

Market, Demand Segments and Demand Bubbles

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Abstract

In scarcity markets, corporations use to consider the overall market demand as a group of homogeneous buyers. In controlled competition markets, companies stimulate non homogenous demand reactions to competitive supplies, by segmenting market demand. In over-supply markets, where instability is a key aspect in the supply-demand relationship, corporations activate demand bubbles, i.e. temporary client aggregation that is caused by the innovative supply configuration issued by a company.

To create demand bubbles companies must have strong relationships with their stakeholders, and must invest in an advanced intangible assets system. Demand bubbles are the advanced reply to segmentation limits and are generated to grant temporary monopolistic competition conditions to corporations who create them.

Keywords: Market Demand; Demand Bubble; Global Competition; Over-Supply; Segmentation; Intangible Assets

1. Market-Driven Management: Competition, Demand and Product in Corporate Performance

Managerial economics presupposes the development of various types of relationships with a wide range of parties: investors, institutions, employees, customers, partners, competitors, etc. These relationships are developed, first and foremost, at a local level, i.e. with stakeholders who operate in the firm's geographical vicinity. Following that, and where necessary, these relations can then be extended to broader geographical contexts in a search for opportunities which are either scarce or lacking in the immediate proximity.

Prior to the 'digital revolution', i.e. before globalisation modified in such a radical way the systems of relationships between people and organisations at a global level, the criteria of physical vicinity was one of the key factors in guiding corporate management and localisation. With the reduced importance of most boundaries: geographical, physical, linguistic, currency, tax, cultural,

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administrative, etc., the flows of information, communications, goods and financing were able to spread virtually –and in most cases physically too– around the planet. As such, geographical vicinity is no more the critical factor in corporate life. Then so-called *market-space competition* was established, or in other words, a competitive approach in which space moves from being classified as a limit, and becomes an opportunity for all of those companies which best know how to use it¹.

Market globalisation has highlighted some particularly important aspects for corporate life. First and foremost, stakeholders are no longer solely in the geographical vicinity of the firm. This is because, on the one hand, every firm tends to be organised along a network-style format and the physical collocation of each node in the network is not binding and static. On the other the opportunities for global comparison require the development of relationships with stakeholders who may be very distant, from a geographical point of view. Secondly, firms are developing relationships with a wide number and variety of heterogeneous parties.

The increase in corporate relations opportunities made possible by globalisation, is also accompanied by their acceleration or, in other words, a different way of interpreting the timings *of and in* corporate processes. Thus, time, from being an exogenous element in respect to corporate life, the same for every firm, thanks to the globalisation of relationships and the spread of modern digital communication technologies, has become a critical competition variable. Each firm chooses whether and how to accelerate its own processes, when to activate them and define their relative duration, from a competitive viewpoint (*time-based competition*)².

Time-based competition and *market-space management* are consequently two factors of evolution imposed on today's firms by global markets and which constitute fundamental elements in Market-Driven Management. Indeed, firms can follow this direction to global markets or give up the competitive control by distancing themselves from competition governance circuits entering the residual competitive space of global companies. This seriously prejudices their prospects of survival, as happens every day in every sector for those firms which are unable to keep up with the pace of global markets.

□ *Compare the Swedish company IKEA, which has been able to develop a global business, with the furniture business system in Brianza, (Italy) which, although in the past proposed quality Italian style products, which were prized worldwide, did not manage to use its competitive edge to its advantage by adapting to the global markets dynamics.*

And the Italian silk system too, centred in the Como area, highly renowned for its quality of thread, weave, print and design, has been supplanted by the global competitive capabilities of Chinese silk.

In jewellery and goldsmithery, Italian firms, traditionally big and well-known exporters of both chains and jewels, nowadays vie with competitors who have bought machinery and know-how in Italy and are able to compete at global level with cost advantage positions.

□ *In the industrial beer sector in Italy, the traditional Italian brands (such as Moretti, Peroni, Nastro Azzurro, Ichnusa, Pedavena, etc.) have*

been acquired by multinational companies, whilst brands which multinationals decided to abandon, such as Pedavena, have the opportunity, eventually, of occupying interstitial spaces in the market.

In global markets, firms therefore have to adopt a market-driven approach (market-driven management) which – in substance – translates into the ability to know the market, the operators working in it, their key characteristics, products, etc., and then be able to choose a path of action³. A market-driven approach is therefore different to marketing: market-driven firms put cognitive input concerning competition ahead of knowledge about demand requirements, whether marketing does the opposite, focusing management on demand issues. Therefore the actions of market-driven firms are based on an anticipatory capability compared to competitors, thanks to better and swifter knowledge of the dynamics acting in an enlarged competition space (*market-space competition*)⁴.

Market-driven companies therefore establish relationships with the market on three levels: competition, demand and product. Competition, demand and product are thus, in that order, the critical-factors of reference for every strategic and operative choice of market-driven companies in global markets. The supply innovation processes of market-driven companies, for instance, are not determined either solely by higher technical capability of the supply firm (*push innovation*), or solely by requirements shown by demand (*pull innovation*), but depend on a complex process which tends to merge elements of both, one and the other. As such, the choice to introduce innovation depends, above all, on the system of global competitive advantages and effects that may derive from this choice, hence upon the potential reaction of the demand and, in the final analysis, on the impact that such an action may have on the product (*market innovation*).

