Contextual Factors, Strategy, and Marketing Mix Decisions of Firms

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Abstract: This is a study of Indian firms pertaining to the strategy they adopt and implement in the market place. This is also about the factors that are most important in this market. The objectives of this research paper are to ascertain whether there is a relationship between contextual factors and strategy and/or marketing mix decisions of firms. There is also a need to know whether marketing mix decisions and strategy are correlated. That will throw light on the issue of firms following their strategy in the implementation stage as well. However, the primary objective in this paper is to understand and appreciate the factors that firms place more importance on in the conceptualization and implementation of strategy. It is found from the analysis that product quality, on time delivery, and meeting customer expectations are the most important factors for succeeding in the market. In the final analysis, it is all about product-market (customer). Also, marketing strategy and marketing mix decisions are quite similar. However, there is very weak correlation between contextual factors and strategy of firms.

Keywords: Contextual factors, Strategy, Marketing Mix, Firms.

I. Introduction

The business, and hence marketing, environment has changed dramatically in the last few decades. In fact, it is becoming even more turbulent (Reilly, 2007). The business environment in India has become tremendously competitive in almost all industry segments (Krishnan, 2009). Competition has been growing in domestic and international markets and customers have become more demanding and assertive. The decades have seen rapid advances in technology, and government laws and policies have changed continuously to keep pace with the changing environmental factors. Cravens (2000) argued that in various areas of business management like management of customers, development of new products, or effective use of supply-chain management – marketing plays a key role. Superior value is delivered to the customers when competitive advantage is obtained through application of concepts and processes provided by marketing strategy. So, effective implementation of marketing strategy is very important to the challenges of the market place today. (Cravens et al, 2000). Marketing strategy is manifested in organizations through marketing mix decisions, or as it is popularly known as the 4Ps – i.e. product, price, place, and promotion.

Many firms, especially in the FMCG and Consumer Durable category, are heavily dependent on their marketing strategy for growth and overall performance. These companies are more consumer-centric and build their business ethos centered on their Consumer, Shopper & Retailer needs. Their Marketing departments concentrate on finding newer and better "Growth Opportunities" in their categories by developing consumer insights. The Marketing team will then develop strategies based on these growth opportunities. The opportunities may also be in the form of development of new products or services, as well as changes made to the 7Ps.

II. Objective

The objectives of this research paper are to ascertain whether there is a relationship between contextual factors and strategy and/or marketing mix decisions of firms. There is also a need to know whether marketing mix decisions and strategy are correlated. That will throw light on the issue of firms following their strategy in the implementation stage as well. However, the primary objective in this paper is to understand and appreciate the factors that firms place more importance on in the conceptualization and implementation of strategy.

III. Literature Review

In the context of formal thinking, strategy may be considered a sequence of decision rules which give a complete description of the marketing practices of a company, their order, and their timing (Howard, 1957).
Integration of all aspects of the marketing plan is said to be the hallmark of a good strategy. Some authors (Huang et al 2013) suggest that marketing mix is one of the major components of the marketing strategy. In fact, they divide marketing strategy into two parts: a) operating objectives composed of targets and goals, and, b) combination of instruments – composed of the marketing mix and other relevant resources.

Contextual factors are characteristics of the firm such as size (as measured by sales, or profit, or by the number of employees), the stage of its life-cycle (infancy, growth, maturity, or decline), number of years of existence in India, ownership (foreign-owned or domestic firm), and the nature of the industry it belongs to. Marketing can be conceptualized as aggregation of various process of planning and implementation of what is known as the 4 P’s, namely: product, place, price, and promotion. A marketing strategy is composed of several interrelated components called the marketing mix, which is a resultant of the interplay of the 4 Ps in a given marketing environment. A marketing strategy requires decisions on the target market and the marketing mix (i.e. pricing, distribution, sales force, advertising and sales promotion, and product design) (Kotler 1980). Carpenter (1987), Shin (2012) and Azadi and Rahimzadeh (2012) used marketing mix as a definition of marketing strategy. Alsem (1996) carried out a large scale study among executives of 550 Dutch companies. The study found that about 70% of the companies surveyed used formal marketing planning for their operations. However, responsibility for the Mix decisions is divided among different departments. The study also found that market leaders use it much more often than the market followers.

