from different places hence distribution becomes economically viable. According to one of the respondents just 9% shops in metro cities contribute approximately 20% of the sales of a company (An). Studies in urban economics show that urban areas are likely to enjoy greater production and distribution efficiency from better infrastructure and economies of scale (Calem and Carlino 1991) [6].

Willingness improvement efforts also include need awakening, category selling and participation in social projects. For instance, one of the sampled companies participates in social projects in a big way to create awareness about personal hygiene. It has also made strong efforts towards expansion of toothpaste/toothpowder market. This company created a three way partnership involving itself (private sector), government and Indian Dental Association and conducted dental check up camps in rural areas involving 1 million people. Respondent from this company observed “we have been spending lot of money on educating customers through advertising campaigns as well as social projects, but returns are not satisfactory.”(N7) Similar view was echoed by respondent in another company which scores low on market expansion efforts. He says “changing usage rate is a long and cumbersome process. It requires change in consumer behaviour.”(N9). This probably means that in highly penetrated non-durable categories creating willingness among non-consumers to consume and among low quantity users to increase their usage rate is a costly affair.

All this probably explains why willingness improvement efforts especially of national players have positive, though non-significant, direction of association with sales revenue and sales growth rate but negative significant association with sales to marketing expenses ratio as well as profit.

Interestingly willingness improvement component has a positive significant association with cost of customer retention. This means once the market is expanded, probably market expander company benefits through higher brand loyalty. This is very much consistent with a previous finding that managers in consumer durable as well as non-durable companies believe in first mover’s advantage.

3. Affordability creation component's direction of association with sales revenue and sales growth rate is found to be negative. But no significant negative association has been observed between affordability improvement efforts and any of the performance measures. This apparently contradicts Jaiswal's (2008) observation that sachet pricing strategy is unviable for companies [7]. He cites low-price shampoo sachets as an atypical case or an unusual distortion of the market. He says companies are trying to persuade consumers to move up from sachets to bottles; though sales volume has risen because of sachets, the profits and revenues have dropped. A possible explanation to this apparent contradiction is that Jaiswal's observation should not be seen as restricted to only the 'pricing' part of sachet pricing strategy. A sachet pricing strategy basically means facilitating access to low income customers. Providing access means not just financial access but also physical access coupled with awareness creation. These three aspects together have financial implications especially in rural markets. Hence in this research cost reduction measures have been included as an integral part of affordability creation component besides offering products at low price points. Various cost reduction measures employed by companies have been discussed at length in previous chapter.

Nevertheless like in case of consumer durables, importance of willingness and ability creation efforts ahead of affordability creation is underlined. These findings are consistent with a study by Mizik and Jacobson (2003) which concludes that firms that fail to pay sufficient attention to value appropriation (i.e., extracting profits) can not be expected to achieve sustained competitive advantage and reap the rewards from their value creation capabilities (i.e., innovating, producing and delivering products to the market) [8]. Mizik and Jacobson show that increase in emphasis towards value appropriation capability away from value creation capability is associated with increase in stock return. Citing the case of Intel they observe that 'Intel Inside' advertising campaign (value appropriation) signaled to the investor community that the company possessed necessary value creation ability. It can be argued that in the context of market expansion strategy affordability creation and consumption & purchasing ability improvement efforts amount to value creation while willingness improvement efforts primarily contribute towards value appropriation at the category level.

4. Negative correlation between score on sustainability component and profits can be explained as follows. Sustainability efforts as defined in this research include not only socio-environmental sustainability but also efforts to maintain demand. This in turn requires a company to keep track of customer spending pattern and accordingly modify value proposition of its products.

Respondent from a company which scores low on market expansion scale made a very candid and interesting observation. He says "many companies first decide to target low income segments. Then they try to figure out the maximum price that the customer in that segment can pay. From here on they work backwards not only on the cost but more importantly on quality and ingredients too. We don't compromise on number and quality of ingredients simply to fit in a particular price range. We rather prefer not to target very low end segments"(N15) Respondents in two other companies which score very high on market expansion scale, say that many customers buy grade II and grade III soaps without any knowledge of it. Just to comply with government norms, grade of a soap is written on package in very small (difficult to read) letters and that too in English (N6, N11). These products are backed by big advertising spend which results into huge volumes and consequent economies of scale. This probably reflects application of value appropriation logic to the disadvantage of uninformed consumers. Respondent from one of these companies said "Despite rise in oil prices in last few years we have not compromised with the quality, though this has negatively affected our margins. Our aim is to provide grade I soap at a reasonable price to every one. (N11)" In such a market scenario it's quite possible that a company which makes genuine efforts to maintain socio-environmental as well as demand sustainability without compromising on quality may suffer at least till the time customer awareness improves.

7.2.3 Inter-Performance Measure Correlations: Non-Durables

As shown in table 7.7**,** unlike in case of consumer durables only two significant associations are observed. Like in case of durables satisfaction levels of sales revenue and sales growth rate are fairly strongly correlated. There is a stronger correlation between sales to marketing expenses ratio and profit in case of non-durables as compared to durables.

Table 7.7: Inter Performance Measure Correlations for Non-Durables (N=12)

Performance Measures	Sales Revenue	Sales Growth	Sales to Marketing Expenses Ratio	Profit	Cost of Retaining Customers
Sales Revenue	1.000				
Sales Growth	.715**	1.000			
Sales to Marketing Expenses Ratio	.028	-.415	1.000		
Profit	.370	-.052	.774**	1.000	
Cost of Retaining Customers	.213	.283	.037	.117	1.000

*Correlation is significant at the 0.01 level (2-tailed), ** Correlation is significant at the 0.05 level (2-tailed).

Unlike in case of durables where sales growth rate has significant positive correlation with sales to marketing expenses ratio and cost of customer retention, in case of non-durables sales growth has no significant associations with these performance measures. On the contrary direction of its association with sales to marketing expenses ratio is negative. This is understandable because penetration levels of non-durables are already very high and further growth will come only from increasing the per capita consumption, which as discussed earlier is a long drawn process. Need for improving marketing efficiency in case of consumer non-durables is far stronger than in case of durables. Since sales to marketing expenses ratio and profit are fairly strongly correlated improvement in marketing efficiency is likely to have greater impact on profits in case of consumer non-durables as compared to durables.

7.3 Market Expansion Strategy - Performance Relationship: Composite Sample of Non-durables and Mobile Services

Data analysis has been repeated for a 'composite sample' including mobile services which are marketed almost in the same way as FMCG products. Tables 7.8 & 7.9 show coefficients of correlation between market expansion strategy score and performance measures.

Table 7.8: Correlations between Market Expansion Strategy and Performance Measures for Non-Durable Categories Including Mobile Services (N = 15)

Performance Measures Scale	Sales Revenue	Sales Growth	Sales to Marketing Expenses Ratio	Profit	Cost of Retaining Customers
MARKEX with sustainability component (on 18-item scale)	.357	.497***	-.315	-.390	.411
MARKEX without sustainability component (on 14-item scale)	.375	.524**	-.129	-.294	.463***

*Correlation is significant at the 0.01 level (2-tailed), ** Correlation is significant at the 0.05 level (2-tailed), *** Correlation is significant at the 0.10 level (2-tailed).

Findings:

1. A positive significant correlation is observed only between market expansion strategy score and satisfaction level with sales growth rate.

2. The correlation between market expansion score and satisfaction with sales to marketing expenses ratio as well as profit is non significant in case of a composite sample but direction of association remains negative.

3. In composite sample on computation of market expansion score without considering sustainability component, the correlation coefficient between market expansion score and sales growth rate further improves. Correlation coefficient with cost of retaining customers also turns significant in the composite sample.

Table 7.9: Correlations between Market Expansion Strategy Components and Performance Measures for Non-Durable Categories Including Mobile Services (N = 15)

Performance Measures Scale	Sales Revenue	Sales Growth	Sales to Marketing Expenses Ratio	Profit	Cost of Retaining Customers
Improving consumption & purchasing ability	.381	.604**	-.396	-.208	.445***
Improving willingness to consume	.353	.445***	.025	-.326	.470***
Improving affordability	.065	.060	.197	-.135	.052
Improving sustainability	.151	.172	-.671*	-.460**	.081

* Correlation is significant at the 0.01 level (2-tailed), ** Correlation is significant at the 0.05 level (2-tailed), *** Correlation is significant at the 0.10 level (2-tailed).

Discussion:

Consumption & purchasing ability improvement as well as willingness improvement efforts show moderate positive significant correlation with sales growth rate which is obvious because of a very high growth rate observed in mobile services category in last few years. Like in case of 'non-durables only' sample direction of association between consumption & purchasing ability improvement efforts and sales to marketing expenses ratio as well as profit remains negative. But interestingly both correlations turn non-significant on inclusion of mobile services in a composite sample. On the other hand correlation between consumption & purchasing ability improvement efforts and cost of customer retention turns significant in a composite sample.

Correlation between willingness improvement efforts and profit remains almost same (non-significant but negative) as in case of 'non-durables only' sample. Given the amount of customer churning that is reported in mobile services industry, it is not surprising that correlation between willingness improvement efforts and cost of customer retention though significant and positive, is lower than in case of ‘non-durables only’ sample.

Correlations of affordability improvement component as well as sustainability improvement component show almost similar pattern as in case of ‘non-durables’ only sample.

On the whole it can be said that no change is observed in the direction of association of market expansion score and performance measures after including mobile services in consumer non-durable category. Whatever differences are observed those can be explained on account of difference in the penetration level of non-durables (soaps, detergents and toothpaste/toothpowder) and mobile services.

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CHAPTER EIGHT

CONCLUSIONS

8. 1 Conceptualization of Market Expansion Strategy

8.1.1 From the point of delivery of standard of living in a developing country a market expansion strategy needs to be conceptualized as a strategy of increasing primary demand for a product category by converting non-customers into customers of a product category and/ or by increasing the usage rate of category's existing customers. From practical implementation point of view it is logical to conceptualize market expansion strategy in terms of certain activities and not as opposite of market share growth or competitive strategy. A conceptualization as opposite of market share growth or competitive strategy creates a wrong impression that a market expander company does not aim for market share and it does not benchmark itself against competitors. In fact some overlap between market expansion strategy and market share growth or competitive strategy is inevitable.

