

## CHAPTER 1

# THE MARKETING PRACTITIONER'S PERSPECTIVE

### 1. EXECUTIVE SUMMARY

Managers are spending more time and other limited resources in finding new ways to keep demanding customers happy and loyal, in order to achieve superior financial and market performance. Most managers agree that past successes are no guarantee for future success. Past successes actually often lead to *hubris*, which may even impede businesses' abilities to regenerate or maintain a relatively good competitive position in an industry or market place. Globalization contributes in its own uniquely new way to increase the competitive pressures business will have to deal with. Seen against this backdrop, marketing practitioners will need to find new ways of contributing to the sustainable competitive advantages businesses may have or seek.

An abundance of literature with regard to Sustainable Competitive Advantage (SCA) exists within a broader model of business capabilities and success determinants. The purpose of this study is to produce an at-a-glance model of constructs and concepts, based on a sound literature review. Marketing practitioners could employ this SCA model to assist in the development of a SCA strategy for the business ventures they are involved in.

An additional aim of the study is to produce, through the use of individual questionnaires and personal interviews, some sense as to the way in which managers would rate the importance of the generated concepts, comprising the different SCA constructs. Managers will be selected from a range of functions and nationalities, and they will be pre-selected on the basis of their businesses' current financial and market place performances. Academia and practitioners will be approached to fine-tune the questionnaire and to confirm the relevance and validity of the questionnaire.

The resulting model will be enhanced by a discussion of the relevant data and trends from previous research. Summarized data collected from the questionnaires and personal interviews will be portrayed in the most appropriate format to ensure correct interpretation and comprehensibility.

## 2. INTRODUCTION

One finds senior management spending more time considering the company's ability to innovate and regenerate successes of the past into the future. Most managers will agree that past successes are no guarantee of future success. This is especially true of marketing campaigns and relative competitive position within an industry.

(Porter 1985; Hammel and Prahalad 1994). Four pertinent questions Gary Hammel and CK Prahalad ask in their book *Competing for the Future*, are:

[1] "How influential is my company in setting new rules of competition within its industry?"

[2] Is it more intent on challenging the industry status quo than protecting it?"

[3] What percentage of our improvement efforts (quality improvement, cycle time reduction, and improved customer service) focuses on merely catching up to our competitors? AND

[4] What is the balance between hope and anxiety in my company; between confidence in our ability to find and exploit opportunities for growth and new business development and concern about our ability to maintain competitiveness in our traditional businesses; between a sense of opportunity and a sense of vulnerability, both corporate and personal?"

Later in the book, *Competing for the Future*, Hammel and Prahalad suggest that "a company must be capable of fundamentally reconceiving itself, or regenerating its core strategies and of reinventing its industry." In short, it must be able to differentiate itself from its competitors and industry players.

## 3. BACKGROUND

There is an increasing number of Fortune 100 companies and other global players vanishing from the face of the market place and some top brands seems to be on a roller coaster ride of popularity and profitability (Deloitte Research, 1998).

Increasingly, we see globally known brands such as Levis, Marks & Spencer, and IBM, having rough times and either recovering at great expense or with difficulty, or vanishing from the minds of consumers and eventually from the market place.

(Sampson, 2000).

It has become normal, and even expected, to see some of the giant global brands decrease in popularity and, therefore, in market share and profitability, only to eventually end up changing places - at the bottom of the popularity ladder - with previously localized or limited (geographically, demographically or i.t.o. niche markets) brands. Some of the top global brands even vanish into oblivion.

Today, businesses throughout the world compete for share of customer and share of wallet, with previously non-traditional or unexpected competitors. With the increasing convergence and consolidation of companies (Deloitte Consulting International Conference on Top 10 Market Trends 2000), traditional competitors have increased in size and/or numbers and service organizations throughout the world are competing for clients with competitors from new industries and new directions.

On the other hand, there seems to be giant global companies (or brands) such as Disney, Coca Cola, Rover, Cartier, Nokia, Sony, Kodak, Gillette and others, who seem to have found a recipe for success. (Saachi & Saachi 1999). In an article by Jeremy Sampson (2000) top brands from the US and UK are compared. These mega-brands have been top brands in their market/industry in 1923 and are currently still rated as the top brand in that industry. Have they perhaps found a recipe towards sustainable fame and riches? With businesses or companies committing an ever increasing number of resources to simply stay in place and to retain their market share or share of customer... "the importance of competitive advantage could hardly be greater." (Porter 1985).

