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EXTENDING THE MARKETING CONCEPT

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Lynette joined Cranfield from a major management consultancy to become a Lecturer with the Marketing and Logistics Group. She specialises in marketing measurement and IT in marketing, particularly in service businesses, and is currently working towards a PhD in customer profitability. Lynette began her career in the City as a fund manager and stockbroker trading UK equities, options and futures, and still lectures occasionally on finance issues. She then moved to a marketing company to work on corporate development and acquisitions, subsequently transferring into the consultancy arm of the same business group. Lynette is a Registered Representative of the London Stock Exchange and is the only woman in the UK to have passed the Fellowship examinations of the Society of Investment Professionals. Her teaching assignments include the Cranfield MBA programmes as well as tailored corporate programmes and open programmes run at Cranfield. She was a guest lecturer for the Institute of Management in Nicosia, Cyprus, in 1993 and for the Chartered Institute of Management Accountants in Sri Lanka in 1995.Since 1st January 2000, Lynette has also been Director of the Executive MBA programme.

EXTENDING THE MARKETING CONCEPT

This paper contributes to the discussion of the role of marketing within the firm. The literature suggests that marketing provides a company-wide orientation that mediates between the internal workings of the firm and its environment. Equally, considerable attention is paid to the translation of that understanding into strategic marketing plans that direct a firm's response to opportunities and threats in the environment.

However, the authors suggest that a considerable research gap exists in understanding how marketing can facilitate a firm's response beyond planning. They outline a new research direction based upon understanding how strategic marketing resources enable marketers to orchestrate their firm's responses to changing environments more effectively.

The "Marketing Concept"

The authors trace the literature that defines the marketing concept to Levitt's "Marketing Myopia" (Levitt, 1960) which focuses on the shift from a production to a demand-creation mentality. Subsequently, researchers identify the role of marketing in facilitating exchange and influencing consumer behaviour (Kotler and Levy, 1969; Kotler, 1972; Enis, 1973; Hunt, 1983; 1992). Though most marketing scholars study exchange from an implicitly neo-classical economics perspective (Webster, 1992), there are contributions from social psychology (Bagozzi, 1974; 1975), institutional theory (Anderson, 1982), the political economy (Arndt, 1983), and constituency theory (Day and Wensley, 1983). Even though the marketing concept has been developed through various theoretical lenses, its central theme remains that marketing mediates between the firm and its external environment, particularly in understanding its customers.

By the 1990s, it was recognised that marketing was much more than an extension of economics that merely focused upon managing exchange relationships (Webster, 1992). The two research streams that contributed most to this development arose from: (1) the role of customer relationships in marketing theory and (2) the potential impact of the online networks.

Relationship marketing

Research into customer service and relationship marketing challenges the exchange view of marketing. Contrary to the predictions of neo-classical economics, writers observe that customers willingly restrict their choices and embrace restricted competition (Webster, 1992; Sheth, 1995). Neo-classical exchange theory does not explain this phenomenon: marketing authors suggested new variables are required to explain customer behaviour such as mutual commitment and trust (Morgan and Hunt, 1994), consumer psychology, social norms, and institutional pressures (Sheth, 1995). Whereas the traditional study of marketing-as-exchange looked at the individual exchange as the objective of marketing research, Relationship Marketing considered that repeated exchange is the precursor to a relationship between the customer and the firm (Christopher, Payne and Ballantyne, 1991; Webster, 1992). Numerous authors assert that firms can create relationships from shared learning and customised solutions which create unique value for customers (Peppers and Rogers, 1994; 1997; Pine, Peppers and Rogers, 1995) and trust (Constable, 1998). Research has established that the relationship *itself* holds value for industrial customers over and above that inherent in mere exchange (Sheth, 1995; Ford and McDowell, 1999). Sheth (1995), reviewing the consumer behaviour literature, maintains that consumers value relationships because they simplify the purchasing process, reduce risk, and provide psychological comfort. Economists consider

Relationship Marketing in the context of reduced search costs (Bakos, 1991; 1998) or reduced transaction costs through a reduction of "opportunistic behaviour" (Williamson, 1981).

