

Liiketaloudellinen Aikakauskirja

Företagsekonomisk Tidskrift
The Finnish Journal of Business Economics

Eripainos

Särtryck

Special Edition

3•1989

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Redaktionsråd
Board of Editors

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Marketing Strategy: A Competitive System Analysis

ABSTRACT

Emerging concepts in the marketing discipline necessitate the adoption of a new perspective on the formulation of marketing strategy. The notion of marketing as an organized behavior system provides a new premise for generating theory in marketing strategy formulation amenable to competitive social and biological systems. To replace the traditional approach to strategy development an attempt is made in this article to present a conceptual framework and a model useful for generating marketing strategy based on the developments in the field and on competitive system dynamics.

Marketing strategy is as vital to the viability of the business firm in the marketplace as is a plan of attack to victory in a game of chess. Drifting from move to move in chess, as in business activities, leads a player most likely to sheer disaster (Golombeck, 1954). Despite the importance of marketing strategy to the success of the firm, Henderson (1983) laments the marketing fields' lack of «logic» or conceptual framework to serve as the foundation... "for understanding the consequences of potential alternatives for intervention into a dynamic system." Recently, Wind and Robertson (1983) have proposed to fill such a gap by providing an integrated strategic marketing planning approach.

While the authors raise an important issue that marketing strategy literature should generate methods for developing offensive and defensive competitive strategies, neither their nor other models (Boyd and Larreche, 1980; Cook, 1983) explicitly tackle this problem.

Furthermore, the current models of marketing strategy lack the generative capacity (Gergen, 1978; Zaltman, et al., 1982) of a conceptual framework: in the sense that new developments in the discipline are not taken into consideration in conceptualizing marketing strategy.

For example, the marketing concept is still the *raison d'être* for the firms' operations, even though the fundamental perspective on the concept of marketing has changed in the last decade or so.

The purpose of this article is, first, to show how the emerging concepts of marketing have rendered the orthodox formulation of strategy somewhat irrelevant,

and then to present an alternative framework for generating marketing strategy in line with the developments in the field and from a competitive system dynamics standpoint.

CHANGES IN THE CONCEPT OF MARKETING

Marketing, like any other young discipline, is undergoing evolutionary changes. Recent developments in the form of new perspectives have evolved around the concept (nature) and scope (boundary) of marketing. Relevant to our discussion of strategy is the change in the concept of marketing.

Marketing literature in the past ten years 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. Sweeney's 1972 article in *The Journal of Marketing* is among the notable ones. As such, this emerging perspective regarded marketing as an organized behavior system. With the advent of Wroe Alderson's (1957) *Marketing Behavior and Executive Action*, marketing as a social institution has been extensively explored by marketing scholars.

Fundamental to this new orientation is the idea, according to Bartels (1962) and others, that a marketing organization is a social group (system) and that it operates by the principles of group behavior. The bulk of the credit goes back to Wroe Alderson (1957) 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. The marketing concept gained momentum in the mid 1950's, during a period of prosperity. This concept is fundamentally a managerial philosophy which enthrones the consumer at the focal point of all business activities.

This change in the concept of marketing has not been commensurately reflected in the current thinking about the development of marketing strategy. The preponderance of principles book on marketing (McCarthy, 1978; Kurtz and Boone, 1984) are still using the traditional method of developing a marketing strategy which entails two major steps:

present an alternative framework for generating marketing strategy in light of the developments in the field and from a competitive system dynamic point of view.

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The change in the concept of marketing has not been commensurately reflected in the current thinking about the development of marketing strategy. The preponderance of principles book on marketing (McCarthy, 1978; Kurtz and Boone, 1984) continues to follow the traditional method of developing a marketing strategy which consists of the following major steps:

1. Selection of the target market — the segmented market to whom a firm intends to deal with.
2. Development of a marketing mix — optimal product, price, promotion and distribution combination in order to satisfy this target market of step 1.

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 (Buckley, 1967; Bertalanffy, 1956).

The study of an organized social system as a unit is an investigation of the homeostasis or 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 (growth) goals. However, a system's viability is not necessarily dependent on the development of every area.

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).