In recent years there has been a renewed focus on global competitiveness and providing superior value and/or unique alternatives to satisfy customers' ever-changing needs. One has only to do an initial literature study to find many studies, books, articles and theses in a diversity of fields, ranging from human resource management, to cost accounting, from strategic management to IT; to find an abundance of opinions - not all equally relevant or useful - on the matter.

Obviously, becoming and remaining competitive in a global environment are determined by a very broad band of processes, systems, capabilities and strategies within the business. This study does not propose in any way that it is the sole role of marketing to provide business with (a) sustainable competitive advantage(s). Rather, the purpose of this research is to explore ways in which marketing can and does contribute to a sustainable competitive edge, as a key result area amongst other business functions and strategic business units. The aim of this study is to focus on marketing implementation, tactics, action plans, processes and systems, rather than on broad corporate strategy, general management, human resources (HR) and financial management. This study is based on the supposition, that marketing does not work in isolation from the other business capabilities and processes (Doyle and Wong 1998).

Gaining positions of competitive strength has become more important in this increasingly competitive global environment (Van der Merwe and Chadwick 1991). Since globalization is a reality and not merely a threat - or an opportunity - of the future, this study will not limit its scope to studying competitive advantage for businesses within a certain geographically, politically, fiscally, legally limited environment, but investigated the contribution of marketing within a broader bundle of determinants of global competitiveness.

#### 4. PROBLEM STATEMENT

A large body of literature addresses different strategies and sources of competitive advantage. In order to find a comprehensive model of all the strategies, techniques, tactics, mixes and marketing action plans, managers must work through volumes of papers, reports, magazines and articles, from the earliest literature by Alderson in 1937, to the present. Not only is the body of literature large, but it is also highly diverse in nature.

It is therefore the aim of this study to produce a SCA model, presenting a comprehensive summary of the literature in a graphical, at-a-glance format.

Though LISREL or other advanced multivariate tests will not be used, qualitative and quantitative research methodologies will be used to test marketing practitioners' views on the validity, contribution and priority of the concepts and constructs developed.

## 5 THE RESEARCH

### 5.1 RESEARCH DESIGN

#### 5.1 RESEARCH OBJECTIVES

The preparatory work commenced with a literature study that focused on previous investigations, methodologies and fields relevant to this study. This search covered academic literature, marketing journals and business publications related to the topic.

##### **Objective 1:**

The purpose was to **identify a large pool of relevant concepts** in order to build out the constructs and dimensions of SCA, and to confine the study to specific, measurable, achievable limits that could be completed within a reasonable time-frame.

##### **Objective 2:**

Literature studies were aimed at providing a basic structure of the theoretical marketing aspects against which practical marketing actions, tactics and interventions could be designed and measured. This part of the study was qualitative and will provide the explanatory background of a *graphical SCA model*. The graphical model aimed to group concepts together in logical, appropriate dimensions for practitioners to use to audit their strengths and weaknesses.

##### **Objective 3:**

During the third phase of the study a survey was mailed or personally handed to a sample of senior managers, or executive MBA students with at least 10 years experience. Care was taken to identify the experience level and the industry in which the respondents have had the most experience. Respondents were specifically instructed to make judgements or assessments based upon the industry they have had most experience. The objective was to determine the priority ranking or weighting of the different dimensions and constructs of the SCA model. Besides prioritizing the constructs encapsulated in the model, the research findings were intended to be used to test the validity and the completeness of the model. At the outset, participants were asked to offer the top-of-mind factors that they consider contribute to SCA in an unprompted format. This was followed by a prompted section.

## 5.2 RESEARCH DESIGN

This research study has a *two-stage* design. In stage one the largest proportion of time and other limited resources were spent on an exploratory study. The result of the initial study was a hypothesis, documented in the form of a SCA model, or strategies, tactics and principles which, when implemented, would provide the marketing practitioner with clear dimensions to test their marketing strategies and tactics against when contributing to the SCA for their firm.

