MARKETING IN THE NEW ECONOMY

N. Casmir Raj

Now any company which wants to enter the global market should redefine its clientele and its strategies. If it wants to sit in the ivory tower, as Ford, in the past, it will be sidelined. If Citicorp wants to follow its old strategy, it can attract customers who can invest $5000 and above. If it positions itself differently and reduces the flooring amount, then the middle-class will have access to the Citibank and then it will never sleep.

1. INTRODUCTION

We are living in the New Economy, which creates new challenges and opportunities. A manager has to seize these opportunities by adopting new strategies. Otherwise it will be like pouring new wine into old wine skins or like building a new temple in the site of the old temple without destroying the old temple. This would explain why Japan and Germany forged ahead of England after the World War II. The entire industrial base of these countries was bombed out of existence, while that of latter survived. Hence they could create new strategies, start afresh and destroy the bad image they had.

The new economy has distinct opportunities and pit falls. But those who play the new game will have to be like the Australian Cricket team - with reliable winning strokes.

2. WHAT IS NEW ECONOMY?

U.S. Federal Reserve Bank Chairman Alan Greenspan says there is no new economy because there is no fundamental, discontinuous change in the way economy works, that promises significantly higher growth. But he agrees that important technological changes are altering the manner in which we organize production and trade across countries and deliver value to consumers (California Management Review). Agreeing with this view we can outline a definition for the new economy :

It is global; it favours intangibles; it is intensely interlinked; it is technology intensive and consumer oriented.

All these lead to cultural modernization. We challenge the old tenets. These changes result in cultural revolution. Let us first consider the various characteristics of the New Economy and then decide what marketing strategies we can adopt in the New Economy.

3. GLOBALIZATION

The world has become a global village, where each one knows the other and helps the other. Trade has become truly global. A garment seller on the pavement has access to global markets because of E-Bay. The rubber prices in Kerala depend on the international market. A farmer in Madhya Pradesh looks at the price of Soya in Chicago Board of Traders before deciding to sell. As a result, one has greater access to new markets. Labour, resources and capital can be sourced globally resulting in cost advantage. Now geography is dead - your competitor is a click away. Now time is dead - it takes one-eighth of a second to reach your customer anywhere in the world. Though we live in globalization, we also criticize it.

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We are founding members of GATT in 1948, but even in 2004, we bark at globalization. But look at its impact on Indian companies. Essel bought Copack of Switzerland and now has 50% of the world market. Tata Steel bought Natsteel, which has steel mills in seven countries. Tata Motors bought Daewoo and brought Euro IV trucks to the country. Tata bought Tetley and now it is the largest tea seller. Reliance bought Travera in Germany and today, it is the largest polyester manufacturer in the world. Today, auto manufacturing (including BMW in Kerala), research centers and BPOs are set up in India to meet the global needs. Still we remain defensive of multinationals.

During the cold war and protection period, the most frequently asked question was: whose side are you on? In the era of globalization, the most frequently asked question is: to what extent are you connected?

The second most frequently asked question during the Cold War era was, how big and how many nuclear tipped missiles do you have? In the era of globalization, the question asked is, how fast is your modem?

In 1991, Indians were terrified that globalization would cost millions of jobs. Today Americans are terrified. Though a few States and some politicians want to ban outsourcing, the intellectuals are not for banning this. Gregory Mankiw, President of Council of Economic Advisors and Alan Greenspan, Chairman of Federal Reserve Bank, strongly support outsourcing. They feel, it is good for America's health in the long run. U.S. Democratic Party suggested that Gregory Mankiw should be outsourced to India! McKinsey report says for every dollar of work outsourced, the U.S. gains $1.12 to $1.14. So, the U.S. needs us, even if displaced workers do not. In 1999 the U.S.A. lost 33 million jobs but created 35 million jobs. In 2001, the U.S.A. lost 2.9 million jobs and it may take time to create jobs. Job churning ensures wages, and living standards will be much higher for the next generation in comparison to a stagnant economy where no jobs are lost.

