The Nature of Marketing Strategy

If the central activity of marketers is to facilitate exchange, and if markets use the marketing mix as their primary tools for doing so, then it follows that a planned, reasoned, and systematic approach to using the marketing mix tools would be more likely to yield success than an unplanned and haphazard approach. In either case, using the tools of the marketing mix requires resources, be they be human resources, financial resources, physical resources, and so on. It stands to reason that if marketers spend time planning the investment of these resources then the odds that the investment will produce a satisfactory return are improved. These web notes begin to introduce you to the concepts associated with this process of planning the investment of resources and show you from a light theoretical standpoint how effective planning works to produce the desired results, which is ultimately superior financial performance relative to competitiors.

STRATEGY, RESOURCES, AND COMPETITIVE ADVANTAGE

The Role of Resources

The working assumption behind your education in marketing is that sometime after graduation, you will be placed in charge of some part of a firm's marketing function. That is, you will be a manager who will make decisions about how to allocate resources. Even entry level managers have decisions to make about the resources at their disposal, so the idea of manager as resource allocator applies does not necessarily depend on how high in the organization your managerial position is. The decisions you make about the resources you allocate your priorities and the priorities of those who manage you, because you will also be a resource to your firm. These priorities are the essence of strategy. The decisions about what will be accomplished with the resources at your disposal should reflect your best thinking about what it will take to earn a return on those resources and ultimately prosper as a business.

In this class, we will adopt an analytical approach to making strategy decisions. That is, before resources are allocated to a particular task, we should ask ourselves whether that would be a useful thing to do and what information we can use to help us answer that question. Decades ago, people admired the businessperson who could make decisions on the fly by just knowing intuitively what would work. This romanticized version of the insightful executive ignored the fact that few were really good at it. The fact is that informed decisions have a greater likelihood of success than purely intuitive decisions. Managers have an obligation to make informed choices about the resources they allocate.

This perspective implies a definition of strategy. *Strategy* is plans for the acquisition, allocation, and deployment of resources. Framing the definition in terms of plans only implies that to be strategic, resource allocation should be thoughtful. To spend resources without a plan is not a strategy; it's the absence of strategy. Not all strategy is well-informed. Not all strategy is effective. However, all strategy

is thoughtful. Of course, our goal is for you to be a manager who makes effective decisions with the resources at your disposal.

The term "resources" requires a little clarification. Resources are simply the things a firm can use to meet its objectives. More formally stated, *resources* are the favorable supplies, benefits, or circumstances that help a firm achieve its objectives. This definition from Jay Barney (19XX) emphasizes that resources are really very broad in nature. Supplies can be thought of assets, both tangible and intangible, that a firm can use to meet its objectives. Benefits encompass the idea that firms have an ability to derive rewards from the resources they deploy. Once derived, these benefits become resources. Circumstances suggest that some firms are better positioned than others to receive rewards from their resources. For example, a firm may be first in its industry or a firm may have stumbled onto an idea or opportunity by luck. But to the extent that the circumstances advance the firm toward its goals, circumstances are resources. From this rather abstract idea of resources, we can focus on a more common and more specific perspective on resources. Exhibit 1 shows a common categorization of resources available to companies and managers.

In theory, resources help explain why some firms succeed and others fail. To survive, businesses must compete. In marketing, we typically think of competition as a struggle for customers and their money. This is too narrow a view; businesses compete for all resources, which they then use to compete for more resources. From this perspective, all of competition between businesses is really a battle for resources. For example, businesses compete for talented employees, favorable locations, contracts with valued suppliers, and so on. The acquisition of resources alone is not enough, of course. Key to success in competition is the ability to transform resources into something of value to the company's customers. Because in the end, the only resource that matters is the financial performance of the firm, and that rests largely on delivering value to customers.

Type of Resource	Examples
Financial	cash on hand, other near liquid assets and access to capital.
Physical	plants, inventories, raw materials, equipment
Human	culture, structures,
Information	product, customer, industry, and environmental knowledge
Market	relationships with customers, organizational members, suppliers, other stakeholders
Operational	Processes, routines

Exhibit 1. Types and Descriptions of Resources

The Nature of Competitive Advantage

The very essence of competition means that firms work to gain resources that other firms are at the same time trying to gain. As noted above, that ultimately boils down to achieving superior financial performance over rival firms. In the realm of competition, that battle for superior financial performance is often studied in terms of *competitive advantage*. Researchers in the discipline of strategic management study competitive advantage extensively. As such, their research literature has produced many views of the meaning of competitive advantage.