The exploratory study focused mainly on secondary literature and published documents. This was supported by telephonic and personal interviews as an **experience survey**. In this case marginal and peripheral individuals (i.e. non-marketers) were included as respondents in the experience survey.

In stage two, the researcher did, after being satisfied that the major concepts and dimensions of SCA had been covered, a short, formal, quantitative study to explore the priority current practitioners place on the aspects/dimensions encapsulated in the model.

In the case of the formal, quantitative research, the following two methods of data collection were used:

1. **Self-administered reports** were handed to a random sample of executive MBA students at a top business school in the USA ( at least 50 returned reports to be analyzed);
2. **Interviews** were conducted with marketing practitioners and other SBU managers in participating companies. [Interviews with academics are held to review their view on the same issues.]

### 5.2.1 Sample Design

A stratified sample, which includes financial, hospitality, and consulting, or service companies and a random sample of well-known global brands with

reference to product companies, both with a certain degree of existing superior financial and market performance, were used. These were attained through the standard selection process of the business school and the qualifying criteria used by the selected business school. The class was selected upon (a) the average level of business and strategic management experience of the group, and (b) the accessibility and class size of the students. This approach was selected for its simplicity and flexibility. A challenge (and perhaps limitation) of the study was the selection of the universe and the creation of an operational definition of SCA for the purposes of research and analysis.

The definition on which the selection was based was purely theoretical and was based on literature studies. (See paragraph 5.2.3.) The definition also formed the basis of the questionnaires that were sent out in search of quantifiable information.

The researcher understood that to obtain a representative set of companies across the globe, would be very difficult and costly. Ideally the sample should have been drawn from *Fortune Global 500*, *The Times Top 100* and the 39 companies regarded as financially successful, global institutions (*Pathways to Global Success*) completed by Deloitte Touch Tohmatsu (2000)).

Difficulties of accessibility and of cost prevented such an exercise; and since the objective had always been a generic SCA model, the resulting survey may not have statistical ground, but nevertheless gives an indication of marketing practice by services and product companies. This study therefore used the alternative strategy, that is, finding respondents who would likely qualify, but were more accessible and more concentrated in a geographical area. The researcher selected this option, based on the fact that it would give an indication of marketing practice by services and product companies or FMCG companies.

In summary, an unweighted model of marketing principles, philosophies, strategies, tactics and action plans supposedly responsible for the creation of a SCA was developed, based on secondary research. Primary research in the form of questionnaires and interviews were used to test marketing

practitioners' support for the suggested concepts and constructs, and some level of prioritization was done.

### 5.2.2 Questionnaire development and design

A large pool of constructs and concepts were gathered from literature reviews. These were expanded/tested through personal interviews and in workshop situations. A questionnaire was designed, which was pre-tested with 8 managers in a range of management functions. The questionnaires were finalized and tested with marketing academics.

### 5.4 CONTROL OF VARIABLES

The researcher could not and did not attempt to control or manipulate the variables involved in this investigation; therefore, an ex post facto design was used to report what had been and was happening at the time, in terms of SCA in firms. The researcher attempted to hold factors constant by judicious selection of respondents and by sound statistical manipulation of findings.

### 5.5 NATURE AND FORM OF RESULTS

Results are presented in the form of a graphical model, supported and enhanced by a discussion of the relevant data and trends from previous research, with comments on particular methods and designs that were valuable or invaluable, biased or un-biased.

Summarized data collected from the questionnaires and personal interviews are portrayed in the most appropriate format to ensure correct interpretation and comprehensibility. These include tables, pie charts, bar charts and linear graphs. In all cases the sample size and response rate will be given to reflect the validity (or lack thereof) of the data.



## 5.6 LIMITATIONS OF THE STUDY

In the initial phases, the study is solely based on secondary data. This type of research has obvious limitations.

Firstly, most sources are two years or more old and circumstances, customer behavior and factors such as the political, fiscal, legal, economic and technological environments could have, or have in fact changed substantially. That is, enough so that the printed literature may have become outdated and, in extreme cases, even redundant.

Secondly, because of the nature and scope of the study, as well as the initial focus on marketing literature, a certain level of bias was anticipated. A study of broader business literature and a wider field of journals in the field of marketing and business management would have been ideal. Unfortunately such a study would have consumed too many limited resources, given the mandate and level of this study.

