

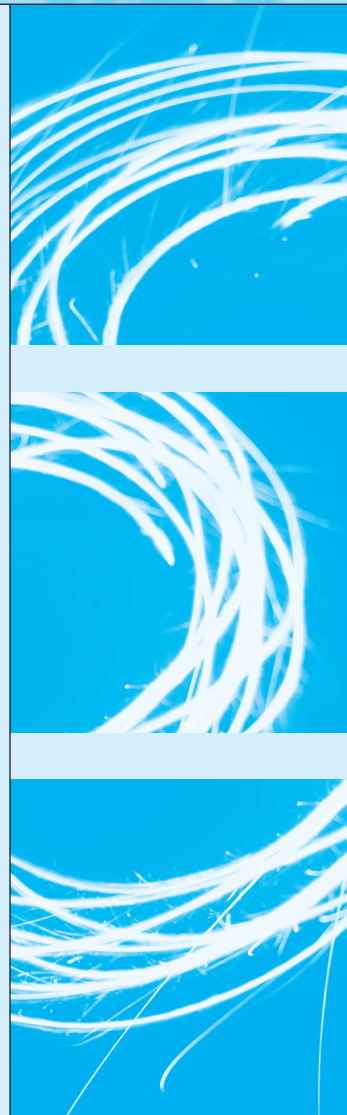
part one

Marketing Strategy

The first part of this book is concerned with the role of marketing in strategy development and lays the groundwork for analysing the two critical issues of competitive positioning and market choices.

Chapter 1 discusses the modern challenges to the conventional view of marketing as simply a specialised function in an organisation, and the move towards examining marketing as a process of value creation and delivery to customers that transcends traditional departmental boundaries. We examine the issue of our growing understanding of market orientation as a way of doing business that places the customer at the centre of operations, and aligns people, information and structures around the value-creation process. We also recognise the role of organisational resources in creating sustainable competitive advantage. The chapter concludes with a set of fundamental marketing principles to guide the actions of organisations operating in competitive markets, and by identifying the role of marketing in leading and shaping strategic management.


Chapter 2 presents a framework for developing a marketing strategy that is then adopted throughout the rest of the book. A three-stage process is proposed. First, the establishment of the core strategy. This involves defining the business purpose, assessing the alternatives open to the organisation through an analysis of customers, competition and the resources of the organisation, and deciding on the strategic focus that will be adopted. Second is the creation of the competitive positioning for the company. This boils down to the selection of the target market(s) (which dictates *where* the organisation will compete) and the establishment of a competitive advantage (which spells out *how* it will compete). Third, implementation issues are discussed, such as the achievement of positioning through the use of the marketing mix, organisation and control of the marketing effort.



The ideas and frameworks presented in Part 1 are used to structure the remainder of the book, leading into a more detailed discussion of market analysis in Part 2, segmentation and positioning analysis in Part 3, the development of competitive positioning strategies in Part 4, and strategy implementation issues in Part 5.

Market-led strategic management

1



The successful organization of the future will be customer-focused, not product or technology focused, supported by a market-information competence that links the voice of the customer to all the firm's value-delivery processes . . . Successful marketing organizations will have the skills necessary to manage multiple strategic marketing processes, many of which have not, until recently, been regarded as within the domain of marketing.

Webster (1997)

Introduction

As the third millennium unfolds there is continued debate about whether marketing, as an approach to business and as a business function, has come of age, has reached maturity or is in decline. While a decade ago marketing was misunderstood by many senior managers and typically thought to be just a new name for selling and advertising, today most senior managers could offer passably accurate textbook definitions of marketing, centring on identifying and satisfying customer requirements at a profit, and most would probably also claim that their businesses were 'market oriented'. In Greyser's terms, marketing has successfully 'migrated' from being a functional discipline to being a concept of how businesses should be run (Greyser, 1997). Similarly, marketing is talked of as a key function in organisations other than the conventional commercial company – in not-for-profit enterprises such as charities and the arts, in political parties, and even in public sector organisations such as the police service.

However, the paradox is that this is also a time when many companies are abandoning marketing departments as they prepare to cope with new types of market and increasingly sophisticated customers, through new types of organisations and collaborations between organisations.

In fact, as we shall see in Chapter 19, there have been recent challenges to the marketing function from sources as diverse as McKinsey consultants (e.g. Brady and Davis, 1993) and by theoreticians of a purportedly 'postmodern' persuasion (e.g. Brown, A., 1995). We shall evaluate the credibility of these challenges, although broadly they appear more concerned with the operational aspects of marketing than the strategic. We shall argue throughout that, while the organisation structures, operational methods and formal 'trappings' of marketing can and should change to reflect new developments and market opportunities, the philosophy and concept of marketing, as described in this chapter, are even more relevant in the marketing environment faced now than ever before.

Indeed, some suggest that many companies have anyway done little more than pay lip service to marketing and to the fundamental marketing principle of making focus on the customer a strategic priority. For example, a survey of major UK companies found the following evidence suggesting lip-service rather than a real commitment to customers:

- One hundred per cent of a sample of senior management from *Times 1000* companies said that customer satisfaction was their real measure of success – in fact most measure successful performance by short-term financials such as pre-tax profit, and only 60 per cent use any form of customer-based criteria to evaluate staff performance.
- Seventy per cent of executives said the customer was their first or second priority; at the same time less than 24 per cent believed management time spent with customers was important, and only 34 per cent saw it as important to train staff in customer service skills.
- Seventy-six per cent said they had a database for target marketing – however, almost none placed any value at all on developing relationships with those same customers.

(Marketing Business, 1997)

It may be less a case of marketing 'failing' or being in decline than not being properly understood or effectively implemented in the first place.

Doyle (1997), for example, has claimed that relatively few companies have succeeded in moving beyond the 'marketing' trappings of advertising, short-term sales growth and flamboyant innovation to achieve the substance of a robust marketing strategy that produces long-term performance and strong shareholder value. Doyle distinguishes between the following:

- **Radical strategies:** Companies may achieve spectacular growth in sales and profits, but because they do not build customer value through superior products and services they do not create long-term shareholder value. Characteristics of such strategies are that they are acquisition based, or they are marketing department based (e.g. high levels of advertising and proliferating product lines), or they are public relations based (media hype to attract customers).
- **Rational strategies:** Some achieve high short-term performance by creating new products that are significantly superior to or cheaper than traditional competitors. Examples of such strategies are major innovations in technology, marketing methods or distribution channels (e.g. Amstrad in electronics and personal computers (PCs), Direct Line in the telemarketing of financial services, Sock Shop in speciality retailing). Their weakness is that these strategies offer no defensible, sustainable competitive advantage (e.g. Direct Line's innovatory telephone marketing for financial services gained spectacular short-term competitive advantage but was easily imitated by competitors). They do not build long-term customer relationships, and ultimately they fail to produce long-term shareholder value.
- **Robust strategies:** These companies achieve steady performance over the long term by creating superior customer value and building long-term customer relationships. Characteristics of these strategies are: focusing on superior customer value but recognising that no innovation on its own can offer long-term advantage; making long-term investments in relationships with suppliers, distributors, employees and customers; processes of continuous learning, innovation and improvement; and developing effective supply chains and information technology to deliver superior operating performance. Examples include Johnson & Johnson and Toyota.

The implication is that the real challenge facing companies as they progress through the twenty-first century is to go past mere lip service to 'marketing' and get to grips with what is required to achieve a sustainable, long-term competitive position in the marketplace, which will yield profit and shareholder value. Meeting this challenge may or may not involve a marketing department. It will certainly involve developing a marketing strategy that is based on a profound understanding of the marketplace to define a competitive position that is defensible, and that is supported by a continuous process of learning and improvement in customer value. It will certainly involve competing against new benchmarks of superior service and relationship building, and also competing through new business models, many based on the Internet. It will depend on our ability to understand and respond effectively to the demands of new and different types of customer. It will certainly involve the successful management of implementation of marketing strategy, and all that this implies for organisational change.

