

PROCEEDINGS:

**SOUTHERN MARKETING
ASSOCIATION**

1978
CONFERENCE

Edited by
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AL TOMA

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THE SOUTHERN MARKETING ASSOCIATION
and
The University of Southwestern Louisiana

MARKETING STRATEGY:
A CONTINGENCY AND SYSTEMS APPROACH

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ABSTRACT

Recent developments in the marketing discipline necessitate the adoption of a new perspective on the formulation of marketing strategy. The emerging concept of marketing as a "social process" or a "social institution" rather than as a "business activity" renders the marketing concept unoperational as a foundation for strategy building. The notion of marketing as an organized behavior system provides a new premise for generating theory in marketing strategy formulation amenable to contingency and systems concepts. To replace the two-step, traditional approach to strategy development (select target market and formulate marketing mix) an attempt is made in this paper to present a conceptual framework and a model useful for generating marketing strategy based on contingency and systems approach.

INTRODUCTION

The purpose of this paper is, first, to show how recent emerging concepts of marketing have rendered the orthodox formulation of strategy somewhat obsolete, and then to present an alternative framework for generating marketing strategy in line with new developments.

The current literature indicates that a vast majority of academicians and practitioners have begun to view marketing as a social process rather than a business activity or a management technology [7]. As such, the new perspective regards marketing as an organized behavior system. With the advent of Wroe Alderson's Marketing Behavior and Executive Action [1], marketing as a social institution has been extensively explored by marketing scholars.

Fundamental to this new orientation is the idea that a marketing organization is a social group (system) and that it operates by the principles of group behavior [2]. The bulk of the credit goes back to Wroe Alderson who proceeded from the premise that market behavior is nothing but group behavior, and individuals seek to achieve their purposes through organized behavior systems. He regarded their market behavior as problem-solving action. Furthermore, marketing organizations were looked upon as behavior systems devised to fulfill the needs of its members through serving the market.

The individuals in an organized behavior system struggle for survival and growth. Such goal-directed behavior of systems places the individual or the group in the center of its environment, namely, the needs of an organized behavior system is the centrifugal force which directs its operations.

If we consider marketing an organized social system, then the consumer would not be the pivot of the business firm. In other words, the marketing concept is not applicable inasmuch as the new orientation is adopted. This change in the concept of marketing has not commensurately reflected in the current thinking about the development of marketing strategy. The traditional method of developing a marketing strategy entails two major steps [5]: 1. Selection of the target market 2. Development of a marketing mix.

Most marketers seem to subscribe to the foregoing framework for marketing strategy planning whereby the needs of the consumer are the center for decision making purposes. The marketing concept and the new concept of marketing (as a social system) are not compatible. Teleological (goal directed) systems are internally propelled to satisfy their needs, survival and/or growth; because these needs are vital

they form the basis of their strategies. This is not to deny that the needs of the consumer are important in strategy formulation for marketing. However, the needs of marketing should come first, and then the needs of the consumers can be satisfied.

MARKETING AS AN ORGANIZED SOCIAL SYSTEM

Before introducing the teleological concept underlying strategy development, a discussion of two types of pervasive processes within an organized behavior system will facilitate understanding of the new approach.

An organized behavior system, which already has a boundary, functions in the manner of a teleological system. The two main processes operating in a social system can collectively be categorized under homeostasis or morphogenesis [3].

The study of an organized social system as a unit is an investigation of the homeostasis of self-maintaining process. To maintain a "steady state" the unit acts to counter disruptive forces from its external environment or from its internal members. In other words, an organized social system has a built-in defense mechanism to maintain its institutionalized attributes against external stresses and internal strains. These attributes are regarded by the system's members as important for survival. Some of the activities that contribute to the system's survival goals are exhibited in the patterns of internal order, decision-making procedures, communication channels, control, and power loci.

