

Sixth Edition

MARKETING STRATEGY & COMPETITIVE POSITIONING

Graham Hooley

Nigel F. Piercy

Brigitte Nicoulaud

John M. Rudd



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MARKETING STRATEGY & COMPETITIVE POSITIONING



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Graham Hooley • Nigel F. Piercy •
Brigitte Nicoulaud • John M. Rudd



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PREFACE

Since the fifth edition of this book, published in 2011, developed economies around the world have continued to feel the aftershocks of the deepest recession since the Great Depression of the 1930s that started with the well-publicised “credit crunch”. Despite some continuing academic debate about the causes and extent, there is now little doubt that climate change and global warming is beginning to have a significant impact on our physical environment. Technology and the ever-growing acceptance and use of social media are having a profound effect on customer expectations and experience.

Whilst appearing to move out of recession and beginning to enjoy some degree of economic growth, governments of major national economies are still left with unprecedented levels of national debt and austerity programmes introduced in 2010 are continuing in an attempt to rebalance the books for example in the European Union. These have caused severe hardship to citizens of countries such as Greece and Spain where unemployment reached a high of around 24% in 2015.

Despite these on-going economic difficulties climate change has not been ignored. Caused by a combination of factors including build up of CO₂ in the atmosphere due to emissions from the burning of fossil fuels such as coal and oil, deforestation and animal agriculture, and feedback loops created through the shrinking of the polar ice caps and glaciers that reflect solar radiation, a number of implications are becoming apparent. As ice melts so sea levels rise, and weather patterns become less predictable. Extreme weather events come more frequent, water and food security become greater concerns, and subtropical deserts expand. Climate change poses significant challenges for businesses. Sustainable energy technologies such as wind, solar, wave and thermal biomass are now being pursued more vigorously and attempts to reduce energy consumption (of cars, buildings and airplanes) are creating new business opportunities. Increasingly companies, public sector organisations, individuals and nations are signing up to measures such as sourcing more raw materials locally to reduce ‘carbon miles’ and limiting the use of high-emission travel options to reduce their carbon footprint as in the Paris Agreement of December 2015 where 195 countries adopted the first ever legally binding climate deal.

In parallel the technology revolution is in full swing: driverless cars are a reality, members of the Y generation communicate and share their feedback via social media, customers are looking for consistent experiences across all shopping channels even the traditional taxi business model has been disrupted by an app.

Within this context, throughout this sixth edition we have attempted to identify new approaches to doing business that will promote sustainability, both for the organisations adopting them and for the environment (economic, social and natural) in which they operate.

Marketing Strategy and Competitive Positioning 6e deals with the process of developing and implementing a marketing strategy. The book focuses on competitive positioning at the heart of marketing strategy and includes in-depth discussion of the processes used in marketing to achieve competitive advantage within the context introduced above.

The book is primarily about creating and sustaining superior performance in the marketplace. It focuses on the two central issues in marketing strategy formulation – the identification of target markets and the creation of a differential advantage. In doing that, it recognises the emergence of new potential target markets born of the recession, increased concern for climate change and disruption from on-going technological advances. It examines ways in which firms can differentiate their offerings through the recognition of environmental and social concerns and innovation.

Topics examined include service quality and relationship marketing, networks and alliances, innovation, internal marketing and corporate social responsibility. Emphasis is placed on the development of dynamic marketing capabilities, together with the need to reassess the role of marketing in the organisation as a critical process and not simply as a conventional functional specialisation.

The book structure

Part 1 is concerned with the fundamental changes that are taking place in how marketing operates in organisations and the increasing focus on marketing as a process rather than as a functional specialisation. The central questions of the market orientation of organisations and the need to find better ways of responding to the

volatile and hard to predict market environments lead us to emphasise the market-led approach to strategic management and the framework for developing marketing strategy which provides the structure for the rest of the book. Our framework for strategic marketing planning provides the groundwork for two critical issues on which we focus throughout this volume: the choice of market targets and the building of strong competitive positions. Central to this approach is the resource-based view of marketing and the need to develop, nurture and deploy dynamic marketing capabilities.