Some companies consider targeting existing customer base of a product category as a better alternative than targeting first time buyers or trying to increase usage rate of low quantum users. Hence conceptualization of a market expansion strategy as an alternative to targeting existing customer base of a product category for its replacement and/ or up-gradation demand is useful from the point of view of market potential measurement, setting marketing objectives and implementation. There is something unique about market expansion strategy vis-à-vis a marketing strategy targeted at existing customer base of a product category. Product category level primary demand creation requires different set of activities than brand level selective demand creation. A market expansion strategy focuses on creation of willingness and ability among a given industry's non-customers and those existing customers whose usage rate of the product category is low. This is what distinguishes market expansion strategy from other marketing strategies. Other marketing strategies aim at marketing specific brand/s to those customers who are willing and capable of entering into exchange with a marketer. In practice companies do not necessarily use only one type of strategy. The difference usually lies in the degree to which each of the strategic options is used by a company.

8.1.2 A market expansion strategy can be practiced across a continuum. At one end of the continuum lies a possibility of increasing demand for a product form and at the other extreme end lies possibility of making efforts to increase customer's wallet size and then seeking a larger spend on a given product category. Neither the "blue ocean strategy" framework nor the "bottom of the pyramid marketing" framework is applicable throughout the market expansion continuum. The "blue ocean strategy" framework is useful for increasing the sales of a product form and a product category. But it pays less attention to the possibility of expanding a market for a generic need and expanding a market by increasing the size of the wallet of the customers. The "bottom of the pyramid marketing" framework extends the scope of market expansion up to the level of increasing the size of the wallet of potential customers. But the "bottom of the pyramid marketing" framework almost ignores the competitive dimension in the formulation of a strategy.

8.1.3 Antecedents to a market expansion are: (i) unfulfilled needs and wants of the potential customers, (ii) their purchasing ability and (iii) access to the desired products and services. Access is a marketer-side antecedent to market expansion. It is influenced by the target market definitions of the companies.

8.1.4 Ability of customers to use a product is one of the important moderators that enhances or ameliorates the effect of antecedent variables on market expansion. Five components of consumption ability are: (1) customer's competence to use a product, (2) cost of product usage, (3) consumption context, i.e., infrastructure and other conditions (excluding the complements) (4) compatibility with complementary products and networks and (5) customer service. Macro-environmental factors affecting coefficient of innovation and coefficient of imitation are also moderators in the context of market expansion strategy. Another important moderating condition is the social and political support for business.

8.2 Reasons for and against Market Expansion Strategy

8.2.1 Market Size and Growth Rate Related Reasons

Generally consumer product companies evaluate market segments by looking at the overall size rather than ignoring untapped segments because of low per capita income. Many companies innovate their value proposition and value delivery process in order to target untapped / under-served segments.

If a product category's existing customer base is large it does influence some companies to concentrate more on meeting replacement and up-gradation demand as compared to targeting first time buyers of a product category. Main reasons for this are:(i) even a small penetration level like 10 % households owning a product means an existing customer base of 2.1 crore households in India, (ii) generally profit margins on products meant for replacement and up-gradation segment are higher than margins for first time buyer segment and (iii) cross selling opportunities to meet demand for multiple unit ownership among one's own existing customer base. Though this is cheaper, it may not necessarily be easier because many a times image of a company becomes product category or even product form specific. Possibility of a large existing customer base becoming a deterrent to market expansion strategy is higher in case of consumer durables as compared to non-durables because per capita usage of most non-durable categories is far lower in India than developed countries.

Managers in consumer product companies do not agree that they have a mindset of dealing with mature product categories. They argue that there can be several other reasons for not targeting untapped/ under-served segments.

8.2.2 Competitive Considerations

Advantages on supply as well as demand side make managers believe that a market leader company is best suited to expand a market. Supply side advantages are primarily based on economies of scale and financial strength needed for concept selling. Demand side advantages are primarily based on lower psychological risk associated with a market leader brand. Not only the end customers but also channel members and even suppliers of credit finance feel more comfortable dealing with a 'visible brand.' Managers in consumer product companies believe in first mover's advantage though they agree that a market expander company needs to guard itself against imitators by creating entry barriers.

Contrary to the opinion of scholars managers in consumer product companies do not believe that strong competitor orientation acts as a deterrent to market expansion.

8.2.3 Financial Considerations

In case of consumer durables managers do not think that untapped/ under-served market segments are ignored because of high cost of sales and distribution. But high cost of sales and distribution may become a deterrent to market expansion strategy in case of non-durables.

Managers in consumer durable as well as non-durable companies do not think that untapped or underserved market segments are ignored because of relatively high promotional cost in these segments. Promotional cost is not considered high if viewed from absolute cost perspective. Generally brand promotion cost is less than product category promotion cost as the category adoption process can be slow. This is one of the reasons as to why cash-rich market leaders are considered as better equipped to expand markets.

Relatively low profit margins may become a deterrent to market expansion in case of consumer durables. But in case of non-durables managers do not think that untapped or under-served market segments are ignored because of relatively low profit margins in these segments.

8.2.4 Non-financial Considerations

Managers candidly admit that decision to target or not to target untapped/ under-served segments is not based on social or even egoistical reasons. It is primarily a business decision based on financial considerations.

8.2.5 Other Reasons

8.2.5.1 Market expanders being better equipped does not necessarily mean they take initiative in market expansion. For instance, market expansion in two-wheeler category got a big boost when Hero Honda launched motorcycles with four stroke engines which offered at least 1.5 times the mileage of leading two-wheelers then. By offering a discontinuous drop in product usage cost to the customers, the company offered a disruptive innovation. Though Hero Honda is currently a market leader and also a market expander; it was not the pioneer of two-wheeler industry in India. Same is the case in TV industry. LG which expanded market through its rural thrust was a much later entrant in India. When LG came to India in 1998, Videocon, BPL and Onida were ruling the market. Similarly in mobile services category Reliance and Idea were not the first mover companies yet they played major role in market expansion.

Probably advantage with a new comer is that unlike established players it may not suffer from the problem of perceived market maturity. One of the respondents says since we entered the market late we had no option but to expand the market. Market leaders' ignoring untapped markets is similar to but not same as 'marketing myopia'. When Levitt (1960) talked about marketing myopia, he exhorted companies to not to remain confined to a product form or product category. He suggested them to focus on customer need instead [1]. When a company ignores a potential market it can be better described as 'market myopia.' For instance, Captain Gopinath (2007) who pioneered low cost airlines in India says "I could see what others failed to- the needs of billions of people. I wanted to make every Indian fly at least once. I was no longer looking at a billion hungry consumers…My story is the story of new India, the India of possibilities."[2] .

8.2.5.2 Many companies fail to achieve or maintain their leadership position in spite of being market expanders at one point of time. For instance, Kinetic Engineering Ltd and TVS Motors expanded two-wheeler market with their products Luna and TVS 50 respectively. A lot of first time buyers switched from bicycles to these mopeds. Though TVS is a strong player in Indian markets, Kinetic has been acquired by Mahindra group. Videocon entered TV market much later than numerous other companies. It did expand market and acquired top position, which it eventually lost to LG. Even after acquiring a big market expander brand like Akai and a few other brands Videocon failed to regain top slot.

8.2.5.3 Imitators are not necessarily local or regional players. Rather there have been cases in which a new entrant in the industry has expanded the market and an established company or even a market leader has been an imitator. Jaiswal (2008) observes that most of Hindustan Unilever's (HUL) BOP initiatives were not proactive and intentional, but were reactionary moves in response to competitive pressure [3]. For instance, Wheel was launched to counter Nirma 50-paise & one-rupee sachets of its Lux, Clinic Plus, and Sunsilk were launched to counter Cavin care's products.

Possibility of imitation depends on the ease or difficulty in matching and exceeding innovator's value proposition and more importantly flexibility of value chain. In FMCG category value chains are much more flexible than in consumer durables. Moreover in case if promotion plays an important role in a particular product category cash rich larger / leader firms have an advantage since it is relatively easy for them to generate customer pull as well as trade push. In case of consumer durables especially two-wheelers sunk cost in operations and sales & service infrastructure makes it relatively difficult even for a larger/ leader firm to imitate an innovator.

8.2.5.4 Increased globalisation offers export marketing opportunities to companies. As a result some companies focus on export rather than market expansion in domestic markets. For instance, one of the two-wheeler companies annual export revenues exceed Rs 3000 crore. However, it is quite possible that an exporter company is in fact adopting a market expansion strategy albeit in foreign countries.

8.2.5.5 Ownership status of a company also affects its decision to target under-served segments. A cooperative firm or a public sector undertaking may put the interest of under-served segments ahead of profits. On the other hand a subsidiary or Indian arm of a multi-national company might face a challenge of maintaining profit margins at comparable levels as its counter part in other countries while serving BOP markets.

8.2.5.6 Having a product portfolio has advantages as well as limitations. Product portfolio within a category (multiple brands or product forms) helps a company in spreading overheads and cross subsidization which is at times necessary to expand markets. For example, it is relatively easy and less costly for HUL than other water purifier companies to undertake a customer education campaign. Moreover HUL can spread its costs over a vast portfolio of products and reap benefits of increased awareness about health and hygiene in case of products other than water purifiers too. Hence, rural market expansion is easier for companies which already have rural presence in some other categories.

But a downside of diverse portfolio is that it may reduce dependence of a company on a particular category. For instance, D. Shivkumar (2008) CEO of Nokia India, the leading player in mobile handsets category says “Unlike other players (LG, Samsung etc.) Nokia has been only in mobiles and hence it kept investing ahead of times while other consumer durable manufacturers kept on waiting for market to grow.” [4]

8.2.5.7 Change in competitive environment also forces companies to adopt market expansion strategy. In early 2000 entry of multinational brands coupled with stagnation of market created a red ocean in consumer electronics and white goods industry. Entry of foreign brands affected premium positioning of established Indian brands like BPL and Onida. More options in premium segment became available (ex., Sony, Samsung and LG) to Indian customers who had developed fascination for foreign brands in a highly regulated economy till 1991. As a result some Indian brands decided to adopt market expansion strategy by launching products for low end market segments and reaching out to rural markets. However, the newly created blue ocean out of under-served rural markets also started witnessing aggressive competition after some time, which is a feature of read oceans.

8.3 Methods of Market Expansion

8.3.1 For implementation of market expansion strategy, a company needs to first make a decision about its market scope in terms of customers and competitors i.e. will it target untapped segments, and non-customers in tapped segments? Will it compete with other brands or define its competitive scope beyond that? But many companies follow an opposite sequence. Their choice of target market depends on the value proposition that they wish to offer. Value proposition is not necessarily a decision based on customer feedback rather it may be influenced by a company's value systems and beliefs. Just to fit in the affordable price range some companies refuse to compromise on what they feel is the right quality. They rather prefer to concentrate on market share in middle and upper income segments.