There has been a discussion in the literature about whether or not relationship marketing represents a new marketing paradigm (Parvatiyar and Sheth, 1997). The authors side with Möller and Halinen (2000) that this is exaggerated. We too believe that there is an enduring thread to the customer-focused view of marketing which suggests that relationship marketing extends rather than replaces prior theories: marketing practice refocuses from mass marketing to individualised marketing (Sheth, Sisodia and Sharma, 2000). However, the move from mass marketing to individualised marketing requires a significant shift in marketing practice and in the firm's orientation, systems, measures, and people (Peppers and Rogers, 1997).

Online networks

The potential of the Internet to create relationships between firms and customer communities, and between customer communities and networks of firms, suggests further enhancements to the marketing concept (Hoffman and Novak, 1997; Hoffman, Novak, and Peralta, 1999). Researchers suggest that the Internet fundamentally impacts marketing and the assumptions upon which it has been built (Hagel III and Singer, 1999; Sheth and Sisodia, 1999; Siegel, 1999; Doyle, 2000) and that brand-marketing strategies will be much harder to implement in the future; traditional product brand marketing may even disappear altogether (Tapscott, 1998; Dussart, 2001).

Empirical evidence demonstrates that customer behaviour is affected both by the medium (Hoffman and Novak, 1996) and by the consumers taking different roles within consumer communities (Kozinets, 1999). Whilst some suggest that the Internet is merely better technology through which to manage customer relationships, others suggest completely new marketing models enabled by Internet-based communities (Hoffman and Novak, 1997; Achrol and Kotler, 1999).

Similar to the arguments made about relationship marketing, we believe that the marketing community will ultimately accept that the Internet extends the marketing concept rather than reinvents it.

Throughout this emerging definition of the marketing concept—from exchange through to relationships and networks—three elements have remained constant.

- Understanding the firm's external environment, particularly customers.
- Communicating this understanding effectively within the firm, particularly to policy makers.
- Facilitating the organisation's response to this understanding.

Kohli and Jaworski (1990: pp. 6) define a market orientation as "the organisation-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organisation wide responsiveness to it." An empirical link between market orientation and a firm's performance has been established by Narver and Slater (1990) and further refined by Day (1999a), who identifies three criteria for defining a market-oriented firm.

- An externally oriented culture.
- Distinctive capabilities of market sensing, market relating, and anticipatory strategic thinking.
- A configuration that enables the entire organisation to respond continually.

The translation of the marketing concept into action is normally discussed in the context of strategic marketing planning.

Strategic Marketing Planning (SMP)

The literature places SMP at the inflection between the understanding of the firm's external environment and its response: 'strategic marketing planning is concerned with adapting the organisation to a changing environment' (Doyle, 1994; pp. 89).

Smith and McDonald (2001) present a thorough SMP literature review and conclude that there is a broad consensus about the fundamental process of SMP, its outputs, and its link to business performance. The SMP process they describe has a marked contingency perspective: environmental analysis, generation of options, selection and development of programmes, and measures to respond (Figure 1).

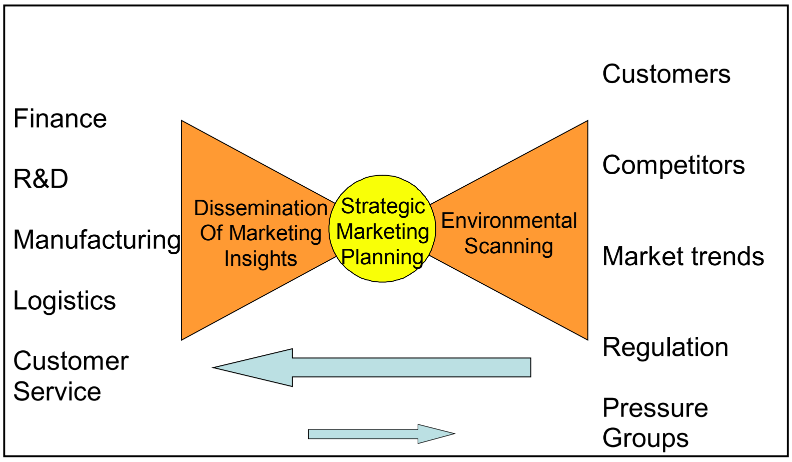

Figure 1: Strategic Marketing Planning.

