

## MARKET FOCUSED STRATEGIC FLEXIBILITY: SIGNIFICANCE AND IMPLICATIONS FOR INDIAN AUTOMOBILE INDUSTRY

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### ABSTRACT

With enhanced complexities and uncertain nature of environment, strategic flexibility has become increasingly important for sustaining the competitiveness of the firm. Also all these strategic efforts without being focused on the market will be futile as without this orientation these are sure to fall flat on their nose because of the lack of customer-centric focus. This study attempts to combine the concept of strategic flexibility with market focused approach with a specific focus on the automobile industry. The 4-wheeler segment of industry has been chosen for study as the car manufacturers are reeling under the intense heat of this ever-changing environment. For this extensive literature review has been done to find out crucial attributes of market focused dimensions and then these aspects are integrated with strategic flexibility to give a conceptual model that will help the automobile companies to face the environmental turbulence with clear cut market focused approach without diluting their key focus areas. Study concludes with some specific recommendations for practitioners to enable them to combine the market focussed approach with strategic vision of the company as it has been found that both these aspects help the organization to deal with environment uncertainty in an effective way. This paper offers a fresh approach to the study of the aforementioned concepts from automobile sector perspective and helps the practitioners to deal with increased business environment dynamism effectively.

**KEYWORDS:** Strategy, Flexibility, Customer, Competitor

### INTRODUCTION

The phenomena of globalization, liberalization and privatizations have literally changed the economic environment all across the world. With increasingly intense competition, shrinking product cycles, accelerated technological breakthroughs and progressively greater globalization, the business arena may best be described as being in a chronic state of flux, with continual variation in its external environment (Nadkarni, 2010). As traditional methods of sustaining competitiveness edge are increasingly faltering in accomplishing their task, companies are now desperately searching for the new strategies that will help them to cut the mustard of this newly evolved business dynamism. Indian automobile industry, along with other ones, is one of the most affected segments that have been at the receiving end of these abrupt and hyper-agile changing conditions. In fact such has been the pace of change in auto market that that on every other day customer find himself standing on the verge of either a whole new radical invention or dramatic improvement in vehicles which are already a competent one by any standards. Under this congested and overly-fierce competition, companies are desperately looking for the strategies to increase their market share without any sacrifice on the quality front. A market orientation that provides for market-focused strategic flexibility to sustain competitive advantage is a strategic solution (Javalgi et al, 2005).

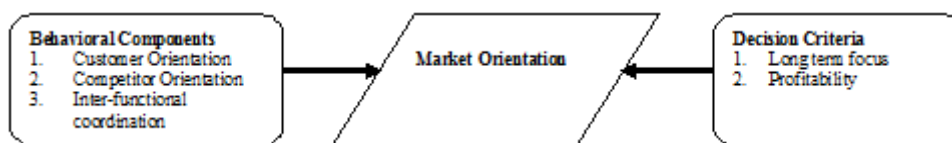
Contrary to the pre-liberalized era, today automobile industry has a vast number of players chancing their luck in world's 6<sup>th</sup> largest which is also expected to become 3<sup>rd</sup> in number by the end of this decade (Danyer, 2012). As there is enough sales potential exists all across the categories ranging from hatchbacks to super luxurious sedans, the companies are leaving no stone unturned to lure the customers. This has resulted in fiercer competition than ever as organizations are finding it difficult to cope with the changes happening at neck break speed on almost every day in the market. And this has actually laid the foundation of all the lime light that concept of flexibility is enjoying nowadays equally from both academicians and practitioners. Changing market conditions has called upon the need to have inherent flexibility in organization and in case of the crucial aspect like strategy; this incorporation need is even more compelling. Integrating flexibility in strategic part is beneficial and its merits can be augmented by aligning this integration with market focused orientation.

This research paper draws on the literature on strategic flexibility and market-focus orientation to develop a conceptual framework for the market-focused strategic flexibility for automobile companies. Then significance and implications of this conceptual model in context of automobile industry has been discussed. As the paper is conceptual, the focus area has been limited to provide the underlying linkages and implications of the model and our forthcoming study will focus on empirically testing this model.

