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Flexible Marketing System and Its Sub Systems

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Abstract

Purpose – With the increasing complexities and uncertain nature of environment, flexible marketing system is becoming imperative for sustaining the competitiveness of the firm. The purpose of the study is to visit the concept of flexible marketing system which can hedge the organizations against any eventuality arising out from the uncertainties of the environment.

Design/Methodology/Approach – The paper takes the theoretical approach to identify the attributes of flexibility related to the various dimensions of marketing system. Extensive literature review has been done to find out attributes of flexibility and then real cases from the organizations have been taken to support the theoretical evidences of growth that can be achieved by incorporating the flexibility attributes.

Findings – Flexible marketing system is indispensable for survival and retaining the growth trajectory of any organization. Decreasing customer loyalty, increasing uncertainties and wide range of choices available at the customer disposal has further accentuated the need for flexible marketing system.

Originality/Value – This paper offers a fresh approach to the study of the flexible marketing system with real world examples.

Keywords: Flexibility, Flexible Marketing system, Sub-System, Flexible Organisations.

Introduction

Like the Sun rises and Sun sets, change is a part and parcel of nature. Though the truth is revealed through the sacred message of GITA delivered as early as epic of Mahabharata happened; this is probably one of the best times to realize the authenticity of that eternal communication. Change, change and change; one theme that has dominated all the industries across the world especially after the phenomenon of globalization and liberalization surfaced on business horizon. In fact such has been the pace of change that on every other day we find ourselves sitting on the verge of either a whole new radical invention or dramatic improvement in product or service which is already very competent by any standards. From automobile to manufacturing, fast moving consumer goods (FMCG) to electronic goods, IT to telecommunication; change has evolved as one of the critical factors that need to be taken into consideration before deciding on future course of action.

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In the back-drop this newly evolved and emerged business environment, this paper investigates role of flexible marketing system in sustaining the competitive edge of the organization. Though the roots of flexibility concept can be traced back as early as in 1921; its application in the context of marketing system is not addressed comprehensively. We will revisit the concept of flexibility as embedded in marketing system that will help organizations to remain competitive and help them in sustaining their growth in normal run. It also helps the organizations to counter successfully any devastating change that would have otherwise erased their existence from the market.

Flexibility

Today all the uncertainties present in the environment poses tremendous challenge for the marketers. Traditional approaches, with very basic underpinnings of stable environment, are no longer valid in today's turbulent and ever changing scenario; after all how one can make plans and policies on long term basis when situations at the ground level are changing at very rapid pace. In the backdrop of all this uncertainty and turbulence, flexibility has taken a centre stage and its ability to provide the competitive edge to the organizations has been widely recognized both by the academicians and practitioners.

Flexibility has found references in many contexts. Kalecki (1937) used flexibility in the Theory of firm while Dyer (1998) found its relation with human resource. Hart (1940) and Marshak (1938 and 1949) referred flexibility in the context of decision making while Prabhakar in 2001 associated it with manufacturing practice. All these studies emphasized the need for flexibility; both at theoretical as well as practical levels.

Flexibility, like its different application, is not unique. There are many connotations attached to it like openness in thinking, responsiveness to change, versatility of action, contingency, freedom, informal attitude, adjustment and broad thinking (Singh and Sushil, 1997).

Formally it can be defined as:

“Ability to change or react with little penalty in time, effort, cost or performance” Key characteristic of flexibility is the continuity. It's not a onetime change but the process of continuous change as per the changing needs (Singh and Sushil, 1997).

Flexibility is all about learning and implementing the change according to the environment situations. Today it's not enough for the organization to do the things effectively and efficiently but it must be really good at learning the new things and effectively implementing the changes.

System

Before talking about the marketing system; it is useful to understand basics of system. System approach has been used extensively in almost all the disciplines of science and management. Theoretically system can be defined as:

“Collection of entities (parts) and their inter-relationships gathered together in such a way that whole formed is having greater significance than the sum of entities” (Boardman and Sauser).

Figure 1 is the depiction of the system's entities leading to the output which has to be more than that of individual sum of components.