Indeed, our understanding of the fundamentals of marketing is increasingly enhanced by looking at marketing as 'the process of going to market' (Piercy, 2002)

rather than a functional or departmental activity in companies, and as a process that is driven by value creation for customers. Webster (1997), for example, proposes that marketing should be thought of as the design and management of all the business processes necessary to define, develop and deliver value to customers. He suggests that a list of marketing processes would include the following:

- **value-defining processes:** processes that enable the organisation to understand the environment in which it operates better (such as market research, studies of customer needs and preferences, buying behaviour, product use and so on), to understand its own resources and capabilities more clearly, to determine its own position in the overall value chain and to assess the value it creates through economic analysis of customer use systems;
- **value-developing processes:** processes that create value throughout the value chain, such as procurement strategy, new product and service development, design of distribution channels, vendor selection, strategic partnership with service providers (e.g. credit, database management, product service and disposal), pricing strategy development and, ultimately, the development of the value proposition for customers;
- **value-delivering processes:** processes that enable the delivery of value to customers, including service delivery, customer relationship management, management of distribution and logistics, communications processes (such as advertising and sales promotion), product and service enhancement, customer support services and the deployment of the field salesforce.

In the context of managing the process of going to market – value definition, value development and value delivery – the goal of this book is to provide a rigorous analytical framework for developing effective and robust marketing strategies applicable both today and, critically, in the future. A process perspective implies constant effort to increase value. We are interested not just in finding solutions to today's problems but also in building approaches that will enable organisations to change and adapt as new opportunities and threats arise.

This first chapter sets the scene by examining the marketing concept and market orientation as the foundations of strategic marketing, the role of marketing in addressing various stakeholders in the organisation, and the emerging era of resource-based marketing strategy.

1.1 The marketing concept and market orientation

1.1.1 Evolving definitions of marketing

One of the earliest pieces of codification and definition in the development of the marketing discipline was concerned with the marketing concept. Over 40 years ago Felton (1959) proposed that the marketing concept is:

A corporate state of mind that exists on the integration and co-ordination of all the marketing functions which, in turn, are melded with all other corporate functions, for the basic objective of producing long-range profits.

Kotler *et al.* (1996) suggested that the defining characteristic is that:

The marketing concept holds that achieving organisational goals depends on determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors do.

At its simplest, it is generally understood that the marketing concept holds that, in increasingly dynamic and competitive markets, the companies or organisations which are most likely to succeed are those that take notice of customer expectations, wants and needs and gear themselves to satisfying them better than their competitors. It recognises that there is no reason why customers should buy one organisation's offerings unless they are in some way better at serving their wants and needs than those offered by competing organisations.

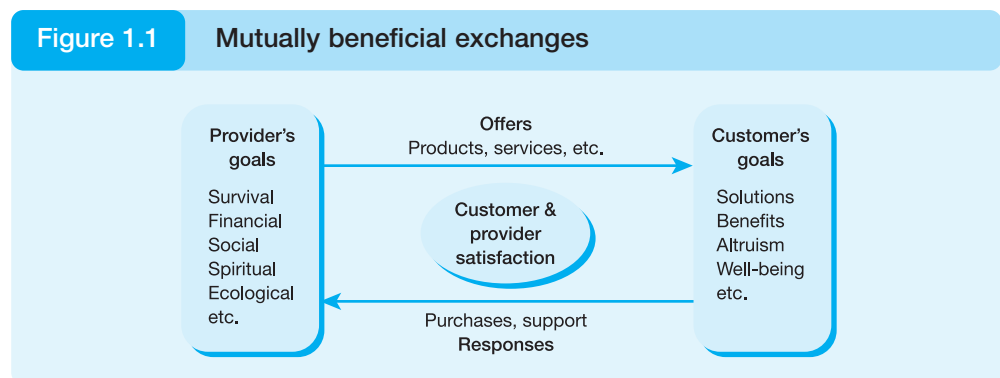
In fact, the meaning and domain of marketing remains controversial. In 1985 the American Marketing Association reviewed more than 25 marketing definitions before arriving at their own (see Ferrell and Lucas, 1987):

Marketing is the process of planning and executing the conception, pricing, planning and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives.

This definition places marketing as a process that is performed within an organisation. This process may or may not be managed by a marketing department or function. It leads to a model of 'mutually beneficial exchanges' as an overview of the role of marketing, as shown in Figure 1.1. Indeed, 2004 saw the announcement of a new definition of marketing by AMA, based on an extensive search and development process led by Robert Lusch and Greg Marshall:

Marketing is an organizational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.

Important points of focus in this new definition, which reinforce the notion of beneficial exchanges, are: value, process and customer relationship. These ideas



underpin much of what we examine in marketing strategy development and implementation in this book.

Interestingly, to address a whole set of new environmental challenges that have emerged over the past few years, Kotler suggests a broader integrated perspective of marketing which he calls 'holistic' (Kotler and Keller, 2007), built on the four components that are relationship marketing (discussed in Chapter 16), integrated marketing (see Chapter 12), internal marketing (discussed in Chapter 17) and socially responsible marketing (see Chapter 18).

However, moving from textbook definitions of marketing to the realities of what marketing means operationally is more difficult. Webster (1997) points out that, of all the management functions, marketing has the most difficulty in defining its position in the organisation, because it is simultaneously culture, strategy and tactics. Webster's argument is that marketing involves the following:

- **Organisational culture:** Marketing may be expressed as the 'marketing concept' (Drucker, 1954; McKitterick, 1957; Keith, 1960), i.e. a set of values and beliefs that drives the organisation through a fundamental commitment to serving customers' needs as the path to sustained profitability.
- **Strategy:** As strategy, marketing seeks to develop effective responses to changing market environments by defining market segments, and developing and positioning product offerings for those target markets.
- **Tactics:** Marketing as tactics is concerned with the day-to-day activities of product management, pricing, distribution and marketing communications such as advertising, personal selling, publicity and sales promotion.

The challenge of simultaneously building customer orientation in an organisation (culture), developing value propositions and competitive positioning (strategy) and developing detailed marketing action plans (tactics) is massive and complex. It is perhaps unsurprising that the organisational reality of marketing often falls short of these demands.

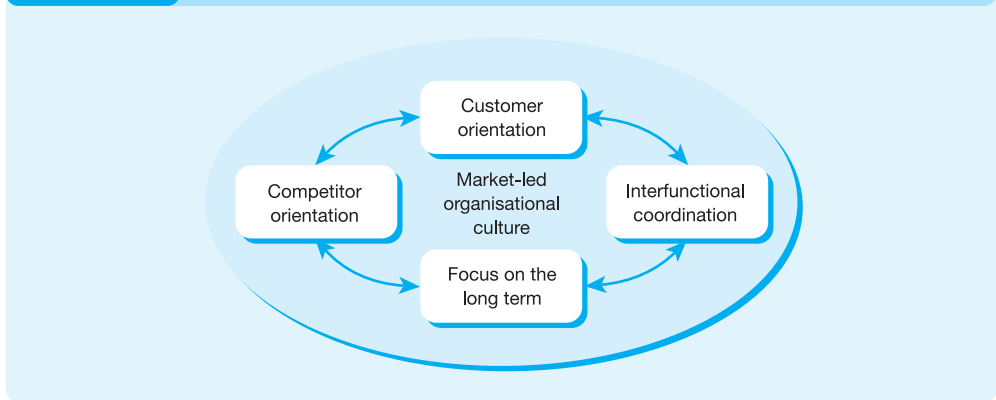
1.1.2 Market orientation

Marketing Science Institute studies during the 1990s attempted to identify the specific activities that translate the philosophy of marketing into reality, i.e. to achieve market orientation. In one of the most widely quoted research streams in modern marketing, Kohli and Jaworski (1990) defined market orientation in the following terms:

a market orientation entails (1) one or more departments engaging in activities geared toward developing an understanding of customers' current and future needs and the factors affecting them, (2) sharing of this understanding across departments, and (3) the various departments engaging in activities designed to meet select customer needs. In other words, a market orientation refers to the organization-wide generation, dissemination, and responsiveness to market intelligence.

