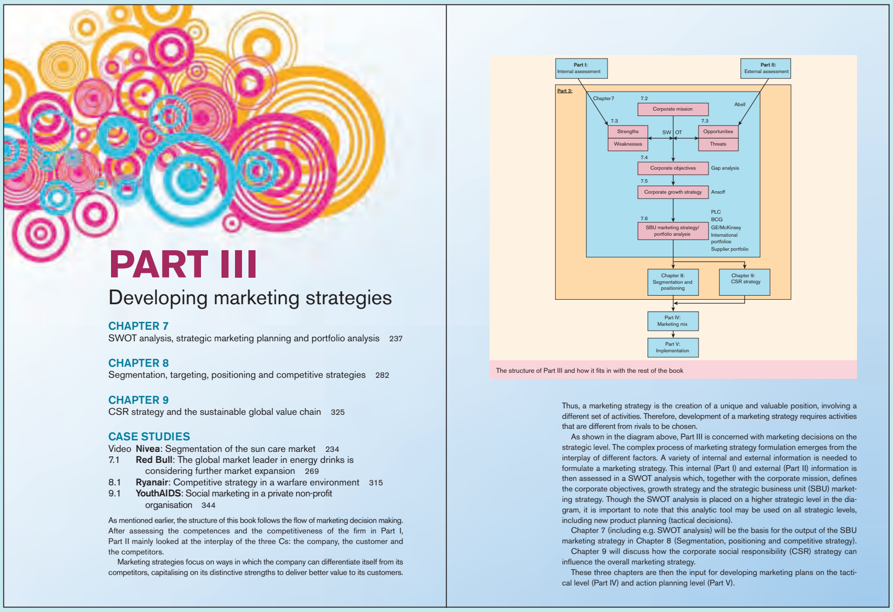
GUIDED TOUR



PART III

Developing marketing strategies

As mentioned earlier, the structure of this book follows the flow of marketing decision making. After assessing the competences and the competitiveness of the firm in Part I, Part II mainly looked at the interplay of the three Cs: the company, the customer and the competitors.

Marketing strategies focus on ways in which the company can differentiate itself from its competitors, capitalising on its distinctive strengths to deliver better value to its customers.

The structure of Part III and how it fits in with the rest of the book

Thus, a marketing strategy is the creation of a unique and valuable position, involving a different set of activities. Therefore, development of a marketing strategy requires activities that are different from rivals to be chosen.

As shown in the diagram above, Part III is concerned with marketing decisions on the strategic level. The complex process of marketing strategy formulation emerges from the interplay of different factors. A variety of internal and external information is needed to formulate a marketing strategy. This internal (Part I) and external (Part II) information is then assessed in a SWOT analysis which, together with the corporate mission, defines the corporate objectives, growth strategy and the strategic business unit (SBU) marketing strategy. Though the SWOT analysis is placed on a higher strategic level in the diagram, it is important to note that this analytic tool may be used on all strategic levels, including new product planning (tactical decisions).

Chapter 7 (including e.g. SWOT analysis) will be the basis for the output of the SBU marketing strategy in Chapter 8 (Segmentation, positioning and competitive strategy).

Chapter 9 will discuss how the corporate social responsibility (CSR) strategy can influence the overall marketing strategy.

These three chapters are then the input for developing marketing plans on the tactical level (Part IV) and action planning level (Part V).

Each **Part Introduction** lists the chapters and case studies within the part and gives an overview of the topics covered. It also includes a structure map that allows you to get a clearer picture of how the part is set out and how it relates to the other sections in the book.

PART I VIDEO CASE STUDY

Tata Nano

Competitiveness of the world's cheapest car

The majority of growth in the global automobile industry in the coming decade will come from emerging economies such as India, China and Eastern Europe. And the largest contribution to growth of the auto market in these countries will be the fast-growing small car segment. The increasing disposable income of the middle-class population is the key driver of the small car market in developing nations. However, in developed regions such as the US and Western Europe, stringent environmental standards are increasing the need for more fuel-efficient cars.

Tata motors

Indian conglomerate Tata Group (www.tata.com) employs nearly 300,000 people in 85 countries. Today the Tata Group is India's largest conglomerate company, with revenues in 2006–07 equivalent to US$28 billion (equal to 3.2 per cent of India's GDP), and a market capitalisation of US$73 billion at the end of 2007. The Tata Group comprises 98 companies in seven business sectors.

One of the companies in the Tata Group is Tata Motors. Tata Motors is gearing up for the global market. Tata Motors, one of India's largest automobile makers, manufactures buses, commercial trucks and tractor-trailers, passenger cars (Indica, Indigo, Safari, Sumo, and the ultra-cheap Nano), light commercial vehicles, and utility vehicles. The company sells its cars primarily in India, but about 20 per cent of sales comes from other Asian countries and Africa, Australia, Europe, the Middle East and South America. In 2008 Tata Motors bought the Jaguar and Land Rover brands from Ford for about $2.3 billion. Tata Motors has a workforce of 22,000 employees working in its three plants and other regional offices across the country.

Tata Motors has a lower than 20 per cent share of the Indian car market and has recently been suffering a sales slump. In 2007 Tata Motor produced 237,343 cars and more than 300,000 buses and trucks. Outside India Tata Motors is selling only a few cars so their international marketing experience is weak.