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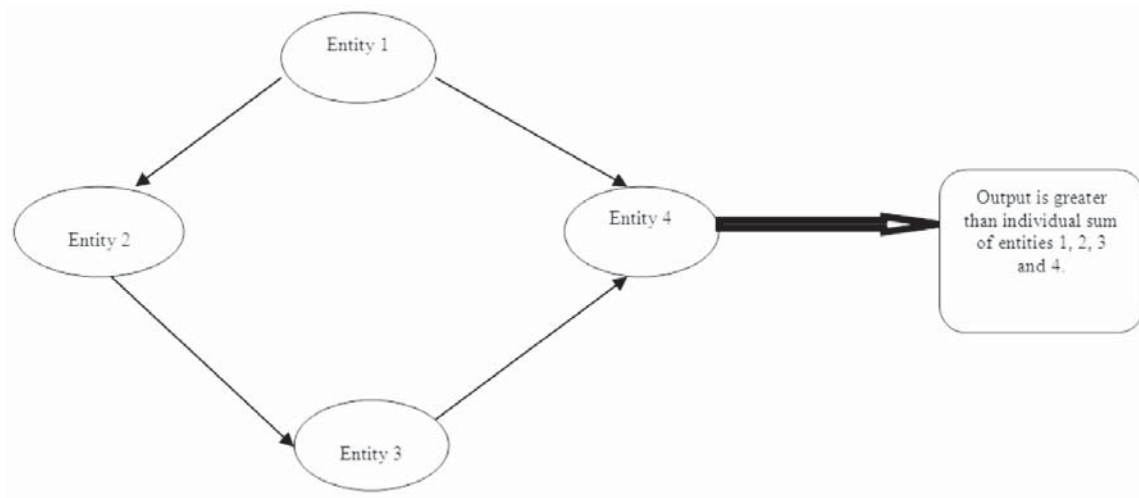


Figure 1: System's Entities and Their Output Characteristic

Source: Pictorial representation of the system concept by the authors.

Some of the key characteristics of system are:

- Output of the system is greater than the sum of individual inputs.
- System is not only about entities but also their unique relationship.
- System can't be disintegrated without losing its essential inherent structure of relationships.

A simple example of the system is Automobile. Automobile is a system and engine is one of its entities. Engine is used to supply the power to automobile to cause mobility. As part of system engine has use but if you put engine alone; its usability will cease to exist. The mobility will result, only when the different entities of automobile enjoy a specific relationship; thus emphasizing the second characteristic of system which talks about the uniqueness of the relationships.

Marketing System

Marketing, being the front fascia of any organization, is at the closest proximity with external environment which is in fact changing at very fast pace nowadays. Evolution of informed and savvy customers has manifold the importance of marketing discipline. Taking a lowly approach, such as functional or departmental will be therefore no less than taking a suicidal step especially when customers are showing increasingly less signs of brand loyalty.

Systems approach to marketing is the key to remain competitive amid all this environmental dynamism. In fact Lee Alder had talked explicitly about the benefits related to systems approach to marketing as early as in 1967 in one of his papers published in Harvard Business Review. Figure 2 is adapted version of the system's model of marketing given by Lee Alder.

