Customer Value Expansion Approach: Intensive Strategies Applied on Automobile Tyre Marketing

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Offering value product/s means more benefits at reduced price that yield less margin. But in the changing market situation it is the irony that business organizations are experiencing ground realities and struggling for survival. Current strategies and business models look fatigued. Therefore, a modified strategy with innovative business model becomes imperative to cater escalating consumer value consciousness within which the firm has to increase its sales. This fundamental research article develops a value expansion approach emphasizing value oriented middle market. In addition, a cost-effective manufacturing and corresponding marketing model focusing on precise and persuasive value proposition have been formulated to pursue both cost leadership and differentiation strategy simultaneously. The strategy and models have been applied on automobile tyre industry stressing the mainstay truck and bus segment.

Introduction:

Under the vagaries of global economy and market paradigm shift, organizations are suffering from pent up finished goods inventory, and thereafter liquidity crunch. Simultaneously customers become more demanding and expect more price cuts. Demand is sluggish owning to poor customer sentiment. To trigger demand and clear-out inventory, manufacturers are allowing large discounts to both primary and secondary sales and thereby incurring huge margin loss.

Indian customers are becoming more value conscious by shifting from premium to value and even more economy products, if possible postpone purchase. Based on buying power, bottom 80% of total population accounts 67% of total consumption and it is not that consumers' needs disappear rather their purchasing behaviour and consumption pattern have been changed.

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Therefore, there is a paradigm shift and business is concentrating about the middle of the market traditionally characterized as a ditch with lower return on investment (ROI) because customers want more benefits from company's offerings out of their wallet. Any market oriented company has to be transformed in the line with this market force by aligning business activities towards value centric mid zones.

Against this backdrop, companies will have to do business reconciling two conflicting issues – maintaining of operating margins and satisfying of more demanding customers. The need of the hour is to increase internal operating efficiencies and plugging-off value drain and position relevant super value products and services before the targeted customers. So it requires a different and innovative strategy and operationalizing

its implementation, control and feedback mechanism. Adoption of better understanding of business processes is to be directed in a more spirited, focused and disciplined way through which organizations would be less distracted by cutthroat competition and economic headwinds.

Objectives of the Study

It has already been discussed that a somewhat trend reversal strategies are to be looked-into. The objectives of this article are to explore and provide a plausible marketing strategy and solutions – how to do business zeroing in on value increase to cater middle market in order to increase sales factoring in:

1. Shifting from more customization to more standardization i.e. products are likely to be more standardized rather than highly differentiated leveraging higher productivity and cost reduction.

2. Extending "Porter's generic strategies" rule by pursuing cost leadership & differentiating strategy simultaneously (Which is Porter's so-called Stuck-up in the middle having no competitive advantage) through internally technological innovations and externally marketing value propositions.

Scope of Research:

This research article is pervasively applied to any sector from consumer durables to consumer non-durables, financial to service but this article is narrowed down to automobile tyre of truck and bus segment where technological expertise and innovative marketing model have been streamlined with the prevailing changed market scenario.

Research design:

It is a combination of fundamental research and descriptive research that aims at developing a value expansion approach implemented through two strategic models (1) manufacturing model (P_2QC DM) and (2) marketing model (V_3CR) on truck and bus segment of automobile tyre industry looking at the emerging trend of more customer value consciousness.

