

# part two

## Competitive Market Analysis

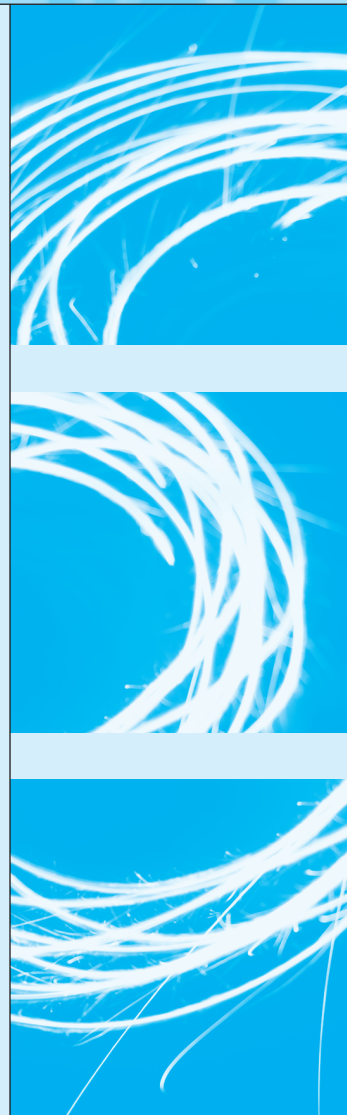
Part 2 examines the analysis of competitive markets in finer detail. This is pursued through the five chapters described below.

Chapter 3 commences with a discussion of the changing market competitive environment facing many firms and organisations in the 2000s. Frameworks such as PEST analysis for analysing change in the broader macro-environment are introduced and strategies for operating in changing markets discussed. The chapter then focuses on the competitive, or industry environment. This begins with a discussion of the Five Forces Model of industry competition and an introduction of the product life cycle, followed by a review of strategic groups and industry evolution. Environmental stability is assessed, together with SPACE analysis. Finally, the Advantage Matrix is reviewed as a means of assessing the key characteristics of an industry when forming strategy.

Chapter 4 considers customer analysis. Information requirements are first discussed, followed by sources of customer information. The variety of marketing research techniques available to aid customer analysis is examined. The discussion then turns to the processes by which customer data are collected and how those data can be turned into information to aid marketing decision making.

Chapter 5 addresses competitor analysis. Following a discussion of competitive benchmarking the dimensions of competitor analysis are discussed, together with techniques for identifying competitor response profiles. The chapter concludes with a review of sources of competitor information.

Chapter 6 is concerned with the internal analysis of an organisation's resources, assets and capabilities that can be leveraged in its target markets. Starting from a broad, resource-based view of the firm and the




identification of its core competencies, the chapter moves to the more detailed issues of auditing resources and itemising specific marketing assets, such as brands, reputation, supply chain strengths and partnerships. The chapter concludes with a framework to build a profile of a company's marketing capabilities.

Chapter 7 looks at methods and techniques for forecasting future demand. These include methods based on current demand, historical analysis of demand patterns and experimentation. Finally, subjective forecasting methods are presented and the various approaches compared to assess their relevance to specific forecasting goals.

# The changing market environment

# 3



*'The road goes ever on and on, down from the door where it began. Now far ahead the road has gone, and I must follow if I can. Pursuing it with weary feet, until it joins some larger way, Where many paths and errands meet. And whither then? I cannot say.'*

Frodo Baggins, in *The Fellowship of the Ring*, by JRR Tolkien

## Introduction

Of central importance in developing and implementing a robust marketing strategy is awareness of how the environment in which marketing takes place is changing. At its simplest, the marketing environment can be divided into the **competitive environment** (including the company, its immediate competitors and customers) and the **macro-environment** (the wider social, political and economic setting in which organisations operate). Competition between firms to serve customers is the very essence of modern, market-led economies. During the earlier stages of the twentieth century competition is intensifying as firms seek to create competitive advantage in ever more crowded markets and with increasingly demanding customers. This chapter provides a number of tools for understanding the competitive environments in which firms operate and recognising the opportunities and threats they present. It can provide no simple rules for achieving competitive success, but can

explain the forms of industry environment that exist, the competition within them, and when and why certain strategies succeed.

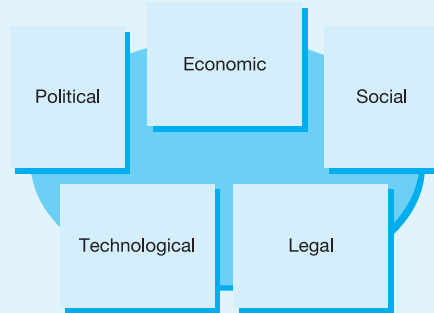
It should be borne in mind, however, that **industries** and **markets** are not the same thing – industries are collections of organisations with technologies and products in common, whereas markets are customers linked by similar needs. For example, white goods firms comprise an industry – companies that make refrigerators, washing machines and so on. On the other hand, laundry products constitute a market – the products and services customers use to clean their clothes. This distinction is important for two reasons. First, if we only think about the conventional industry we may ignore the potential for competition for our customers from companies with different products and technologies that meet the same need. For example, conventional financial services companies were wrong-footed by Virgin's entry into the market with simplified products and direct marketing techniques, and seemed unable to respond to the entry of diverse firms such as supermarkets and airlines into financial services.

Second, there are signs that many companies are having to abandon traditional industry definitions under pressure from distributors and retailers. For example, **category management** in grocery retailing is fundamental, the retailers being concerned with managing a category of products that meet a particular need such as laundry, meal replacement or lunch, not with individual products or brands. The effects of category management can be bizarre – Wal-Mart discovered, for example, a relationship between the purchase of disposable nappies and beer on Friday evenings. The explanation was that young fathers were being told by their partners to stock up on nappies on the way home from work. They reasoned this was a good opportunity (or reason?) to stock up on beer as well. These products are now merchandised together on Fridays. The point is that we should temper any conclusions we draw about the industry by recognising that markets may change in ways that invalidate conventional industry definitions.

Systematic analysis of the business environment typically commences at the macro level, highlighting aspects of the broader environment that may impinge on the specific markets the firm operates in. At a more specific, industry level, however, the identification of the forces driving competition within industries can be a useful starting point. We then go on to discuss strategic groups, which provide a useful basis for understanding opportunities and threats facing individual firms. It is within those strategic groups that firms compete to grow, survive or decline.

### 3.1 A framework for macro-environmental analysis

Here we deal with the nature of change in the macro-environment and examine its impact on organisational marketing strategies.

**Figure 3.1** PEST analysis of the macro-environment

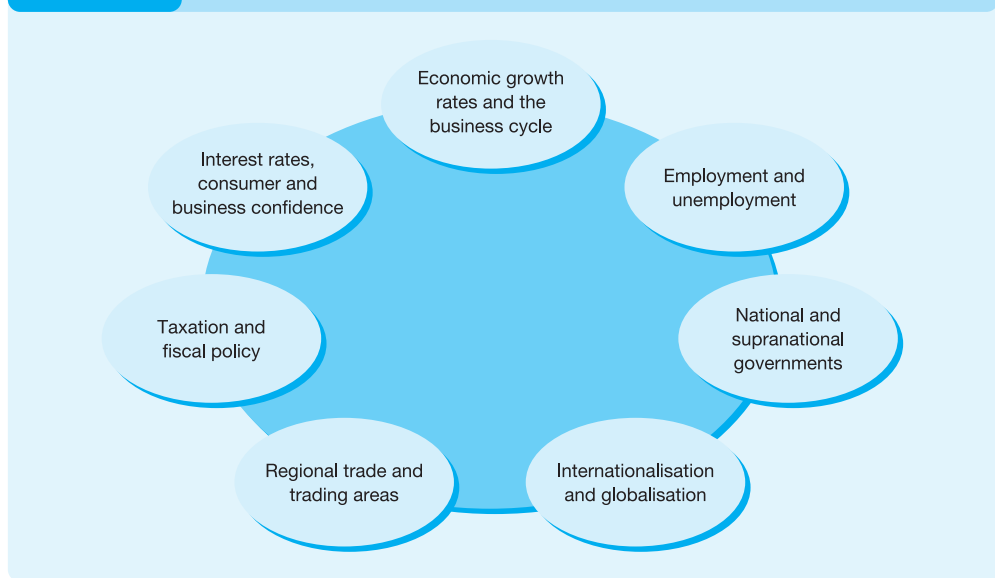
The importance of understanding the macro-environment is twofold. First, we should recognise the marketing impact of change in the business environment and be in a position to respond. But, second, we should also be alert to the fact that the nature of the change facing organisations is itself changing. For example, Haeckel (1997) noted that of all the pressures driving companies to revitalise their marketing processes:

*the leading candidate is a change in the nature of change: from continuous (but incremental) to discontinuous [because] when discontinuous change makes customer requests unpredictable, strategic leverage shifts from efficiency to flexibility and responsiveness – and to investments that enable a firm to sense unanticipated change earlier and co-ordinate an unprecedented response to it faster.*

Many important changes are taking place in the environment in which marketing operates, and some important examples are summarised briefly below (see also Drucker, 1997). However, this can never be a comprehensive list for the reasons Haeckel identified above. For our purposes, change is discussed under three main headings. Taken together these are often referred to as PEST analysis (see Figure 3.1). PEST stands for the political and economic, social (including legal and cultural) and technological environments. We discuss the political and economic environments together as the interplay between the two often makes it difficult to disentangle their individual impacts. A political change here can create an economic effect there, and changes in the economy may well precipitate political action or change.

## 3.2 The economic and political environment

The slowing of economic growth experienced in most developed economies over the last decade has brought many consequences. While growth is undoubtedly cyclical, the indications are that the developed economies are unlikely to see again the rates of growth experienced in the first few decades after the Second World War. Many organisations will have to learn to live with low growth in their once buoyant markets. Where growth objectives once dominated management thinking other criteria,

**Figure 3.2** The economic and political environment

such as profitability, are now becoming more important. Market choices may be affected radically: Farley (1997) ranks the most attractive international markets for the year 2003 not as the United States or the European marketplace, but as India, China, Brazil, Indonesia and Nigeria.

Figure 3.2 shows a number of key considerations of which firms need to be aware when assessing the political and economic environments in which they operate.

### *The European Single Market and its enlargement*

January 1992 saw the realisation of the dream of many Europeans with the creation of the European Single Market. The Single Market of over 320 million consumers was created to allow the free flow of products and services, people and capital between the member states. As such it was intended to improve economic performance by lowering costs of trading across national borders within the European Union (EU), and to encourage economies of scale of operation rivalling the US internal market. By January 2002 a single European currency, the euro, had been introduced into all but a handful of the EU member states, further facilitating trade and exchange across the old political borders.

In October 2002 a referendum in the Irish Republic paved the way for the enlargement of the European Union through the accession of ten new states: the three Baltic states, Hungary, Poland, the Czech Republic, Slovakia, Cyprus, Malta and Slovenia. That enlargement will have significant implications for many organisations, both commercial and non-commercial, as Europe expands. The population of the European Union will rise by around 20 per cent while GDP will rise by only 5 per cent (Fishburn and Green, 2002). Significant differences in labour costs, for example, are likely to raise questions of location for many firms. In 1992 hourly labour costs were £1.60 in Hungary compared with £14 in Germany.

