# CHAPTER 2
# THEORETICAL FOUNDATION – STRATEGY AND THE ROLE OF MARKETING STRATEGY

*"Organisations normally reformulate their marketing strategy several times during a product's life cycle. Economic conditions change, competitors launch new assaults, and the product passes through new stages of buyer interest and requirements. Consequently, an organisation must plan strategies appropriate to each stage of the product's life cycle" (Kotler, 1994: 344).*

## 2.1 INTRODUCTION

Strategy can provide an organisation with a reference-point for decision-making. Different levels of strategy exist in a large organisation, namely corporate strategy, business strategy and functional strategy. According to Du Plessis, Jooste and Strydom (2001: 4) corporate level strategy crystallises into strategies at lower organisational levels.

Du Plessis et al (2001: 4) view corporate level strategy as the organisation's sense of purpose, while business level strategy is concerned with the management of a specific division or business unit that must contribute to achieve corporate objectives. Functional level strategy refers to the contribution of marketing management to formulate and implement marketing programmes. Marketing managers can blend the marketing mix variables into a market offering and can manage the product and make marketing decisions by using the product life cycle concept.

Depending on the size and structure of the organisation, these levels of strategy can be executed on all three levels in large organisations, but in the case of smaller organisations, these levels of strategy are executed on functional level by functional managers such as the marketing manager.

This chapter will provide a theoretical discussion on strategy, strategy planning and strategy formulation on both corporate, business and functional levels in large organisations specifically, and will also include a small organisation's perspective. The chapter will conclude with a discussion on strategy and marketing decision-making in small organisations and the role of the product life cycle concept in strategy formulation.

## 2.2 STRATEGY

Strategy is the fundamental pattern of present and planned objectives, resource developments and interactions of an organisation with markets, competitors and other environmental factors (Walker, Boyd and Larréché, 1999: 8). Therefore a good strategy should specify:

- **what** is to be accomplished,
- **where** – which industries or product-markets will be the focus, and
- **how** – which resources and activities will be allocated to each product-market to meet environmental opportunities and threats and to gain a sustainable competitive advantage.

More specifically, there are ***five components*** or a set of issues ***within a well-developed strategy*** (Walker et al, 1999: 9):

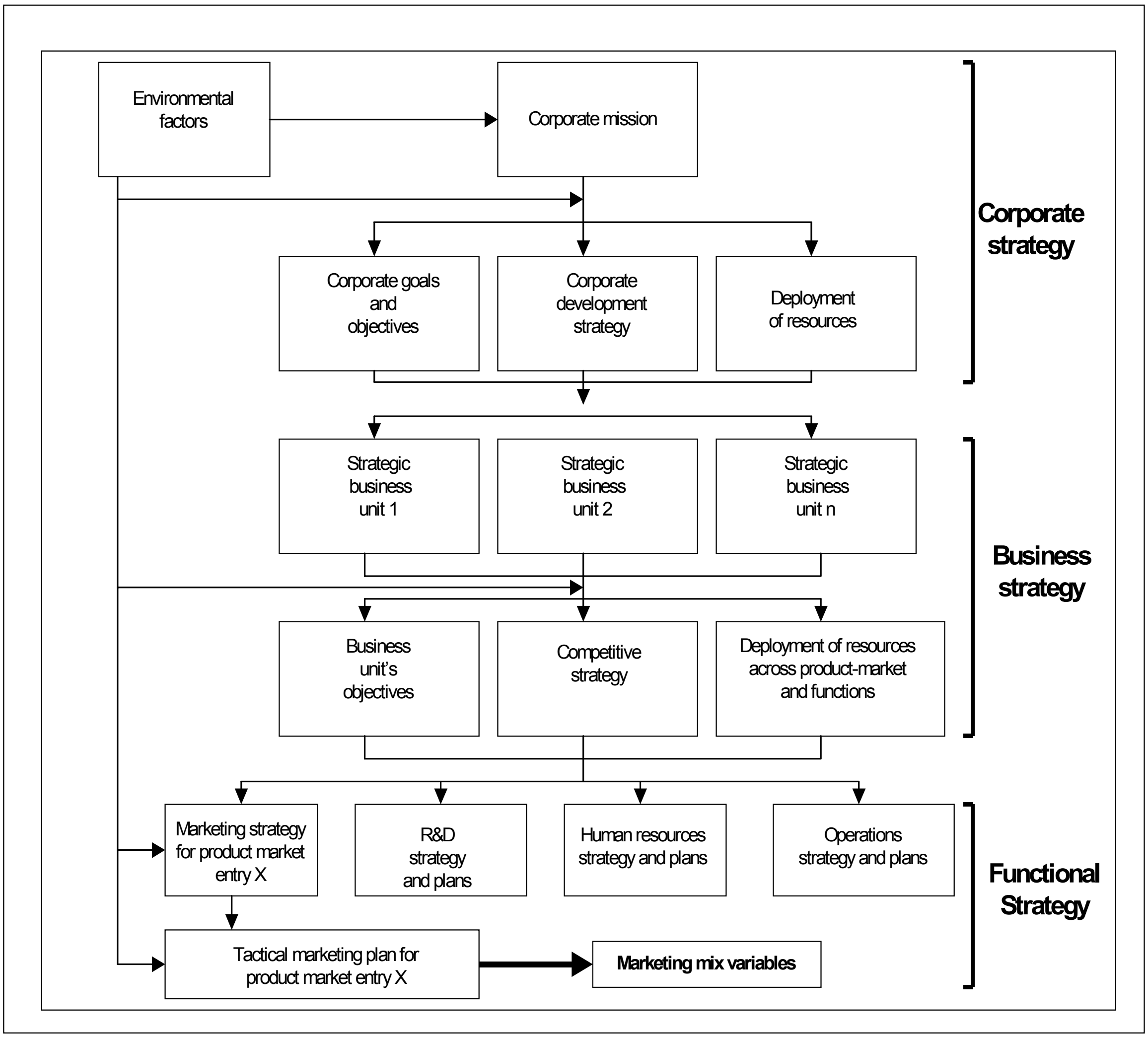
- Scope.
- Goals and objectives.
- Resource deployment.
- Identification of a sustainable competitive advantage.
- Synergy.

The above-mentioned components will be included in the discussion of the various levels of strategy in the next section.

## 2.3 VARIOUS LEVELS OF STRATEGY

Strategy in an organisation is formulated according to a hierarchy of corporate, business and functional levels as illustrated in Figure 2.1.

**Figure 2.1: Hierarchy of strategy**




**Adapted from: Walker, Boyd & Larréché (1999: 11)**

Each of the levels in the strategy hierarchy as depicted in Figure 2.1 will now be discussed.