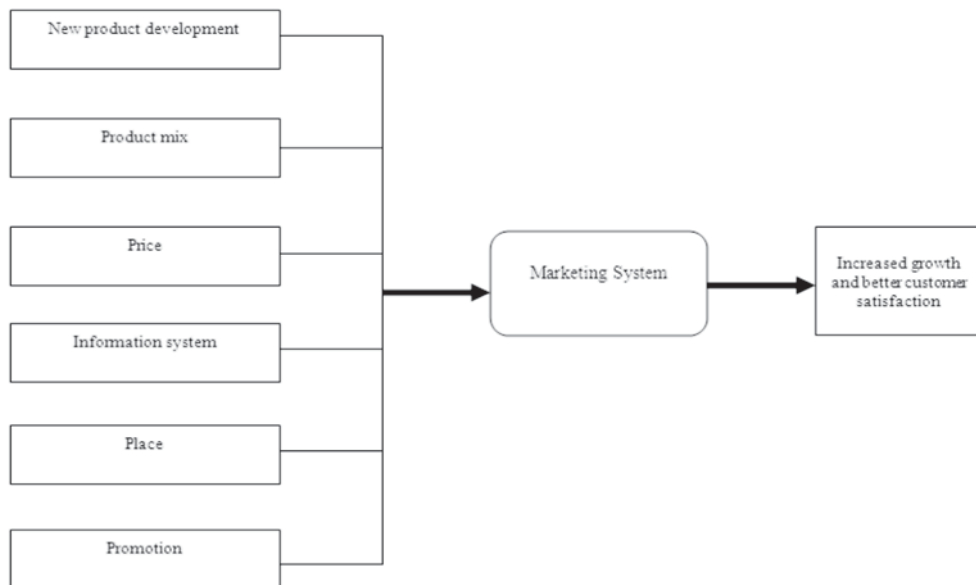


Figure 2: Various Subsystems Comprising of Marketing System

Source: Adapted from “Systems Approach to Marketing”, Lee Alder (1967).

Also Layton in his article “Towards a theory of marketing systems” defined marketing as a system. According to him, marketing system can be defined as:

- a network of individuals, groups, and/or entities;
- embedded in a social matrix;
- linked directly or indirectly through sequential or shared participation in economic exchange;
- which jointly and/or collectively creates the economic value with and for customers, through the offer of;
- assortments of products, services, experiences and ideas;
- Emerge in response to or anticipation of customer demand.

A close analysis of above definition will give all prerequisites that are required in order to qualify for the status of system. For example:

- Various parts of marketing system like new product development, promotion, distribution, selling as well as business partners act as separate entities; like elements in systems.
- These all entities are connected by a web of relationships. These are independent yet inherently inter-related.
- The whole system has greater significance than the rest of the parts. This means that new product development, if taken alone, doesn't have as much significance as value added by the whole marketing system of the organization.

Flexible Marketing System

In order to sustain the growth of the organization among the fiercest competition, flexible marketing system is the need of the hour. Flexible marketing system not only ensures the competitiveness of the firm in normal situation but also comes to rescue in case of any

devastating change by at least maintaining the status-quo of organization. As flexibility has underlying themes of options, change and freedom of choice its incorporation in the marketing will provide the company all-round ability to hedge against any fluctuation arising out from the environment changes. Figure 3 shows that the benefits of flexible marketing system can be harnessed at all the three levels business operates i.e. tactical, business and strategic.

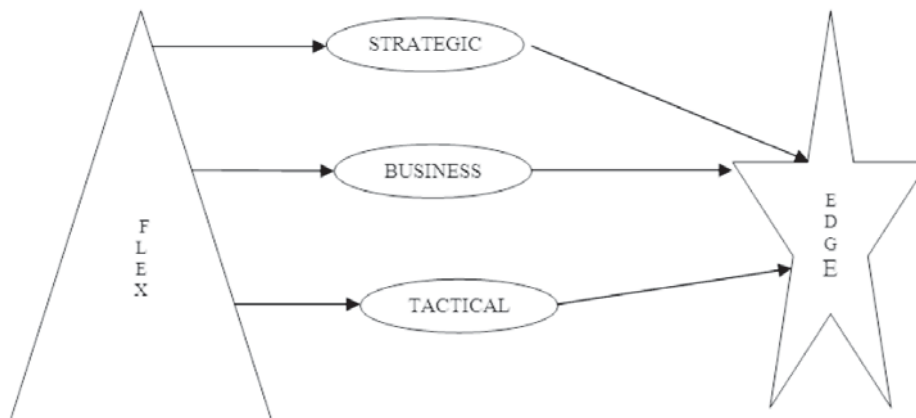


Figure 3: Benefits of Flexible Marketing System

Source: Pictorial representation of the benefits of Flexible Marketing System by the authors.

Developing a marketing-system which is flexible enough to contain any discrepancy is a continue process that requires firm commitment from the top-management. This will require the thorough integration and coordination among the various entities of marketing system on real-time basis. This essentially means more decentralized decision making structure, inclusion of customers in process of creating value proposition and considering the intermediaries as business partners. With the help of some practical cases we will show how flexibility of marketing system can provide the sustainable growth to the organizations.

