10 Marketing strategy

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Introduction

Marketing strategy sometimes claims to provide an answer to one of the most difficult questions in our understanding of competitive markets: how to recognize and achieve an economic advantage which endures. In attempting to do so, marketing strategy, as with the field of strategy itself, has had to address the continual balance between strategy formulation and strategic implementation. At the same time, it has also had to address a perhaps more fundamental question: how far, at least from a demand or market perspective, can we ever develop general rules for achieving enduring economic advantage.

Strategy: from formulation to implementation

From the late 1960s to the mid-1980s at least, management strategy seemed to be inevitably linked to issues of product-market selection and hence to marketing strategy. Perhaps ironically this was not primarily or even mainly as a result of the contribution of marketing scholars or indeed practitioners. The most significant initial contributors, such as Bruce Henderson and Michael Porter, both to be found at or closely linked to the Harvard Business School, were neither located within Marketing. However in various institutions the marketing academics were not slow to recognize what was going on and also to see that the centrality of product-market choice linked well with the importance attached to marketing. This expansion of the teaching domain had a much less significant impact on the research agenda and activity within marketing itself, where the focus continued to underplay the emerging importance of the competitive dimension (Day and Wensley, 1983). Hence the relatively atheoretical development continued into the process of codification of this new area, most obviously in the first key text by Abell and Hammond (1979), which was based on a, by then, well established second year MBA option at Harvard.

In retrospect, this period was the high point for the uncontested impact of competitive market related analysis on strategic management practice. With the advantage of hindsight, it is clear that a serious alternative perspective was also developing, most obviously signalled by Peters and Waterman (1982), which was to have a very substantial impact on the what was taught in strategic management courses and what was marketed by consultancies.

As the decade progressed, it was inevitable that at least to some degree each side recognized the other as a key protagonist. Perhaps one of the most noteworthy cases is that in which Waterman (1988) challenged the value of a Porter-based analysis of competition. Equally, the economists did not take such attacks lying down: Kay (1993) attempted to wrest back the intellectual dominance in matters of corporate strategy and Porter (1990) extended his domain to the nation-state itself. In terms of the disciplinary debate, what was originally broadly a debate between economists and sociologists, now also involved psychologists, social anthropologists, and, if they are a distinct discipline, systems theorists.

However, the key change in emphasis can be summarized as from analysis to process, from formulation to implementation. Perhaps the single most important contributor to this change has been Henry Mintzberg, who has developed over the period an extensive critique of, what he calls the 'Design School' in strategic management, culminating in his 1994 book. Since then, he has extended his critique to the domain of management teaching, particularly MBAs, rather than just strategic planning (Mintzberg, 2004). Overall, whilst his approach and indeed critique of strategy analysis is itself rather polemical and overstated, there is little doubt that the general emphasis in strategic management has shifted significantly towards implementation and away from formulation and planning.

The nature of the competitive market environment

As our analysis of marketing strategy has developed over the last 35 years, so our representation of the marketing context has also changed. In particular there was much less recognition of competitors and distribution was clearly seen as a solely logistical function in the 1970s. On top of this, customers were often very much represented as 'at a distance', with intermediaries such as advertising agencies and market research companies. More recently, marketing has recognized much more explicitly a further range of issues including the key role of competition and the importance of a longer term so-called relationship perspective, particularly in the context of customers. On top of this, various entities in the distribution chain are now clearly seen as very active intermediaries rather than just passive logistics agents.

However, the development of this more complex dynamic representation of the competitive market, which can be represented broadly in the marketing strategy triangle of the 3Cs: customers, competitors and channels, also implies a more fluid and complex environment within which to understand the nature of competitive advantage.

Customers, competitors and channels

The early more static model of the nature of the competitive market, which informed many of the still current tools of analysis was both positional and non-interactive. It was assumed that the market backcloth, often referred to as the product-market space, remained relatively stable and static so that at least in terms of first order effects, strategies could be defined in positional terms. Similarly, the general perspective, was that actions by the firm would generally not create equivalent reactions from the relatively passive 'consumers'.

With the adoption of the more interactive and dynamic perspective implied in the 3Cs approach the nature of market-based strategy becomes much more complex. We must be wary of the temptation to continue to apply the old tools and concepts without considering critically whether they are appropriate in new situations. They represent in general a special or limiting case which quite often distorts the nature of the environment that we are attempting to characterize. How far is this distortion, as our legal colleagues would say, material, is another but frequently unresolved matter. This notion of materiality is really linked to impact on actions rather than just understanding and the degree to which in practice particular forms of marketing strategy analysis encourage actions which are inappropriate.

This chapter is mainly written around the assumption that we need to recognize in using these simplifying approaches, that: (i) the degree to which they actually explain the competitive performance outcomes of interest will be limited; and (ii) the underlying assumptions can cause unintentional biases.

The evolution of analysis, interpretation and modelling in marketing strategy from customers to competitors to channels

Given that the underlying representation of the competitive market environment has changed, so, not surprisingly, have our processes of analysis, interpretation and modelling. Initially the key focus was on customer-based positioning studies in particular product-market space. Such work remains a key component in the analysis of much market research data, but from the marketing strategy perspective we need to recognise that the dimensionality of the analytical space has often been rather low, indeed in some situations little more than a single price dimension which has been seen as highly correlated with an equivalent quality dimension.

The increased emphasis on the analysis of competitors has also required us to make certain compromises. One, of course, relates to the balance between three forms termed public information, legitimate inference and private information. The other to the fact that our colleagues in business strategy now give emphasis to two rather different perspectives on the nature of competitive firms, one essentially based on similarities (strategic groups: McGee and Thomas, 1986) and the other on differences (resource based view (RBV): Wernerfeld, 1984, 1995). Sound competitor analysis should at least enable us to avoid making inconsistent assumptions, particularly in the context of public data, like, for instance, assuming that we will be able to exploit an opportunity which is known to all, without a significant amount of competitive reaction.

Finally there is the question of channels or, in more general terms, supply chains. The issue of retailers in particular as independent and significant economic intermediaries rather than just logistical channels to the final consumer has been an important consideration in consumer marketing at least since the 1970s. Similarly in industrial markets the issue of the supply chain and the central importance of some form of organization and coordination of the various independent entities within the chain has been seen as an increasingly important strategic issue. Both these developments have meant that any strategic marketing analysis needs to find ways to evaluate the likely impact of such independent strategies pursued by intermediaries, although in many cases our tools and techniques for doing this remain rather limited and often rely on no more than an attempt to speculate on what might be their preferred strategic action.