### 2.3.1 Corporate level strategy

At corporate level managers must co-ordinate the activities of multiple business units. Decisions about the organisation's scope and appropriate resource deployment across its divisions or businesses are the primary focus of corporate strategy. The scope refers to the breadth of the organisation's strategic domain – the number and types of industries, product lines and market segments it competes in or plans to enter. The decisions about an organisation's strategic scope should reflect the view of management of the organisations mission and intent.

According to Walker et al (1999: 10) the essential questions to be answered at this level are:

- What business(es) are we in?
- What business(es) should we be in?
- What portion of total resources should be devoted to each of those businesses to achieve the organisation's overall goals and objectives?

Attempts to develop and maintain distinctive competencies at the corporate level tend to focus on:

- generating superior financial, capital and human resources;
- designing effective organisation structures and processes; and
- seeking synergy among the organisation's various businesses.

According to Walker et al (1999: 10) synergy can become a major competitive advantage in organisations where related businesses reinforce one another by sharing corporate staff, research and development (R&D), financial resources, production technologies, distribution channels or marketing programmes.

Organisations define their objectives and strategies through the process of strategic planning that should be long-term focused. Strategic planning involves activities that lead to the development of a clear organisational mission, organisational objectives and the strategies that enable the organisation to achieve its objectives (Churchill & Peter, 1998: 84). Strategic planning lays the foundation for other types of planning such as tactical planning and operational planning and the culmination thereof in appropriate strategic and tactical decisions as depicted in Figure 2.1.

**(a) Strategic plan**

The strategic plan for an organisation contains several components: the mission, the strategic imperatives, the strategic audit, SWOT analysis, objectives and strategies. According to Kotler, Armstrong, Saunders and Wong (1996: 73) all of these feed from and feed into marketing plans.

**(i) The mission**

A mission states the purpose of an organisation and what it wants to accomplish in the larger environment. A mission statement should be developed formally and should address the following market-oriented questions (Kotler, 1997: 68):

- **What** is our business?
- **Who** is our customer?
- **What** is value to the customer?
- **What** will our business be?
- **What** should our business be?

These above-mentioned questions are extensions of the what?, where?, and how? questions provided by Walker et al (1999: 10). It is essential questions to be answered at a corporate level and the mission statement should not be too narrow or too broad but should be realistic, specific, and based on distinctive competencies and act as a motivation tool in the organisation.

**(ii) Strategic objectives**

The organisation's mission as illustrated in Figure 2.1 needs to be turned into corporate goals and objectives to guide management. Strategies should specify the desired levels of accomplishment on one or more dimensions of performance such as volume growth, profit contribution or return on investment (ROI). The dimensions of performance should be spanned over specified periods for each of the organisations businesses and product-markets and for the organisation as a whole.

Each strategic business unit (SBU) manager on corporate level should have objectives and be responsible for reaching these objectives within a specific time frame.

**(iii) Strategic audit**

The strategic audit covers the gathering of vital information. According to Kotler et al (1996: 78-79) it is the intelligence used to build the detailed objectives and strategy of an organisation.

The strategic audit has two parts – the internal and external audit. The external audit or marketing environment audit examines the micro environment and task environment of an organisation. The internal audit examines all aspects of the value chain in the organisation including the direct flow of goods and services through the organisation –inbound logistics, operations, outbound logistics, sales and marketing and after-sales service.

In addition, it also extends to the support activities on which the primary activities depend – procurement, technology development, human resource management and the infrastructure of the organisation (Kotler et al, 1996:78).

Every organisation has limited financial and human resources. Therefore a strategy should specify how much resources are to be obtained and allocated across businesses, product-markets, functional departments or management teams and activities within each business or product-market.

As mentioned in paragraph 2.1 corporate strategy in an organisation is described as an organisation's sense of purpose. The business level strategy as depicted in Figure 2.1 is however concerned with the profitable management of the various divisions and Strategic Business Units (or specific divisions which must contribute to achieve corporate objectives) and also includes the contribution of marketing management to the formulation of the business strategy.

The business level strategy will be discussed in the next section.

### 2.3.2 Business level strategy

The most important part of any strategy is to specify how the organisation will compete in each business and product-market within its domain. The question on how it can position itself in order to develop and sustain differential advantage over current and potential competitors needs to be answered. To answer such a question managers must examine the market opportunities for each business and product-market along with the organisation's core competencies or strengths relative to its competitors.

As mentioned above the question of how business units will compete within its industry is the critical focus of business-level strategy. According to Walker et al (1999: 10) the major issue to be addressed in business strategy is how to achieve and sustain a competitive advantage.

According to Walker et al (1999: 10) the essential questions to be answered at this level as illustrated in Figure 2.1 are:

(i) What distinctive competencies can give the business unit a competitive advantage?
(ii) Which of the competencies best match the needs and wants of customers in the business' target segment(s) e.g. strategic business unit 1.

Different customer segments may want different benefits from the same category of products and a business unit may not have the competencies needed to compete effectively in all market segments.

Business-level strategy should furthermore deal with:

- How many and which market segments to compete in; and
- The breadth and depth of product offerings and marketing programmes needed to appeal to these segments.

Finally, synergy should be sought across product-markets and across functional departments within the organisation. Synergy only exists when the organisation's businesses, product-markets, resource deployments, and competencies complement and reinforce one another. Synergy enables the total performance of the related businesses to be greater than it would otherwise be.

The collection of businesses and products in an organisation can be divided into different business or product portfolios and these portfolios will be discussed in the next section.

**(a) The business portfolio**

The business portfolio as depicted in Figure 2.1 (e.g. Strategic business unit 1) is a collection of businesses and products that constitute the organisation's portfolio (Kotler et al, 1996: 83-88). The best business portfolio however is the one that fits the organisation's strengths and weaknesses to opportunities in the environment. The organisation must analyse its current business portfolio and develop growth strategies for adding new products or businesses to the portfolio.

The analysis of current business portfolios and the development of growth strategies as part of business level strategy will be discussed in the next section.

**(i) Identifying the key businesses making up the organisation**

Management's first step will be to identify the key businesses constituting the organisation. These key businesses are called strategic business units or SBUs as depicted in Figure 2.1. A strategic business unit is a self-standing unit in the organisation and has a separate mission. An SBU can be a company division, a product line within a division or sometimes a single product or brand.

**(ii) Analysing the current business portfolio**

Portfolio analysis helps managers to evaluate the relevant businesses of the organisation and to allocate strong resources into its more profitable businesses (Kotler et al, 1996: 83).

