

Chapter

10

The formulation
of strategy – 2:
generic strategies
and the significance
of competitive
advantage

10.1 Learning objectives

When you have read this chapter you should be able to understand:

- (a) the need for a clear statement of marketing strategy;
- (b) the types of marketing strategy open to an organization;
- (c) the forces that govern competition within an industry and how they interact;
- (d) the sources of competitive advantage and how competitive advantage might be leveraged.

10.2 Introduction

Having used the techniques discussed in Chapter 9 to identify the strengths and weaknesses of the product portfolio, the strategist should be in a far stronger position to focus upon the ways in which the organization is most capable of developing. Against this background, we now turn our attention to an examination of some of the principal factors that influence marketing strategy. We begin by examining Michael Porter's work, in which emphasis is given to the need for a clear statement of a generic strategy and for this to be based upon a detailed understanding of corporate capability and competitive advantage. The remainder of the chapter then focuses upon the nature, significance and sources of competitive advantage, the ways in which, in many markets, competitive advantage is being eroded, and how competitive advantage might possibly be leveraged. We then build upon this in Chapter 11, with an examination of the ways in which market leaders, followers, challengers and nichers might make use of this thinking.

However, before doing this it needs to be emphasized that, although a great deal of thinking on strategy revolves around the idea of a (high) degree of competitive antagonism, the reality in many markets is that a competitive complacency emerges, and indeed is encouraged, so that the status quo remains unchanged. In those markets where major changes in competitive position do occur, this may be the result of fat, lazy complacent and arrogant managerial thinking that leads to the firm losing its position. Amongst those to have fallen victim of this are Marks & Spencer in the mid to late 1990s, and the major flag carriers in the airlines market. More often though, it is because the management team of a competitor desperately wants to improve its position. It is this mindset of a quiet desperation and a commitment either to exploiting competitors' vulnerabilities or to redefining the market that is an important characteristic of firms that strengthen their position.

10.3 Types of strategy

Throughout this book we have tried to give full emphasis to the need for objectives and strategy to be realistic, obtainable and based firmly on corporate capability. In practice, of course, this translates into an almost infinite number of strategies that are

open to an organization. Porter (1980) has, however, pulled them together and identified three generic types of strategy – *overall cost leadership*, *differentiation* and *focus* – that provide a meaningful basis for strategic thinking (see Figure 10.1). In doing this, he gives emphasis to the need for the strategist to identify a clear and meaningful selling proposition for the organization. In other words, what is our competitive stance, and what do we stand for in the eyes of our customers? Any failure on the part of the strategist to identify and communicate the selling proposition and strategy is, he suggests, likely to lead to a dilution of the offer and to the company ending up as stuck in the middle or, as it appears in Figure 10.1, a middle-of-the-roader heading into the marketing wilderness.

Porter's thesis is therefore straightforward: to compete successfully the strategist needs to select a generic strategy and pursue it consistently. The ways in which this might be done and the benefits and the problems that might possibly be encountered are referred to in Figure 10.2. Obviously, there is no single 'best' strategy even within a given industry, and the task faced by the strategist involves selecting the strategic approach that will best allow it to maximize its strengths vis-à-vis its competitors.

This needs to be done, Porter (1979) suggests, by taking into account a variety of factors, the five most significant of which are:

- 1 The bargaining power of suppliers
- 2 The bargaining power of customers
- 3 The threat of new entrants to the industry
- 4 The threat of substitute products or services
- 5 The rivalry among current competitors.

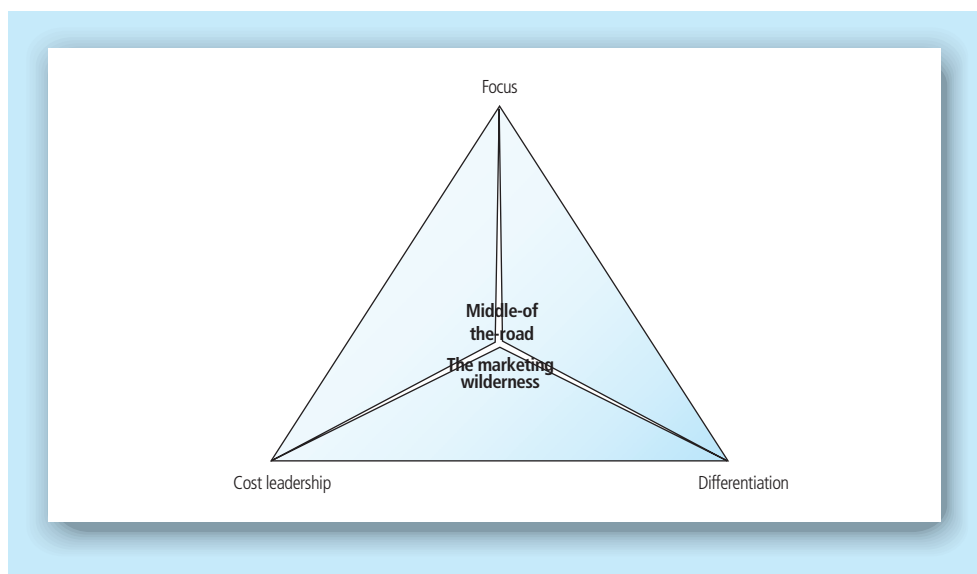


Figure 10.1 Porter's three generic strategies (adapted from Porter, 1980)

Type of strategy	Ways to achieve the strategy	Benefits	Possible problems
Cost leadership	<ul style="list-style-type: none"> Size and economies of scale Globalization Relocating to low-cost parts of the world Modification/simplification of designs Greater labour effectiveness Strategic alliances New sources of supply Learning Cost linkages Integration Timing Superior labour and management Advanced technology Smart buying 	<p>The ability to:</p> <ul style="list-style-type: none"> outperform rivals erect barriers to entry resist the five forces 	<ul style="list-style-type: none"> Vulnerability to even lower cost operators Possible price wars The difficulty of sustaining it in the long term
Focus	<ul style="list-style-type: none"> Concentration upon one or a small number of segments The creation of a strong and specialist reputation 	<ul style="list-style-type: none"> A more detailed understanding of particular segments The creation of barriers to entry A reputation for specialization The ability to concentrate efforts 	<ul style="list-style-type: none"> Limited opportunities for sector growth The possibility of outgrowing the market The decline of the sector A reputation for specialization which ultimately inhibits growth and development into other sectors
Differentiation	<ul style="list-style-type: none"> The creation of strong brand identities The consistent pursuit of those factors which customers perceive to be important High performance in one or more of a spectrum of activities The creation of strategic breakpoints The achievement of cost parity or cost proximity relative to its competitor in all areas that do not affect differentiation Additional features Packaging innovation Distribution innovation Speed of distribution Distribution breadth and/or depth Higher service levels Better after sales service Superior financing deals Greater flexibility Focused relationship building 	<ul style="list-style-type: none"> A distancing from others in the market The creation of a major competitive advantage Flexibility 	<ul style="list-style-type: none"> The difficulties of sustaining the bases for differentiation Possibly higher costs The difficulty of achieving true and meaningful differentiation Creating differences that customers do not value Focusing too much on the core product in developing bases for differentiation Differentiating on dimensions that become less important to customers over time Losing competitive cost proximity Failing to develop barriers to deter imitation and customer switching

Figure 10.2 Selecting and pursuing a generic strategy

Taken together, these factors represent the forces governing the nature and intensity of competition within an industry, and they are the background against which the choice of a generic strategy should be made.

In identifying the three specified generic strategies, Porter suggests that the firms that pursue a particular strategy aimed at the same market or market segment make up a *strategic group*. It is the firm that then manages to pursue the strategy most effectively that will generate the greatest profits. Thus, in the case of firms pursuing a low-cost strategy, it is the firm that ultimately achieves the lowest cost that will do best.

10.4 Porter's three generic competitive strategies

Overall cost leadership

By pursuing a strategy of cost leadership, the organization concentrates upon achieving the lowest costs of production and distribution so that it has the *capability* of setting its prices at a lower level than its competitors. Whether it then chooses to do this depends on its objectives and its perception of the market. Saunders (1987a, p. 12), for example, points to IBM and Boeing, both of which were for many years cost leaders who chose to use their lower costs not to reduce prices but rather to generate higher returns, which were then invested in marketing, R&D and manufacturing as a means of maintaining or strengthening their position. More commonly, however, firms that set out to be cost leaders then use this lower cost base to reduce prices and in this way build market share. Amongst those to have done this are Amstrad (now trading as Vignen) in the 1980s and, more recently, supermarkets such as Netto, Lidl, Asda and Aldi, and the low-cost airlines such as easyJet (see Illustration 10.3) and Ryanair.

Although cost reduction has always been an important element of competitive strategy, Porter (1980, p. 35) has commented that it became increasingly popular in the 1970s, largely because of a greater awareness of the experience curve concept. For it to succeed, he suggests that:

“Cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like R&D, service, sales force, advertising, and so on.”

In tackling costs the marketing planner therefore needs to recognize in advance the potential complexity of the task, since the evidence suggests that true cost leaders generally achieve this by very tight and consistent control across *all* areas of the business, including engineering, purchasing, manufacturing, distribution and marketing. An important additional element, of course, is the scale of operations and the scope that exists for economies of scale. However, scale alone does not necessarily lead to lower costs; rather it provides management with an *opportunity* to learn how the triad of technology, management and labour can be used more effectively. Whether these opportunities are then seized depends on the management stance and determination to take advantage of the *potential* that exists for cost cutting. Research has shown, for example,

that the Japanese are most adept at gaining experience, doing so at a faster rate than the Americans, who in turn are faster than the Europeans.

While the experience curve can provide the basis for cost reductions, manufacturers can also turn to a variety of other areas, including:

- ➔ *The globalization of operations*, including brands, in order to benefit from the economies that are not possible by operating purely on a regional basis
- ➔ *Concentrating the manufacturing effort* in one or two very large plants in countries such as South Korea, Taiwan and the Philippines, which (currently at least) offer a low-cost base
- ➔ *Modifying designs* to simplify the manufacturing process and make use of new materials
- ➔ *Achieving greater labour effectiveness* by investing in new plant and processes.

The potential benefits of being a low-cost producer are quite obviously significant, since the organization is then in a far stronger position to resist all five competitive forces, outperform its rivals and erect barriers to entry that will help protect the organization's long-term position. In practice, however, many organizations find the long-term pursuit and maintenance of a cost-leadership strategy to be difficult. The Japanese, for example, based much of their success in the 1960s on aggressive cost management but then found that, because of a combination of rising domestic costs and the emergence of new and even lower-cost competitors such as Taiwan, the position was not necessarily tenable in the long term. Although this realization coincided in many cases with a desire on the part of firms to move further up-market, where the scope for premium pricing is greater, the Japanese experience helps to illustrate the potential danger of an over-reliance upon cost leadership. It is largely because of this that many organizations opt sooner or later for an alternative policy, such as that of differentiation.

The difficulties of maintaining a cost-leadership position were also illustrated in the late 1980s and early 1990s in the UK grocery retailing sector, where the low-cost position had been occupied with some considerable success for a number of years by Kwik Save. The organization came under attack from an aggressive new German entrant to the market, Aldi, and from the Danish company, Netto. Faced with this, Kwik Save was forced into deciding whether to place greater emphasis on differentiation.

The effect of Aldi's entrance was not felt just by Kwik Save. Others, such as Sainsbury's and Tesco, both of which had for a number of years pursued with considerable success a strategy of differentiation, were also forced to respond, albeit in a less direct way. In part, this need to respond can be seen as virtually inevitable in any mature market where the opportunities for substantial growth are limited and a new entrant is therefore able to gain sales only at the expense of firms already in the market. (This is sometimes referred to as a zero-sum game, in that one organization's gain is necessarily another organization's loss.)