Thirdly, access to requested research material was sometimes limited and in some cases denied, because of the cost and time limitations of ordering the material. Although critical external data sources were in all cases accessed, not all sources of lesser (perceived) importance could be obtained.

Finally, in order to assess the appropriateness and credibility of the secondary information sources used, a number of recognized academics and theorists in the field are cross-referenced. A comprehensive review is done to ensure that critical sources are scrutinized, analyzed and incorporated into the study.

## 6 LITERATURE REVIEW

### 6.1 POSITIONING

This section of the study demonstrates how past and current literature applies to the proposed study. Literature review included academic papers, business books on the topic and related concerns, articles from journals, popular magazines and practitioner

journals aimed at and read by business managers. This literature review was used to identify concepts and constructs, possible shortcomings, stumbling blocks and landmines on the road to the ultimate goal of a prioritized SCA model.

## 6.2 OPERATIONAL VOCABULARY & EXPLANATIONS

An advantage, of whatever nature, is of obvious importance for a business interested in prolonged or long-term success. The Webster Dictionary defines *sustain* as “to keep or to prolong”. It defines *competitive* as “related to or based on competition” and *advantage* as “a superior position or condition resulting from some course of action”.

Although not a formal definition, the perspective of this study supports the view that a competitive advantage (CA) is the possession of a unique characteristic, or set of characteristics, that permit one firm to differentiate itself from competitors in the eyes of the prospective consumer or existing customer, in order to be the provider of choice.<sup>1</sup>) This perspective formed the basis for the initial literature review in order to establish a formal definition of SCA.

### 6.2.1 Formal SCA Definitions

A large body of literature has been produced, which addresses the context and content of competitive advantage (CA) as well as its sources and different types of strategies that may be used to achieve it. Alderson (1965) was one of the first to recognize the need for a firm to possess unique advantages in order to progress - or even survive - in a highly competitive market place. Many years later, Hall (1980), Henderson (1983), Hammel and Prahalad (1989) and Dickson (1992) actively pursued the creation of new, unique, advantages that can place firms one step ahead of the pack of competitors. The concept of a *sustainable* advantage (SCA) was proposed by Day in 1984, when he suggested strategies to “sustain the competitive advantage”. The actual term

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<sup>1</sup> Competition, then, consists of the constant struggle among firms for a comparative advantage in resource that will yield a marketplace position of competitive advantage, and thereby, superior financial performance” (Hung and Moran 1995).

"*sustainable competitive advantage*" became prominent in marketing literature, when Porter (1985) discussed some strategies firms could employ - low cost or differentiation - to achieve SCA. A formal definition can be found in the study by Barney (1991):

*"A firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors AND when these other firms are unable to duplicate the benefits of this strategy"* (Italics in original, underline added).

An article published by the Academy of Marketing and Science Review , Hoffman (1993) suggests the following formal conceptual definition:

*"An SCA is the prolonged benefit of implementing some unique value-creating strategy not simultaneously being implemented by any current or potential competitors along with the inability to duplicate the benefits of this strategy."* (Normal typeface in original).

This definition highlights the importance of the **benefit of implementation**, which in the mind of the author, makes it superior to the aforementioned definition, which focuses merely on the implementation of a predetermined strategy by a firm of SBU.

A more recent study by John Fahy (1996) focuses on the role of resources in the creation and sustaining of a CA in international services. An important perspective highlighted by this study is that the company's competitiveness will be enhanced when resources and capabilities are "valuable, rare, immobile and cannot be easily imitated". (See 6.2.2. SCA Concepts and Sources, for further details.)

In the article, "The Comparative Advantage Theory of Competition" by Hunt and Morgan (1995), nine premises of competition in a market-based economy are set out. A concept discussed here, which affects the definition of this

study, is a clear statement that the firm's primary objective is superior financial performance. This primary objective should enable secondary objectives such as contributing to social causes, etc. An expansion of this concept on the relationship between marketing and business performance, can be found in the study by Doyle and Wong (1998). According to Doyle and Wong, successful companies will seek to balance financial and market performance. In the aforementioned study, financial performance is measured by: return on capital, market share, sales growth and the managers' assessments of overall performance. The research done during this study, clearly supports the hypothesis that high performance/successful companies seek sound financial performance, whilst simultaneously enhancing its market place positioning over both the short and long term.