## LITERATURE REVIEW

### Market-Orientation

There is wide array of literature on the market orientation aspect though some of the important aspects have emerged as a common theme in the extant literature related to market orientation. According to Narver and Slater (1990) market orientation consist of three behavioural components – customer orientation, competitor orientation and inter-functional coordination – and two decision criteria – long term focus and profitability. While customer and competitor align the company's focus on the micro environment, functional coordination along with long term focus and profitability comes under the strict purview of internal strategic domain of an organization. Figure 1 given below is pictorial representation of the market-orientation concept given by aforementioned authors.



**Source:** Pictorial representation of the concept given by Narver et al (1990)

**Figure 1: Market Orientation**

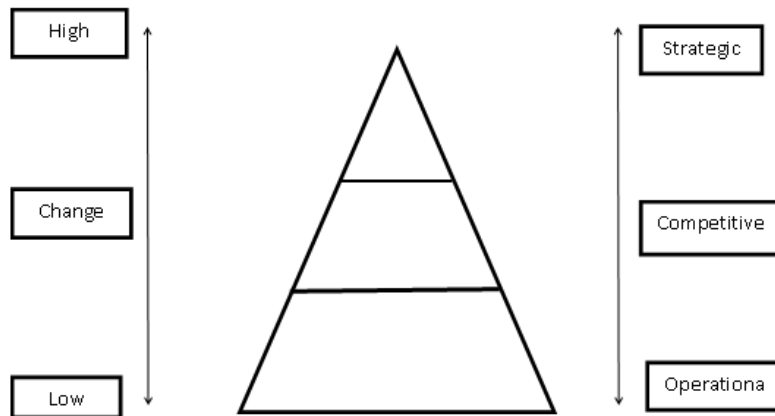
Another board definition of market orientation had been given by Jaworski and Kohli (1996) who define market orientation as: organization-wide generation of market intelligence pertaining to customers, competitors, and forces affecting them, internal dissemination of the intelligence, and reactive as well as proactive responsiveness to the intelligence. The definition is comprehensive as it nearly includes all the important aspects that can affect the business prospects of an organization with marketing intelligence as one of the cornerstones on which this philosophy of market orientation has been built. Also the definition covers the crucial aspect of responsiveness, one of the connotations attached with flexibility, both in reactive as well as proactive terms. The focus of this definition is on marketing intelligence with first part underlying the need to generate and disseminate the crucial information about the external business affecting forces like customers and competitors while another part stresses on the need of dissemination of this information quick enough to equip the organization with both reactive as well as proactive responsiveness.

Hunt and Morgan (1995) went one step further on market orientation concept as they advocated the gathering, analysis and use of information related to both present and potential customer and competitor. This crucial inclusion of term potential assumes more significance today than ever as the auto companies are not only fighting hard within the present competition but they are also wary of the brightening prospects of alternative technology vehicles. Further the going through roof expectations of the customers have jacked the competitive pressure up.

More recent researches in the market orientation domain resulted in the inclusion of myriad number of dimensions inclusion as the notions of economic and demographic environment, suppliers, distributor etc. though our research paper tends to focus on the crucial component of customer and competition. With a close focus on these two primary forces, we focus on the effective integration of these two elements in the strategic decision making of the auto-organizations. Also as the marketing intelligence plays a basic role in providing the insights about the competitors and customers, its role and significance has also been discussed at length.

**Strategic Flexibility**

Flexibility is a multi-dimensional concept-demanding agility and versatility; associated with change, innovation and novelty; coupled with robustness and resilience, implying stability, sustainable advantage and capabilities that may evolve over time (Bahrami, 1992). Similarly strategic flexibility has also been defined from wide perspectives though the crucial definition that included the notion of unforeseeable changes had been given by Eppnick in 1978. According to Eppink’s definition flexibility makes an organization less vulnerable to or better able to respond successfully to unforeseen environmental changes. Also based on the intensity of change he classified the flexibility into three types: operational, competitive and strategic. Figure 2 given below is pictorial representation of the classification given by Eppnick.



**Source:** Pictorial representation of the concept given by Eppnick (1978)

**Figure 2: Intensity of Change and Flexibility**

The classification provided by the Eppnick which included the strategic flexibility has been further explored by the Aaker and Mascarenhas (1984). They associated the concept of flexibility of organization with its performance. According to them flexibility is ability of the organization to adapt to substantial, uncertain and fast-occurring (relative to required reaction time) environmental change that have meaningful impact on the organization’s performance. What is the crucial finding from their point of view is that they considered the substantial rate of change as one of the reasons for having the strategic flexibility. It is only because of this compelling change the strategic flexibility comes into picture. As the changes happening at the strategic level are almost new company often has to resort to new options of combinations to counter the threat emanating from the environment. As strategic flexibility pertains to taking the actions due to external environment changes, they considered it as strategic capability.

