

STRATEGY BUILDING THROUGH MARKET RESEARCH

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ABOUT THE AUTHOR

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SYNOPSIS

The Indian Cement Industry, the second largest in the world, is in the throes of market driven change. Over capacity, slackening of demand growth, fierce competition and shrinking bottomlines are but manifestations of the "customer having really become the king"! Success, and even survival, depends on how intrinsically do companies recognize this.

Very few companies in the Indian Cement Industry, and possibly the world over, have been able to comprehensively map customer behaviour to marketing strategy. Piecemeal attempts have not only led to the frittering away of costly resources, but have also resulted in inconsistent perceptions in the market place.

The case presented in this paper is based on an integrated market strategy assignment carried out by Holtec Consulting earlier this year, for a leading manufacturer of cement in the fiercely competitive market of Southern India. In this, the author seeks to highlight how customer behaviour, as perceived through market research, can be interpreted for its strategic implications and subsequently addressed through cogent strategic initiatives. The case addresses the following questions:

- Against what backdrop was the case experience gained?
- What associated exercises were carried out to facilitate integrated strategy formulation?
- What were the objectives of the market research?
- What were the dimensions of the market research and what were the methodologies and tools employed?
- What were the research findings?
- What were the strategies finally recommended and what components of the research and other associated exercises were used in formulating these?
- What was the expected financial impact of the strategy-mix selected?

BACKDROP

General Environment

With potential cement supply exceeding demand - an era of sustained market competitiveness had already come to roost. This coupled with cement being supplied to Southern India using the sea mode of transport from Western India (Gujarat) and new capacities envisaged in proximate supply clusters, this competitiveness had further intensified. Decision-makers, in different companies, had started re-exploring the marketing elements that could provide them competitive advantage. The need to derive scientific perceptions of the 4 Ps viz., Product, Price, Place (Distribution) and Promotion necessitated the launching of a variety of market information gathering measures. One of these was market research.

Company Environment

The company addressed in this case, is one of the leading producers of cement in a southern State of India. The company had traditionally been able to command a price premium over its competitors in its principal markets. Immediately prior to the situation described in this case, the company had observed that its market share was being eroded in districts where its realization was better. It, therefore, commissioned Holtec Consulting, New Delhi, to undertake a market expansion strategy assignment, which could enable it to sell higher volumes and achieve a higher market share in the two southern states of Tamil Nadu and Kerala, which constituted its principal target markets.

ASSOCIATED EXERCISES IN STRATEGY FORMULATION

Strength - Weakness Analysis

A structured questionnaire was applied to end-users, the distribution channel members and the company's marketing staff, to obtain a strength-weakness profile of the marketing function. A total of 20 factors were graded on a 5-point scale. It was found that the company had three **real strengths**, eight **marginal strengths**, five **marginal weaknesses** and four **real weaknesses**. It was also found that the company's self perception about its strengths and weaknesses were more complimentary than the perceptions held by the market.

Demand - Supply Forecasting

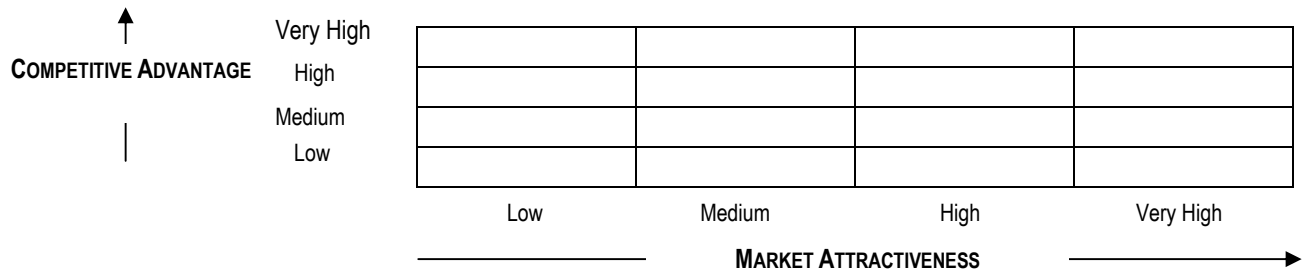
Demand forecasting was carried out using econometric and end-use methods. Market-wise demands were estimated for the geographical areas of interest to the company. Supply forecasting employed the *Consumption Density - Supply Intensity Model*. Other than existing capacities, supply forecasting additionally took cognizance of additional capacities coming into stream in proximate areas as well as augmented supplies through economical sea-routes. It was found that the overall surplus situation prevailing in early 2002 would possibly worsen in subsequent years.