8.3.2 Using a Principal Component Analysis four components of market expansion strategy have been identified as: consumption & purchasing ability improvement, willingness improvement, affordability improvement and sustainability improvement.

8.3.3 Consumption & purchasing ability improvement efforts include: studying needs & wants of non-customers, understanding competition from substitutes, consumption ability improvement efforts related to customer competence, consumption context & customer service and purchasing ability improvement efforts using credit finance. Market expander companies keep track of not only substitute products from outside their industry but also non-commercial solutions or customer practices that are used to satisfy the same needs as a given product category does.

Besides designing products that are compatible with existing level of customer competence and consumption context, market expander companies try to improve customer's competence itself. But there are hardly any efforts made to alter the consumption context. Market expander companies provide adequate customer service support.

Market expander companies have tie ups with financiers which include cooperative and rural banks. Some companies have floated their own financing arms. They also customize loan repayment schedule for farmers and poor customers keeping in mind timing of availability of cash with the customers. Informal financing is commonly used for low income customers but it is generally taken care at dealer level.

8.3.4 Customer willingness improvement efforts include: need awakening, category selling & other promotional efforts, deeper sales & distribution and participation in social projects including income improvement programmes for poor people. In a developing country like India, due to high illiteracy, oftentimes need awakening efforts include not only creating change in the ‘desired state’ of customers but also making customers aware of change in their ‘actual state.’ Sometimes category creation efforts are undertaken by associating a given product with well established existing categories in the minds of customers. This helps consumers enhance information processing efficiency as well as cognitive stability. Market expander companies undertake lot of promotional efforts in rural areas using local media such as street plays, product display and demonstrations in weekly markets etc.

Sales & distribution reach is more of a hygiene factor as far as improvement in purchasing ability is concerned. But access and availability of a product has another important fall out in higher visibility. Widespread distribution leads to higher market presence which in turn creates interest and excitement among consumers and the opportunity to observe the product. In order to create visibility some market expander companies try to sell at least one product in untapped geographic areas and they also try to influence opinion leaders in rural markets like village head, teachers, doctors at primary health centre, bank managers etc. These efforts help in accelerating product diffusion process by influencing coefficients of innovation and imitation.

Big market expander companies especially if they have a focus on rural markets are involved in one or other social projects. Social projects are effective media of customer education. Further these efforts help companies in winning trust of potential customers. Some companies sell their products and services as productivity enhancement devices which help low income customers to enhance their incomes.

8.3.5 Affordability improvement efforts include general cost reduction, low cot sales & distribution, low price points and product usage cost reduction. General cost reduction efforts include product redesigning, rationalization of vendor base and economies of scale in purchasing, locating manufacturing plants in tax friendly locations, wastage elimination, choice of appropriate technology, speedy execution, management by exception, converting fixed cost into variable cost and close monitoring of finances.

In order to reduce cost of sales & distribution market expander companies in consumer durable categories follow distributor driven hub and spoke model. Non-durable categories require deeper distribution than durables. Companies use innovative low cost approaches like using bicycle salesmen to cover interior villages.

Efforts to bring down the price points include choice of appropriate value proposition, bundled offers, exchange schemes & subsequent sale of used products, promoting shared product purchase, pricing against substitutes, economies of scale based pricing and income stream and consumption basket pricing. Product usage cost reduction involves modifying product design and lowering first time buyer's entry cost related to the complimentary products.

8.3.6 On social sustainability front excepting two-wheeler companies most companies feel that there is nothing much it can do. Sustainability improvement component also includes monitoring of customer spending pattern so that appropriate efforts can be made to sustain the demand created by market expansion strategy.

8.4 Metric of Market Expansion Efforts

8.4.1 Geographic, socio-economic (SEC) class wise and price point wise sales data of a company can not be considered as a robust indicator of its market expansion efforts. For instance, sale in rural markets will be a misleading indicator in water purifier category because a large part of market even in urban India is untapped. Only 30% SEC A & B households in urban areas own a water purifier. Similarly first time buyers in consumer durable categories do not necessarily enter market by buying low end products.

The extent to which market expansion strategy is pursued at a product category level can be studied by using a conceptual framework comprising of activities necessary for converting non-customers into customer or increasing product category usage rate. A multi-item scale has been developed to study the extent to which market expansion strategy is being pursued. An 18-item market expansion scale is a maiden attempt in that direction.

8.4.2 The scale consists of above discussed four components. The scale passes reliability and construct validity tests. In a discussion preceding filling up of questionnaire one of the respondents from a company which scores low on market expansion scale said that his company is not trying to create blue oceans. Description of blue ocean strategy has been used as a validation benchmark for convergent validity in the questionnaire. Another respondent observed “at present we are like ‘company A’ but since last one year we are trying to become like ‘company B’. Unlike in the past now we spend 60-70% of our advertising budget on a brand meant for popular segment where we are trying to expand market potential." Descriptions of two companies A and B have been used as measures of discriminant validity. Such observations by respondents are evidence of the robustness of methods used for construct validity tests.

Of the four sub scales, sustainability component fails discriminent validity test. On dropping sustainability component, construct validity of the resultant 14-Item market expansion scale improves.

8.4.3 Extent of market expansion efforts made for a product category is a simple average of ratings obtained on 18 scale items. None of the consumer durable and non-durable categories have attained maximum possible market expansion strategy score (i.e. 7). On an average consumer durable and non-durable marketers do not differ in the extent of overall market expansion efforts they make. But they do differ in the nature of market expansion efforts. On an average consumer durable marketers make higher consumption & purchasing ability improvement efforts than non-durable marketers. On the other hand consumer non-durable marketers make higher affordability improvement efforts than durable marketers. But consumer durable and non-durable marketers do not differ in the extent of willingness and sustainability improvement efforts they make.

8.4.4 Of the four components of market expansion strategy on average consumer durable marketers make higher consumption & purchasing ability improvement efforts than willingness improvement efforts. The situation is reverse in case of non-durables. Of all the components of market expansion strategy consumer non-durable companies perform best on affordability improvement.

8.5 Market Expansion Strategy – Performance Relationship

8.5.1 In case of consumer durables extent of market expansion efforts have a positive association with sales revenue and profits. From the point of view of profit optimal level of market expansion strategy score is somewhat lower than the maximum possible market expansion score.

Consumption & purchasing ability improvement as well as willingness improvement components are positively correlated with sales revenue and profit. But consumer durable companies are less satisfied with sales growth rate vis-à-vis their consumption & purchasing ability and willingness improvement efforts

Consumption & purchasing ability improvement and willingness improvement components have almost similar coefficient of correlations with profit but with sales revenue, willingness improvement component has stronger association than ability improvement component.

Affordability and sustainability improvement efforts do not have significant correlation with any of the performance measures. Hence, even from market expansion point of view it is not just sufficient to cut costs or lower the price points. What matters more is whether a company can create consumption & purchasing ability and willingness among potential customers to buy a product category.

8.5.2 In case of non-durables market expansion efforts do not have a significant association with sales revenue and profits. On the contrary in case of non-durables association between overall market expansion efforts and sales to marketing expenses ratio and profits is negative. This means increase in non-durable category penetration levels (Soaps – 4 % and Washing Powders – 7.5 % in last five years) has largely been accomplished by heavy marketing expenses and at the cost of profit.

Unlike in case of durables, market expansion efforts (without considering sustainability component) in consumer non-durable categories are correlated positively with customer retention cost. This is important because non-durables are purchased repeatedly and their penetration levels are very high. But from the point of view of profit optimal level of market expansion strategy score for consumer non-durables is far lower than the optimal level of market expansion score in case of durables.

By improving consumption & purchasing ability consumer non-durable companies have experienced satisfactory growth in sales. But the sales growth rate is probably coming through dis-proportionately high marketing expenses. The sales growth also seems to be failing to translate into satisfactory levels of profit.

In highly penetrated non-durable categories creating willingness among non-consumers to consume and among low quantity users to increase their usage rate is a costly affair. This is reflected in negative significant association with sales to marketing expenses ratio as well as profit. But willingness improvement component has a positive significant association with cost of customer retention. This means once the market is expanded, probably a market expander company benefits through higher brand loyalty. This is very much consistent with a previous conclusion that managers in consumer durable as well as non-durable companies believe in first mover's advantage.

Like in case of consumer durables, importance of willingness and ability creation efforts ahead of affordability creation is underlined. In the context of market expansion strategy affordability creation and consumption & purchasing ability improvement efforts amount to value creation while willingness improvement efforts primarily contribute towards value appropriation at the category level.

There is a negative correlation between sustainability component and sales to marketing expenses ratio as well as profit. Sustainability improvement efforts include not only socio-environmental sustainability but also efforts to maintain demand. This in turn requires a company to keep track of customer spending pattern and accordingly modify value proposition of its products. But if some companies apply value appropriation logic to the disadvantage of uninformed consumers it's quite possible that a company which makes genuine efforts to maintain socio-environmental as well as demand sustainability without compromising on quality may suffer at least till the time customer awareness improves.

Direction of association of market expansion score and performance measures do not change even after including mobile services in consumer non-durable category. Whatever differences are observed those can be explained on account of difference in the penetration level of non-durables (soaps, detergents and toothpaste/toothpowder) and mobile services.

8.5.3 A negative correlation between sustainability components and profit is a matter of greater concern in case of consumer non-durables because of sheer level of penetration of these products. In case of consumer durables also satisfaction level with sales revenue and profit increases slightly when sustainability component is not included in computing market expansion score. But more importantly in case of consumer durables the sustainability component per se doesn't have a negative relationship with profit. On the contrary in case of non-durables there is a strong financial disincentive for adopting socio-environmentally sustainable practices.

8.6 Other Conclusions

8.6.1 All successful market expanders maintain such a product mix which helps them in maintaining high profitability. For instance, respondent from one of the two-whheler company says that the company will continue to market low end products while aggressively pushing high-margin bikes. Hence it can be concluded that market expansion strategy needs to be viewed as a continuum rather than a simple either or decision.

8.6.2 Scaling up of operations is a problem for small companies. But with local value chains and lower levels of economies of scale regional players have an advantage in terms of lower cost of servicing outlets in widely dispersed and low density rural markets. In fact many strong regional players prefer limited geographic expansion though within chosen geographic areas these companies are better placed to expand market.