One definition from Jay Barney (1980), states that that a firm gains competitive advantage when it implements value creation strategies that are not simultaneously being implemented by competitive

firms. While this definition enjoys popularity among management theorists, the problem for marketers is that it focuses on the uniqueness of strategies rather than their contents. Poorly conceived value creation strategies will not produce competitive advantage no matter how unique they are. This may seem like an obvious shortcoming of the definition, but in the sometimes esoteric world of business theory, the definition makes sense in other ways that are beyond the scope of this course. However, for our purposes, Barney's attention to value creation makes his definition a useful starting point for defining competitive advantage.

We will take a more marketing view of competitive advantage by focusing on value delivery to customers. For this class, we will say that *a firm enjoys a competitive advantage over a rival firm if it implements strategies that deliver value to customers more effectively and more efficiently than the rival firm*. Effectiveness argues that customers must perceive the value they receive from the exchange as being as good as or better than the nearest available alternative. Efficiency means that firms must be able to deliver that value at a cost at least as low as the nearest competitor.

Bear in mind that a firm having a competitive advantage over some other firms does not mean that the firm has competitive advantage over all other firms. Nor does it mean that a firm is the market or industry leader or that it is the largest firm. Competitive advantage simply means that, relative to one or more competitors, a firm delivers value to customers more efficiently or more effectively. We will discuss the implications of competitive advantage a little later. First we turn to how resources work to produce competitive advantage, beginning with the characteristics of the resources.

Resource Characteristics Necessary for Competitive Advantage

Not all resources contribute to competitive advantage, and of those that do, not all contribute equally or in the same ways. Indeed, research into competitive advantage has concluded that what creates competitive advantage is not at all formulaic. That is, what works for one firm may not work for another. In this section, following Barney (1991) we examine some general characteristics of resources that tend to give firms competitive advantage.

Resources Must be Valuable. This seems like a pretty simplistic and obvious statement. And it is. As discussed earlier, assets cannot be resources unless they help a firm deliver customer value more efficiently and effectively. Assets that are not of value cannot, by definition, be resources. Therefore, bringing value to the task of delivering value to customers is really the basic "price of admission" for resources. So, despite its obviousness, it needs to be included on any list of characteristics of resources leading to competitive advantage. We will discuss the nature of value later in these notes.

Resources Must be Rare. As the old saying goes, "If everybody's got it, it can't be that special." The same thinking applies to firm resources. If a particular resource is possessed by many competitive firms, chances are it provides similar benefits. With the same benefits enjoyed by many rival firms, it becomes less likely that the resource would give an advantage to one competitor over others. This should not lead you to conclude that common resources are valueless. They may be quite important to the firm's surviving or operating at parity with rival firms. However, to be effective at creating or sustaining competitive advantage, firm resources must be rare in the sense that they are available one or only a few firms.

Resources Must be Nonsubstitutable. Hand in hand with rareness is the notion of nonsubstitutability (if that's even a word!). Just as rareness is a barrier to many firms acquiring resources that lead to competitive advantage, it follows that those resources should have few or no substitutes. That is, the benefits bestowed by rare resources should not be easily obtainable from other resources. Otherwise, the resources will not provide advantage to any one firm.

Resources Must be Imperfectly Imitable. The notion that value and rareness in resources contributes to competitive advantage is highly intuitive. What should be equally apparent is how easily the advantage gained from valuable and rare resources can evaporate. In other words, they may not produce a sustained competitive advantage. As other firms gain those resources, the competitive advantage accrued to firms already in possession of them is lost. Therefore, for a firm to gain a competitive advantage, the resources and the benefits they provide must be difficult to imitate. This is the idea behind *imperfect imitability*. To be imperfectly imitable, resources must meet one or more of the following criteria:

