Chapter 12

The strategic management of the marketing mix

12.1 Learning objectives

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

(a) the nature and role of the expanded marketing mix;
(b) the issues associated with the strategic management of the individual elements of the mix;
(c) the dimensions of brand strategy;
(d) the need for an integrated approach to the management of the marketing mix.

12.2 Introduction

In this chapter we focus upon the seven principal elements of the marketing mix and discuss how they need to be managed both strategically and tactically. In doing this, we take each of the elements in turn and then, in the final part of the chapter, pull them together to demonstrate the nature of the interrelationships that exist and how, by understanding these interrelationships, the mix might be managed in such a way that a degree of synergy is generated.

Much of the original thinking about the marketing mix emerged from the work of McCarthy (1960), who saw the four principal elements of the mix to be the Product, Price, Promotion and Place (Distribution). Subsequently, the marketing mix has been developed to include the three 'softer' elements of People, Physical evidence and Process management. To a large extent, this is a reflection of the ways in which, in many markets, the nature and rules of competition have changed and some of the traditional bases for competitive advantage have been eroded. However, before we examine the elements of the mix, we need to appreciate the external context within which marketing mix decisions are typically made. This is illustrated in Figure 12.1 and highlights the way in which the management of the mix has as its principal purpose the creation of demand for the product or service, and that this is done against the background of the sorts of factors to which reference was made in Chapters 4–6. Given this, it should be apparent that decisions about the product, price and so on are not made in isolation; they need to take account not just of organizational objectives, but also the competitive, social, political, legal, technological and economic environments. It is the failure to do this effectively that ultimately leads to organizational performance declining.

12.3 Product decisions and strategy

It is commonly acknowledged that the most important single element of the marketing mix is the product, and it is for this reason that our discussion of the mix begins with this. Product policy is, or should be, the principal preoccupation of marketing managers

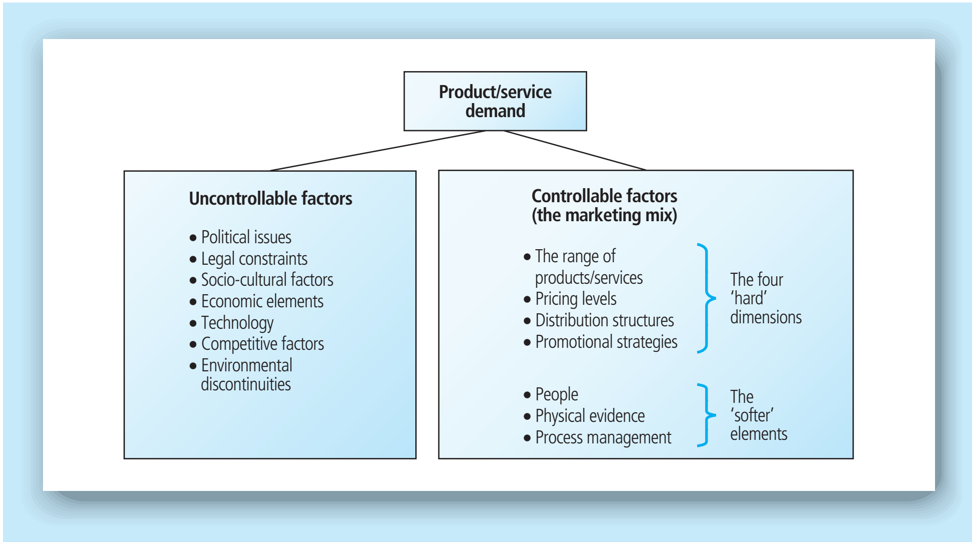


Figure 12.1 The marketing mix and the marketing environment

since it is, as Thomas (1987, p. 238) has pointed out, 'the product or service offering of a company or organization [that] ultimately determines the nature of the business and the marketplace perception of the business. In this sense it is the core of the marketing management function.' In making this comment Thomas gives implicit recognition to the idea that, although in an ideal world marketing management starts with the identification and selection of opportunities, in practice resources have generally already been committed. The principal concern of most organizations is therefore *product* strategy and management rather than *market* strategy and management. Given this, the task faced by the strategist in developing an effective product policy can be seen to consist of three distinct but interrelated elements:

1. The management of the organization's existing range of products or services
2. The development and management of the brand
3. The development of new or modified products or services.

It is to these three areas that we now turn our attention.

12.4 What is a product?

The term 'product' is used throughout this chapter to refer both to physical goods and to intangibles: Dyson, for example, sells vacuum cleaners, which are *goods*; advertising agencies sell ideas, designs and creative approaches, which are *services*; and Weight Watchers sells an *idea* – that of losing weight through changed eating habits and greater self-control. An organization's 'product' may therefore fall into any one of these three categories.

In discussing the nature of the product, there are three distinct elements that need to be considered (see Figure 12.2):

- *Product attributes* are associated with the core product, and include such elements as its features, styling, quality, brand name, packaging, and size and colour variants.
- *Product benefits* are the elements that consumers perceive as meeting their needs – this is sometimes referred to as the 'bundle of potential satisfactions' that the product represents. Included within this bundle are the product's performance and its image.
- *The marketing support services* consist of all the elements that the organization provides in addition to the core product. These typically include delivery, installation, guarantees, after-sales service and reputation.

The relative importance of each of these three elements can of course vary significantly from one product category and brand to another. A consumer buying a watch such as a Rolex, for example, is likely to be more concerned with the intangible attributes, such as image, brand and quality, than with the economic benefits of the watch. The significance of this from the viewpoint of the manufacturer and the dealer needs to be seen in terms of how the product is presented through advertising promotion and then supported by the dealer network.

Recognition of this leads in turn to two distinct views of the product:

1. That the product is simply a physical entity which has a precise specification
2. That it is a far broader concept which consists of anything, be it favourable or unfavourable, that a buyer receives in the exchange process.

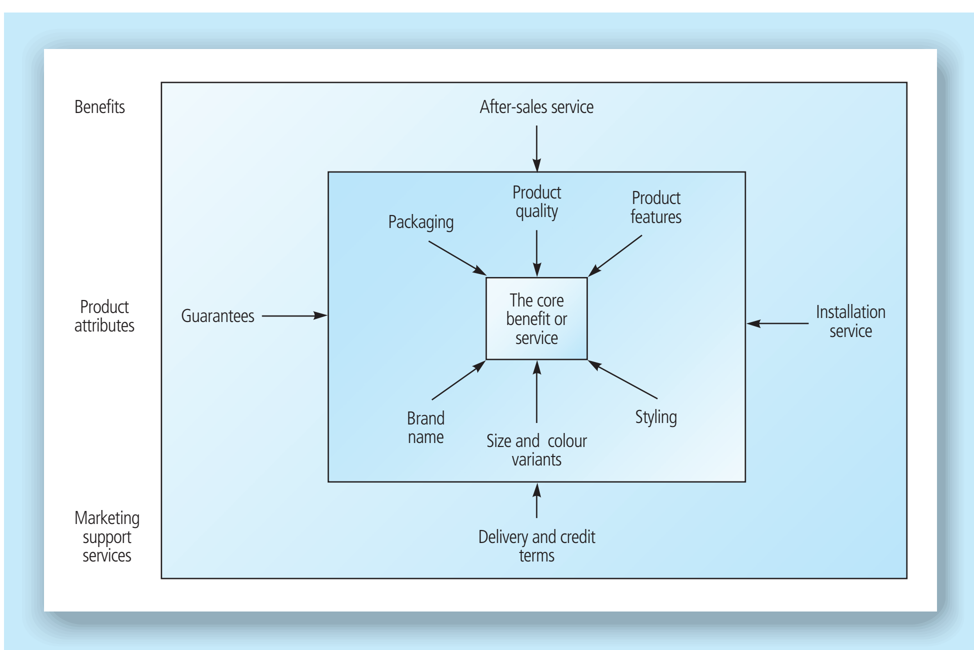


Figure 12.2 The three basic elements of the product (adapted from Kotler, 1988, p. 446)

From the viewpoint of the marketing strategist, it is the second of these two views that is the most meaningful and that is encapsulated in the idea of the product as a 'bundle of potential satisfactions'. This has been elaborated upon by Abbott (1955, p. 9), who has emphasized that 'What people really desire are not the products but satisfying experiences', and expanded upon, in turn, by Levitt (1976), who argues that products need to be seen in terms of the benefits they provide rather than the functions they perform. Thus, he suggests, 'One million quarter-inch drills were sold not because people wanted quarter-inch drills, but because they wanted quarter-inch holes.'

Views such as this provide strong support for the suggestion that, in developing the product strategy, the marketing strategist needs to give explicit recognition both to the objective and the subjective elements of the product. The objective elements (in the form of, for example, the physical specification and price) are often easily copied by a competitor. The subjective element, however (which consists of, among other things, the image and reputation), is generally more difficult to copy and in many markets provides the most effective basis for differentiation, and is the area in which value can most easily be added. In practice, of course, the objective and subjective dimensions are interrelated: a strong image and positive reputation, for example, develop largely as the result of high quality and reliability. It is therefore the recognition of this sort of interrelationship that is at the heart of effective product policy, since it is the combination of the two that delivers 'value' to the customer. This point has been elaborated on in the context of the American car industry by Bennett and Cooper (1982). The success of the Japanese and the Europeans in the 1970s in taking share away from domestic manufacturers was due, they suggest, not simply to lower prices and better fuel economy. Rather, it was the case that:

> “The European and Japanese car makers have simply been better competitors; they anticipated market needs; they built a better product – one that is more reliable, has better workmanship, and is better engineered; and they did it effectively. In short, these manufacturers delivered better value to the American consumer.”

12.5 The dimensions of product policy

Effective product management is, to a very large extent, based on an understanding and application of two major concepts, portfolio analysis and the product life cycle both of which were discussed in some detail in Chapters 9 and 11. The reader should therefore return briefly to the discussion on pp. 367–70 and 478–83 for a detailed discussion of these two concepts, since here we will concentrate simply on some of the key points.

The product life cycle and its contribution to product policy

In our earlier discussion we referred to the product life cycle (PLC) as one of the best-known but least understood concepts in marketing. The ideas that underpin the concept are, as we pointed out, straightforward, suggesting that sales following a product's launch are initially slow but then increase as awareness grows. Maturity is reached when the rate of sales growth levels off and repeat purchasers account for the majority of sales. Ultimately, sales begin to decline as new products and new technologies enter the market, leading eventually to the product being withdrawn.

Although a considerable amount has been written about the product life cycle and how it might or should be used, surprisingly few empirical studies of the concept's real scope for application within an organization's product policy have been conducted. It is perhaps because of this that the literature on the life cycle still tends to lean towards one extreme or the other, with some arguing that life-cycle analysis offers a strong foundation for effective product management, while others dismiss the idea as being conceptually attractive but pragmatically worthless. Prominent among those within this second category are Dhalla and Yuspeh (1976), who, in an article entitled 'Forget the Product Life Cycle Concept', argued that the PLC is conceptually and operationally flawed. The bases of their argument were that:

- The biological metaphors used to suggest that products are living entities is misleading
- Attempts to match empirical sales data to life-cycle curves have proved difficult and the results are largely meaningless
- The life cycle of a product and hence the shape of the curve is determined by how the product is managed over time – it is not an independent variable as is suggested by traditional PLC theory
- The PLC is not equally valid for product class, product form, and brands as is often argued
- The stages of the life cycle are difficult to define
- Identifying where on the life cycle a product is at any particular time is difficult to determine
- The scope for using the concept as a planning tool is limited
- Evidence exists to suggest that where organizations have tried to use the PLC as a planning tool, opportunities have been missed and costly mistakes made.

In the light of these comments, what then is the status of the PLC and what contribution might it be expected to make to product policy? Quite obviously, it is not a model with universal applicability, but rather an ideal type from which insights into the general behaviour of most product forms can be deduced, but which in its application requires a possibly high degree of caution. This is reflected in a comment by Thomas (1987b, p. 242), who suggests that:

> “. . . as a means to an end – that end being more sensitive management of the product over time – no sensible product manager should ignore the intellectual inheritance represented by the product life cycle literature. Using the product cycle concept is a means to creating an optimal life cycle, rather than being controlled by it. Sales history is a fundamental tool of the product manager, but sales history is not the only variable controlling the future of the product.”

This general line of argument has also been pursued by Michael Porter (1980), who has highlighted the significance of the context in which the PLC is applied. Porter argues that the nature of the industry and its evolution from embryonic to declining is at least of equal importance as the stage of the product's life cycle.

The role of portfolio analysis in product policy

The second key contributor to effective product policy is portfolio analysis and management. The techniques of portfolio analysis are discussed in detail in Chapter 9, so here we will limit ourselves to identifying some of the principal elements of its contribution to product policy. The starting point involves recognizing that portfolio analysis provides a firm foundation both for developing and evaluating marketing plans. The data required, for example, for the growth–share and market attractiveness–business position type matrices help not only in the process of allocating resources, but also in deciding upon the current and future mix and balance of the organization's portfolio. This in turn provides the basis for identifying the contribution that each strategic business unit (SBU) is capable of making to short-term and long-term strategy and, where this contribution is perceived to be inadequate, for adjustments to be made.

For Haspelagh (1982), the principal role of portfolio analysis within product policy is that of resource allocation and, subsequently, a series of decisions regarding each product or SBU. These decisions revolve around the issue of how to manage each product and, in particular, whether to adopt a custodial, harvesting, penetration, phased withdrawal, divestment, acquisition, or new product development stance.

In many ways, this view of portfolio analysis represents a neat summary of its potential role and contribution. Portfolio displays are not intended as strategic answers to the resource allocation problem, but are instead designed to help in the process of communication and decision-making at brand management and strategic management levels.

The product as a strategic variable

Because the product is at the very heart of marketing strategy, the need to manage it strategically is of paramount importance, since how well this is done is the key both to the organization's overall financial performance and to the gaining and retaining of market share. The question of *how* to manage the product strategically is not necessarily answered easily, however, and for many firms involves a careful balancing of costs, risks and returns. In doing this, explicit consideration needs to be given to competitors and in particular to the probable implications of any moves that they are likely to make.