However, the literature fully acknowledges the challenges firms face in trying to respond to the learning and insight generated by the planning process (Day, 1999a; Doyle, 2000; Smith and McDonald, 2001). For instance, Day (1999b) believes that a marketing orientation begins with the firm's culture, but how that culture is formed and managed is not clear. The barriers to creating and implementing effective marketing plans are comprehensively identified in the SMP literature (McDonald and Payne, 1996; Piercy, 1997). However, addressing the ways in which such barriers can be overcome is limited to developing a planning process that is congruent with the firm's culture (Smith and McDonald, 2001) and leading internal marketing activities sensitive to the organisation's power structure and people (Piercy, 1990; Piercy and Morgan, 1991). We believe that these solutions are too narrow and that further research is required into how market sensing and interpretation are transformed into an effective organisation response.

Limitations of the Strategic Marketing Planning literature

The contingency nature of the SMP literature suggests that, given strong internal consensus, the firm is free to implement most marketing strategies that help it adapt to its environment. At the very least, the literature suggests that the generation of strategic options is created within a context of environmental insight. Though it acknowledges the role of the firm's strengths and weaknesses (Porter, 1980), culture (Smith and McDonald, 2001), and marketing assets (Piercy, 1990; 1997) in setting marketing strategy, the orientation of the SMP literature is grounded in the external environment. Implicitly, the managerial prescription is to use SMP to arrive at a clear strategic marketing direction prior to designing a firm-wide response to the external environment and then overcome any resistance to change during implementation.

Mintzberg, Ahlstrand and Lampel (1998) offer ten approaches to strategy formation on a continuum that starts with traditional, rational, managerially planned approaches through strategy-as-learning processes, and, ultimately, to very emergent approaches. Traditional SMP tools, such as SWOT, Ansoff Matrix, and the BCG matrix, define the rational end of the strategy formation continuum. These tools and approaches are criticised for following a narrow perspective of management originally conceived in the 1950s. For example, Mintzberg et al argue that SWOT analysis relegates the formation of strategy to a process of conception rather than to one of experimentation and learning at all levels of the firm. This in turn limits the strategy conception process to an elite group of managers, separating thinkers from doers. They further argue (page 41) that it is naive of such planners to believe that they can assess each of the SWOT elements at a distance: 'The external environment is not some kind of pear to be plucked from the tree of external appraisal'. This approach leads to uninformed managerial assessments of each of the SWOT elements, resistance to change amongst those that need to implement strategic plans, and to a lack of entrepreneurism.

We believe that strategic change is more complicated than the SMP literature seems to suggest, both in determining the right planning strategy and in implementing SMP.

Leaving aside the meta-issues of philosophical perspective and alternative approaches to strategy formation, other writers have developed a wider view of strategy planning within the rational-managerial approach. Strategy formulation must decide on the optimal degree of change, its objectives, starting point, leadership style, and levers (Balogun and Hope-Hailey, 1999). Change leaders must analyse how much time the organisation has to effect change, what should not be changed, and assess the firm's capacity, capability, and willingness to meet the type of change envisioned.

These analytical issues and decisions require a different type of understanding to those usually ascribed to implementing the marketing concept, questioning whether the marketing concept should be extended in the direction of more effective change management. Aside from marketing's role in understanding communication and consumer behaviour (Piercy and Morgan, 1991), there is little evidence in the literature to identify Marketing as an effective change manager. Indeed, a survey conducted by a leading management and technology consultancy of several hundred large European and North American firms engaged in business reengineering and change management found that no such project had been led by the marketing function (CSC Index, 1994).

We suggest that the marketing concept may be more effectively developed in helping the firm understand and build the strategic marketing resources and competencies needed to conceive of and implement new marketing strategies successfully rather than directing strategic change itself.

The role of the firm's resources in marketing strategy

Even if one assumes that a marketing strategy is based upon a sound environmental analysis and that the firm is ready and willing to respond, it may not have the ability to implement the new marketing strategy any more effectively than its competitors. Resource-based Theory (RBT) suggests that the resources needed to implement strategy may not be available in the right quantity, time, or cost because they accumulate slowly and in an idiosyncratic fashion (Dierickx and Cool, 1989). Perhaps, the antecedent to effective marketing-led change is an understanding of the marketing resources needed to support a new strategy, how they can be developed and the competency to configure them more effectively and more creatively than competitors.

Resource-based Theory

Some firms earn profits in excess of what economic theory would predict from a perfectly competitive market. Under conditions of perfect competition, a firm receives a price for its goods and services equal to its marginal cost of production, and pays for its inputs (tangible and intangible) the marginal value of their productivity (Conner, 1991). In this scenario, a firm's profit is just enough to continue employing its capital; there is no extra profit or, to use the economic term, rent.