Beyond this there has been a broader attempt to introduce what has become known as relationship marketing. It is outside the remit of this chapter to provide a full overview but from a strategic viewpoint there are two important issues that need to be emphasized. The first is that a recognition of the relatively stable pattern of transaction relationship within, particularly, most industrial markets, often described as the 'markets as networks' perspective is not necessarily the same as a more prescriptive notion of the need to manage such relationships. The second is that whilst the relationship perspective rightly moves our attention away from individual transactions towards patterns of interaction over longer time periods it often seems to assume that the motivations of each party are symmetric. In both consumer (Fournier et al., 1998) and industrial markets (Faria and Wensley, 2002) this may prove to be a very problematic assumption.

The codification of marketing strategy analysis in terms of three strategies, four boxes and five forces

What can now be regarded as 'traditional' marketing strategy analysis was developed primarily in the 1970s. It was codified in various ways, including the strategic triangle as developed by Ohmae (1982), based on customers, competitors and the corporation. The most significant elements in such analysis can defined in terms of the three generic strategies, the four boxes (or perhaps more appropriately strategic contexts), and the five forces.

These particular frameworks also represent the substantial debt that marketing strategy owes to economic analysis; the three strategies and the five forces are directly taken from Michael Porter's influential work, which derived from his earlier work in Industrial Organization (IO) Economics. The four contexts was initially popularized by the Boston Consulting Group under Bruce Henderson, again strongly influenced by microeconomic analysis. Whilst each of these approaches became a significant component in much marketing strategy teaching (see Morrison and Wensley, 1991), we also need to recognize some of the key considerations and critical assumptions hold in any application.

The three strategies

Porter really reintroduced the standard economic notion of scale to the distinction between cost and differentiation to arrive at the three generic strategies of focus, cost and differentiation. Indeed, in his later formulation of the three strategies they really became four in that he suggested, rightly, that the choice between an emphasis on competition via cost or differentiation can be made at various scales of operation.

With further consideration it is clear that both of these dimensions are themselves not only continuous but also likely to be the aggregate of a number of relatively independent elements or dimensions. Hence scale is in many contexts not just a single measure of volume of finished output but also of relative volumes of subassemblies and activities which may well be shared. This is even truer in the case of 'differentiation', where we can expect that there are various different ways in which any supplier attempts to differentiate their offerings. On top of this, a number of other commentators, most particularly John Kay (1993), have noted that not only might the cost-differentiation scale be continuous rather than dichotomous but it also might not be seen as a real dimension at all. At some point this could become a semantic squabble but there clearly is an important point that many successful strategies are built around a notion of good value for money rather than a pure emphasis on cost or differentiation at any price. Michael Porter (1980) might describe this as a 'middle' strategy but he has consistently claimed that there is a severe danger of getting 'caught in the middle'. In fact it might be reasonable to assume that in many cases being in the middle is the best place to be: after all, Porter never presented significant and substantial systematic evidence to support his own assertion (cf. Wensley, 1994) .

The four contexts

The four boxes (contexts) relates to the market share/market growth matrix originally developed by the Boston Consulting Group (BCG) under Bruce Henderson. Although inevitably a whole range of different matrix frameworks has emerged since the early days the BCG, one remains an outstanding exemplar not only because of its widespread popularity and impact, nowadays even University vice-chancellors have been heard to use terms such as 'cash cow', but because there was an underlying basic economic logic in its development. Many other similar frameworks just adopted the rather tautologous proposition that one should invest in domains which were both attractive and where one had comparative advantage!

The market growth/market share matrix however still involved a set of key assumptions which were certainly contestable. In particular, alongside the relatively uncontroversial one that in general over time the growth rate in markets tends to decline, there were the assumptions that it was in some sense both easier to gain market share in higher growth rate markets, and also that the returns to such gains were likely to be of longer duration. However, it could be that early investment in market share is inherently more risky so yields, on average, better returns and that there are other ways of dealing with such risks. Yet companies can benefit from a focus on market share position when it encourages them to place greater emphasis on the marketing fundamentals for a particular business.

More generally, the matrix as an analytical device suffers from some of the problems which we illustrated for the three strategies approach: an analysis which is essentially based on extreme points when in practice many of the portfolio choices are actually around the centre of the matrix. This implies that any discrimination between business units needs to be on the basis of much more specific analysis rather than broad general characteristics.

Five forces

The five forces analysis was originally introduced by Michael Porter to emphasize the extent to which the overall basis of competition was much wider than just the rivalries between established competitors in a particular market. Whilst not exactly novel as an insight, particularly in suggesting that firms also face competition from new entrants and substitutes, it was presented in a very effective manner and served to emphasize not only the specific and increasing importance of competition, as we discussed, but also the extent to which competition should be seen as a much wider activity within the value chain as Porter termed it.

Porter used the term value chain when in essence he was concentrating more on the chain of actual costs. Whilst ex post from an economic point of view, there is no difference between value and cost, it is indeed the process of both competition and collaboration between various firms and intermediaries which finally results in the attribution of value throughout the relevant network. In this sense, as others have recognized, a supply chain is an intermediate organization form where there is a higher degree of cooperation between the firms within the chain and a greater

degree of competition between the firms within different chains. In this context Porter's analysis has tended to focus much more clearly on the issue of competition rather than cooperation. Indeed, at least in its representational form, it has tended to go further than this and focus attention on the nature of the competitive pressures on the firm itself rather than on the interaction between the firm and other organizations in the marketplace.

The search for generic rules for success amidst diversity

As we have suggested above, the codification of marketing strategy was based on three essential schema. This schemata, whilst it was based on some valid theoretical concepts, did not really provide a systematic approach to the central question, that is, the nature of sustained economic performance in the competitive market place. Whilst such an objective was clearly recognized in the so-called search for Sustainable Competitive Advantage (Day and Wensley, 1988), there remained concerns as to whether such a notion was realistic given the dynamic and uncertain nature of the competitive marketplace (Dickinson, 1992).