Market-driven management therefore tends to reformulate the traditional market approach process which became commonplace among companies with the development of marketing management. Indeed, marketing management advocates knowledge of demand as a presupposition for competitive development actions on the market, with the proposal of a product capable of satisfying definite expectations and suitable in order to guarantee that a company enjoys a competitive advantage.

From a marketing management viewpoint then, companies must refer first of all to demand, then to the product, and consequently, to competition. On the other hand, from a market-driven management viewpoint, market orientation is above all 'competitive', in that it presupposes that, above all, a company focuses on competition (market-space), and then combines demand and product dimensions.

1.1 Product-Driven Management. Stable Market and Homogeneous Demand

Some extremely heterogeneous situations therefore coexist in global markets, i.e. varied systems of relationships, with numerous parties both near and far (physical and competitive distance). From a competitive viewpoint, there are sectors to be found in global markets which experience quite different competition conditions, which - in a first approximation - can be distinguished in conditions of: *scarcity of*

supply with respect to demand; controlled competition, characterised by a state of *dynamic equilibrium between supply and demand* and *over-supply*.

The diversity of competitive conditions, contrary to what happens in classical and neoclassical economic models, does not rest on the numerousness of supply companies, but on the competitive intensity⁵ which develops between firms. In actual fact, classical economic models, identify competition conditions of monopoly, oligopoly and pure and monopolistic competition on the basis of some key principles and in particular: physical closure of the reference context (e.g. the monopoly on salt in Italy) and numerousness of supply companies (one sole supplier in a monopoly, a few suppliers in an oligopoly, many suppliers in competition).

In these models, the system of relations a firm is involved in is of no importance. Nor is it important that today's global company can no longer be described by the traditional canons of a "monolithic" company from the times of the industrial revolution, but is structured as a network (thanks to relationships which are entirely, partially, or only temporarily owned) with varied and variable localisations of the individual nodes which go to make up the network.

From a perspective of global managerial economics, therefore, the type of competition dominant in a given market it is not explained so much by the numerousness of the companies present on that market, as by the system of relations (competitive and partnership) that develop between the companies in a competitive market-space⁶.

Therefore, the different competitive conditions of markets, or rather, their different intensity of competition, can be explained by the reciprocal relevance of competitor actions, and also by the stability and relevance of the relationships which each company develops within its own chain of network relations.

Thus, few sectors nowadays manage to introduce conditions of isolation from competition - thanks to the availability of unique skills and competencies, the development of specific agreements or, simply, because they hold specific authorisation. This is the case in sectors of high-level innovation, for as long as the 'novelty value' of their products does not wear off (for example, the pharmaceutical sector⁷, or high-technology products, where innovation can be protected from competitive imitation). It is also the case of markets where characteristic resources are controlled by few companies (for example oil product sector) or even the case of firms operating in conditions of monopoly, defended from competition by the presence of a precise concession over a defined local market.

The *scarcity condition* – i.e. the opposite of consumption saturation⁸ – shows an indirect type of competition (i.e. between different product classes targeted at satisfying the same type of need⁹), because of the supply shortage and the substantial lack of alternatives.

The main corporate business activity in these competitive conditions is production, in which resources are concentrated. Governance of the quantities supplied and sales price, and therefore of production capacity, allow firms to maintain acquired competitive positions.

□ *In the oil producing sector, the ability to govern the quantities produced – and therefore sold – on the market allows dealers to retain a dominant position, determining the sale price at a global level; for markets in the initial stages of competition; on the other hand, market conditions of non saturation stimulate the development of production capacity and lead to the achievement of scale and learning economies which allow companies to confirm the competitive position reached.*

Distribution activity is carried out mainly by owned facilities or parties operating under exclusive rights and, in any case, involve operators who take a passive role in any negotiation process.

Distributor remuneration is defined by the producer, who fixes the transfer price to distribution and sale price for the final purchaser.

Production and consumption of goods, usually developed locally, tend to be very close, and also allow interpersonal relations at the time of final transaction.

In practice, in *scarcity economies*, supply not only governs demand by determining the quantities produced and therefore sold, but it also has all the necessary knowledge to plan future activity. All the production is placed on the market, at the price defined by the producer and, usually, no supplies of finished product are accumulated. On the other hand, from a purchasing point of view, a correct inventory policy has to be set up to avoid any interruption in production processes. With respect to these processes, large investments are deployed into very rigid production structures, in order to obtain large scale and learning economies.

Under such competitive conditions, a corporate information system tends to coincide with the internal accounting system, according to an information management model of the *inside-in* type, characterised by collection and processing of mainly internal information and by an internal projection of the results of this processing. In this model the corporate phenomena are carefully monitored and governed to continue to feed an ‘inward-looking’ corporate system in a quest for continual improvement of internal performance parameters. First and foremost among these is the contribution margin, which constitutes the basic-indicator of the corporate capability to maintain its own business.

The great importance of the production function in achieving business results, requires that very precise records be kept, not only of all the information relating to the process of purchasing, production and invoicing (moreover, normally provided for and required by any legislation in force) but also requires that a detailed information system be developed, pertaining specifically to production activity. The entrepreneur must have a deep knowledge of the relationship between investments and the financial return on the machinery installed, and also must be able to maximise his structure potential. That is why, alongside basic accounting systems, firms operating in scarcity conditions tend to develop very detailed technical reports, which constitute a key-tool in production planning.

