DIRECTIONAL POLICY MATRIX AS A COMPETITIVE WEAPON IN STRATEGIC MARKETING: SRI LANKAN’ PERSPECTIVE

Poongothai Selvarajan

Department of Economics and Management, Faculty of Business Studies, Vavuniya Campus of the University of Jaffna, Sri Lanka
pselvarajan@mail.vau.jfn.ac.lk

ABSTRACT

This study examines the impact of Directional Policy Matrix (DPM) as a competitive weapon in strategic marketing in Sri Lanka. Understanding of theories in marketing is an inevitable element on marketing practices, since the survival and sustainability of organizations are based on their business strength and market attractiveness. In this way the DPM has been evolved from the BCG matrix. Mc Donald and Payne (1996) developed the DPM and in this matrix, market share and market growth rate were replaced by business strength and market attractiveness respectively. Market attractiveness includes the size of the market, expected growth, lack of competition, profit margins within the market and other favorable political and socio-economic conditions. On the other hand business strength is determined by the sales volume, the product’s reputation, reliability of service and competitive pricing. The main objective of the study is to investigate how the DPM has been applied as a competitive tool by Sri Lankan marketers. The findings showed that the quadrant ‘grow’ indicated that a company can grow during the high market attractiveness and low business strengths. Then it moves to High-High position called as ‘invest’. In this position the sales will improve. The third quadrant ‘harvest’ showed a decline in sales which leads to a low market attractive position. The final quadrant ‘divest’ was the low-low position and the company is likely to reduce or even withdraw and choosing to spend resources on new or existing product which offer the prospect of greater returns. The researcher also found that the Product Life Cycle plays a major role in applying this matrix as a competitive weapon among companies since the Product Life Cycle determines the company’s position in the DPM and take strategic decisions on product planning, forecasting, pricing and promotional activities in a competitive market. Similarly, marketing organizations in Sri Lanka also take strategic decisions based on the DPM even though they do not have enough conceptual understanding of DPM.

Keywords: Business Strength, Competitive Weapon, Directional Policy Matrix, Market Attractiveness, Product Life Cycle, Strategic Marketing
01. INTRODUCTION

Every Marketing Organization in a competitive industry wants to gain highest market share and higher growth rate. In response, companies have shifted from managing product portfolios to customer portfolios and competing with the databases of individual customers. So, they can understand them better and construct individualized offerings and messages. Marketing succeeds when the needs and wants of consumers are identified and fulfilled in the right way at the right time through right goods and services. This paper emphasizes the strategic role of Directional Policy Matrix (DPM) which was evolved from the BCG growth-share matrix on Strategic Marketing in Sri Lankan perspective.

The Boston Consulting Group (BCG), a leading Management consulting firm developed a popularized growth share matrix which consists relative four segments called Stars, Question marks, Cash cows and Dogs. In the DPM developed by Mc Donald and Payne, market share and market growth rate were replaced by business strength and market attractiveness respectively. Market attractiveness includes the size of the market, expected growth, lack of competition, profit margins within the market and other favorable political and socio-economic conditions. On the other hand business strength is determined by the sales volume, the products reputation, reliability of service and competitive pricing. Strategic Market Management is a system designed to help management both precipitate and make strategic decisions as well as create strategic visions. A strategic decision involves the creation, change or retention of a strategy. A strategic vision is a vision of a future strategy. The main objective of this study is to understand how far this DPM serves as a competitive weapon in Strategic Marketing among the Sri Lankan organizations since the marketers pay much attention on their expenses and the market situation. It is important and useful to understand the marketing concepts applied by Sri Lankan marketers in the competitive environment.

02. RESEARCH FOCUS

There are various Problems associated in this research study. Whether the Sri Lankan marketers are aware of the DPM; are they concerning it in their day to day marketing activities as a strategic tool; How far the market strength and market attractiveness strategically impacted on the operations of Sri Lankan Marketers.

In Sri Lanka, Marketing Organizations in different sector adopt different strategies to attract more customers and sustain competitive advantage. Further, the author also found in her previous studies that the Marketing strategies adopted by marketers are influenced by the socio – economic and cultural factors in Sri Lanka.

03. LITERATURE REVIEW

Since this research study is highly based on theories, different authors of marketing and their views have been expressed. According to Kotler, it is the most useful development of the BCG matrix. The BCG matrix classifies products according to their relative Market Share and the Market Growth Rate within that market. The directional policy matrix is the more useful development of the Boston (BCG) matrix. However, many companies experience difficulties in accurately measuring the market share and accurately predicting the potential growth of particular markets. Because of this the BCG matrix was evolved into the directional policy matrix as shown in Figure 1.