Production Potential

A technical assessment of the company's plant, which had been recently rehabilitated, was carried out. The production potential of the plant, without undertaking any major modifications, both in terms of overall capacity as well as the type of cement that could be made, was thus ascertained.

Realization Potential from Sales Redistribution

A bi-dimensional analysis using Holtec's proprietary *Competitive Advantage - Market Attractiveness Model* (CAMA) was carried out. Using the results of this analysis, each distinct market in the two states of interest was mapped into a 4 X4 grid.



Competitive Advantage is manifested in terms of the priority accorded by a market to its potential suppliers in terms of its willingness to buy. The company's Competitive Advantage in each market, vis-à-vis its competitors, was determined using factors such as market proximities translated as freight, the company's relative strength in the market as measured by price premiums & market shares, the number of channel members, etc.

Market Attractiveness is manifested in terms of the priority accorded by a supplier to the markets that it could potentially serve. The company's Market Attractiveness in each market was determined using factors such as demand forecasts, prevailing prices, number of existing/ potential competitors, etc.

Using the above data in conjunction with the price elasticities of demand in different markets, (which were determined through subsequent market research), it was potentially established that a redistribution of sales in the geographic domain could substantially add to the company's revenues as well as bottom-line.

MARKET RESEARCH

Objectives

The primary objective of the market research activity was to generate inputs for the marketing strategy. These inputs were to be derived from an unbiased assessment of segment-wise perceptions about the company & its competitors, market conditions and the relevance or otherwise of a set of hypothesis that required to be tested.

Research Dimensions, Methodologies & Tools

- The survey spanned the period 11th January 2002 – 25th February 2002.
- The activities included literature survey & research planning, field investigator training, field data collection, data coding & transcription, customization of analysis software, data validation, computer analysis and interpretation of results.
- The survey team consisted of 15 field investigators and 4 supervisors.
- The geographic coverage included 21 districts in the company's home state and 14 in the state immediately south of it.

- The research segments included both channel members as well as end users. The latter included Individuals (I), as well as Institutional buyers i.e. Private firms (P) and Government bodies (G).
- The research methodology consisted of personally administered structured questionnaires as well as unstructured observations on market conditions.
- The sample size consisted of 1,500 channel members and 750 end-users. This, based on sales volumes, accounted for about 15 % of the total market size.
- The data collected was analyzed using various modules of the SPSS package. These included parametric & non-parametric statistical inference tests, hypothesis testing, conjoint analysis, etc.

Research Findings

The information areas and representative information collected and analyzed for all districts and all competitors are shown below:

- **Channel Information:** Channel member sizes (sales volume/ storage), number of brands carried, appointed/ not appointed status, supporting activities other than sales, other products sold, etc.

Table 1 - Number of Brands Sold

| Exclusive | 2 Brands | 3 - 5 brands | > 5 brands |
|-----------|----------|--------------|------------|
| 10 % | 25 % | 55 % | 10 % |

Table 2 - Supporting Activities

| Only Cement | Related Products | Multiple products including Hardware, etc |
|-------------|------------------|---|
| 25 % | 65 % | 10 % |

Table 3 – Sales Volume per month

| Upto 100 Tonnes | 100 - 300 Tonnes | 300 - 500 Tonnes |
|-----------------|------------------|------------------|
| 15 % | 65 % | 20 % |

Hypothesis Testing:

- End-users prefer to buy cement from company-owned sales outlets : Reject
- Channel members prefer to deal in multiple brands : Accept
- Customers prefer a big display area : Reject

Field Visit Findings:

- Channel members are of the view that they could enhance sales volumes by an average of 20% if the supply lead-time is reduced by 30%.
- **Product Perceptions:** Awareness, attribute ranking (state-wise, end user-wise), cement type perceptions (OPC, PPC, PSC), preference reasons for products/ packing, etc.