8.6.3 It is a widely held view that poor customers who buy products from local or unorganized players suffer poverty penalty. They either pay more than their rich counterparts or for the same price they get lower quality products. However the argument that MNCs lower poverty penalty and offer better solutions to BOP problems is equally questionable. Many a times low price points are achieved by compromising on product quality that too without customer's knowledge. For instance, grade II and grade III soaps are sold at low price points and backed by heavy promotional spend. Most customers are not aware about grade of a soap. This reflects application of value appropriation logic to the disadvantage of uninformed consumers. Drucker (1985) calls the emergence of the consumerist movement the 'shame of marketing', in terms of a reaction to the predominant power of profit orientation and information asymmetry. Hence poor customers are caught between 'poverty penalty' allegedly inflicted by unorganize sector and 'unawareness penalty' inflicted by large organized sector players [5].

8.7 Specific Contribution of Research

8.7.1 In this research an attempt has been made to look into the concerns of macro-marketing scholars as to whether marketing systems and practices benefit some populations or geographies over others. This issue is especially relevant in a developing country like India where product penetration and consumption levels are pretty low. The domain of market expansion construct has been clarified and antecedents and moderators that affect market expansion in developing countries have been identified. A market expansion strategy has been conceptualized as a strategy of increasing primary demand by converting non-customers into the customers and/ or by increasing the usage rate of marginal user of a product category. Unlike in case of the “blue ocean” strategy framework, market expansion strategy has not been conceptualized as an opposite of market share growth strategy or competitive strategy.

In large countries like India due to large population base effect even with relatively lower product penetration levels, targeting existing customer base of a given product category is an important strategic option to market expansion. Long ago in a study in USA, Tippett, Magrabi, and Gray (1978) found that home appliances are replaced faster if the household belongs to higher income segment, the head of household is younger in age, the children live in the household, and the family has moved recently (length of stay at current address) [6]. Today with growing urbanization most of these conditions are visible in India in higher middle class and upper income segments. Though in percentage terms these segments are small, in terms of sheer number of households these are reasonably large segments. Hence replacement and up-gradation market is an attractive target for marketers. Hence as shown in figure 8.1 in this research market expansion strategy is viewed as a strategic option to targeting existing customer base of a product category for its replacement and up-gradation demand.

This research highlights difference between increase in overall industry sales and addition of new customers to the market. Targeting replacement and up-gradation market raises overall sales of industry without improving standard of living of those who are outside the market for a given category or those who are only marginal users.

Figure 8.1: Market Expansion Strategy

Existing Customers of a Category		Non-customers
Normal Users	Low Quantity Users	
Increasing usage rate / Promoting multiple unit ownership	*Market Expansion Strategy* Increasing usage rate	Converting non-customers into customers
Targeting replacement & up-gradation demand	Targeting replacement demand	

In Ansoff matrix existing and new customers are defined at firm level whereas in this research existing and new customers are defined at product category level. Ansoff talks about "market extension strategy" and "market penetration strategy." Extension of a market by reaching out to new market segments in present geographic markets is not the same as regional, national, or international geographic expansion of the company's sales. The former option leads to an increase in primary demand for the product category. But in the latter case, a company might grow its sales by gaining market share from existing competitors in new geographic markets. Similarly, if market penetration is sought by converting non-customers into the customers of the industry's products, it leads to increase in the primary demand. But if market penetration is brought about by attracting competitor's customers, it leads to increases in the selective demand.

This conceptualization is different from Ansoff's (1957) product-market growth matrix [7]. In this research market expansion has been conceptualized as conversion of non-customers into customer or increase in usage rate of low quantity users of a particular product category.

Corporate level expansion of overall sales revenue is not considered as market expansion. Such a conceptualization has managerial implications for market potential measurement, setting marketing objectives and developing marketing strategy.

8.7.2 A market expansion continuum has been conceptualized across which a market expansion strategy can be practiced. At one end of the continuum lies a possibility of increasing demand for a product form and at the other extreme end lies possibility of making efforts to increase customer's wallet size and then seeking a larger spend on a given product category. The market expansion continuum can serve as a basis for defining levels of market expansion.

8.7.3 Though endogenous growth theory makes an important contribution to research on market growth, Bhardwaj et al. (2005) acknowledge that it is not known as to what combination of marketing mix is most effective in promoting market growth [8]. In a way this research extends Bhardwaj et al thesis on endogenous growth. In this research an attempt has been made to investigate firm level actions and conscious attempt by a company to grow sales of a product category as a whole. One of the most important contributions of this research is development of a holistic framework for product category level primary demand creation as against brand level selective demand creation which is the prime focus of extant marketing literature especially in developed countries. Market expansion and targeting replacement market require different set of activities.

This research synthesizes extant knowledge on the subject by looking into fundamental issues such as what is a market, what is market expansion, and what factors affect market expansion. A generic framework for implementation of a market expansion strategy should be useful for the expansion of markets of any type, including the bottom of the pyramid markets in developing countries. The framework focuses on creation of willingness and ability among non-customers and marginal users of a product category. This is what distinguishes market expansion strategy from other marketing strategies. Other marketing strategies aim at marketing specific brand/s.

8.7.4 The research is first attempt at empirically examining views of Indian managers on reasons for and against pursuit of market expansion strategy in consumer product sector.

8.7.5 This research addresses a very important issue of how to measure the extent to which a market expansion strategy is being pursued at product category level. Most models of diffusion of innovation and market response have been developed using a few marketing variables at a time. There is no existing metric to capture a holistic view of marketing strategy of a company. Scholars have been using sales data in studies on market growth and product diffusion. However, generally such sales data does not provide break up of purchases by first time buyers, replacers, and multiple unit buyers.

An ‘opportunity for majority index’ i.e. OM Index, (Preston et. al. 2007) [9] evaluates involvement of companies in BOP markets and not the market expansion efforts. Similarly Kim and Mauborgne’s (2005) [10] evaluation of blue ocean strategy as also a study of the corporate strategic behaviour in response to economic reforms in India (Ray 2008) [11] do not evaluate strategies at product category level.

In this research a multi-item scale has been developed for the purpose of studying the extent to which market expansion efforts are made. This research offers two options in the form of 18-item and 14-item, MARKEX measures that can be used by a company to establish a market expansion strategy score at product category level.

8.7.6 Most scholars highlight limitations of the existing business models of western companies as a major hindrance in market expansion. In this research four components of market expansion strategy have been identified as (i) consumption & purchasing ability improvement, (ii) willingness improvement, (iii) affordability improvement and (iv) sustainability improvement. This enables a company to focuses on specific activities that need to be undertaken to implement market expansion strategy.

In extant marketing literature ability and willingness have been discussed as pre requisites for existence of demand. Generally ability is considered as a function of income while willingness as a function of needs and aspirations of customers. This research highlights that instead of looking at ability as an uncontrollable factor, marketers need to consider ability improvement as a part of market expansion strategy. Scope of ability improvement efforts has been expanded to include consumption and purchasing ability which can not be taken for granted in under-served segments in developing economies.

8.7.7 Within an overall framework of market expansion strategy a framework for consumption ability improvement efforts is proposed. Consumption ability is conceptualized as consisting of five dimensions: customer competence, consumption context, compatibility with complimentary products and networks, cost of product usage and customer service. This framework can help marketers in first identifying the reasons for non-consumption or low consumption of a given category and then in streamlining the efforts to fix the same.

8.7.8 A framework for purchasing ability improvement efforts is also proposed. In this framework variables on customer side (Income, Assets, Access to Credit and Social Pressure) and variables on marketer side (Value Proposition, Offering size, Payment Basis, Payment Timing, Payment Quantum, Social Embededness and Inter-firm cooperation) have been identified. These two sets of variables in turn offer various purchasing ability improvement options to marketers such as Ability Matching, Advancement, Accumulation, Pooling, Enhancement and Asset Leveraging. Both consumption and purchasing ability frameworks are especially relevant for targeting under-served segments in developing countries.

8.7.9 There are hardly any studies linking market expansion strategy in India to financial performance. This research makes a maiden attempt at examining market expansion strategy – performance relationship at consumer product category level in India. A company can quantitatively chart its progress on various activities and study its association with performance indicators.

The research findings give marketing scholars and practitioners a basis beyond mere intuition for recommending a market expansion strategy in under-served markets. The research supports a general view that in consumer durable space it is profitable for a company to expand market. But same is not true in case of consumer non-durable categories. The research provides empirical support for pursuing consumption & purchasing ability and willingness improvement efforts to companies in both consumer durable and non-durable sectors though for differing reasons. In case of consumer durables consumption & purchasing ability improvement and willingness improvement efforts have a positive association with sales revenue and profit. In case of consumer non-durables, which are bought frequently, a motivating reason for companies to pursue consumption & purchasing ability improvement efforts is that it is positively associated with sales growth rate, while willingness improvement component is positively associated with cost of retaining customers.

In extant marketing literature ability and willingness creation efforts have not been discussed from the point of view of performance of a company. Though affordability improvement is important for market expansion, this research underlines the importance of consumption &

purchasing ability improvement and willingness improvement efforts ahead of affordability creation efforts.

8.8 Limitations and Implications for Future Research

Getting companies to agree to participate in research was a big problem. Almost all the companies in two-wheelers, consumer electronics and mobile services were contacted. As also major organized sector players in water purifiers and non-durable sector were approached. Despite financial constraints researcher personally visited companies located in New Delhi capital region, Bangalore and Nagpur besides his home town Pune. Several trips were made to Mumbai. In all 30 companies agreed to participate in the research.

In this study a market expansion strategy score has been calculated as a simple average of the scores of underlying components. This assumed equality of the components can be examined by future researchers. Market expansion strategy – performance relationship is likely to be moderated by product penetration levels. Hence future studies might examine effect of penetration levels of product categories on market expansion strategy- performance relationships. A cross-sectional study is useful in examining associative relationship between market expansion strategy and performance. Future studies might use a longitudinal design to understand cause and effect relationship.

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CHAPTER NINE

SUGGESTIONS

Based on the research some suggestions are made specific to the three phases of a market expansion strategy.

9.1 Market Scope Definition

1. Study assumptions underlying penetration and consumption data

Companies need to be aware of assumptions made while studying product penetration/ consumption levels to locate under-served segments. In a country like India inadequate consumption ability (ex., infrastructure etc.) needs to be factored in while exploring under-served segments.