Same views about resorting to the new options along with dismantling the old ones had been echoed by the Harrigan (1985) who defined strategic flexibility as the ability of firms to reposition them in a market, change their game plans, or dismantle their current strategies when the customers they serve are no longer as attractive as they once were. This clearly points towards scrapping the old strategies and plans and resorting to the newer one according to the evolved conditions. This means the flexibility is the ability of the organization to quickly change its markets or plans rather than sticking with the old one. More swift is the response of the firm towards the change, more flexible it is at strategic level. Example of Bajaj Corporation can be considered in this regard which very swiftly changed its focus area from scooters to motorcycles by anticipating the change in customers' tastes and preferences. In contrast, Kinetic couldn't able to respond with such swiftness and as a result had to bear the brunt of the changed environmental conditions.

## **INDIAN AUTOMOBILE INDUSTRY**

Although in any industry the four aspects chosen and listed as below in the section make the compelling case for their deep understanding. Automobile industry is significantly more prone and affected by these four critical forces. Supplier, competitor, customer and dealership partners play very crucial role in deciding the long term fate of any automobile company. Following section discuss these one by one.

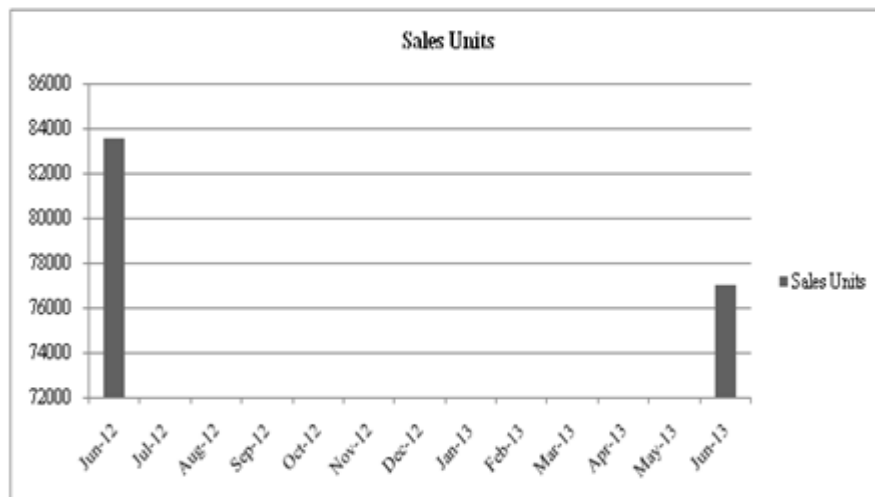
### **Suppliers**

Supplier is one of the most important elements in the micro environment of a company. These fulfill the needs regarding the basic raw material or components of an organization. For a proper and smooth functioning of the organization; reliable and efficient suppliers is one of the basic prerequisites as without raw material or components the supply will be badly affected. Without the proper base and support of reliable suppliers it will be difficult for the company to produce the output efficiently as the cost of material stocking will shoot up. India as a country is still far behind the others in management of suppliers' aspect as the average inventory storage period in India is far more than the other countries. It has been pointed out that factories in India maintained indigenous stock of 3-4 months and imported stock of 9 months as against an average of a few hours to two weeks in Japan (Balagopal, 1986). As quality of the company's product is highly dependent upon the raw material, organizations today are going one step further to invest in the vendor development. Bigwigs of the businesses are not hesitating to invest their money in order to ensure that their vendors provide the impeccable quality which in turn benefits them in form of enhanced customer loyalty. In automobile companies, Toyota for example has taken a number of steps to ensure that the supply from its vendors meet the stringent quality norms set by the company. For this the company has chalked out some suppliers friendly strategies that help the long term survival and competitiveness of both the parties; Toyota and its suppliers. Annual purchasing policy and supplier support system are the two main features of the Toyota's supplier system that has come a long way in ensuring the supremacy of Toyota in world market (Toyota Suppliers, 2013). Similarly the local supplier base is also instrumental in pricing the product competitively and this aspect is quite significant for automobile companies which are doing their best efforts to enhance the localization as much as possible. In car market, especially the foreign manufacturers initially got the much abuse from the customers because of their high initial prices. Volkswagen, Nissan, Renault, Honda etc. companies struggled to price their product on the value for money side and the basic reason behind their costly proposition is poor rate of localized parts. Because of the low localization of the raw material and components these overseas manufactures have to rely upon the supply from the other countries which invariably resulted in the high initial cost of vehicles because of the import duty these parts attracted. As a result these manufactures were unable to price their vehicles competitively though the scenario today has changed completely. Honda for example a Japanese manufacturer initially plagued with this problem but now is competing well in Indian market as it has successfully enhanced the localization of its parts by making a strong

