part six

Conclusions

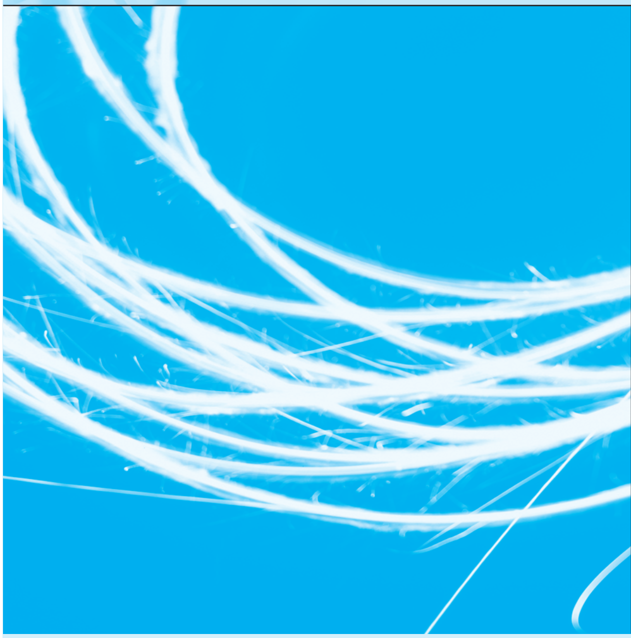
Chapter 19 concludes the book by looking ahead to marketing strategies for the twenty-first century. Significant environmental changes are highlighted and a number of building blocks are suggested for developing adaptive strategies for a changing world. These include the need to become learning organisations, capturing, internalising and utilising knowledge; the need for a clear market orientation and focus on creating superior value and greater levels of satisfaction for customers; the need to base positioning strategies firmly on marketing assets and competencies; the need to establish closer relationships with key customers; and, finally, the need to rethink the role of marketing within the organisation. A number of dimensions are discussed that can provide keys to positioning in the future. Price, quality, innovation, service, benefit differentiation and customisation are compared as fundamental positioning dimensions and strategies, and the competencies and assets required for each explored.

The chapter, and indeed the book, concludes by predicting that marketing in the future will be seen more as a process for achieving a close fit between market requirements on the one hand and company competencies and assets on the other, than as a functional department within the firm. It is how this strategic, rather than operational, role for marketing is fulfilled in the future that holds much excitement for the discipline of marketing.

chapter nineteen

19

Twenty-first century marketing



It is not the strongest of the species that survive, nor the most intelligent, but the ones most responsive to change

Charles Darwin
Origin of Species (1853)

Introduction

The emphasis throughout this book has been on developing robust marketing strategies to enable organisations to survive and prosper in the turbulent, competitive and frequently hostile markets they face. From the outset we have stressed the critical need to develop effective ways in which to cope with the change in both customer markets and the ways in which companies go to market. However, we can go further – what of the new century we are entering? As markets and marketing continue to change, what strategies will make most sense in the third millennium AD? This chapter attempts to review some of the major trends which are already apparent, and to propose ways in which new competitive strategies can be fashioned to exploit the opportunities to emerge. As Drucker (1997) has said:

> *In human affairs – political, social, economic, or business – it is pointless to try and predict the future . . . But it is possible – and fruitful – to identify major events*

that have already happened, irrevocably, and that will have predictable effects in the next decade or two. It is possible, in other words, to identify and prepare for the future that has already happened.

19.1 The changing competitive arena

Chapter 3 reviewed some of the significant changes taking place in today's markets. Here we briefly summarise those changes.

19.1.1 Changes in the business environment

To claim that 'the only constant is change' is trite but true in today's business environment. The Royal Society for the Encouragement of Arts, Manufactures & Commerce (RSA) inquiry into Tomorrow's Company (1994) identified a number of major changes taking place in business markets.

- The pace of economic change is accelerating. During the Industrial Revolution it took 60 years for productivity per person to double. China and South Korea have done the same in 10 years.
- There is an explosion in innovation and new knowledge generation that is also accelerating. Every year as much new knowledge is generated through research and development as the total sum of all human knowledge up to the 1960s.
- Competitive pressures are intensifying. Computer manufacturers, for example, need to reduce costs and improve product performance by around 30 per cent per annum to remain competitive.
- Manufacturing can now take place almost anywhere. Companies are constantly seeking more efficient manufacturing options, and that typically means sourcing from wherever makes economic sense. 1993 figures show UK manufacturing labour costs at half those of Germany but twice those of Korea and Taiwan. Labour costs in Poland, Thailand, China and Indonesia are significantly lower still. In early 2002 the production of Dyson vacuum cleaners was switched from the UK to the Far East to benefit from just such cost advantages.
- New organisational structures are emerging as firms seek to make themselves more competitive. Firms have reorganised, reduced overheads, de-layered, merged, created alliances and partnerships in attempts to create advantage in the marketplace.
- International trade is being liberalised through the World Trade Organization, but there are still massive regional trading blocs within which regional, national, ethnic and religious groupings seek to retain individual identity.
- Company actions are becoming increasingly visible, especially their effects on the environment. Customers are demanding more both economically and environmentally.

At the macro-level these changes can be grouped into economic, technological, social, legal and political issues. Just as water supply companies cannot change weather patterns, most macro-environmental factors are outside the control of individual firms. Few companies have the ability to influence political, economic, social and technological processes significantly. Most need to ensure they understand and predict the changes going on. Water companies need to predict both weather patterns (supply of water) and demand (water usage) so that they can then put strategies in place to meet that demand.

In a keynote address to the British Academy of Management (annual conference, Aston University 1996), David Cravens cited an example of a well-known firm that had failed to grasp the significance of technological change on its market (see Sammuels, 1994; Evans and Wurster, 1997). Encyclopaedia Britannica (EB) went from peak US profits in 1990 to severe difficulties in 1996 as it failed to anticipate the impact of computer technology, particularly the CD-ROM, on its business. In that period sales plummeted by more than 50 per cent. The business had been built through a highly motivated and successful salesforce selling encyclopaedias to middle-class families (often bought by parents for their children's education) at around $1,500 each.

Then along came home computers, with CD-ROM players and encyclopaedias such as Encarta at around $50. The new entrants may not have had the depth of coverage of EB but they were in a format the children enjoyed using, offered the opportunities for multimedia display (video and audio clips, animations), could be more easily updated and, perhaps most crucially, offered middle-class parents a justification for the purchase of often expensive home computer systems which in many cases were used primarily for games purposes!

With the advent of the 'information superhighway', the World Wide Web and Internet, the holding of large amounts of data on individual PCs may become a thing of the past, posing potential problems (and, of course, opportunities) for the marketers of CD-ROM-based encyclopaedias. In particular, the advent of open access, user-built encyclopaedias such as Wikipedia have significantly impacted on the CD-based products. Rapidly updated, and relying on users to submit, update and expand on the content, these are essentially free at the point of use (making their money out of advertising links), rapidly expanding in content and do not take up local storage space on hard disk or other media (see www.wikipedia.com).

The experiences of EB are a prime example of the critical importance of market sensing, continuous listening and learning rather than being surprised and wrong-footed when a competitor 'reinvents' the business. By 1997, EB was marketing a CD-ROM version of its encyclopaedia, but by then in a crowded market dominated by Microsoft's Encarta. More recently EB has made its encyclopaedia available online to subscribers at www.eb.com, perhaps recognising that updating is critical and far easier online than via discs.

Similarly, Hoover and Electrolux were surprised strategically by the success of the Dyson bagless vacuum cleaner and have lost share to the innovation (see below). And yet Dyson offered both the rights to the product before launching it himself. The problem was not that Hoover and Electrolux did not know about the new Dyson technology, rather they had a vested interest in preserving the status quo.

It is also easy to underestimate the practical realities of rapid accelerations in the speed and disruptive impact of change. For example, consider the unfolding impact of Internet telephony. While it took 50 years for the telephone to gain widespread diffusion, it took less than a decade for the mobile phone to do the same. It is expected that Internet telephony will reach critical mass in only a few years. Similarly, in the photography market, the disruptive and pervasive impact of digital technology demanded rapid transformation in business models by existing players like Kodak. The failure of Kodak to understand the speed of change and rapid decline in demand for traditional cameras and film has led to major financial losses, extensive lay-offs and plant closures. Kodak is now a major seller of digital cameras (with very low margins compared with conventional cameras), but is not well positioned to exploit the rapid transition of mass-market photography to the mobile phone and music player.

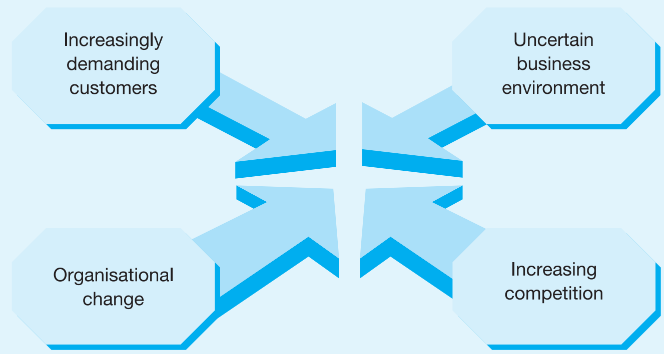
It is also easy to overestimate how long a competitive advantage will last in converging markets. While Apple's iTunes/iPod strategy has revolutionised the recorded music business, 2005 saw telephone operator Sprint's attack on Apple's position with the launch of the Sprint Music Stores, allowing subscribers to download music to their cell phone (and a copy to the PC). Sprint's new generations of cell phone will be capable of downloading movies and television as well as music, and even offer shopping services (such as online price comparisons triggered by the phone user capturing an in-store barcode).