Part 2 deals with the competitive environment in which the company operates and draws specifically on recent changes brought about by recession and concerns for sustainability. Different types of strategic environment are first considered, together with the critical success factors for dealing with each type. Discussion then focuses on the ‘strategic triangle’ of customers, competitors and company in the context of the environment (social, economic and natural) that the firm operates in. Ways of analysing each in turn are explored to help identify the options open to the company. The emphasis is on matching corporate resources, assets and capabilities to market opportunities.

Part 3 examines in more detail the techniques available for identifying market segments (or potential targets) and current (and potential) positions. Alternative bases for segmenting consumer and business markets are explored, as are the data collection and analysis techniques available. Selection of market targets through consideration of the market attractiveness and business strength is addressed.

Part 4 returns to strategy formulation. The section opens with discussion of how to create a sustainable position in the marketplace. Three chapters are concerned with specific aspects of strategy formulation and execution. The new chapter on competing through the marketing mix has been retained from the fifth edition and expanded to reflect increasing use of new media to promote, distribute and create market offerings. The roles of customer service in relationship-building and innovation to create competitive advantage are considered in depth.

Part 5 examines implementation issues in more detail. The section includes chapters on strategic customer management and corporate social responsibility as well as updated chapters on strategic alliances and networks and internal marketing.

Part 6 provides our perspective on competition for the second decade of the 21st century. The various themes from the earlier parts of the book are drawn together in order to identify the major changes taking place in markets, the necessary organisational responses to those changes and the competitive positioning strategies that could form the cornerstones of effective future marketing.

New to this edition:

- Updated content to reflect the on-going global economic crisis and its impact on business and marketing.
- New coverage including the impact of emerging markets on innovation, the perverse customer as a market force, the new realities in competing through services and market analysis and segmentation.
- Updated chapters on strategic customer management and strategic alliances.
- Increased emphasis on competing through innovation including new business models such as Uber, Netflix and new types of retailing.
- Updates vignettes at the beginning of chapters focusing on companies such as Amadeus, Mastercard and Samsung Pay and including discussion questions.
- New cases throughout the book including Ryanair, Amazon and Lego.
- Up-dated online resources include an Instructor’s Manual and PowerPoint slides for instructors, along with additional case studies for students.

The book is ideal for undergraduate and postgraduate students taking modules in Marketing Strategy, Marketing Management and Strategic Marketing Management.

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Graham Hooley
Nigel F. Piercy
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Figures

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PART 1

MARKETING STRATEGY

The first part of this book is concerned with the role of marketing in strategy development and lays the groundwork for analysing the two central issues of competitive positioning and market choices.

Chapter 1 discusses marketing as a process of value creation and delivery to customers that transcends traditional departmental boundaries. We examine the issue of market orientation as a way of doing business that places the customer at the centre of operations, and aligns people, information and structures around the value-creation process. We also recognise the role of organisational resources in creating sustainable competitive advantage. The chapter concludes with a set of fundamental marketing principles to guide the actions of organisations operating in competitive markets, and by identifying the role of marketing in leading and shaping strategic management.

Chapter 2 presents a framework for developing a marketing strategy that is then adopted throughout the rest of the text. A three-stage process is proposed. First, the establishment of the core strategy. This involves defining the business purpose, assessing the alternatives open to the organisation through an analysis of customers, competition and the resources of the organisation, and deciding on the strategic focus that will be adopted. Second is the creation of the competitive positioning for the company. This boils down to the selection of the target market(s) (which dictates *where* the organisation will compete) and the establishment of a competitive advantage (which spells out *how* it will compete). Third, implementation issues are discussed, such as the achievement of positioning through the use of the marketing mix, organisation and control of the marketing effort.