supplier base in India. Today the small car from Honda; Brio comes at very competitive price starting with Rs 3.95 lakh and more than 80% of parts localization is one of the main reasons behind this ultra-competitive pricing [Honda Brio, 2013]. Similarly the joint venture of Renault-Nissan is aiming for 90% localization of their vehicles components and these companies have already been successful in cutting cost by 5-10% as they have shifted the base of some of their suppliers near to their manufacturing plant in Chennai (Thakkar, 2013).

**Customers**

Customer is simply the mean of the business. All the activities of the business right from the starting to the end must be performed with a focus on the customers’ needs and wants. This has become more important especially in the wake of globalized and liberal markets where customer have a number of choices to select the one that suits his/her need in a best way. In fact it is not exaggerated to say that today importance of customers have even surpassed the sanctity of the God and companies are using every trick to get and hold the loyalty of their customers. There could be different categories of consumers. Customers can be individual, an organization, household or industry. For some businesses government institutions also makes an important part of the total customer base. A battery manufacturer for example can have many different types of customers ranging from individual, organizational, household etc. In order to compete in today’s risky and dynamic environment company must diversify into different businesses as the dependence upon one type of customer segment could prove fatal at any point of time. Indian Tobacco Company (ITC) realized this fact very well as it has now successfully diversified its business from the cigarettes to other areas like hospitality, agri-business and fast moving consumer goods etc. This diversification will indeed help the company to successfully face any eventuality that may arise from the closure of one of its business area. Like other industries, automobile companies are burning the mid night oil to attract and maintain the loyalty of the customers. With increasing number of choices in each and every segment of the car market, companies are finding it difficult to sustain the loyalty of their customers. As a result, dynamics of the industry is changing at very fast pace as both old and new players finding it equally difficult to get the customers in their kitty. Also the changing economic scenario has added extra pressure as the rising interest rates along with high inflation has further weakened the demand. As a result many auto companies are resorting to extend heavy discounts and freebies with their cars to attract the customers. According to press release of Maruti-Suzuki; India’s largest car manufacturer the domestic sales of the company recorded a decline of 7.8% as cumulative figure stands at 77002 units in June 2013 compared to 83531 units recorded in June 2012 (Maruti-Suzuki, 2013).



Source: Maruti-Suzuki Press Release (2013)

**Figure 3: Sales Performance of Maruti-Suzuki**

## Competitors

This Era of globalization is being characterized by eroded physical boundaries and virtually any body can compete from any part of world. The enhanced means of communication has also increased the intensity of competition. Competitor today not only limited to the rival companies directly dealing with the same category product but the ambit has gone further to include all the potential offering that could rival the firm in future. A competition for a refrigerator company not only comes in form of rival manufacturers dealing with the refrigerators but also from the other things that compete for the discretionary income spending by the consumer. In this way the refrigerator manufacturer has to compete with the television, air conditioner and two-wheeler purchase also. So once the consumer decide to buy the refrigerator now competition begins at the level of product i.e. refrigerator and its features. What type and size of the refrigerator he will select; depends upon his needs, budget and kind of offerings a manufacturer comes with. Once he zeroed in on the product type than next level of competition comes in form of brand. Which brand the customer will choose and here the importance of targeting and positioning come into rescue as these things can comprehensively influence the buyers to decide on their final purchase. Similarly in dealing with the competition, one must have a keen eye on the potential entrants that could harm the company's share in future. In fact these potential competitors pose great threat to than the visible rivals as these could emerge from nowhere to damage the prospects of the company. The growth of computer and internet has now posed a tremendous challenge for the print media as the newspapers have witnessed sharp decline in their sales. The ads of various jobs, house rents etc. has wean away the customers of newspapers classified ads and they are now struggling with their revenue part. Initially well known for their economies of scale mass production of standard products and mass broadcasting have been the dominant model of production and marketing, respectively, of consumer products. This, however, is changing in the new economy as the internet facilitates a continuous learning relation between sellers and customers, which is critical for sellers to achieve long term business success (Pine et al, 1995).