Table 4 - Product Awareness

| Types | I | P | G |
|--------|-------|-------|-------|
| OPC 53 | 100 % | 100 % | 97 % |
| OPC 43 | 92 % | 99 % | 100 % |
| OPC 33 | 60 % | 85 % | 80 % |
| PPC | 23 % | 42 % | 53 % |
| PSC | 1 % | 23 % | 17 % |
| SRC | 3 % | 12 % | 11 % |

Table 5 - Ranking of Attributes

| Attributes | I | P | G |
|------------------------------|---|---|---|
| Company/ Brand Image | 2 | 2 | 3 |
| Product Quality | 1 | 1 | 2 |
| Ease of Availability | 3 | 6 | 5 |
| Price | 4 | 3 | 1 |
| Packing Quality & Bag Weight | 5 | 8 | 7 |
| Delivery Time | 6 | 4 | 6 |
| Credit | 7 | 7 | 8 |
| Technical Services | 8 | 5 | 4 |

Hypothesis Testing:

- Blended cement is more suitable for coastal areas : *Accept*
- Cement packed in paper bags is more tamper proof than that in HDPE bags : *Accept*
- Darker coloured cement is stronger than lighter coloured cement : *Accept*

Field Visit Findings:

- Short bag weight and damaged bags very quickly leads to loss of brand image and consequently market shares.
- OPC is preferred over PPC as it is the “original cement” – more so by the Individuals segment.
- **Price Perceptions:** Competitive price comparisons, seasonalities, elasticities, premium possible for a superior cement, discounts applicable for a poorer cement, etc.

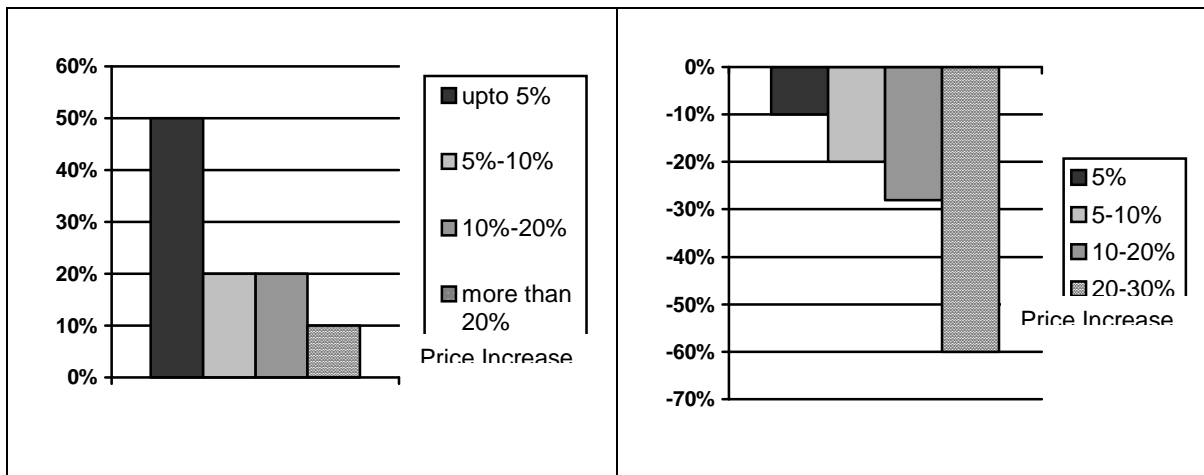


Chart 1 - Premium for Superior Quality

Chart 2 - Price Elasticity

Hypothesis Testing:

- Lower priced cement is poorer in quality : *Accept*
- Discounts offered in low sale seasons, boost offtake : *Accept*

Field Visit Findings:

- The premium obtained by players in the Brand Image Cluster No. 1 is generally about 15% more than the average cement price.
 - Price variability amongst players in each Brand Image Cluster is marginal. Within a Cluster, the recommendation/ push by the channel member/ purchase influencer plays a more important role as compared to price.
- **Market Sizes/ Shares:** Competitive market shares, incremental sales potential, segment shares, usage determination, etc.