Indeed not only is it dynamic and uncertain but it is also diverse: firms are heterogeneous and so is the nature of demand. A useful way of looking at demand side heterogeneity is from the user perspective directly. Arguably from its relatively early origins, marketing or at least the more functional focused study of marketing management, has been concerned with managerially effective ways of responding to this heterogeneity, particularly in terms of market segmentation. Whilst there remains a substantial debate about the degree to which this market-based heterogeneity is indeed 'manageable' from a marketing perspective (cf. Saunders, 1995; Wensley, 1995), our concern at the moment is to consider the degree to which such diversity on both the supply and demand side facilitates or negates the possibility of developing robust 'rules for success'.

To address this question, we need to consider the most useful way of characterizing the competitive market process. Let us consider the field of ecology where we observe wide diversity in terms of both species and habitat as well as high interactivity. There are two critical aspects which must inform any attempt to transfer this analogy into the field of strategy. The first is the interactive relationship between any species and its habitat, nicely encapsulated in the title of the book by Levins and Leowontin (1985): *The Dialectical Biologist*. Particularly in the context of strategy, it is important to recognize that the habitat (for which read market domain) evolves and develops at least as fast as the species (for which, rather more problematically, read the individual firm).

The second aspect addresses directly our question of 'rules for success'. How far can we identify, particularly through the historical record, whether there are any reliable rules for success for particular species characteristics? Of course, it is very difficult to address this question without being strongly influenced by hindsight and most observations are seen as contentious.

It would seem that we should at least be very cautious in any search for rules for success amidst a world of interactive diversity. Hence we should hardly be surprised that marketing strategy analysis does not provide for consistent and sustainable individual success in the competitive marketplace. However, we do have a set of theoretical frameworks and practical tools which at least allow us to represent some of the key dynamics of both customer and competitive behaviour in a way which ensures we avoid errors of inconsistency or simple naivety.

As we have discussed above, most analysis in marketing strategy is informed by what are essentially economic frameworks and so tend to focus attention on situations in which both the competitive structure of the market and the nature of consumer preferences are relatively well established. As we move our attention to more novel situations these structures tend to be at best indeterminate and therefore the analytical frameworks less appropriate. We encounter the first of many ironies in the nature of marketing strategy analysis. It is often least applicable in the very situations in which there is a real opportunity for a new source of economic advantage based on a restructuring of either or both the competitive environment and consumer preferences.

Models of competition: game theory versus evolutionary ecology

To develop a formal approach to the modelling of competitive behaviour we need to define:

1. The nature of the arena in which the competitive activity takes place
2. The structure or rules which govern the behaviour of the participants
3. The options available in terms of competitor behaviour (when these consist of a sequence of actions through time, or over a number of 'plays', then they are often referred to in game theory as strategies).

In this section, however, we particularly wish to contrast game theory approaches which in many ways link directly to the economic analysis to which we have already referred and look in more detail at analogies from evolutionary biology which raise difficult questions about the inherent feasibility of any systematic model building at the level of the individual firm.

Game theory models of competition

A game theory model is characterized by a set of rules which describe: (1) the number of firms competing against each other; (2) the set of actions that each firm can take at each point in time; (3) the profits that each firm will realize for each set of competitive actions; (4) the time pattern of actions – whether they

occur simultaneously or one firm moves first? and (5) the nature of information about competitive activity – who knows what, when? The notion of rationality also plays a particularly important role in models of competitive behaviour. Rationality implies a link between actions and intentions but not common intentions between competitors. Models describing competitive activity are designed to understand the behaviour of 'free' economic agents. Thus, these models start with an assumption of 'weak' rationality – the agents will take actions that are consistent with their longer-term objectives. The models also assume a stronger form of rationality – the intentions of the agents can be expressed in terms of a number of economic measures of outcome states such as profit, sales, growth, or market share objectives.

Do the results of game theory models indicate how firms should act in competitive situations? Do the models describe the evolution of competitive interactions in the real world? These questions have spawned a lively debate among management scientists concerning the usefulness of game theory models. Kadane and Larkey (1982) suggested that game theory models are conditionally normative and conditionally descriptive. The results do indicate how firms should behave given a set of assumptions about the alternatives, the payoffs, and the properties of an 'optimal' solution (the equilibrium). Similarly, game theory results describe the evolution of competitive strategy but only given a very specific set of assumptions.

The seemingly unrealistic and simplistic nature of the competitive reactions incorporated in game theory models and the nature of the equilibrium concept led some marketers to question the managerial relevance of these models (Dolan, 1981). However, all models involve simplifying assumptions, and game theory models, whilst often highly structured, underpin most attempts to apply economic analysis to issues of competition among a limited number of firms. Indeed, as Goeree and Holt (2001) observe: 'Game theory has finally gained the central role … in some areas of economics (e.g. industrial organization) virtually all recent developments are applications of game theory' (2001: 1402).

Evolutionary Ecological Analogies

Evolutionary ecology has also emerged as a popular analogy for understanding the types of market-based strategies pursued by companies (Coyle, 1986; Lambkin and Day, 1989). These analogies have been previously used to describe both the nature of the competitive process itself (Henderson, 1983) as well as the notion of 'niche' strategy (Hofer and Schendel, 1977).

Organizational theorists and sociologists have adopted an ecological model, describing the growth of a specie in an ecology, to describe the types of firms in an environment. Environments are described by two dimensions: variability and frequency of environmental change. In a highly variable environment, changes are dramatic, and fundamentally different strategic responses are required for survival. In contrast, strategic alterations are not required to cope with an environment of low variability. A specialist strategy in which high

performance occurs in a narrow portion of the environment is surprisingly more appropriate when environmental changes are dramatic and frequent. Under these conditions, it is unlikely that a generalist would have sufficient flexibility to cope with the wide range of environmental conditions it would face, whilst the specialist can at least out-perform it in a specific environment. A generalist strategist is most appropriate in an environment characterized by infrequent, minor changes because this environment allows the generalist to exploit its large-scale efficiencies.

Comparing the key elements in different models of competition

The strategic groups and mobility barriers in the Industrial Organization economics approach recognize the critical asymmetries between competing firms. It identifies three methods by which firms can isolate themselves from competition: (1) differentiation; (2) cost efficiency; and (3) collusion, although the third approach has tended to be ignored. The developments within the IO paradigm have therefore tended to usefully focus on the nature and significance of various mechanisms for isolating the firm from its competition. The evolutionary ecological analogy, on the other hand, focuses on the notion of scope with the general distinction between specialists and generalists. The ecological approach also raises interesting questions about the form, level and type of 'organization' that we are considering. In particular we need to recognize most markets as forms of organization in their own right, as those who have argued the 'markets as networks' approach have done, and question how far we can justify an exclusive focus on the firm as the key organization unit. Finally, the analogy raises more directly the concern about the interaction between various different units (species) and their evolving habitat. The marketplace, like the habitat, can become relatively unstable and so both affect and be affected by the strategies of individual firms.