While companies need to operate within the bounds and conditions of the macro-environment, they may have some (limited) ability to influence it. The UK government's Private Finance Initiative (PFI), for example, designed to introduce private sector financing into public investment and infrastructure projects, is administered by a steering board including representatives of the construction and other industries. Similarly, most expenditure on scientific research is applied in nature and conducted in commercial companies such that their efforts will directly affect the technological environment in which they, and other firms, operate in the future.

No company can ever hope to predict every aspect of the macro-environment in which it operates. But organisations should aim to achieve profound understanding of their core markets. There will always be surprises and shocks as new technological breakthroughs emerge or political discontinuities occur. What is important, however, is to spot and act on more of the trends and changes than competitors. Shocks are less for companies prepared to think the 'unthinkable' and to challenge the status quo in their strategising. For example, the UK brewers and cigarette companies are quite open in admitting that they have contingency plans should cannabis be legalised.

Importantly, disruptive changes have the potential to make deep changes in the structure of a market, which may disadvantage existing competitors but offer important opportunities to others. For example, the dominance of the personal computer (PC) market by the 'Big Three' – Microsoft, Intel and Dell – is shifting in ways these companies can no longer control. The emphasis by Microsoft on software upgrades, by Intel on faster chips, and by Dell on supply-chain efficiency is increasingly seen by users as resulting in bloated software packages with too many functions, faster but inefficient chips, and poor service. Microsoft struggled for several years to get the latest version of Windows to the market, and is trying to imiate Google's approach to software development. Intel's strategy has been undermined by AMD's better designed chips, which Intel now has to equal, and Dell is looking at additional,

Figure 19.1 Pressures on marketing



conventional distribution channels to access consumer buyers. Remarkably, others have found ways to make money from the PC – a computing platform that Microsoft, Intel and Dell believed to be securely in their control (Waters, 2006). There are sound strategic reasons why IBM has sold its PC business to Lenovo, the leading Chinese PC business.

19.1.2 Changes in markets

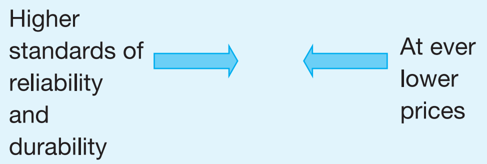
A number of trends can be seen in modern markets that are likely to continue into the future (Figure 19.1).

First, customers are becoming increasingly demanding of the products and services they buy. Customers demand, and expect, reliable and durable products with quick efficient service at reasonable prices. They also expect the products and services they buy to meet their needs. Different customers have different wants and needs, and hence companies have an opportunity to select segments where their offerings most closely align with those needs and where they can focus their activities to create a competitive advantage. What is more, there is little long-term stability in customer demands. Positions may be achieved through offering superior customer value, and yet the evidence is that without constant improvement 'value migration' will occur – buyers will migrate to an alternative value offering (Slywotzky, 1996).

For example, an executive in a computer company producing laptop computers complained in 1997: 'First they wanted the notebook with a colour screen – we gave it to them. Then, last year, it had to have a Pentium chip, so we gave them that. Now they tell us they still want all that, but the thing that really matters is that the computer has to have the weight of a feather . . .'

A second major trend, one that particularly differentiates the early 2000s, is that customers are less prepared to pay a substantial premium for products or services that do not offer demonstrably greater value. While it is undeniable that well-developed and managed brands can command higher prices than unbranded

Figure 19.2 Increasing customer demands



products in many markets, the differentials commanded are now much less than they were and customers are increasingly questioning the extra value they get for the extra expense. Marlboro cigarettes are a case in point. On 2 April 1993 ('Marlboro Friday') Philip Morris announced a 20 per cent reduction in price of its market-leading brand of cigarettes to defend market share against aggressive US rivals. The brand had lost substantial market share to lower-priced competitors. Customers were simply not convinced that Marlboro was worth the premium price it had been charging. New strategic thinking has to accommodate the fact that customers are becoming more sophisticated and more marketing literate. The sophisticated customer is less likely to be attracted to cheap products with low quality, and yet neither can be won by image-based advertising. The implications are clear. Differentiation needs to be based on providing demonstrably superior value to customers (Figure 19.2).

A third major trend is in both the level and nature of competition. Competition is becoming more intense and more global in nature. As international trade becomes more liberalised under the aegis of the World Trade Organization (WTO), so firms face tougher international competition at home and increased opportunities abroad. Time and distance are shrinking rapidly as communications become near instantaneous. Millions around the world watched with disbelief on their televisions sets as the Twin Towers of the World Trade Center in New York were hit by terrorist-piloted planes on 11 September 2001. When Deng Xiaoping, the Chinese Paramount Leader, died on 18 February 1997 news of his death reached London, Washington and Bonn before many in Beijing knew about it. Firms are increasingly thinking global in their strategies, especially as cross-national segments are beginning to emerge for products and services from fast foods through toys to computers and automobiles. The increasingly widespread use of the Internet for promoting and marketing both products and services now means that communications know no national borders. Ohmae's 'borderless world' (Ohmae, 1990) exists in cyberspace at least.

Not only are markets becoming more competitive through more players emerging in them. Those firms that survive and thrive in these more competitive conditions are, by their very nature, tougher competitors. Weak firms are being shaken out of markets where they do not have clear positions and attendant capabilities. The implications of heightened, more aggressive competition, both domestic and international, are that firms will need to look even more closely at their scope of operations and targeting in the future.

And yet the executive must confront the central paradox in all this. As markets become harsher in their judgements and in the level of competitiveness faced, companies are under growing pressure to collaborate with and partner others. Increasingly, collaboration is taking place with suppliers, customers and even competitors. The clear demarcation lines of the past have gone and executives are having to deal with highly ambiguous new roles. As we have seen, the demands of customers for suppliers to demonstrate their ethical credentials and to undertake social responsibility initiatives emerged at just the same time as those same customers demanded lower prices and higher quality. Not least among the unprecedented yet exciting challenges facing executives is to achieve economic efficiency at the same time as a socially responsible organisation that creates competitive advantage from its integrity.

19.1.3 Organisational change

The 1990s saw a major emphasis in many organisations on corporate 'downsizing' or 'restructuring'. In attempts to deal with the difficult economic conditions of the early 1990s in Western, developed markets, costs came under increasing pressure and layers of both workers and managers were removed.

While 'downsizing' is now less fashionable, as firms have realised that there is only so much fat that can be cut before you damage the muscle and too aggressive slimming can lead to *anorexia industrialis* (the excessive desire to be leaner and fitter leading to total emaciation and eventual death), its impact on organisational structures for the new millennium has been far broader. These are manifest in two main directions. First, the impact within the firm; second, the impact on inter-firm relations.

Within firms the boundaries between functional areas are becoming more blurred. Where firms were once organised with clear-cut divisions between marketing, finance and operations it is now recognised that 'functional silos' can result in myopic operations and suboptimal strategies. In leading firms the functional boundaries have long since been replaced by process teams that can view the operations of the organisation in holistic terms and will not be hampered by petty rivalries between functions.

At the same time, the role of marketing *per se* in the organisation has been challenged (Brady and Davis, 1993; Doyle, 1995). In 1994 Lever Brothers abolished the job of marketing director, and merged sales and marketing departments into business groups focusing on consumer research and product development. They also created 'customer development teams' responsible for relationship building with key retail customers (*The Economist*, 9 April 1994). Similarly, in 1997 IBM announced a new approach to its global marketing activities. This took the form of the customer relationship management (CRM) initiative, working through core processes such as market management, relationship management, opportunity management, information management and skills management. This is very different from conventional views of how marketing operates (Mitchell, 1997).

Marketing departments can get in the way of serving customers for two main reasons. The first is territorial. They may see dealing with customers as their preserve and wish to retain the power and influence that goes with that. Second, however, they may encourage others in the organisation to off-load responsibility for customer building to the marketing department. This creates the dangerous view that others do not need to concern themselves with customers; someone else will take care of it. Indeed, one view is that the days of conventional marketing have long since finished, and the challenge now is to design and implement better ways of managing the process of going to market. That process cuts across traditional functional boundaries as well as external boundaries with partners.

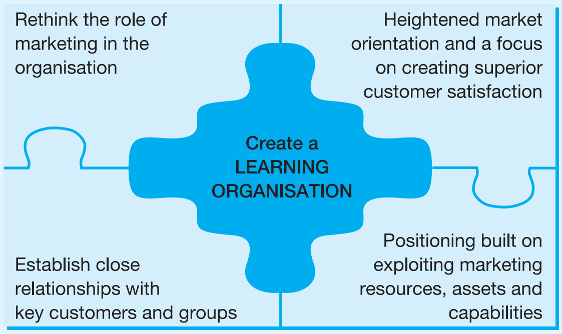
Some writers go further in criticising the performance of marketing in organisations. Webster (1997) concludes that marketing has been effective in tactics (selling and promotional programmes), somewhat effective in advocating a customer viewpoint, but ineffective in developing robust value propositions and competitive positioning. Doyle (1997) sees marketing departments as the source of radical expansion strategies which can achieve spectacular growth in sales and profit, but which ultimately fail because they do not create customer value. In Doyle's view robust growth strategies come from providing superior customer value and from continuous learning and innovation, based on long-term investments in relationships. A compelling case begins to emerge for radically rethinking the role of marketing as a strategic force in companies.