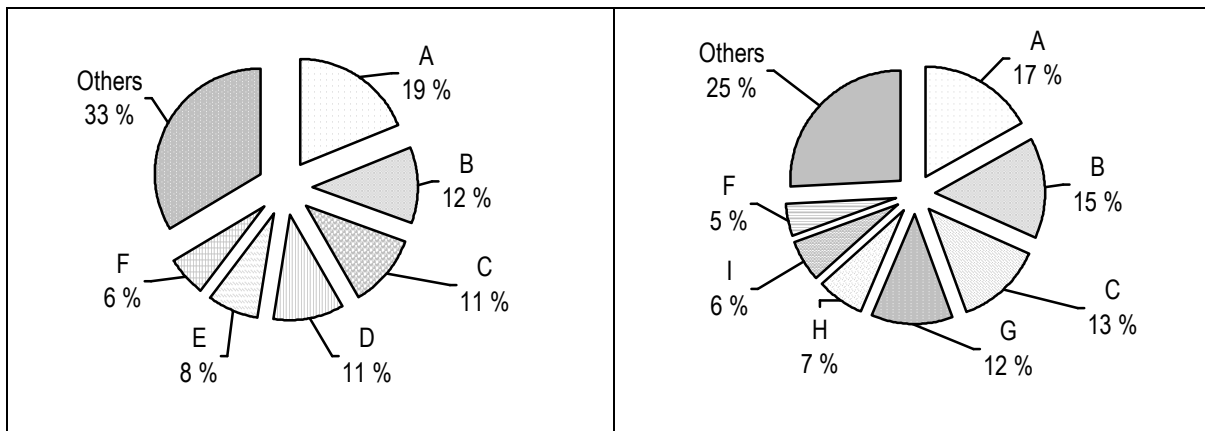


Chart 3 - Market Share: Tamil Nadu

Chart 4 - Market Share: Kerala

Hypothesis Testing:

- Higher Brand Image leads to higher market share : *Accept*
- Higher market share leads to higher Brand Image : *Reject*
- Brand name is more important than Product type (cement grade/ type) : *Accept*

Field Visit Findings:

- In usage terms, house building consumed between 55 - 65 %, industrial use, 20 - 30 % and agricultural use, 10 - 15 %.
- Historical presence in a district was no guarantee of continued market share. Over the last two years, traditionally strong presences had been severely eroded.

- **Market Conditions** : Sourcing, seasonality of sales, etc.

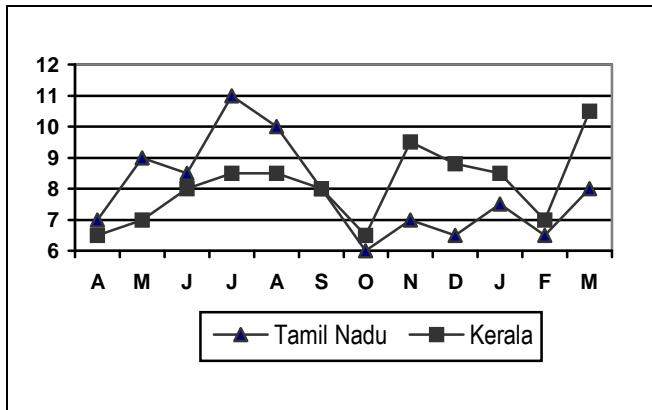


Chart 5 : Seasonality of Sales

Table 6 - Source of Purchase

| I | P | G |
|----------------------------------|----------------------------------|----------------------------------|
| Authorized Channel Member (62 %) | Authorized Channel Member (74 %) | Factory (58 %) |
| Nearby Channel Member (34 %) | Factory (14 %) | Authorized Channel Member (36 %) |

Hypothesis Testing:

- Authorized Channel Members ensure higher reliability of quality : *Accept*
- Faster delivery time will lead to more sales : *Accept*

Field Visit Findings:

- A customer on not finding the brand he asks for can be persuaded to buy an alternate brand recommended by the Channel Member or the Influencer
- Brands, whose manufacturing sources were located closer to the markets, were seen to be amongst the top 3 selling brands in each local market.