2. Weigh the advantages and drawbacks of a market expansion strategy

In case of consumer durables market expansion strategy in general and consumption & purchasing ability and willingness improvement efforts in particular have positive association with sales revenue and profits. But in case of consumer non-durables which have very high penetration levels, market expansion strategy has a negative association with profits. However consumption & purchasing ability improvement and willingness improvement efforts have positive association with sales growth rate and customer loyalty respectively. Since association between sales to marketing expenses ratio and profits is strong, a company needs to improve marketing efficiency while expanding markets in non-durables.

Increase in overall product category demand might limit competitive harmful reactions since competitive loss of market share may be hidden in overall growth in sales and therefore may attract less retaliatory actions. Potential drawback of market expansion strategy is that the expander may finance the growth of category giving a “free ride” to competitors and category growth may attract new entrants.

3. Verify assumptions which hinder expansion of BOP markets

Managers need to verify the assumptions which hinder BOP initiatives: Do poor customers have use for products and services sold in upper income segments or developed markets? Can they afford to buy these products and services at current prices? Are the bottom of the pyramid markets important to the long term viability of businesses?

4. Estimate aggregate buying power and work out economics

Managers need to ask: at what price their products and services will become affordable to under-served segments? Have they verified their assumptions about willingness and ability of customers in under-served segments? What is the estimate of aggregate buying power of low income segments? At what volumes the economies of scale and learning curve effects set in?

5. Study scope for value enhancement vis-à-vis substitute products and practices

Raise questions like: Is there a scope for value enhancement in under-served segments especially in comparison with substitute products or some such non-commercial solutions / customer practices that satisfy the same need as a given product category does? Is the poverty penalty prevalent? Do customers in these segments pay higher price either in cash or in terms of efforts to obtain goods and services? Do customers receive lower quality for the price they pay? Is the unawareness penalty prevalent? Can these penalties be reduced?

6. Beware of 'market myopia' and 'business model myopia'

Managers especially in well established companies need to be aware of what Rosenblum et al. (2003) describe as business model myopia [1]. Specific questions that can be raised are: Is the company listening too much to its best customers and in the process leaving out lower end markets which may not require all the features that best of the customers expect? Has the company got into a situation of 'performance oversupply' wherein rate of technological progress exceeds rate at which market demand evolves? Is the company giving too much importance to influx of imitators as vindication of its target market strategy? Is the sunk cost in the form of infrastructure investments preventing the company from targeting untapped segments? If yes, can something be done about it?

7. Assess market driving abilities

Managers need to ask: Does their company possess or can it acquire ability to create innovative products with 'disproportionate' leap in customer benefits or reduction in customer costs or both? Does their company possess or can it acquire ability to deliver products through unique business systems?

8. Explore marketing of used (second hand) products as a means of market expansion

Participation of organized sector in sale of used products by refurbishing and quality assurance can help in reaching out to such segments which have remained untapped hitherto. For instance, in 2005 while average price of a new two-wheeler was Rs 35,000 a second hand one cost Rs 14,000 (Shukla et.al 2005) [2]. Marketers can consider this as a benchmark of affordable price point and develop an entirely new business model. In developing countries this may also be a desirable option from socio-environmental sustainability point of view.

9. Collect information related to coefficients of innovation and imitation

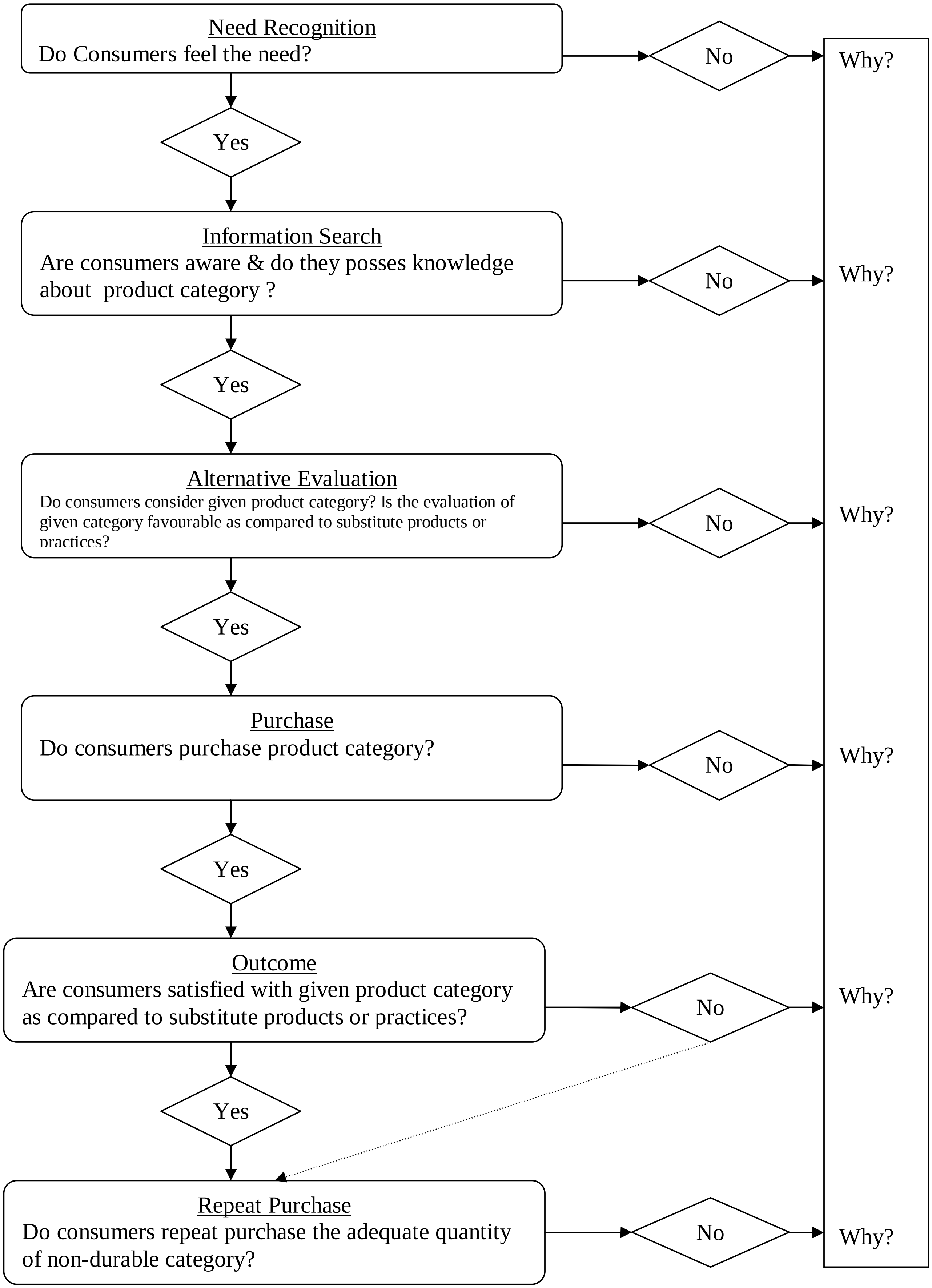
To understand the strength of coefficient of innovation a company may collect information on geographic area wise literacy level and penetration level of mass media. For the strength of coefficient of imitation a company may collect data on: Gini Index as a measure of income heterogeneity, the number of distinct ethnic groups, and percentage of working women.

9.2 Creation of Willingness and Capability to Consume

1. Study non-consumer behaviour and analyse consumer value chain

As shown in figure 9.1 each step in consumer decision making process needs to be studied to understand reasons for non-consumption or low consumption.

Figure 9.1: Framework to Understand Non-consumer Behaviour



2. Explore overcoming functional fixation to expand product usage rate

In the light of functional fixation of customers a company may develop application specific product forms. Need specific products may help in arresting seasonal drop in sales. For instance, face wash can be a solution to tackle reduced bathing in certain areas in winter.

A company may also study effectiveness of a situation comparison communication (ex., an ad copy comparing new situation with an old situation for the same product) vis-à-vis a product comparison communication (ex., an ad copy comparing new product with an old product for the same situation) preferably in an experimental set up.

3. Affordability improvement may be necessary but not sufficient condition

This research shows that consumption and purchasing ability improvement efforts have a positive association with performance indicators. But affordability improvement component doesn't. Proposed frameworks for consumption and purchasing ability improvement can be used to systematize these efforts.

4. Set 'marketing input targets' to accelerate product diffusion

A company may set targets for marketing inputs and processes rather than simply targets for marketing outputs i.e. sales. For instance, number of opinion leaders to be contacted in a village or as a part of promotional campaign selling a certain minimum number of a product in a village to create visibility. Such efforts may accelerate product diffusion process by facilitating innovation and imitation

5. Innovations for purchasing ability improvement

While matching price-performance level of its products with the income levels of non-customers, a company needs to guard against two errors. Firstly, offering unwanted features which add to the product cost and secondly, not offering such features that are expected by the customers irrespective of their income. While matching the purchasing ability of non-customers, companies need to think of the total cost of ownership and usage of the product.

At this juncture, the two-wheeler industry needs to ask itself whether the rate of improvement in engine mileage has kept pace with the rate of increase in fuel cost. Similarly for a poor customer while buying a TV set, cost of satellite cable connection becomes a barrier. TV and satellite channel companies can explore the possibility of using the revenue model of newspapers for which advertisers constitute major source of revenue than the readers.

Ability matching by charging price on the basis of usage or temporary ownership of products rather than permanent ownership, is an option which has not been used extensively. For instance, market for vacuum cleaning services can be expanded by renting out vacuum cleaners just like bicycles are rented in towns and villages.

Equated monthly installment schemes have helped many customers in advancing their purchases. To reach further down the economic pyramid the companies may design equated weekly/ daily payment option on the lines of daily collection based recurring deposit schemes operated by cooperative credit societies. Many of the drawbacks of private money lending system can be overcome if companies can develop a chain of registered money lenders. Community based rotating credit (an Indian version popularly called as Bhishi in Maharashtra) is used by many retailers. Companies may be able to improve the scale and efficiency of informal finance by getting involved in such schemes.

Ability accumulation (prepayment in small installments for financing a future purchase) and ability pooling options (selling to a group of customers rather than an individual customer) have also been not used extensively. Companies may tie up with banks for deposit linked product purchases. Customers can save money in a bank on which they can earn interest and when sufficient amount is collected the company can deliver the product. Companies may promote joint ownership by pooling together purchasing abilities of poor customers. For instance, products like vacuum cleaners, washing machines, water purifiers etc. may be sold to a housing society.