This view of market orientation is concerned primarily with the development of what may be called market understanding throughout an organisation, and poses a

Figure 1.2 Components and context of market orientation



substantial challenge to the executive to develop ways to build this market understanding (see e.g. Piercy and Lane, 1996).

In parallel studies Narver and Slater (1990) defined market orientation as:

The organizational culture . . . that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business.

From this work a number of components and the context of marketing are proposed (see Figure 1.2):

- **customer orientation:** understanding customers well enough continuously to create superior value for them;
- **competitor orientation:** awareness of the short- and long-term capabilities of competitors;
- **interfunctional coordination:** using all company resources to create value for target customers;
- **organisational culture:** linking employee and managerial behaviour to customer satisfaction;
- **long-term profit focus:** as the overriding business objective.

Although findings are somewhat mixed there appears to be growing empirical support for the view that achieving market orientation is associated with superior performance on the one hand and internal company benefits, such as employee commitment and *esprit de corps*, on the other (Jaworski and Kohli, 1993; Slater and Narver, 1994).

However, what has also been suggested is that there may be substantial barriers to achieving market orientation (Harris, 1996, 1998; Piercy *et al.*, 2002), and the reality may be that executives face the problem of creating and driving marketing strategy in situations where the company is simply not market oriented in any real way. This is probably at the heart of the implementation problem in marketing (see Chapter 17).

Table 1.1 The fabric of the new marketing concept

1	Create customer focus throughout the business.
2	Listen to the customer.
3	Define and nurture the organisation's distinct competencies.
4	Define marketing as market intelligence.
5	Target customers precisely.
6	Manage for profitability, not sales volume.
7	Make customer value the guiding star.
8	Let the customer define loyalty.
9	Measure and manage customer expectations.
10	Build customer relationships and loyalty.
11	Define the business as a service business.
12	Commit to continuous improvement and innovation.
13	Manage culture along with strategy and structure.
14	Grow with partners and alliances.
15	Destroy marketing bureaucracy.

Source: Webster (1994)

An interesting attempt to 'reinvent' the marketing concept for a new era of different organisational structures, complex relationships and globalisation, which may be relevant to overcoming the barriers to market orientation, is made by Webster (1994). He presents 'the new marketing concept as a set of guidelines for creating a customer-focused, market-driven organization', and develops 15 ideas that weave the 'fabric of the new marketing concept' (Table 1.1).

Webster's conceptualisation represents a useful attempt to develop a pragmatic operationalisation of the marketing concept.

We can summarise the signs of market orientation in the following terms, and underline the links between them and our approach here to marketing strategy and competitive positioning:

- Reaching marketing's true potential may rely mostly on success in moving past marketing activities (tactics), to marketing as a company-wide issue of real customer focus (culture) and competitive positioning (strategy). The evidence supports suggestions that marketing has generally been highly effective in tactics, but only marginally effective in changing culture, and largely ineffective in the area of strategy (Day, 1992; Varadarajan, 1992; Webster, 1997).
- One key is achieving understanding of the market and the customer throughout the company and building the capability for responsiveness to market changes. The real customer focus and responsiveness of the company is the context in which marketing strategy is built and implemented. Our approach to competitive market analysis in Part 2 provides many of the tools that can be used to enhance and share an understanding of the customer marketplace throughout the company.
- Another issue is that the marketing process should be seen as inter-functional and cross-disciplinary, and not simply the responsibility of the marketing department. This is the real value of adopting the process perspective on marketing, which is becoming more widely adopted by large organisations (Hulbert *et al.*, 2003). We shall see in Part 4 on competitive positioning strategies that superior service and value, and innovation to build defensible competitive positions, rely on

the coordinated efforts of many functions and people within the organisation. Cross-functional relationships are also an important emphasis in Part 5.

- It is also clear that a deep understanding of the competition in the market from the customer's perspective is critical. Viewing the product or service from the customer's viewpoint is often difficult, but without that perspective a marketing strategy is highly vulnerable to attack from unsuspected sources of competition. We shall confront this issue in Part 3, where we are concerned with competitive positioning.
- Finally, it follows that the issue is long-term performance, not simply short-term results, and this perspective is implicit in all that we consider in building and implementing marketing strategy.

A framework for executives to evaluate market orientation in their own organisations is shown in Box 1.1. However, it is also important to make the point at this early stage that marketing as organisational culture (the marketing concept and market orientation) must also be placed in the context of other drivers of the values and approaches of the organisation. A culture that emphasises customers as key stakeholders in the organisation is not inconsistent with one that also recognises the needs and concerns of shareholders, employees, managers, and the wider social context in which the organisation operates.

Market orientation assessment

Box 1.1

1 CUSTOMER ORIENTATION

	Strongly agree	Agree	Neither	Disagree	Strongly disagree	Don't know
Information about customer needs and requirements is collected regularly	5	4	3	2	1	0
Our corporate objective and policies are aimed directly at creating satisfied customers	5	4	3	2	1	0
Levels of customer satisfaction are regularly assessed and action is taken to improve matters where necessary	5	4	3	2	1	0
We put major effort into building stronger relationships with key customers and customer groups	5	4	3	2	1	0
We recognise the existence of distinct groups or segments in our markets with different needs and we adapt our offerings accordingly	5	4	3	2	1	0

Total score for customer orientation (*out of 25*)

2 COMPETITOR ORIENTATION

	Strongly agree	Agree	Neither	Disagree	Strongly disagree	Don't know
Information about competitor activities is collected regularly	5	4	3	2	1	0
We conduct regular benchmarking against major competitor offerings	5	4	3	2	1	0
There is rapid response to major competitor actions	5	4	3	2	1	0
We put major emphasis on differentiating ourselves from the competition on factors important to customers	5	4	3	2	1	0
Total score for competitor orientation (out of 20)						

3 LONG-TERM PERSPECTIVES

	Strongly agree	Agree	Neither	Disagree	Strongly disagree	Don't know
We place greater priority on long-term market share gain than short-run profits	5	4	3	2	1	0
We put greater emphasis on improving our market performance than on improving internal efficiencies	5	4	3	2	1	0
Decisions are guided by long-term considerations rather than short-run expediency	5	4	3	2	1	0
Total score for long-term perspectives (out of 15)						

4 INTERFUNCTIONAL COORDINATION

	Strongly agree	Agree	Neither	Disagree	Strongly disagree	Don't know
Information about customers is widely circulated and communicated throughout the organisation	5	4	3	2	1	0
The different departments in the organisation work effectively together to serve customer needs	5	4	3	2	1	0
Tensions and rivalries between departments are not allowed to get in the way of serving customers effectively	5	4	3	2	1	0
Our organisation is flexible to enable opportunities to be seized effectively rather than hierarchically constrained	5	4	3	2	1	0
Total score for interfunctional coordination (out of 20)						

5 ORGANISATIONAL CULTURE

	Strongly agree	Agree	Neither	Disagree	Strongly disagree	Don't know
All employees recognise their role in helping to create satisfied end customers	5	4	3	2	1	0
Reward structures are closely related to external market performance and customer satisfaction	5	4	3	2	1	0
Senior management in all functional areas give top importance to creating satisfied customers	5	4	3	2	1	0
Senior management meetings give high priority to discussing issues that affect customer satisfaction	5	4	3	2	1	0

Total score for organisational culture (*out of 20*)

Summary

Customer orientation (*out of 25*)

Competitor orientation (*out of 20*)

Long-term perspectives (*out of 15*)

Interfunctional coordination (*out of 20*)

Organisational culture (*out of 20*)

Total score (*out of 100*)

Interpretation

80–100 indicates a high level of market orientation. Scores below 100 can still, however, be improved!

