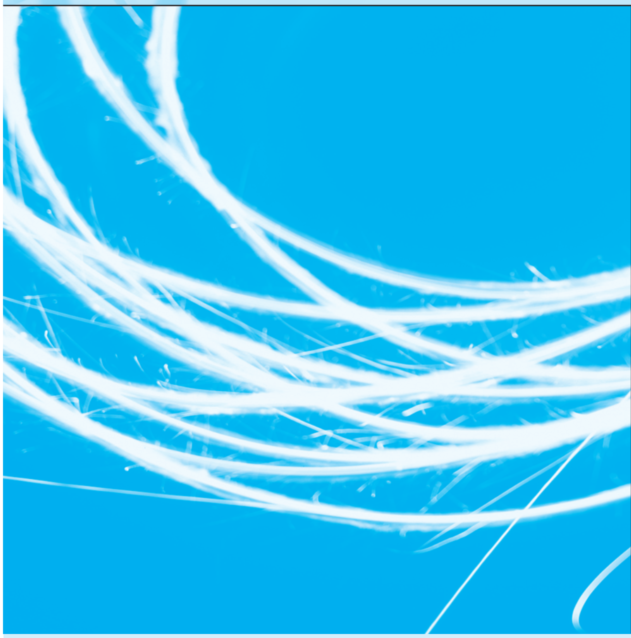
chapter six

6 Understanding the organisational resource base



The most important assets a company has are its brand names. They should appear at the head of the assets list on the balance sheet.

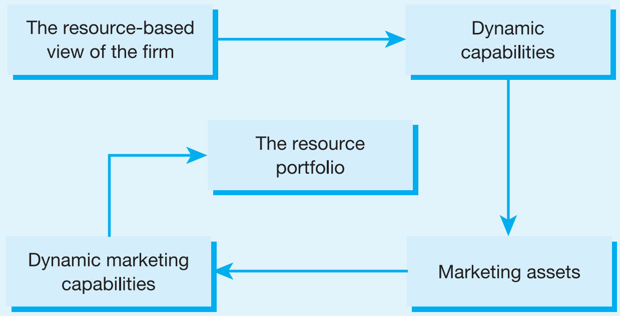
Marketing Director, International Food Marketing Company

Introduction

The attractiveness of opportunities open to the firm depends on the resources available to exploit them. Organisational resources include both tangible and intangible assets, capabilities and competences. This is the base from which organisations build their competitive position, and any marketing strategy needs to be firmly grounded in these resources. Strategies that are not built on resource strength are unlikely to be sustainable in the longer term, and underutilised resources represent potential wastage. To succeed in a particular market the firm will need specific resources, the key factors for success in that market. If it does not have these, or cannot acquire them, the strategy is likely to fail at the implementation stage.

This chapter is structured around the following issues which provide a framework for assessing organisational resources:

Figure 6.1 Understanding the organisational resource base



- The role of marketing resources in creating differentiation.
- Insights from the resource-based view (RBV) of the firm, and in particular the recent emphasis on dynamic capabilities.
- Creating and exploiting marketing assets.
- Deploying dynamic marketing capabilities.
- Developing and exploiting the resource portfolio.

This is shown schematically in Figure 6.1, starting from the most general issues and moving progressively to the more specific.

6.1 Marketing resources as the foundation for differentiation

While any organisation could produce a long list of the resources at its disposal, what is important is to identify those resources that can help create a competitive advantage, and ideally an advantage that can be sustained into the foreseeable future (sustainable competitive advantage, SCA). Theories developed in the strategic management field can be helpful. Strategic management theorists have shown that a sustainable competitive advantage can be achieved when distinct resources are employed that are resistant to competitor imitation or duplication (Mahoney and Pandian, 1992). The resources that will most likely create sustainable advantage have a number of key characteristics. First, they enable the provision of competitively superior value to customers (Barney, 1991, 1997; Slater, 1997). Second, they are resistant to duplication by competitors (Dierickx and Cool, 1989; Hall, 1992, 1993; Reed and DeFillippi, 1990). Third, their value can be appropriated by the organisation (Kay, 1993; Collis and Montgomery, 1995).

Resources, such as brand reputation, relationships with customers, effective distribution networks and the competitive position occupied in the marketplace, are potentially significant advantage generating resources. These have been termed marketing resources as they relate directly to marketing activities and are directly leveraged in the marketplace. Their role in generating value for customers is clear. But how easy are they to protect against competitor imitation (and hence erosion of the advantage)? Some resources, such as capital, plant and machinery, are inherently easier for competitors to copy than others, such as company reputation, brand reputation and competitive position created and reinforced over time. Many marketing resources, as we shall see, are intangible in nature and hence more difficult for competitors to understand and replicate.

The ways in which resources can be protected from duplication have been termed isolating mechanisms (Reed and DeFillippi, 1990) as they serve to isolate the organisation from its competition, creating a competitive barrier. Isolating mechanisms operate at three main levels.

- First, for a competitor to imitate a successful marketing strategy it must be able to identify the resources that have been dedicated to creating and implementing that strategy in the first place. The competitive position created, for example, will include a complex interplay of resources creating difficulties for competitors in identification. Lippman and Rumelt (1982) refer to this problem for competitors as ‘causal ambiguity’, which can be created through tacitness (the accumulated skill-based resources resulting from learning by doing and managerial experience), complexity (using a large number of interrelated resources), and specificity (the dedication of certain resources to specific activities). For example, a firm enjoying the resource of close relationships with key customers might be more difficult for a competitor to copy than one offering cut-price bargains. The former will require superior customer linking skills, such as customer relationship management (tacit skills), together with the technical skills to serve customer needs. The latter may be based on an effective cost control system that could be relatively easily installed by a competitor.
- Second, should a competitor overcome the identification barrier it would still need to acquire the resources necessary for imitation of the strategy. Some resources, such as corporate culture or market orientation, may take time to develop (referred to as being ‘path dependent’ because they require the firm to go down a particular path to develop them) while others may be uneconomic to acquire, or even protected in some way (for example through patents or copyrights). If resources have transaction costs associated with their acquisition there is likely to be a continuing barrier to duplication. Even where acquisition is theoretically possible some resources may be less effective in the competing firm (for example, managers may be less effective working in one environment than another).
- Third, most resources depreciate over time as competitors are eventually likely to find ways of imitating successful strategies. This is especially true in rapidly changing markets (e.g. where technology is changing swiftly). Again, some resources may depreciate less quickly than others. Reputation, for example, has potential for a longer period of advantage generation than, say, rapidly depreciating plant and machinery. We say potential because we should always remember that reputations take time to build but could be destroyed overnight if mishandled. The UK high-street retailer Marks & Spencer, for many years the paragon of British retailing, suffered sustained damage to its image in 2000–2001 as boardroom battles

hit the newspaper headlines and slumping profits affected its share price. It took some time (early 2007) for it to recover its position under the leadership of CEO Stuart Rose.

In the analysis of resources, therefore, the important question to always bear in mind is: does this resource contribute to the creation of a sustainable competitive advantage for the organisation? Where it does, or it could be leveraged to, the resource should be recognised as the potential source of an effective marketing strategy and protected from both external recognition and internal myopia.

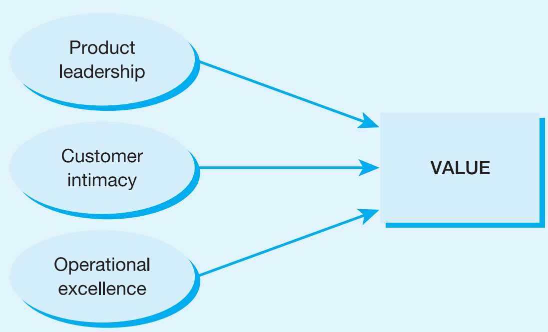
Below we go on to discuss the types of resources organisations may have at their disposal and how these can be identified. In common with current usage, we use the terms resources, assets, competencies and capabilities interchangeably. Conceptually, however, resources could be considered the generic term, while assets and capabilities are different types of resource.

6.2 Value-creating disciplines

Day (1997) points out that 'every business acquires many capabilities that enable it to move its products through the value chain. Only a few of these need to be superior to competition. These are the distinctive capabilities that support a value proposition that is valuable to customers and hard for competitors to match'. In fact, it is clear that different ways of delivering superior customer value require quite different resources. For example, Treacy and Wiersema (1995) point to three different 'value disciplines', each of which excels at meeting the distinctive needs of one customer type, and each of which requires different resource capabilities (Figure 6.2):

- **Operational excellence** – providing middle-of-market products at the best price with the least inconvenience. Examples include no-frills mass-market retailers such as Aldi in groceries and Matalan in clothing, and fast food outlets such as McDonald's, Burger King and KFC. This strategy requires an organisation achieving excellence in the core processes of order fulfilment, supply-chain management, logistics, service delivery and transaction processing.

Figure 6.2 Value disciplines



- **Product leadership** – offering products that push the boundaries of product and service performance: Intel is a product leader in computer chips, as is Nike in athletic footwear. A prime example is Hewlett-Packard's computer printer business, which has achieved market dominance through major technology advances, rapid product variations, continuous price reductions and a willingness to attack competitors. The core processes that underpin this strategy include market sensing (of latent customer needs), openness to new ideas, fast product development and launch, technology integration and flexible manufacturing. Management and structure will probably be decentralised, team-oriented and loose-knit.
- **Customer intimacy** – delivering what specific customers want in cultivated relationships. The core requirements are flexibility, a 'have it your way' mindset, mastery of 'mass customisation' to meet the distinct needs of micro-segments of the market, and the ability to sustain long-term customer relationships.