The ideas and frameworks presented in Part 1 are used to structure the remainder of the text, leading into a more detailed discussion of market analysis in Part 2, segmentation and positioning analysis in Part 3, the development of competitive positioning strategies in Part 4, and strategy implementation issues in Part 5.

CHAPTER 1

MARKET-LED STRATEGIC MANAGEMENT

The purpose of marketing is to contribute to maximising shareholder value and marketing strategies must be evaluated in terms of how much value they create for investors.

Peter Doyle (2008)

Puma gives the boot to cardboard shoeboxes

Puma is to eliminate the humble cardboard shoebox and plans to produce half of its sportswear from sustainable sources as part of a push to use ethical credentials to steal a march on rivals.

Jochen Zeitz, former chief executive, said Puma wanted to become the 'most sustainable' sportswear company, but offered collaboration with other companies on its packaging technology, which includes the use of a corn starch-based product to replace plastic in wrapping clothing and in carrier bags in the group's stores.

The initiatives by the world's third-largest sporting goods maker – which vies for consumer spending with Adidas, its German neighbour and rival, and Nike of the US – shows how environmental concerns are prompting consumer goods companies to alter production and marketing methods.

Mr Zeitz said Puma had decided to pre-empt any potential legislation that would enforce more environmentally sustainable practices. 'Puma must face the reality that neither its business nor the retail industry are currently sustainable in a way that does not affect future generations,' the company said.



Source: www.puma.com

Puma has unveiled a reusable bag to replace boxes for shipping shoes from factories to consumers from late next year. The company also said at least half its footwear, clothing and accessories would in time be produced from recycled or organic products.

Puma, owned by PPR, the French luxury goods group, said its new packaging and production methods would initially increase costs. 'If you buy recycled material or organic it costs more . . . we hope there will be more [cheap] supplies in the future,' Mr Zeitz said.

2014 marked a turning point in Puma's footwear packaging concept. Their customers and retail partners repeatedly reported issues regarding difficulties in the handling of the Clever Little Bag in the retail environment, which led to the development of a new, more conventional footwear packaging. To uphold high environmental standards, the new PUMA shoebox is made from over 95% recycled and fully FSC® certified material.

Source: from 'Puma gives the boot to cardboard shoeboxes', *Financial Times*, 14/04/2010 (Wilson, J. and Milne, R.).

Discussion questions

- 1 What issues are Puma trying to address?
- 2 How are Puma's plans in line with the marketing concept?

Introduction

Peter Doyle (2008) points out that the primary overarching goal for chief executives of commercial companies is to maximise shareholder value. Is this at odds with increasing awareness and attention to environmental and social responsibility? Surely firms seeking to maximise shareholder value will pay scant regard to the natural and social environment in which they operate, taking what they can irrespective of the consequences, to make a quick buck? Isn't this the essence of market-based capitalism – red in tooth and claw?

Wrong! The essence of the shareholder value approach is the long-term sustainability of the organisation through the creation of *lasting* value. Indeed, Doyle also argues that shareholder value is often confused with maximising profits. Maximising profitability is generally considered to be a short-term approach (and may result in eroding long-term competitiveness through actions such as cost cutting and shedding assets to produce quick improvements in earnings). Maximising shareholder value, on the other hand, requires long-term thinking, the identification of changing opportunities and investment in the building of competitive advantage.

The role of marketing in the modern organisation poses something of a paradox. As Doyle (2008) again points out, few chief executives come from a marketing background, and many leading organisations do not even have marketing directors on their boards. Indeed, in many firms, the marketing *function* or *department* has had little or no strategic role; being relegated to public relations (PR), advertising or sales roles. However, there has been a change over the last decade or so, regarding the importance of the *marketing concept* in setting the strategic direction and influencing the culture of firms. Greyser (1997), for example, notes that marketing has successfully 'migrated' from being a functional discipline to being a concept of how businesses should be run. Similarly, marketing is talked of as a key discipline in organisations other than conventional commercial enterprises, for example in not-for-profit enterprises such as charities and the arts, in political parties, and even in public sector organisations, such as universities and the police service.