60–80 indicates moderate market orientation – identify the areas where most improvement is needed.

40–60 shows a long way to go in developing a market orientation. Identify the main gaps and set priorities for action to close them.

20–40 indicates a mountain ahead of you! Start at the top and work your way through. Some factors will be more within your control than others. Tackle those first.

Note: If you scored '0' on many of the scales you need to find out more about your own company!

1.2 The resource-based view of marketing

While academic researchers and managers in marketing have been obsessed over the last decade or so with understanding what being ‘market oriented’ means (how to measure it and how to build it), a revolution has been taking place in the field of strategic management.

The dominant view of strategy in the 1980s had been that propounded by, among others, Michael Porter of the Harvard Business School (Porter, 1980, 1985). Under this view the key to strategy was deemed to lie in industry dynamics and characteristics. Porter suggested that some industries were inherently more attractive than others, and that the factors driving industry competition were the key determinants of profitability. Under the new approach, however, the focus for explaining performance differences shifted from outside the firm (the industries in which it operated) to within the firm itself.

Termed the resource-based view of the firm (Wernerfelt, 1984) or the focus on ‘core competencies’ (Prahalad and Hamel, 1990) this new approach suggested that performance was essentially driven by the resource profile of the organisation, and that the source of superior performance lay in the possession and deployment of distinctive, hard to imitate or protected resources.

Current views on strategy and marketing suggest that these two approaches can be combined to the benefit of both (see Hooley *et al.*, 1998). They do, however, throw into stark relief the different approaches to strategy in general and marketing in particular still evident in many organisations today. Three main alternative approaches are apparent (see Figure 1.3):

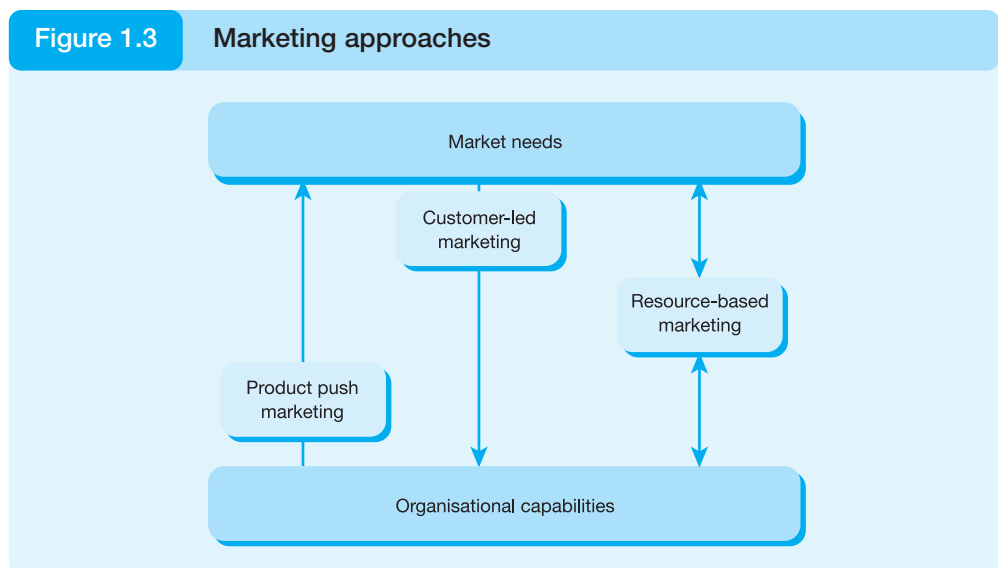
- **Product push marketing:** Under this approach firms centre their activities on their existing products and services and look for ways to encourage, or even persuade, customers to buy. This is a myopic interpretation of the resource-based view – we have a resource (our product or service) that we are good at producing and is different from what competitors offer. The key thing is to make customers want what we are good at. Day (1999) identified this approach in the IBM statement of goals in 1983. Under that statement the firm set out objectives to grow the industry, to exhibit product leadership across the entire product line, to be most efficient in all activities undertaken, and to sustain profitability. What is remarkable about these goals is that customers are not mentioned once. The entire focus was on what IBM did then (1983) and how it could be done more efficiently. Interestingly, IBM’s performance in the 1980s was poor.
- **Customer-led marketing:** The other extreme is customer-led marketing (Slater, 1998). Under this approach organisations chase their customers at all costs. The goal is to find what customers want and, whatever it is, give it to them. This can also lead to problems. In the 1980s Procter & Gamble was being hit by increasingly aggressive competitors and squeezed by increasingly powerful retailers. It reacted by giving customers more choice, heavy promotions and deals to stimulate purchases, and aggressive salesforce targets. The result was product proliferation on a grand scale (there were at one time 35 variants of the Bounce fabric conditioner!). Customers were confused by the over-complex promotions (deals,

coupons, offers, etc.) and retailers became angry at having to stock a wide variety of choices on their shelves. In the production process the product line extensions caused chaos and logistics nightmares (Day, 1999). Being excessively customer led can lead to a short-term orientation resulting in trivial incremental product development efforts and myopic R&D (Frosch, 1996). Christensen and Bower (1996) go further, suggesting that ‘firms lose their position of industry leadership . . . because they listen too carefully to their customers’.

- **Resource-based marketing:** In this book we advocate a middle ground between these two extremes. In this approach firms base their marketing strategies on equal consideration of the requirements of the market and their abilities to serve it. Under this approach a long-term view of customer requirements is taken in the context of other market considerations (such as competitor offerings and strategies, and the realities of the supply chain), together with mapping out the assets, competencies and skills of the organisation to ensure they are leveraged to the full. By the late 1980s IBM had recast its approach in its market-driven quality campaign along the lines: ‘if we can be the best at satisfying the needs and wants of customers in those markets we choose to serve, everything important will follow’. The newer approach recognised the centrality of the customer, but also the need to be selective in which markets to serve, ensuring they were markets where IBM’s resources (its assets and capabilities) gave it the chance of leadership.

Resource-based marketing essentially seeks a long-term fit between the requirements of the market and the abilities of the organisation to compete in it. This does not mean that the resources of the organisation are seen as fixed and static. Far from it. Market requirements evolve over time and the resource profile of the organisation must be continuously developed to enable it to continue to compete, and indeed to enable it to take advantage of new opportunities. The essential factor, however, is that opportunities are seized where the organisation has an existing or potential

Figure 1.3 Marketing approaches



advantage through its resource base, rather than just pursued ad hoc. These points will be returned to when we discuss the assessment of company marketing resources (Chapter 6) and the criteria for selecting those markets in which to operate (Chapter 10).

First, however, we need to explore how market orientation and marketing resources impact on organisational performance. To do this we introduce the idea of organisational stakeholders.

1.3 Organisational stakeholders

Why do organisations exist? The simple answer for commercial organisations may be to earn returns on their investments for shareholders and owners of those organisations. For non-commercial organisations, such as charities, faith-based organisations, public services and so on, the answer may lie in the desire to serve specific communities. But organisations, both commercial and non-profit, are rarely driven by such simple goals. Often there are many demands, sometimes complementary, sometimes competing, that drive decisions. For example, James Dyson's decision to move production of his household appliances out of the United Kingdom to the Far East in early 2002 for cost reasons (responsibility to shareholders to operate efficiently) resulted in a considerable backlash from the local community over the impact on jobs and livelihoods in the region (responsibility to employees and the local community).