As we have suggested, any analogy is far from perfect, as we would expect. The limitations are as critical as the issues that are raised because they give us some sense of the bounds within which the analogy itself is likely to be useful. Extending it outside these bounds is likely to be counter-productive and misleading.

The IO approach in practice tends to neglect the interaction between cost and quality. We have already suggested that while the notion of 'focus' within this analogy is an attempt to recognize this problem; it is only partially successful because it subsumes a characteristic of any successful competitive strategy into one generic category. We must further consider the extent to which we can reasonably reliably distinguish between the various forms of mixed strategies over time and the extent to which the strategic groups themselves remain stable.

The limitations of analogies from evolutionary ecology are more in terms of the questions that are not answered than those where the answers are misleading. The nature of 'competition' is both unclear and complex, there is confusion as to the level and appropriate unit of analysis, and the notion of 'niche', which has become so current in much strategy writing, overlooks the fact that by definition every species has one anyway.

Characterizing marketing strategy in terms of evolving differentiation in time and space

Central to any notion of competition from a marketing strategy viewpoint is the issue of differentiation in time and space. In a 'real' market: (i) demand is heterogeneous; (ii) suppliers are differentiated; and (iii) there are processes of feedback and change through time. Clearly these three elements interact significantly, yet in most cases we find that to reduce the overall complexity in our analysis and understanding we treat each item relatively independently. For instance, in most current treatments of these issues in marketing strategy we would use some form of *market segmentation* schema to map heterogeneous demand, some notion of the *resource-based view* of the firm to reflect the differentiation amongst suppliers and some model of market evolution such as the *product life-cycle* to reflect the nature of the time dynamic.

Such an approach has two major limitations which may act to remove any benefit from the undoubted reduction of analytical complexity by looking at three subsystems rather than the whole system. First it assumes implicitly that this decomposition is reasonably first order correct: that the impact of the individual elements is more important than their interaction effects. To examine this assumption critically we need some alternative form of analysis and representation such as modelling the phenomena of interest as the co-evolution of firms and customers in a dynamic phase space, which allows for the fact that time and space interact. Second, it assumes that the ways of representing the individual elements that we use – in particular market segmentation and product life-cycle concepts – are in fact robust representations of the underlying phenomena. In terms of the adequacy of each element in its own terms, we need to look more closely at the ways in which individual improvements may be achieved and finally we might wish to consider whether it would be better to model partial interactions, say between two elements only rather than the complete system.

Differentiation in space: issues of market segmentation

The analysis of spatial competition has of course a long history, stretching back at least to the classical Hotelling model of linear competition such as that faced by the two ice cream sellers on the sea-front. In marketing, the competitive space is generally characterized in terms of market segmentation. There is by now a very large body of empirical work in the general field of market segmentation but even so there remain some critical problems. In particular:

1. We have evidence that the cross-elasticities with respect to different marketing mix elements are likely to be not only of different orders but actually imply different structures of relationship between individual product offerings.
2. Competitive behaviour patterns, which, after all, in a strict sense determine the nature of the experiment from which the elasticities can be derived, seem to be, to use a term coined by Leeflang and Wittick (1993), 'out of balance' with the cross-elasticity data itself.

For the purposes of this chapter we wish to concentrate on the specific question as to how far segmentation provides us with an appropriate definition of the space within which competition evolves. In this sense the key questions are, as we discussed above, about the dimensionality of the space concerned, the stability of the demand function and the degree of mobility for individual firms (or more correctly individual offerings) in terms of repositioning.

These are in practice very difficult questions to deal with for two critical reasons:

(i) The nature of the choice process is such that for many offerings, individual consumers choose from a portfolio of items rather than merely make exclusive choices, and, hence, in principle it is difficult to isolate the impact of one offering from the others in the portfolio.

(ii) The dimensions of the choice space are often inferred from the responses to current offerings and therefore it is difficult to distinguish between the effects of current offerings and some notion of an underlying set of preference structures.

Segmentation and positioning

In principle we can describe the nature of spatial competition in a market either in demand terms or in supply terms. Market segmentation represents the demand perspective on structure whilst competitive positioning represents the supply perspective. Market segmentation takes as its starting point assumptions about the differing requirements that individual customers have with respect to bundles of benefits in particular use situations. Most obviously in this context it is an 'ideal' approach in that it is effectively assumed that each customer can/does specify their own ideal benefit bundle and their purchase choice in the relevant use situation is based on proximity to this ideal point. In consumer psychology this is equivalent to an assumption that individuals have strong and stable preferences.

The competitive positioning approach uses consumer judgements, normally on an aggregate basis to the similarities and differences between specific competitive offerings. In principle this provides an analytical output roughly equivalent to the spatial distribution in the Hotelling model. Such an analysis can also be used to provide an estimate of the dimensionality of the discriminant space, but in many situations for ease of presentation the results are presented in a constrained 2D format. Equally benefit segmentation studies can be used along with techniques such as factor analysis to try and arrive at an estimate of the dimensionality of the demand side.

We can be reasonably certain that the attitude space for customers in any particular market is generally, say, $N>3$: factor analytical studies might suggest at least four or five in general and that of competitive offerings is of at least a similar order. Indeed in the last case if we considered the resource-based view (RBV) of the firm very seriously we might go for a dimensionality as high as the number of competitors.

Of more interest from a strategy point of view is how we represent what happens in terms of actual purchase behaviour in a competitive market through time. There have been a number of attempts to apply segmentation analysis to behavioural data with much less information as to attitudes or intention. In one

of the more detailed of such studies, Chintagunta (1994) focused on the degree to which the data analysis reveals interesting differences in terms of brand position as shown by individual purchase patterns through time. He suggested that the dimensionality of the revealed competitive space was two-dimensional but even this might be really an over-estimate. It would appear that we can rather surprisingly reduce the effective competitive space to a single dimension with the possibility of only some second order anomalies (Wensley, 1996).

