

The Formulation of Strategy 2: Generic Strategies and the Significance of Competitive Advantage

11.1 LEARNING OBJECTIVES

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

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

11.2 INTRODUCTION

Having used the techniques discussed in Chapter 10 to identify the strengths and weaknesses of the product portfolio, the strategist should be in a far stronger position to focus upon the ways in which the organization is most capable of developing. Against this background, we now turn our attention to an examination of some of the principal factors that influence marketing strategy. We begin by examining Michael Porter's work, in which emphasis is given to the need for a clear statement of a generic strategy and for this to be based upon a detailed understanding of corporate capability and competitive advantage. The remainder of the chapter then focuses upon the nature, significance and sources of competitive advantage, the

ways in which, in many markets, competitive advantage is being eroded, and how competitive advantage might possibly be leveraged. We then build upon this in Chapter 12, with an examination of the ways in which market leaders, followers, challengers and nichers might make use of this thinking.

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

11.3 TYPES OF STRATEGY

Throughout this book we have tried to give full emphasis to the need for objectives and strategy to be realistic, obtainable and based firmly on corporate capability. In practice, of course, this translates into an almost infinite number of strategies that are open to an organization. Porter (1980) has, however, pulled them together and identified three generic types of strategy – *overall cost leadership*, *differentiation* and *focus* – that provide a meaningful basis for strategic thinking (see Figure 11.1). In doing this, he gives emphasis to the need for the strategist to identify a clear and meaningful selling proposition for the organization. In other words, what is our competitive stance, and what do we stand for in the eyes of our customers? Any failure on the part of the strategist to identify and communicate the selling proposition and strategy is, he suggests, likely to lead to a dilution of the offer and to the company ending up as stuck in the middle or, as it appears in Figure 11.1, a middle-of-the-roader heading into the marketing wilderness.

Porter's thesis is therefore straightforward: to compete successfully the strategist needs to select a generic strategy and pursue it consistently. The ways in which this might be done and the benefits and the problems that might possibly be encountered are referred to in Figure 11.2. Obviously, there is no single 'best' strategy, even within a given industry, and the task faced by the strategist involves selecting the strategic approach that will

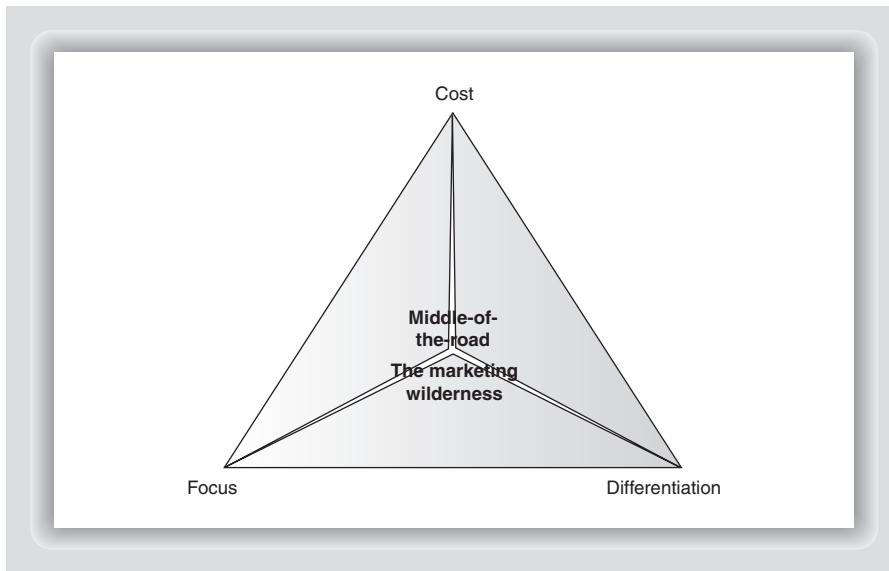


FIGURE 11.1 Porter's three generic strategies (adapted from Porter, 1980)

best allow it to maximize its strengths *vis-à-vis* its competitors. This needs to be done, Porter (1979) suggests, by taking into account a variety of factors, the five most significant of which are:

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

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

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

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

FIGURE 11.2 *Selecting and pursuing a generic strategy*

11.4 PORTER'S THREE GENERIC COMPETITIVE STRATEGIES

Overall cost leadership

By pursuing a strategy of cost leadership, the organization concentrates upon achieving the lowest costs of production and distribution so that it has the *capability* of setting its prices at a lower level than its competitors. Whether it then chooses to do this depends on its objectives and its perception of the market. Saunders (1987, p. 12), for example, has pointed to IBM and Boeing, both of which were for many years cost leaders who chose to use their lower costs not to reduce prices but rather to generate higher returns, which were then invested in marketing, R&D and manufacturing as a means of maintaining or strengthening their position. More commonly, however, firms that set out to be cost leaders then use this lower cost base to reduce prices and in this way build market share. Amongst those to have done this are Amstrad (now trading as Viglen) in the 1980s and, more recently, supermarkets such as Netto, Lidl, Asda and Aldi, the low-cost airlines such as easyJet (see Illustration 11.3) and Ryanair and, of course, Wal-Mart. With sales in 2008 of more than \$374 billion, Wal-Mart is now not just the world's largest retailer, but the world's largest company. In reaching this position, the company has pursued a focused and aggressive low price policy that involves working with organizations throughout the supply chain to drive out costs and drive down price.

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

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

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

stance and determination to take advantage of the potential that exists for cost cutting. Research has shown, for example, that the Japanese are most adept at gaining experience, doing so at a faster rate than the Americans, who in turn are faster than the Europeans.

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

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

A strategy of cost and price leadership has also been at the heart of Ikea's success. With almost 8 per cent of the UK furniture market, the company's aggressive approach to the management of cost is reflected not just in the design and manufacturing processes and the economies of scale from its retail outlets, but also in the way in which the company use its own employees as models for the Ikea catalogue.

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

The difficulties of maintaining a cost-leadership position were also illustrated in the late 1980s and early 1990s in the UK grocery retailing sector, where the low-cost position had been occupied with some considerable success for a number of years by Kwik Save. The organization came

under attack from an aggressive new German entrant to the market, Aldi, and then from the Danish company, Netto. Faced with this, Kwik Save was forced into deciding whether to place greater emphasis on differentiation.

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

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

Differentiation

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

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

Differentiation can also be achieved by means of the brand image and packaging, a ploy that is particularly suited to mature markets in which

Illustration 11.1 Differentiate or die

Over the past 10 years the word ‘unique’ has become one of the most frequently used – and abused – words in the marketing lexicon. At the same time, ‘unique selling proposition’ has become an ever more tired phrase that is deployed more in hope than expectation. It is because of this that Jack Trout, seen by many to be the father of positioning, argues that, in a world in which everything can be copied, it is the company’s intangible assets that provide the basis for real differentiation. In his book *Differentiate or Die* he suggests that marketing planners should not bother extolling the traditional virtues of quality, customer orientation or even creativity, since these are too easily copied. Instead, he suggests that what really matters are the points of difference rooted in areas such as ownership, leadership, heritage and topicality. Being different on the surface is simply not enough any more. Instead, it needs to be based on issues that are far more fundamental. This focus upon differentiation is of course not new. But the sheer proliferation of products and services is making it imperative to determine just what, if anything, really does make a company different. Trout argues that difference is only real if its essence can be expressed in just one word. In the case of Microsoft, the company could, throughout the 1990s, claim that its describing word was ‘innovative’; with its problems with American anti-trust legislation, this is no longer the case. Equally, Marks & Spencer used to be synonymous with ‘value’ whilst BA was ‘British’ and Gap was ‘cool’. All three have, however, lost sight of their core differentiation. By contrast, easyJet is value, Virgin is ‘flair’, Nike is ‘heroism’, Sony is ‘miniaturized perfection’ and Disney is ‘fun’.

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

the products are for the most part physically indistinguishable. This might arguably include cigarettes and beer, where blind tests have shown that even highly brand-loyal customers experience difficulties in identifying their favourite brand. The significance of labels and brand images, and hence their potential for differentiation, is also shown in the fashion clothing industry, where brand names and logos such as Benetton, Nike and Lacoste are often prominently displayed and, by virtue of the images associated with them, used as the basis for premium pricing. The fundamental importance of differentiation has been highlighted by Trout and Rifkin (2000), who argue that far too often planners misunderstand what exactly the term means; this is discussed in Illustration 11.1.

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

the introduction of beds that folded flat so that passengers could sleep more easily.

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

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

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

The strategic significance of differentiation has also been highlighted by Godin (2004), who in his book *Purple Cow* argues that far too many products, services and strategies are, like a large herd of black and white cows, essentially the same and therefore boring and largely invisible. What is needed, he suggests, is something distinctive as remarkable – like a purple cow – that will stand out and be immediately recognizable. Amongst those to have done this are companies such as the budget airline JetBlue, the water retailer Portland Spring, Ikea, the phone service 1-800-COLLECT, and the television show *South Park*.

Focus

The third of the generic strategies identified by Porter involves the organization in concentrating its efforts upon one or more narrow market segments, rather than pursuing a broader-based strategy. By doing this the firm is able to build a greater in-depth knowledge of each of the segments, as well as creating barriers to entry by virtue of its specialist reputation. Having established itself, the firm will typically then, depending upon the specific

demands of the market, develop either a cost-based or differentiated strategy. Among those that have used this approach successfully, at least in the short term, at various stages are Laura Ashley, Thorntons (the chocolate manufacturers) and Land Rover. Other firms that have used a focused strategy are Morgan with cars, Steinway with pianos and, perhaps to a lesser degree, Apple with an emphasis upon the design world.