Hamel (1996) notes that, in an effective strategy-making process, 'you can't see the end from the beginning'. We need to be flexible enough to change our ideas about corporate capabilities as marketing strategy options emerge from our analysis (and vice versa), and if necessary rethink the attractiveness of strategy options as a result.

In seeking to define key resources, however, Porter (1996) points to the dangers of the 'competitive convergence trap'. Porter argues that the danger inherent in the pressure on companies to improve operational efficiency is not simply that we substitute operational efficiency for strategy, but that competing companies become more and more similar: 'The more benchmarking companies do, the more they look alike . . . Continuous improvement has been etched on managers' brains. But its tools unwittingly draw companies toward imitation and homogeneity.' When we attempt to assess corporate capabilities, our search should be for sources of competitive differentiation and advantage in activities and areas that matter to customers, not simply sources of operational efficiency.

We should also be aware that how we group or categorise or label what we see as an organisation's resources can be critical. Strategy does not consist of mere operational improvement, neither does it consist of focusing simply on a few core competencies (especially if they are the same things our competitors would claim as their own competencies). Real sustainable advantage comes from the way the various resources fit together creating a unique resource base for a unique competitive strategy. Porter illustrates this with the example of the car hire business. Companies such as Hertz, Avis and National are the brand leaders, but profitability is generally low – these firms are locked into an operational effectiveness competition, offering the same kinds of cars at the same kinds of airports with the same kind of technology. Enterprise, on the other hand, achieves superior performance in this same industry with smaller outlets which are not at airports, little advertising, and older cars. Enterprise does everything differently. Enterprise employs more experienced staff and operates a business-to-business sales force – it specialises in a temporary car replacement for those whose own vehicle is off the road, and has turned its back on the business travel market at major airports; The point is that on its own each of the Enterprise capabilities is unremarkable; together they comprise a powerful route to a differentiated competitive position and superior performance (Porter, quoted in Jackson 1997).

In reviewing resources, managers need to search for advantage from the way things fit together, not just the individual resources available. Indeed, the critical question may be how capabilities can be managed successfully across alliances of companies.

An important consideration is whose view of resources to follow – much in this area is subjective and judgemental. Indeed, Hamel (1996) suggests that 'the bottleneck is at the top of the bottle'. Senior managers may tend to defend orthodoxy because it is what they know, and what they have built their careers on: 'Where are you likely to find people with the least diversity of experience, the largest investment in the past, and the greatest reverence for strategic dogma? At the top'. (Hamel, 1996)

New perspectives on the resources of the organisation may come from surprising places. Hamel describes how in one company the idea for a multi-million-dollar opportunity came from a twenty-something secretary, and in another some of the best ideas about an organisation's core competencies came from a forklift operator, while in an accounting company the partners learned about virtual reality from a junior employee aged 25.

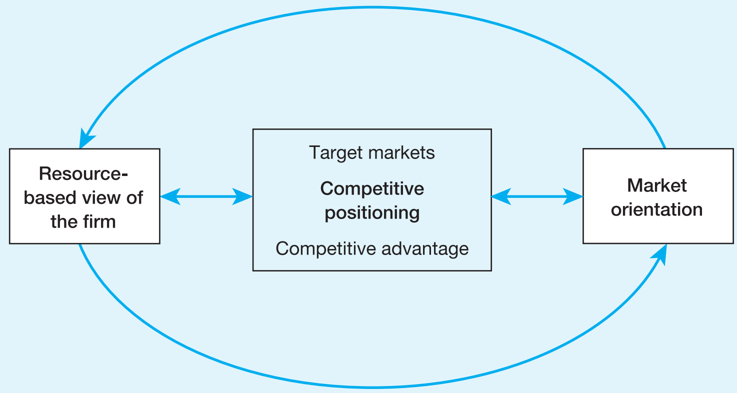
At the very least, when we are attempting to assess resources we should include the views of those who run the business, and outsiders who may have insights that are valuable. For example, the world-famous Avis campaign 'We Try Harder' came from the advertising agency hired by Robert Townsend to search for a competitive advantage that would enable him to turn around the then ailing Avis company. The agency view was that there was no competitive advantage other than the fact that Avis employees seemed to 'try harder', probably because they had to. This was the core of the highly successful turnaround strategy at Avis – and, it should be noted, it was resisted from the outset by executives who had a more conventional view of the car rental business.

6.3 The resource-based view of the firm

There is a growing literature propounding a resource-based view of the firm. Indeed, it has been argued (Hooley *et al.*, 1998) that two main themes came to dominate thinking about marketing strategy during the 1990s: market orientation and the resource-based view (RBV) of the firm. While the market orientation literature emphasises the superior performance of companies with high-quality, organisation-wide generation and sharing of market intelligence leading to responsiveness to market needs, the RBV suggests that high-performance strategy is dependent primarily on historically developed resource endowments (e.g. Wernerfelt, 1995; Grant, 2005).

There is, however, a potential conflict between these two approaches in the sense that one advocates the advantages of outward-looking responsiveness in adapting to market conditions, while the other is inward-looking, emphasising the rent-earning characteristics of resources (Amit and Shoemaker, 1993) and the development of corporate resources and capabilities (Mahoney, 1995). Quite simply, from a marketing viewpoint, if strategy becomes too deeply embedded in existing corporate capabilities, it runs the risk of ignoring the demands of changing, turbulent marketing environments. Yet, from a resource-based perspective, marketing strategies that are

Figure 6.3 Competitive positioning



not based on a company's distinctive competencies are likely to be ineffective and unsustainable.

However, we argue that competitive positioning provides a way of reconciling this potential conflict. We argue that competitive positioning provides a definition of how the firm will compete by identifying target markets and the competitive advantage that will be pursued in serving these target markets. The attractiveness of markets will depend, in part, on the resources available to the firm to build a strong competitive position. Similarly, the positioning perspective recognises that for corporate resources to be leveraged for economic benefit requires their application in the marketplace. However, it also recognises that, if that application is to be sustainable in the face of competition from rivals, the competitive advantage must be built on the firm's distinctive resources (Hamel and Prahalad, 1994; Webster, 1994). Indeed, market orientation itself may be considered a key corporate resource, accumulated and learned over a substantial time period.

This iterative relationship between the pressures of market orientation and the RBV, and the linkage in competitive positioning is shown in Figure 6.3. In this simplified view, the issue becomes one of responding to markets through applying organisational resources to the opportunities and customer needs identified. The outcome is competitive positioning. However, the theories of the RBV of the firm are worth consideration as a further source of insight into assessing corporate capabilities as a basis for competitive positioning.

6.3.1 Theoretical foundations

The RBV is current in much of the modern literature of strategy (e.g. see Mahoney, 1995; Wernerfelt, 1995; and Grant, 2005 for extensive summaries of the theory). The central tenet of the RBV is that for strategy to be sustainable it must be embedded in the firm's resources and capabilities. Indeed, the potential incompatibility with the principles of market orientation is illustrated by Grant's (1995) view that:

> *In general, the greater the rate of change in a company's external environment, the more it must seek to base long term strategy upon its internal resources and capabilities, rather than upon an external market focus.*

Grant uses the example of typewriter manufacturers faced with the PC revolution of the 1980s. He suggests there were only two available strategies: pursue the traditional market and attempt to acquire the technology for word processing; or seek other markets where existing competencies and capabilities could be exploited. The move of Olivetti from typewriter to PC is an example of the first strategy. The move of other companies into the printer market to exploit existing resources is an example of the second strategy. However, to assume that these are the only strategies or that they are mutually exclusive is somewhat limited.

Notwithstanding this limitation in perspective, the RBV offers a number of useful insights into the nature of corporate resources. There are a number of different views of how to define and classify resources:

- anything that can be thought of as a strength or weakness of a firm (Wernerfelt, 1984);
- stocks of available factors that are owned or controlled by the firm (Amit and Shoemaker, 1993);
- a bundle of assets, capabilities, organisational processes, firm attributes, information and knowledge (Barney, 1991).

However, one particularly useful framework for marketing purposes was proposed by Day (1994) in distinguishing between a company's *assets* and its *capabilities*. In Day's terms, organisational assets are the endowments a business has accumulated, such as those resulting from investments in scale, plant, location and brand equity, while capabilities reflect the synergy between these assets and enable them to be deployed to the company's advantage. In these terms capabilities are complex bundles of skills and collective learning, which ensure the superior coordination of functional activities through organisational processes.

In essence the RBV places central emphasis on the role of assets and capabilities in creating competitive advantage. The theory recognises that resources are heterogeneous across firms and that there are barriers to acquisition or imitation that can provide individual firms with ways of defending the advantage created in the short to medium term. Sustainable competitive advantage, the theory suggests, lies in the possession of resources that exhibit certain characteristics: value, rarity, inimitability and non-substitutability (VRIN).

Barriers to imitation, referred to in the literature as isolating mechanisms, include causal ambiguity (difficulty in identifying how an advantage was created), complexity (arising from the interplay of multiple resources), tacitness (intangible skills and knowledge resulting from learning and doing), path dependency (the need to pass through critical time-dependent stages to create the advantage), economics (the cost of imitation), and legal barriers (such as property rights and patents) (Lippman and Rumelt, 1982; Dirickx and Cool, 1989; Reed and deFillippi, 1990; Hooley *et al.*, 2005).

A major criticism of the RBV, however, has been that it neglects the influence of market dynamism (Priem and Butler, 2001; Wang and Ahmed, 2007). The more rapidly markets change, the more there is a need for firms to renew their resources and develop new capabilities.

6.3.2 Dynamic capabilities

In response to the concerns above, recent research broadly in the RBV tradition has focused on dynamic capabilities (see Teece, Pisano and Shuen, 1997; Bowman and Ambrosini, 2003). These have been defined as: *The capacity of an organisation to purposefully create, extend, or modify its resource base* (Helfat *et al*., 2007). This view recognises that as markets change, become more globally integrated, new forms of competition emerge and new technologies are employed, firms cannot rest on their existing capabilities alone (Winter 2003; Wang and Ahmed, 2007). Firms need to actively seek to recreate themselves through extending and modifying their operations.