Job losses are inevitable in a changing economy. It is true that job losses are traumatic in the short-run. But the entire history of human progress is a string of lost jobs and the creation of new jobs. If some jobs were not lost, we would still live in the Stone Age.

When electricity was invented, it displaced candle makers and lantern makers.

When automobiles were invented, it displaced bullock carts and hand-pulled rickshaws.

When wireless telephony comes, copper wire makers will be replaced.

Industries and workers need to look for new opportunities and seize those opportunities, if we want to progress. Who thought that high-tech and bio-tech jobs will emerge? Who predicted that in India, software and call centers will offer millions of jobs?

This does not mean, as I will discuss later, that we want higher GDP with poor employment. That would be like the person who divorces his wife and appoints her as his housemaid. Her wage is part of GDP and hence GDP will increase but at social cost. We do not want such a progress.

4. THE MAJOR ROLE OF INTANGIBLES

The intangible assets will determine the competitive advantage of corporations. Now the core assets are brands, knowledge workers, quality of supply chain partners and connectivity. These are more important than machinery, land and building. The major share of GDP is created by banking, hospitality, transport, consulting, information services, connectivity, customer base, distributor and supplier relations, etc.

These intangible assets play a key role in the valuation of a stock. But it is very difficult to give value to the intangible assets. So now market capitalization, and not the book value of the tangible assets of a company has become the important parameter to measure the intrinsic worth of a company. So also, market capitalization to sales and sales per employee have become important parameters to measure the success of a company.

5. PERVASIVE TECHNOLOGY

Lous Gerstner, Chairman of IBM, said, "Every now and then, a technology comes along that is so profound, so universal, that its impact will change everything. It will transform every institution in the world. It will create winners and losers, it will change the way we do business, the way we teach our children, the way we communicate and interact as individuals". Such a technology has arrived.

Today, technology engulfs our minds and our lives, our thought, our expression and our communication. Plants and humans are genetically modified.

only ones for productivity - led recovery, the nation would be on a path to industrial extinction". To save the shareholders, destroy the company - called Vietnam justification - should not be applied just to increase productivity. Instead, the economy should grow through diversity, innovation, organic expansion, all of which create new business and new employment.

6. CHANGING INDUSTRY LANDSCAPE

Since intangibles like ideas, information, relationships, entertainment, securities, derivatives play a greater role in the economy, they demand a new strategy. Now, iron and timber will obey the laws of software. Automobiles will follow the rules of network.

These also call for innovative organizational structures. Earlier, there was master-servant relationship, fulltime-employment, security of jobs and vertical integration. Market power was with the manufacturers, with his brand equity. Now, a knowledge worker is not so much a servant but a partner. Part-time jobs, consultancy and outsourcing are prevalent. Market power is with the customer.

The rule of management was "I don't want you think - I want you to just do what I say." "When I want your opinion, I will give it to you." The mushroom theory which states - keep your employees in the dark and throw lot of manure on them" was the rage. It was well expressed by the term used for employees- "hired hands". Henry Ford once asked, "why is it I always get the whole person when all I really want is a pair of hands?"

Peter Drucker has focused on the human implications of this shift. Skills that were once critical only for top management have become essential for everyone. No longer can one succeed - even survive, simply by following orders. Each employee is more and more self-manager, making decisions on his/her own. Moreover, with the accelerated pace of change, roles and tasks evolve constantly, requiring continuous judgment and the ability to learn and fly.

Who thrives in such environment? Those who can learn, innovate, exercise good judgment, take responsibility for their actions and take risks. Successful careers are not planned. They develop when people are prepared for opportunities because they know their strengths, their method of work and their values.

In this economy, it is not sufficient to empower the work force and create a flat organization. To build the new organization which achieves, one must replace rank and power with responsibility and mutual understanding and trust. Now self-awareness is the key word - who you are and what you do best. Then one communicates it to the company. (Malone and Laubacher - HBR)

We used to think that when a flock of birds are in formation, the bird in front is the leader, determining the organization of all the other birds. But the fact is the bird in front is as important as any other bird. Each is flying by a set of rules and they are all essential to the pattern they are forming. This is the need of the new organization. Here we replace rank and power with responsibility and mutual understanding.