Based on the work by Barney, the enhancement offered by Fahy, the definition suggested by Hoffman (1993), and the enhancements from Doyle, the **operational definition** offered for the purposes of this study is:

*A sustainable competitive advantage (SCA) is the sustained superior<sup>2</sup> financial and market performance a business will achieve from conceiving and implementing a value-creating strategy; not simultaneously being implemented by any current or potential competitors. This strategy and supporting capabilities must be valuable, rare, immobile and not easily imitated, duplicated, acquired or substituted.*

Following Hoffmann's (1993) discussion, an external focus - that is a focus on competitors - will allow firms to "recognize and/or create *unique* resources". A further addition to this external focus is offered - that is a focus on customers - which will allow firms to create real value that will offer customer satisfaction and excitement. "The advantage is sustained (prolonged) as long

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<sup>2</sup> This study accepts the interpretation by Hunt and Moran (1995) of the word *superior* in that it implies that the firm seeks a level of financial and market performance that exceeds that of its referents. It is agreed that firms do not always maximize profits. Both because of the lack of information and because they believe employing any means to achieve maximum profit, e.g. cheating, is ethically and morally unacceptable.

as the unique strategy provides added value to customers, and as long as competitors cannot find a way to duplicate it."

An elaboration on this inability to duplicate the value-added strategy, refers back to the groundbreaking article by Theodore Levitt (Marketing Myopia, 1964), plus the growing trend of commoditization of products and services. Where the author disagrees with this last quote from Hoffmann's work, is that it is almost certain that winning strategies will be imitated or duplicated at some point or in some way.

In order to sustain the advantage the firm has gained through the superiority of its resources, skills and strategies, the management will have to constantly monitor competitor activities and constantly refresh, renew and innovate unique points of differentiation *plus* find new ways to satisfy the ever-changing needs of prospects and customers.

The focus is, therefore, rather on the difficulty with which strategy and advantages are duplicable than the total lack of ability to duplicate, keeping in mind that if *you* could achieve it, someone else can achieve it, too! Also, the willingness and conscious effort to change marketing strategy on an ongoing basis could be seen as a competitive strategy in itself.

## 6.2.2 SCA Concepts or Sources

Although consideration is given to articles and publications before 1984, our limited resources are focused on opinions, surveys and studies produced since the concept of SCA was introduced by Day.

Day and Wensley (1988) focused on two specific categories of SCA sources: "superior skills" and "superior resources". These are respectively defined as: "the distinctive capabilities of personnel that set them apart from the personnel of competing firms" and "the more tangible requirements for advantage that enable a firm to exercise its capabilities".

### 6.2.2.1 Superior skills and capabilities

With the search for talent taking on new levels of so-called staff-poaching and the increase in demand for talented employees (Deloitte Research, 2000), the ability to retain superior skills will be under stress and probably increase in importance.

The increased focus on relationship marketing (Srivastava et al. 1998, Treacy and Wiersema 1995, Narver and Slater 1990, Hunt and Morgan 1996, Kohli and Jaworski 1996) and the resulting intimization of business-customer relationships will place greater demands on highly qualified and truly customer-orientated employees at all levels, thus placing additional priority on skilled (either naturally or trained) staff.

There is an obvious link between the distinctive capabilities of personnel and the human resource management discipline of businesses. A large body of literature was found on the role of human resource management (HRM) in gaining a superior position in the market place has emerged, since HR management and practices are "playing an increasingly vital role in the success of multinational enterprises". (Florkowski and Schuler, 1994 Terpstra 1994). In his article "*HRM: A key to competitiveness*", David Terpstra (1994) refers to seven HRM practices to help enhance individual and workforce performance and productivity:

[1] recruitment studies, [2] validation studies, [3] cognitive aptitude and ability tests, [4] biographical information banks, [5] structured interviews, [6] goal setting, and [7] rigorous evaluations of development activities.