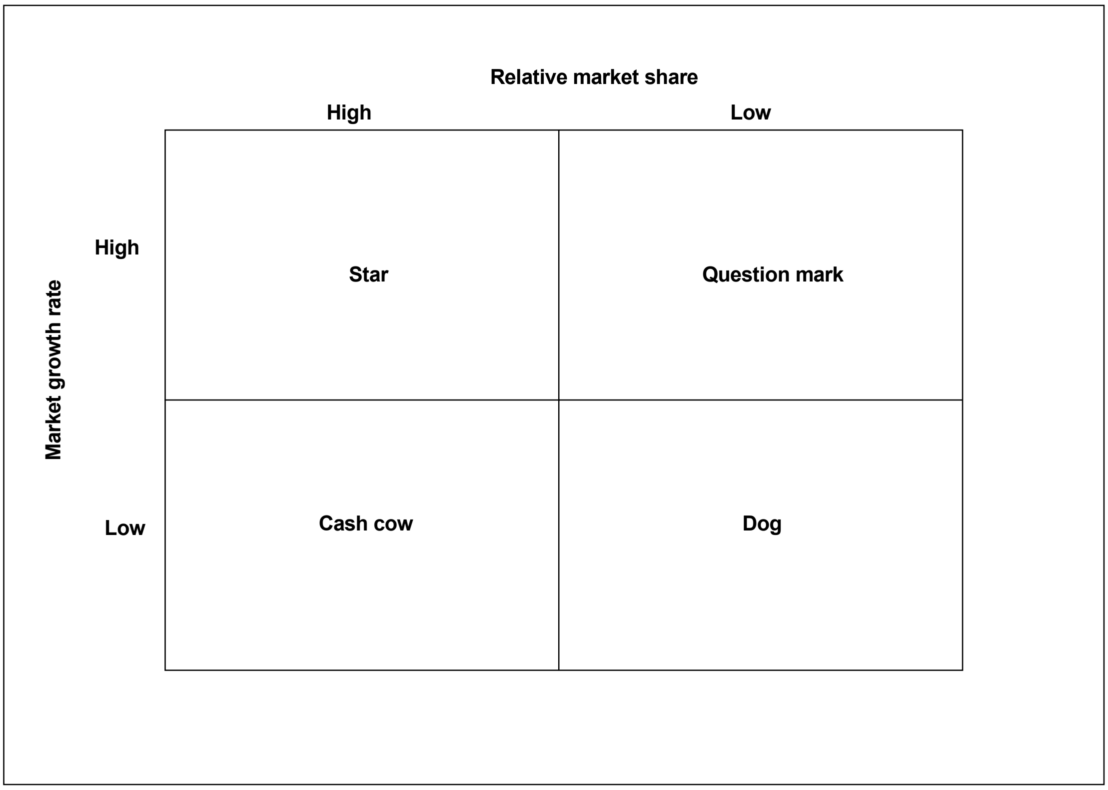
**(iii) Assessment of the attractiveness of the various strategic business units**

The second step in business portfolio analysis calls for management to assess the attractiveness of its various SBUs and to decide how much support each SBU warrants. According to Kotler et al (1996: 83) this occurs informally in some organisations while other organisations are using formal portfolio-planning methods. The best-known portfolio-planning models are the Boston Consulting Group (BCG) and General Electric, which will now be discussed.

- **The Boston Consulting Group Matrix**

By using the Boston Consulting Group Matrix (BCG) an organisation classifies all its strategic business units (SBUs) according to the growth-share matrix illustrated in Figure 2.2.

**Figure 2.2: The BCG growth share matrix**




**Adapted from: Kotler et al (1996: 84)**

By dividing the growth-share matrix as depicted in Figure 2.2, four types of SBU's can be distinguished (Kotler et al, 1996: 83–84):

- **Star** – a high growth, high-share business or product. It often needs heavy investment to finance its rapid growth. Eventually the market share decreases and it will turn into a cash cow.
- **Cash cow** – a low-growth, high-share business or product. An established and successful strategic business unit needing less

investment to maintain its market share. It produces cash that the organisation can use to subsidise and to support other strategic business units in the need of investment.

- **Question mark** – a low-share business unit in a high-growth market. It requires cash to maintain its share. Managers have to carefully decide which question marks should be turned into stars and which ones should be phased out.
- **Dog** – a low-growth, low-share business or product. It may generate enough cash to maintain itself, but do not promise to be a large source of cash.

Once an organisation has classified its SBUs, it must determine what role each SBU will play in future. According to Kotler et al (1996: 84) there are four alternative strategies for each SBU:

- The organisation can **invest** more in the SBU to build its share.
- The organisation can invest just enough to **hold** the SBUs share at the current level.
- The organisation can **harvest** the SBU, milking its short-term cash flow regardless of the long-term effect.
- The organisation can **divest** the SBU by selling it or phasing it out and using the resources elsewhere.

As time passes, SBUs change their position in the growth-share matrix. According to Kotler et al (1996: 84) each business unit has a life cycle. Many SBUs start out as question marks and move into the star category if they succeed. They later become cash cows as market growth falls, then finally die off or turn into dogs towards the end of their life cycle.

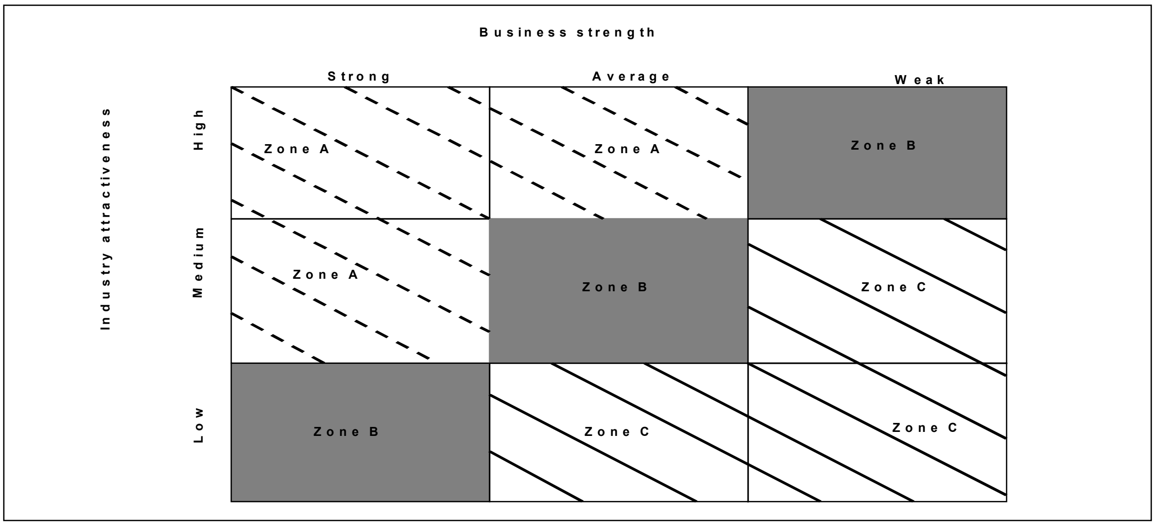
The relationship between the product life cycle concept and the BCG growth share matrix as depicted in Figure 2.2 will be discussed in chapter three.

**(ii) The General Electric grid**

A comprehensive portfolio planning tool called the strategic business-planning grid was introduced by General Electric and like the BCG approach, it uses a matrix with two dimensions – one representing industry attractiveness on the vertical axis and company strength in the industry on the horizontal axis.