Secondly, modern economy is not market economy, but organizational economy - the corporations are main players. They create value and advance economic progress. That is why somebody said that corporation is the greatest invention of modern economy. Traditionally, the power flowed from politics, business and military. Now pinstripe corporates wield power and they scale the heights by their innovativeness and labour and it is not inherited or caste based. Thus a juice vendor went on to become the largest producer of audio cassettes - Gulshan Kumar. A Gas station employee created one of the world's largest refineries - Dhrubhai Ambani. A bicycle parts vendor became a telecom giant - Sunil Bharti Mittal.

In market economy, individuals transact self-interestedly, but organizations involve people. Collectively coordinated by corporate mission, combining technology, resources and skills of people, they create wealth. Somebody asked, if the impact and relevance of the U.S. Government to the world is one, what is the potential impact and relevance of your company? The CEO replied without any hesitation, it is three times that.

Still, corporates should not work in isolation or in conflict with the government but rather in cooperation with the government. They should not work with an eye on the bottom line alone but with the eyes on the environment and stakeholders. This generates sustainable growth. Can the business of business be only business?

As an aside, I would like to state that social responsibility of these corporations is becoming prominent. As Micklethwait and Woolrigde stated in "The Company", limited liability as a dominant business form is a creation of society. They operate with limited liability because the state has allowed them to do so i.e., in the interest of society, which is translated as the greatest good of greatest number. Therefore the company is duty-bound to protect not only the interests of its investors but also of society.

Today a corporation needs to have four objectives: Profitability, Growth, Image and Survival, or three bottom lines : Financial accountability, Social accountability and Environment accountability.

7. NEW TALENT ERA

Today, we have moved from child labour in sweatshops and unskilled workers in assembly lines to knowledge workers. They are not only skilled workers but have sophisticated knowledge. As a result, the productivity has increased, manufacturing cost has decreased. Labour cost has come down from 30% in 1960 to 15% in 2000. Today, the cultivated area in the farm sector has decreased but farm output has increased. We used to speak of neck down employees: now we look at neck up employees.

These knowledge workers demand different things. They want freedom, recognition and appreciation more than security. Salary plays a different role. Over-controlled, over-regulated system and governance become dysfunctional.

The growth of management education is an offshoot of this era. Changing economic conditions and intensification of competition have given management education an increasingly central role in the running the economy. In the 1990s, Y2K attracted a massive crowd to computer education. In this twenty first century, after the collapse of dotcoms, MBA is the degree every parent wants his son or daughter to possess.

These knowledge workers are today the capitalists - controlling the mutual fund and pension fund markets. They are the political force. In the last election, the feel-good-factor and India-shining concept were aimed at this group. Of course, they neglected the poor, the farmers and the villages and paid for it. But now the middle class has become a force to be reckoned with.

The dream of Aristotle that the best political community is the one in which the middle class controls and outnumbers the others may come true in India.

8. NETWORK

Today's economy is rooted in ubiquitous electronic networks. This network gives data which can be analysed to make decisions; communication is instantaneous. These characteristics affect not only the economy but also the very social fabric. It is said that atom was the icon of the twentieth century. Atom is the symbol of individuality. Network is the icon of twenty first century, in which plenty and not scarcity creates value. In the olden days, diamond and gold were valued dearly because they were scarce. Commonness reduced value. Today, commonness increases value. If there is one fax machine or only one E-mail address, its value is zero. If they increase in number, their value for the user increases. When one is buying a fax machine, he is not just buying the machine but the entire network. Now power comes from abundance - it is called Internet Externality. Just look at the proliferation of cell phones.

Secondly, the very best gets cheaper. Compare the price of the early Fax machines. They cost $1000. The early computers and mobile phones were less powerful but more expensive. Computer chips are halved in price, but doubled in power every 18 months. It is said, today people hesitate to ship anything by sea lest its price drops while the product is in transit. They advise you not to buy anything and stock; instead, delay shopping till 60 seconds before you actually need, if you want the lowest price.