Literature Review

Leavy (2008) states that successful companies' focus of strategic analysis is not on the company or even the industry but the value creating system within which different economic entities – suppliers, business partners, allies, customers work together to co-produce value. The same has been worked-out by Breja (2007). He presents a business case on cement and construction sector that best value is created through commitment, co-operation and compliment when people interact with each-other in the team ,create product, customize it according to customer requirements, compare processes (Benchmark) for improvement and excellence and compete in market. He has envisaged value creation as an effective outcome of synergistic interaction of 7Cs (C to C) i.e. commit, co-operate, compliment, create, customize, compare and compete. While describing the importance of relationship marketing Sarangapani and Mamatha (2009) emphasize that a company can only win by creating and delivering superior value involving five customer capabilities: understanding, creating, delivering, capturing and sustaining customer value in the event of competitive economy with burgeoning rationale buyers. In another perspective Atasu et al (2010) have shown there are two basic potential types of customers – newness and functionality oriented in terms of how they perceive value. Newness conscious customers value novelty and equate it with quality whereas the latter value the functionality of product utmost and do not equate quality with newness. Functionality seekers even prefer remanufactured versions at a lower price to new versions. The authors suggest that a firm can maximize profits nor necessarily through maximizing new product sales but a portfolio that includes remanufactured products with smart pricing strategy and understanding consumer value enable firms to reach additional market segments, avoid cannibalization, help block competition from new low end products or third party re-manufacturers. Kotler (2004) envisions perceived value pointing-out that buyers operate under various constraints and emphasize more weight to their personal benefits than company's benefit. Value increases with quality & services and decreases with price increase. On the other hand looking at value buyers, adopting value pricing some companies charge fairly low price for high quality offerings than their competitors. He advocates value pricing is not a matter of simply selecting lower prices but it is the outcome of reengineering the company's operations to become cost leader without sacrificing quality to woo large value conscious customers. In this respect, Ketchen at al (2008) indicate that firms maximize speed or reduce costs within their supply-chains – series of activities through which products and services are created and distributed to customers – can enhance firm' performance. They interpret that the best value approach is to deliver superior total value to customer in-terms of speed, cost, quality and flexibility. To encounter low cost rivals Morehouse et al (2008) points out critical attributes of low cost competitors. They adopt some strategic measures on margin improvement and assets effectiveness in their value addition operations that create low cost competitive position. The authors suggest that the best way to identify and rein a low cost rival is to adopt its mindset, anticipate its moves and measure costs against its costs. Narasimhan et al (2002) view that firms create enough opportunities by their superb operating efficiency at each point of value chain to yield substantial operating margins some of which pass on the benefits to customers. While curving-out competitive advantage they argue competition has now shifted from cost based strategy to time based strategy.

Quality and low cost need not be traded-off. Higher quality in production process can result in lowering total cost through effective practice of system like TQM, MRP, JIT etc. Das and Karan (2007) acknowledge that besides conventional practice of several cost cutting measures, companies should increasingly look at certain proactive measures to improve cash cycles which provide added competitive edge. Sawhney (2008) proposes that testing times are good time for start-up and innovation. Entrepreneurs need to recalibrate their strategies and think differently about their market, offerings, approach to funding and their operations. He suggests sharpening company's value proposition that should be communicated clearly, crisply and concisely. While analyzing Porter's Generic strategies, Bowman (1998) cites that selecting competitive strategy "Focus" is essential but one has to be either a specialist niche provider or generalist to shoot for scale using low prices and high volume to drive down cost structure. In intense competition and mature market, Porter (1985) suggests that firms trying to achieve low cost and differentiation simultaneously, run risks of being "Stuck-up in the middle". Bowmen counter-argues that high concern for quality as well as close attention to cost control both are primordial for having some degree of cost leadership. Schiffman and Kanuk (2004) logically suggest the company must seek to rediscover a more generic need or consumer characteristics that would apply to the members of several segments and recombine those segments into a larger single segment that could be targeted with an individually tailored product or promotional campaign.

Strategy Formulation

Difficult market creates opportunities to resilient players to gain market share through a strategic footprint. They plug-off strategic gaps through smart hires, improving competitive positioning, fortifying brand, new product design and focusing real issues of customer benefits. It is a good time for big, efficient and proactive market oriented companies to leverage their balance sheet by acquiring market shares from their incompetent competitors.

A conducive value expansion strategy has been developed (Figure 1) to cater middle market on the basis of market segmentation / price level matrix.

