Chapter 1

Introduction

1.1 Learning objectives

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

(a) define marketing in strategic terms;
(b) understand the basic structure of the book and how this chapter establishes the context for what follows;
(c) specify the characteristics of strategy and strategic decisions;
(d) understand the nature of the debate about the future role of marketing and its contribution to management;
(e) appreciate the changing emphases within marketing and the implications of these changes for the ways in which marketing strategies are developed.

1.2 The nature of marketing

The question of what marketing is and what it entails has been the focus of a considerable amount of work over the past 40 years. From this, numerous definitions have emerged, with differing emphases on the process of marketing, the functional activities that constitute marketing, and the orientation (or philosophy) of marketing. The Chartered Institute of Marketing, for example, defines it as:

“. . . the management process for identifying, anticipating and satisfying customer requirements profitably.”

A slightly longer but conceptually similar definition of marketing was proposed by the American Marketing Association (AMA) in 1985:

“Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives.”

Although this definition, or variations of it, has been used by a variety of writers (see, for example, McCarthy and Perreault, 1990; Kotler, 1991; Jobber, 2003), Littler and Wilson (1995, p. 1) have pointed to the way in which ‘its adequacy is beginning to be questioned in some European textbooks’ (e.g. Foxall, 1984; Baker, 1987). It could be said that the AMA definition is more of a list than a definition and is therefore clumsy and inconvenient to use; that it cannot ever be comprehensive; and that it fails to provide a demarcation as to what necessarily is or is not ‘*marketing*’.

They go on to suggest that the AMA definition presents marketing as a *functional* process conducted by the organization’s marketing department, whereas the general thrust of the more recent literature on marketing theory is that marketing is increasingly being conceptualized as an organizational philosophy or ‘an approach to doing business'. This strategic as opposed to a functional approach to marketing is captured both by McDonald (1989, p. 8):

> "Marketing is a management process whereby the resources of the whole organization are utilized to satisfy the needs of selected customer groups in order to achieve the objectives of both parties. Marketing, then, is first and foremost an attitude of mind rather than a series of functional activities."

and by Drucker (1973), who put forward a definition of marketing orientation:

> "Marketing is so basic that it cannot be considered a separate function on a par with others such as manufacturing or personnel. It is first a central dimension of the entire business. It is the whole business seen from the point of view of its final result, that is, from the customers' point of view."

A significant shift in emphasis since Drucker wrote this is to be found in the importance that is now attached to *competitive position* in a changing world. Thus, the marketing concept is that managerial orientation which recognizes that success primarily depends upon identifying changing customer wants and developing products and services which match these better than those of competitors (Doyle, 1987; see also Wilson and Fook, 1990).

The contrasting emphases on customers and competitors can be highlighted as in Figure 1.1. If an enterprise is managed a little better than customers expect, and if this is done in a slightly better way than competitors can manage, then the enterprise should be successful.

Within Figure 1.1 the customer-oriented and competitor-centred categories speak for themselves. The self-centred category is characterized by an introspective orientation

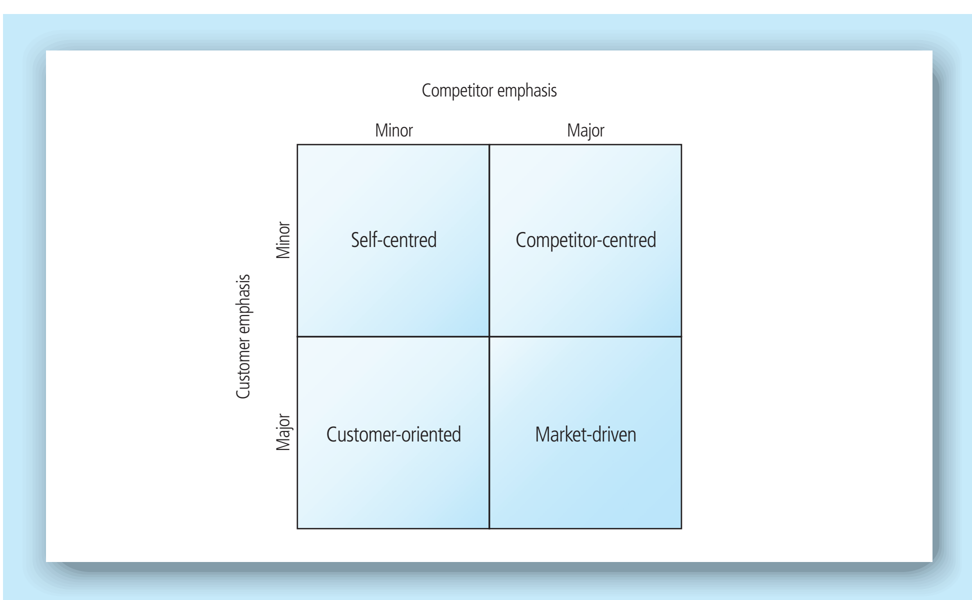


Figure 1.1 Customer and competitor orientations (adapted from Day, 1990)

that focuses on year-on-year improvements in key operating ratios, or on improvements in sales volume without making direct comparisons with competitors. Such an orientation is potentially disastrous when viewed in strategic terms. At the opposite extreme is a market-driven approach to marketing which seeks to balance a responsiveness to customers' requirements on the one hand with direct competitor comparisons on the other (see Illustration 1.1).

Illustration 1.1 But is your organization *really* market-driven?

When Peter Drucker first outlined the marketing concept 50 years ago, he equated marketing with customer orientation, arguing that for a firm to be market-driven meant always putting the customer first and innovating continuously to improve the delivered value. Subsequently, it has been recognized that Drucker's perspective lacked strategic content in that it gives emphasis to the organizational culture, but fails to provide guidance on *which* customers to serve and how to serve them. Equally, Drucker's initial views failed to take explicit account of competitors and the discipline of profit in the analysis of product and market opportunity. It is because of this that *customer* orientation has been replaced with the broader concept of *market* orientation.

Given this, we can see marketing operating at three levels:

1. Marketing as a *culture*, characterized by a set of values and beliefs that highlights the importance of the customer's interests
2. Marketing as a *strategy*, concerned with the choice of products, markets and competitive stance
3. Marketing as the set of *tactics* (essentially the seven Ps of the expanded marketing mix) that provides the basis for the implementation of the business and competitive strategy.

Recognition of this has led Webster (1999, pp. 239–40) to argue that the extent to which an organization is market-driven can be measured against eleven dimensions:

1. The extent to which a customer focus pervades the *entire* organization
2. The commitment to delivering value
3. The identification and development of distinctive competencies
4. The formation of strategic partnerships
5. The development of strong relationships with strategically important customers
6. The emphasis upon market segmentation, targeting and positioning
7. The use of customer information as a strategic asset
8. The focus on customer benefits and service
9. Continuous improvement and innovation
10. The definition of quality based on meeting customers' expectations
11. A commitment to having the best information technology available.

For Day (1990), the characteristics of a market-driven organization can be stated more succinctly:

- An externally orientated culture that emphasizes superior customer value
- Distinctive capabilities in market sensing as a means of anticipating the future
- Structures that are responsive to changing customer and market requirements.

The significance of being market-driven has, in turn, been highlighted by a series of studies, including one amongst 600 managers in France, the USA, Germany, Japan and the UK, which found that 'the single strongest influence on company performance is innovativeness. Further, a market-oriented company culture was found to have a positive impact in all five countries, while customer orientation, by itself, has virtually no influence on bottom line performance' (Webster, 1999, p. 241). It is the recognition of this that, as Webster suggests, highlights the need for firms to innovate continuously in order to exceed the customer's evolving definition of value.

Given the nature of these comments, the essential requirements of marketing can be seen to be (Wilson, 1988b, p. 259):

1. The identification of consumers' needs (covering *what* goods and services are bought, *how* they are bought, by *whom* they are bought, and *why* they are bought)
2. The definition of target market segments (by which customers are grouped according to common characteristics – whether demographic, psychological, geographic, etc.)
3. The creation of a *differential advantage* within target segments by which a distinct competitive position relative to other companies can be established, and from which profit flows.

The way in which a differential advantage might be achieved – and sustained – is through the manipulation of the elements of the *marketing mix*. This mix has traditionally been seen to consist of the 'four Ps' of marketing: product, price, place and promotion. Increasingly, however, but particularly in the service sector, it is being recognized that these four Ps are rather too limited in terms of providing a framework both for thinking about marketing and for planning marketing strategy. It is because of this that a far greater emphasis is now being given to the idea of an expanded mix which has three additional elements:

- People
- Physical evidence
- Process management.

The detail of both the traditional 'hard' elements of the mix and of the 'softer' elements appears in Figure 1.2; the individual elements of the mix are discussed in Chapter 12 of this book.

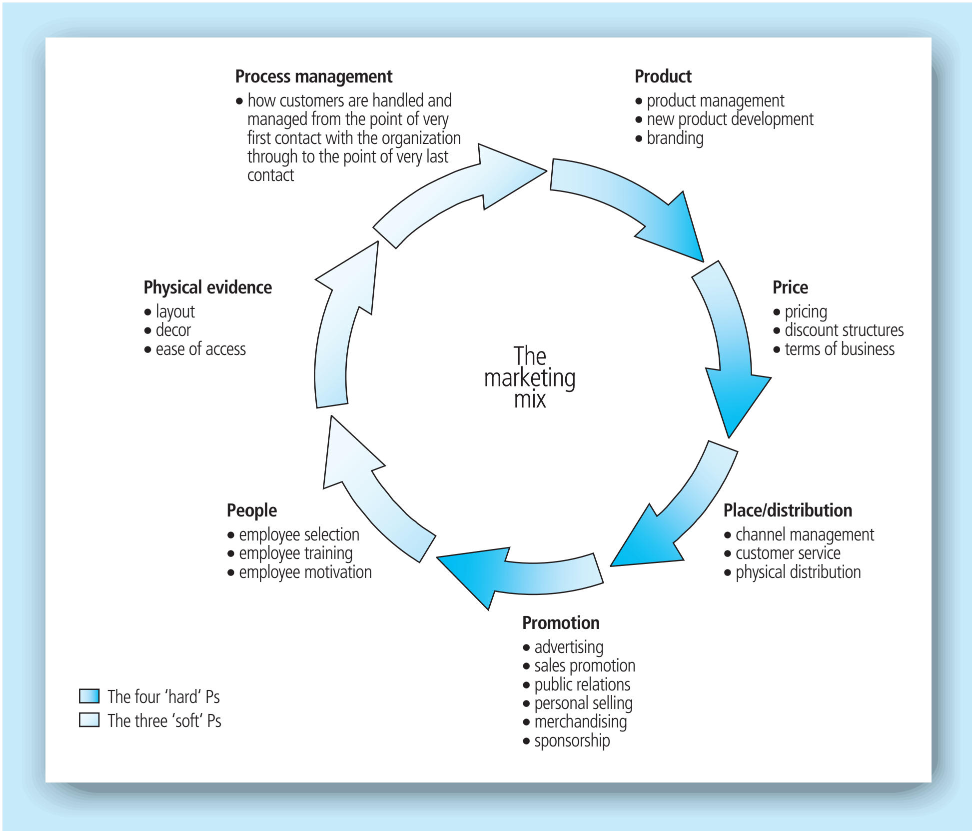


Figure 1.2 The elements of the marketing mix

1.3 The management process

Management can be looked at from a variety of viewpoints. It may be seen from one perspective as being largely an *attitude* that reflects a willingness to debate issues and resolve them through the use of appropriate techniques and procedures. Alternatively, management may be viewed in terms of its *responsibility for achieving desired objectives* which requires the selection of means to accomplish prescribed ends as well as the articulation of those ends. This view of management can be analysed further by focusing on its *task orientation* (e.g. in the functional context of marketing) or on its *process orientation* (i.e. the way in which the responsibility is exercised). In either case it has been suggested that decision-making and management are the same thing (Simon, 1960, p. 1).