One of the biggest problems faced by companies adopting this approach stems paradoxically from its potential for success since, as the organization increases in size, there is a tendency both to outgrow the market and to lose the immediacy of contact that is often needed. As a general rule, therefore, a focused strategy is often best suited to smaller firms, since it is typically these that have the flexibility to respond quickly to the specialized needs of small segments. (At this stage, it may be useful to refer to the discussion of the supernichers in section 8 of Chapter 12.)

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

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

It follows from this that the identification, development and maintenance of a long term competitive advantage, and hence a strong selling proposition, is at the very heart of an effective marketing strategy. In practice though, many organizations find this to be a difficult exercise, something that Levi's learned in the 1990s (see Illustration 11.2).

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

Porter's generic strategies: a brief comment

Although Porter believes strategy needs to be thought about in terms of these three generic approaches, this thinking has been the subject of a considerable amount of criticism in recent years. Given this, Figure 11.3 summarizes the pros and cons of the approach.

Illustration 11.2 The fall and rise of Levi's: the long-term problems of market fragmentation

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

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

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

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

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

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

Source: Ellsworth (2000).

11.5 COMPETITIVE ADVANTAGE AND ITS PIVOTAL ROLE IN STRATEGIC MARKETING PLANNING

Making use of the value chain

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

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

Pros	Cons
<ul style="list-style-type: none"> • The model highlights the significance of competitive advantage as the basis for competitive success • The idea of three generic strategies gives recognition to the way in which, regardless of the wide variety of variables and industry situations faced by managers, there are in practice only a limited number of meaningful strategic options 	<ul style="list-style-type: none"> • The idea of lowest cost as a meaningful strategic option has, as Porter has acknowledged, largely been invalidated by the pace of change. The notion that economies of scale represent the basis for a sustainable position for organizations faced on the one hand by ultra low-cost and maverick companies from the less-developed world, and on the other hand by fast-moving small companies in the developed world, is now no longer seen to be realistic • The thinking that underpins the model is essentially manufacturer asset-driven rather than being based on an understanding of markets and customers. Since then, a considerable amount of power has shifted from the manufacturer to the consumer • The basis for market success was assumed to rest on the idea that the principal strategic challenge was that of out-manoeuvring competitors. Today, far more recognition needs to be given to the power and role of the distributor and to the way in which retailers and end-users are able to leverage their position • The model is essentially superficial and provides little real insight to the forms of competitive advantage that determine organizational performance.

FIGURE 11.3 *The pros and cons of Porter's three generic strategies*

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

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

He goes on to suggest that a convenient tool for identifying and understanding the potential competitive advantages possessed by a firm is by means of value chain analysis. In making this comment, Porter gives recognition to the way in which a firm is a collection of activities that are performed to design, produce, market, deliver and support its product.

The value chain (introduced in Chapter 3) disaggregates a firm into nine strategically significant activities so that the strategist is more easily able to understand the source and behaviour of costs in the specific business and industry, and the existing and potential sources of differentiation.

These nine value activities consist of five primary activities and four support activities.

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

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

Developing a sustainable advantage

The only truly sustainable competitive advantage comes from out-innovating the competition.

(Anon)

This need to understand that the bases of competition and the way in which competitive advantage is achieved should not be seen in any absolute way can perhaps best be illustrated by recognizing that markets can be viewed in a variety of ways and that a product can also be used in many different ways. It follows from this that every time the product–market combination changes, so too does the relative competitive strength or competitive advantage. The implications of this are significant and are reflected by the way in which a key element in any strategy revolves around choosing the competitor whom you wish to challenge, as well as choosing the market segment and product characteristics with which you will compete.

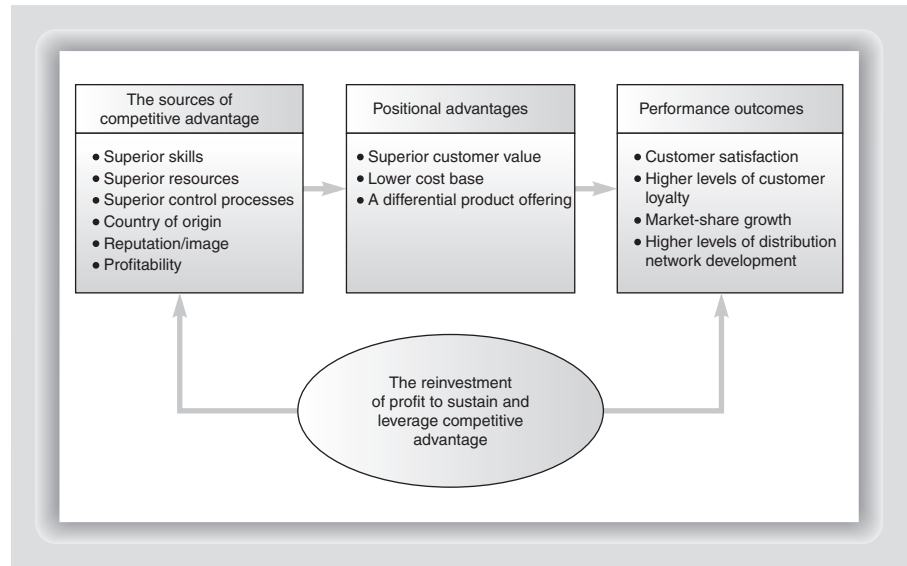


FIGURE 11.4 Competitive advantage and business performance (adapted from Cravens, 1996, p. 36)

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

A framework for thinking about competitive advantage and how it links to the organization's subsequent performance has been proposed by Cravens (1996). This is shown in Figure 11.4.

A fundamental understanding of competitive advantage and how it is capable of undermining the competition was at the heart of the easyJet strategy. This is discussed in Illustration 11.3, and shows how the low-cost airline developed, leveraged and exploited competitive advantage to become a significant player in the European airlines market.

The low-cost business model used by companies such as Southwest Airlines, easyJet and Ryanair is one which, if managed properly, can prove to be enormously attractive. It is also one that is fraught with danger. If an organization is to pursue a low-cost strategy successfully, it is essential that costs are continually and ruthlessly driven out of the business, something that the

Illustration 11.3 EasyJet – competitive advantage through low costs and low prices

In December 1992, the European Union deregulated the airline industry. The implications of this were significant and meant that any European carrier could fly to any European destination and demand landing slots. Recognizing the opportunities that this created, large numbers of new airlines emerged, all of which focused upon offering low prices. However, the majority of these companies quickly encountered problems and, by 1996, 60 of the 80 carriers that had started up after deregulation had gone bankrupt. Given these odds, the success of easyJet is therefore particularly impressive.

The development of the company

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

- One type of aircraft.
- Point-to-point short-haul travel.
- No in-flight meals (this saved £14 per passenger).
- Rapid turnaround times; these averaged 25 minutes.
- Very high aircraft utilization – aircraft flew an average of 11.5 hours per day rather than the industry average of six hours. The net effect of this was that two planes could do the work of three.
- Direct sales rather than via travel agents, since travel agents and computer reservation systems, it was calculated, added 25 per cent to operating costs.
- Booking over the Internet wherever possible. In March 1999, Internet sales accounted for 15 per cent of revenues. By October of that year, it was more than 60 per cent of revenues. By mid-2000, it was more than 70 per cent, a figure that the company aimed to increase yet further by replacing the telephone number livery on its planes with the Internet address.
- Ticketless travel. Customers paid by credit card and were given a six-character reference number. This number was the only information needed for passengers to board the plane.
- Selling drinks and refreshments.
- One class of seating in order to avoid the extra space demanded by business-class passengers.
- The outsourcing of as many services as possible, including check-in and the on-site information desk.

- Yield management in order to sell as large a number of seats as possible. Seats are sold in what could be considered a lottery system – the more people who demand a particular flight, the higher the fare. Put differently, if the load factor (percentage of seats sold) was higher than normal, prices automatically increased. This system worked well for easyJet because it helped to avoid selling out popular flights months in advance. Yield management also served another purpose – it drew potential customers who were in search of cheap fares. Once they found there were no more cheap seats, they usually bought a ticket anyway, since the next highest fare was still cheaper than easyJet’s competitors. Stelios defended his policy vigorously: ‘We decided that people who are willing to give us their money early should get a better price, and those who want the flexibility of booking late should pay a bit more.’ The net effect of this was that load factors were consistently in excess of 80 per cent.

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

But whilst the company aggressively managed costs, it emphasized that it would never compromise on safety, flew new Boeing 737s and only hired experienced pilots who were paid market rates. Stelios commented: ‘If you advertise a very cheap price, people expect an old airplane. But when they come on board and see a brand new plane, they are impressed. Likewise, many customers expect an unhappy staff because they believe they are not paid well, but they come on board and see the staff are smiling.’

The significance of service

In the same way that the company was not prepared to compromise on safety, Stelios believed that low cost and high levels of service and customer satisfaction were not incompatible.

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

Taking on the competition

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

... in 1996, Bob Ayling, British Airways chief, approached Stelios in what appeared to be an offer to buy easyJet. Instead, after a three-month

courtship, British Airways abandoned the deal, and one year later, launched Go!, its own budget airline. Still angry over the incident, Stelios got his revenge by buying several rows of seats on Go!'s first flight. He commanded his staff to don orange boiler jackets, and they all boarded the flight like a group of merry pranksters, offering free flights on easyJet to Go!'s passengers. Barbara Cassani, chief executive of Go! Airlines, was on the inaugural flight to welcome new passengers. When she saw what was occurring, she lapsed into stunned silence. The publicity stunt paid off for easyJet. Go! Airlines announced losses of £22 million in 1999.

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

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

Source: easyJet and media comments.

low-price grocery retailers such as Aldi and Netto have long realized. As soon as the management team loses sight of this imperative, the organization is likely to suffer in a dramatic fashion as it falls into the marketing wilderness (see Figure 11.1). This was a lesson learned by the retailer Kwik Save.