In many cases, time is a critical dimension of product strategy and exerts a significant influence on any marketing manager's freedom of movement. In the long term, say five to ten years, products can be changed radically in almost all industries and can therefore make a major contribution to corporate objectives. In the short term, however, the product is often much more inflexible. In the car industry, for example, a period of four years or so is often needed to develop and introduce a totally new model. In the shorter term, the strategist's flexibility is consequently more limited and restricted to a series of minor and often cosmetic changes. For this reason, innovation tends not to be a major element of short-term marketing strategy. Instead, the strategist is limited to a series of package and label changes, new varieties, accessories, options, and combinations of products that inject a degree of newness into the market.

In developing an effective product strategy, a variety of factors need to be considered. The first, and in many ways the most important, is the question of the *type* of product strategy that is to be pursued. Is it, for example, to be broadly offensive or broadly defensive? If it is to be offensive, the strategist needs to consider not just how this is to be translated into action, but also its feasibility and the costs and risks that are associated with it. We can identify four types of product strategy:

1 A market leader product strategy
2 A leadership challenging product strategy, which might translate, initially at least, into 'the strategy of the fast second', whereby the firm allows the existing leader to incur the costs and risks of developing a new product and then moves in rapidly after the launch with a copy or an improved version of the product
3 A product following strategy
4 A me-too product strategy.

The issue of how firms pursue a strategy of leading, challenging or following was examined in detail in Chapter 11, and it may be useful to refer back to Sections 11.4–11.8 for a discussion of the key points. Where, however, an organization is intent either on leading or challenging, the implications for product strategy are considerable and are likely to make heavy demands upon resources. The majority of leaders retain their leadership position by means of a series of small and large innovations, supported by a heavy investment in advertising and distribution. For a challenger to succeed, the implications are straightforward, and in many industries require an even greater level of investment and/or the sort of radical and breakpoint thinking to which reference was made in Section 4.7.

The question of which strategy to pursue cannot be made in isolation, but requires a detailed understanding both of the organization's current position and capabilities, and of each competitor's stance and likely response pattern when challenged. The starting point should therefore be an assessment of the organization's current portfolio. Such an assessment can be carried out in one of several ways, including using the product life cycle and techniques of portfolio analysis, both of which were reviewed briefly earlier in this chapter. Based on this sort of analysis, Drucker (1963) recommends classifying products in one of six ways:

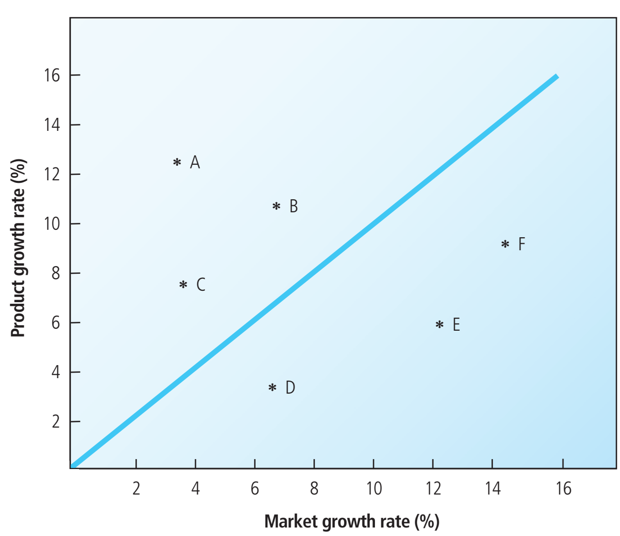
1 Tomorrow's breadwinners
2 Today's breadwinners
3 Products that are capable of making a contribution assuming that drastic action is taken

4 Yesterday's breadwinners
5 Also-rans
6 Failures.

This approach to classification then provides the basis for posing three questions:

1 Should we continue to market the product?
2 If so, should the strategy and level of resource allocation be changed in a minor way?
3 Should there be a major rethink of the product's strategy (e.g. a relaunch, a repositioning, or a major styling change)?

In answering these questions, the strategist needs to consider a variety of factors, but most importantly how the product is perceived by consumers and distributors; its probable future sales pattern; the scope that exists for repositioning or extending the life of the product; the availability of resources; the returns that are being generated currently; the ways in which returns are likely to increase or decrease in the future; possible competitive moves that will affect consumers' perceptions of the product; and the nature of any competing demands for the resources currently being absorbed by the product. In addition, consideration needs to be given to the relative rates of product and market growth, and whether the product is growing at a faster or slower rate than the overall market. Regardless of whether the growth rate is faster or slower, the strategist needs to consider firstly why this is the case and then secondly the strategic implications of this (see Figure 12.3).



Products A, B and C are all growing at a faster rate than the rate of market growth. Products D, E and F are growing more slowly than the market. In both cases, the strategist needs to consider why this is so.

Figure 12.3 Product and market growth rates

Much of the information needed for this should be generated on a regular basis by the organization's marketing information system, although in some instances specific studies of buyers, distributors and competitors will be needed. By studying the product on a regular basis and, in particular, by focusing upon changing consumer needs and competitors' moves, the strategist should be able to identify more readily any inadequacies that exist and the scope or need for product development. As an example of this, having identified that, because of changing lifestyles, ever larger numbers of people were skipping breakfast, the cereals manufacturer Kellogg's responded by developing cereal bars such as Nutri-Grain, which are designed to be eaten on the move and throughout the day.

12.6 Brand strategies

A fundamental element of any product strategy is the role played by the brand. Brands are designed to enable customers to identify products or services that promise specific benefits. As such, they are a form of shorthand in that they create a set of expectations in the minds of customers about purpose, performance, quality and price. This, in turn, allows the strategist to build added value into products and to differentiate them from competitors. Because of this, well-known brand names such as Nike, Microsoft, Nokia, Intel, Disney and McDonald's are of enormous strategic and financial value, and are in many cases the result of years of investment in advertising, positioning and distribution development. The significance of this in the case of Coca-Cola has been highlighted by the suggestion that the company's brand name is now worth far more than the gross national product of many nations. It also helps to explain why pirating of brand names has developed with enormous rapidity over the past decade.

In developing a brand strategy, an organization can pursue one of four approaches:

1. Corporate umbrella branding
2. Family umbrella branding
3. Range branding
4. Individual branding.

The first of these – *corporate umbrella branding* – is used by companies such as Heinz and Kellogg's in which the company's name is attached to the entire product portfolio. In the case of Heinz, for example, the umbrella is used to cover a wide variety of food products, including soups, beans, baby foods and sauces such as Heinz tomato ketchup. For Kellogg's, the corporate brand covers Special K, Corn Flakes, Frosties, Nutri-Grain and many other breakfast cereals.

Family umbrella names, by contrast, are used to cover a range of products in a variety of markets. A case in point is Virgin, with its Virgin brand covering trains, rail travel, mobile phones, music production, and financial services.

Range brand names are used for a range of products that have clearly identifiable links in a particular market. An example of this is Ford's retention of the brand names of companies such as Volvo, Aston Martin and Jaguar that it has acquired. The rationale for this is straightforward in that each of the companies is targeted at distinct market segments and brings with it a brand heritage and set of loyalties that would be eroded if the parent company's name was to replace it.

The fourth approach – *individual brand names* – is typically used to cover one type of product in one type of market, possibly with different combinations of size, flavour and service options or packaging formats. Examples of this include Lucozade, Marmite, Penguin and Dove.

Approaches to brand development

To be truly effective, a brand strategy has to develop over time and reflect environmental conditions. There is therefore a need for brand development, the key elements of which involve a detailed understanding of:

1. Current perceptions of the brand amongst customers and the trade
2. The expectations of both customers and the trade
3. The strengths and weaknesses of each brand within the portfolio
4. The value of each of the brands
5. The links that exist between the different brands owned and the nature and significance of any overlaps and gaps
6. Following on from point 5, the dangers of brand cannibalization
7. When and where new brand names need to be developed
8. The scope that exists for licensing
9. The opportunities for brand stretching
10. Probable competitor moves
11. Corporate expectations of the brand, something that highlights the need for a brand development plan.

The starting point for this involves analysing the brand in order to understand in detail what it means to customers and how much it is worth. In doing this, the strategist needs to identify the core values, the scope that exists for extending the brand name into other product or market sectors, and the areas that must be avoided at all costs. The core values relate to the essential meaning of the brand and can be subdivided into the *inner core values* or intrinsic qualities, which if altered would seriously damage the brand's integrity, and the *outer core values*, which have a greater degree of flexibility.

From here, the strategist needs to move on to consider the interrelationships between the brand names used. In the case of the Volkswagen Golf GTi, for example, Volkswagen is the umbrella name, Golf the model, and GTi the designation for performance. The issue here, therefore, is the extent to which names can be used, how they might be extended and how they might be used in combination with other models in the range.

The third stage involves deciding how far brand names can be stretched and still be meaningful. A company that has done this with considerable success in the 1990s is

Mars, which, having developed a very strong brand name and image with Mars Bars, then stretched the name into a Mars drink and Mars ice-cream. Similarly, Johnson & Johnson, best known for its babycare products, stretched its brand name to cover a range of toiletry products for men, while Marks & Spencer stretched its name for clothes into foods, home furnishings and financial services.

In attempting to stretch a brand, the strategist needs to tread carefully. The obvious danger, of course, is that of moving into an area in which the brand name has little relevance or which detracts from the value of the brand in its core market. The aim should therefore be to operate only in the three cells in the bottom right-hand corner of Figure 12.4.

As an alternative to brand stretching, or indeed in addition to brand stretching, the strategist can opt for the development of new brand names. There are, of course, significant costs associated with this, particularly when put against the background of the traditionally high failure rate of new products. Estimates of the costs of successfully developing a new brand name vary considerably, but as a broad rule of thumb in the food or confectionery market it is unlikely to be much less than £3–4 million. Again, therefore, the strategist needs to tread carefully and consider developing a new brand name only when certain criteria can be satisfied. These include:

- The product has a series of distinctive values
- The consumer benefits are both strong and obvious
- Acceptance of the new product is highly likely
- When using an existing brand name would be inappropriate because there is little apparent linkage between the existing and new products
- When using an existing name would weaken the novelty impact of the new product.

For those organizations with very strong brand names there is often scope for generating additional profits by means of licensing. Among those to have done this with considerable success are Disney.

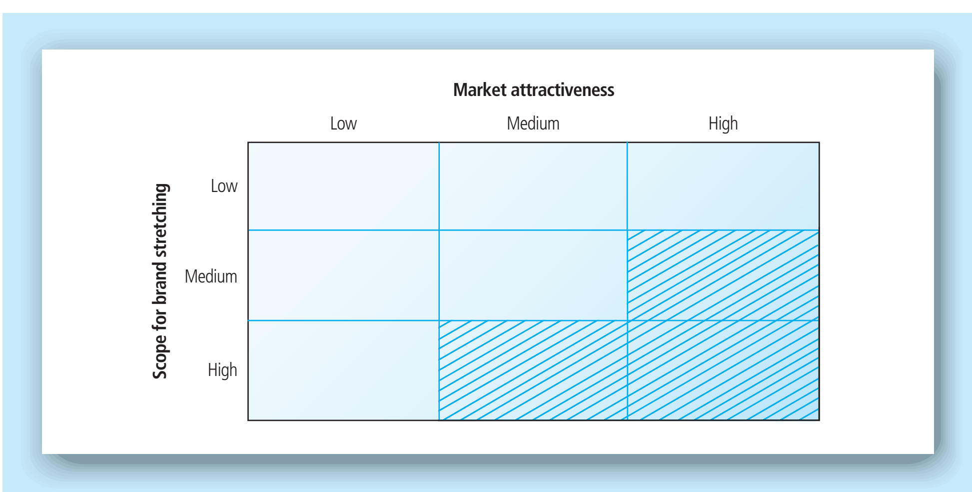


Figure 12.4 Brand stretching and market attractiveness

The final stage of any brand development stems from the need for an explicit brand development plan. There is little real evidence to suggest, despite the growing recognition of the need for planning, that this extends into the area of brand name development. Because of this, and because of the significance of the brand name, the strategist should concentrate upon developing a brand development plan showing how each brand name is to be used over the next five years. In doing this, the strategist needs to consider five key questions:

1. What does the brand mean today and what do we want it to mean in three and five years' time?
2. What line extensions and new products do we wish to develop under this brand name?
3. What changes in market needs and consumer demographics do we foresee that will require us to modify or change the brand meaning?
4. What are the detailed plans by year for achieving these changes in the next five years, and what are the sales, spending and profit implications?
5. Bearing in mind the new markets we wish to enter, which ones can be covered with existing brand names and which need new brand names?

A final issue that needs to be considered at this stage stems partly from the developments taking place in the media as a result of the emergence of the larger pan-European and global media footprints that have emerged as the result of satellite broadcasting, and partly from the growing internationalism of companies. The combination of these factors has led several manufacturers to reconsider their branding policies. Whereas previously different brand names have been used for the same product in different countries, there is now a move towards a greater commonality. Among those to have done this is Mars, which changed the name of its Marathon bar to Snickers.

Developing a brand strategy

For many organizations, branding is a fundamental element of the product strategy and provides the basis for a consumer franchise that, if managed effectively, allows for greater marketing flexibility and a higher degree of consumer loyalty. However, it needs to be recognized that branding involves a great deal more than simply putting a name on a package. Instead, it is about creating, maintaining and proactively developing perceived consumer value. It is only in this way that the organization is able to promise and continue to deliver to the consumer a superior value than that offered by competitors.

It follows from this that any brand strategy is, of necessity, a long-term process that involves an investment in and commitment to the development of the brand over time. This long-term perspective involves the dovetailing of a number of issues, but in essence can be seen to be concerned with the two principal issues that emerge from our discussion above:

1 Where the brand is currently and how it is perceived
2 How the brand is to be perceived in three, five and ten years' time, and how this might best be achieved.

With regard to the first of these, the starting point for any brand strategy involves identifying:

- The brand's current market positioning
- Competitors' positioning strategies and resource bases
- The ways in which the market is likely to develop, and the implications of product, brand and market life cycles
- Customers' perceptions of the portfolio of brands in the market
- Customers' expectations and the extent to which these are being met both by the brand and its competitors
- Levels of customer loyalty across the market
- Distributors' expectations and how they are being met by the various players in the market
- The financial, managerial and operational resources that can be called upon in managing the brand
- The bases of competition
- The relative importance of the brand to the organization
- Managerial expectations of the brand.