The other important type of process operating in an organized social system is morphogenic, for it contains inherent activities conducive to rendering the system organic-adaptive. For that matter, any open system is morphogenic, or developing, if it moves toward a higher level of organization. The various activities in which the system engages itself leads to increased effectiveness. Collectively, these activities contribute to the system's viability goals. By nature, a morphogenic system tends to manifest increasing capability to handle its constantly changing environment and/or the deviant behavior patterns of its own subsystem(s).

If marketing is considered to be social process, then the processes of homeostasis and morphogenesis are also operant in it. Moreover, marketing should also be teleological like any other social system. A glance at recent history will reveal that the teleological aspect of marketing was present even though it was still considered to be a business activity (or an economic process). Traditionally, "business" denoted that the firm was a purposive social organization motivated to make "money". Thus the measure of success for a firm has been profit. A profit orientation has been a distinguishing characteristic of a business firm from other types of social organizations such as the government, the church, the military, and non-profit foundations.

A drastic departure from profit orientation, or maximization tradition, was made by Peter Drucker [4]. He proposed survival as the central purpose of the firm. The survival objectives of the firm can be achieved through performing five "survival functions" which the firm should accomplish in order to stay alive.

For the past ten years, systems concepts have been increasingly incorporated in analyzing marketing phenomena. It has been recognized that a system seeks survival and growth through the performance of its normal functions. Since

marketing is also considered to be an organized behavior system, therefore its basic needs are survival and growth. Thus, in developing the marketing strategy, our starting point should be to scan the needs of the firm in relation to changes in the environment rather than changes in the target market.

Since marketing is a link between the firm and its environment of operation, the crucial question to ask first is: how can we survive or grow in the face of changes in the environment? Does the change(s) in the environment threaten our survival or is the change(s) a challenge (opportunity) for the firm to grow? The first step in strategy formulation, then, begins with the firm's adoption of a strategy to fulfill either its homeostatic or morphogenic needs which are dependent upon the particular situation. Such behavior is the result of teleological nature of marketing. The important decision whether to select homeostatic or morphogenic strategy requires the application of a concept which is being used extensively in organization theory and management. This concept is called the "contingency approach".

CONTINGENCY APPROACH TO STRATEGY FORMULATION

An emerging concept in management theory and practice is called the "contingency approach". The cornerstone idea of this approach is that management concepts are not universally applicable, but that they are only appropriate if the right conditions exist in a given situation. Situation is the determining factor in the application of different concepts. Put another way the use of any specific concept is contingent upon the situation at hand.

The most important characteristic of contingency theory is relativism. Since the turn of the century management or administrative science focused on the search for universal principles and concepts that can be employed by all administrators. The quest has been for finding the "one best way" to perform the managerial functions such as to plan, organize and lead.

Under the philosophy of relativism, principles with universal applications are rejected. All management concepts have merits and demerits. Certain concepts are appropriate in some situations, but others are unworkable. The utility of any concept or principle is dependent upon the situation. Therefore, contingency approach is a transition from "one best way" to "it all depends".

The adoption of contingency theory requires the marketing manager to cultivate skills in selecting appropriate concepts and strategies based on the particular situation confronting him. Marketing management faces situations that are made up of complex relationships. These relationships have to be understood in order for the manager to comprehend the situation adequately.

In the past, marketing managers have attempted to make decisions based on only one or two factors. The reason is that the tendency has been to simplify a situation that is knotted into many complexities. Two well known advocates of this emergent theory state that the strength of the contingency approach lies in its capacity to provide a way of thinking about this complexity rather than ignoring it. [6]

Due to complexity of situations and due to lack of absolute principles with universal applicability, the search is to classify situations and variables into common types so that decisions can be made regarding appropriate application of strategies given their circumstances. The establishment of such a framework is needed for marketing strategy generation purposes. Thus an attempt is made in the ensuing section to round up the important situational variables bearing on the proper selection of strategies.