In the case of the low-cost airlines, although their business model proved to be enormously successful throughout the 1990s and then for much of the early part of the twenty-first century, the intense price-based competition led both to a shake-out across the sector and to the survivors searching for new sources of revenue. Amongst the ways in which they did this was by offering priority boarding (for a fee), charging for baggage that went into the aircraft hold, dispensing with seat pockets, and so on.

However, in 2008 the whole of the low-cost business model began to be questioned as oil prices began to rise dramatically. From an average of \$17 a barrel in 2000, prices reached \$148 a barrel in 2008 (they rose by more than 35% in just one three-month period). Although oil prices then dropped back, the effect upon the industry was significant, with some players being forced into bankruptcy, whilst others began reporting heavy losses.

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

Competitive advantage is achieved whenever you do something better than competitors. If that something is important to consumers, or if a number of small advantages can be combined, you have an exploitable competitive advantage. One or more competitive advantages are usually necessary in order to develop

a winning strategy, and this in turn should enable a company to achieve above-average growth and profits.

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

1. *A superior product or service benefit*, as shown by First Direct with its combination of service and value; Pilkington with its self-cleaning glass, Toyota and Lexus with their very high levels of reliability; Disneyland with its overall quality of service; and Samsung initially with its price–performance combination and then more recently with its emphasis upon design, quality and value.
2. *A perceived advantage or superiority*. Marlboro, with its aggressively masculine image featuring cowboys, holds a 22 per cent share of the US cigarette market. The brand is well marketed but there is no reason to believe the cigarettes are objectively superior. Other examples of a perceived superiority advantage include designer label clothing and bottled waters.
3. *Low-cost operations* as the result of a combination of high productivity, low overheads, low labour costs, better purchasing skills, a limited product range, or low-cost distribution. Amongst those to have achieved this are the low-cost supermarket chains such as Aldi, Netto and Wal-Mart.
4. *Global experience, global skills and global coverage*. Amongst the most effective global operators are Coca-Cola and McDonald's. In the case of Coca-Cola, the brand's coverage has moved from around 2.26 billion people in 1984 to almost 6 billion today, with the result that there are few places in the world where Coca-Cola is not readily available. For McDonald's, its 35 000 outlets worldwide allow it to serve 50 million plus customers each day.
5. *Legal advantages* in the form of patents, copyright, sole distributorships, or a protected position.
6. *Superior contacts and relationships* with suppliers, distributors, customers, the media and government, and the management of customer databases.
7. *Scale advantages* that enable costs to be driven down and competitors pushed into a position of competitive disadvantage.
8. *Offensive attitudes* or, as Procter & Gamble label it, an attitude of competitive toughness and a determination to win.
9. *Superior competencies*. Ikea's focus upon developing competencies in product design, warehousing, purchasing and packaging, for

example, has allowed it to offer consumers high quality and low prices.

10. *Superior assets*, which may include property or distribution outlets.

Although Davidson's list of the 10 bases of competitive advantage is generally comprehensive, there are several other elements that can be added. These include:

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

In so far as there is a single factor that underpins all 20 factors listed here, it is that of adding value to the ways in which the organization interacts with the customer, something that is clearly understood within Tesco (see Illustration 11.4). In the absence of this, there is no real competitive advantage.

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

Management advantages include:

- The overall level of management ability
- The willingness and ability of the marketing team to redefine the market in order to create market breakpoints

Illustration 11.4 Tesco and its leveraging of competitive advantage

A fundamental understanding of the significance of competitive advantage was at the heart of Tesco's strategy throughout the 1990s and early part of the twenty-first century. Their performance outstripped that of the vast majority of retailers and has led not just to the company taking over as the market leader from Sainsbury's in the UK food retailing market, but also to its increasingly successful development of clothes retailing. In doing this, the company has concentrated on developing a series of competitive advantages that, taken together, represent an enormously strong selling proposition, provide consumers with a powerful reason to buy, and put competitors at a disadvantage.

- The ability to identify and manage risk
- Managerial mindsets
- Experience
- A focus upon implementation.

Behavioural and attitudinal advantages include:

- Offensive attitudes (refer also to our earlier discussion on FUD marketing)
- Flexibility and speed of response
- A willingness to take risks.

Staff resource advantages include:

- Levels of creativity
- Networks
- Staff mindsets.

Marketing mix advantages include:

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

However, irrespective of the type of market in which the organization is operating, competitive advantage must always be looked at from the standpoint of the customer since, unless the customer sees something to be significant, it is not a competitive advantage. Recognition of this leads to a

three-part test that the marketing planner needs to apply on a regular basis to any proposed form of advantage:

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

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

Competitive advantage, the growth of the experience economy and the rise of experience marketing

Faced with increasingly competitive markets in which points of differentiation between one product and another have become ever smaller, many marketing planners have responded by focusing upon the broader marketing context and the experience that surrounds the product, the purchase and the brand. Amongst those to have done this are Absolut Vodka with their Absolut Ice bars, Disney with DisneyWorld, Lego with LegoWorld, the Rainforest Café, Virgin with Upper Class, Nike with its Nike Town retail outlets, Apple with the Apple stores, Borders with its book stores, Yo Sushi!, and, in their early days, Starbucks.

The notion of the 'experience economy' was first discussed by Pine and Gilmore (1998) in a *Harvard Business Review* article and then developed in their book (2006) *The Experience Economy: Work Is Theatre and Every Business a Stage*. They argued that we are in the middle of a fundamental economic shift that has emerged out of a culture of mass affluence. With basic needs having been satisfied (the disposable income of most people across Western Europe is double that of 1980), the ways in which people view products and spend money has changed significantly. Because of this, one of the ways in which a company stands out in the market place is not just by offering products and services, but also experiences.

In the case of retailers, for example, shopping malls have reflected the idea of the experience economy by positioning themselves as destinations for a family day out, with scope for browsing, going to the cinema, eating – and shopping. In the case of Toys 'R' Us, for example, there has in its flagship stores been a move away from its traditional approach of 'pile it high,

sell it cheap' to an experience which, in the Times Square store in New York, includes an 18m Ferris Wheel, two floors designed as a Barbie house, and an animatronic dinosaur.

As with other companies that have opted for experience marketing, the principal focus is upon developing an emotional attachment between the company and the consumer.

Insofar as it is possible to identify the characteristics of effective experience marketing, they are that the offer is typically characterized by a number of the following features:

- There is a strong sense of engagement both with the brand and the experience (Lego World and the Rainforest café)
- It is different, memorable and consistent (Disney)
- The experience often leads to the customer having a high level of involvement in the delivery of the experience (Lego World)
- The staff involved in delivering the experience are typically well-trained and committed to the organization and its values
- The process by which the customer is managed is often tightly controlled and there is a significant attention to detail (Disney World)
- There is often a sense of fun, excitement and customer delight (Disney World)
- The offer is typically unique or significantly different from much of what is already on the market (Virgin Upper Class)
- There is a high degree of perceived value (Virgin Upper Class)
- The product or service is typically offered at a premium price
- There are frequently add-ons which, in the eyes of the customer, add value to the experience (Disney World, Lego World)
- Everything is underpinned by a strong sense of organizational culture and a high level of staff and customer-buy-in.

In many ways, experience marketing can be seen to be a reflection of the coming together of a variety of trends, including multiculturalism, globalism and a series of demographic shifts. With much larger numbers of leisure activities available than was typically the case 20 years ago, a far greater proportion of the population now has the money to experience them. In the case of women, for example, they participate, on average, in ten different leisure pursuits a year, compared to around six 20 years ago. This desire to experiment and experience a greater variety of activities can, in turn, be seen to be linked to Maslow's hierarchy of needs and the search for self-actualization: recognizing that physical products are not necessarily the key to happiness has led to the search elsewhere for fulfilment.

Customer service and competitive advantage: new paradigms in service management

Two themes to which we keep returning throughout this book are that over the past few years customers have become far more demanding and markets have generally become far more competitive. One of the most significant of the consequences of these changes is that many of the traditional bases of competitive advantage have been eroded. The typical response to this sort of problem in the past is seen by the way in which the marketing planner would concentrate upon the development of a series of product improvements in order to regain the advantages that had been lost. However, the effectiveness of this in a fast-moving market is questionable, since not only are the costs high but it is also almost inevitable that competitors will copy almost immediately. What was therefore – temporarily – an augmented benefit quickly becomes something that is seen by the customer to be a TFG (taken-for-granted).

It is the recognition of this that has led many marketing planners to focus instead upon the development of benefits that are less tangible and therefore harder to copy. Amongst the most obvious of these are customer service, competitive positioning and brand values. It therefore becomes an issue not of what the organization can do, but of the way in which it does it. Amongst those to have done this successfully in the UK is the Co-operative Bank, which has managed to achieve a degree of competitive differentiation by positioning itself as the ethical bank. For those customers who see ethical behaviour to be important, the Co-op has become the preferred supplier – a position that others can attempt to copy but find difficult to beat. Elsewhere, Singapore International Airlines, Emirates and Qatar Airways have for a long time all used service excellence as the basis for their strategies. However, Zeithaml (1990, p. 135) suggest that far too many organizations have still failed to appreciate the strategic significance of service excellence:

Service with a smile? Not by a mile. The message of commercials is 'We want you!'. The message of the service is 'We want you unless we have to be creative or courteous or better than barely adequate. In that case, get lost.'

Although it might be argued that Zeithaml is being unduly cynical in order to make a point, the reality in numerous cases is that service delivery levels fail to match – or exceed – customers' expectations. The consequences of this are seen in a number of ways, but most obviously in terms of the organization's failure to exploit the customer base to the extent that might be possible by developing higher levels of loyalty. Because of this, far too many purchases prove to be single transactions with customers who, having been attracted to the product or service, often at considerable cost,

are then allowed to walk away without a further commitment. While customer loyalty schemes are designed to overcome this, it needs to be recognized that consistently high levels of service quality stem from a far more fundamental reorientation of the business.