It is largely because of the difficulties of maintaining the lowest cost position over time and the vulnerability to a price-led attack that many organizations view cost leadership with a degree of caution and opt instead for one or other of Porter's generic strategies. Most frequently this proves to be differentiation.

Differentiation

By pursuing a strategy of differentiation, the organization gives emphasis to a particular element of the marketing mix that is seen by customers to be important and, as a result, provides a meaningful basis for competitive advantage. The firm might therefore attempt to be the quality leader (Mercedes-Benz with cars, Bang & Olufsen with hi-fi, and Marks & Spencer with food), service leader (Ritz–Carlton), marketing leader (the Japanese with cars), or the technological leader (Makita with rechargeable power tools in the early 1980s and Dolby with noise suppression circuits for tape decks). Other potential bases for differentiation include:

- ➔ Speed, by being the first into new market segments
- ➔ Levels of reliability that are higher than those of the competition
- ➔ Design
- ➔ Levels of service and delight
- ➔ Unique product features
- ➔ The brand image and personality
- ➔ New technologies
- ➔ A greater number and/or more relevant product features
- ➔ Stronger and more meaningful relationships.

Differentiation can also be achieved by means of the brand image and packaging, a ploy that is particularly suited to mature markets in which the products are for the most part physically indistinguishable. This might arguably include cigarettes and beer, where blind tests have shown that even highly brand-loyal customers experience difficulties in identifying their favourite brand. The significance of labels and brand images, and hence their potential for differentiation, is also shown in the fashion clothing industry, where brand names and logos such as Benetton, Nike and Lacoste are often prominently displayed and, by virtue of the images associated with them, used as the basis for premium pricing. The fundamental importance of differentiation has been highlighted by Trout and Rifkin (2000), who argue that far too often planners misunderstand what exactly the term means; this is discussed in Illustration 10.1.

Illustration 10.1 Differentiate or die

Over the past 10 years the word 'unique' has become one of the most frequently used – and abused – words in the marketing lexicon. At the same time, 'unique selling proposition' has become an ever more tired phrase that is

deployed more in hope than expectation. It is because of this that Jack Trout, seen by many to be the father of positioning, argues that, in a world in which everything can be copied, it is the company's intangible assets that

provide the basis for real differentiation. In his book *Differentiate or Die*, he suggests that marketing planners should not bother extolling the traditional virtues of quality, customer orientation or even creativity, since these are too easily copied. Instead, he suggests that what really matters are the points of difference rooted in areas such as ownership, leadership, heritage and topicality. Being different on the surface is simply not enough any more. Instead, it needs to be based on issues that are far more fundamental.

This focus upon differentiation is of course not new. But the sheer proliferation of products and services is making it imperative to determine just what, if anything, really does make a company different. Trout argues that

difference is only real if its essence can be expressed in just one word.

In the case of Microsoft, the company could, throughout the 1990s, claim that its describing word was 'innovative'; with its problems with American anti-trust legislation, this is no longer the case. Equally, Marks & Spencer used to be synonymous with 'value' whilst BA was 'British' and Gap was 'cool'. All three have, however, lost sight of their core differentiation. By contrast, easyJet is value, Virgin is 'flair', Nike is 'heroism', Sony is 'miniaturized perfection' and Disney is 'fun'.

Source: 'Can You Sum Up Your Brand With A Single Word?', *Marketing*, 20 April 2000, p. 20.

As an example of how a strategy of differentiation can be developed and used as the basis of competitive advantage, some of the major airlines such as Emirates, Singapore Airlines and Cathay Pacific have all used service to distance themselves from many of the other major flag carriers. In the case of first-class and, increasingly, business-class travellers, the fight for long-haul travellers at the beginning of the twenty-first century revolved around the introduction of beds that folded flat so that passengers could sleep more easily.

Differentiation can, however, prove costly if the basis for differentiation that is chosen subsequently proves to be inappropriate. Sony, for example, developed the Betamax format for its video recorders, but ultimately found that the market preferred JVC's VHS system. Despite this, differentiation is potentially a very powerful basis for strategic development, as companies such as Bang & Olufsen, Bose and Tesco have all demonstrated. Its potential is also illustrated by a McGraw-Hill study of industrial buying, which estimated that most buyers would require incentives that equated to a price reduction of between 8 and 10 per cent before considering a switch to a new supplier. In commenting on this, Baker (1985, p. 110) suggests that:

“Assuming this applies to the average product with a minimum of objective differentiation, it is clear that sellers of highly differentiated products can require an even larger premium. Given higher margins the firm following a differentiated strategy is able to plough back more into maintaining the perception of differentiation through a policy of new product development, promotional activity, customer service, etc., and thereby strengthen the barriers to entry for would-be competitors.”

It should be apparent from this that, if a strategy of differentiation is to succeed, there is a need for a very different set of skills and attitudes than is suited to cost leadership. Instead of a highly developed set of cost control skills, the strategist needs to be far more innovative and flexible so that me-too companies are kept at a distance.

Focus

The third of the generic strategies identified by Porter involves the organization in concentrating its efforts upon one or more narrow market segments, rather than pursuing a broader-based strategy. By doing this the firm is able to build a greater in-depth knowledge of each of the segments, as well as creating barriers to entry by virtue of its specialist reputation. Having established itself, the firm will typically then, depending upon the specific demands of the market, develop either a cost-based or differentiated strategy. Among those that have used this approach successfully, at least in the short term, at various stages are Laura Ashley, Thorntons (the chocolate manufacturers) and Land Rover. Other firms that have used a focused strategy are Morgan with cars, Steinway with pianos and, perhaps to a lesser degree, Apple with an emphasis upon the design world.

One of the biggest problems faced by companies adopting this approach stems paradoxically from its potential for success since, as the organization increases in size, there is a tendency both to outgrow the market and to lose the immediacy of contact that is often needed. As a general rule, therefore, a focused strategy is often best suited to smaller firms, since it is typically these that have the flexibility to respond quickly to the specialized needs of small segments. (At this stage, it may be useful to refer to the discussion of the supernichers on pp. 464–5.)

Specializing in this way also enables the organization to achieve at least some of the benefits of the other two strategies since, although in absolute terms the scale of operations may be limited, the organization may well have the largest economies of scale *within* the chosen segment. Equally, the greater the degree of concentration upon a target market, the more specialized is the firm's reputation and hence the greater the degree of perceived product differentiation.

Although Porter presents competitive strategies in this way, many companies succeed not by a blind adherence to any one approach, but rather by a combination of ideas. For many years, for example, the buying power and expertise of Marks & Spencer made it a (relatively) low-cost operator, whilst at the same time it differentiated itself on the basis of service and quality. Equally, Porsche pursues a strategy that combines both focus and differentiation.

It follows from this that the identification, development and maintenance of a competitive advantage, and hence a strong selling proposition, is at the very heart of an effective marketing strategy. In practice though, many organizations find this to be a difficult exercise, something that Levi's learned in the 1990s (see Illustration 10.2).

Illustration 10.2 The fall and rise of Levi's – the long-term problems of market fragmentation

For eleven consecutive years between 1985 and 1996, Levi's saw its global sales rise, culminating in a peak that year of \$7.1 billion. Two years later, with sales in the UK having dropped by 23 per cent, Levi's was forced to rethink its strategy. Having relied for too long upon 501s and a mass-market strategy that allowed a number of fashion brands such as Diesel and YSL to erode its share in a declining or fragmenting market, the company fought back with a radically different approach.

In commenting on this, Ellsworth (2000) highlights the way in which:

The company decided that innovation was the key and in October 1998 shifted its focus from individual product lines to a portfolio of brand bases – aligned with consumer segments – with particular emphasis on the 15- to 24-year-old youth sector. This enabled Levi's to take on smaller brands such as Diesel, own labels such as Gap and some designer ranges. But, like others, Levi's also faced competition from retail areas such as mobiles, CDs and DVDs.

Levi's further rationalized its lines by pulling out of the European children's jeans market to concentrate on 15- to 24-year-olds.

At the same time, the company also launched three premium sub-brands (Levi's Vintage, based on the original Levi's jeans from the 1850s; Red, a 'luxury' sub-brand; and ICD+, a joint initiative with Philips that incorporates 'wearable electronics' such as mobile phones into its design) and its Advanced Retail Concept (ARC), which replaced the traditional American theme with a lighter store design that included specific youth-oriented areas. The company also attacked the youth market through the sponsorship of live music events.

But although the strategy and the fight-back has been successful, the question of whether it is capable of achieving its high point of a 21.5 per cent share of the UK market is debatable. At the heart of Levi's problems is that the jeans market, in common with many brand-driven markets, has fragmented. Faced with fifteen rather than five other players, the fight for share becomes ever more desperate.

Source: Ellsworth (2000).

Without an advantage, however, the stark reality is that the organization runs the risk of drifting into the strategic twilight zone of being a middle-of-the-roader or, in Porter's terms, 'stuck in the middle'.

Porter's generic strategies: a brief comment

Although Porter believes strategy needs to be thought about in terms of these three generic approaches, this thinking has been the subject of a considerable amount of criticism in recent years. Given this, Figure 10.3 summarizes the pros and cons of the approach.

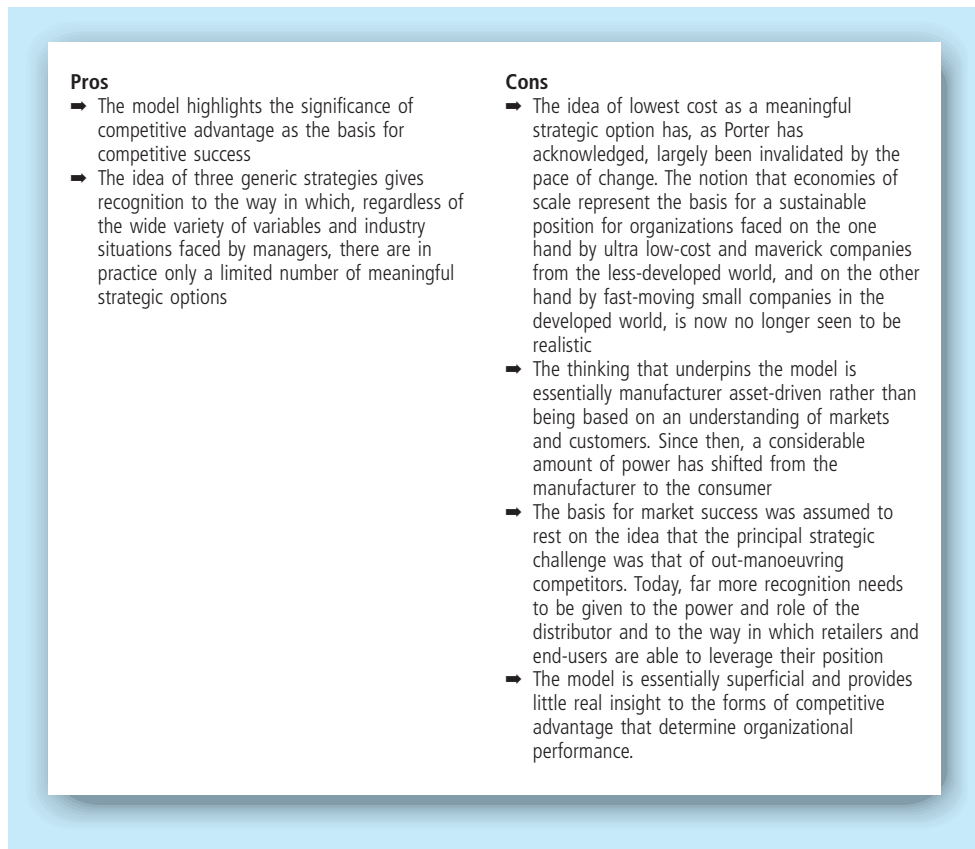


Figure 10.3 The pros and cons of Porter's three generic strategies

10.5 Competitive advantage and its pivotal role in strategic marketing planning

Making use of the value chain

“The most successful species are those which adapt best to the changing environment. The most successful individuals are those with the greatest competitive advantage over the others.”