1. New Product development (NPD) Flexibility: NPD is one of the critical factors required for success. NPD has huge potential to yield a massive profit for the organization but they are also very prone to the failure. Flexibility in NPD will help the organization by equipping it with alternatives to take corrective action that was not initially planned but is mandatory because of uncertain nature of NPD execution process. Following example shows how incorporating the flexibility attributes in NPD process can benefit the organization.

Case of Toyota: Toyota Prius is one of the world's first mass-produced hybrid vehicle manufactured by Toyota. In fact Prius is also one of the very few hybrid vehicles which have got tremendous success in terms of sales number. Prius crossed the 1 million-mark in May 2008 while 2 million sales numbers was achieved by the Toyota in 2010 (en.wikipedia.org/wiki/Toyota_Prius). Underlying philosophy behind the development of Prius consists of flexibility attributes like continuous improvement and cross-functional team work (www.scribd.com). Mentioned below are some of the flexibility attributes as discussed by Stefan Thomke and Donald Reinerstern in 1998 that lead to successful NPD.

- **Continuous improvement:** Continuity is one of the basic attributes of new product development flexibility. It is not a onetime process and must be continued in order to successfully capture and remove the ambiguity of the system. This continuity has shown by the company as even after successful run of Prius, company further launched the refined

models and demonstrated their commitment towards continuity.

- **Locking the requirement at later stage of the product cycle:** This virtue involves the approach of finalizing the concept at later stage rather than freezing the specifications at the very outset of product development. This attribute helps by providing a cushion against the change as the commitments are deferred to later stage of development.
- **Cross-functional teams in development process:** Toyota always uses the cross-functional teams comprising of members from different departments. This makes the knowledge sharing more practical as well as more productive. This also leads to generation of synergy that helps to increase the effectiveness and efficiency.
- **Use of flexible technologies in simulations:** Use of sophisticated software for simulation techniques is another aspect of flexibility that company used in the development procedure of this alternative vehicle. With the use of these advance methods, company is able to apply various permutations and combinations that lead to emergence of successful new product like Prius.

Recently, on March 2012, Toyota announced the sales figure of Prius which stood at 28,711 units as compared to 18,008 units in 2011. The net sales volume is up by 54.3 %. It is clearly evident from this case that NPD flexibility contributed to this growth trajectory as company is able to add new models to existing variants of Prius in form of V, C and PHV (green.autoblog.com/). Figure 4 illustrates some critical flexibility attributes which equips the organization with the ability to successfully develop new products.

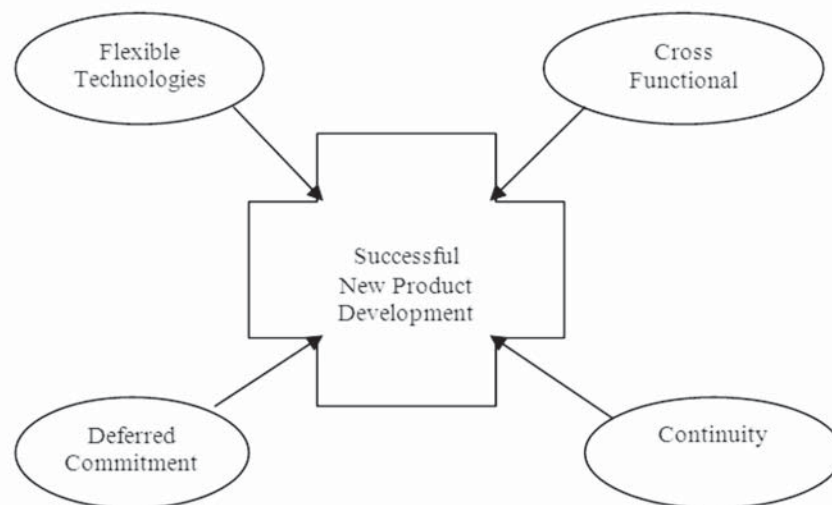


Figure 4: Flexibility Attributes Aiding the Developmental Process

Source: Pictorial representation of the important flexibility attributes.

