part four

Competitive Positioning Strategies

Part 4 looks at the main ways in which firms strive to create a competitive advantage.

Chapter 11 discusses ways of creating sustainable competitive advantage once the target market has been decided. Routes to achieving cost leadership and differentiation are examined, both as alternative and as complementary strategies. The dangers of falling between these strategies, and not executing either effectively, are also addressed. The chapter then goes on to discuss how competitive positions can be effectively communicated to customers, as well as the characteristics of sustainable competitive advantage through positioning. It concludes by examining strategies for building position, holding position, harvesting, niching and divesting.

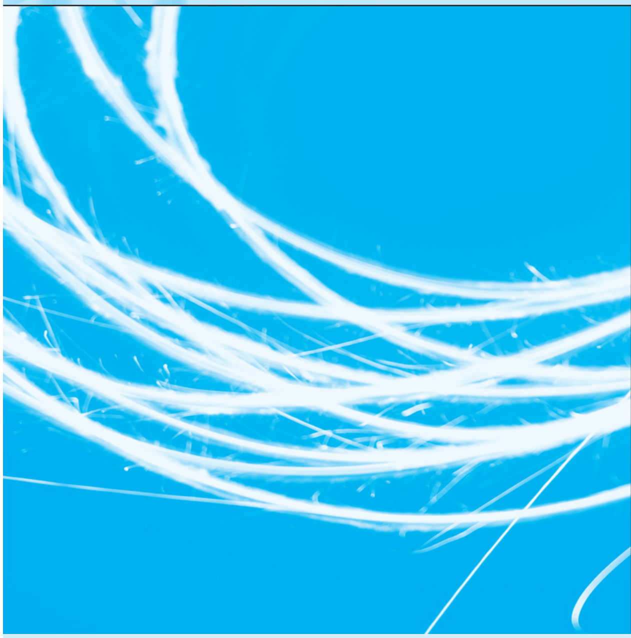
Chapter 12, a new chapter for this fourth edition, considers the new marketing mix including recent developments in e-business and e-marketing and their potential for impact on marketing strategies. Following the early hype of the dot.com boom, and the equally spectacular dot.com bust (or dot.bomb as it is being referred to), the chapter takes a more measured view of the opportunities and threats the newer, Internet-based technologies have to offer organisations and looks at how they integrate with the more traditional elements of the marketing mix.

Chapter 13 assesses the role of innovation and new product/service development in creating competitive positions. The critical factors for success in new product development are identified, together with common reasons for failure. The processes of new product development are discussed along with suggestions for speeding up and enhancing the likelihood of success. The chapter concludes by considering organisational issues in new product development and innovation.

Chapter 14 looks at the role of service and relationship marketing in building stronger competitive positions. The goods and services spectrum is introduced to show the increasing importance of the service element in the marketing implementation mix, even for goods marketers. Relationship marketing is discussed in the context of building and maintaining long-term relationships with key customers and customer groups. Techniques for monitoring and measuring customer satisfaction are presented with particular emphasis on the use of gap analysis to track problems in customer satisfaction back to their root causes.

chapter eleven

Creating sustainable competitive advantage



Competitive Strategy is the search for a favourable competitive position in an industry. Competitive Strategy aims to establish a profitable and sustainable position against the forces that determine industry competition.

Porter (1985)

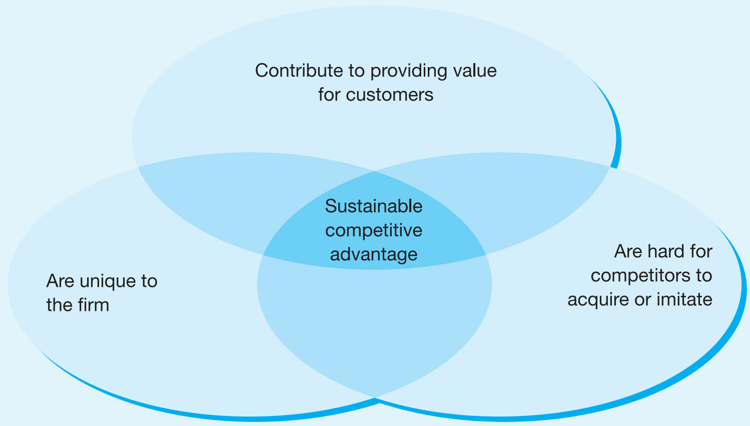
Introduction

Chapter 10 discussed the choice of target market suited to the strengths and capabilities of the firm. This chapter focuses on methods for creating a competitive advantage in that chosen target market. While few advantages are likely to last forever, some bases of advantage are more readily protected than others. A key task for the strategist is to identify those bases that offer the most potential for defensible positioning.

11.1 Using organisational resources to create sustainable competitive advantage

In Chapter 6 we assessed organisational resources. These we classed as three main types: organisational culture; marketing assets; and marketing capabilities. Any

Figure 11.1 Advantage-creating resources



organisation will be able to create a long list of its resources, but some of these will be more useful than others in creating competitive advantage. Fortunately, research under the resource-based view of the firm suggests that there are three main characteristics of resources which, when they coincide, help create a sustainable competitive advantage (SCA). These are that the resource contributes to creating value for customers; that the resource is rare, or unique to the organisation; and that the resource is hard for competitors to imitate or copy (Figure 11.1) (Collis and Montgomery, 1997).

11.1.1 Contribution to creating customer value

The prime consideration of the value of any resource to an organisation lies in the answer to the question: Does this resource contribute to creating value for customers? Value creation may be direct, such as through the benefits conveyed by superior technology, better service, meaningful brand differentiation and ready availability. The resources that contribute to these benefits (technology deployed, skilled and motivated personnel, brand name and reputation, and distribution coverage) create value for customers directly they are employed. Other resources may, however, have an indirect impact on value for customers. Effective cost control systems, for example, are not valuable to customers in and of themselves. They only add value for customers when they translate into lower prices charged, or by the ability of the organisation to offer additional customer benefits through the cost savings achieved.

The value of a resource in creating customer value must be assessed relative to the resources of competitors (Chapter 5). For example, a strong brand name such as Nike on sports clothing may convey more value than a less well-known brand. In other words, for the resource to contribute to sustainable competitive advantage it must serve to distinguish the organisation's offerings from those of competitors.

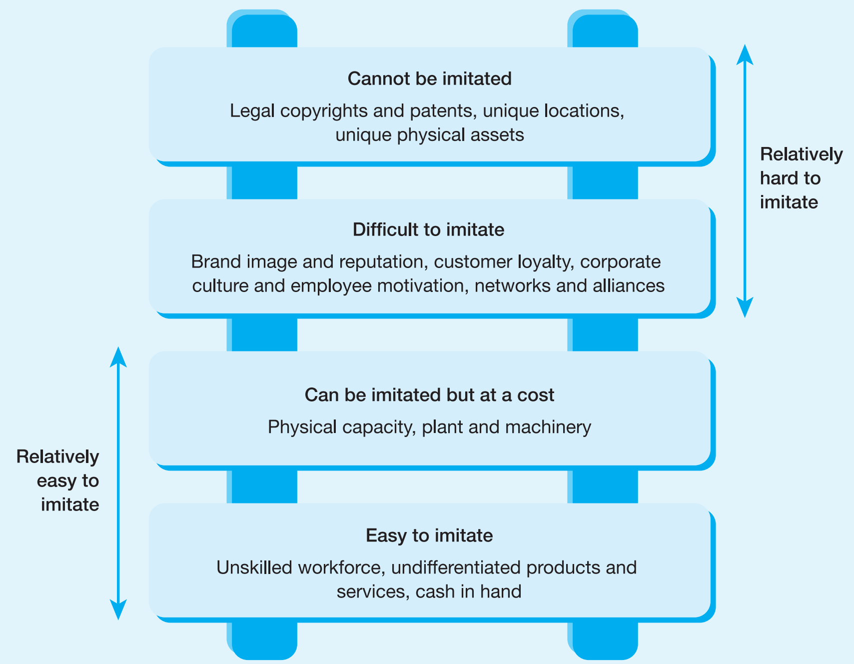
11.1.2 Uniqueness or scarcity

Where resources do contribute to customer value their uniqueness to the organisation also needs to be assessed. Some resources, say distribution outlets used, may offer little differentiation from those available to competitors. In the grocery business, for example, distribution through the major multiple grocery stores is essential for the companies such as Unilever and Procter & Gamble, but the outlets are not unique to either company and hence do not create sustainable competitive advantage for either. Those competence resources that are unique to the organisation have been termed **distinctive competencies** in contrast to **core competencies** by some commentators (e.g. Collis and Montgomery, 1997). For an advantage to be sustainable the rarity of the resources used to create it must be sustained over time.

11.1.3 Inimitability

Even resources that are unique to the organisation run the risk in the longer term of imitation or substitution by competitors (see Figure 11.2). In addition, competitors may find ways of acquiring or appropriating critical resources. In service organisations, for example, key staff may be 'poached' from a competitor with offers of enhanced salaries, better working conditions, and so on. In the advertising industry

Figure 11.2 Resource imitability ladder



Source: Adapted from Collis and Montgomery (1997).

the danger of losing clients when key staff move to competing agencies has been long recognised and agreed codes of practice have been drawn up, including 'golden handcuffs' to minimise the damage caused by lost resources.