> *Historical uniqueness*. Every business possesses its own unique history. Often the circumstances surrounding a firm's founding and development are highly idiosyncratic and may therefore provide that firm access to resources not available to other firms. For example, some firms are founded by individuals with unique entrepreneurial abilities. Their very skills may constitute resources unique to the firms they founded. Another example is when firms may locate in places that turn out to be unexpectedly and uniquely valuable. To the extent that competitive firms cannot locate close enough to also enjoy the benefits of the location resource, then that resource cannot be imitated. This last example brings up an important point about the nature of resources, competition, and business itself. There are occasions when success in business is attributable to plain old luck. There is something to be said for being in the right place at the right time.
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> *Causal ambiguity*. As the term implies, causal ambiguity exists when the link between a firm's given set of resources and a firm's sustained competitive advantage is not well understood by competitors (and possibly even by the firm in possession of the resources). Competitive firms trying to implement an identical strategy would not know what resources to acquire because they would not know how the resources produce the advantage or would not know how to utilize the resources to create the competitive advantage. Most business strategy theorists believe that causal ambiguity applies only to sets of interdependent resources rather than to single resources. The causal relationship between a complex set of resources and competitive advantage would be much more difficult to understand and duplicate than the causal relationship between a single resource and competitive advantage.
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> *Social complexity*. As noted earlier, resources need not be tangible. Many of the examples in Exhibit 1 are of intangible resources such as organizational culture, customer knowledge, vendor relationships, or brand reputation. Some intangible resources involve socially complex relationships between and among individuals and organizations. These types of resources contribute much to competitive advantage and at the same time are difficult to imitate because of their intangibility and social complexity. Socially complex resources need not be causally ambiguous in terms of how they produce competitive advantage. For example, the relationship between a highly customer-oriented organizational culture and competitive advantage is well-

established. However, duplicating that culture across organizations is exceedingly difficult because of culture's social complexity.

The Meaning of Sustained Competitive Advantage

It is one thing for a firm to enjoy a competitive advantage at a given point in time; it is another matter for the firm to sustain that competitive advantage. The real value of developing a competitive advantage over rival firms is keeping it. Sustained competitive advantage implies the notion of time. That is, a firm that has a sustained competitive advantage is able to maintain that advantage over some significant time period. Thus, *sustained competitive advantage* occurs when the benefits in efficiency or effectiveness of value creation derived from the sources of a firm's competitive advantage cannot be duplicated by rival firms. Rival firms may attempt to develop the same sources of competitive advantage. That's to be expected in a competitive marketplace. The firm that enjoys the sustained competitive advantage, however, is somehow able to derive benefits from those sources that its competitors cannot.

Customers and Value

Value is a term whose meaning we all understand intuitively until we're asked to define it. Value is not just price. Value is perceptual in nature. That is, it is in the eye of the beholder. That's why you may believe a particular brand delivers great value to you while another person does not. Because of this, value is difficult to quantify accurately. Still, value can be expressed in mathematical terms even though numbers are not easily applied to it. One way of conceptualizing value mathematically is as the ratio of the sum of the product benefits to its price.

$$\text{Value} = \frac{\text{Sum of benefits (resource, sensory, psychological)}}{\text{Price}}$$

Another way is to consider value as the difference between benefits and costs:

Value = Sum of benefits (resource, sensory, psychological) – Sum of costs (acquisition, use, disposal)

While these mathematical relationships seem simple enough, it becomes difficult to use when one considers how to quantify factors such as sensory benefits or psychological benefits. Market researchers routinely quantify such fuzzy variables using scale items. For example, a researcher might ask survey respondents to indicate how valuable a particular product benefit is on a scale of one to five. The problem is that responses may differ by context or by comparison. Consider how valuable you might consider refreshment in a soft drink to be on a hot sticky summer day at an amusement park versus how valuable it is indoors on a cold winter day. Thus, while survey research is very useful for investigating how customers feel about given brands under given circumstances, using survey research to summarily quantify benefits and then calculate an overall stable figure for value is a far stretch for this kind of research.

While perhaps somewhat easier than quantifying benefits, quantifying costs can also be tricky, especially costs to consumers. If we take broad view of what constitutes a cost, then acquisition costs might include such nebulous dimensions as hassle or stress – dealing with traffic around a mall, for example. Depending on the purchase, similarly vague dimensions can be thought of for product use and disposal.

These practical limitations notwithstanding, the equations shown above capture the role that the marketing mix plays in delivering value from firm resources. As consumers, we often think of value strictly in terms of how a purchased product performs after we pay for it. However, the value we derive from that product extends to how easily it was obtained, whether other promotional inducements came with the purchase, how the product makes us feel when we bought or when we use it, how we believe others perceive us as a result of purchasing the product, and so forth. In other words, the value of a purchase comes from many sources, many of them associated directly with the activities and decisions of marketers.