The processes of morphogenesis and homeostasis do not always involve goal-striving. A system engages, either intentionally or unintentionally, in activities which promote survival and/or viability. A system's survival and viability goals attainment is analogous to the biological process of natural selection, in which random occurrences that prove beneficial to the system are adopted, while non-beneficial occurrences are rejected. However, much of morphogenic and homeostatic processes in a social system is consciously and sometimes rationally undertaken.

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 (1958). 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. Drucker maintains that although profitability is among the objectives, profit maximization is the wrong concept whether it be meant as short- or long-range profits.

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 mor-

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phogenic 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.

Contingency theory was first used in studies of leadership. Robert Tannenbaum and Warren H. Schmidt's now classic article, «How to Choose a Leadership Pattern» provides the authors' identification of certain forces in the manager, in subordinates, and in the situation that call for different types of leadership.

By the mid 1960s, in addition to leadership, the contingency approach was widely applied to different aspects of management. Such dilemmas as whether to centralize or decentralize were now being attacked with the use of contingency theory.

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 form 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. The ability to match strategies with the demands of the situation is of paramount importance. 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. Contingency approach centers on understanding relationships among numerous variables in a way akin to systems approach.

In sum, contingency approach zeros in on the complexity of making decisions. 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 situa-

tion that is knotted into many complexities. Lorsch and Lawrence (1970), the 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.

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

Academics and practitioners seem to have no quarrel with the statement that a firm operates in a constantly changing environment, and hence, it should adapt its strategy either to build a new or to keep an existing niche in the marketplace. A marketing strategist has to consider many decisive factors before formulating an effective strategy.

SITUATIONAL FACTORS

Contingency approach holds that marketing system is normally a dependent variable and other 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.

- **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 amount of return on its capital investment. Therefore, an offensive strategy is more suited to the former, and a defensive strategy to the latter.
- **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.

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INTERNAL FACTORS IN STRATEGY CONSIDERATION: AGENCY AND SYSTEMS FRAMEWORK

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 on capital investment. Therefore, an offensive strategy is more suited to the
 former and a defensive strategy to the latter.

RETRIBUTIVE RETALIATION — In a tight oligopoly, for example, the firm
 may opt either an offensive or defensive strategy depending on the expected
 response of its functional competitors. If the probability is high that the com-
 petitor might strike a crippling blow in retaliation, then a defensive strategy
 is preferred.

- **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.
- **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.
- **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.
- **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.
- **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.
- **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.
- **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.
- **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.
- **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 marketing (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.
- **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 «self-fulfilling prophecy.»
- **THE FIRM'S PLANNING AND CONTROL SYSTEM** — If the firm, espe-

cially the marketing department, has formalized decision making procedure (standing plans) regarding strategy formulation, then the risk and uncertainty would be less for developing and 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.

- **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.
- **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 cannot 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.
- **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. Furthermore, any decision on the type of strategy should only be made after a careful, comprehensive examination of all the factors in a particular situation, for all sixteen factors in a situation will not under normal circumstances unanimously exhibit conditions that require the same type of strategy.

It could also be noted that the two basic kinds of strategies (defensive and offensive) are complementary. Since there is no way of foretelling exactly what the competitors will do, countermeasures must be employed which are likely to change the original strategy so as to take advantage of a situation which could not have been forecast. To help the marketing strategist formulate a starting strategy, contingency theory promises to be a useful tool.

APPLYING THE CONTINGENCY APPROACH

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 mar-

marketing department, has formalized decision making procedure (plans) regarding strategy formulation, then the risk and uncertainty is less for developing and offensive campaign than when the firm has no objectives, policies and procedures for decision making. In the latter case, a defensive strategy is safer for the firm.

COORDINATION AND INTEGRATION OF MARKETING PROGRAMS — The firm which operates under the integrated marketing concept, the coordination of various marketing programs would be easier. Thus the ability to coordinate 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 results of its marketing mix.

STATUS OF EXTERNAL ENVIRONMENTAL FACTORS, e.g., THE POLITICAL CLIMATE — The firm contemplating a strategy should give due consideration to the external environmental factors which may prove to be constraints or opportunities. For example, a quasimonopolistic firm may find it difficult 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.

STATUS OF THE FIRM'S INFORMATION SYSTEM — The firm that has the most accurate and current information on the workings of its market and its competitors would be in better position to reduce risk and uncertainty in choosing the consequences of a given strategy. In the absence of a good information system, a defensive strategy should be preferred to an offensive one.