The process of decision-making is rendered problematic on account of the existence of risk and uncertainty. In the face of risk or uncertainty, some managers postpone making a choice between alternative courses of action for fear of that choice being wrong. What they typically fail to recognize in this situation is that they are actually making another choice – they are deciding *not to decide* (Barnard, 1956, p. 193), which favours the status quo rather than change. This is not a means of eliminating risk or uncertainty since it seeks to ignore them rather than to accommodate them: the imperative to adapt is one that cannot be ignored.

If the central question in the management process concerns the need to make decisions, we need to know *what* decisions should be made and *how* they should be made. This book is intended to deal with both these issues by following a sequence of stages that reflects a problem-solving routine. Figure 1.3 summarizes these stages.

Stage One (strategic and marketing analysis) raises the question of where the organization is now in terms of its competitive position, product range, market share, financial position, and overall levels of capability and effectiveness. In addressing this question we are seeking to establish a baseline from which we can move forward.

Stage Two (strategic direction and strategy formulation) is concerned with where the organization should go in the future, which requires the specification of ends (or objectives) to be achieved. While top management in the organization will have some discretion over the choice of ends, this is often constrained by various vested interests, as we shall see later in this book.

Stage Three of the management process deals with the question of how desired ends might be achieved, an issue that begs the question of how alternative means to ends might be identified. This strategy formulation stage requires creative inputs which cannot be reduced to mechanical procedures.

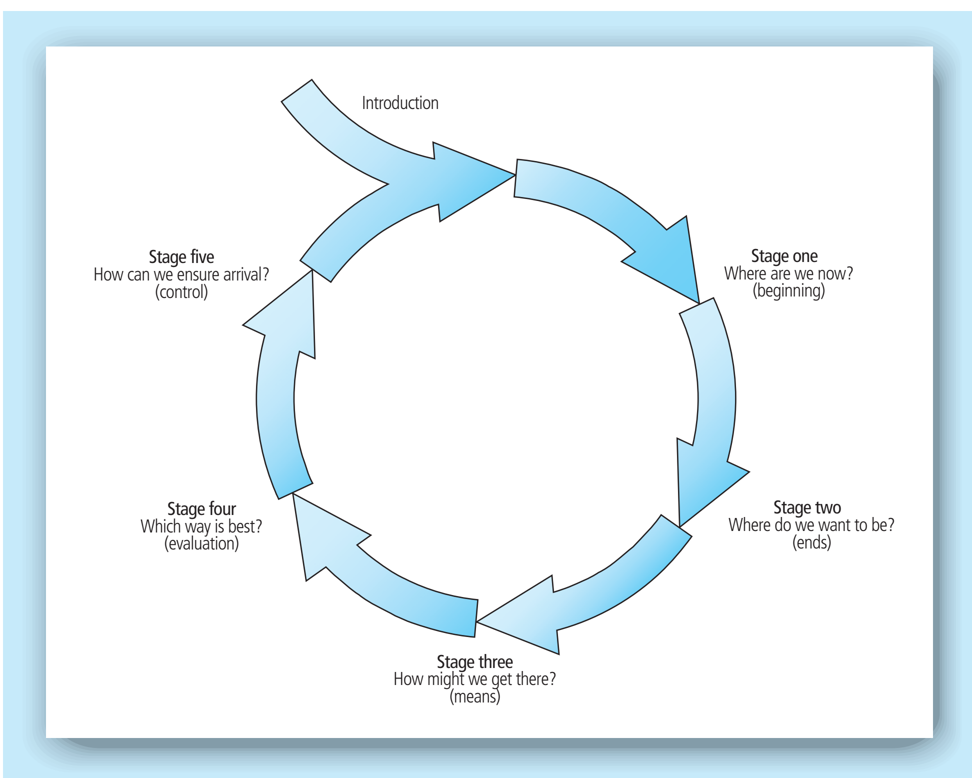


Figure 1.3 The framework of the book

Stage Four focuses on the evaluation of alternative means by which the most preferred (or 'best') alternative might be selected. The need to choose may be due to alternatives being mutually exclusive (i.e. all attempting to achieve the same end) or a consequence of limited resources (which means that a rationing mechanism must be invoked).

Stage Five covers the implementation of the chosen means, and the monitoring of its performance in order that any corrective actions might be taken to ensure that the desired results are achieved. Since circumstances both within the organization and in its environment are unlikely to stay constant while a strategy is being pursued, it is necessary to adapt to accommodate such changes.

Within these stages are to be found the main managerial activities of:

- ➡ Planning
- ➡ Decision-making
- ➡ Control.

The entire sequence of Stages One to Five constitutes control, within which the planning activities are to be found in Stages One to Four. At every stage it is necessary for decisions to be made, so you will see that these managerial activities are closely intertwined. Moreover, their links are spread across three different time dimensions which are not of equal significance: the past, the present and the futurre. Let us consider these in turn.

The *past* brought the organization (and its products, competitors, etc.) to their present positions. By gaining an understanding of how the organization arrived in its present position, the managers of that organization might develop some insights to help them in deciding how to proceed in the future. However, there is no way in which the past can be influenced, so the best one can do is to attempt to learn from it instead of being constrained by it. If an organization simply continues on unchanging routes its viability is almost certain to be endangered as the environment changes but it does not.

Stage One is concerned with establishing the ways in which the past brought the organization to its present position.

The *present* is transient: it is the fleeting moment between the past and the future when one must take one's understanding of the past and link this to the development of one's aspirations for the future. Decisions are made (with both planning and control consequences) in the present, but their impact is intended to be in the future.

The time dimension that is of major relevance in any planning exercise must be the *future* rather than the present or the past. There is nothing about an organization that is more important than its future, and the spirit of this was aptly summarized by C.F. Kettering: 'I am interested in the future because that is where I intend to live.' The past may help us in deciding how to proceed in the future, but there is no way in which we can influence the past, so there is a limit to the amount of effort that should be applied to it as opposed to planning for the future. This is especially relevant when we consider what a constraint to innovation the past might be: in Goethe's terms, we see what we know, and if we are obsessed with carrying on along unchanging routes we must expect our viability to become endangered as the environment changes but we fail to adapt to those changes.

On the other hand, the anticipation of the future should not become too fanciful. In a deliberately extreme mood, De Jouvenal (1967) has stated that:

> “. . . world population, and also the available labour force in industrial countries, is doubling every 50 years. The GNP is doubling every 20 years, and so are the number of major scientific discoveries. The whole scientific and engineering establishment, including, for example, the numbers of graduates, membership of learned societies, and scientific publications, is doubling every 15 years. The money spent on applied research is doubling every 7 years, and so also is the demand for electronics and aviation. If all these processes were to continue unchecked . . . within about 100 years every one of us would be a scientist, the entire national output would be absorbed in research, and we should be spending most of our lives airborne at 40 000 feet.”

This can be contrasted with a rather more serious comment made by Professor William H. Pickering of Harvard in a speech made during June 1908, in which his lack of imagination is as extreme as De Jouvenal’s excess:

> “The popular mind often pictures gigantic flying machines speeding across the Atlantic carrying innumerable passengers in a way analogous to our modern steamship. It seems safe to say that such ideas are wholly visionary, and, even if the machine could get across with one or two passengers, the expense would be prohibitive to any but the capitalist who could use his own yacht.”

With this uninspired perspective from a member of the establishment in the early twentieth century, it is not surprising that the vision of writers such as Jules Verne and H.G. Wells was mocked, yet their premonitions have often come to be justified, with surprising speed and accuracy in some instances. We did, for example, have Concorde, despite Professor Pickering’s pessimism.

It should not be expected that any particular vision of the future will be correct in every detail, nor necessarily very detailed in its conception. Writing in 1959, Drucker made the rather careless statement that ‘. . . if anyone still suffers from the delusion that the ability to forecast beyond the shortest time span is given to us, let him look at the headlines in yesterday’s paper, and then ask himself which of them he could possibly have predicted 10 years ago’. What Drucker does not take into account is the vital *level of resolution*: our interest over a 10-year period may be more in the continued existence of *The Times*, or even of a free press, than in specific headlines, because the level of resolution would have to be relatively low (i.e. broad horizons, broad view, little detail).

A balance must be maintained in dealing with the short-run future on the one hand and the long-run future on the other. Apart from headlines in *The Times* we can note the short-run preoccupation in the UK with financial results and contrast this with the longer-run relevance of market-building strategies, or the risk of being obsessed with tactics to the exclusion of a proper concern for strategy.

1.4 Strategic decisions and the nature of strategy

Strategic decisions are concerned with seven principal areas:

1. They are concerned with the scope of an organization's activities, and hence with the definition of an organization's boundaries.
2. They relate to the matching of the organization's activities with the opportunities of its substantive environment. Since the environment is continually changing it is necessary for this to be accommodated via adaptive decision-making that anticipates outcomes – as in playing a game of chess.
3. They require the matching of an organization's activities with its resources. In order to take advantage of strategic opportunities it will be necessary to have funds, capacity, personnel, etc., available when required.
4. They have major resource implications for organizations – such as acquiring additional capacity, disposing of capacity, or reallocating resources in a fundamental way.
5. They are influenced by the values and expectations of those who determine the organization's strategy. Any repositioning of organizational boundaries will be influenced by managerial preferences and conceptions as much as by environmental possibilities.
6. They will affect the organization's long-term direction.
7. They are complex in nature since they tend to be non-routine and involve a large number of variables. As a result, their implications will typically extend throughout the organization.

Decision-making (whether strategic or tactical) is but a part of a broader problem-solving process. In essence, this consists of three key aspects: analysis, choice and implementation.

Strategic analysis focuses on understanding the strategic position of the organization, which requires that answers be found to such questions as:

- ➡ What changes are taking place in the environment?
- ➡ How will these changes affect the organization and its activities?
- ➡ What resources does the organization have to deal with these changes?
- ➡ What do those groups associated with the organization wish to achieve?

Strategic choice has three aspects:

- ➡ The generation of strategic options, which should go beyond the most obvious courses of action
- ➡ The evaluation of strategic options, which may be based on exploiting an organization's relative strengths or on overcoming its weaknesses
- ➡ The selection of a preferred strategy which will enable the organization to seize opportunities within its environment or to counter threats from competitors.

Strategic implementation is concerned with translating a decision into action, which presupposes that the decision itself (i.e. the strategic choice) was made with some thought being given to feasibility and acceptability. The allocation of resources to new courses of action will need to be undertaken, and there may be a need for adapting the organization's structure to handle new activities, as well as training personnel and devising appropriate systems.

The elements of strategic problem-solving are summarized in Figure 1.4.

We have given some thought to strategic decisions, but what is meant by strategy?

Hofer and Schendel (1978, p. 27) have identified three distinct levels of strategy in a commercial context. These are:

1. Corporate strategy, which deals with the allocation of resources among the various businesses or divisions of an enterprise
2. Business strategy, which exists at the level of the individual business or division, dealing primarily with the question of competitive position
3. Functional level strategy, which is limited to the actions of specific functions within specific businesses.

