

Spring 1999

Succeeding in New Markets Through a Market Orientation: The Case of India

Ram Subramanian
Grand Valley State University

Follow this and additional works at: <https://scholarworks.gvsu.edu/wmbr>

Recommended Citation

Subramanian, Ram (1999) "Succeeding in New Markets Through a Market Orientation: The Case of India," *West Michigan Business Review*: Vol. 5: Iss. 1, Article 8.

Available at: <https://scholarworks.gvsu.edu/wmbr/vol5/iss1/8>

This Article is brought to you for free and open access by the Seidman College of Business at ScholarWorks@GVSU. It has been accepted for inclusion in West Michigan Business Review by an authorized editor of ScholarWorks@GVSU. For more information, please contact scholarworks@gvsu.edu.



So far, Argentina appears to be surviving the crisis well. The Argentine economy has been extremely strong in recent years, and the impetus from its recent growth should be able to carry the country through into a year of low but still positive expansion in GDP. Interest rates are also at modest levels (for South America). Of course, the situation is not without its downsides. Approximately 30% of Argentina's exports go to Brazil, and 23% of its imports come from there. One quarter of Argentina's industrial output comes from auto production and related industries alone, and before the onset of Brazil's economic troubles 90% of Argentina's auto exports went to Brazil. As a result, local plants in Argentina have experienced temporary shutdowns, and the Brazilian divisions of Ford and General Motors have also announced work stoppages. As noted earlier, Argentina uses a currency board to maintain its fixed exchange rate. Currency boards generally maintain a more credible fixed exchange rate than central banks, because they hold a stock of foreign currency equal to 100% of the outstanding currency supply of the nation. However, a currency board can still be tested by speculators, and is by no means a perfect hedge against pressures to devalue.

Venezuela is in quite a different situation. Interest rates there are over 30%, and foreign reserves fell by over \$4.5 billion during 1998 as the Central Bank of Venezuela tried to slow down the fall in the value of the bolivar. Venezuela's problems have also been exacerbated by 1998's sharp drops in the price of its main export, oil, which cost the government \$5 billion in revenues. As a gauge of investor concern, Venezuela's stockmarkets fell by 45% in local currency terms in 1998, the largest drop of any South American country.

In conclusion then, the economic crisis in South America is likely to have a noticeable but small detrimental impact on the U.S. and Michigan. Both the state and the nation currently have strong economies, with low unemployment, low inflation, and steady economic growth indicating that we are in good position to withstand the fallout from South America. Brazil, and to a lesser extent Venezuela, are already experiencing significant problems in their economies, and it is likely to be several months before the IMF's bailout package has much of an impact on consumers in those countries. The repercussions from South America will definitely be exacerbated if Argentina is unable to continue keeping its currency fixed to the dollar at its current parity, as the country is regarded by many as a keystone in the region, which means that a devaluation of the Argentine peso would reignite capital flight from the area. So we are likely to continue seeing high interest rates in South America, in attempts to attract investors back. The slight falling off in economic growth that could result in the U.S. is also likely to put pressure on the Federal Reserve Bank to maintain or even lower interest rates.

Succeeding in New Markets Through a Market Orientation: The Case of India

*Ram Subramanian,
Management Department*

In 1991, the Indian government introduced a series of measures aimed at removing the barriers to foreign investment. These measures, which were collectively called the "Economic Liberalization Program", had an immediate effect on the amount of foreign capital that came into India. From \$8 million in 1991-1992, it burgeoned to \$2.214 billion in 1995-1996 as leading companies such as Coca-Cola, PepsiCo, Kellogg's, Toyota, and Daewoo entered the Indian market. The influx of foreign companies soon changed a hitherto sellers market to one where companies competed aggressively for the consumer. The contrast between the pre- and post-liberalization environment in India is tellingly underscored by an observer who states that "in a shortage economy (prior to 1991), the customer was a commoner, never a king. Nowadays, the company is the supplicant, fighting elbow to elbow with others to try and catch the client's eye. The enthronement of the buyer constitutes a major revolution for Indian business. And it finds its shiniest reflection in the post-1991 explosion of marketing and advertising."