		Market Segmentation		
		High	Mid	Low
	High	H-H ((Separate product)	H – M	~~H - L~~
Price level	Mid	M- H	M – M	M – L
	Low	~~L - H~~	L - M	L - L (Separate product)

Figure 1: Value Expansion Strategy

(1) Cell H – H : Strategy of high quality and costly features to reflect / enhance status expressiveness requires separate product line and different but unique design to satisfy high end customers for higher profitability.

(2 Cell L – L : Strategy of economy product having no -frills for the bottom of pyramid requires low cost product design and very fast production line to generate volumes just at break-even point or slightly above. These products may be treated as incentives to both intermediaries and customers to promote sales.

(3) Cell H – L & L – H : No strategy is feasible to cater either the manufacturer or the customers. Generally these two segments are left for some specialty players. Particularly in the period of low demand, product line pruning becomes inevitable.

(4) Cell H – M, M – H, M – M, M – L, L – M are strategic value segments at the middle of the market (Figure – 2) which is the focus of the article.

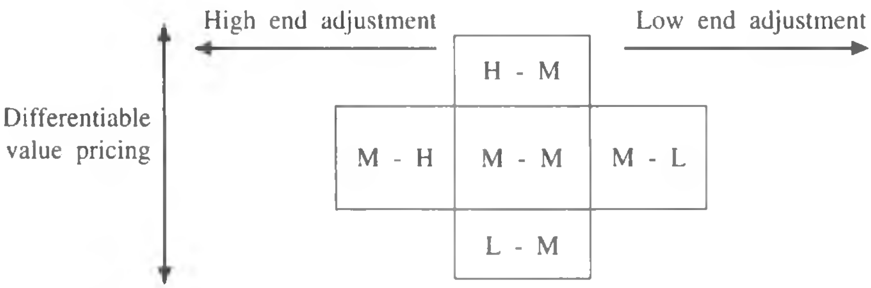

Figure -2 : Strategic Value Segments

The underpinning strategy is to stretch a good medium product which will satisfy all the mid segments horizontally and vertically followed by integration to form a bigger cluster to occupy the largest pie of the company's total product mix, enabling to undergo strategic shift from more customization to more standardization. To satisfy marketing requirements firm has to adjust product design towards upper end as well as lower end market. This is followed by differentiable value pricing strategy on that medium value product. Continual improvement on this product and its derivatives obtained from up and down side adjustments will act as dynamic critical success factors in which customers will find real value to their expected needs. This definitely helps the firm to acquire efficiency and differentiation one at a time and profits results from volume sales.

Value Expansion vs. Differentiable Value Pricing Strategy

It is the state of art of undergoing innovative small changes for improvement on basement of the value product to suit varying consumer needs and preferences of value buyers. Extent of high end adjustment is pursued by associating incremental value features or improved quality and benefits which are easily discernable. This augments justifiable and differentiable value pricing policy commensurate with cost of diffentiation. Like-wise, extent of low end adjustment and differentiable value pricing will follow the same but in reverse direction. This research article highlights innovative manufacturability with value pricing strategy that covers strategic cells (Fig.-2) leaving space for extreme high end (cell – H – H) and extreme low end (cell L – L) where separate design, captive process and production line are required.

Five commandments of value expansion process:

- In each product Value Analysis & Value Engineering (VA – VE) are necessary.
- Product variations should be followed in flexi & cellular manufacturing systems.
- To facilitate cosmetic changes, the production system can have segmented and detachable equipments and accessories.
- To have quick change and set up automated production, support systems including machineries and specialized workforce are required.
- Productivity leverage can be undergone at later stages of production process inducing cosmetic change and/ or packaging.

