Critical Success Factors and Effective Strategies in the New Environment

A M Shah

Introduction

With the opening up of the Indian economy, the rate of change in business environment has accelerated. The reduction in protectionist barriers has facilitated the entry of multinational corporations and intensified competition within the country. While liberalization has provided opportunities to both foreign and local companies, foreign companies are better placed to exploit these opportunities, because, they possess an array of advantages over local companies like superior products, better technology, seasoned marketing and managerial skills, and greater access to financial resources.

Most Indian business houses have tended to be nervous about competition with multinationals and the lack of a level playing field. A small cluster of companies like Reliance Industries, Ranbaxy Laboratories, Sundaram Fasteners, Arvind Mills, Bajaj Auto, etc., however, have taken serious initiatives and have attempted to be competitive. Many have yet to formulate their response to the changed environment. They need to think through their vision, goals and objectives, corporate culture, overall corporate strategy, and the consequent functional strategies. There are issues relating to implementation like the mobilization of key resources, organizational structure, management systems and process to ensure the utilization of resources, and monitoring and control systems to see that the organization is moving in the right direction.

While there is a wide range of issues and action areas, it is crucial to identify and manage critical issues and areas for achieving competitive advantage. The effort can help organizations to construct consistent sets of actions or strategies to maximize their competitive potential. In this context, however, there is little guidance available to the struggling local firms keen to survive and prosper in the new liberalized and globalized Indian market. Therefore, an empirical base is necessary to provide guidance to organizations operating in the Indian market for devising effective strategies for responding to changing busi-
ness environment and staying ahead of competition.

The foregoing discussion suggests three interrelated research questions that guide the present exploratory investigation:

• What are the crucial activities which organizations need to perform continuously for responding to rapidly changing business environment?
• What are the key areas/factors which Indian organizations need to focus on for improving their competitiveness?
• What are the most effective strategies for remaining successful in the Indian markets?

Research Setting and Methods

As Chief Executive Officers (CEOs) influence organization strategy and are responsible and accountable for the performance of the organization as a whole, they were targeted for obtaining information for this study. The sample of CEOs was drawn from Business Today's (September 22-October 6, 1997) list of 500 India's most valuable companies in terms of market capitalization. The list identifies India's successful companies from both the manufacturing and service sectors.

Data were collected through a structured questionnaire from the CEOs. The questionnaire was pre-tested on 20 prospective respondents from Delhi and the neighbouring region to assess the relevance and consistency of questions/factors in the questionnaire. The participation of executives from different types of organizations and access to executives were the determining criteria in the selection of these executives. Based on the feedback, a total of 15 factors were included in the questionnaire for rating success factors for the companies in the Indian market.

The questionnaire consisted of two parts. Part I was designed to elicit the socio-economic background of the respondents and the brief profile of their companies. Part II included three questions. The first question was an open-ended one requesting the CEOs to list two or three critical activities/factors which organizations must perform for responding to the changing Indian business environment. While change upsets the balance, the objective of this question was to identify crucial activities/factors for managing change on the basis of expert opinion of the respondents. Some respondents identified five to six activities/factors in response to the first question. The second question sought the respondents' views about the importance of success factors listed in the questionnaire. CEOs were asked to assess the importance of these factors on a five-point Likert type response scale, where 1 represented 'highly important' and 5 'not at all important.' The third question was also an open-ended one requesting the respondents to identify two or three most effective strategies for the Indian market in order of their importance.

The questionnaire was mailed to the CEOs of BT 500 companies. Responses were received from 125 CEOs, indicating a response rate of 25 per cent. The breakdown of responses by industry affiliation is reflected in Table 1.

Table 1: Breakdown of Responses by Industry Affiliation

<table>
<thead>
<tr>
<th>Industry Sectors</th>
<th>Usable Responses</th>
<th>% Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Durables</td>
<td>15</td>
<td>12.00</td>
</tr>
<tr>
<td>Consumer Non-durables</td>
<td>9</td>
<td>7.20</td>
</tr>
<tr>
<td>Drugs and Pharmaceuticals</td>
<td>16</td>
<td>12.80</td>
</tr>
<tr>
<td>Automobiles and Engineering</td>
<td>18</td>
<td>14.40</td>
</tr>
<tr>
<td>Auto Components</td>
<td>13</td>
<td>10.40</td>
</tr>
<tr>
<td>Textiles</td>
<td>11</td>
<td>8.80</td>
</tr>
<tr>
<td>Chemicals</td>
<td>7</td>
<td>5.60</td>
</tr>
<tr>
<td>Information Technology</td>
<td>5</td>
<td>4.00</td>
</tr>
<tr>
<td>Others</td>
<td>31</td>
<td>24.80</td>
</tr>
<tr>
<td>Total</td>
<td>125</td>
<td>100.00</td>
</tr>
</tbody>
</table>

The descriptive analysis suggests that the sampled CEOs were predominantly middle-aged to senior men, with their ages ranging from 38 years to 58 years. The majority (72%) had been with their present organization for over two years. They had a total work experience ranging from 15 years to 32 years. Over 70 per cent of the respondents had bachelors' degree in engineering, management, and science. Rest had graduate/post-graduate degrees in other disciplines.