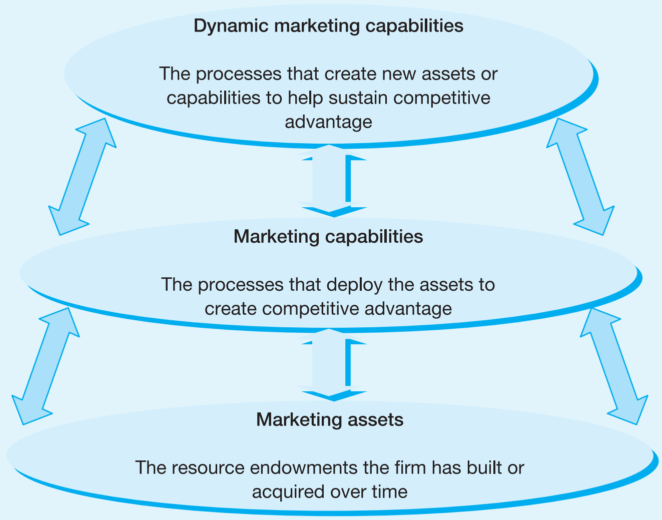
It is noticeable that the new focus on dynamic capabilities recognises the need for firms to understand market dynamics more explicitly than the original RBV perspective. From a marketing perspective dynamic capabilities help firms to identify market opportunities and subsequently enter new businesses through the creation of new products and improved services (Teece *et al*., 1997; Helfat *et al*., 2007).

Teece *et al*. (1997) suggest that dynamic capabilities have both a coordinating/integrating role and a learning role. The coordination and integration role enables firms to integrate external activities. These activities are related to the capabilities of market-driven organisations that among others need to excel in understanding customer needs and requirements, customer linking and new product development processes (Day, 1994). A customer-linking capability enables the firm to gain the 'inside track' (Penrose, 1959) by establishing a relationship with customers that may enable joint problem-solving activities and the rapid assimilation of new and previously unexploited skills (Zander and Zander, 2005). Product development routines are known to require the integration of diverse skills and know-how from inside and outside the firm. This also suggests that, besides their customer-linking abilities with customers, firms must be able to enhance their knowledge creation process by being capable to develop networks and strategic alliances throughout the value chain (Eisenhardt and Martin, 2000).

Learning enables new opportunities to be identified and can stimulate experimentation and innovation (Bowman and Ambrosini, 2003). More specifically, learning is a core element of dynamic capabilities since it is a 'collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness' (Zollo and Winter, 2002).

It has been suggested by some researchers (e.g. Ahuja and Katila, 2004) that dynamic capabilities are idiosyncratic and highly dependent on the specific firm–market context. Others, however (such as Eisenhardt and Martin, 2000), seek commonalities across firms. The most recent conceptualisations of dynamic capabilities focus on 'fit' – both technical fit and evolutionary fit. Helfat *et al*. (2007) define technical fit as how effectively a capability performs its intended function (its quality) when normalised by (divided) by its cost, and evolutionary fit as how well a dynamic capability enables an organisation to make a living by creating, extending or modifying its resource base. In this sense, evolutionary fitness includes not only technical fitness but also understanding of competition and market conditions.

Figure 6.4 Marketing resources



Evolutionary fit is central to marketing thinking, ensuring not only that the market offerings are technically fit for purpose, but also that they match changing market requirements in the light of customer and competitor change.

Wang and Ahmed (2007) suggest that resources can usefully be considered at four levels. For our purposes these are conflated to three main levels and types of resource. Figure 6.4 shows these levels in a marketing context.

- At the base level are marketing assets, the resource endowments the organisation has built or acquired over time. Where these exhibit VRIN characteristics (i.e. create value for customers, are rare or unique to the firm, are inimitable or difficult/expensive for other firms to imitate or acquire, and are non-substitutable or easily replaced) they can form the basis of a competitive advantage. Most assets, however, depreciate over time unless they are constantly renewed and refreshed.
- Capabilities, the second level resources of the firm, are the processes that are used to deploy assets effectively in the market place. Wang and Ahmed (2007) differentiate between capabilities, which are used to undertake routine tasks, and core capabilities, which are strategically important to creating competitive advantage at a point in time. Core capabilities typically require the bundling together of other capabilities. For example, Zara in the fashion industry has core capabilities in responsiveness to customers, which in turn requires capabilities such as advanced information systems, just-in-time production processes, stock control processes. Core capabilities, therefore, integrate assets and capabilities to enable the firm to move in its chosen strategic direction. It has been suggested, however, that core capabilities can become core rigidities when markets change, and they can lock firms into processes that may become less and less relevant (Leonard-Barton, 1992; Tallman, 2003).

- Dynamic capabilities are the highest level of firm resource. They are the capabilities that create new assets and/or new capabilities in response to, or indeed to lead, change in the marketplace.

We now go on to discuss in more detail marketing resources. First we consider marketing assets, then we go on to discuss marketing capabilities, and finally we focus on dynamic marketing capabilities.

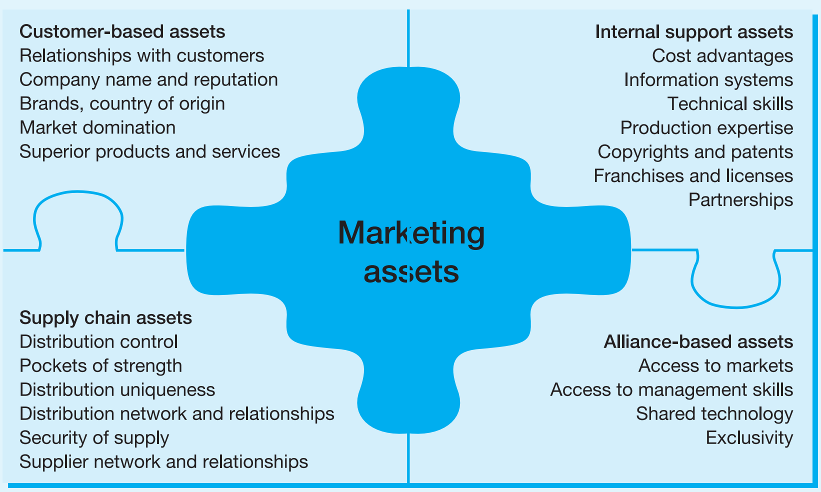
6.4 Creating and exploiting marketing assets

The term 'marketing assets' was first used in a series of articles in *Marketing* magazine by Hugh Davidson in 1983. Marketing assets are essentially resources – normally intangible – that can be used to advantage in the marketplace. Davidson (1983) gave the following good example of this.

- In the early '80s the brand share of Kellogg's Corn Flakes, while still in the low 20s, was in long-term decline. The company had spare capacity, but did not produce corn flakes for private label store brands. Kellogg solved this problem by launching Crunchy Nut Corn Flakes which used the Kellogg name and the corn flakes plant. It was priced at a heavy premium, but it gained 2–3 per cent market share, mainly incremental to the share of other Kellogg's brands, at very attractive margins. The new product exploited the existing brand name, flake technology and plant, but did so in a way that attracted new customers at high margins.

A wide variety of company properties can be converted into marketing assets. As shown in Figure 6.5, they can be usefully grouped into:

Figure 6.5 Marketing assets



- customer-based and reputational assets;
- supply chain assets;
- internal or marketing support assets;
- alliance-based assets.

6.4.1 Customer-based marketing assets

Customer-based marketing assets are those assets of the company, either tangible or intangible, valued by the customer or potential customer. Often they exist in the mind of the customer and they are essentially intangible in nature. They may, however, be one of the most critical issues in building a defensible competitive position in the marketplace.

Company name and reputation

One of the most important customer-based assets a company can possess is its reputation or image. Companies such as Mercedes, BMW and Rolls-Royce have a clear image of supplying a particular set of customer benefits (reliability, durability, prestige, overall quality) in the markets in which they operate.

Company name confers an asset on all products of the company where it is clearly identified. Indeed, in many cases where the company identity is a strong asset it has been converted into a brand name for use on a wide variety of products (e.g. Virgin, Kodak and Sainsbury are not only company names but also brands with strong customer franchises).

Image and reputation can also, however, be a negative asset or a liability. This may go far beyond what customers think about product quality. An Ogilvy & Mather study in 1996 contrasted the views of consumers of some companies as 'efficient bastards' compared with the 'Mr Cleans' at the other end of the scale. The top end of the ethical scale was occupied by companies like Marks & Spencer, Boots, Virgin Atlantic, Cadbury and The Body Shop. The other end of the scale was occupied by Camelot (the UK lottery operator), *The Sun* newspaper, Yorkshire Water utility, William Hill and Ladbrokes (bookmakers) and Sky TV (Bell, 1996). The seriousness of this issue is underlined by evidence that consumers are increasingly reluctant to deal with companies they regard as unethical (Bernoth, 1996). (See Chapter 18 for more detailed consideration of this issue.)

Also important is how firms deal with bad publicity. The reputation of Firestone, the tyre manufacturer, was, for example, badly damaged by public wrangling with Ford over the cause of 170 traffic deaths and hundreds of accidents in the USA involving the Ford Explorer, fitted with Firestone tyres. Ford eventually recalled 13 million tyres at a cost of $3 billion (*Marketing Business*, July/August 2001).