To study the competitive aspects of the changed Indian business milieu, our research looked at the performance implications of a recently introduced concept called "market orientation." Market orientation operationalizes an organization's interface with its external environment by looking at three things: the organization's ability to keep track of customer needs (both present as well as future), its ability to size up accurately the moves of competitors in meeting customer needs, and finally, communicating this market information to all organizational units so as to prepare an optimal response to this market information. The third dimension, called "interfunctional coordination" is thus the action part of this concept.

We developed a set of 25 questions that accurately captured the essence of these 3 dimensions. These questions have been extensively tested in the U.S. context (both by us and by other researchers), but have not been extended to developing countries. We first conducted a pilot study with a few select executives in India to ensure that the terminology was understandable and relevant to the Indian context. Using a professional market

Continued on Page 13

Succeeding in New Markets Through a Market Orientation (cont)

research firm in the Southern Indian city of Chennai (formerly called Madras), we collected data from 162 companies that participated in a variety of manufacturing and service industries. The sample included domestic as well as foreign companies from U.S.A., U.K., Germany, France, Japan, and Korea. In addition, the sample firms came from the private, public and the joint (part public and part government-owned) sectors. Prior to running statistical tests, we tested the questionnaires extensively for validity and reliability.

Our results consistently supported the notion that market orientation leads to superior financial performance. We used a variety of performance measures – return on sales, control of operating expenses, success of new products, ability to retain customers, and growth in revenue – and in all cases, high performing firms exhibited very high market orientation scores.

Very often, factors in a firm's external environment moderate the relationship between two variables. In other words, the positive effect of variable A on B may be tempered by one or more moderators. In this study, we looked at the effect of 3 moderators – competitive hostility, market turbulence, and supplier power – on the market orientation-performance relationship. We did not see any moderator effects. In other words, none of these factors mitigated the positive role played by market orientation to improve organizational performance.

What practical implications does this study have for West Michigan firms? India is considered an attractive market. The U.S. Department of Commerce regards India as one of the 18 "Big Emerging Markets." Its 250 million strong middle class has significant purchasing power and is clamoring for Western brands and products. Armed with their superior marketing prowess, Western firms can succeed in this market. Market orientation is a practical concept that can be operationalized as a set of 25 questions, which when implemented can give the firm a core competence to attract new buyers, hold on to existing ones and succeed in a variety of financial yardsticks.

Understanding the Volatility of Commodities Prices: The Case of Polystyrene

Perry Franco
Seidman MBA Student
General Manager
Royal Plastics
Hudsonville, MI

Paul Thorsnes
Economics Department

Introduction

It's well known that construction and manufacturing make up an unusually large proportion of Grand Rapids Metropolitan area economic activity: 32% of the workforce are employed in manufacturing in the Grand Rapids area compared with 19% nationally. Most manufacturing and construction operations involve the purchase of raw materials in competitive commodities markets. Prices in these markets tend to be volatile, which presents considerable risk to companies with relatively high raw materials costs. The risk can be spread to some extent between the raw materials suppliers and their customers through futures contracts, but prices remain a concern for the purchasers of raw materials.

This paper is a case study of pricing in the market for a particular raw material: polystyrene. The prices of polystyrene and its closest substitute, polypropylene, have see-sawed at least twice in the last twelve years, and the future trend in prices for these plastics is anything but clear. Polystyrene and polypropylene make up about 28% of the enormous market in bulk thermoplastics. These plastics are used primarily in packaging and consumer disposables, but are also used extensively in office furniture, appliances, and automobiles. Figure 1 shows the recent volatility in prices: the price of general-purpose polystyrene rose from about 31 cents per pound in 1986 to over 56 cents in 1988, then back down to 41 cents in 1992, then up to 56 cents again in 1995, and price is now back under 40 cents per pound.

This price volatility is of concern to the producers of thermoplastics, their customers firms that process the bulk plastic into usable products, and these processors' customers. The Grand Rapids area contains a significant number of plastics processors. The Census Bureau reports that 114 processing facilities, employing about 9500 people, operated in Kent and Ottawa

Figure 1
Average Prices in 1979-1998