From a trade point of view, the main feature of a *scarcity economy* consists therefore in an absence of finished product stock. This situation, however, is not just an effect of the shortage of supply and the lack of alternatives to choose from, so much as the result of the capacity of entrepreneurs to create a sufficient quantity

of supplies and maintain this level under careful control, thereby satisfying a demand for which the main characteristics and needs are known.

In markets where *scarcity conditions* exist, there are, however, some entrepreneurs who are not able to guarantee the survival of their business, notwithstanding the apparent availability of demand to absorb any supply. Even in *scarcity economies* it is indispensable to create quality supplies and know the reference market (demand above all, but also competition). The answer to this need for information comes, therefore, not only from a detailed knowledge of the technical production data, but also from the maximisation of plant productivity in the light of a knowledge of demand, such as that which can be obtained from the basic forms of market research.

Regardless of how far it is from saturation levels, demand must in fact be analysed, to organise a production which is coherent with purchase and consumption capabilities. Ford's behaviour at the beginning of the 1900's was exemplary in this, when he identified a price of sale that was acceptable to a large number of purchasers, so transforming the car from an elitist product, with high purchase and running costs, into a mass product. This result was achieved thanks to developments made to production line manufacturing which made it possible to not only produce far more cars in the same period of time compared to other manufacturers (still anchored to practically hand-built type production), but to also lower the unit production cost, thus offering the market a sale price which made the car attractive even to a middle income bracket. The transformation of the car into a mass product, however, also brought about some important developments in the mechanical quality of the actual product itself, allowing purchasers to use it with sustainable running costs¹⁰.

Therefore, the acquisition of external data about demand is aimed at orientating management on investment choices in production and, together with internal data, constitutes a type of corporate information system which nowadays would be defined as elementary¹¹. This information system is far from elementary, given the quantity of internal data, mainly of a technical type, which it has to be able to collect and manage. However, it may appear to be elementary when compared with the one normally put in place in competitive conditions characterised by high competition intensity where the amount of data and processing to be done is constantly growing¹².

In particular, in *markets with supply scarcity*, high complexity factors characterise the corporate information system, and are found above all in processes linked to maintaining supply shortage conditions. Perhaps it can be said that, in these competitive conditions, the corporate information system, more than elementary is concentrated, i.e. it tends to focus all collection and information management efforts in relation to a specific business area, being able, thanks to the particular conditions present in the market, to disregard other aspects.

In *scarcity condition*, from the company's business point of view, demand can be considered an homogeneous aggregate – i.e. where the component parties do not count as single individuals but rather all together, as an aggregate made up of purchasers willing to buy an undifferentiated product displaying uniform behaviour. Obviously the parties comprising the demand group are anything but undifferentiated one from the other.

However, as they respond homogeneously, by purchasing the limited alternatives of choice proposed by suppliers, clients constitute a group with respect to which the firm needs an in-depth knowledge of the primary structures (for example relating to numerosness, geographical distribution or sex, etc.). For management purposes, information of a socio-demographic nature, collected periodically by public authorities (like data from a census) that can be adequately processed by the corporate information system and cross-referenced with internal sales data will suffice. The conditions of substantial stability which characterise the action of firms and the market response (demand and competition) allow supply to base its own strategies and policies on the assumption of demand behaviour repetitiveness: the guideline-criterion is that in the overall aggregate of demand there will always be somebody who will buy the final product.

2. Marketing and Demand Segmentation

In global markets, alongside those sectors which are able to maintain stable conditions of scarcity of supply, there are sectors with higher levels of competition. This is what happens, for example, in some Western countries like Italy, with banks or insurance companies, or on a global level, with the cigarette market and also for the industrial beer market. These sectors face with a more complex state of competition than scarcity economies and can be said to operate in markets characterised by conditions of *dynamic equilibrium between supply and demand*.

Compared to scarcity economies, *economies in dynamic equilibrium between supply and demand* exhibit a supply system composed of numerous organisations, with a fairly high overall market concentration. In practice, in these economies, there are some companies which control significant market share vying with smaller firms with less capability to withstand competitive confrontation, and which instead operate in specific business areas with limited expansion potential. On the whole, competitive intensity in *markets in dynamic equilibrium between supply and demand* is higher than markets with conditions of supply shortage. There exist numerous choices on the market to satisfy one same need, through recourse to the same product class. For example, a current account at a bank may be an alternative to a current account at another bank with, on the whole, very similar conditions. The same can be said for the insurance sector, where the same basic-service is offered by a range of firms, with conditions which are for the most part similar. As an alternative to a brand of cigarettes or an industrial beer there are several others brands available to which demand associates differentiated perceptions.

Competition therefore develops between non-homogeneous competitors. A few big competitors with high market share drive market choice, whilst numerous smaller sized dealers find a space in which to act, and which they can make their own, thanks to the limited appeal it holds for the big companies. Direct competition, therefore, does not assume there are identical competitive capabilities, analogous economies, nor the same revenue capabilities on the part of the supply companies firms.