Skoda cars were best known in Britain in the mid-1990s as the butt of bad jokes, reflecting a widespread but erroneous belief that the cars were poor quality. In 1995, Skoda was preparing to launch a new model in the UK, and did 'blind and seen' tests of the consumers' judgement of the vehicle. The vehicle was rated as better designed and worth more by those who did not know the make. With the Skoda name revealed, perceptions of the design were less favourable and estimated value was substantially lower. Subsequent advertising made a joke of this image, showing customers happy with the cars but embarrassed at buying a Skoda. By also showing that Skoda had the strength of VW behind it (visually shown in poster advertisements as a VW shadow behind the Skoda) following acquisition, positive brand values were steadily built.

This leads us from company name and reputation to brands.

Brands

The identity and exploitation of brands remain central to many views of marketing. For example, the Interbrand agency annually reports the ten most valuable brand names in the world. The results are presented in Table 6.1 (and are regularly updated by the company on their website http://www.interbrand.com).

Not surprisingly, American brands dominate the lists with 73 per cent of the value behind the global brand rankings. Next highest country is Japan with 6 per cent, followed by Germany (also 6 per cent) and the UK (4 per cent) (Ambler, 2001). Such lists are, of course, limited, in that the 'winners' are selected by the nature of the criteria chosen more than the real value of the brand in question.

More importantly, for companies where corporate identity is a liability or a nonexistent asset, more emphasis is placed on building or acquiring individual brand names as assets. Beechams, for example, deliberately set out to acquire brands with a marketable reputation. The Bovril brand was purchased to ease the company's launch into the stock cubes market (Bovril being an established brand property in the similar meat extracts market). Companies with little customer-based corporate identity, such as Rank Hovis MacDougal (RHM), have developed their various brands into major assets: the Bisto brand, famous as the UK market leader in gravy making, for example, has been used to good effect by RHM in its move into the soups and sauces market.

The British car industry is perhaps one of the best examples of assets based in brand names or marques. Over the years Rover Group and its predecessors have had valuable assets in marques such as Rover, Wolsey, MG, Austin Healey and Jaguar. During the short period of ownership by BMW of what became referred to in the

Table 6.1 The top ten brand names

*Rank**	*1990*	*1996*	*2001*	*2006 (value in US$bn)*
1	Coca-Cola	McDonald's	Coca-Cola	Coca-Cola (67)
2	Kellogg	Coca-Cola	Microsoft	Microsoft (57)
3	McDonald's	Disney	IBM	IBM (56)
4	Kodak	Kodak	General Electric	General Electric (49)
5	Marlboro	Sony	Nokia	Intel (32)
6	IBM	Gillette	Intel	Nokia (30)
7	American Express	Mercedes Benz	Disney	Toyota (28)
8	Sony	Levis	Ford	Disney (28)
9	Mercedes Benz	Microsoft	McDonald's	McDonald's (28)
10	Nescafé	Marlboro	AT&T	Mercedes (22)

Note: * Ranking based on: (1) weight – dominance of the market, (2) length – extension into other markets, (3) breadth – approval across age, religion or other divides, and (4) depth – customer commitment.

Source: Interbrand (1996, 2001, 2006).

German press as the 'English Patient' (following the successful movie of the same name) BMW attempted to embed the values of the BMW brand into the products and operations of Rover as a unifying focus throughout the company and its supply chain. When BMW sold MG-Rover for £10 to a consortium headed by the former chief executive John Tower, it was tacit recognition that they had failed to transfer those brand values, and without them they could see little future for the company. The firm finally collapsed in April 2005 and the physical assets were acquired by Chinese car manufacturer Nanjing Automobile Group.

Branding can operate at the individual level too. For example, sportsmen and sportswomen have begun taking out patents on their names and nicknames, as these are used in merchandising and advertising. Footballers such as David Beckham, Alan Shearer, Paul Gascoigne and Ryan Giggs have registered their surnames and the nicknames 'Gazza', 'Giggsy' and 'Giggs 11'. Eric Cantona, the former Manchester United player, has patented his name and the slogan 'Ooh Aah Cantona', which fans chanted. Damon Hill, the racing driver, registered the image of his eyes looking out of his driving helmet (subsequently used in advertisements by Andersen Consulting), and Dickie Bird, the former international cricket umpire, launched his own personality Toby jug. Each of these could get about 10 per cent royalties on product sales, when their names, slogans and nicknames are used. The football kit business in the UK alone was worth £100 million in 1996, and football boots a further £110 million. Many of these products are now marketed with players' names on them (*The Guardian*, 30 August 1997). Similar developments can be seen with major basketball and football stars in the US.

Brands can be particularly powerful marketing assets for a number of reasons.

- **Brands are difficult to build** – for example, in the top fifty grocery brands in the UK, very few are new: four were launched in the 1800s; sixteen were launched between 1900 and 1950; twenty-one were launched between 1950 and 1975; and nine have been launched since 1975. Once established, simple economics suggests brands must be fully exploited.
- **Brands add value for customers** – the classic example is that in blind tests 51 per cent of consumers prefer Pepsi to Coca-Cola, but in open tests 65 per cent prefer Coca-Cola to Pepsi: soft drink preferences are based on brand image, not taste (de Chernatony and MacDonald, 1992).
- **Brands create defensible competitive positions** – Heinz baked beans is a cliché and an old brand. In 1996, some supermarket own-label baked beans were priced as low as 3p a can. The power of this brand is such that not only did Heinz customers stay loyal while paying fully nine times as much, but Heinz was also actually able to increase its prices at this time. In the whole war, Heinz saw only a 4 per cent dip in revenue.
- **Brands build customer retention** – research sponsored by the US Coalition for Brand Equity shows that brand loyalty makes customers less sensitive to competitors' promotions and more likely to try new products and services from that brand. A study of 400 brands over eight years by Information Resources found that with successful brands 30 per cent of the sales increase attributable to new advertising came from new customers, but 70 per cent came from the increased loyalty of existing customers (Kanner, 1996).

- **Brands can transform markets** – the British financial services sector has long been associated with weak branding and low brand awareness: names like Provident, Perpetual and Scottish imply thriftiness, but little else. Virgin Direct and the Sainsbury Bank have taken market share in financial services quickly and cheaply by extending their strong brands into this sector.
- **Brands perform financially** – a study by Citibank and Interbrand in 1997 found that companies basing their business on brands had outperformed the stock market for fifteen years. The same study does, however, note the risky tendency of some brand owners to have reduced investment in brands in the mid-1990s with negative impacts on their performance (Smith, 1997).
- **Brands can cross national borders** – global brands are becoming increasingly common and many firms are attempting to standardise their branding across international markets as their customers also become global. Vodafone, the mobile communications company, for example, has recently 'migrated' regional brands to the one, global brand Vodafone. The Greek subsidiary, formerly Panafon, then Panafon-Vodafone, became simply Vodafone in January 2002. The German brand Vodafone D2 followed in March, and Europolitan Vodafone of Sweden in April. The firm has adopted a dual branding strategy to ease the migration, with the Vodafone name introduced alongside the original for a limited period to build customer recognition (*Marketing Business*, March 2002).

Company and brand are not the only influences on customer perceptions of offerings. The origin of the product may also have a significant impact.

Country of origin (COO)

For companies operating in international markets, the identity of the home country can contribute either as an asset or a liability. Japanese firms, for example, collectively enjoy a good reputation for quality and value for money. Similarly 'made in Hong Kong' or 'Taiwan' still gives the impression, rightly or wrongly, of poor workmanship and cheap materials. British-made goods, such as Barbour, The Body Shop and Church's shoes, are enjoying a revival in the US due to the favourable image of Britain in this market. Other examples of country of origin (COO) effects include the following:

- French wine enjoys a strong international reputation, allowing premium pricing. The use of French words (such as 'château' and 'appellation contrôlée') on labels serves to reinforce the origin. Indeed, wine from specific regions within France can also command a premium even before the wine is sampled. It is noteworthy that wines from Australia depend more on promoting the grape variety (e.g. Pinot Noir, Chardonnay) while French wines promote the region of origin. Interestingly, however, France is seen as a particularly snobbish country by North American consumers (d'Astous and Boujabel, 2007), but this may even enhance the reputation of French wines.
- New Zealand successfully promoted itself as a tourist destination following the success of the *Lord of the Rings* movies which were filmed there. The emphasis has now shifted to marketing the country's foods and wines. The luxury vodka brand, 42 Below, is marketed based on New Zealand's reputation for purity (*The Economist*, 11 November 2006).

- Ozretic-Dosen, Skare and Krupka (2007) examined the effects of country of origin in consumer evaluations of chocolate in Croatia. They found that COO is a strong motivator in purchases, and is used by consumers as a cue to evaluation of the quality of the product.
- Increasingly, consumers in developed markets are concerned about the 'carbon footprint' of their purchases and starting to boycott items that have travelled long distances at the expense of the environment. Interestingly, this can conflict with desires to purchase ethically by supporting the Fairtrade brand that guarantees growers a fair proportion of proceeds from their products. The FLO International Fairtrade certification system covers a growing range of products, including bananas, honey, oranges, cocoa, cotton, dried and fresh fruits and vegetables, juices, nuts and oil seeds, quinoa, rice, spices, sugar, tea and wine. In 2005, Fairtrade certified sales amounted to approximately €1.1 billion worldwide, a 37 per cent year-to-year increase (BBC News Service, 28 June 2006). Sales are further expected to grow significantly in coming years: according to the 2005 Just-Food Global Market Review, Fairtrade sales are expected to reach US$9 billion in 2012 and US$20–25 billion by 2020.

The Fairtrade product range, January 2007

Alamy/Mark Boulton

The value of image of home country, company or brand should not be underestimated. Image often takes a long time to build up, but can be destroyed very quickly by mistakes or mishaps. For example, French wine suffered significantly in the US market when France did not support the US-led invasion of Iraq in 2003. Conversely, it is often more difficult, though not impossible, for competitors to destroy a company's image-based assets than, say, copy its technology or imitate its products.