Application of Strategy in Tyre Marketing

Automobile tyre is a product category where the above strategy can be applied. The product tyre is a price sensitive high risk, expensive FMCD utility product. It is an integral component of any road transport vehicle. The industry is oligopoly market mainly dominated by domestic organized sector though there are many niche players successfully doing business in this highly attractive industry. Among various growing segments within the industry the main focus is on truck and bus segment which have 70% of total sales having more than 7.8% annual growth rate. This article sheds light on this sector where companies are trying to rule the market with large volume sourcing technology from abroad and concentrate marketing strategy on replacement market (Consumer market) that constitutes 85% of total sales.

The consumers are distinctly segmented in terms of usage pattern, type of vehicle and operating behaviour – heavy, medium, low / under load segment.

Manufacturing tyre is a heavy production process and very much raw material intensive with high fixed and variable costs. Moreover, the segment is leaning to cheap exports, used and retreaded tyres and new generation radial tyres. All these opposing factors drag operating margins down.

Traditionally the customers are value conscious and heavy and low load segments are converging to form a large mid market. They seek more a generic product of high value in terms of price incentives, quality or service. Technologically innovative differentiation and marketing through innovative promotional campaign based on precise and persuasive value proposition are essential competitive ingredients of strategic orientation. Keeping aside "Stuck-up in the middle", the journey is from high differentiation – low efficiency to low differentiation – high efficiency and then to high differentiation – high efficiency (Fig. 3).

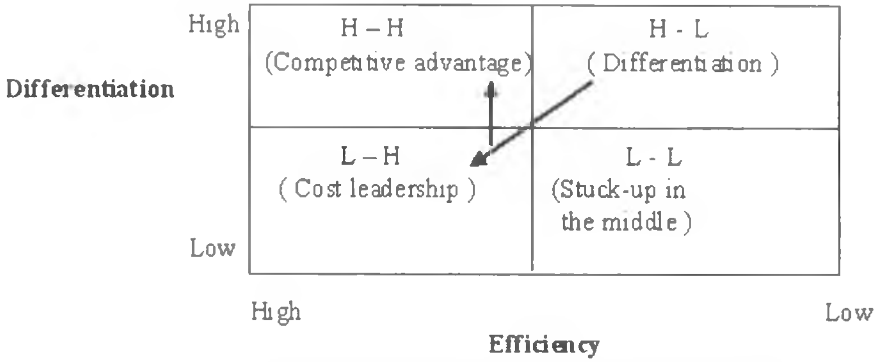

Fig. 3 Application of Strategy in Tyre Marketing

Devising Value Model of Strategic Tyre Marketing:

Manufacturing and marketing of automobile truck and bus tyres have both economies of scope as well as economies of scale. Economies of scope stems from its huge domestic consumption that requires high production volume to undergo scale economies. The article formulates a cost-effective value proposition on innovative manufacturing and marketing model.

Manufacturing model: It consists of P_2QC D M (Plan – Productivity – Quality – Cost Delivery – Morale) focusing on efficiency improvement inducing some variations on products that leverages marketing strategies.

Plan: Planning starts with market intelligence and field research to identify which tyres are delivering high value to mid-market customers. Analysis and selection of that tyres and sales estimate are communicated to production planning. It is extended to choose the best value tyre as a strategic medium that is to be tweaked to upper end and lower end.

Productivity: Economies of scale, experience curve effect are two major tools to increase productivity. Efficiency is also improved through increase of speed by enhancing flow of materials, rationalization and standardization of components. Cycle time reduction & process reengineering are proven strategies of manufacturing product and process design to achieve volume and low cost of conversion.

Quality: Implementing an effective and efficient quality system -TQM (Total Quality Management) emphasizing customer satisfaction is the key approach of "Market in – not product out". Companies implement control plan, FMEA (Failure Mode Effect Analysis) SPC (Statistical Process Control), and preventive actions, continual improvement programme Kaizens (Continuous improvement) and so forth to ensure stable and acceptable output.