In terms of sales, the majority (48%) of the companies represented by their sampled CEOs had sales below Rs 500 crore, 44 per cent had sales between Rs 500 crore and Rs 1000 crore and 8 per cent had annual sales in excess of Rs 1000 crore for the year 1996-97. The annual profits of the said companies ranged from Rs 79.40 crore to Rs 1323 crore for the year 1996-97.

Results and Discussion

The entire study is organized into three sections. Section one analyses the crucial activities which organizations need to carry out continuously for
responding to changing business environment. Section two discusses the critical success factors on which organizations need to focus on for improving their competitiveness. The last section presents the most effective strategies for remaining successful in the Indian markets.

**Managing Change**

While responding to the open-ended question of identification of two or three crucial activities/factors for successful management of business in a changing environment, CEOs listed five broad categories of activities/factors of critical importance (Table 2). Whereas respondents named 21 activities/factors, they were grouped under the dimensions of five broad activities/factors. For instance, five factors, viz. market knowledge, market analysis, reading market signals continuously, market watch, and customer analysis reported by CEOs were grouped under the rubric — continuously reading and interpreting market signals.

<table>
<thead>
<tr>
<th>Item</th>
<th>% Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continuously Reading and Interpreting Market Signals</td>
<td>92.80</td>
</tr>
<tr>
<td>Determining and Analysing the Impact of Change on Business</td>
<td>87.20</td>
</tr>
<tr>
<td>Quickly Designing Strategies for Responding to Change</td>
<td>86.40</td>
</tr>
<tr>
<td>Quick Decision-making</td>
<td>84.80</td>
</tr>
<tr>
<td>Analysing Competitors’ Potential of Responsiveness</td>
<td>81.60</td>
</tr>
</tbody>
</table>

A great majority of respondents of this study (92.80%) identified the factor continuously reading and interpreting market signals as of critical importance in responding to change. It enables a company to formulate and implement strategies faster and more effectively than competition. Similarly, 87.20 per cent of the CEOs reported that organizations need to determine and analyse the impact of change on their businesses. This is essential for knowing what an organization needs to do to withstand change and exploit the opportunities created by change.

An overwhelming number of respondents (86.40%) reported the factor - quickly designing suitable strategies for responding to change - as of crucial importance. They noted that appropriate strategies should be selected for pursuance on the basis of evaluation of many factors. In particular, considerations of resources, appeal of products and services to given markets, and level of competition and competitor reaction must be assessed. Moreover, speedy response to market changes is the key to maintain, consolidate, and create market share.

Equally important is improving the pace and quality of decision-making. About 84 per cent of the respondents listed quick decision-making as of critical importance. Executives believed that quick decision is the key differentiator between the companies who succeed or fail. Quick decision-making helps organizations to adapt faster to the opportunities and threats posed by fast-paced environment. As against this, slow decision-making can lead to late response to customer needs or market changes, resulting in the competitor surpassing. Therefore, quick decision-making is crucial for managing change and achieving success.

About 81 per cent of the respondents listed the factor — analysing competitors' potential of responsiveness - as of critical importance. This may be because, companies cannot afford to design strategies or take actions for responding to change without considering the potential of their competitors. Present or potential competitors can counter the effort of a company with vigorous and unpleasant responses making its moves irrelevant. Therefore, it is imperative to focus on present as well as potential competitors. Paying little attention to potential competitors might result in losing market share before one has noticed that.

For responding to the changed environment, organizations should be focused upon responsiveness. In this context, it is imperative to be anticipatory and prepare in advance. It will help to see and adapt to new opportunities and potential threats faster than competitors. Choosing not to imagine what changes are going to take place and what markets will look like in future can prevent a company from being able to respond to shifts in customer tastes, technological changes, and competitors' actions, and substantial competitive problems will surface.