Apart from market share, another aspect which distinguishes supply companies operating in *markets in dynamic equilibrium between supply and demand*, from one another, can be identified in the geographical space over which corporate business extends. Alongside companies which only operate on a local level (for example rural cooperative banks) there are companies operating at national level and others still which alongside the national market also do business on international and global markets¹³.

Markets in *conditions of dynamic equilibrium between supply and demand* have historically coincided¹⁴ with economies characterised by a *welfare state*, i.e. those where a model of very consistent state intervention in the economy has prevailed, aimed at the development of businesses, and able to ensure a growing state of well-being within a community associated to a specific physical, political and administrative territory.

Support for the companies operating in a territory is motivated by the intention to control competitive phenomena which could undermine the social, economic and political stability of the very territory itself. Increased protection of companies means greater protection of their competitiveness, hence maintaining employment levels, less social hardship, greater political continuity. However, safeguarding the competitiveness of firms obtained through state intervention imposes completely contrived limitations and simplifications in an economic system; the costs of which sooner or later become unsustainable.

When *welfare state* conditions dominate, firms are subsidised by the state but protected from external competition through the introduction of duties, regulations and limits which ration spaces for foreign competitors. In fact, not only does the state sustain and protect its own firms on national territory, but it also supports them in the internationalisation process, facilitating their access into foreign markets.

The credit sector and insurance sector in Italy¹⁵, in particular, whilst no longer protected by the state as they were in the past, do still have some typical connotations of companies operating in markets protected by the *welfare state*. The case of products for the 'smoking' sector, on the other hand, is different. It does have, in any case, specific characteristics with respect to which the role of the state (for example in the determination of the level of taxation, which influences the sales price) is anything but negligible. In *markets in dynamic equilibrium*, the presence of numerous choices for the satisfaction of one same need, all with the same function of use and belonging to the same product class, determines direct confrontation between competitors. 'Dynamic equilibrium between supply and demand', however, also means markets in conditions of substantial demand saturation which are - dynamically - apt to emphasise conditions of tendential rapid saturation. The result is that companies have to invest in the commercial activities, to achieve a demand which is not so far from saturation and unable to absorb all the quantities produced. This then is precisely the time when the function orientated at supply-demand re-equilibrium in companies becomes of key importance in order to guarantee the sale of all the quantities produced.

In *scarcity economies*, all the quantities produced are also sold, given the structural need for goods by demand, whilst in *economies in dynamic equilibrium between supply and demand*, the dynamism of the supply-demand relationship

works in such a way that, of the quantities produced, the greater part are sold and the smaller part are unsold, but are sellable with promotional policies for consumers.

The competitive conditions described lead companies, on the one hand, to search for new customers, by offering ever more complete services; and on the other, towards the intensification of their relationship with customers, by proposing variously expressed supply profiles with far reaching coverage, so as to reduce entry space for competitors to a minimum. In these competitive conditions *non-price competition* is strong, in other words a competition system which moves comparison from price, a fundamental competition tool in economies of scarcity, to other parameters of action. Thus brand is affirmed, the first element of differentiation of corporate supply, then quality, design, pre and post sales services etc. In *economies of dynamic supply-demand equilibrium*, characterised by direct confrontation between alternative supplies, confrontation fades from price into other variables¹⁶. Demand, with the availability of different choices in the same product class, can refine its own capacity to compare and is able to attribute a significant weight in its own choice processes to variables other than price. Brand, style, design, proximity of sales point, etc. are important factors in the choice process and unite with the tangible factors traditionally considered as key-factors in discriminating between alternative supplies. With reference to the marketing of cigarettes, for example, the brand and the perceptions that different demand segments associate to it, are able to explain the quite significant differentials in market share (by volume and value).

The presence of alternatives therefore allows demand to show its own capability to choose and to emphasise the non-homogeneity which characterises it, bringing to light the different reactivity of the individual subjects to the use of trade and marketing levers. Companies take this into consideration and, through the reasoned use of differentiation, learn to understand demand, quali-quantifying the non-homogeneity of response to trade stimuli.

The process of demand segmentation allows firms to organise the non-homogeneity revealed, in a quest for conditions of homogeneity upon which to focus their own marketing actions.

Corporate information systems, in particular, also enlarge their area of intervention to include a methodical study of demand. Alongside the internal accounting system, always of fundamental importance in guiding corporate choice economy, a market research system is developed continuously and rationally (with the aim of describing the main critical factors which are external to the company: in first place demand, but also distribution and competition). This is further supported in bigger and more market-driven firms by a marketing research system (for surveying the reactivity of the market to the marketing levers implemented by firms).

Contrary to what happens in *scarcity economies*, the information system does not coincide with the only internal accounting system, but extends its area of intervention into corporate decision support and aims to support demand analysis activities which constitute the basis for strategic marketing. However, the information system is also expected to provide rapid and well-timed answers about

corporate results obtained on the market, so as to guide so-called operational marketing.

The information management model typical of *economies in dynamic supply-demand equilibrium* is characterised by an *inside-out* type approach. Consequently, management performance parameters cannot be reduced to margins –in particular to the contribution margin– but must also consider the effect of corporate choices on the market. In addition to margins, a parameter of internal performance, in *economies in dynamic supply-demand equilibrium* the use of market share is thus affirmed, a parameter which allows external comparison and explains corporate performance on the market related to the reference competition system in a given time and in a defined market.