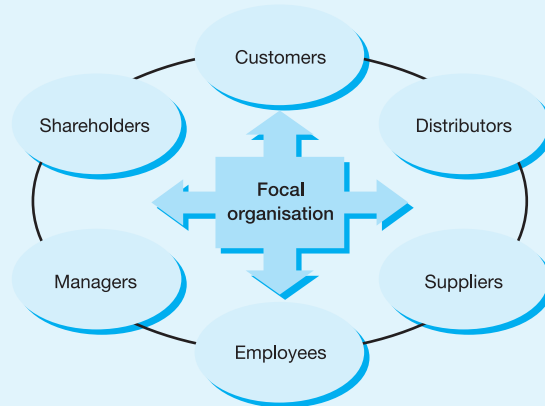
All organisations serve multiple stakeholders (Harrison and St John, 1994; Mitchell *et al.*, 1997). Some, however, will be given higher priority than others in the way decisions are made and resources allocated (Rowley, 1997; Ogden and Watson, 1999). Research into the transition economies of Central and Eastern Europe, for example, found that in many state-owned enterprises (SOEs) the major stakeholders were the employees, and organisational objectives centred on providing continuity of employment (Hooley *et al.*, 2000). This orientation persists in many former SOEs following privatisation and sell-off to the commercial sector. For many of the commercial firms surveyed the prime objectives centred on profitability and return on investment.

In the context of commercial organisations a number of primary stakeholders can be identified (see Figure 1.4) (Greenley and Foxall, 1996, 1997). These include shareholders and owners, managers, employees, customers and suppliers. While the market-oriented culture discussed above serves to place customers high in the priority ranking, the reality for most organisations will be a complex blend of considerations of all relevant stakeholders.

Doyle (2000) discusses the motivations and expectations of the various stakeholder groups as follows:

- **Shareholders** may be of two main types. First, there may be individuals with emotional and long-term personal ties to the business. Increasingly, however, shareholders nowadays are financial investors, both individual and institutional, that are seeking to maximise the long-term value of their investments. Paradoxically, this desire for long-term shareholder value may drive many firms to make short-term decisions, to maximise share price or dividends.

Figure 1.4 Organisational stakeholders



- **Employees** may also have long-term commitment to the firm. Their priorities are generally some combination of compensation (through wages and salaries), job satisfaction and security (of employment). These may be at odds with the value of the firm to shareholders. Few employees would agree that their personal job loss through ‘downsizing’ is a price worth paying for increasing shareholder value! Some firms, however, put a great deal of effort into understanding employee motivations. Skandia, the Swedish insurance company, for example, regularly surveys employees with a view to aligning their personal and corporate goals (*Fortune*, 11 March 2002). The John Lewis Partnership, the UK retail group operating 26 department stores, an online business – John Lewis Direct – and 183 Waitrose supermarkets with a turnover in excess of £5 billion, involve their 68,000 employees in decision making through meetings between management and elected staff representatives. Staff turnover is low and employees share in profits and have entitlement of sabbatical breaks.
- **Managers** are also concerned with personal rewards in the form of salaries and prestige. Professional managers may have less long-term commitment to the firm and see their roles as temporary staging posts on their longer-term career journeys. Managerial ‘success’ is often measured by short-term gains (in sales, for example, or efficiency), which may not necessarily equate to longer-term performance improvement for the firm.
- **Customers** are the ultimate source of shareholder value. As Doyle (2000) points out, ‘even the most focused financial manager understands that the source of a company’s long-term cash flow is its satisfied customers’ (p. 23). There is, however, an inherent danger of pursuing customer satisfaction at the expense of all other considerations. Customers might be ‘delighted’ by lower prices or higher quality offerings than competitors, but if the underlying costs exceed the prices that customers are prepared to pay the firm will not remain in business very long. In this respect the blind pursuit of customer satisfaction may be at odds

with longer-term shareholder value creation. Many of the ill-fated extravagant customer offers made by the Internet-based dot.coms in recent years underline the fact that customer value creation must be balanced with other issues.

- **Suppliers and distributors** also have a stake in the business. Suppliers rely on the firms they serve to ensure the achievement of their own goals. Again, suppliers may be looking for security, predictability and satisfactory margins. When the UK retailer Marks & Spencer (M&S) hit financial problems in 1999–2000 many of the long-term relationships they had with their suppliers such as Courtaulds became casualties. M&S began to source materials wider afield to cut costs and the trust and relationships built over a long period of time with their suppliers were quickly eroded, ending in legal action in some instances. Distributors too are stakeholders in the business. In the automobile industry, car distributors are normally closely allied to individual car makers through franchise agreements. The success or otherwise of the manufacturer in developing and marketing the right cars for the market will impact directly on the distributor. Again, the distributor may be seeking predictability and continuity at satisfactory margins.

For non-profit organisations the identification of stakeholders and their requirements may be even more complex:

- **Owners** of the organisation may be hard to identify and their interests difficult to define. For example, who 'owns' the Catholic Church, or Greenpeace, or the Labour Party? Many might argue that the owners are those who support such organisations, the churchgoers, the activists and the members. Or are employees (such as the Pope and the clergy) the owners? In the case of organisations such as the Health Service, or the police service, or education, are the owners society in general, the taxpayers who foot the bill, or the government of the day that sets priorities and performance targets?
- **Customers** may be defined as those the organisation seeks to serve. The customers of the Catholic Church may be those who attend mass on Sundays. They may also, however, extend to others the Church wishes to appeal to and whose behaviour and beliefs it seeks to influence. Who are the customers of the Health Service – the patients? Or those who avoid the service through heeding health warnings? Who are the customers of higher education? The students? Their parents who fund them? Or the employers who seek their skills on graduation? Who are the customers for the police service? Society in general that needs protection from criminals? The criminals themselves? Or the taxpayers who fund them? Different definitions of customers may result in different interpretations of what they are looking for, what their expectations and requirements are. Failure to identify and meet the needs of different customers destroys market position. For example, while doctors and police officers struggle with the idea that they exist to provide customer value, their position is being eroded by the growth of alternative medicine and private security services.
- **Employees**, we might conclude, are relatively easy to identify. Their motivations, however, may be far more complex than in the commercial sector. What motivates nurses to work such long, hard hours for relatively little financial reward? Why do people volunteer to staff charity shops for no payment? Why do activists

risk their lives to prevent the dumping of oil platforms or nuclear waste at sea? In the non-profit sector employees may or may not receive financial rewards. Often their prime motivators, however, are not financial but centre far more on satisfaction derived from contributing to a cause they cherish or value.