**Critical Success Factors**

For formulating appropriate strategies and responding to the changing environment quickly and creatively, organizations need to strengthen their competitiveness by building capabilities that provide enduring sources of competitive advantage. This study identifies 11 key areas/factors which all organizations must build/improve for competing successfully in the Indian market. Table 3 indicates that CEOs viewed these 11 factors as of critical importance for the successful performance of Indian or-
ganizations. The resultant mean importance scores ranged between 1.16 and 2.47. While the mean importance scores were closer to the highly important category in the first five factors, they were nearer to very important category in the case of other six factors.

Table 3: Critical Success Factors for Companies in Indian Market

<table>
<thead>
<tr>
<th>Factor</th>
<th>Mean Importance Score</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product Quality</td>
<td>1.16</td>
<td>1</td>
</tr>
<tr>
<td>Relative Product Cost</td>
<td>1.37</td>
<td>2</td>
</tr>
<tr>
<td>Good People</td>
<td>1.39</td>
<td>3</td>
</tr>
<tr>
<td>Innovativeness</td>
<td>1.43</td>
<td>4</td>
</tr>
<tr>
<td>Advanced Technology</td>
<td>1.45</td>
<td>5</td>
</tr>
<tr>
<td>Strategic Alliances</td>
<td>1.69</td>
<td>6</td>
</tr>
<tr>
<td>Market Knowledge</td>
<td>1.86</td>
<td>7</td>
</tr>
<tr>
<td>Flexibility</td>
<td>1.99</td>
<td>8</td>
</tr>
<tr>
<td>Business Reputation</td>
<td>2.21</td>
<td>9</td>
</tr>
<tr>
<td>Distribution Networks</td>
<td>2.28</td>
<td>10</td>
</tr>
<tr>
<td>Information Systems</td>
<td>2.47</td>
<td>11</td>
</tr>
</tbody>
</table>

A great majority of the respondents (94.36%) cited quality products as of critical importance in winning in the Indian market (Mean=1.16). They believed that quality is the basic ingredient of a winning marketing strategy in the competitive markets and the rewards coming through the quality route are lasting and substantial. Quality has immensely contributed to the success of many Indian companies like Sundaram Fasteners and Core Healthcare. Sundaram Fasteners took advantage of an offer to make radiator caps for General Motors (GM) and redefined its production and quality norms on GM's terms. Ever since the first consignment was despatched to GM in March 1993, the company has become very important for GM to meet its customer needs. The company is not only GM's sole global supplier of metal radiator caps, it has also bagged the American auto giant's Best-of-the-Best Award for 1997 for the second year in a row. The company is also the domestic leader in hitensible fasteners, with a 52 per cent market share. Similarly, Core Healthcare defined itself as a global company and fixed its quality norms on par with the best in the world. In a short period of time, the company has become a leader in its market segment. Moreover, it has a significant export business to its credit. Thus, an emphasis on both manufacturing processes and quality control is necessary.

Product cost was ranked second in importance (Mean=1.37). Most of the CEOs saw a future in which their companies would continue to compete on the basis of cost through continuous productivity improvement programmes and cost reducing strategies. Managing costs across the entire value chain would help a company to build a sustainable cost advantage. It would enable a company to be price competitive as well. The success of companies like Nirma and Akai indicates that a cost advantage is of critical importance in the Indian market.

The development and retention of an increasingly talented work force having commitment and motivation is essential for the success of organizations in any market. This explains why the third most cited factor was good people (Mean=1.39). Executives believed that organizations need to integrate their human resources with business strategies for attaining and sustaining the cutting edge. This calls for making heavy investment in selection and training of people. McKinsey, for instance, has thrived by sticking to a simple policy: hire good people, offer them a rigorous training, and then wait for clients to knock at the door (Times of India, 1997). Moreover, it is critical to work out the key skills which an organization requires to manage its business not just now, but in the next five to ten years' time and train its staff or make the necessary recruitment. In fact, forward thinking organizations identify core competence and train their staff in these quickly. Every year, Pepsi analyses each position in the company in terms of its organizational relevance and the required competencies to ensure it hires the best possible people, thereby maximizing its return on recruitment. Similarly, Modi Xerox constantly makes changes on the basis of market factors and customer needs. This approach helps the company to develop and acquire the required competencies to plug the gaps.

Innovativeness was rated as the fourth highly important factor (Mean 1.43). Executives pointed out that it is imperative for organizations to innovate continuously for gaining a strong foothold in the Indian markets. If an organization fails to manage innovation, it is very likely that someone will reinvent his business with a better idea. Therefore, the challenge is how to manage innovation so that your company is ready for the future. In this context, it is imperative for organizations to develop superior insights into what customers value and accordingly develop innovations that satisfy and delight the customers. Innovation is not merely a change in technologies or processes, born in laboratories, but...
new ways or methods of doing things and born out of the firm’s knowledge and experiences (Narayan, 1995). According to Bijapurkar (1998), by definition, innovations are bright ideas that are so market relevant that they make a huge amount of money. Innovations have changed the character of many product markets in India (For example, two-wheelers market, colour television market, automobile market, etc.).