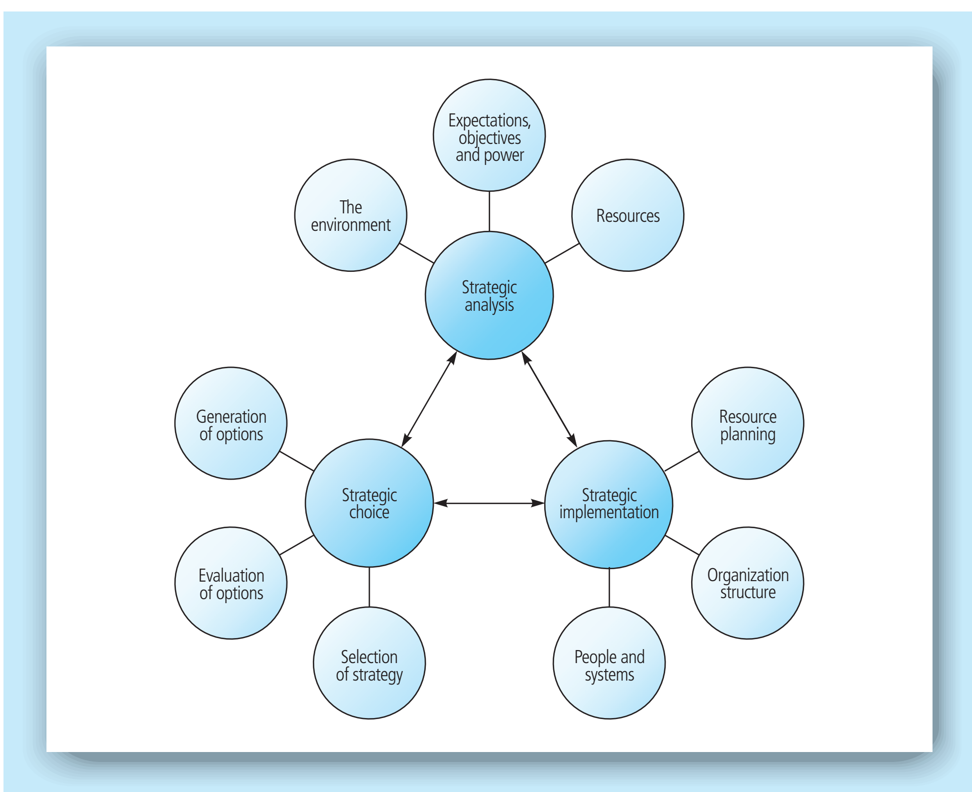


Figure 1.4 A summary model of the elements of strategic management (source: Johnson and Scholes, 1988, p. 16)

Our main concern is in relation to business strategy (i.e. level 2 above) and the way in which this links to marketing as a set of functional activities (i.e. level 3 above).

Different authorities have defined strategy in lots of different ways; there is no standard definition. However, a range of elements that most writers seem to subscribe to in discussing strategy have been put forward by Simmonds (1980, pp. 7–9), as follows:

- Strategy is applicable to business within defined boundaries. While the boundaries may change, the strategy applies at any one time to actions affecting a delimited area of demand and competition.
- There are specified direct competitors. These are competitors selling essentially the same products or services within the defined demand area. Indirect competitors are those operating outside the defined business and whose products are not direct substitutes. Indirect competition is usually ignored or covered by the concept of price elasticity of demand.
- There is zero-sum competition between the direct competitors for the market demand, subject to competitive action affecting the quantity demanded. Demand within the defined market varies over time. This variation in demand is largely independent of supplier strategies and is often referred to as the *product life cycle*. At its simplest it is depicted as a normal curve over time with regularly growing then declining demand.
- Strategy unfolds over a sequence of time periods. Competition evolves through a series of skirmishes and battles across the units of time covered by the product life cycle.
- Single-period profit is a function of:
  - The price level ruling for the period
  - The accumulated volume experience of the enterprise
  - The enterprise's achieved volume as a proportion of capacity.
- Market share has intrinsic value. Past sales levels influence subsequent customer buying, and costs reduce with single-period volume and accumulated experience.
- Competitors differ in market share, accumulated experience, production capacity and resources. Competitors are unequal, identified and positioned. Objectives differ. Enterprises composed of ownership, management and employee factions and operating a range of different businesses have different objectives. Strategic business thinking, however, will usually express these as different time and risk preferences for performance within an individual business, measured in financial terms.
- Within a given situation there will be a core of strategic actions which will be the essential cause of change in competitive position. Non-strategic, or contingent, actions will support strategic actions and should be consistent with them, but will not change competitive position significantly.
- Identification of an optimal core of strategic actions requires reasoning, or diagnosis, is not attained through application of a fixed set of procedures and is situational. In short, thinking is required.

Taken together, these elements present a view of business strategy that sees it as a chosen set of actions by means of which a market position relative to other competing enterprises is sought and maintained. This gives us the notion of competitive position.

It needs to be emphasized that 'strategy' is not synonymous with 'long-term plan', but rather consists of an enterprise's attempts to reach some preferred future state by adapting its competitive position as circumstances change. While a series of strategic moves may be planned, competitors' actions will mean that the actual moves will have to be modified to take account of those actions.

We can contrast this view of strategy with an approach to management that has been common in the UK. In organizations that lack strategic direction there has been a tendency to look inwards in times of stress, and for management to devote their attention to cost cutting and to shedding unprofitable divisions. In other words, the focus has been on *efficiency* (i.e. the relationship between inputs and outputs, usually with a short time horizon) rather than on *effectiveness* (which is concerned with the organization's attainment of goals – including that of desired competitive position). While efficiency is essentially introspective, effectiveness highlights the links between the organization and its environment. The responsibility for efficiency lies with operational managers, with top management having the primary responsibility for the strategic orientation of the organization.

Figure 1.5 summarizes the principal combinations of efficiency and effectiveness.

An organization that finds itself in cell 1 is well placed to thrive, since it is achieving what it aspires to achieve with an efficient output/input ratio. In contrast, an organization in cell 4 is doomed, as is an organization in cell 2 unless it can establish some strategic direction. The particular point to note is that cell 2 is a worse place to be than

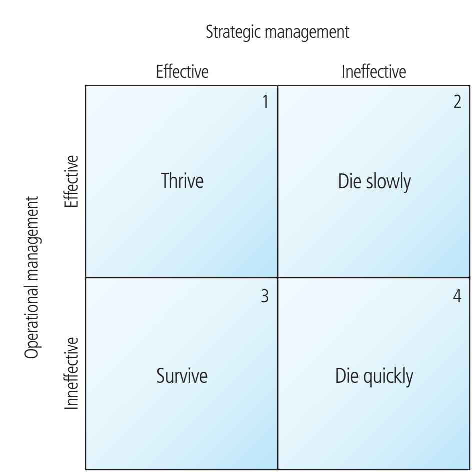


Figure 1.5 Efficiency versus effectiveness (adapted from Christopher et al., 1987, p. 80)

is cell 3 since in the latter the strategic direction is present to ensure effectiveness, even if rather too much input is currently being used to generate outputs. To be effective is to survive, whereas to be efficient is not in itself either necessary or sufficient for survival.

Effectiveness in marketing terms can therefore be seen to be the ability on the part of management to search out and embrace changing markets and structures and then reflect this in the marketing strategy.

In crude terms, to be effective is to do the right thing, while to be efficient is to do the (given) thing right. An emphasis on efficiency rather than on effectiveness is clearly wrong. But who determines effectiveness? Any organization can be portrayed as a coalition of diverse interest groups, each of which participates in the coalition in order to secure some advantage. This advantage (or inducement) may be in the form of dividends to shareholders, wages to employees, continued business to suppliers of goods and services, satisfaction on the part of consumers, legal compliance from the viewpoint of government, responsible behaviour towards society and the environment from the perspective of pressure groups, and so on. Figure 1.6 illustrates the way in which a range of interest groups come together to sustain (and, indeed, constitute) an organization. In so far as the inducements needed to maintain this coalition are not forthcoming, the organization ceases to be effective. Thus, for example, employees may go on strike in furtherance of a pay dispute; shareholders may be unwilling to subscribe further capital if the value of their shares has fallen due to bad management; consumers may have defected in the light of superior market offerings from competitors; and each of these will remove one vital element from the coalition.

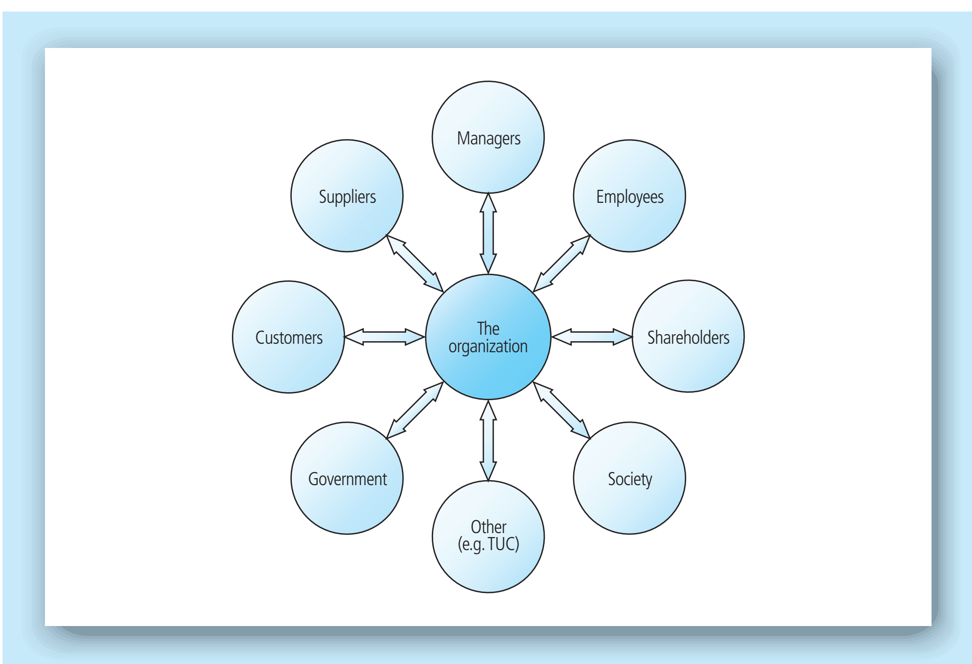


Figure 1.6 Interest groups

It should be apparent from this view of an organization that management's freedom of movement is constrained by virtue of the expectations of the various interest groups within the coalition. We are unable to assume that a clean slate exists on which any strategy might be drawn, since this may be against the interests of members of the coalition. What we can say, therefore, is that any strategy is potentially available in so far as it ensures that the interests of coalition members are protected. If this is not so the organization cannot be effective, and if it is not effective it will not survive.

The failure to achieve an appropriate balance between operational and strategic management has been illustrated by numerous organizations in recent years, including Marks & Spencer, the Post Office and BA. In the case of the Post Office, the British government set out its vision for the future of the organization in its report, *Counter Revolution: Modernizing the Post Office Network*. The report highlighted a variety of issues, including:

- ➡ The failure to come to terms with the service requirements of increasingly sophisticated and demanding customers
- ➡ The lack of any real competitive stance, with the result that other service providers such as Federal Express, DHL and UPS were able to capture a substantial share of the organization's most profitable business
- ➡ The slow adoption of new technologies
- ➡ A belief that the brand equals the branch network.

With approximately 18 500 branches or outlets in 1999/2000, compared with less than one-fifth of this number amongst its most obvious competitors, the organization had proved to be slow and monolithic in its response to the far more focused and agile behaviour of others. In order to overcome this – and indeed to survive – a number of significant changes were needed, the most obvious of which was to identify with a far greater clarity exactly where and how the Post Office brand could add to the communications chain for business customers and consumers alike.