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It should also be noted that the two basic kinds of strategies (defensive and offensive) are complementary. Since there is no way of foretelling exactly what competitors will do, countermeasures must be employed which are likely to neutralize the original strategy so as to take advantage of a situation which could not be predicted in a forecast. To help the marketing strategist formulate a starting strategy, contingency theory promises to be a useful tool.

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keting 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 in a market 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.

Recognizing the trade-offs involved and being familiar with the conditions that are favorable to offensive or defensive strategies can circumvent many gross errors, and it provides a useful framework for approaching marketing strategy decision-making.

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 the 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 area.

This process-oriented approach is methodologically similar to any stepwise 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

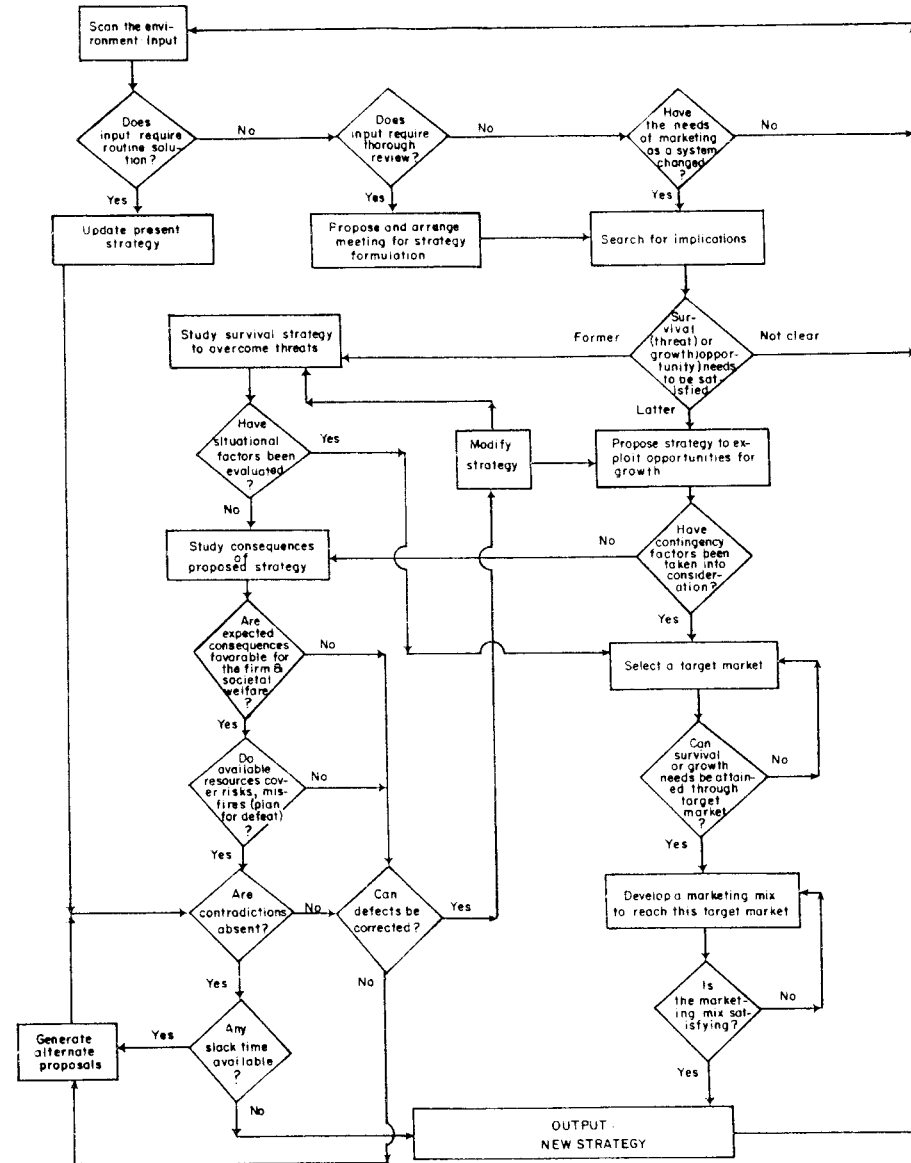


Figure 1. Contingency and Systems Model for Marketing Strategy Generation

requirers 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

is best for a given situation. As Henderson (1983) commented, «there is no reason to think of business competitive systems as different in any fundamental way from other biological competition.»

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