Between firms the boundaries of where one finishes and the next starts are also increasingly blurred. Boundaries with suppliers, distributors and customers are changing as more businesses understand the need to manage the entire value chain from raw materials through to customers, and work more closely with partner firms to achieve added value through the chain. A number of authors now refer to the 'virtual organisation' (Piercy and Cravens, 1995) as networks and alliances create supra-organisational entities.

Successful strategy initiatives may increasingly rely on finding ways around the lack of responsiveness and slow movement of traditional functional bureaucracies. For example, faced with the mission of finding market areas that were totally new to IBM and capable of growing profitable billion-dollar-plus businesses in five to seven years, the company launched its Emerging Business Opportunities (EBO) programme (Baghai *et al.*, 2000). The challenge was to break away from a culture where the most prestigious executive assignments were to run large, established IBM businesses to one where the most talented and experienced executives worked on new opportunities, not focused on short-term results in existing markets. EBOs have frequently cut across IBM's organisational structure, and challenged the IBM culture. In the first five years of the initiative, IBM launched 25 EBOs. Two were closed after the pilot stage, but the remaining 23 produced annual revenue of $15 billion, and were growing at more than 40 per cent a year. The IBM initiative recognises the need to break free from existing structures to manage multiple strategic horizons – EBO businesses are speculative and visionary and may not pay off for 5 to 10 years or longer.

In fact, the above major trends and changes taking place in both markets and organisations lead to a need to reassess business strategy in general and marketing strategy in particular. The strategies that will be successful in the future will need to be responsive and adaptive rather than rigid and fixed. Key will be creating an organisational context in which learning can take place, market changes can be

Figure 19.3 Fundamentals of strategy in a changing world



identified and capabilities can be fashioned to ensure a strategic fit between market and firm. In short, the development of dynamic capabilities will become more critical.

19.2 Fundamentals of strategy in a changing world

Figure 19.3 shows a number of factors that are increasingly essential in dealing with complex and changing circumstances.

19.2.1 The learning organisation

Central to developing a sustainable competitive advantage in rapidly, and often unpredictably, changing circumstances is the dynamic capability to learn and adapt (Fiol and Lyles, 1985; Huber, 1991; Sinkula, 1994; Kilmann, 1996; Evans and Wurster, 1997; Prokesch, 1997; Sinkula *et al.*, 1997; Morgan *et al.*, 1998). The competitive dynamics of markets with new entrants, substitute technologies and shifts in customer preferences can swiftly erode static advantages built on the 'generic' strategies of cost leadership or product differentiation (McKee and Varadarajan, 1995). Organisational learning, however, offers the potential both to respond to and act on opportunities in the markets of the firm. Indeed, Dickson (1992) suggests that the ability to learn faster than competitors may be the *only* real source of sustainable competitive advantage.

Learning is manifest in the knowledge, experience and information held in an organisation (Mahoney, 1995). It resides in both people and technical systems. Learning involves the acquisition, processing, storing and retrieval (dissemination) of knowledge. A major challenge for many organisations is to create the combination of culture and climate to maximise learning (Slater and Narver, 1995). At the human level managerial systems need to be established to create and control knowledge. At the technical level systems need to be established to facilitate the accumulation and storage of relevant information in a manner that makes it readily accessible to those who need to access it.

Much of an organisation's knowledge base typically resides in the heads of managers and workers. When personnel leave through retirement, 'downsizing' or recruitment by competitors, that knowledge may be lost or, more damagingly, gained by a competitor. Employment contracts of key personnel are increasingly including 'golden handcuffs' which prohibit critical managers from taking their knowledge to competitors. Organisations are also increasingly looking for ways of extracting the knowledge of their key people and transmitting it to others in the organisation, through expert systems and training processes, so that the knowledge is more secure and embedded in the fabric of the organisation.

Of particular importance in the context of marketing strategy is the development of knowledge and skills in how to create superior customer value. Slater and Narver (1995) show that a primary focus of market orientation is to create superior customer value, and that in turn needs to be based on knowledge derived from customer and competitor analysis, together with knowledge gleaned from suppliers, businesses in different industries, government sources, universities, consultants and other potential sources. They conclude that learning organisations continually acquire, process and disseminate knowledge about markets, products, technologies and business processes based on experience, experimentation, information from customers, suppliers, competitors and other sources. This learning enables them to anticipate and act on opportunities in turbulent and fragmented markets.

And yet developing learning capabilities need not be complex and sophisticated. Inuit's improvements to Quicken software come from a form of organised 'customer stalking' where employees follow customers home and watch their every move and reaction to the product. The development by Kimberly-Clark of Huggies (training pants for children coming out of nappies) came from sending employees to the homes of customers with small children and both watching and listening. They learned essentially that the market is driven by parental guilt about how long a child stays in nappies, not the child's waste disposal problems! Superior learning capabilities may be as much about market sensing and understanding as it is about utilising technology. Indeed, research at the Marketing Science Insitute has found that, of ten market-based capabilities, market sensing displayed the strongest impact on business process performance (Ramaswami *et al.*, 2004).

While the central requirement for competing in the future is learning, a number of other more specific building blocks can be suggested as important ingredients in fashioning competitive strategy.

19.2.2 Heightened market orientation and focus on creating superior customer value

In increasingly crowded and competitive markets there is no substitute for being market oriented. Put simply, a market orientation focuses the firm's activities on meeting the needs and requirements of customers better than competitors. This in turn requires finding out what will give customers value and ensuring that the firm's energies are directed towards providing that. Identifying ways of providing superior customer value is one of the central challenges of management for the new millennium.

A market orientation does not imply over-sophisticated marketing operation. Indeed, it has been argued by some that marketing departments can themselves get in the way of providing superior customer value.

As Simon (1996) shows, successful medium-sized German firms (he calls these 'hidden champions') demonstrate a clear focus on providing solutions for their customers. These companies go deep rather than broad (they specialise in narrow niches of the market), but operate across global markets. Their success is based on understanding their customers' needs and being highly responsive to delivering solutions to customers' problems. They typically have dominant market shares of their chosen niches worldwide. For example, Krones had 80 per cent worldwide market share in bottle-labelling machines, Hauni was world market leader in cigarette machines with 90 per cent share of high-speed machines, Brita had 85 per cent of the world market for point-of-use water filters, and Baader's share of the world market for fish-processing equipment was 90 per cent. All had a narrow focus, but operated across global markets (Simon, 1996).

Winterhalter Gastronom makes dishwashers for commercial use. There are many markets for these products, including hospitals, schools, companies, hotels, military institutions, etc., each with different product requirements. Many products are on the market and Winterhalter found that, globally, it commanded only 2 per cent of the market. This led to a refocusing of the firm's strategy. First, it decided to focus solely on hotels and restaurants (the second part of the company name was added after this decision was made). The business was redefined as the supplier of clean glasses and dishes for hotels and restaurants. In addition to designing the dishwashers to meet the specific requirements of the hotel and restaurant market the company extended its product line to include water-conditioning devices, an own-brand of detergent and round-the-clock service. Thus they were taking full responsibility for the provision of the clean glasses and dishes, going into depth with the chosen segment, rather than simply offering dishwashers across the market and leaving the provision of services and detergent to others. The company had climbed to a 20 per cent world market share of its chosen segment by the mid 1990s (Simon, 1996).

In the quest to provide superior customer value no firm can stand still. What offers better value than competitors today will be standard tomorrow. Innovation, the constant improving of the offering to customers, is essential for sustained competitive advantage. Again, Simon's hidden champions demonstrate this clearly. Many of these firms created their own markets through technological breakthroughs but then continued to innovate to stay ahead of further industry entrants. They typically hold relatively large numbers of patents and derive disproportionate amounts of profits from new products. Critically, however, they achieve a balance between being technology-driven and market-led. While they are determined to exploit their technological advantages they also ensure that these are aligned with changing market requirements. W.L. Gore Inc., for example, an American 'hidden champion', maker of semi-permeable Gore-Tex fabrics, has exploited its technological lead in fabric manufacture to develop products suitable for its customers in the garment and shoe industries (Simon, 1996).

The focus of activities in firms that are truly market oriented and intent on creating superior value for their customers is on finding solutions to those customers' problems. Rather than a focus on selling the firm's own existing products it sets out first to identify current and future customer problems and then to find solutions to them. Solutions may involve creating new products and services, integrating the offerings of other providers (through alliances), and even in some instances accepting that customers cannot be well served and recommending alternative suppliers. After exhausting all other options a truly market-oriented firm can gain more customer goodwill (and ultimately more long-term business) by admitting that it cannot provide exactly what the customer wants rather than trying to persuade the customer to accept second best, or even pretending that the solution offered is appropriate.

19.2.3 Positioning built on marketing assets, capabilities and competencies

Much of the emphasis in the strategy literature today has focused on the 'resource-based theory' of the firm (see Chapter 6). This theory emphasises the need for strategies to be based on the resources and capabilities of the firm, rather than merely chasing customers irrespective of the ability of the firm to serve them. Resource-based theorists, however, are in danger of losing sight of the fact that resources are valuable only when they are translated into providing something that customers want. This is the essence of the 'resource-based marketing' approach espoused in this book.

Markets change, and so too must resources such as assets and competencies. They need to be constantly improved and developed if the firm is to thrive. An essential task for marketing management is to identify the competencies and assets that will be needed in the future, as well as those that are needed today, so that they can be built or acquired in advance.