The difficulties of balancing both the operational and the strategic dimensions of management was also highlighted at the beginning of the century by BA's poor performance at the time and, in particular, its failure to come to terms with the low-cost, no-frills entrants to the airlines market, such as Ryanair and easyJet. Having been hit by the low-cost carriers and then by a series of other factors – including the 2001 foot-and-mouth outbreak, the slowdown in the USA and global economy, and by the turmoil in the aviation industry after the terrorist attacks in the USA in September 2001 – the company then sold its own low(ish)-cost airline, Go!, in a management buyout for a little over £100 million. Eleven months later, Go! was taken over by easyJet for £374 million in a deal that strengthened BA's competitor yet further.

These sorts of difficulties have also been experienced by the car manufacturer Fiat (see Illustration 1.2).

Illustration 1.2 Balancing operational and strategic issues

With annual sales of more than two million units with over 30 billion euros, the family-dominated Fiat Group is the world's sixth largest manufacturer of cars and trucks. However, between 1990 and 2001, the company's share of the intensely competitive western European car market drifted from just under 14 per cent to a little over 9 per cent. In commenting on this, Martin (2002) suggests that:

> Survival in such a brutal environment depends on finding an upmarket niche, profitable business elsewhere, a hot-selling model or dominance of a domestic market.
>
> Past business decisions give Fiat no claim to the first two of these. Its new model, the Stilo, on which great hopes were pinned, is selling less well than had been hoped. And domestic dominance, once absolute, is under pressure. Though Fiat retains 35 per cent of the Italian market, it no longer does so effortlessly: it must offer price concessions and discounts. The fact that 57 per cent of Fiat's western European car and truck sales are made in Italy underscores the point. The car markets of Britain, Germany and France are all bigger than Italy's but Fiat's market share there is much smaller – nowhere higher than 5 per cent, too low to generate healthy profits in mass-market cars.

The sort of problems that are faced by Fiat are also faced by some of the other car manufacturers, including the European operations of Ford and General Motors (Martin, 2002).

> . . . relentless price and hence cost pressures, the need for irresistible new models, the imperative of establishing a premium position for the brand, the scramble to defend legacy market shares.

However, Martin goes on to suggest that Fiat can be criticized for failing to face up to some of the options that are open to it:

> . . . this is where the first issue – the difficult strategic position of European carmakers – collides with the second, the ownership structure of family empires.
>
> In effect, the Agnellis run a holding company with a core competence of politico-financial manoeuvring. To say this is not to denigrate them: success in this area is an essential skill in Italian business life. And the family also possesses a secondary competence, the appointment of loyal and largely effective managers. *Day-to-day, the companies are run well* [our emphasis].
>
> But difficult strategic decisions will always come second to the need to preserve the family's role. Even where there is no direct conflict between this aim and the needs of a subsidiary, the primacy of manoeuvring will always postpone difficult decisions that affect one of the operating businesses. That is, at least until there is a crisis, either at the operating level or in the overall stewardship of the group. The problem for Fiat is that both types of crises have arrived simultaneously.

The sort of issue highlighted above, that the business is run well on a day-to-day basis but has failed to come to terms with some of the broader – and arguably more fundamental – strategic issues, is one that has been faced by numerous organizations, including Royal Mail. The Post Office's operations have traditionally been run well on a day-to-day basis, but the management team, for a variety of reasons, failed to read the market sufficiently well and was hit hard by a series of competitors.

Given the nature of these comments, it should be apparent that achieving a consistent balance between operational and strategic issues is inherently problematic and it is the ability to do this that ultimately determines the organization's overall level of marketing effectiveness.

The question of what determines marketing effectiveness has been the subject of a considerable amount of research and is an issue to which we return at various points in the book (see, for example, Section 11.12). At this stage, therefore, we will limit ourselves to an overview of the sorts of factors that contribute to the effectiveness of marketing activity (see Illustration 1.3).

Illustration 1.3 The dimensions of marketing effectiveness

Although it is tempting to identify the characteristics of marketing effectiveness and to believe that the straightforward adoption of these will lead to business success, it is also potentially simplistic and dangerous, since it can lead to the view that this is the formula for success. Nevertheless, there are certain elements that appear to contribute to effectiveness and it is in this way that the list below should be seen:

- A strong sense of vision amongst the members of the senior management team
- A strong customer orientation across all aspects of the business and a fundamental recognition of the importance of the customer
- A detailed recognition of the relative value of different segments and customer groups, and a clear policy of targeting and positioning
- A clarity and ambition of marketing objectives
- A detailed understanding of the organization's assets and competencies
- A detailed understanding of the market
- A willingness to redefine the market and create and exploit windows of opportunity
- The creation of one or more market breakpoints
- An emphasis upon differentiation and the leveraging of strong selling propositions
- A fundamental understanding of the strategic importance of competitive advantage
- The innovative management of each of the elements of the marketing mix
- A balanced product portfolio
- A commitment to product and process innovation
- An emphasis upon the coordination of activities across the organization
- A recognition of the fundamental importance of implementation.

1.5 The marketing/strategy interface

On the basis of a literature review, Greenley (1986b, p. 56) has drawn some distinctions between marketing planning (seen as being an annual exercise) and strategic planning (seen as being of a long-term nature), including those listed in Table 1.1.

These differences indicate that strategic planning logically precedes marketing planning by providing a framework within which marketing plans might be formulated. As Cravens (1986, p. 77) has stated:

> "Understanding the strategic situation confronting an organization is an essential starting point in developing a marketing strategy."

This understanding can be derived from an assessment of:

- Organizational capabilities
- Threats from environmental forces
- Competitors' strengths and weaknesses
- Customers' needs

and fits into an iterative setting as shown in Figure 1.7.

The strong interdependence of strategic and marketing planning is clearly seen in this diagram. We can use this interdependence to develop the marketing mix (of Figure 1.2 above) into a set of elements from which a competitive strategy might be developed (as in Figure 1.8). The aim should be to build strength in those elements that are critical to achieving superiority in areas deemed important by customers. In this way the organization should be able to challenge its competitors from a position in which it can use its relative strengths.

Table 1.1 Differences between strategic planning and marketing planning

Strategic planning	Marketing planning
Concerned with overall, long-term organizational direction	Concerned with day-to-day performance and results
Provides the long-term framework for the organization	Represents only one stage in the organization's development
Overall orientation needed to match the organization to its environment	Functional and professional orientations tend to predominate
Goals and strategies are evaluated from an overall perspective	Goals are subdivided into specific targets
Relevance of goals and strategies is only evident in the long term	Relevance of goals and strategies is immediately evident

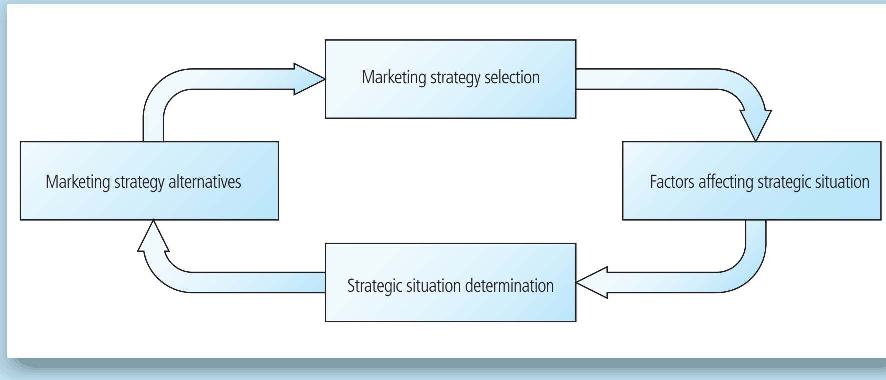


Figure 1.7 The marketing strategy process

The potential benefits of a strategic underpinning to marketing planning are probably apparent, but what about the problem of implementation? If implementation is ineffective, the carefully devised strategy will be unable to help in improving the organization's performance. The question becomes, therefore: 'given a specific type of strategy, what marketing structures, policies, procedures, and programmes are likely to distinguish high performing business units from those that are relatively less effective, efficient, or adaptable?' (Walker and Ruekert, 1987, p. 15). Part of the answer is undoubtedly the extent to which the organization reflects a customer orientation.

Product
- ➡ Functional
- ➡ Technical developments planned
- ➡ Packaging
- ➡ Service levels
- ➡ Range extensions/deletions

Customer
- ➡ Customer targets
- ➡ Researching customer needs by segment
- ➡ Segmenting the market by customer needs
- ➡ Distribution channels
- ➡ Export

Distribution
- ➡ Identifying appropriate channels
- ➡ Accessing successful distributors
- ➡ Stock and service levels
- ➡ Operating costs

Price
- ➡ List prices
- ➡ Discount structure

Advertising and promotion
- ➡ Target audience
- ➡ Communication objective
- ➡ Media
- ➡ Advertising weight
- ➡ Promotion plans and timing
- ➡ Point of sale

Sales force
- ➡ Customer priorities
- ➡ Product priorities
- ➡ Incentives and rewards

Manufacturing
- ➡ Sustainable quality and volume levels
- ➡ Cost reduction programme:
  - – raw material usage
  - – yields
  - – manpower
- ➡ Quality enhancement

Figure 1.8 Elements of a competitive strategy (source: Milton and Reiss, 1985b)

Left-handed and right-handed organizations

The issue of customer orientation has been discussed by Doyle (1994, pp. 7–9) in terms of what he refers to as *left-handed* and *right-handed* organizations. For many senior managers, he argues, the principal business objectives are profitability, growth and shareholder value. There is, however, a danger in these, he suggests, in that they ignore the customer even though:

> "... satisfied customers are the source of all profits and shareholder value. Customers can choose from whom they buy, and unless the firm satisfies them at least as well as competitors, sales and profits will quickly erode. Customer satisfaction should therefore be a prime objective and measure of the performance of managers."

This leads Doyle to highlight the differences between the two types of organization. In the case of left-handed or financially-driven organizations, he suggests that the key planning mechanism is the financial plan or budget, with costs, expenses, debt and assets – and the elements of the marketing mix – all being controlled in order to achieve financial goals; this is illustrated in Figure 1.9. The consequence of this is that when sales begin to slip there is a tendency to cut back on areas such as advertising and R&D in order to maintain or boost profits.

By contrast, right-handed or market-driven organizations have as their primary focus the objective of satisfying customers. This involves defining and understanding market segments and then managing the marketing mix in such a way that customers' expectations are fully met or exceeded. The difference between the two approaches,

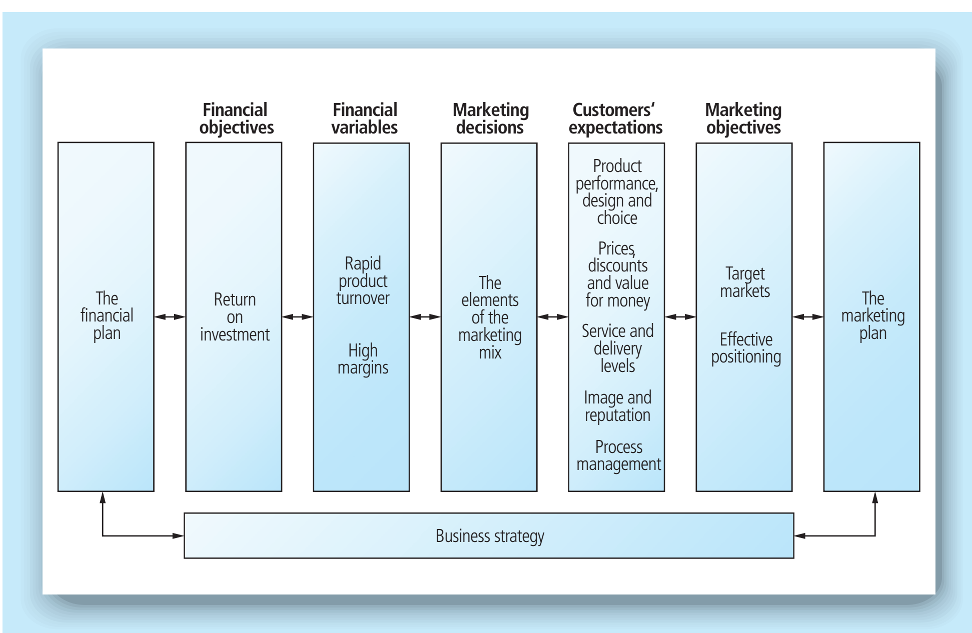


Figure 1.9 Left-handed and right-handed organizations (adapted from Doyle, 1994)

Doyle argues, is that 'Business decisions flow back from an understanding of customers rather than from a financial requirement'.