- **Channel Perceptions:** Best cement ranking, perception of competitive marketing functions, brand recommendation reasons, etc.

Table 7 - Decision Influencers

| Influencer | I | P | G |
|--------------------------------------|------|------|------|
| Brand Advertisement | 23 % | 8 % | 4 % |
| Recommended by Dealer | 29 % | 28 % | 10 % |
| Recommended by Company Salesman | 6 % | 19 % | 35 % |
| Recommended by Architect/ Consultant | 11 % | 25 % | 28 % |
| Recommended by Contractor | 26 % | 4 % | 5 % |
| Technical Literature & Seminars | 5 % | 16 % | 18 % |

Hypothesis Testing:

- Cement produced by a larger company is of better quality : *Accept*
- Margins are the primary reason to push a particular product: *Reject*

Field Visit Findings:

- In the opinions of the Channel Members as well as the Influencers the company’s brand was considered to have a higher sales potential than was being actually realized.
- A distinct need for Technical Support was observed.
- **Buyer Behaviour:** Brand pulls & pushes, selection reasons, segment preferences, brand influencers, best cement ranking, brand usages, etc.

Table 8 – Some commonly held customer beliefs

| Hypotheses | I | P | G |
|---|--------|--------|--------|
| OPC 53 has shorter setting time | Accept | Accept | Reject |
| PPC has longer setting time than OPC | Accept | Reject | Reject |
| OPC 43 has better strength than OPC 53 | Reject | Reject | Reject |
| Clay based PPC is better than Fly ash based PPC | Reject | Accept | Accept |
| Finer cements have better strength | Accept | Reject | Reject |
| PPC with black particles is lower in quality | Reject | Accept | Accept |
| PPC is better for infrastructural projects | Reject | Reject | Accept |
| PPC has better workability | Reject | Accept | Accept |

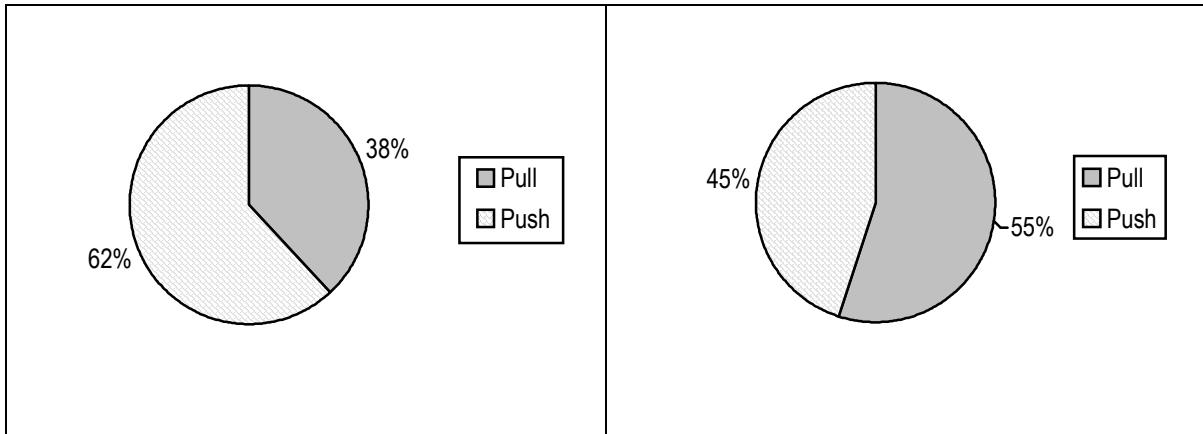


Chart 6 : Market Type - Tamil Nadu

Chart 7 : Market Type - Kerala

Hypothesis Testing:

- Customers know which cement type to use for which application : *Reject*
- Customers consults others before buying cement: *Accept*

Field Visit Findings:

- The company’s authorized channel members are considered one of the best in the markets, in terms of credibility.
- **Promotion** : Preferred media, media effectiveness & message recall, competitive publicity effectiveness & measures, etc.