This may be far from easy, and freedom of manoeuvre may be limited. For example, IBM's core capability in mainframe computers became irrelevant to the PC-dominated market of the 1980s, and the company's performance across the world suffered dramatically. In the 1990s, however, the new head of IBM Lou Gerstner's strategic goal was to dominate the global network marketplace, where those mainframe capabilities are critical.

As discussed in Chapter 6, marketing resources are any properties or processes that can be exploited in the marketplace to create or sustain a competitive advantage. They range from recognised brand names, through unique use of distribution channels, to information and quality control systems. These assets are the resource endowments the business has created or acquired over time and now has available to deploy in the market. Competencies are the skills that are used to deploy the assets to best effect in the market.

These definitions are in line with resource-based theorists such as Barney (1991), who suggest that it is management that is the most important resource because they make use of the assets and other resources available to them based on their knowledge of the market acquired through their previous learning.

As we saw in Chapter 6, Day (1994) goes on to identify three main types of competencies: outside-in; inside-out; and spanning and integrating competencies. Outside-in competencies are those skills and abilities that enable a business to understand its customers and create closer linkages with them. Inside-out competencies are the internal capabilities of the firm and its employees that can be deployed in the marketplace to provide better products and services to customers. Spanning and integrating competencies bring together the inside-out and the outside-in to ensure delivery of appropriate products and services to customers.

More recently RBV theorists have emphasised the need for dynamic capabilities (Menguac and Auh, 2006; Helfat *et al.*, 2007). A dynamic capability is '*the capacity of an organisation to purposefully create, extend, or modify its resource base*' (Helfat *et al.*, 2007, p. 4). Menguac and Auh (2006) show how dynamic capabilities can be built through capitalising on market orientation and innovativeness. They demonstrate empirically how the effect of market orientation on firm performance is enhanced when firms demonstrate a high degree of innovation.

Not all assets and capabilities may be vested in the focal firm. Increasingly, companies are creating alliances and networks with others that enable them to leverage further assets and competencies of partner firms (see Chapter 16). Alliances can offer four main sets of assets and competencies: access to new markets; access to managerial competence; access to technological competence; and economic benefits. For example, we discussed earlier the problems faced by Kodak in the traditional camera and film marketplace, which is being displaced by digital photography. Part of the company's response to realign its deeply engrained model of film photography includes partnership with Motorola to extend camera-based imaging, partnership with Skype to create 'digital storytelling' combining live voice with online photo-sharing, and other collaborations in medical imaging and facial recognition software initiatives.

There are, however, problems in realising the advantages offered by alliances and networks of collaborating firms. Many of the alliances established in the early 1990s have failed. Understanding of the dynamics of alliances and the critical executive skills required by these new organisations are sadly limited (see Chapter 16).

Taken together, marketing assets and competencies/capabilities are the basis on which any competitive positioning is built. Ideally firms should seek to build their positions on the basis of assets and competencies which are superior to those of their competitors and difficult to duplicate. They should also seek to create or acquire assets and competencies that can be exploited in many other situations (e.g. extend their brand name into new markets, exploit their technology in new industries, use their networks in different ways). A critical issue for the future is how different assets and competencies can be combined to create new products and services (Hamel and Prahalad, 1994).

19.2.4 Establishing closer relationships with key customers

In Chapter 15 we discussed the ways in which firms can build closer relationships with their customers. Fundamental issues include which customers to build those relationships with and how to build them.

Relationship marketing (Payne and Frow, 2005) has been one of the most significant developments in marketing thought of recent years. While it has been recognised as important in some markets for some time and under different labels (e.g. the personal account managers in financial services), it is now generally agreed that customer retention, through superior service and relationship building, is applicable in far wider markets.

In consumer markets relationships can be built initially through branding and reputation creation. In the past, relationships in business markets have been stereotyped as between individuals – salesperson and purchasing officer. However, in modern business-to-business markets the pressure is for team-based selling and relationship building across the whole spectrum of internal departments. The challenge is to become the 'outsource of preference' by understanding the customer's business and adding value in excess of cost (H.R. Challey, 2007). Similarly, Simon (1996) stresses that the relationships which endure in business markets are those based on sound economic and business grounds rather than, perhaps ephemeral, personal/social bases. Relationships and reputations can be far harder for competitors to copy than possibly transitory product features, special offers or deals.

Zielke and Pohl (1996) show that key factors for success in the machine tool industry have changed since the early 1990s. In 1990 the keys to success were cross-functional teams, single sourcing and group working. These factors were seen to differentiate the better performing firms from the weaker ones. By 1996, however, these operational characteristics had become standard in the industry and no longer differentiated winners from losers. What now differentiates the more successful companies is their relationships with customers and suppliers. The market leaders are now managing the complete value chain, with suppliers becoming increasingly concerned with new product development and quality improvement. They are also linking pay and other rewards with customer-related performance targets. While efficiency has been the focus at the start of the decade, the emphasis has now shifted to customer and supplier relationship management.

Not all customers, however, place great value on ever closer relationships with their suppliers. Similarly, the costs of creating closer relationships with some customers (in terms of time, effort and financial resource) may well outweigh the long-term commercial benefits. What will become increasingly important will be for firms to decide the optimum intensity of relationship with each customer or customer group and then find effective and efficient means of establishing that level. It is likely that any firm will be operating in a number of different marketing modes depending on the customers served. For some key accounts a heavy emphasis on one-to-one close relationship building to create 'partners' might be applicable, while at the same time other groups are marketed less intensively so as to create 'advocates' rather than partners. For yet other customers of the same firm a mass marketing approach might be applicable to secure their business in the first place. *Multi-mode marketing*, the adoption of different marketing approaches for different customers or customer groups, is likely to take the place of more uniform marketing to all customers.

19.2.5 Rethinking the role of marketing in the organisation

The above lead to the inevitable conclusion that the role and function of marketing within the organisation (or within the 'virtual network') need to be redefined and reasserted.

Basic to that rethinking is to escape from the notion that marketing is essentially a business function, a department on the organisation chart. Increasingly, marketing is being seen as a process within the value chain, a process responsible for ensuring the creation of value for customers in both the short and long term. This requires a focus on marketing skills rather than on marketing titles (Brown, 1995). Structures need to be created that facilitate rapid response and flexibility rather than hinder it. Indeed, it is interesting to note that some of the successful companies, such as Virgin and The Body Shop, do not even have marketing departments, yet few would dispute that they are close to their customers and responsive to their needs (Doyle, 1995).

As Brown (1995) notes:

> *There are now two types of corporation: those with a marketing department and those with a marketing soul. Even a cursory glance at the latest Fortune 500 shows that the latter are the top performing companies, while the former, steeped in the business traditions of the past, are fast disappearing.*

Simon (1996) also notes that many of the firms in his sample of 'hidden champions' do not have marketing departments. They share, however, two main traits. First, they are extremely close to their customers and ensure that all employees recognise their role in serving them. Second, they focus on solving customers' problems through innovation to improve on their offerings to customers, continuously providing additional customer value. These two traits are the essence of a market orientation, but are achieved without the trappings of a marketing department.

It is important in defining the role of marketing for the future to recognise that marketing operates at two main levels: strategic and operational. At the operational level brand managers and marketing managers deal with day-to-day marketing tasks such as liaison with market research companies, advertising and public relations agencies and so on. In FMCG companies they also spend much of their time organising trade and consumer promotions, special deals, competitions, etc.

At the strategic level, however, marketing is more concerned with decisions as to which markets to operate in and how to compete successfully in them. At this level marketing is not a functional activity, but requires input from across the organisation of alternative perspectives and skills. As noted earlier, the challenge is then to manage the process of going to market to build superior customer value, through a complex of resources, capabilities and relationships that make up the offering.

Marketing needs to become and remain flexible and responsive to change. That entails distinguishing the philosophy from the trappings. At a strategic level everyone in the organisation should place customers at the forefront of their minds because, as the CEO of Xerox says in the firm's mission statement, ultimately it is customers who will decide whether the firm survives and whether employees and managers have a job in the future.

Handy (see Abrahams, 1996) talks of 'shamrock organisations' emerging for the future. These will consist of three leaves. The first will be a small core of professional senior managers on 'permanent' contracts who will run the business and make the strategic decisions such as the markets in which the firm will operate and the ways in which it will create competitive advantage (the positioning decisions discussed in this book). The second leaf will be those on fixed-term contracts providing services such as public relations, database management and advertising. These managers will be specialists in operational and implementation aspects of marketing, but will be closely directed as to where their efforts should go. The third leaf will be *ad hoc* contractors who will supply specialist expertise, such as advertising agencies, marketing research agencies, design consultancies, etc.

In the highly competitive markets envisaged for the foreseeable future, ability to assimilate and act on knowledge, to create strategies based on assets and competencies, to establish close, deep relationships with chosen market segments, and finally the ability to redefine the scope and role of marketing within the organisation will be the bases for creating competitive advantage.

19.3 Competitive positioning strategies

As has been argued above, competitive positioning is about making choices that ensure a fit between chosen market targets and the competencies and assets the firm can deploy to serve those chosen targets more effectively than competitors. While there are, in reality, an infinite number of different ways in which firms might position themselves in their markets, these can be summarised on the basis of the emphasis they give to six main dimensions of differentiation.

Figure 19.4 shows these six dimensions. Positioning could be based on: price; technical quality (or, more correctly, grade); service; customisation; benefit differentiation; or innovation. While individual firms may choose to position on more than one dimension simultaneously they often find that they are contradictory. For example, offering a higher grade of product is generally incongruent with keeping costs, and hence prices, as low as possible. Indeed, charging low prices for a high-grade product may create confusion in the minds of customers. The key to creating sustainable positions is to ensure that they are built on the marketing assets and competencies of the firm.