Market domination

In addition to image, the domination or apparent domination of the market can constitute an asset. Market presence or domination is used as one of the criteria for valuing brands by Interbrand. Market leaders typically enjoy good coverage of the market, wide distribution and good shelf positions. In addition, market leaders are often believed by consumers to be better in some way than the rest of the market (why else would they be market leader unless they were the best?). Simply being there and highly visible may confer an asset on the product. There is, however, a counter-argument emerging. There is some evidence of an increasing desire among more affluent consumers to demonstrate their independence and sophistication by not buying the same goods and services that others buy. In some product areas this could lead to the situation where being popular and widely used actively discourages some customers who wish to feel they are different from the mass.

For example, in Japan there has been a surge in the sales of unbranded goods in an attempt by conspicuous consumers to stand out from the mass in their Jean Paul Gaultier dresses, Hermes scarves, Cartier gold watches and Chanel handbags. *The Economist* (14 March 1992) reported the success of the clothes retail store Seibu in Tokyo, which sells only *Mujirushi ryohin* ('no brand/good quality') products. Their labels say only what materials are used and the country of manufacture. The clothes have simple designs, plain colours, high quality and reasonable pricing. Seibu's parent group have also developed the no-brand idea for tinned food and household items in its Seiyu supermarkets.

Superior products and services

It is still worth saying that having superior products and services on the market – products that are, or are believed to be, better in some way (e.g. cheaper, better quality, more stylish and up to date) than the competitors' – can be a marketing asset for the company. Unique products or services, until they are imitated, can provide marketing assets, so long as customers want them and are prepared to pay for them.

6.4.2 Supply chain assets

Assets based in the supply chain are concerned with the manner in which the product or service is conveyed to the customer. They include the distribution network, its control and its uniqueness and pockets of strength.

Distribution network

The physical distribution network itself can be a major asset. Hertz, for example, in the car hire business owes much of its success to a very wide network of pick-up and drop-off centres, especially in the US. This wide network ensures availability of the required services in the right place, increasing convenience of use for the customers. Similarly, in the UK, the Post Office found its distribution system a major asset in offering new postal services to potential customers when deregulation permitted increased competition from other parcel carriers. The supply chain partnerships created by Federal Express are what enables the company to guarantee overnight delivery.

Distribution control

Investments in dominating some or all of the channels for a product can be a powerful asset. Mars launched the Mars Ice-Cream Bar as a child's treat transformed into an adult indulgence – a strategy since imitated by countless competitors. After five years the product failed to show a profit (Mitchell, 1995). The Unilever-owned competitor Walls 'owns' the distribution channel that matters: small convenience stores. Indeed, Walls quite literally does own the freezers and display cabinets in many of these outlets, and does not share them with competitors. The critical marketing asset is distribution channel control.

Pockets of strength

Selective but close relationships between a company and its distribution outlets can lead to pockets of strength. Where a company is unable, through size or resource constraints, to serve a wide market, concentrating effort, either geographically on specific regions of the market (Wm Morrisons supermarkets were particularly strong in Yorkshire but spread nationally through acquisition of the Safeway chain of stores), or through specific outlets, can enable a pocket of strength to be developed.

Companies adopting the latter approach of building up a strong presence with selective distributors, or even end users in many industrial markets, often achieve that pocket of strength through key account marketing, i.e. giving full responsibility for each key account development to a specific, normally quite senior, executive. Pockets of strength are typically built up on the basis of strong relationships with those selected distributors and hence require a proactive relationship marketing strategy to ensure their development (see Chapter 16).

Distribution uniqueness

Further distribution-based assets can be built through uniqueness, reaching the target market in a novel, or innovative way. For instance, Ringtons sells tea and coffee door to door in the north of England and the Avon Cosmetics company has built a strong door-to-door business in cosmetics sales through the 'Avon Calling' campaign.

Similarly, Dell computers has achieved a uniquely strong position in the personal computer market by using a direct distribution approach, which enables most of the computers sold to be built to the specifications of the customer, while at the same time giving Dell a much faster stock-turn than its competitors. Dell has been growing at 50 per cent a year in a market growing at 20 per cent a year, and by the mid-1990s was the fifth largest computer manufacturer in the world (*Economist*, 5 October 1996). By 2006 Dell employed around 64,000 people worldwide and was the 25th biggest company in the USA. Product quality problems have, however, affected Dell profitability in 2006/7.

Delivery lead-time and security of supply

Delivery lead-time is a function of at least three main factors – physical location, order through production systems and company delivery policy. In an increasing number of situations the ability to respond quickly, at no compromise to quality, is becoming more important. Deliberately creating a rapid response capability can constitute a significant marketing asset (see Stalk, 1988).

Similarly, particularly in volatile markets, where the supplier's offering is on the critical path of the customer company, the ability to guarantee supply can be a major asset. As with lead-time that ability will be a function of several factors, but perhaps central is the desire on the part of the supplier to meet agreed targets.

The competitive success of fashion clothing retailers such as Primark, Zara and Hennes & Mauritz (H&M) is in large part based on supply chain strengths. These companies can identify fashion catwalk trends and have them in stores within a few weeks, sourced from low-cost suppliers, at attractive high-street prices. While they have different competitive positions, these companies are linked by their efficient supply chains and ability to manage the velocity of stock movement rather than focusing on stock levels. They are simply incredibly fast, and their customers expect no less.

Supplier network

At the other end of the supply chain, well-developed or unique links with key suppliers can be important marketing assets. These can help to secure continuity of supply of raw or semi-finished materials at required standards for negotiated prices. For example, Nissan, the Japanese car producer, operates a computerised supply chain, linking itself to its suppliers and distributors. The company claims it has increased by 80 per cent the number of customers who get exactly the car specifications they want from the dealer within 48 hours of deciding what they want. This precision in meeting exact customer needs is a potential competitive advantage that results in no increase in stock in the supply chain (Tighe, 1997).

6.4.3 Internal marketing support assets

A resource becomes an asset when it is actively used to improve the organisation's performance in the marketplace. Consider the following examples.

Cost advantages

A cost advantage brought about by employing up-to-date technology, achieving better capacity utilisation than competitors, economies of scale or experience curve effects can be translated into lower prices for products and services in the marketplace. Where the market is price-sensitive, for example, with commodity items, lower price can be a major asset. In other markets where price is less important, cost advantages may not be translated into marketing assets; rather they are used to provide better margins.

Information systems and market intelligence

Information systems and systematic marketing research can be valuable assets in that they keep the company informed about its customers and its competitors. Information is a major asset which many firms guard jealously but until it is utilised to make better decisions it does not convert to a marketing asset.

Of particular note is the use of 'data warehouses' of customer information – collected in loyalty schemes or as part of the purchase process, to develop very specific offerings to customers based on their interests and key characteristics. This is why Virgin Atlantic knows which newspapers and seats its frequent fliers prefer.

As well as understanding customers better than competitors do, the owners of data warehouses can create marketing strategies that exploit this resource as a differentiating capability. For example, Nestlé's attack on the pasta market in the UK involved major brand-building activities around the Buitoni subsidiary, entailing the creation of a large database of consumers attracted to traditional Italian cuisine, and the launch of the Casa Buitoni Club. To overcome the problems of a market where consumers were not well educated about pasta products and were confused by the variety on offer, as well as the problem of being cut off from the consumer by retailers, Nestlé used direct response advertising to establish the customer database, and the Casa Buitoni Club as a communications channel with its chosen market segment, allowing one-to-one marketing.

Existing customer base

A major asset for many companies is their existing customer base. Particularly where a company is dealing with repeat business, both consumer and industrial, the existence of a core of satisfied customers can offer significant opportunities for further development.

This has been especially noted in the recent development of the direct marketing industry (accounting for around half of all marketing expenditure in the US), where it is recognised that the best customer prospects for a business are often its existing customers. Where customers have been satisfied with previous company offerings they are more likely to react positively to new offers. Where a relationship has been built with the customer this can be capitalised on both for market development and employed as a barrier to competitive entry.

The converse is, of course, also true. Where a customer has been dissatisfied with a product or service offering they may not only be negative towards new offers, but also may act as 'well poisoners' in relating their experiences to other potential customers. There is an old marketing adage: 'Each satisfied customer will tell three others, each dissatisfied customer will tell 33!'

The issue of customer retention and customer loyalty has become extremely important, and we will consider this in more detail in Chapter 15.

Technological skills

The type and level of technology employed by the organisation can be a further asset. Technological superiority can aid in cost reduction or in improving product quality. For example, the high rate of growth of a company such as Amersham International (specialising in high-technology medical products for diagnosis of cancers) is largely based on its ability to stay ahead of its competitors in terms of new product development, but also the capability for distributing highly toxic substances safely throughout the world – many of the products are radioactive and extremely dangerous. In the automotive industry, German manufacturers of BMW, Audi and Mercedes Benz are successfully positioned at the high-quality end of the spectrum on the basis of their superior design, technical engineering excellence and quality controls. The strategy was encapsulated in the Audi slogan 'Vorsprung durch Technik' (leading through technology) which also emphasised the German engineering heritage of the cars (country of origin effect).

Production expertise

Production know-how can be used to good effect as a marketing asset. Mars, for example, are particularly good at producing high-quality nougat (a great deal of effort has been put into quality control at Mars, developing their production processes as a core competence). This asset has been turned into a marketing asset in a number of leading products such as Mars Bar, Milky Way, Topic and Snickers, all of which are nougat based.