It is the acknowledgement of this, together with an appreciation of the way in which the products and prices of competitors are becoming increasingly similar and difficult to differentiate, that has led to a far greater emphasis upon the 'soft' elements of the marketing mix – particularly *people* (staff) and *process management* (how customers are managed from the point of very first contact with the organization through to the point of very last contact).

The pressures to achieve high(er) levels of service have, in turn, been reinforced by the way in which customers – faced with a far greater range of choices – have become more demanding and much less tolerant of service failings. Taken together, these pressures have led to a new service paradigm characterized by a shift in emphasis from *service quality*, with its focus upon meeting customers' expectations, to *service excellence* which gives emphasis to exceeding customer expectations.

The economic rationale for service excellence is typically seen to stem from a variety of studies that have been conducted over the years that have led to the conventional and possibly conventional marketing wisdom which suggests that:

- The price of acquiring new customers can be five times greater than the cost of keeping current ones
- Reducing customer defections is said to boost profits by anywhere from 25 to 150 per cent
- The return on investment to marketing for existing customers can be up to seven times more than for prospective customers
- The probability is near 100 per cent that very satisfied customers become the best sales promoters of the company.

The importance of service and its contribution to competitive advantage was also highlighted by the results of the PIMS research, which suggested that those organizations that achieved high levels of service charged about 9 per cent more for their goods and grew twice as fast, picking up market share at around 6 per cent per annum; the 'also-rans' lost share at 2 per cent per annum. The PIMS research also revealed that the cost of superior service is often little more than for inferior offerings, with Gale (1994, p. 307) arguing that organizations with inferior quality typically have higher relative direct costs than businesses in any other position.

In discussing the attributes of service, Stone and Young (1992, p. 75) suggest that suppliers often see these in terms of technical features. By contrast,

the customer's view will typically include factors such as the time taken to deliver the service; the extent to which the customer wants to or perceives the need to be in control; the effort required to receive the service; the relative importance of the service; the efficiency of the supplier; and the level of skill or professional expertise expected of the service staff.

Parasuraman *et al.* (1985) developed a similar view, based on the results of a series of focus group interviews among representatives from four service sectors – retail banking, credit cards, securities brokerage, and product repair and maintenance – from different parts of the USA. From the responses, an underlying pattern emerged that was consistent across all sectors and regions. These findings were categorized under ten headings or dimensions: tangibles, reliability, responsiveness, competence, courtesy, credibility, security, access, communication, and understanding the customer. These ten dimensions were then further grouped into what Zeithaml (1990) calls their SERVQUAL dimensions:

- Tangibles – the appearance of the physical facilities, equipment, personnel and communication materials
- Reliability – the ability to perform the promised service dependably and accurately
- Responsiveness – the willingness to help customers and provide prompt service
- Assurance – the knowledge and courtesy of employees and their ability to convey trust and confidence
- Empathy – the caring, individualized attention that the firm provides to its customers.

The SERVQUAL model that emerged from this analysis is in many ways one of the best known to audit service within an organization and is based around the identification of a series of gaps. These include:

1. The gap that typically exists between the customer's expectations of service and how management perceives these needs
2. The gap that then emerges between management perceptions and their translation into a policy of service quality
3. The gaps that exist between the often loosely stated service policy and levels of service delivery
4. The gaps between how the organization perceives service delivery and how the customer perceives this.

The problems of these gaps are then often exacerbated by the ways in which organizations often communicate with customers (over-promise and

under-delivery) and by the ways in which staff may then put their own interpretation on customers' needs and the delivery of the organization's service.

Service and the rise of the stupid company

Although marketing planners typically argue that their organizations are customer focused and that service and satisfaction are pivotal parts of the marketing strategy, the reality in many cases is that levels of service delivery are often poor and/or inconsistent. In discussing this, Cullum (2006), who, in a report published by the National Consumer Council (NCC), coined the phrase 'The Stupid Company', highlighted the problems of 'businesses over-promising and under-delivering, treating customers in a clinical and patronizing way, and being incapable of getting the most basic things right'. As evidence of this, he points to the 800 000 people each year who make complaints to trading standards departments and to the UK Customer Care Survey of 2005 conducted by Manchester Business School which found that 77 per cent of those surveyed experienced problems with products and services bought in the preceding 12 months.

Amongst the most common complaints were robotic call centres, complex systems, missed appointments and poor after-sales service, with the sectors that received the greatest number of complaints being financial services, telecoms, utilities, electrical retailers and garages. The problems identified by the NCC have, in turn, been discussed by Accenture who find that when telephoning to complain, customers spent an average of six minutes on hold, and spoke to more than two service representatives, and by researchers at Aston University who have argued that the majority of chief executives regard complaining customers as a nuisance and too demanding.

There are several factors that can be seen to contribute to service problems such as these, including a high turnover of staff, staff who are poorly trained, faulty software, and the attempts by companies to 'manage' the customer relationship in an attempt to reduce costs. Most commonly, this has been done by outsourcing service support and by automated call-handling systems that provide options based on the company's organization rather than its customers' problems. These sorts of problems are then compounded by the ways in which many call centres have high levels of staff turnover, relatively low levels of expertise and a focus upon the numbers of calls handled and the time taken to deal with a caller.

In order to overcome problems like this, there is a clear case for marketing planners to view complaints strategically and to see them as a way of gaining market information and building loyalty. Recognition of this led BT to use root cost analysis to identify the five most common complaints each quarter and to focus upon resolving these. At the same time, they have introduced a sensing system designed to anticipate potential problems in any new initiative. Staff are then given ownership of the problem and trained both to restore and create customer value.

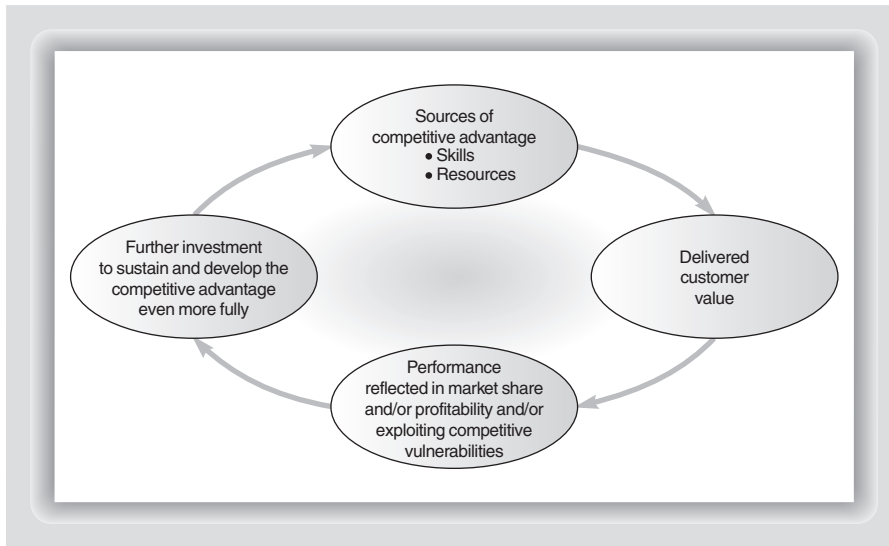


FIGURE 11.5 *The virtuous circle of competitive advantage*

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

One of the themes that has been pursued not just within this chapter, but throughout this book is that of the pivotal importance of competitive advantage. In thinking about how to develop competitive advantage, the marketing planner needs to understand in detail the organization's skills and resources, and then manage these in such a way that the business delivers superior customer value to target segments at a cost that leads to a profit. This can be seen diagrammatically in Figure 11.5.

However, in many cases when thinking about competitive advantage, marketing planners appear to suffer from a degree of self-delusion in that they see something that the organization has or does as being far more important or significant than customers see this to be. In order to overcome this, McDonald (1995) argues for the application of the deceptively simple 'So what?' test (see Figure 11.6). Here, the planner begins by identifying the features offered by the product and then – very importantly – translates these into the benefits to the customer. Having done this, the deliberately cynical 'So what?' question is posed. If the benefits that have been identified are essentially the same as those offered by a competitor, then they are of little value. It is only if the benefits pass the test that the advantage can be seen to be at all meaningful.

The problems of sustaining advantage

In developing and, perhaps more importantly, sustaining advantage, the planner needs to recognize that any advantage that an organization or

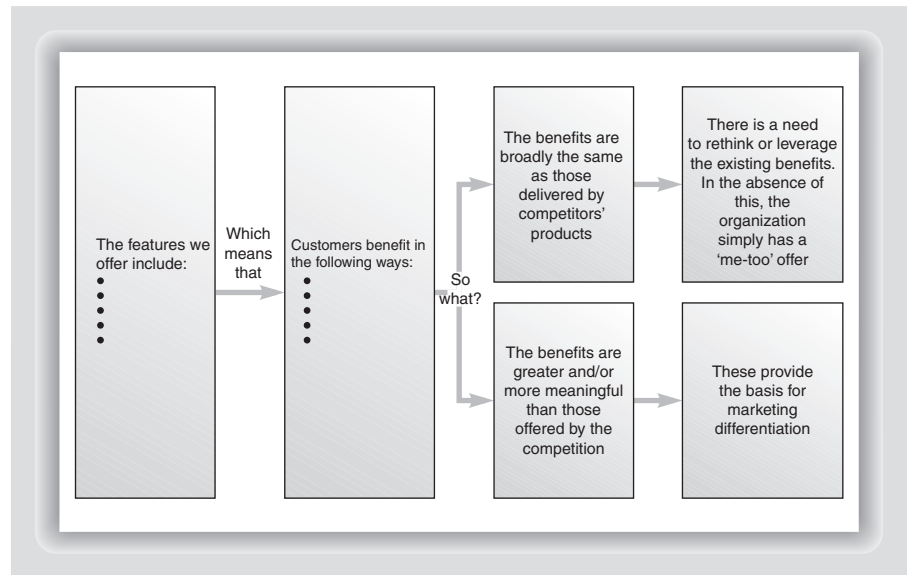


FIGURE 11.6 The 'So what?' test (adapted from McDonald, 1995)

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

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

The ways in which order winners are eroded over time and how the delivery of ever higher levels of customer delight become progressively more important are illustrated in Figure 11.7.