19.3.1 Price positioning

Costs must be kept in check – at least as low or preferably lower than competitors – for a low price position to be sustainable. If there is no cost advantage, price wars may put the instigator at a financial disadvantage and the whole positioning strategy may not be sustainable. Positioning as the low-price supplier requires strong inside-out and spanning capabilities. Effective cost-control systems (through activity-based costing) are needed not only within the firm's own operations but also within suppliers' operations. Procurement of raw materials and other factor inputs is organised

Figure 19.4 Basic positioning options

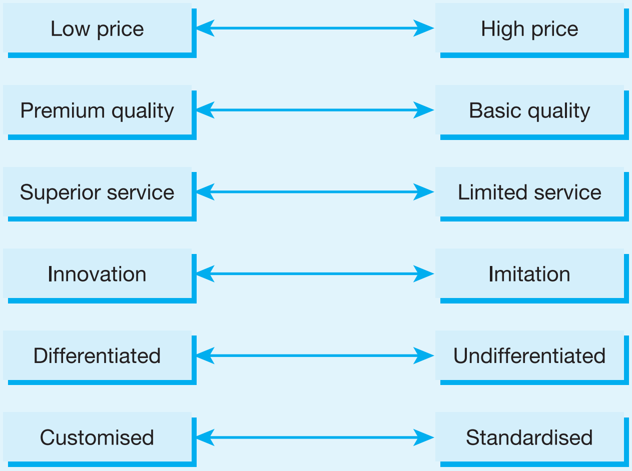
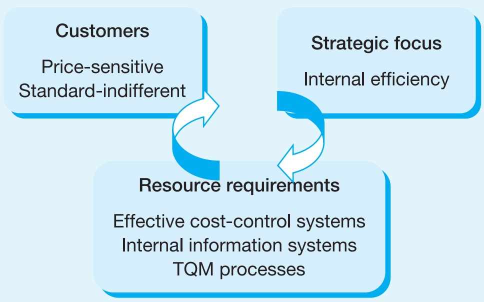


Figure 19.5 Low-price positioning



around keeping costs to a minimum. Distribution logistics are similarly managed for minimum cost (see Figure 19.5).

While the low-price position is a viable option for some firms there is a constant need to work at keeping costs down, especially when new competitors enter the market with new operating methods or unique assets that can be used to undercut the costs of incumbents.

For a price positioning strategy to be successful in the marketplace the existence of a viable, price-sensitive customer segment is also required. In most markets there are customers who will buy primarily on price. In the 1990s, however, it became clear that such customers also expect a base level of service and product quality such that rock bottom prices alone are unlikely to be good enough reasons to buy.

In November 1996, for example, the discount grocery retailer KwikSave announced the closure of 107 of its UK stores. KwikSave offered a no-frills, low-price, 'pile it high/sell it cheap' option to its customers. By the mid-1990s, however, this positioning had been eroded. KwikSave was caught between the leading multiples such as Tesco, Sainsbury and Safeway (later taken over by Morrisons) that were offering low prices coupled with superior service and more attractive shopping experiences, and newly entered discounters such as Aldi and Netto offering lower prices than KwikSave could achieve through their high-volume, very minimal service operations. KwikSave admitted that it had not been sufficiently customer-oriented, had gone too much for the deal, tried to expand too rapidly, had not offered 'modern' goods such as fresh produce, health and beauty items, and items for babies. More than 40 per cent of in-store staff were on temporary or part-time contracts, and there were few incentives to provide a high level of customer service. It was also believed that KwikSave was around 3–4 years behind its rivals in its use of technology. It accepted Switch, for example, as a way of directly debiting customer accounts, but failed to capture and analyse the data afforded to allow more detailed understanding of customers and their purchasing patterns. Sales per square foot of space at KwikSave were estimated to be around half those of Sainsbury (*Guardian*, 8 November 1996).

Price positioning can be successful where there is a clearly defined, price-sensitive sector of the market and the firm has a cost advantage in serving that market.

At £5,999 in 1995 the Skoda Felicia automobile was positioned at the low-price end of the spectrum to attract highly price-sensitive, private car buyers. Indeed, the company describes its target customers as OPTIEs (Over-mortgaged, Post-Thatcherite Individuals) who are carrying negative equity and have concern over their financial futures. These consumers see property, money and job as far less important than family, health and personal relationships. Impressing others with their cars is a low priority to them, 92 per cent of them believing that cars are over-hyped and overpriced, and 66 per cent believing that if you take the badge (brand name) off a car it's hard to tell one make from another. The Felicia is marketed as 'sensibly stylish with honest intentions' and the advertisements show the Volkswagen (VW) logo behind the car, building on the solid, quality associations of the parent company. It also takes full advantage of low-cost production in Central Europe (*Marketing Business*, July/August 1995).

In the wake of the terrorist attacks on New York in September 2001 major airline companies found a dramatic slump in passengers wishing to travel by air. The low-price operators such as Ryanair, however, were able to maintain and even increase their business. Indeed, Ryanair was performing strongly as a no-frills operator prior to September 11. The six months to 30 September 2001 saw net profits rise 39 per cent to €88 million over the same period in the previous year. Sales had risen 29 per cent to €344 million (*Fortune*, 31 December 2001). This showed that the market was clearly segmented with a significant leisure travel market highly price sensitive and happy to accept no-frills operations at low prices. The main sector of the market to be deterred from travel was the business traveller, on whom the major airlines relied.

Among the leaders in the low-price, no-frills air travel market is easyJet, launched in 1995 by Stelios Haji-Ioannou. The airline is positioned as low price, no frills, operating high frequency, point-to-point, shorthaul schedules across Europe. The firm makes extensive use of the Internet to keep costs down (around 90 per cent of bookings are made online through the airline's website). The airline has grown dramatically from 1.7 million passengers in 1998 to 7 million in 2001. Floated on the London

Stock Exchange (LSE) in November 2000, it is now among the FTSE top 200 firms, valued at over US$1 billion. Haji-Ioannou has recently extended the brand into cyber cafes (easyEverything.com), rental cars (easyRentacar.com), financial services (easyMoney.com) and online shopping (easyValue.com). All are positioned as low-price offerings, making effective use of the Internet to keep costs down (*Marketing Business*, September 2001).

Nonetheless, reliance purely on low price-based positioning can carry high risks as well. Executives are increasingly well aware of the effect of the 'China Price' threat. At the extreme, while a conventional competitor in the Triad countries might undercut your price by 10 per cent to gain business, companies in countries like China and India are more likely to offer a price which is 10 per cent of your price. It is estimated that in 2004 around 50 per cent of the merchant ships leaving Chinese ports were carrying Chinese products to Wal-Mart in the US (at that time China's eighth largest customer in the world). To attempt to compete on low price against such competition is unlikely to be effective in the absence of other competitive advantages.

Indeed, some firms position at the other end of the price spectrum. They deliberately price their products and services more highly than competitors to create an exclusivity for their offerings. High-price positions are usually accompanied by higher quality, branded offerings requiring strong reputations and clearly superior images (e.g. Harrods department store in Knightsbridge, cosmetics and designer label fashionwear). The competencies required for high-price (premium) positions to be effective are centred on the ability to create a superior, or exclusive, image that customers are willing to pay a premium to be associated with. Brand assets in particular need to be built through the use of creative promotional campaigns.

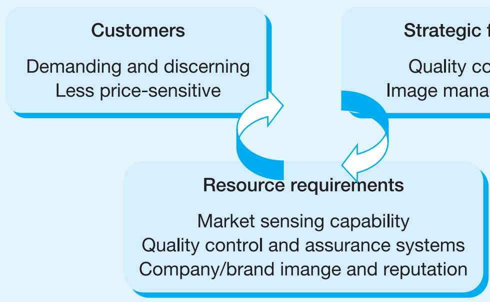
19.3.2 Quality positioning

Positioning as a high technical quality (grade) supplier also requires effective internal control systems, especially quality assessment and assurance. Beyond control, however, it also requires technical competence, particularly in engineering and manufacturing where physical products are produced. Most significantly, however, it requires a clear view of what constitutes 'quality' in the eyes of the customer. That entails the outside-in capabilities of market sensing and customer bonding (see Figure 19.6).

Also important in delivering high-quality products and services is supply-chain management, ensuring that the inputs are of the required quality, not simply the cheapest available. Marks & Spencer used to have a reputation for building long-term, demanding relationships with their suppliers to ensure that the products they put their labels on are of the required quality. M&S now sources more widely but still keeps a close eye on the quality of the fabrics used in its products.

There are four Betty's Tea Rooms in Yorkshire and one Taylor's. Together they sell 2 million cups of tea each year. They don't advertise, but people flock in their thousands and are prepared to queue for seats. The atmosphere is elegant, sophisticated. Waiters and waitresses are formally dressed in the style of Victorian servants. The tea is perfect and the cakes are delicious. The pastries range from exotic Amadeus Torte to local Yorkshire curd tarts. The company was started in Harrogate by a Swiss

Figure 19.6 Premium-quality positioning



confectioner, Frederick Belmont, in 1919. The company's bakers and confectioners still train in Lucerne. The company has built on its brand asset by opening related gift shops on the premises, selling confectionery suited to the tourists who visit. They also sell their products by mail order. More recently they have marketed Yorkshire Tea, which has become a major brand in the beverages market (Kotler *et al.*, 1996).

Often critical to a quality positioning are the marketing assets of brand image and reputation (see above). Image and reputation can take years to create and, once established, need to be nurtured and, when necessary, defended vigorously.