Rural poor constitute major non-customer segment. For this segment the purchasing ability enhancement efforts can take three directions: (1) Helping farmers to improve return on their farming business, (2) helping farmers to develop alternative revenue source by leveraging their land and other assets. For instance, trade associations may help in boosting agro tourism, and (3) developing alternate employment opportunities by setting up plants or locating vendors in rural areas and also by providing vocational training to rural people. Such efforts may be routed through trade associations. These efforts need to be seen as a part of industry level market expansion strategy.

6. Installment based pricing

A market expansion strategy calls for not just the price-minus approach but installment based pricing (equated weekly/ monthly/ quarterly/ half yearly installment - EMI is the most popular form) so as to match the cash flow of customers. A company needs to study total family income, timing of cash flows and customer spending pattern to arrive at a figure which different segments can pay as installments and then work backwards.

9.3 Fulfilling Demand in a Sustainable Manner

1. Market based cooperation among non-competing firms

In order to cut down costs companies which target same markets and deal with similar issues (ex., lack of awareness about health and hygiene) but sell different products i.e. non-competing firms (ex., bath soaps & toothpastes vis-à-vis water purifiers) can undertake joint campaigns for customer education.

2. Long term view of sales to marketing expenses ratio

Since sales to marketing expenses ratio is a metric used for performance evaluation, managers tend to allocate promotional budgets in such a way that will ensure quick return rather than developing a market. Conventional sales to marketing expenses ratio may be supplemented with a new metric 'projected sales (3-4 yrs time lag) to current marketing expenses ratio' or 'current sales to past marketing expenses.'

3. Using 'under-yielding and under-utilized resources' across the value chain

Examples of housewives as part time workers in soap manufacturing plant, bicycle salesmen to reach out to interiors, local mechanics as authorized sales agents or employing a local community boy for maintenance and upkeep of telecom towers, have a common underlying principle. A local mechanic in a village gets much lower yield from his efforts than his counterpart in urban area. Hence, some incremental earning opportunity for such a resource can be a win-win situation for a company as well under-yielding resource. India's vast network of post offices, public distribution systems, banks, schools, primary health care centers and village panchayats provide ample opportunities for mutually beneficial relationships. Hence companies may look out for under-yielding and under-utilized resources that can be used throughout their value chains.

4. Use market expansion framework for demand sustainability

Since competition for a customer's wallet is increasing, a company needs to constantly monitor customer spending pattern from the demand sustainability point of view. Based on conceptual framework of market expansion strategy, a check list may be used to monitor change in factors influencing primary demand for a product category.

A) Market scope level: Monitor change in

- Size and composition of market segments on parameters that are relevant to a given product category.
- Penetration & consumption levels of a given product category in different segments.
- Forces influencing coefficients of innovation and imitation of a given product category.
- Competition at product category level, generic need level and budget level.

B) Need level: Monitor change in

- Factors that trigger recognition of a need that is satisfied by a given product category.
- Relative importance of various needs.
- Category definition.
- Value expectations. (ex. aspirations for better quality products at same or slightly higher price and vice versa)

C) Want level

- Is there any change in acceptability, affordability, accessibility and awareness of existing substitutes?
- Are there any new substitutes (including non-commercial solutions to customer needs) emerging?
- How does our category compare with existing and new substitutes?

D) Qualified Want level

- Is there an improvement or deterioration in customer competence needed to use a given category?
- Is there an improvement or deterioration in consumption context needed to use a given category?
- Is there any change in acceptability, affordability, accessibility and awareness of complementary products & networks needed to use a given category?
- Is there an improvement or deterioration in overall cost of usage of a given category?
- Have the customer service requirements changed for a given category?

E) Demand level: Monitor change in

- Income levels of target market and other segments.
- Asset ownership status in target market which can change purchasing power.

- Acceptability, affordability, accessibility and awareness of formal and/or informal credit.
- Social environment which affects repayment of loans in target market and other segments.

F) Sustainability level: Monitor change in

- Regulations which affect demand for a given category.
- Social cost associated with a given category.
- Environmental cost associated with a given category.

5. Study circular effect of demand of a primary product & compliments on each other

A company may estimate how the increase in demand for its products will affect the demand of its compliments. For instance, as per a study in 2015 India is likely to have 66 million cars leading to a predicted fuel consumption of 100,000 million liters, three times more than that registered in 2002 (34,045 million liters), and in 2025, 157 million cars leading to consumption of 3,00,000 million liters oil (Bouachera and Mazratti 2007) [3]. An increase in the demand of compliments may affect its prices and ultimately cost of usage of a given product. Hence, while estimating growth in demand for a product, a company must also estimate the consequent change in the demand and prices of its raw material, and complementary products & services. These estimates should span all the four stages of a value-chain i.e. production, distribution, consumption and disposal. In turn these changes in availability and prices of compliments will affect cost of usage of primary product and consequently its demand.

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EPILOGUE

Market Expansion Strategy– An Antithesis to Exclusivist Marketing

In a Journal of Marketing article in 1958 Peter Drucker argued for a marketing discipline that incorporated an impact-fostering development [1]. While Drucker (1958) talked about need for development and expansion of mass markets for macroeconomic stimulation, macro-marketing scholars argue in favour of socially equitable benefits of marketing. Accordingly, in this research a market expansion strategy has been conceptualized as a means of delivering standard of living to the masses in a developing country like India. This in turn requires targeting non-customers and increasing usage rate of marginal users of non-durables like soaps, washing products and oral care products.

Non-customers offer huge business opportunity in many industries. For instance, as per IRS 2008 data, non-customers of television, two-wheelers and refrigerators constitute approximately 53 %, 85 % and 84 % of all Indian households respectively [2]. For the same products, growth in demand because of replacement, up-gradation or increased quantity purchase can come only from a fraction of existing customer households.

Since majority of the non-customers belong to low income segments affordability is a pre-requisite for targeting them. The researcher in an article titled 'Non-customers in the cross-hairs' coauthored with his dissertation supervisor, had calculated non-customer market potential assuming retail prices of TVs, two-wheelers and refrigerators as Rs 5000, Rs. 20,000 and Rs 5000 respectively. These prices were assumed keeping in mind Rs 1 lakh Nano car [3]. A latest newspaper report that Bajaj Auto Ltd is thinking of launching made-in-China 125 cc motorcycles in the price range of Rs 20,000 - Rs. 24,000 (Sharma and Singh 2009) is a validation of these assumptions [4].

For non-customer market potential calculation approximately 25% below poverty line households are excluded. From the remaining 75% of 21.4 crore Indian households, existing owner households (47% TV, 15% two-wheeler and 16% refrigerator) are excluded. Even if half of this pool is finally considered, non-customer market potential for TVs (at Rs. 5000), refrigerators (at Rs. 5000) and two-wheelers (at Rs. 20,000) works out to more than Rs. 21,000 crore; Rs. 33,000 crore and Rs. 1.36 lakh crore respectively.

Targeting non-customers will not only boost the current demand but it will also create replacement and up-gradation buyers of tomorrow. However, market myopia can restrict market expansion. At least 50% of the managers in durable categories feel that existing customer base of a category acts as a deterrent to market expansion.

The NCAER Market Information Survey of Households (in association with Business Standard) 2004, classifies Indian households into seven categories as: *Deprived, Aspirers, Seekers, Strivers, Near Rich, Clear Rich and Sheer Rich* (Shukla, Dwivedi and Sharma 2004) [5]. McKinsey Global Institute (2008) combines the last three classes into one and calls it Global Indians [6]. It estimates number of households in each of these classes in 2005 and projects the change in composition of Indian markets till 2025. It also provides description of each of these classes as follows. Annual income levels indicated in Indian National Rupee (INR) as well as in US $ are real incomes in year 2000 but the number of households is estimated for year 2005. Conversion in US $ is based on then prevailing exchange rate of 1$ = Rs.45.7 in year 2000.

1. Deprived (less than Rs. 90,000 p.a.; less than $ 1,969) 101.1 million households: Poorest group, many living under official definition of poverty. Earn livelihood through unskilled or low skilled work characterized by seasonal and/ or part time employment.

2. Aspirers (Rs 90,000 – 2,00,000 p.a.; $ 1,969 - $ 4,376) 91.3 million households: Small time shop keepers, low skilled industrial and service workers who struggle to live comfortably, typically spend almost half of their income on basic necessities.

3. Seekers (Rs. 2,00,000 – 5,00,000 p.a.; $ 4,376 - $ 10,941) 10.9 million households: Varied in terms of employment, attitudes, age and other factors. Young college graduates, white collar employees, mid-level government employees, medium scale businessmen.

4. Strivers (Rs. 5,00,000–10,00,000p.a.; $ 10,941 – $ 21,882) 2.4 million households: Regarded as successful in society, working as business people in cities, established professionals, senior government officials, medium scale industrialists in towns and rich farmers have reasonable wealth base and stable income.

5. Globals (above Rs. 10,00,000 p.a.; above $ 21,882) 1.2 million households:

Senior corporate executives, large business owners, politicians, big agriculture land owners, top tier professionals.