Figure 2.3 below is an illustration of the GE's strategic business-planning grid.

**Figure 2.3: GE's Strategic Business Planning Grid**




**Adapted from: Kotler et al (1996: 85)**

According to Kotler et al (1996: 85) the GE approach considers many factors besides market growth rate as part of industry attractiveness. It uses an **industry attractiveness** index that comprises of market size, market growth rate, industry profit margin, intensity of competition, seasonality and the cycle of demand, and industry cost structure. These factors are rated and combined in an index of industry attractiveness as high, medium and low. For **business strength**, it again uses an index that includes factors such as the organisation's relative market share, price competitiveness, product quality, customer and market knowledge, sales effectiveness and geographical advantages. These factors are rated and combined in an index of business strengths described as strong, average or weak.

The GE grid has **three zones** as illustrated in Figure 2.3 and are explained below:

- **Zone A** – the upper left includes the strong SBUs in which the organisation should invest and grow.

- **Zone B** – the diagonal cells contain SBUs that are medium in its overall attractiveness and the organisation should maintain its level of investment in these SBUs.
- **Zone C** – the lower right indicates that SBUs that are low in overall attractiveness and the organisation should give serious thought to harvesting or divesting these SBU's.

**(b) Problems with the matrix approaches**

According to Kotler et al (1996: 88) the BCG and GE methods have revolutionised strategic planning but such approaches have limitations. Management may find it difficult to define SBUs and measure market share and growth. In addition, these approaches focus on classifying current businesses but provide little advice for future planning. Management must still rely on its judgement to set the organisational objectives for each SBU, to determine what resources to allocate to each and to determine which businesses to add.

**(c) Development of growth strategies on business level**

The development of a growth strategy is essential for the any organisation not to stagnate, but to grow, to develop and maintain a sustainable competitive advantage. Ansoff (1957: 114) provides the following four growth strategies as illustrated in Figure 2.4. Depending on the size and structure of an organisation the growth strategy discussion can be either on corporate level or SBU level.

**Figure 2.4: Intensive growth strategies**

| | **Present Products** | **New products** |
|---|---|---|
| **Present Market** | ① Market penetration | ③ Product development |
| **New markets** | ② Market development | ④ Diversification |

**Adapted from: Ansoff: (1957: 114)**

Ansoff (1957: 114) defines the growth strategies as follows:

① **Market penetration** – the organisation seeks increased sales for its current products in its present markets through more aggressive promotion and distribution. For example: Ceres fruit juices recently added a new blended fruit juice called “Dew of the dawn”.

② **Market development** – the organisation seeks increased sales by taking its current products into new markets. For example: Delta Motor Corporation marketing the Corsa in Australia.

③ **Product development** – the organisation seeks increased sales by developing improved products for its present markets. For example: Adidas marketing eyewear or Nike marketing watches for sportspeople.

④ **Diversification** – the organisation seeks to grow by serving new customers through the delivery of new products. For example: Cadac originally marketed gas bottles and gas braais, but currently also markets sleeping bag and tents.

In relation to Figure 2.4 diversification can be regarded as a **growth strategy on corporate level** based on research and development decisions, the various risks and uncertainties related to production, finance, personnel and whether to stay local and/or to go global.

### (d) The role of marketing on business strategy level

All organisations need strategies to accommodate needs and changing markets. No one strategy is best for all organisations. Marketing plays an important role in strategic planning, as the strategic plan will guide the marketing function, which must be in unison with other functions in the organisation to achieve strategic objectives.

Marketing management's contribution to the formulation of business strategy, primarily entails inputs at top management level with regard to the internal and external marketing environment and joint decision-making in the area of competitive and investment decisions (Du Plessis et al, 2001: 4).

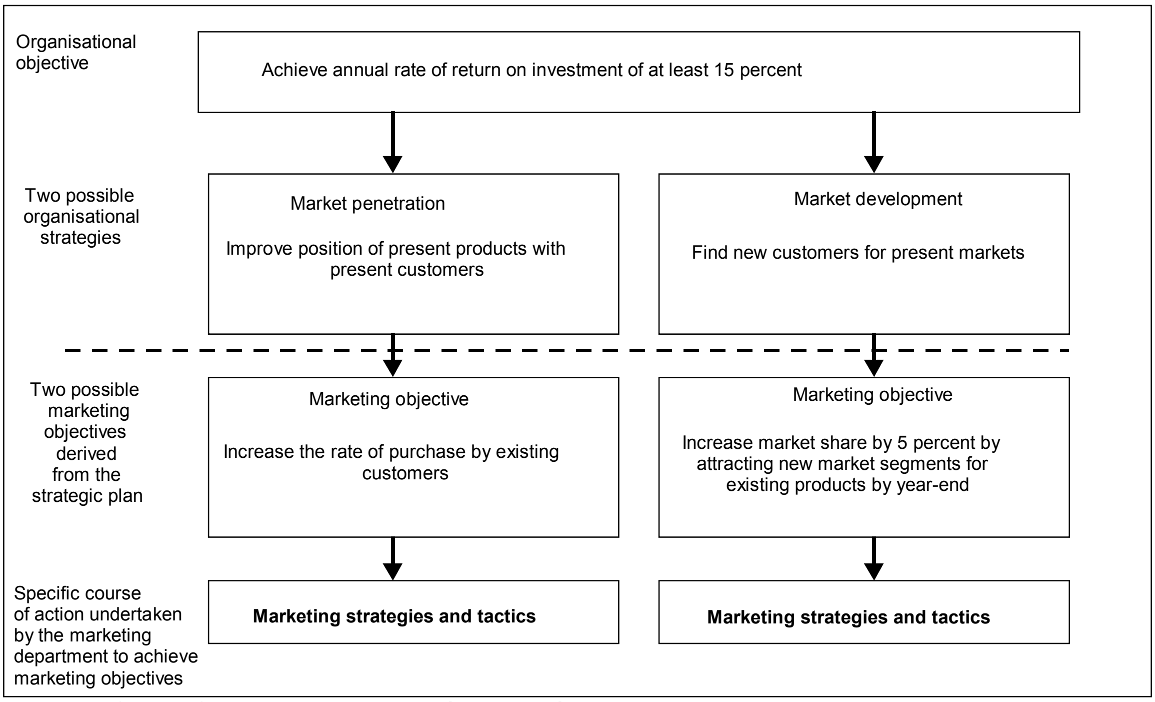
The marketing function fulfils a vital role in the successful execution of strategy in an organisation and it is therefore necessary to illustrate how the marketing plan is related to the strategic plan. This relation between the marketing plan and the strategic plan reiterates the importance of the strategic plan and the planning process within large, medium and small organisations.