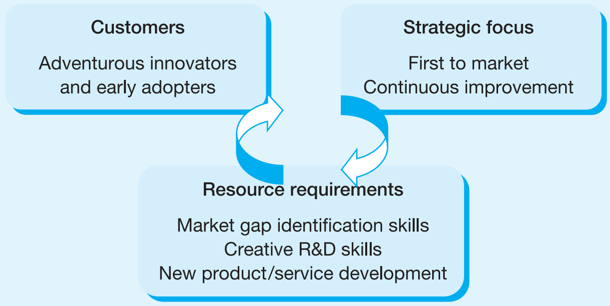
To customers quality is manifest through better reliability, durability and aesthetic appearance. For quality positions to be viable customers must be prepared to pay for superior quality as there are usually, though not always, higher costs associated with offering a higher-quality product. In the automotive industry German manufacturers such as Mercedes, BMW and Audi have successfully positioned their offerings at the high-quality end of the spectrum through superior design, technical engineering skills ('Vorsprung durch Technik' – leading through technology) and attention to quality control through the manufacturing process.

We should bear in mind in all this, however, that quality and value are decided by customers in the marketplace, not by engineers in the factory, or advertising executives in the marketing department. In what may be a blueprint for other organisations, executives at Royal Mail (RM) are appraised in part by customer-perceived service levels, not actual service levels. RM received many complaints about queuing times in post offices. They reduced queuing times, but customers still complained. They redecorated some post offices and found that in these locations customers ceased complaining about queuing times although the times were the same as elsewhere. RM had learned that quality and value are only what customers perceive them to be.

19.3.3 Innovation positioning

Where markets are changing rapidly, especially as a result of technological developments, there may be opportunities to position on the basis of innovativeness, or

Figure 19.7 Innovation positioning



speed-to-market (see Figure 19.7). In the PC market, for example, leading firms such as Toshiba are constantly improving on their products and building in technological advances to keep their products ahead of their competitors. Hamel and Prahalad (1991) suggest that firms should encourage 'fast failure', that is, encourage the test launch of new products, in the recognition that many may fail but that some will succeed. Fast failure, they argue, is preferable to smothering new ideas at birth or delaying their launch through over-elaborate screening systems.

Similarly, the impressive success of Samsung Electronics in the 2000s is based in part on the CEO's deliberate culture of 'perpetual crisis', a powerful Value Innovation Programme, and a long-term strategic vision of controlling core technologies in an era of digital convergence. Samsung's goal of market leadership is being pursued through innovation in technology and design.

In his study of German 'hidden champions', Simon (1996) emphasises their continuous processes of product and service improvement (*Kaizen*). Constant innovation is shown to be one of the significant characteristics of these world market leaders. By the mid-1990s, however, thinking in Japan, the home of *Kaizen*, had moved on. The challenge for many Japanese firms is now believed to be radical and major change, rather than incremental improvement, to enable them to compete in the future.

The key competencies required include excellent new product development skills together with technical and creative abilities. These are combinations of inside-out and spanning competencies. Once new product ideas have been crystallised, however, it is important to test them out on customers (through fast failure or more conventional means) to avoid the launch of highly innovative, but essentially unwanted, products, such as the Sinclair C5 electric car.

Tellis and Golder (1996), in a study of first-to-market firms, concluded that for many firms a more successful strategy is to be a fast follower. Under this approach firms learn from the mistakes of the pioneers and capitalise on the growth phase of the market without incurring the costs of establishing the market in the first place. Moore (1991), in his study of innovation in high-technology markets, concludes that the critical aspect of new product success is bridging the 'chasm' between innovators (those who will be attracted to an innovation because of its innovative nature) and the early majority who represent the beginnings of the mass market. It is this chasm that, in Moore's opinion, accounts for the failure of many new products.

James Dyson is an inventor who has successfully positioned his firm as the provider of innovative solutions to everyday problems. In January 1997 he won the European Design Award for his innovative vacuum cleaner (see below). Dyson started inventing at the age of 28 when he recognised a design fault in conventional wheelbarrows. When full, the barrow, with a single, thin wheel at the front, was prone to tipping over. He replaced the wheel with a large red ball which solved the problem. When he set up in business the 'ball barrow' was an immediate success, selling over 60,000 per year. Following that success he designed a new garden roller which was light and manoeuvrable when not in use but heavy enough to roll gardens flat. His innovation was to use a hollow plastic roller that could be filled with water when in use but drained when not in use. The bagless vacuum cleaners followed and in 2002 he launched the Dyson washing machine. He is now considering modernising other household items such as dishwashers and fridges as well as marketing a diesel exhaust cleaner that reduces toxic emissions. The success of the £100 million turnover company has been based on innovation, first to market with revolutionary designs of everyday products, offering superior value to customers.

In the early 1990s Dyson's new vacuum cleaner was launched on to the UK market. The Dyson Dual Cyclone operates in a different way from conventional cleaners in that it creates a cyclone of air (faster than the speed of sound) and does away with the conventional bags to collect the dust. On conventional cleaners the pores of the bags gradually fill so that the cleaner works less well when half full. The Dyson cleaner claims three times the performance of conventional vacuum cleaners but, at around £200, costs up to double the price. Manufacturers of conventional vacuum cleaners were unimpressed by the new product as they derive good ongoing profits from the sale of the disposable dust bags (that market alone being worth around £100 million per annum). They fought to keep the Dyson from conventional outlets and Dyson eventually hit on the idea of selling through mail order catalogues (a further innovation in the vacuum cleaner business). Despite the price disadvantage the Dyson had achieved 25 per cent UK market share within three years of its launch. Not content with the UK market, Dyson has also achieved the almost unique success of a British appliance manufacturer with a substantial market share in Japan, rather than vice versa.

Innovation may also come in the form of new processes or approaches to market. Dell, for example, sells PCs direct to businesses (and to a lesser extent household consumers) rather than through retail shops and resellers. Direct marketing eliminates the intermediaries and also speeds up the time to market of the computers. About 80 per cent of the cost of a PC is made up of components (such as microprocessor chips), the price of which is falling at around 30 per cent per annum. Too much inventory, therefore, means high-cost products waiting to be sold at high prices. Similarly, when technology changes (e.g. from 486 to Pentium-based processors) a company can be left with large stocks of out-of-date computers. By selling direct, Dell turns over its inventory every 14 days, compared with 50 days for Compaq, its rival. That has been estimated to give Dell a 3 per cent cost advantage. As important, however, has been the market advantage that has been conveyed through the switch from reseller to direct marketing. Dell has been growing at 50 per cent per annum in a market growing at 20 per cent: it is now the fifth largest manufacturer of computers (*The Economist*, 5 October 1996). Nonetheless, the dramatic slowing of Dell's growth in 2005/6 raises the question of whether Dell will be displaced by new competitors with their own innovations, especially in markets like China where the direct business model fits poorly with purchasers' preferences for personal selling and face-to-face advice.

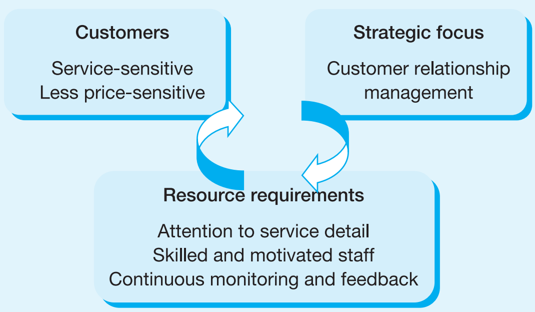
19.3.4 Service positioning

Positioning on the basis of offering superior service, or rather service clearly tailored to the needs of the target market, is increasingly being used. Variations in the nature and level of service offered, coupled with differences in requirements across customer groups, mean that service positioning can be viable and attractive for more than one company in a market. Critical to providing superior service are market sensing skills which can identify what level/type of service is required; customer bonding skills that build closer relationships with key customers; service systems that assist the service providers in delivering service to customers, and monitoring skills that can regularly assess the customer satisfaction with the level and type of service provided. Most critical of all to providing superior service are the people, or staff, that actually provide the service. Selection, training, motivation and reward of service staff are areas that need high priority in firms seeking to establish a competitive edge through service provision (see Figure 19.8).

Firms seeking to create a service edge to position themselves as offering superior service to that of competitors need first to understand how their customers judge service, what dimensions are important to them and how they are manifest. They then need to put in place strategies and systems to ensure their staff can deliver superior service (see Chapter 15).

Otis Elevator recognised the importance of providing excellent service in the elevator business. Customers preferred to deal directly with Otis rather than go through an intermediary, and hence the company set up the OTISLINE through which customers can contact the firm's service centre 24 hours a day. The service has been used to market the firm's offerings and to give customers confidence in them. It also

Figure 19.8 Superior-service positioning



formed the basis for the company's making further improvements in information systems, including REM (remote elevator monitoring) identifying problems before lifts break down. The system improved response times through better call management, improved diagnostic capabilities and strengthened the service team by providing them with better communications. The result has been significant increases in customer satisfaction levels (Armistead and Clark, 1992).

In summer 1996 IBM, under its new head Lou Gerstner, shifted the emphasis of its positioning away from physical products towards service offered to clients. Branded 'IBM Global Service', the new focus on service included an advertising campaign featuring IBM personnel and the services they provide to their customers (*Marketing Business*, November 2001).