Explaining Resources and Competitive Advantage

Earlier, we defined competitive advantage as the ability to provide value to customers in ways more effective and efficient than their competitors. The essence of how firms do that is to assemble bundles of resources that enable greater efficiency, greater effectiveness, or both, than competitors. The task facing marketing managers (and all managers, for that matter) is how to deliver value from both effectiveness and efficiency. Exhibit 2 gives an overview of how competitive advantage results from various combinations of effectiveness and efficiency relative to competitors.

The exhibit shows how effectiveness and efficiency combine to produce competitive advantage or disadvantage. On the axes are essentially measures of relative effectiveness and efficiency. Bear in mind that "relative" in this context means "in comparison to the competition." Thus, the vertical axis captures how well firms acquire resources at lower costs than their competitors. A firm superior in this ability acquires its resources at lower relative costs. The horizontal axis encompasses how well the firm utilizes those resources to deliver value to customers. Bear in mind that value may take many forms and is entirely in the eyes of the customers. Products may be superior in their performance; prices may provide more affordable value than competitors; distribution can provide value in place for consumers. You get the idea.

		Firm's Relative Ability to Deliver Customer Value from Resources		
		Superior	Parity	Inferior
Firm 's Ability to Acquire Resources at Relatively Lower Cost	Superior	(1) Competitive Advantage	(2) Competitive Advantage	(3) Indeterminate
	Parity	(4) Competitive Advantage	(5) Competitive Parity	(6) Competitive Disadvantage
	Inferior	(7) Indeterminate	(8) Competitive Disadvantage	(9) Competitive Disadvantage

Exhibit 2. Effectiveness and Efficiency

With these axes, Exhibit 2 shows the resource positions that lead to competitive advantage and competitive disadvantage in terms of relative effectiveness and efficiency. Firms that acquire resources at lower costs than competitors and then use those resources to deliver superior value to customers than competitors have a strong competitive advantage on the basis of both efficiency and effectiveness. This competitive position is shown in cell 1 of the exhibit. Cell 2 shows a competitive advantage on the basis of efficiency alone. Here, a firm's competitive advantage arises from a superior ability to acquire lower cost resources than competitors while delivering approximately equal customer value. Cell 4 shows a competitive advantage on the basis of effectiveness; the firm delivers superior value with resources acquired at approximately equal cost as competitors.

Competitive disadvantage arises from converse circumstances to those described above. Cells 6, 8, and 9 in Exhibit 2 illustrate circumstances where firms cannot acquire lower cost resources than competitors or cannot deliver superior value to customers with those resources. Cells 3 and 7 are indeterminate positions. The effects on competitive advantage from these circumstances are not known. Finally, cell 5 gives the unusual circumstance of competitive firms being equal in both efficiency and effectiveness. In truth, such situations probably don't exist and if they do arise, in dynamic competitive marketplaces, they would not remain such for long.

The Outcomes of Competitive Advantage

Competitive advantage leads to superior financial performance, plain and simple. Firms with superior abilities at resource acquisition or superior abilities at value delivery will financially outperform competitive firms. This does not necessarily mean profitability much less profit maximization. (Indeed, the question of whether firms actually maximize profits – or whether true profit maximization is actually possible – is controversial.) Superior financial performance may also mean losing less money than competitors when lines of business are not profitable. Whatever the outcome, marketing managers strive to achieve superior financial performance by developing strategies that acquire resources at lower costs than competitors and then by using those resources to deliver better value to customers than competitors.

SETTING OBJECTIVES: THE BEGINNING OF MARKETING STRATEGY

The theme of these notes thus far has been that getting and keeping competitive advantage requires the efficient acquisition and effective use of resources that deliver value to customers that is superior to competitors. Doing so should, in theory, produce financial returns that are superior to competitors. The issue is, how do we know? How do we know what financial returns are sufficient to be considered acceptable? And to answer that question, where do we start the allocation of marketing mix resources in what amounts and to what purpose? In these questions lies the value of setting objectives. Objectives tell marketing managers where they should be in terms of performance at various points during the life of a strategy and provide marketing managers checkpoints and benchmarks against which to measure the success of their efforts.