Amongst the implications of this are that the planner needs to understand in detail the nature of order qualifiers (those elements that lead to the customer taking the organization or brand sufficiently seriously to consider buying), order winners (those elements that are significant points of

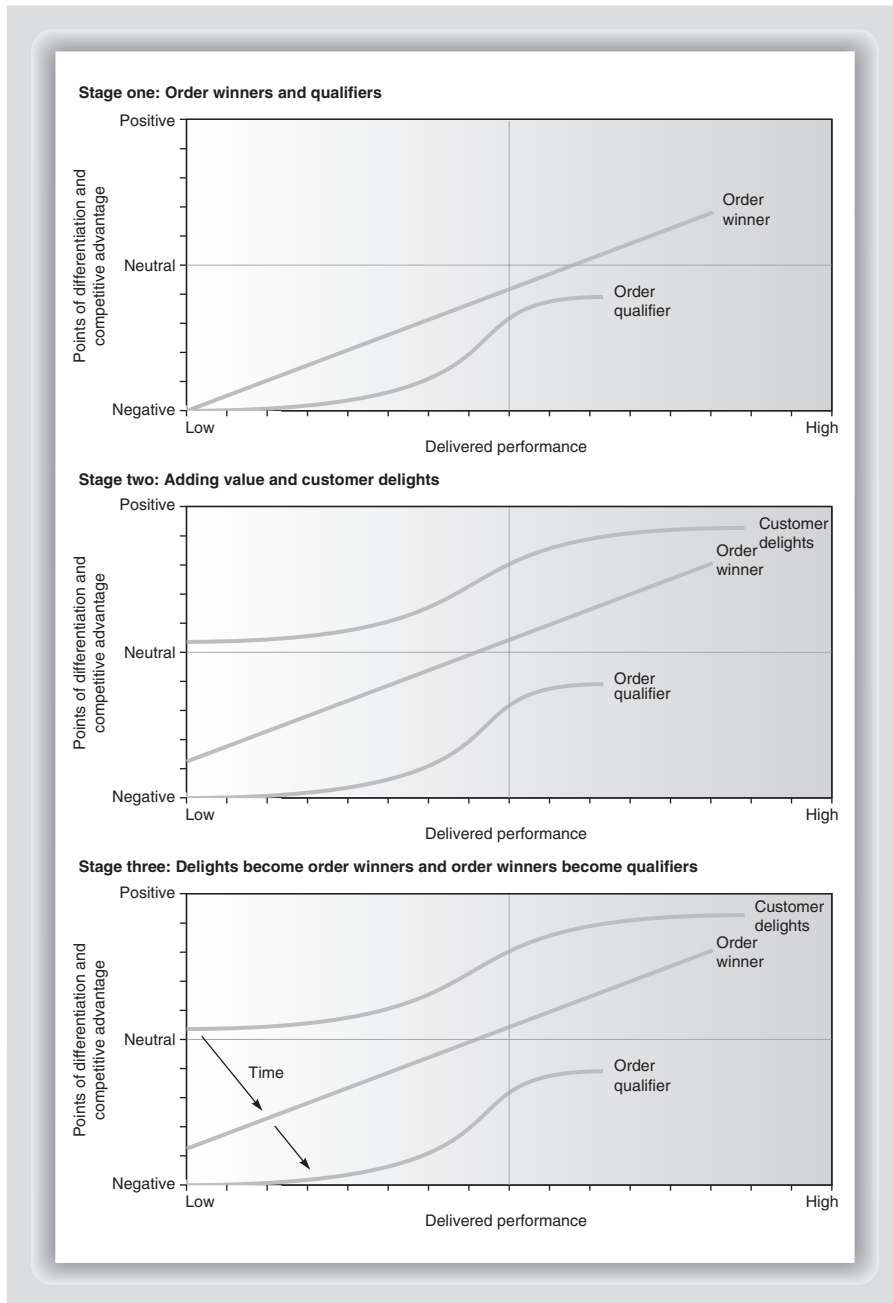


FIGURE 11.7 Order winners becoming order qualifiers

differentiation) and areas of customer delight (those elements that provide the basis for extra value and ever more meaningful bases of differentiation), both in today's market and how these are likely to change in the future.

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

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

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

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

Subsequently, of course, the organization, under the leadership of Stuart Rose, has pursued a far more aggressive and market-focused strategy which has led to the revitalization of the business.

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

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

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

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

The nature and significance of competitive disadvantage

Although we have focused so far upon the idea of competitive advantage and the sorts of factors that contribute to this, the reader should not lose sight of the significance of competitive *disadvantage*. This can come about as the result of a series of factors, including a poor brand reputation, the failure to achieve certain service norms within the market, a cost base that is too high, the failure to learn from past experience, the slavish adherence to a previously successful formula, the failure to monitor market conditions, and what might loosely be termed 'country of origin effect'. As an example of the latter effect working against the brand, it is worth thinking back to the way in which many Central and Eastern European products for a very long time – and indeed still today – developed a poor reputation for quality, something that has prevented many of these brands penetrating western markets despite low-price strategies.

Given this, the marketing planner needs to recognize the nature and the very real significance of competitive disadvantage and how any disadvantages are capable of acting as potentially significant inhibitors to their ability to compete effectively. In some ways, the nature of competitive disadvantage, which include issues such as low quality, limited distribution and a poorly managed brand, can be seen to be the opposite of the factors that are identified on pages 420–1. Disadvantage can, however, be far more

fundamental. In the case of the car industry, for example, Ford, General Motors and Chrysler have all been struggling with a high cost base that has made the investments in new products, processes and manufacturing capacity that are needed in order to compete effectively very difficult.

In 2007, for example, it was estimated that General Motor's legacy costs of healthcare for staff and pensioners meant that its labour costs in the USA were \$25 an hour *more* than those of Toyota (*The Sunday Times*, 2 September, 2007, pp. 13.1 and 3.8). It was this that led Bob Lutz, the company's head of product development, to comment that GM is now the biggest healthcare company in America. The net effect of these legacy costs upon the price of a car in the showroom are significant and, in 2005, were estimated at \$1600 per vehicle. These problems are then compounded by customers' perceptions of the different brands and their lack of willingness to pay the price premium that many of the European and Japanese car brands command (*The Sunday Times*, 8 May 2005, p. 3.7).

The situation for both Ford and Chrysler is broadly the same and over the past few years has been reflected both in their share prices and in the lower ratings given to the companies by credit-rating agencies such as Standard & Poor (S&P). The implications of this are in turn reflected in the interest rates that have to be paid on their borrowings.

Creating barriers to entry

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

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

1. The market's *barriers to entry*, which are the structural features of a market that protect the established companies within a market and allow them to raise prices above costs without attracting new entrants

2. *Mobility barriers*, which protect companies in one part of a market from other companies that are operating in different parts of the same market.

New organizational paradigms and the thirteen commandments for gaining competitive advantage

In 1994, Hamel and Prahalad published their highly influential book *Competing for the Future*. In this, they highlighted the ways in which management paradigms are changing and the nature of the implications of the new paradigm for competitive advantage. Some of the factors that they suggested would characterize the paradigm of the twenty-first century, and how these represent a shift from the 1990s, are shown in Figure 11.8.

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

- Stop playing by the industry rules and, instead, create their own, develop a new competitive space and make others follow (e.g. Swatch, Dell and, in the 1960s to 1980s, The Body Shop)
- Get innovative or get dead – in doing this, the planner needs to avoid believing in the idea of sustainable advantage and to focus instead

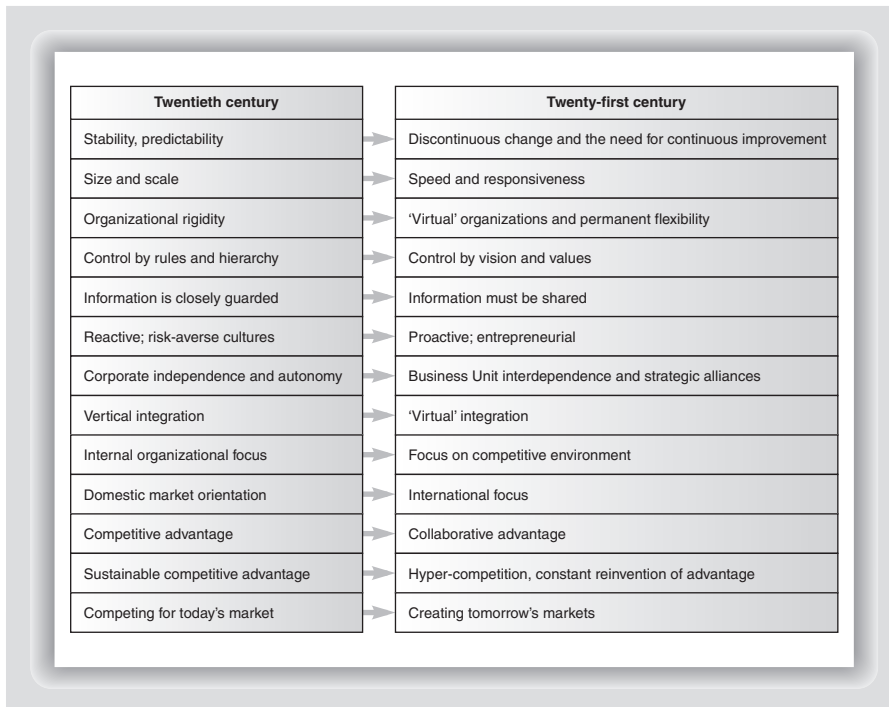


FIGURE 11.8 Changing managerial paradigms

upon creating a culture of constructive destruction (e.g. Direct Line, 3M, Canon and Sony)

- Scrutinize the company for hidden assets, which then need to be leveraged (e.g. Disney and Harley Davidson)
- Create a fast action company (e.g. Toyota and CNN)
- Create an entrepreneurial and experimental business (e.g. Virgin and easyJet)
- Eliminate boundaries within the organization (e.g. Toshiba and Mitsubishi)
- Harness the collective genius of staff (e.g. management consultancies such as McKinsey and Bain & Co.)
- Globalize or perish (e.g. Ikea and Nokia)
- Emphasize the eco-revolution and use environmental efficiency to set standards for the market (e.g. the Co-operative Bank)
- Recognize that organizational learning and the ability to learn faster and then apply these ideas more quickly than the competition may be the only real sustainable advantage
- Develop real measures of true strategic performance.