Tata Motors has some distinct advantages in comparison to other MNC competitors. There is a definite cost advantage as labour cost is 8–9 per cent of sales as against 30–35 per cent of sales in developed economies.

Tata Nano European launch at a Motor Show 2008
Source: © P. Cox/Alamy

Tata Motors has extensive backward and forward linkages and it is strongly interwoven with machine tools and metals sectors from other parts of the Tata Group. There are favourable government polices and regulations to boost the auto industry, e.g. incentives for R&D.

The acquisitions of Jaguar and Land Rover created financial pressure for Tata Motors, with the company stating that it wanted to spend some $1.5 billion over the next four years to expand the facilities manufacturing the luxury brands. In addition to giving Tata a globally recognisable product, the Land Rover and Jaguar deal also gives Tata an entry into the US. Through a deal with Fiat, Tata is already distributing the Italian cars in India and may expand the offering into South America, a Fiat stronghold.

Development of Tata Nano

In 2008 Tata unveiled the Nano, the cheapest car in the world, at the Auto Expo in New Delhi. The car seats five people, gets up to 55 miles to the gallon, and sells for about $2,230. At first the Nano will be sold only in India, but Tata hopes to export them after a few initial years of production; the Nano might be exported to Europe as early as 2012. First shipments to Indian customers are expected in mid-2009.

The alternative for Tata Nano
Source: © B. O'Kane/Alamy

Tata Nano started with the vision of Ratan Tata, chairman of Tata Motors' parent, Tata Group, to create an ultra-low-cost car for a new category of Indian consumer: someone who couldn't afford the $5,000 sticker price of what was then the cheapest car on the market and instead drove his family around on a $1,000 motorcycle. Many drivers in India can only afford motorcycles and it is fairly common to see an Indian family of four on a motorcycle.

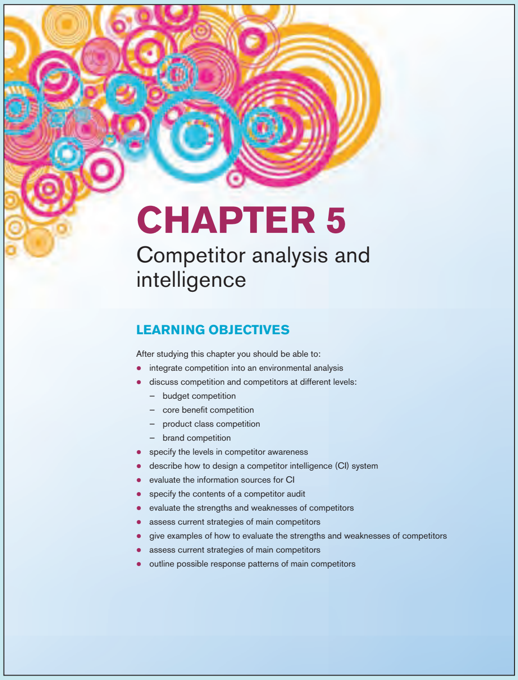
In India alone there are 50 million to 100 million people caught in that automotive chasm. Until now none of the Indian auto-makers have focused on that segment. In that respect, the Nano is a great example of the Blue Ocean Strategy.

The customer was ever-present in the development of the Nano. Tata didn't set the price of the Nano by calculating the cost of production and then adding a margin. Rather, it set $2,500 as the price that it thought customers could pay and then worked back, with the help of partners willing to take on a challenge, to build a $2,500 car that would reward all involved with a small profit.

The Nano engineers and partners didn't simply strip features out of an existing car, the tack Renault took with its Dacia Logan, which sells in India for roughly $10,000. Instead, they looked at their target customers' lives for cost-cutting ideas. So, for instance, the Nano has a smaller engine than other cars because more horsepower would be wasted in India's jam-packed cities, where the average speed is 10 to 20 miles per hour.

The Nano aims to bring the joys of motoring to millions of Indians, doing for the subcontinent what the Volkswagen Beetle did for Germany and the Mini for Britain. But the plan has horrified environmentalists, who fear that the demand for more cars from India's aspirational and increasingly middle-class population – now numbering 50 million in a country with a total 1.1 billion people – will add to pollution and global warming.

Following each part introduction, you will find a **Video Case Study** from a leading international company. Read the case study, watch the video, which is available on the Companion Website at: **www.pearsoned.co.uk/hollensen**, and then answer the questions.



CHAPTER 5

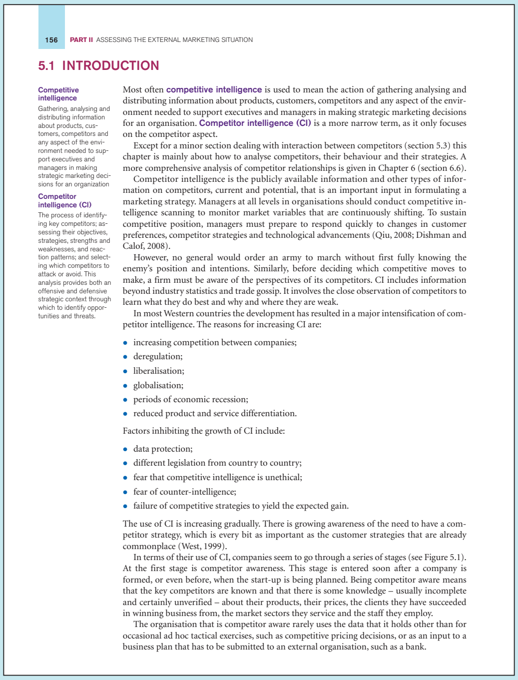
Competitor analysis and intelligence

LEARNING OBJECTIVES

After studying this chapter you should be able to:

- integrate competition into an environmental analysis
- discuss competition and competitors at different levels:
  - budget competition
  - core benefit competition
  - product class competition
  - brand competition
- specify the levels in competitor awareness
- describe how to design a competitor intelligence (CI) system
- evaluate the information sources for CI
- specify the contents of a competitor audit
- evaluate the strengths and weaknesses of competitors
- assess current strategies of main competitors
- give examples of how to evaluate the strengths and weaknesses of competitors
- assess current strategies of main competitors
- outline possible response patterns of main competitors

Each chapter begins with a set of **Learning Objectives** that will enable you to focus on what you should have achieved by the end of the chapter.



156 PART II ASSESSING THE EXTERNAL MARKETING SITUATION

5.1 INTRODUCTION

Competitive intelligence
Gathering, analysing and distributing information about products, customers, competitors and any aspect of the environment needed to support executives and managers in making strategic marketing decisions for an organization

Competitor intelligence (CI)
The process of identifying key competitors; assessing their objectives, strategies, strengths and weaknesses, and reaction patterns; and selecting which competitors to attack or avoid. This analysis provides both an offensive and defensive strategic context through which to identify opportunities and threats.

Most often **competitive intelligence** is used to mean the action of gathering analysing and distributing information about products, customers, competitors and any aspect of the environment needed to support executives and managers in making strategic marketing decisions for an organisation. **Competitor intelligence (CI)** is a more narrow term, as it only focuses on the competitor aspect.

Except for a minor section dealing with interaction between competitors (section 5.3) this chapter is mainly about how to analyse competitors, their behaviour and their strategies. A more comprehensive analysis of competitor relationships is given in Chapter 6 (section 6.6).

Competitor intelligence is the publicly available information and other types of information on competitors, current and potential, that is an important input in formulating a marketing strategy. Managers at all levels in organisations should conduct competitive intelligence scanning to monitor market variables that are continuously shifting. To sustain competitive position, managers must prepare to respond quickly to changes in customer preferences, competitor strategies and technological advancements (Qiu, 2008; Dishman and Calof, 2008).

However, no general would order an army to march without first fully knowing the enemy's position and intentions. Similarly, before deciding which competitive moves to make, a firm must be aware of the perspectives of its competitors. CI includes information beyond industry statistics and trade gossip. It involves the close observation of competitors to learn what they do best and why and where they are weak.

In most Western countries the development has resulted in a major intensification of competitor intelligence. The reasons for increasing CI are:

- increasing competition between companies;
- deregulation;
- liberalisation;
- globalisation;
- periods of economic recession;
- reduced product and service differentiation.

Factors inhibiting the growth of CI include:

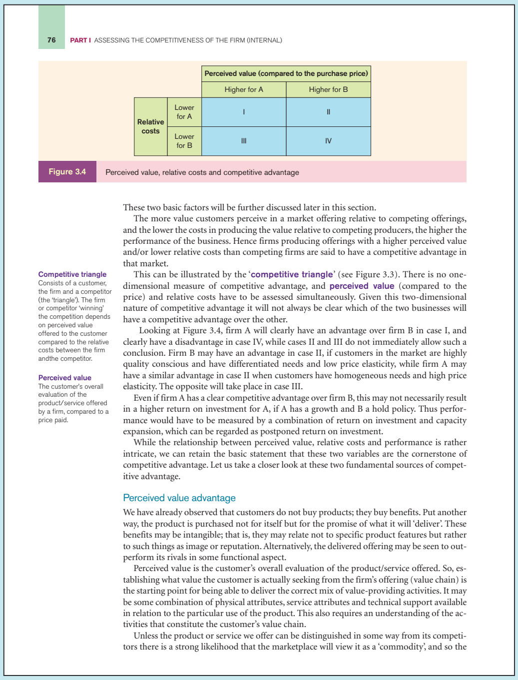
- data protection;
- different legislation from country to country;
- fear that competitive intelligence is unethical;
- fear of counter-intelligence;
- failure of competitive strategies to yield the expected gain.

The use of CI is increasing gradually. There is growing awareness of the need to have a competitor strategy, which is every bit as important as the customer strategies that are already commonplace (West, 1999).

In terms of their use of CI, companies seem to go through a series of stages (see Figure 5.1). At the first stage is competitor awareness. This stage is entered soon after a company is formed, or even before, when the start-up is being planned. Being competitor aware means that the key competitors are known and that there is some knowledge – usually incomplete and certainly unverified – about their products, their prices, the clients they have succeeded in winning business from, the market sectors they service and the staff they employ.

The organisation that is competitor aware rarely uses the data that it holds other than for occasional ad hoc tactical exercises, such as competitive pricing decisions, or as an input to a business plan that has to be submitted to an external organisation, such as a bank.

Short **Chapter Introductions** concisely introduce the themes and issues that are built upon within the chapter.