In the directional policy matrix, market share and market growth rate are replaced by business strength and market attractiveness. Market attractiveness is not only the size of the market, but includes such things as the expected growth, the lack of competition, the profit margins within the market and any favorable political or socio-economic conditions. Business strength is determined by such things as the number of sales, the product’s reputation, reliability, service and competitive pricing. These are very practical attributes as they are more specific to an organization whose products are in fact services. The directional policy matrix is sometimes shown as having nine segments, but the simpler version shown, developed by McDonald and Payne is easier to grasp and more appropriate for the financial services product concept.

There would be no point in developing a new product and spending time and money for launching it unless there was a market for it. The size of the market, the need for the product, the likely sales volumes and the profit margins that can be expected will all have been investigated in the planning and researching of a possible new product. The business will then make a

Figure 1 Directional Policy Matrix
decision as to the attractiveness of the Marketplace before any new product is developed. It therefore follows that new products will only come out if they are in the ‘high market attractiveness’ area. As the product will be new, its market share or business strength will be low initially. Thus, any product will usually appear in this box when it is first launched. This will be shown in the upper right hand quadrant as “Grow” in Figure 2.

If the correct research has been carried out and the product includes the right price, then the sales will improve. The product will become strength to the business as it at starts to bring an increasing income stream to the business and enhances the reputation of the provider. It will therefore move to the upper left - hand quadrant as “Invest.”

As existing customers’ needs are met, and as new products and services with greater appeal to the customers are introduced by competitors, the growth of product sales may slow. Because the market becomes saturated, providers are likely to cut charges or offer special deals in order to try and maintain their market position. They may need to start or increase promotional activity and all these things will incur a cost to the business. This in turn means that profit margins are cut and so the market attractiveness declines. The Product is now positioned in the lower left-hand quadrant as “Harvest”.

As sales diminish due to the lack of customer appeal, the product’s strength to the business also decreases. The company is likely to reduce or even withdraw completely any Marketing support, choosing to spend resources on new or existing products that offer the prospect of greater returns on any investment made. The Product is therefore now firmly in the lower right-hand quadrant as “Divest”.

All of the products and services offered by financial services organizations should be able to be positioned within this matrix. Doing so is of great help to the product manager in product planning, forecasting and promotional activities.

In Product planning, by positioning the product within the matrix, the product manager can predict how the sales will evolve, and therefore develop a suitable product strategy. This will be done with a great deal of information about competition of products and customer needs etc, hence the importance is once again accurate and up-to date in research.

The provider will need to understand not only the product and its competition, but also possible future trends in the market which will increase or decrease the market attractiveness. By placing the product in one of the quadrants and properly understanding the movement of the product within the matrix, the product manager will be able to plan where changes to the product may be needed, and where the budget for promotional activity will be best spent.

In Forecasting, the directional policy matrix will help the product manager to forecast future revenue and costs and therefore assist in the management of resources. He will be able to see which of the products he controls would provide the best return following investment in such thing as advertising.

In Promotional activity, the directional policy matrix assists in the planning of any promotional activity. For example, while the product is positioned in the upper right-hand quadrant, a great deal of activity surrounds the launch. However, as the product moves to the upper left-hand quadrant, the product manager may expect a great deal of competition to arise and therefore decide to continue with the product promotion as long as the market attractiveness remains high.

![Directional Policy Matrix (Positioned)](image)

Further, Ranchhod and Gurau argues that BCG which made the knowledge available to others by publishing it [12]. Similarly organizations can express ideas using models of analogies. Barksdale and Harris developed a combined part for long range marketing planning. It also emphasized the impact of DPM on marketing [4].

Moreover, the DPM plays a major role in determining the new product development there are two major reasons for developing a new product one is to attract customers in a market in which the retailer is not currently active and the other one is if the existing product of a company has become on the maturity stage it is advisable to go for developing a new product.
A company’s differentiating and positioning strategies must be changed as the product, market and competitors change overtime. Most of the Product Life Cycle curves are portrayed as bell-shaped. This curve is typically divided into four stages: introduction, growth, maturity and decline [16]. A product has a life cycle to assert four things. First, products have a limited life; second the product sales pass through distinct stages each posing different challenges, opportunities and problems to the seller; third, profits rise and fall at different stages of the Product Life Cycle and finally products require different marketing, financial, manufacturing, purchasing and human resource strategies in each stage of their life cycle [8]. According to Johansson in the typical marketing illustration, the product Life Cycle follows as S curve, with the growth period corresponding to where the S has its steepest ascent [13]. This is when a new product is often introduced in foreign markets to gain first mover advantage.