Table 9 - Recall of Advertising Media

| Media | I | P | G |
|---------------------|------|------|------|
| TV | 11 % | 8 % | 7 % |
| Print Media | 28 % | 21 % | 19 % |
| Outdoor Advertising | 60 % | 46 % | 44 % |
| Mail | 0 % | 10 % | 10 % |
| Others | 1 % | 15 % | 20 % |

Hypothesis Testing:

- Advertising on TV leads to higher brand image building : *Accept*
- Free Gifts for influencers aids in recommending the brand : *Accept*

Field Visit Findings:

- To affect higher sales, direct interaction with end users was recommended by all intermediaries.
- **Channel Member Concerns:** Profitability comparisons, supplier attention, complaints, problem areas, preferred promotion schemes, recommended cement type, etc.

Table 10 – Recommended Cement Type

| Application | 1 st preference | 2 nd preference |
|------------------|----------------------------|----------------------------|
| Foundation | OPC 43 | OPC 53 |
| RCC Structures | OPC 43 | OPC 53 |
| Brick Work | OPC 43 | OPC 53 |
| Plastering | OPC 33 | OPC 43/ 53 |
| Piling | OPC 53 | OPC 43 |
| Machine Grouting | OPC 53 | OPC 43 |
| RMC | OPC 53 | OPC 43 |
| Tiles, Pipes | OPC 43 | OPC 53 |
| Water Tanks | OPC 43 | OPC 53 |

Hypothesis Testing:

- Exclusive brand stocking is more profitable than multiple brand stocking : *Reject*
- Multiple product stocking is more profitable than only cement stocking : *Accept*

Field Visit Findings:

- Complaints about cement were much more from Tamil Nadu than from Kerala.
- To effect sales improvement in Tamil Nadu, 33% of the channel members desired a price reduction and 22% desired greater margins. In Kerala, the corresponding figures were 23% and 61% respectively.

- **Logistics, MIS, etc:** Delivery lead times, mode of transport, intermediary depots/ points, etc

Table 11 : End User - Supply Lead Time

| Lead Time | Company's Product | Industry Average |
|-----------|-------------------|------------------|
| In Days | 6 | 5 |

Table 12 : Channel Member : Supply Lead Time

| Lead Time | Company's Product | Industry Average |
|-----------|-------------------|------------------|
| In Days | 5 | 3-5 |

Table 13: Mode of Transport

| State | Road | Rail |
|--------|-------|------|
| T N | 80 % | 20 % |
| Kerala | 100 % | 0 % |

Hypothesis Testing:

- Direct Order on the Company reduces Lead Time : *Reject*
- End Users are aware of the Transport Mode used : *Reject*

Field Visit Findings:

- The MIS in the company was found to be poor despite having a SAP implementation - information flow/ supply coordination between Logistics, Marketing and Production was found to be inadequate to react to market conditions & needs.

- **Competitor Profiles:** Based on the findings derived from market research as well as other database information, brief profiles were developed for each of the 15 principal competitors/ competing brands. The information included in the profiles were:

- Production capacity (including timing of expected additions, if any)
- Products and their volumes, incremental sales potential
- Product quality and perceptions
- Packing used
- Districts served
- Competitive advantage ranking in different districts
- Market attractiveness of each district to each competitor
- Prices and price leadership
- Marketing channels employed (types and volumes)
- User segments focused
- Supply lead times
- Brand Image ranking in each district
- Promotional methods & schemes employed, message recalls, etc.

STRATEGIES

Area-wise strategies were formulated based on the results of the market research and the associated exercises described earlier. The alternatives and sub-alternatives considered under each area are shown below:

Capacity Enhancement

- Given the current and future demand - supply scenario and the envisaged capacity expansions in the region and supplying clusters, the option to create additional capacity through **new plants/acquisitions** was ruled out.
- Given the advantageous location of the existing plant with respect to its current and prospective markets, as well as its recently augmented potential cement grinding capacity, a proposal for a **split-located grinding unit** was ruled out.