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		Perceived value (compared to the purchase price)	
		Higher for A	Higher for B
Relative costs	Lower for A	I	II
	Lower for B	III	IV

Figure 3.4 Perceived value, relative costs and competitive advantage

Competitive triangle
Consists of a customer, the firm and a competitor (the 'triangle'). The firm or competitor 'winning' the competition depends on perceived value offered to the customer compared to the relative costs between the firm andthe competitor.

Perceived value
The customer's overall evaluation of the product/service offered by a firm, compared to a price paid.

These two basic factors will be further discussed later in this section.

The more value customers perceive in a market offering relative to competing offerings, and the lower the costs in producing the value relative to competing producers, the higher the performance of the business. Hence firms producing offerings with a higher perceived value and/or lower relative costs than competing firms are said to have a competitive advantage in that market.

This can be illustrated by the '**competitive triangle**' (see Figure 3.3). There is no one-dimensional measure of competitive advantage, and **perceived value** (compared to the price) and relative costs have to be assessed simultaneously. Given this two-dimensional nature of competitive advantage it will not always be clear which of the two businesses will have a competitive advantage over the other.

Looking at Figure 3.4, firm A will clearly have an advantage over firm B in case I, and clearly have a disadvantage in case IV, while cases II and III do not immediately allow such a conclusion. Firm B may have an advantage in case II, if customers in the market are highly quality conscious and have differentiated needs and low price elasticity, while firm A may have a similar advantage in case II when customers have homogeneous needs and high price elasticity. The opposite will take place in case III.

Even if firm A has a clear competitive advantage over firm B, this may not necessarily result in a higher return on investment for A, if A has a growth and B a hold policy. Thus performance would have to be measured by a combination of return on investment and capacity expansion, which can be regarded as postponed return on investment.

While the relationship between perceived value, relative costs and performance is rather intricate, we can retain the basic statement that these two variables are the cornerstone of competitive advantage. Let us take a closer look at these two fundamental sources of competitive advantage.

Perceived value advantage

We have already observed that customers do not buy products; they buy benefits. Put another way, the product is purchased not for itself but for the promise of what it will 'deliver'. These benefits may be intangible; that is, they may relate not to specific product features but rather to such things as image or reputation. Alternatively, the delivered offering may be seen to outperform its rivals in some functional aspect.

Perceived value is the customer's overall evaluation of the product/service offered. So, establishing what value the customer is actually seeking from the firm's offering (value chain) is the starting point for being able to deliver the correct mix of value-providing activities. It may be some combination of physical attributes, service attributes and technical support available in relation to the particular use of the product. This also requires an understanding of the activities that constitute the customer's value chain.

Unless the product or service we offer can be distinguished in some way from its competitors there is a strong likelihood that the marketplace will view it as a 'commodity', and so the

GLOSSARY

4 Ps The basic elements of the marketing mix: product, place (distribution), price and promotion; also called the controllable variables of marketing, because they can be controlled and manipulated by the marketer.

above-the-line advertising Advertising in the mass media, including press, radio, television and posters.

adoption process The mental and behavioural stages through which a consumer passes before making a purchase or placing an order. The stages are awareness, interest, evaluation, trial and adoption.

advertising Non-personal communication that is paid for by an identified sponsor, and involves either mass communication via newspapers, magazines, radio, television, and other media (e.g. billboards, bus stop signage) or direct-to-consumer communication via direct mail.

advertising agency A marketing services firm that assists companies in planning, preparing, implementing and evaluating all or portions of their advertising programmes.

advertising objective A specific communication task to be accomplished with a specific target audience during a specific period of time.

affordable approach Setting the promotion budget at the level management thinks the company can afford.

agent A marketing intermediary who does not take title to the products but develops a marketing strategy and establishes contacts abroad.

AIDA Awareness, interest, desire, action – the stages through which a consumer is believed to pass before purchasing a product.

allowance Promotional money paid by manufacturers to retailers in return for an agreement to feature the manufacturer's products in some way.

always-a-share customers Customers who have low switching costs and do not value long-term relationships with suppliers, making them more suited to transaction marketing.

baby boom The major increase in the annual birth rate following the Second World War and lasting until the early 1960s. The 'baby boomers', now moving into middle age, are a prime target for marketers.

below-the-line promotion Point-of-sale material, direct mail, exhibitions, i.e. any promotion which does not involve paid-for media channels.

benchmarking The process of comparing the company's products and processes to those of competitors or leading firms in other industries to find ways to improve quality and performance.

benefit segments Dividing the market into groups according to the different benefits that consumers seek from the product.

blue oceans The unserved market, where competitors are not yet structured and the market is relatively unknown. Here it is about avoiding head-to-head competition. See also *red oceans.*

bottom-up method A sales forecasting method that starts with small-scale estimates (e.g. product estimates) and works up to larger-scale ones. See also *top-down method.*

brand An identifying feature that distinguishes one product from another; more specifically, any name, term, symbol, sign or design, or a unifying combination of these.

brand equity The value of a brand, based on the extent to which it has high brand loyalty, name awareness, perceived quality, strong brand associations and other assets such as patents, trademarks and channel relationships.

brand extension Using a successful brand name to launch a new or modified product in a new category.

break-even analysis The calculation of the quantity needed to be sold to cover total costs.

break-even pricing Setting price to break even on the costs of making and marketing a product; or setting price to make a target profit.

bricks and mortar Physical retail stores.

broker A wholesaler who does not take title to goods and whose function is to bring buyers and sellers together and assist in negotiation.

business cycle Recurrent fluctuations in general economic activity. The four phases of the business cycle are prosperity, recession, depression and recovery.

business model The fundamental strategy underlying the way a business unit operates.

business-to-business (B2B) Marketing which involves exchange relationships between two or more business customers and suppliers.

business-to-consumer (B2C) Marketing which involves exchange relationships between a firm and its end customers, perhaps via retailers.

