



Role of Cement Market Research in Strategy Formulation: A Recent Indian Case Experience

Soumen Karkun

Deputy Managing Director, Holtec Consulting Private Limited, India

SYNOPSIS

The case presented in this paper is based on a market strategy assignment, executed by Holtec in early 2012, for a leading manufacturer of cement in India. It seeks to highlight the role that good market research can play in formulating a holistic marketing strategy.

The case is addressed towards answering the following questions:

- Against what **backdrop** was the case experience gained?
- What are the **associated exercises** necessary for strategy formulation?
- What were the **components of the market research**?
- What information was used in formulating the recommended **strategies**?
- What were the expected **financial implications** of the strategies?

BACKDROP

General Environment

With surplus conditions prevailing in the cement industry, decision-makers, in different companies, set about re-examining the marketing elements which could provide them a competitive advantage. The need to revalidate the existing perceptions of the 4 Ps viz., Product, Price, Place (Distribution) and Promotion necessitated the launching of a variety of market information gathering initiatives. One of these was market research.

Company Environment



The company addressed in this case, had traditionally been able to command a price premium over its competitors in its principal markets. Immediately prior to the assignment described in this case, the company had observed two disturbing trends – its premium was eroding and its market shares, in districts where its realization was better, were dwindling. It, therefore, commissioned Holtec to undertake an integrated marketing assignment, which could enable it to achieve a targeted return of 30% on its investment in assets.

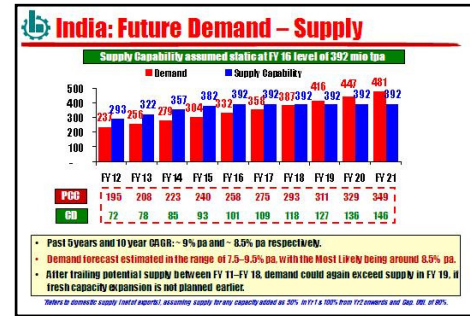
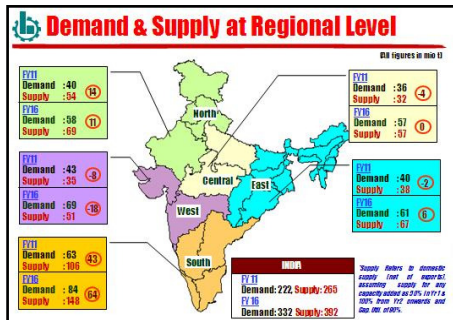
ASSOCIATED EXERCISES

Strength –Weakness Analysis

A structured questionnaire was applied to volume-users, key channel functionaries and the company's own management & 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 two **real strengths**, eight **marginal strengths** (which, if not attended to, could become weaknesses), five **marginal weaknesses** (which, with minimal effort, could be converted to strengths) and four **real weaknesses**.

Demand - Supply Forecasting

While demand forecasts in markets relevant to the company were determined using a variety of econometric and end-use models, projected supply was determined through the use of Holtec's dynamic database of projects in the pipeline. It was found that the overall surplus situation prevailing in early 2012 would moderately increase over the next 3-4 fiscals and thereafter show a slightly declining trend.



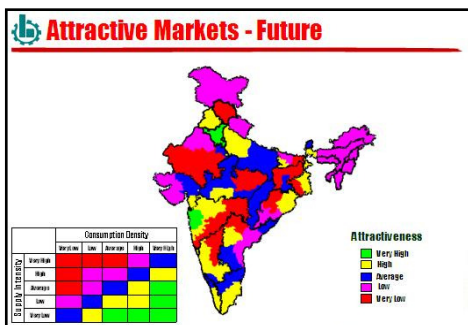
The demand-supply forecasting exercise was performed not only at the national level but also at the regional level.

Production Potential

A technical assessment of the company's existing production facilities and input sources was used to ascertain its production potential over the next five years.