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

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

In many markets one of the most significant of these implications has been the extent to which the ability of particular parts of the mix to contribute to significant – and sustained – competitive advantage has been reduced. In fast-moving and highly competitive markets, for example, the speed with which firms copy others has increased greatly. As a result, differentiation through the product has all but disappeared. Equally, because many organizations use similar forms of distribution and have broadly similar levels of costs, the ability to differentiate through distribution and price

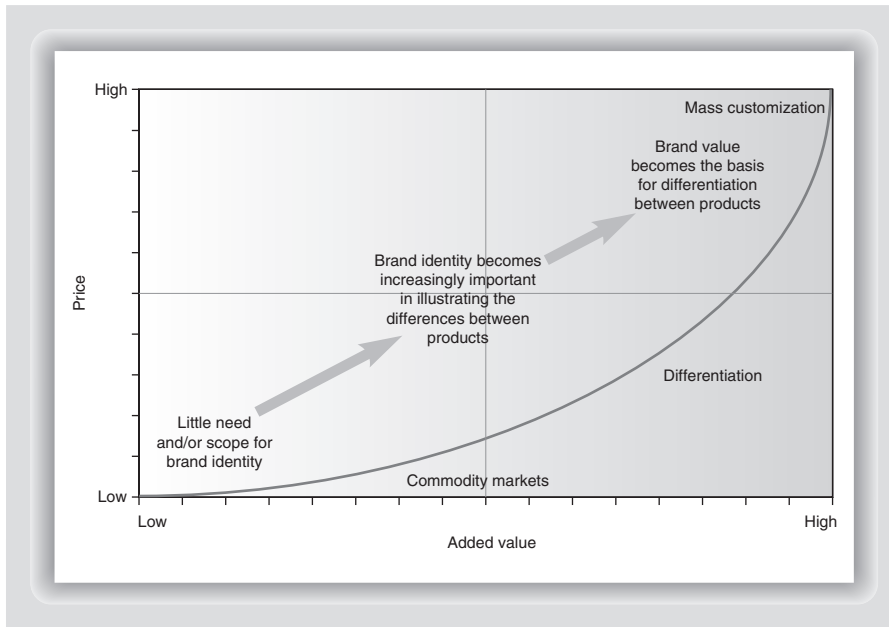


FIGURE 11.9 *The increasing significance of brands and branding*

has also been reduced. Faced with this, many marketing planners have shifted their attention to the brand and to the role that it is capable of playing in creating and maintaining differentiation and advantage.

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

The increasingly important role played by brands is illustrated in Figure 11.9, which shows the three key stages of a market, ranging from commoditization (in which there is little scope or perhaps need for brand identity) through differentiation (in which brand identity becomes increasingly significant) to mass customization (in which the brand values become the basis for differentiation).

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

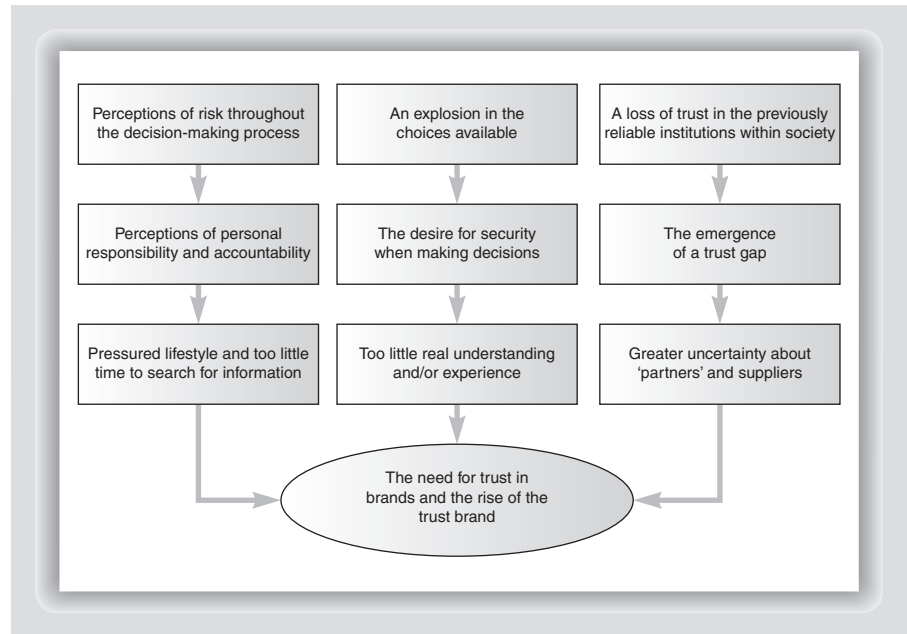


FIGURE 11.10 *The pressure for trust brands (adapted from Edwards, 1998)*

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

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

These pressures are illustrated in Figure 11.10.

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

the archetypal trust brand is probably still Virgin. Transferring trust apparently effortlessly into new areas, this highly individual conglomerate now takes part in diverse activities ranging from airlines to finance, and soft drinks to cinemas and weddings. The proposition is clear: when you, the consumer, enter an unfamiliar market where you do not trust the current providers then Virgin will be on your side. Virgin's credentials to enter new markets are

often unclear in the traditional sense (in fact it often operates in partnership with specialist suppliers) – what it actually brings with it from market to market is the brand name and the consumer trust that resides in it.

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

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

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

It has long been axiomatic that competitors can quickly copy product or service innovations in most cases. It is therefore crucial that trust and the infrastructure of trust are reinforced through all consumer contacts and relationships. In the field of trust management, marketing becomes everyone's job. All stages of the process are relevant in maintaining trust – R&D, product testing, manufacturing, staff training and policies, distribution, pricing and customer service/complaint handling. All consumer interactions are a marketing opportunity. As the banks have discovered – expensive marketing campaigns are quickly negated by poor customer handling at the branch.

Marketing by trust therefore becomes more of a philosophy than simply the responsibility of a single department. The trust brand places the

consumer at the centre of its world; it relies more on understanding real consumer needs and fulfilling them than the particular service or product manifestation at any one time. This means it is not merely responsive but also responsible to the consumer knowing the right thing to do or be even when the customer does not.

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

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

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

Competitive advantage and the rise of generous brands

As consumers have become more demanding and discriminating (refer to Illustration 6.1 and our discussion of the new consumer in Chapter 6), so their expectations of and relationships with brands have changed. In discussing this, Pearse McCabe (2006) of the design consultants Fitch suggests that 'where once brands were accepted as voices of authority, now consumers want more of a say. Expectations of service, quality and value are growing daily, but above all consumers are seeking more mature, grown-up relationships with brands, based on honesty, openness and the human characteristic of generosity.'

The implications of this are likely to be seen in the way in which if brands are to be trusted, they will increasingly need to be far more open and transparent and, in essence, more human. McCabe refers to the brands that have already moved in that direction as 'the generous brands', not in the sense that they offer special deals, but that they exhibit a more human generosity of spirit. Amongst those to do this, he claims, are Orange, which offers mobile phone chargers in London's black cabs that can be used by anyone; Innocent with its free music festival, 'fruitstock'; The Apple Store with free training and software demonstrations and its 'genius bar' offering free advice; Amazon.com with its development of the referral economy; B&Q with its staff who will give unbiased DIY advice; and Oddbins and Waterstones, both of which have staff who handwrite reviews of wine and books respectively.

The third knowledge revolution and the erosion of competitive advantage

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

Although this is a view that numerous others have expressed over the past few years, Ridderstråle and Nordström focus upon the way in which managers who are accustomed to controlling their environment by the domination of their staff, customers and markets are likely to be faced with major problems as the new world order demands more than technology, production and distribution. Progressive – or 'funky' – companies will attract custom, they suggest, by understanding in much greater detail what customers want and communicating to them the intangible elements (in essence, the brand values) of their product or service. They then take this philosophy to new heights by predicting a scarily harsh business environment where unforgiving consumers and demanding employees will exert a pincer-movement stranglehold on companies that refuse to 'feel the funk'.

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

Competitive advantage and the dangers of benchmarking

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

For many organizations, competitive benchmarking – the process by which you identify the best in the sector, determine what it is that has led to such high performance and then copy – has become an integral part of the corporate struggle to stay competitive. But although benchmarking can be of value, it can also lead to problems. Natterman (2000, p. 20), for example, discusses what he terms 'strategic herding'. This happens, he suggests, when managers

forget that benchmarking should only be used as an operational tool rather than the determining framework for strategic development. The effects of herding can be seen by the way in which products and services increasingly become commodities and margins shrink as more and more companies crowd into the same market space.