2. **Product (Mix) Flexibility:** Product or mix flexibility equips the manufacturer with the ability to make multiple products on same capacity, and the ability to relocate the capacity between different products in response to realized demand (Goyal and Netessine, 1998). Product mix flexibility is one of the major sources of competitive advantage especially in the situations of high turbulence and unpredictability. High product mix flexibility not only gives the hedge against uncertainties but also enable the organization to switch seamlessly from producing one product to another.

Case of Ford: Ford motor company, one of the automobile majors in the world, had invested \$550 million in its Michigan Assembly Plant in order to increase its product mix flexibility to cushion itself against demand fluctuations. This huge investment lead to Michigan assembly plant to become one of the most flexible plants of the company capable of producing gasoline powered, battery- electric, hybrid and plug-in hybrid electric vehicle on the same production line (corporate.ford.com). Figure 5 characterize the basic theme behind the Ford's product flexibility.



Figure 5: Underlying Philosophy behind Product Flexibility

Source: Ford media release.

Multiple models from Ford: Though the company is saving on the multiple fronts due to flexibility main advantage it has is in terms of launching the different models in different category. Also it can readily adjust the production of the vehicles according to increase or decrease in the overall demand of the product. Some quick facts below reveal the benefits that company is reaping due to its product flexibility.

- Company has announced the production of two new models in 2011; Focus electric as well as C-MAX hybrid while the production of plug-in hybrid C-MAX energy will commence in year 2012. These all models will definitely contribute to company sales as there is spurt in the sales of hybrid cars (corporate.ford.com).
- Company announced that it will triple the production of its electric vehicles. Currently it produces the 35,000 electric vehicles but plans to increase the capacity to 1, 00,000 vehicles by 2013. This not only pertains to number only but increased variety of products within the electric category of vehicles.

This has become possible due to following innovations that have made their way in Ford's assembly line:

- Reprogrammable tooling in the body shop.
- Standardized equipment in the paint shop.
- Common build sequence in assembly line.

This type of product (mix) flexibility clearly helps the organizations many fold (three fold in the above case) by equipping them with capacity to make different models on same production line. This flexibility helps them to successfully counter any demand fluctuation arising out from environmental or customers' preference shifts.

3. Price Flexibility: Research conducted by various authors like Ariga K. and Ohkusa Y. gives the essence of price flexibility. The price flexibility is a relative concept and must be seen in the overall context of competition. It signifies the ability of the firm to promptly change its price as and when required. More swiftly the change can be incorporated, more flexibility the company enjoys in pricing strategy which in turn will be very helpful in countering any potential threat arising out from the lowering of price point by competitors. In context of Indian automobile industry, Honda represents a perfect example of price flexibility.

Case of Honda: Honda City belongs to the sedan category and positioned in the C-segment of Indian automobile market. Honda started production of this car way back in 1981and got

tremendous response for it. In Indian context also, City was a runaway success and remained leader in its category for many successive terms. Over the years, however, City couldn't able to retain its leadership position with competition turning more intense. Reliable options at lower price tag hurt the sales numbers of City in a big way and it lost its leadership position as VW's Vento. Also unavailability of diesel variant also plucked the customers away from the Honda's family. Finding itself amid difficult situation, company revised the price tag in order to get back its market share and leadership position. The revision of the prices ranges between Rs. 44000-66000. New prices with effect from June 14, 2011 are shown in table 1 below:

Table 1: Price List of Different Models of City

Honda City (ex-how room, Delhi)				
		Old Price	New Price	Difference
Model	EMT	8,15,000	7,49,000	66,000
	SMT	8,64,600	8,19,600	45,000
	VMT	9,09,800	8,64,800	44,000
	VAT Exclusive	10,33,100	9,89,100	44,000

Although Honda took some time to respond through the price revision (3 months period); it still manages to get the sales of City back on track. As a result of these price changes, City recovered its lost ground from the competitors like VW's Vento, Hyundai Verna and Maruti's SX4 and once again topping the sales chart. Sales numbers revealed by the Society of Indian Automobile manufacturers showed the sales of Honda' city stood at 5,819 after the price revision while its competitor Vento recorded the sales of 3,019 units. The factors responsible behind achieving this price flexibility can be shown with the help of figure 6:

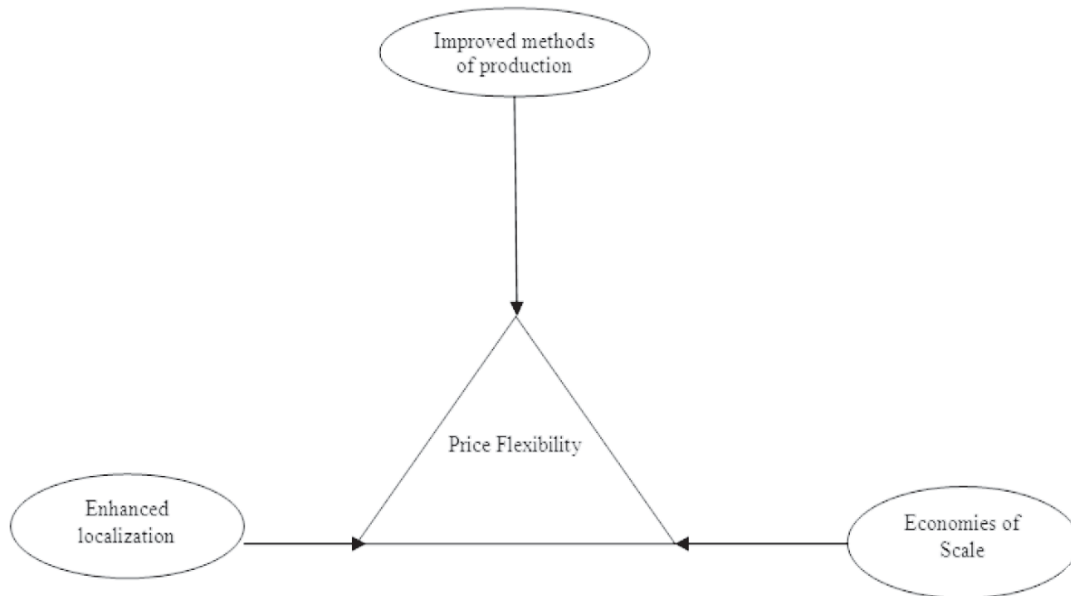


Figure 6: Achievement of Price Flexibility through Various Measures

Source: Pictorial representation of the factors enabling the organization to exercise price flexibility.

4. Place Flexibility: Study of Ron Ashkenas has special significance related to place flexibility. Study reveals that the success of the firm is related to its ability to add or subtract the place according to opportunity or threat arising out of the environmental conditions. In automobile industry this place flexibility is manifested in terms of appointment of dealers in the newly emerged geographical areas.

Case of Nano: Tata Nano represents flexibility related to the place aspect of marketing system. Nano launched in 2008 at the auto expo enjoyed great hype due to many factors; one lakh price tag being prominent reason behind the attention. Unfortunately company didn't able to translate the hype into sales figures and Nano touched a record low figure of 509 units in November 2010. This made the company to think again about its strategies. Along with other measures, company added new places in order to spice up the sales figure for Nano. The efforts included selling the Nano through exclusive standalone dealerships.

Exclusive standalone dealerships for Nano car: In order to become a profitable business venture, Tata motors have to sell at least 1, 50,000 units of Nano per year. This means 12,500 units per month but actual sales figures are way below the ideal figure (www.indiancarsbikes.in). So in order to get the required sales volume, company is relying heavily on its placing strategy. Company has started selling the Nano through its standalone dealerships exclusively selling Nano car only. There are already 120 dealerships in operation and company is now planning to add 230 dealerships more. This will take the total numbers to 350 by end of year 2013. In addition to exclusive dealerships, Nano is also sold through the Big Bazaar and Croma outlet stores.

All the efforts company is putting is showing its results. Numbers suggests the company is on its target to achieve at least sales of more than 10,000 units of Nano per month. After company recalibrated its marketing efforts in terms of adding new places along with up gradation in some of the product features, sales numbers are pointing towards the growth trajectory. In January 2012, Nano sales stood at 7,723 while February saw the dispatch of 9,217 to its dealerships. Result of March, 2012 was even more encouraging with sales of 10, 475 units of car. This is in fact the highest number achieved by this small wonder since its inception (www.indiancarsbikes.in). No wonder all the above stated measures are showing the results in terms of overall improvement in

Sales figure of Nano which is illustrated by chart 1.