Now the unit cost of telephones may decrease but not telephone bills because of more use. Example: Phones - two or three connections, mobile, answering service, call forwarding, call waiting, caller ID, Fax, modem, etc. Abundance of goods may lead to lower price, not because of the learning curve but because of technology. But it will not lead to zero price - it is asymptotic curve.

In the classical economic model, as supply increases, the price falls. But in the new economic model, as the supply increases, utility increases, demand increases, but supply curve and demand curve cross at lower prices.

What does it imply? Goods and services become more valuable when more are available. As they become more valuable, they also become less costly. This means, most valuable things in the new economy become cheaper.

As an aside, I find that now education is more available but more expensive. If so, are they less valuable?

Network also creates a mental frame to collaborate, outsource and go for strategic alliance, etc.

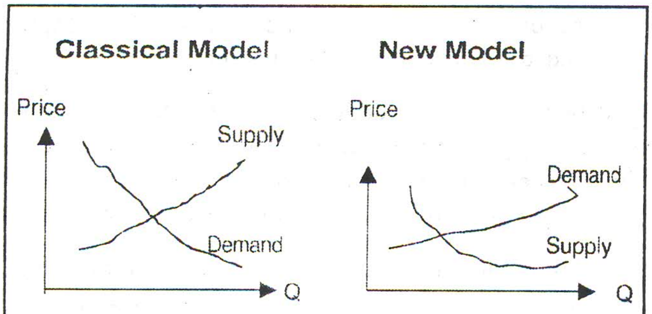
The net technology creates a new behaviour - millions of people are connected electronically. In the past, when information is carried by a salesperson or by mail, it goes where the person goes and no further. In network economy, information travels by itself and through a physical carrier. This creates a new value chain (to design, produce, market, deliver and support).

9. NEVER SATISFIED CUSTOMER

Education, technology and information explosion has increased the expectation and quality awareness of customers beyond imagination. Customers demand better products at lower prices and customized to their unique needs. Technology creates demand and supplies it. Standardized mass production is giving way to custom tailored products without increasing the price. As a result the golden rule, "Do unto others as you have them do to you" will not apply, because each one's taste is different and that taste should be respected. Today the golden rule is there are no golden rules. Mr K Dinesh, co-founder of Infosys used to say, the new economy is characterized by unreasonable demand - Japanese and American-- of consumers. This leads to innovation.

Once liberalization was ushered in the Indian consumer, starved of choice for 40 years, started gulping variety and better quality consumer goods and they were ready to spend. Emerging markets have entered a new era of product plethora. In India, we have over 50 brands of toothpaste and 250 brands of shoes.

Consumers are experimenting and changing their choice of brands. Indians buy any product once and switch brands. One survey showed that Indian consumer tries 6.2 brands of the same packaged goods annually, while Americans try 2 brands.



During the mass production era, people went for the longest bridges and tallest buildings. In customized service era, there is no mass entertainment, no more mass destruction, no mass democracy, no mass education. Is there universal church or local church? We have today affinity clubs, cults and charismatic churches.

Now there is easy access to resources - capital, raw materials, labour and information. Capital market is available to all. Look at Maruti's IPO - large percentage for small investors. Stock price information used to be the privileged information at higher prices. Today, it is free on-line.

Now, firms do not starve of funds. If the innovative idea is there, venture capitalists are lining up to invest. But the firm has to manage the external forces, if it has to survive.

10. MARKETING IN THIS ERA

Now there is:

Share Shift: Earlier customers were product seekers and few were price seekers in 1978 - Coke in Rajasthan. Now the market has a large number of price seekers. Customers dictate price. Now the new paradigm is from cost - plus pricing to price - minus - costing. Price tends to be globalized, influenced by competing pressure from countries like China.

Channel Shift: Now one can surf around for any number of channels. Earlier it was difficult to know the channels. Yellow pages or word of mouth helped. Strategy for shopping goods, convenience goods have no relevance. One can have recourse to any store in the world with a credit card and a computer at home.