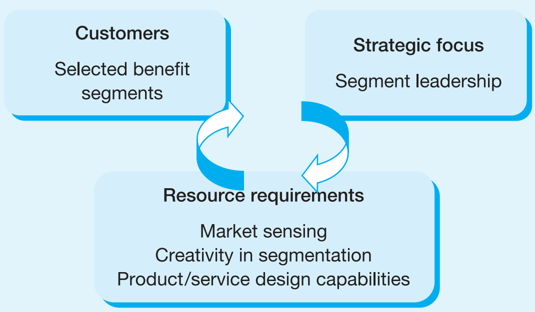
19.3.5 Differentiated benefits positioning

Differentiated benefits positioning rests on clearly identifying alternative benefit segments within markets and then focusing on providing what they want (Yanklovich and Meer, 2006) (see Figure 19.9). As discussed in Chapter 10, segmenting markets on the basis of the benefits customers are seeking can often help identify new market opportunities and suggest ways in which marketing effort can be more effectively targeted.

Positioning on this basis is dependent on having well-developed outside-in competencies to identify the benefits customers are seeking in the first place and to segment the market creatively into meaningful but commercially viable sectors. It can also require effective new product/service development skills to ensure that the benefits sought are actually delivered to customers through building in the relevant features.

In the US mouthwash market, for example, P&G successfully challenged market leader Listerine with their good-tasting Scope brand. Previously mouthwashes had tasted bad (Listerine was 'the taste you hate two times a day') and customers assumed this was necessary for them to be effective. Scope was launched offering the additional benefit of good taste ('a mouthwash doesn't have to taste bad to be effective'). Within a few years Scope was level with Listerine in market share (*Marketing Insights*, September 2001).

Figure 19.9 Differentiated positioning



Fairy Liquid is a washing-up liquid that has been consistently positioned on the basis of the twin benefits it provides to users: clean dishes but smooth hands for the washer-up. The product was test launched in Birmingham, UK, in 1959 when the market was in its infancy, with only 17 per cent of consumers using washing-up liquid, the remainder relying on soap powders or household soap to wash their dishes. The national launch in 1960 involved a massive door-to-door programme, which delivered 15 million sample bottles to 85 per cent of houses in the UK. The launch platform stressed that the product was strong enough to remove dirt and grease from plates and dishes but was mild on hands.

By 1980, 1 billion bottles of Fairy Liquid had been sold. Product improvements in 1982 enabled the advertisements to demonstrate a 20 per cent improvement in the volume of dishes that could be washed with one bottle (a 20 per cent 'mileage' improvement) and the brand had reached 27 per cent market share. Further continuous product improvement followed with the launch of a lemon-scented variant in 1984/5 (share climbed to 32 per cent) and further increased mileage in 1988 (by 15 per cent) and 1992 (by a further 50 per cent and signalled by a change of name to Fairy Excel), taking market share above 50 per cent for the first time. In 1993 Fairy Excel Plus replaced Fairy Excel, offering yet a further 50 per cent mileage improvement but still retaining the mildness to hands. One manager was quoted as saying, 'the heritage of the brand is so linked with mildness it [putting anything less mild on the market] would be regarded as treachery by the consumer.'

In the overcrowded beer market Boddingtons Draught Bitter has been successfully positioned on the basis of the benefit of 'smoothness'. In a market where most beers have emphasised the sociability of beer drinking, or the personal (generally macho) characteristics of beer drinkers, Boddington advertising has focused on conveying the 'cream of Manchester' attribute through poster and press advertising. Indeed, the advertising campaign won the 1994 IPA Advertising Awards Gold Medal.

Automobile manufacturers have been particularly effective at positioning their offerings to convey particular benefits. Estate cars offer additional carrying capacity, sports cars offer performance benefits, and four-wheel drive cars offer off-road capabilities (though many purchasers never test this out in reality!). Most recently, manufacturers have been developing small cars for city use in anticipation of legislation concerning pollution levels. The Ford Ka, the Renault Twingo, the Mercedes Smart and the Volkswagen Lupo are examples. These cars are typically compact and fuel economical (the Lupo claims 99 mpg) to reduce noxious emissions in city centres. BMW has also launched into the compact car market with its Mini, a brand retained after its brief ownership of Rover. In the second half of 2001 it sold 25,000 in Europe and it was launched in the USA in spring 2002.

Yamaha was world market leader in fine upright and grand pianos. Globally the company held 40 per cent of the market, but the market was in decline at around 10 per cent per annum. Market research showed that many pianos were seldom played, gathered dust and were out of tune. Using its competencies in digital music technology (the firm had pioneered electronic keyboards), the firm set about offering additional benefits in the pianos it sold. They developed the 'disklavier', which was a traditional piano (upright and grand) which could be played normally but also had an additional feature. Attached to the piano was an electronic device that enabled the owner to play pre-recorded music on their own piano. The device accepted a 3.5-inch disk, similar to a computer floppy disk, which contained the recorded music and played it on the piano. On its launch in Japan the product was an immediate success, rising to 20 per cent market share within three years. The firm also worked on the possibilities of retro-fitting existing pianos with the device to expand the market potential even further.

The 1996 Harrods catalogue carried an advertisement for a digital grand piano:

> *Yamaha DC11 Digital Piano – the perfect choice for real music lovers, the DC11 disklavier is a high quality acoustic piano with an added disc drive. Play as a normal instrument or use the computer facility to play back the disc of your choice. In addition record your own music directly onto disc while you play. Usual price £18,099, SALE PRICE £15,299.*

Interestingly, the concept was not completely new. In 1930s America, pianolas (pianos that could play rolls of punched paper when pedalled) were very popular!

The yellow fats market has also been extensively segmented on the basis of benefits sought and individual products positioned to appeal to specific benefit segments (see Chapter 12). In the 1960s, butter dominated the market, with margarine seen as a cheap, downmarket substitute. In the 1970s, however, concerns over healthy eating led to the launch of Flora by Van den Bergh and Vitalite by Kraft, both positioned as more healthy alternatives to butter. The features included polyunsaturated fat rather than the saturated fat of butter (which had been linked with cholesterol and heart disease). Van den Bergh also launched Outline, aimed at the weight-conscious sector, conveying low calories as its prime benefit. The competition to offer yet more healthy spreads led to lower fat levels in 'extra light' and 'reduced salt' versions. During the 1980s, however, some consumers began to crave the benefit of a 'real butter taste' once again, but without the health concerns of full fat butter. In the early 1980s Van den Bergh launched Krona, and in 1983 Dairy Crest launched Clover. In 1991 Van den Bergh launched its new butter substitute 'I Can't Believe It's Not Butter' with one of the most innovative brand names to date. The name, though clumsy, was certainly memorable and clearly conveyed the benefit it was designed to offer – butter taste. St Ivel followed the same positioning in 1995 with 'Utterly Butterly'.

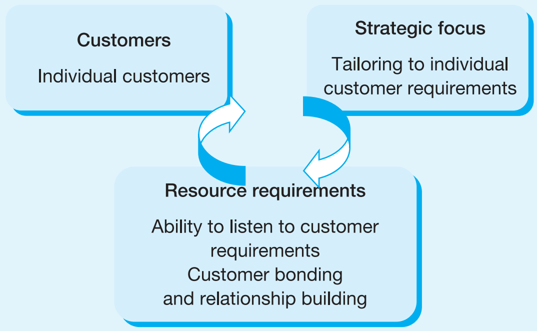
Positioning based on benefits sought by customers is conventionally associated with consumer markets. In fact, the same is true of the strategies of successful firms in business-to-business markets. In both cases, benefit segments provide a powerful basis on which to build positioning directly related to the requirements of customers.

19.3.6 Customised positioning (one-to-one marketing)

Perhaps the ultimate in targeting and positioning is the attempt to offer products customised to the requirements of individual customers. While this has been practised in many business-to-business markets for some time, it is now coming to others and consumer markets too (see Figure 19.10).

The 1996 Paris motor show saw the launch by Mercedes-Benz of its 'Smart Car', a two-seater bubble car jointly developed with MCC (Micro Compact cars), a joint venture with SMH, the Swiss makers of the Swatch ('Smart' stands for Swatch, Mercedes and Art). The Smart Car had a small petrol engine (future versions are

Figure 19.10 Customised positioning



intended to be battery-driven), seated only two and was aimed at couples living in cities who want a second car. To create the car, innovative production methods were used. It was produced in France at Hambach, where clusters of suppliers around the main factory each produce sub-assemblies, which were then ‘snapped’ together, giving major savings in production time (only around 4.5 hours are needed per car) and costs, but also making it possible to customise the fittings to individual customer requirements even after delivery. The customer could simply return the car and have additional components added (such as air conditioning), current options changed, or even change colours by swapping individual panels. In addition, MCC offered customers a leasing package by which they can rent a larger car for a couple of weeks for annual vacations, etc. (*The Economist*, 9 November 1996).

The car went on sale in Paris in 1998 but was initially priced too high for its market at US$11,000. It also failed the ‘elk test’ on manoeuvrability. First-year sales were disappointing at 80,000 (original estimates had been around 200,000). The strategic alliance between MCC and Mercedes was short-lived and Mercedes bought out MCC. Smart is now marketed as a cheap runabout (priced at US$8,000) but customers can still purchase an extra set of coloured body panels which can be easily fitted for $1,275. Sales reached 100,000 in 2000 and were expected to reach 250,000 by 2005. The company is also planning a four-seater version (*Fortune*, 30 April 2001). The website for Smart in the UK now offers customers the opportunity to customise online by choosing colours, interiors, options and accessories through the site (www.thesmart.co.uk, March 2002).