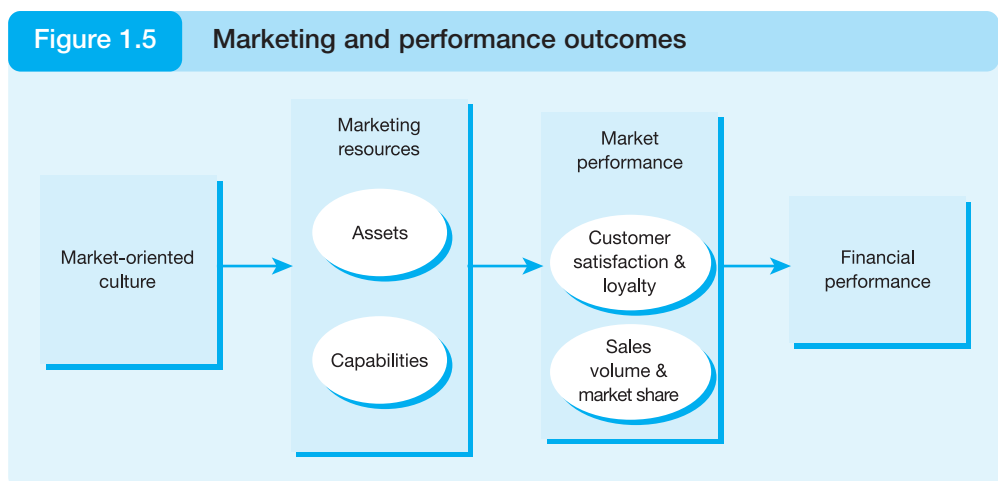
While the considerations of many of the above stakeholders may be complementary they may also conflict at times (Clarkson, 1995). For example, the desire of shareholders for long-term value creation may be at odds with the demands of suppliers and distributors for continuity, security and satisfactory margins. The demands placed on a firm through being customer led may have significant impacts on the roles and activities of managers and employees, not all of them welcome. This confusion may be compounded when individual stakeholders assume more than one role. For example, managers and employees may also be shareholders in commercial organisations. They could also, from time to time, be their own customers!

In any organisation there will be a blend of orientations towards the various stakeholders. We would argue, however, that a strong orientation towards the market, as discussed at the outset of this chapter, can be a unifying force that helps achieve other stakeholder goals.

1.3.1 The contribution of marketing to stakeholder objectives

There is increasing evidence that firms which do well in the marketplace also do well financially, adding to the value of the firm for shareholders. Homburg and Pflesser (2000), for example, have shown that firms adopting a market-oriented culture perform better financially than those that do not. Many other studies have also shown direct links between market orientation, customer satisfaction and firm financial performance (see Lafferty and Hult (2001) for a summary).

Figure 1.5 shows the effects of market-oriented culture on firm activities and performance. The degree of market orientation, as discussed above, is a deeply embedded cultural aspect of any firm (Deshpandé *et al.*, 1993). Where market orientation is



high all organisational functions are focused on their role in, and contribution to, creating superior customer value. This in turn affects the way those functions are managed, and the priorities they pursue. For example, human resource management and training is often directed towards customer awareness and service, and reward structures are designed to encourage customer satisfaction generation. Where market orientation is high, employee job satisfaction and commitment have also been demonstrated to be high (see Siguaw *et al.*, 1994; Selnes, 1996; Piercy *et al.*, 2002) creating a motivated workforce focused on the needs of customers (see Heskett *et al.*, 2003). Sir Stuart Hampson, Chairman of the John Lewis Partnership, puts it this way: 'It's a virtuous circle. Happy, fulfilled partners [employees] take pride in their jobs and give better service, which in turn leads to contented customers and better service' (*The Guardian*, 18 March 2002).

High levels of market orientation also lead to an emphasis on developing marketing assets such as company and brand reputation (Aaker, 1991), market innovation capabilities (Slater and Narver, 1995; Han *et al.*, 1998) and the development of customer relationship management (CRM) skills (Gummesson, 1999).

Well-developed marketing resources (assets and capabilities), when deployed in the marketplace, can lead to superior market performance. Satisfied and well-motivated staff (a prime marketing asset), for example, can make a significant contribution to creating satisfied and loyal customers (Bowen and Lawler, 1992; Payne, 1993; Heskett *et al.*, 2003) and subsequently increased sales volume and market share. Reputational assets, such as well-known and respected brands, together with well-developed marketing capabilities such as CRM and market innovation skills, also affect market performance directly.

The link between market performance and financial performance is also well established. Customer satisfaction and loyalty leads to greater sales volume and market share (Hart *et al.*, 1990; Anderson and Sullivan, 1993; Rust and Zahorik, 1993; Wells, 1994/5), which in turn leads to financial performance. One suggested route is through the impact of economies and advantages of scale. The PIMS project (Profit Impact of Marketing Strategy) has shown that firms with higher market shares perform better financially due to the economies they enjoy in purchasing, production, operations and marketing (see Buzzell and Gale, 1987).

A second route, explained in detail by Doyle (2000), notes that shareholder value is determined by anticipated future cash flows, adjusted for the cost of capital. In this view the crucial task of management is to maximise the sum of future cash flows, and hence maximise shareholder value. Marketing's contribution will be to develop strategies that deliver enhanced cash flows through, for example, successful new product launches, or the creation of strong brands which can command high margins and market shares. Under this view the focus of marketing is on developing and protecting assets (such as brands or market share) that have the potential to deliver enhanced cash flows in the future. Doyle sees the role of marketing as driving value creation through the optimum choice of markets and target segments in which to operate, the creation of a differential, or competitive advantage in serving those targets, and the development of an appropriate marketing mix for delivery.

In summary, marketing can contribute to satisfying the needs of employee and manager stakeholders through providing for security, compensation and job satisfaction. Where the firm is better at serving its customers, more adept at winning

orders in the face of competition, it is more likely to survive into the future. There is also evidence that where firms are more market oriented their employees get more satisfaction out of their jobs (Slater and Narver, 1995). This in turn can lead to a virtuous circle of improvement as happy, motivated staff generate increasingly satisfied customers, so that organisational performance improves, and staff become more satisfied, etc. Similarly, the most effective route to achieving the profit and performance desires of supply chain partners is through market success. Heightened success through partnerships and alliances can serve to bond organisations together, creating more stability and predictability in the supply and distribution chain. Nonetheless, concerns of customers and employees for the environment, for social justice, for fair employment, and other social priorities have led to renewed emphasis on corporate social responsibility and good corporate citizenship. However, importantly, we shall see in Part 5, thinking has changed from altruistic behaviour to meet moral obligations to pursuing social initiatives as part of the value proposition and a source of competitive advantage (see Chapter 18).

1.4 Marketing fundamentals

Following from the underlying marketing concept outlined above, the considerations of alternative stakeholders, and the logic of resource-based marketing, we can distil a set of basic and very pragmatic marketing principles that serve to guide marketing thought and action. The principles follow the logic of value-based processes described by Webster (1997). Each of these principles seems so obvious as not to require stating. However, recognition of these principles and their application can revolutionise how organisations respond to, and interact with, their customers.

Principle 1: Focus on the customer

A first principle of marketing that emerges from our comments throughout goes back to the marketing concept itself. This recognises that the long-run objectives of the organisation, be they financial or social, are best served by achieving a high degree of customer focus – but not a blind focus! From that recognition flows the need for a close investigation of customer wants and needs, followed by a clear definition of if and how the company can best serve them.

It also follows that the only arbiters of how well the organisation satisfies its customers are the customers themselves. The quality of the goods or services offered to the market will be judged by the customers on the basis of how well their requirements are satisfied. A quality product or service, from the customers' perspective, is one that satisfies or is 'fit for purpose' rather than one that provides unrequired luxury.

As Levitt (1986) demonstrates, adopting a market-led approach poses some very basic questions. The most important include:

- What business are we in?
- What business could we be in?
- What business do we want to be in?
- What must we do to get into or consolidate in that business?

The answers to these fundamental questions can often change a company's whole outlook and perspective. In Chapter 2 we discuss more fully business definition and show how it is fundamental to setting strategic direction for the organisation.

Principle 2: Only compete in markets where you can establish a competitive advantage

Market selection is one of the key tasks for any organisation – choosing where to compete and where to commit its resources. Many factors will come into the choice of market, including how attractive the market appears to the firm. Especially important, however, in competitive markets will be the question: do we have the skills and competencies to compete here? The corporate graveyard is littered with firms that were seduced into markets which looked attractive, but when competition got tough they found they had no real basis on which to compete. Many of the dot.com failures of the early 2000s were firms that saw an opportunity but did not really have the skills and competencies to establish an advantage over other dot.coms or 'bricks and mortar' firms.