It is only against this background that the strategist is able to develop a vision for the brand. Having done this, attention then turns to the planner, who needs to focus upon issues of detail, including:

- The sales, market share and profit objectives that will be pursued.
- The geographic markets in which the brand will be sold. Is there, for example, an objective of operating purely in the domestic markets or moving into a series of overseas markets? If the latter, how many markets will be involved, what will be their relative importance, and what timing will be involved?
- The competitive stance that is to be adopted.
- The segments that are to be targeted and their relative importance to the brand.
- The positioning and, in the long term, the repositioning strategy within each of these segments.
- The brand values that are to be developed.
- Whether the brand is to be developed as an individual name (e.g. the Procter & Gamble policy), under a blanket family name (e.g. the Heinz policy), under a separate

family name, or under the banner of a company trade name combined with individual brand names (e.g. Kellogg's with Rice Krispies, etc.).

- ➡ The strategy towards brand extensions (e.g. Mars extending its name from chocolate bars to drinks and ice-creams).
- ➡ The pricing points that the company is aiming for both in the short and the long term.
- ➡ The brand development policy. Is it the intention, for example, to concentrate upon developing a regular series of (small) modifications to the brand or to make a smaller number of larger modifications on a less frequent basis?
- ➡ Whether there is scope for licensing the product for sale in other markets and, if so, how, where and over what time period.
- ➡ The policy towards generics.

Finally, in developing the brand strategy, the planner needs to give consideration to a series of financial issues, including the margins and contribution that the brand is required to generate in both the short and the long term, and the levels of investment that the brand needs if it is to achieve the objectives set.

(*Authors' note*: It may be useful to refer to Chapter 10 (pp. 412–15) for a discussion on the nature and role of trust brands and their contribution to competitive advantage.)

12.7 The development of new products

The third dimension of product strategy revolves around the development of new and modified products. The development and introduction of new products has traditionally been seen to be a costly and risky activity. For an organization intent on either maintaining or improving its position in the marketplace there are, however, few alternatives to new product activity of one sort or another. The issues faced by many marketing strategists therefore revolve around the issue of the type of new product activity that is to be pursued and how best to manage and, hopefully, reduce risk levels.

In the majority of industries, there are two principal ways in which new products can be added to the product range: first, acquisition and, second, internal new product development. Of the two, acquisition is often the faster and involves one of three approaches:

1. The organization can buy other firms
2. The organization can buy a licence or franchise
3. The organization can buy patents.

New product development (NPD) can, in turn, involve two approaches, with products either being developed internally by an in-house R&D team or by means of outside agencies used to develop products that satisfy internally generated criteria. In the majority of firms, of course, both routes are pursued, with a greater or lesser emphasis being placed on one or other activity as environmental conditions and pressures change.

What is a new product?

Definitions of what constitutes a new product have varied greatly over the years. For our purposes, however, the term is used to refer to products that are *totally new to the world*, *product improvements*, *product modifications and new brands*. This issue of definition has been discussed in detail by the American management consultants Booz, Allen & Hamilton (1982). There are, they suggest, two principal dimensions that need to be considered: how new is the product to the company, and how new is it to the marketplace? This led them to propose the six-stage classification that appears below. The figures in parentheses represent the percentage of products appearing in each of these categories in the United States at the beginning of the 1980s, but which are felt by Booz, Allen & Hamilton still to be broadly valid:

1. New-to-the-world products that create an entirely new market. An example would be the launch of Apple's i-Pod (10 per cent).
2. New product lines that are designed to enable a company to enter an existing product sector for the first time (20 per cent). A case in point would be Virgin's entry into the mobile phone market.
3. Additions to existing product lines (26 per cent). This would include Kellogg's launch of Crunchy Nut Corn Flakes and Special K with red berries.
4. Improvements and revisions to existing products (26 per cent). This is simply the idea of 'new, improved . . .'.
5. Repositioning or retargeting existing products in order to appeal to new or untapped market segments (7 per cent), e.g. Skoda's entry into the mass car market.
6. Cost reductions, where products are modified to provide similar performance but at a lower cost (11 per cent).

A slightly different slant on this has been proposed by Robertson (1967), who placed innovations along a spectrum ranging from continuous to discontinuous innovation:

- Continuous innovations, which simply involve the modification of existing products and lead to few, if any, changes in consumer behaviour.
- Dynamically continuous innovations, which, while more disruptive than the previous category, do not change behaviour patterns in any fundamental way.
- Discontinuous innovations, which are dramatically new and which lead to significant changes in patterns of behaviour and usage. Included within this are the jet engine, television, stainless steel, antibiotics, and so on.

The increasing risks of new product development

We commented earlier that new product development has traditionally been seen as a high-risk activity. There are several sources of this risk, the most significant of which represent a mixture of financial, social, psychological and physical elements. For a variety of reasons these risks increased satisfactorily throughout the 1980s, 1990s and into the twenty-first century. There are several explanations for this, the most obvious of which are that buyers are becoming increasingly demanding and discriminating; markets are becoming more fragmented; product life cycles are shortening, with the result that payback periods are reducing; the expectations of distributors and dealers are increasing; the pace of technology is becoming ever faster; and competition generally is increasing. Recognition of this has led to what can be referred to as 'the new product development dilemma' in which, while there is widespread agreement that new products are needed if the firm is to grow, the likelihood of success appears to be getting ever smaller.

The role of new product development

Although organizations have, in the past, demonstrated that they develop new and modified products for a wide variety of reasons, the underlying strategic purpose should always be either to help create and maintain a competitive advantage or to reduce the advantages of a competitor. Recognizing this, the specific role of new product development can be stated in terms of:

- ➡ Ensuring that the product mix matches changing environmental conditions and that product obsolescence is avoided
- ➡ Enabling the organization to compete in new and developing segments of the market
- ➡ Reducing the organization's dependence upon particular elements of the product range or vulnerable market segments
- ➡ Matching competitive moves – where, for example, a competitor moves into a new and potentially valuable segment there is often a strong argument for following, so that the competitor's advantage is kept to a minimum
- ➡ Filling excess capacity
- ➡ Achieving greater long-term growth and profit.

The relative importance of these factors is influenced both by the nature and culture of the organization and by the nature of the market. Where, for example, the organization is either poorly resourced or has a risk-averse culture, the perceived role and importance of new products is likely to be fairly minimal. Where, however, there is a greater availability of resources and the competitive stance is more proactive, new product development is likely to take on a far more important role. At the same time, the nature of the market often exerts a series of pressures that are capable of dictating levels of new product activity. Where, for example, competition is intense, the need both for differentiation and a regular flow of new and modified products increases dramatically. The strategist should nevertheless avoid falling into the trap of seeing the solution purely in terms of new products.

Recognizing that products consist of two interrelated dimensions, an *objective* or *physical* element and a *subjective* or *perceived* element, changes in the product's advertising and packaging can often be achieved with *relatively* low levels of investment in cost and time, but lead to strategically significant different sets of perceptions. These then provide the strategist with a foundation for moving into new sectors of the market both at a lower cost and with a smaller degree of risk.

It should be apparent from this that the parameters for new product development must be set by corporate management. These parameters need to cover the product categories and market sectors in which the organization intends operating in the future, and should be set against the background of the general stance of leader or follower that the organization intends adopting. What the strategist should never lose sight of is that NPD is often a slow process and one that cannot simply be turned on or off as economic conditions dictate. The most successful companies in the field of NPD have tended to be those that recognize its *strategic* role and that allocate resources consistently. Recognizing this, Drucker (1955) has emphasized that not only is innovation a slow process, but that many market leaders owe their position to the NPD activity of earlier generations. The real consequences of cutting back on innovation and new product development are therefore likely to be felt by the next generation of management, who will be faced with a significant reduction in competitive capability.

This question of the strategic role of new product development has been examined in detail by Booz, Allen & Hamilton (1982). Their research highlighted six principal roles. The figures in parentheses below show the proportion of new products in each category:

1. Maintain the organization's position as a product innovator (46 per cent)
2. Defend a market share position (44 per cent)
3. Establish a foothold in a new market sector (37 per cent)
4. Pre-empt a market segment (33 per cent)
5. Exploit technology in a new way (27 per cent)
6. Capitalize on distribution strengths (24 per cent).

Perceptions of the role of NPD have also been examined by Ansoff and by Myers and Marquis. For Ansoff (1968), firms are reactors, planners or entrepreneurs. 'Reactors', he suggested, wait for problems to occur (e.g. the decline of an existing product) before trying to solve them. 'Planners' try to anticipate problems, while 'entrepreneurs' deliberately focus upon and attempt to anticipate both problems and opportunities. The implications for the ways in which new product development is then handled are significant, with reactors typically assigning it a low status. In entrepreneurial firms, by contrast, NPD is seen to be of central strategic importance and allocated resources accordingly. For Myers and Marquis (1969), NPD is broadly either *offensive* or *defensive*. Offensive NPD is designed to open up new markets or enlarge existing ones by a conscious effort to introduce new products. Defensive NPD is, by contrast, often stimulated by competitive forces or other changes in the marketplace and is typically designed to maintain market share or current rates of growth.

These ideas can be taken a step further by categorizing firms as *pioneers* or *imitators*. Firms that are broadly imitative can then be further subdivided into those content to follow at a distance, and those that adopt a deliberate policy of monitoring the leaders (the pioneers) and move in as soon as the market begins to grow or a new product shows signs of success (a wait and see approach). By behaving in this way, it is often possible to capitalize at a relatively low cost on the mistakes made by the pioneer. The attractions of this approach were highlighted by Freeman (1965) in a study of the electronic capital goods market.

The performance of the first laboratory prototypes and early commercial deliveries almost always leaves a great deal to be desired, so that the scope for improvement is very great. For this reason, some entrepreneurs have followed a deliberate policy of being *second* with a new product development rather than first. Success in such a policy often requires a greater capacity for moving fast with new developments once the time is considered ripe.

Proactive and reactive new product strategies

Although for many organizations the idea of a proactive new product strategy has a certain appeal, the reality is that proactive strategies are typically associated with a significant degree of risk and a need for heavy and sustained investment in money, skill and time, not only in the development and launch stages, but also throughout the product's life. If, therefore, an organization is intent on adopting a proactive stance, certain criteria need to be met. Included within these are:

- A fundamental and sustained commitment to new product development, and a willingness to accept the associated costs and risks
- An ability to protect the new product, possibly by patents, but certainly by a sustained and aggressive investment in marketing
- An ability to target high-volume or high-margin markets, and subsequently to capitalize on them
- The availability of the financial, staff and time resources needed, as well as a willingness to commit them
- A degree of flexibility so that the strategy can be modified to reflect changing environmental conditions
- Top management commitment
- A previously successful NPD track record (the new product chicken and egg syndrome).

Where these criteria cannot be met, the organization is likely to do far better by opting for a less proactive stance. This typically translates into one of four postures:

1. Rapidly responsive
2. Second but better
3. Imitative (me-too)
4. Defensive.

Overall, therefore, reactive strategies are best suited to an organization when:

- Its strengths lie in managing existing products
- It is faced with a competitor who has an aggressive and successful new product strategy and who has the capability and willingness to increase the pace of innovation within the industry
- There is a lack of specialist NPD skills within the organization
- Organizational resources are relatively limited
- Only limited protection of an innovation exists
- Markets are too small to guarantee the recovery of development costs.

In making these comments, a point that needs emphasizing is that neither a proactive nor a reactive stance is inherently better than the other. Rather it is the case that their suitability is a function of the organization's capability and as such needs to be reflected in the NPD strategy pursued.

12.8 Pricing policies and strategies

The second principal element of the marketing mix – price – is in many ways one of the most visible, and for many organizations price is also potentially the most controllable and flexible element of the mix. It is also in many cases one of the most important elements and, together with the product, a key component of an organization's marketing strategy. At the same time, however, it is generally acknowledged that pricing decisions are among the possibly most difficult that marketing managers are required to make. There are several reasons for this, the most significant of which is the nature and complexity of the interaction that commonly exists between three groups – consumers, competitors and the distribution network – and the need that exists to take this interaction into account when either setting or changing a price. An added complexity is that pricing decisions often have to be made quickly and without testing, but almost invariably have a direct effect upon profit. Largely because of this, many marketing managers work to reduce the relative importance of price by, for example, giving far greater emphasis to the product's distinctive values and to its image. In other cases, the pricing decision is taken out of the hands of the marketing strategist by a combination of market-related factors. Prominent among these is the presence of a large and aggressive competitor, who in effect determines prices for the industry as a whole and who, with the exception of just one or two small niche players, all other organizations are obliged to follow. The issue faced then by the strategist revolves not around the question of what price to set, but rather how to ensure that costs are contained in such a way that profits can still be made.

Price is undoubtedly a significant strategic variable and in many markets, despite a growth in the importance of non-price factors, it is still the principal determinant of consumer choice. Its significance is further emphasized by the fact that price is the only element of the mix that generates revenue – the others produce costs. It is perhaps understandable, therefore, that many marketing strategists treat pricing decisions with an extra degree of caution, which helps to explain why studies on both sides of the Atlantic have suggested that setting prices and dealing effectively with price competition is one of the biggest problems faced by marketing managers. The combination of these factors also goes some way towards explaining why it has often been suggested that relatively few organizations handle pricing well and why a series of mistakes are commonly made. The most common of these are that:

- Pricing decisions are often too heavily biased towards cost structures and fail to take sufficient account of either competitors' or customers' probable response patterns
- Prices are often set independently of other mix elements and without sufficiently explicit account being taken of, for example, advertising strategies and market positioning
- Too little account is taken of the opportunities to capitalize on differentiation
- Prices often do not vary sufficiently greatly between different segments of the market
- Prices often reflect a defensive rather than an offensive posture.

Taken together, these points suggest that pricing decisions run the risk of emerging largely as the result either of historical factors or of expediency, rather than of detailed strategic thinking. The likelihood of this risk is further increased by the often haphazard way in which the focus of responsibility for pricing is allocated. In many small firms, for example, pricing decisions are often made not by sales and marketing staff, but by senior management. In larger organizations, although the responsibility for price setting is often devolved downwards, senior management typically retains an overseeing brief.