At the other end of the car market German manufacturer Porsche produces around 150 cars a day from its assembly line in Stuttgart. Each car is customised so that customers have more than 1 billion combinations to choose from. They can choose interiors, seats, dashboards, engine types, body styles and colours. In fact, Porsche will paint the car any colour the customer desires. One Texan had his car painted the same colour as his wife’s favourite lipstick (*Fortune*, 11 March 2002).

The important skills for customised positioning are a combination of outside-in competencies to enable the firm to identify what the customer wants, and to establish relationships with customers, with inside-out competencies of flexible production capability. Recent advances in ‘mass customisation’ (Pine, 1993) make it increasingly possible for firms to enjoy the cost and efficiency advantages of mass production while at the same time tailoring their offerings to individual customer requirements. Dell, for example, builds products to order. Over the phone or the web customers select what they want from hundreds of different components to configure the computers of their choice. Business purchasers can also ensure that their purchases are compatible with existing systems in the firm (Agarwal, Kumaresh and Mercer, 2001).

In some markets mass customisation, by another name, has been around for many years. Supermarkets, for example, provide such a wide range of goods on display and 'employ' customers to do their own selection such that each customer leaving the store has a unique collection of groceries tailored to their individual needs.

The clearest examples of customised positioning, however, are generally found in services, both consumer and business, where a customised service can be tailored to the requirements of individual customers. Financial consultants offer tailored analysis of investment needs, accountants offer tailored accounts, hairdressers offer tailored haircuts, and architects can offer (if the customer can pay) individual house designs.

Customised positioning rests on understanding individual, rather than market segment, needs and having the flexibility to provide for them at a price the customer is willing to pay. While technology, such as the use of the Internet, can play an important role in enabling economically viable customisation, the process needs to be market-led rather than technology-driven. Increasingly, companies are looking to create synergies through the use of new technology to respond to customer demands.

Levi Strauss now offers customised blue jeans – tailored to the tight fit required by customers – by taking measurements in the shop which are sent electronically to the factory to produce a unique garment (and store the data for repeat purchases). The same type of customer offer is made by some shoe suppliers in the US, who respond to customer preferences for unique products by using technology to achieve this at a reasonable cost.

Amazon.com has around 5 million customers but manages to practise one-to-one marketing in a highly effective manner. The firm is very successful at tracking what customers do and, using that information, sends e-mails to them with information about new books and videos similar to those they have purchased, or by the same authors, or in the same genre. This customised information service has helped Amazon achieve good levels of customer retention.

The above alternative approaches to positioning are not necessarily exclusive of each other. They do constitute, however, the main basic alternatives open to firms. The creative application of those alternatives offers an almost infinite variety of ways that firms might build competitive advantage for the new millennium. The task of marketing is to select among the alternatives, basing the choice firmly on the competencies and capabilities of the firm.

Summary

Business is changing and so must marketing. Successful strategies for the future will be based on creating a fit between the requirements of the chosen market and the resources of the firm, its ability to meet those requirements.

Marketing will be seen more as a process for achieving this type of matching, rather than a functional specialisation or department. To focus on the process of going to market, rather than conventional marketing structures, offers the chance to enhance the role of the customer as a driving force for the company and to finally achieve operationally the goal that 'marketing's future is not as *a* function of business but as *the* function of business' (Haeckel, 1997). The new processes of marketing will require us to learn new ways of doing business in unfamiliar organisations.

Neither resources nor markets are fixed. We may by now be well used to the notion of market requirements changing over time and the need to monitor those changes. We are perhaps less aware of the need, explicitly and constantly, to examine and develop our resources and capabilities over time. New dynamic capabilities must be built or otherwise acquired (e.g. through alliances, mergers or acquisitions) to enable the company to compete in the future. At the same time, the firm should examine how it can use its current set of capabilities and assets in different markets or combine its existing capabilities in innovative ways to create new opportunities (as Yamaha did with their digital pianos).

Fundamentally we can expect firms to be more selective and narrower in their choice of markets and customers to serve, but to concentrate their efforts on creating deeper relationships with those chosen to ensure long-term value creation through long-term relationships. There is, of course, an infinite number of ways in which firms can create relationships with their customers. This new millennium is an exciting period for competitive marketing!

Trend-spotting at the Henley Centre and elsewhere

FT

Case study

Mark Sunderland Photographers Direct

Welcome to the future, where energy, space and information will be crucial, consumers increasingly irrational, sales of bottled water will soar and a party at home dancing to your old LPs will be the height of fashion.

In the run-up to the millennium, trend-spotting was big business. Most of the big advertising agencies and branding consultants had an in-house futurologist who would assure anxious clients that wristwatch phones, oxygen bars and functional foods were the next big thing.

Leo Burnett, Young & Rubicam and Bartle Bogle Hegarty were among those providing corporate soothsaying. Some planning departments and research departments were re-branded as 'consumer insight' teams or given other grand titles. However, as the economy has slumped, clients have made it clear that they are unwilling to pay extra for information that they believe the planning department should provide for free, or to pay for some of the futurologists' more tenuous predictions. As a result, most agencies have returned to concentrating on their core business – making ads.

However, there are still specialists providing clients with insights into the future. The doyen is

Faith Popcorn, whose US-based Brain-Reserve company has advised, among others, IBM, BMW and Nabisco. Popcorn is perhaps best known for identifying 'cocooning' – protecting oneself from the harsh realities of an unpredictable world by retreating into our homes. Popcorn says that 'cocooning' is responsible for the rise in interest in DIY and presumably TV makeover shows.

In the UK, the Henley Centre continues to provide clients, who include retail, financial services and government departments, with strategic insights into consumer behaviour. Chairman Martin Hayward says consumers will be taking a long-term view in 2003. 'In the past few years consumers have lived for today and thought "sod the consequences" but with high levels of debt and job insecurity they will have to consider the future.'

However, he says this will lead to greater irrationality. 'It is very contradictory behaviour but we may well see them spending lots of money on something completely meaningless like a designer handbag and then scrimping on everything else.'

A few years ago the Henley Centre identified cash-rich but time-poor consumers. Now it has gone a step further and says consumers will look for products and services that save energy, provide information and don't take up too much space in our cluttered homes and lives. 'Companies that can provide these will meet a real consumer need,' says Hayward.

Meanwhile, Marian Salzman, who has worked in trend identification for TBWA, Y&R and now for Euro RSCG Worldwide, says: 'So much of what we're seeing in trends is a response to our heightened feelings of insecurity. Even as we go about our daily business, we are aware that things are not quite normal. This is why we're turning to products and services that help us keep some sense of control.'

Salzman predicts that sales of bottled water and water filtration systems, for example, will boom due to fears of terrorism. In the US, she says, the desire to feel safe will result in a growth in 'personal weaponry' and panic rooms in people's homes.

She says that in Europe and the US people are taking comfort in all that is genuine. 'Our research shows that consumers think companies owned and managed by families are more likely to make products they can trust and to treat their employees well. We'll see more companies follow the lead of cleaning products company SC Johnson, which last year re-branded itself as SC Johnson: A Family Company. We will also start to see companies use real people in their marketing communications.'

Home will also become increasingly important, says Salzman, and there will be continued interest in DIY, furnishings, home-cooked meals and even home schooling. The dinner party or dancing round the coffee table in your own home will become increasingly fashionable because it's safer than venturing out to a city centre restaurant or club.

Salzman's focus on security is echoed by Crawford Hollingworth, chief executive of strategic consultancy Headlight Vision. He predicts that consumers will demand a paradoxical combination of openness and protection. 'People will want their own personal space and privacy and don't like the idea of anyone being able to track their e-mails but they will still want protection whether it's from terrorism or corporate scandals like Enron,' he says.

Hollingworth also believes that we will see an end to 'No Logo' and that consumers will instead become 'Pro Logo', as, he explains, 'our trust in traditional institutions such as the government and the church declines, consumers will look for brands that they can trust to fulfil that role'.

But do clients actually take much notice of the predictions? Martin Hayward at the Henley Centre says they do: 'Clients increasingly realise that markets are driven by consumers and that you really have to understand their behaviour and motivation.'

Salzman admits that the thrust of her work has changed dramatically in the past couple of years. 'The percentage of work that is trend-spotting versus strategic planning is different. Once it was 90–10 and today it is 20–80.'

Euro RSCG provides basic trend-spotting as part of all account planning on big accounts. 'We also provide innovations-related consulting on a paid-for basis, which leans heavily on future forecasting and creating products and services that will suit future consumers,' says Salzman.

She says clients have become increasingly future-focused. 'However, they want "actionable" insights – trends they can manage and make money from. They also seek ideas that they can tweak uniquely to ensure competitive advantage.'

Salzman claims to have helped clients spot a number of trends before they became mainstream. 'We identified "wiggers" – white teenagers who adopted black street fashion styles, which spawned a whole industry for baggy clothing. We also spotted the fact that single women are the new yuppies, and the rise of nostalgia for the 1970s.

'Clients were able to act on these insights early and get a head start over the competition, so they obviously think that what we do is valuable.'

Source: Helen Jones, 'It's scary out there', *Financial Times*: Media Business: Special Report, 3 January 2003, p. 15,

Discussion questions

1. To what extent do you accept or reject the trends forecast by the experts?
2. What other major trends do you see influencing markets in the early years of the new millennium? Structure these under the headings of Political, Economic, Social and Technological trends and give reasons for your belief in the projected changes.
3. How are the trends in questions 1 and 2 likely to influence the demand and design of the following: automobiles, homes, home-delivered services, entertainment?