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

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

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

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

E-business and competitive advantage

With the development of the Internet and e-commerce, marketing thinking and approaches to marketing planning have undergone a number of radical changes. In part, this has been driven by the way in which e-marketing has the potential for changing not just the rules of the game within a market, but also the market space, and in doing so change the bases for thinking

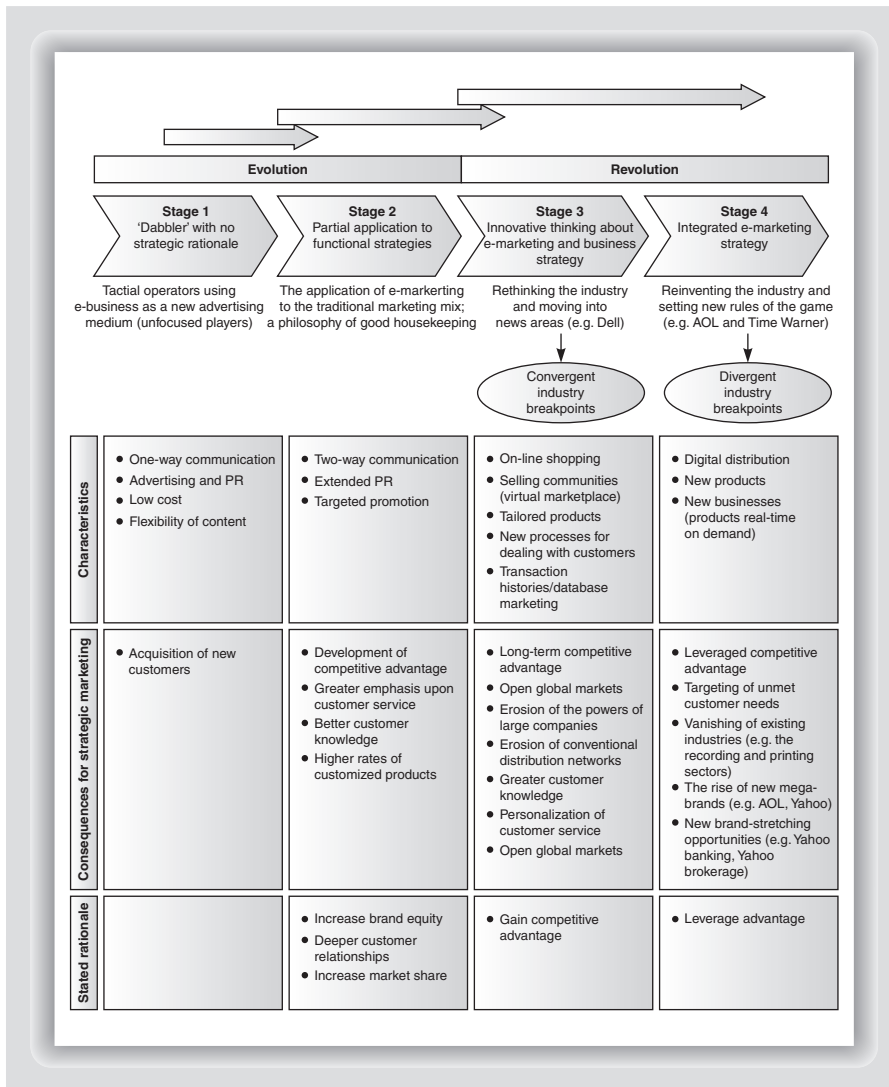


FIGURE 11.11 E-marketing and development of strategic thinking and competitive advantage

about competitive advantage. The ways in which organizations might move from a position in which e-marketing is poorly thought out and reflected largely in the development of web pages that are simply another form of advertising through to the fundamental and strategic integration of e-marketing with the corporate strategy is illustrated in Figure 11.11. Here, organizations move through four stages and, depending upon how proactive they are, are capable of changing the bases of competition in potentially fundamental ways. Those firms that fail to recognize this and continue to focus upon the traditional bases of competition and advantage run the risk

of being left behind as the rules of competition and the boundaries of the market develop and change. Amongst the most obvious examples of firms that have done this are Amazon.com, who rewrote the rules of competition within the book-selling market, and easyJet, which took a very different approach to selling airline seats. In both cases, their competitors were put at a disadvantage and forced into a position of copying and catch-up.

The effects of the Internet and the growth of e-marketing have been seen in virtually all markets, but most obviously in the travel, entertainment, books, retailing, telecommunications and music sectors. In many ways, the implications for marketing behaviour have been both obvious and straightforward, in that e-marketing has reduced market entry barriers and increased not just the size of an organization's potential market, but also the speed and flexibility of access to this market.

Driven by the growth by broadband, the effects of this have been graphically illustrated by the growth of on-line marketing (in 2007, the UK e-retail industry grew by 33 per cent, compared with total retail market growth of just 3.5 per cent; forecasts of growth to 2011 suggest that the total on-line market will be worth almost £50 billion, with almost two-thirds of this being within the retail sector [Source: Verdict.co.uk]) and by the way in which there has been a polarization of those organizations that have developed an effective e-marketing model that is based on lower prices, greater convenience, or value (e.g. Amazon, eBay and Ryanair) and those that have struggled.

In the case of the traditional retail sector, the challenge has been to develop an e-marketing model that complements rather than compromises its physical high street operation. In many cases, they have simply failed to do this. Amongst those who have done it successfully is Tesco, which now has the largest on-line grocery operation in the world. However, the difficulties faced by a management team in balancing both a physical and a virtual offer have been highlighted by Natalie Massenet, the founder of Net-A-Porter, the luxury on-line fashion boutique. In the case of the luxury goods industry, she suggests, 'they simply couldn't get their heads around the idea that a three-dimensional retail experience could be reproduced in two dimensions, so instead they stuck their heads "in the sand", something that provided Net-A-Porter with a clear market space' (quoted in *The Financial Times*, 30 May 2006, p. 10).

For many organizations, however, there is increasingly no real option other than to develop a truly effective on-line offer that is run in parallel with the physical offer. With the ever greater technological skills and expectations of the market, but particularly within the youth sector, any polarization between what might loosely be termed digital natives and digital immigrants has significant strategic implications.

The potential implications of the Internet for marketing were outlined in 2000 in a presentation to the Chartered Institute of Marketing by the

consultants McKinsey & Co. McKinsey argued that the Internet has the capacity for:

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

In suggesting this, McKinsey were giving emphasis to the way in which the Internet creates a virtual marketplace in which the buyer is unconstrained by the additional time and geographic boundaries, and has access to an almost infinite number of potential suppliers. In these circumstances, the seller is no longer (so) constrained by the capability of third parties in the distribution channel and can instead approach the customer in a far more direct fashion. At the same time, of course, the buyer is put into a far more powerful position in that there is far greater and far more immediate access to information, and comparisons between alternatives can be made far more easily and conveniently. Given this, the balance of power between the buyer and seller has the potential for changing in a series of radical and far-reaching ways. The implications of this can be seen most readily in terms of the decline of what may be loosely termed ‘interruption marketing’ and the emergence of a new approach based on permission marketing. (For a detailed discussion of permission marketing, refer to Godin, 1999.) This is illustrated in Figure 11.12.

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

1. A downward pressure on the prices of products and services that lack any real competitive advantage or point of differentiation

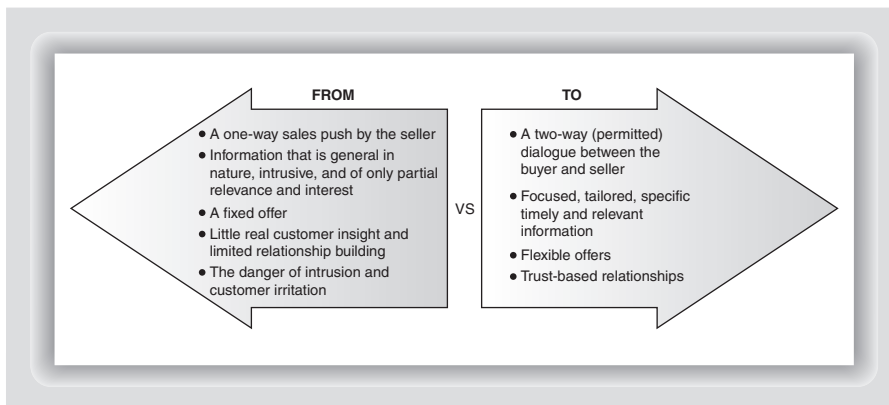


FIGURE 11.12 Permission marketing: the new paradigm

2. A greater potential for demand-led markets
3. Increased customer/consumer expectations of higher product and service quality.

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

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

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

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

Given the nature of these comments, it should be apparent that the implications of the Internet for marketing have been and are continuing to be potentially enormous, but are often still misunderstood and all too frequently underestimated by many marketing planners (referring back to Figure 11.11, many organizations have still to move beyond Stage 2). Perhaps the greatest danger that many face is that the issue of e-commerce is simply seen to be about selling online rather than about the far broader issue of building relationships with customers. As part of this, there is the need to recognize that the Internet means that, over time, the point of purchase can move and that this requires the marketing planner to have a far greater and more creative insight into the markets served. At the same time, the marketing planner needs to recognize that there are major implications for the organization's speed of response. Because the potential customer has instant access, there is an expectation of a similar speed of response to an enquiry. If this is not done, there is a danger of a deterioration in any relationship that exists or that has begun to emerge.