Perhaps the biggest single source of the problems that are typically associated with pricing stems from the question of whether pricing should be the responsibility of marketing or finance. Although writers on marketing have long argued that price is a marketing variable, a substantial body of evidence exists to suggest that in many organizations price is still seen to be the responsibility of the finance department, and that finance staff guard their possession of this with a degree of jealousy that makes it difficult for marketing to do little more than exert a minimal influence. This is, of course, a stance to which we do not subscribe.

12.9 Approaches to price setting

Our earlier comment that, in some industries at least, organizations have little choice other than to follow the prices set by the market leader leads to the hypothesis that there are two types of firm:

1 *Price-takers*, which, by virtue of their size and market position, lack of product differentiation or passive organizational culture, are either unable or unwilling to adopt a proactive pricing stance. As a result, they follow the lead set by one or more larger and more aggressive organizations within the industry.
2 *Price-makers*, which, largely as the result of their size and power within the market, are able to determine the levels and patterns of price that others then follow.

It is the price-makers with which we are principally concerned here.

In setting a price either for a new or modified product, or for an existing product that is being introduced into a new sector of the market, the strategist needs to give explicit consideration to a variety of factors (see Figure 12.5). Of these, the most significant are:

- ➡ The organization's corporate objectives
- ➡ The nature and structure of competition
- ➡ The product life cycle
- ➡ Legal considerations
- ➡ Consumers and their response patterns
- ➡ Costs.

The firm's corporate and marketing objectives
The firm's product range
The existence or scope for unique selling propositions
The degree of product differentiation
Costs (own and competitors)
Resources
The firm's market position
Previous strategies
The nature of the market
The nature and structure of competition
Opportunities for market growth
Demand elasticities
Consumers' perceptions and expectations
The need for credit
Government influences and constraints upon price
Inflation rates
The costs of raw materials and, when these are brought in from overseas, the effects of currency fluctuations
Interrelationships within the product line

Figure 12.5 A summary of the influences on pricing strategy (source: Gilligan and Hird, 1986)

Competition
- ➡ Who are our direct and indirect competitors?
- ➡ What pricing strategies does each pursue?
- ➡ Is price competition an important element of their marketing mix?
- ➡ How are they likely to behave when faced with price competition?
- ➡ What financial resources do they have available to cope with a price war?
- ➡ Are competitors' prices related to particular market segments?

Legal
- ➡ Are there any constraints upon pricing and re-pricing decisions?
- ➡ Are there legal constraints upon margins within the distribution network?
- ➡ Is there freedom to engage in price promotions?
- ➡ Do prices have to be printed on the product and/or package?
- ➡ Does retail price maintenance exist?

Customers
- ➡ How do consumers perceive these types of product?
- ➡ How important is the product's country of origin?
- ➡ How is our organization perceived?
- ➡ Do any social or cultural factors exist that might influence the prices that consumers are willing to pay?

Distribution
- ➡ What are the implications of the patterns of distribution for costs and subsequent prices?
- ➡ What margins typically exist throughout the channel?
- ➡ How are price promotions and special offers likely to be received?

Other
- ➡ Are there any trade associations that might usefully be consulted before setting prices?
- ➡ Is there a consumer group (e.g. The Consumers' Association) which publishes comparative analyses of products which might influence consumers' perceptions of prices?
- ➡ Will our price strategy be affected by the behaviour of others in the market in the past?
- ➡ How is the market as a whole likely to respond to price changes?

Figure 12.6 The dimensions of a market's price profile (source: Gilligan and Hird, 1986)

Taken together, these factors allow the strategist to develop the market's price profile (see Figure 12.6) and, subsequently, to gain a greater insight into the market's pricing dynamics.

12.10 Deciding on the pricing objectives

Having developed the framework within which pricing decisions are to be made, the marketing strategist needs then to decide upon the specific pricing objectives that are to be pursued. Although the nature of these objectives and their implications for the eventual price charged can vary greatly, the ten most commonly pursued are:

1. *Survival*. This is arguably the most fundamental pricing objective and comes into play when the conditions facing the organization are proving to be extremely difficult. Thus, prices are reduced often to levels far below cost simply to maintain a sufficient flow of cash for working capital.
2. *Return on investment*. Here prices are set partly to satisfy the needs of consumers, but more importantly to achieve a predetermined level of return on the capital investment involved.

3 *Market stabilization*. Here, having identified the leader in each market sector, the firm determines its prices in such a way that the likelihood of the leader retaliating is minimized. In this way, the status quo is maintained and market stability ensured.

4 *The maintenance and improvement of market position*. Recognizing that price is often an effective way of improving market share, the marketing strategist uses price partly as a means of defending its current position, and partly as a basis for gradually increasing its share in those parts of the market where gains are most likely to be made and least likely to result in competitive action. Toys 'R' Us is just one example of a company that has used price in this way with considerable success. There are, however, dangers of using price to pursue market share, which include the following:

- ➡ Gaining market share, particularly in mature markets, is often prohibitively expensive and only rarely cost-effective
- ➡ Share-gaining price strategies tend to be blunt weapons that do not reflect differences between buyers
- ➡ At particular stages of the life cycle, market share is an inappropriate goal and can lead to the organization ignoring strategically more important areas, such as distribution.

5 *Meeting or following competition*. Having entered a market in which competitors are firmly entrenched, the firm may decide quite simply to take its lead in pricing from others until it has built up sufficient experience and established a firm reputation on which it can subsequently build.

6 *Pricing to reflect product differentiation*. For a firm with a broad product range, differences between the products can often be made most apparent by means of price variations related to each market segment. The differences in price are not necessarily linked to the costs of product, but are instead designed to create different perceptions of their products' value, and indirectly to increase profits. Among those who do this with a high degree of success and skill are the volume car manufacturers, who offer a variety of derivatives from a basic model.

7 *Market skimming*. With a skimming objective the marketer enters the market with a high price and only gradually lowers it as he or she seeks a greater number of market segments. In this way, profits are likely to be relatively high and, by minimizing the degree of commitment at any one time, the levels of risk are minimized.

8 *Market penetration*. As an alternative to the gradual entry strategy of market skimming, the firm may adopt a far more aggressive approach in which prices are set at a deliberately low level to ensure a high level of sales and to keep competitors at a distance. Among those to have done this consistently and successfully, particularly when entering new markets, are the Japanese.

9 *Early cash recovery*. Faced with problems of liquidity or a belief that the life of the product or market is likely to be short, the firm may opt for a policy designed to generate a high cash flow and lead to an early recovery of cash.

10 *Discouraging others from entering the market*. This is done by deliberately setting a low price so that returns are low, whilst simultaneously sending out signals about a willingness to engage in a price war with any new entrants.

12.11 Methods of pricing

Against the background of our discussion so far, it should be apparent that there are four principal factors that influence the pricing decision:

1. The company's marketing objectives
2. The company's pricing objectives
3. The determinants of demand, including costs, competitors and consumers
4. The product itself and the extent to which it has any distinguishing features.

The relative importance of these varies considerably from one product and market sector to another. All four, however, need to be taken into account in the choice of the pricing method. This is illustrated diagrammatically in Figure 12.7.

Taking account of competitors

One of the recurring themes of this book has been the need for competitive analysis and for the information that is generated through this to be taken into account when developing strategy. In the case of pricing decisions, the need to understand competitors'

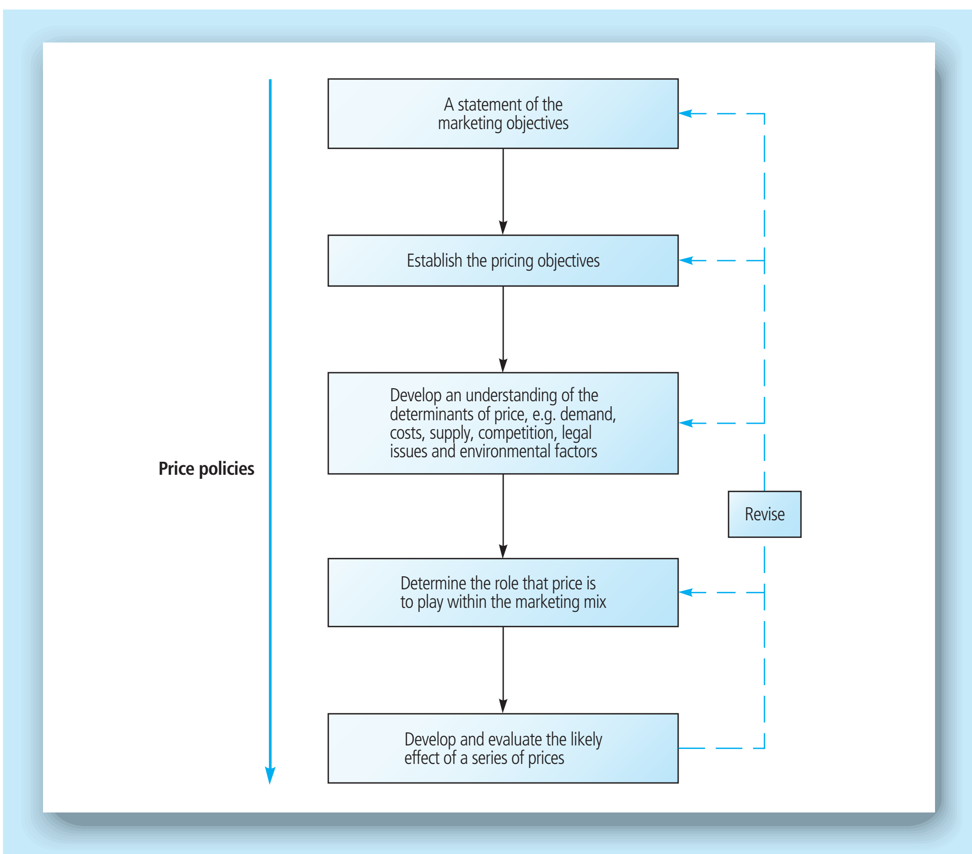


Figure 12.7 A framework for systematic pricing decisions

cost levels and their likely patterns of price behaviour is particularly important, since in many industries a competitive attack can be launched most readily and effectively through the price mechanism. Recognizing this, the strategist should monitor particularly closely each competitor's prices and price movements for any evidence of a possible price offensive. By doing this, it is possible to build a price profile for each competitor that includes a statement of the firm's likelihood and ability to engage in a price war. This involves taking account of nine factors:

1 Each firm's general competitive posture – is it, for example, offensive or defensive and, in Porter's terms (see Chapter 6), a 'good' or a 'bad' competitor?
2 Their cost levels and hence the scope that exists for price cutting
3 The level of resources that would be available in the event of a price war breaking out (see Illustration 12.1)
4 Their relative dependence upon each product and market sector
5 The potential returns from cutting prices
6 The relative importance of each market sector to competitors and hence their probable depth of commitment
7 Their past price history (offensive or defensive)
8 The distinctiveness of each competitor's major products and the apparent degree of brand loyalty that exists
9 The probable response of distributors and any others in the distribution channel.

Illustration 12.1 Price competition and the brand leaders

On 2 April 1993, Philip Morris, USA launched an elaborate integration programme of consumer and retail promotions, which effectively slashed the retail price of its flagship brand, Marlboro, by 20 per cent in the US market. This programme represented a major shift in strategy designed by Philip Morris to reverse the alarming declines in Marlboro's market share that had occurred in the face of severe price competition from discount brands. Given Marlboro's status as one of the world's premier brands and the changing environment of consumer marketing, the date these actions were announced was immediately labelled 'Marlboro Friday' and heralded as a milestone in marketing history.

The Marlboro experience threw into stark relief the vulnerability of even the very strongest of brands to sustained price competition and, in the minds of many brand strategists, raised the question of whether any brand is safe.

Although the information needed under most of these headings is often difficult to obtain with any degree of precision (particularly so in the case of costs), the strategic and tactical need for this information should never be underestimated. The strategist should therefore begin by focusing on the two or three most significant competitors and build the price profile for each firm. The framework can then gradually be developed for the next and less direct level of competition.

12.12 Using price as a tactical weapon

The bulk of our discussion so far has centred around the strategic role played by price. In many cases, however, price is used very largely as a tactical weapon, a role to which, because of its flexibility, it is well suited. There are several ways in which this tactical role can be performed, including:

- ➡ Varying prices to reflect geographic differences
- ➡ Offering discounts for early payment, off-season buying, and to encourage high-volume purchases
- ➡ Trade-in allowances to boost sales when the economy generally is sluggish
- ➡ Discriminatory pricing in order to capitalize upon the ability or willingness of particular market segments to pay a higher price
- ➡ Optional feature pricing, which allows the price of the basic product such as a car to be kept low, but for substantial profits then to be made by adding accessories such as a sunroof
- ➡ Hitting at competitors who appear particularly vulnerable.

Perhaps the most obvious and most important tactical role that can be played by price stems from the periodic need or opportunity to raise or lower prices in order to gain or retain a competitive advantage.

Price cutting, for example, can be used to put pressure on competitors and reverse a falling market share. Equally, it can be used to solve the problem of short-term excess capacity. Raising prices can often be a means of overcoming the problems of excess demand and generating an increase in profits.

However, before making any changes to prices, the strategist needs to consider the impact on the triumvirate to which we referred at the beginning of the chapter – consumers, the trade and competitors – and hence their likely reaction. Faced with a price increase, buyers and distributors may, for example, both respond negatively: buyers by turning to another product and distributors by focusing their attention on competitive products. A price increase might also provide competitors with an opportunity that they then become determined to exploit as far as possible.

Price cutting can, in certain circumstances at least, also create difficulties. Buyers may respond by perceiving the quality to have been lowered, while distributors may feel their margin has been eroded. Even where sales increase, this may simply be as the result of the lower price and does not necessarily lead to any degree of brand loyalty. The implication of this is that when either the price rises at a later stage or when a competitor lowers his price, sales drop. However, perhaps the biggest problem with price cutting is the danger of sparking off a price war.