Managers increasingly recognise that the route to achieving their commercial or social objectives lies in successfully meeting the needs and expectations of their customers (be they purchasers or users of services). The concept of the customer has always been strong in commercial businesses, and as supply has outstripped demand in so many industries so customer choice has increased. Add to that the vast increase in information available to customers through media sources such as the Internet, and the power in the supply chain has shifted dramatically from manufacturer, to retailer/supplier, to end customer. In such a world, organisations that don't have customer satisfaction at the core of their strategic decision making will find it increasingly hard to survive.

In the not-for-profit world the concept of the 'customer' is taking more time to get established but is no less central. Public sector organisations talk in terms of 'clients', 'patients', 'students', 'passengers', and the like. In reality all are customers, in that they 'receive' benefits

from an exchange with an identifiable entity or service provider. Where customers can make choices between service providers (within the public sector or outside it) they will choose providers who best serve their needs. Increasingly private sector providers are identifying areas where customers are not well served by the public sector, and providing new choices (in healthcare, education, security services and transport, for example).

While organisational structures, operational methods and formal trappings of marketing can and should change to reflect new developments and market opportunities, the philosophy and concept of marketing, as described in this chapter, are even more relevant in the business environment faced today than ever before.

This first chapter sets the scene by examining the marketing concept and market orientation as the foundations of strategic marketing, the role of marketing in addressing various stakeholders in the organisation, and the developing resource-based marketing strategy approach.

1.1 The marketing concept and market orientation

1.1.1 Evolving definitions of marketing

One of the earliest pieces of codification and definition in the development of the marketing discipline was concerned with the marketing concept. Over 50 years ago Felton (1959) proposed that the marketing concept is:

A corporate state of mind that exists on the integration and coordination of all the marketing functions which, in turn, are melded with all other corporate functions, for the basic objective of producing long-range profits.

Kotler *et al.* (1996) suggested that the defining characteristic is that:

The marketing concept holds that achieving organisational goals depends on determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors do.

At its simplest, it is generally understood that the marketing concept holds that, in increasingly dynamic and competitive markets, the companies or organisations which are most likely to succeed are those that take notice of customer expectations, wants and needs and gear themselves to satisfying them better than their competitors. It recognises that there is no reason why customers should buy one organisation's offerings unless they are in some way better at serving their wants and needs than those offered by competing organisations.

In fact, the meaning and domain of marketing remains controversial. In 1985 the American Marketing Association (AMA) reviewed more than 25 marketing definitions before arriving at their own (see Ferrell and Lucas, 1987):

Marketing is the process of planning and executing the conception, pricing, planning and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational objectives.

This has since evolved further, but very much embraces the broad ideas expressed in this initial definition. The AMA's most recent (July 2013) definition of marketing is:

Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.

Taken together, these definitions position marketing as being embedded within an organisation, and as something that has extensive impact outside the organisation. They