The fifth highly important factor was advanced technology (mean 1.45). The respondents believed that technology plays a crucial role in developing superior quality products. While multinationals, due to their technological supremacy, can command dominant positions and may drive competitors to the wall, it is imperative that the technology of a company operating in the Indian markets be at least on par with that of its competitors. While Indian industry is not known for technological leadership, it may be an attractive option for companies incorporating new technology into their businesses to stay competitive and win in the Indian market. In fact, some companies, are fast to develop and exploit technological innovations to their advantage and emerge successful and become market leaders. For instance, certain television manufacturers are constantly monitoring new technological advancements to move into high price orbit as they are worried about the impact of drop in prices. While flat-screen television represents technological superiority, LG Electronics, Sony India, and Baron International have already launched flat-screen televisions and Panasonic and Samsung have announced their plans to do so. As against this, more conservative and slow companies who do not introduce new technology as long as the tried and tested solutions are able to guarantee good performance are left behind as compared to more adaptable and responsive companies.

The factor, strategic alliances, was ranked sixth in importance (mean=1.69). Strategic alliance has been accepted as a powerful instrument to catalyze the organizational forces. The range of alliances is from a buyer-seller arrangement to technical collaboration to equity stakes. Strategic alliance is an inter-firm link established through contractual agreements like joint R&D, joint product development, long-term sourcing agreements, joint manufacturing/marketing, and shared distribution service (Yoshino and Srinivas, 1995). However, it is a double-edged sword that helps business conquer new areas of business if handled properly and if not damages the business interest to an extent that perhaps no other tool or technique can (Mehta and Samanta, 1996). Most of the strategic alliances of Indian firms with outside firms are for acquiring advanced technology. For instance, despite its well-founded reputation for technological capabilities, the Tata Group has entered into a number of joint ventures, especially in new businesses, with AT&T, IBM, and Daimler Benz. Similarly, Mahindra and Mahindra’s tie-ups with Peugeot for light utility vehicles and AVL for tractors provides it with access to technology. The strategy of marketing alliance is pursued by foreign companies to tap the vast customer base of Indian market. While Akai has successfully launched its colour television in the Indian market through its Indian ally — Baron International, AIWA has now forged an alliance also with Baron for launching its products in the Indian market. Whereas distribution network holds the key for the success of marketing firms, aligning of foreign firms with Indian firms who have established networks makes much sense. Thus, strategic alliances may very often be a quick and economic route to increased competitive capabilities. It will be invaluable in implementing corporate dreams and plans in the years ahead, but the need for caution and patience can hardly be over-emphasized (Raghunath, 1996).

Similarly, the other factors, viz., market knowledge, flexibility, business reputations, distribution networks, and information systems were viewed as very important by the respondents. Their mean importance score ranged from 1.86 to 2.47. Therefore, in order to improve competitiveness and achieve sustainable competitive advantage, organizations must meticulously focus on these factors also. The competitive advantage may not be durable if these factors/areas are not adequately developed and nurtured by the Indian companies.

**Business Strategies**

While a well-planned focus on all the critical factors/areas listed in Table 3 is necessary for strengthening the competitiveness of organizations operating in the Indian market, a relatively greater emphasis on one set or the other depends upon the environmental turbulence and the strategy pursued by an organization at a particular period of time. In this context, Table 4 reports five broad strategies identified by CEOs as most effective for the Indian market.

**Good Quality and Low Price**

This strategy was ranked first in importance. About 94 per cent respondents reported that it is the most effective strategy to tap the vast customer potential of India. The respondents pointed out that companies need to offer good quality products at a relatively
In the battle for market share recently (May 1999), Times of India's Times of India again dropped the price from Rs 1.50.

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Frequency</th>
<th>Response</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good Quality and Low Price</td>
<td>118</td>
<td>94.40</td>
<td>1</td>
</tr>
<tr>
<td>Product Innovation</td>
<td>109</td>
<td>87.20</td>
<td>2</td>
</tr>
<tr>
<td>Cost Leadership and Differentiation</td>
<td>105</td>
<td>84.00</td>
<td>3</td>
</tr>
<tr>
<td>Niche Marketing</td>
<td>90</td>
<td>72.00</td>
<td>4</td>
</tr>
<tr>
<td>Superior Quality and Premium Price</td>
<td>77</td>
<td>61.60</td>
<td>5</td>
</tr>
</tbody>
</table>

competitive, albeit lower price than their competitors. This is because, in the emerging competitive market, quality is the price of market entry and not a competitive differentiator as all other competitors may be offering qualitative and upgraded products.