Faced with a price change that is initiated by a competitor, the strategist has a number of choices:

- Follow by increasing prices by the same amount
- Keep prices the same in the hope that those who have previously bought from the competitor will be encouraged to shift supplier
- Cut prices to increase the price differential.

There are, of course, no hard and fast rules that can be applied. Rather it is the case that the strategist should give full consideration to both the short- and long-term implications of any move that is made.

12.13 Promotion and marketing communications

For many organizations marketing communications represent the most visible face of the organization. The question of how the communications programme is to be managed is therefore a fundamental part of the strategic marketing task. In deciding how best to do this, the planner needs to come to terms with a variety of issues, including the question of how the communications programme can be integrated with the other elements of the marketing mix in order to achieve the greatest degree of synergy; the relationship that exists between the communications or promotions mix and the other elements of the marketing mix is illustrated in Figure 12.8.

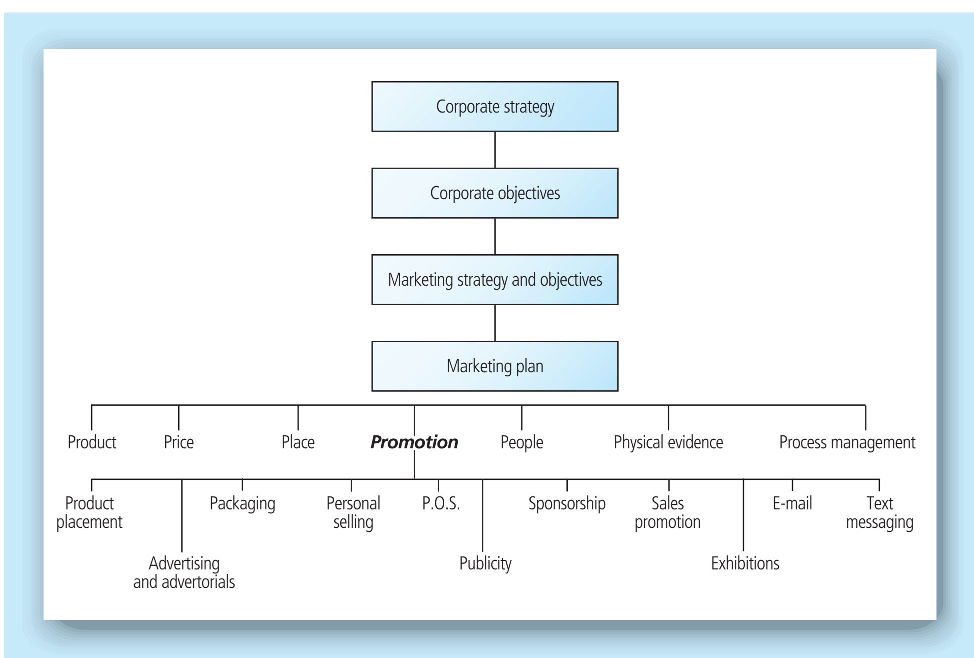


Figure 12.8 The promotions mix and its link with the corporate and marketing strategies

Although eleven elements of the promotions mix are identified in Figure 12.8, it needs to be recognized that this is not an exhaustive list of the communications tools that the marketing planner has available. The area of communications is perhaps the fastest moving element of the marketing mix and, because of this, new ways of communicating with the market are constantly emerging. As an example of this, *product placement*, which involves the deliberate featuring of a product or brand in a film or television programme, was in its infancy even five years ago. Today, however, it represents a useful – if still relatively small – element of the communications programme for many organizations. BMW, for example, has used product placement with a high degree of success in a number of James Bond films. By the same token, *advertorials*, which are print advertisements that have an editorial style and format similar to newspaper or magazine articles, are a small but growing part of the communications mix. Equally, text messaging and e-mail are both becoming increasingly significant communications tools.

Within this part of the chapter it is not our intention to focus in detail upon the individual elements of the communications mix, but rather to highlight the sorts of issues to which the marketing strategist needs to pay attention when developing the guidelines for the communications programme. In doing this, the marketing planner needs to take account of eight areas:

1. *The nature and detail of the target audience(s)*. Without this understanding, anything that follows will lack focus. The planner therefore needs to think about how the market might be segmented (refer back to Chapter 8) and then how the messages need to be tailored to fit the needs of each group.
2. *The short- and long-term communications objective(s)*. Having identified the target audience, the planner's focus needs then to shift to the question of the communications objectives. In essence, these objectives relate to the cognitive, affective or behavioural responses that the campaign is designed to achieve. In other words, the planner might be aiming to put something into the consumer's mind, change the consumer's attitude or encourage the consumer to behave in a particular way. Labelled *response-hierarchy models*, a summary of the four best known of these appears in Figure 12.9. The four models illustrated are based on the idea of a 'learn–feel–do' process, in which the buyer discovers something in general terms about the product, moves on to a more detailed understanding and then – and only then – takes action in the form of trying the product and possibly becoming a regular user. It is the role of the marketing and communications mixes to move potential buyers through this process. At the same time, of course, there are several elements that have the effect of slowing down or reversing this process; these include competitive action, memory lapses, poor previous experiences with the product or brand, and so on. However, it needs to be recognized that this sequence, although logical, is not necessarily the one that will always be followed. In the case of products in sectors in which there is little real or obvious differentiation and with which the buyer has little real involvement, the sequence may be that of 'learn–do–feel'. In these circumstances, the buyer buys the

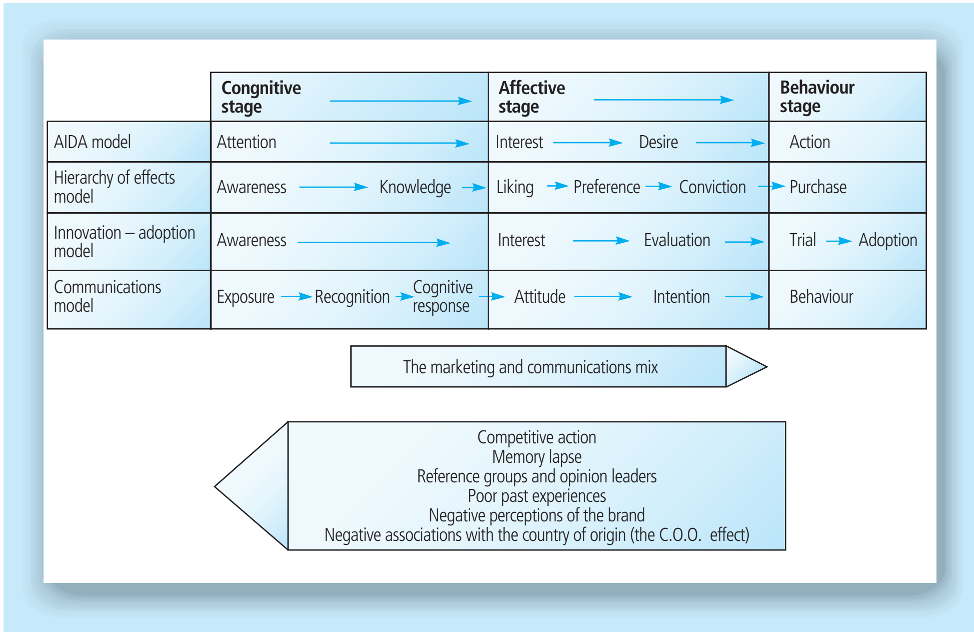


Figure 12.9 Response-hierarchy models and the communications process

product and only after having used it develops a more detailed understanding of it and possibly a degree of brand loyalty. Examples of this would be kitchen rolls and aluminium cooking foil.

3 *The messages that are to be used*. Having developed an understanding of the sort of response that the communications campaign needs to achieve, the planner can then begin to focus upon the design of the message, a task which involves deciding upon four issues:

(i) What to say (the content)
(ii) How to say it logically (the structure)
(iii) How to say it emotionally or symbolically (the format)
(iv) Who should say it (the source).

In deciding upon the first of these – what to say – the planner is faced with a number of choices, including whether to use a highly *rational appeal* (by buying this product you will gain this distinct and tangible benefit) or an *emotional appeal*. Emotional appeals can, in turn, be either positive or negative. In the case of a positive emotional appeal, the planner sets out to associate the product with an especially favourable image; an obvious example would be the ways in which cars, perfumes and expensive watches are advertised. *Negative* emotional appeals include fear, shame and guilt; an example of this would be how the advertisers of toothpastes typically play upon these sorts of emotions by emphasizing bad breath or the fear of tooth decay. However, irrespective of whether the appeal is positive or negative, the planner needs to identify the platform or selling proposition that the campaign is designed to rest upon.

4 *The communication channels that will carry the message*. For the message to reach the target market, the planner needs to select the channels through which contact and communication can be made in the most effective way. These channels fall into one of two categories: *personal influence channels* and *non-personal influence channels*. In turn, personal influence channels can be subdivided into: (a) *advocate channels*, consisting primarily of the sales force and others who are employed by the company; (b) *expert channels*, which consist of those whose views are seen to be independent and respected (these include independent authorities and advisers such as consumer groups, research institutes, *Which?* magazine and other bodies not employed by the company, but which comment on the value of a product); and (c) *social channels*, made up of neighbours, friends, business associates and reference groups. (For a discussion of reference groups, refer to 'social factors'.)

Non-personal influence channels include the mass media, such as newspapers, television, magazines, the cinema and posters, which have the advantage, not generally enjoyed by personal influence channels, of reaching large numbers of people. However, in doing this, they lack any personal element, with the result that the message is more easily ignored and misinterpreted.

5 *The budget*. Although there are various ways in which the communications budget might be set, the most common of these are the *affordable approach, competitive parity*, a *percentage of sales*, and the *objective and task technique*, all of which have been discussed in detail in a variety of other books (see, for example, Wilson and Gilligan, 1997).

6 and **7** *The mix of communication tools that is to be used and how the elements of the promotions mix are to be integrated and how, in turn, the promotions mix is to be integrated with the marketing mix*. In deciding upon which promotional tools should be used, the marketing planner needs to take account of eight elements:

(i) The degree of control that is needed in terms of how the message is delivered.
(ii) The financial resources that are available.
(iii) The credibility of each of the tools in the eyes of the buyer.
(iv) The size of the target markets and their geographic spread.
(v) The nature of the product and market and, in particular, whether it is an industrial or a consumer product.
(vi) Whether a push or a pull strategy is being used. (A *push* strategy, involving a heavy use of the sales force and trade promotions, is best suited to situations where there is a low level of brand loyalty; the choice is generally made at the point of purchase and the benefits are well understood by the buyer. A *pull* strategy, by contrast, is more appropriate when brand loyalty is high, differences between brands are easily perceived and there is a higher degree of involvement in the purchase.)
(vii) The stage reached by the product in its life cycle.
(viii) The buyer's readiness stage. Advertising and publicity are generally the most effective tools for raising levels of buyer awareness in the early stages and are

more cost-effective than either personal selling or sales promotion. However, as levels of awareness and readiness increase, so personal selling takes on a more direct and valuable role. Closing the sale is also achieved most effectively by personal selling and sales promotion, while advertising then begins to increase in importance again at the re-ordering stage.

8 *How the results of the campaign are to be measured*. An important part of any marketing activity is the measurement of the results that have been achieved. In the case of communications, this can be done using two dimensions: *qualitative measures* and *quantitative measures*. In the case of qualitative issues, the planner is concerned largely with attitudinal changes; quantitative measures relate to changes in sales levels, levels of satisfaction, and trial levels. The extent to which a campaign is successful is, however, influenced by a whole series of factors, many of which are outside the control of the marketing planner.

Although these eight areas are laid out sequentially, it needs to be recognized that, almost inevitably, a degree of iteration will be involved in arriving at a firm decision in at least some of these areas. This is perhaps most obvious in terms of the constraints that might be imposed by the budget. It could well be the case, for example, that having identified the target audience, the communications objectives, the messages and the channels, the costs of implementing the campaign are simply too high for the organization. Given this, the planner is likely to be faced with having to go back and revise the objectives and/or time scales.

Integrating the elements of the promotions mix

Against the background of what has been said so far, the planner needs then to focus upon the ways in which the various communication tools might possibly be brought together in the form of an integrated marketing communications programme. The thinking behind this is straightforward in that by achieving a high(er) level of integration between the individual elements of the communications mix, the planner should achieve a greater degree of clarity and consistency, with the result that there will then be a seamless integration of messages and a correspondingly greater impact in the marketplace. But although there is an obvious logic to the idea of integrating the elements of the communications mix, the reality is that in many organizations too little effort is placed upon achieving this. There are several reasons for this, the most obvious of which is that large organizations in particular often make use of different communications specialists to deal with each of the individual elements of the communications programme. As a result, the focus for integration is the brand or marketing manager, many of whom have little direct experience either of the detail of the individual tools or of the ways in which integration might best be achieved. However, the consequences of *not* achieving a high level of integration are potentially significant, since the messages to the market are then likely to lack the degree of unity and consistency that is needed in an ever more competitive arena.

12.14 Distribution strategies and the distribution plan

Having discussed the process by which orders are obtained, we now need to turn our attention towards the problem of fulfilling these orders.

A significant and increasing part of many organizations' expenditure is that incurred in keeping their products on the move through the channels of distribution to the final consumer. The distribution plan focuses on the set of decisions relating to the processes that are concerned with the flow of supplies, components, products and services between sources of supply, the producer, intermediaries and end-users.

The success of order-getting activities will determine the volume and hence the scale of order-filling activities. This influences distribution planning (and control) in a significant way. Similarly, the level of customer satisfaction engendered by order-filling activities will affect the placing of repeat orders, which again illustrates the interdependency of the elements of the marketing mix.

There are two major areas to consider under the broader heading of order-filling. One relates to channel management decisions, given that few organizations distribute their outputs directly to the final user. The other relates to the management of physical distribution activities, such as transportation, inventory management, warehousing and order-processing (collectively known as logistics). We will deal with each of these aspects of the distribution plan in turn.