RBT scholars observe that many firms do earn rent and have established the link between rent and firm-specific resources (Eisenhardt and Martin, 2000).

- Resources are the antecedents of rent. Resources include assets, know-how, brands, capabilities, etc that are valuable, rare, imperfectly imitable, and non-substitutable (the VRIN criteria) and that enable the firm to conceive and implement strategies that improve effectiveness and efficiency (Barney, 1991).
- Resources are heterogeneously distributed amongst firms and they generate rent because certain resource configurations allow firms to implement strategy more effectively or at a lower cost than competitors (Teece, Pisano and Shuen, 1997). The extent of this competitive advantage depends on the durability of the resource advantage (Dierickx and Cool, 1989; Grant, 1991).
- Embedded, firm-specific business processes create new resources and regenerate the firm's current resource base, and skilful management of the regeneration process extends the durability of the firm's resource advantage (Eisenhardt and Martin, 2000).
- Creative, entrepreneurial managers create sustained competitive advantage by "configuring" resources and building competencies needed to implement future strategies (Teece, Pisano and Shuen, 1992; Tranfield and Smith, 1998).

Resource-based Theory and marketing resources

With regards to the marketing concept and marketing assets (eg brand, customer relationships), the RBT and marketing literatures are evolving in parallel directions but remain relatively unconnected (Srivastava, Fahey and Christensen, 2001). Since both literatures focus upon the need to invest in strategic resources, assets, and competencies that create sustained competitive advantage and superior profitability, we believe that there is an opportunity for the two research areas to be brought closer together. RBT acknowledges that it needs to leverage research outside the traditional strategy area to develop RBT further (Eisenhardt and Martin, 2000), and Marketing requires a more rigorous approach to demonstrate the link between the focus of its activities and shareholder value (Doyle, 2000). Resource-based thinking could provide a template for convergence in the strategy and marketing literature (Srivastava, Fahey and Christensen, 2001). Doyle (2000: 70) offers a definition of marketing as "the management process that seeks to maximise returns to shareholders by developing and implementing strategies to build relationships of trust with high value customers and to create a sustainable differential advantage." Likewise, Srivastava et al (1998; 2001) identify the role of marketing as developing and managing market-based assets to create shareholder value. Both recognise that marketing and the resource-based view can refine and extend each others' traditional frames of analysis.

RBT suggests that management creates rent by combining, developing, and utilising resources to create more valuable outcomes than competitors (Conner, 1991; Conner and Prahalad, 1996; Teece, Pisano and Shuen, 1997; Bowman and Ambrosini, 2000; Barney, 2001). Merely accumulating stocks of potential rent-generating resources is not enough (Teece and Pisano, 1994). Creativity, imagination, entrepreneurship, and long-term investment in resources are requirements of leadership in RBT (Conner, 1991). The authors see a clear parallel between the RBT view of leadership and Levitt's view of the marketing concept and imagination (Levitt, 1986).

The contribution RBT makes to the marketing concept lies in the realisation that sustainable competitive advantage arises from the firm's ability to respond to its environment by *modifying* and *developing* its resources (Eisenhardt and Martin, 2000). The traditional view of the marketing concept is to regard the firm's response as a function of discrete change processes led by fresh marketing thinking. We believe, however, that the marketing concept needs to be extended to include a more explicit understanding of how marketing resources build rent-generating capabilities and how these resources should be regenerated in response to the firm's changing environment.

Extending the marketing concept: a research agenda

It is no coincidence that the skills normally associated with implementing the resource-based view and marketing strategy are also closely linked to developing a marketing orientation across the firm. The RBT literature suggests that a number of resources normally associated with marketing are potential sources of sustainable competitive advantage. These include brands and reputation (Grant, 1991; Barney, 1996), superior customer insight (Barney, 2001), customer relationships and product development (Eisenhardt and Martin, 2000), and channel and partner relationships (Srivastava, Fahey and Christensen, 2001). The ability to control standards and technology development where they are important purchase criteria is another rent-generating competency (Shapiro and Varian, 1999).

The development of these marketing resources and competencies suggests an agenda for future research which extends the marketing concept so that the firm is better able to devise and implement new marketing strategies. We recommend that future research extending the marketing concept leveraging RBT can broadly be categorised under four headings: valuing resources, knowledge management, alliance management, and reputation management.