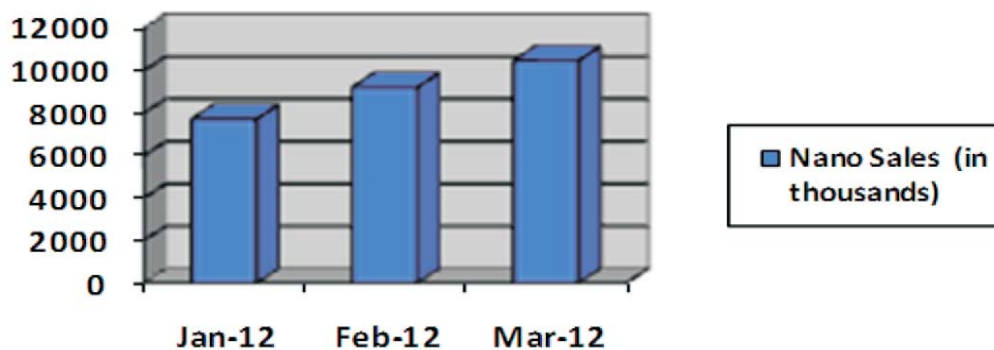


Chart 1: Nano sales trend for first quarter of 2012

Source: www.indiancarsbikes.in.

5. Promotional Flexibility: Promotional activities are one of the main pillars of marketing system. As the number of different brands has increased, manufacturers have used the promotion in their fight to maintain market share of their particular brand (Raju et al., 1990). Promotion flexibility equips the organization to quickly launch the promotional campaigns in the market. It also helps by quickly reacting to the promotional efforts of competitors. Following example shows such a reactive promotional flexibility of MTS; one of the organization operating in telecom sector of India.

Data card promotional war: Indian telecom sector is experiencing a paradigm shift in the competition with most of the players are now focusing on the data segment. Tata Photon plus is high speed internet service from the Tata Teleservices limited and one of the key players in industry. In its recent promotional campaign, it has offered its data card with slashed prices from Rs. 1499 to Rs. 1199(www.tataphoton.com). In order to make whole combo more attractive, company has also offered 6 GB of data on its promotional campaign. In sharp contrast to this offer; another major player in data segment MTS quickly went ahead and came with promotional offer that involves steeper price changes and more attractive offers for first time buyers. MTS blaze for prepaid customers is priced at Rs. 1149 (www.mtsindia.in). No surprise company has got benefited with the speedy implementation of reactive promotional flexibility.

Another thing that needs to be kept in mind is the relative aspect of promotional phenomenon; which is not absolute in its terms. The capability of reacting fast enough; both proactively and reactively; is dependent upon other strengths of the organization as illustrated by figure 7. It is imperative to have distinctive competencies on various aspects like product, price etc. so as to enable the organization to leverage them and promote accordingly. For example in above case, it is the competencies of the firm on the pricing front that enabled them to come out with speedy promotional campaign.

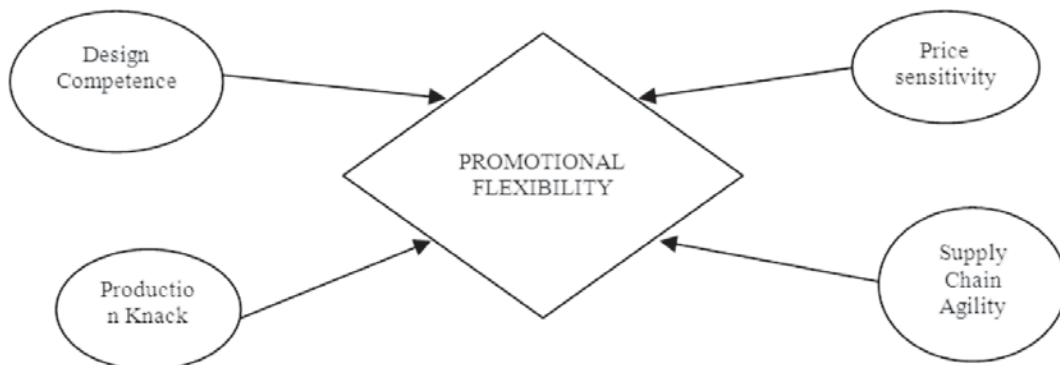


Figure 7: Promotion Flexibility Arising due to Distinctive Competencies of the Firms