Charles Darwin, *The Origin of Species by Means of Natural Selection*, 1859

In discussing competitive advantage, Porter (1985a, Chapter 2) suggests that it:

“... grows out of the value a firm is able to create for its buyers that exceeds the firm's cost of creating it. Value is what the buyer is willing to pay, and superior stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price. There are two basic types of competitive advantage: cost leadership and differentiation.”

He goes on to suggest that a convenient tool for identifying and understanding the potential competitive advantages possessed by a firm is by means of value chain analysis. In making this comment, Porter gives recognition to the way in which a firm is a

collection of activities that are performed to design, produce, market, deliver and support its product.

The value chain (introduced in Chapter 2, pp. 70–1) disaggregates a firm into nine strategically significant activities so that the strategist is more easily able to understand the source and behaviour of costs in the specific business and industry, and the existing and potential sources of differentiation. These nine value activities consist of five primary activities and four support activities.

The five *primary* activities to which Porter refers are concerned with the process of bringing raw materials into the organization and then modifying them in some way as a prelude to distribution, marketing and servicing them. The *support* activities, which take place at the same time, are concerned with procurement, technology development, human resource management and the firm's infrastructure (e.g. its management, planning, finance, accounting and legal affairs). The strategist's job therefore involves focusing upon the levels of cost and performance in each of the nine value areas in order to identify any opportunities for improvement. The extent to which this is achieved, relative to competitors, is a measure of competitive advantage. However, in making this comment it needs to be emphasized that different firms operating in the same industry are often capable of creating value in very different ways.

In searching for competitive advantage through the value chain, Porter also gives emphasis to the need to look outside the organization and to consider the value chains of suppliers, distributors and customers, since improvements to each of these will also help in the search for an advantage. As an example of this, a supplier or distributor might be helped to reduce costs, with all or part of the savings then being passed back to the company and used as another means of gaining cost leadership. Equally, an organization might work closely with its suppliers to ensure that particular levels of quality or service are achieved. Marks & Spencer, for example, has traditionally worked very closely with its suppliers to ensure that quality levels are maintained. Similarly, the major food retailers work with their suppliers in areas such as product development and cost control. In each case, the rationale is the same – that of achieving a competitive advantage.

Although the value chain is generally recognized to be a useful framework for searching systematically for greater competitive advantage, its usefulness in practice has been shown to vary from one industry to another. Recognition of this has led the Boston Consulting Group to develop a matrix in which they distinguish between four types of industry (see Figure 10.4).

The two dimensions they identify in doing this are concerned with the *size of the competitive advantage* and the *number of approaches to gaining advantage*. The characteristics of the four types of industry are outlined in Figure 10.5.

It can be seen from this that the scope for benefiting from cost or performance opportunities can vary considerably from one type of industry to another. In some industries, for example, it will be the case that the only opportunities for advantage are small and easily copied. Faced with this, an organization needs to institutionalize the process for searching for new ideas so that, although it is unlikely ever to gain a

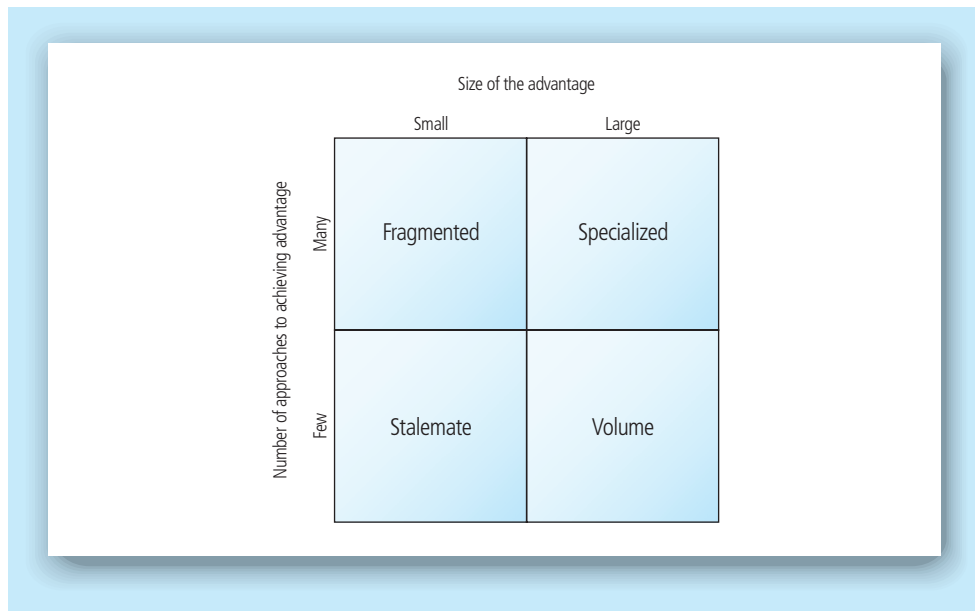


Figure 10.4 The Boston Consulting Group's strategic environment matrix

significant or long-term advantage, it benefits from a whole series of small and constantly updated advantages.

Developing a sustainable advantage

This need to understand that the bases of competition and the way in which competitive advantage is achieved should not be seen in any absolute way can perhaps best be illustrated by recognizing that markets can be viewed in a variety of ways and that a

Volume industry. A volume industry is one in which organizations can typically gain only a few, but generally large, advantages. In the construction equipment industry, for example, firms can pursue either the low-cost position or the highly differentiated position, and succeed in either case. Profitability is therefore a function both of size and market share.

Staledated industry. Here there are few potential competitive advantages and those that do exist are generally small. An example of this is the steel industry where scope for differentiation is limited, as indeed are the opportunities for significant cost reduction. In these circumstances, size is unrelated to profitability.

Fragmented industry. A fragmented industry is one in which companies have numerous opportunities for differentiation, although each is of limited value. The hairdressing industry typically exhibits this characteristic, where hairdressers can be differentiated in a wide variety of ways but increases in market share tend to be small. Profitability is rarely related to size and both small and large operations can be equally profitable or unprofitable.

Specialized industry. In a specialized industry the opportunities for differentiation are numerous and the payoffs from each can be significant. An example would be the specialist machine tool industry where machinery is made for specific customers and market segments. Here, profitability and size are rarely related.

Figure 10.5 Industry type and the scope for competitive advantage

product can also be used in many different ways. It follows from this that every time the product–market combination changes, so too does the relative competitive strength or competitive advantage. The implications of this are significant and are reflected by the way in which a key element in any strategy revolves around choosing the competitor whom you wish to challenge, as well as choosing the market segment and product characteristics with which you will compete.

The problem faced by many companies, therefore, is not how to *gain* a competitive advantage, but how to *sustain* it for any length of time. Most marketers are, for example, fully aware of the profit potential associated with a strategy based on, say, premium quality or technological leadership. The difficulty that is all too often faced in practice, however, is how to guard against predators and capitalize on these benefits *over the long term*. Business history is full of examples of companies that, having invested in a particular strategy, then fall victim to a larger or more agile organization. The question faced by many marketing strategists at one time or another is therefore how best to sustain a competitive advantage.

A framework for thinking about competitive advantage and how it links to the organization's subsequent performance has been proposed by Cravens (1996). This is shown in Figure 10.6.

A fundamental understanding of competitive advantage and how it is capable of undermining the competition was at the heart of the easyJet strategy. This is discussed in Illustration 10.3, and shows how the low-cost airline developed, leveraged and exploited competitive advantage to become a significant player in the European airlines market.

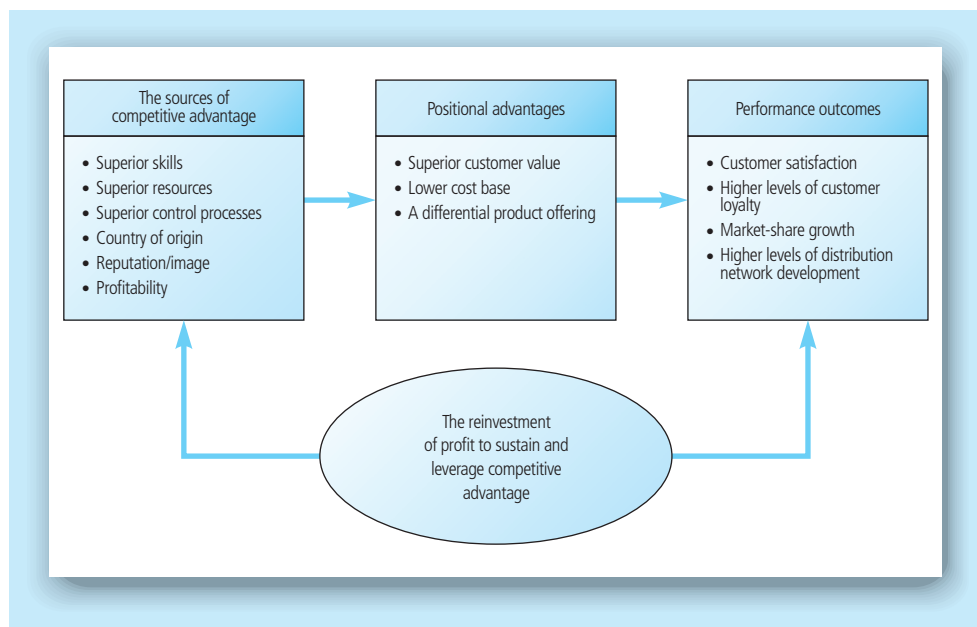


Figure 10.6 Competitive advantage and business performance (adapted from Cravens, 1996, p. 36)

Illustration 10.3 easyJet – competitive advantage through low costs and low prices

In December 1992, the European Union deregulated the airline industry. The implications of this were significant and meant that any European carrier could fly to any European destination and demand landing slots. Recognizing the opportunities that this created, large numbers of new airlines emerged, all of which focused upon offering low prices. However, the majority of these companies quickly encountered problems and, by 1996, sixty of the eighty carriers that had started up after deregulation had gone bankrupt. Given these odds, the success of easyJet is therefore particularly impressive.

The development of the company

Stelios Haji-loannou, easyJet's founder, modelled much of his early thinking for the company on the low-cost US carrier, Southwest Airlines. Recognizing that the key to success in this sector of the market was the tight control of costs, he launched the company in 1995, and concentrated upon rethinking and reinventing airline operating practice. An important first step in this was to base the airline at Luton, just north of London, rather than at Heathrow or Gatwick, since it offered lower labour costs and lower airport fees. Whenever possible, he also flew in to the less busy secondary airports in Europe rather than each city's more expensive main airport, which, he calculated, saved £10 per passenger.

This approach to the very tight management of costs was also reflected by the way in which the company focused upon:

- ➔ One type of aircraft.
- ➔ Point-to-point short-haul travel.