He goes on to suggest that the market-led approach, which is based on the idea of achieving market leadership through superiority in meeting customers' needs, has typically been associated with Japanese organizations. By contrast, the financially-driven approach has all too often been a reflection of British and US organizations. The idea of a left- versus right-handed orientation leads in turn to the notion of *wrong-side-up* and *right-side-up* organizations (see Figure 1.10). Given the importance to any organization of its customers, it follows that staff must be customer-led. Doyle argues that the *truly* fundamental importance of this has been recognized by relatively few organizations; those which have are the ones that achieve true customer delight.

Among those which have been forced to recognize the real significance of a customer orientation are McDonald's, Marks & Spencer and, in the 1980s, Scandinavian Airlines. Jan Carlzon, the airline's Chief Executive, recognized at an early stage the importance of what he referred to as 'moments of truth'; these are the occasions when the customer deals with the organization's staff and is exposed to the quality of service and type of personal contact. Carlzon's thinking in turning round and revitalizing what was at the time a poorly performing airline was therefore straightforward. Because the airline's frontline staff, many of whom are in relatively junior positions, are the customer's only really visible point of contact with the airline, managers need to ensure that all staff understand and act out the values that senior management claims are important. This means they need to be the most customer-oriented, best trained and most strongly motivated employees in the business. However, the reality in many cases is that these are the people who least understand the core values and are often only poorly trained. The net effect of this is that the organization fails to deliver to the customer what it promises.

In an attempt to overcome this, organizations have responded in a variety of ways, including downsizing, developing flatter structures and by empowering staff. In this way, a more firmly customer-led business in which frontline employees are more highly trained and motivated to satisfy customers' needs should emerge; this is illustrated in Figure 1.10.

Marketing's mid-life crisis

We started this chapter by talking about the nature of marketing and its contribution to the overall management process. However, whilst the arguments in favour of marketing, with its emphasis upon the identification of customers' needs and the delivery of customer satisfaction, are (or appear to be) strong, there has been an increasing recognition over the past few years that marketing is (or may be) facing what is loosely referred to as a 'mid-life crisis'. The basis for this comment is that, although a whole generation of management writers agree upon the importance of consumer sovereignty, and hence the apparent and pivotal importance of marketing, there is now a widespread and growing

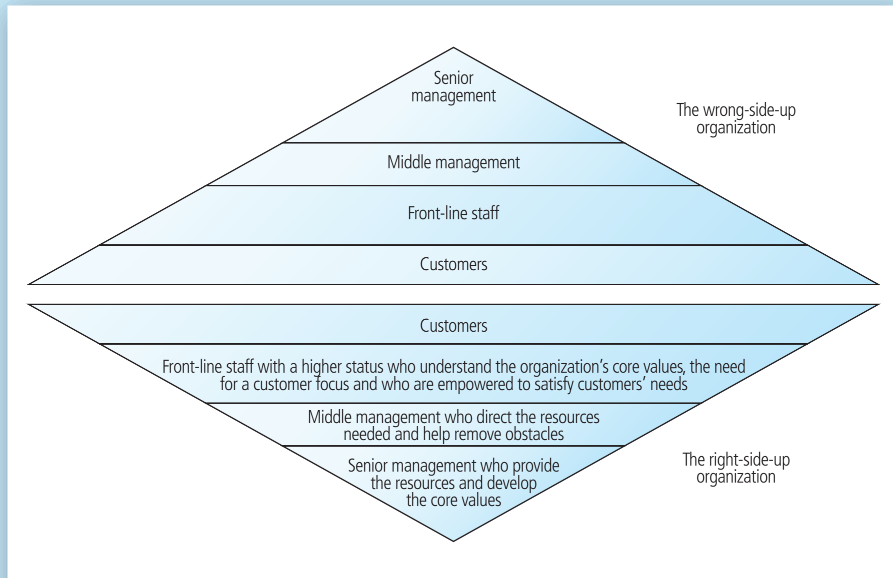


Figure 1.10 The two types of organization (adapted from Doyle, 1994)

concern that 'something is amiss, that the (marketing) concept is deeply, perhaps irredeemably, flawed, that its seemingly solid theoretical foundations are by no means secure and that the specialism is teetering on the brink of serious intellectual crisis' (Brown, 1995, p. 42).

In developing this argument, Brown makes reference to a variety of commentators:

- Piercy (1991, p. 15), for example, maintains that the traditional marketing concept 'assumes and relies on the existence of a world which is alien and unrecognizable to many of the executives who actually have to manage marketing for real'.
- Gummeson (1987, p. 10) states that 'the present marketing concept . . . is unrealistic and needs to be replaced'.
- Rapp and Collins (1990, p. 3) suggest that 'the traditional methods . . . simply aren't working as well any more'.
- Brownlie and Saren (1992, p. 38) argue that 'it is questionable whether the marketing concept as it has been propagated can provide the basis for successful business at the end of the twentieth century'.
- Finally, Michael Thomas (1993), who after 30 years of disseminating the marketing message, made the frank, and frankly astonishing, confession that he is having serious doubts about its continuing efficacy.

Hooley and Saunders (1993, p. 3), however, have pursued a rather different line of argument, suggesting instead that the marketing concept has come of age in that, whereas even 10 years ago, many senior managers did not *really* understand marketing, there appears now to be a far deeper and wider appreciation of the concept and of the benefits that it is capable of delivering. To a very large extent this is due to the succession of studies which have highlighted the contribution that effective marketing programmes are capable of making to organizational performance and success; a number of these are summarized in Illustration 1.4. However, despite this sort of evidence, there is still a question mark over the direction that marketing should take in the future. Without doubt, one of the triumphs of marketing as a discipline over the past decade has been the way in which it has been accepted in a host of areas by managers who previously had denied its value and scope for contributing to the sector's performance. Included within these are healthcare, not-for-profit organizations, leisure, religious movements, cultural organizations and the political arena.

Illustration 1.4 But does marketing work?

The question of whether marketing 'works' in the sense that it contributes to or is the principal influence upon higher and more sustained levels of business performance has been the subject of a number of studies. Some of the best known of these were conducted by:

- Hooley and Lynch (1985), who examined 1504 British companies and concluded that the high-performing organizations were characterized by a significantly greater market orientation, strategic direction and concern with product quality and design than the 'also rans'.
- Narver and Slater (1990), who focused upon the marketing orientation of the senior managers in 140 North American strategic business units (SBUs) and identified not only a very strong relationship between marketing orientation and profitability, but also that the *highest* degree of marketing orientation was manifested by managers of the *most profitable* companies.
- Kohli and Jaworski (1990), who conducted a series of semi-structed interviews with marketing practitioners in the USA and discovered a high degree of managerial understanding of the three key component parts of the marketing concept (*customer orientation*, *coordination* and *profitability*), and that the perceived benefits of the marketing philosophy included better overall performance, benefits for employees and more positive customer attitudes.
- Wong and Saunders (1993), who, as the result of a study of matched Japanese, American and British companies, demonstrated that organizations, classified as 'innovators', 'quality marketeers' and 'mature marketeers', were significantly more successful in terms of profits, sales and market share than those classified as 'price promoters', 'product makers' and 'aggressive pushers'.

Nevertheless, there is still a significant degree of scepticism about the value and future role of marketing. In discussing this, Brown (1995, p. 43) focuses upon four stages of marketing acceptance. The first of these, *realization*, is characterized by a general acceptance that the marketing concept is sound, but that there is often a problem with its implementation; the most common manifestation of this would be that of getting senior management to accept and embrace the concept. The net effect of this in many organizations has been 'a preoccupation with making marketing work through a heightened understanding of organizational politics and interfunctional rivalry . . . [and] a programme of internal marketing' designed to ensure that organizational transformation takes place. The second position is *retrenchment*, in which, again, the concept is seen to be sound, but there are certain circumstances in which it is either inappropriate or of little immediate relevance; many managers in the very fastest moving high-tech industries have, for example, argued that this is the case. Other sectors and markets in which its role and contribution is, it is argued, of little real value include commodity markets, public administration and poorly developed markets in which either there is a significant imbalance between demand and supply and/or an almost complete absence of infrastructure.

The third position, *rearrangement*, demands a far more fundamental reappraisal of marketing so that it can more easily and readily come to terms with the very different realities of today's markets. Webster (1988), for example, has argued for a move away from the position in which marketing and strategic management have, for many commentators, become synonymous. Instead of a myopic preoccupation with market share, competitor activity and so on, marketing should, he claims, return to its roots of a true customer focus. A broadly similar line of argument has been pursued by Christopher et al. (1991), who highlight the fundamental importance of marketing relationships rather than one-off transactions.

The fourth, final and most radical position is that of *reappraisal*, which, according to Brown (1995, p. 45), gives acknowledgement to:

> "... the simple fact that the marketing concept has not succeeded and is unlikely to prove successful in its present form. Despite the latter-day 'triumph' of marketing, the failure rate of new products is as high as it ever was – possibly higher. Consumerism, the so-called 'shame of marketing', is still rampant, especially in its virulent 'green' mutation. Selling has not, contra to the marketing concept, been rendered redundant because few products actually sell themselves. Companies in countries where the marketing message has not been received loud and clear, such as Japan and Germany, continue to outperform their Anglo-American counterparts and, even in the latter milieux, businesses can still succeed without the aid of modern marketing (Piercy (1992) cites The Body Shop and Marks & Spencer as prime examples.)"

(Authors' note: Subsequently, of course, both The Body Shop and Marks and Spencer have experienced significant market pressures which, arguably, might have been avoided had their marketing been stronger.)

Redefining marketing: coming to terms with the challenges of the new millennium

Against the background of our comments so far, it is apparent that there is a strong case either for redefining marketing or, at the very least, thinking about the role that it should play in the twenty-first century. For many managers the need for this has been highlighted by the way in which a series of fundamental changes have taken place within many markets which demand a new and possibly radical rethinking of strategies. Prominent among these changes are:

- ➡ The decline of the megabrands as the result of attacks from low-branded, low-priced competitors
- ➡ The disappearance within many industrial organizations of staff marketing departments and their replacement by more focused functions with specific line responsibilities
- ➡ The decline in the demand for certain specialist marketing skills, including the collection and analysis of data
- ➡ The emergence of a 'new' type of consumer who demands a far higher value-added offer
- ➡ Markets which are characterized by infinitely more aggressive – and desperate – levels of competition.