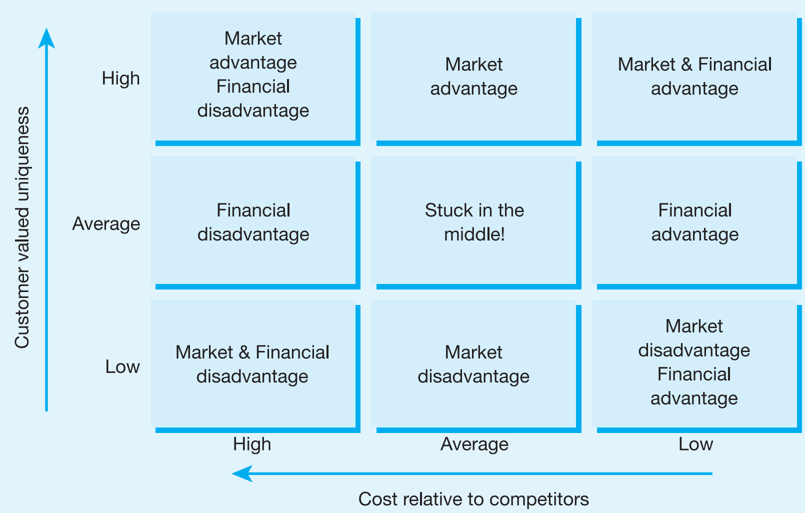
In Chapter 6 the ways of protecting resources from competitor copy, or isolating mechanisms, were discussed. These include enhancing causal ambiguity (making it hard for competitors to identify the underlying value-creating resources in the first place), building economic deterrence (making resource acquisition uneconomic), establishing legal protection (through patents and copyrights) and creating path dependency (the need to devote time and effort to the establishment and/or appropriation of resources). In the longer term, however, few resources can be effectively protected against all competitor attempts to imitate.

11.2 Generic routes to competitive advantage

As noted in Chapter 2, Porter (1980) has identified two main routes to creating a competitive advantage. These he termed cost leadership and differentiation. In examining how each can be achieved Porter (1985) takes a systems approach, likening the operations of a company to a 'value chain' from the input of raw materials and other resources through to the final delivery to, and after-sales servicing of, the customer. The value chain was discussed in the context of competitor analysis in Chapter 5 and was presented in Figure 5.5.

Each of the activities within the value chain, the primary activities and the support functions, can be used to add value to the ultimate product or service. That added value, however, is typically in the form of lower cost or valued uniqueness. These options are shown in Figure 11.3.

Figure 11.3 Generic routes to competitive advantage creation



11.3 Achieving cost leadership

Porter (1985) has identified several major factors that affect organisational costs. These he terms 'cost drivers'; they are shown in Figure 11.4 and each is reviewed briefly below.

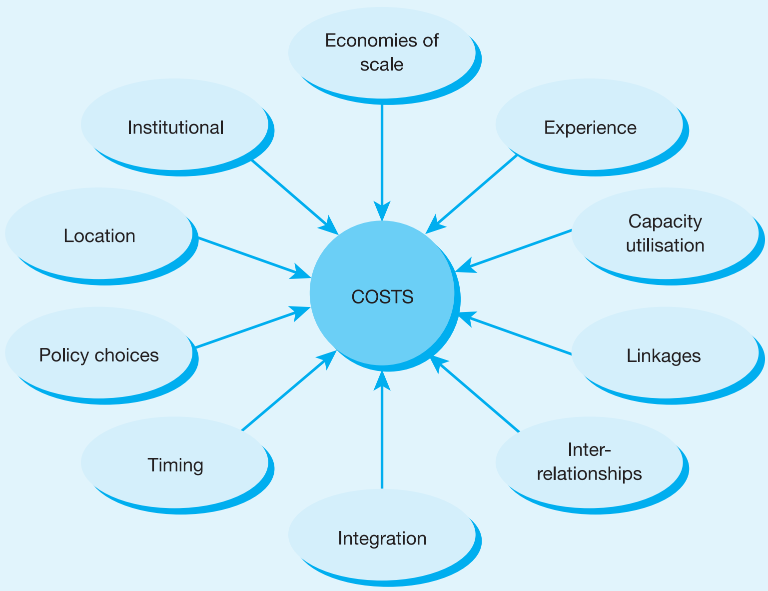
11.3.1 Economies of scale

Economies of scale are perhaps the single most effective cost driver in many industries. Scale economies stem from doing things more efficiently or differently in volume. In addition, sheer size can help in creating purchasing leverage to secure cheaper and/or better quality (less waste) raw materials and securing them in times of limited availability.

There are, however, limits to scale economies. Size can bring with it added complexity that itself can lead to diseconomies. For most operations there is an optimum size above or below which inefficiencies occur.

The effects of economies of scale are often more pronounced in the manufacturing sector than in services. While manufacturing operations such as assembly lines can benefit through scale the advantages to service firms such as advertising agencies are less obvious. They may continue to lie in enhanced purchasing muscle (for the ad agency in media purchasing for example) and spread training costs.

Figure 11.4 Cost drivers



Source: Adapted with the permission of the Free Press, a Division of Simon & Schuster Adult Publishing Group, from COMPETITIVE ADVANTAGE: Creating and Sustaining Superior Performance by Michael E. Porter.

11.3.2 Experience and learning effects

Further cost reductions may be achieved through learning and experience effects. Learning refers to increases in efficiency that are possible at a given level of scale through an employee's having performed the necessary tasks many times before.

The Boston Consulting Group extended the recognised production learning curve beyond manufacturing and looked at the increased efficiency that was possible in all aspects of the business (e.g. in marketing, advertising and selling) through experience. BCG estimated empirically that, in many industries, costs reduced by approximately 15–20 per cent each time cumulative production (a measure of experience) doubled. This finding suggests that companies with larger market share will, by definition, have a cost advantage through experience, assuming all companies are operating on the same experience curve.

Experience can be brought into the company by hiring experienced staff, and be enhanced through training. Conversely competitors may poach experience by attracting away skilled staff.

The experience curve as an explanation of costs has come under increasing scrutiny. Gluck (1986) argues that when the world changed from a high growth, 'big is beautiful', mentality to low growth, 'big is bust', realisation the experience curve fell into disfavour. He concludes that in today's business environments competitive advantages that rely too heavily on economies of scale in manufacturing or distribution are often no longer sustainable. In addition, a shift in the level or type of technology employed may result in an inexperienced newcomer reducing costs to below those of a more experienced incumbent, essentially moving on to a lower experience curve. Finally, the concept was derived in manufacturing industries and it is not at all clear how far it is applicable to the service sector.

11.3.3 Capacity utilisation

Capacity utilisation has been shown to have a major impact on unit costs. The PIMS study (see Buzzell and Gale, 1987) has demonstrated a clear positive association between utilisation and return on investment. Significantly, the relationship is stronger for smaller companies than for larger ones. Major discontinuities or changes in utilisation can add significantly to costs, hence the need to plan production and inventory to minimise seasonal fluctuations. Many companies also avoid segments of the market where demand fluctuates wildly for this very reason (see Chapter 10 on factors influencing market attractiveness).

11.3.4 Linkages

A further set of cost drivers are linkages. These concern the other activities of the firm in producing and marketing the product that have an effect on the costs. Quality control and inspection procedures, for example, can have a significant impact on servicing costs and costs attributable to faulty product returns. Indeed, in many markets it has been demonstrated that superior quality, rather than leading to higher costs of production, can actually reduce costs (Peters, 1987).

External linkages with suppliers of factor inputs or distributors of the firm's final products can also result in lower costs. Developments in just in time (JIT) manufacturing and delivery can have a significant impact on stockholding costs and work in progress. Beyond the cost equation, however, the establishment of closer working links has far wider marketing implications. For JIT to work effectively requires a very close working relationship between buyer and supplier. This often means an interchange of information, a meshing of forecasting and scheduling and the building of a long-term relationship. This in turn helps to create high switching costs (the costs of seeking supply elsewhere) and hence barriers to competitive entry.

11.3.5 Interrelationships

Interrelationships with other SBUs in the overall corporate portfolio can help to share experience and gain economies of scale in functional activities (such as marketing research, R&D, quality control, ordering and purchasing).

11.3.6 Degree of integration

Decisions on integration, e.g. contracting out delivery and/or service, also affect costs. Similarly the decision to make or buy components can have major cost implications. The extent of forward or backward integration extant or possible in a particular market was discussed in Chapter 10 as one of the factors considered in assessing target market attractiveness to the company.

11.3.7 Timing

Timing, though not always controllable, can lead to cost advantages. Often the first mover in an industry can gain cost advantages by securing prime locations, cheap or good quality raw materials, and/or technological leadership (see Chapter 13). Second movers can often benefit from exploiting newer technology to leapfrog first mover positions.

As with other factors discussed above, however, the value of timing goes far beyond its impact on costs. Abell (1978) has argued that a crucial element of any marketing strategy is timing, that at certain times 'strategic windows' are open (i.e. there are opportunities in the market that can be exploited) while at other times they are shut. Successful strategies are timely strategies. An example was the impact of the more economical and 'honest' German and Japanese cars in the US market after the oil crisis and subsequent price rise, while Detroit kept 'gas guzzling jukeboxes on wheels' (Mingo, 1994).

11.3.8 Policy choices

Policy choices, the prime areas for differentiating (discussed below), have implications for costs. Decisions on the product line, the product itself, quality levels, service, features, credit facilities, etc. all affect costs. They also affect the actual and perceived uniqueness of the product to the consumer and hence a genuine dilemma can arise if the thrust of the generic strategy is not clear. The general rules are to reduce costs on factors that will not significantly affect valued uniqueness, avoid frills if they do not serve to differentiate significantly, and invest in technology to achieve low-cost process automation and low-cost product design (fewer parts can make for easier and cheaper assembly).

11.3.9 Location and institutional factors

The final cost drivers identified by Porter (1985) are location (geographic location to take advantage of lower distribution, assembly, raw materials or energy costs), and institutional factors such as government regulations (e.g. larger lorries on the roads can reduce distribution costs but at other environmental and social costs). The sensitivity of governments to lobbyists and pressure groups will dictate the ability of the company to exercise institutional cost drivers.

11.3.10 Summary of cost drivers

There are many ways in which a company can seek to reduce costs. In attempting to become a cost leader in an industry a firm should be aware, first, that there can only be one cost leader and, second, that there are potentially many ways in which this position can be attacked (i.e. through using other cost drivers). Cost advantages can be among the most difficult to sustain and defend in the face of heavy and determined competition.