- ➔ No in-flight meals (this saved £14 per passenger).
- ➔ Rapid turnaround times; these averaged 25 minutes.
- ➔ Very high aircraft utilization – aircraft flew an average of 11.5 hours per day rather than the industry average of six hours. The net effect of this was that two planes could do the work of three.
- ➔ Direct sales rather than via travel agents, since travel agents and computer reservation systems, it was calculated, added 25 per cent to operating costs.
- ➔ Booking over the Internet wherever possible. In March 1999, Internet sales accounted for 15 per cent of revenues. By October of that year, it was more than 60 per cent of revenues. By mid-2000, it was more than 70 per cent, a figure that the company aimed to increase yet further by replacing the telephone number livery on its planes with the Internet address.
- ➔ Ticketless travel. Customers paid by credit card and were given a six-character reference number. This number was the only information needed for passengers to board the plane.
- ➔ Selling drinks and refreshments.
- ➔ One class of seating in order to avoid the extra space demanded by business-class passengers.
- ➔ Yield management in order to sell as large a number of seats as possible. Seats are sold in what could be considered a lottery system – the more people who demand a particular flight, the higher the fare. Put differently, if the load factor (percentage of seats sold) was higher than normal, prices automatically increased. This system worked well for easyJet because it helped to avoid selling out popular flights months

in advance. Yield management also served another purpose – it drew potential customers who were in search of cheap fares. Once they found there were no more cheap seats, they usually bought a ticket anyway, since the next highest fare was still cheaper than easyJet's competitors. Stelios defended his policy vigorously: 'We decided that people who are willing to give us their money early should get a better price, and those who want the flexibility of booking late should pay a bit more.' The net effect of this was that load factors were consistently in excess of 80 per cent.

- ➔ The outsourcing of as many services as possible, including check-in and the on-site information desk.

This idea of no-frills travel was based on Stelios's belief that 'When someone is on a bus, he doesn't expect any free lunch. I couldn't see why we cannot educate our customers to expect no frills on board.'

But whilst the company aggressively managed costs, it emphasized that it would never compromise on safety, flew new Boeing 737s and only hired experienced pilots who were paid market rates. Stelios commented:

If you advertise a very cheap price, people expect an old airplane. But when they come on board and see a brand new plane, they are impressed. Likewise, many customers expect an unhappy staff because they believe they are not paid well, but they come on board and see the staff are smiling.

The significance of service

In the same way that the company was not prepared to compromise on safety, Stelios believed that low cost and high levels of ser-

vice and customer satisfaction were not incompatible.

The company saw its principal target market to be people who paid for their own travel. Although they did not target the business market, on some routes, such as London–Amsterdam, London–Glasgow and London–Edinburgh, business travellers typically accounted for 50 per cent of the passengers. However, regardless of whether the passenger was a business or private traveller, punctuality was seen to be important and linked closely to satisfaction. If, therefore, a flight arrived more than four hours late, passengers would receive a signed letter of apology and a full refund.

Taking on the competition

As with many new entrants to a long-established and mature market, the threat posed by easyJet was initially underestimated by some of the major players. When they did begin to recognize that the low-price airlines might possibly be serious competitors, they were initially unsure of how to respond. This was reflected by the way in which, according to easyJet (Rogers, 2000, p. 9):

... in 1996, Bob Ayling, British Airways chief, approached Stelios in what appeared to be an offer to buy easyJet. Instead, after a three-month courtship, British Airways abandoned the deal, and one year later, launched Go!, its own budget airline. Still angry over the incident, Stelios got his revenge by buying several rows of seats on Go!'s first flight. He commanded his staff to don orange boiler jackets, and they all boarded the flight like a group of merry pranksters, offering free flights on easyJet to Go!'s passengers. Barbara Cassani, chief executive of Go! airlines, was on the

inaugural flight to welcome new passengers. When she saw what was occurring, she lapsed into stunned silence. The publicity stunt paid off for easyJet. Go! Airlines announced losses of £22 million in 1999.

The low-price airlines market grew quickly as the result of the sorts of activities pursued by easyJet and its major competitor Ryanair, with a host of other companies such as Buzz, BMI Baby and Virgin Express entering the market, albeit with varying degrees of success.

In 2002, the company took its next major step by buying its rival Go!, which, through a management buy-out, BA had sold to Cassani and her team.

Source: Rogers (2000).

easyJet: a postscript

The low-cost business model used by companies such as Southwest Airlines, easyJet and Ryanair is one which, if managed properly, can prove to be enormously attractive. It is also one that is fraught with danger. If an organization is to pursue a low-cost strategy successfully, it is essential that costs are continually and ruthlessly driven out of the business, something that the low-price grocery retailers such as Aldi and Netto have long realized. As soon as the management team loses sight of this imperative, the organization is likely to suffer in a dramatic fashion as it falls into the marketing wilderness (see Figure 10.1). This was a lesson learned by the retailer Kwik Save.

The issue of how to develop and sustain a competitive advantage has also been discussed in detail by Davidson (1987a, p. 153). He suggests:

“Competitive advantage is achieved whenever you do something better than competitors. If that something is important to consumers, or if a number of small advantages can be combined, you have an *exploitable* competitive advantage. One or more competitive advantages are usually necessary in order to develop a winning strategy, and this in turn should enable a company to achieve above-average growth and profits.”

For Davidson, the ten most significant potential competitive advantages are:

- 1 *A superior product or service benefit*, as shown by First Direct with its combination of service and value; Pilkington with its self-cleaning glass, Toyota and Lexus with their very high levels of reliability; Disneyland with its overall quality of service; and Samsung initially with its price–performance combination and then more recently with its emphasis upon design, quality and value.
- 2 *A perceived advantage or superiority*. Marlboro, with its aggressively masculine image featuring cowboys, holds a 22 per cent share of the US cigarette market. The brand is well marketed but there is no reason to believe the cigarettes are objectively superior. Other examples of a perceived superiority advantage include designer label clothing and bottled waters.
- 3 *Low-cost operations* as the result of a combination of high productivity, low overheads, low labour costs, better purchasing skills, a limited product range, or

low-cost distribution. Amongst those to have achieved this are the low-cost supermarket chains such as Aldi, Netto and Wal-Mart.

- 4 *Global experience, global skills and global coverage.* Amongst the most effective global operators are Coca-Cola and McDonald's. In the case of Coca-Cola, the brand's coverage has moved from around 2.26 billion people in 1984 to almost 6 billion today, with the result that there are few places in the world where Coca-Cola is not readily available. For McDonald's, its 30 000 outlets worldwide (2002 figures) allow it to serve 46 million customers each day.
- 5 *Legal advantages* in the form of patents, copyright, sole distributorships, or a protected position.
- 6 *Superior contacts and relationships* with suppliers, distributors, customers, the media and government, and the management of customer databases.
- 7 *Scale advantages* that enable costs to be driven down and competitors pushed into a position of competitive disadvantage.
- 8 *Offensive attitudes* or, as Procter & Gamble label it, an attitude of competitive toughness and a determination to win.
- 9 *Superior competencies.* Ikea's focus upon developing competencies in product design, warehousing, purchasing and packaging, for example, has allowed it to offer consumers high quality and low prices.
- 10 *Superior assets,* which may include property or distribution outlets.

Although Davidson's list of the ten bases of competitive advantage is generally comprehensive, there are several other elements that can be added. These include:

- ➔ The notion of intellectual capital, which embraces the knowledge base of staff across the organization (this is typically the basis for the competitive advantage of management consulting firms and advertising agencies)
- ➔ Attitudinal issues that give recognition to the idea that creativity and innovation, be it product or process, is ultimately the only really sustainable form of competitive advantage
- ➔ Sophisticated service support systems
- ➔ Superior knowledge as a result of more effective market research, a better understanding of costs, superior information systems and a particularly highly skilled workforce
- ➔ Superior technologies
- ➔ Complex selling systems
- ➔ Speed to market (time-based competition)
- ➔ The brand image and reputation.

In so far as there is a single factor that underpins all eighteen factors listed here, it is that of adding value to the ways in which the organization interacts with the customer, something that is clearly understood within Tesco (see Illustration 10.4). In the absence of this, there is no real competitive advantage.

Illustration 10.4 Tesco and its leveraging of competitive advantage

A fundamental understanding of the significance of competitive advantage was at the heart of Tesco's strategy throughout the 1990s. Their performance outstripped that of the vast majority of retailers and has led not just to the company taking over as the market leader from Sainsbury's in the UK food retailing market, but also to its increas-

ingly successful development of clothes retailing. In doing this, the company has concentrated on developing a series of competitive advantages that, taken together, represent an enormously strong selling proposition, provide consumers with a powerful reason to buy, and put competitors at a disadvantage.

An alternative way of thinking about competitive advantage involves categorizing the bases of advantage under four headings: management, behaviour, staff and the marketing mix.

Management advantages include:

- ➔ The overall level of management ability
- ➔ The willingness and ability of the marketing team to redefine the market in order to create market breakpoints
- ➔ The ability to identify and manage risk
- ➔ Managerial mindsets
- ➔ Experience
- ➔ A focus upon implementation.

Behavioural and attitudinal advantages include:

- ➔ Offensive attitudes (refer also to the discussion on FUD marketing on p. 442)
- ➔ Flexibility and speed of response
- ➔ A willingness to take risks.

Staff resource advantages include:

- ➔ Levels of creativity
- ➔ Networks
- ➔ Staff mindsets.

Marketing mix advantages include:

- ➔ The nature of each of the elements of the expanded marketing mix
- ➔ The speed of innovation
- ➔ Management of the distribution network.

However, irrespective of the type of market in which the organization is operating, competitive advantage must always be looked at from the standpoint of the customer since, unless the customer sees something to be significant, it is not a competitive advantage. Recognition of this leads to a three-part test that the marketing planner needs to apply on a regular basis to any proposed form of advantage:

- 1 To what extent is the advantage *meaningful* to the customer?
- 2 To what extent can the advantage be *sustained*? The reality, of course, is that in a fast-moving and competitive market few advantages can be sustained for any length of time. Given this, the planner needs to innovate continuously (refer to the comment above that innovation is ultimately the only sustainable form of advantage) by changing the rules of the game, the boundaries of the market, the value proposition, and so on.
- 3 How clearly and consistently is the advantage *communicated* clearly and consistently to the market?

In the absence of this, the organization runs the risk of simply being a me-too player.

Gaining, sustaining and exploiting competitive advantage: the problems of self-delusion

One of the themes that has been pursued throughout this book is that of the pivotal importance of competitive advantage. In thinking about how to develop competitive advantage, the marketing planner needs to understand in detail the organization's skills and resources, and then manage these in such a way that the business delivers superior customer value to target segments at a cost that leads to a profit. This can be seen diagrammatically in Figure 10.7.

However, in many cases when thinking about competitive advantage, marketing planners appear to suffer from a degree of self-delusion in that they see something that the organization has or does as being far more important or significant than customers see this to be. In order to overcome this, McDonald argues for the application of the deceptively simple 'So what?' test (see Figure 10.8). Here, the planner begins by identifying the features offered by the product and then – very importantly – translates these into the benefits to the customer. Having done this, the deliberately cynical 'So what?' question is posed. If the benefits that have been identified are essentially the same as those offered by a competitor, then they are of little value. It is only if the benefits pass the test that the advantage can be seen to be at all meaningful.