SITUATIONAL FACTORS IN STRATEGY CONSIDERATION: A CONTINGENCY AND SYSTEMS FRAMEWORK

A marketing strategist has to consider many decisive factors

in the situation are independent variables. The reasoning is that there are a number of conditions relative to a system that determine whether homeostatic or morphogenic strategy will be effective in any particular circumstance. From past marketing experience and research studies, sixteen variables can be singled out as being primary in determining the need for a defensive or offensive strategy:

1. Overall Marketing Objectives - A growth oriented firm, for example, has a tendency to engage in more morphogenic activities than a family controlled firm that wants to limit its size but receive a fair rate of return on its capital investment. Therefore, an offensive strategy is more suited to the former, and a defensive strategy to the latter.
2. Competitive Retaliation - In a tight oligopoly, for example, the firm may adopt either an offensive or defensive strategy depending on the expected strength of its functional competitors. If the probability is high that the competitor might strike a crippling blow in retaliation, then a defensive strategy is called for.
3. Knowledge, Experience, and Attitude of Top Level Managers - If the knowledge, experience of the managers are limited and if they are basically risk averters, a defensive strategy is more appropriate. Other things being equal, if the top managers have high knowledge and vast experience and are risk takers, then an offensive strategy would be ideal.
4. Borrowing Sales From the Future - When a certain strategy is going to increase sales in the near future, and if it is depleting or decreasing demand facing the firm's products, a defensive strategy is deemed appropriate in this situation. Thus, the firm is not left with under utilized capacity later after the borrowed sales are over.
5. Brand Cannibalism - If a firm introduces a new line of products which threaten to cannibalize greatly its other brands in addition to some of its competitors' brands, then a defensive strategy is preferred if the damage incurred from "brand cannibalism" is great for the long run.
6. Production Capacity - Aggressive, offensive strategies usually require commensurate increase in production capacity. If the nature of the industry is such that production capacity changes are hard to come by (expensive, time consuming, nontransferable, etc.), then a defensive strategy is warranted.
7. Opportunity Cost of Alternative Strategies - The type of strategy that has the least opportunity cost should be preferred to the type of strategy which has high opportunity costs for either the short or the long-run.
8. The Knowledge, Experience, and Attitude of Subordinates - Since a strategy has to be implemented through people, the subordinates' characteristics are important to take into consideration. In the case where subordinates are not technically and psychologically ready, the "don't rock the boat" defensive strategy would be the one to adopt.
9. The Scale or Size of the Firm - The larger the firm, the higher is the ability to absorb the consequences of a marketing misfire. Hence, an offensive strategy with moderately likelihood for success is more appropriate for a large firm than for a small firm which will have to put all its eggs in one basket.
10. The Time Horizon for Planning - A defensive or an offensive strategy normally has a different time constraint. Since offensive strategies require more mobilization of human and economic resources for a new campaign, if the time frame is short, then this condition is more conducive for defensive strategy.
11. Human and Economic Resources for Achieving Success - By means of a formalized marketing audit, the firm will uncover its weaknesses, strengths, and its potential for action in the areas of production, finance, R & D, and mar-

keting (including the marketing mix). A weak firm should not operate under the strategy ". . .when you are out of ammunition, . . .keep right on firing so that the enemy won't know." In other words, a firm should utilize defensive strategy until it has gained the necessary strengths for an offensive one.

12. The Degree to Which Top Management and Subordinates Will Accept and Are Motivated by the Strategic Decisions To Be Made - Any type of strategy must be implemented by the subordinates. Their acceptance of the type of strategy, therefore, is important to the success of the decision. If the general tendency is "play it safe" then an offensive strategy may become a case of a "self-fulfilling prophecy."

13. The Firm's Planning and Control System - If the firm especially the marketing department, has formalized decision making procedure (standing plans) regarding strategy formulation, then the risk and uncertainty would be less for developing an offensive campaign than when the firm has no clearcut objectives, policies and procedures for decision making. In the latter case, a defensive strategy is safer for the firm.

14. Coordination and Integration of Marketing Programs - For the firm which operates under the integrated marketing concept, the coordination of various marketing programs would be easier. Thus the ability to mobilize for an offensive strategy is present in the firm which has adopted the integrated marketing concept. A defensive strategy would be more appropriate if the firm lacks the ability to coordinate its major functions and integrate the components of its marketing mix.