In the context of Indian automobile industry, there has been a sea level of change that the industry has witnessed in terms of competition as today it is one of the most fiercely contested markets in Indian business horizon. After the liberalization policy, many foreign manufacturers set up their shop in India against the three or four major players before 1990. Many companies from Japan, other than Suzuki, forayed into Indian market. Companies like Honda, Toyota, Nissan and now Datsun are competing in the Indian automobile industry. Hyundai from South Korea as well as Volkswagen from Germany have made their presence felt by offerings some good cars for Indian market. The intensity of the competition can be ascertained from the fact that today in hatchback market there are more than 25 models to choose from and these offerings have spanned across 10 manufacturers. The choice was limited to just 3-4 cars back in 90s'. Table 1 given below shows the enhanced intensity of competition that automobile companies have faced due to globalization and liberalization.

**Table 1: Increased Number of Options in Automobile Categories**

Car Category	Options Available Today	Options Available in the Past
Hatchback	<b>Tata:</b> Nano, Indica, Indica Vista <b>Maruti-Suzuki:</b> Alto 800, Alto, A-Star, Estilo, WagonR, Swift, Ritz, <b>Hyundai:</b> Eon, i10, i20 <b>Honda:</b> Brio, Jazz <b>Toyota:</b> Liva <b>Mahindra:</b> Verito Vibe <b>Nissan:</b> Micra <b>Renault:</b> Pulse <b>VW:</b> Polo <b>Ford:</b> Figo <b>Fiat:</b> Punto	Maruti 800, Premeir Padmini,

Table 1: Contd.,

Sedan	<b>Tata:</b> Indigo, Maanza <b>Maruti-Suzuki:</b> Swift Dzire, SX4, Kizashi <b>Hyundai:</b> Verna, Elantra <b>Honda:</b> City, Civic <b>Toyota:</b> Etios, Corolla, Camry <b>Mahindra:</b> Verito <b>Nissan:</b> Sunny <b>Renault:</b> Scala, Fluence <b>VW:</b> Vento, Passat, Jetta <b>Ford:</b> Fiesta, Fieta Classic <b>Fiat:</b> Linea	<b>Hindustan Motors:</b> Ambassador
SUV/MUV	<b>Tata:</b> Sumo, Safari, Aria <b>Maruti-Suzuki:</b> Ertiga, Grand Vitara <b>Hyundai:</b> Santa Fe <b>Honda:</b> CR-V <b>Toyota:</b> Fortunner <b>Mahindra:</b> Bolero, Scorpio, Quanto, Xylo, XUV500 <b>Nissan:</b> Evalia <b>Renault:</b> Duster <b>VW:</b> Touareg <b>Ford:</b> Eco Sport, Endeavour	Maruti-Suzuki Omni

Source: Author observation based on model data available from companies' sites

### Marketing Intermediaries

Marketing intermediaries; often making the marketing channel act as a vital link between the final consumers and customers. A marketing channel is a group of individuals and organizations that direct the flow of products from producers to customers within supply chain (Pride et al, 2010). The company's wholesalers, retailers, advertising agencies, media and consulting firms etc. comes under this category. As these play a vital role in final delivery of product to consumers; the company must be very careful while selecting these intermediaries. A wrong selection could harm the company's prospects in a severely bad way and this could adversely affect the long term business of organization. Depending upon the specific structure the market intermediary can be of different types. Usually as industrial products are used by lesser number of customers than consumer products, so the use of marketing channels in industrial products is very limited. Depending upon the number of intermediaries between the manufacturer and direct consumer, the overall process has been characterized. In order to make the consistent feeling of quality and customer friendly approach, manufacturer must take into account the responsibility of intermediaries. For this the continuous monitoring and motivation of the parties is required. Following table 2 shows some of the motivational considerations for different types of channel partners (McCalley, 1996).