The problems of sustaining advantage

In developing and, perhaps more importantly, sustaining advantage, the planner needs to recognize that any advantage that an organization or brand possesses that is at all meaningful will be copied or improved upon by competitors sooner rather

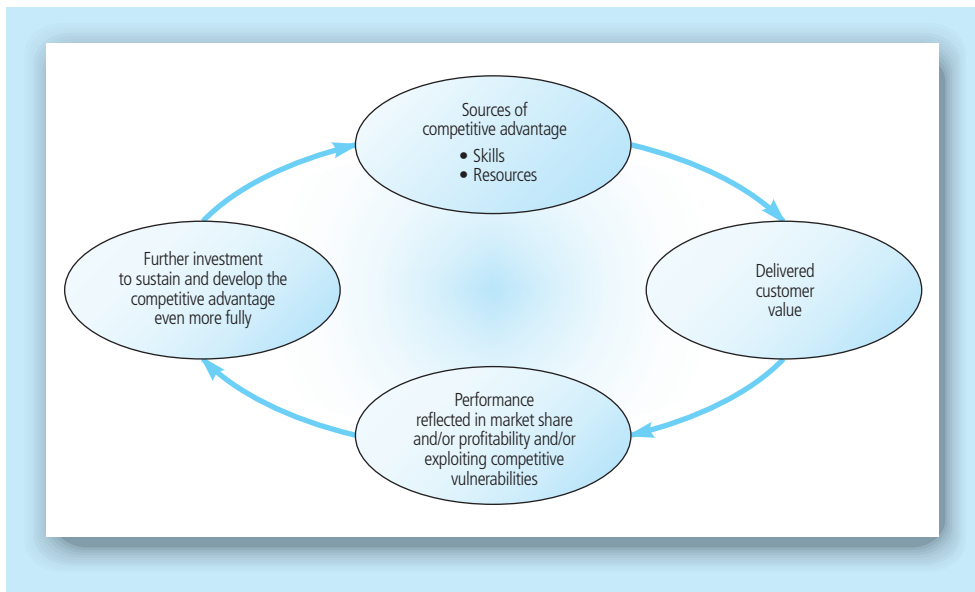


Figure 10.7 The virtuous circle of competitive advantage

than later. Recognizing this, the planner needs to sustain the advantage in one of several ways. These include product and/or process innovation, clever positioning or repositioning (the Co-operative Bank, for example, developed a position as the ethical bank, something that the other banks then found hard to copy), adding value, new forms of delivery (e.g. Amazon.com), and through higher or different levels of service.

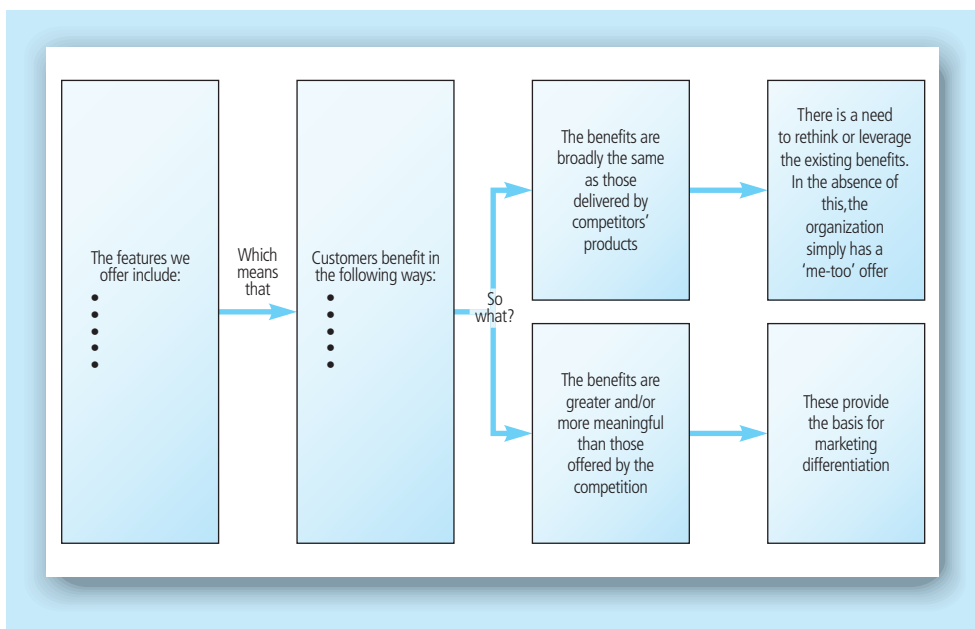


Figure 10.8 The 'So what?' test (adapted from McDonald, 1995)

The idea of service as a (sustainable) competitive advantage has proved to be particularly attractive for organizations in highly competitive and fast-moving markets, where there is a recognition that any product innovation is likely to be copied almost immediately. However, there is a problem in that customers' expectations typically rise over time, with the result that something that is different and an order winner today is seen simply to be an order qualifier tomorrow. Because of this, the planner needs to think about the ways in which the customer can be made to be enthused, excited and delighted by the product and/or service offer.

The ways in which order winners are eroded over time and how the delivery of ever higher levels of customer delight become progressively more important are illustrated in Figure 10.9.

Amongst the implications of this are that the planner needs to think in detail about the nature of order qualifiers (those elements that lead to the customer taking the organization or brand sufficiently seriously to consider buying), order winners (those elements that are significant points of differentiation) and areas of customer delight (those elements that provide the basis for extra value and ever more meaningful bases of differentiation). A framework for thinking about this is shown in Figure 10.10.

Competitive myopia, competitive sclerosis and competitive arrogance: the essentially ephemeral nature of competitive advantage

A fundamental understanding of the significance of competitive advantage was, for a very long time, at the heart of Marks & Spencer's strategies, with the result that the company's performance consistently outstripped the vast majority of retailers and led not just to the company maintaining its position as the market leader in the clothing market, but also to its enormously successful development of food retailing, financial services and household furniture. In doing this, the company concentrated on developing a series of competitive advantages that, taken together, represented a strong selling proposition, provided consumers with a powerful reason to buy, and put competitors at a disadvantage.

However, throughout the 1990s the organization increasingly lost touch with its core markets and began to exhibit all of the characteristics of a fat, lazy and complacent organization that suffered from competitive myopia, competitive sclerosis and competitive arrogance. This arrogance was reflected in a whole series of actions, including their unwillingness to accept credit cards (other than their own store card) as a form of payment as late as 2000, some 30 years after credit cards were introduced to the UK. This managerial arrogance was summarized by a business journalist who, in writing for *The Daily Telegraph* (21 January 2001, p. 133), said:

“What other retailer in the world would ask some of the finest designers to produce ranges and then prevent them from putting their own names in them? What the top brass at M & S cannot comprehend is that the Marks & Spencer name, once the group's greatest asset, has become its greatest liability, a Belisha beacon to the clothes buying public that flashes 'Do not shop here! Do not shop here!'”

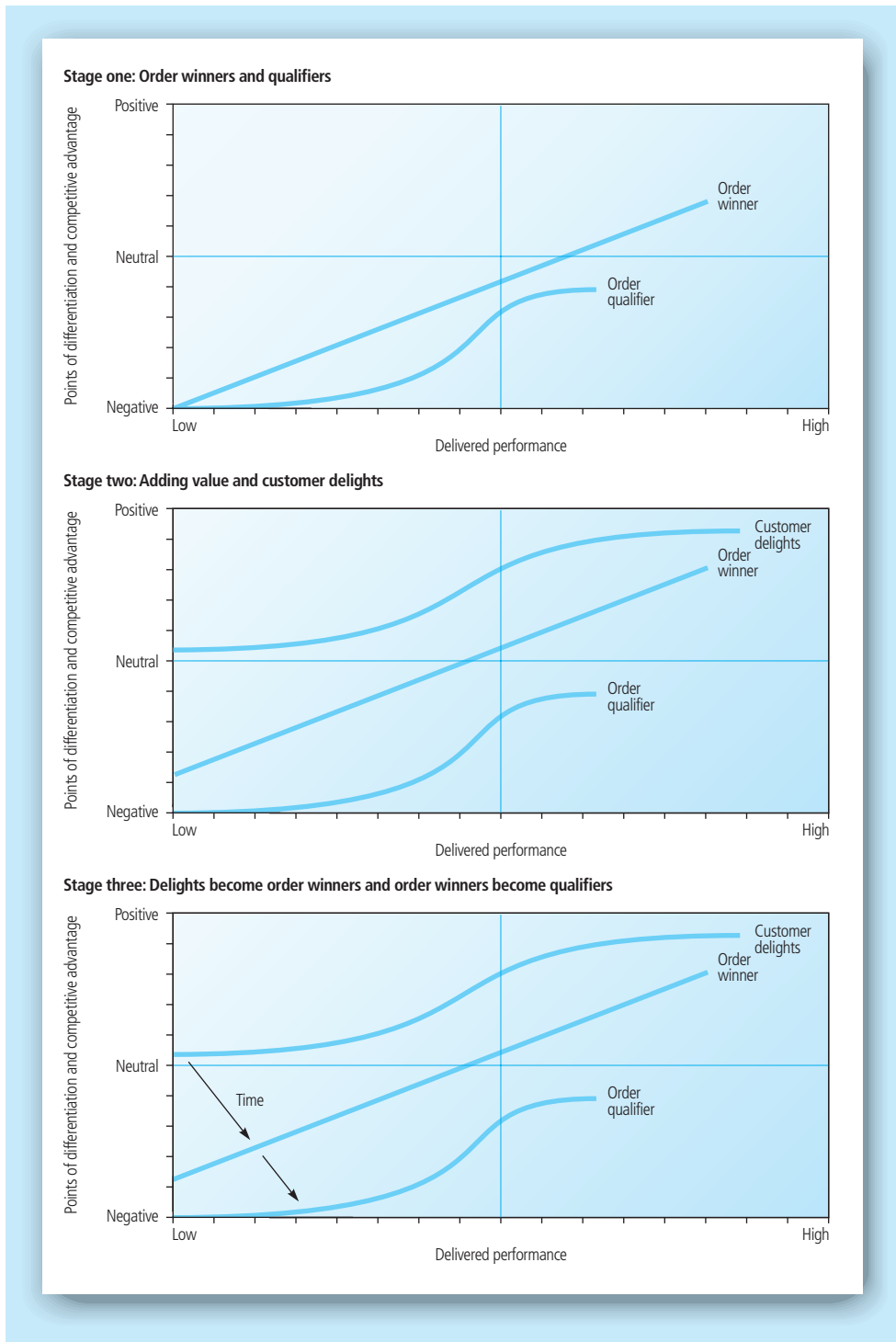


Figure 10.9 Order winners becoming order qualifiers

	Today	Tomorrow
Order qualifiers		
Order winners		
Points of customer delight		

Figure 10.10 Thinking about the order winners and qualifiers of the future

There are several issues that emerge from the Marks & Spencer story, the most significant of which is that it is managerial competencies and attitudes that are the only *real* sustainable competitive advantage. In the absence of these, the organization's position within the marketplace will inevitably suffer.

Subsequently, of course, Marks & Spencer has fought back with a degree of success to regain many of the customers it had lost.

Sustainability of competitive advantage can therefore be seen to depend upon:

- ➔ A clear understanding by management of a *strategy* for gaining and sustaining competitive advantage
- ➔ The single-minded pursuit of the strategy
- ➔ A recognition that some sources of advantage are easier for competitors to copy than others
- ➔ The continual investment in improving and upgrading sources of advantage.

The speed with which a competitive advantage and strong market position can be eroded was also illustrated in 2003 by the way in which Viagra's dominance of the erectile dysfunction market was attacked by two new drugs, Cialis from Eli Lilly and Levitra from GSK/Bayer. The importance of Viagra to Pfizer was reflected by its sales in 2002 of \$1.7 billion and its position as one of Pfizer's three most profitable products. The new entrants to the market based their strategies on a combination of different competitive advantages, including a faster response time to the drug and longer-lasting effects that, together, eroded Viagra's market position.

Competitive disadvantage

Although we have focused so far upon the idea of competitive advantage and the sorts of factors that contribute to this, the reader should not lose sight of the significance of competitive *disadvantage*. This can come about as the result of a series of factors,

including a poor brand reputation, the failure to achieve certain service norms within the market, a cost base that is too high, the failure to learn from past experience, the slavish adherence to a previously successful formula, the failure to monitor market conditions, and what might loosely be termed 'country of origin effect'. As an example of the latter effect working against the brand, it is worth thinking back to the way in which many Central and Eastern European products for a very long time – and indeed still today – had a poor reputation for quality, something that has prevented many of these brands penetrating western markets despite low-price strategies.