15. The Status of External Environmental Factors, e.g., The Legal, Political Climate - The firm contemplating a strategy should take into consideration the external environmental factors which may prove to be either constraints or opportunities. For example, a quasimonopolistic firm can not afford to stage an offensive strategy which would drive small competitors out of business, for the antitrust authorities would be at its heels. Therefore, in this case, a more moderate defensive strategy would be less risky.

16. The Status of the Firm's Information System - The firm that has the most accurate and current information on the workings of its market and competitors would be in better position to reduce risk and uncertainty in delineating the consequences of a given strategy. In the absence of a good information system, a defensive strategy should be preferred to an offensive one.

There are some important underlying assumptions about the foregoing factors. First, it should be recognized that these factors are not present in all situations, and their degree of significance will vary from situation to situation. Secondly, it should be clear that it is the composite interrelationship of these factors in a situation that marks the relative need for a particular type of marketing strategy.

In attempting to determine whether to launch a defensive or an offensive strategy in order to satisfy the homeostatic or morphogenic needs of a firm, the marketing strategist should evaluate the status and significance of all sixteen factors as applied to his own situation. On that basis, he can develop the information to make the appropriate decision. Unless the manager uses this contingency approach he would, through trial and error, experiment with various types of strategies until he arrived at one that seemed to be satisfactory to the needs of the firm.

In this trial-and-error process, it is the conditions of the sixteen variables that would eventually determine whether the selected strategy was the correct one. If a marketing strategist chose an offensive strategy of promoting a given product facing a limited demand instead of a defensive strategy, it would not take long for the negative repercussions to boomerang in terms of borrowed sales from the future.

Normally, decisions on the type of strategy to adopt are not apparent due to constantly changing conditions in the environment. It is under these circumstances that contingency approach becomes useful for it forces a thorough consideration and weighting of the major variables in the situation. Additionally, it establishes a framework whereby the advantages and constraints of different concepts and courses of actions must be related to specific conditions in the situation. This kind of approach of analysis yields an effective method for coping with the complexity of strategy formulation.

The CASTMS Model

To integrate and synthesize some of the theoretical functions discussed in this paper, an attempt is made to present a model useful for strategy development. The application of Contingency and Systems Theory for Marketing Strategy development (CASTMS) model is shown as a flow diagram in Figure 1 which can be programmed mathematically to simulate each major decisional areas. This process-oriented approach is methodologically similar to any step-wise simulation model in which the different components of strategy formulation variables are assimilated and treated separately at every stage.

Although the flow diagram is self-explanatory, the gist of it is briefly discussed. After scanning the internal and external environment for changes which may be potentially threatening or providing opportunities to the firm, the marketer has to decide whether the needs to be satisfied are homeostatic or morphogenic. The final selection of the strategy, however, is dependent not on the needs of the firm alone, but also on the condition of the situation. On the other hand, if the input requires routine solutions, then existing strategy is simply updated with some minor changes.

Ideally, the choice of strategy should be based on the kind of need of the firm. It is not merely a question of needs alone; the situation dictates the nature and scope of the strategy chosen to meet the exigencies. For the long-run, however, the strategy should follow the needs of the firm if the firm wants to stay viable in its environment.

Next, the marketing strategist has to consider many vital factors in the situation before formulating an effective strategy. The question is not whether to have a strategy or not, but what strategy? An important question will be asked: Will the conditions in a particular situation permit a certain type of strategy?

CONCLUSION

The alternative approach to strategy formulation can be summed up by the following formula:

$$MS = f(M_n + SF_1 + SF_2 + SF_3 \dots SF_{16} + C_n + S_w)$$

Where,

MS = Marketing strategy

M_n = Marketing needs

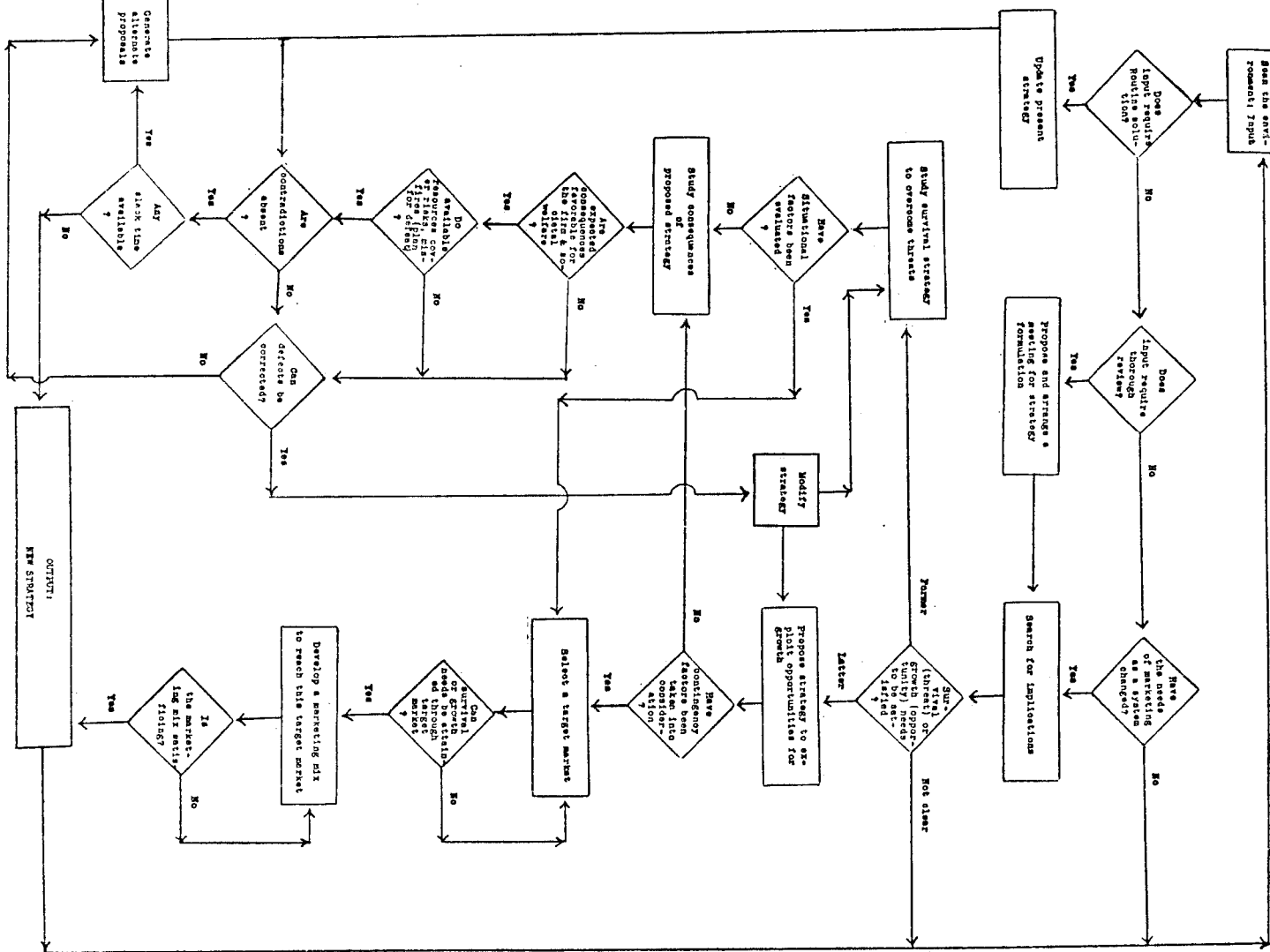
SF = Situational factors, 1 to 16

C_n = Customer needs

S_w = Long-run societal welfare

This formula is based on the contingency and systems concepts from which valuable contributions can be reaped by the strategist. Since marketing management should live in

FIGURE 1
 FIGURE 1 CONTINGENCY AND SYSTEMS MODEL FOR MARKETING STRATEGY GENERATION



the future, the CASTMS model promises management with up-to-date information for strategic planning through continuing assessment of the environment.

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