That said, however, it should be a constant objective of management to reduce costs that do not significantly add to ultimate customer satisfaction.

11.4 Achieving differentiation

Most of the factors listed above as cost drivers could also be used as 'uniqueness drivers' if the firm is seeking to differentiate itself from its competitors. Of most immediate concern here, however, are the policy choices open to the company. These are summarised in Figure 11.5.

Figure 11.5 Uniqueness drivers

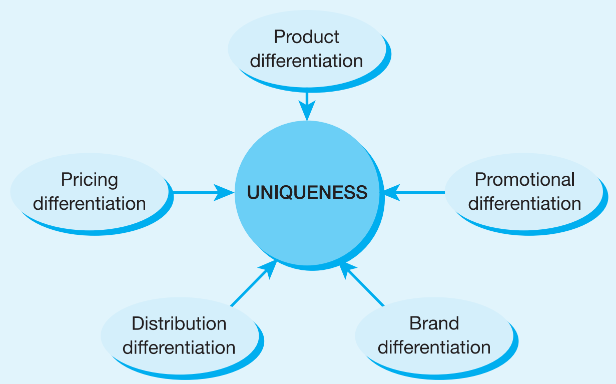
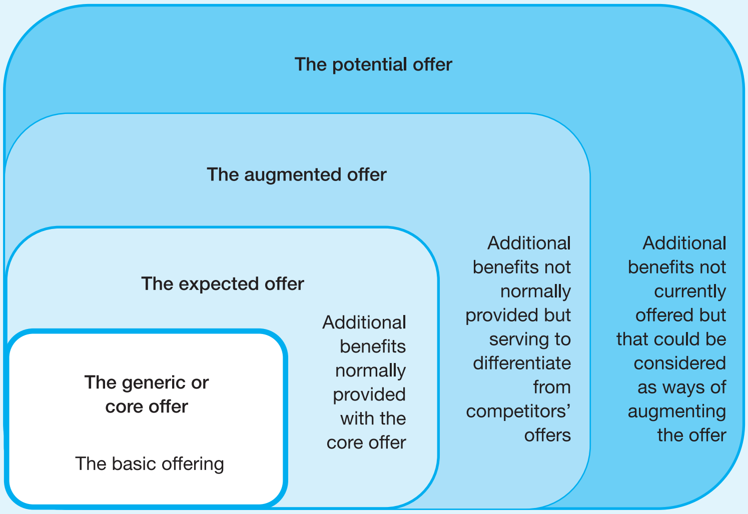


Figure 11.6 Levels of product/service offering



11.4.1 Product differentiation

Product differentiation seeks to increase the value of the product or service on offer to the customer. Levitt (1986) has suggested that products and services can be seen on at least four main levels. These are the core product, the expected product, the augmented product and the potential product. Figure 11.6 shows these levels diagrammatically. Differentiation is possible in all these respects.

At the centre of the model is the core, or generic, product. This is the central product or service offered. It is the petrol, steel, banking facility, mortgage, information, etc. Beyond the generic product, however, is what customers expect in addition, the expected product. When buying petrol, for example, customers expect easy access to the forecourt, the possibility of paying by credit card, the availability of screen wash facilities, air for tyres, radiator top-up, and so on. Since most petrol forecourts meet these expectations they do not serve to differentiate one supplier from another.

At the next level Levitt identifies the augmented product. This constitutes all the extra features and services that go above and beyond what the customer expects to convey added value and hence serve to differentiate the offer from that of competitors. The petrol station where, in the self-serve 2000s, one attendant fills the car with petrol while another cleans the windscreen, headlamps and mirrors, is going beyond what is expected. Over time, however, these means of distinguishing can become copied, routine, and ultimately merely part of what is expected.

Finally, Levitt describes the potential product as all those further additional features and benefits that could be offered. At the petrol station these may include a free car wash with every fill-up, gifts unrelated to petrol and a car valeting service. While the model shows the potential product bounded, in reality it is only bounded by the imagination and ingenuity of the supplier.

Peters (1987) believes that, while in the past suppliers have concentrated on attempts to differentiate their offerings on the basis of the generic and expected product, convergence is occurring at this level in many markets. As quality control, assurance and management methods become more widely understood and practised, delivering a performing, reliable, durable, conforming offer (a 'quality' product in the classic sense of the word) will no longer be adequate. In the future he predicts greater emphasis on the augmented and potential product as ways of adding value, creating customer delight and hence creating competitive advantage.

Differentiating the core and expected product

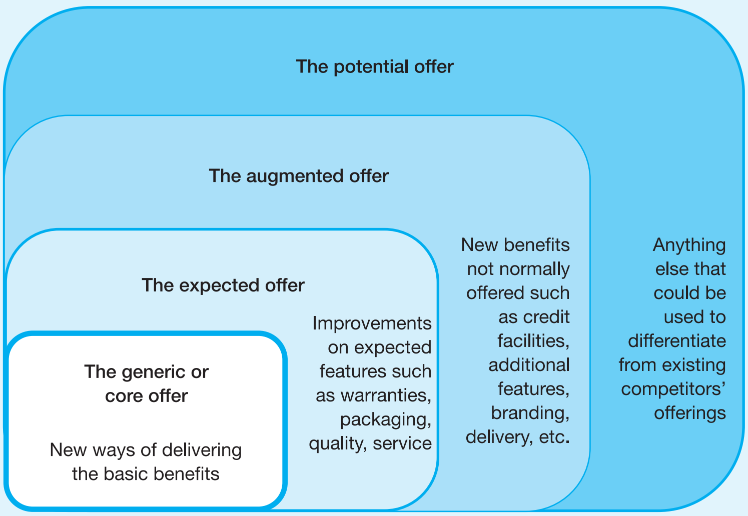
Differentiation of the core product or benefit offers a different way of satisfying the same basic want or need (see Figure 11.7). It is typically created by a step change in technology, the application of innovation. Calculators, for example, offered a different method of solving the basic 'calculating' need from the slide rules they replaced. Similarly the deep freeze offers a different way of storing food from the earlier cold stores, pantries and cellars. A new strain of grass that only grows to 1 inch in height could replace the need for a lawnmower.

Augmenting the product

Differentiation of the augmented product can be achieved by offering more to customers on existing features (e.g. offering a lifetime guarantee on audio tape, as Scotch provides, rather than a one- or two-year guarantee) or by offering new features of value to customers. There are two main types of product feature that can create customer benefit. These are performance features and appearance features.

Analysis of product features must relate those features to the benefits they offer to customers. For example, the introduction of the golf ball typewriter did not change

Figure 11.7 Product/service differentiation



the core benefit (the ability to create a typewritten page of text or numbers). It did, however, allow different typefaces and different spacing to be used, thus extending the value to the customer who wanted these extra benefits. The ink jet printer extended those benefits even further, offering virtually unlimited fonts, sizes and other effects.

In estimating the value to the consumers of additional product features and their resulting benefits, conjoint measurement (see Green and Wind, 1975) can be particularly useful. This technique has been successfully applied, for example, to decisions on product features by companies operating in the audio market and to service features offered by building societies in high-interest accounts.

In the lawnmower market Flymo introduced the rotary blade hover mower as a means of differentiating from the traditional rotating cylinder blade. In some markets, especially where lawns were awkwardly shaped or steeply sloping, the ease of use of the hover mower made it a very attractive, differentiated product. In other markets, however, the market leader, Qualcast, was able to retaliate by showing the advantage of the conventional mower in having a hopper in which to catch the grass cuttings. Under the Flymo system the cuttings were left on the lawn. More recent developments have seen the introduction of rotary hover mowers with hoppers.

Quality

A prime factor in differentiating the product or service from that of competitors is quality. Quality concerns the fitness for purpose of a product or service. For manufactured products that can include the durability, appearance or grade of the product while in services it often comes down to the tangible elements of the service, the reliability and responsiveness of the service provider, the assurance provided of the value of the service and the empathy, or caring attention, received (see Parasuraman *et al.*, 1988). Quality can reflect heavily both on raw materials used and the degree of quality control exercised during manufacture and delivery.

Of central importance is consumer perception of quality, which may not be the same as the manufacturer's perception. Cardozo (1979) gives an example of where the two do not coincide:

> *The marketing research department of a manufacturer of household paper goods asked for consumer evaluation of a new paper tissue. The reaction was favorable but the product was not thought to be soft enough. The R&D department then set about softening the tissue by weakening the fibers and reducing their density. In subsequent usage tests the product fell apart and was useless for its designed purpose. Further tests showed that to make the product 'feel' softer required an actual increase in the strength and density of the fibres.*

Quality has been demonstrated by the PIMS project to be a major determinant of commercial success. Indeed, Buzzell and Gale (1987) concluded that relative perceived quality (customers' judgements of the quality of the supplier's offer relative to its competitors) was the single most important factor in affecting the long-run performance of a business. Quality was shown to have a greater impact on ROI level and be more effective at gaining market share than lower pricing.

Closely related to perceptions of quality are perceptions of style, particularly for products with a high emotional appeal (such as cosmetics). In fashion-conscious markets such as clothes, design can be a very powerful way of differentiating. Jain (1990) notes that Du Pont successfully rejuvenated its market for ladies' stockings by offering different coloured tints and hence repositioned the stockings as fashion accessories – a different tint for each outfit.

Packaging

Packaging too can be used to differentiate the product. Packaging has five main functions, each of which can be used as a basis for differentiation.

1 Packaging **stores** the product, and hence can be used to extend shelf life, or facilitate physical storage (e.g. tetra-packs for fruit juice and other beverages).
2 Packaging **protects** the product during transit and prior to consumption to ensure consistent quality (e.g. the use of film packs for potato crisps to ensure freshness).
3 Packaging **facilitates use** of the product (e.g. applicator packs for floor cleaners, wine boxes, domestic liquid soap dispensers).
4 Packaging helps **create an image** for the product through its visual impact, quality of design, illustration of uses, etc.
5 Packaging helps **promote** the product through eye-catching, unusual colours and shapes, etc. Examples of the latter are the sales of wine in carafes rather than bottles (Paul Masson California Wines) and the sale of ladies' tights in egg-shaped packages (L'eggs).