3. Unstable Markets and Demand Bubbles

In global markets, the sectors of the economy which experience conditions of high competitive intensity are very numerous. This is what happens for mass consumption goods, for fashion accessories, for household appliances, housing, furnishings, for some classes of pharmaceutical products, etc. In practice, the quantities and quality of products offered on the market are clearly higher than the quantities and quality absorbable by demand. This situation of *over-supply* is characterised by the presence of saturated demand and, no matter how much it is stimulated to consume and increase its consumption levels, one without significant opportunity to increase purchases and consumption.

In actual fact, *over-supply economies* are characterised by modest growth rates, with respect to which the manoeuvres of governments for the reduction of taxation and support to family consumption assume central importance (consumer credit facilities, tax relief on direct taxation, etc.); however the effect of these actions is always temporary and very expensive for the community implementing them.

The merging processes of companies over the last decades have given life to economic systems in which, at a global level, a few big suppliers fight one another all over the planet, in search of more open spaces for action, i.e. featuring greater growth rates and able to support business which would, otherwise, be stationary. This is expansion in developing countries, entry into ‘new’ regions like the ex Soviet Union and China, with the intention of exploiting for a while the potential for purchase and development of populations with consumer needs still to be saturated.

The condition of *over-supply* is typically associated with ‘advanced’ stages of competition¹⁷ and in particular, markets where the ambit of companies’ development goes from international to global. The great reduction in communication times, the drop in importance of physical boundaries and, more gradually, political ones, in the spreading of information and communication, the greater opportunities for people and goods to move have, in fact, favoured the development of global markets, and companies have immediately adapted to this in the competitive race; a race which has rendered corporate survival subordinate to a capacity for continual growth on the markets.

Indicated growth has an important reference point in competitive relations. In first place, because competitors become a term of comparison to determine the amount of growth necessary for each business. In second place, because the development of competitive relations for many companies becomes one of the possible ways to expand rapidly at a limited cost. As regards the first aspect, it can be affirmed that the critical mass of a business is, actually, determined by comparison between companies operating in each sector. It is difficult to be competitive at a global level with large global companies without the availability of resources (financial, human and experience) to face up to large competitors. Hence the mergers and acquisitions which - at first - predominantly involved big companies chasing small 'minnows' to buy up and dominate whilst - at a later stage - they took shape in the acquisition of large companies with significant problems managing the new organizations that had been put in place¹⁸.

Alongside the mergers and acquisitions, global markets also witnessed 'intermediate' practices involving horizontal relations with competitors become established - so-called 'competitive alliances' - on the basis of which some competitors chose to share some activities (for example research, development, production, marketing, etc.) to minimise efforts which were otherwise too much for the companies involved. With such initiatives, it is possible to share risks and costs for activities with low innovation content and instead concentrate resources in more critical activities for competitive confrontation¹⁹.

In this context, communication has taken on a central role in companies, becoming the critical corporate function. In actual fact, the dynamics of competitive confrontation, developed in markets in which the spread of information and communication technologies has accelerated, have heightened the criticality of communication processes as regards both the capabilities of firms to acquire information on the market, and as regards the possibility of disseminating information flows to the various stakeholders in question. In relation to the first aspect, corporate information systems in oversupply economies are well developed, in order to govern complex businesses where competition is based on time (time-based competition) and in respect of which space does not constitute a constraint but a potential opportunity (market-space competition).

In particular, the corporate information system in *over-supply markets* features an *outside-in* type of approach to the information, in turn characterised by the capability of acquiring from the market the elements and knowledge models necessary to guide the business. An *outside-in* approach foresees that the collection of information and signals be carried out on the inside and outside of the firm and that inside the firm, the dissemination of market knowledge sharing models be preferred, in line with a market-driven approach, to circulate the elements necessary for the development of a competitive orientation of companies towards the market. To this end, the measurement of corporate performance becomes more complex, precisely to give relevance to variables such as time and space in the relationship with the market. The introduction of rotation indices alongside contribution margins and market share thus integrates the resource of internal accounting with elements which are able to explain the role of space and time in the achievement of corporate result.

Critical information for business comes then, first of all, from a well structured system of internal accounting and one which is able to provide feedback quickly and according to flexible patterns of aggregation/disaggregation of information. In second place, the market and marketing research system is further strengthened (compared to what happens in markets in dynamic equilibrium between supply and demand) and is activated rapidly, not only for traditional descriptive purposes of the main phenomena and variables of interest to the business, but also by signals from other subsystems, for the purpose of explaining and discovering trends and phenomena that may be significant for the corporate result. The market and marketing research system thus finds a stimulus in the intelligence system to activate a great deal of research to complete the information reports which emerge from a continuous monitoring action of the economic environment. The intelligence framework, however, does not exclusively concern the market information collection front, but also pertains in great measure to the development of the communication flows and processes. Communication is a critical function in *over-supply markets* and time is a key-variable in competitive confrontation. Consequently, large resources have to be invested in the time-based governance of the information and the capability of competing on global markets. Thus intelligence is activated both as an offensive tool (research for critical information on competitors to respond to their actions or stay one step ahead on the market), but also defensively (i.e. in the search for the conditions to govern the transmitted information flows, to avoid that these might be distorted by the actions of external parties, with contrasting or not coinciding aims). Intelligence activities of the defensive type are developed precisely in relation to the actual increase in importance of the communication on global markets and relate to the management of the risks associated with every form of visibility of corporate activity on the markets, characterised by the presence of big competitors with a strong capability to govern information and communication.