Valuing resources

The issues of valuing resources and managing resources for shareholder value are strategic priorities both for marketing (Sheth and Sisodia, 1995; Doyle, 2000) and for resource-based theorists (Priem and Butler, 2001b). Marketers are accused of poor management of marketing resources, reducing their value through misguided investments in destructive promotion and customer acquisition (Sheth, 1995). For example, much of the disappointing returns from online consumer marketing results from extremely high customer-acquisition costs, low conversion of browsing to buying, and poorly conceived loyalty programmes (Agrawal, Arjona, and Lemmens, 2001). Equally, RBT faces the criticism that it is tautological, since it is lacking exogenous measures of value against which to determine the rent-generating capability of resources (Priem and Butler, 2001b).

Mainstream RBT writers in the strategy literature have failed to define what they mean by a "valuable" resource in anything other than generic terms (Bowman and Ambrosini, 2000). Finding a customer-determined measure of the value of resources and capabilities is difficult because:

- Resources and competencies are themselves complex and not necessarily distinguishable from each other at the point of sale when economic value is measured (Bowman and Ambrosini, 2000). When purchasing products and services, customers cannot often unbundle the total offer to assess and value its individual resource components. A direct relationship between resources and customer value is, therefore, hard to determine. Equally, RBT identifies that,

although resources are by nature idiosyncratic, this in itself does not make them non-substitutable; there are different resource configurations that can produce similar customer value. This has been labelled as the problem of equifinality (Eisenhardt and Martin, 2000; Barney, 2001; Priem and Butler, 2001a). The traditional role of Marketing in competitive analysis, pricing, and customer insight, is well-suited to addressing these problems.
- Investment in resources and competencies is often valuable in relation to future, as yet undetermined, profit streams and is, therefore, undervalued by traditional capital-budgeting techniques (Prahalad and Hamel, 1990; Hayes and Pisano, 1994). These resources and competencies generate rent only when skilfully deployed by entrepreneurs with the creativity and vision to realise the opportunities (Teece, Pisano and Shuen, 1992; Bowman and Ambrosini, 2000). In effect, resources are "real options"; they represent an opportunity to participate in future rent-generating activities. Marketing is already tackling this issue in the debate about capitalising investments in brand building (Dias and Ryals, 2002) and valuing customer relationships (Ryals, 2002).

Srivastava et al (2001) suggest to resource-based theorists that they might adapt measures of value established in the marketing literature to address the problem of exogenous determination of value, and to marketers that they use financial asset-management disciplines to guide their evaluation of marketing assets.

Building the connection between customer value and resource configurations is a central research theme in extending the marketing concept.

Knowledge management

Knowledge is identified in the literature as a potential source of sustained advantage (Barney, 1986; Conner and Prahalad, 1996) and the marketing concept has long embraced a knowledge-management role (Kohli and Jaworski, 1990). Relationship Marketing suggests that customers provide the firm with unique and valuable information about their behaviour and motivation, which creates switching costs, differentiation, and greatly improved customer service (Peppers and Rogers, 1997). In the network view of marketing, unique insights to both customer need and knowledge of supply possibilities create brokerage opportunities (Achrol and Kotler, 1999). However, despite enormous investments in the technology and processes needed to implement relationship marketing, surveys and practitioner articles suggest most companies fail effectively to harness this knowledge successfully (Chatham et al, 2001; European Centre for Customer Strategies, 2001). Manufacturing faced similar issues in the 1980s when firms were blindly adopting "world class manufacturing strategies" developed through benchmarking but found that this was not providing competitive advantage. Manufacturing discovered that RBT allowed it to conceive of manufacturing as a competitive weapon, not on the basis of low cost, but on the basis of leveraging the knowledge created by Manufacturing investments (Hayes and Pisano, 1994; Tranfield and Smith, 1998). We see a parallel here with marketing strategies merely based upon accumulating knowledge about customers through new technology and business processes. This is necessary but not sufficient for building competitive advantage. RBT outlines the potential to leverage the knowledge generated in relationship marketing to build competencies that generate rent (Bowen et al, 1994a; 1994b). Precisely how these superior resource configurations are developed and deployed is the question faced by marketing practitioners: RBT in Manufacturing is providing some initial research directions about learning and developing routines (Tranfield and Smith, 1998) that could improve both marketing theory and practice.