Principle 3: Customers do not buy products

The third basic marketing principle is that customers do not buy products, they buy what the product can do for them – the problem it solves. In other words customers are less interested in the technical features of a product or service than in what benefits they get from buying, using or consuming the product or service.

For example, the do-it-yourself enthusiast putting up book shelves will assemble the tools for the job. One of these could be a drill bit to make the holes in which to screw the shelf supports, on which to place the shelf. However, the DIYer does not want a quarter-inch drill bit, but a quarter-inch hole. The drill bit is merely a way of delivering that benefit (the hole) and will only be the solution to the basic need until a better method or solution is invented (Kotler, 1997). We can go further – what is really wanted is storage for books (or indeed in the longer term possibly alternative ways of storing knowledge and information in electronic media). Competition will not come just from other manufacturers of drill bits, but from laser techniques for making holes in the wall; wall designs that incorporate shelving studs in their design; adhesives that will support shelves; or alternative ways of storing books. This is the difference between an industry – firms with similar technology and products – and a market – customers with a problem to solve or a need to meet. In this sense, white goods manufacturers may see themselves as an industry – they all produce white boxes with electric motors – but the markets they serve are the laundry market, the food storage market, and so on. Similarly, gardeners don't really want a lawnmower. What they want is grass that is 1 inch high. Hence a new strain of grass seed, which is hard-wearing and only grows to 1 inch in height, could provide very substantial competition to lawnmower manufacturers, as could artificial grass substitutes or fashions for grass-free garden designs.

This is far from mere academic theorising. One trend in retail marketing in the grocery business is category management. Retailers are defining categories around customer needs, not manufacturers' brands. For example, one common category is 'ready-meal replacement' – the challenge to manufacturers is to prove to the retailer

what their products and brands add to the value of the category. Putting category definition at its simplest:

The manufacturer makes	<i>potato crisps.</i>
The retailer merchandises	<i>salty snacks.</i>
The customer buys	<i>lunch!</i>

Looking at a market from the customer's perspective may suggest a very different view of market opportunities and the threats to our competitive position.

It is critical that marketers view products and services as 'bundles of benefits', or a combination of attractions that all give something of value to the customer.

One mission for the marketing executive is to ensure that the organisation gears itself to solving customers' problems, rather than exclusively promoting its own current (and often transitory) solutions.

Principle 4: Marketing is too important to leave to the marketing department (even if there still is one)

It is increasingly the case that marketing is everyone's job in the organisation. The actions of all can have an impact on the final customers and the satisfaction the customer derives.

King (1985) has pointed to a number of misconceptions as to what marketing is. One of the most insidious misconceptions he terms 'marketing department marketing', where an organisation employs marketing professionals who may be very good at analysing marketing data and calculating market shares to three decimal points, but who have very little real impact on the products and services the organisation offers to its customers. The marketing department is seen as the only department where 'marketing is done', so that the other departments can get on with their own agenda and pursue their own goals.

As organisations become flatter, reducing layers of bureaucracy, and continue to break down the spurious functional barriers between departments, so it becomes increasingly obvious that marketing is the job of everyone. It is equally obvious that marketing is so central to both survival and prosperity that it is far too important to leave only to the marketing department.

However, it is clear that we must avoid simply stating that marketing is 'everyone's job' and leaving it at that. If marketing is 'everyone's job' it may become 'no one's job'. Greyser (1997) points to the need for simultaneous upgrading of market orientation and downsizing of the formal marketing function as two sides of the same issue:

While the marketing function ('doing marketing') belongs to the marketing department, becoming and being marketing-minded is everybody's job. What happens when (almost) everybody is doing that job? As companies have become more marketing-minded, there have been substantial reductions in the formal 'marketing departments' which do marketing. In short, a corollary of the trend to better organisational thinking about marketing is the dispersion of the activity of marketing, e.g. via task forces.

Principle 5: Markets are heterogeneous

It is becoming increasingly clear that most markets are not homogeneous, but are made up of different individual customers, sub-markets or segments. While some

customers, for example, may buy a car for cheap transport from A to B, others may buy for comfortable travel, or safe travel, and still others may buy for status reasons or to satisfy and project their self-image. Products and services that attempt to satisfy a segmented market through a standardised product almost invariably fall between two or more stools and become vulnerable to more clearly targeted competitors.

Picking up on Principle 2, it is evident that a basic way of segmenting markets is on the basis of the benefits customers get in buying or consuming the product or service. Benefit segmentation (see Chapter 8) has proved to be one of the most useful ways of segmenting markets for the simple reason that it relates the segmentation back to the real reasons for the existence of the segments in the first place – different benefit requirements.

Market heterogeneity has another effect. Concentration in the customer base – facilitated by mergers and acquisitions and attrition rates – has become a daily reality for companies in business-to-business marketplaces. The emergence of powerful, dominant customers underlines the importance of strategic sales capabilities and strategic account management approaches to give specialised attention to customers who can leverage the seller's dependence on them. It is difficult to consider marketing strategy in business-to-business markets without recognising the deep-seated implications of this factor. We devote Chapter 15 to this topic.

Principle 6: Markets and customers are constantly changing

It is a truism to say that the only constant is change. Markets are dynamic and virtually all products have a limited life that expires when a new or better way of satisfying the underlying want or need is found; in other words, until another solution or benefit provider comes along.

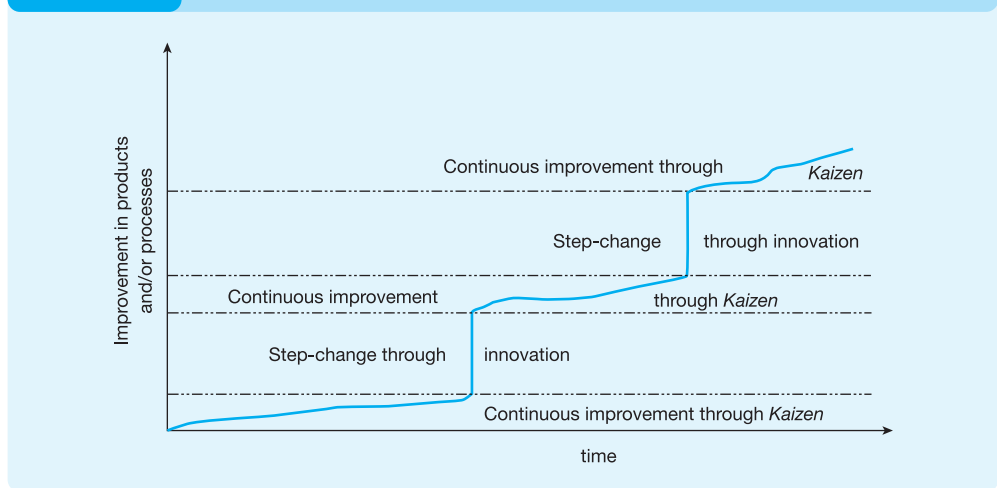
The fate of the slide rule, and before that logarithmic tables, at the hands of the pocket calculator is a classic example where the problem (the need for rapid and easy calculation) was better solved through a newer technology. The benefits offered by calculators far outstripped the slide rule in speed and ease of use.

This recognition that products are not omnipotent, that they follow a product life cycle pattern of introduction, growth, maturity and decline, has led companies to look and plan more long term; to ensure that when the current breadwinners die there are new products in the company's portfolio to take their place.

Also evident is the need for constant product and service improvement. As customer expectations change, usually becoming more demanding in the benefits they expect from a given product or service, so organisations need continuously to upgrade their offerings to retain, let alone improve, position.

There are two main processes of improvement. The first is through innovation, where a relatively large step is taken at one point in time. The advent of the pocket calculator was a significant innovation that virtually wiped out the slide rule industry overnight. Other step changes in technology such as the advent of colour television and the compact disc have served to change whole industries in a similarly short period of time.