### *Internationalisation and globalisation*

The continuing North–South divide between the rich and poor nations, the developed and the less developed, is accompanied by a growing recognition by raw materials producers of the power they hold over the Western, developed economies. This was sharply demonstrated by the formation of OPEC in the early 1970s and the immediate effect on world energy prices. At that time energy costs soared and other Third World countries with valuable raw materials realised the power their resources gave them.

The 1990s saw dramatic changes in East/West relationships. The dismantling of the Berlin Wall, the liberalisation of the economies of Central Europe (Poland, Hungary, the Czech Republic, Slovakia) and the break-up of the Soviet Union signalled many potential changes in trading patterns.

While the political barriers have been coming down in Europe, there is some concern that the emergence of regional trading blocs ('free trade areas') will have a dramatic impact on the future of free world trade. The European Single Market post-1993, closer economic relations in the Asia–Pacific region (Australia, Singapore, Thailand, South Korea, etc.) and the North American Free Trade Alliance zone (the United States, Canada and Mexico) are emerging as massive internal markets where domestic-based, 'international' trade will become freer.

At the same time, trade between trading blocs or nations outside them may become more restricted. Major trading partners such as the United States and Japan are increasingly entering into bilateral trade deals (e.g. the US–Japan deal on semi-conductors). While most politicians espouse the goals of free international trade (see, for example, Sir Leon Brittan, 1990, EC Competition Commissioner, speaking at the EC/Japan Journalists' Conference), the realities of the 1990s were a concentration of trade within blocs and reduced trade between them.

## **3.3 The social and cultural environment**

Coupled with the changing economic environment has been a continuous change in social attitudes and values (at least in the developed West) that are likely to have important implications for marketing management (see Figure 3.3). Examples include the following.

### *Demographic change*

The Western 'demographic time bomb' has started to have an impact on diverse businesses. With generally better standards of living, life expectancy has increased (across the world, according to Kofi Annan, Secretary-General of the United Nations, average life expectancy has risen by 10 years over the last 30).

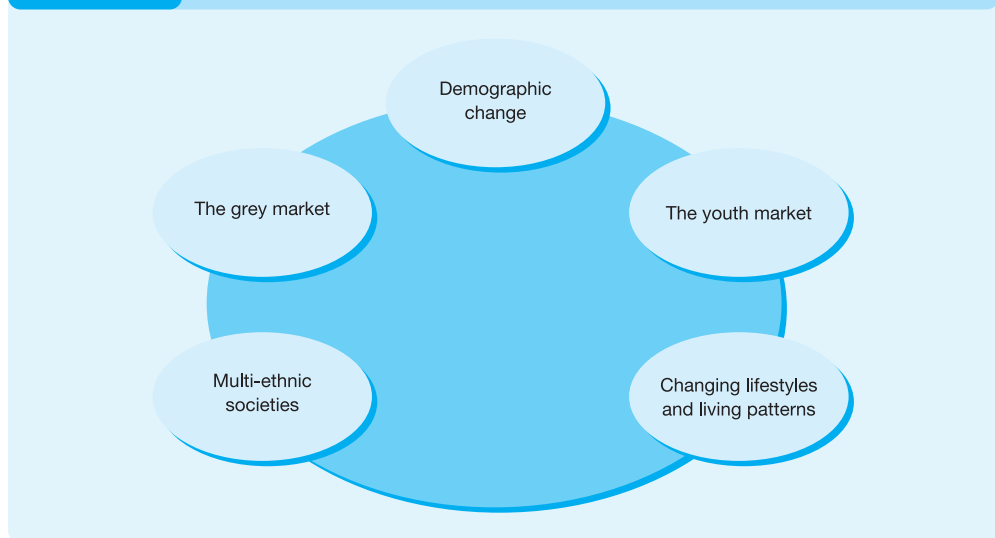
### *The grey market*

In the developed West the over-60s age group currently makes up around 20 per cent of the population, and is predicted to rise to nearer one-third by 2050. These 'grey' consumers are relatively rich. The over-50s own around three-quarters of the world's financial assets and control half of the discretionary budget. Perhaps



Figure 3.3

## The social and cultural environment



surprisingly, however, around 95 per cent of consumer advertising is aimed at the under-50s. It is likely that marketers will increasingly come to recognise the potential value of this market and target more offerings and promotions towards them (Fishburn and Green, 2002).

Barratt Developments in the United Kingdom, for example, has been particularly quick to capitalise on this change in the demographic profile and has specialised in providing retirement homes for the elderly. Demographic changes of this type vary significantly between countries and regions throughout the world, and warrant serious study as a fundamental influence on demand for different products and services.

### *The youth market*

At the other end of the spectrum the youth market has also become more affluent and poses new opportunities for marketers. Fashion and music industries have been quick to recognise this new-found affluence. Much of the success of Virgin Records (sold to Thorn EMI for over £500 million in early 1992) was based on understanding and catering for this market. Clothes stores too, such as Now and Next, built their early successes on catering to the teenage market.

Related to this youth market has been the emergence of the enigmatic 'Generation X' consumer – the cynical, world-weary '20-somethings' – who are hostile to business values and traditional advertising and branding, and reject many conventional product offers. The pay-off in understanding the values and preferences of this type of consumer has been substantial for companies such as Nike in clothing and footwear and Boss in fragrances and clothing – these consumers react positively to pictures of athletes vomiting on their sport shoes at the end of the race, and Nike's advertising copy: 'We don't sell dreams. We sell shoes . . . Don't insult our intelligence. Tell us what it is. Tell us what it does. And don't play the national anthem while you do it.'



### *Multi-ethnic societies*

Many Western societies are becoming increasingly multi-ethnic. In the United Kingdom, for example, by the late 1990s ethnic minorities comprised 5.5 per cent of the population and forecasts predicted the number would double in the next 50 years. This group spends some £10 billion a year, and includes many socially mobile and affluent groups. As well as being a target for specialised products and services, ethnic minorities are increasingly vocal about what they object to in conventional marketing and advertising. For example, some brands have been labelled as 'ethnically insensitive', such as Persil's TV advertisement showing a Dalmatian dog shaking off its black spots, or McDonald's TV advertisement showing a stereotypical young black man listening to very loud music while driving. On the other hand, some marketers have earned praise for being 'ethnically sensitive': for example BT's radio advertisements in Hindi to promote long-distance phone calls, and W.H. Smith for stocking ethnic greetings cards (Dwek, 1997).

### *Changing living patterns and lifestyles*

There has also been an increase in single-person households, so much so that the BBC launched a television series on cooking for one by Delia Smith. Barratt Developments has complemented their success in the retirement homes market by successfully developing 'Studio Solos', housing accommodation for the young, single but more affluent individual.

A further development has been the significant growth in the number of women in employment, be it full or part time. This has led to changes in household eating patterns, with an emphasis on convenience foods and cooking. It has, in turn, led to increased markets for products to make cooking and meal preparation easier and quicker, such as the deep freeze, the food processor and the microwave oven.

Coupled with greater concern for the environment is greater concern for personal health. There has been a dramatic movement in the grocery industry, for example, towards healthier food products, such as wholemeal bread and bran-based cereals. This movement, originally dismissed by many food manufacturers as a passing fad among a minority of the population, has accelerated with the marketing of low-sugar, salt-free products, free from additives, colourings and preservatives. Fitness products in general, from jogging suits and exercise machines to the membership of gyms and leisure clubs, have enjoyed very buoyant markets. By 2002 around 20 per cent of household expenditure in the United Kingdom was spent on leisure activities and products.

## **3.3.1 Social and cultural pressures on organisations**

A number of significant pressures on organisations can be identified. First and foremost, customers are becoming increasingly demanding of the products and services they buy. Customers demand, and expect, reliable and durable products with quick, efficient service at reasonable prices. What is more there is little long-term stability in customer demand. Competitive positions are achieved through offering superior customer value, and yet without constant improvement 'value migration' will occur – buyers will migrate to an alternative value offering (Slywotzky, 1996).

J. Sainsbury plc, for example, is a family-dominated business which operates the supermarket chain that has changed the food and wine British consumers buy in fundamental ways. For a generation Sainsbury's was the market leader in the grocery business and was the watchword for quality, choice and innovation in food and wine – by the 1990s the company had become a British 'institution'. Tesco Stores, by contrast, was the second player, which had grown from a downmarket discount retailer, originally associated with its founder's slogan of 'pile it high, sell it cheap', into a supermarket operator. In 1995 Sainsbury's lost market leadership to Tesco. This was accompanied by a massive slump in Sainsbury's share value, and continued losses of market share to Tesco. Sainsbury's continued its strategy of the 1980s into the 1990s. Tesco, meanwhile, developed a repositioning strategy based on product and store quality, backed by a massive investment in information technology to dramatically improve operational efficiency and value to customers. Sainsbury's strategy became outdated but, worse, the company showed few signs of being able to develop a coherent response to the new situation (Piercy, 1997).

A second major trend looking set to continue is that customers are less prepared to pay a substantial premium for products or services that do not offer demonstrably greater value. While it is undeniable that well-developed and managed brands can command higher prices than unbranded products in many markets, the differentials commanded are now much less than they were and customers are increasingly questioning the extra value they get for the extra expense. The sophisticated customer is less likely to be attracted to cheap products with low quality, and yet is unlikely to be won by purely image-based advertising. The implications are clear – differentiation needs to be based on providing demonstrably superior value to customers.

Increased questioning of the industrial profit motive as the main objective for commercial enterprises has grown. More stakeholders are being recognised as having a legitimate input into the setting of organisational objectives. Stakeholders include the owners of the organisation (usually shareholders), the managers who run the business (increasingly management and ownership is being divorced as more professional managers move from one company to another during their careers), the people who work for the organisation, the customers of the organisation, the suppliers who depend on the organisation for their livelihoods, and the wider society on which the organisation has an impact. Managers and workers have changing expectations from work as standards of living increase.

A further social/cultural change has been in attitudes to, and concern for, the physical environment. Environmental pressure groups impact on businesses, so much so that major oil multinationals and others spend large amounts on corporate advertising each year to demonstrate their concern and care for the environment. The activities of Greenpeace have begun to have a major impact on public opinion and now affect policy making at the national and international levels. It is to be expected that concern for the environment will increase and hence will be a major factor in managing that prime marketing asset – company reputation. The significance of the impact on business is underlined by BP's recent court action against Greenpeace to constrain their actions.

Cars such as the Ford Ka, the Renault Twingo and the Mercedes Smart car are examples of compact, fuel-economical, low-emission vehicles, designed and produced

for city use, in anticipation of environmental pressure and stricter legislation on pollution levels in cities.

Even more surprising, the much vilified Reliant Robin (a three-wheel car with a fibreglass body, originally positioned as the cheapest motoring for low-income consumers) has been saved from bankruptcy by the Green movement. In 1997 the Reliant Robin was selling as a status symbol for young professionals in Austria, Monaco and California, because it uses very little petrol, does not rust and causes little pollution (and it is fun) (Self, 1997).