Copyrights and patents

Copyright is a legal protection for musical, literary or other artistic property, which prevents others using the work without payment of an agreed royalty. Patents grant persons the exclusive right to make, use and sell their inventions for a limited period. Copyright is particularly important in the film industry to protect films from illegal copy ('pirating') and patents are important for exploiting new product inventions. The protection of copyrights and patents, in addition to offering the holder the opportunity to make and market the items protected, allows the holder to license or sell those rights to others. They therefore constitute potential marketing assets of the company.

Franchises and licences

The negotiation of franchises or licences to produce and/or market the inventions or protected properties of others can also be valuable assets. Retailers franchised to use the 'Mitre 10' name in hardware retailing in New Zealand, for example, benefit from the strong national image of the licenser and extensive national advertising campaigns.

Similarly, in many countries American Express cards and products are marketed under licence to the American Express Company of the US. The licence agreement is a significant asset for the licensee.

Partnerships

As we shall see in more detail in Chapter 16, increasingly companies are going to market in collaborative or alliance-based strategies. We should not neglect the importance of existing partnerships as marketing assets, and also the management capability to manage marketing strategy in alliance-based networked organisations.

Corporate culture

One of the resources that is least easy for competitors to imitate and particularly distinctive of a company is its culture. The formation of culture and the capacity to learn are complex issues. None the less, for many successful companies culture represents one of the most unique resources. For example, Hewlett-Packard (HP) has a culture which encourages teamwork and cross-functional and cross-divisional working. This has allowed HP to use its core technologies in many diverse products – printers, plotters, computers, electronic instruments – and to make these products compatible. Competitors can imitate HP's technology relatively easily, but it is far less straightforward to imitate the culture and organisation that underpins HP's marketing effectiveness (Barney, 1997). Despite a boardroom spying scandal, the loss of a chief executive, a problematic merger with Compaq and drastic restructuring, exploiting its underlying strengths in 2007 HP aims to be the first IT company to top

$100 billion in sales to cement its recently established lead over IBM as the world's biggest IT company by revenue.[1]

6.4.4 Alliance-based marketing assets

All the assets discussed above can be held internally in the firm itself or gained through strategic alliances and partnerships. Although there are strategic risks involved, alliances can be seen as one way of increasing a company's pool of assets and capabilities without incurring the expense and loss of time in developing them in-house. The importance of strategic alliances and different forms of partnership is discussed in detail in Chapter 16, but for present purposes we should note the significance of such alliance-based marketing assets as:

- **Market access** – for example, alliances with local distributors are frequently the only way open to the exporter to enter protected overseas markets.
- **Management skills** – partnerships may bring access to abilities not held in-house, both in technology management and marketing management.
- **Shared technology** – alliances are often the basis for sharing and combining technologies to create market offerings with higher customer value, which neither partner could achieve alone.
- **Exclusivity** – partnerships may create monopolistic conditions: for example, the close relationship between McDonald's and Coca-Cola denies access to these outlets for other cola producers.

6.5 Developing marketing capabilities

All the marketing assets in the world, however, are of little value if they are not actively exploited in the marketplace. The processes and practices that deploy marketing assets are marketing capabilities.

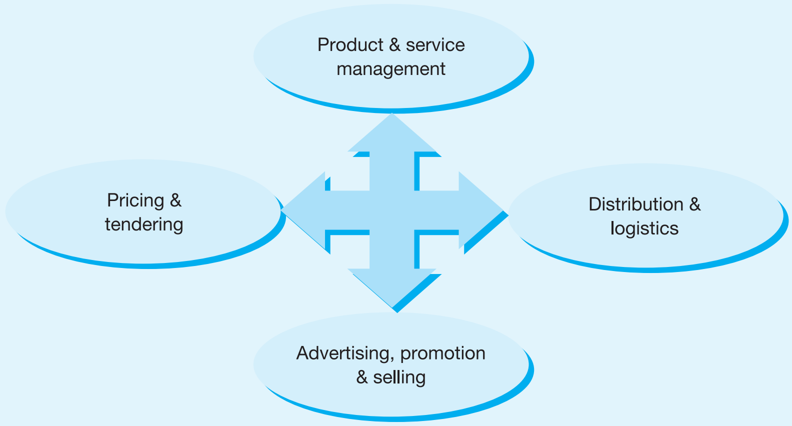
Marketing capabilities are effectively implementation capabilities – the ability to implement marketing mix activities, such as promotions, personal selling, public relations, price deals, special offers to customers, packaging redesign, and so on. While the marketing mix is discussed in more detail in Chapter 12, below, we now briefly describe the main operational marketing capabilities (see Figure 6.6).

6.5.1 Product and service management capability

Managing existing products, including the ability to influence others in the organisation, where their activities impact on customer satisfaction, is basic to effective marketing. This involves the marshalling of all resources (which may cut across traditional organisational boundaries) to deliver customer value. Many firms, following the early examples of Procter & Gamble and Unilever, have designed their organisational structures around the products and services they offer (brand, product and

[1] Kevin Allison and Richard Waters, 'Hewlett-Packard Comes Back Fighting', *Financial Times*, 30 April 2007, p. 27.

Figure 6.6 Marketing capabilities



category managers) to ensure that diverse activities such as product design, packaging, pricing, promotions and distribution networks employed all combine effectively. For example, Mercedes cars are clearly positioned as luxury vehicles, often sold into the corporate or fleet market. It is important that all aspects of the marketing are drawn together (price relatively high to denote quality and exclusivity, features to support luxury, distribution through reputable dealers located in business centres) to reinforce the positioning of the car.

6.5.2 Advertising, promotion and selling capability

Effective communications with customers, both current and prospective, take a variety of forms including advertising, public relations, direct marketing, sponsorship and selling (see Chapter 12). Managing the communications process and campaigns, deciding on the mix of approaches to use, and evaluating communications effectiveness are important marketing capabilities.

Increasingly, companies are outsourcing many of these activities to enable them to buy in best practice and expertise from outside. Design consultancies, PR agencies, packaging specialists and the like are emerging as service providers to marketers in these specialist areas of implementation. Within the focal firm, however, the competencies required are increasingly in the selection, management and coordination of these specialist outside suppliers.

6.5.3 Distribution capability

Distribution capability is the ability to employ existing channels and/or develop new distribution methods for servicing customer needs. The logistics of delivery can be critical to distribution. A major factor in the success of Amazon as an online retailer has been the capability to accurately and consistently deliver goods bought online to customers through third-party delivery agents such as Royal Mail and FedEx. Effective distribution management includes competence for efficient management of traditional distribution channels, but also developing and managing franchising networks and newer electronic channels. This is a broad capability drawing on several organisational competencies such as logistics, production line planning and fleet management.

6.5.4 Pricing and tendering capability

Pricing decisions are notoriously difficult. Price too high and sales are likely to be low, price too low and the returns to the firm may not provide enough margin to enable it to survive or invest in the future. Pricing decisions involve many considerations, including costs of production of physical products or delivery of services, the prices charged by competitors, the demand elasticity and the position in the market being targeted. Managing price changes is also a skilled capability requiring judgement about timing, and effective communications. Tendering decisions, used extensively for example in the construction industry, involve a degree of estimation as to who else will tender, and what price they will go in at. Pricing capabilities draw on competencies not only in marketing, but also in finance and operations management.

6.6 Dynamic marketing capabilities

As noted above, the emphasis in the resource-based strategy literature is now on the creation and exploitation of dynamic capabilities. While dynamic capabilities in general are the ability to create new resources in changing markets, dynamic marketing capabilities are the ability to create new marketing resources to identify, respond to and exploit change. Ensuring evolutionary fit between market needs in a dynamic competitive environment and market offers is the essence of effective strategic marketing.

Following the typology suggested by Wang and Ahmed (2007), we group dynamic capabilities into three main types: absorptive capability, adaptive capability and innovative capability, (see Figure 6.7).

6.6.1 Absorptive marketing capabilities

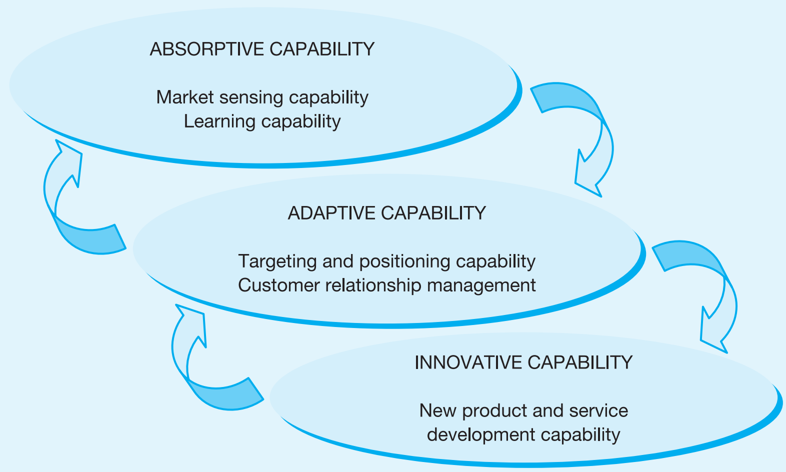
Absorptive capabilities are the processes that enable firms to recognise the value of new information from the market and to assimilate it. These processes focus on knowledge acquisition and assimilation.

Market sensing capability

The capacity for understanding what is happening in the external environment with respect to demand, customers, competitors and wider macro-environmental change is essential to crafting an effective strategy in a changing market.

Specific capabilities include the ability to undertake (or effectively commission) marketing research and competitor analysis, and the ability to ensure dissemination

Figure 6.7 Dynamic marketing capabilities



of the resulting information throughout the organisation as a basis for decision making.

Market sensing is not limited, however, to the conduct of formal market research. Famously, Akio Morita, founder of Sony, sensed that there was a potential market for the Walkman when the market research told him otherwise. Market sensing implies being close to the customer, experiencing products and services in the same way that the customer experiences them. Firms operating in B2B markets may have particular customers that they are especially close to whom they will discuss new product development opportunities with.