Source: Pictorial representation of some of the factors responsible for promotional flexibility

6. Information System Flexibility: Information systems have crucial role to perform in order to endow the organization with capability to respond in timely and efficient manner. This requires not only the integration within the enterprise but also adopting a more holistic approach towards the organization structure. Service oriented architecture (SOA) is one such technique that helps in integrating the primary resources of organization in seamless way (Erol, Sauser and Broadman, 2009). SOA helps by creating highly accessible, loosely coupled and standard business oriented services. In fact this type of architecture has emerged as very successful option to build the organization wide flexibility.

Case of Hewlett-Packard: Hewlett-Packard, one of the key players of IT industry projected a saving of \$ 70 million due to implementation of the SOA. Company mentioned three factors as a basis of this projection. These are: consolidation, reduction in redundancy and reuse across services. In fact the savings part has been divided into two parts by the company. Company has divided total savings into two parts; first is immediate saving which was achieved due to implementation of the SOA and in fact is easy to measure. Saving of the tune of \$1 million has been achieved in the very first year of implementation of SOA. Second part consists of savings of remaining \$ 69 million (www.zdnet.com). Company projected this will be achieved from the synergy aspect as well as increased Information System flexibility of the business due to application of SOA

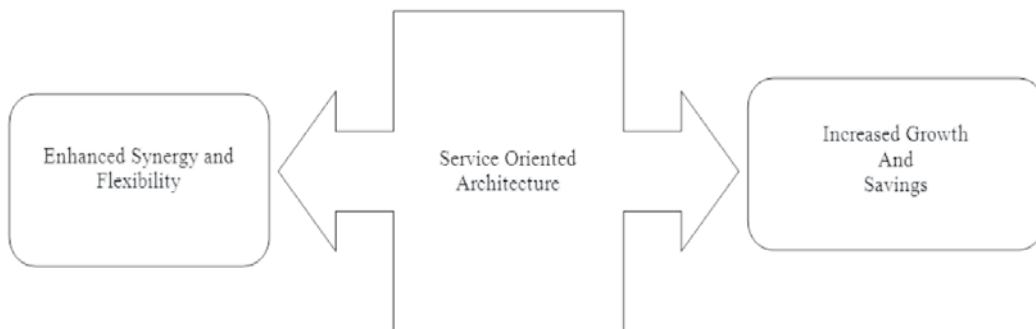


Figure 8: Service Oriented Architecture Promotes Growth by Enhancing Flexibility

Source: Pictorial representation of enhanced flexibility and growth due to application of SOA

Conclusion

Today business environment is full with turbulence and uncertainties. Traditional approaches having stability as their underlying philosophy are no longer valid today. Even market leaders are on their toes because of the fear of being toppled from their top position. All these situations have necessitated the existence of flexible marketing system for survival and sustaining the growth aspect. Flexible marketing system, as represented by figure 9, not only helps in sustaining the growth trajectory of firm but also enables the organization to quickly adapt and respond to the environment conditions. It also helps in ensuring sustainability aspect by evolving all the entities of marketing system in such a way that maximizes the satisfaction proposition for all stake holders involved



Figure 9: Model of Flexible Marketing System

Source: Conceptual model of Flexible Marketing System.

Further research will be concentrated on the study of flexibility related to other dimensions of marketing system, which are not covered in the present paper. As with increasing competition, interrelationships between the different disciplines are becoming more apparent which necessitates inclusion of more dimensions in model of marketing system. Our further research tries to find the relationship between marketing system and the dimensions which has some sort of interaction with marketing system on organization. We will try to incorporate all those dimensions and their flexibility aspects in order to make the model more comprehensive and usable.

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