Product & Packaging

- The demand-supply scenario, preferences observed during market research, location/ ownership of suitable raw material sources and the necessity to improve the bottom-line in the prevailing competitive scenario enabled the recommendation of a plan for producing and marketing **pozzolanic cement** using calcined clay in preference to fly ash.
- Considering the relatively higher realizations from **special cements**, a limited plan for the production and marketing of these varieties was spelt out.
- A proposal to produce a **superior quality OPC** was accepted based on the findings of the market research, an estimation of the production costs involved and the availability of suitable limestone reserves. A two-year production-cum-marketing plan was drawn up.
- Given the quality image of the company, the price possibilities observed from the market research and the confusion likely to emanate from a simultaneous launch of a superior quality OPC, the proposal to produce and market a **coarser OPC** at a discounted price was rejected.
- Strategy measures to improve the quality of **packing**, which had emerged as an area of weakness for the company, were laid out. However, on account of the low demand observed and consequent scale-economics, a proposal for **smaller pack sizes**, was rejected. **Tamper proof bags** and/ or **tamper proof seals** were suggested for regular size bags.
- **Quality** assurance measures were specifically recommended for the new cement types to be launched.

Customer Segmentation

- Given the poorer figures for realization and the limited distribution reach, a **direct entry into rural markets** was rejected.
- A proposal to effect **100% sale through the channel members** for varieties other than special cements was accepted on account of the indifferent and uncertain demand, the relatively poorer realization and the poorer customer response to direct sales.
- Based on the findings of the market research it was decided that the **pozzolanic cement would be launched in the Institutional segment** and the **superior quality OPC in the Individuals segment**.

- In the case of the pozzolanic cement it was decided to **particularly target infrastructural projects in the coastal areas.**

Distribution

- The **CA-MA model for geographic redistribution of sales**, as described earlier, was recommended for implementation.
- A proposal to **restrict distribution spreads** to only the top urban centres of targeted districts was accepted based on an analysis of the Consumption Density/ Supply Intensity Indices.
- Taking into account the unfurling demand-supply scenario and the competitive trends towards market consolidation in lieu of market expansion, a strategy for **consolidating existing markets** rather than an entry into new markets was selected. However, the CA-MA Model results were given priority over this strategy, as and where applicable.
- Given the investment quantum necessary, as well as uncertain experiences in their use, a proposal to use technical solutions for **increasing dispatch consignment sizes**, was rejected.
- Taking into account the deleterious market feedback on supply lead times as also the availability of Additional Sales Potential with channel members, a strategy to invest in **company-owned depots** was accepted. Based on the logistics involved, two company-owned depots were recommended in Tamil Nadu and one in Kerala.
- In addition, given the recommended redistribution of sales emanating from the CA-MA findings, a **freight optimization study** was recommended to further improve market availability and conserve distribution costs.
- While the number of channel members was found to be adequate, measures to enhance **service quality, especially in push markets**, were recommended. A market support plan to effect quality improvement was outlined.
- A variety of strategy measures relating to the market feedback on **brand/ product exclusivity, sales incentives, seasonality-driven variants**, etc were drawn up with the focus being on encouraging high volume sales.

Pricing

- Taking cognizance of the demand-supply scenario, the company image, the premiums currently commanded, and market perceptions of "good cement-good price", **price levels** at values slightly higher than competition and matching the expected inflation rates in building materials was recommended.
- Taking into account the price elasticities observed in various markets and customer segments and the results of the CA-MA model, **maximum and minimum prices** were chalked out for different markets, depending on the recommendation to increase or decrease market shares, in each of these.
- The **pricing strategy for new products** was worked out. This took into account, their production costs, the areas and timing of their sales, as well as the market research feedback on "what the market could bear".

Promotion

- Given the feedback on brand appeals, an aggressive strategy in **brand building** was developed for target markets and segments. The **level of advertising expenditure** was to be stepped

up to match contemporary levels. In addition, changes were proposed in the currently ineffective **disbursement channels** after taking cognizance of market researched findings on push-pull characteristics, media recall & preferences, cost effectiveness, etc.