In a study in Brazil (Brei et al, 2011), price was found to be the most important element of the marketing mix, followed by promotion, product, and distribution. Leuschner, et al (2012) investigated the impact of the Marketing Mix on customer satisfaction and share of business. Results show that that the relationship between constructs such as product and price and customer satisfaction were not statistically significant, whereas the promotion construct had significant impact on customer satisfaction.

An analysis (Ofer Mintz & Imran S. Currim, 2013) of 1287 marketing-mix activities reported by 439 U.S. managers reveals marketing mix performance is influenced by use of metrics. Characteristics which are more useful than managerial characteristics for explaining use of marketing and financial metrics are firm strategy, metric orientation, type of marketing-mix activity, and firm and environmental characteristics. They also found that firms with a greater market orientation use more marketing metrics but not more financial metrics. This result supports the measurement of use of metrics and perceived marketing-mix performance.

In a study (Ibidunni, O.S. 2011) in Nigeria, the author found that in the perception of the consumers, FOBs (foreign owned business) performed better than DOBs (domestic owned business) in profit growth. Hence, DOBs started using promotional tools in a major way. The perception was also that FOBs had better market share and better returns on capital because they were able to use the marketing mix elements in a more effective way. FOBs utilized more resources in marketing mix elements and hence had a competitive edge over DOBs. The competitive advantage of FOBs in the market place translated to better perceived performance compared to DOBs.

A study (Bodea et al, 2011) in Romania explored the perception of these companies about the importance of the different components of the marketing mix – product, price, place and communication – promotion – in the context of organization’s marketing performance. Results show that from the five specific aspects of the product component of the marketing mix (product quality, product package, product design, intrinsic content of the product, product selling related services), product quality is monitored by 96% of the investigated companies and assessed as having a very important contribution to the overall performance of marketing activities by 86% of the companies. Among the three specific aspects of the price component of the marketing mix that were taken into account (premium price, grouped discounts and type of selling), premium price meets the highest degree of use among the investigated firms (92%), as well as the highest importance level assigned to its contribution to the overall performance of marketing activities (46%). From the specific aspects of the place component of the marketing mix which were considered (product availability at point of sale, numerical distribution, on time delivery), the contribution of on time delivery to the overall performance of marketing activities is considered very important by 79% of the investigated firms, also being the most monitored aspect of place, according to 92% of the firms. From all the aspects specific to each of the components of the promotional mix, it was noticed that advertising on the Internet is the promotional instrument that enjoys not only the highest degree of use among respondent companies (95%), but it also is the instrument with the most important contribution to the firm’s marketing performance, according to the perception of 64% of the respondent companies. Srinivasan, et al (2009) found that promotional incentives have a negative effect on stock returns. This indicates that price promotions are interpreted as weakening of demand in the market place.

In a study (Baack & Boggs, 2007) regarding the difficulties in using a cost leadership strategy (for MNCs) in emerging markets, it is argued that implementation of a cost-leadership strategy by developed-country MNCs is rarely effective in emerging markets, and that MNCs may benefit from using different strategies in different markets. For effective cost-leadership strategy, target customers need to be industry-wide; i.e. demand should be market wide, not segmented. The authors conclude that there is powerful evidence of the
substantial environmental obstacles to the successful implementation by developed-country MNCs of a cost leadership strategy in emerging markets. In these markets, focus, differentiation, or other strategies, such as those based upon personal or political relationships (Peng and Luo, 2000), may provide a better “fit” with the environment than cost leadership. Miller and Dess (1993) studied Porter’s model where they assessed the strategies from the point of view of strategic positioning. They conceptualized the three generic strategies as continuous dimensions of strategic positioning. They found that businesses follow strategies which fall somewhere along a continuum on all three dimensions. This type of conceptualization of Porter's model leads to the concept of 'combination' strategies which are evident in many highly successful firms such as Toyota and Lincoln Electric.

**Variables**

Extensive use of literature was made to ascertain the variables which were considered for marketing mix. They are:


In a similar vein, factors pertaining to strategy were formulated from literature. They are:


The contextual factors identified from literature are age of the business in India, size in terms of revenue, size in terms of employees, size of profits, the nature of their business or the industry they belong to, and ownership (foreign owned or domestic). The stage of the product life cycle to which the company/product/brand belongs to was also considered.