A simple model of spatial competition might therefore be one in which a considerable amount of competition can be seen as aligned along a single dimension, in circumstances in which multiple offerings are possible, and where there is no reason to believe a priori that individual offerings will be grouped either by common brand or specification, with a fixed entry cost for each item and a distribution of demand which is multi-modal. To this extent it may actually be true that the very simplifications that many criticize in the Porter 'three generic strategies' approach may be reasonably appropriate in building a first order model of competitive market evolution (see Campbell-Hunt, 2000). In the short-run, following the notion of 'clout' and 'vulnerability' (Cooper and Nakanishi, 1988), we might also expect that changes in position in this competitive dimension could be a function of a whole range of what might often be seen as tactical as well as strategic marketing actions.

We must now consider, however, particularly in the context of understanding the time-based nature of market strategies, how we might incorporate in more detail a longer term time dimension with a stronger customer focus.

Differentiation in time: beyond the PLC. Characterizing the nature of competitive market evolution

Few management concepts have been so widely accepted or thoroughly criticised as the product life cycle (Lambkin and Day, 1989: 4)

The product life-cycle has the advantage that it does represent the most simple form of path development for any product (introduction, growth, maturity, decline) but as has been widely recognized, this remains a highly stylized representation of the product sales pattern for most products during their lifetime. Whilst it is reasonably clear that it is difficult, if not impossible, to propose a better single generic time pattern, any such pattern is subject to considerable distortion as a result of interactions with changes in technology as well as both customer and competitor behaviour.

Lambkin and Day (1989) suggested that an understanding of the process of product-market evolution required a more explicit distinction between issues of the demand system, the supply system and the resource environment. However, they chose to emphasize the nature of the demand evolution primarily in terms of diffusion processes. This approach tends to underestimate the extent to which demand side evolution is as much about the way(s) in which the structure of the demand space is changing as the issue of aggregate demand itself.

Later work on the process of market evolution, partly building on some the ideas developed by Lambkin and Day (1989), has attempted to incorporate some insights from, amongst other areas, evolutionary ecology. In particular, work on the extensive

Disk-drive database, which gives quarterly data on all disk drive manufacturers allowed Christensen (1997) to look at the ways in which at the early stages in the market development, the existence of competitive offerings seems to encourage market growth whereas at later stages the likelihood of firm exit increases with firm density. Other computer-related industries have also provided the opportunity for empirical work on some of the issues relating to both the impact of standardization and modularization and the nature of generation effects (Sanchez, 1995), although in the latter case it must be admitted that the effects themselves can sometimes be seen as a result of marketing actions in their own right.

The nature of research in marketing strategy: fallacies of free lunches and the nature of answerable research questions. Distinguishing between information about means, variances and outliers

As we indicated at the start of this chapter, much research in marketing strategy has attempted to address what is in some senses an impossible question: what is the basic and general nature of a successful competitive marketing strategy. This presumes the equivalent of a free lunch. Before we explore this issue further we need to establish a few basic principles. The competitive process is such that:

1. Average performance can only produce average results which in the general nature of a competitive system means that success is related to above average and sometimes even outlier levels of performance.
2. We can expect our competitors to be able on average to interpret any public data to reveal profitable opportunities as well as we can. In more direct terms it means that on average competitors are as clever or as stupid as we are. The route to success cannot lie in simply exploiting public information in an effective manner, although such a strategy may enable a firm to improve its own performance.
3. As we have discussed above, the basis of individual firm or unit performance is a complex mix of both firm, competitor and market factors. We therefore can expect that any attempt to explain performance will be subject to considerable error given that it is difficult, if not impossible, to identify an adequate range of variables which cover both the specifics of the firm's own situation and the details of the market and competitor behaviour.

For these reasons empirical research in marketing strategy, as in the strategy field as a whole, has almost always tended to be in one of the two categories:

(i) database, quantitative analysis which has relied on statistical and econometric approaches to produce results which indicate certain independent variables which on average correlate with performance. As McCloskey and Ziliak (1996) indicated more generally in econometric work, there is a danger that we often confuse statistical

significance with what they term economic significance. This notion of economic significance can be decomposed into two elements: firstly the extent to which the relationship identified actually relates to a significant proportion of the variation in the dependent variable, and second the extent to which, even if it does, this regularity actually enables one to produce a clear prescription for managerial action.

(ii) case-study based research on selected firms, often around outliers such as those that perform particularly well. Here the problems are the extent to which the story which is told about the particular nature of the success concerned can be used to guide action in other organizations. In practice this often results in managerial prescriptions that are at best rather tautological and at worst meaningless.

We will now consider examples of both types of this research.

Market share and ROI: the 10 per cent rule in practice

One of the most famous results from the PIMS database was that first reported by Bob Buzzell, Brad Gale and Ralph Sultan in the *Harvard Business Review* in 1975 under the title 'Market share: a key to profitability'. They reported on the relationship between ROI and market share on a cross-sectional basis within the then current PIMS database. Although over the years estimates of the R^2 of this relationship have varied, it generally shows a value of only around 10 per cent up to a maximum of 15 per cent. In their original article Buzzell, Gale and Sultan 'removed' much of the variation by calculating cohort means.

The cohort mean approach, although now not commonly used in empirical research of this sort, normally shows some deviations from the straight line trend but as samples get even larger the deviations get, on average, even smaller: indeed some textbook representations of the results go as far as merely illustrating the trend with no deviations at all. Hence in the process of producing a clearer message from the data we have eliminated nearly nine-tenths of the variability in our performance variable.

What does it mean and what about the 'unexplained' 90 per cent?

In developing our understanding of what such a result actually means, the first set of problems relate to the nature of the data itself and the way in the which the axes are measured. In most analysis of this sort, and in the PIMS data as we discussed above, the data is essentially cross-sectional and averaged out over a fixed period. It therefore excludes any lead or lag effects and also compensates for particular one-off effects only to the extent that they are already discounted from the input data which is normally based on management accounts. The nature of the axes in a standard market share/ROI analysis is also a problem in that they are both ratios. There are very considerable advantages that accrue from using ratios in this situation: most obviously the fact that it is possible to plot on the same graph units of very different absolute sizes, but we do then have the problem of measurement errors in both the numerator and denominator for both axes.

Finally, the basic data is also inevitably limited in the extent to which it can measure the specifics of any particular business unit situation. Using basic financial and

accounting data we cannot take into account issues such as managerial effectiveness as well as the degree of integration to achieve scale economies and efficiencies in terms of marketing and other functional activities.