12.15 Channel management

Channel management embraces the analysis, planning, organizing and controlling of an enterprise's channel of distribution. This is an increasingly demanding element of the marketing domain due, in part, to pressures from global competition, but also because of a series of other major trends that impact upon channel management:

- *An increasing emphasis on the development of channel strategy*. There is a relatively recent recognition that channel strategy can be an important means for achieving competitive advantage.
- *The emergence of new retailing concepts*. This includes the Internet and the so-called 'category busters' such as Toys 'R' Us, which operate on a huge scale with very low prices.
- *The increasing importance of channel power*. Channel-driven strategies are being employed by an increasing number of companies that seek to develop or acquire products that can be marketed through their existing channels. For example, Gillette acquired Oral-B Laboratories due to the scope for increasing the usage of existing channels (i.e. razors and razor blades are sold through the same intermediaries as toothbrushes and other dental hygiene products).
- *The growth of partnerships and strategic alliances*. Every year sees the establishment of close working relationships between producers and key intermediaries with a view to generating competitive advantages.
- *The development of direct marketing*. The emergence of database and one-to-one marketing in recent years has resulted in a huge increase in the use of direct mail, the

telephone and the Internet as distribution channels. A significant proportion of insurance and banking business, for example, is now conducted by telephone.

- *Enhanced distribution productivity*. There has been a considerable increase in the use of information technology (IT) within distribution, along with re-engineering to develop more streamlined organizational arrangements, which have resulted in both cost reduction and better management in distribution channels.

While it is possible to consider channel management from the point of view of, say, the retailer (or other final reseller) by looking 'up the channel' towards the producer, it is much more usual for the perspective to be that of the producer looking 'down the channel' towards the market. This latter perspective will be adopted here.

Key decisions in channel management

Rosenbloom (1995) has identified six major decision areas in channel management. These are illustrated in Figure 12.10. The remainder of this section will deal with those decisions which are of greatest significance to the development of a distribution plan.

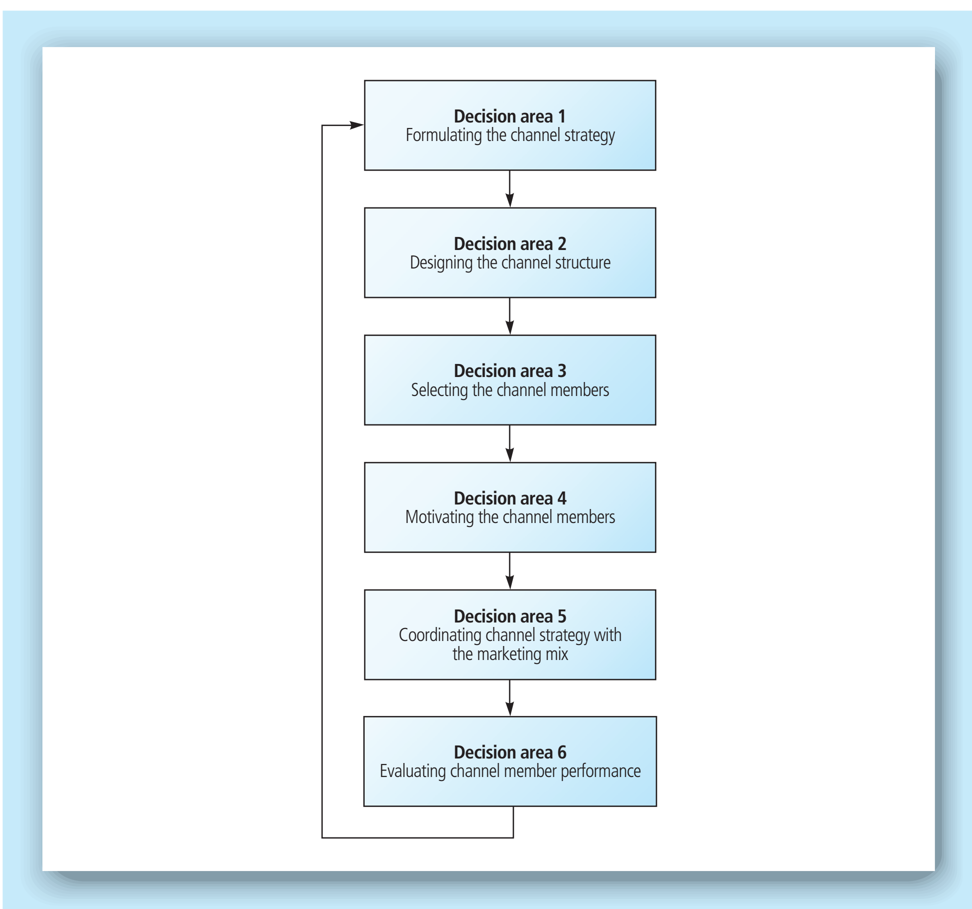


Figure 12.10 Major decision areas in channel management (source: Rosenbloom, 1995)

Formulating the channel strategy

The objectives to be served by a distribution strategy will typically cover how, when and where the enterprise's market offerings should be made available to the targeted markets. The strategy provides a means to these ends. Perhaps the most crucial aspect is the choice of a *level of service* by which an enterprise might seek to secure competitive advantage.

It is also necessary to consider the characteristics of orders: large orders will require different distribution strategies from those which are appropriate for small orders.

As Rosenbloom (1995, p. 554) has pointed out, the importance of channel strategy is likely to depend upon the existence of one or more of the following conditions:

- Target markets (or customers) demand a strong emphasis on distribution
- Competitive parity exists in other marketing mix variables, with the need for channel strategy to provide some differential advantage (as in the case of McDonald's)
- Competitive vulnerability exists because of distribution neglect
- Opportunities for synergy exist through channel strategy (e.g. via partnerships and strategic alliances).

Designing the channel structure

Doyle (1994) has suggested that there are three generic channel options: *direct marketing, via a sales force* or *via intermediaries*. These are illustrated in Figure 12.11. To some extent, the choice between these generic options will depend on answers to the following questions:

- Can we effect distribution better than intermediaries at an equivalent cost?
- Can we effect distribution as well as intermediaries at a lower cost?

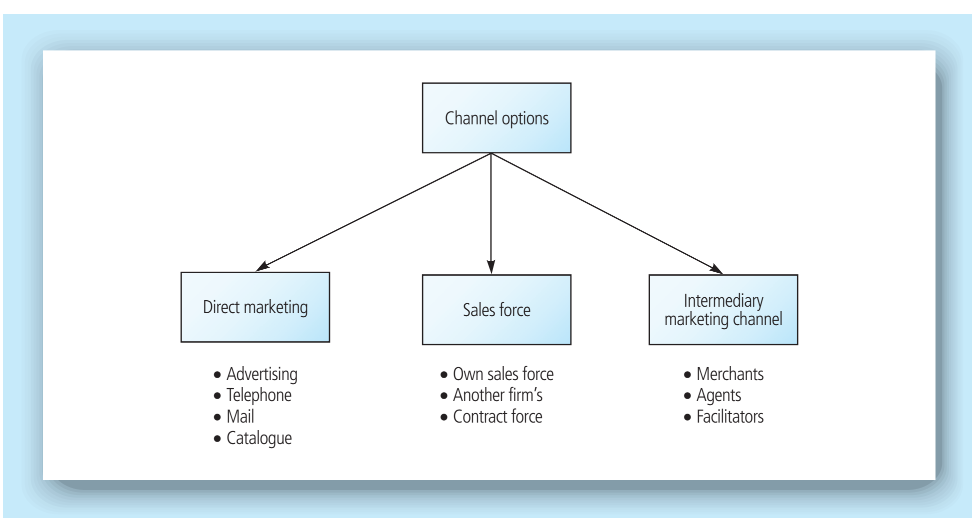


Figure 12.11 Three generic marketing channels (source: Doyle, 1994, p. 318)

If the answer to either of these questions is yes, then the enterprise should consider direct distribution. However, a barrier to direct marketing might exist in the form of *entrenched buying behaviour*. That is, people get used to buying certain products through particular intermediaries and have an inbuilt inertia to change.

In deciding on the most appropriate configuration of distribution channels, it must be decided whether to aim to sell products through all available outlets, through a selection of the available outlets in a particular area, or to limit distribution to one outlet in each area. These three alternative strategies are known as:

- *Intensive distribution*, often sought by manufacturers of high-volume, low-value products in mass demand for which the typical pattern of buying behaviour is that of habit and convenience. An obvious example is soft drinks, which are distributed intensively in outlets ranging from vending machines to theatre foyers and fish and chip shops.
- *Selective distribution*, used by manufacturers of consumer durables for which the typical pattern of buying behaviour is that of 'shopping around'. Most consumers will make an effort to compare the offerings available in different outlets. For this reason, the manufacturer need not distribute their products through all the available outlets. For example, a dishwashing machine might be distributed via electricity company showrooms and department stores in town centres rather than via all available outlets. Selective distribution involves less communication effort than does intensive distribution and also offers opportunities to develop closer relationships within the channel from which adequate market coverage might be achieved with lower cost and greater control than is possible with intensive distribution.
- *Exclusive distribution*, which arises when the producer limits the number of intermediaries more strictly to one per geographical area. The dealer will receive exclusive rights to distribute the producer's offerings in that geographical area in return for agreeing not to carry competing products. The producer will consequently receive a greater commitment from the outlet and more control over image and price. Bang & Olufsen audio equipment is a good example of this type of distribution strategy.

The choice among the alternatives will depend to a large extent on the nature of the market offering, the target market segment and the product positioning. Lancaster and Massingham (1988) suggest that some of the factors that might persuade a company to prefer a more exclusive form of distribution include:

- Where the customer needs or expects specialist advice, facilities or service
- Where the manufacturer and/or distributor would gain from the enhanced image associated with selective/exclusive distribution
- Where potential sales volume would not warrant more intensive distribution
- Where the manufacturer wishes to exercise more control over channel members' marketing activities
- Where more intensive distribution might result in conflicts between channel members.

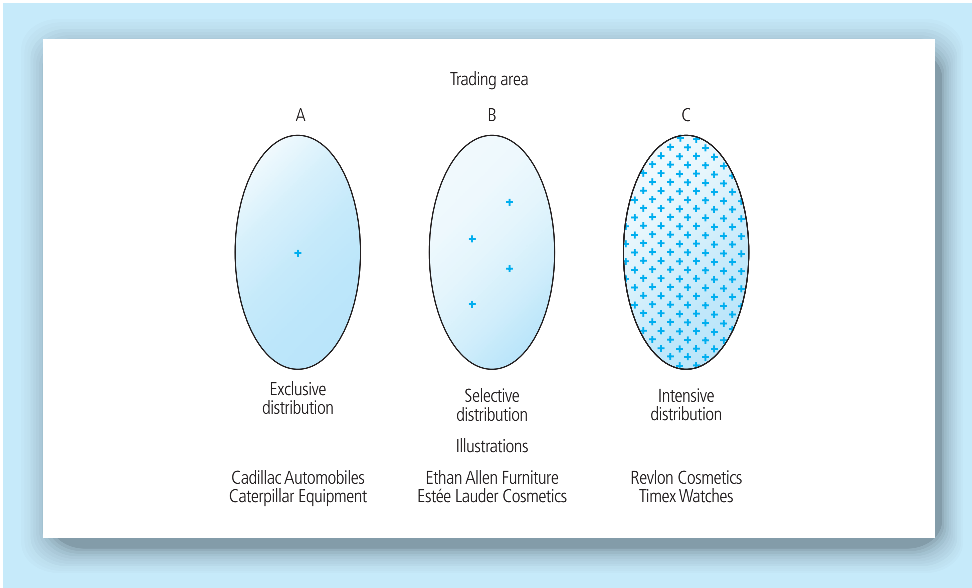


Figure 12.12 Distribution intensity (source: Cravens, 1990, p. 428)

Channels of distribution, once selected and established, involve the enterprise in relatively long-term commitments to other organizations (such as wholesalers and retailers), as well as affecting in a very significant manner every other major marketing decision. It is important, therefore, to ensure that the implications of each alternative choice are carefully evaluated. We now turn to this question.

Selecting the channel members

In developing this part of the distribution plan consideration needs to be given to (see Wilson, 1983, p. 572):

- ➡ *Economic criteria*, which will reflect the pattern and levels of costs, sales revenue and profit. As each alternative channel configuration is likely to produce different levels of sales revenue and costs, the best alternative is not necessarily that producing the most or the least respectively, but the one which produces the best relationship between the two – i.e. profit.
- ➡ *Control criteria*, which relate to the degree of influence, motivation and conflict among channel members. For example, an agent who handles many different manufacturers' lines will probably not be seen favourably by manufacturer A because the agent will put his own interests ahead of A's in endeavouring to sell *any* line – not just A's – and this can lead to friction.
- ➡ *Adaptive criteria*, by which the manufacturer is able to preserve some flexibility in responding to changing conditions. Long-term franchise agreements are antithetical to adaptive behaviour within distribution channels.

To this list Cravens (1990, pp. 429–31) would add:

- *End-user considerations*, since it would not be helpful to select intermediaries not favoured by customers further down the supply chain
- *Product characteristics*, including the complexity, special application requirements, servicing needs and so forth that channel members must be competent to handle
- *Manufacturer's capability and resources*, which are reflected in bargaining power and channel control.

An approach to carrying out an evaluation of alternative channel options has been suggested by Doyle (1994, pp. 319–20). This is illustrated in Figure 12.13, from which it can be seen that a range of criteria has been specified, each accorded a weight to reflect its relative importance, and then weighted scores produced for each channel option. In this example, the vertical marketing system (VMS) produces the highest score. The definition of a VMS is that of 'professionally managed and centrally programmed networks pre-engineered to achieve operating economies and maximum marketing impact . . . through integration, coordination and synchronization of marketing flows from point of production to points of ultimate use' (McCammon, 1970, p. 43). A conventional channel structure (i.e. involving intermediaries but without any attempt at managing the channel as a whole) produces the lowest score. However, the numbers themselves are not the most important feature of this approach. The main aim is to encourage managers to identify the attributes that they consider to be necessary if a channel is to operate effectively. In this way, the strengths and weaknesses of alternative channel options can be highlighted.