It was against this background that Kashani (1996, pp. 8–10) conducted an international study of 220 managers with a view to identifying the challenges that marketing managers were facing, how these might best be met and what the implications for marketing might be. The findings suggested that, in order of importance, the principal challenges were seen to be:

- ➡ High and rising levels of competition across virtually all markets
- ➡ Far higher levels of price competition
- ➡ An increasing emphasis upon and need for customer service
- ➡ A demand for higher levels of product quality
- ➡ Higher rates of product innovation
- ➡ Changing and less predictable customer needs
- ➡ The emergence of new market segments
- ➡ The growing power of distribution channels
- ➡ Growing environmental ('green') concerns
- ➡ Increases in government regulations
- ➡ European integration
- ➡ Increasing advertising and promotional costs.

The principal implications of these were seen by managers to be: the need for constant improvements to product and/or service quality; the development of new products; keeping up with competitors; and adding to or improving customer service.

As part of the study, Kashani also asked managers about the sorts of changes that were most likely to affect their markets in the future. The three most significant of these proved to be:

- ➡ The consolidation of competition as fewer but larger players emerge
- ➡ Changing customers and their demands
- ➡ The globalization of markets and competition.

In order to cope with these sorts of changes, he suggests that marketing needs to respond in several ways. Perhaps the most obvious of these is that it needs to take on a *far more direct line responsibility* within the organization, with an emphasis upon segment or product management, where the focus is upon customer segments or particular products or technologies. The effect of this would be that marketing thinking and action would be better integrated into day-to-day business decisions.

Following on from this, marketing needs to become more strategic and less specialized in its nature, so that it becomes part of a more integrated process which might, for example, include upstream product development or downstream distribution management.

The third sort of change which is needed can in many ways be seen to be the underpinning that is needed for the future – that of a marketing or customer orientation becoming far more widespread. This would mean that marketing would no longer be the isolated concern of a few people, but of staff throughout the business. Thus:

> “A widespread appreciation of market forces and customer needs and how parts of an organization may contribute to creating a superior customer value is a necessity if the entire organization is to become market responsive. In a fast changing market environment, such an appreciation can make the difference between success and failure.”
>
> (Kashani, 1996, p. 9)

Assuming changes such as these are made, the sorts of skills and competencies that managers will need in the future will differ from those which are needed today, with a far greater emphasis being placed upon strategic thinking, communication and customer sensitivity.

The increasing volatility of markets has also been referred to in a number of recent books, such as *The State We're In* (Hutton, 1995), *The End of Affluence* (Madrick, 1995) and *The End of Work* (Rivkin, 1995), all of which argue that the developed western economies are facing a major step change in their fortunes as unemployment levels rise, deficits persist and purchasing power declines. There appear to be two major forces that are contributing to these changes. The first is *globalization*, which leads to an opening up of domestic markets and to the threat of low-priced foreign entrants. The second contributory factor is that of the seemingly ever faster pace of *technological change*. Together, these demand not only that managers have a far more detailed understanding of their current and potential markets and of their organization's ability to capitalize upon the undoubted opportunities that exist, but also of the ways in which these threats might best be minimized; in essence, this is a case for marketers to recognize the fundamental need for their behaviour patterns to be what Ries and Trout (1986) discuss in terms of being faster, more focused and smarter. In the absence of this, an organization's ability to compete is reduced dramatically.

But although the new market environment demands more innovative thinking and more creative ways of tackling the market, there are, in many organizations, significant barriers to this; these are illustrated in Figure 1.11.

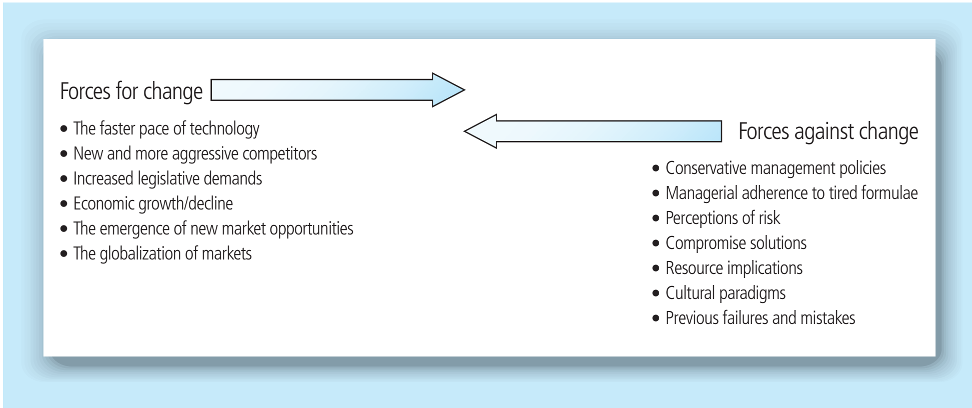


Figure 1.11 The conflicting environmental and organizational forces

Given the nature of these opposing forces and of the likelihood of those on the right-hand side leading to a failure on the part of the organization to change, the marketing planner needs to focus upon a number of issues, including what Hamel and Prahalad (1994, pp. 49–71) refer to in terms of 'learning to forget'. (This is an issue which is developed in detail on pages 467–74.) In arguing for this, they suggest that far too many managers, while acknowledging at an intellectual level the need for change, fail to accept it at an emotional level. In other words, while they are aware of the environmental changes taking place and accept the need to behave more proactively, they are often far too constrained by day-to-day pressures and the organizational culture to make the possibly radical shifts that the environment demands. Because of this, they remain wedded to old patterns of thought, believing that the current ways of doing things will ultimately prove to be adequate.

In order to overcome this myopia, Wind (1996, p. 7) argues that there needs to be a far greater emphasis upon being close to the customer, together with a far more fundamental recognition of the importance of customer satisfaction, the need for customer relationship building, an emphasis upon understanding customer value and the enhanced product offering, and that brand equity stems from a loyal customer base.

The implications of this can be seen to be far-reaching, including the way in which marketing needs to be looked at from a pan-organizational perspective rather than from the far narrower departmental perspective that predominates in many organizations. In turn, this different approach demands a rethinking of an organization's vision, objectives, strategies and structures, as well as of the sorts of skills that its staff need.

In discussing this, Wind (1996) argues that managers need to ask – and answer – twelve questions:

1 Is marketing and its focus on meeting and anticipating customers' needs widely accepted as a business philosophy?
2 Are the business and corporate strategies focused on creating value for all the stakeholders?

3 Do the objectives include customer satisfaction and the creation of value?
4 Is the marketing function integrated with the other functions of the company as part of the key value-creating process?
5 Are the key marketing positions market segment (or key account) managers?
6 Are products viewed as part of an integrated product and service offering which delivers the desired benefit positioning for the target segment?
7 Is the marketing strategy global in its scope?
8 Is full use being made of market research and modelling in generating and evaluating marketing and market-driven business strategies?
9 Is there an emphasis upon information technology as an integral part of the organization's marketing strategies?
10 Does a significant part of the marketing effort constitute innovative practices not previously used by the organization and its competitors?
11 Are strategic alliances for co-marketing activities being formed, and are marketing strategies based on the development of long-term relationships with clients?
12 Is there a sufficient focus of attention and resources upon message effectiveness (instead of media power) and value-based pricing (instead of discounting)?

Wind goes on to argue that it is not enough just to answer 'yes' to these twelve questions, but that there is also a need to recognize the interrelationships between many of the questions, and that the corporate vision and objectives *must* reflect a marketing orientation. This, in turn, highlights the critical importance of ensuring that the organizational architecture (this embraces the culture, structure, processes, technology, resources, people, performance measures and incentives) is focused upon the implementation of the new marketing paradigm. This paradigm, Wind suggests, can best be summed up in terms of building upon the historical role of marketing as the linkage between the organization and the environment, but which also focuses upon the twelve questions above and which, in turn, has implications for marketing as:

- ➡ The leading business philosophy
- ➡ The knowledge and wisdom centre of the company that provides all organizational members with concepts and findings about customers, tools for measuring and forecasting customer behaviour, and models and decision support systems for improving the quality of marketing and business decisions
- ➡ The growth engine which, through creative marketing strategies that utilize technology and mobilize the other business functions of the company, stimulates the top-line growth of the company.

Given the nature of these comments, it should be apparent that marketing is facing a series of fundamental challenges and that many planners are reappraising how marketing might best contribute to the overall management of an organization. As part of this debate, Figure 1.12 attempts to pull together the kinds of relationships that should

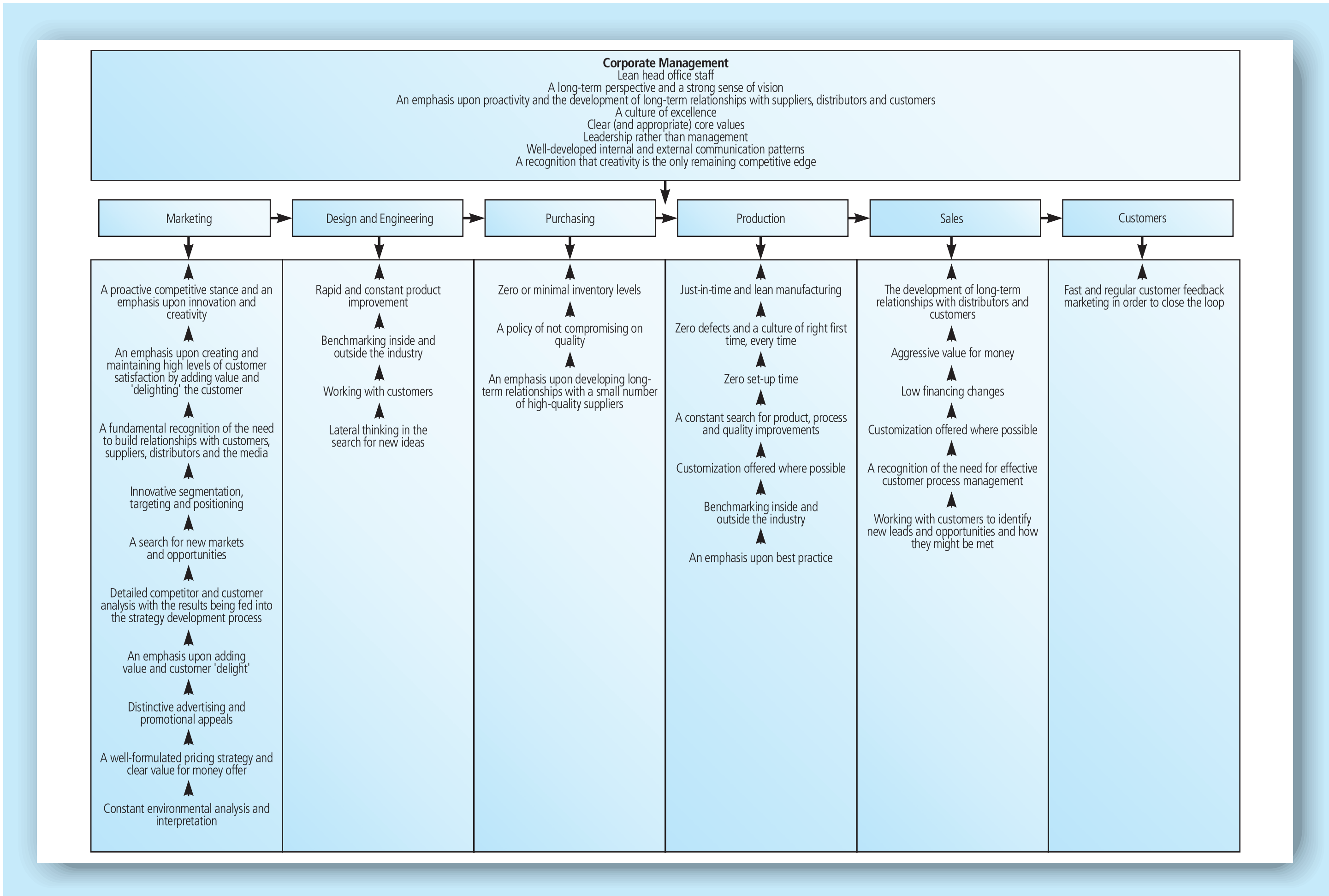


Figure 1.12 Marketing and its contribution to effective management

or might realistically exist between marketing and other areas of a marketing organization. Within this, there are several areas to which attention needs to be paid, but most obviously the characteristics of corporate management (the long-term perspective, a sense of vision, clear values, proactive patterns of thought and behaviour, and so on), the process linkages between marketing and the other functions, and the sorts of factors which characterize the effective management of each of the five functions identified.