## 3.4 The technological environment

The latter part of the twentieth century saw technological change and development impact on virtually every industry. Key points include the following.

A shortening of commercialisation times of new inventions: photography, for example, took over 100 years from initial invention to commercial viability. The telephone took 56 years, radio 35 years, TV 12 years and the transistor only 3 years. Looked at another way, the telephone took 40 years to reach 10 million users worldwide, the television 18, the personal computer 15 and the World Wide Web only 5. During 2002 the one billionth PC was shipped by the computer industry, and it is expected the second billion will be shipped during the next 6 years.

This shortening of commercialisation times has, in turn, led to a shortening of product life cycles, with products becoming obsolete much more quickly than previously. In the Japanese electronics industry, for example, the time between perception of a need or demand for a new product and shipment of large quantities of that product can be under five months (e.g. Matsushita colour TVs). Computer integration of manufacturing and design is helping to shorten product development times. It has been estimated that in automobiles this has been in the order of 25 per cent.

Through technological changes whole industries or applications have been changed dramatically almost overnight. In 1977/78 cross-ply tyre manufacturers in the United States lost 50 per cent of the tyre market to radials in just 18 months (Foster, 1986b).

Newer technology has a major impact on particular aspects of marketing. The advent of the microcomputer and its wide availability to management has led to increased interest in sophisticated market modelling and decision support systems. Increased amounts of information can now be stored, analysed and retrieved very much more quickly than in the past.

Innovative marketing research companies have been quick to seize on the possibilities afforded by the new technology for getting information to their clients more quickly than competitors. Suppliers of retail audits (see Chapter 6) can now present their clients with online results of the audits completed only 24 hours previously. In a rapidly changing marketplace the ability to respond quickly, afforded by almost instantaneous information, can mean the difference between success and failure.

The 'data warehouses' created by the capture of customer data are increasingly a major marketing resource for companies, which has the potential for achieving stronger and more enduring relationships than competitors – examples include the data collected by retailers such as Tesco and Sainsbury's through their loyalty card

schemes; the customer information held by airlines to monitor the purchase behaviour of their frequent flyer customers; and the customer data gained through the direct marketing of products such as financial services.

The Internet – the global electronic communications network – is fast emerging as not simply a new marketing communications vehicle but potentially a whole new way of going to market, which may change the competitive structures of industries significantly. Already the consumer can browse through the ‘virtual shopping mall’ and make direct purchases of products varying from groceries to car insurance to travel tickets. Even the small business (if it invests in the modest costs of establishing a website) can access markets throughout the world at almost no cost. This changes fundamentally the costs of market entry and the competitive structures of the markets affected.

### 3.4.1 Technological pressures on organisations

Technology continues to develop at a bewildering pace, affecting not just the ‘high-tech’ industries such as telecommunications and personal computers but also other industries that make use of the new technologies. Bill Gates, writing in *The World in 2003* (Fishburn and Green, 2002), goes so far as to predict that computers per se will soon disappear. Increasingly they will be integrated into other products. It has been estimated that people in the United States already interact with 150 embedded ‘computer’ systems every day (in products such as mobile phones, petrol pumps and retail point-of-sale systems), utilising 90 per cent of the microprocessors currently in use. Similarly, the Semiconductor Industry Association (again reported in Fishburn and Green, 2002) estimates that in 2001 alone the microchip industry produced around 60 million transistors for every man, woman and child on earth. That number is expected to increase to 1 billion by 2010.

Changes in the way in which computer chips are made are likely to further boost computer power and lower costs. The newer laser-assisted direct impact technique allows minute features to be stamped on to molten silicon. The effect is likely to be a 100-fold increase in the number of transistors per chip, coupled with significant cost savings.

Time and distance are shrinking rapidly as firms use the Internet to market their offerings to truly global markets. One result is that cross-national segments are now emerging for products and services from fast foods, through books and toys, to computers and automobiles. Ohmae’s ‘borderless world’ (1990) exists in cyberspace at least!

## 3.5 Changes in marketing infrastructure and practices

In addition to the changes noted above there are several important changes taking place in the general marketing environment and in marketing practices.

In many markets increased levels of competition, both domestic and international, are reaching unprecedented levels. In the period 1983 to 1994, for example, UK trade with the rest of the world expanded dramatically. In 1983 exports from the

United Kingdom were £61 billion. By 1993 they had almost doubled to £121 billion (*Annual Abstract of Statistics*, 1995). Yet, by the late 1990s, exports in many sectors were under threat as the strength of sterling forced up the UK's export prices.

### 3.5.1 Globalisation of markets

Some writers (e.g. Farley, 1997) have argued that many markets are becoming increasingly global in nature and no business, however big or small, is exempt from global competition. The reasoning centres on the impact of technology on people throughout the world. Technology has made products more available and potential consumers more aware of them. Farley believes we are currently experiencing a move towards gigantic, world-scale markets where economies of scale in production, marketing and distribution can be vigorously pursued. The result will be significantly lower costs, creating major problems for competitors that do not operate on a global scale. Many of these cost advantages are being realised as companies operating within the EU's Single Market rationalise their production and distribution facilities.

The counter-argument to the globalisation thesis is that markets are becoming more fragmented, with consumers more concerned to express their individuality (King, 1985) than to buy mass-produced, mass-marketed products. In addition, there is little evidence of the existence of widespread preference for the cheapest products available. The demand for low prices, relative to other product benefits and extras, is not proven in many markets. Each market should be examined individually and the factors likely to affect it explored.

Whether one subscribes to the globalisation argument or not, one factor is clear: organisations ignore international competition at their peril. The UK motorcycle industry is a textbook example of a once supreme industry now virtually non-existent because of its failure to recognise and respond to the threat posed by cheap, good quality, Japanese motorbikes.

At the same time as markets are becoming more global, so the existence of distinct market segments is becoming clearer. The most successful firms are those that have recognised this increasing importance of segmentation and positioned their companies so as to take best advantage of it. Van den Berghs is a prime example in the UK yellow fats market. They have clearly identified several main segments of the market and positioned individual brands to meet the needs of those segments (see Chapter 10). The company now commands in excess of 60 per cent of the margarine market through a policy of domination of each distinct market segment.

Founded in 1953 by Bernard and Laura Ashley, the Laura Ashley company was based on a quintessentially British design concept, characterised by the long flowing skirts and romantic floral designs that were the foundation of the company's success in the 1960s and 1970s. With its Victorian and Edwardian-style designs, Laura Ashley wallcoverings were favoured in locations such as the British Embassy in Washington and at Highgrove, home of the Prince of Wales, and its floral smocks and chintzes were favoured by the young Princess Diana. From its early designs for women's clothes the company expanded rapidly into fabrics, wallcoverings and paints, linked by the central design concept. Manufacturing plants were established in Wales, and by 1997 the company operated more than 400 retail stores worldwide covering dozens of countries, including more than 150 in the United States. By 1997

the company had sales of £320 million, but was issuing repeated profit warnings, and its shares had lost three-quarters of their value in 12 months. The loss-making manufacturing units started to declare redundancies. The death of the founder in 1985 had marked a turning point. The loss of vision for the company at that point was accompanied by losses in most of the following 12 years. Ann Iverson (then chief executive) faced the problem of turning the company around and reclaiming its position with the affluent 35–50-year-old female fashion buyer. City commentators pointed to the strength of new competitors such as Ralph Lauren in this core market and concluded that ‘Its management must decide what to be, preferably before the money runs out’ (*Daily Telegraph*, 1997; Olins, 1997a).

### 3.5.2 The role of marketing

The role of marketing in the modern corporation has been subject to far-reaching reappraisal (e.g. Webster, 1992). It is possible to argue that the marketing function has a major role to play in keeping the company up to date with changes in its broader environment and the competitive environment. However, the way that role is fulfilled is likely to reflect major forces of change, such as: increasingly sophisticated customers; the move from an emphasis on single sales transactions to long-term customer relationships; the role of information technology (IT) in changing how markets and organisations work; and the development of the network organisation consisting of a group of companies collaborating to exploit their core competencies linked together by a mix of strategic alliances, vertical integration and looser partnerships (Webster, 1994). The implications for how marketing will operate are profound (see Chapter 16).

## 3.6 New strategies for changing macro-environments

In reaction to the above a number of critical issues are emerging for marketing management and theory.

First, and central to developing a sustainable competitive advantage in rapidly and often unpredictably changing circumstances, is the ability to learn fast and adapt quickly (Dickson, 1992). A major challenge for any organisation is to create the combination of culture and climate to maximise learning (Slater and Narver, 1995).

Slow to change has been the high-street retailer W.H. Smith. Almost every UK high street and rail station has a W.H. Smith retail outlet, selling magazines and newspapers, books, stationery, cassettes/compact discs and videos. Its bookstalls first appeared in 1792, and W.H. Smith had a market value of £1.1 billion in 1997 with 10 million customers a week buying in its stores. However, during the 1980s and 1990s, W.H. Smith’s traditional core market was attacked by strong competitors. On the one side there was a growth in specialist retailers such as Dillons, and on the other was a dramatic expansion by the main supermarket groups in selling books, newspapers and music/videos. W.H. Smith had bought its own specialists, such as Dillons and Our Price, but the commercial position of the core retail chain continued to decline. Many of the peripheral businesses were sold by Bill Cockburn, the chief



executive who spent the mid-1990s trying to position the company as a ‘world-class retailer’ before resigning in 1996. Management at the problematic retail chain claim that W.H. Smith is a middle-of-the-market variety chain, serving consumers who are not Dillons customers or Tesco customers. The retail business is struggling to find a role and has been left behind by market change. Some commentators in the city accuse W.H. Smith of smugness. Analysts suggest that the underlying retail concept and trading format has had its day, leaving the business with no credible growth strategy in its core business (Olins, 1997b; Weyer, 1997).

In increasingly demanding, crowded and competitive markets there is no substitute for being market oriented. This does not, however, imply oversophisticated marketing operations and elaborate marketing departments. Staying close to the customer, understanding his or her needs and requirements and marshalling the firm’s resources, assets and capabilities to deliver superior value is what counts. Here the resource-based view of the firm (see Hamel and Prahalad, 1994) can add important new insights into achieving the necessary fit between firm and market (Day, 1994a).

The shift from transactions-based marketing to relationship marketing will likely intensify in many markets as firms seek to establish closer bonds with their customers (see Payne, 1995). They will need to realise, however, that for any relationship to last requires benefits on both sides. Too many early attempts at ‘relationship building’ have been simply mechanisms to buy temporary loyalty. Relationship building will need to become far more sophisticated.

Firms are also increasingly practising ‘multi-mode marketing’ – pursuing intense relationship-building strategies with some customers, less intense strategies with others and arm’s length strategies with yet others, depending on the long-term value of the customer and their requirements.

### 3.6.1 Marketing strategies

However, to suggest that firms need to develop new strategies as times change may not go far enough. The problem may not just be that we need to develop new strategies, but that we have to develop wholly new approaches to strategy. For example, at the 1997 Academy of Marketing Science conference two leading marketing thinkers (Jag Sheth and David Cravens) spoke of the trends in strategic development that they believe have to be confronted.