Creating barriers to entry

Although the development and exploitation of competitive advantage is at the heart of any worthwhile marketing strategy, relatively few organizations prove to be successful at doing this over the long term. Innovators are almost invariably followed by imitators and, because of this, few manage to maintain a truly dominant market position (see the comments above about Marks & Spencer). Tagamet, for example, one of the best-selling and most revolutionary drugs of all time, was quickly eclipsed by an imitator, Zantac. Similarly, Thorn-EMI (with its body scanner) and Xerox (with a series of innovations that helped develop and define the personal computer) are just two companies that, having innovated, failed to capitalize upon their ideas.

The issue that emerges from these and a host of other examples is straightforward: all too often, the resources devoted to *creating* a significant competitive advantage are of little value unless that advantage is subsequently aggressively exploited and sustained. In order to do this and benefit fully from the innovation, Geroski (1996, p. 11) argues that planners need to focus upon understanding two areas:

- 1 The market's *barriers to entry*, which are the structural features of a market that protect the established companies within a market and allow them to raise prices above costs without attracting new entrants
- 2 *Mobility barriers*, which protect companies in one part of a market from other companies that are operating in different parts of the same market.

New organizational paradigms and the thirteen commandments for gaining competitive advantage

In 1994, Hamel and Prahalad published their highly influential book *Competing for the Future*. In this, they highlighted the ways in which management paradigms are changing and the nature of the implications of the new paradigm for competitive advantage. Amongst the factors that they suggested would characterize the paradigm of the twenty-first century and how these represent a shift from the 1990s are shown in Figure 10.11.

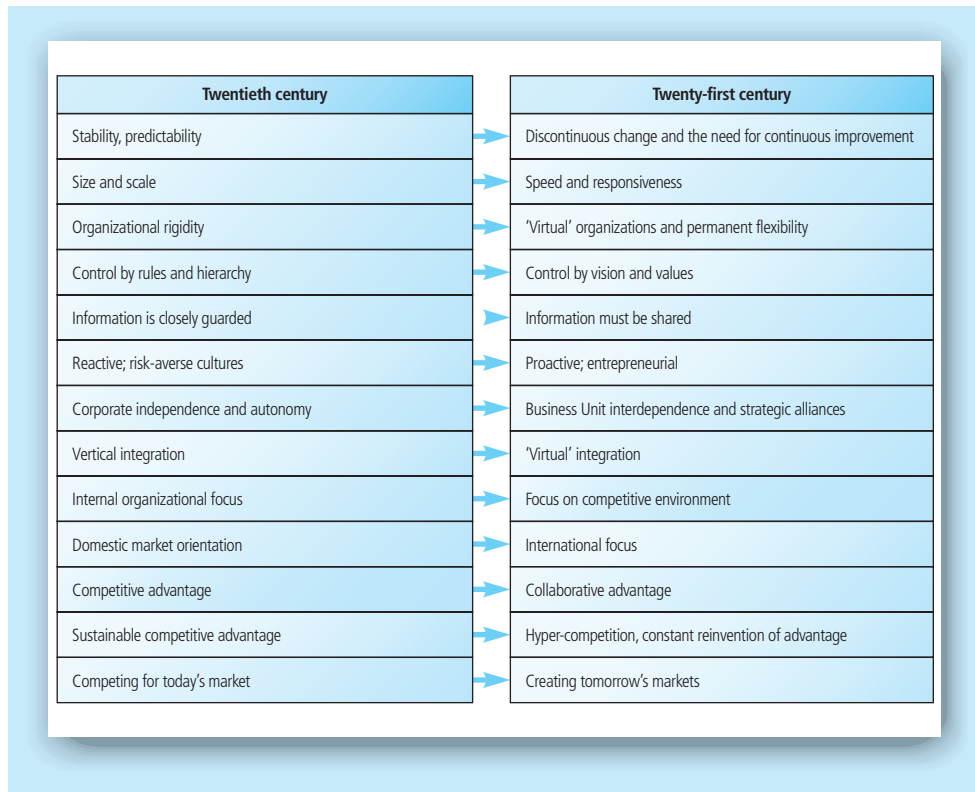


Figure 10.11 Changing managerial paradigms

The implications of this for competitive advantage and competitive behaviour are obviously significant, and were summarized by Hamel and Prahalad (1994) in terms of the need for marketing planners to:

- ➔ Stop playing by the industry rules and, instead, create their own, develop a new competitive space and make others follow (e.g. Swatch, Dell and, in the 1960s–1980s, The Body Shop)
- ➔ Get innovative or get dead – in doing this, the planner needs to avoid believing in the idea of sustainable advantage and to focus instead upon creating a culture of constructive destruction (e.g. Direct Line, 3M, Canon and Sony)
- ➔ Scrutinize the company for hidden assets, which then need to be leveraged (e.g. Disney and Harley Davidson)
- ➔ Create a fast action company (e.g. Toyota and CNN)
- ➔ Create an entrepreneurial and experimental business (e.g. Virgin and easyJet)
- ➔ Eliminate boundaries within the organization (e.g. Toshiba and Mitsubishi)
- ➔ Harness the collective genius of staff (e.g. Management consultancies such as McKinsey and Bain & Co)
- ➔ Globalize or perish (e.g. Ikea and Nokia)
- ➔ Emphasize the eco-revolution and use environmental efficiency to set standards for the market (e.g. the Co-operative Bank)

- ➔ Recognize that organizational learning and the ability to learn faster and then apply these ideas more quickly than the competition may be the only real sustainable advantage
- ➔ Develop real measures of true strategic performance.

The erosion of competitive advantage and the (greater) role of the trust brand

One of the most significant and far-reaching themes pursued throughout this book relates to the ways in which the vast majority of markets today are very different from those of say ten and even five years ago. These differences – which are the result of a variety of forces, including globalization; higher and often more desperate levels of competition; customers who are far more demanding and discriminating, less loyal and more willing to complain; and a series of technological shifts that have led to a shortening of life cycles – have had a series of implications for each of the elements of the marketing mix.

In many markets, one of the most significant of these implications has been the extent to which particular parts of the mix are able to contribute to significant – and sustained – competitive advantage has been reduced. In fast-moving and highly competitive markets, for example, the speed with which firms copy others has increased greatly. As a result, differentiation through the product has all but disappeared. Equally, because many organizations use similar forms of distribution and have broadly similar levels of costs, the ability to differentiate through distribution and price have also been reduced. Faced with this, many marketing planners have shifted their attention to the brand and to the role that it is capable of playing in creating and maintaining differentiation and advantage.

Brands, which are in essence a form of shorthand that creates expectations about purpose, performance, quality and price, are therefore potentially enormously powerful and provide the basis not just for a high(er) profile in the market, but also for higher levels of customer loyalty and the freedom to charge a price premium. Given this, the effective and proactive management of the brand is, for many organizations, essential.

The increasingly important role played by brands is illustrated in Figure 10.12, which shows the three key stages of a market, ranging from commoditization (in which there is little scope or perhaps need for brand identity) through differentiation (in which brand identity becomes increasingly significant) to mass customization (in which the brand values become the basis for differentiation).

However, these ideas can be taken a step further with the development of thinking about ‘trust brands’. These trust brands are the brands in which customers have a fundamental long-lasting and deep-seated faith that emerges both from a rational assessment of the product’s capabilities (‘I know that this product or service will deliver what I want’), and an emotional assessment of the relationship between the organization and the customer (‘I know that I will get a fair deal’).

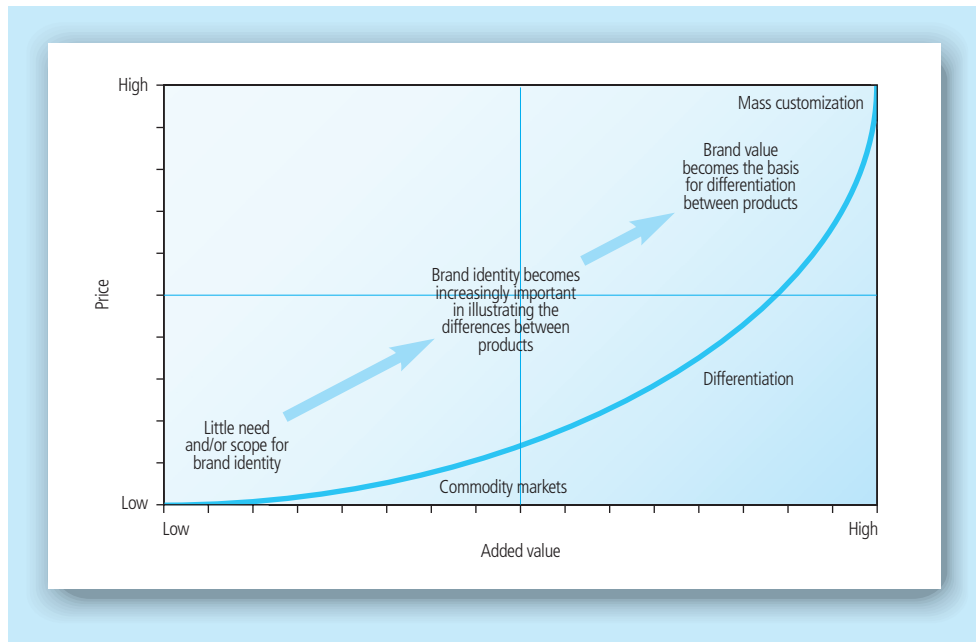


Figure 10.12 The increasing significance of brands and branding

The need for trust brands has grown significantly over the past few years, largely as the result of the privatization of risk within society, something that Edwards (1998) suggests is due to:

“... the transfer of risk from the state and from the employer to the individual... (and) accompanied by a long and steady decline in popular trust for the institutions in society that individuals used to rely on for help in making choices... In summary, the privatization of risk in society means that consumers are seeking new partners to help them confront, share and manage that risk. Brands are ideally placed to fill this trust vacuum.”

These pressures are illustrated in Figure 10.13.

Amongst those brands that have demonstrated high trust credentials are some of the major retailers such as Tesco, and individual brands such as Kellogg's and Nestlé. For Edwards:

“... the archetypal trust brand is probably still Virgin. Transferring trust apparently effortlessly into new areas, this highly individual conglomerate now takes part in diverse activities ranging from airlines to finance, and soft drinks to cinemas and weddings. The proposition is clear: when you, the consumer, enter an unfamiliar market where you do not trust the current providers then Virgin will be on your side. Virgin's credentials to enter new markets are often unclear in the traditional sense (in fact it often operates in partnership with specialist suppliers) – what it actually brings with it from market to market is the brand name and the consumer trust that resides in it.”