Various companies have been using price as a differentiator and a weapon to wrest market share from well-entrenched market leaders. For instance, from the late 70s through the 80s, Nirma's cheap pricing strategy enabled it to grab a considerable slice of the market share from Hindustan Lever. While Hindustan Lever has since fought back with low priced products of its own (for example, Sunlight detergent powder in 1985 and Wheel powder in 1987), Nirma still enjoys the largest market share by volume. Similarly, in April 1994, Bennett Coleman and Co. slashed down the price of its Delhi edition of the Times of India by 80 paisa. As a result, within just five months, its circulation increased by 51 per cent (Roy and Mukerjea, 1994). Moreover, the company forced the market leader, Hindustan Times to drop its price to match Times of India's Rs 1.50. In the battle for market share recently (May 1999) the Times of India again dropped the price from Rs 1.50 to Rs 1.00 on weekdays.

Across the country, in a wide range of product categories, more and more companies are recognizing that, in the battle for market place, price with good quality is a potent weapon. In July 1996, Perfect Computers Ltd. (PCL) offered a branded PC Millennium 486 for Rs 23,500 only while the lowest priced PC then was available for Rs 40,000 in India. Backed by heavy advertising, the strategy helped the company to increase its sales substantially and enjoy the largest market share within just three months. Moreover, it changed the market pricing logistics completely. While Wipro slashed the price of its Acer model to Rs 35,000, HCL group came up with its lower than the lowest offer of Rs 19,995 for its

Busybee-486. PCL who initiated the price war later on announced its Diwali offer - the lowest price of Rs 18,999. Similarly, in 1997, Akai challenged the might of global megabrands like Sony, Panasonic, and Thomson as well as firmly entrenched local players like BPL, Videocon, and Onida simply on price by using a brand that has good quality. The Baron International, which markets Akai products, slashed down the price of its 29-inch colour television from Rs 20,000 to Rs 10,000. In the process, Baron International's colour television sales grew from 2,500 in 1993-94 to 4.29 lakh units in 1997-98, forcing every company to focus on price cutting. Consequently, in 1997, Sony India dropped the price of its flagship television set - the Trinitron - from Rs 28,000 to 21,000, after lowering it to Rs 19,000 earlier.

Some multinational companies are also using the strategy to tap the vast consumer potential of India. Domino's and McDonald's have come up with the lowest pricing structure in the world for India. Domino sells 12 inch pizza at $ 8.99 in the US, $2.97 in Hong Kong, and $9.90 in the UK, but the price is just $3.47 in India. McDonald's has introduced a no-frills burger at Rs 12 and an ice cream at Rs 6 targeting young consumers who cannot afford its regular products. Similarly, Reebok slashed the prices of its footwear and apparel by 25 to 30 per cent in 1997 to target the lower price-points. This has compelled Nike to rework its pricing strategy to race ahead of competition. While its most expensive pair of shoes still retails at Rs 4,999, it has now introduced a pair of basic joggers at a much more affordable price of Rs 999.

Thus, good quality and low pricing seems appropriate for the Indian markets, because people prefer good quality products at lower prices. Keeping this in view, Indian companies need to improve and maintain the quality of their products at least on par with their competitors so that customers rate them as of good quality. While good quality depends upon customer judgement, companies must design their products keeping in view the quality levels established in the minds of the customers. Moreover, it is advisable to consider the consumers' paying capacity and preferences and the price of the substitute products before fixing the price for the products. In fact, before setting the price, companies must test the price-quality relationships for their products in various markets at different periods, and under varied marketing circumstances. Indeed, considering the large population of India, even a small price drop would open up a vast section of the market.

Table 4: Effective Strategies for Companies in Indian Market
Innovativeness

A great majority of respondents (87.20%) mentioned innovativeness as an effective strategy for the Indian market. They argued that Indian companies need to develop innovative products continuously for surviving and thriving in the competitive environment. Product-innovation strategy enables a firm either to position itself within an attractive niche or to meet a larger proportion of customer preferences than its competitors. Moreover, the strategy also helps to redefine customer expectations, thereby keeping competitors off balance all the time, as they watch to see what the next innovation is going to be.