**Research Design**

Questionnaire was formulated based on these factors. The questionnaire was circulated to a wide spectrum of Indian industry – ranging from the small industry to the very large industries. The questionnaires were administered only to the top management of the firms on the belief that it is only they who are involved in formulation, monitoring, and evaluation of strategies in firms operating in and out of India. The questionnaire was sent to top executives of approximately 45000 firms. The list of firms was obtained from databases of associations of Indian Industries and chambers of commerce – namely, CII (Confederation of Indian Industry) and ASSOCHAM. In this case, almost 500 firms showed interest in responding to the questionnaire. However, ultimately around 280 firms could complete their responses in all aspects. Most of the respondents were required to respond on a scale of one to five for all the parameters discussed in the earlier paragraphs. For marketing mix and strategy related questions, it was importance scale; while for contextual factors, range was provided for each response/question.

This questionnaire was pretested on approximately fifteen respondents who are either senior academicians or senior practitioners. Some changes like modification of structure of some questions were done. There were certain variables which were deemed as irrelevant were also dropped. These changes were carried out for both, generic strategies as well as marketing mix.

On the data collected through this process, statistical analysis was performed. Statistical tools used were ANOVA, Testing of Means (t-test), and simple observation / comparison of means for all the factors – both, strategy as well as marketing mix. Factor Analysis and Decision Tree Analysis were also used.

**Analysis & Interpretation**

Analyzing responses on strategic parameters (primarily through Means& ANOVA), it is found that out of the 22 strategic parameters considered, only four parameters scored a mean value of above 4 (on a five point scale). They are: customer service, operating efficiency, product quality control, and developing strong customer
relationships. Advertising was the only parameter to score below 3 on the importance scale rating of one to five, where five is the highest and one is of least importance.

The surprising part of the response is the relative unimportance of advertising, so much so that it was placed in the last position among all the 22 parameters. One of the major reasons for this phenomenon could be that while consumers are becoming hard to please or satisfy, their confidence in advertising has diminished considerably (BODEA et al, 2011). Further analysis was done considering the sub parts of the contextual factors. For example, age of the firm in terms of number of years of operation in India was considered as the factor for ANOVA. The objective of this statistical analysis is to ascertain whether there are differences among various age sub groups of firms among the 22 parameters. The differences among the categories after applying ANOVA with posthoc, were not remarkable. Similar was the findings for all contextual factors.

The results of statistical tests conducted on all of the 22 variables representing marketing mix, is quite similar to what we observed in the strategic part. On the full sample (without any qualifying factor), there are only two variables which crossed the score of 4.0. They are: ‘product quality’ and ‘on time delivery’. ‘Product design’ and ‘product features’ also scored a relative high of 3.8 and above. So, in this case as well, product occupies the prime position among all the four components of marketing mix. Interestingly, respondents did not give a high score to ‘product packaging’ (3.48). Place or distribution seems to be the least important component of the 4Ps. ‘Channel structure’, ‘distribution coverage’, ‘location of outlets’, and ‘quality of outlets’ received very low scores of 3.05, 3.15, 2.84, and 2.98 respectively. However, ‘sales force’ have got a much higher score of 3.52. Pricing and promotion have scored somewhere between product and distribution/place. While ‘discounted/sale’ was given the lowest score of 2.61, ‘brand equity/awareness’ garnered a relatively high score of 3.82.

The strategy of the firms becomes quite clear at this stage. The firms/brands are in the market for the long haul and have a long term perspective (in terms of strategy) of manufacturing excellent products supported by long term brand building efforts. At the same time, ‘advertising expenditures’ were given a very low score of 2.90. Comparatively, ‘social media advertising’ was given more importance at a score of 3.13. Pricing is viewed as a variable of medium importance with ‘premium pricing’ and ‘relative/competitive pricing’ scoring just above 3.50. ‘Sales promotion’ is not being given much importance with a low score of 3.29. ‘Warranty/return policy’ is yet not perceived as a very important factor in the marketing mix decisions of firms.

The differences among the categories after applying ANOVA with posthoc, were not remarkable. Similar was the findings for all contextual factors. Analyzing response on Strategy (through Factor Analysis), the following results were obtained:In rotated component matrix, values of 0.7 and above only have been retained. Factor Analysis shows that the first component is all about product and customer, with emphasis on productivity and efficiency. This thus corresponds to cost focus. The second component is about brand and positioning with segmentation, implying differentiation focus. The fourth component with procurement and raw materials is about cost leadership.