### 6.2.2.2 Resources

The concept of SCA through superior resources can be sub-divided into many multi-polar and delineating concepts. For example, Hunt and Morgan (1995) contributed to the concept by proposing that "potential resources can be most usefully categorized as financial, physical, legal, human, organizational, informational and relational". The London School

of Business suggests two areas of resources: finite and infinite resources. An example of finite resources would be time and money, whilst infinite resources could be creativity and enthusiasm.

Resources are also considered valuable or non-contributing. Aaker (1989), and Coyne (1985), define "value" in terms of meeting key buyer needs. Srivastava et al. (1998) divide resources into two types: relational and intellectual. "Relational market-based assets are those that reflect bonds between a firm and its customers and/or channel members." Examples are respectively brand equity and the detailed knowledge of customer-centric employees. (Hoffmann,1993)

For the purposes of this study, resources will be divided into 3 conceptual categories:

1. (Superior )Finite resources, (including human resources and their competence)
2. (Superior) Infinite resources, and
3. (Preferred) Positioning.

Preferred positioning refers to the ability of firms to own a place in the mind of their prospects and customers in order to be the preferred provider of their (service or product) offering.

### 6.2.2.3 Preferred Positioning

An ever-increasing body of literature can be found concerning the building of brand equity and clear brand positioning of organizations. This study therefore hypothesizes that this aspect of the marketing strategy of firms will be of increasing importance and, therefore, proposes it as a third concept. (This assumption is tested in phase 2 of the research design, that is the quantitative research survey amongst SBU managers.) Therefore, although originally part of the relational intangible resources category of SCA sources (Srivastava et.al. 1998), that is, brand positioning and customer relationships, it will be treated as a separate concept under the construct of SCA.

### 6.2.3 Conditions for SCA to exist

Gaining positions of competitive advantage become more important in an increasingly globally complex and volatile marketplace - and market space (Van der Merwe and Chadwick 1991). Not all resources possess the inherent ability contribute to a SCA (Wenerfelt 1989). Sets of conditions are proposed by Barney (1991) and Peteraf (1993), that will assist managers to identify resources' ability to improve the organization's effectiveness and efficiency. Barney (1991) contributed to the area of resource based SCA by proposing four attributes for resources to possess to potential of contributing to the SCA:

1. rareness,
2. value,
3. inability to be imitated and
4. inability to be substituted.

Peteraf (1993) suggests four conditions that underlie the inherent ability of resources to contribute to SCA:

"Ex-poste limits to competition (incl. imperfect imitability and imperfect substitutability), imperfect mobility, and ex-ante limits in competition.

In their book, *Competing for the Future*, Gary Hammel and CK Prahalad (1994) infers that the adaptiveness of a company's top management structure (p15) - i.e. their ability to regenerate strategy. " It is entirely possible for a company to downsize and reengineer without ever confronting the need to regenerate its core strategy, without ever being forced to rethink the boundaries of its industry, without ever having to imagine what customers might want in ten years' time, and without ever having to fundamentally redempt its 'served market'. Yet, without such a fundamental reassessment, a company will be overtaken on the road to the future." We therefore support the view expressed by Hoffmann (2000) that management orientation towards change, and their ability to combine resources in a unique manner, focussing on collectively learning how to coordinate all efforts in order to facilitate growth in specific core competencies is imperative to SCA.



## 7 BENEFITS OF THE STUDY

The study will provide marketing practitioners with fresh insights into theoretical models and principles developed by a number of various theorists, academics and business writers in the field.

A further benefit and deliverable of the study is a comprehensive graphical model of critical success factors in the creation and maintenance of a competitive advantage for businesses operating in a global market.

Practitioners from diverse industries will be able to see the relevance of certain marketing strategies and tactics to their particular industry and the level of priority (interviewed and surveyed) practitioners attach to these strategies and tactics. The information encapsulated in the study should provide practitioners with links between their concerns about competitive advantages for their firms or business, and the appropriateness of the firm's activities in contributing to good implementation for a favorable competitive position in their industries.

Marketers will be able to do audits of strengths and weaknesses of processes, capabilities, strategies and tactics most associated with or highly ranked by successful businesses. They will be able to compare their practices and plans with high-performing organizations and adapt or change theirs in order to enhance capabilities, resources, and positioning in order to achieve an improved or superior competitive place in their industry or marketplace.