Branding

A particularly effective way of differentiating at the tangible product level is to create a unique brand with a favourable image and reputation. As discussed in Chapter 6, brand and company reputation can be powerful marketing assets for a company.

Brand name or symbol is an indication of pedigree and a guarantee of what to expect from the product – a quality statement of a value-for-money signal. Heinz baked beans, for example, can command a premium price because of the assurance of quality the consumer gets in choosing the brand. Similarly, retailers such as Tesco and Sainsbury's are able to differentiate their own branded products from other brands because of their reputation for quality that extends across their product ranges. Branding is also a highly defensible competitive advantage. Once registered, competitors cannot use the same branding (name or symbol).

Service

Service can be a major differentiating factor in the purchase of many products, especially durables (both consumer and industrial). Certainly enhanced service was a major factor in the success of Wilhelm Becker, a Swedish industrial paints company. Becker developed 'Colour Studios' as a service to its customers and potential customers to enable them to experiment with different colours and combinations. Volvo, the Swedish auto manufacturer now owned by Ford, used the service in researching alternative colours to use on farm tractors and found that red (the colour used to date) was a poor colour choice as it jarred, for many farmers, with the colours of the landscape. Changing the colour scheme resulted in increased sales.

In domestic paints, too, there has been an attempt to add service, this time provided by the customers themselves. Matchpots were introduced by a leading domestic paint supplier to allow customers, for a small outlay, to try different colours at home before selecting the final colour to use. In this case, however, unlike Becker's Colour Studios, copy by competitors was relatively easy and the advantage quickly eroded.

Service need not be an addition to the product. In some circumstances a reduction can add value. The recent growth in home brewing of beers and wines is a case where a less complete product (the malt extract, hops, grape juice, yeast, etc.) is put to market but the customer is able to gain satisfaction through self-completion of the production process. Thus the customer provides the service and becomes part of the production process.

Providing superior service as a way of creating a stronger link between supplier and customer can have wide-reaching consequences. In particular, it makes it less likely that the customer will look for alternative supply sources and hence acts as a barrier to competitor entry.

To ensure and enhance customer service Peters (1987) recommends that each company regularly conducts customer satisfaction studies to gauge how well it is meeting customers' expectations and to seek ways in which it can improve on customer service.

Further elements of the augmented product that can be used to differentiate the product include installation, credit availability, delivery (speedy and on time, when promised) and warranty. All can add to the differentiation of the product from that of competitors.

Deciding on the bases for product differentiation

Each of the elements of the product can be used as a way of differentiating the product from competitive offerings. In deciding which of the possible elements to use in differentiating the product three considerations are paramount.

First, what do the customers expect in addition to the core, generic product? In the automobile market, for example, customers in all market segments expect a minimum level of reliability in the cars they buy. In the purchase of consumer white goods (fridges, freezers, washing machines, etc.), minimum periods of warranty are expected. In the choice of toothpaste, minimum levels of protection from tooth decay and gum disease are required. These expectations, over and above the core product offering, are akin to 'hygiene factors' in Hertzberg's Theory of Motivation. They must be offered for the product or service to be considered by potential purchasers. Their presence does not enhance the probability of consumers choosing products with them, but their absence will certainly deter purchase.

The second consideration is what the customers would value over and above what is expected. In identifying potential 'motivators' the marketer seeks to offer more than the competition to attract purchasers. These additions to the product beyond what is normally expected by the customers often form the most effective way of differentiating the company's offerings. Crucial, however, is the cost of offering these additions. The cost of the additions should be less than the extra benefit (value) to the customers and hence be reflected in a willingness to pay a premium price. Where possible an economic value should be placed on the differentiation to allow pricing to take full account of value to the customer (see Forbis and Mehta, 1981).

The third consideration in choosing a way of differentiating the product from the competition is the ease with which that differentiation can be copied. Changes in the interest rates charged by one building society, for example, can easily be copied in a matter of days or even hours. An advantage based, however, on the location of the society's outlets in the major city high streets takes longer and is more costly to copy.

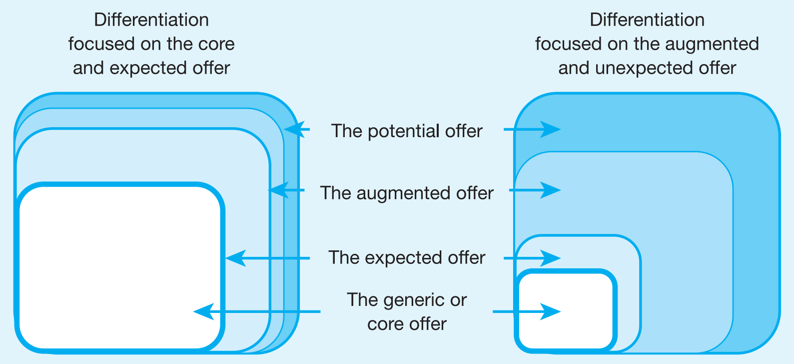
Ideally, differentiation is sought where there is some (at least temporary) barrier precluding competitors following. The most successful differentiations are those that use a core skill, competence or marketing asset of the company which competitors do not possess and will find hard to develop. In the car hire business, for example, the extensive network of pick-up and drop-off points offered by Hertz, the market leader, enables them to offer a more convenient service to the one-way customer than the competition. Emulating that network is costly, if not impossible, for smaller followers in the market.

Peters (1987) has argued that many companies overemphasise the core product in their overall marketing thinking and strategy. He suggests that, as it becomes increasingly difficult to differentiate on the basis of core product, greater emphasis will need to be put on how to 'add service' through the augmented (and potential) product. This change in emphasis is shown in Figure 11.8, which contrasts a product focus (core product emphasis) with a service added focus (extending the augmented and potential products in ways of value and interest to the customer).

A focus away from the core product towards the 'outer rings' is particularly useful in 'commodity' markets where competitive strategy has traditionally been based on price. Differentiation through added service offers an opportunity for breaking out of an overreliance on price in securing business.

In summary, there are a great many ways in which products and services can be differentiated from their competitors. In deciding on the type of differentiation to adopt, several factors should be borne in mind: the added value to the customer of the differentiation; the cost of differentiation in relation to the added value; the

Figure 11.8 Alternative emphases for differentiation



probability and speed of competitor copy; and the extent to which the differentiation exploits the marketing assets of the company.

11.4.2 Distribution differentiation

Distribution differentiation comes from using different outlets, having a different network or a different coverage of the market.

Recent developments in direct marketing are not only related to creating different ways of promoting products. They also offer new outlets for many goods. Shopping by phone through TV-based catalogues has yet to take off in any big way, but there are certainly opportunities for innovative marketers.

The advent of the Internet has made significant changes to the distribution strategies of many firms. Particularly for firms offering bit-based products such as information, or music, direct distribution to customers through their Internet connections is now possible (see Chapter 12). Again, first mover advantages afforded short-term differentiation but competitor copy has been rapid. Protecting an advantage in e-marketing, be it a distribution advantage or a communications advantage, is proving particularly difficult and innovative companies such as Amazon.com are having to constantly find new ways to add value for their customers in an attempt to remain differentiated.

11.4.3 Price differentiation

Lower price as a means of differentiation can be a successful basis for strategy only where the company enjoys a cost advantage, or where there are barriers to competing firms with a lower cost structure competing at a lower price. Without a cost advantage, starting a price war can be a disastrous course to follow, as Laker Airways found to its cost.

Premium pricing is generally only possible where the product or service has actual or perceived advantages to the customer and therefore it is often used in conjunction with, and to reinforce, a differentiated product.

In general, the greater the degree of product or services differentiation, the more scope there is for premium pricing. Where there is little other ground for differentiation, price competition becomes stronger and cost advantages assume greater importance.

11.4.4 Promotional differentiation

Promotional differentiation involves using different types of promotions (e.g. a wider communications mix employing advertising, public relations, direct mail, personal selling, etc.), promotions of a different intensity (i.e. particularly heavy promotions during launch and relaunch of products) or different content (i.e. with a clearly different advertising message).

Many companies today make poor use of the potential of public relations. Public relations essentially consists of creating relationships with the media and using those relationships to gain positive exposure. Press releases and interviews with key executives on important topical issues can both help to promote the company in a more credible way than media advertising.

A small, UK-based electronics company brilliantly exploited a visit by Japanese scientists to its plant. The company gained wide coverage of the event, presenting it as an attempt by the Japanese to learn from this small but innovative firm. The coverage was in relevant trade journals and even the national media. The result was a major increase in enquiries to the company and increasing domestic sales of its products. The PR had two major advantages over media advertising. First, it was very cheap in relation to the exposure it achieved (the company could never have afforded to buy the exposure at normal media rates). Second, the reports appearing in the press attracted credibility because they had been written by independent journalists and were seen as 'news' rather than advertising. (*Source*: *The Marketing Mix*, television series by Yorkshire TV.)

Using a different message within normal media advertising can also have a differentiating effect. When most advertisers are pursuing essentially the same market with the same message an innovative twist is called for. Most beers are promoted by showing gregarious groups of males in public houses having an enjoyable night out. Heineken managed to differentiate its beer by using a series of advertisements employing humour and the caption 'Heineken refreshes the parts other beers cannot reach'. Similarly an innovative campaign for Boddington's Bitter, emphasising the down-to-earth value of the beer and its creamy, frothy head, served to mark it out from the crowd.