Realization Potential from Sales Redistribution

A bi-dimensional analysis was done in which each district, in the 4 States which constituted a relevant market for the company, was mapped into the grid shown below:



Competitive Advantage was determined using factors such as marketing proximities, the company's relative strength in the market (measured by price premiums, market shares, etc.), number of dealers vis-à-vis competitors, etc.

Market Attractiveness was determined using demand forecasts, prevailing prices, number of competitors existing/expected, etc.

Using the above data in conjunction with the price elasticities of demand in different markets, (which were determined) as well as the transport tariffs to move cement from sources to destinations, it was established that redistribution of sales could substantially add to the company's realization.

MARKET RESEARCH

Objectives

The objectives of the market research activity were to obtain a good, impartial insight of relevant market conditions, to test a set of hypothesis relevant to cement marketing and to use the information collected to develop market-oriented, competitor profiles

Research Dimensions, Methodologies & Tools

- The survey spanned the entire month of March 2012.
- The activities included questionnaire development, field investigator training, field data collection, data coding/ entry/ validation/ analysis and interpretation of results.
- The survey team consisted of 18 field investigators and 2 supervisors.
- The geographic coverage included a total of 32 districts in the company's home state and the 3 states in its immediate vicinity.
- The research segments included trade channels and end users (individuals, private firms and government bodies).
- The research methodology consisted of personally administered, structured questionnaires as well as unstructured observations on market conditions.
- The statistically determined sample size consisted of 650 channel members and 125 end-users. This accounted for about 8.5% of the total market population.
- The analytical tools included regression analysis, statistical inference tests, hypothesis testing, etc.

Information gathered through Research

The information areas and some of the important types of information, collected and analyzed for all districts and all competitors, are shown below:

- **Channel Information:** Member sizes (storage/ sales), brands carried, exclusivity, supporting activities, other products sold, etc.
- **Product Perceptions:** Attribute ranking, cement type perceptions (OPC, PPC, and PSC), preference reasons for products/ packing, etc.
- **Price Perceptions:** Competitive price comparisons, seasonalities, elasticities, premium possible for a superior cement, discounts applicable for a lower category cement, etc.
- **Market Sizes/ Shares:** Competitive market shares, incremental sales potential, segment shares, usage determination, etc.
- **Market Conditions:** Sourcing requisition, delivery lead times, volume seasonalities, etc.
- **Channel Perceptions:** Best cement ranking, perception of competitive marketing functions, brand recommendation reasons, etc.
- **Buyer Behaviour:** Brand pulls & pushes, selection reasons, segment preferences, brand influencers, best cement ranking, brand usages, etc.
- **Promotion:** Preferred media, media effectiveness, message recall, competitive publicity effectiveness & measures, etc.
- **Channel Concerns:** Availability, margin comparisons, supplier attention, complaints, problem areas, preferred promotion schemes, etc.
- **Hypothesis Tests:** A set of 20 hypotheses was statistically tested for confirmation. These were applied to both channel members and end-users. Differences observable between the two States surveyed as well as between different consumer segments, were specifically analyzed. Some of the hypotheses tested are shown below:
 - Darker cement sells better
 - Quality varies widely between brands
 - Cement from a new plant is better in quality than that from an old plant
 - OPC gives better concrete strength as compared to PPC
 - Consumers are perceptive of short weights
 - Better quality cement has lower unit consumption in construction

- Lower priced cement has more demand
- Jute packing reduces price realization
- Instructions on cement usage increases the brand's demand, etc.

Competitor Profiles

Based on the information collected through Market Research, and its subsequent analysis, meaningful competitor profiles were generated. These included competitor names, brands, production capacity (including timing of expected additions, if any), products & volumes, product quality, packing used, districts serviced, competitive advantage ranking in different districts, prices, marketing channels employed (types and volumes), user segments catered, supply lead times, promotion methods & schemes, message recalls, push/ pull statistics, etc. Apart from the above, district-wise comparisons with the company were carried out for factors such as reputation, publicity effectiveness, price leadership, incremental sales potential, etc.