Key Terms are highlighted in the text with a brief explanation in the margin where they first appear. These terms are also included in the **Glossary** at the end of the book.

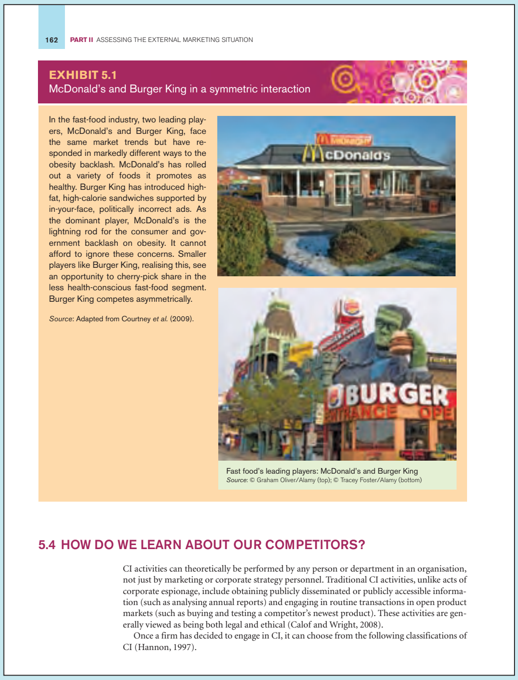

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EXHIBIT 5.1
McDonald's and Burger King in a symmetric interaction

In the fast-food industry, two leading players, McDonald's and Burger King, face the same market trends but have responded in markedly different ways to the obesity backlash. McDonald's has rolled out a variety of foods it promotes as healthy. Burger King has introduced high-fat, high-calorie sandwiches supported by in-your-face, politically incorrect ads. As the dominant player, McDonald's is the lightning rod for the consumer and government backlash on obesity. It cannot afford to ignore these concerns. Smaller players like Burger King, realising this, see an opportunity to cherry-pick share in the less health-conscious fast-food segment. Burger King competes asymmetrically.

Source: Adapted from Courtney *et al.* (2009).

Fast food's leading players: McDonald's and Burger King
Source: © Graham Oliver/Alamy (top); © Tracey Foster/Alamy (bottom)

5.4 HOW DO WE LEARN ABOUT OUR COMPETITORS?

CI activities can theoretically be performed by any person or department in an organisation, not just by marketing or corporate strategy personnel. Traditional CI activities, unlike acts of corporate espionage, include obtaining publicly disseminated or publicly accessible information (such as analysing annual reports) and engaging in routine transactions in open product markets (such as buying and testing a competitor's newest product). These activities are generally viewed as being both legal and ethical (Calof and Wright, 2008).

Once a firm has decided to engage in CI, it can choose from the following classifications of CI (Hannon, 1997).

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EXHIBIT 6.3
Speedo's relations with its retailers (*continued*)

Source: Courtesy of Speedo (www.speedo.com).

Finally, Speedo started an even closer cooperation with two potentially high-growth customers in 1999. The relationship project and the corresponding interface structure are still in a trial phase but both parties' commitment is high. One of the clients is Sports Division, Europe's biggest independent sports retailer with approximately 120 high street stores, with additional in-store concessions, as well as a number of superstores. For Speedo, the relationship is crucial because, aside from the high economic relationship value, Sports Division shares its interest, stocking only leading brands and not own-label products. The initiative for the project came from the operations director who is still in charge of the implementation and who assigned an account development team to work exclusively on this one account. The team members have been selected to match the retailer's supply management team and both teams' target is to improve the effectiveness and efficiency of the supply chain.

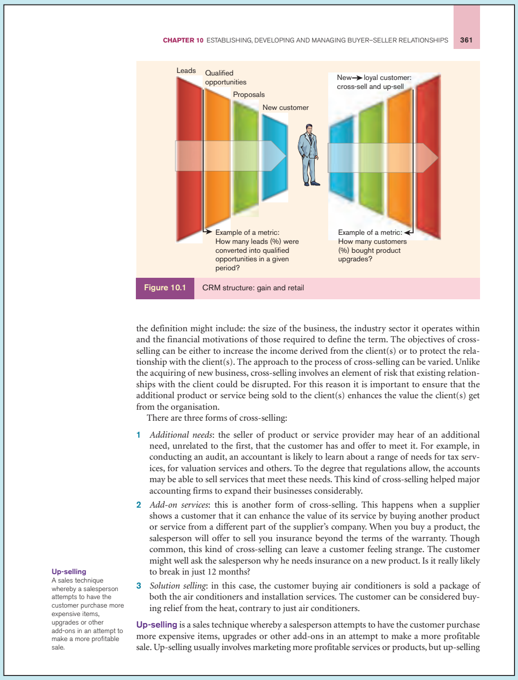
Source: Adapted from Christopher and Jüttner (2000).