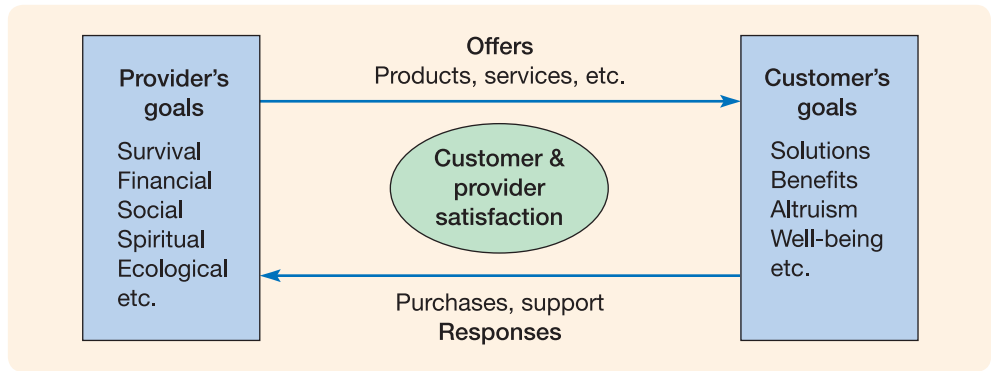


Figure 1.1
Mutually beneficial exchanges

also reinforce the notion of the centrality of the marketing concept, value, process, mutually beneficial exchange and customer relationships. These issues may or may not be managed by a marketing department or function. These definitions lead to a model of ‘mutually beneficial exchanges’ as an overview of the role of marketing, as shown in Figure 1.1.

Definitions of marketing are, of course, extremely useful, however the reality of what marketing means operationally, and in reality, is a much more difficult topic. Webster (1997) points out that, of all the management functions, marketing has the most difficulty in defining its position in the organisation, because it is simultaneously culture, strategy and tactics. He argues that marketing involves the following:

- **Culture:** marketing may be expressed as the ‘marketing concept’ i.e. a set of values and beliefs embedded in employees that drives organisational decision making through a fundamental commitment to serving customers’ needs, as the path to sustained profitability.
- Strategy:** as strategy, marketing seeks to develop effective responses to changing market environments by defining market segments, and developing and positioning product offerings for those target markets.
- **Tactics:** marketing as tactics is concerned with the day-to-day activities of product management, pricing, distribution and marketing communications such as advertising, personal selling, publicity and sales promotion.

The challenge of simultaneously building a customer orientation in an organisation (**culture**), developing value propositions and competitive positioning (**strategy**) and developing detailed marketing action plans (**tactics**) is complex. It is perhaps unsurprising that the organisational reality of marketing often falls short of the demands suggested above.

1.1.2 Market orientation

Marketing Science Institute studies during the 1990s attempted to identify the specific activities that translate the philosophy of marketing into reality, i.e. to achieve market orientation. In one of the most widely quoted research streams in modern marketing, Kohli and Jaworski (1990) defined market orientation in the following terms:

a market orientation entails (1) one or more departments engaging in activities geared towards developing an understanding of customers’ current and future needs and the factors affecting them, (2) sharing of this understanding across departments, and (3) the various departments engaging in activities designed to meet select customer needs. In other words, a market orientation refers to the organisation-wide generation, dissemination, and responsiveness to market intelligence.

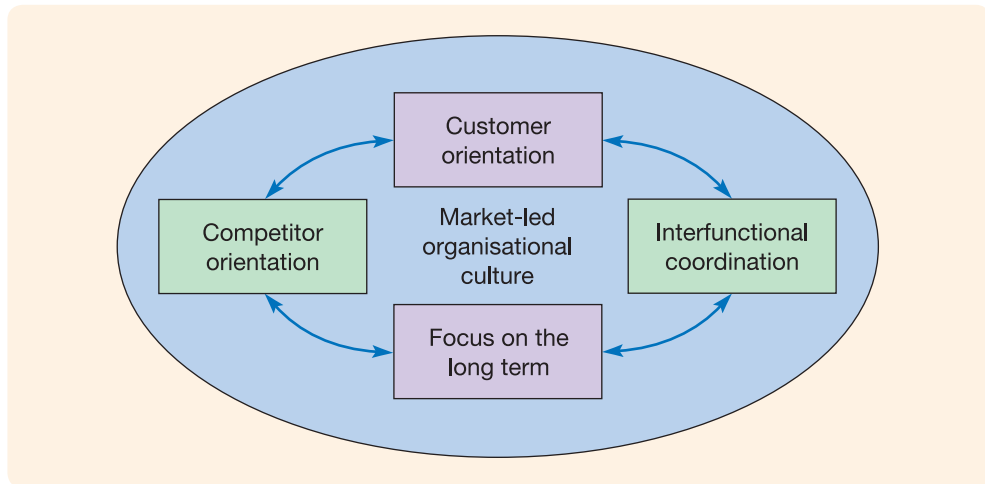


Figure 1.2
Components and
context of market
orientation

This view of market orientation is concerned primarily with the development of what may be called market understanding throughout an organisation, and poses a substantial management challenge.