However, we must also put this overall critique of 'market share/return' analysis in context. We should not underestimate the original impact of the 'market share' discovery. Even if it only 'explains' around 10 per cent of financial performance, this is still a considerable achievement. The problem is that, as we have seen, even at this level we face difficult interpretation problems. In the end, one perhaps concludes that its greatest impact was merely that it legitimized debate and discussion about key competitive market assumptions in any strategy dialogue.

Getting to management action: the additional problem of economics

Even if we can identify the source of a particular success or indeed the cause of a particular failure it is a big jump to assuming that suitable action can be taken at no cost or even at a cost which is justified by the subsequent benefits.

We therefore need to overlay our notion of practical significance with one of economic significance: a factor or set of factors which explain a significant proportion of success can also be used as a decision rule for subsequent successful management action. This is a big jump. To return to the market share/ROI relationship even if we conclude that there is a significant correlation between market share and profitability we have to make two further assumptions to justify an economic rule of 'investing' in market share. First we have to move from the more general notion of 'correlation' or 'explanation' to the much more specific one of 'causation' and, second, we have to assume that whatever its benefits market share is somehow under-priced. If our first assumption is correct then broadly it can only be under-priced if either our competitors, both current and potential, have a different view, or, for some unspecified reason, happen to value the asset (market share) significantly lower then we do. In fact in specific situations this latter assumption could hold: our competitors will value the benefits given their differing portfolio of assets and market positions but it all depends on the specifics and the details of the individual situation rather than the general picture.

In the end, it is likely that the continued search for general rules for strategic success via statistical analysis and large databases will prove illusory. This does not make the research effort worthless, we merely have to be realistic about what can and cannot be achieved. After all, the in-depth case study narrative approach, which we will consider shortly, often results in another type of economic rule: the truth which is virtually impossible to apply in general. Perhaps the best example is to be found in Peters and Waterman's original work. Amongst many memorable criteria for success to be found in *In Search of Excellence* (1982) was that undeniable one: the achievement of simultaneous 'loose–tight' linkages. To those who thought that this might seem contradictory Peters and Waterman provided the helpful observation that: 'These are the apparent contradictions that turn out in practice not to be contradictions at all' (1982: 320).

The Honda case: interpreting success

One of the best known examples of a case history which has been interpreted to generate a number of marketing strategy lessons is the case of Honda and their entry into the American motorcycle market.

In summary, the original consultancy study conducted for the UK government by the Boston Consulting Group interpreted the success that Honda enjoyed in the USA, particularly at the expense of UK imports, as the result of substantial economies of scale for their small bikes based on the Cub model along with a market entry strategy to identify and exploit a new segment and set of customers. Richard Pascale, on the other hand, interviewed a number of the key executives who had worked for American Honda at the time and they told a story which suggested the whole operation was very much working on a shoestring and the final success was down to a number of lucky breaks including a buyer from Sears persuading them to let him sell their small model bikes when they were really trying, and failing, to break into the big bike market.

In the later debate, Goold who worked for BCG at the time, focused attention on the 10 per cent that can be explained analytically whilst Mintzberg argued that a realization of specific causes of success can be achieved more effectively through processes such as learning (Goold, 1996; Mintzberg, 1996a, 1996b). This is in practice a strong assertion about the efficacy of learning processes in organizations that others might dispute.

Hence the same story can be interpreted in very different ways. One of the underlying dilemmas for Honda, as indeed for any new market entrant, was that if they took the existing market structure as fixed and given then the possibilities for them were remote; on the other hand market knowledge could only really hint at possibilities for new market structures.

The recourse to processes, people and purpose in marketing as well as strategy as a whole

More recently in marketing strategy, as in strategy as a whole, there has been a move away from analysis based on real substantive recommendations for management action towards a concern more for processes, people and purposes rather than structure, strategies and systems. This change in emphasis was particularly introduced by Bartlett and Ghoshal (1995) in their influential *Harvard Business Review* article.

Whilst this shift can be seen as a reasonable response to our lack of substantive and generalizable knowledge about the nature of successful marketing strategies in a competitive marketplace, as we have discussed above, it should also be seen as one which itself has rather limited evidence to support it. In marketing strategy in particular, two areas can be identified where this trend has been very evident and we will look critically at both of these: the shift towards a focus on networks and relationship marketing and the increased emphasis on marketing processes within the firm.

Markets as networks

It is clear, as Easton (1990) has indicated, that actual firm relationships must be seen on a spectrum between outright competition at one end and collusion at the other. At the very least, such a self evident observation raises the issue of the firm (or business unit) as the basic, and often only, unit of analysis: in certain circumstances we might more appropriately consider an informal coalition of such firms as the key unit.

However, the recognition that there is a network of relationships is merely the first step. Approaches need to be developed for the analysis of the network. Hakansson (1987) has, for instance, suggested that the key elements of any network are actors, activities and resources. He also suggests that the overall network is bound together by a number of forces including functional interdependence, as well as power, knowledge and time-related structure.

There is a danger in confusing a detailed descriptive model with a simple but robust predictive one, let alone one which aids the diagnostic process. The basic microeconomic framework which underlies the 'competitive advantage' approach, central to much marketing strategy analysis, should not be seen as an adequate description of the analytical and processual complexities in specific situations. It is a framework for predicting the key impacts of a series of market mediated transactions: at the very least outcomes are the joint effect of decisions themselves and the selection process. In this sense the more valid criticisms of the application of such a model is that either the needs of the situation are not met by the inherent nature of the model or that the model fails to perform within its own terms.

Relationship marketing

Equally we may wonder to what extent the new found concern for relationship marketing is indeed new at all. The recognition that customers faced switching costs and that therefore the retention of existing customers was clearly an effective economic strategy is certainly not new.

Mattsson (1997) has considered much more critically the relationship between the underlying approaches in the 'markets as networks' and relationship marketing perspectives. He rightly observed that much of the problem lies in the various different approaches claiming to represent relationship marketing.

More recently, Vargo and Lusch (2004), developed the argument further on the assumption of a dominant trend from the marketing of goods to the provision of services. They argued that, inter alia, all economies are service economies, that the customer is always a co-producer and that the enterprise can only make value propositions. In a sense, however, to describe, as they do, the trend as being from goods-dominant to service-dominant perspectives over a period of around 100 years is to describe a genuine shift in managerial perspective but a less clear shift in the underlying realities.