Market Velocity: Consumers do not follow well defined rules or laborious decision making process. Now they follow fast and flexible decision making processes. Recent studies show heuristic decision making is becoming popular. The rational buying process even for industrial goods is becoming rare.

Power Shift: As a result, the power now shifts from supplier to customer. Now the consumer knows the value he gets. He knows the product, the supplier and the price. He asks the supplier to supply the goods at the price he demands. There are no more internal bosses and servants, but all have a common boss- the customer.

As a result, as C K Prahalad states, consumer is at the heart of cocreation. The firms create an experience environment. When the supplier wants to create this environment, he should keep in mind what the consumer seeks. He is called Prosumer as he takes part in production.

A consumer seeks:

(a) Value for money in food and groceries.

(b) Aspiration in cars, mobiles, home theatres, etc.

We also have the impatient aspirer - he is called the fashion leader. These are brand conscious and habitual impulse buyers.

(c) Experience in movies, holidaying, music, books, and image enhancement.

THE MARKET SCENARIO

(a) Substantial increase in buying power :

The knowledge economy, as we have seen earlier, has created more middle class and as a result, large proportions of people have large, real buying power. This power has increased by the power to borrow using credit cards. Moreover, the double income and no kids group is also increasing, doubling their purchasing power.

As a result, there is a more instantaneous home-making desire. Impulse purchase is on the rise. Thanks to e-commerce, anytime, anywhere purchase is ascending. Metrosexuals - both men and women, splash their income in branded products.

(b) Greater variety and customized :

Now, all the global brands are available. Just look at the models of two-wheelers and automobiles - from one brand to a plethora of brands. They are available at affordable prices. Owing to the digital revolution, the products can be customized at no extra costs. As a result, customers start benchmarking the products not on local brands but on global brands.

(c) Deeper partnership with suppliers and distributors:

Firms need to move from "feudal relationship with business partners to a relationship of strategic partnership". We take our suppliers as partners and train them in quality, share with them latest technology and cost-cutting measures. Just look at Coco Cola, who brought in special seeds of lettuce, tomato and potato to our farmers so that they can get the quality they require. The Vada Pav teaches how to make buns of the same weight and colour. The corporates also train their distributors in the knowledge of the products. Gone are the days, when the distributor's role was to extract money. Already in 1964, late Mr P L Tandon, the first Indian to become the Chairman of HLL, enquired about the income HLL distributors will get per month and whether it is sufficient to keep up the living standard. Today, HLL has forgotten the tradition. As a result, eight years ago, distributors in Kerala boycotted their products.

When Mahindra and Mahindra developed Scorpio, it persuaded its major suppliers to invest in R&D by giving them a long-term contract, running over 8 to 10 years. This assured quality for Mahindra and Mahindra.

(d) Person to person promotion :

Though there is promotion through mass media and road shows, person to person promotion is gaining ground. Look at high networth individuals. When Mercedes Benz introduced its D-Model, it sold through invitation card and not through mass advertisement. Sales force plays a greater role in selling the products. Telemarketing is person to person. Multilevel marketing is person to person. Even Pepsi and Coca Cola reduced their mass advertisement this year and plan to reduce next year also.

(e) Dis-intermediation and re-intermediation :

Compaq lost its business because it went through dealers. Dell succeeded because of direct selling. Customers, through internet have access to the products directly from the manufacturer. This makes it easy and cheap to purchase. At the same time, a new kind of intermediation is emerging. Amazon.com and Priceline.com are offering products from any part of the world and at the prices customers demand.

Ebay.com in less than 10 years has become the largest on-line market place for buying and selling goods and services, with 40 million registered users and $5 billion worth transactions. It helps practically anyone trade practically anything on earth.

11. Changes in the marketing practices

These realities call for new marketing practices. Kotler lists a few:

(a) From products to customers - from brand or category manager to households, and high net worth, business managers.