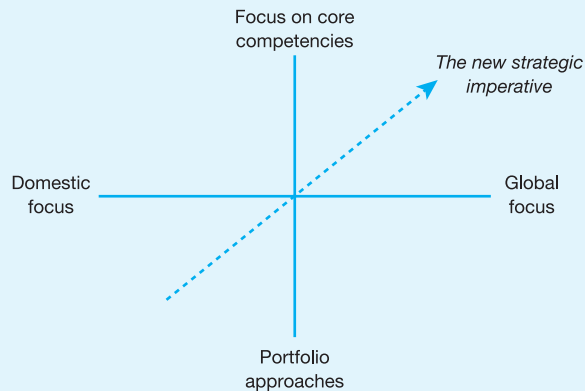
Sheth challenged conventional marketing thinking along the following lines:

- **Global positioning:** Sheth urges strategists to think about globalisation and focus on core competencies, instead of thinking about the domestic market and a portfolio of business and brands. He suggests the need for a different approach to delivering shareholder value (see Figure 3.4).
- **The master brand:** Sheth argues that strength comes from a brand identity that links all parts of the business – this is the fundamental strength of Toyota and Honda compared with the dozens of brands operated by General Motors.
- **The integrated enterprise and end-user focus:** the challenge of managing people, processes and infrastructure to deliver value to an end user.



Figure 3.4

## The shift in strategy for delivering shareholder value



Source: Adapted from Sheth (1994)

- **Best-in-class processes:** customers do not, for example, compare an airline's service just with that of other airlines; the new standards for the airline to meet come from service excellence at companies such as Federal Express and Marriott Hotels – the challenge is to meet world-class standards from wherever they come.
- **Mass customisation:** the imperative is to achieve scale economies but at the same time to produce a product or service tailored to the individual customer's requirements.
- **Breakthrough technology:** new technology will underpin every aspect of the marketing process, even the product itself, in ways that may seem outlandish. For example, a new product in Japan is the 'smart toilet'. Avoiding technical details, basically the person just sits there and the machine does the rest. However, the machine also produces a diagnosis of waste output, as well as measuring the user's temperature and blood pressure. Useless technology? Not in situations where there is an ageing population with potential medical problems and insufficient hospital places. For around \$600 the home has a first line of medical diagnosis, which may save many lives.

Cravens underlined the message that traditional views of strategy may quickly become obsolete. He argued that the strategy paradigms of the last 20 years are increasingly inadequate as we enter a new era of 'market-based strategy'. His predictions took the following forms:

- **Markets shape business strategy:** Cravens suggests that the market will be seen as the dominant force shaping how business operates – this is the factor that links industrial economics, total quality management (TQM), financial investment appraisal and business process re-engineering.
- **Networks of interlinked product markets:** he notes that traditional boundaries based on conventional product markets will blur and become irrelevant, and this

blurring will become the norm. Look, for example, at the move of grocery supermarkets such as Sainsbury's and Tesco into banking and financial services. How else do we make sense of Virgin's moving from music to retailing to airlines to rail transport to financial services to cosmetics to drinks to clothes, all under the single Virgin brand?

- **The move from functions to processes:** he also suggests that the new era of market-based strategy is one where we will increasingly focus on the process of going to market, not on the interests of traditional departments and specialists.
- **Strategic alliances:** for many companies the future will be one of collaboration and partnership (to allow them to focus on core competencies), not one of traditional competition.
- **The balanced scorecard:** keeping score involves evaluating the benefits we deliver to all the stakeholders in the organisation.

These predictions imply the need to create new types of strategies, not just more of the same. They also underline the critical importance of building market sensing and organisational learning capabilities, to allow organisations to understand what is happening and to act accordingly.

The above factors all combine to make strategic planning in general, and marketing planning in particular, more difficult now than they have ever been before. They also make them more vital activities than they have ever been before. Strategic marketing planning today attempts to build flexibility into the organisation to enable it to cope with this increased level of complexity and uncertainty and to take full advantage of the changing environment. At the heart of that planning process is the creation of a strong competitive position and a robust marketing strategy, the subject of the remainder of this book.

## 3.7 The Five Forces Model of industry competition

Porter (1980) suggested that five main forces shape competition at the level of strategic business units and that a systematic analysis of each in turn can help managers identify the keys to competitiveness in their particular industry. The five forces are shown in Figure 3.5.

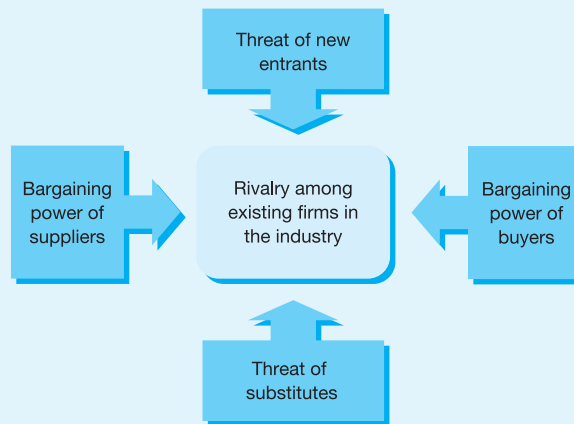
The Five Forces Model is not merely of use to commercial organisations. It can also be used by organisations in the public and not-for-profit sectors to better understand their customers, suppliers and other organisations with whom they may be competing for support (financial or otherwise). Each of the five forces is discussed in turn below.

### 3.7.1 Rivalry among existing companies

A prime source of competition in any industry is among the existing incumbents. This rivalry is likely to be most intense where a number of conditions prevail:

- **Where the competitors in the industry are roughly evenly balanced** in terms of size and/or market share. The UK chocolate market is a case in point where

**Figure 3.5** Five forces driving competition



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three rivals, Cadbury Schweppes, Nestlé and Mars, all command roughly equal market shares. Competition between them for an extra percentage point of the market is intense, leading to high levels of advertising spend, strong price competition and continuous launch of new products.

- **During periods of low market growth**, especially during the mature and decline stages of the product life cycle (see below). Under such conditions individual company growth is achieved only at the expense of competitors, and hence rivalry intensifies. The mobile telephone market is a case in point, where growth slowed in the early 2000s and existing firms such as Ericsson and Nokia found themselves with excess production capacity and entered into increased price competition to secure sales.
- **Where exit barriers are high**. If firms find it difficult to exit a market once they have entered, they are more likely to compete hard for success. High initial investments may create psychological (or egotistical) barriers to exit, high costs of redundancy (monetary or social) may deter exit, or e-market presence may be necessary to enable the firm to compete in more lucrative segments (for many state-owned mail services the cost of remaining in business is to continue to deliver mail to expensive-to-reach, out-of-the-way places).
- **Where product differentiation is low**. In markets where customers see little variation across products, where intrinsic quality and external value are perceived to be similar, competition for sales tends to be more intense. The prime reason is that customer switching costs are low – the cost (financial, inconvenience, etc.) to a customer of changing from one supplier to another.

- **Where fixed costs are relatively high.** High fixed costs relative to variable costs require greater sales volume to cover them. Until that volume is achieved rivalry can be intense. In power supply industries the fixed costs of power generation are substantial compared with the variable costs of supplying power, leading to intense rivalry among generators.

### 3.7.2 The threat of market entry

In addition to considering existing rivals, organisations should also consider the potential for new entrants to emerge. The airline industry, for example, has seen a number of low-cost 'no-frills' entrants such as easyJet and Ryanair enter the market over the last decade or so. A number of conditions make market entry more likely. Entry barriers can be low where the following hold:

- **Costs of entry are low.** The Internet, for example, has meant that many industries which once required substantial capital and investment for market entry are now more vulnerable to entry by lower-resourced competitors. Amazon.com, for example, entered into book retailing online with modest capital but without the need to invest in substantial bricks and mortar in the way that existing book retailers had.
- **Existing or new distribution channels are open to use.** Johnson and Scholes (1999) point out that entering the market for beer in Germany, the United Kingdom and France is hindered by the system of financing of bars and pubs by the large brewers. This 'tied system' has guaranteed access to the market for the large brewers but restricted access to new and small brewers, essentially acting as a barrier to market entry.
- **Little competitive retaliation is anticipated.** The expectation of retaliation by existing incumbents can be one of the most significant deterrents to market entry. For example, IBM signalled their determination to defend their mainframe computer market in the 1980s against entrants to such an extent that others entered different sectors of the market rather than compete head on with 'Big Blue'. Conversely, where incumbents are considered weak, or lacking in resolve to defend their markets, the likelihood of new entrance is greater. The financial state of the large airline carriers in the late 1980s and 1990s meant that they were not in a strong position to see off the low-cost entrants that undercut their fares significantly. They had little leeway to retaliate, and the new entrants knew it.
- **Differentiation is low.** When differentiation between the offerings of existing incumbents is low there is likely to be more scope for new entrants to offer something unique and valued in the market.
- **There are gaps in the market.** In markets where the existing incumbents are not adequately serving the wants and needs of customers there is more opportunity for entrants to establish themselves in underserved, or neglected, segments of the market. Highly segmented markets, in particular, where existing firms are slow to recognise diversity in customer requirements, provide tempting opportunities for new entrants.

### 3.7.3 The threat of substitutes

New entrants may use the existing technology of the industry, or they may attempt to revolutionise the market through leapfrogging. Indeed, technological substitution may come from new entrants or from existing firms doing things in new ways. Substitution can increase competitiveness of an industry for a number of reasons:

- **By making existing technologies redundant.** Classic examples include the decimation of the slide rule industry by the advent of pocket calculators, the overtaking of mechanical timepieces by electronic technologies, and the advent of digital television replacing analogue. Where technologies are changing rapidly, competition between firms to stay ahead also tends to be intense.
- **By incremental product improvement.** Even where industries are not revolutionised overnight by step-changes in technology, existing market offerings may become quickly dated. Technological development in the computer industry, for example, proceeds apace, with personal computers becoming out of date almost as soon as they have been shipped! The advent of e-mail as a means of communication has not (yet) made the letter obsolete, but it has had a significant impact on postal services. E-mail is simply a letter posted down the telephone wires rather than in a letterbox.

### 3.7.4 Bargaining power of suppliers

The balance of power between the members of an industry, its suppliers and its customers can significantly affect the level of competitiveness experienced by all. Where suppliers and/or customers have greater power than the members of the industry competition within the industry for scarce suppliers or scarce customers tends to be more intense. Suppliers tend to have more bargaining power where the following hold:

- **Suppliers are more concentrated than buyers.** Where there are few organisations capable and willing to supply, their power over their buyers tends to be greater. Similarly, where buyers are more fragmented, and purchase in relatively small quantities, their power relative to their suppliers is likely to be low.
- **Costs of switching suppliers are high.** If the supplier provides a key ingredient for the purchaser that is difficult or costly to source elsewhere, their bargaining power is likely to be greater. Where the supplier provides commodity products that can be easily purchased elsewhere, they will have less bargaining power. Welsh sheep farmers, for example, have found that their individual bargaining power with the supermarkets and butchers' chains that sell their meat is low, but when they band together in collectives their power increases.
- **Suppliers' offerings are highly differentiated.** Where suppliers' products are distinct and different, either through tangible differences in standards, features or design, or through less tangible effects such as branding and reputation, they are likely to hold more bargaining power. The power of Intel, for example, as a supplier of computer chips (which are increasingly commodity products) is enhanced through the reputation and branding of Intel among the ultimate customers for computers. This pull-through effect enhances the power of Intel in supplying to computer manufacturers and assemblers.