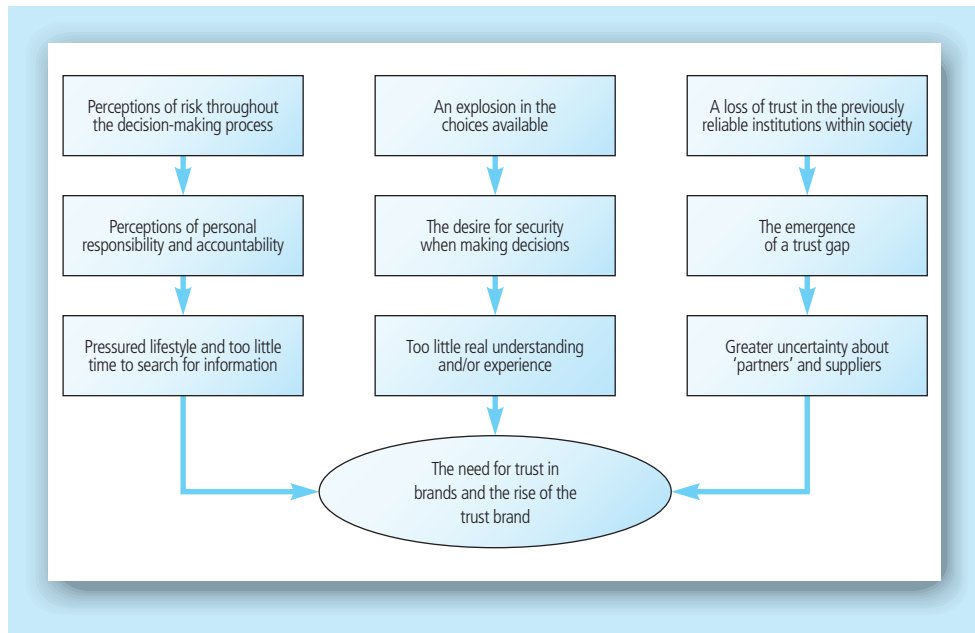


Figure 10.13 The pressure for trust brands (adapted from Edwards, 1998)

The work of Edwards and his colleagues at the Henley Centre suggests that six factors contribute to trust:

- 1 *Packaging* and the product information that it contains
- 2 *Provenance* and the country or company of origin (included within this is the country of origin effect, which includes the heritage of the country – e.g. Germany for engineering, Japan for high technology – and the reputation of the company)
- 3 *Performance* over time that leads to perceptions of dependability
- 4 *Persistence* – once a brand has gained real consumer trust, it demonstrates long-term resilience even though there may be occasions when things go wrong (Persil, for example, has maintained trust despite problems of enzymes and dermatitis at certain stages in its life)
- 5 *Portability* – having developed trust, the brand can be moved into new and possibly unrelated areas, something that both Virgin and Tesco have demonstrated with their move into a variety of new market sectors
- 6 *Praise* – when trust is high, the use and power of word of mouth tends to increase dramatically.

Given that markets are now so much more competitive than even a few years ago, it should be apparent that trust brands can play a pivotal role in achieving differentiation and long-term loyalty. The implications for how brands are managed are therefore significant. Edwards (1998) states:

“It has long been axiomatic that competitors can quickly copy product or service innovations in most cases. It is therefore crucial that trust and the infrastructure of trust

are reinforced through all consumer contacts and relationships. In the field of trust management, marketing becomes everyone's job. All stages of the process are relevant in maintaining trust – R&D, product testing, manufacturing, staff training and policies, distribution, pricing and customer service/complaint handling. All consumer interactions are a marketing opportunity. As the banks have discovered – expensive marketing campaigns are quickly negated by poor customer handling at the branch.

Marketing by trust therefore becomes more of a philosophy than simply the responsibility of a single department. The trust brand places the consumer at the centre of its world, it relies more on understanding real consumer needs and fulfilling them than the particular service or product manifestation at any one time. This means it is not merely responsive but also responsible to the consumer knowing the right thing to do or be even when the customer does not.”

However, in recent years a number of organizations have been faced with the problem of their brands having been undermined by counterfeit products. In a report published in 2000, the Global Anti-Counterfeiting Group estimated that brand counterfeiting costs European business £250 billion a year. Worldwide, the report suggests that the annual cost is at least £600 billion (*Marketing*, 27 April 2000).

The implications of this for the brand marketer are significant and are reflected not just in a loss of revenue and profits, but also in lower levels of customer loyalty, an erosion in customer confidence and a weakening of relationships throughout the distribution chain.

Although virtually all sectors of the economy have been hit to at least some extent by fakes (one argument is that wherever there is a strong brand name there is scope for counterfeiting), the music, software, videos, toys, watches, cosmetics and perfumes industries have proved to be amongst the most vulnerable.

The third knowledge revolution and the erosion of competitive advantage

With the arrival of the World Wide Web and the third knowledge revolution (the first and second knowledge revolutions were the printing press in 1455 and broadcasting some 500 years later), the competitive advantage that many firms have traditionally enjoyed has either been eroded or has disappeared completely. In discussing this in their book *Funky Business*, Ridderstråle and Nordström's (2000) core argument is that the world is changing ever faster and that the survivors will be those who embrace the changes and modify their corporate behaviour.

Although this is a view that numerous others have expressed over the past few years, Ridderstråle and Nordström focus upon the way in which managers who are accustomed to controlling their environment by the domination of their staff, customers and markets are likely to be faced with major problems as the new world order demands more than technology, production and distribution. Progressive – or 'funky' – companies will attract custom, they suggest, by understanding in much greater detail what customers want and communicating to them the intangible elements (in essence, the brand values) of their

product or service. They then take this philosophy to new heights by predicting a scarily harsh business environment where unforgiving consumers and demanding employees will exert a pincer-movement stranglehold on companies that refuse to 'feel the funk'.

The power of knowledge and the growth of commercial freedom make for a better-informed marketplace than the world has ever seen before. But with that freedom, says Ridderstråle, comes the death of corporate loyalty: 'Companies should no longer expect loyalty; they should accept the need to attract and addict people on a continuous basis.' Now that we have moved into a society ruled by over-supply, Ridderstråle believes the future no longer belongs to those who control supply but to those who control demand, 'those who help the customer get the best deal'. Prominent amongst the companies that they believe have come to terms with this ('islands of funk') are Virgin and Nokia.

Competitive advantage and the dangers of benchmarking

In Disney's A Bug's Life, a moth warns his moth friend not to look at or fly towards the light. 'I can't help it', the doomed insect replies.

For many organizations, competitive benchmarking – the process by which you identify the best in the sector, determine what it is that has led to such high performance and then copy – has become an integral part of the corporate struggle to stay competitive. But although benchmarking can be of value, it can also lead to problems. Nattermann (2000, p. 20), for example, discusses what he terms 'strategic herding'. This happens, he suggests, when managers forget that benchmarking should only be used as an operational tool rather than the determining framework for strategic development. The effects of herding can be seen by the way in which products and services increasingly become commodities and margins shrink as more and more companies crowd into the same market space.

Amongst the examples he cites to illustrate this is that of the German wireless telecommunications providers between 1993 and 1998. The first two carriers entered the business in 1992 and quickly achieved market share of more than 70 per cent with similar strategies in terms of pricing, selling and advertising. When a third company entered the market in 1994, it differentiated itself by targeting segments that the first two were ignoring – similar to the approach adopted in the UK by Orange, when it attacked the two established players, Vodafone and BT Cellnet. Soon there was little to choose between them as they all frantically copied each other's offerings. By 1998, Nattermann claims, this led to margins 50 per cent lower than at their peak. The same approach has also eroded margins in computers and consumer electronics.

A broadly similar picture began to emerge in Britain when the American retailer Wal-Mart entered the market in 1999. The established players such as Tesco, Sainsbury's and Safeway, all of which had enjoyed profit margins that were far higher than in many other Western European countries, responded in an almost desperate fashion by cutting prices. One of the few to avoid this strategic herding was Waitrose, which continued with its policy of up-market positioning. It also began targeting its e-shopping at people in their offices rather than at home.

The problems of strategic herding are also increasingly being seen in the high street coffee shop market, with Starbucks and numerous other players all fighting for (an ever larger) share of a market, which, although it has grown rapidly, is ultimately of a finite size. In these circumstances, it is not so much a question of *whether* there will be a shake-out in the market, but simply *when* this will happen.

Returning for a moment to the example of Waitrose given above, Nattermann refers to this refusal to follow the pack as a policy of looking for ‘white spots’ – or those areas that the herd is failing to exploit. Firms such as these, he suggests, may well benchmark, but they then avoid the trap of letting this constrain their strategic thinking.

E-business and competitive advantage

With the development of the Internet and e-commerce, marketing thinking and approaches to marketing planning are having to undergo a number of radical changes. In part, this is being driven by the way in which e-marketing has the potential for changing not just the rules of the game within a market, but also the market space, and in doing so change the bases for thinking about competitive advantage. The ways in which organizations might move from a position in which e-marketing is poorly thought out and reflected largely in the development of web pages that are simply another form of advertising through to the fundamental and strategic integration of e-marketing with the corporate strategy is illustrated in Figure 10.14. Here, organizations move through four stages and, depending upon how proactive they are, are capable of changing the bases of competition in potentially fundamental ways. Those firms that fail to recognize this and continue to focus upon the traditional bases of competition and advantage run the risk of being left behind as the rules of competition and the boundaries of the market develop and change. Amongst the most obvious examples of firms that have done this are Amazon.com, who rewrote the rules of competition within the book-selling market, and easyJet, which took a very different approach to selling airline seats. In both cases, their competitors were put at a disadvantage and forced into a position of copying and catch-up.

The potential implications of the Internet for marketing were outlined in 2000 in a presentation to the Chartered Institute of Marketing by the consultants McKinsey & Co. McKinsey argued that the Internet has the capacity for:

- ➔ Creating discontinuity in marketing costs
- ➔ Making new and different types of dialogue with the customer possible
- ➔ Charging the return on attention equation
- ➔ Reinventing the marketing paradigm.

In suggesting this, McKinsey were giving emphasis to the way in which the Internet creates a virtual marketplace in which the buyer is unconstrained by the additional

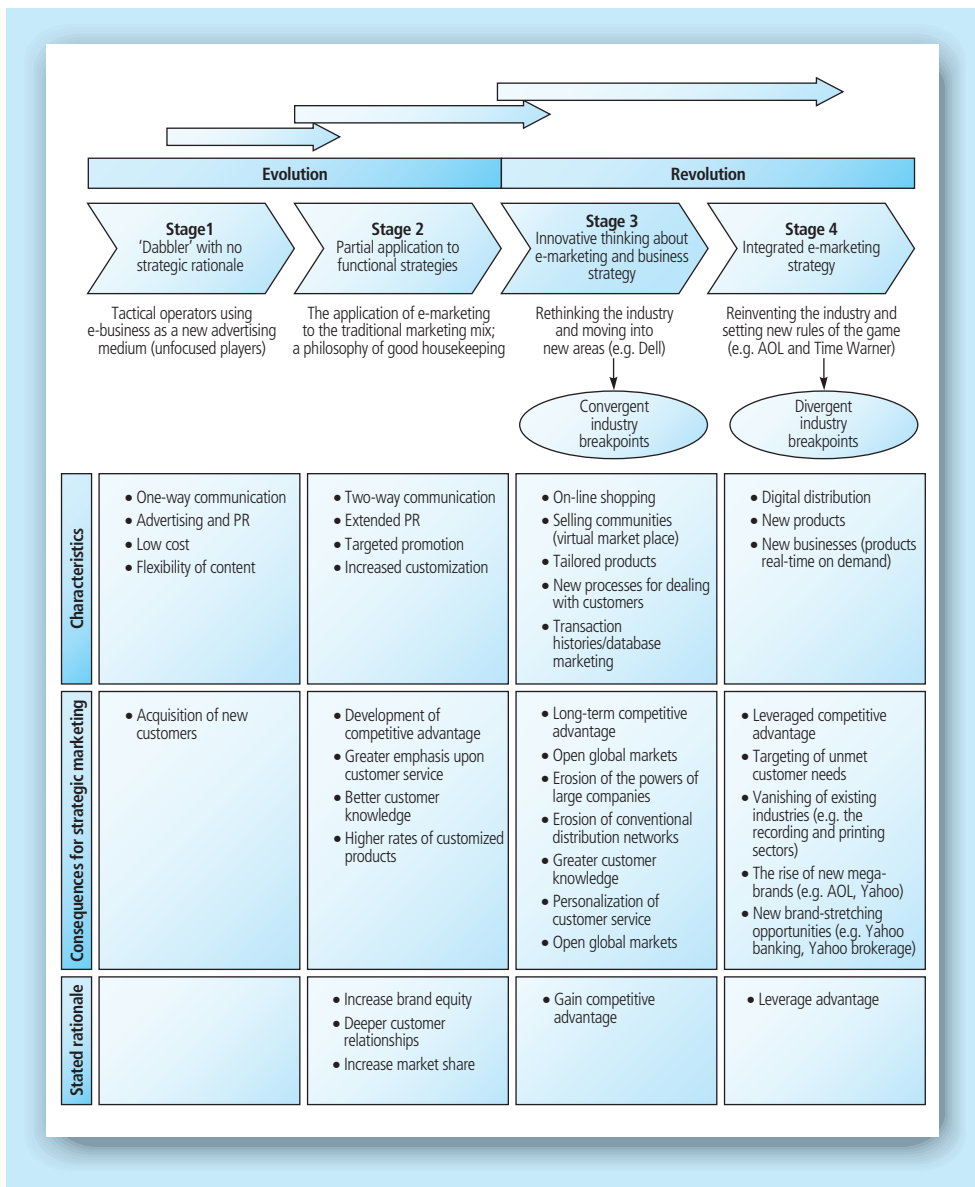


Figure 10.14 E-marketing and the development of strategic thinking and competitive advantage