When Krona was launched by Van den Berghs into the margarine market (see Chapter 10) it was aimed at consumers who were increasingly sensitive to the price of butter but who still required the taste of butter – and the company had a major communications problem. Legislation precluded it from stating that the product tasted like butter (Clark, 1986) and the slogan 'Four out of five people can't tell the difference between Stork and butter' had already been used (with mixed success) by one of the other company brands. The solution was to use a semi-documentary advertisement featuring a respected reporter (René Cutforth) which majored on a rumour that had circulated around a product of identical formulation in Australia (Fairy). The rumour had been that the product was actually New Zealand butter being dumped on the Australian market disguised as margarine to overcome trade quotas. The slogan selected was 'The margarine that raised questions in an Australian parliament' and the style of the advertisement, while never actually claiming taste parity with butter, cleverly conveyed the impression that people really couldn't tell the difference.

More recently Van den Berghs has promoted the margarine Flora as the spread bought by women who care about the health of their men, while their originally branded 'I Can't Believe It's Not Butter' returns to Stork's old taste appeal.

11.4.5 Brand differentiation

Brand positioning places the customer at the centre of building a maintainable hold on the marketplace. It shifts from the classic idea of companies developing a 'unique selling proposition' (USP) to establishing a 'unique emotional proposition'.

Competing products may look similar to the hapless parent buying a pair of Nike trainers, but not to their children. They want Nike trainers, and the parent is pressured to pay the extra to get them. Nike's success at brand differentiation flowed from its Air Jordan range, which built upon the USP of air cells in the heels and their unique emotional proposition of being associated with top athletes. So powerful did this combination become that even in crime-free Japan people paid huge price premiums for their Air Jordans but would not jog in them for fear of being mugged (called jugging) for their Nikes. Adidas and Reebok promote their products using athletes and air in their heels, but Nike has won the battle for the minds of teenagers and their parents' pockets.

Nike is an exemplary case of gaining market strength by using Ries and Trout's (1986) ladder of awareness. Even though there may be numerous products on the market consumers are rarely able to name more than a few. This was the problem faced by Audi when they realised that people mentioned Mercedes, BMW and Volkswagen as German cars, with all the connotations of quality and reliability that entails, but often omitted Audi (now owned by VW). The result was the 'Vorsprung Durch Technik' campaign which concentrated on the German pedigree of the product and, through rallying and the Quatro, on their technical excellence.

Alamy/Coverspot

Ries and Trout noted that the second firm in markets usually enjoys half the business of the first firm, and the third firm enjoys half the business of the second, etc. This flows through into profitability and return on investments where, in the long term, profitability follows the market share ranking of companies. Leading companies can also achieve major economies in advertising and promotion (Saunders, 1990). Part of the reason for this is the tendency for people to remember the number 1. When asked who was the first person to successfully fly alone across the Atlantic most people would correctly answer Charles Lindbergh, but how many people can name the second person? Similarly with the first and second people to set foot on the moon, or climb Mount Everest.

The importance of being number 1 is fine for market leaders such as Nike in sports shoes, Mercedes in luxury cars, Coca-Cola in soft drinks and Nescafé in coffee, but it leaves lesser brands with an unresolved problem. Positioning points to a way of these brands establishing a strong place in the minds of the consumer despite the incessant call for attention from competing products. This involves consistency of message and the association of a brand with ideas that are already held strongly within the consumer's mind.

11.4.6 Summary of differentiation drivers

Where the route to competitive advantage selected is differentiation the key differentiating variables, those that offer the most leverage for differentiation using the company's skills to the full, should be identified. Where possible, differentiation should be pursued on multiple fronts for its enhancement. In addition, value signals should be employed to enhance perceived differentiation (e.g. building on reputation, image, presence, appearance and pricing of the product). Barriers to copying should be erected, through patenting, holding key executives and creating switching costs to retain customers.

11.5 Sustaining competitive advantage

It will be clear from the above that there are a variety of ways companies can attempt to create a competitive advantage for themselves. Some of these will be easier for competitors to copy than others. The most useful ways of creating defensible positions lie in exploiting the following.

11.5.1 Unique and valued products

Fundamental to creating a superior and defensible position in the marketplace is to have unique and valued products and services crafted through the use of scarce and valuable organisational resources to offer to customers.

Dow Jones maintains high margins from unique products. *The Wall Street Journal* is a product that customers want and are willing to pay for. Central to offering unique and valued products and services is the identification of the key differentiating variables – those with the greatest potential leverage.

Uniqueness may stem from employing superior, proprietary technology, utilising superior raw materials, or from differentiating the tangible and augmented elements of the product.

Unique products do not, however, stay unique forever. Successful products will be imitated sooner or later so that the company which wishes to retain its unique position must be willing, and indeed even eager, to innovate continually and look for new ways of differentiating (see Chapter 13). This may mean a willingness to cannibalise its own existing products before the competition attacks them.

11.5.2 Clear, tight definition of market targets

To enable a company to keep its products and services both unique and valued by the customers requires constant monitoring of, and dialogue with, those customers. This in turn requires a clear understanding of who they are and how to access them. The clearer the focus of the firm's activities on one or a few market targets, the more likely it is to serve those targets successfully. In the increasingly segmented and fragmented markets of the 2000s the companies that fail to focus their activities are less likely to respond to changing opportunities and threats.

11.5.3 Enhanced customer linkages

Creating closer bonds with customers through enhanced service can help establish a more defensible position in the market (see Chapter 14). As suggested above, a major advantage of JIT manufacturing systems is that they require closer links between supplier and buyer. As buyers and suppliers become more enmeshed, so it becomes more difficult for newcomers to enter.

Creating switching costs, the costs associated with moving from one supplier to another, is a further way in which customer linkages can be enhanced. Loomis, writing in *Fortune* (30 April 1984), pointed to the success of Nalco in using its specialist expertise in the chemicals it markets to counsel and problem solve for its customers. This enhancement of the linkages with its customers makes it less likely they will shop around for other sources of supply.

11.5.4 Established brand and company credibility

Brand and company reputation are among the most defensible assets the company has, provided they are managed well and protected.

> *Worthington Steel in the US have an enviable reputation for superior quality workmanship. The company also has a high reputation for customer service. Combined they make it hard for customers to go elsewhere.*
>
> (Peters, 1987)

The rate of technological and market change is now so fast, and products so transient, that customers find security and continuity in the least tangible of a company's assets: the reputation of its brands and company name. Brand, styles and products change year on year, but people the world over desire Nike, Sony, Mercedes, Levi's and Rolex. They 'buy the maker', not the product (Sorrell, 1989).

11.6 Offensive and defensive competitive strategies

Successful competitive strategy amounts to combining attacking and defensive moves to build a stronger position in the chosen marketplace. A number of writers, most notably Kotler and Singh (1981), James (1984) and Ries and Trout (1986), have drawn an analogy between military warfare and competitive battles in the marketplace. Their basic contention is that lessons for the conduct of business strategy can be learned by a study of warfare and the principles developed by military strategists. Indeed, the bookshelves of corporate strategists around the world now often contain the works of Sun Tzu (Trai, 1991; Khoo, 1992) and von Clausewitz (1908).

Similarly, much can be learned from the approaches used in competitive sports, pastimes and team games, where brains as well as (or instead of) brawn are important for success. Successful sportsmen and women, such as previous England cricket captain

Mike Brearley, and rugby captain Will Carling, have made successful second careers through speaking about strategy and motivation at corporate development seminars.

There are five basic competitive strategies pursued by organisations. These include build (or growth) strategies, hold (or maintenance) strategies, niche (or focus) strategies, harvest (or reaping) strategies and deletion (divestment) strategies. The structure of the discussion draws from both Kotler (1997) and James (1984).

11.6.1 Build strategies

A build strategy seeks to improve on organisational performance through expansion of activities. This expansion may come through expanding the market for the organisation's offerings or through winning market share from competitors.

Build strategies are most suited to growth markets. In such markets it is generally considered easier to expand, as this need not be at the expense of the competition and does not necessarily provoke strong competitive retaliation. During the growth phase of markets companies should aim to grow at least as fast as the market itself.

Build strategies can also make sense in non-growth markets where there are exploitable competitor weaknesses or where there are marketing assets that can be usefully deployed.

Build strategies are often costly, particularly where they involve a direct confrontation with a major competitor. Before embarking on such strategies the potential costs must be weighed against the expected gains.

Market expansion

Build strategies are achieved through market expansion or taking sales and customers from competitors (confrontation). Market expansion, in turn, comes through three main routes: **new users** (attracted as products progress through their life cycles from innovators of to laggards via a trickle-down effect), **new uses** (introduced to existing or new users), and/or **increased frequency of use** (by encouraging existing users to use more of the product).

For products that have reached the mature phase of the life cycle a major task is to find new markets for the product. This could involve geographic expansion of the companies' activities domestically and/or internationally. Companies seeking growth but believing their established market to be incapable of providing it roll out into new markets.

Market share gain through competitor confrontation

When a build objective is pursued in a market that cannot, for one reason or another, be expanded, success must, by definition, be at the expense of competitors. This will inevitably lead to some degree of confrontation between the protagonists for customers. Kotler and Singh (1981) have identified five main confrontation strategies (see Figure 11.9).

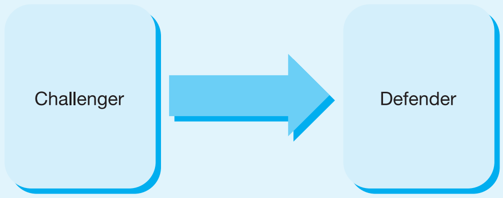
Frontal attack

The frontal attack is characterised by an all-out attack on the opponent's territory. It is often countered by a fortification, or position, defence (see below). The outcome of the confrontation will depend on strength and endurance (see Figure 11.10).