These groupings continue for all contextual factors as well, and the results continuously harp on the recurring theme of product and customer.

Now, the results of similar analysis on the marketing mix questions are:

In case of number of years of operation in India, the first component is about place, while the second one is about price. The third component is about product and the fourth is about promotion. The outputs are remarkably similar across all the categories, which is unlike the results obtained in most cases in the strategic objectives case. The groupings and the importance given to all the factors are quite similar to each other – across categories. The factors pertaining to distribution are grouped together in all categories. Product related factors are also grouped together. Sometimes though, product is a stand-alone entity. High importance is being given to pricing – both, penetration pricing as well as competitive pricing. The difference is in the life stage the firm is in. While penetration pricing is important in the initial years, competitive pricing assumes more importance the later years. Social media advertising is extremely important for all categories of firms, and so is brand awareness/equity. Traditional advertising does not seem to have so much importance, while sales force is deemed to be a very important part of the marketing mix variables. Discount/sale is an important tool in the beginning, while in the later years – after a few years of operation in India – goes down in the importance scale. Sales promotion activities maintain a steady level of importance across the categories.

So, this analysis is in line with the earlier findings where contextual factors did not have much of an impact on the factors of strategy. Marketing mix also seems to be going the same way. This reiterates the claim that firms operating in India have a great deal of commonality in the perception of the market and the strategy that they have to pursue in order to be successful in the Indian market. Contextual factors do not make firms change their strategic or marketing decisions – in other words, there is not much difference between firms across categories in terms of their strategy as well as marketing mix.

Decision Tree Analysis was performed between each contextual factor and the entire strategic parameters. The decision tree of the strategic parameters against the contextual factor of “number of years of
operation in India” is depicted in Annexure – 1.Similar analysis has been carried out for all the contextual factors against the strategic parameters as a whole.

It is observed that the percentage composition of the various categories of firms for the number of years of operation in India are the following: 0-2 is 8%, 2-5 is 15%, 5-10 is 20%, 10-20 is 24%, and more than 20 years is 33%. The sample size of 304 firms gets divided on the strategic parameter of ‘procurement of raw materials’. About 46% of the firms gave high and maximum importance to procurement of raw materials, whereas 54% of the firms gave moderate, little, and least importance. Almost 62% of the firms with above 20 years of business operation in India scored very high on the parameter of importance of procurement of raw materials. The level of importance goes down with fewer numbers of years of operation in India. The firms which gave least, little, and moderate importance for procurement of raw materials are now divided on the parameter of ‘targeting a specific market segment or niche’. Only 35 out of the 163 firms displayed moderate importance for this parameter. Rest of the firms displays least, little, high, and maximum importance. Over 90% of the firms in the 10-20 years category fall into this segment. This segment now gets further sub-divided on the parameter of ‘advanced technology and features into products’. 64% of the firms in this category show high and moderate importance for this parameter. Firms with less number of years of business operation in India display high and moderate influence on the parameter of advanced products and features into products. From the graph of normalized importance, it is seen that maximum importance is given to the parameters (independent variables) of ‘targeting specific market segment or niche’ and ‘procurement of raw materials’, followed by ‘products in high priced market segments’, ‘advanced technology and features into products’, and ‘brand identification’. Least importance is given to ‘product quality control’, ‘difficult to imitate’, and ‘economies of scale’.

As has been discussed earlier, similar exercise has been carried out for all the contextual factors in the study. For example, for the contextual factor of sales turnover of firms, the nodal points are ‘broader range compared to competitors’, ‘serving special geographic markets’, and ‘capability to manufacture specialty products’. From the graph of normalized importance, it is seen that the parameters of ‘customer service’ and ‘competitive pricing’ are also almost equally important to the three parameters identified in the decision tree analysis. Among the least important parameters are ‘innovation in marketing techniques and methods’, ‘developing strong customer relationships’, and ‘distinct positioning of products’. Analysis with other contextual factors resulted in similar outcomes and pointed towards the same set of parameters as nodal points or as most important parameters. The differences in priorities of importance can be easily smoothened out during formulation and implementation of strategy.