In April 2002 BT Cellnet, the UK mobile phone operator, was losing ground to competitors. Following demerger from BT the brand was relaunched as O_2. The market for mobile telephony had matured and competition was intensifying. A significant competitor, One2One, was relaunched as T-Mobile (a huge operator in Europe and the US with a user base of over 60 million customers). Other significant competitors included Vodafone and Orange. Research through Millward Brown (market research company) showed that BT Cellnet lacked a clear identity in the market. The solution, based on extensive market research, was to depart from the usual positioning adopted by competitors (essentially based on technical innovation and product enhancement with features rarely used) to emphasise 'enablement', making the product do what you, the customer, want it to do. Over the two years from the relaunch, O_2 has increased awareness from around 20 per cent to over 60 per cent and by February 2004 the parent firm (mmO_2) was valued at £9.5 billion, and described in *The Financial Times* as 'a miraculous turnaround' (Maunder *et al*., 2005).

Learning capability

Learning processes enable firms to maintain long-term competitive advantages over rivals (Dickson, 1996). In fact, continuous learning is essential for surviving in dynamic and competitive environments (Popper and Lipshitz, 1998) as it makes the firm receptive to acquiring and assimilating external knowledge (Zahra and George, 2002). Learning enables new opportunities to be identified and allows for repetition and experimentation, enabling firms to integrate information from the external environment. More specifically, learning is a core element of dynamic capabilities since it is a 'collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness' (Zollo and Winter, 2002). Prior research has suggested that there are a variety of mechanisms that may be employed to access external knowledge (Almeida *et al*., 2003). These activities are related to the capabilities of market-driven organisations, that, *inter alia*, need to excel in 'outside-in' capabilities such as customer linking (Day, 1994).

6.6.2 Adaptive marketing capabilities

Adaptive capabilities centre on the firm's ability to identify and capitalise on emerging market opportunities. Adaptation implies doing things differently in response to external stimuli.

Market targeting and positioning capability

Market targeting and positioning capabilities encompass the ability to identify alternative opportunities and then select appropriate market targets, where the firm's resources and capabilities are aligned for the best effect. Positioning is not just a marketing decision, however. In aligning resources and capabilities with changing markets, the competencies of all aspects of the business (including operations, finance and R&D) as well as marketing need to be taken into account.

As markets change, so may the positioning adopted need to change.

Customer relationship management

Customer relationship management is the ability to acquire, retain, expand and (where necessary) delete customers. Strategic account management skills are becoming increasingly important in business-to-business markets, together with the increased focus in many markets on relationship building through customer service. Direct marketing also has a role to play here. Because of the increasing importance of customer relationship management, we devote Chapter 15 to discussing this in depth.

6.6.3 Innovative marketing capabilities

New product and service development capability

The ability to innovate and develop the next generation of goods and services is the lifeblood of any organisation. Effective new product development requires both an outside-in (customer sensing) capability and appropriate R&D skills. It relies on multidisciplinary inputs from marketing, R&D, finance, operations and other functional disciplines.

6.7 Resource portfolios

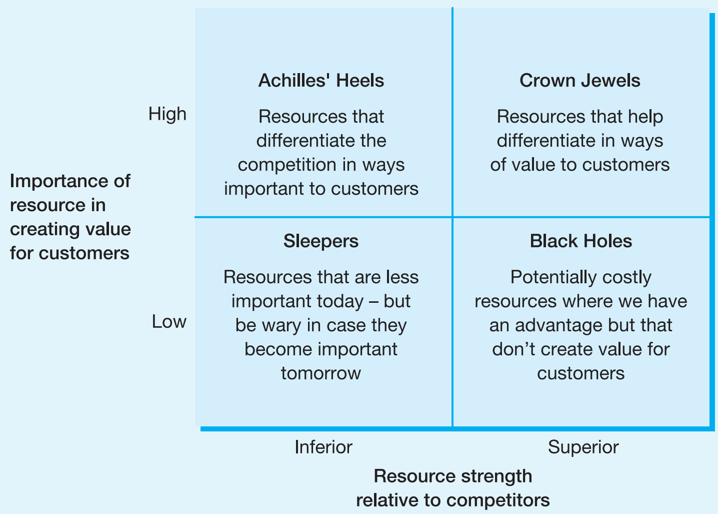
Under the resource-based view of the firm (RBV), organisations are seen as collections of resources, assets and capabilities. These can then be viewed as a portfolio that are available for deployment (Hamel and Prahalad, 1994). When developing strategy the key questions are: How can we exploit our capabilities more fully? What new capabilities will we need to build to enable us to compete in the future?

The interdependence of capabilities and their potential for combination can be the essence of their value. Yamaha, for example, developed the DC11 Digital Piano (Disklavier) by combining their craft competencies in quality acoustic piano manufacture with their digital technology skills developed from successes in electronic keyboards.

Hamel and Prahalad (1994) suggest that in future firms will define themselves more as portfolios of competencies than as portfolios of products or SBUs. Indeed, the roots of successful market offerings essentially lie in created and acquired competencies and the key to future strategy is to further develop, extend and deepen them so that they are available for configuration and deployment in new and innovative ways.

Figure 6.8 shows one way of summarising the portfolio of resources the organisation has at its disposal. The two dimensions have been chosen to reflect how far resources contribute to creating value for customers (vertical) and where these resources are superior or inferior to those of competitors (horizontal). Four types of resource can be identified.

Figure 6.8 The resource portfolio



- **Crown Jewels.** These are the resources where the organisation enjoys an edge over its competitors and are instrumental in creating value for customers. As the source of differentiation these resources need to be guarded and protected to maintain the competitive edge. At the same time, however, managers need to constantly question whether these resources alone can ensure continued success. The danger lies in resting on the laurels of the past while the world, and customer requirements, move forward.
- **Black Holes.** Black holes are resources where the organisation has an edge but which don't contribute to customer value creation. These may be resources that provided customer value in the past but are no longer important. The world and customers may have moved on, rendering them less important at best and obsolete at worst. Managers need to take a long hard look at black holes resources and assess the costs of maintaining them. It could well be that some pruning, or downsizing, of such resources will free up efforts and even cash that can then be deployed more effectively elsewhere.
- **Achilles' Heels.** Where competitors are strong but the organisation is weak, and at the same time the resources are important in customer value creation, the clear implication is that resources need to be strengthened. These are resource deficiencies that could prove fatal if not corrected.
- **Sleepers.** Finally, resources that neither constitute a competitive advantage nor are important in customer value creation could be termed sleepers. They are unimportant today but managers do need to watch that they do not become more important in the future.

The resource portfolio model offers a useful summary of the organisation's resources which can be used to highlight areas for attention and development.

6.8 Developing and exploiting resources

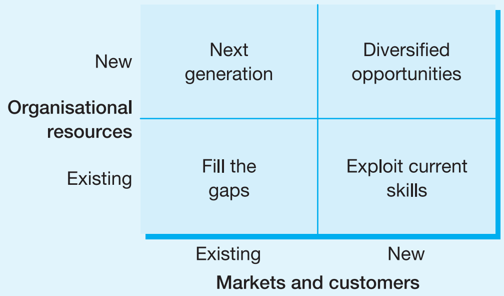
While the emphasis above has been on identifying existing resources, organisations also need to ensure they are developing and nurturing the resources that will be required in the future. This involves a degree of forecasting how markets and customers will change over time. Figure 6.9 shows four strategies for development.

The two dimensions shown in Figure 6.9 represent choices open to the organisation in developing and exploiting both the markets in which it operates and the resources it employs.

In the lower left quadrant the focus is on utilising existing resources as effectively as possible in existing markets. The 'fill the gaps' strategy involves looking for better ways of serving existing customers, using the existing strengths of the organisation. In many ways this may be seen as a defensive strategy used to protect existing positions from competitor encroachment. For example, the major high-street banks have attempted to retain their customer base through offering additional services (such as longer opening hours, faster counter service, more widely available ATMs) using their existing resource base more effectively.

In the top left quadrant the organisation retains its focus on existing markets and customers but recognises that the resources it will need to serve them in the future

Figure 6.9 Developing and exploiting resources



Source: Adapted from Homel and Prahalad, 1994.

will need to change. This requires the 'next generation' of resources to be built and nurtured. Many traditional, 'bricks and mortar' firms, have found that to continue to serve their existing customers they need to develop online, Internet-based services (see Chapter 15). This often requires a new set of capabilities to be developed, not just those associated with Internet technology. These new resources do not necessarily enable the firm to reach new customers or markets, but are required to enable it to continue to serve its existing client base. Under this strategy the organisation stays with the markets that it knows and the customers it has built relationships with, but recognises that it must adapt to continue to serve them effectively. Tesco, the UK food retailer, is now among the largest online retailers in the world, having exploited the opportunities for serving existing customers more effectively through the Internet.

In the bottom right quadrant the organisation seeks new markets and customers where it can 'exploit current skills' more effectively. This quest for new customers, or new markets, is, however, guided by the existing capabilities of the organisation. The acquisition of the UK retailer Asda by the American firm Wal-Mart is a case in point. This enabled WalMart to further exploit its merchandising and purchasing capabilities in the new markets of the UK.

Finally, at top right the organisation looks to serve new customers with new resources through 'diversified opportunities'. This option takes the organisation simultaneously away from its existing markets and its existing resources – a more risky strategy and one that should not be pursued lightly. Firms that go this route often do so through acquisition or merger.

Summary

We started this chapter with a summary of the resource-based view of the firm and the recent development of ideas surrounding dynamic capabilities. Our focus on competitive positioning (i.e. the choice of target markets and the competitive advantage exploited) provides a mechanism for reconciling the internal focus of the

RBV with the external focus demanded in dynamic markets through the development of dynamic marketing capabilities.