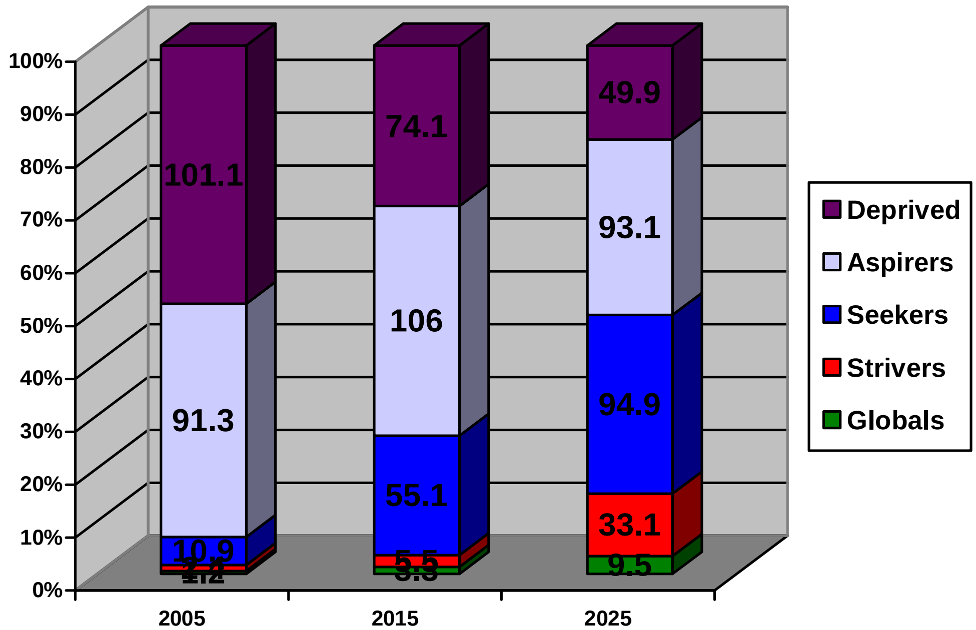
MGI describes Seeker and Strivers as middle class (Rs 2 lakh – Rs 10 lakh p.a.) households. Though in terms of percentage households in middle and upper classes (Rs. 2 lakh & above) constitute less than 10%, their absolute number is more than 14 million. These households are already well penetrated and constitute an attractive target for replacement and up-gradation demand. Besides, there is scope for selling multiple units to existing customer households.

As it can be seen from figure 10.1, percentage of low income classes will gradually decline and % of middle and upper classes will rise over next 20 years.

However, in 2025, the global class alone (above Rs. 10 lakh p.a.) will consist of 9.5 million households. Number of households in annual income range of Rs. 5 lakh and above will be 32.6 million though in terms of percentage it will be just 11% of all Indian households. But in terms of sheer number in 2025 this will be more than double the number of households in middle and upper income segments in 2005. In all probability these households will own most of the consumer durables and consume most of the non-durables. Unless and until there are commensurate capacity additions on the supply side, these households which will be just

11 % of all Indian households might attract more attention of marketers for replacement, up-gradation and multiple unit ownership.

Figure 10.1: Income wise % of households in India



Source: Adapted from McKinsey Global Institute. (2007), *The 'Bird of Gold': The Rise of India's Consumer Markets*, McKinsey & Company, (May).

Even if one were to consider middle classes and above (annual income above Rs 2 lakh) as target market, a whopping 143 million households (more than half of today's India) in aspirer and destitute classes will be left out. Out of all the middle class households (Rs 2 lakh – Rs 10 lakh) in India, 76 % (87 million households) will reside in urban areas making it an extremely attractive target for marketers. This may probably lead to neglect of rural markets which will account for 63% of total population of India in 2025.

If MGI's forecast were to come true just 43 % households (middle class and above) will account for 80 % of India's private consumption expenditure in 2025. This coupled with what Ghoshal, Bartlett and Piramal (2000) describe as a penchant of companies for "satisfactory underperformance" [7], is a recipe for exclusivist marketing.

Citing example of anti-Chinese riots in Indonesia in 1998, Chua (2003) observes that conditions in today's developing world make the unrestrained combination of democracy and free markets volatile because of the sheer scale: the poor are vastly more numerous, and poverty far more entrenched in developing world today. Chua warns that tension between market dominant minorities, especially ethnic minorities and a poor local majority has the power to sabotage markets and democracy, the very structures businesses need in order to thrive [8].

An exclusivist marketing may create 'consumption minority' and may have the same negative effect as market-dominant ethnic minorities. It's a food for thought not only for marketers but more importantly for policy makers. As regards consumer durable marketers there is a reason for them to expand markets. As this research shows there is a positive association between market expansion strategy and profits.

As regards non-durables, marketers need to keep in mind that more money with the same people does not mean that people will spend more on the same category. Hence, there will be no option but to grow the per capita usage rate of marginal users. Due to the requirement of deeper distribution probably local or regional players will be better equipped to expand markets for non-durables. The other alternative is that large organizations will have to develop a new model combining their research and development, manufacturing and brand building competencies with marketing efficiency and low cost sales and distribution competence of local /regional players.

Policy makers may be required to intervene in order to promote democratization of markets in a sustainable manner. In his talk at University of Michigan in January 2000, the then finance minister of India, P. Chidambaram (2000) cautioned that unless a disconnect between a vibrant and eager to become wealthy India and the second India which is lonesome, sad and deprived, is eliminated, the second India will limit the promise of first India [9].

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ANNEXURE I

Questionnaire

Prof. Vasant V. Bang
Associate Professor (Marketing)
KIIT School of Management
(a constituent of KIIT Deemed University, Bhubaneswar, India)
6, Ideal Colony, Paud Road, Kothrud, PUNE 411029

Dear Sir

I am pursuing Ph.D in marketing management from Birla Institute of Technolgy and Science (BITS), Pilani, under the guidance of Dr. Sharad L. Joshi who is an alumnus of IIM, Ahmedabad and former dean of management faculty at University of Pune. My research objectives are to understand: how do companies select a target market, what is the relationship between strategic orientation of a company and its performance. **But in my PhD thesis I don't intend to identify strategic orientation and performance with the names of the individual companies. I am going to treat information source as anonymous.**
I request you to kindly spare some of your precious time to answer a few questions. I assure you that the information collected through questionnaire is purely for academic purpose and it will be treated with full confidentiality. I would like to bring to your notice that **I am not seeking any quantitative confidential information.**
I promise you that after completion of my PhD work, I shall present you an abstract of major findings of my research. I look forward to your valuable support.
Thanking you.

Faithfuly Yours

Prof. Vasant V. Bang

<u>Respondent Profile</u>

Name of the company (optional) :

Contact Person & designation (optional) :

Product Category :

A-i

Strategic Orientation Questionnaire

Section I

Q.1 Given below are a few statements related to the factors influencing target market choices of companies in India. Please read each of these statements carefully and indicate your level of agreement or disagreement with it. Number 7 indicates strong agreement while number 1 indicates strong disagreement. Depending on your agreement/ disagreement level, please tick appropriate number.

a) When a company reduces search for untapped or under-served market segments it is an indicator of the company's belief that a product category has reached maturity phase.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

b) If an industry's existing customer base is big enough, a company prefers to concentrate on replacement and up-gradation demand rather than trying to increase market potential of a product category.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

c) Generally a market leader company takes initiative in expanding market potential of a product category.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

d) Many a times a company decides to target untapped or under-served market segments despite its low per capita income, because these segments are very big in size.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

e) Many a times untapped or under-served market segments are ignored because sales and distribution cost in these segments is relatively high.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

f) Many a times untapped or under-served market segments are ignored because promotional cost in these segments is relatively high.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

A-ii

g) Many a times untapped or under-served market segments are ignored because of relatively low profit margins on products meant for these segments.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

h) Too much of focus on dealing with competition from the competitor brands prevents a company from targeting untapped or under-served market segments.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

i) Many companies do not wish to be first in targeting the untapped or under-served market segments because they do not want imitators to reap the benefits at their cost.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

j) Many a times a company targets untapped or under-served market segments for social reasons like desire to satisfy the needs and wants of the underserved.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

k) Many a times a company targets untapped or under-served market segments for egoistical reasons like desire to dominate the market.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

l) Many a times a company decides not to expand the market because it considers market expansion to be socially and environmentally unsustainable.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

<u>Section II</u>

Given below are a few statements related to the marketing strategies of **______product category** of your company. Please read each of these statements carefully and indicate as to what extent do you agree or disagree with it. Number 7 indicates strong agreement while number 1 indicates strong disagreement. Depending on your agreement/ disagreement level, please tick appropriate number.

1. We make very little <u>promotional efforts</u> in such geographic areas where **_________** <u>product category as a whole</u>, has low penetration level.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

2. In terms of <u>value proposition</u> (price-performance level) our product mix is well equipped to meet the needs of lower income segments of our industry.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

3. We <u>prefer not to expand distribution reach</u> in such geographical areas which are under-served by our industry.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

4. In our <u>internal discussions &/or market research</u> we often take up the issue of: why some people are non-customers **__________** product category.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

5. We keep a regular track of <u>all such substitute products/ services</u> that satisfy the same customer needs as **__________** product category does.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

6. Our marketing strategy mainly focuses on expanding our industry's market potential rather than fighting for market share within existing industry boundaries.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

A-iv

7. We regularly analyze data on: how do people spend their money on <u>satisfaction of various needs</u>.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

8. We generally **do not run** such promotional campaigns which project that ___________product category as <u>a better alternative to substitute products</u> from outside our industry.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

9. We frequently run promotional campaigns <u>to highlight importance of a need</u> which a ____________ product category can satisfy.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

10. We regularly make one or other type of communication effort <u>to educate the customers</u> on how best to use a product.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

11. While designing a product we always ask: Can it be used easily even if there are inadequacies in the end use environment?

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

12. We run quite a few programmes to help the low income communities <u>to improve their income levels</u>.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

13. We offer products at such <u>low price points</u> that a large number of customers of our industry can afford to buy it.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

14. <u>Total usage cost</u> of our products is so low that a large number of customers of our industry can afford to use it.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

A-v

15. We try to use innovative credit financing facility for such customers (dealers, retailers etc in case of non-durables) who otherwise do not receive bank credit.

	1	2	3	4	5	6	7
Strongly Disagree							Strongly Agree

16. Austerity and cost reduction **is not** a key result area in our company.

	1	2	3	4	5	6	7
Strongly Disagree							Strongly Agree

17. In many of our markets, we take up social projects for local community.

	1	2	3	4	5	6	7
Strongly Disagree							Strongly Agree

18. Most of our offices and operations comply with very high environmental specifications.

	1	2	3	4	5	6	7
Strongly Disagree							Strongly Agree

19. We periodically assess the environmental impact of the usage of our products.

	1	2	3	4	5	6	7
Strongly Disagree							Strongly Agree

20. We spend considerable efforts in educating the customers to be socially responsible while using our products.

	1	2	3	4	5	6	7
Strongly Disagree							Strongly Agree

Section III

Q.1 Please indicate the degree to which your ___________ **product marketing** strategies resemble the two companies described below by distributing 100 points between them. To what extent is your company like Company A and Company B respectively?

Type of company	Points
Company A mainly targets existing customer base of the _____ product category. It tries to gain market share from the replacement demand of existing customers of its own as well as other companies. It also spends considerable efforts to convince industry's existing customers to upgrade to higher end products.	
Company B* makes considerable efforts to expand the market potential for ________product category as a whole. It targets first time buyers who never owned a ________product.	
Total	100

* In case of non-durables description of company B reads as:

"Company B makes considerable efforts to expand the market potential for ________product category as a whole. It targets first time buyers who never used a ________product and also tries to increase usage rate of ________."