Trust

Trust is the belief that one's alliance partner will act in a predictable manner, will keep his or her word, and will not behave in a way that negatively affects the other. This last point is particularly salient under conditions where one partner might feel vulnerable due to a heightened dependence on the other.

In many alliances, partners are compelled to share information or knowledge that lies near, if not at, the core of their business. Trust diminishes the concern that this knowledge might be expropriated and used later to compete against the partner. This fear is very real among managers of small companies that seek alliances with larger companies. These managers fear that the larger firm is using the relationship to gain knowledge for its own benefit (Mendez *et al.*, 2006).

New and engaging **Exhibits** analyse and discuss specific companies to show how the theories in the chapter are used by well known brands in the business world.



CHAPTER 10 ESTABLISHING, DEVELOPING AND MANAGING BUYER–SELLER RELATIONSHIPS 361

Figure 10.1 CRM structure: gain and retail

the definition might include: the size of the business, the industry sector it operates within and the financial motivations of those required to define the term. The objectives of cross-selling can be either to increase the income derived from the client(s) or to protect the relationship with the client(s). The approach to the process of cross-selling can be varied. Unlike the acquiring of new business, cross-selling involves an element of risk that existing relationships with the client could be disrupted. For this reason it is important to ensure that the additional product or service being sold to the client(s) enhances the value the client(s) get from the organisation.

There are three forms of cross-selling:

1 *Additional needs*: the seller of product or service provider may hear of an additional need, unrelated to the first, that the customer has and offer to meet it. For example, in conducting an audit, an accountant is likely to learn about a range of needs for tax services, for valuation services and others. To the degree that regulations allow, the accounts may be able to sell services that meet these needs. This kind of cross-selling helped major accounting firms to expand their businesses considerably.
2 *Add-on services*: this is another form of cross-selling. This happens when a supplier shows a customer that it can enhance the value of its service by buying another product or service from a different part of the supplier's company. When you buy a product, the salesperson will offer to sell you insurance beyond the terms of the warranty. Though common, this kind of cross-selling can leave a customer feeling strange. The customer might well ask the salesperson why he needs insurance on a new product. Is it really likely to break in just 12 months?
3 *Solution selling*: in this case, the customer buying air conditioners is sold a package of both the air conditioners and installation services. The customer can be considered buying relief from the heat, contrary to just air conditioners.

Up-selling
A sales technique whereby a salesperson attempts to have the customer purchase more expensive items, upgrades or other add-ons in an attempt to make a more profitable sale.

Up-selling is a sales technique whereby a salesperson attempts to have the customer purchase more expensive items, upgrades or other add-ons in an attempt to make a more profitable sale. Up-selling usually involves marketing more profitable services or products, but up-selling

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Red Bull Flugtag
Source: © Marcel Lammerhirt/Red Bull Photo Files

Rosso). The team is based in Milton Keynes in the UK but holds an Austrian licence. The team won its first Grand Prix as Red Bull at the 2009 Chinese Grand Prix in Shanghai, with young German driver Sebastian Vettel.

In addition to sports sponsorships, Red Bull has developed the Mobile Energy Team programme consisting mostly of outgoing college students who drive specially designed Red Bull Mini Coopers with the red can on the roof to promote the drink. They go to all types of events and arrange sampling of the energy drink. They are usually employed by Red Bull on a part-time basis and often have teams running on 24/7 formats.

All in all, Red Bull spends relatively little on traditional print and TV advertising, instead relying on sponsorships of sports or giving away samples at local events. Since its introduction, Red Bull has invested heavily in building the brand, spending around 40 per cent of revenue on marketing and promotion. As a comparison, Coca-Cola spends 9 per cent.

Competition

By definition, Red Bull operates within the functional drinks market, which is mostly made up of sales from energy drinks and sports drinks – Red Bull is only active in the energy drinks market. Sports drinks are not to be confused with energy drinks. Sports drinks are intended to replenish electrolytes, sugar, water and other nutrients, and are usually isotonic (containing the same proportions as found in the human body) and used after strenuous training or competition. Energy drinks, on the other hand, mainly provide sugar and caffeine in order to increase concentration or mental and physical capacities. The most well-known sports drink is Gatorade (Quaker Oats Co.), which was introduced in 1965.

Red Bull, despite being widely known as an energy drink, has other uses such as a coffee, tea and soda substitute, a vitamin/energy supplement, and a mixer for alcohol.

The majority of consumers use Red Bull as a vitamin supplement or energy stimulant in place of preferred stimulants such as ginseng. Red Bull, with its liquid

Colour **figures** and **photos** illustrate the key points and concepts and help clarify the topics discussed.

CHAPTER 1 INTRODUCTION 17

1.7 SUMMARY

Over the past twenty years, considerable emphasis has been placed on the importance of relationship marketing (RM). The reorientation of marketing has been at the expense of the traditional approach to marketing, that is, transaction marketing (the 4Ps). However, the premises of this book are that transactional marketing is still relevant and should be practised concurrently with various types of RM.

In RM, customers take a much more active role than they normally are given. The success of RM also, to a large extent, depends on the attitudes, commitment and performance of the employees. If they are not committed to their role as part-time marketers and are not motivated to perform in a customer-oriented fashion, the strategy fails. Besides customers and internal employees, the stakeholder view also includes other players in the RM process: suppliers, competitors and other external players.

