SECTION VI

THE STRATEGIC MODEL
It is not easy to study the impact of advertising on sales when a firm is trying to introduce a new product into the market. It will be clear if we consider the following:

1) Quality
2) Features
3) Style
4) Brandname
5) Packaging
6) Product line
7) Warranty
8) Service Level
9) Distribution channels
10) Distribution coverage
11) Outlet locations
12) Sales territories
13) Inventory levels
14) Transportation
15) Advertising
16) Personal selling
17) Sales promotion
18) Price level
19) Discounts.
Any model which aims at depicting any relationship between sales and advertising must make restrictive assumptions encompassing all the factors mentioned above. Only then will the model be able to give us the condition of optimality, which in our model is the optimal advertising - sales ratio for profit maximization through successive stages of strategic market penetration.

**Assumptions of the Model:**

1) The firm delivers what it promises. If you promise something which is not there you are demarketing the product instead of marketing it. This relates to attributes (1) to (8) above. Brand name and packaging create the character of a product or service which is communicated through advertising. The entire process creates an image which in turn must be backed up by quality, features, style, service level etc.

2) The firm follows the most appropriate distribution policy to ensure that no consumer faces a situation where he goes to the retail outlet to find out that the product is out of stock. In such a situation advertising has a negative impact on sales. This relates to attributes (9) to (14).
3) Advertising is backed up by its complementary counterpart i.e. sales promotion in case of consumer products, personal selling in case of industrial products. This relates to attributes (15) to (17). For example, suppose a toothpaste brand X has very effective advertising. Consumer A goes to the retail outlet where the shopkeeper pushes Y which has better promotion incentives for the shopkeeper. Hence X's ad. effort sells Y. Clearly advertising and sales promotion are complementary advertising takes the consumer to the product and sales promotion takes the product to the consumer. Product X's ad. effort will sell X if advertising and sales promotion efforts are complementary.

4) The firm follows a price policy which aims at selling at a level which the market will bear i.e. a market oriented as opposed to a cost oriented pricing policy. This relates to attributes 18 and 19.
The crux of the strategy can be expressed in the following manner:

The best way to compete is to avoid competition. The best way to avoid competition is to sell products that rivals cannot match. This is in terms of not only the product features or attributes but also in terms of the perceptual position it occupies in the mind of the prospect. The position it occupies depends on the way in which we use the positioning parameters in our strategic model.
The Strategy

The first step in the Strategy Formulation process is an analysis of positioning statements of existing brands to identify the niche that exists for the new product. This will determine which out of the several positioning parameters of the positioning Statement (See Appendix I) will be the crucial entry parameter to be used for the new product to help it gain high visibility in the marketplace.

The Analysis of Positioning Statements of existing brands could also be followed up by a perceptual mapping of the consumers' mind in order to verify that the desired positioning of existing brands as per the Positioning Statements matches the positions actually occupied by the brands in the consumer's mind. This has been explained in the earlier section on page 65 where our "Positioning Decision Model" has been outlined in detail. The diagram is reproduced overleaf.

After the first stage during which the key positioning parameter or 'entry parameter' is used, other parameters can be brought into play by a proper positioning statement Analysis prior to each stage. Thus the number of positioning parameters that will be used and the order in which they will be used will depend on the product as well as competition.
The steps to be taken for positioning the new product are as follows:

1. Market positioning Analysis (i.e. Analysis of Positioning Statements of Existing brands in the Market).

2. Consumer's perceptual Map (to confirm that the results of the first step are correct. In other words to check that the desired position of the brands existing in the market is equal to the actual position occupied by them in the minds of the consumers.)

3. Relative positions of the Map

4. Vacant Positions

5. Preferred position of New Brands

6. Alternative positioning Hypothesis

7. Final Positioning Decision based on positioning parameters.

8. Ad Layout based on positioning parameters.

9. Selection of appropriate Message Type.
In other words, the strategic moves for the new product will depend not only on the characteristics of the new product to be introduced but also on the competitive products in the relevant product category, in relation to the needs of the consumers.
**Optimal Conditions:**

The strategic moves taken by the firm to gain high visibility for the new product could be as follows:

a) **Stage I:** advertising for a unique position in the market place. Let the number of messages used for this purpose be $A_u$.

b) **Stage II:** Market penetration by time of usage of the product criterion. For example, if the original position of the product in Stage I suggested night time usage, at this stage day time usage may be suggested. Or if usage during winter was suggested originally, at this stage summer time usage or usage during monsoon may be suggested. Let $A_f$ be the number of messages used for this purpose.

c) **Stage III:** introducing smaller pack sizes to encourage economically weaker but keen consumers to buy the product. These messages are $(A_s)$

d) **Stage IV:** market penetration by manner of usage criterion. Sometimes a different manner of usage of the same product may attract new consumers. These messages will be called $(A_m)$.
Stage U: market penetration by expansion of the target segment. For example if in the original positioning exercise the product was aimed at children and it is also found suitable for adults, at this stage the ad copies may aim at adults also. These messages will be called (AB).