Q. 2 Please rate your _________ product category performance in last three financial years in the following areas on a seven-point scale, where in 7 indicates very satisfactory and 1 indicates need for big improvement.

a. Sales revenue

1 2 3 4 5 6 7

Needs big improvement Very Satisfactory

b. Sales growth rate

1 2 3 4 5 6 7

Needs big improvement Very Satisfactory

c. Sales to marketing expenses ratio

1 2 3 4 5 6 7

Needs big improvement Very Satisfactory

d. Profit margin

1 2 3 4 5 6 7

Needs big improvement Very Satisfactory

e. Cost of retaining customers

1 2 3 4 5 6 7

Needs big improvement Very Satisfactory

A-vii

ANNEXURE II

First Draft of Market Expansion Scale - 29 scale items

Given below are a few statements related to the marketing strategies of ____ product. Please read each of these statements carefully and indicate as to what extent do you agree or disagree with it. Number 7 indicates strong agreement while number 1 indicates strong disagreement.

1. While <u>allocating</u> promotional budget we give higher preference to such geographic areas where penetration level of our industry's products is low.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

2. In terms of <u>price-performance level</u>, our company's <u>product mix</u> is better suited for relatively upper income segments of our industry. *

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

3. In our <u>interaction with the advertising agencies</u> upper income customers are featured more often than the lower income customers. *

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

4. We do a lot of <u>market research</u> to understand why non-customers do not use our industry's products.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

5. We <u>keep a close track of the sales</u> of all such industries whose products/ services satisfy the same customer needs as our industry does.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

6. We regularly <u>analyze data on: how do people spend their money</u> on satisfaction of various needs.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

7. Our promotional campaigns are mainly aimed at establishing superiority of our brands over other brands within the industry rather than substitute products or practices from outside the industry. *

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

8. Some of our promotional campaigns are aimed at creating a desire among people to satisfy a need which our industry's products can satisfy.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

9. While designing products and packaging, we always aim that the products should be usable by customers with very low level of knowledge and skills.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

10. We frequently run promotional campaigns to educate the customers on how to use the product.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

11. While designing products, we always ask ourselves: can the products be used in poor end use environment.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

12. We believe that a company can not involve itself in improving the end-use environment at the customer's end. *

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

13. In whichever market we operate, we try to persuade the government to improve the infrastructural facilities.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

14. Overall our R & D department pays more attention to the enhancement of product features than reduction in a product's total usage cost.*

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

15. Our company runs a lot of programmes aimed at helping the rural poor to increase their incomes from their existing occupations.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

16. Our company runs a lot of programmes meant for enhancing employment opportunities for poor.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

17. We offer products at such low price-points that the poorest of the customers can afford to buy them.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

18. Instead of forgoing the customers who can not individually afford to pay for our products, we promote shared product ownership or usage.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

19. We arrange credit financing for almost all such creditworthy customers who can not pay for our products/ services in one go.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

20. We have developed mechanisms to provide credit finance to such customers who are not eligible to receive it from formal sources like banks etc.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

21. While expanding sales and distribution network we give higher preference to such geographic areas where penetration level of our industry's products is low.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

22. We do not have a strong network of relationships with local communities and NGOs.*

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

A-x

23. We have developed low cost distribution system to reach out to the villages with low population density.

1	2	3	4	5	6	7

Strongly Disagree | | | | | | Strongly Agree

24. We continuously monitor the market shares of competitor brands in the first time buyer segment.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

25. We are very aggressive in cost cutting so that we can profitably target low income customers.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

26. We can quantify to a large extent the environmental impact of increase in the consumption/ usage of our industry's products.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

27. We periodically report on the key environmental performance indicators.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

28. We spend considerable efforts in educating the customers to be socially responsible while using a product.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

29. We continuously monitor the government policy to understand if there are any initiatives to reduce the consumption/ usage of our industry's products.

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

ANNEXURE III
List of Sampled Companies

As confidentiality was promised to the respondents during data collection phase, identity of the respondents and companies has not been disclosed in the thesis. Respondents and companies have been assigned codes as D1 to D15 in consumer durable sample and N1 to N15 in non-durable sample (including mobile services companies). Codes have not been assigned in the order of following listing of companies.

List of Companies

1	Hero Honda Motors Ltd, New Delhi/ Pune
2	Eureka Forbes Ltd (Water Purifier Div.), Mumbai
3	LG Electronics India Pvt Ltd, Gurgaon / Mumbai
4	Samsung India Electronics Pvt Ltd, New Delhi
5	TVS Motors Company Ltd, Hosur/ Bangalore
6	Honda Motorcycle & Scooter India Pvt Ltd, Gurgaon
7	Bajaj Auto Ltd, Pune
8	Kinetic Engineering Ltd, Pune
9	BPL Sanyo Ltd, Bangalore
10	Suzuki Motorcycle India Pvt Ltd, Gurgaon
11	Ion Exchange India Ltd (Domestic Water Purifier Div.), New Mumbai
12	Godrej & Boyce Mfg. Co. Ltd, Appliances Div., Mumbai
13	Mirc Electronics Ltd, Mumbai
14	Sharp India Ltd, Pune
15	Sony India Pvt Ltd, New Delhi
16	Idea Cellular Ltd, Mumbai/ Pune
17	Fena (Pvt) Ltd, New Delhi
18	Karnataka Soaps & Detergents Ltd, Bangalore
19	BSNL Ltd, New Delhi
20	Dabur India Ltd, Ghaziabad
21	Anchor Health & Beauty Care Pvt Ltd, (Soaps), Mumbai
22	Anchor Health & Beauty Care Pvt Ltd, (Tooth Pastes), Mumbai
23	Henkel India Ltd, Chennai/ Pune
24	Jyothy Laboratories Ltd, Mumbai
25	Proctor & Gamble (Gillette) India Pvt Ltd, Mumbai
26	Godrej Consumer Products Ltd, Mumbai
27	Shri Mahila Griha Udyog Lijjat Papad, Pune
28	VVF Ltd, Mumbai / Pune
29	Reliance Infocomm Ltd, New Mumbai
30	VICCO Laboratories, Nagpur

List of Doctoral Research related Publications, Presentation and Doctoral Consortium Participation by the Candidate

A) International Journal Publications

1. 'Market expansion strategy – performance relationship' *Journal of Strategic Marketing*, U.K. Vol. 18, Issue 1, pp. 57-75, Feb. 2010. (co-author: Dr Sharad L. Joshi).

2. 'Conceptualization of Market Expansion Strategies in Developing Economies', *Academy of Marketing Science Review*, USA, Vol. 12, No.4., March 2008. (co-author: Dr. Sharad L. Joshi)

   Available: http://www.amsreview.org/articles/bang04-2008.pdf

- Abstract in "Management Research in Emerging Economies" eds. Sarkar, Mitali, *Vikalpa*, Indian Institute of Management, Ahmedabad, Vol. 33, No.2, (April-June 2008), p.163

- Paper included in reading list (other) for module on "Consumer Disadvantage – Emerging Markets" in subject Consumer Behaviour (MGT3027), Semester 1: 2008-09, *Queens University, Belfast, U.K.*, Available: http://www.qub.ac.uk/schools/QueensUniversityManagementSchool/CurrentStudents/ModuleOutlines/MgtOutlines/Filetoupload,85105,en.pdf

- Paper included in NextBillion.Net (an initiative of World Resources Institute), Available: http://www.nextbillion.net/news/conceptualization-of-market-expansion-strategies-in-developing-e

B) Participation in Doctoral Consortium

- Participated in doctoral consortium in *Emerging India: Strategic Innovation in a Flat World*, Strategic Management Society's (USA) India Special Conference, Indian School of Business, Hyderabad, 12 – 14 December 2008 under the convenorship of Prof C.K. Prahalad. Total 50 participants selected through competitive round based on evaluation of doctoral research proposal. Participants included doctoral research students from Harvard Business School, INSEAD, Oxford, Yale, Indian Institutes of Management, Indian Institutes of Technology etc.

C) Presentation

- Delivered lecture on 'Market Expansion Strategies' in Faculty Development Programme at ICFAI National College, Pune, 4^{th} March 2005.

D) Newspaper Article

- 'Non-customers in the cross-hairs', *The Economic Times,* editorial page, national edition, dated19/5/2008 (coauthor: Dr. Sharad L. Joshi).

Brief Biography of Candidate

Vasant V. Bang is a production engineer and holds MBA degree. He is currently pursuing doctoral research from Birla Institute of Technology & Science, Pilani, India. He has 18 years of academic and professional experience in reputed academic institutions like KIIT University, Bhubaneswar; Narsee Monjee Institute of Management Studies, Mumbai etc. and industrial organization like Bajaj Auto Ltd. His academic and consultancy interests are in the areas of Marketing Strategy, Brand Management & Marketing Research. He has participated in doctoral consortium in conference on *Emerging India: Strategic Innovation in a Flat World*, Strategic Management Society's India Special Conference, at Indian School of Business, Hyderabad in 2008. For this he was selected through competitive round alongside scholars from reputed national and international management schools.

He has published and presented papers in national and international journals and conferences. His articles have been published in The Economic Times, The Times of India and The Indian Express. He is also reviewer for two international journals and member of international advisory board of an international congress on Pervasive Computing & Management held in Australia in Dec. 2009.

Brief Biography of Supervisor

Dr Sharad L. Joshi is an alumnus of Indian Institute of Management, Ahemedabad and Institute of Cost & Works Accountants (ICWA). He holds Ph.D degree in management from University of Pune. He has more than 35 years of professional and academic experience. Currently he is the Director of Institute of Management Education, Research and Training, Pune, India. He had been dean of faculty of management and also head of the department of management sciences at University of Pune, India.

Dr Joshi has been a chairman of governing board of PSE Securities Ltd, Pune, a subsidiary of Pune Stock Exchange. He also serves as director on board of a few companies. Dr Joshi has worked on more than 400 consultancy assignments for national and international clients. He has been a member &/chairman of several academic and administrative committees in the University of Pune and other educational institutes.

He has published several articles and papers and presided in several conferences and seminars. He guides Ph.D students of University of Pune, Symbiosis International University, Pune & Birla Institute of Technology & Science, Pilani, India. His academic and consultancy interests are in the areas of strategic management, financial management and management information systems.