The second approach to improvement is a more continuous process whereby smaller changes are made but on an insistent basis. This approach has been identified by a number of writers (e.g. Imai, 1986) as a major contributor to the success of Japanese businesses in world markets since the early 1950s. The Japanese call continuous

Figure 1.6 Product and process improvement

improvement **Kaizen** and see it as an integral part of business life. Increasingly, organisations are attempting to marry the benefits of step change innovation with continuous (*Kaizen*) improvement. Figure 1.6 illustrates this process diagrammatically.

The impact of technological change has been felt most, perhaps, in the computer industry. It is sometimes hard to remember that computers were invented *after* the Second World War because they are now such a pervasive part of both business and home life. Toffler (1981) noted in *Computer World* magazine:

If the auto industry had done what the computer industry has done over the last thirty years, a Rolls Royce would cost \$2.50, get around 2,000,000 miles to the gallon and six of them would fit on the head of a pin!

If that was true over 20 years ago just think what the analogy would be today!

1.5 The role of marketing in leading strategic management

In order for strategic management to cope with the changing marketing environment there is a need for it to become increasingly market led. In taking a leading role in the development and the implementation of strategy the role of marketing can be defined in the way shown in Figure 1.7. That role is threefold.

1.5.1 Identification of customer requirements

The first critical task of marketing is to identify the requirements of customers and to communicate them effectively throughout the organisation. This involves conducting or commissioning relevant customer research to uncover, first, who the customers are and, second, what will give them satisfaction.

Figure 1.7 The role of marketing in the organisation

Who the customers are is not always obvious. In some circumstances buyers may be different from users or consumers; specifiers and influencers may also be different. Where services are funded, for example, by central government the suppliers may be forgiven for the (mistaken) view that government is their customer.

Customers may expect a degree of benefit from purchasing or using a product or service. They may actually want something more, but believe they have to settle for second best because of budget or other constraints. The organisation that can give customers something closer to what they want than what they expect has an opportunity to go beyond customer satisfaction and create ‘customer delight’.

Customer expectations, wants and needs must all be understood and clearly communicated to those responsible for designing the product or service, those responsible for creating or producing it, and those responsible for delivering it. Identifying what customers require is discussed in Chapter 4.

1.5.2 Deciding on the competitive positioning to be adopted

Recognising that markets are heterogeneous and typically made up of various market segments each having different requirements from essentially similar offerings leads to the need to decide clearly which target market or markets the organisation will seek to serve.

That decision is made on the basis of two main sets of factors: first, how attractive the alternative potential targets are; and second, how well the company can hope to serve each potential target relative to the competition. In other words, the relative strengths or competencies it can bring into play in serving the market. These two related issues are discussed at length in Part 4.

1.5.3 Implementing the marketing strategy

The third key task of marketing is to marshal all the relevant organisational resources to plan and execute the delivery of customer satisfaction. This involves ensuring

that all members of the organisation are coordinated in their efforts to satisfy customers, and that no actual or potential gaps exist between offer design, production and delivery.

In the field of services marketing there has been a great deal of work aimed at identifying the factors that can create gaps in the process from design through to delivery of offer to customers. Parasuraman *et al.* (1985), for example, have studied each of the potential gaps and concluded that a central role of marketing is to guide design so as to minimise the gaps and hence help to ensure customer satisfaction through the delivery of high quality (fit for the purpose) services (see Chapter 14).

Chapters 15, 16 and 17 address implementation and coordination issues more fully.

Summary

This chapter has sought to review the marketing concept and demonstrate its importance in providing a guiding approach to doing business in the face of increasingly competitive and less predictable marketing environments. This approach we term market-led strategic management. A number of marketing principles were discussed, together with the role of marketing in strategic management. The remainder of Part 1 presents a framework for developing a market-led approach.

Psion



Case study

Laurie Knight



Over the past 20 years Psion has had more than a few difficult moments when it has questioned its future as a maker of handheld electronic organisers.

It could innovate its way out of trouble but now it has admitted the handheld market has changed

too much and even innovation will not save it. What matters is not differentiation but scale.

For David Levin, the cerebral chief executive of Psion, one of the most telling signs of change was a recent advertisement by Dixons, the retail group, designed for the Nokia 9210, a new smart-phone product: 'The advert described the Nokia as having all the functionality of a Psion organiser and a phone, too. It indicated in stark relief the issues for us.'

Psion faced a dilemma. It lacked the scale to compete with cut-throat global rivals, such as Palm, Handspring of the US or Sony, for cheaper organisers that were becoming commodity items.

However, it saw the high-end organiser market was being invaded by a new generation of smart-phones – phones with organiser capabilities built in.

'We knew the standalone organiser had a finite lifespan,' Mr Levin said. 'Our route forward was

to create a connected device. That is why we did a strategic deal with Motorola, to penetrate the market for integrated devices.’ However, that fell through in January, when Motorola pulled the plug as part of a cost-cutting agenda.

‘We spent the last five months going through every option to see what other ways there were to preserve that strategic thrust,’ says Mr Levin.

Those efforts coincided with excess capacity. Rivals such as Palm of the US have huge warehouses of unsold organisers.

Palm recently wrote off about \$300m, representing more than 5m unsold units. Handspring has done the same. Prices have dived. Faced with that deteriorating scenario, Mr Levin said, ‘It would have been commercially naive to press on.’

The decision to pull out is costly – both financially and emotionally. Psion will take a £29m restructuring charge, of which £10m is a cash charge. The exceptional costs include £3m related to 250 redundancies, and about £15m for inventory write-downs, representing about 20,000–30,000 unsold devices.

Even though it will stop making handheld organisers, Psion intends to keep exploiting the intellectual property it has gleaned from more than 20 years of producing them.

Mr Levin said existing products, such as the Psion Revo, would continue to be sold, but admitted: ‘We do not expect them to be a big seller by Christmas 2002.’

So what will be left of Psion after restructuring?

The answer is twofold. It retains its 28 per cent stake in Symbian, the consortium that controls Eloc, the operating system for wireless devices. For many investors that stake has long been a good reason to hold Psion shares. Hopes remain that Eloc will be the operating system of choice for the next generation of mobile phones. But Psion’s core business – as even Mr Levin admits – is in a less sexy area than consumer electronics, selling services and gadgets for the enterprise wireless market.

‘The industrial wireless market does not hit those buttons, but it does in terms of making money,’ says Mr Levin.

Psion said underlying revenue growth in this market was in the high teens – low when compared with the 40 per cent growth Psion had last year for its handheld devices – but solid.

This enterprise business was bolstered by the acquisition last year of Teklogix, a Canadian company, which already provides the bulk of Psion’s revenues.

Provisional revenues from the combined enterprise division would be £63m in the first half of 2001, against £36m from Psion Digital, which includes handheld sales. However, the move into wireless enterprise, although less risky than staying in the consumer market, is not without hazard. Psion said Teklogix had grown in line with expectations until June. Then, it was hit by the slowdown in IT spending in the US.

Although there have been few signs of that slowdown spreading to Europe, Psion believes European demand could see a ‘similar slowdown to those in North America during the second half’. Mr Levin, though, has few doubts the prospects in enterprise are far better than Psion’s chances in the consumer market.

Source: Caroline Daniel, ‘Psion opts to close its future in handheld organisers’, Financial Times, 12 July 2001, p. 18.

Discussion questions

- 1 Evaluate and comment on Psion’s market orientation using the market orientation assessment form (Box 1.1).
- 2 Based on a resource-based view of marketing, what best describes Psion’s stance in the market and to what extent is their current dilemma a result of that stance?
- 3 Should Psion become more market oriented? What would they need to do to become more market oriented?