time and geographic boundaries, and has access to an almost infinite number of potential suppliers. In these circumstances, the seller is no longer (so) constrained by the capability of third parties in the distribution channel and can instead approach the customer in a far more direct fashion. At the same time, of course, the buyer is put into a far more powerful position in that there is far greater and far more immediate access to information, and comparisons between alternatives can be made far more easily and conveniently. Given this, the balance of power between the buyer and seller has the potential for changing in a series of radical and far-reaching ways. The implications of this can be seen most readily in terms of the decline of what may be

loosely termed ‘interruption marketing’ and the emergence of a new approach based on permission marketing. (For a detailed discussion of permission marketing, refer to Godin, 1999.) This is illustrated in Figure 10.15.

The implications of the customer’s greater access to information are likely to be manifested in three major ways:

- 1 A downward pressure on the prices of products and services that lack any real competitive advantage or point of differentiation
- 2 A greater potential for demand-led markets
- 3 Increased customer/consumer expectations of higher product and service quality.

However, the picture from the standpoint of the manufacturer/producer is not necessarily negative in that the Internet has the capacity for:

- ➔ A reduction in the costs of capturing customer information
- ➔ The scope for far deeper customer/consumer relationships
- ➔ A greater ability to tailor value propositions
- ➔ An ability to price differentially
- ➔ A reduction in the cost of targeting customers/consumers.

The implications of this can then be seen in terms of the ways in which there are far greater opportunities for:

- ➔ Creating unique value propositions through personalization and customization
- ➔ More sophisticated segmentation, marketing and pricing
- ➔ New and possibly smaller and far more geographically dispersed competitors to enter the market.
- ➔ Developing new barriers to switching.

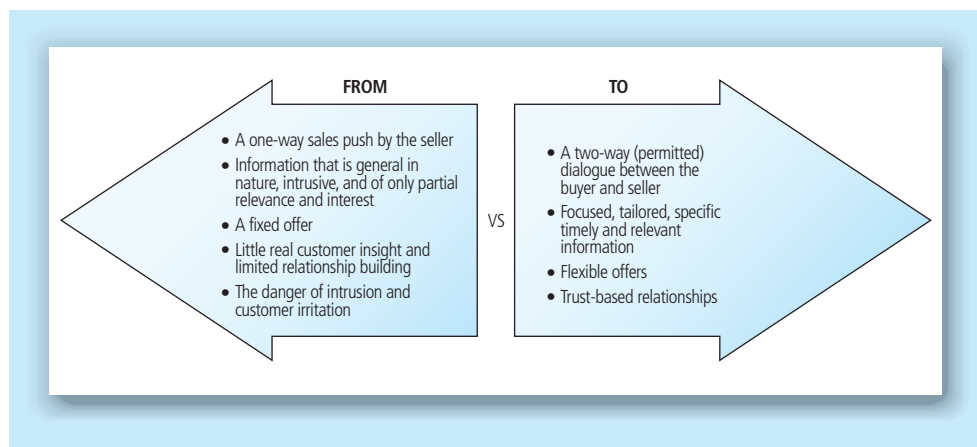


Figure 10.15 Permission marketing: the new paradigm

Given the nature of these comments, it should be apparent that the implications of the Internet for marketing are potentially enormous, and are still misunderstood and often underestimated by many marketing planners (referring back to Figure 10.14, many organizations have still to move beyond Stage 2). Perhaps the greatest danger that many face is that the issue of e-commerce is simply seen to be about selling online rather than about the far broader issue of building relationships with customers. As part of this, there is the need to recognize that the Internet means that, over time, the point of purchase can move and that this requires the marketing planner to have a far greater and more creative insight into the markets served. At the same time, the marketing planner needs to recognize that there are major implications for the organization's speed of response. Because the potential customer has instant access, there is an expectation of a similar speed of response to an enquiry. If this is not done, there is a danger of a deterioration in any relationship that exists or that has begun to emerge.

Recognition of the fundamental significance of the Internet requires the planner to come to terms with the ways in which commercially exploitable relationships might be developed. To do this involves a systematic approach to customer relationship management that has four key characteristics:

- 1 The need to understand customers in far greater detail
- 2 The need to meet their needs far more effectively
- 3 The need to make it easier for customers to do business with the organization than with a competitor
- 4 The need to add value.

However, underpinning all of this is the need to segment the customer base, since not all customers, be they B2B or B2C, view the development of the Internet and e-marketing in the same way. Recognition of this has led the Henley Centre to identify six principal consumer segments:

- 1 *Habit die-hards*, who are stuck in their ways and who have little knowledge, interest or access to the Internet
- 2 *Convenience/frenzied copers*, who are responsive to initiatives that save them time
- 3 *Experimenters*, who are willing to try new things
- 4 *Ethical shoppers*, who will purchase provided that the product offering is honest and politically correct
- 5 *Value shoppers/mercenaries*, who will buy on the basis of value
- 6 *Social shoppers*, who enjoy the social dimensions of shopping.

Given this, it is possible to identify the level of interest that each segment has in electronic shopping (ES). This is illustrated in Figure 10.16.

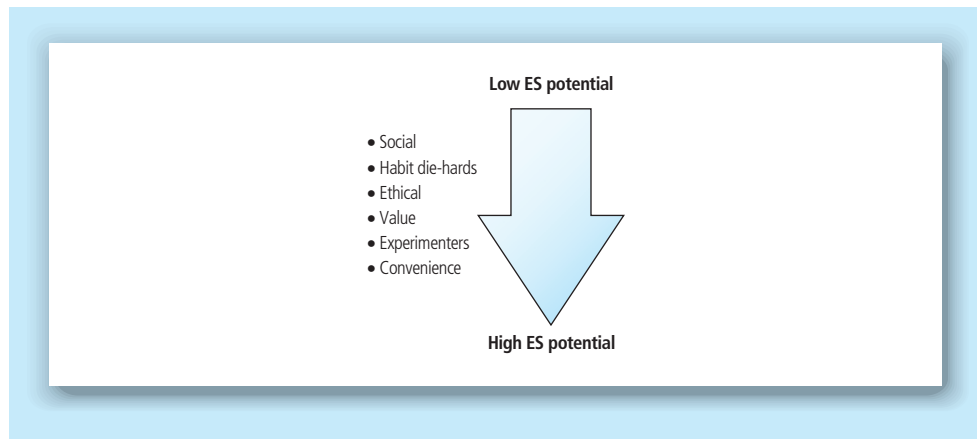


Figure 10.16 Consumer segments and their electronic shopping potential

E-marketing and competitive advantage: a summary

It should be apparent from what has been said so far that the implications of e-marketing for traditional thinking about competitive advantage are potentially significant and can be seen most readily by the way in which some of the traditional bases of advantage can be eroded by a fast-moving and creative e-marketer. It is this that has led Fifield (2000) to suggest that e-failure will emerge from marketing planners seeing the Internet as:

- ➔ Yet another 'push' activity
- ➔ A new paradigm that then becomes the 'set' paradigm
- ➔ Just another form of the same old 'production' mentality.

By contrast, e-success, he believes, will come from:

- ➔ Understanding the needs of e-customers
- ➔ Meeting the needs of e-customers
- ➔ Doing things that can't be done offline
- ➔ Doing the boring things – well!
- ➔ Taking a strategic approach.

In discussing the contribution of the Internet to marketing, McDonald and Wilson (1999) argue the case for the six Is model. The model, which is based on the ways in which IT can add value to the customer and therefore improve the organization's marketing effectiveness, is designed to illustrate how the Internet can be used strategically. The model's six dimensions consist of:

- 1 *Integration*, and the need to ensure that information on customers from across the organization and across the customer life cycle is brought together, evaluated and then used proactively (e.g. First Direct)

- 2 *Interactivity*, so that the loop between the messages sent to customers and the messages they send back is closed (e.g. Amazon.com)
- 3 *Individualization* and the tailoring of products and services to meet the customer's specific needs (e.g. Levi's, Dell and the travel company Trailfinders)
- 4 *Independence* of location and the death of distance (e.g. Amazon.com, again)
- 5 *Intelligence* through integrated marketing databases
- 6 *Industry restructuring* and the redrawing of the market map (e.g. Ryanair, easyJet and, again, First Direct).

Rebuilding competitive advantage: the development of the extra value proposition

Amongst the most obvious consequences of markets becoming more competitive and customers more demanding is that many of the traditional bases of competitive advantage have been eroded. One way in which to combat this is for the marketing planner to differentiate the organization from its competitors by focusing upon the delivery of greater customer value. There are several ways in which this can be done, although before identifying some of these, the idea of the extra value proposition (EVP) needs to be put into context.

The basis for a considerable amount of marketing thinking for many years was the idea of strong selling propositions, in which the customer would be presented with one or more good reasons for buying the product – this is reflected in the notion of 'buy this product, receive this benefit'. From here, thinking moved to the idea of the unique selling proposition (USP), in which the strategy was based upon a feature or benefit that was unique to that organization or brand. However, in highly competitive markets, the scope for retaining uniqueness in anything other than the short term is limited unless the product is protected by a patent. The notion of a USP-based strategy has therefore largely been undermined over the past few years. Where there is still scope for USPs, this stems largely from the brand. Although it is often possible for the product itself to be copied relatively easily, a powerful brand is still capable of acting as a powerful differentiator.

At the same time, many marketing planners have recognized that customers who are generally more demanding are likely to respond positively to an extra value-based strategy, something that has led to a focus upon EVPs. Amongst the ways in which these can be delivered is through providing a greater number of benefits to the customer by:

- ➔ Customizing products and services to meet customers' specific needs
- ➔ Providing higher levels of customer convenience
- ➔ Offering faster service
- ➔ Providing more/better service
- ➔ Giving customer training
- ➔ Offering extraordinary guarantees
- ➔ Providing useful hardware/software tools for customers
- ➔ Developing membership loyalty programmes

- ➔ Winning through lower prices
- ➔ Aggressive pricing
- ➔ Offering lower price to those customers who are willing to give up some features and services
- ➔ Helping customers to reduce their other costs by:
 - ➔ Showing the customer that the total cost is less despite its initially higher price
 - ➔ Actively helping the customer to reduce ordering costs and inventory costs, processing costs and administration costs.

10.6 Summary

In this chapter we have examined Porter's work on generic competitive strategies and how the value chain can be used as a platform for thinking about competitive advantage. Competitive advantage is, as discussed in some detail, a fundamental element of the strategic marketing planning process, and the planner must therefore understand the sources of advantage and how advantage might be leveraged.

With markets currently undergoing a series of radical changes, the traditional bases of advantage are being eroded and there is therefore the need for the planner to think creatively how (new) advantages might be developed and leveraged.