Criteria	*Importance weight*	*Channel options*			
		Direct	*Franchise*	*Conventional*	*Vertical*
Channel objectives					
1 Goals	0.1	5	2	3	4
2 Resources	0.1	1	2	5	3
3 Positioning	0.1	1	4	2	5
Channel strategy					
4 Target market	0.15	3	3	4	4
5 Differential advantage	0.2	4	4	1	5
Channel reliability					
6 Motivation	0.15	5	4	2	4
7 Control	0.1	5	3	1	4
8 Risk	0.1	2	2	2	3
Weighted scores	**1.0**	**26**	**24**	**20**	**32**

Figure 12.13 Evaluating alternative channel options (source: Doyle, 1994, p. 320)

12.16 The 'soft' elements of the marketing mix

We began this chapter by suggesting that the amount of attention that has been paid to the 'softer' elements of the marketing mix has increased significantly over the past few years. To a large extent, this has been due to the way in which as more markets have become increasingly crowded and competitive, so the traditional bases of competitive advantage of product, price and so on have been eroded. It was the recognition of this that led marketing planners to search for other forms of competitive differentiation and to the development of the expanded marketing mix, with its inclusion of the three 'soft' Ps of:

- ➡ People
- ➡ Physical evidence
- ➡ Process management.

The first of these three elements emerged largely from the service sector, where a firm's personnel play a pivotal role in delivering the product/service and typically have a significant effect on the customer or client's perceptions of quality. The significance of the front-line staff has also been highlighted by a wide variety of studies, and it is these that are reflected in our discussion in Chapter 1 of right-side-up and wrong-side-up organizations (see pp. 22–3).

Given this, ***the people or service dimension*** needs to be managed both proactively and strategically, with the marketing planner having to decide from the outset on the service levels that are to be achieved. Having done this, staff then needs to be trained, their performance monitored and a series of control systems introduced. Amongst the organizations to have done this well are Dyson (see Illustration 11.4) and Singapore Airlines. In the case of Dyson, the company has used service quality as an integral part of its marketing strategy, whilst Singapore Airlines has astutely used technology to achieve service excellence.

In setting service levels, the planner needs to take account of five areas:

1. Customers' needs and expectations
2. The approaches being taken by competitors
3. The customers' willingness and ability to pay for particular levels of service
4. The ability of the organization to deliver particular service levels *consistently*
5. The cost of delivering different levels of service and the returns that will be generated from this both in the short and the long term.

The second dimension of the expanded marketing mix, ***physical evidence***, relates to the environment surrounding the product or service and, as such, embraces buildings, vehicles, colours and anything else that communicates a message about the quality of the product or service, including how the staff are dressed.

The third and final dimension is that of the process by which the product or service is acquired and in particular how this process is managed. Effective ***process***

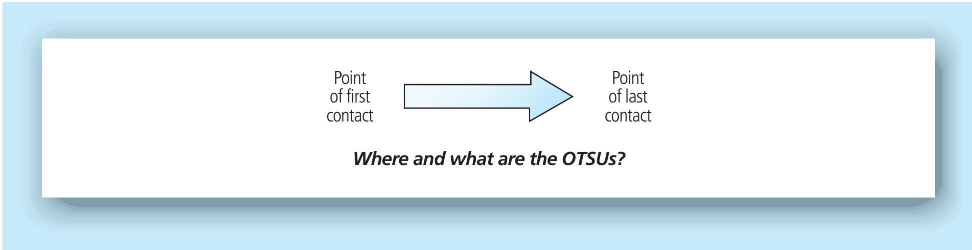


Figure 12.14 Process management and moments of truth

management has proven to be a potentially powerful differentiator, since it relates to how customers are treated from the point of their very first contact with the organization through to the last (see Figure 12.14). We first made reference to this in Illustration 5.8, in which we discussed both Scandinavian Airlines and Jan Carlzon's understanding of the significance of points of contact and David Clutterbuck's ideas about OTSUs (Opportunities To Screw Up); it may be helpful to read this material again (refer to pp. 207–8).

In thinking about process management, the marketing planner needs to develop the strategy and mechanisms against the background of the factors that influence the service level strategy that was discussed earlier. All too often, however, process management is affected by a whole series of seemingly small issues, but which from the customer's standpoint are significant. In order to achieve an effective process management system, the marketing planner needs, therefore, to begin with a detailed audit of the current processes, *looking at each of these from the customer's viewpoint*, with a view to identifying the sorts of factors that are the basis for customer satisfaction and customer dissatisfaction. Having done this, there is then the need to focus upon making the sort of changes that will ensure the customer experience is as smooth as possible. In discussing this, Berry (1987) proposes seven guidelines:

1. Ensuring that *marketing* happens at all levels from the marketing department to where the service is provided
2. Consider introducing *flexibility* in providing the service – when feasible, customize the service to the needs of customers
3. Recruit *high-quality staff* – treat them well, communicate clearly to them and recognize that their attitudes and behaviour patterns are the key to service quality and differentiation
4. Attempt to market to *existing customers* to increase their use of the service, or to take up new service products
5. Set up a *quick response facility* to customer problems and complaints
6. Employ *new technology* to provide better services at lower costs
7. Use *branding*.

12.17 Integrating the elements of the marketing mix

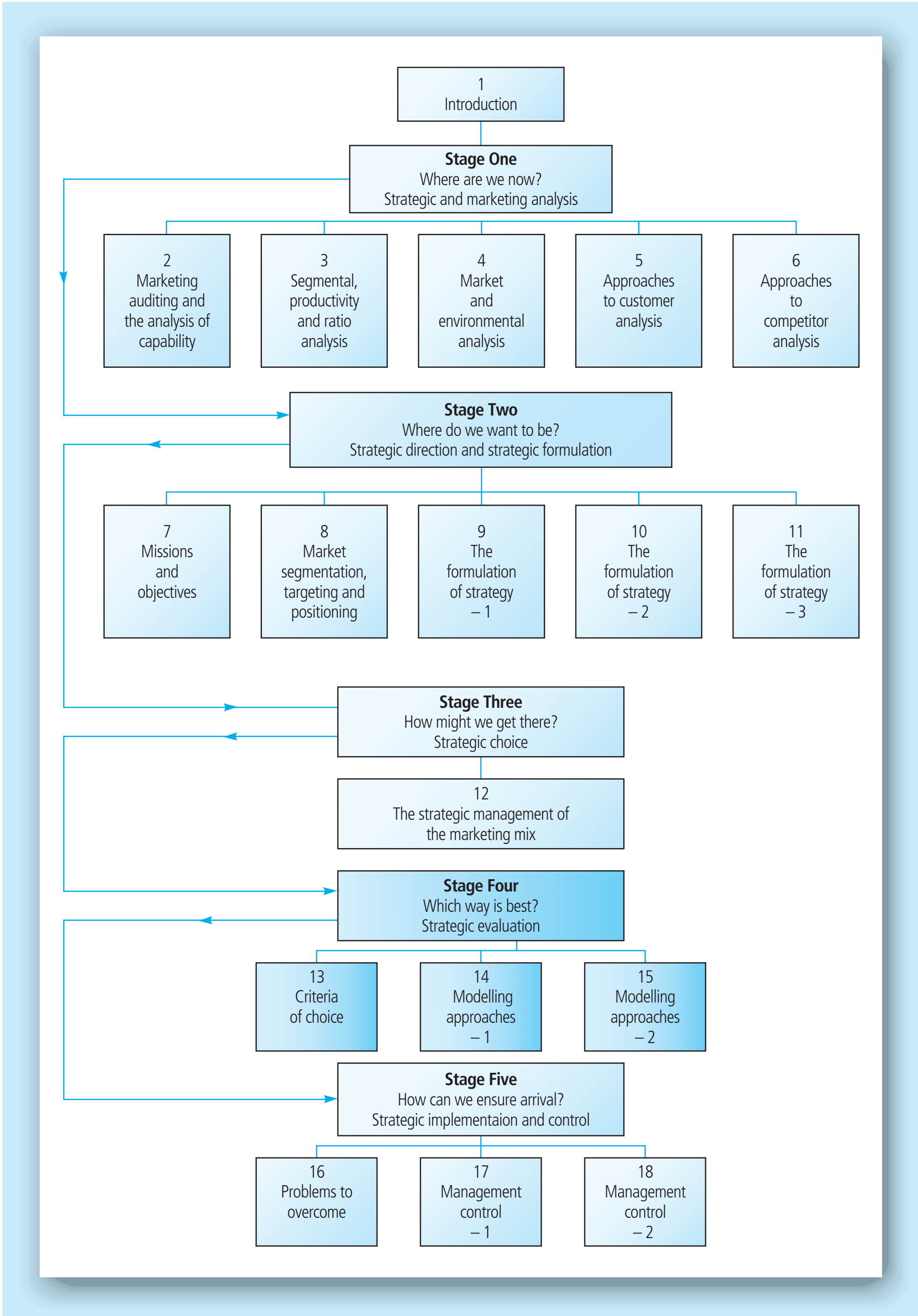
Although the effective management of each of the individual elements of the mix is largely self-evident, the marketing strategist also needs to pay attention to the ways in which the mix as a whole is managed and how the various elements can be integrated in such a way that a (high) degree of synergy is achieved. In the absence of this it is almost inevitable that the nature of the interrelationships between the different elements of the mix will be ignored or misunderstood and conflicting messages will be sent to the market. In discussing this, Jobber (2001) highlights the ways in which an effective marketing mix has four principal characteristics:

1. It matches customers' needs by reflecting the issues of importance to them in the choice process
2. It creates a competitive advantage
3. It matches the resources available to the organization
4. It is well blended in that each of the elements contributes to a single consistent theme.

In order to achieve this, the marketing strategist needs to have a clear understanding not just of what the mix is designed to achieve (what are the short- and long-term objectives?), but also of the spectrum of factors that contribute to and inhibit organizational capability. There are several ways in which this integration can be achieved, but most obviously by being clear about the product's strengths and weaknesses, its current and probable future market positioning, how the competition is behaving, and the role that each element of the mix is capable of playing within the market. Against this background, the marketing strategist can then focus upon the linkages that exist between the mix elements and how they might possibly be leveraged.

12.18 Summary

Within this chapter we have focused upon the individual elements of the mix and shown how, for many organizations, the emphases within the mix are changing. The factors that have led to these changes can be traced back to many of the issues that we have raised at earlier stages of the book, including a very different type of customer, far higher levels of competition, the very different bases of competition, and a generally greater degree of environmental volatility. Together, these factors have led to an erosion of the traditional foundations of competitive advantage and the consequent search by marketing strategists for other elements that will provide the means of differentiation within the marketplace. In giving emphasis to the 'softer' elements of the mix, marketing strategists have learned from organizations in the services sector, where there has long been a recognition that it is people and processes that are capable of providing potentially powerful competitive differentiators.


1
Introduction
Stage One
Where are we now?
Strategic and marketing analysis
2
Marketing auditing and the analysis of capability
3
Segmental, productivity and ratio analysis
4
Market and environmental analysis
5
Approaches to customer analysis
6
Approaches to competitor analysis
Stage Two
Where do we want to be?
Strategic direction and strategic formulation
7
Missions and objectives
8
Market segmentation, targeting and positioning
9
The formulation of strategy – 1
10
The formulation of strategy – 2
11
The formulation of strategy – 3
Stage Three
How might we get there?
Strategic choice
12
The strategic management of the marketing mix
Stage Four
Which way is best?
Strategic evaluation
13
Criteria of choice
14
Modelling approaches – 1
15
Modelling approaches – 2
Stage Five
How can we ensure arrival?
Strategic implementaion and control
16
Problems to overcome
17
Management control – 1
18
Management control – 2

Stage Four: Which way is best? Strategic evaluation

The overall concern within this stage is with the choice among alternative marketing strategies that were suggested in Stages Two and Three. This concern reduces to two principal questions:

1. What criteria of choice should be employed? This is dealt with in Chapter 13.
2. How might alternative marketing programmes be evaluated given the criteria articulated in question 1? This is addressed in Chapters 14 and 15.

Prior to moving on to Chapters 13–15, it may be useful to consider some of the evidence that is available on the effectiveness of marketing activities within the UK. This will provide useful background material as we move through Stages Four and Five of the book.

In their study on the effectiveness of British marketing (Lynch et al., 1988), the Bradford-based research team followed up an earlier study they had undertaken (Hooley et al., 1984). Their main interest was in identifying the characteristics of the more successful organizations across a sample that was broadly representative of British companies in terms of size, sector and business type.

No magic formula was found that might guarantee the success of marketing activities. However, the better performers showed a firmer grasp of the key marketing concepts and a greater consistency in applying those concepts across their range of operations. There was, in fact, a stronger commitment to marketing principles, resulting in a consistent marketing-oriented culture, within the more successful enterprises. In summary, the prevalent attitudes among the better performers were found to be:

- A greater emphasis on identifying and meeting customers' needs
- The chief executive saw marketing as a guiding philosophy for the whole organization
- More aggressive, expansionist objectives
- A greater willingness to pursue longer-term marketing goals rather than short-term financial objectives
- Great importance was attached to marketing training.

With regard to marketing practices, the better performing companies exhibited the following characteristics:

- A greater input was made by marketing to overall strategic planning
- There was more evidence of formal, long-term marketing planning
- Marketing objectives were more aggressively specified
- They were prepared to attack the whole market and take on any competition
- They were more prepared to take calculated risks
- They adopted superior quality, high-price positioning strategies.
- Competitive advantages were built through reputation and quality
- They were more active in new product development in order to achieve market leadership.

In overall terms, the more successful enterprises showed impressive consistency in implementation derived from a combination of their clearer marketing grasp and their more focused marketing structures and systems.

Other studies that have examined the success of marketing activities include those by Verhage and Waarts (1988), who looked at Dutch and British companies on a comparative basis, and those by Doyle et al. (1988) and Wong et al. (1988), who looked at the comparative quality of marketing activities in British, Japanese and US companies. Results from the last two studies highlighted significant weaknesses in the marketing effectiveness of British companies that were exacerbated by an excessive emphasis on short-run financial gains. Given that the focus was on comparative performance within UK markets, it was found that US firms were less committed to the UK market than were their Japanese rivals. While the Japanese were working to close the technological gap between themselves and their US competitors, the latter were demonstrating a short-term profit focus. This makes it likely that US market positions will deteriorate, since the Japanese showed themselves to be unmistakably aggressive, single-minded in their pursuit of market share, and undeniably more market-oriented than their US or British counterparts.