Changing emphases within marketing

As the part of the organization which interacts most directly and immediately with the environment, there is an obvious need for the marketing planner to investigate, analyse and respond to any environmental changes that are taking place. If this is not done – or if it is done only poorly – not only will opportunities be missed, but potential and emerging threats are more likely to become actual threats, both of which will be reflected in a decline in performance. Because of this, the marketing planner needs to develop a clear vision of the future and of the ways in which the business environment is most likely to develop. In doing this, it is essential that the planner recognizes how patterns of marketing thinking are changing and how the organization might best come to terms with areas of growing importance.

Recognizing this, we can identify a number of marketing priorities for the new millennium:

- As the pace of change increases, the speed of anticipation and response will become ever more important and time-based competition more essential.
- As markets fragment, customization will become more necessary. With expectations rising, quality will become one of the *basic* rules of competition (in other words, a 'must have') rather than a basis for differentiation.
- Information and greater market knowledge will provide a powerful basis for a competitive advantage.
- Sustainable competitive advantage will increasingly be based upon an organization's core competencies. The consequences of a lack of strategic focus will become more evident and more significant.
- As market boundaries are eroded, the need to think globally will become ever more necessary. In this way, the marketing planner will be able to offset temporary or permanent declines in one market against growing opportunities in another. At the same time, of course, the need to recognize the strategic significance of size and scale is increasing. However, in going for size, the marketing planner should not lose sight of the need for tailoring products and services to the specific demands of markets by thinking globally, but acting locally.
- Differentiation will increasingly be based upon service.
- Partnerships with suppliers and distributors will become far more strategically significant.

- ➡ Strategic alliances will become more necessary as a means of entering and operating within markets, partly because they offer the advantages of access to greater or shared knowledge, but also because of the sharing of costs and risks.
- ➡ A far greater emphasis upon product, service and process innovation.
- ➡ A need to recognize the greater number and complexity of stakeholders' expectations.

In turn, these marketing priorities have substantial implications for organizational structures and cultures. Doyle (1994, pp. 384–6) identifies the ten most obvious of these as being the need to:

1. Break hierarchies and reorganize around flatter structures
2. Organize around small(er) business units
3. Develop self-managing teams
4. Re-engineer
5. Focus upon developing networks and alliances
6. Move towards transactional forms of organization
7. Become a true learning organization
8. Emphasize account management in order to integrate specialist expertise across the organization for the benefit of the customer
9. Recognize the importance of 'expeditionary marketing' so that, instead of focusing upon what Hamel and Prahalad refer to as *blockbuster innovation* designed to get it right first time, the organization concentrates upon developing a stream of low-cost, fast-paced innovative products
10. Rethink the way in which the board of directors operates so that it focuses to a far greater extent upon strategic direction rather than control and day-to-day management.

Marketing and a shift of focus

Many of the sorts of changes to which we have referred are reflected in the way in which we have seen a move from the sort of mass marketing that prevailed up until the mid-1970s, through just-in-time thinking and time-based competition, to the far greater emphasis today upon one-to-one marketing; this is illustrated in Figure 1.13. These changes are also reflected in Figure 1.14, which shows the emergence of different marketing paradigms, culminating in today's paradigm of electronic marketing (the role of the Internet in marketing is discussed in greater detail in Chapter 10 of the book).

Although the most obvious driver for this move towards the emerging paradigm of electronic marketing is the development of the technology itself, there are several underlying factors that have led analysts to question marketing practices and the need for a degree of rethinking. In 1993, for example, Coopers & Lybrand surveyed 100 companies and concluded that marketing departments were 'ill-focused and over-indulged'. In the same year, McKinsey released a report suggesting that 'marketing

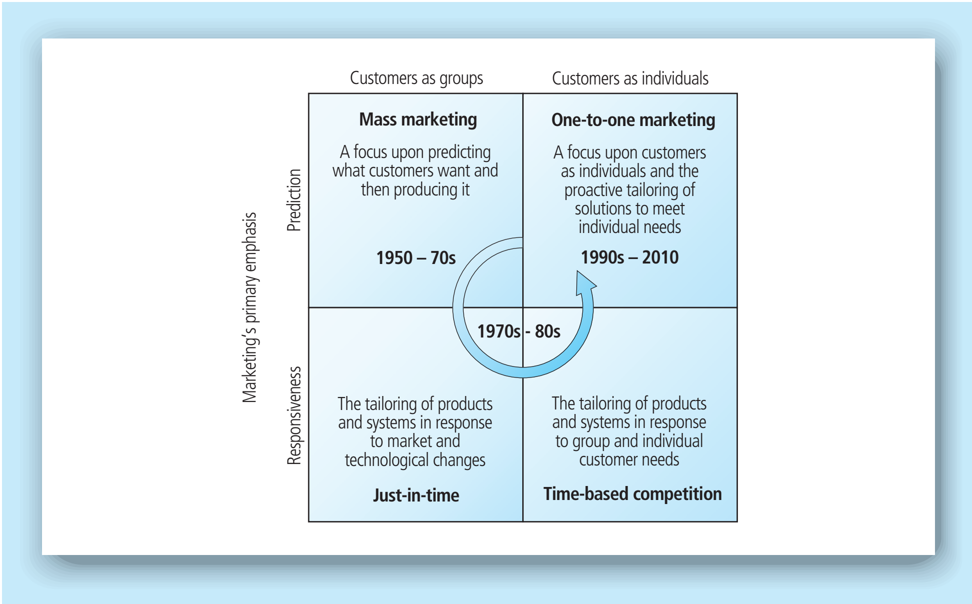


Figure 1.13 The shift from mass marketing to one-to-one marketing (adapted from Datamonitor Analysis, 1996)

departments have shown themselves to be "unimaginative", generating "few new ideas", and have simply stopped "picking up the right signals" . . . many consumer goods CEOs are beginning to think that marketing is no longer delivering'. A year later, Booz, Allen & Hamilton issued a report warning 'brand managers were failing to get to grips with commercial realities'.

Given the nature of these (and other) comments, a number of marketing strategists have come to recognize the need for a far stronger and tighter focus upon customers, far better and more effective feedback systems, and a generally more strategic approach to customer management, something that has helped in this movement away from the traditional mass marketing paradigm.

So why do great companies fail?

Long-term success is typically based on a combination of innovation, investment, the creation of value and – very importantly – a strong emphasis upon strategic management.

However, the quality and consistency of strategic thinking in many organizations has been severely criticized over the past few years. De Kare-Silver (1997), for example, highlights two studies, one from the consulting firm Kalchas CSC Index which suggested that 'only one in ten companies had the information or insight needed to make truly worthwhile strategic decisions' and one from *Business Week* (1996) which claimed that 'only 6% of executives rated their company highly for long term planning skills'.

This led Hamel and Prahalad (1994) to suggest that in many organizations there is an inherent tension between their past and their future which, unless it is addressed in

	Mass marketing (traditional paradigm)	**Target marketing (transitional paradigm)**	**Customer marketing (the new paradigm)**	**Electronic marketing (the emerging paradigm)**
Key characteristics, underlying assumptions and approaches	Mass selling ➡ Consumers are satisfied with a standard product ➡ Resellers are used to reach the consumer ➡ Heavy advertising will be successful	Market segmentation ➡ Markets consist of distinct and definable groups ➡ Success is gained from clear customer targeting and the development of a strong position within particular segments ➡ Targeting can be achieved through market analysis	A focus upon key customers and database management ➡ Databases enable organizations to store and interrogate customer information to provide insight ➡ Performance is improved by focusing on individual's needs ➡ The costs of customization are reducing all the time ➡ Technology now allows for direct marketing	The Internet ➡ Customers are more demanding, more discriminating and less loyal. They demand more information and are capable of processing this effectively ➡ Buyers want 24-hour access to develop a dialogue ➡ Markets are increasingly global in their nature
Weaknesses and failings	➡ A lack of focus and the subsequent waste of resources ➡ It ignores the demand for individual responses	➡ Large and profitable segments attract numerous players ➡ Customers shift from one segment to another and may belong to contradictory segments ➡ Segments may be illusory ➡ Some financial services organizations	➡ 'Databases' are often just lists of names and addresses rather than detailed customer profiles ➡ Database management and database mining skills are often more limited than is needed	➡ Customers may be concerned about security

Figure 1.14 Marketing's four paradigms: the shift from mass marketing to electronic marketing

a radical way, ultimately leads to the organization's decline and failure; this is illustrated in Figure 1.15.

In discussing this, De Kare-Silver (1997) suggests that those organizations that do manage to overcome this tension have several common features:

- A clear sense of purpose and direction
- Clearly articulated strategies
- Continuous investment
- A focus of resources and effort
- A commitment to the long term
- A determination to overcome roadblocks
- A relentless focus on *making* their future
- An emphasis on implementation.

In essence, he suggests they understand competitive advantage and what it takes to win. It is this sort of issue that effective strategic marketing planning is designed to address.

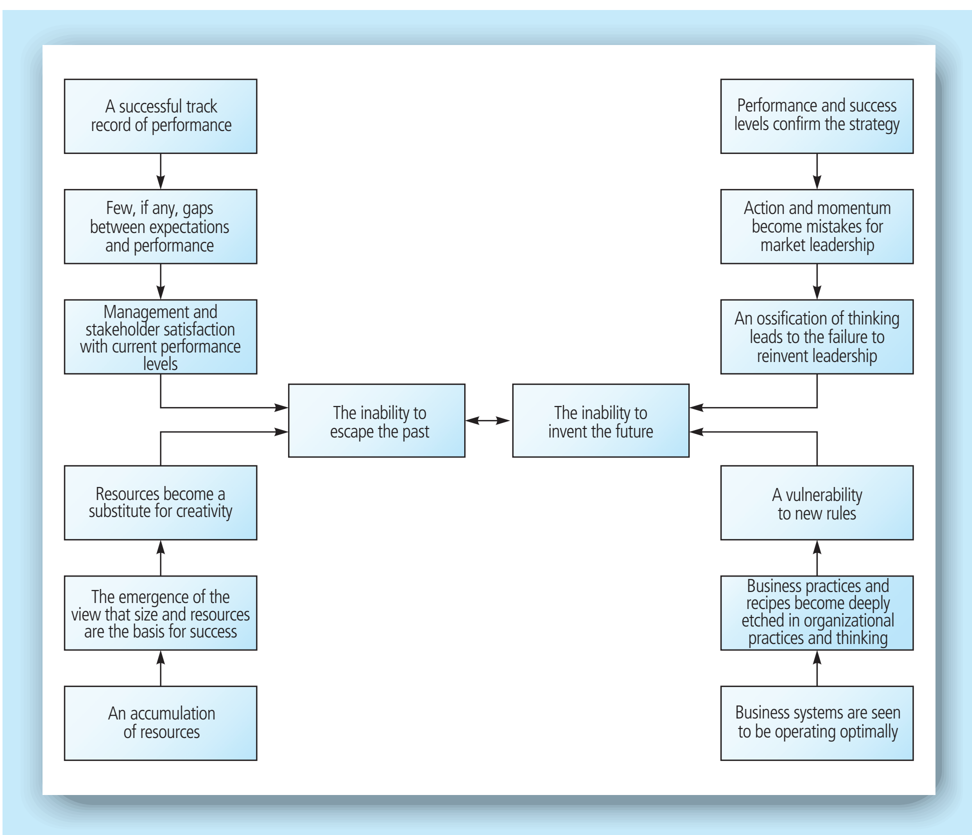


Figure 1.15 Escaping the past and inventing the future (adapted from Hamel and Prahalad, 1994)

The four horsemen of the corporate apocalypse and the emergence of the neo-marketing organization

Given what has been discussed so far within this chapter, it can be argued that there are two types of organization: those with a marketing department and those with a marketing soul. Those with a marketing department tend to believe still that the business models and formulae that have worked well in the past will continue to work well in the future, despite the sorts of often radical changes that have affected and still are affecting the vast majority of markets. Those with a marketing soul can be seen to be those organizations in which the senior management team has recognized that the way in which marketing had, for a long time, been interpreted was far too functional and far too limited. It is this that has led to the rise of what might be termed the neo-marketing organization.