The PLC is a conceptual tool which provides a means of describing the sales patterns of products be they goods or service products, over their time in the market [11]. Researchers have identified from six to seventeen different PLC patterns. Three common alternative patterns of PLC are a growth -slump-maturity pattern often characteristic of small kitchen appliances; the cycle-recycle pattern describes the sales of new drugs and the scalloped pattern especially for new product characteristics- uses or users. The PLC concept can be used to analyze a product category, a product form, a product or a brand [17].

The PLC concept is best used to interpret product and market dynamics. As a planning tool, the PLC concept helps managers characterize the main marketing challenges in each stage of a product’s life and develop major alternative marketing strategies [8].

In Launching new products a company can pursue one of four strategies – Rapid skimming, slow skimming, rapid penetration and slow penetration. In the growth stage a rapid climb in sales could be observed. Early adopters like the product and additional consumers start buying it. New competitors enter are attracted by the opportunities. They introduce new product features and expand distribution. Next, the maturity stage normally lasts longer than previous stages and poses formidable challenges to marketing management.

The maturity stage is divided into three phases: growth, stable, and decaying maturity. In this stage some companies abandon weaker products and on new products. Finally the decline stage might be slow or rapid. Sales decline for a number of reasons, including technological advances, shifts in consumer tastes and increased domestic and foreign competition. All lead to overcapacity, increased price cutting and profit erosion. Unfortunately most companies have not developed a well thought out policy for handing their aging products [2].

Smith suggests the life of your product or service change as markets change, and customers’ needs change over time, or new alternatives come on to the market and meeting customer needs. It also suggests that any given product or service is likely to proceed through a number of stages in its life from birth to death [14].

4. METHODOLOGY

Many researches had been conducted in marketing especially on marketing strategies of different type of organizations and their market positions. However, no such research had been done based on the impact of DPM on Sri Lankan marketers. Therefore, the researcher intended to suggest the importance of this matrix for practicing Sri Lankan marketers.

For this purpose there are various available literature, organizational cases and theories reviewed to understand the strength of this matrix in Marketing. Further, since there is a relationship between the product life cycle and the DPM, the literature of PLC is also revealed.

Moreover, the researcher has chosen a theoretical approach and recommended suggestions for practicing marketers in various sectors in order to survive and thrive in the market.

5. RESULTS AND DISCUSSION

In Sri Lanka, Marketing is a growing field and there are various categories of marketing organizations in the competitive market.

They can be classified into three as follows.
1. Product Manufacturing and Marketing
2. Product Marketing
3. Services Marketing

In the first category, the company manufactures the product in its own factory and markets the same through various channels. It can be done at locally or globally. Marketing organizations adopt different strategies in different stages of the products. ICL Marketing (Pvt) Ltd is one the popularized company under this category. According to DPM, when the company entered into the business the business strengths were low and it had high market attractiveness. Because the profit margin, expected growth and size of the market were high. Additionally it
covered a large market. However, in the early stage, its competitive price, product reputation and reliability were lower than now therefore the position was “grow” and gradually when the business strengths had become high, it enjoyed the high–high position of “invest”. At this position the company invested more on the development and marketing of its products. When this position exits for a long period the market attractiveness will come down at lower level due to several reasons such as new entrants in the market, unfavorable political and socio economic conditions. At this time the company’s position is ‘harvest’. At this position the company has to think of the product modification, increase the usage, uses and users. This will enable the company to survive in the market. When the company becomes to this position it has to think of its own survival by adopting different strategies. Further, the company should also consider that the particular product/ products to be re introduced or need changes since consumers are rational in purchasing decision marketing. They usually want to get high-quality, low priced product and the convenient purchasing. If their satisfaction is at the optimal level, they may go for any brand. Usually the dominating industries are a few giant firms—perhaps a quality leader, a service leader and a cost leader [9]. However, once the company feels that a brand of product has become in the maturity stage it will immediately do the modifications in the product and re introduce in a new brand name.

In Sri Lanka the ICL Marketing (Pvt) Ltd also adopted the same strategy. Further, companies should understand if a particular brand has attained in this position of ‘harvest’ how it could be managed by getting more customers to other brands of its products or other product lines which are in ‘grow’ or ‘invest’ positions. The ‘Highland’ Milk Foods Company has been facing the problem of marketing its milk powder at the standard of the other competitive milk powders in the market. As such it researched the ‘divest’ position. However, the company adopted the strategies to turn around the introduction of other products.

