Market-oriented Business Unit Planning 4

4.1 Interdependencies Between Corporate Planning, Business Unit Planning and Marketing Mix Planning

In the following, we will explain the various interdependencies existing between market-oriented corporate planning, market-oriented business unit planning and marketing mix planning (see Fig. 4.1).

In the previous sections, we elaborated on the relationships between strategic corporate planning and strategic marketing planning. These two planning areas are closely interconnected. As the long-term success of a company depends on its survival on the sales markets, (strategic) marketing planning represents the core of corporate planning (Meffert and Burmann 1996). It should be clear now that, within the framework of normative management, market-oriented considerations play a key role in outlining the company's *vision* ("What is (should be) our business?") and, derived from this, the *corporate policy* ("the corporate mission to be accomplished") (for further details see Sect. 3.1).

In view of these factors and additional framework aspects (including core competencies), the *business unit mix* is defined as a central component of market-oriented corporate planning. Essentially it has to be defined in which *markets* ("Customers with specific needs and problems") and with which *products* ("basic, additional and ancillary products") the company wishes to operate (compare Sect. 3.2). The crucial role that market segmentation plays in forming strategic business units (SBUs) underlines the close link between corporate and marketing planning.

In order to ensure the long-term existence of the company, market-oriented corporate planning has to strive for a mix of business units which is balanced with regard to financial needs and profit generation, as well as to potential prospects and risks. Within the scope of the *target portfolio* and the overall context of the company, the objectives for the individual business units are determined and the priorities for allocating scarce resources are defined (see Sect. 3.3). These targets (e.g. growth, holding one's ground, withdrawal) are

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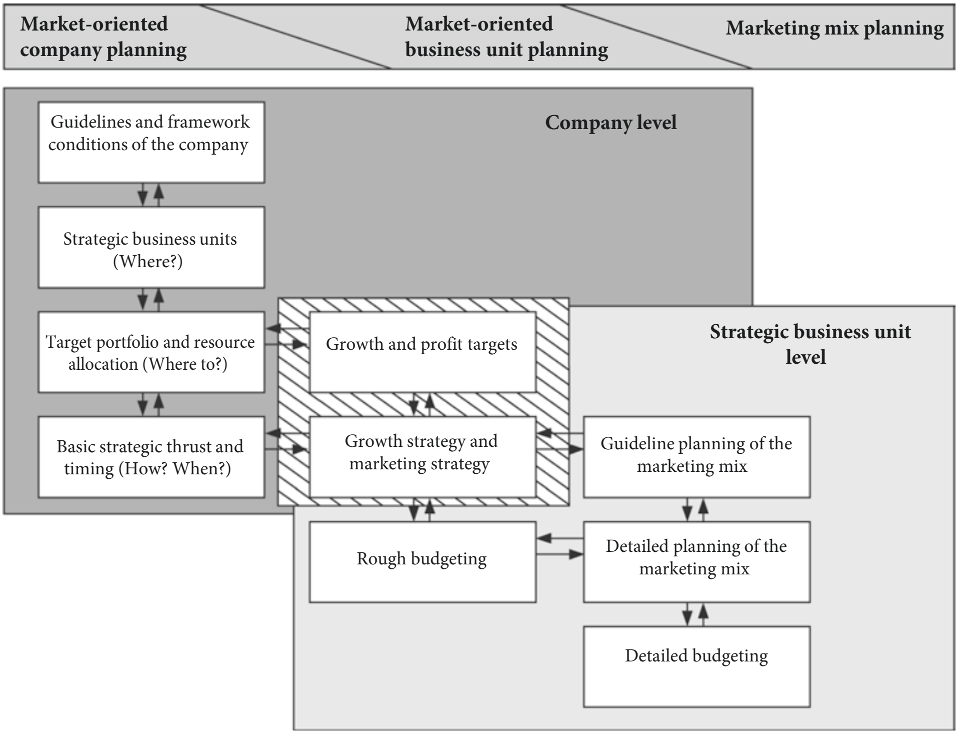


Fig. 4.1 Interdependencies between market-oriented company planning, market-oriented business unit planning and marketing mix planning (Also see Meffert and Burmann 1996)

translated into *economic target parameters* that can essentially be categorised into growth and profit targets.