## Intel Inside



### 3.7.5 Bargaining power of buyers

The buyers or customers of the output from an industry also exert pressures that can affect the degree of competition within it. Buyers tend to be more powerful in the supply chain where the following is true:

- **They are more concentrated than sellers.** Fewer buyers than sellers, especially where individual buyers account for large volumes of purchases and/or the sellers produce relatively small amounts each, means greater bargaining power for the customer. In grocery retailing, for example, a handful of major multiples command such a large percentage of total sales that they can practically dictate terms to their suppliers.
- **There are readily available alternative sources of supply.** Especially in the supply of commodity products or services, it may be relatively easy for buyers to buy elsewhere.
- **Buyer switching costs are low.** Where the inconvenience or cost of switching suppliers is low, greater power resides with the buyer who can ‘shop around’ more to get better deals.

### 3.7.6 Competitiveness drivers

Taken together, these five forces offer a useful framework for assessing the factors likely to drive competition. They also suggest ways in which the players in the industry – current incumbents, suppliers and buyers – might seek to alter the balance of power and improve their own competitive position. We can summarise as follows. Where the following industry characteristics are present, expect greater levels of competition:

There is little differentiation between market offers.

Industry growth rates are low.

High fixed costs need to be recovered.

High supplier switching costs.

Low buyer switching costs.

Low entry barriers.

High exit barriers.

As we shall see later (Chapter 11), one of the most successful ways of countering a highly competitive environment is to differentiate your offering from that of competitors, in a way of value to customers. That creates buyer switching costs, higher entry barriers, and helps create a defensible position in the market irrespective of industry growth rates or costs of supply.

## 3.8 The product life cycle

The product life cycle (PLC) is an insightful tool into an industry's competitive environment (Cravens, 2006, p. 171) and market dynamics. Its premises are that:

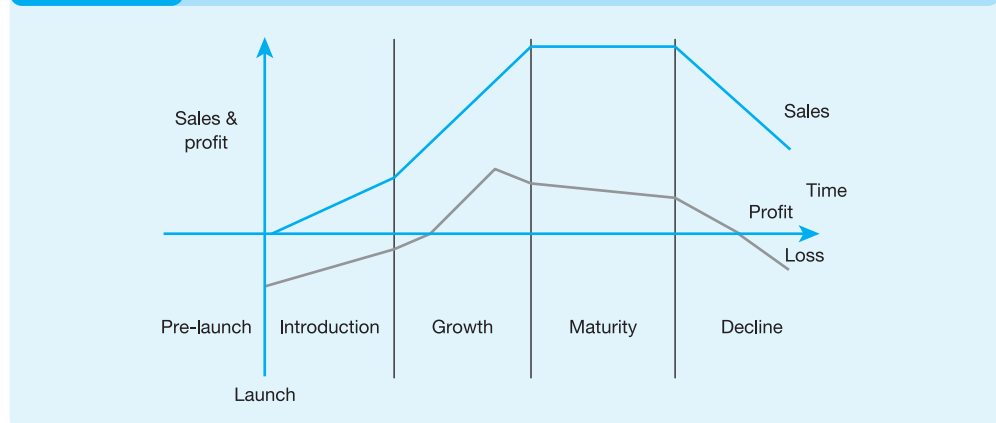
- All products have a limited life span until a better solution to the customer's problems comes along.
- Life cycles of products follow more or less predictable patterns or phases (see Figure 3.6).
- Market conditions, opportunities and challenges vary over the life cycle.
- Strategies need to adapt over the life cycle.

Chapter 12 will address this last point, while each of the four key stages (introduction, growth, maturity and decline) will be introduced here.

### *Introduction stage*

The product is launched into the market and generally sales are slow to pick up because customers and distribution have to be found and convinced. If the product is new to the world (e.g. the first HD DVD player) it will face little or no competition and the company will have a pioneer advantage and appeal to innovators. If it is an addition (e.g. Motorola Razzr in the fashion phone market) it will be targeted at a new segment and fit the 'ideal' of that segment better than alternative solutions. The key question here has to do with how quickly competitors will launch a variant. This is normally the stage for build strategies (see Chapter 11).

**Figure 3.6** The product life cycle





### *Growth stage*

The growth stage is characterised by a rapid increase in sales as the product starts to attract different types of customers and repeat purchases may start. Critically, it is at this stage that competitors assess the product's market and profit potential and decide on their competitive moves. They may decide to modify or improve their current offerings or enter the market with their own new products (e.g. Microsoft Zunes as the 'Ipod killer'). If not, they may use the other elements of the mix to detract attention away from the product, i.e. an advertising campaign or a price promotion. It is possible that defensive attacks may be required to prevent the curve from flattening.

### *Maturity stage*

At this stage the rate of growth slows down significantly. This stage tends to last longer than the previous ones and is, probably, the most challenging one: it is a fact of life for most marketers that the markets they have to deal with are mature! This is a stage of severe competition, market fragmentation and declining profits, due to overcapacity in the industry. Indeed, competitors will try to uncover untapped niches and/or enter price wars. This leads to a clear-out and the weaker competitors will exit, possibly becoming suppliers to the stronger ones or being bought by them (as we are currently seeing in the car industry). The survivors will be either companies supplying the bulk of the market, competing on a high volume–low margin basis, or market nichers. Many firms will try to buck the trend and revamp their PLCs (not always successfully as both KitKat and Barbie experienced after unsuccessfully launching new variants of their products) or expand the market by creating a new segment, and hence extra demand overall, as Swatch did.

### *Decline stage*

This stage is marked by a slow or rapid decline of the sales of the product. Decline may be due to better solutions (e.g. new technology such as the flash pen replacing floppy and zip-disks) supplanting weaker ones, a change in consumer tastes or an increase in competition, be it domestic or international.

## **3.9 Strategic groups**

Within industries a useful basis for analysis can be the strategic group. A strategic group is composed of firms within an industry following similar strategies aimed at similar customers or customer groups. Coca-Cola and Pepsi, for example, form a strategic group in the soft drinks market (Kay, 1993). The identification of strategic groups is fundamental to industry analysis since, just as industries can rise or fall despite the state of the overall business environment, so strategic groups with the distinctive competencies of their members can defy the general fluctuations within an industry.

Indeed, understanding the dynamics of existing strategic groups can be productive to understanding their vulnerability to competitive attack. For example, pursuing the Coca-Cola and Pepsi illustration, these firms compete on the basis of massive

advertising spend on image and packaging to position against each other. They will respond to each other's advertising and promotion with anything except one thing – price. Coca-Cola and Pepsi have experienced price wars and they do not like them. This made the big brands highly vulnerable to attack by cheaper substitutes – Sainsbury's own label and Virgin Cola have taken significant market share in the UK market, driven mainly by lower prices.

The separation of strategic groups within a market depends on the barriers to mobility within the industry. For instance, all the companies within the UK ship-building industry tend to compete with each other for high value-added defence contracts, but their lack of cheap labour and resources means that they are not in the same strategic group as the Korean or Japanese suppliers or bulk carriers. Other barriers may be the degree of vertical integration of companies, as in the case of British Gypsum and its source of raw materials for making plasterboard within the United Kingdom, or Boots Pharmaceuticals with its access to the market via Boots retailing chain. At a global level, geopolitical boundaries can also cause differences. For instance, the fragmented buying of the European military and the small production runs that result tend to position European defence contractors in a different strategic group from their US counterparts. Similarly, the differences in technology, reliability and safety standards form barriers between Russian and Western aerospace manufacturers.

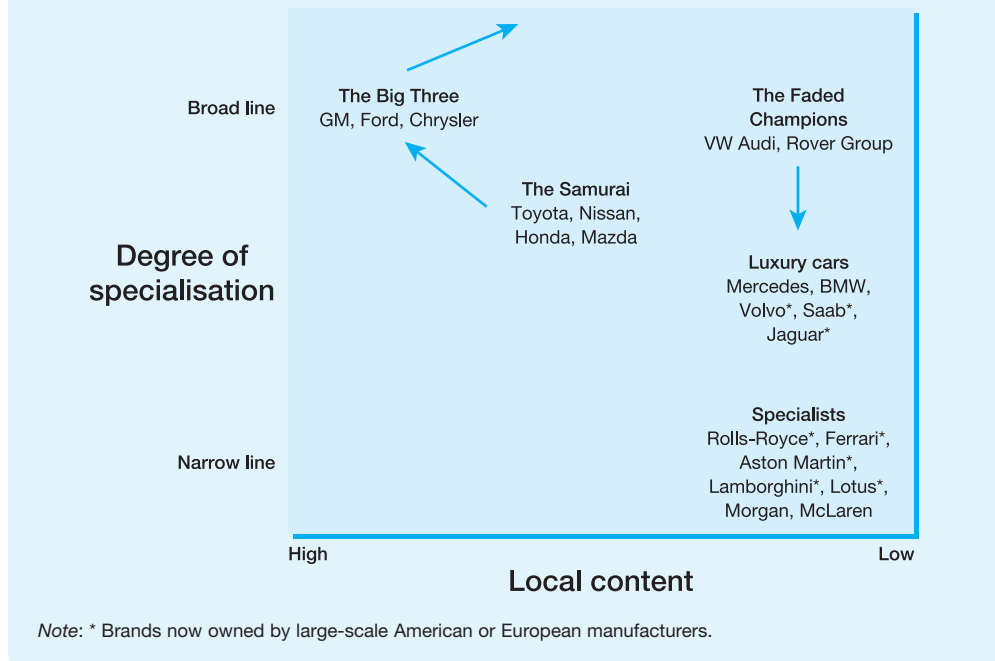
As well as the barriers surrounding them, strategic groups also share competitive pressures. Within the US defence industry firms share similar bargaining power with the Pentagon and influence through the political lobbying system. This can help protect them from non-US suppliers, but does not give them an advantage within their home market. The threat from substitutes or new entrants may also provide a unifying theme for strategic groups. Within the computer industry suppliers of low-cost products such as Compaq are facing intense competition from inexpensively manufactured alternatives including desktop, laptop and even palmtop machines. Companies within the higher value-added mainframe businesses are under less threat from low-cost mainframe manufacturers, but are being squeezed by increasingly sophisticated and networked PCs. Finally, strategic groups often share common competitors because they are often competing to fulfil similar market needs using similar technologies.

The map of strategic groups within the US automobile market shows their dynamics (Figure 3.7). The presentation is simplified into two dimensions for ease of discussion but in reality a full analysis may use more. In this case the strategic groups show their clear geographical and historic origins. The Big Three – GM, Ford and Chrysler – remain dominant in supplying a broad range of cars with high local content. In this they retain some technological and styling expertise in the supply of regular and luxury sedans, but until recently had the common basic defence of promoting import restrictions.