The chapter ends with a categorisation of RM into three forms of organisation: dyadic relationships, chain of relationships and networks. The classic dyadic buyer–seller relationship tends to ignore the role of other stakeholders whereas networks are a more complex structure of relationships involving several stakeholders.

CASE STUDY 1.1 Duchy Originals

Prince Charles's organic food company is searching for further growth in the recession

In summer 2009, the new chief executive of the Prince of Wales's agricultural business, Andrew Baker, is in upbeat mood. He has recently announced plans to launch Duchy Originals in America and India as part of a five-year plan to quadruple annual retail turnover from approximately £50 million to £200 million. Baker, 49, took the top job at Duchy in September 2007, having worked at Cadbury's as managing director for Africa, the Middle East and Turkey. Although the world economy is still in an economic recession, he is convinced that, as consumers eat less at restaurants, they will still be interested in spending some extra money on affordable luxuries, including a decent meal at home.

Prince Charles chats with staff packing Duchy Original biscuits
Source: Rex Features

Background of Duchy Originals

Duchy Originals Ltd was set up by Charles, Prince of Wales, in 1990 and named after the Duchy of Cornwall estates that are held in trust by the Prince of Wales.

Prince Charles is very passionate about this business. The values behind it are in line with his vision of 20 years ago. Prince Charles bought Home Farm in 1980, which encompasses 1,100 acres around Tetbury. Manager David Wilson masterminded the farm's conversion to organic from 1985 over an eight-year period. The first

18 CHAPTER 1 INTRODUCTION

Duchy Originals orange marmalade
Source: Courtesy of Duchy Originals Ltd

Duchy product was Oaten Biscuits, baked with organic oats and wheat harvested at the farm.

Prince Charles launched the company in 1990 to provide natural, high-quality organic farm products in a way that emphasises sustainable production, natural ingredients and traditional farming skills. Among its products are free-range meat and poultry, real ale, biscuits, marmalade and preserves.

Duchy Originals is the name given to a brand of premium organic food and drink products. The company Duchy Originals owns the Duchy Originals brand, but does not produce or sell food that carries the Duchy Originals brand name. Instead products with the Duchy Originals name are sold and manufactured by a number of different retail companies, all of whom pay royalties to the Duchy Originals company. The total annual value of these retail sales is over £53 million.

In December 2008, it was announced that the Duchy Originals brand was partnering with Nelsons to produce a line of herbal remedies.

The 'turnover' of the Duchy Originals Ltd company, which is the royalty income notified to the company, and which is also the gross profit, came to £4.8 million in 2007. Administrative expenses came to £3.31 million giving an operating profit of £1.53 million. The company Duchy Originals Ltd is a wholly owned subsidiary company of the Prince's Charities Foundation, and from the profit of £1.53 million a charitable donation of £743,000 was given to the Foundation in 2007 (the difference is due to consolidation with subsidiaries). The Prince established the Foundation in 1979 to enable him to help support a variety of charitable causes and projects. In principle Dutchy Originals Ltd donates all of its net profits to the Prince's Charities Foundation.

In 2008 pretax profits decreased by 80 per cent as sales of the Duchy luxury products tumbled 15 per cent. According to the company, the decrease in profits is due to the cost of expanding and restructuring the business.

The Prince's Charities Foundation

In addition to receiving funds from Duchy Originals, the Prince's Charities Foundation also derives further income through royalties from the sale of lithographs of the Prince of Wales's watercolours, from charitable donations, from retail sales at the Highgrove Shop in Tetbury and from books written by His Royal Highness, such as *The Garden at Highgrove*.

The Prince's Charities Foundation receives an ever-increasing number of requests for assistance, which are considered on a regular basis by the Prince of Wales and the Foundation's trustees. Over 100 charitable programmes benefited from the £4 million donated to the Foundation in the year 2007–08.

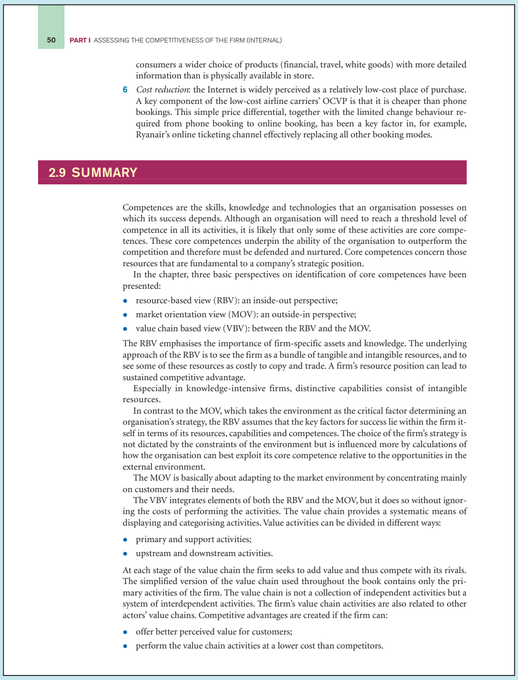
Donations are made to a wide range of charities including organisations working with environmental issues, health and hospices, community and welfare, education and training, heritage and the built environment, charities supporting servicemen and women and towards people affected by natural disasters.