Table 2: Motivational Considerations for Channel Members

For Wholesalers	For Retailers	For End-Product Users
Profit	Product availability	Product Utility
Credit & Terms	Profit	Value received
Marketing programs	Credit & Terms	Credit & Terms
Competitiveness	Marketing programs	Retailer Service
Policies	Competitiveness	Product Info.
Training	Training	Guarantees
Legal & regulatory	Legal & regulatory	Legal & regulatory

Source: McCalley, R.W. (1996)

In the context of Indian automobile industry, there are three parties involved in the two-step transaction process. Manufacturer makes the cars and through the dealerships the cars are sold to customers. There is only one intermediary

that connects the manufacturer to customer and hence is significantly important for the manufacturers. In fact large dealership network provides the convenience to the car customers and hence is one of the sources of competitive edge. One of the main reasons behind the success of Maruti-Suzuki in India is its largest dealership network that has been spread far and wide throughout the Indian Territory. By having the largest dealership network company has been able to get the sales from the most remote parts of the country including the villages and small towns. In fact expansion of the dealerships has become one of the most important emphases of many new automobile companies who entered late in Indian market.

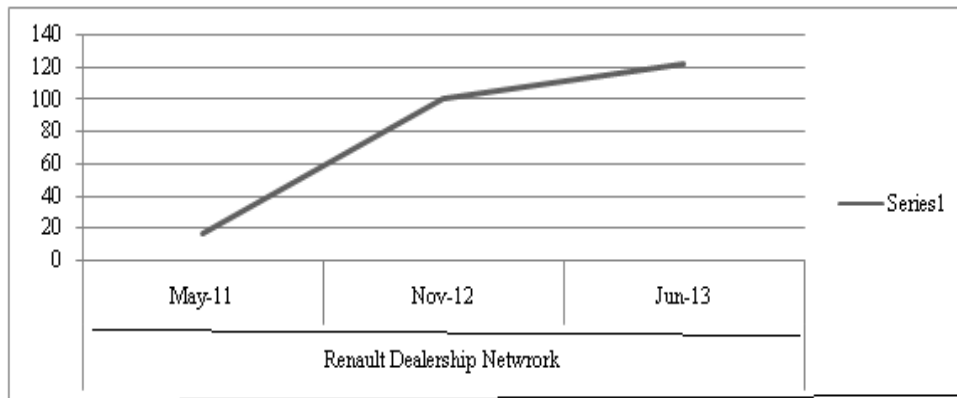
Renault; one such auto makers made its solo entry in Indian market in May 2011 with 16 dealerships. That number rose to 75 in November 2012 and now Renault operates through the network of 122 facilities across the India (Renault India). Table 3 given below shows the dealership revamp strategy Renault has adopted after its foray into Indian market on its own.

**Table 3: Dealership Expansion Drive of Renault**

Renault Dealership Network		
May-11	Nov-12	Jun-13
16	100	122

Source: Renault India Private Ltd (2012)

Pictorially this growth rate has been shown through figure 4 that clearly emphasizes the focus on the company to build on a strong dealership network across the country.



Source: Renault India Private Ltd (2012)

**Figure 4: Dealership Growth of Renault India**

All these four parameters need to be continuously scanned and carefully monitored to make the strategic focus clear and precise. In fact these market-focused components play an important role in long term sustainability of bot customer as well as business of an automobile organization.

**CONCEPTUAL FRAMEWORK**

The underlying linkages of this conceptual model trace their path to the important aspects of competitors, customers and business partners (supplier and distributors) of automobile companies. As the suppliers and partners are prerequisites for long term success of any auto-company, there addition to the model helps to fill the void of service and quality gap which otherwise often left in the overall scheme of consideration. Therefore from market orientation we use the components of competitor, customers, dealership and suppliers. These four dimensions are crucial for successful retention of customers in auto industry though we are not ruling out the addition of some of the other aspects in this model in near future



Strategic flexibility has to take into considerations the inputs provided by these critical four dimensions and along with this there is another important need to be have the various options on both reactive and proactive front. While reactive options hedge the organization against any devastating change happening in the market place, proactive aspect helps the company to leverage the opportunities by their early detection. Further the feedback loop has been added to ensure that a proper flow of communication as well as interaction must follow throughout the process. Figure 5 given below represents the conceptual framework based on the insights from the market focused aspects.