The great importance of communication for firms in conditions of *over-supply* derives from the very nature of the relationship between supply and demand in saturated markets. In these competitive conditions, in fact, demand is stimulated to purchase by multiple supplies and can acquire a critical capability to choose between either the most advantageous supplies, or simply the most suitable for each specific requirement. The tangible components of supply are important in the choice process, but they tend to be flanked, with increasing appreciation from demand, by intangible components too. In the purchase of a car, nowadays, the technical characteristics of the product alone are not all that counts (in respect to which, in any case, not many purchasers are expert) but also and above all the set of guarantees and other intangible elements which are associated with the tangible supply. The brand, in the first place, which guarantees the responsibility of a manufacturer of global renown; then design which makes the product different; terms of payment which radically differentiate one supply offer from that of a competitor, making one accessible and the other inaccessible; and time- or kilometre-related guarantees which, more than any other incentive, are able to highlight the credibility of a proposed supply, etc. All factors which, in the eyes of the customer, take on a relevance of great importance, so much so as to be able to influence the choice process. For lesser 'involving' classes of product (such as

clothing, accessories, etc.), the colour, design and brand have even more power to attract customers who tend to place less importance on the tangible components of the actual supply.

The sheer extent of supplies present on the markets, and the variability of potential combinations for those factors which characterise them, highlight the instability of *over-supply markets*, with effects on final demand (disloyal, with high reactivity to promotions, 'unpredictable' in many purchase processes and, above all, concerning the 'replaceability' between products and product classes, etc.) and on the system of relations between companies (competitors, partners, etc.). In global markets the only really foreseeable phenomenon is the continuity of change brought about by competitors. The collection of information is therefore aimed at achieving supplies or, better, profiles of supplies, capable of aggregating the preferences of a range of purchasers (demand bubble). 'Demand bubbles identify temporary groupings of purchasers, which may be aggregated on the basis of sharing specific characteristics of a given corporate supply'²⁰. 'Demand bubbles are created and extinguished, starting from a precise, explicitly planned, corporate stimulus which normally takes shape in a corporate supply presented with tangible and intangible features such as to attract the preferences of a group of prospective customers and which is rapidly taken off the market when it is deemed opportune for the bubble to burst'²¹.

The rapidity of development and exploitation of a demand bubble constitutes a market instability management tool. The development and dissolution process of demand bubbles presupposes, however, continual action which appears in the capability to identify - one after another - supply solutions able to attract definite portions of demand. In practice, the corporate information system constitutes one of the basic conditions to achieve demand bubbles²².

The demand bubble creation process overturns the traditional logic of demand segmentation and re-proposes, in a sense, demand approach criteria typical of markets with scarcity of supply. In markets with reduced competition, companies compete with undifferentiated demand and this inevitably happens, given the scarce presence of alternatives. In *over-supply markets*, firms can appear unresponsive to the characteristics of the subjects who buy their products, and show interest solely in the fact that there are subjects willing to buy a determinate supply at a given moment.

From opposing positions (on the one hand the *scarcity economy*, with very restrained competition and conditions of supply stability, demand and competition; on the other the *over-supply economy*, with high competitive intensity and endemic conditions of instability of supply, demand and competition) we then reach an analogous approach, with respect to which, on the whole, the characteristics of demand homogeneity or non-homogeneity are unimportant²³. The reality of *over-supply* and the complexity associated with the planning and creation of demand bubbles, obviously, introduce factors of complexity. As such, it is certainly reductive to think of a demand bubble as a simple aggregate of subjects who purchase, and about whom companies are not interested in knowing anything else. On the contrary, knowledge of demand is pushed to such levels of intensity as to allow the company to gain the information necessary to create the bubble from this 'relationship'. However this is a very different bubble to the one developed for the

purposes of demand segmentation. To segment demand, the firm tries to detail to maximum extent the characteristic connotations of global demand; to create the demand bubble, the company has to choose facilitated routes to knowledge of corporate demand, identifying the subjects and conditions which allow it to acquire the most significant signals quickly²⁴.

With regards to this, it becomes essential to distinguish between final demand and intermediate demand, or to highlight how demand bubbles can be generated both by production and by retailers towards final demand. In the first case, evidently, the role of retailers (intermediate demand) is essential for the development and success of any demand bubble. The aggregation capacity of demand bubbles depends twofold on the availability of the distribution channels to cooperate. Not only is the channel indispensable in order to make the supply profiles physically available in the times and ways established by the company which intends to aggregate a bubble, but it also acts as a go-between for all the information which prior, during and after the bubble is indispensable to the company in order to manage the whole process²⁵. The relationship with the distributor is then an essential link in the creation of demand bubbles, not only as regards the determination of the aggregation of the bubble, but also as regards the time taken for the bubble to 'deflate'²⁶. Demand bubbles can also be created directly by intermediate demand, or by production by means of proprietary distribution channels, thus eliminating from the process a third stakeholder (the independent retailer), capable of diverting resources and results from the set target.