The target market – LOHAS

The primary target group for Duchy Originals is the so-called LOHAS (lifestyles of health and sustainability) which is a particular market segment related to sustainable living, 'green' ecological initiatives, and generally composed of a relatively upscale and well-educated people, who are also willing to pay a relatively high price for quality products such as Duchy Originals. Researchers have reported a range of sizes of the LOHAS market segment. For example, Worldwatch Institute reported that the LOHAS market segment in the year 2006 was approximately 30 per cent of the US consumer market. The LOHAS concept is inspired by the authors Paul H. Ray and Sherry R. Anderson, who coined the term 'cultural creatives' in their book by the same name (Ray and Anderson, 2000).

The organic food market remains a high-growth market. The UK market is worth £2 billion per annum and is

A **Case Study** concludes each chapter, providing a range of material for seminars and private study, by illustrating real-life applications and implications of the topics covered in the chapter. These also come with a set of questions to help you test your understanding of the case.



50 PART I ASSESSING THE COMPETITIVENESS OF THE FIRM (INTERNAL)

consumers a wider choice of products (financial, travel, white goods) with more detailed information than is physically available in store.

6 *Cost reduction*: the Internet is widely perceived as a relatively low-cost place of purchase. A key component of the low-cost airline carriers' OCVP is that it is cheaper than phone bookings. This simple price differential, together with the limited change behaviour required from phone booking to online booking, has been a key factor in, for example, Ryanair's online ticketing channel effectively replacing all other booking modes.

2.9 SUMMARY

Competences are the skills, knowledge and technologies that an organisation possesses on which its success depends. Although an organisation will need to reach a threshold level of competence in all its activities, it is likely that only some of these activities are core competences. These core competences underpin the ability of the organisation to outperform the competition and therefore must be defended and nurtured. Core competences concern those resources that are fundamental to a company's strategic position.

In the chapter, three basic perspectives on identification of core competences have been presented:

- resource-based view (RBV): an inside-out perspective;
- market orientation view (MOV): an outside-in perspective;
- value chain based view (VBV): between the RBV and the MOV.

The RBV emphasises the importance of firm-specific assets and knowledge. The underlying approach of the RBV is to see the firm as a bundle of tangible and intangible resources, and to see some of these resources as costly to copy and trade. A firm's resource position can lead to sustained competitive advantage.

Especially in knowledge-intensive firms, distinctive capabilities consist of intangible resources.

In contrast to the MOV, which takes the environment as the critical factor determining an organisation's strategy, the RBV assumes that the key factors for success lie within the firm itself in terms of its resources, capabilities and competences. The choice of the firm's strategy is not dictated by the constraints of the environment but is influenced more by calculations of how the organisation can best exploit its core competence relative to the opportunities in the external environment.

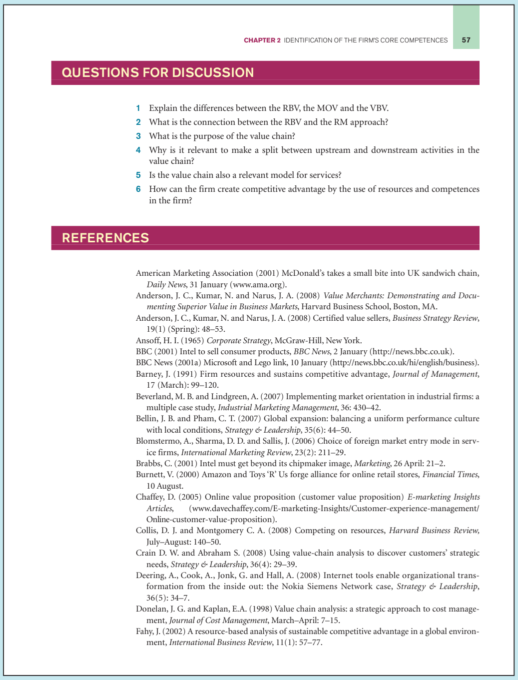
The MOV is basically about adapting to the market environment by concentrating mainly on customers and their needs.

The VBV integrates elements of both the RBV and the MOV, but it does so without ignoring the costs of performing the activities. The value chain provides a systematic means of displaying and categorising activities. Value activities can be divided in different ways:

- primary and support activities;
- upstream and downstream activities.

At each stage of the value chain the firm seeks to add value and thus compete with its rivals. The simplified version of the value chain used throughout the book contains only the primary activities of the firm. The value chain is not a collection of independent activities but a system of interdependent activities. The firm's value chain activities are also related to other actors' value chains. Competitive advantages are created if the firm can:

- offer better perceived value for customers;
- perform the value chain activities at a lower cost than competitors.



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QUESTIONS FOR DISCUSSION

1. Explain the differences between the RBV, the MOV and the VBV.
2. What is the connection between the RBV and the RM approach?
3. What is the purpose of the value chain?
4. Why is it relevant to make a split between upstream and downstream activities in the value chain?
5. Is the value chain also a relevant model for services?
6. How can the firm create competitive advantage by the use of resources and competences in the firm?

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Chapter Summaries reflect on what the chapter has covered and will help you to consolidate your learning and provide an important revision tool.

Questions for Discussion provide a useful assessment to test your knowledge and encourage you to review and/or critically discuss your understanding of the main topics and issues covered in each chapter.

An extensive list of **References** at the end of each chapter directs you to other books, journal articles and websites, which will help you develop your understanding and inspire independent learning.