The analysis carried out for marketing mix decisions are essentially the same as that for strategy. For the contextual factor – for how many years has the business been in operations in India - it is seen that the first node is coming at a point where almost 90% of the firms feel that product quality is of maximum or high importance. Almost 97% of the firms in the above 20 years category feel that product quality is of high and maximum importance. The fewer the number of years of operation in India, the lesser is the percentage of firms giving high or maximum importance to product quality. The second node is of ‘relative competitive pricing’ wherein 78% of the firms felt that it is of moderate, high, and maximum importance. Again, 97% of the firms in the above 20 years category believed that relative competitive pricing is of moderate, high, and maximum importance. The percentages come down as the number of years of operation in India decreases. The third node is at the parameter of advertising expenditures. Almost 90% of the firms rated advertising expenditures as that of average importance. The fourth node is at the parameter of quality of outlets. Among the firms who believed in average importance of advertising expenditures, almost 60% of the firms believe that quality of outlets are of high or maximum importance, while 40% believed that it is not so important. So, this decision trees reveals the importance of all the four P’s for this parameter. Similar analysis has been done with other contextual factors as well. These phenomenon get reflected in the graph of normalized importance as well. It is seen from the graph that product is of highest importance, while distribution is at the bottom of the importance scale. This is in line with our earlier findings as well.

Managerial Implications:

Observations so far tell us that there seems to be a particular way of doing business in India, in order to be successful, and that all firms are trying to understand and appreciate those norms. Proper conceptualization and implementation of customer expectations in the form of product quality (and some others like on time delivery and product design) will bring in success for firms in India, irrespective of the category they might belong to. This may seem to be an anomaly given the high decibel advertising and sales promotion that we encounter every day of our lives in India. One of the plausible explanations is the nature of the sample firms who have chosen to respond. The percentage of fast moving consumer goods and consumer durable firms in the whole sample is quite low, and these are the firms who indulge more in advertising and sales promotion. This may be the reason that advertising as well as sales promotion is appearing at the bottom of all the 22 variables in
the importance scale. As has been discussed earlier, the sample is representative of the market place and it is entirely possible that consumer companies invest in a disproportionate amount of advertising. In terms of aggregated response, this then will not convert into high importance in the overall result and simultaneously, will not be perceived as something important by other different categories of firms.

Another phenomenon that is observed is the similarity between the findings of strategy and marketing mix. It may be recalled that in case of strategy as well, the variables of primary importance was product and customer. The main area of strategic importance is product quality, customer satisfaction, and productivity/efficiency. Compare that with the findings in case of marketing mix and we see a striking similarity. The primary area of importance in case of marketing mix is product quality and on time delivery. It may be surmised very easily from the features of the variable with high importance in marketing mix that it is aimed at customer satisfaction only. So, whichever way the matter is approached from, the conclusion seems to be staring at our face – whatever the firm does, it has to produce quality products and has to satisfy its customers. Product occupies a pre-eminent position among the 4Ps of the marketing mix, and finally, it is all about the customer. As has been discussed earlier, literature also suggests that product plays an extremely important role in the success or failure of brands. The first step of any firm is to get their product/brand accepted by their customer/consumer, and then only starts the game of acquiring market share vis-à-vis other competing products and brands. No amount of advertising or sales promotion will be able to sustain a brand in the market place, unless and until it is accepted by the customer/consumer to be of at least equal, if not superior, in quality to its competing brands/products.

IV. Conclusion

Analysis of the responses based on the various categorizations throws up the variables which are considered to be important in strategy formulation as well as marketing mix decisions. A conclusion is also reached on the aspects on which different types of firms do not attach too much importance. Data analysis seems to suggest a trend that larger, more established, or more profitable firms formulate strategies and take marketing mix decisions which are different from firms which are smaller, yet to be established, or are not as profitable.

From the above analysis, it may be concluded that there is no correlation between contextual factors and the strategy of the firm. There is also no correlation between contextual factors and marketing mix decisions of the firm. The major finding of this study is that there is no major difference in strategy between firms depending on their contextual factors. That means, for example, age of the firm or the size of the firm does not influence their strategy or their marketing mix decisions. There seem to be some basic requirements or what is called hygiene factors of doing business in India – product quality and distribution strength being the most important or dominant elements. In order to survive and be successful in the Indian market, firms of all hue and color do and will have to follow these basic tenets of the Indian market. Surprisingly, advertising expenditures as well as competing on price do not seem to be as important as would have been expected in this kind of an emerging market.

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Annexure – 1: Response on Strategy (Decision Tree Analysis)