As you know, marketing can be very expensive. From a philosophical perspective, you should never view the resources spent on marketing as "expenses." You should view them as investments from which you expect a return. From this perspective, resources spent on endeavors that do not yield suitable

returns are wasted. Managers must always bear in mind what they want and expect from their investments. In other words, they should set objectives. To use a travel analogy, objectives represent destinations. Strategies represent the routes by which those destinations are reached. All marketers should understand the importance of setting objectives. Operating a business without objectives is like traveling with no destination in mind. Although enjoying a simple Sunday drive may be a relaxing way to spend your time, meandering about is certainly no way to run a business.

Rationale and Role of Objectives in Marketing Strategy

Exhibit 3 below presents a snapshot of why setting objectives is usefulness for virtually every business endeavor. Many of the statements in the table will seem fairly obvious to you; however, you'd probably be surprised at the number of businesses (especially smaller ones) that give little effort to setting objectives. That's why the list below bears repeating even though it may seem obvious. Planning takes time, so when busy managers spend much of their time "putting out fires," planning seems a luxury. Hopefully, this brief discussion will emphasize to you that setting good objectives is not a luxury but a necessity. Effective managers take the time to do it and do it well.

Reason	Rationale
direction	Objectives provide a sense of common purpose to members of an organization. This is particularly important to promotional activities because of their integrated nature.
motivation	By providing performance targets to employees, objectives give them "something to shoot for," which is fundamental to human motivation.
decision guidelines	Objectives offer managers a rationale and guidelines for making promotion decisions.
performance criteria	Objectives specify how an organization measures its performance. Objectives tell the organization's members whether or not they're doing well.
coordination	Objectives provide a focus through which members of an organization can coordinate their activities.
communication	The nature of objectives requires that they be communicated and periodically evaluated. When set and administered properly, they encourage communication between organizational members and functions.

Exhibit 3. Reasons and Rationales for Setting Objectives

With all of the compelling reasons for setting and using objectives, it should come as no surprise that objectives should precede strategy in virtually every aspect of marketing. Exhibit 4 on the following page shows that objectives for all major functions of a business are driven by overall corporate objectives, which are in turn driven by the firm's mission statement. As the process goes to the right as illustrated in the exhibit, the objectives become more specific to the task at hand, but must remain consistent with objectives set higher in the firm. Eventually these work their way to individual line employees.

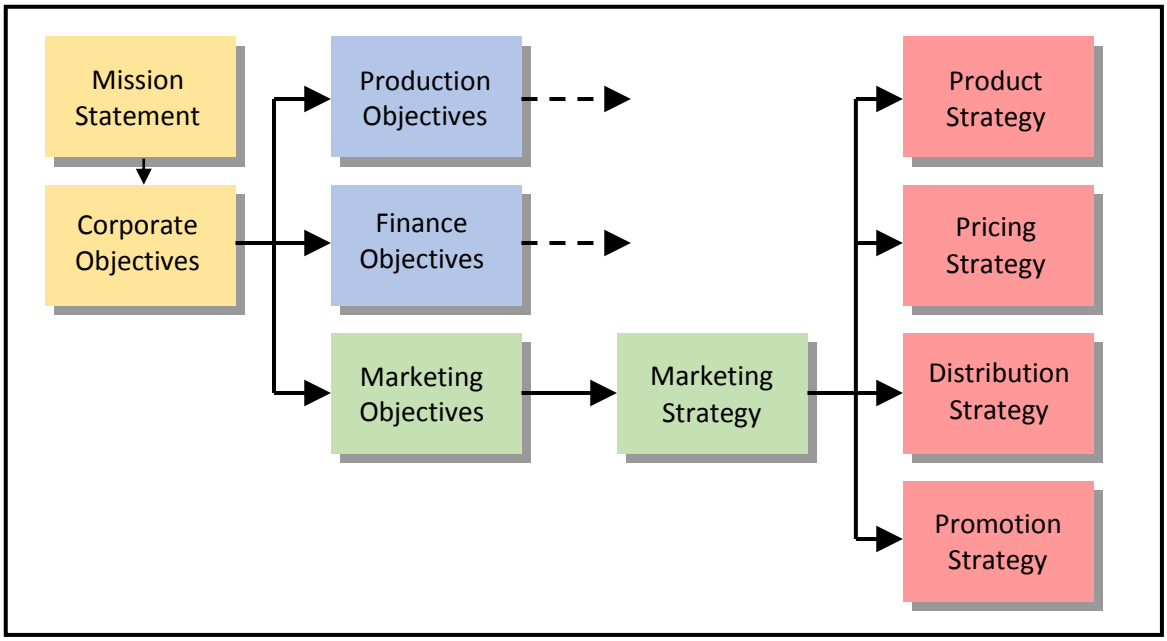

Exhibit 4. The Role of Objectives in Marketing Strategy

What is not captured in Exhibit 4 (because of space) is that objectives may be set for each of the marketing mix strategies. That is, marketing objectives may be further refined to apply to products, pricing, physical distribution and promotion.