The practical reality faced in building robust marketing strategies is that each company has its own unique strengths and weaknesses with respect to the competition and its own distinctive capabilities. While the overarching imperative is customer focus, a key factor for competing successfully in ever more competitive markets is to achieve an evolutionary fit between capabilities and the environment.

At a fundamental level each organisation needs to understand its resource base. These are the skills and processes at which the company excels, and that can produce the next generation of products or services. At the next level the organisation should be aware of its exploitable marketing assets. The resource-based marketing approach encourages organisations to examine systematically their current and potential assets in the marketplace and to select those for emphasis where they have a defensible uniqueness. Assets built up in the marketplace with customers are less prone to attack by competitors than low prices or easily imitated technologies.

Miele

FT Case study

Courtesy of Miele Kitchens

At a time when life has rarely been tougher for manufacturers in the developed world, Miele's strategy for survival is to break almost all the rules. The German company, a global leader in high-quality domestic appliances such as washing machines and vacuum cleaners, is renowned for its exacting manufacturing standards and its refusal to move down-market and compete on price.

Miele bases nearly all its manufacturing in high-cost Germany and is self-sufficient to a high degree. Rather than outsource to low-cost suppliers, it makes 4m electric motors a year (enough for all its products) in its own plant near Cologne, which it says is essential to maintain its quality standards. Sales last year were €2.2bn (£1.5bn).

The approach commands respect among Miele's industry peers. 'It is the Rolls-Royce of the industry, with a fantastic position at the top end,' says Andrea Guerra, chief executive of Merloni, the Italian white goods maker.

But the domestic appliance sector is one of Europe's most competitive and inevitably questions are being asked about how long Miele can stick to what many see as its old-fashioned ways, before succumbing to lower-cost rivals. In fact, whether Miele survives in its current form over the next decade will be an important test case for the whole of European manufacturing.

The company sells appliances ranging from dishwashers to coffee machines, most commanding a price premium of up to 70 per cent over the competitors' wares. It spends 12 per cent of its revenue on product development – far more than the industry norm. Miele's attention to detail is legendary. Ovens are tested using machines that open and shut their doors 60,000 times to simulate the rigours they will withstand in their owners' kitchens.

In truth, most things about Miele seem unusual, even quaint, when compared with the cut-and-thrust style of most big companies today. It is run jointly by the two great-grandsons of the men who set up the company 104 years ago.

Markus Miele and Reinhard Zinkann – whose families still own the business – share adjoining offices in its unfussy headquarters in Gütersloh, a quiet town in northern Germany. Just along the corridor are their two fathers, who still have a say in running the business. Emphasising the sense of togetherness, the side walls to all the offices contain enormous glass windows that make the office suite resemble a greenhouse.

'It means all the family members can see what each other is doing,' says Markus Miele. 'It saves a lot of time when we want to have a discussion.'

The Miele/Zinkann clan has been spending a lot of time recently debating the tough times facing the industry. Total annual domestic appliance sales in Europe – worth some €20bn at manufacturers' prices – are barely growing, as unit prices are forced down by cost pressures while volumes expand at no more than 1 to 2 per cent a year. Some 90 per cent of Miele's sales are in Europe, where it has a 6 per cent market share, with the rest mainly in the US.

Its main competitors include BSH (a joint venture between Bosch and Siemens of Germany), Sweden's Electrolux and Whirlpool of the US, as well as low-cost producers from eastern Europe, China and Turkey.

Apart from domestic appliances, Miele has a professional division supplying commercial catering equipment and also sells high-quality kitchen fittings for the domestic market.

With Germany accounting for 30 per cent of its sales, the company has been hit by the country's economic slowdown, which has dramatically shaved demand. While Miele does not divulge its profit margins, rivals suspect these have shrunk significantly since the mid-1990s. Miele has recently put 1,900 employees in Germany, or 13 per cent of its global workforce, on short-time working until next spring.

More ominously for those who would like to see Miele maintain its manufacturing strategies, the company has announced plans to set up a small washing machine plant in the Czech Republic next year. This will employ only 100 people but could easily be expanded, although the company has given no hint about this. 'I don't see how they can stick with their current way of doing things,' says a senior executive at one of Miele's European competitors. 'In my view, to survive they will have to face the music and move more of their production out of Germany, while making parts such as motors in their own factories is just not viable.'

The mood at Miele's headquarters, however, is serene. Markus Miele says the fall in demand in Germany has been partly compensated for by better sales in other European countries, including the UK, [plus] Australia and the US.

'A few years ago we made our products mainly for the German market and then adapted them to other countries and hoped they would sell,' says Mr Miele. 'Now we are more international: for instance, because we know people in Greece use a lot of oil, the ovens we make for this country contain special coatings that make it easier to remove oil splashes.'

A crucial question concerns the company's high production costs – linked to the concentration of its manufacturing operations in plants in Germany, mainly around Gütersloh. Apart from Germany, Miele also has a factory in Austria and a small joint venture in China for making vacuum cleaners. More than two-thirds of the company's total worldwide staff are in its home country, where wages are frequently four or five times higher than in, for instance, the Czech Republic.

But Mr Miele says wages are not the only factor governing production costs. The company does not publish the figures but almost certainly less than 20 per cent of its manufacturing costs are accounted for by factory wage bills. 'We think we have offset these [high wages] in recent years to some degree by productivity improvements brought about by automation. Last year we spent €125m on capital investment, much of this on machinery.'

The company also believes it can make its German plants more competitive by changes in work practices. 'We have a plant near Gütersloh which makes 50 per cent of all the plastic parts we need. But we make this plant compete with outside contractors to see who gets the work for specific jobs. We make sure they [the Miele plant] charge prices no greater than the other bidders. This is one way we encourage our factories to innovate [in production processes] and improve.'

Even though Miele's manufacturing costs are higher than those of its competitors, the company says these are justified by its ability to turn out appliances that – despite their high prices – people want to buy. Roughly 50 per cent of Miele's manufacturing costs come from components it makes itself, compared with about 30 per cent for equivalent companies. But most Miele appliances, the company says, will work for 20 years, longer than comparable products. This, it says, is linked to the high reliability of individual parts.

As well as making all its own motors, Miele produces nearly all its own printed circuit boards – the building blocks of electronic control systems – in a modern plant in Gütersloh adjacent to a new €10m electronics research centre.

The policy pays off, says Mr Miele. 'My father [who was in overall charge of Miele until 2002] once had a letter from an old lady in eastern Germany. She said she didn't have much money but she was willing to pay 50 per cent more for a Miele washing machine because she knew it would last for the rest of her life.'

Nick Platt, a home appliance specialist at the GfK market research company, says such feelings are not uncommon. 'The company has built up a tremendous loyalty among consumers who know that the brand stands for quality,' he says.

Irrespective of what it does internally, Miele faces a tough few years as it strives not just to fend off competitors at the top end of the white goods market but also to interest new generations of increasingly cost-conscious consumers in buying machines that – in terms of kitchens – are the equivalent of luxury Swiss watches.

Can it survive? Hermann Simon, a German management consultant who is the author of *Hidden Champions,* a bestselling book examining the philosophy of leading German manufacturers, is inclined to say Yes.

'They have a focus and a single-mindedness which I think will ensure they can continue to do well. Thirty years ago people were asking the same questions [about Miele's staying power] and they have come through. The company has shown that making things in Germany can – in the right product area – still act as an advantage.'

From milk churn to washing machine

Innovation is a vital activity at Miele. The company puts about 12 per cent of its annual sales into research and development, a figure more reminiscent of semiconductor businesses than of companies making kitchen appliances. The accent on new ideas was central to the company – which owns 681 worldwide patents – from its inception.

The founders of the business, Carl Miele and Reinhard Zinkann, started by making machines for separating cream from milk, which were sold to farmers in the agricultural region of northern Germany where Miele has always been based. The pair branched out in 1900, a year after the company started, into butter churns – large containers fitted with hand-propelled paddles to make the milk curdle.

Miele's first washing machines followed in 1901. It was a simple matter for the company's technicians to take the butter churns, fill them with soapy water rather than milk and replace the paddle with a mechanical agitator to wash clothes. Electric power was added later; the company made its first vacuum cleaner in 1927 and its first dishwasher in 1929.

Markus Miele, the company's current joint managing director and the great-grandson of the first Mr Miele, says the company tries continually to improve its products. A few years ago, it rethought the design for the large metal drums that contain the wash load in modern front-loading washing machines. 'The drums had 4,000 holes [for letting water in and out] and our engineers thought for years that it was impossible to reduce them in number without interfering with the water passage. But after a lengthy series of tests we showed you could reduce the figure to 700 without impeding performance. The change made the systems simpler to make and more resilent [by increasing their stiffness].'

What does Mr Miele think of James Dyson, the UK domestic appliance entrepreneur who – through his company, Dyson Appliances – has blazed a trail in Europe by introducing the first bagless vacuum cleaner? 'Mr Dyson has done an impressive job in marketing, which has helped us because he has helped to make the public keener on buying high-cost appliances. But it's not correct to say he devised [bagless cleaners] before anyone else. We thought of this idea some years before but we never marketed the products because having vacuum cleaners without bags causes problems for the consumer in terms of disposing of the dirt. We think it's better to use bags, which is why we have not gone down this route.'

Source: Peter Marsh, 'Miele focuses on old-fashioned quality', *The Financial Times*, 13 November 2003.

Discussion questions

1. What are the key resources that have made Miele a successful company so far? Which of these are marketing assets?
2. Miele are now facing more and more competition in a changing market. Do their resources provide them with a sustainable competitive advantage?
3. What new resources might they need to develop/acquire to remain successful in the future?