In the second category of only marketing companies, they purchase/import the product from various manufacturers in the island or from other countries and functioned as the distribution agent or import the items and packaging them by using their own brand names. Lakspray, Milgro and Maliban Milk powders are the examples for this category. The ‘Lakspray’ is a well reputed brand name and this Milk powder entered in to the market nearly 50 years back. Even though, still there is a ‘Market’ for this product, Due to the various political Economic and social changes the product has been evolved in different ways, and still it competes with other competitors. The success for this is the product as well as the market modification.

Further the products of Johnson & Johnson Company also successful in the global market in generation by generation by adopting the product modification strategies. In Sri Lanka also a few marketers adopt the appropriate strategies at the right time to survive in the market while many other organizations failed to adopt the right strategy at the right time. As such they face the problem of exit from the market.

The third category is the service marketing organizations. In this category there are profit- motive and non-profit-motive organizations. Usually the financial service providers are profit motive and the educational institutions like Universities and Schools are non profit motive marketing organizations. Whatever the organization, the service quality is very important to each and every organization in any sector.

In the financial sector of Sri Lanka many private and few public banks are competing with the objective of profit maximization and customization. When a bank entered into the market, its position was in ‘grow’ then it started to enter ‘invest’ and introduce many other facilities to its customers. In the meantime many other banks also wanted to enter into the same industry. Then the competition starts and the particular bank’s products will be in the lower demand position. According to DPM, this is the ‘harvest’ position and new product developments, brand differentiations and promotional schemes would be introduced.

In Sri Lankan commercial banking industry, there are three major products called saving deposits, fixed deposits and current deposits. In addition to this there are other auxiliary services provided by the banks. For example loan facilities, pawnings and safety lockers systems credit card facilities etc. these are the augmented products which the customers expect from the bank. In Sri Lankan Banking and financial sector the ‘potential product’ concept could not be at the public banking sector and in the private sector, they try to introduce new ways to fulfill and satisfy customers’ expectations. Another salient feature that the researcher found in the service marketing organization especially in the financial sector, not like product marketing organizations in the DPM, there are only ‘grow’, ‘invest’ and ‘harvest’ positions and not the divest position. Because, if a bank becomes in the ‘divest’ quadrant, then there will be possibilities to exit from the market. Therefore the banks frequently update its operations, adopting new technological innovations and apply the correct strategies at the right time. But in case of the non – profit marketing organizations, they highly depend on the service quality. According to Berry et al, there are 10 essential lessons needed for service firms to improve service quality. Such as listening, reliability, basic service, service design, recovery, surprising
customers, fair play, team work, employees research and servant leadership [3].

In Sri Lanka, several non-profit service marketing organizations face the problems of how to customize their services and provide quality of service. However, the knowledge of DPM is inadequate for them.

Further, from the literature review and other organizational cases it has been found that the four positions indicated in DPM are similar to the four stages in the PLC. Moreover the stages in the PLC are similar for product as well as service marketing organizations. However based on the service rendered by the particular institution and the position in the DPM, the PLC stage could be determined.

Therefore, the researcher believes that the understanding of DPM by the Sri Lankan marketers is inevitable to survive in the competitive market and sustaining competitive advantage. From the above literature it is apparent that to understand the practical application of this matrix, the understanding of the product life cycle is also essential.

6. CONCLUSIONS AND RECOMMENDATIONS

Directional Policy Matrix (DPM) is one of the important Portfolio models in marketing and it has been derived from the BCG matrix or it is the latest version of BCG matrix. It shows the relationship between the market attractiveness and business strength. It has been understood from the theories and literature that, when a company enters into the market it starts with the position of ‘grow’ which shows the high market attractive and low business strength position. Then it moves to ‘invest’, becomes to the ‘harvest’ and finally the ‘divest’ position. Similarly the product life cycle (PLC) has also four stages and the product of any organization will move towards the four stages of Introduction, growth, maturity and decline. The PLC plays a major role in determining the positions of products in DPM and takes the appropriate decisions on product planning, forecasting and promotional activities which enable the companies to satisfy their customers and gain competitive advantage. Therefore, it is evident that the DPM serves as a competitive weapon in strategic marketing.

According to this research finding it has been proved that the Sri Lankan marketers have inadequate knowledge in the marketing concepts rather than the international marketers and there is lack of marketing researches on this area. It is recommended that the future researches to be carried out in Sri Lanka to provide theoretical and conceptual knowledge to the local marketers to take the right decision at the right time since marketing is the field relevant to all organizations.

References