Types of Objectives

Objectives may be set for virtually any activity or outcome that can be quantified and these may apply to any level of a firm that makes sense. For our purposes, marketing objectives can be divided into two types.

Ultimate Objectives. First are what Tellis (1997) refers to as *ultimate objectives*. These objectives pertain to financial performance, and are so named because financial performance is ultimately what firms seek from their activities and investments. From this perspective, all investments that a firm makes should be justifiable by their relationship to financial performance. For example, a firm may set media objectives for its advertising investments, however, meeting media objectives should be translatable to how they affect sales or other ultimate objectives. Exhibit 5 below shows some common measures used to set ultimate objectives.

Absolute sales measures	Relative sales measures	Profitability measures
• dollar sales • unit sales	• market share • market rank	• return on investment • return on sales • gross profit • contribution margin

Exhibit 5. Typical Performance Measures for "Ultimate Objectives"

Note that the Exhibit classifies the two types of sales measures into absolute and relative terms. The absolute measures of sales performance, unit and dollar sales, are specific to the firm in question and are not compared to competitive or benchmarked firms. On the other hand, relative sales measures involve some kind of comparison to another firm. Market share, for example, gives the percent of the total unit or dollar sales that one firm has to a given market.

Marketing Mix Objectives. Second are objectives that pertain to one of the four elements of the marketing mix. Exhibit 6 gives several examples of measures that apply to each of the marketing mix elements. As you look over these measures, think about how they might relate to or reinforce one another – within a single marketing function or across two or more marketing functions. In other words, reaching an objective set in one area may require that you accomplish objectives in other areas. For example, achieving some level of perceived product quality may require reaching goals for the perceived prestige of the dealers through which your product is sold. The reverse might also be true. Placing your products with dealers of a certain perceived prestige may require that you attain certain levels of perceived quality or satisfaction among your customers.

Product Measures	Pricing Measures	Physical Distribution Measures	Promotion Measures
• number of different products offered • number of different brands • variety of products • depth of products • perceived product quality • customer satisfaction	• breadth of price points for a given product, brand or line. • price relative to relevant competitor or set of competitors • perceived value (ratio of price to perceived quality)	• number of dealers or outlets • variety of dealers or outlets • prestige or perception of dealers or outlets • delivery time	• product trial • store traffic • telephone inquiries • increase purchase frequency • brand switching • product or brand awareness • knowledge of product attributes • enhance brand loyalty

Exhibit 6. Example Performance Measures for Functional Objectives

Time Horizons of Objectives

Importantly, functional objectives may operate over many time horizons. Some authors apply different labels to these different time periods. Longer term objectives, for example, may be called "strategic objectives" while short-term objectives might be labeled "tactical objectives." The labels themselves are not so important. It is important for marketers to recognize that, depending on the product and the target audience, some goals take more time to accomplish than others.

For example, inducing product trial in categories such as personal care items has historically proven difficult among men middle-aged and older, who tend to be creatures of habit more so than their female counterparts. So meeting a brand-switching objective for some personal care products among this audience may require several years, whereas a similar goal among another group of people or for a different product category may require only a few months.

References

The definition of resources, its subsequent discussion, and the discussion of how resources produce competitive advantage all come from:

Hunt, Shelby D. and Sreedhar Madhavaram (2006), "Teaching Marketing Strategy: Using Resource-Advantage Theory as an Integrative Theoretical Foundation," *Journal of Marketing Education*, 28(2), 93-105.

Hunt, Shelby D. (2000), *A General Theory of Competition: Resources, Competencies, Productivity, Economic Growth*. Thousand Oaks, CA: Sage Publishing/

The definitions of competitive advantage and sustained competitive advantage and the discussion of resource characteristics necessary for competitive advantage all follow:

Barney, Jay (1991), "Firm Resources and Sustained Competitive Advantage," *Journal of Management*, 17(1), 99-120.

The term "ultimate objectives" comes from:

Tellis, Gerard (1997), *Advertising and Sales Promotion Strategy*, New York: Prentice Hall.