Product innovations have been playing a crucial role in the success of many companies in the Indian market. For instance, it is changing the character of the two-wheelers market. While large volumes and vertical integration provide Bajaj Auto a unique cost-advantage, its competitive edge is being blunted gradually as value is migrating to innovative products. Bajaj Auto's competitors - LML, Hero Honda, and TVS-Suzuki — are scoring over it in terms of up-to-date products, both technologically and aesthetically, and are attracting more customers. In the first nine months of 1998-99, Bajaj Auto's net sales slipped by 2 per cent and its net profits fell by 30 per cent in comparison to the same period of 1997-98 (Business Today, March 22-April 6, 1999). Similarly, the focus on launching of innovative products has helped LG Electronics to grab a substantial market share in colour television (6.50%) washing machines (8%), microwave ovens (9%) and refrigerators (37%) in just two years. (Business Today, April, 7-21, 1999). For instance, the company launched Golden Eye colour televisions, whose picture adjusts automatically according to external light conditions and refrigerators with preserve nutrition systems that keep perishable foods nutritious.

One of the critical options in innovation strategy is whether to seek major breakthrough improvements or smaller incremental innovations. Although the influence of radical innovations is more pervasive and profound, given the size and growth potential of the Indian market, most of the successful companies operating in the Indian market use incremental innovations. This is because it is faster and cheaper. These companies have been continuously introducing innovative products with specific benefits for customers and emerging successful. For instance, three of India's leading consumer product marketers - Hindustan Lever, Proctor and Gamble, and Colgate-Palmolive — have achieved market penetration through continued innovation by linking the health of consumers with their research findings and technological advances. During 1995 and 1996, they launched a series of new shampoo brands as well as repositioned old ones to peg each to a distinctive benefit. They generated constant excitement through new launches as much to keep users' interest in the product alive as to deflect attention from rival brands. Consequently, they gained faster sales and injected growth into a rather moribund shampoo market. The shampoo market after creeping up at an average rate of 6 per cent per annum between 1992 and 1994 and climbing to 9.55 per cent in 1995, suddenly raced up to 18.77 per cent in 1996 (Business Today, September 7-21, 1997).

Notwithstanding the fact that success is far from assured for every innovator, it appears that competitive advantage will go to the firm that is a repeat innovator. Repeat innovations help a company to maintain its leadership even in turbulent industry, which is under constant assault. However, for gaining sustainable competitive advantage, an organization needs to develop superior innovative products with unique features or attributes that translate into benefits for the customer. This gives the customer a reason to buy and not only the existing users buy more of it, even non-users could be made to shift to these products. Therefore, Indian companies should consciously demonstrate a strong orientation to explore ideas, experiment, and foster growth. They should encourage innovative activities and create an environment in which such efforts would be accepted and rewarded.

Cost Leadership and Differentiation

The two generic strategies identified by Porter (1985) are cost leadership and differentiation. While cost leadership is usually aimed at attracting a broad market base so that the small per-unit profit margins are offset by large number of unit sales, a perfect differentiation strategy enables the firm command a premium price.

Though Porter advocates that companies should concentrate on one strategy or the other to avoid a situation where they fall between the two stools and follow neither strategy successfully, 84 per cent of the respondents mentioned that a combination of two strategies is needed for succeeding in the Indian markets. In fact, many companies operating in the Indian markets are using both strategies together. They draw relevant elements from both price and differentiation routes and forge unique strategies to

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suit their unique situational designs and relative position in the industry. For instance, in 1990, Clubb International entered the soft luggage manufacturing market, because the market leader VIP Industries had a near monopoly in the hard luggage segment, and manufacturing hard luggage was both capital and technology intensive. The Clubb International concentrated on quality to satisfy the customers, kept prices about 15 per cent below VIP's, and created a dealer driven demand in the market. Consequently, the company's product has become a major brand in the highly competitive Rs 150 crore soft luggage market and its turnover has jumped ten-fold from Rs 24 lakh in 1990-91 to Rs 250 crore in 1996-97 (Business Today, February 22-March 6, 1998).

Similarly, Ranbaxy is pursuing cost and product differentiation at the same time by developing bulk supplier capabilities and investing in niche strengths like product engineering. While some of its domestic rivals are fixated on basic research, Ranbaxy is differentiating itself by designing Novel Drug Delivery Systems — an unconventional way of administering a drug such as helper compounds or polymer implants. It makes differentiation easier to achieve than developing innovative new drugs would and is also cheaper and quicker. The unique differentiation in Bajaj Auto's products comes from continuous focus on tight control over component costs, quality improvement, and reducing cycle time. Each task in the company has to be evaluated on the basis of three parameters — cost, quality, and time. Consequently, the company is able to produce good quality as well as the cheapest scooters that many can buy in Asia. Vardhman's products are acknowledged to be the country's best and its differentiation lies in its ability to produce high quality yarn at low costs. Companies like Hindustan Lever (in toothpaste and shampoo), Colgate-Palmolive (in shampoo), Arvind Mills (in denim) and many others use a combination of two strategies for attracting and maintaining customers for longer periods.