Figure 11.9 Market challenger strategies

- Frontal attack
- Flanking attack
- Encirclement attack
- Bypass strategy
- Guerrilla tactics

Figure 11.10 Frontal attack



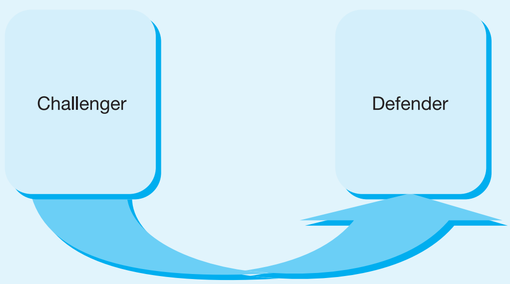
Attack where the competition is strong and rely on outweighing them for victory

The requirement of a similar 3 to 1 advantage to ensure success in a commercial frontal attack has been suggested (Kotler and Singh, 1981), further calibrated (Cook, 1983) and questioned (Chattopadhyay *et al.*, 1985). All agree, however, that to defeat a well-entrenched competitor, which has built a solid market position, requires substantial superiority in at least one key area of the marketing programme. For a frontal attack to succeed requires sufficient resources, a strength advantage over the competitors being attacked, and that losses can be both predicted and sustained.

Flanking attack

In contrast to the frontal attack, the flanking attack seeks to concentrate the aggressor's strengths against the competitor's weaknesses (see Figure 11.11).

Figure 11.11 Flanking attack



Identify less obvious lines of attack. Attack the weak points in the competitor's defence

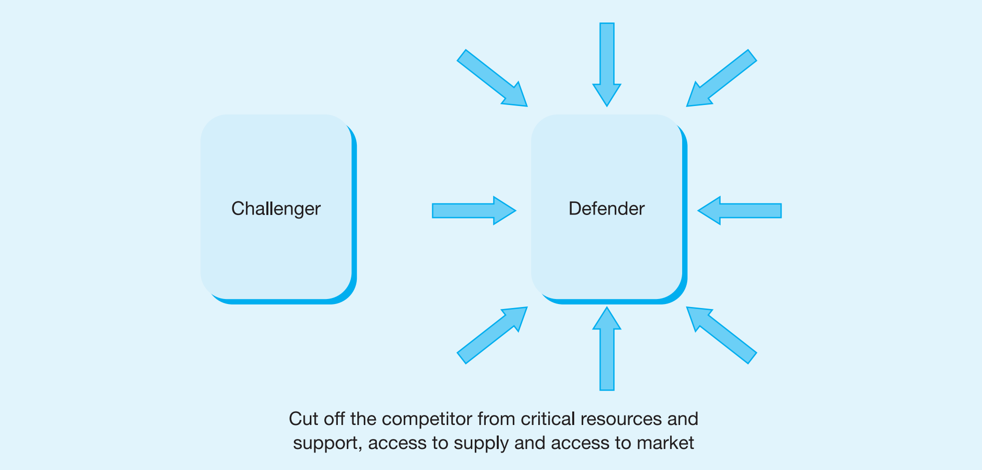
A flanking attack is achieved either through attacking geographic regions where the defender is underrepresented or through attacking underserved competitor segments. The principle is to direct the attack at competitors' weaknesses, not their strengths.

Segmental flanking involves serving distinct segments that have not been adequately served by existing companies. Crucial to a successful flanking strategy can be timing. The Japanese entry into the US sub-compact car market was timed to take advantage of the economic recession and concerns over energy supply. The strategy requires the identification of competitor weaknesses, and inability or unwillingness to serve particular sectors of the market. In turn, identification of market gaps often requires a fresh look at the market and a more creative approach to segmenting it.

Encirclement attack

The encirclement attack, or siege, consists of enveloping the enemy, cutting them off from routes of supply to force capitulation (see Figure 11.12).

Figure 11.12 Encirclement attack



There are two approaches to the encirclement attack. The first is to attempt to isolate the competitor from the supply of raw materials on which they depend and/or the customers they seek to serve. The second approach is to seek to offer an all-round better product or service than the competitor.

Bypass strategy

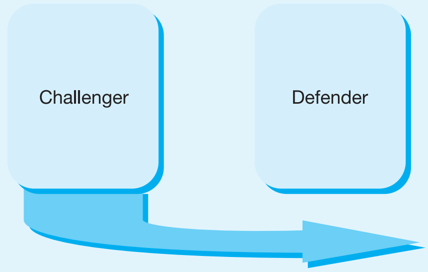
The bypass strategy is characterised by changing the battleground to avoid competitor strongholds (see Figure 11.13).

Bypass is often achieved through technological leapfrogging.

Guerrilla tactics

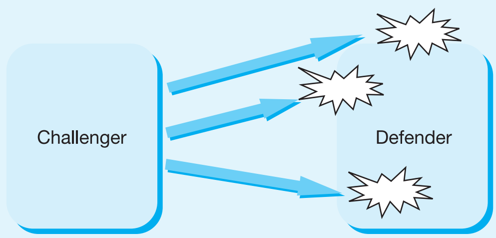
Where conventional attacks fail or are not feasible guerrilla tactics are often employed. During the Second World War the French Resistance harassed the occupying German forces to weaken them in preparation for the Allied landings and counter-attack. In chess a player in an apparently hopeless situation may sacrifice a piece unexpectedly

Figure 11.13 **Bypass strategy**



Avoid competing where the competition is strong.
Go around to new positions

Figure 11.14 **Guerrilla tactics**



Weaken the competitor through attrition and surprise attacks

if it disrupts the opponent's line of attack (see Figure 11.14). In boxing it has been known for a contender on the ropes to bite the ear of his opponent to disrupt the onslaught!

Unconventional or guerrilla tactics are in business employed primarily as 'spoiling' activities to weaken the competition. They are often used by a weaker attacker on a stronger defender. Selective price cuts, especially during a competitor's new product testing or launch, depositioning advertising (as attempted by the Butter Information Council Ltd in its campaign against Krona margarine), alliances (as used against Laker Airways), executive raids and legal manoeuvres can all be used in this regard. Guerrilla tactics are used by companies of all sizes in attempts to soften up their competitors, often before moving in for the kill. Their effectiveness lies in the difficulty the attacked has in adequately defending against the tactics due to their unpredictability.

11.6.2 Holding and defensive strategies

In contrast to build strategies, firms already in strong positions in their markets may pursue essentially defensive strategies to enable them to hold the ground they have already won.

For market leaders, for example, especially those operating in mature or declining markets, the major objective may not be to build but to maintain the current position against potential attackers. It could also be that, even in growing markets, the potential rewards judged to be possible from a build strategy are outweighed by the expected costs due, for example, to the strength and nature of competition (Treacy and Wiersema, 1995).

A hold strategy may be particularly suitable for a business or product group designated as a cash generator for the company, where that cash is needed for investment elsewhere.

Market maintenance

The amount and type of effort required to hold position will vary depending on the degree and nature of competition encountered. When the business dominates its market it may have cost advantages through economies of scale or experience effects that can be used as a basis for defending through selective price cutting. Alternatively, barriers to entry can be erected by the guarding of technological expertise, where possible, and the retention of key executive skills.

Defensive strategies

While in some markets competitor aggression may be low, making a holding strategy relatively easy to execute, in most, especially where the potential gains for an aggressor are high, more constructive defensive strategies must be explicitly pursued. Kotler and Singh (1981) suggest six basic holding strategies (see Figure 11.15).

Fortification strategies and position defence

Market fortification involves erecting barriers around the company and its market offerings to shut out competition (see Figure 11.16).

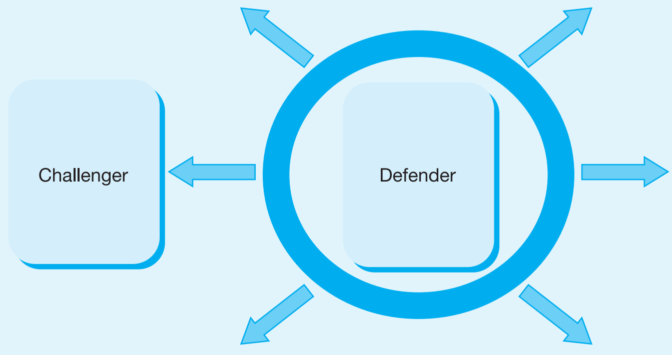
In business a position defence is created through erecting barriers to copy and/or entry. This is most effectively achieved through differentiating the company's offerings from those of competitors and potential competitors. Where differentiation can be created on non-copyable grounds (e.g. by using the company's distinctive skills, competencies and marketing assets) that are of value to the customers, aggressors will find it more difficult to overrun the position defended.

For established market leaders, brand name and reputation are often used as the principal way of holding position. In addition, maintaining higher quality, better delivery and service, better (more appealing or heavier) promotions or lower prices based on a cost advantage can all be used to fortify the position held against a frontal attack.

Figure 11.15 Defensive strategies

- Position defence
- Flanking defence
- Pre-emptive strike
- Counter-offensive
- Mobile defence
- Contraction defence

Figure 11.16 Position defence



Plug the gaps and fill the holes

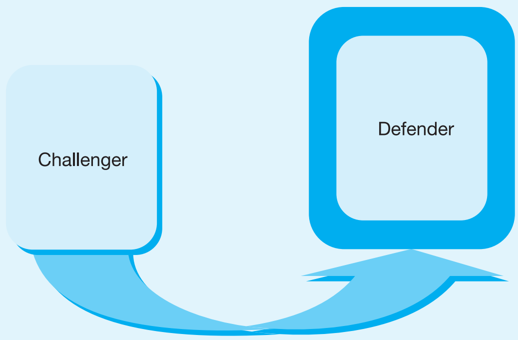
A fortification defence may also involve plugging the gaps in provision to shut out competitor attacks.

Flanking defence

The flanking defence is a suitable rejoinder to a flanking attack. Under the attack strategy (see above), the aggressor seeks to concentrate strength against the weaknesses of the defender, often using the element of surprise to gain the upper hand (see Figure 11.17).

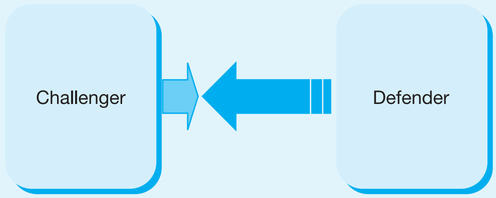
A flanking defence requires the company to strengthen the flanks, without providing a weaker and more vulnerable target elsewhere. It requires the prediction of competitor strategy and likely strike positions. In food marketing, for example, several leading manufacturers of branded goods, seeing the increasing threat posed by retailer own-label and generic brands, have entered into contracts to provide own-label products themselves rather than let their competitors get into their markets.