Recognition of the fundamental significance of the Internet requires the planner to come to terms with the ways in which commercially exploitable

relationships might be developed. To do this involves a systematic approach to customer relationship management that has four key characteristics:

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

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

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

E-marketing and competitive advantage: a summary

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

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

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

- Understanding the needs of e-customers
- Meeting the needs of e-customers
- Doing things that can't be done offline

- Doing the boring things – well!
- Taking a strategic approach.

In discussing the contribution of the Internet to marketing, McDonald and Wilson (1999) argue the case for the six 'T's model. The model, which is based on the ways in which IT can add value to the customer and therefore improve the organization's marketing effectiveness, is designed to illustrate how the Internet can be used strategically. The model's six dimensions consist of:

1. *Integration*, and the need to ensure that information on customers from across the organization and across the customer life cycle is brought together, evaluated and then used proactively (e.g. First Direct)
2. *Interactivity*, so that the loop between the messages sent to customers and the messages they send back is closed (e.g. Amazon.com)
3. *Individualization* and the tailoring of products and services to meet the customer's specific needs (e.g. Levi's, Dell and the travel company Trailfinders)
4. *Independence* of location and the death of distance (e.g. Amazon.com, again)
5. *Intelligence* through integrated marketing databases
6. *Industry restructuring* and the redrawing of the market map (e.g. Ryanair, easyJet and, again, First Direct).

Rebuilding competitive advantage: the development of the extra value proposition

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

The basis for a considerable amount of marketing thinking for many years was the idea of strong selling propositions, in which the customer would be presented with one or more good reasons for buying the product – this is reflected in the notion of 'buy this product, receive this benefit'. From here, thinking moved to the idea of the unique selling proposition (USP), in which the strategy was based upon a feature or benefit that was

unique to that organization or brand. However, in highly competitive markets, the scope for retaining uniqueness in anything other than the short term is limited unless the product is protected by a patent. The notion of a USP-based strategy has therefore largely been undermined over the past few years. Where there is still scope for USPs, this stems largely from the brand. Although it is often possible for the product itself to be copied relatively easily, a powerful brand is still capable of acting as a powerful differentiator.

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

- Customizing products and services to meet customers' specific needs
- Providing higher levels of customer convenience
- Offering faster service
- Providing more/better service
- Giving customer training
- Offering extraordinary guarantees
- Providing useful hardware/software tools for customers
- Developing membership loyalty programmes
- Winning through lower prices
- Aggressive pricing
- Offering lower price to those customers who are willing to give up some features and services
- Helping customers to reduce their other costs by:
 - showing the customer that the total cost is less despite its initially higher price
 - actively helping the customer to reduce ordering costs and inventory costs, processing costs and administration costs.
- Powerful branding.

Given the nature of these comments, it should be apparent that the marketing planner needs to recognize the pivotal importance of value and, in doing this, come to terms with a variety of issues, including:

- What exactly is meant by value within each segment of the market
- That value is defined by the customer, *not* the organization

- That value can be generated in a variety of ways, including:
 - *the product* (its quality, the levels of consistency, guarantees, and product development);
 - *service* (levels of support, speed, flexibility, convenience, and accessibility);
 - *the price/value equation* (the perceived value for money);
 - the form of *delivery*;
 - *the product/service experience* (refer back to our earlier discussion of experience marketing); and
 - *the brand* and its appeal to the customer
- That the leveraging of value is – or should be – a fundamental element of any marketing strategy
- That value can be damaged or destroyed remarkably quickly and easily.

Recognition of this should lead to the marketing planner auditing the value delivery process on a regular basis with a view to ensuring not only that value in the customer's eyes is leveraged, but also that anything that might damage or destroy customer value and the value of the brand is understood and managed in such a way that, at best, only minimal damage is done.

But although the creation and leveraging of value is at the heart of much of the thinking about marketing strategy, Ramaswamy and Prahalad (2006) have argued that in highly competitive markets, the traditional approach to value creation in which value is typically defined and developed by the organization is increasingly becoming obsolete. Instead, they suggest, if value is to be truly meaningful in the future it will come about as the result of co-creation between company and consumer. The obvious implication of this is that the traditional dividing line between the two sides and the roles they play – those of production and consumption – becomes blurred.

Amongst the examples of the organizations that have already moved in this direction are Amazon.com and eBay. In the case of Amazon, the company sells books, as well as a host of other products, at low prices. However, by building on consumer purchasing data, it can make recommendations to customers on books that are of possible interest. In addition to providing book reviews, customers are invited to provide their own reviews and to rate the books they have read. They are also able to browse a book before they buy by reading sample pages. The net effect of this is that a self-governing system based on an ongoing dialogue between the two sides and reflecting a high degree of trust and loyalty has developed. For Ramaswamy and Prahalad (2006), another good example of co-creation is eBay: 'the initial idea was to change the traditional buying and selling process, offering easy access through online auction to a range of advantageously priced

products and services. As the initiative got under way, a community with its own rules evolved, adding further value to buyers and sellers through initiatives such as feedback forums, and ensuring a customer experience.'

Leveraging competitive advantage

Given everything that has been written so far within this chapter, it should be evident that the development, management and leveraging of competitive advantage is at the heart of any truly effective marketing strategy.

However, in a number of ways, one of the biggest constraints on leveraging competitive advantage is a managerial team's adherence to a particular business model. Mitchell (2005) suggests that 'most businesses today still adhere to Ford's core value-adding and innovation agenda: embed useful technologies in products and services; and drive down production costs through standardization; bring them to market as efficiently as possible'. Although the approach was undoubtedly highly effective, it can be argued that over time it also leads to a pattern of (inward focused) silo thinking, with managers becoming fixated on internal efficiency, specialist expertise, and an infrastructure that leads to managers losing sight of how all of this connects with customer value. The net effect of this is the creation of 'an unbridled corporate narcissism, where the corporation's obsessions with its own internal goals, processes, metrics and outputs crowd out virtually all other considerations' (Mitchell, 2005). The gap that this creates between the marketing planner preoccupations and what is seen to be important by the customer is potentially significant and highlights the need for organizations to rethink the underlying business model. Amongst the few to have done this are Toyota's lean production approach which is based on a sense-and-respond model, Dell with its make-to-order system, eBay which pioneered ways of marketing and connecting sellers and buyers, and Primark with its low-cost, speed to market approach.

The argument for taking a radically different approach to thinking about strategy and competitive advantage has also been developed by Kim & Mauborgne (2005), who in their book *Blue Ocean Strategy* argue that companies can be more successful by making 'leapfrogging' strategic moves into new markets rather than competing in an existing marketplace. They suggest that far too many organizations today 'look like mirror images of one another, competing head to head, facing shrinking demand and mounting costs and price pressures'. This, they argue, has come about because although many planners are good at incremental competition-based strategic thinking, too few have any real idea of how to create market dominance, new demand and high profit growth. In these circumstances, products become commodities and the aggressive competition turns the market space – or ocean – bloody.

In order to break away from this, managers need to concentrate not upon a series of incremental changes, but upon a leap in value that has

the effect of making the competition irrelevant. In doing this, the company can create a new and, in the short term at least, an uncontested market space (it is these spaces that they refer to as the blue oceans). For Kim and Mauborgne 'value innovation' based strategic thinking is based on the simultaneous pursuit of differentiation and low costs and differs from the more traditional business innovation in that 'when most people think of business innovation they think of new products, new ventures, market pioneering and first-mover advantage. But value innovation is really about challenging assumptions about strategy, redefining market boundaries and making the competition irrelevant rather than competing on established ground. It is geared towards creating new market space and encompasses the entire value chain from product, service and delivery to costs and pricing instead of any one function' (quoted in Bartram, 2005).

Amongst the firms to have done this are Canon, who shifted their strategic focus away from the corporate market and, by using a less advanced technology, created the personal copier market; Starbucks with coffee bars; Nokia with mobile phones; Apple with the i-pod; and in its early days, The Body Shop.

The commercial significance of true value innovation was highlighted by their research findings in which they focused upon 100 companies' new product business launches. Of these, 86 per cent proved to be line extensions or incremental improvements. However, the 14 per cent of the launches that were genuine value innovations accounted for 38 per cent of the companies' revenues and 61 per cent of their profit. Despite this sort of evidence, they found that many organizations, despite significant innovation budgets, are still focusing upon incremental improvements 'such as the 44th variety of spaghetti sauce', but are then surprised by the limited market gains that they make.

The attractions of blue oceans and the need to think differently has also been highlighted by Prahalad (2004), who suggests in his book *The Fortune at the Bottom of the Pyramid* that one of the biggest untapped markets is that of the world's 4 billion poor (people who live on less than \$2 a day). The trick, he suggests, lies in turning the poor into consumers. In order to make profits at the bottom of the pyramid (BOP) Prahalad argues that it is not just a case of making small changes to what is offered to the developed world, but to develop a 'forgetting curve' and innovate. For these consumers, cash flow is typically unpredictable and low. Given this, pack size and contents need to be rethought, something that had led to an upsurge in single-serve packaging.

At the same time, however, those in the BOP segment often have very high levels of aspiration towards brands. Recognizing this, the challenge for companies is to change the price-performance relationship of what they produce to take account of different requirements and income levels. As an example of this, Prahalad argues for technology to be used to create 'hybrid' products – those that work with still-evolving infrastructure, such as PCs with in-built back-up power sources.

The potential attractions of the BOP market if a company is able to find the right combination of function, price and distribution are substantial, something that was illustrated by the Monsoon Hungama mobile phone.

GSM mobile phones were first available in India for \$1000. As the price fell to \$300, the market grew, but only relatively slowly. However, when Reliance, a mobile phone provider, introduced the Monsoon Hungama promotion of 100 free minutes with a multimedia handset for \$10 and a monthly payment of \$9.25, the company received one million applications in 10 days. The net effect of this was that India became the world's fastest growing wireless market.

11.6 SUMMARY

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

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