- However, based on the end-user familiarity of the current **brand name** (different from the company name) observed during market research, a proposal to change it to the company name, was rejected.
- An exclusive **relationship-building** exercise was recommended for the Institutional segment. Market research had revealed that end-users, particularly in this segment, were unaware of the company's primary strengths as also the technical specifications of its products. Message modifications were therefore recommended and a strategy to harness **end-use instructive advertising** was planned. In addition, taking cognizance of the findings of market research, **technical literature on products** and **application usage manuals** were recommended to be made available to the Institutional market segment.
- A variety of **motivating measures for both channel members and end users** were recommended. These included the hosting of conferences for the brand influencers, the advancing of credit facilities for high-performing channel members, price-coupon schemes in new launches, "pull" generating measures, etc.

Diversification

- A portfolio of **diversification alternatives** were considered such as the production of ready-mix concrete, concrete products, packing bags, etc. All of these were rejected based on market acceptability in accessible areas (as assessed from market research and/ or the return on investment criteria).

Cooperative Ventures

- **Price cartel** strategies were rejected on account of the competitive advantage as also the price premium already enjoyed by the company in the markets defined under the redistribution strategy.
- **Joint production cutback** strategies were accepted in the short term on account of the surplus demand-supply scenario.
- Cooperative ventures to **bolster demand** by promoting the use of cement in new areas, was accepted as a welcome strategy.

Exports

- Given the low price realizations in both **Sri Lanka** and **Bangladesh**, export proposals to these countries were discouraged.

Organization

- Major changes, in a phased manner, were proposed to convert the current Stage I type (sales orientation) **organization structure** to a Stage V type (integrated marketing orientation).
- **Personnel recruitment/ retrenchment** timetables were drawn up to suit the balance strategy mix, chosen.
- A **TASC** (Technical Assistance and Service Cell) module was proposed to be added to the marketing organization structure to specifically service the needs of the Institutional market

segment by giving it technical support in using cement and other cement-based building material products.

Market Information

- This emerged as a distinct weakness area for the company. A **blueprint for a comprehensive market information system** was drawn up encompassing the requirements of Planning - Querying - Reporting (PQR).
- The relevant **SAP module**, customized to cater to the requirements of the above blueprint, was recommended for implementation.

Contingent Strategies

- In addition to area-wise strategies, a set of **contingent plans** were drawn up which were scheduled to become operative, either when key assumptions failed, or when fresh developments, including competitor reaction, set in.

FINANCIAL IMPACT

The financial impact of the above strategies is shown in the table below:

| Sn | Item | 2002-2003 | |
|----------|--|-----------|-------------|
| | | Rs mio | Rs mio |
| A | Current Revenue | | 2677 |
| B | Projected Revenue Impact from External Factors | | |
| | Demand Growth | 161 | |
| | Price Fall due to Supply Growth | (228) | (67) |
| C | Projected Revenue Impact due to Strategies Selected | | |
| | Product & Packaging | 33 | |
| | Customer Segmentation & Redistribution (CA MA model based) | 134 | |
| | Pricing & Brand Building | 107 | |
| | Promotion | (54) | |
| | Cooperative Ventures | 27 | |
| | Organization | (6) | |
| | Market Information | (15) | 226 |
| D | Projected Revenue | | 2836 |

Results:

- Revenue increase : 6 %
- Sales Volume increase : 14 %.
- Market Share increase (overall) : 1.5 %
- Market Share increase (in primary target markets) : 6.5 %.

CONCLUSION

The proactive role that market research and associated exercises can play in customizing strategy, has still to be realized the world over. The experience of the Indian Cement Industry is no exception. However, given the sheer dimensions of the industry and the multitude of players, the significance of such exercises can hardly be ignored. The case study, presented in this paper, attempts to elucidate this truism.

The author would, however, like to caution readers about the need to dovetail marketing strategy into the integrated framework of corporate strategy. Directional consonance needs to be simultaneously ensured in different functional areas, for the overall desired benefits to be fully realized.