Thus, cost leadership and differentiation appears to be most appropriate for markets characterized by fierce competition. However, the company that produces the best combination of the two strategies would achieve success. In other words, how effectively does a company manage its costs and how sharply it differentiates from its rivals will determine its success. This calls for following the practices that help to control costs and selecting and sustaining the factors that promote sharp differentiation at the same time.

Niche Marketing

Another important strategy for the Indian market is niche marketing (72% responses). It is a low profile entry strategy which an organization pursues to avoid head to head competition with major players in the market at the entry stage. Here, a firm tries to find out one or more market-segments or geographic areas which are profitable and "safe for launching its product. In these segments, the major competitors are either not present or their presence is insignificant. The strategy revolves around serving specific segments more effectively than competitors. It serves as a base for obtaining experience and expertise for a company which can then be used to expand to other segments and possibly the entire market.

Some of the successful companies base their success on this strategy. For instance, in 1986, Arvind Mills realized that, new entrants, in the form of low-investment powerlooms, were snatching business away from it and the company changed its strategic focus for surviving competition. It focused on export strategy to differentiate itself from its closest rivals. Arvind Mills exports 65 per cent of its product - denim - while its rivals sell largely in the domestic market. This niche-based approach helped the company to become the world's third biggest denim supplier after Cone Mills and Swift Mills of the US. Similarly, Apollo Tyres focused on heavy vehicle tyre segment only, while other tyre companies like MRF, Ceat, and JK Industries have built product ranges covering all tyre segments. This strategy helped Apollo to become India's largest manufacturer of truck tyres. Between 1992 and 1997, the company's sales accelerated from Rs 500 crore to Rs 1414 crore, with its profits increasing from Rs 23 crore to Rs 42 crore (Business Today, January 7-February 6, 1998).

The emphasis on niche markets and value addition has helped Bharat Forge (Kalyani Group) to achieve great success. For instance, Bharat Forge with its relentless focus on heavier forgings, has emerged as the largest player in the area, and commands a 70 per cent share of the domestic market. Moreover, the company is India's largest exporter of forgings and crankshafts. The company also has a near monopoly in front-axle beams which it supplies to Mitsubishi and TELCO. With a growing interest in natural herbal medicines which are regarded safe, slow, and long-term acting, well known producers of herbal drugs (Dabur, Amrutanjan, Hamdard, and Vicco) are focusing on herbal product segment largely. In the textile sector, JK group preferred to concentrate on premium quality market
segment only instead of dealing in all kinds of varieties of textiles as was the practice of most of the textile producers and was successful in achieving leadership position with its Raymond brand of suiting. Century Textiles opted for focus strategy and dealt only with cotton textiles and developed competence in it.

Thus, niche marketing strategy is critical to securing differentiation in a competitive market. It may be suitable and useful not only to new and smaller companies but also to smaller divisions of larger companies or strategic business units that are not able to achieve major success in their industries. In fact, niche-based approach is typically a starting point for most companies. It gives the firm the ability to test out its products and services, to iron out distribution and logistical issues, and to develop specific markets in near monopoly conditions. However, this strategy may be irrelevant for companies launching a revolutionary product.

**Superior Quality and Premium Price**

The strategy — superior quality and premium price — was cited as an effective strategy for the Indian markets by 61.60 per cent of the CEOs. These executives believed that high quality product puts a company on a different competitive plane than its counterparts and also makes a wider range of strategic options accessible. Attaining high quality creates the capability for a company to pursue premium price strategy.

Many companies are pursuing this strategy in the Indian markets and emerging successful. For instance, while focusing on the top-end customer segment of feminine hygiene market, P&G launched its well known international brand Whisper in the Indian market in 1989. Despite being priced at a premium of 25.50 per cent over the products from its rival — Johnson and Johnson, Whisper became the segment leader and currently commands 46 per cent of the Rs 150 crore feminine hygiene products market (*Business Today*, June 7-21, 1999). Spurred by the success, the company has decided to stick to this strategy and caters only to the top-end customer segment in select urban markets (for e.g. Ariel, Camay, Pantene, etc.). Similarly, LG Electronics which entered the Indian market in 1997, has been concentrating on the high end of all the product segments it has entered. In less than two years, the company has notched up substantial market shares — 6.50 per cent of the Rs 4500 crore colour television market and 8 per cent of washing machines, 9 per cent of microwave ovens, and 37 per cent of the high end refrigerator markets (*Business Today*, April 7-21, 1999). Kellogg India is also focusing on high quality and premium price strategy. The company is selling its products — cornflakes — at a premium of 27 per cent over its main competitor — Mohun's cornflakes. In spite of this, the company has established the product and gained substantial market share - 66 per cent by volume, 80 per cent by value.