In 1994 a report prepared by the Cranfield School of Management for the Chartered Institute of Marketing revealed scepticism about the contribution of marketing to business success (see Simms, 1995, p. 12). The Chartered Institute of Marketing subsequently commissioned a further study (see Parkinson, 1995) to measure marketing's contribution to the competitive performance of British manufacturing industry. The aim was 'to develop and validate a framework which companies could use to assess and improve their competitive performance through effective and efficient marketing'. The Executive Summary of the report *Manufacturing – The Marketing Solution* is reproduced below (with permission of the CIM).

Executive Summary

Objectives

UK manufacturing industry has experienced considerable problems over the last 25 years. From a position of market dominance in the mid-1960s, British companies have steadily lost international market share. Turnover and employment in manufacturing have steadily declined, and overseas competitors have increased their share of world markets.

This report has two objectives:

1. To measure marketing's contribution to the competitive performance of British manufacturing industry
2. To develop and validate a framework that companies in British manufacturing industry can use to assess and improve their competitive performance through effective and efficient marketing.

The excellence framework

Marketing, particularly in a business-to-business setting, involves a much wider range of activities than those typically taking place in the sales or marketing department. These functional areas make an important contribution, frequently providing specialist services such as market research, competitive analysis and business planning services. However, in an effective company, the whole of the organization is market focused. All of its capabilities are focused on the market.

These capabilities include internal processes such as research and development, operations management, and manufacturing. They also include external processes such as supply chain management, customer development, and the management of strategic alliances with suppliers, distributors and other competitors. Effective companies manage this alignment more effectively and more efficiently than their competitors. Such companies are also capable of modifying and developing new ways of meeting market needs to maintain superior market positions.

Improving competitive performance involves managing key marketing processes more effectively. This involves four stages:

1. Defining the processes that influence business performance
2. Measuring performance against these processes
3. Comparing the company's performance with those companies that achieve superior performance
4. Investing in (or redesigning) those processes that are most likely to give competitive advantage.

An increasing number of case histories are now appearing in management literature on how to use business process engineering to improve competitive performance. However, little attempt has been made to date to review the processes that really contribute to competitive success, and there are few practical diagnostic frameworks available to help in the analysis.

Such a framework was developed for this project, and has been used to assess critical marketing processes in over forty companies operating in British manufacturing industry.

The following key processes were seen to be critical:

- ➡ Marketing strategy development
- ➡ Quality strategy development
- ➡ Product and process innovation
- ➡ Customer development and management
- ➡ Brand management
- ➡ Supply chain management
- ➡ Integration of marketing and operations.

To succeed, organizations should have a clearly defined strategic marketing planning process, in which customer and competitor analysis are major elements. This process

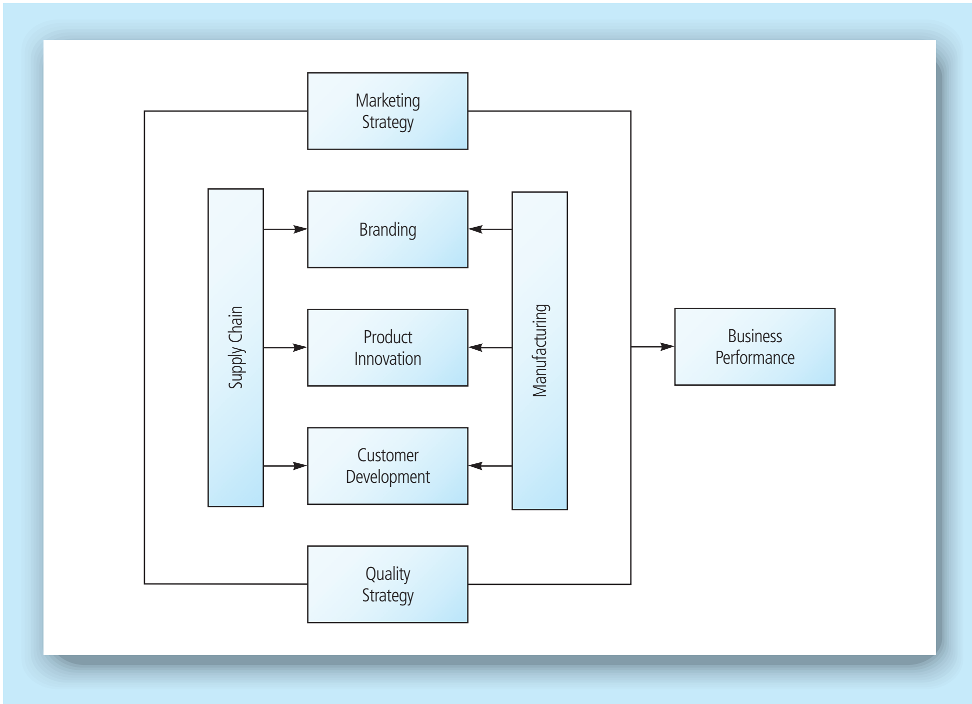


Figure S4.1 Marketing excellence framework

should be driven by a determination to allocate resources in a systematic way to reflect different levels of market opportunity and competitive strengths and weaknesses. Equally importantly, the process should be firmly led, with a clear sense of vision and purpose, and explicit communication of the company's objectives to employees and other stakeholders.

However, having a strategic direction alone is not sufficient. A well worked out strategic marketing plan will flounder if there is no system to ensure that such a plan is effectively implemented. In the framework, the company's quality strategy is the second key enabling factor. If strategic marketing planning is about vision and direction, then quality strategy relates to making things happen in a direct and accountable way.

Five sub-processes have been identified that link together within the broad overall framework of strategic marketing planning and quality strategy. These are product and process innovation, manufacturing and operational support, supply chain management, branding, and customer development. Together, these seven processes make up the marketing excellence framework (see Figure S4.1).

Method

To develop the marketing excellence framework, each of the seven processes was disaggregated into individual components. These components enabled the project team to conduct a detailed analysis of each of the seven elements of the model. They also provided a basis for a company to score itself in terms of competitive marketing performance. A section of the full report discusses how readers can use this approach in their own organizations. These components were derived from the marketing literature, combined with the research team's own experience. In addition, the original framework was piloted to ensure that the main elements made practical sense to the UK manufacturing industry.

The study approach required considerable cooperation from participating companies. Interviews were required with the members of the senior management team responsible for each of the processes in the marketing excellence framework. To implement the research required the participation of up to six managers in each company. At an early stage in the research a decision was taken to build the sample in an incremental way. Considerable negotiation was required with each company to agree participation in the project.

Although the study was focused on individual operating companies, many of these companies had several different divisions. Within each of these divisions there were also potentially many different products and markets. The chief executive of each company was asked to designate the business area within the company where the analysis should be based.

The sample is well distributed, both in terms of industrial sectors and size of companies. In addition, data has been collected at the business unit level, where day-to-day decisions are made about the future of the organization. Perhaps most importantly, the project team interviewed almost 200 managers responsible for different functional areas within each company. Jointly, these managers defined and developed the companies' competitive strategies.

Characteristics of the sample

Of the companies in the sample, 66 per cent (twenty-nine companies) described their major business area as a major cash generator, while 27 per cent (twelve companies) regarded the business as an area to invest in for the future. In only 7 per cent (three companies) was the business regarded as declining. This was consistent with the description of the growth rate of the markets. Fifty-five per cent (twenty-four companies) believed that their major business was operating in a mature marketplace. Approximately one-third (seventeen companies) characterized their markets as new or established and growing.

Over 50 per cent of the sample (twenty-five companies) felt that competition for their core (most important) market was intense and growing. For sixteen companies (36 per cent) it was still moderate and stable. Only three companies (7 per cent) felt that there was little effective competition. Thirteen companies (29 per cent) faced markets where the competition was well established and stable. However, in the majority of cases competition was either gradually changing (nineteen companies) or changing rapidly (twelve companies).

Performance of marketing processes

The companies in this sample do not score highly on any element of the excellence framework (see Figure S4.2). In particular, scores are markedly lower for branding as a business process, reflecting a lack of concern with branding as a strategic process and a potential source of competitive advantage. For most companies, significant changes would need to be made to achieve 'best in class' performance.

Companies were classified into one of four main groupings. Those scoring up to 13 on the excellence framework were termed the '*stragglers*'. Stragglers have been left behind in terms of the use of best-practice techniques. There are twelve such companies in this sample. The second major grouping is the '*copers*'. These companies have adopted some best-practice techniques and are coping with their environment, albeit in an imprecise way. Copers manage some processes effectively, but there is still considerable room for improvement. Copers have been defined as those companies scoring between 13 and 19 on the framework. There are fourteen copers in the sample.

The third grouping includes companies that score heavily on some elements of the framework but not necessarily well everywhere. These companies have been defined as those scoring over 19 and up to 25 on the framework. They are frequently in transition to excellence. Such companies have been termed the '*travellers*'. There are twelve travellers in the sample. The final group is those companies that have already developed 'best in class' practice, defined by scores over 25 on the framework. These companies

Business Process	1	2	3	4	5	Total No. (%)	Average
Marketing Strategy	4 (9)	13 (30)	14 (32)	10 (23)	3 (7)	44 (100)	2.9
Quality Strategy	8 (18)	7 (16)	9 (20)	10 (23)	10 (23)	44 (100)	3.1
Branding	29 (66)	7 (16)	6 (14)	2 (4)	–	44 (100)	1.5
Innovation	6 (14)	9 (20)	13 (29)	9 (20)	7 (16)	44 (100)	3.0
Customer Development	4 (9)	11 (25)	10 (23)	14 (32)	5 (11)	44 (100)	3.1
Supply Chain Management	6 (14)	9 (20)	13 (29)	8 (18)	8 (18)	44 (100)	3.0
Manufacturing	4 (9)	9 (20)	11 (25)	10 (23)	10 (23)	44 (100)	3.3

Figure S4.2 Scores on each business process have been labelled the '*professionals*'. Professionals manage all of the processes in the framework effectively. Many processes are managed excellently. There are six professionals in the sample.

Stragglers are predominantly smaller companies. Copers, travellers and professionals are increasingly larger organizations, although there is still a significant number of relatively small travellers. The adoption of best-practice techniques increases with size, perhaps reflecting the greater range of skills available. Increasing complexity of tasks and greater resources are available to devote to 'planning rather than doing'. Stragglers are to be found predominantly in the mechanical engineering industry. Automotive supply, aerospace and chemicals have a greater proportion of more sophisticated companies.

A company's customers can have a major impact on the way it manages itself. Companies that are suppliers to the automotive industry have had to respond to increasingly demanding international customers in the last few years. This is reflected in higher overall scores on the excellence framework. Professionals are concerned about the impact of technical change on their business. Moving through to stragglers, each successive category is less concerned about the impact of changing supply market technologies, new products, and changes in manufacturing technology.

Marketing ability and business performance

There is a positive relationship for a significant number of companies between the total score on the marketing excellence framework and return on sales (profit before interest and tax to sales turnover). This is encouraging, since better performance on critical business processes is related to better financial performance. For these companies, getting key processes right makes a difference to financial performance.

Companies that are better at strategic marketing planning, product innovation, customer development, branding, and supply chain management make better return on sales. Funds and time invested in these processes will yield tangible business returns.

Some companies are relatively good at managing business processes, but still show relatively poor return on sales (high scorers/low performers). Better management of critical processes does lead to improved profitability in most circumstances, but not necessarily all.

High scorers/high performers are significantly more likely to operate in markets where there is a high rate of technical change in supply markets. Eight companies out of twenty-two (36 per cent) high performers were in this situation. High scorers/high performers were also experiencing rapid technical changes in their products. Eleven of the twenty-two (50 per cent) high-performing companies operated in markets with high rates of product change. By contrast, only one of the nine high-scoring/low-performing companies (11 per cent) operated in markets with high rates of product change.

Individual case studies show considerable variations in marketing practice across a range of different settings. Analysis of the scores of individual components reveals wide variety in the levels of sophistication with which marketing processes such as strategic planning, quality, product innovation, branding, and customer development are managed.

Application of the findings

There are several ways to use the findings of this survey. These are as follows:

- ➡ To provide an indication of how well the company is managing each element of the excellence framework and enable the company to benchmark itself against the companies in this sample
- ➡ To provide an agenda for action aimed at improving performance on critical processes that can be monitored and evaluated over time
- ➡ To create a debate about critical business processes that is based on a structured approach.

Reviewing the processes requires a degree of objectivity in analysis. The project team defined evidence for each performance dimension that was used in the scoring. Two members of the team scored each company. Readers may not have the time or resources to analyse their own organization to the same level of detail. However, more evidence will lead to greater objectivity in the resultant scores, and greater management consensus about the final result.

Conclusions

One of the most satisfying conclusions from this research is the simple one that the application of marketing processes actually makes a quantifiable difference in the UK manufacturing industry. Companies that scored higher on the excellence framework showed higher levels of return on sales. The study is encouraging to those involved with improving the quality of marketing practice. The depth of analysis and the focus on tightly defined business units in this study gives the project team confidence in the findings.

Considerable effort is required to implement a benchmarking study thoroughly. Amongst the critical problems is the definition of the framework, including main processes, components and individual performance dimensions. The project team is confident in the framework. Statistical tests of the relationship show that the model was a good fit and explained over 65 per cent of the variance in return on sales.

In a few of the best-performing companies the project team found evidence of a genuine attempt to organize the business on a process basis rather than around conventional business functions. In one such company, one job title seemed to the research team to summarize the philosophy of the whole project, namely Director of Customer Satisfaction.

Where companies had begun to focus on key processes, there was greater evidence of awareness of the importance of measurement of market-led performance indicators, such as customer or supplier satisfaction. The positive evidence between process improvement and performance presented in this study should provide encouragement to companies to push ahead with this approach.

The final conclusion from this study is that excellent performance on the framework may be a necessary but not sufficient condition for business success. In some sectors companies were excellent when compared with their peers, but still showed lower profit return on sales. This was due to the intensely competitive markets in which such companies were operating. The simple message for these companies is that it is not sufficient to be excellent in a comparative way with the rest of manufacturing industry. Such companies must continue to set even more demanding targets for process improvement, if they are to stay in business and achieve competitive parity or leadership.