The whole development might remind one rather more of M. Jourdain in Moliere's *Le Bourgeois Gentilhomme* who discovers he has been effortlessly speaking prose all his life. The proposed move towards a more relational and service-based perspective reflects more a changing view of the nature of the customer, from consumer to co-producer,

than the fact that those who used be characterized as consumers are now in some objective way more co-producers. We would do well to remember that memorable expression of Ivan Illich (1981) 'shadow work' to describe real work which we do not see because of the nature of our measurement or value systems. Arnould (2006) notes the clear potential link between the approach advocated by Vargo and Lusch and consumer culture theory but also notes that this aspect is less well developed in their initial presentation. Moreover, Schembri (2006) suggests that the approach adopted still remains somewhat rooted in the more traditional goods centred logic and needs to engage more with approaches focused around the nature of the customer experience.

It may well be that the relationship marketing movement will in the end have a rather similar impact on marketing as the market share one did in the 1970s and early 1980s. As such the renewed emphasis on the nature of the customer relationship, which is self evidently important in industrial markets, will encourage retail marketers to take their customers more seriously – even to regard them as intelligent and rational agents. To do so, however, would also mean recognizing severe scepticism about the underlying reality of various developments in relationship marketing such as 'loyalty' cards and one-to-one targeting.

However, it may also be true that the relationship and network perspective will in the longer run change our perception of the critical strategic questions faced by firms as they and their 'markets' evolve and develop. Easton et al. (1993), for instance, suggest that the notion of competition and markets is really only appropriate at specific stages in the life-cycle of the firm or business unit. Indeed, their approach could be taken further to suggest that at a time when there is significant indeterminacy in terms of competitor and customer choice, this way of characterizing strategic choice is, of itself, of limited theoretical or practical value. Almost by definition the product technology and market structure needs to be relatively stable for such strategic choices to be formulated, yet by this stage the feasible choice set itself may be very restricted.

Emergent or enacted environments

The notion of emergent phenomena has itself emerged as a key concept in organizational strategy. Much of the credit for this must go to Mintzberg (1994) but ironically his analysis of the concept itself has been perhaps rather more limited than it could have been. Indeed in his more recent work, he has tended to define the nature of emergent phenomena in a rather idiosyncratic manner. He implies that emergent phenomena are such that they can ex post be related to the intentions or actions, through time, of the individual actors. However, a more common use of the term emergence incorporates some notion of interpretation at different levels of aggregation. After all, for instance, as a number of authors have previously commented, markets themselves are emergent phenomena. It was originally Adam Smith's insight that each actor in a market following their own interest could, under certain conditions, create an overall situation of welfare maximization: in this sense the invisible hand was much more effective than any attempts at local or even global optimization.

Others have paid much greater attention to the nature of emergent properties, but we also need to recognize a further distinction between what have been termed

emergent and enacted environments. In a number of relevant areas, such as information systems, there is no overall agreement on the nature of the differences (see Mingers, 1995) but in the absolute an emergent environment is one in which there are a set of rules but they are generally undetermining of the outcome states – or at least the only way in which an outcome state can be predicted is by a process of simulation, whereas an enacted environment is one in which the nature of the environment is itself defined by the cognitive patterns of the constituents.

This distinction is particularly important when we consider the possibility of 'markets-as-networks' as a perspective to understand the nature of competitive market phenomena. If we recognize the nature of the phenomena we are trying to understand as essentially emergent then there remains considerable value in attempting to model the relevant structure of rules or relationships that characterize the environment. If, on the other hand, we are more inclined to an enactive view of the relationship between organizations and their environment, we need to consider the degree to which the structure of the network is not more than a surface phenomenon resulting itself from other deeper processes. We need to consider the phenomenon that Giddens (1979) identifies in terms of 'structuration', whereby agents and organizations are simultaneously both creators of structures but also have their actions constrained by these structures.

However, even if we are willing to give a relatively privileged ontological status to the detailed network structure in a particular context, we may still face insurmountable problems in developing high-level regularities from a more and more detailed analysis. Cohen and Stewart (1995) warn convincingly about the dangers of drowning in the detail of low-level rules but they give only limited useful advice as to the practical nature of the alternatives.

Despite the fact that some of these general notions have been seen in the mainstream of strategic management thought for some considerable time (see Stacey, 1995), we should remain cautious. Horgan (1997) suggested that we should be wary of the likely advances to be made in the field that he has dubbed 'chaoplexity':

> **So far, chaoplexologists have created some potent metaphors, the butterfly effect, fractals, artificial life, the edge of chaos, self-organised criticality. But they have not told us anything about the world that is both concrete and truly surprising, either in a negative, or in a positive sense. They have slightly extended the borders of our knowledge in certain areas, and they have more sharply delineated the boundaries of knowledge elsewhere. (1997: 226)**

Marketing processes

Not surprisingly, the 1990s saw a renewed interest in the marketing process and particularly in the nature of the processes which support the development of a marketing orientation. This approach was encouraged by the renewed attempts to model the nature of marketing orientation of both Narver and Slater (1990) and Kohli and Jaworski (1990). In essence the shift is one that Herb Simon (1979) recognized in his original distinction between substantive and procedural rationality. He suggested that it was an appropriate response to the problem of bounded rationality to focus attention

more on the process for arriving at a particular choice rather than developing a general analytical approach to make that choice in any particular situation.

Much empirical research, particularly based on key informant surveys has been undertaken to establish the extent to which various operational measures of marketing orientation are correlated with commercial success. On top of this there has been work to establish some of the possible antecedents for such orientation including measures related to the accumulation and organizational dispersion of market research data. The results remain somewhat contradictory but it seems likely that some level of association will finally emerge, although whether it will achieve the minimum 10 per cent target which we considered earlier is rather another question.

It is also important to note that the two approaches to measuring market orientation focused on substantially different approaches; one essentially related to a more organizational 'cultural' or attitude measure and the other related to an information processing perspective around market-based data. Hult et al. (2005) reported on a study, still based primarily on survey data, which not only incorporated both of these measures but also attempted to overcome one of the common criticisms of much of the other empirical work in that they used independent and leading performance measures.

On top of this, we need to address more fundamental questions about the underlying logic of procedural rationality in this context. As we have suggested above, it is reasonable to argue that some consideration in any marketing context of each element in the 3Cs (customers, competitors and channels) must surely be seen as sensible. How far such a process should be routinized within a particular planning or decision-making schema is another matter. Much of the writing in the area of marketing orientation suggests that the appropriate mechanisms and procedures are unproblematic yet everyday experience in organizations suggests that achieving effective response to the market is difficult and indeed may not be susceptible to programmed responses.

