The Marketing Strategy Options Available to Organisations

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Introduction

The statement "marketing strategy options available to organisation's today are based on relative costs and differential alternatives" draws the theme from the concept competitive advantage (Porter, 1986). According to Porter, the basis to achieve a sustainable competitive advantage is by providing customers with a product/service that its value is greater than its costs. Clearly, this could be done by either operational effectiveness, so that the firm can achieve a costs leadership position, or by differentiating the firms' offering, so that it can charge premium prices.

This paper will evaluate the above statement in light of more contemporary views. The paper's approach (refer to Appendix 1) will consider the common and widely known marketing strategies, their base assumptions, and how they are formulated. It will draw upon as described in literatures and will discuss other, views which either support or contrast the fundamentals of business strategy with consideration towards the role of accounting information and management accounting.

Strategic Marketing

Marketing strategies were originally based on the marketing concept, which centre on identifying, understanding and satisfying customers' needs through an integrative effort to achieve a long term success (Czinkota et al, 2000). Clearly, this approach had a strong customer orientation, but was lacking other market-wide and company specific considerations.
As markets become more competitive, and changes occur more frequently, the strategic marketing has changed its focus. It now denotes as the ability to relate and adapt to the changing markets over a longer time horizon (Kolter, 1999). Bluntly, change in accordance to market forces or perish (Day et al, 2000).

The current marketing approach is taking into account the changing environment and dictate that companies are required to plan their future on three levels: where to go, how to get there and how to maintain a competitive advantage (Czinkota et al, 2000). In a process framework, this could be structured through a planning phase followed by implementation and finally evaluation and control (Reeds, 2003).

The above framework is useful to realize that marketing strategy options available today are much broader than merely the means by which a firm can achieve a competitive advantage.

Where to go?

According to Porter's 5 forces model on industry's profitability, the managers need not focus all their attention on what strategy to formulate and how to implement their suggestions. This model asserts that there are certain industry's characteristics which allow the firm to "earn, on average, rates of

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return on investment in excess of the cost of capital" (Marsden, 1998, p. 34). The specific drivers of a firms' profitability (i.e. bargaining power of customers/ suppliers, product substitutes, barriers to entry and finally, the extent of rivalry among existing competitors) need to be carefully assessed so that the firm will compete in the most attractive industries. Marsden (1998) argued that the firm's positioning within an industry is the next phase in strategy planning. Hence, a sound marketing strategy should not focus merely on competitive advantage, but more fundamentally, on where to compete at all.
It is also important to note that this model followed with a clear understanding of the industry forces is the corner stone in developing a competitive advantage. Therefore, costs leadership or differentiation could be both seen as a result of such a deep and thorough analysis of the industry.

How to get there?

Rules of Competitive Engagement

The rational for any organisational strategy is to effectively compete through gathering resources for survival and victory (Henderson, 1985). This can be extended to the concept of resource-based view (Collis and Montgomery, 1995) which links company's success to its stock of appropriate resources for business and strategy.

The strategy and resources to be deployed are gauged with strong regards to the environment and market of which it is in. Using the game theory as an analogy (Brandenburger and Nalebuff, 1995), a good player not only alters the rules of the game but determines who the players are. Jaworski et al (2000) mentioned for companies to be successful, they should not only react to existing environment (market driven); but instead influence the structure of the market or behaviour of the players in the markets (drive markets).

In the context of strategic marketing, relative costs and differentiation alternatives may not be relevant where an organisation has the capacity to change the rules of engagement. The importance of reinventing the rules of engagement in a rapidly changing environment and turbulence markets that stirred by easily available information is intensified. Thus, strategic marketing options are based on the organisations' ability to adapt to the rapid changes occurring in the environment, rather than base on costs or differentiation alternatives (Day et al, 2000).

Scope of Competitive Engagement

To ensure long term survival, a firm has to earn above average profit by setting itself "apart from the pack" (Porter 2001).

In developing a dynamic theory of strategy (1991), Porter argued that "Competitive advantage cannot be examined independently of competitive scope" (p.101). This means that the organisation relative position is a function of its competitive advantage and its scope (product range, customers served and geographic focus). Evidently, the emphasis here is the relative difference based on distinct value proposition, which is not easy to imitate so as it is sustainable (Collins and Montgomery, 1995).