STRATEGIES

Area-wise strategies/ sub-strategies were formulated based on the findings of the market research and the associated exercises carried out. These are shown below:

Capacity Enhancement

- Given the demand-supply scenario as well as the good financial resources of the company, alternative locations were specified for a **new plant** where feasibility studies were recommended.
- Based on the technical audit, **large-scale modernization** was rejected at the existing plant. Instead measures for **incremental modernization**, targeted towards efficiency augmentation and cost reduction, were suggested.
- Given the advantageous location of the existing plant with respect to its current and prospective markets, as well as its potential cement grinding capacity, a proposal for a **split-located grinding unit** was ruled out.
- A time-table for **production augmentation** was developed based on the potential revealed through the technical audit.

Product & Packaging



- The demand-supply scenario, preferences observed during market research and location of suitable raw material sources, enabled the recommendation of a plan for producing and marketing a **larger product portfolio for conventional cement**.
- Considering the relatively higher realizations from **special cements**, a limited plan for the production of these varieties was spelt out. Market destinations too were specified for the same.
- A proposal to produce a **superior quality OPC** was accepted based on the findings of the market research. A five-year

production-cum-marketing plan was drawn up.

- Given the quality image of the company and the lukewarm attitudes observed in the market, a proposal to produce and market a **lower strength 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.

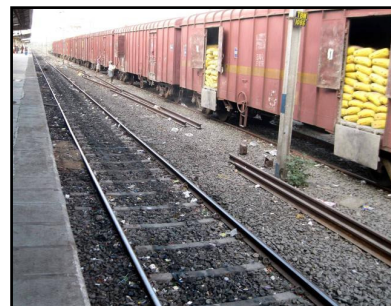


Consumer Segmentation

- Given the figures for realization, the limited distribution reach, and the expected change in the demand-supply balance, **direct entry into rural markets** was accepted.
- A proposal to effect **complete sale through the channel network** for varieties other than special cements was accepted on account of the indifferent and uncertain demand and the relatively poorer realization from other consumer segments.

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 rejected based on an analysis of Market Potential/ Reflection Indices.
- Taking into account the unfurling demand-supply scenario and the competitive trends towards market consolidation in lieu of market

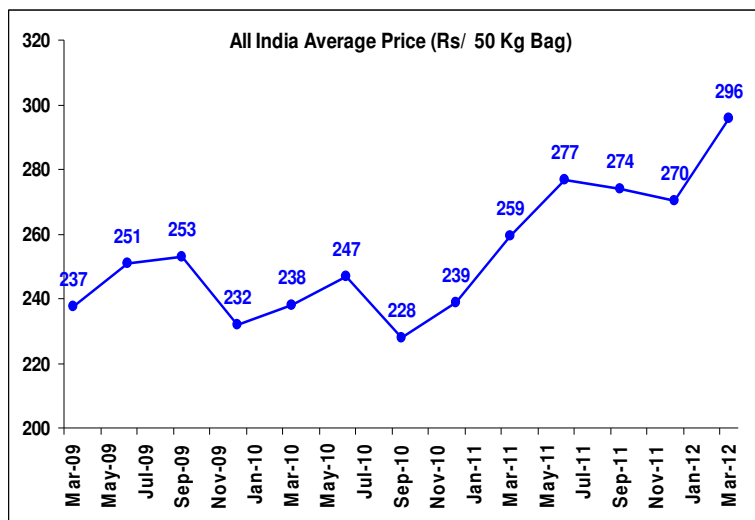


- expansion, a strategy for **consolidating existing markets** rather than an entry into new markets was selected. However, the CA-MA model results were given priority over this strategy, as and where applicable.
- Given the investment quantum necessary, as well as uncertain experiences in their use, a proposal to use technical solutions for **increasing despatch consignment sizes**, was rejected.

- Taking into account customer preference profile, a strategy to invest in **company-owned depots**, was accepted.
- A variety of strategy measures relating to the **channel network** were recommended. These included phased appointments, exclusivity, deposits, incentives, etc.