Cost: Tyre manufacturing requires high volume of raw materials and usage of indirect and auxiliary materials where scale economies in purchase and distribution of finished products are factored in lowering operating costs. As value expansion is inclined towards more standardization having tweaked differentiation, in-built scale economies and experience curve effect further lower down unit cost. JIT (Just –in time) in process that stresses " Zero concept" (Zero down time, zero scrap, zero set-up & zero inventory) coordinated with MRPII in supply chain management is the most cost-effective system in tyre industry. In addition, low cost design is a pivotal core competency of treating cost as an independent strategic parameter.

Delivery: In-time delivery requires value logistics to procure, store and distribute finished goods for customer convenience when they need. An innovative delivery system can give unique value and competitive edge.

Morale: Employees' total involvement and spirit are quintessential. Most companies practice internal marketing to empower and encourage for innovative ideas and suggestions to fulfill company's objectives.

Marketing Model: An effective value proposition has been derived central to customer perceived value that satisfies value conscious tyre customers through persuasive V_3CR (Value pricing- value positioning-Value promotion-competitors' analysis -relationship) marketing model.

Value differential Pricing: Setting price of value tyre slightly lower than its nearest competitor bears high customer value to the target customers. Under j.n.d.(Just Noticeable Difference) principle, prices of higher end tweaked tyres are to be increased as per degree of tweaking which is discernable and justifiable by customers. Accordingly, prices of lower end tweaked tyres are to be decreased accordingly. On the other hand, reduction of customer risk by warranty on tyre performance can boost up sales. To increase value by lowering estimated profit realization and that to pass on as the benefit to customer is an added advantage.

Value positioning: The tyre manufacturers need to communicate clearly, crisply and concisely to its targeted market that the benefits delivered against price is higher from the nearest competitors' tyres of same category on utilitarian functions like performance durability and aestheticism. Product performance is commonly judged by higher ITM (Initial Tread Mileage) in terms of CPKM (Cost per kilometer) and load carrying capacity. Durability is judged by trouble free operation and duration of full value realization before removal. Whereas look represents robustness that provides customer confidence. Based on rational appeal comparative branding must be understood by customers through efficient sales force and company's technical experts.

Value Promotion:

Two pronged value promotion strategies can be used in tyre marketing. One is buyer- product interaction through company's sales force, intermediaries by presentation, demonstration, recommendation and sales of right product / brand highlighting customer benefits. At the same time they will communicate product specific warranty, special offer and other promotional items. Another is adoption of below the marketing line communication strategies like WOM (Word of Mouth) or social buzz and reference group, opinion leader, tyre repairer and fitter and automobile servicing stations. Quick settlement of non-conformance and service failed tyre have tremendous positive impact on customer faith. Looking at the emerging educated customers, it needs to apply knowledge function (need to know) to develop positive attitude towards the company and its products. The firm organizes seminars and promotional campaigns where technical and marketing professionals perform interactive sessions with customers.

Competitor's analysis : Analysis and assessment of competitors' marketing strategies, operations, technology, product assortments, value proposition are major strategic considerations to understand gaps in relation to relative strength and weaknesses.. two strategic tools Benchmarking and reverse engineering are used.

Relationship : Building a long term relationship is the key of successful marketing. Vertical (trade) relationship and lateral (personal) relationship have combined impact on customer retention. The firm should encourage and promote interactions between customers and marketing work force to develop better understanding of mutual need satisfaction.

Conclusion:

In this research work value expansion approach and corresponding manufacturing model (P_2QCDM) streamlined with marketing model (V_3CR) provide a deeper insight of value intensive marketing strategy that attempt to give a clear strategic direction of doing business. This is particularly significant for mature domestic tyre market in which value is the cornerstone of current and future business perspectives. The article finds successful application of innovative standardization and customization strategy at production as well as marketing processes that enable to establish strong brands through efficient and effective value proposition.

As the formulated strategy and model are the result of fundamental and descriptive research it needs to be tested by empirical evidence. The fundamental point is that higher customer value effectively communicated to target market generates customer satisfaction and inevitably increase sales and profit margin.

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