A further task of strategic corporate planning is to define the *basic strategic thrust* of the company. This particularly concerns decisions relating to the general principles, rules and procedures of the company with regard to the market, the competitors, the environment, new technologies etc. and decisions that determine when these principles, rules and procedures are to be applied (*Timing*) (see Chap. 3). These definitions give an essential orientation for determining the *growth strategy*, the *core task profile*, the *cooperation goals* and the positioning within the framework of market-oriented business unit planning. Within the context of this book, the core task profile, the cooperation goals and the positioning will be subsumed under the term *marketing strategy*. At this point a preliminary budget will also be set up.

The growth strategy concerns the question how profitable growth can be attained. Part of defining the growth strategy is to determine with which intensity the available *sources of growth and profit* are to be used (see Sect. 4.2). The following means are generally available for this purpose:

- acquisition of new customers (“customer acquisition”),
- maintaining and expanding existing customer relationships (“customer retention”),
- development of new product offers (“product innovation”) and
- prolongation and optimisation of the lifecycle for existing product offers (“product maintenance”).

Positioning, the *core task profile* and *cooperations and networks* are key elements of the *marketing strategy*.

Fully formulated *positioning goals* include:

- information about the customers (market segments) to be reached,
- information on the customers’ needs (problems, wishes, requirements, expectations) that are to be met,
- information on the nature and extent of the targeted competitive advantage,
- information on the configuration of the product offer (problem solving), which is to be perceived by the customers as best suited to their needs (see Sect. 4.5).

In other words: By elaborating positioning goals, it is defined how a certain competitive advantage is to be achieved for a certain customer group (see Sects. 3.4 and 4.5.1).

The positioning strategy determines the path to be taken in the market and among the competitors in order to achieve the positioning goals (see Sect. 4.5.5).

The *core task profile* answers the question which competencies (with regard to the core marketing tasks) have to be developed and maintained internally in order to open up and exploit market potential (see Sect. 4.3). It also has to be determined which competencies (of a strategic or operative nature) have to be procured externally, i.e. through *cooperations and networks* to be able to achieve the targeted positioning in the market (see Sect. 4.4).

The subsequent *marketing mix planning* determines as a first step the focus and the basic guidelines of the marketing mix (within the scope of planning the use of marketing instruments), then continues with the detailed planning with regard to the instruments of the marketing mix, namely

- product,
- price,
- communication and
- distribution.

The marketing mix has to be coordinated with the growth strategy and the marketing strategy in order to be able to plan in an integrated and specific way and to define the detailed budgets (see Chap. 5).

The arrows in Fig. 4.1 illustrate that such a planning process cannot just be processed from top to bottom along strictly hierarchical lines. Rather, it has to be an iterative, interconnected and dynamic process, in the course of which objectives, targets, strategies and measures will have to be repeatedly changed and specified.

While the previous sections addressed the questions of marketing planning on the corporate level, now the role of the *growth strategy* and the *marketing strategy* as *links between marketing planning on the corporate level and marketing planning on the business unit level* (see Fig. 4.1) will be discussed.

4.2 Determining the Growth Strategy

4.2.1 Overview

The next step in the marketing planning process deals with the question which options are available for attaining the targeted economic marketing goals (contribution margin, sales volume, market share etc.).

The *task-oriented approach* developed by Tomczak and Reinecke (1996, 1999) defines the "core tasks" of strategic marketing planning, focussing on the key growth and profit generators of a company or a business unit and on the management of the required competencies.

Companies can achieve their growth and profit targets by acquiring new customers and/or by increasing the profit from existing customers (through higher willingness to pay, increased purchase frequency and intensity or cross-selling). In addition, they can attempt to introduce new products on the market and/or to prolong and optimise the lifecycle of existing products. Figure 4.2 details the *sources of growth and profit* with regard to the various core tasks.