Another group is the Faded Champions, which were once the major importers into the US market. Both are European companies whose US ventures have either seen better days, in the case of Volkswagen/Audi, or much better days, in the case of the Rover Group. Once suppliers of a relatively broad range of vehicles, both these companies retreated towards the luxury car sector where they appeared to have little competitive edge. When Rover was acquired (and then rapidly sold off again)

Figure 3.7

Map of strategic groups in the US automobile market



by the German luxury car manufacturer BMW it reconfirmed its positioning at the cheaper end of the market, complementary to, rather than in direct competition with, the BMW range. The demise of the Faded Champions in the United States is not due to the Big Three, but to the entry of the Samurai into the US market. Initially the quality and low cost of the Japanese strategic group gave them an advantage over the European broad-range suppliers, but now the Japanese are gaining even more power by becoming local manufacturers and therefore overcoming the local content barriers.

High European labour costs have meant that they operate in strategic groups selling high added-value luxury cars or specialist cars, the luxury cars being supplied by relatively large-scale manufacturers with moderately wide product ranges (e.g. the German firm Mercedes-Benz), or specialist manufacturers producing the very expensive, small-volume products (e.g. the British Morgan cars).

The strength of the barriers surrounding the industry is reflected by recent shifts that have taken place. Although the Samurai have never attacked the hard core of the Big Three, they have continued to nibble away at the weaker imports: first the Faded Champions with cheap, reliable family cars and more recently the luxury car makers with the advent of the Lexus and other luxury offerings. Even though they are very large, the Big Three have found it difficult to defend their position by developing their own luxury cars and so have been seeking to defend their flanks against the Samurai by purchasing European manufacturers such as Jaguar, Volvo, Saab, Lamborghini, Aston Martin and Lotus. After years of the Big Three and the Samurai avoiding direct competition, the luxury car market has become the

point where the two meet. Although the Samurai have not found it appropriate to purchase European companies in order to overcome entry barriers to those sectors (with the exception of Toyota, which has bought, and sold, Lotus), so distinct are the luxury car markets that both Toyota and Honda launched totally new ranges with new brand names and distribution systems to attack the market (the Acura and the Lexus).

With the luxury car market already being fought over, the next stand-up battle between the Big Three and the Samurai is in the specialist market where the Americans have again been purchasing European brands and the Japanese have been aggressively developing 'Ferrari bashers'. Although the one-time distinct strategic groups are becoming blurred as the main protagonists enter new markets, it is to be noted that in all cases the strategy involves establishing distinct business units with the skills appropriate for the strategic groups being fought over. Examination of the US automobile market shows that even when markets are mature there can be areas of rapid growth and competition, such as the luxury car and specialist markets. And the different expertise and situation of the strategic groups means that the protagonists from the different groups may well compete in different ways.

The inability of companies to understand the differences in strategic groups is one that causes the frequent failures of companies entering new markets by acquisition. Although the broad business definition, products being sold and customers may be similar within the acquired and the acquiring company, where the two are in different strategic groups there can be major misunderstandings. Although having great expertise in the domestic market, many UK retailers have found international expansion very difficult because of the competition they face in the new markets and their failure to understand the strategic groups they are entering. Examples include Boots' acquisition in Canada and Dixons' in the United States where, although their international diversification was into the same industries as those with which they were familiar in the United Kingdom, those skills that allowed them to beat competition within their strategic groups at home did not transfer easily internationally. Were the companies facing the same competition within the European markets it is likely that their ventures would have been more successful. In a sense that is what the Japanese have been doing, as their industries have rolled from country to country across the world, where their major competitors are their own compatriots whom they have faced in many markets in the past.

### 3.10 Industry evolution and forecasting

The critical issues to be addressed within an industry depend on its evolutionary stage. Porter (1980) discusses the evolution of industries through three main stages: emergence, transformation to maturity and decline (see Figure 3.8). These stages follow in much the same way as products are represented as following more or less identifiable life cycle stages (see O'Shaughnessy, 1995, for a comparison of the product life cycle and Porter's Industry Evolution Model). However, industry evolution is to the product what the product life cycle is to the brand. For example, whereas in the music industry the product life cycle may relate to vinyl records or CDs, industry evolution embraces the transition from cylinders to 78s, 45s, vinyl

**Figure 3.8** Industry evolution

<i>Stage</i>	<i>Issues</i>	<i>Strategies</i>
<b>Emergence</b>	Technological uncertainty Commercial uncertainty Customer uncertainty Channel uncertainty	Locate innovators and early adopters Establish standard Reduce switching cost risk Encourage trial
<b>Transition to maturity</b>	Slow growth, falling profits Excess capacity, intense competition Increased customer power Extended product line	Marketing mix marketing Customer retention, segmentation Efficiency focus Coordination
<b>Decline</b>	Substitution by newer technologies Demographic change	Focus or divest

Source: Adapted from O'Shaughnessy (1988).

albums, 8-track cartridges, cassettes, compact discs, digital audio tape and subsequent technologies.

Uncertainty is the salient feature within emerging industries. Recent developments in broadcasting show this most clearly. There is no technological uncertainty about the basic technologies involved in achieving the direct broadcasting of television programmes by cable or satellite, but there are vast uncertainties about the combination of technologies to be used and how they should be paid for. In the early 1980s the discussion was about cable and the terrific opportunities offered for industrial redevelopment by cabling declining UK cities such as Liverpool. In the United States many cable channels emerged, but with no particular standard and with numerous channels that had a short life. In only a few years the vast infrastructure requirements of cable have been replaced by the equally capital-intensive but more elegant solution of satellite television. Even there, however, there is uncertainty about whether to use high-, low- or medium-powered satellites and the means of getting revenue from customers. In the United Kingdom to that brawl has been added uncertainty concerning British regulations, those of the European Union and the activities of the broadcasting channels, which were once the oligopolistic supplier. It is not surprising that with this uncertainty consumers have shown reluctance in adopting the new viewing opportunities open to them.

The high losses that can be associated with the emergent stage of an industry are shown by the losses incurred by the pioneers of the competing technologies in the video industry. Out of three competing video disc and video cassette recording technologies in the mid-1980s only one, VHS, has survived. Two of the losers in that round (Philips with the laser disc and V2000 VCRs, and Sony with the BetaMax format) managed the emergence of laser-based reproduction in the late 1980s and 1990s more carefully. The two industry leaders collaborated in the development of a compact disc (CD) standard and licensed the technology widely in order to accelerate its diffusion and reduce customer uncertainty. With the establishment of a single technology the compact disc was less prone to the software shortages that

made video discs so unattractive to customers. Customers still faced potentially high switching costs if they traded in their existing album collection for CDs, but the impact of this was reduced by focusing on segments that were very conscious of hi-fi quality and heavy users. The CD was also capable of being integrated into existing hi-fi systems and quickly became an established part of budget rack systems.

In the transition to maturity uncertainty declines but competition intensifies. Typically the rapid growth, high margins, little competition and apparent size of industries within the late stage of emergence attract many competitors. Those who sought to avoid the uncertainty in the early stages now feel the time is right for them to enter the market. This decision usually coincides with a transition to maturity within a marketplace where competition increases, profits fall, growth slows and capacity is excessive as more producers come on stream. Also, by now a dominant design has typically emerged, and hence competitors are forced to compete on a basis of price or the extended/augmented product. In technological terms, there is a switch to process technology; in marketing terms, a switch from entrepreneurship to the management of the marketing mix; that is, towards efficiency, coupled with the careful identification of market segments with a marketing mix to address them.

Not unexpectedly, companies that fail to notice this transition from entrepreneurial to more bureaucratic management find things difficult. Take, for instance, Sinclair, which was still seeking to differentiate the market in the mid-1980s with the QL microcomputer after the emergence of the IBM PC had established industry standards. Equally, examine the increasing difficulties that Amstrad faced once its entrepreneurial, cost-cutting and channel strategies had been followed by industry leaders such as IBM and Olivetti.

An industry's decline is usually caused by the emergence of a substitute or a demographic shift. Two main strategies are usually appropriate: either divest or focus on the efficient supply of a robust segment. Although the basic options are few, industries often find this decision a difficult one because of the vested interests within the sector declining. It is extraordinary that at this last stage there seem to be more organisational choices about how to implement the basic strategies than at any other stage in an industry's evolution. At a clinical level there can be the decision to divest or milk a company within a declining sector. There is the option of carefully nurturing a long-lasting, lingering target market; or for the entrepreneurial zest of an opportunist who can take advantage of the shifting needs. There is certainly much money to be made in the remnants of industries as AEM, a subsidiary of RTZ, has found. It specialises in aviation engineering and maintenance of products that are no longer the main focus of the leading airframe and aeroengine manufacturers.

Industry evolution shows the violent shifts that occur within an industry as it progresses from stage to stage. Not only do the major issues change, but the management tasks and styles appropriate are equally shifting. Industry evolution also shows that their very success can lead to failure for some firms that do not adapt their approaches and styles to changing conditions. Firms that have been highly successful in entrepreneurial mode during emergence may find it difficult to make the transition to a more bureaucratic way of operating. Similarly, those that have learned to live with stability and maturity may find difficulty managing the business during industry decline where a highly focused, cost-restrained way of operating is

appropriate. Understanding the stage of industry evolution is essential if a company is to avoid managing in an environment with which it is unfamiliar, with an inappropriate management style.

### 3.11 Environmental stability

A limitation of Porter's Industry Evolution Model is the rigid association of technological and marketing uncertainty with only the emerging stage of an industry. This may not be so. For instance, the UK grocery trade has certainly been mature for generations, but the growth of supermarkets and hypermarkets, the removal of retail price maintenance and the move towards out-of-town shopping have meant the market has faced great turbulence, despite its maturity. Ansoff's (1984) theory is that environmental turbulence is fundamental to understanding industries, but it should not be seen as relating only to the early stages of industry life cycle.

A distinction is drawn between marketing and innovation turbulence (Table 3.1). The reason for this is apparent when one considers many industries, such as the automobile industry, where competition has been rapidly changing but for which the competing technologies have changed little. The determinants of environmental turbulence parallel industry evolution in relating uncertainty to the stage of the product life cycle for both marketing and innovation turbulence. However, along with the emerging stage, decline and the transition from stage to stage can spell danger for the unwary company. And in some markets the antecedents of marketing and innovation turbulence are quite different.