The new analytics: resource advantage, co-evolution and agent-based modelling

Earlier on in this chapter we identified a number of key characteristics of a competitive market which determine the effectiveness of any specific strategic analysis, in particular: the heterogeneity of demand; the interaction between customer choices and producer offerings; and the degree to which both producers and customers are active agents in this process. More recently various new analytical approaches have given us new and different ways to address these central issues.

First, Hunt (2000a) has argued that the more traditional resource-based view of the firm is so dominated by a supply-side perspective that a more comprehensive theoretical approach, which he labels 'Resource Advantage' is required.

There are some concerns, however, as to whether Hunt's framework actually provides the most effective way of incorporating heterogeneity of demand (Wensley, 2002), particularly in the context of the evolution of marketing structure. For instance, one of the most established issues in the nature of a market structure is what Wroe Alderson referred to as the sequential processes of 'sorting' between supplier offerings in order to 'match' specific portfolios of customer demands, yet

Hunt himself observes that so far he is unclear how this might be incorporated within his framework (Hunt, 2000b).

At best therefore it remains an open question as to how far the developments proposed by Hunt will help us to further understand not only a static view of market demand but even more a dynamic and evolving one, although they do provide a very useful perspective on the nature of strategic choices for the individual firm or business unit.

An alternative approach, which resonates with developments in the field of strategic management, is to focus more on the ability of firms to adapt to an evolving and changing market through what are termed 'dynamic capabilities' (Helfat et al., 2007; Teece et al., 1997; Winter, 2003). Whilst previously Day (1994) has suggested that an analogous approach to understanding the nature of market-based firms can prove useful, the overall study of such dynamic capabilities has so far proved to be 'riddled with inconsistencies, overlapping definitions, and outright contradictions' (Zahra et al., 2006: p. 917).

Second, there have also been interesting developments in empirical studies of co-evolution, but unfortunately most of these so far have focused solely on the competitive and cooperative processes between organizations (Lewin and Volberda, 1999). From a market strategy perspective, however, it is noteworthy that even those few studies which attempt to model the nature of market evolution specifically, rather than treat it more as a backcloth upon which other sociological and economic processes take place, tend to represent the actual process in very limited ways. Only in the resource partitioning approach (Carroll et al. (2002)) do we perhaps see the direct opportunities for a more complex model of market development which represents both its continuity, in the sense that one can reasonably expect cycles of competitive imitation followed by the emergence of new forms and market positions for competition, and its indeterminacy, in that various new 'realized niches' could emerge. Even here, however, the implicit emphasis is on the individual firms as the motivating force rather than the collective of customers in the various markets.

Third, advances in agent-based modelling promise new ways of simulating more complex interactive processes of spatial competition (Ishibuchi et al., 2001; Tesfatsion, 2001). Agent-based modelling essentially depends on allowing a simulation to evolve with individual 'agents' making choices within an undetermining but defined rule structure. It may well provide us with a better understanding of the patterns of market-based evolution and the nature of some of the key contingencies. However, again it is proving difficult to adequately reflect the evolving behaviour of customers in the marketplace. Chang and Harrington (2003) did include a process of consumer search in their model but their focus remained on the potential advantages of centralization for what were, in effect, multi-unit retailers.

Conclusions: the limits of relevance and the problems of application

The study and application of marketing strategy therefore reflects a basic dilemma. The key demand in terms of application is to address the causes of individual firm or unit success in the competitive marketplace, yet we can be reasonably confident

from a theoretical perspective that such knowledge is not systematically available because of the nature of the competitive process itself. In this way the academic study of marketing strategy remains open to the challenge that it is not relevant to marketing practice. Yet to represent the problem solely in this way is to privilege one particular notion of the nature and use of academic research in marketing as well as the relationship between research and practice. Recognizing the limits to our knowledge in marketing strategy may also help in a constructive way to define what can and cannot be achieved by more investigation and research.

There are a number of areas in which we can both improve our level of knowledge and provide some guidance and assistance in the development of strategy. First, we can identify some of the generic patterns in the process of market evolution which give some guidance as to how we might think about and frame appropriate questions to be asked in the development of marketing strategy. Such questions would be added to those we are used to using in any marketing management context, such as the nature of the (economic) value added to the customer based on market research evidence and analysis. More recently it has been suggested in strategy that such additional questions are most usefully framed around questions of imitation and sustainability, but, as Dickinson (1992) argues, this really assumes sustainability is a serious option. It may be more appropriate to frame such additional questions around the more general patterns of market evolution – standardization, maturity of technology and stability of current networks – rather than attempt to address the unanswerable question of sustainability directly.

When it comes to the generics of success, we face an even greater problem. By definition, any approach which really depends on analysis of means or averages leaves us with a further dilemma: not only does any relative 'usable' explanation only provide us with a very partial picture where outcomes are more unexplained than explained, but also the very notion of a publicly available set of 'rules for success' in a competitive market is itself contradictory, except in the context of a possible temporary advantage. We can try and resolve the problem by looking at the behaviour of what might be called successful outliers but here we face a severe issue of interpretation. As we have seen, the sources of such success are themselves ambiguous and often tautological: we often end up really asserting either that to be successful one needs to be successful or that the route to success is some ill-defined combination of innovation, effectiveness and good organization.

It may well be that the best we can do with such analysis is to map the ways in which the variances of performance change in different market contexts: just like our finance colleagues we can do little more than identify the conditions under which variances in performance are likely to be greater and therefore, through economic logic, that the average performance will increase to compensate for the higher risks.

Finally, we may need to recognize that the comfortable distinction between marketing management, which has often been framed in terms of the more tactical side of marketing, and marketing strategy is not really sustainable. At one level all marketing actions are strategic: we have little knowledge as to how specific brand choices at the detailed level impact or not on the broad development of a particular market, so we are hardly in a position to label some choices as strategic in this sense and others as not. On the other hand, the knowledge that we already have and are likely to develop in the context of the longer term evolutionary patterns for

competitive markets is unlikely to enable us to engage directly with marketing managerial action choices at the level of the firm: the units of both analysis and description are likely to be different. In our search for a middle way which can inform individual practice it may well be that some of the thinking tools and analogies that we have already developed will prove useful, but very much as means to an end rather than solutions in their own right.

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