Our mathematical model in Appendix II/III yields the following optimality conditions over the five stages of profit maximization.

\[
\begin{align*}
\text{Stage 1: } & \quad \frac{A_u T}{P Q} = \frac{\eta_{au}}{\eta_p} \\
\text{Stage 2: } & \quad \frac{A_t T}{P Q} = \frac{\eta_{at}}{\eta_p} \\
\text{Stage 3: } & \quad \frac{A_s T}{P Q} = \frac{\eta_{as}}{\eta_p} \\
\text{Stage 4: } & \quad \frac{A_m T}{P Q} = \frac{\eta_{am}}{\eta_p} \\
\text{Stage 5: } & \quad \frac{A_{mT}}{P Q} = \frac{\eta_{as}}{\eta_p}
\end{align*}
\]

P = price of the product; Q = quantity; T = brain of one ad message; Ai (i = u, t, s, m) = no of ad messages used at any stage.

The symbols \(\eta_{au}, \eta_{at}, \eta_{as}, \eta_{am}\) and \(\eta_{as}\) represent the respective advertising elasticities of demand over the five stages. \(\eta_p\) is the price elasticity of demand. (Derivations shown in the Appendix).
As the additional 'positioning parameters' come into the advertising layout, the market will become more and more sensitive or responsive because at every successive stage, the incremental ad expenditure is aimed at a broadening target base. Also as we increase the level of advertising expenditure we have economies of scale in advertising costs due to

a) use of expert services
b) use of economical media
c) economies of repetition.

It is quite logically expected therefore that:

\[
\frac{A_{\beta T}}{PQ} > \frac{A_{\alpha T}}{PQ} > \frac{A_{\gamma T}}{PQ} > \frac{A_{\tau T}}{PQ} > \frac{A_{\mu T}}{PQ}
\]

as \( n_{AB} > n_{AM} > n_{AS} > n_{AT} > n_{AU} \)

The symbols \( n_{AB}, n_{AM}, n_{AS}, n_{AT}, n_{AU} \) represent the respective advertising elasticities of demand over the four stages; \( n_P \) is the price elasticity of demand.

This is logical and indicates that a higher and higher proportion of the sales revenue is spent on advertising through successive strategic moves over time. This is necessary because over time the advertising layout aims at a larger and larger consumer segment and therefore the quantum of information required being more, the number of messages will also have to increase to make an impact on the consumers' minds. However, it is noteworthy that although Advertising Expenditure : Total Revenue increases, profit is maximized at each stage.
This paper as we can see falls in line with Telser’s approach to the extent that advertising by existing firms does not create a barrier to entry for new products. However, the logic of our approach in a way does contradict the negative correlation between advertising and profitability worked out in Telser’s seminal article of 1964.

At this stage, it must be mentioned that the order in which the positioning parameters can be used to catapult the product to high visibility can be different in the case of different products. Nor should the above mentioned five parameters only be used. Product category, price and other characteristics should be used as positioning parameters for high visibility.

In some ways our strategy is more opportunity-guided than vision-guided. In fact the key to success in our information society is an opportunity-guided competitive strategy. The main objective is to find opportunities faster and improvise around opportunities better than competitors. Such a strategy as ours creates a tremendous need for new and current information.

Our strategy will be built on market reality. The positioning parameters to be used at each stage and the order in which they will be used are not predetermined but evolve out of the application of our Positioning Decision Model at each stage.
The underlying logic of the model is unassailable—it is clear that three vital steps are involved in making new products gain high visibility and become successful in the market:

a) Positioning statement Analysis of Existing Brands
b) Selection of the appropriate positioning parameters for the new product and the order in which they should be placed in the strategic process of gaining visibility. Here the selection of the entry parameter is crucial.
c) The optimum level of advertising at each stage commensurate with maximum profit.

Advertising in our model is both a logical art form and a science. Its art form is reflected in looking at it from the point of view of a Positioning Statement, and the scientific approach is in the process of determining the appropriate level for profit maximization at each stage.
Timing of the New Product Launch

Finally, it is very important to note that there are only limited periods during which the 'fit' between the key requirements of a market and the particular competencies of a firm competing in that market is at an optimum. The launching of a new product should be timed to coincide with periods in which such a 'strategic window' is open. Therefore the success of our strategy will depend to a great extent on the timing of the new product launch.
Concluding Comments

The aim of this paper has been to point out the need for re-examining and re-designing the practioner’s approach to strategy in a wider context. Most professionals look at strategic management with an old mind-set, which looks at the entire function with suspicion. Strategic Management to them is nothing but jargons. Marketing or advertising according to them is an obscure science which could be used for exploitation of the consumer society. However, it is time to realise that especially with the collapse of centralized planning systems, the role of Modern Management Concepts like Strategic Management, Marketing or Advertising strategies has become more important.

The long term interests of the economy can be served if the business units are able to demonstrate superior performance. This, no doubt, calls for a more creative and scientific approach to strategy formulation at all levels: Corporate, Single Business Unit and Department. Such strategies should be built on top of market reality and should include many instead of a few in the process of implementation.
The role of functional strategies like Marketing and Advertising will become increasingly more important in an environment where we need a strategy in almost everything we do--------we need a strategy in warfare, sports, business and even our private lives.

Advertising strategy is a creative method for the introduction of new products and an effective tool in giving it proper visibility in the vast ocean of marketing noise around us.

What is more to the point is the fact that advertising is communication in an art form which should be used scientifically to minimize wasteful expenditure and enable dialogue between producers and consumers in order to bring them together into a closer and meaningful relationship for building the foundation of a stable free enterprise system.