□ *MediaWorld and Metro (large international retailing chains) or Zara create demand bubbles. In particular, Zara, a manufacturer and distributor of clothing and fashion accessories, manages to stimulate the continual entry of public into its points of sale, beyond any traditional seasonality of clothing products, by the constant offer of an assortment of products with a duration of approximately fifteen days.*

The creation of demand bubbles, however, regardless of who is the main creator, involves in a pervasive way all the corporate functions, as it imposes market rhythms not only on production and sales, as would be normal to expect, but also on the area of financial management, and that of external relations for corporate communications and the promotion of corporate supply in a broader sense²⁷. Activation of a demand bubble is, in fact, a prerogative of companies which have known how to establish a system of strong and lasting relationships with all the market players, and in practice, depends on the capacity of firms to develop and invest over time in a solid system of intangible resources. This means that the companies which can activate demand bubbles are in actual fact companies which have established solid market leadership thanks to their capacity to promote a suitable brand equity, a flexible and dynamic information system, and a corporate culture orientated towards the market and expertly disseminated at all levels within the company²⁸.

From the spreading of a competitive market-driven culture, therefore, the capacity is developed for companies to monitor and react to competitive confrontation, as well as the capacity to 'divert' it or anticipate it through an ongoing search for

conditions of isolation from the competition. The creation of demand bubbles searches for islands of 'autonomy' from the competition that allow companies progressive room for manoeuvre. The non-stop quest for new demand bubbles represents then, for the firms operating in *over-supply markets*, an attempt to once again find *pro tempore* the market stability of *scarcity economies* and the segment in the *economies in dynamic equilibrium between supply and demand*. However, the certainty of the change induced by the competitive system makes this instability dynamic in the long-term for *scarcity economies*, in the medium-term for *economies in dynamic equilibrium between supply and demand* and, in the short-term, for *over-supply economies*.

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Notes

¹ See M.E. Garbelli, *Localizzazione produttiva e dinamiche competitive*, Giappichelli, Torino, 2004.

² See E. Rancati, Global Markets and Time-Based Competition, in *Symphonya. Emerging Issues in Management* (www.unimib.it/symphonya), n. 2, 2005.

³ See Market-Driven Management, *Symphonya. Emerging Issues in Management* (www.unimib.it/symphonya), n. 2, 2000-2001.

⁴ See G.S. Day, Market-Driven Winners, *Symphonya. Emerging Issues in Management* (www.unimib.it/symphonya), n. 2, 2000-2001.

⁵ Competitive intensity identifies the interdependency between firms (competitors and partners within a market), i.e. the importance that the development of relationships between partner companies has on the results of the companies involved, as well as the importance that the actions of a competitor assume for the other competitors in the same market. This importance can be explained through recourse to the numerousness and significance of competitive relationships, but also according to the stability and duration of partnership relations: when the performance of a company depends to a great extent on the system of competitive and partnership relations that it develops in the market, a condition of highly-intensive competition can be found. However, when the company shows lesser dependence on the aforesaid system of relations, competition intensity is contained. See M. Corniani, *Sistema informativo aziendale e dinamiche competitive*, Giappichelli, Torino, 2000.

⁶ See Market-Space Management, *Symphonya. Emerging Issues in Management* (www.unimib.it/symphonya), n. 1, 2002.

⁷ See B. Quattrociochi, *Economia e governo del sito produttivo nell'approccio sistemico. Il caso dell'industria farmaceutica*, Cedam, Padova, 2004.

⁸ An excellent example of *shortage economy* competitive condition is mass consumption goods markets, and also the greater part of durable goods targeted at final demand (such as cars, electrical household appliances, etc.) in the period from the start of the 1900's to the 1950's for the Anglo Saxon markets and the 1970's for Italy, see S.M. Brondoni, Comunicazione, risorse invisibili e strategia competitiva d'impresa, *Sinergie*, n. 43-44, 1997.

⁹ For example, the purchase of yet another pair of blue jeans for a young man may be replaced by the purchase of a pair of sunglasses, or a watch, etc. Or, the demand for the replacement of a utility car by a young couple can be made with the purchase of another model or the purchase of a scooter and travel.

¹⁰ The first cars made by producers at the end of the 1800's and early 1900's were prone to the need for continual repairs so requiring an availability of specialised and expensive labour, the cost for which was beyond the reach of large groups of the population.

¹¹ See V. Maggioni, *Il sistema informativo aziendale*, Cedam, Padova, 1983; L. Marchi, *I sistemi informativi aziendali*, Giuffr , Milan, 1993; Y.M. Talvinen, *Information Systems in Marketing. Identifying Opportunities for New Applications*, in *European Journal of Marketing*, n. 1, 1995.

¹² The information system traditionally developed in economies of scarcity appears elementary, in particular, if one considers the historical contextualization of economies of scarcity. In this case, the information system used by firms may in fact be defined as elementary in as far as it does not use complex data and information management technologies, as such technologies make their appearance at the end of the so-called shortage phase for the greater part of sectors in the economy, to then be widely applied and shared in firms only several decades later.

¹³ The choice of geographical area of the market to serve is clearly not casual, but derives from a series of several factors, some of internal origin (like the availability of resources, in particular financial and human) others completely external and contingent (presence of competitors, infrastructural conditions able to protect and give stability to the established business).