Every functional manager (e.g. Marketing, Research and Development, Human Resources and Operations) in a large organisation as depicted in Figure 2.1 should partake in the formulation of strategy and planning. Strategy and planning at a functional level is a derived effort and task from the objectives set during the previous level in the hierarchy of strategy. Thus the traditional role of the marketing manager might include projecting the number of potential customers for a given product or service and advising how to promote and distribute the product or service to them. Both are concerned with issues such as market share and how best to create value for existing and potential customers (Churchill & Peter, 1998: 95).

The contribution of marketing to strategy and planning in traditional organisations depends on the style and structure of planning process it uses. Organisations can use a **top-down approach**, where senior managers set broad objectives and strategies for all the levels in the organisation. Marketing managers follow these and develop marketing goals and plans to achieve them. Organisations use the **bottom-up approach**, where managers prepare goals for their own units, then submit the goals to senior management for approval. Senior managers may approve them or request that the plans be modified to better reach organisational objectives. A **middle of the road approach** is for top management to specify the strategic guidelines, then allow lower-level management to plan strategies to achieve them.

Figure 2.5 provides examples of how objectives in the marketing plan can support the organisational strategic plan.

**Figure 2.5: Relating the marketing plan to the strategic plan**




**Adapted from: Churchill and Peter (1998: 96)**

Despite the various approaches, marketing managers support the organisational strategic plan by developing marketing plans, which includes detail about the marketing objectives, marketing mix decisions as illustrated in Figure 2.5 and the marketing decision-making variables of segmentation, targeting, positioning and budgeting.

The functional level strategy will be discussed in the next section.

### 2.3.3 Functional level strategy

Each functional level in an organisation as illustrated in Figure 2.1 needs to effectively allocate and co-ordinate resources and activities to accomplish organisational objectives within a specific product-market. The guidelines that the marketing function will use to develop strategy in coherence with the organisational strategy and objectives are constituted in the strengths, weaknesses, opportunities and threats according to the **SWOT analysis**.

The SWOT analysis draws the critical strengths, weaknesses, opportunities and threats from the strategic audit. Strategic audit as discussed in paragraph 2.3.1(a)(iii) contains a wealth of data of different levels of importance and reliability. The SWOT analysis distils these data to show the critical items in both the internal and external audit.

A marketing opportunity is an area of buyer need in which an organisation can perform profitably and an environmental threat is a challenge proposed by unfavourable trends or developments that will lead, in the absence of defensive marketing action, to deterioration in sales or profit (Kotler et al, 1996, 79). Opportunities and threats exist externally such as the economic and technology environment of the organisation and management has relatively little or no control over the events in the external environment. Once an organisation has performed its SWOT analysis, it can proceed to develop objectives and strategies for a specific planning period.

According to Sudharsan (1998: 1) the marketing function through marketing strategy creates pathways to a desired future. Marketing management is therefore travelling through these pathways to achieve a desirable future. The primary purpose of the marketing function through the marketing strategy is to effectively allocate and co-ordinate marketing resources and activities.

Decisions about the scope of marketing strategy involve specifying the target market segment or segments to be pursued and the breadth of the product line to be offered. The marketing function should therefore use the STP stages provided by Kotler (1997: 89) emphasising the processes of **s**egmentation, **t**argeting and **p**ositioning. Segmentation deals with an aggregated process that clusters people with similar needs into a market segment. Targeting deals with the process whereby a marketing mix is tailored to fit some specific target customers. Positioning deals with the way customers perceive proposed or present brands in a market.

Furthermore, the organisation seeks a competitive advantage and synergy through a well-integrated programme of marketing mix variables tailored to the needs and wants of customers in the market segment through segmentation, targeting and positioning. The concept of the marketing mix variables for physical products was formally defined by Neil Borden (Van Waterschoot & van Bulte, 1992: 83–93) and redefined over the years and are referred to as the traditional marketing mix. This traditional marketing mix consists of the following marketing mix variables (4Ps) – **p**roduct, **p**rice, **p**lacement and **p**romotion.

The traditional marketing mix has been extended to incorporate the nature of services based on its intangibility. It is known as the expanded marketing mix or **7Ps** and consists of the following marketing mix variables – **p**roduct, **p**rice, **p**lacement, **p**romotion, **p**eople, **p**rocesses and **p**hysical evidence (Lovelock: 1996: 37–233).

On a functional level marketing is actively involved in the execution of the marketing process, marketing strategy and the development of the marketing mix variables. These aspects will be discussed in the next section.

**(a) The marketing process**

According to Kotler et al (1996: 927) the marketing process is the analysis of marketing opportunities, selecting target markets as part of the STP process, developing the marketing mix and managing the marketing effort. The marketing process will be planned and executed against the strategic guidelines set at a corporate level as depicted in Figure 2.1. Planning at corporate, business or functional level is an integral part of the marketing process and to fully understand the marketing process it is important to understand how the organisation defines its business.

The organisation can apply a traditional physical process or it can create value through its delivery process. In order to create value, the marketing department needs to analyse markets, customers and competitors in the micro and micro environments before any product even exists. The marketing staff must segment the market, select the appropriate target market and develop the offer’s value positioning. After the STP stages in paragraph 2.3.3

have been completed and once the organisation has chosen its overall competitive marketing strategy, it is ready to plan and develop the details of the marketing mix – whether a physical product or a service, the marketing mix would consist of 4Ps or 7Ps respectively.

**(b) Marketing strategies for competitive advantage**

Competitive advantage is an organisation's ability to perform in one or more ways that competitors will not or cannot match (Kotler, 2000: 56) and is realised by the organisation's marketing strategy, the implementation of this strategy and the context in which competition unfolds. The development and the sustainability of a competitive advantage is an important objective on corporate (paragraph 2.3.1), business (paragraph 2.3.2), and functional levels (paragraph 2.3.3), in an organisation.

The target consumers will be the core and centre of the organisation's marketing strategy. The organisation should identify the total market and divide it into smaller segments and it should select the segment(s) and focus on serving it/them. The organisation then engages in marketing analysis, planning, implementation and control to find the best marketing mix and take action.

Competitive advantage can be achieved in many ways through core competencies, resources, strengths as identified by the SWOT analysis, positioning and differentiation based on the marketing mix variables. Marketing strategy deals with *relationships* with the major publics, *offerings* with the type of product or service sold, *timing* when the product or service is sold and *resources* with resource allocation and management.

**(c) Development of the marketing mix variables**

The marketing mix concept is regarded as a set of controllable variables at the disposal of marketing management that can be used to influence customers (Rafiq & Ahmed, 1995: 4).

The marketing mix variables for physical products and services will be discussed in the next section.

**(i) Marketing mix variables for physical products**

The variables of the marketing mix used for the marketing of physical products include the following:

- A **product** is something offered by marketers to customers for exchange (Churchill & Peter, 1998: 612). Product as a marketing mix variable consists of the following variables - physical variety, quality, design, features, brand name, packaging, sizes, services warranties and returns (Kotler, 1997: 92).