Pricing

- Taking cognizance of the demand-supply scenario, the company image, and the premiums hitherto commanded, **pricing at levels slightly higher than competition** and matching the expected inflation rates in building materials was recommended.
- Taking into account the price elasticities observed and the results of the CA-MA model, **maximum and minimum prices** were chalked out for different districts depending on whether the company wished to increase or decrease its market shares, in the same.
- 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 feedback concerning “what the market can bear” from the market research.



Promotion

- Based on the familiarity with the **brand name** (different from the company name) observed during market research, continuance of the same was recommended.



- It was proposed that the levels of **advertising expenditure** be stepped up to match contemporary trends. Additionally, taking into account its current low reach, modifications were suggested in the **disbursement channels** for such expenditure, through optimum media planning.



- Awareness of the company's strengths did not seem to have filtered through to its target consumers. Consequently, **message modifications** were suggested. This included the use of "end-use instructive" advertising, which seemed to be welcomed by the consumer section surveyed.
- A variety of measures for both **channel and end-user motivation** were recommended. These included the hosting of conferences for brand influencers, the advancing of credit facilities for select channel members, price-coupon schemes in new launches for both channels and end-users, "pull" generating strategies, etc.

Diversification/ Mergers & Acquisitions

- A portfolio of **diversification alternatives** were considered such as the production of ready-mix concrete, concrete products, packing bags, etc. A few of these were accepted based on market acceptability (as assessed from market research) and investment economics.
- Strategies for both backward and forward **mergers & acquisitions** were rejected on account of the relative stability of the company and its strategic choice of investing in a new plant.

Cooperative Ventures

- Price understandings/ production cutback** strategies were rejected on account of the competitive advantage already enjoyed by the company as well as the recent attention accorded to such forms of cooperation.
- Cooperative ventures to **bolster demand** by promoting the use of cement in new areas, was accepted as a welcome strategy.

Exports

- Export opportunities in **Sri Lanka** as well as **UAE** were rejected on account of the prevalent demand – supply scenario in those countries.
- Export opportunities in **Bangladesh** were also rejected on account of the relatively poorer realization from such sales.

Organization

- Major changes, in a phased manner, were proposed to convert the current Stage II type of **organization structure** to a Stage V type.
- Personnel recruitment** time-tables were drawn up to suit the balance strategy mix, chosen.

Market Information

This emerged as a distinct weakness area for the company. A **blueprint for a comprehensive market information system** was drawn up encompassing a computer-based Planning - Querying - Reporting (PQR) system.

Contingency Planning

A set of **contingent plans** were drawn up which were scheduled to become operative, either when key assumptions, made at the stage of strategy formulation, failed, or when fresh developments, including competitor reaction, set in.

FINANCIAL IMPLICATIONS

The financial impact of the above strategies, excluding that of setting up a new plant, is shown in the table below:

(Figures in Rupees crores)

Sn	Item	12-13	13-14	14-15	15-16	16-17
A	Desired incremental return	97.8	105.0	119.4	123.8	136.6
B	Return from factors outside company control	(15.6)	(20.1)	(15.1)	(6.2)	18.1
C	Return from strategy-mix chosen	86.2	80.9	88.7	80.2	75.9
D	Balance return desired from Strategies other than marketing	27.2	44.2	45.8	49.8	42.6

From the above, it is obvious that marketing strategies alone would not be able to realize the objective set by the company of a 30% return on its investment. Consequently, strategies in other functional areas would need to complement and further supplement the efforts of marketing.

CONCLUSION

Given the sheer dimension as well as the expected patterns of growth of the cement market in India, the significance of market research & associated exercises, in the context of strategy development, can hardly be ignored. The case study presented in this paper attempts to elucidate this fact.

The author would, however, like to caution readers about the importance of the marketing strategy dovetailing into an integrated corporate strategy for the company. Unless a proper consonance is ensured, in different functional areas, the overall desired effect would hardly ever be achieved.