¹⁴ The competitive condition of *dynamic supply-demand equilibrium* characterised the markets of the greater part of consumer goods in the period dating from the 1950's to the 1970's in Anglo Saxon countries and from the 1970's to the 1990's in Italy. See S.M. Brondoni, 1997, op. cit.

¹⁵ The national/international scale of business, characteristic of economies in which stable and defined geographical and political boundaries are present, is affirmed and promoted in Italy in the banking and insurance sectors, even in the face of markets which are now global, for a series of reasons:

- the abolition of the greater part of the system's protectionist measures is on the whole still too recent;
- the development, by the firms involved, of processes aimed at the protection of business, partially to replace the state's role.

This latter aspect, in particular, is quite important in explaining the conditions still supporting sectors of the economy which in other countries are by now totally globalised and have moved on to conditions of decidedly higher competitive intensity. These are the procedures that the banking and insurance sectors put in place to raise barriers to prevent customers leaving and to demotivate and reduce their capacity to make comparisons with alternative offers. This set of procedures, obviously, has a double effect: customer retention and discourage entry by foreign competitors; with the final purpose being an attempt to maintain the competitive status quo, through planned reduction of the conditions of non stability which occur in the markets.

¹⁶ In the banking and insurance sectors, for example, it is fairly difficult to go ahead with a price comparison between several alternatives proposed by different banks, precisely in consideration of the rich series of non price variables which are used by firms to put together their supplies. Each package of banking or insurance product services is made up of a plurality of elements in respect to which it is complicated to achieve an effective price comparison. There are too many elements which go beyond price and which are, however, quite significant in determining the purchaser's choice.

¹⁷ The competitive condition of *oversupply* is historically reported as beginning towards the 1970's in the USA and other Anglo Saxon countries, whilst emerging in Italy around the end of the 1990's, at least for a significant number of sectors in the economy. See. S.M. Brondoni, 1997, op. cit.

¹⁸ Consider, for example, the recent mergers and acquisitions in the pharmaceutical sector and the automotive industry too, such as Daimler-Chrysler.

¹⁹ See M.E. Garbelli, cit.

²⁰ See. M. Corniani, *Segmentazione e aggregazione della domanda aziendale*, Giappichelli, Turin, 2004, p. 60.

²¹ Ibid. p. 61.

²² See M. Corniani, Demand Bubble Management, *Symphonya. Emerging Issues in Management* (www.unimib.it/symphonya), n. 1, 2002.

²³ In markets in dynamic supply–demand equilibrium, meanwhile, where companies find it increasingly more difficult to sell products, companies discover the importance of the non-homogeneity of demand compared to the possibility of attracting customers in an organized way. Thus, they introduce demand analysis activities and push efforts to try to understand it in detail, by segmenting it in such a way as to be able to dedicate effective and potential differentiated efforts at different customer segments to induce them to purchase.

²⁴ Regarding the type of information to have available to develop a demand bubble, see. F. Gneccchi, M. Corniani, Demand Bubbles, Virtual Communities and Market Potential, *Symphonya. Emerging Issues in Management* (www.unimib.it/symphonya), n. 2, 2003. In this way, it is possible to interpret the investments made by companies to profile demand through the pervasive use of new technologies and for the development of CRM (Customer Relationship Management) technologies.

²⁵ To this end, consider the role of promoters, dependent on the branded goods companies and widespread, for example, in the killer categories of white and brown electrical goods. These operators are not only responsible for promoting the products of the brand they represent with customers, but they are also key–figures in the transfer of brand and competition information to the parent company. The promoter is present at the POS and knows the distributor's stock - with reference to all the products – he or she sees the work of competing brands in the field and is also able to monitor the results of the private labels. By the same yardstick, as regards mass consumption goods with high rotation, the brand name companies able to do so have given ample space to merchandising initiatives, with the aim, not only of generating traffic at the POSs, but also of being present and monitoring the POS and the competitors competing there.

²⁶ In actual fact, companies and distributors have only partially-coinciding goals where a demand bubble is concerned. Firms have to be certain that the supply profile aimed at aggregating the bubble is available as planned, at the times and in the established ways at the POSs, and at the same time they have to have guarantees about the fact that the supply is taken off the market just as rapidly, once the desired results have been achieved (as it is supposed to be replaced by another supply profile capable of aggregating a new bubble). Distribution, meanwhile, once it has accepted the supply profile at its own POSs, aims to maximise its return per unit of time, and is indifferent to the timing set by the manufacturer. The result is that if the manufacturer wants to close a bubble within a specific time, it might be that distribution will not cooperate in the way and timing useful for this purpose, eventually causing an obstacle to the development of new demand bubbles by the same manufacturer. However, distribution too, after all, is seen as an active subject in the creation of demand bubbles and, because of this, has to monitor - first of all - the efficacy of its own initiatives, possibly even in competition with those of the branded goods companies. As regards collaboration and contrasting relationships between distributors and manufacturers, see F. Gennari, *Category management e vantaggio competitivo*, Giappichelli, Turin, 2004.

²⁷ For an indication of the type of corporate relations necessary for the development of demand bubbles, see M. Corniani, *Segmentazione e aggregazione della domanda aziendale*, Giappichelli, Turin, 2004.

²⁸ See S. M. Brondoni (ed.), *Il sistema delle risorse immateriali d'impresa: cultura d'impresa, sistema informativo e patrimonio di marca*, Giappichelli, Turin, 2004.