- A **price** is the amount of money, goods or services that must be sacrificed to acquire ownership or use of a product (Churchill & Peter, 1998: 612). Price as a marketing mix variable consists of the following variables – list price, discounts, allowances and payment period and credit terms (Kotler, 1997: 92).

- **Place**ment is the channel of distribution used to get products and services to the market (Churchill & Peter, 1998: 610). Place as a marketing mix variable consists of the following variables – channels, coverage, assortment and locations, inventory and transport (Kotler, 1997: 92).

- **Promotion** is the personal and impersonal means used to inform, persuade, and remind customers about products and services (Churchill and Peter, 1998: 612). Promotion as a marketing mix variable consists of the following variables – sales promotion, advertising, sales force, public relations and direct marketing (Kotler, 1997: 92).

The four Ps represent the **seller's view** of the marketing mix variables available to influence buyers. From a **buyer's perspective**, each marketing tool is designed to deliver customer benefits. Lautenborn (1990: 26) suggested that the seller's 4Ps correspond to the customers 4Cs - **p**roduct correspond with **c**ustomer needs and wants, **p**rice responds with **c**ost to the customer, **p**lace responds with **c**onvenience and **p**romotion corresponds with **c**ommunication.

**(ii) Marketing mix variables for services**

Not only manufacturing organisations, but also dealers will be included in the sample to be drawn among small organisations in the Gauteng Province of South Africa. Dealers do not only sell products but in many instances the products they sell are linked to a service or it can be a pure service with no tangible characteristics.

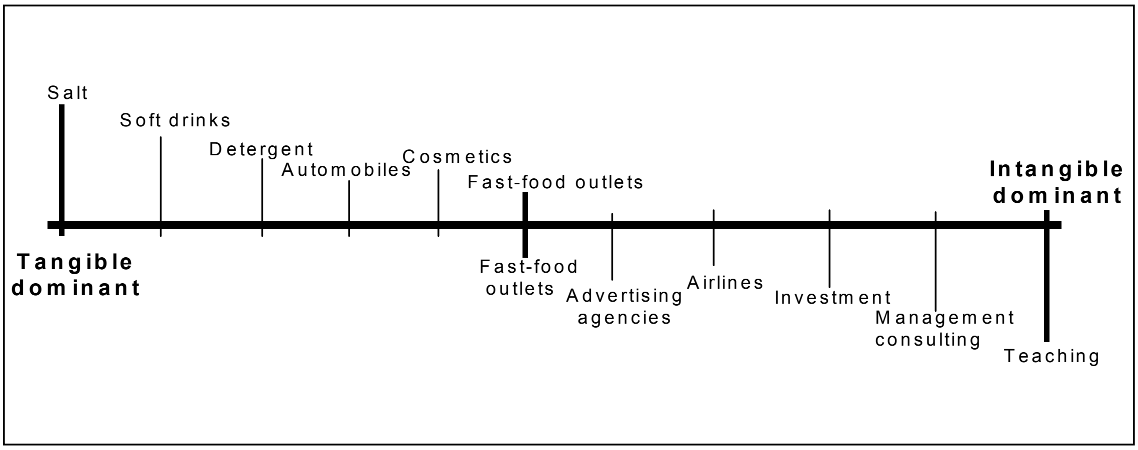
Products and services are different in many ways. Unlike products/manufactured goods, services are intangible and cannot be stored, transported or resold. In goods manufacturing, on the other hand, repeatability and systematically controlled production are the key variables of success.

The services marketing function in an organisation is much broader than the activities and outputs of the traditional marketing department, requiring close co-operation between marketers and those managers responsible for operations and human resources (Lovelock, 1996: 3). Therefor the traditional marketing mix has been expanded by the addition of three new marketing mix variables – people, processes and physical evidence. This expanded marketing mix consists of the following instruments - **product**, **price**, **place**, **promotion**, **people**, **processes** and **physical evidence**.

The various variables of the marketing mix used for the marketing of products are provided in the next section. The discussion on the seven Ps will be based on the work of Booms and Bitner (1981: 47–51) as they were the first to publish an article on the broadening of the traditional marketing mix to make provision for the intangible nature of services marketing. The theories by Booms and Bitner (1981: 47–51) will be supported by the views of other authors of general marketing literature – Lovelock (1996), Kurtz (1998), Palmer (1998), Churchill and Peter (1998) and Brassington & Pettitt (2000).

Before the marketing mix variables for services are discussed it is important to illustrate the goods-service continuum in Figure 2.6 to clarify the difference between goods and services.

**Figure 2.6: The goods-service continuum**




**Adapted from: Du Plessis & Rousseau (1999: 138)**

It is evident from the continuum depicted in Figure 2.6 that an offering can vary from a tangible dominant (pure physical product) to intangible dominant (pure service).

The marketing mix variables for services will be discussed in the next section.

- **Product** as a marketing mix variable for services consists of the following variables – quality, brand name, service line, warranty, capabilities, facilitating goods, tangible clues and the process of service delivery. The service product (Lovelock, 1996: 312) can be viewed as the technical outcome of a service and comprises the "what" of a service (Kurtz & Clow, 1998: 22). Since services differ in the degree of tangibility and are highly influenced by the process and people involved when delivering the service, it is difficult to standardise services (Churchill & Peter, 1998: 295).

- Service **pricing** (Lovelock, 1996: 361–375) – price is one of the inputs used to form an expectation of a service before a customer makes a purchase decision. Price serves as a tangible cue that indicates what can be expected from a service provider. When determining a price, the service organisation should also view it from the viewpoint of the buyer.

Pricing decisions made without concern for the customer will usually result in a decline of customer satisfaction, sales and profits. Pricing as a marketing mix variable for services consists of the following elements – price level, discounts, allowances, payment terms, customer's perceived value, quality/price interaction and differentiation.

- **Place** (Lovelock, 1996: 311) – the distribution strategy for services needs to be efficient. Depending on the nature of the service and what the customers value, several distribution channels can be employed. The nature of the distribution channel employed depends on the type of service organisation. Place as a marketing mix variable for services consists of the following variables – location, accessibility, distribution channels and distribution coverage. For example: ATMs, regional offices, branches and call centres.

- **Promotion** (Lovelock, 1996: 168-169) – the service organisation communicates with its target groups with the aim to influence knowledge, attitude, and/or behaviour. Thus the face-to-face interaction of especially front-line staff with customers play a very important role in promoting the service. Marketers should actively support and enhance a good service by communicating the benefits of that service to its target audience with the help of various types of communication channels and media. Promotion as a marketing mix variable for services consists of the following variables – advertising, publicity, sales promotion, personal selling and direct marketing.

- **People** (Lovelock, 1996: 312) – the organisation's contact personnel form an integral part of the process of service delivery. In the services industry all the staff act as marketers of the organisation's offering because their actions have a direct effect on the output received by customers (Palmer, 1998: 9). If the customer feels comfortable with the particular service provider, and has trust and rapport with the service provider, it is a relationship that a competitor would find hard to break into. This makes the entire task of people planning extremely important in a service organisation. People add value and a dimension to the marketing package way beyond the basic product offering.