A more explicit understanding how to turn unique customer insights into a rent-generating marketing resource is vital for the effective implementation of many relationship marketing and online community strategies. Indeed, the authors believe that a lack of understanding of the resources needed to become relationship marketers is a major barrier to the implementation of customer relationship management programmes.

Alliance management

Competitive strategy increasingly considers the role of networks and alliances in creating customer value (Miles and Snow, 1986; Webster, 1992). The marketing literature acknowledges the importance of distribution partnerships and "co-opitition", the ability to co-operate and compete with a firm at the same time (Nalebuff and Brandenburg, 1996). For example, Coca-Cola and J. Sainsbury's compete for share of the UK market but work together to grow the total carbonated soft drinks category (Christopher, 2001). For consumer goods manufacturers such as Coca-Cola, category management skills—the ability to build and sustain such collaborative relationships—form part of the firm's brand and value proposition to its customers (Knox and Maklan, 1998).

Though the literature recognises successful alliances ex post, ex ante, little is know about how firms should mix their own resources with those of their partners to create superior customer value and then how to manage those resources for sustained advantage. Marketing, with its traditional external focus, seems well suited to helping alliances create customer value.

Researching the value of the contribution of network partners to the firm's overall marketing resources would provide managers with a more sophisticated guide in developing alliance partnerships than they currently have and would extend the marketing concept.

Reputation management

Reputation, particularly brand management, is a key element of the marketing literature (Aaker and Joachimsthaller, 1999; deChernatony, 1999; Kapferer, 2001), and this research focuses upon the brand as a rent-generating resource in much the same way as resource-based theorists would define resource. However, recent advances in RBT offer marketing an opportunity to move beyond looking at reputation management from the perspective of brands alone and to consider developing branding competency as a source of sustainable competitive advantage. Merely having a portfolio of good brands is not necessarily the same as being good at branding or reputation management. The authors believe that there are two drivers forcing marketers to develop their reputation management competency further.

- Companies with a portfolio of strong brands may acquire other (complementary) brands in order to grow, but may not be able to leverage the new brands successfully. Quaker Oats' recent experience of Snapple is a good case in point (Deighton, 2002): Snapple was acquired by Quaker Oats for US$1.7 billion in 1993, but after poor results sold it to Triarc for US$300 million 1997, who after turning the brand around sold it to Cadbury-Schweppes for approximately US$1 billion in 2000. Deighton observed that Quaker Oats' branding competency and firm-wide culture were ill-suited to Snapple. The more fine-grained understanding of extending branding competencies enabled by RBT should help firms in similar situations.
- Marketers are struggling to redirect their accumulated expertise in product branding towards the need to build corporate reputations (Keller, 1999; Mitchell, 1999; Kapferer, 2001). Product branding, with its origins in 4 P marketing and its focus

upon transactional relationships (exchange), is not sufficiently robust to create compelling customer value propositions in situations where the firm wishes its customers to engage in a long-term relationship for a stream of value over time. Corporate reputation management will require a greater linkage to the firm's core business processes than was normally the case with product branding; marketers will need to extend product branding competencies to build organisation-wide customer value propositions (Knox and Maklan, 1998).

Understanding reputation from the RBT perspective will help marketers view reputation both as a resource and a learning opportunity to develop/enhance reputation-management competencies. The competency will enable the firm to grow profitably beyond that afforded by its current reputation or brand portfolio.

Conclusions

The marketing concept has evolved around the firm's ability to respond to the needs of its environment, particularly its customers. However, the SMP literature offers a limited view of how marketing facilitates that response. Its focus is upon managing change but it fails to identify why marketing is qualified to lead such initiatives, aside from the insight it gives into customer needs. A gap exists in the marketing literature about developing marketing resources that will enable the firm to implement new customer-led marketing strategies either more effectively or efficiently than competitors. These are necessary conditions for the creation of sustained competitive advantage. The authors believe that planning marketing resource development is more suited to marketing's traditional skills and role within the firm than to directing firm-wide change programmes. Better knowledge with regards regenerating these resources will enable marketing to make a stronger contribution to the firm's ability to respond to its market insight. We identify four initial research areas for marketing: valuing resources, knowledge management, alliance management, and reputation management.

If Levitt taught marketing to focus more upon customer need rather than products, Resource Based Theory can help marketing focus on profitable exploitation of customer need rather than customer needs alone.

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