The competition for limited resources dictates a cautious process of short listing arenas for competition. Brandt (1997) explains the relevancy of focus as a strategic consideration through the simple statement of 'we can do anything but not everything'. All within the same time is possible only if the organisation is operating in sub-maximum efficiency. Organisations nowadays are required to have a clear and sharp strategy that inherently encompasses trade-offs as the basis for competitive advantage. Satisfying all customers' needs, creating different images or covering all product ranges can be hardly managed at the same time. Not only organisations have to be more consistent in their messages, product offering and the skills they acquire, but also the limited resources dictate a very careful process of choosing the areas in which the organisation can compete at.

Continuous Competitive Engagement

According to Ansoff Matrix (Khoo and Munro-Smith, 1999) the context of strategic marketing and continuous growth take into account two main perspectives – market and product.

Profitability as a source of financing growth:
Regardless if the marketing strategies are built on the basis of new markets or products- funds are needed to sustain daily operations in the form of cash flow, liquidity or new development. The BCG Matrix (Silbiger, 1993) depicts the relationship of 'cash cow' to finance 'stars' etc. Creating the 'cash cow' or 'star' could be achievable through 'cost' or 'differentiation' strategies but are dependent on market forces.

No doubt that financing can be generated from external equities but at a higher costs and risks. It might even lead to insolvency if there is no internal sustainability (Brealey and Myers, 2000). Cost is of relative importance if only it can provide Free Cash Flow to Equity (Damodaran, 2002) to preserve resources for long term manoeuvres and growth. Robert (1998) also supported these views and asserts that strategic product innovation is the lifeblood of corporate longevity. Within 'innovation' lies intellectual capital, of which could be connected to issues arising from shareholders' value creation and companies' future earnings (Roos, et al, 1997).

Strategic marketing is no longer about wild ideas but decisions about new products and services that could support business initiatives. Management accounting has a role in allocating the products to the right portfolio and determining the balance and timing of investments outlays.

Growth drivers

Strategic Marketing based on a long-term time horizon, of which, sustainability is needed for growth. Align with Mintzberg et al's (1998) view that generic (i.e. cost and differentiation) strategies focus calculations rather than form learning. Senge (1994) also favours the concept of organisational learning to build on knowledge for sustainable advantage. The concept of knowledge management that fuse both tacit and codify knowledge of staff into a cycle of continuos improvement and innovation (Teece, 1998) are echoed by Moss-Kanter (1990) that companies are shifting away from classic source of competitive advantage towards the alternatives of time compression, continuous improvement and relationships.

Hanmel and Prahalad (1994) defined core competencies as skills, technologies and knowledge, which the companies have been developed over time. The success of a company under this theory is based on how the company acquire and control the resource, capabilities and competences. The choice of a company's strategy is not determined by the environment restriction but rather by the means it can best exploit its core competence relative to the opportunities in the external environment.

These oppose the statement that strategic marketing options are based on relative cost and differentiated alternatives. And the measurement of competency relative to external environment can be gauged via management accounting methods.

The necessity to base competencies and strategies on organisation learning and internal competencies is magnified by the criticality to adapt to market changes (Kolter, 1999) for strategic marketing. The 'emergence strategy' (Mintzberg, 1998) reinforces the need for organisation learning as new opportunities and possibilities may evolve from realized patterns and plans. When collective knowledge is placed together, new opportunities can be identified, responded accordingly and seized. Evidently, the feasibility of new opportunities can be evaluated and gauged via management accounting methods (i.e CVP analysis).

How to achieve a sustainable competitive advantage

Generic Strategies - Costs and Differentiation
Firms differ one from another in the ways they performing and in the activities they choose to undertake. "A company can outperform rivals only if it can establish a difference that it can preserve" (Porter, 1996, p.62). It must be clear that this difference has to be of a great value for customers. Porter argued that customers value either lower prices charged on similar products or superior products (design, quality, functionality, features, after-sale service etc.). While lowering prices through low cost production may be necessary to survive, it might not be sufficient to achieve superior profitability. The key aspect is the relative difference so that the firm deliver a distinct value proposition which will not be easy for rivals to imitate.

Other Considerations for Strategic Marketing-

As convergence validity, this section would approach the concept of competitive advantage from other perspectives.

- ‘Product life cycle’- Admittedly, the introduction of new products, with new features is closely linked to build differentiation advantage, while focusing on productivity improvement at the maturity stage of the product life cycle is linked to costs leadership. However, innovative companies that have a full knowledge of the real useful life of a product can gain a competitive advantage by introducing the next phase of development. Selling your competitors the "old" technology while reinventing the industry and focusing on new generations might shift away from price competition, profits erosion and diminishing competitive advantage. The key aspect is not necessarily differentiation by itself, but gaining a first mover advantage of introducing something of a value to customers.
  The role of management accounting could revolve around determining the stage of the life cycle the product is in and allocating resources to extract maximum value. Different emphasis and configuration of the marketing mix could also be altered accordingly (Jain, 1997).