People as a marketing mix variable for services consists of an internal and external component. The internal people component includes various staff aspects such as training, discretion, commitment, incentives, appearance, interpersonal behaviour and attitudes. The external component includes customers who may be asked to participate/interact actively in the process of service creation, delivery and consumption.

- The service **process** (Lovelock, 1996: 311) – the heart of the service is the experience by the customer of organisational policies, systems and procedures, which takes place in real time. The marketer, therefore, has to plan the process of service deliver carefully, and plan what quality controls can be built in to ensure that customers are confident that about to expect each time they use the service product. This applies, for example, to banks, wholesalers, retailers and other dealers in financial services, fast food outlets; hairdressers and other service providers and even to professional services such as attorneys and management consultants. Processes can also involve queuing mechanisms, preventing customers from getting so impatient while waiting that they leave without buying; processing consumer detail and payment as well as ensuring high professional quality of whatever service they are buying (Brassington & Pettitt, 2000: 27).

- **Physical evidence** (Lovelock, 1996: 98-99) – this marketing mix instrument is of particular relevance to dealers (of any particular product), or those who maintain premises from which a service is sold or delivered. Physical evidence for dealers includes some of the place-related elements already mentioned in the discussion of the traditional marketing approach, such as exterior elements (e.g. parking and signage) and interior elements (e.g. design, layout, equipment and décor. In other service situations these elements will be different. For example: the physical evidence would relate to the aircraft in which you fly, the hotel in which you stay, the stadium in which you watch a sport event or the lecture room in which you obtain a learning experience. Physical evidence is furthermore linked to the reputation of an organisation, the physical state and appearance of office buildings, uniforms of personnel, furniture used in the offices, the organisation's letter heads and modern technology.

In addition to the changes in the marketing mix variables the services marketing concept includes the recognition of a new role for marketing in service organisations as a result of the simultaneous production/consumption process and the resulting overlap in functional responsibility between operations, marketing and personnel. The services marketer must not only manage the exchange process and the variables of the marketing mix but must also be concerned with managing the total buyer/seller interaction process which encompasses other functional areas in the organisation.

The marketing mix variables for physical products and its applications will be tested during the empirical part of this study in the chapter six.

**The ability of the marketing decision-makers in small manufacturing organisations and small dealer organisations to link these marketing mix variables to each phase of the product life cycle concept will be tested in the empirical part of this study.**

## 2.4 USING THE 7Ps AS A GENERIC MARKETING MIX

Booms and Bitner (1981: 47–51) in their original article clearly indicated that the extended marketing mix as discussed in paragraph 2.3.3(c)(ii) is not to be limited to services marketing. Rafiq and Ahmed (1995: 4) however posit a need for a generic marketing mix that cut across the boundaries of goods, services and business-to-business marketing.

Rafiq and Ahmed (1995: 8) suggested that the Booms and Bitner's framework as discussed in paragraph 2.3.3(c)(ii) should be extended to goods, services and industrial marketing. According to Rafiq and Ahmed (1995: 9) there has been no empirical research available to test the satisfaction of use by marketing academics with either the 4Ps or 7Ps framework. In 1992 a survey was conducted to establish which of these frameworks marketing academics were using and how and why they were using them.

Rafiq and Ahmed (1995: 9) targeted delegates of the UK's Marketing Education Group (MEG) Conference held in Salford in 1992 and the European Marketing Academy (EMAC) Conference held in Aarhus, Denmark in May 1992. A large majority of respondents (78% of EMAC and 84% of MEG delegates) felt that the 4Ps concept was deficient. While there was a great deal of dissatisfaction with the 4Ps framework it was more difficult to assess how well Booms and Bitner's framework was accepted as a general framework for services marketing as no empirical research on this issue has been conducted in the past. A very important empirical result on the 7Ps framework showed that it has at least some relevance for all types of marketing.

Rafiq and Ahmed (1995: 13) made the following conclusions:

- The results suggested that there is a high degree of dissatisfaction with the 4Ps framework among European academics. It is suggested that the 7Ps framework has already achieved a high degree of acceptance as a generic marketing mix among the respondents in the sample.
- Although there is general support for the 7Ps mix, there is not uniform support for the three new variables of people, process and physical evidence as discussed in paragraph 2.3.3(c)(ii). People/participants were most widely accepted as an element of the new variables and the process variable also received reasonable support. The physical evidence variable is the least supported of the new variables and it is probably because physical evidence is not as well conceptualised as people and process.

Rafiq and Ahmed (1995: 13) compiled the following Table 2.1 as a result of their empirical study to illustrate the differences between the 4Ps and 7Ps mixes.

**Table 2.1: Strengths and weaknesses of the 4Ps and 7Ps mixes**

| | 7Ps | 4Ps |
|---|---|---|
| **Strengths** | • More comprehensive, more detailed and more refined<br>• Broader perspective<br>• Includes people, process and physical evidence<br>• Signals marketing theory | • Simplicity and ease of understanding<br>• Good pedagogic tool, especially for introductory marketing<br>• Useful conceptual framework<br>• Ability to adapt to various problems |
| **Weaknesses** | • More complicated<br>• Extra variables can be incorporated in 4Ps<br>• Controllability of the three new variables | • Too simple, not broad enough<br>• Lacking people, process and physical evidence<br>• Lack of connection between variables<br>• Static nature of the 4Ps |

**Adapted from: Rafiq and Ahmed (1995: 13)**

Rafiq and Ahmed (1995: 13) argued that while these results are based on a relatively small number of respondents, they believe that it is representative of the views of marketing academics. The above-mentioned results provide empirical support for the theoretical reasons advanced for the extension of the 7Ps mix into a generic marketing mix. The literature review however provided no further evidence, critique or any substantiation on a generic marketing mix as proposed by Rafiq and Ahmed (1995: 4–15).

The researcher envisages testing the importance of generic marketing mix variables among small manufacturing organisations and small dealer organisations in the empirical part of this study.

## 2.5 STRATEGY IN SMALL ORGANISATIONS

It is important to note that small organisations will be discussed in detail as part of the small business environment in South Africa in chapter four.
Small organisations do not normally have the organisational architecture that is found in large organisations as illustrated in Figure 2.1. Although small organisations have features common with larger organisations, they also have unique characteristics and attributes that are reflected in the manner in which they are organised and managed. Their small-scale operations often indicate a lack of management depth. While small organisations usually employ staff to perform multiple tasks, large organisations tend to use people who specialise in functional activities.

Carson (1993: 89–205) is of the opinion that many of small organisation's characteristics stem from their relative size and the influence of the entrepreneur/owner-manager. The most common characteristics of small organisations include:

- Resource constraints, especially time and finance.
- A personalised approach to management.
- A survival mentality.
- A lack of strategic planning.