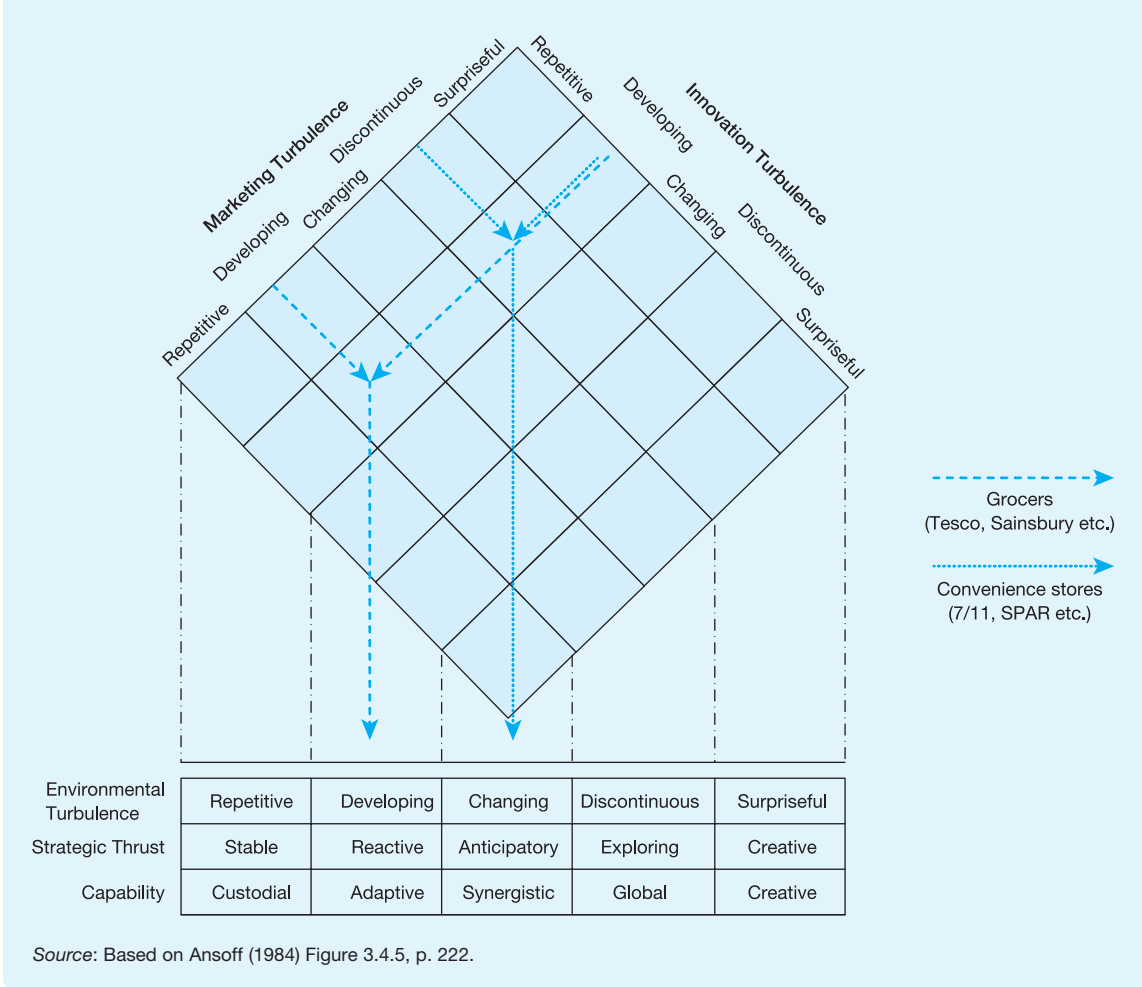
Figure 3.9 provides a mechanism for combining two dimensions of turbulence and shows how two strategic groups in the same industry can be facing different environments. Within the UK food retailing trade the environment for the leading grocers, such as Sainsbury's and Tesco, is **developing** in terms of both marketing and innovation. The shift out of town is continuing (though there are signs that concerns for the environmental impact of out-of-town shopping may lead to a slow-down of this trend), as is the move towards larger establishments; but the pattern is well understood, as is the position of the main protagonists within the industry. Similarly, major changes with electronic point of sale (EPOS) and stock control technologies have been absorbed by this sector and are now a well-established part

**Table 3.1** Determinants of environmental turbulence

<i>Association of high marketing turbulence</i>	<i>Association of high innovative turbulence</i>
High % of sales spent on marketing	High % of sales spent on R&D
Novel market entrant	Frequent new products in the industry
Very aggressive leading competitor	Short PLCs
Threatening pressure by customers	Novel technologies emerging
Demand outstripping industry capacity	Many competing technologies
Emergence, decline or shifting stage of PLC	Emergence, decline or shifting stage of PLC
Low profitability	Low profitability
High product differentiation	Creativity is a critical success factor
Identification of latent needs a critical success factor	



**Figure 3.9 Environmental turbulence**



Source: Based on Ansoff (1984) Figure 3.4.5, p. 222.

of their activities. The intersection of the developing market turbulence and developing innovation turbulence not surprisingly indicates that the overall environmental turbulence is appropriately classified as developing.

The situation of the leading grocers contrasts with the convenience stores, which form another strategic group within the same industry. Although their innovation turbulence is similar to leading grocers, they face **discontinuous marketing** turbulence. This is due to their not yet having faced the shift from in-town to out-of-town shopping, and their existence within the emergent phase of an industry in which many new entrants are appearing. Although in the same industry as the leading grocers the convenience stores, therefore, face **changing environmental** turbulence.

Ansoff draws broad strategic and managerial conclusions from the differences in environmental turbulences that companies face. Whereas, he suggests, the leading retailers see the need to be *reactive* in terms of their strategic thrust and have the

ability to adapt, he would suggest that the convenience stores need a more dynamic management style, where they *anticipate* shifts in the environment and look for synergistic opportunities. Within that context the convenience stores have concentrated on a series of goods for which their position is critical, such as alcoholic beverages, milk and soft drinks, which constitutes a very large proportion of their sales. Many have also opened video libraries.

From a marketing point of view there is great importance in correctly assessing environmental turbulence. A firm must try to match its capability to appropriate environments or develop capabilities that fit new ones. The Trustee Savings Bank (TSB) and many other retailing banks in the United Kingdom have shown the dangers of believing their resources can enable them to operate in unfamiliar style. TSB in particular almost epitomised custodial management, where it provided an efficient service in a standard way to a very stable market for a long time. Even more than other banks it meant the company was built around closed systems and operations where there was little need for entrepreneurship. The privatisation of TSB gave it a dangerous combination of a large amount of money and wider opportunities, together with a massively changed banking environment. Two almost inevitable developments have occurred: (a) the bank has shown its inability to manage businesses with a more dynamic environment; and (b) it has found itself unable to work out what to do with its cash mountain. A solution was eventually found in the merger with Lloyds Bank, which could provide the necessary capabilities. Similar examples within the UK financial market are legion, where the very mentality paramount in providing security and correct balances at the end of each trading day left management with completely inappropriate skills to manage modern, fast-moving trading houses. The conversion into banks of some of the leading building societies such as Alliance & Leicester and the Halifax will be watched with interest as they begin to come to terms with very different operating environments.

### 3.12 SPACE analysis

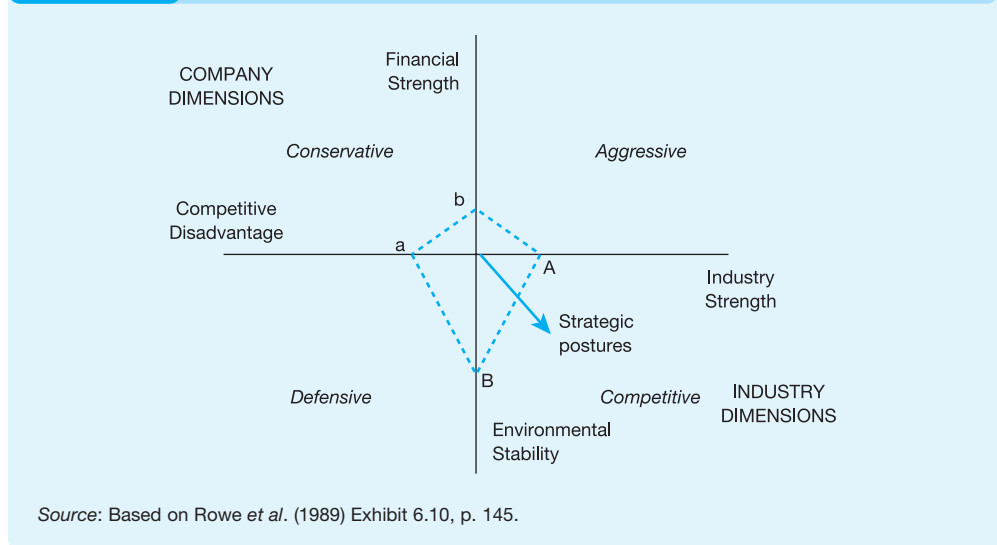
SPACE (strategic position and action evaluation) (Rowe *et al.*, 1989) analysis extends environmental analysis beyond the consideration of turbulence to look at industry strength and relates this to the competitive advantage and financial strength of a company. Like Shell's Directional Policy Matrix and other multi-dimensional portfolio planning devices it is a method of summarising a large number of strategic issues on a few dimensions. One of the dimensions is of environmental stability (Table 3.2), which includes many of the facets of environmental turbulence. But with SPACE analysis environmental instability is seen as being counterbalanced by financial strength, a company with high liquidity or access to other reserves being able to withstand environmental volatility.

Industry strength is the second environmental dimension considered. This focuses on attractiveness of the industry in terms of growth potential, profitability and the ability to use its resources efficiently. For a company within the industry these strengths are no virtue unless a company has a competitive advantage. SPACE analysis, therefore, opposes industry strength by competitive advantage (Figure 3.10) to provide a gauge of a company's position relative to the industry.

**Table 3.2 SPACE analysis – components**

<i>Company dimensions</i>	<i>Industry dimensions</i>
<i>Financial strengths</i>	<i>Environmental stability</i>
Return on investment	Technological changes
Leverage	Rate of inflation
Liquidity	Demand variability
Capital required/available	Price range of competing products
Cash flow	Entry barriers
Exit barriers	Competitive pressures
Risk	Price elasticity of demand
<i>Competitive advantage</i>	<i>Industry strength</i>
Market share	Growth potential
Product quality	Profit potential
Product life cycle	Financial stability
Product replacement cycle	Technological know-how
Customer loyalty	Resource utilisation
Competition's capacity utilisation	Capital intensity
Technological know-how	Market entry ability
Vertical integration	Productivity

**Figure 3.10 SPACE analysis map**



Rating a company and the industry on each of the four dimensions gives the competitive profile abAB in Figure 3.10. The example clearly shows a company in a weak position: moderately high environmental instability is not balanced by financial strength, and the competitive advantage of the company is not great compared with the overall industry strength.

The relative size of the opposing dimension gives a guide to the appropriate strategic posture of a firm. For example, from Figure 3.10,  $A + a$  and  $B + b$  show the overall weight of the SPACE analysis to be towards the bottom right-hand quadrant. This indicates a **competitive posture**, which is typical of a company with a competitive advantage in an attractive industry. However, the company's financial strength is insufficient to balance the environmental instability it faces. Such firms clearly need more financial resources to maintain their competitive position. In the long term this may be achieved by greater efficiency and productivity, but likely is the need to raise capital or merge with a cash-rich company.

Firms that find their strategic posture within the **aggressive quadrant** are enjoying significant advantages yet are likely to face threats from new competition. The chief danger is complacency, which prevents them gaining further market dominance by developing products with a definite competitive edge. The excessive financial strength of these companies may also make it attractive for them to seek acquisition candidates in their own or related industries.

A **conservative posture** is typical of companies in mature markets where the lack of need for investment has generated financial surpluses. The lack of investment can mean that these companies compete at a disadvantage and lack of opportunities within their existing markets makes them vulnerable in the long term. They must, therefore, defend their existing products to ensure a continued cash flow while they seek new market opportunities.