(b) From profitable transaction to customer life time value. Street hawkers or railway vendors' mentality has changed. People want to retain customers. As a result, focus is not on customer acquisition but customer retention.

When Ford was selling cars, it found its profit margin was 4%, the same as a grocery store, but with fewer turnovers and highly subject to the vagaries of trade cycles. So Mr Trofman, the CEO of Ford, wanted to serve the consumer throughout the life cycle of the vehicle and thereby retain the customer.

During the life cycle of a vehicle, a customer will go for financing, maintenance and repair, services associated with ownership - insurance and ultimately, dispose the vehicle and go for a new one. In this process, the profit margin is high, it is less cyclical, less capital intensive and Ford could retain the customer. This we call Customer Value Management.

(c) From financial score card to marketing score card. This means, instead of concentrating on short term bottom line, now marketers concentrate on market share, customer loss rate, customer satisfaction index, product quality relative to competitors.

(d) From shareholders to stake holders - employees (internal customers), suppliers, distributors, co-prosperity of all is important.

(e) From building brands through advertising to building brands through performance. Customers experience and word of mouth promotion are considered more valuable than promotion at a mass scale.

(f) From over promise and under-deliver to under-promise and over deliver. Look at the ads of the management schools. It looks as if the new economy has not touched them. As usual, it touches educational institutions last.

(g) Change in the role of consumer - he becomes a prosumer - participates in the production. In a restaurant - how one's meal should be made, in an airlines office, at a lawyer's office.

(h) Technology is used to follow the needs, change in life styles, etc. of consumers using Customer Relationship Management and Data Mining.

(i) Anticipate what customer wants - music, movies, books do that.

When Ford introduced Escort, DSegment it resulted poor sales. But Hyundai with Santro, superior technology, BSegment., the large middle-class was ready to wallop it.

When Revlon entered India in 1994, the price was high. The top segment went for it. So local brands, Lakme, later Cavin Care entered and captured the market. Now, the consumer base was large.

The enlightened consumers want global standard and local prices. As somebody said, he liked McDonald's ambience and cleanliness but not its product or its price. But he likes Nirula's product and price but not its ambience. He demands that Nirula create that ambience.

Now any company which wants to enter the global market should redefine its clientele and its strategies. If it wants to sit in the ivory tower, as Ford, in the past, it will be sidelined. If Citicorp wants to follow its old strategy, it can attract customers who can invest $5000 and above. If it positions itself differently and reduces the flooring amount, then the middle-class will have access to the Citibank and then it will never sleep.

12. CONCLUSION

We have seen the radical differences in the new economy calling for a paradigm shift in thinking and strategizing. All strategies, however, should lead to the time tested, value creation - value creation to the consumer, to the supplier, distributor, manufacturer, shareholder and ultimately to society. Again the value is created by what Eliyahu Goldratt calls "Mafia offer" - an offer which one cannot refuse. These are superior cost, superior product and superior service. Today, for business, global branding is an important strategy. The sources of value creation for management schools are branding and niche creation.

Secondly, in this fast changing socio-economic scenario, one has to look for opportunities to grow. As somebody said growing is less dangerous than not growing. If one is rearranging his furniture while his competitor is building a house, he will be lost. Those who leap sometimes lose, but those who do not leap always lose. Creative thinking and imaginative innovations are necessary for growth.

You may be wondering, why I have not touched on the darker side of globalization and liberalization. They are staring at us. But we cannot solve it through subsidy or through charity. Growth without development cannot be sustained. Poverty cannot be alleviated through charity or distribution. It can be eradicated only through wealth creation, productivity and equitable distribution. This can be done by adopting modern and relevant strategies, through which we channel the new knowledge for human welfare. Our life is like a bank, we have to make deposits before withdrawals. Everybody should make this deposit by using his talents to build society.

But the growth should not be naval gazing growth - what I am, what I make .... but customer oriented growth - what people need, what happens in the market place, what the resulting opportunities are and how I can serve them. When this attitude is taken, we serve the people, serve the nation, serve the society, without exploiting anybody. Now there is no zero sum game, but growth business.