In another seminal contribution to this discussion, Narver and Slater (1990) defined market orientation as:

The organisational culture . . . that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and, thus, continuous superior performance for the business.

From this work a number of components, and the context of marketing, are proposed (see Figure 1.2):

- **customer orientation:** understanding customers well enough continuously to create superior value for them;
- **competitor orientation:** awareness of the short- and long-term capabilities of competitors;
- **interfunctional coordination:** using all company resources to create value for target customers;
- **organisational culture:** linking employee and managerial behaviour to customer satisfaction;
- **long-term creation of shareholder value:** as the overriding business objective.

Although research findings are somewhat mixed regarding the impact and efficacy of market orientation, there is a significant and compelling amount of support for the view that market orientation is associated with superior organisational performance, i.e. financial performance and non-financial performance such as employee commitment, and *esprit de corps* (Jaworski and Kohli, 1993; Slater and Narver, 1994; Cano *et al.*, 2004; Kumar *et al.*, 2011).

However, it has also been suggested that there may be substantial barriers to achieving market orientation (Harris, 1996, 1998; Piercy *et al.*, 2002). The reality may be that executives face the problem of creating and driving marketing strategy in situations where the company is simply not market oriented. This is probably at the heart of many strategy implementation problems in marketing (see Chapter 16).

An interesting attempt to ‘reinvent’ the marketing concept for a new era of different organisational structures, complex relationships and globalisation, which may be relevant to overcoming the barriers to market orientation, is made by Webster (1994).

Table 1.1 The fabric of the new marketing concept

1	Create customer focus throughout the business
2	Listen to the customer
3	Define and nurture the organisation's distinct competencies
4	Define marketing as market intelligence
5	Target customers precisely
6	Manage for profitability, not sales volume
7	Make customer value the guiding star
8	Let the customer define loyalty
9	Measure and manage customer expectations
10	Build customer relationships and loyalty
11	Define the business as a service business
12	Commit to continuous improvement and innovation
13	Manage culture along with strategy and structure
14	Grow with partners and alliances
15	Destroy marketing bureaucracy

Source: Webster (1994).

He presents 'the new marketing concept as a set of guidelines for creating a customer-focused, market-driven organisation', and develops 15 ideas that weave the 'fabric of the new marketing concept' (Table 1.1).

Webster's conceptualisation/ 'checklist' represents a useful and helpful attempt to develop a pragmatic operationalisation of the marketing concept.

We can summarise the signs of market orientation in the following terms, and underline the links between them and our approach here to marketing strategy and competitive positioning:

- Reaching marketing's true potential may rely mostly on success in moving past marketing activities (tactics), to marketing as a company-wide issue of real customer focus (culture) and competitive positioning (strategy). The evidence supports suggestions that marketing has generally been highly effective in tactics, but only marginally effective in changing culture, and largely ineffective in the area of strategy (Day, 1992; Varadarajan, 1992; Webster, 1997; Varadarajan, 2012).
- One key is achieving understanding of the market and the customer throughout the company and building the capability for responsiveness to market changes. The real customer focus and responsiveness of the company is the context in which marketing strategy is built and implemented. Our approach to competitive market analysis in Part 2 provides many of the tools that can be used to enhance and share an understanding of the customer marketplace throughout the company.
- Another issue is that the marketing process should be seen as interfunctional and cross-disciplinary, and not simply the responsibility of the marketing department. This is the