Figure 11.17 Flanking defence



Defend the flanks against attack by extending the defences to cover peripheral weaknesses

Figure 11.18 Pre-emptive strike



Attack the competition before they attack you

The major concerns in adopting a flanking strategy are, first, whether the new positions adopted for defensive reasons significantly weaken the main, core positions. In the case of retailer own labels, for example, actively cooperating could increase the trend towards own label and lead to the eventual death of the brand. As a consequence many leading brand manufacturers will not supply own label and rely on the strength of their brands to see off competition (effectively a position, or fortification, defence).

The second concern is whether the new position is actually tenable. Where it is not based on corporate strengths or marketing assets it may be less defensible than the previously held positions.

Pre-emptive defence

A pre-emptive defence involves striking at the potential aggressor before they can mount their attack (see Figure 11.18).

The pre-emptive defensive can involve an actual attack on the competition (as occurs in the disruption of competitor test marketing activity) or merely signal an intention to fight on a particular front and a willingness to commit the necessary resources to defend against aggression.

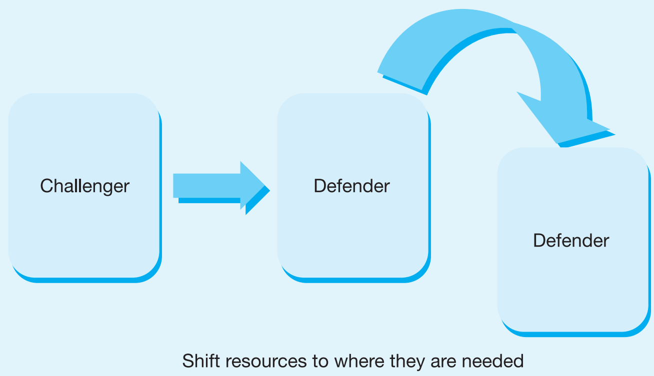
Sun Tzu (Khoo, 1992) summed up the philosophy behind the pre-emptive defence: 'The supreme art of war is to subdue the enemy without fighting.' Unfortunately it is not always possible to deter aggression. The second-best option is to strike back quickly before the attack gains momentum, through a counter-offensive.

Counter-offensive

Where deterrence of a potential attack before it occurs may be the ideal defence, a rapid counter-attack to 'stifle at birth' the aggression can be equally effective. The essence of a counter-offensive is to identify the aggressor's vulnerable spots and to strike hard.

When Xerox attempted to break into the mainframe computer market head-on against the established market leader, IBM launched a classic counter-offensive in Xerox's bread-and-butter business (copiers). The middle-range copiers were the major cash generators of Xerox operations and were, indeed, creating the funds to allow Xerox to attack in the mainframe computer market. The IBM counter was a limited range of low-priced copiers directly competing with Xerox's middle-range products, with leasing options that were particularly attractive to smaller customers. The counter-offensive had the effect of causing Xerox to abandon the attack on the

Figure 11.19 Mobile defence



computer market (it sold its interests to Honeywell) to concentrate on defending its copiers (James, 1984).

The counter-offensive defence is most effective where the aggressor is vulnerable through overstretching resources. The result is a weak underbelly that can be exploited for defensive purposes.

Mobile defence

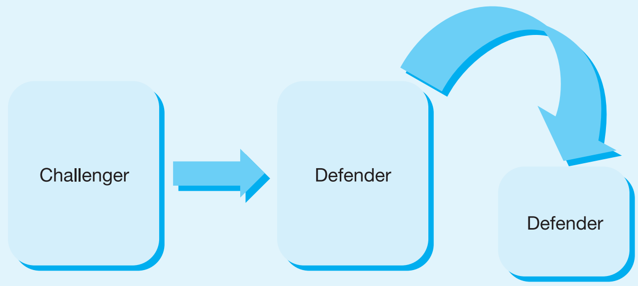
The mobile defence was much in vogue as a military strategy in the 1980s and 1990s. It involves creating a 'flexible response capability' to enable the defender to shift the ground that is being defended in response to environmental or competitive threats and opportunities (see Figure 11.19).

A mobile defence is achieved through a willingness continuously to update and improve the company's offerings to the marketplace. Much of the success of Persil in the UK soap powder market has been due to the constant attempts to keep the product in line with changing customer requirements. The brand, a market leader for nearly half a century, has gone through many reformulations as washing habits have changed and evolved. Reformulations for top-loading washing machines, front loaders, automatics, and more recently colder washes, have ensured that the brand has stayed well placed compared with its rivals.

Interestingly, however, Persil went too far twice in recent years: first, when it was modified to a 'biological' formula. Most other washing powders had taken this route to improve the washing ability of the powder. For a substantial segment of the population, however, a biological product was a disadvantage (these powders can cause skin irritation to some sensitive skins). The customer outcry resulted in an 'Original Persil' being reintroduced. A few years later Persil came back again with even more disastrous Persil Power with its magnesium accelerator. Initially Unilever denied its competitor Procter & Gamble's claim that Persil Power damaged clothes in many washing conditions. However, within months 'Original Persil' was back again.

The mobile defence is an essential strategic weapon in markets where technology and/or customer wants and needs are changing rapidly. Failure to move with these changes can result in opening the company to a flanking or bypass attack.

Figure 11.20 Contraction (focus) defence



Contraction defence

A contraction defence, or strategic withdrawal, requires giving up untenable ground to reduce overstretching and allow concentration on the core business that can be defended against attack (see Figure 11.20).

In the 1980s, in response to both competitive pressures and an adverse economic environment, Tunnel Cement rationalised its operations. Capacity was halved and the workforce substantially reduced. Operations were then concentrated in two core activities where the company had specialised and defensible capabilities: chemicals and waste disposal.

Strategic withdrawal is usually necessary where the company has diversified too far away from the core skills and distinctive competencies that gave it a competitive edge.

11.6.3 Market niche strategies

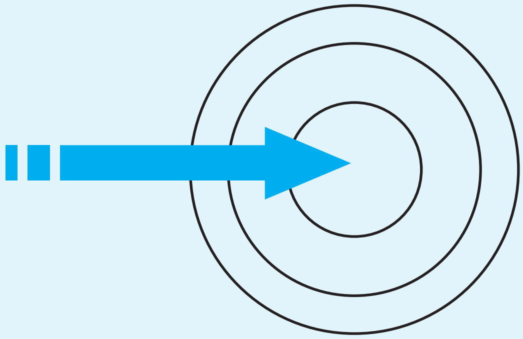
Market niche strategies, focusing on a limited sector of the total market, make particular sense for small and medium-sized companies operating in markets that are dominated by larger operators. The strategies are especially suitable where there are distinct, profitable, but underserved pockets within the total market, and where the company has an existing, or can create a new, differential advantage in serving that pocket.

The two main aspects to the niche strategy are, first, choosing the pockets, segments or markets on which to concentrate and, second, focusing effort exclusively on serving those targets (see Figure 11.21).

Choosing the battleground

An important characteristic of the successful nicher is an ability to segment the market creatively to identify new and potential niches not yet exploited by major competitors. The battleground, or niches on which to concentrate, should be chosen by consideration of both market (or niche) attractiveness and current or potential strength of the company in serving that market.

Figure 11.21 Niche strategies



Choose your target market carefully and focus all efforts on serving it

For the nicher the second of these two considerations is often more important than the first. The major automobile manufacturers, for example, have concentrated their attentions on the large-scale segments of the car market in attempts to keep costs down, through volume production of standardised parts and components and assembly-line economies of scale.

This has left many smaller, customised segments of the market open to nichers where the major manufacturers are not prepared to compete. In terms of the overall car market these segments (such as for small sports cars) would be rated as relatively unattractive, but to a small operator such as Morgan Cars, with modest growth and return objectives, they offer an ideal niche where its skills can be exploited to the full. The Morgan order book is full, there is a high level of job security and a high degree of job satisfaction in manufacturing a high-quality, hand-crafted car.

Focusing effort

The essence of the niche strategy is to focus activity on the selected targets and not allow the company blindly to pursue any potential customer. Pursuing a niche strategy requires discipline to concentrate effort on the selected targets.

Hammermesh *et al*. (1978) examined a number of companies that had successfully adopted a niche strategy and concluded that they showed three main characteristics:

1 **An ability to segment the market** creatively, focusing their activities only in areas where they had particular strengths that were especially valued. In the metal container industry (which faces competition from glass, aluminium, fibrefoil and plastic containers) Crown Cork and Seal has focused on two segments: metal cans for hard-to-hold products such as beer and soft drinks, and aerosol cans. In both these segments the company has built considerable marketing assets through its specialised use of technology and its superior customer service.

2 **Efficient use of R&D resources**. Where R&D resources are necessarily more limited than among major competitors they should be used where they can be

most effective. This often means concentrating not on pioneering work but on improvements to existing technologies that are seen to provide more immediate customer benefits.

3 **Thinking small**. Adopting a 'small is beautiful' approach to business increases the emphasis on operating more efficiently rather than chasing growth at all costs. Concentration of effort on the markets the company has chosen to compete in leads to specialisation and a stronger, more defensible position.

A quarter of a century on, these three guidelines for nichers remain as relevant as they have ever been.

11.6.4 Harvesting strategies

Building, holding and niche strategies are all applicable to the products and services of the company that offers some future potential either for growth or revenue generation.