In fact, there is a large and growing segment of consumers in the Indian market which are quality conscious and want high quality products and services even at higher price. Based on research on the demographic and the dynamics of the Indian market place of the future, the National Council of Applied Economic Research (NCAER) observes that the very rich class of Indian consumers is expected to witness a four-fold increase between 1994-95 and 2006-07 from 0.57 crore people to 2.90 crore people (*Business Today*, April 7-21, 1997). The study shows that this class will purchase the most expensive consumer durables and consumer non-durables. Therefore, the strategy of superior quality and premium price is most suitable for this segment of the market. In particular, it would be most appropriate in a new product category or when a company develops a revolution-ary product made of advanced technology. However, in order to maintain quality leadership in this segment, a company must continually upgrade its products or service offerings to prevent customers from switching to rival offerings.

Despite the fact that superior quality product producers are able to charge premium price, they can also adopt the low-margin-high-volume strategy to attract mass market. While low-margin-high-volume strategy needs quality at least on par with competitors, for pursuing superior quality and premium price strategy, a company must offer exclusivity in return for the higher price. However, usually superior quality producers use both strategies. First, they mop up the premium end of the market with high prices and when its potential exhausts or competitors emerge, they reduce the price of their products for reaching out to more people. For instance, Titan Industries, Akai India, Sony India, Timex Watches and many others are now progressively lowering the prices of their products to reach into segments that they had priced themselves out. While premium positioning was not giving volumes to Titan Industries because of slow growth, it expanded into lower price segments in 1997 to capture a bigger market share. The strategy has worked well because the company's financial performance in
19.98-99 reflects an 18 per cent increase in volume, a 9 per cent rise in income, and a 16 per cent surge in Titan's net profits (Business Today, July 7-21, 1999).

Conclusion

The purpose of this study was to identify the crucial activities which organizations should perform for responding to the changing environment successfully, explore the factors/areas, which needs to be focused by organizations for improving their competitiveness, and describe the most effective strategies for the Indian market.

The results reveal that organizations must focus on five activities/factors continuously for successful management of their businesses in the changing environment. These are: continuously reading and interpreting market signals; determining and analysing the impact of change on businesses; analysing competitors' potential of responsiveness; quickly designing strategies for responding to change, and quick decision-making. About 81 per cent to 92 per cent of the CEOs in our sample listed these activities as of critical importance. Therefore, focusing on these activities/factors will help organizations to recognize prevailing conditions and understand the currents of change and respond to it more effectively. However, for responding to the changing environment quickly and creatively, Indian organizations need to improve their competitiveness. In this context, this study identified 11 key areas/factors which all organizations must build/improve for competing successfully in the Indian market (Table 3). The CEOs viewed these factors as of critical importance for the successful performance of Indian organizations, with mean importance score ranging from 1.16 to 2.47.

Similarly, in order to survive and thrive in a turbulent competitive environment, organizations must design and implement strategies that allow them to withstand change and quickly take advantage of opportunities. The selection of an appropriate strategy allows the firm to serve its buyers better than others do and to achieve a competitive advantage which facilitates long-term viability. Although appropriate strategies may differ from market to market, this study identifies five most effective strategies for the Indian market. The strategy 'good quality and low price' was ranked first in order of importance, followed by product innovation, cost leadership and differentiation, niche marketing, and superior-quality and premium price strategies.

It is interesting to note that despite the Porterian importance of choosing between cost leadership and differentiation, companies which are successful actually use a combination of the two for competing in the Indian market. They focus on the practices that help to control costs and attempt to grow and sustain the factors that promote sharp differentiation. The pursuance of this combination strategy assumes added significance in India because, besides competition, affordability is the highest barrier for a marketer looking for larger market share. Since India has a vast customer base, even a small price drop would open up a vast section of the market and translate into a viable market volume for companies to invest. However, it is imperative for companies to clearly define/redefine their market segments for operation. They must decide whether to operate in the entire market or choose specific segment(s).

Thus, in their pursuit of excellence, Indian companies must examine their current strategies, diagnose their strengths, and chart a course of action to meet emerging market place challenges. The more effectively they understand their environment and the rules of success, the greater the chance that they will choose right strategies and prosper by staying ahead of competition.
References