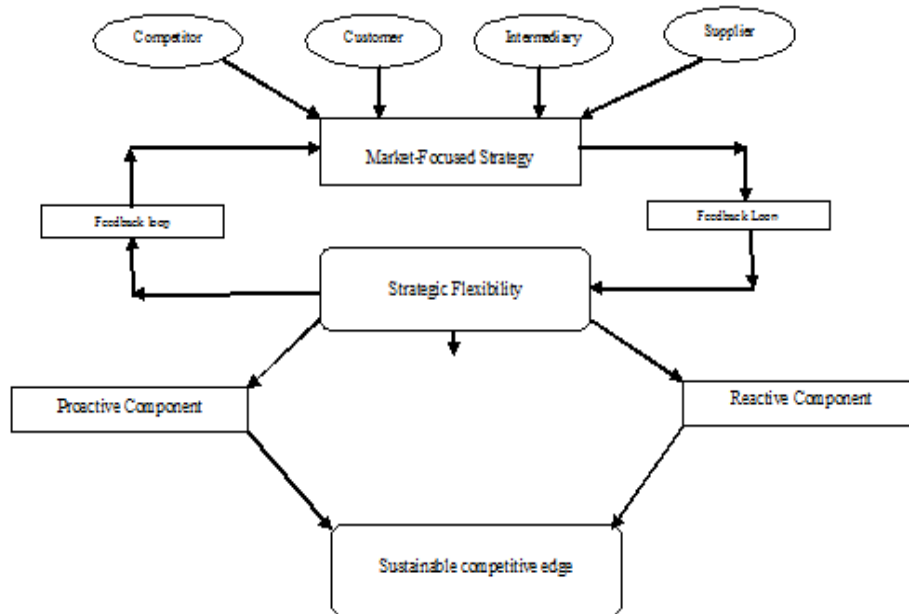


Figure 5: Conceptual Framework

**DISCUSSIONS & CONCLUSIONS**

Implications and complexities of environmental changes have necessitated the use of flexibility in every aspect of organization. Further the incorporation of flexibility in strategic domain is even more necessary as these decisions take place in almost unforeseeable conditions. By incorporating the flexibility aspect equips the organization to approach the unfolding future via both the ways; proactive and reactive. Following are the guidelines incorporation of these will be helpful in proving their worth in short as well as long term future for strategy makers of automobile companies.

- By continuous feedback on the customer front will enable the company to remain ahead in getting first hand acquaintance with the future needs and by incorporating that needs-solutions organization has fair chance of retaining its competitive edge. Similarly the proactive part of virtue of strategy helps the organization to keep a strict vigil not only on the competitors’ development activities but also on the potential threats of alternative technology challenges.
- Similarly the focus on the another market aspect that relates to micro elements of suppliers and marketing intermediary will help the organization in dealing with business and tactical contingencies in addition to their long term strategic impact company’s quality and service. Suppliers role is not only limited to just providing the raw material input but actually to partner the organization in achieving its commitments on one of the important aspect of quality. The market focused organizations quickly makes the desired changed and even going out of the way in order to makes its relation with supplier to a new high. Market focused organizations no longer treat them like external factor but suppliers are very much the part of their overall strategic vision of the company.

- Strategic decisions then must be made on the crucial aspects of these four components primarily as these have significant impact on the long run performance on the company. The strategy must be flexible to quickly include or phase out the pre-proposed actions and that too with a clear eye on the long term vision of the company.
- Another important lesson that automobile companies have to learn that results of these specific dimensions detail will take their own time to trickle down to various levels in organization. A hastening approach or short term rewards must be forgo in order to reap the long term benefits associated with the organization. Further this whole approach need to be integrated across the organization rather than limiting its scope only to marketing and intelligence department.

## LIMITATIONS & FUTURE RESEARCH

The research has its limitation in terms of being limited to the conceptual model only. The model proposed needs to undergo empirical testing and then the linkages as well as value of each factor will be ascertained. A questionnaire aimed to determine the linkages and their relation has been on the developmental stage. This survey form will be filled both from both the organization as well as prospective audience. The feedback will be then tested empirically with factor analysis and structure equation modelling to find out the crucial attributes under the market focused dimensions will affect the auto companies more and by what weightage each of these factors is responsible for the change. After that the usability of this model will be much more than now and its recommendation will also have wide scope of implementation.

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