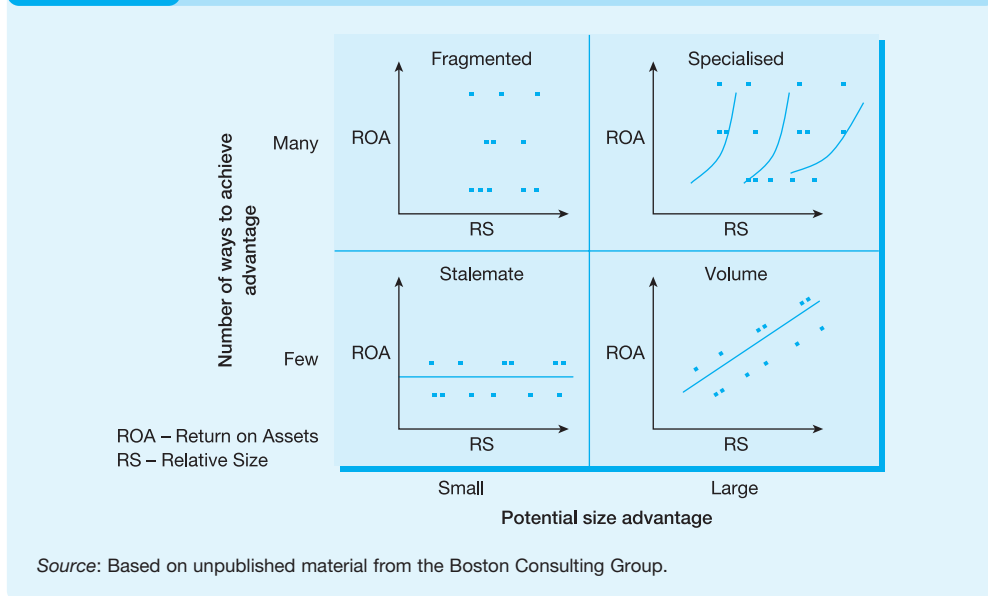
Companies with a **defensive posture** are clearly vulnerable. Having little residual strength to combat competition, they need to foster resources by operating efficiently and be prepared to retreat from competitive markets in order to concentrate on ones they have a chance of defending. For these it just appears to be a matter of time before either competition or the environment gets the better of them.

### 3.13 The Advantage Matrix

Once strategic groups within a market have been identified, it becomes apparent that the groups have differing levels of profitability. For instance, in the machine tool industry conventional lathes are almost a commodity and frequently produced at low cost in the Third World. But, in another part of the industry, say flexible manufacturing systems, profits can be quite high for those companies with special skills. Recognition of this pattern led the Boston Consulting Group (1979) to develop the Advantage Matrix, which helps to classify the competitive environments that can coexist within an industry. The framework identifies two dimensions: the number of approaches to achieving advantage within a market and the potential size advantage. In Figure 3.11 the quadrants of the Advantage Matrix show how relationships between relative size and return on assets for companies can differ.

The **stalemate** quadrant represents markets with few ways of achieving advantage and where the potential size advantage is small. Companies in such a strategic group would therefore find trading akin to a commodity market. These can be relatively complex products, as in the case of desktop computers, where the technologies are well known, product designs are convergent despite constant technological improvement, and similar sources of supply are used by everyone. Both large and small

**Figure 3.11** The Advantage Matrix



manufacturers are using overseas suppliers, and consumers are well able to compare product with product. Attempts to differentiate the market, as tried by IBM with its PS<sub>2</sub>, have failed. Therefore competitors are forced to compete mainly on the basis of efficient manufacturing and distribution.

The **volume** quadrant represents markets where the opportunities for differentiation remain few yet where potential size advantages remain great. This has occurred within some of the peripheral markets that support desktop computers. In particular, the printer industry has come to be dominated by Canon, Hewlett-Packard and IBM. The reason for this is the convergence in needs of users of printers and the mass production of the intrinsically mechanical printer units. Unlike microcomputers, where the manufacturing process is one of assembly of basically standard components in a very fixed fashion, as any user of printers will know there are numerous ways of solving the printing and paper-feed problems. This results in an industry where large economies of scale can be achieved by a few dominant suppliers. Where there are markets of this form, battles to achieve volume and economies of scale are paramount. Dominant companies are likely to remain dominant for some time once their cost advantage is achieved, although there is always a threat from a new technology emerging that will destroy the cost advantage they have fought to obtain. In this way Hewlett-Packard joined the band of leaders within the printer market by becoming the industry standard in the newly emerged market for laser printers.

**Specialised** markets occur when companies within the same market have differing returns on scale. This occurs most conspicuously among suppliers of software for microcomputers. Within the overall market for software there are clear sub-sectors with dominant leaders. It is also apparent that the market leaders, because of their familiarity and proven reliability, are able to charge a price premium. Microsoft

Office, for example, is fast establishing leadership of the integrated office software sector at prices ahead of its major competitors. Within the games sector Atari is less able to command premium prices, although its dominance does mean it is reaping size advantages within its own segments. The result in these specialised markets is therefore a series of experience curves being followed by different companies. Within these specialised markets the most successful companies will be those that dominate one or two segments. Within the market for microcomputer software this has often meant that they will be the companies creating a new generic class of product, as Microsoft achieved with its Windows products – making the IBM PC as user friendly as its Apple Mac rival.

**Fragmented** markets occur when the market's requirements are less well defined than the stalemate, volume or specialised cases. Several parts of the computer peripheral market conform to this pattern. In contrast to the demand for printers, the specialised users of plotters have a wide variety of requirements and the opportunities for colour and high resolution mean that an unlimited variety of differentiated products can be made. Similarly, in the provision of accounting software, alternative specifications are numerous and therefore many different prices and products coexist in the same market. Where this fragmentation has occurred, success depends on finding niches where particular product specifications are needed. Each niche provides little opportunity for growth; therefore, a company hoping to expand depends on finding a multiplicity of niches where, hopefully, some degree of commonality will allow economies to be achieved.

## Summary

Several broad conclusions can now be drawn and their implications for marketing management identified.

First, in many industries the days of fast growth are gone forever. In those where high rates of growth are still possible competition is likely to be increasingly fierce and of an international nature. It is no longer sufficient for companies to become marketing oriented. That is taken for granted. The keys to success will be the effective implementation of the marketing concept through clearly defined positioning strategies.

Second, change creates opportunities for innovative organisations and threats for those who, Cnut-like, attempt to hold it back. It is probable that there will be a redefinition of 'work' and 'leisure', which will provide significant new opportunities to those companies ready and able to seize them. The changing demographic profile, particularly in terms of age, marital status and income distribution, also poses many opportunities for marketing management.

Third, the speed of change in the environment is accelerating, leading to greater complexity and added 'turbulence', or discontinuity. Technological developments are combining to shorten product life cycles and speed up commercialisation times. The increasing turbulence in the market makes it particularly difficult to predict. As a result, planning horizons have been shortened. Where long-range plans in relatively

predictable markets could span 10–15 years, very few companies today are able to plan beyond the next few years in any but the most general terms.

Fourth, successful strategies erode over time. What has been successful at one point in time, in one market, cannot guarantee success in the future in the same or other markets.

A systematic analysis of the competitive or industry environment in which an organisation operates consists of four main components: (1) an analysis of the five forces driving industry competition (rivalry among existing incumbents, the threat of entry and substitution, the bargaining power of buyers and suppliers); (2) the recognition of the strategic groups within a market that can allow a company to address its efforts towards specific rather than general competitors; (3) the recognition of the different competitive environments and scale economies that can exist within the sub-markets in which the strategic clusters operate; and (4) the degree of turbulence within markets. Through understanding these a company can identify the sort of competition that is likely to exist within chosen segments and the types of strategy that are likely to lead to success. From the study of turbulence they can also find a guide to necessary orientation of the company and the blend of custodial management and entrepreneurial flair that will be needed to manage the venture. Just as segmentation allows a company to direct its resources towards fulfilling a particular set of customer needs, the industry analysis helps a company to build its defences towards a specific group of competitors, and build its strengths in accordance with the type of market it faces.

At the outset we noted, however, that studying the industry alone is not enough – it may blind us to changes in the sources and types of competition we will face in the future and fundamental changes in the structure of markets. To our analysis of industry we must add our understanding of customers and competitors, as well as our real capabilities as an organisation. These are the topics of the chapters that follow.

## Virgin Megastores

FT

## Case study

Alamy/UK Retail Alan King



Sir Richard Branson's unlisted Virgin Group yesterday sealed a €150m (£92m) deal to sell its 16 French Megastores and some international

rights to the Virgin retail brand to Lagardère Media, the French publishing, distribution and media company.

Sir Richard told a joint news conference at the flagship store on the Champs-Élysées in Paris that the cash raised would be spent on Virgin ventures around the world, including the Virgin Mobile telephone business.

'Music-retailing has not been flavour of the month around the world. We believe that we can make more money out of putting [the cash] into mobile phones and one or two other industries.'

The disposal follows Virgin's sale this month of its stake in Virgin One, the mortgage company, to Royal Bank of Scotland. The group has also recently increased its loan facility with Lloyds TSB.



Lagardère has acquired, in addition to the stores, the right to use the Virgin name brand for shops in francophone Europe, Spain and Portugal, an option to use it across the rest of continental Europe, and the right to the Megastore name in international airports and other transport hubs.

Lagardère's Hachette Distribution Services (HDS) arm will continue with the planned opening of six Virgin stores in France over the next 18 months and rebrand its Extrapole stores as Virgin.

Yesterday's deal, it says, will give it a 'trampoline' to develop its retail business and challenge Fnac, the music, book and electronic goods shops controlled by Pinault-Printemps-Redoute (PPR).

PPR executives, however, see yesterday's deal as another retreat by Virgin in the face of competition from Fnac in Europe. They said the combined Virgin Megastore–Extrapole turnover in France was less than a sixth of Fnac's.

HDS will initially have 37 music and bookstores in France, against Fnac's 58.

There was confusion over the value of the deal. Lagardère executives said the total, including the present value of likely future royalties for use of the Virgin name, was below €150m, with the immediate cash payment amounting to considerably less.

Sir Richard, however, said the deal was worth £103m, of which Virgin would receive £93m in cash because Lagardère was taking on £10m in debt with its purchase of the Virgin Megastores.

Lagardère will offer Virgin Mobile products, although not exclusively, through its worldwide retail network.

*Source: Victor Mallet, 'Branson sells French Megastores', Financial Times, 27 July 2001, p. 19.*

### Discussion questions

- 1 What competitive pressures account for Virgin's retreat from the French market? If Virgin's French Megastores are no good to the parent company, why are the same stores of value to Lagardère Media?
- 2 Sir Richard says he is disinvesting not because of the current competition in the French market but because of competitive turbulence surrounding music and the Internet. Assess the level of turbulence in the markets.
- 3 Virgin is an idiosyncratic company that has jumped in and out of many markets. What guide does the Advantage Matrix give in understanding the markets Virgin has entered (vodka, cola, insurance), those it has left (record production, mortgages, small record stores) and those where it remains (airlines, mobile phones)?