- ‘Leverage’ – In pursuit of long-term success (as oppose to short term improvement), the organisation has to clearly identify its valuable assets, and continuously reinvest into their maintenance. These resources have to have leveragability for future expansion (Prahalad and Hamel, 1989) so that the organisation will be able to respond quickly to the changes and opportunities in the market ('Judo Strategy’, Yoffie and Kwak, 2001).
  Other literature that has the same concept of ‘leverage’ includes ‘concentric diversification’ arising from ‘Grand Cluster Strategy’ (Khoo and Munro-Smith, 1999). These concepts relate with the statement on ‘relativity of cost’ and ‘differential alternatives’. An organisation could not simply steer its marketing strategies away from its core strength regardless may it be cost or differentiation. It needs to leverage off its existing fundamentals.
  Management accounting could play the role of understanding where internal flaws lies and which of the competitors’ strength could be diverted to one’s advantage.

- 'Emerging companies'- Moore (1999) remarked that a ‘chasm’ in product life cycle exists between ‘launch’ and ‘growth’ and focusing resources towards a ‘beachhead’ is most relevant for successful crossing of the ‘chasm’. The selection between ‘costs’ and ‘differentiation’ is not that important compared to the challenge of finding the weakest link (Moore, 1999) or as per the Napoleon’s ‘military strategy square’, a form of strategic marketing.

- Availability of Information (Reeds, 2003) or rather in this specific context, the availability of marketing information of which decisions can be made. The rise of networked information technology and processing power does tend to overload management with data. It is however, up to the management to synergise and filter relevant information for informed decision making – regardless if it is marketing or strategic. Pearlson (2001) illustrate with an Information Triangle to show the necessary alignment between information system strategy, business strategy and organisational strategy in order for a company to achieve competitive advantage.

- 'Organisational culture'- Corresponds with concepts outlined in learning organisation (Senge, 1994), Information System (e.g. knowledge management) and application to business strategies. Reeds (2003) had also emphasised the importance of organisational culture as a central element in strategic marketing management.

Implementation

Reeds (2003) phrase the importance of converting plans into action, emphasizing the importance of implementation, control and evaluation. Management accounting plays a critical role of providing information for decision making, facilitating quantitative analysis and evaluating results. Proper analysis would also facilitate the implementation through compensation and incentive programs (Appelbaum and Shapiro, 1992).

Enhancing and Validating Current Profitability

In order to demonstrate how a firm can achieve the above generic sources of competitive advantages, Porter (1998) introduced the value chain. The firm can create a distinct value to its customers by configuring and linking the various activities within the value chain in a way that will either result in a relatively low costs or a unique product/ service which consumers value in a premium price.

As part of the strategic marketing management process, budgets could be set using management accounting tools such as activity-based costing and customer profitability (Reeds, 2003) to verify and enhance its guideline in a manner more effective than traditional methods.

Beyond current Profitability

As mentioned, strategic marketing is a long-term horizon view. To sustain excellence, companies need dual strategies, one for the present and one for the future. Basing only on two generic strategies such as cost and differentiation for marketing could be too static.

Management accounting tools such as EVA (economic value added) should play the role in determining future economic values towards projects without disrupting from profitability.

Conclusion

If "plans are nothing and planning is everything" (Eisenhower), this brings forth necessary considerations towards flexibility and adaptation along the strategic marketing planning. Relative cost and differentiation alternatives are only options, a means to an end but not the 'end' within itself. Strategies should and can only be made if the entire landscape comprising of the environment opportunities and threats; and internal strengths and weaknesses are understood. Basing a strategic decision from a narrow perspective would not allow a sound decision to be made. The same sentiments arise from 'Sun Tzu's Art of War', where the quotation was given 'know yourself, know your enemy, know the terrain and you be assured of all victorious' (Wee, et al, 1996).

Therefore, the statement made in this paper – 'strategic marketing options are based on relative costs and differentiated alternatives' is only partially true. As discussed above, these generic strategies are not the only factors to be considered.

Failure to consider factors such as internal competencies, competitors, the game theory, PLC etc. would only results in at best short-term advantage which could not be considered as strategic. It is necessary to balance focus on external, environmental analysis and companies internal abilities. Also, as Mitzberg, (1998) the rational for synthesis between various business functions are necessary to fully depict the landscape for robust strategic marketing options.

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Appendix 1- Methodology