While size may create many problems for strategy and strategy formulation in small organisations it also creates many advantages (Gilmore, Carson, O'Donnell & Cummins, 1999: 29). These advantages are:

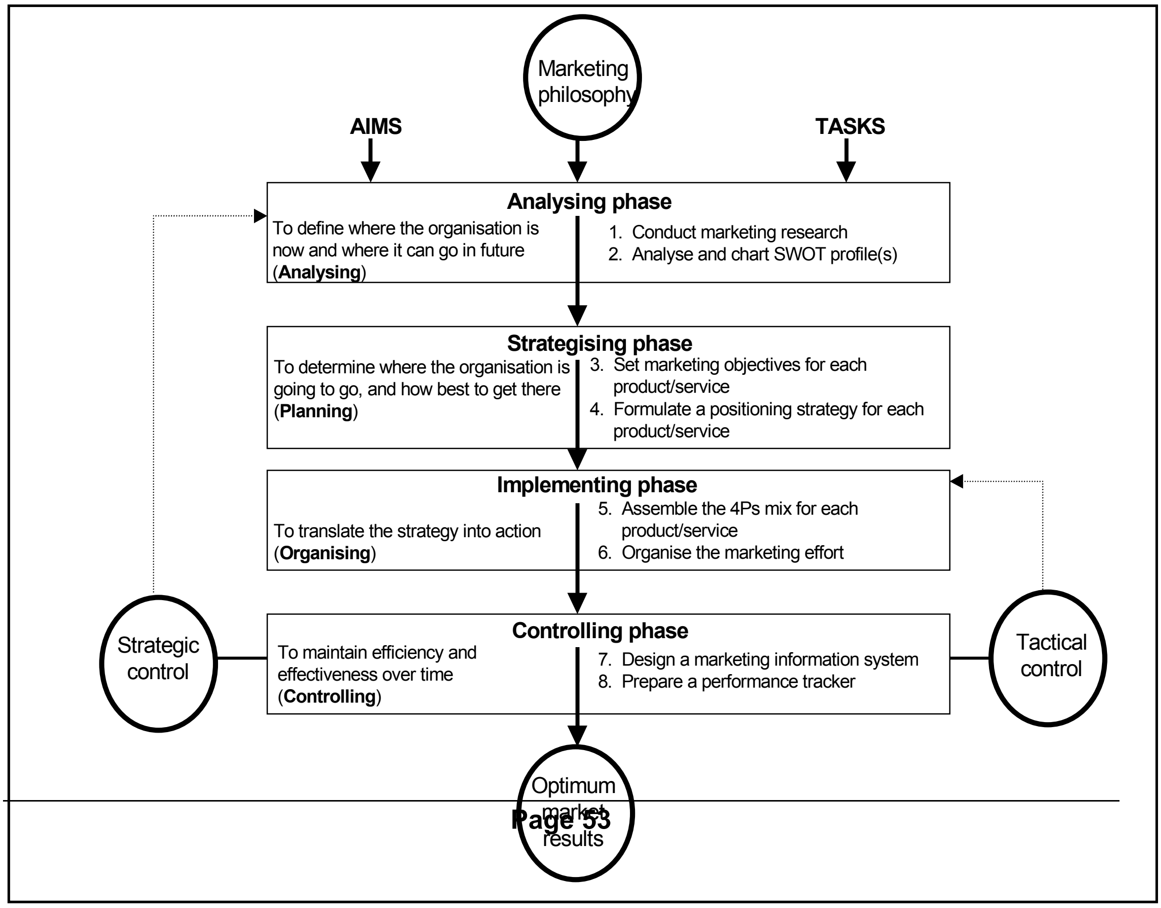
- Smaller organisations are better at serving specialist markets.
- Entrepreneurial spirit, flexibility, innovativeness and responsiveness.
- Fast and flexible.

According to Blanchard (1994: 12–13) small entrepreneurial organisations with effective management can pose tough competition for any large organisation.

It was stated in paragraph 2.1 that strategy in large organisations are formulated on three different levels but it is surmised that no clear divide can be made between these three levels when strategies are formulated, implemented and monitored in small organisations. The entrepreneur/owner and/or owner/manager of a small organisation is therefor responsible for the formulation, implementation and monitoring of strategies on all three levels as depicted in Figure 2.1.

According to Brooksbank (1999: 78) the vast majority of books and articles deal with the subject of marketing planning as it relates to large organisations, citing big organisational cases and examples. Brooksbank (1999: 78 – 90) investigated key concepts and marketing tools such as the product life cycle in marketing textbooks with the aim of simplifying marketing plan development in smaller organisations.
Brooksbank's (1999: 79) effort resulted in the development of the following four-phase marketing planning model for small organisations as illustrated in Figure 2. 7.

**Figure 2.7: The marketing planning process**



**Adapted from: Brooksbank (1999: 79)**

The four phases in the marketing planning process proposed by Brooksbank (1999: 79) are:

- The first phase is to do research and to analyse the organisation's competitive situation.
- The second phase is to define a set of marketing objectives, both on the demand and supply side, together with a positioning strategy for the achievement of the sustainable competitive advantage.
- The third phase involves the planning of the appropriate marketing mix variables.
- The fourth phase is concerned with the development of a marketing information system and the design of some form of performance tracker for comparing events as they unfold against the plan.

As depicted in Figure 2.7 owners and decision-makers in small organisations perform tasks on all three levels – corporate, business and functional as depicted in Figure 2.1. In relation to Figure 2.1 the aims and tasks depicted in Figure 2.7 can be related as follows:

- The *analysing phase* in Figure 2.7 can be related to both the corporate and functional levels in Figure 2.1.
- The *strategising phase* in Figure 2.7 can be related to both the business and functional levels in Figure 2.1.
- The *implementing* and *controlling phases* in Figure 2.7 can be related to the functional level in Figure 2.1.

Brooksbank (1991: 91) recommend that small organisations can use this model as the basis upon which to dismantle and improve their existing marketing planning system, to restructure it and to inject fresh ideas into their organisations.

It is important to reiterate that the empirical part of this study will focus on the use and application of the product life cycle from a small organisation's perspective. The structure of small organisations, their advantages and disadvantages along with the national strategy for the development and promotion of small organisations in South Africa will be discussed in chapter four.

## 2.6 CONCLUSION

The strategic planning process in an organisation (mainly large) consists of chronological steps and interrelated activities. This chapter defined strategy and discussed the various levels of strategy for large organisations as depicted in Figure 2.1. The strategic plan was highlighted and a discussion was provided on the role of marketing in the strategy and planning process.

The chapter concluded with the marketing planning process from a small organisation's perspective, as the empirical part of this study will be executed among small manufacturing organisations and small dealer organisations in Gauteng, South Africa.

The next chapter will be devoted to a discussion on the product life cycle concept as part of product management.