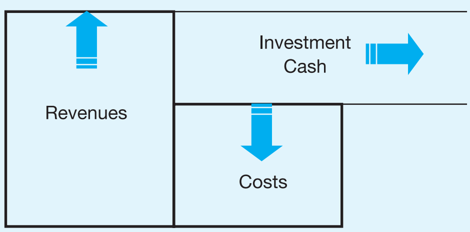
At some stage in the life of most products and services it can become clear that there is no long-term future for them. This may be because of major changes in customer requirements, which the offering as currently designed cannot keep pace with, or it may be due to technological changes that are making the offer obsolete. In these circumstances a harvesting (or 'milking') strategy may be pursued to obtain maximum returns from the product before its eventual death or withdrawal from the market (see Figure 11.22).

Kotler (1997) defines harvesting as:

> *a strategic management decision to reduce the investment in a business entity in the hope of cutting costs and/or improving cash flow. The company anticipates sales volume and/or market share declines but hopes that the lost revenue will be more than offset by lowered costs. Management sees sales falling eventually to a core level of demand. The business will be divested if money cannot be made at this core level of demand or if the company's resources can produce a higher yield by being shifted elsewhere.*

Candidate businesses or individual products for harvesting may be those that are losing money despite managerial and financial resources being invested in them,

Figure 11.22 Harvesting strategies



Minimise costs, maximise revenues and take cash out for other projects or they may be those which are about to be made obsolete due to company or competitor innovation.

Implementing a harvesting strategy calls for a reduction in marketing support to a minimum, to cut expenditure on advertising, sales support and further R&D. There will typically be a rationalisation of the product line to reduce production and other direct costs. In addition, prices may be increased somewhat to improve margins while anticipating a reduction in volume.

11.6.5 Divestment/deletion

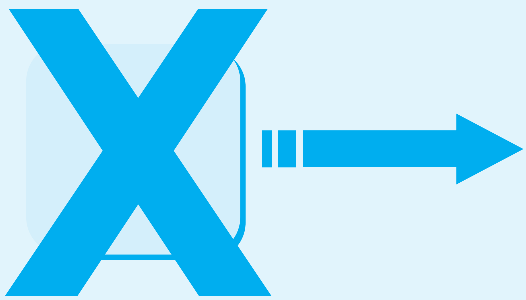
Where the company decides that a policy of harvesting is not possible, for example when, despite every effort, the business or product continues to lose money, attention may turn to divestment, or deletion from the corporate portfolio (see Figure 11.23).

Divestment – the decision to get out of a particular market or business – is never taken lightly by a company. It is crucial when considering a particular business or product for deletion to question the role of the business in the company's overall portfolio.

One company, operating both in consumer and industrial markets, examined its business portfolio and found that its industrial operations were at best breaking even, depending on how costs were allocated. Further analysis, however, showed that the industrial operation was a crucial spur to technological developments within the company that were exploited in the consumer markets in which it operated. The greater immediate technical demands of the company's industrial customers acted as the impetus for the R&D department to improve on the basic technologies used by the company. These had fed through to the consumer side of the business and resulted in the current strength in those markets. Without the industrial operations it is doubtful whether the company would have been so successful in its consumer markets. Clearly, in this case, the industrial operations had a non-economic role to play and divestment on economic grounds could have been disastrous.

Once a divestment decision has been taken, and all the ramifications on the company's other businesses have been carefully assessed, implementation involves getting out as quickly and cheaply as possible.

Figure 11.23 Divestment strategies



Minimise costs and get out quick!

11.6.6 Matching managerial skills to strategic tasks

The above alternative strategies require quite different managerial skills to bring them to fruition. It should be apparent that a manager well suited to building a stronger position for a new product is likely to have different strengths from those of a manager suited to harvesting an ageing product. Wissema *et al.* (1980) have suggested the following types of manager for each of the jobs outlined above.

Pioneers and conquerors for build strategies

The pioneer is particularly suited to the truly innovative new product that is attempting to revolutionise the markets in which it operates. A pioneer is a divergent thinker who is flexible, creative and probably hyperactive. Many entrepreneurs, such as Jeff Bezos at Amazon.com and James Dyson of vacuum cleaner fame, would fall into this category.

A conqueror, on the other hand, would be most suited to building in an established market. The conqueror's main characteristics are a creative but structured approach, someone who is a systematic team builder who can develop a coherent and rational strategy in the face of potentially stiff competition.

Administrators to hold position

The administrator is stable, good at routine work, probably an introverted conformist. These traits are particularly suited to holding/maintaining position. The administrator keeps a steady hand on the helm.

Focused creators to niche

This manager is in many ways similar to the conqueror but in need, especially initially, of more creative flair in identifying the area for focus. Once that area has been defined, however, a highly focused approach is necessary at the expense of all other distractions.

Economisers for divestment

The diplomatic negotiator (receiver, or hatchet man!) is required to divest the company of unprofitable businesses, often in the face of internal opposition.

Summary

While two basic approaches to creating a competitive position have been discussed it should be clear that the first priority in marketing will be to decide on the focus of operations: industry wide or specific target market segments. Creating a competitive advantage in the selected area of focus can be achieved through either cost leadership or differentiation. To build a strong, defensible position in the market the initial concern should be to differentiate the company's offerings from those of its competitors on some basis of value to the customer. The second concern should then be to achieve this at the lowest possible delivered cost.

A variety of strategies might be pursued once the overall objectives have been set. The strategies can be summarised under five main types: build; hold; harvest; niche; divest. To implement each type of strategy different managerial skills are required. An important task of senior management is to ensure that the managers assigned to each task have the necessary skills and characteristics.

Nokia

FT **Case study**

Getty Images News

Nokia is a company that has got its timing spectacularly right in the last decade, but the optimism it expressed last December about prospects for the mobile phone industry seems to have been one of its less successful calls.

Jorma Ollila, the company's chairman and chief executive, rounded off an upbeat presentation to analysts by stating that 'in the mobile world, the best is yet to come'.

He may yet be right in the long term, but in the short term at least the prediction has proved wide of the mark.

Nokia has been forced to cut its projections about worldwide handsets growth and its own sales growth at least three times this year.

The latest occasion was last month when the group slashed earnings and sales forecasts and suggested the current industry slowdown would continue into the second half.

The result was that its share price fell by 20 per cent in a single day. Analysts say the company's credibility has been damaged, because it has generally been much more optimistic about the outlook for the mobile phone business than rival handset makers or leading telecom operators.

The shock profit warning shows that even Nokia, the world's leading maker of mobile phones, is not immune to what is going on around it, even though it is still looking stronger than many of its rivals.

Nor can it necessarily predict likely market trends better than its competitors. Mobile phone makers are being hit by the economic slowdown that started in the US but which is now spreading to other parts of the world, including Europe. But they are also being hit by clear signs of market saturation, with replacement phone sales not developing as well as originally hoped.

This means the market environment has changed dramatically. Whereas last December Nokia was forecasting that 550m handsets would be sold worldwide in 2001, it is now predicting sales only modestly higher than last year's 405m. Some analysts predict sales will actually be lower than 405m.

In any case, handset makers' revenues will almost certainly be down from last year because of a drop in the products' average selling prices.

It is an abrupt change for an industry that had almost stopped thinking of itself as cyclical. In 1999 the industry grew by 67 per cent, last year it grew 42 per cent. Per Lindberg, analyst with Dresdner Kleinwort Wasserstein in London says: 'The handset industry will be turning ex-growth for the first time in its 20-year history in 2001.'

Nokia is perhaps the only handset maker anywhere to be making money. Its margins at around

20 per cent are still remarkably healthy – the result of the extraordinary economies of scale which the company enjoys due to its leadership position and mastery of logistics.

It is also taking full advantage of the problems being experienced by rivals such as Ericsson of Sweden and Motorola of the US to drive its market share higher. It already has about 35 per cent of the global handsets market – about three times that of Motorola, its nearest rival – and is aiming to move still higher to around 40 per cent.

But how much further can it go? Analysts suggest some operators already feel they are too dependent on Nokia, although there may be little they (the operators) can do about it, if Nokia phones are what their end customers – ordinary consumers – want.

But what about those end customers? Petri Korpineva, analyst at Evli Securities in Finland, says: 'If Nokia continues to increase its share towards 50 per cent, it could well be that some consumers want to differentiate themselves by not choosing the Nokia brand.'

Nokia seems already to be sensing that it is too reliant on handsets, which account for around 70 per cent of its sales. It is making a significant push to increase sales of mobile phone infrastructure in an implicit challenge to Ericsson, the world leader in this business.

Nokia has set an aggressive target of winning a 35 per cent market share in the W-CDMA, the third generation mobile telephony standard.

The group is also looking to build up other sources of revenue. One source that could eventually prove fruitful is Club Nokia, a virtual club that allows Nokia handset owners to download games, ring tones and other material on to their handsets from a website.

This facility is currently free, but Nokia is hoping it could prove a revenue generator in its own right, particularly when 3G takes off. This initiative takes Nokia more into the software business and analysts warn it could cause conflicts with operators who are concerned about Nokia straying on to their territory.

Many analysts believe that Nokia will struggle to maintain its margins in the long term, because they argue that mobile phones will become a commodity like personal computers and other high-tech products. Nokia insists that this will not happen, partly because the complexities involved in making ever more sophisticated handsets are a formidable deterrent to new entrants. But not even Nokia would dispute the view that its fortunes may depend on the development of the mobile Internet.

Already delayed, it is still far from certain when 3G will take off, with continuing concerns about consumer demand and technical issues like interoperability. Nokia talks of the 3G breakthrough coming towards the end of next year, with intermediate GPRS services beginning the transition to 3G already later this year.

If it is right, the current slump in market growth may indeed be as temporary as Nokia is hoping.

Source: Christopher Brown-Humes, 'Behemoth maintains growth prospects while rivals begin to feel the chill', *Financial Times*, 5 July 2001, p. V.

Discussion questions

1. What has allowed Nokia to grow to its strong position in the marketplace?
2. What advantages and dangers does Nokia's market share relative to its competitors bestow?
3. Suggest strategies for Nokia that build upon its unique strengths. Suggest strategies for Nokia's competitors that Nokia could find hard to follow.