One of the first highly credible criticisms of marketing came from Brady and Davies (1993), two consultants working for the management consultancy, McKinsey & Co. They argued that 'doubts are surfacing about the very basis of contemporary marketing'. They went on to say that 'costly brand advertising often dwells on seemingly irrelevant points of difference' and that 'marketing departments are often a millstone around an organization's neck' (p. 7). As evidence of this, they suggested that there were far too few examples of new marketing frameworks or fresh approaches: 'Although the business environment has changed dramatically, marketers are simply not picking up the right signals any more.'

These views have subsequently been echoed by a number of other authors and commentators (see, for example, Brannan, 1993; Thomas, 1994).

A number of factors appear to have conspired to invalidate traditional patterns of marketing thought, the four most significant of which were the saturation of numerous markets, globalization, market fragmentation and corporate downsizing. Referred to by Brown (1995) as the four horsemen of the corporate apocalypse, he argues that if organizations are to cope effectively with these pressures, there is the need for a neo-marketing approach, characterized by four key dimensions that, together, help to create a far more customer-centric and competitive organization:

1 *A far stronger corporate philosophy* in which emphasis is given to 'treat(ing) each customer as if they are the only one'.
2 *The much greater and more effective use of teams* from across the organization, with these teams having to meet specific targets such as the development of a new brand for an emerging segment or the re-launch of a product line. Having achieved the objectives, the team then disbands. Clusters therefore form, break and reform on a regular basis in order to move in time with the rhythm of the market.
3 *The better use of alliances* in areas such as R&D so that knowledge can be shared more effectively and mutual advantage can be gained through corporate symbiosis.
4 *IT-driven thinking* that provides a far greater insight to customers' patterns of thinking and behaviour, and helps to overcome the confusion caused by market fragmentation

and saturation. By using information technology *strategically*, the marketing planner gains a far greater understanding of buying habits, cross-brand elasticities, marketing sensitivities and market structures, and, in this way, can raise barriers to entry and move further towards 'owning the customer'.

1.6 Summary

This chapter seeks to offer some ideas constituting a framework for the rest of the book. It begins by considering the nature of management and of the management process. The process is often characterized in the following stages:

➡ Planning
➡ Decision-making
➡ Control.

These are related to a series of questions, around which the book is structured:

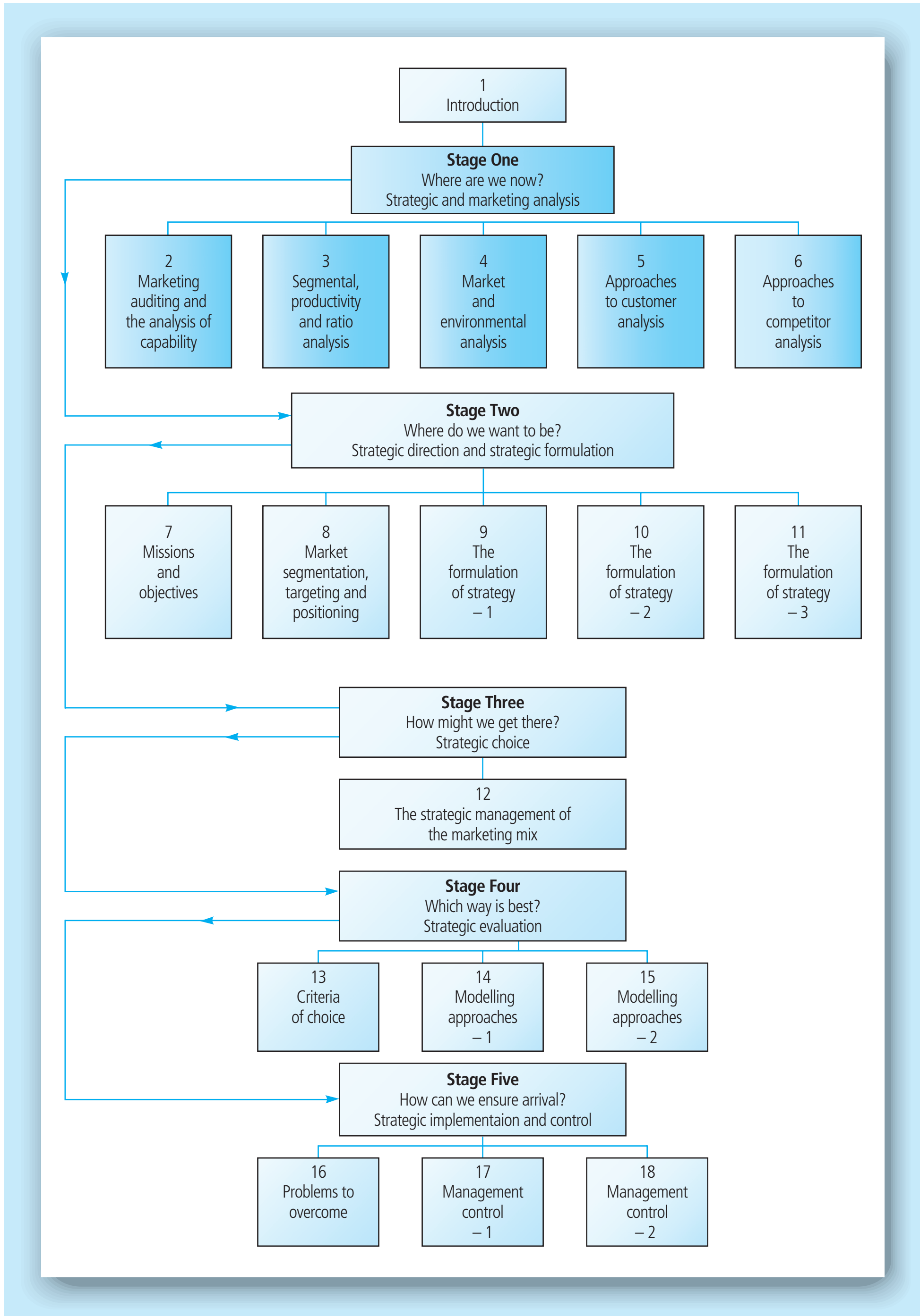
1 Where are we now?
2 Where do we want to be?
3 How might we get there?
4 Which way is best?
5 How can we ensure arrival?

Strategy can be seen as a normative matter concerning what an organization would like to achieve. As such it:

➡ Guides the organization in its relationship with its environment
➡ Affects the internal structure and processes of the organization
➡ Centrally affects the organization's performance.

Marketing, via its policies and programmes relating to the seven elements of the marketing mix, can provide the means to facilitate the attainment of a strategy.

The extent to which the strategy is achieved provides a measure of the organization's effectiveness. Any organization's effectiveness depends upon the balance between what is desired and what is achieved on the one hand, and by paying due regard to the requirements of all stakeholders, whether internal or external, on the other. It is through the process of organizational control that managers seek to achieve organizational effectiveness, and this gives a reference point for all that follows.


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 One: Where are we now? Strategic and marketing analysis

Our primary concern within this stage is with the ways in which organizations can most clearly identify their current position and the nature of their marketing capability. It is against the background of the picture that emerges from this analysis that the marketing planner should then be in a far better position to begin the process of deciding upon the detail of the organization's future direction and the ways in which strategy is to be formulated.

The starting point in this process of strategic and marketing analysis involves a detailed marketing audit and review of marketing effectiveness. Together, the two techniques are designed to provide the strategist with a clear understanding of:

- ➡ The organization's current market position
- ➡ The nature of environmental opportunities and threats
- ➡ The organization's ability to cope with the demands of this environment.

The results of this analysis are then incorporated in a statement of Strengths, Weaknesses, Opportunities and Threats (SWOT), and subsequently a measure of capability.

Although the marketing auditing process is, as we discuss in Chapter 2, a relatively under-utilized activity, a growing number of planners, strategists and writers have over the past few years highlighted the nature of its potential contribution to effective strategy formulation.

Although there is no single format for the audit, it is generally acknowledged that, if the process is to be worthwhile, account needs to be taken of six dimensions:

1. The marketing environment
2. The current marketing strategy
3. Organizational issues
4. The marketing systems in use
5. Levels of marketing productivity
6. Marketing functions.

Used properly, marketing auditing and a review of marketing effectiveness are recognized as potentially powerful analytical tools that are capable of providing the planner with a detailed understanding of the organization's marketing capability and the nature of the environment that it is likely to face.

This process of analysis is taken a step further in Chapter 3, in which we discuss the ways in which the planner can establish patterns of resource allocation and its productivity by relating inputs (resources or costs) to outputs (revenues and profits). By doing this, the process of cost-effective planning is capable of being improved significantly.

Against this background, we turn in Chapters 4–6 to the various ways in which external environment in general and then customers and competitors, in particular, can be analysed.

It has long been recognized that marketing strategy is, to a very large extent, driven by the strategist's perception of the environment as a whole and competitors and customers specifically. Because of this, the failure to analyse and understand the environment *in detail* will almost inevitably be reflected in strategies which lack an adequate underpinning.

In the case of competitors, our understanding of how competitive relationships develop and operate has increased greatly over the past few years, largely as the result of the work of Michael Porter. Porter's work is based on the idea that the nature and intensity of competition within an industry is determined by the interaction of five key forces:

1. The threat of new entrants
2. The power of buyers
3. The threat of substitutes
4. The extent of competitive rivalry
5. The power of suppliers.

Analysis of these allows, in turn, for the identification of strategic groups, and for a far clearer identification of the relative position, strengths and objectives of each competitor. In the light of this, the arguments in favour of a competitive intelligence system are compelling. However, as we point out in Chapter 6, the value (and indeed the existence) of such a system is determined to a very large extent by the belief in competitive monitoring on the part of top management. Without this, the evidence that emerges from the work of numerous writers suggests that the organization will be largely introspective, with competitive analysis playing only a minor role in the planning process.

Broadly similar comments can be made about the role and value of customer analysis. As with competitive behaviour, our understanding of how buyers behave has advanced significantly in recent years, largely as the result of the work of researchers such as: Foxall; Turnbull and Cunningham; Webster; Robinson, Faris and Wind; and Hakansson. All too often, however, evidence suggests that firms devote relatively little attention to detailed customer analysis, assuming instead that because they interact with customers on a day-to-day basis they have a sufficient understanding of how and why markets behave as they do. Only rarely is this likely to be the case and, recognizing that customer knowledge is a potentially powerful source of competitive advantage, the rationale for regular and detailed analyses of customers is therefore strong.