Strategic options	Source of growth or profit	Core task	Approaches
Customer acquisition	Future customers	Developing customer potential	• Gaining non-users • Winning customers from the competition
Customer retention	Current customers	Exploiting customer potential	• Keeping customers (retention) • Penetrating customers (penetration)
Product innovation	New products	Developing product potential	• Developing and introducing real market innovations • Developing and introducing imitations
Product maintenance	Current products	Exploiting product potential	• Preserving products • Expanding products

Fig. 4.2 Overview of the core tasks in marketing. (Tomczak et al. 2002)

The task-oriented view in marketing is not really "revolutionary". It ties in with existing concepts, such as the well-known matrix of Ansoff (1957), and thus corresponds to the fundamental management philosophy of increasing sales volume and profits. None of the four core tasks (customer acquisition, customer retention, product innovation and product maintenance) is basically new either. What is crucial here is the focus on customer and product potential and the stipulation to coordinate this as effectively as possible with the competencies of the company. In this sense, market-oriented corporate management is equivalent to the integrated management of the four core tasks.

4.2.2 The Basic Concept of the Task-Oriented Approach

At its heart, the task-oriented approach deals with specific competencies that a company needs to utilise market potential better than its competitors.

Market potential, *core tasks* and *competencies* represent the key constructs of the task-oriented approach. To be able to tap into specific market potentials, specific core tasks have to be performed by a company (customer acquisition and retention, as well as product innovation and maintenance), which, in turn, demand certain competencies (outside-in perspective). Or, as expressed according to an inside-out perspective: By being able to competently fulfill certain core tasks, a company holds the basic capability of utilising certain market potential).

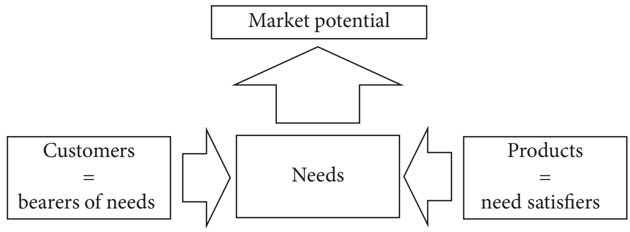
Market Potential

Within the scope of the task-oriented approach, the construct of *market potential* is quite broadly defined, encompassing all needs and requirements that can be met by a company (or business area) in the future. Two aspects have to be emphasised in this context:

- The needs of potential customers form the crucial reference point, because, at least hypothetically, the appropriate marketing measures will allow every need to be transformed into demand. A need is usually defined as the feeling associated with the attempt to eliminate a deficiency. This common definition can be traced back to von Hermann (1870). A distinction is made between *current* and *latent* (i.e. with a view to the future of a certain market) *needs* (see Geschka and Eggert-Kipfelstuhl 1994 for a discussion of the different types of needs). Current needs exist at present, are known to the customer and are satisfied by the company's offerings or those of the competitors. Latent needs also exist at the time under consideration, but are not yet relevant for potential customers with regard to a certain market and are satisfied (often incompletely) in substitution markets.
- In their attempt to utilise market potential, companies basically compete with each other for *purchasing power* – either in direct predatory competition or possibly in more indirect substitution competition.

In this context, two types of market potential have to be distinguished (see Fig. 4.3).

Fig. 4.3 Market potential and needs



Customer Potential

Customers with certain needs have to be identified so as to be able to identify customer potential. Customers can also be regarded as "*bearers of needs*" and may be distinguished in terms of their needs, on the one hand, and of their purchasing power, on the other hand. The *relevance of a need* varies between the customers and also depends on the purchasing, consumption or usage situation. In the automobile market, for instance, the need for "driving dynamics" plays a key role for a certain circle of customers (typically BMW and Porsche customers), while for other target groups (e.g. Toyota customers) this tends to be of less importance. The relevance of certain needs also varies over time (day, year, decade) with respect to a specific customer. For example, there are customers who are very health-oriented in the early morning (e.g. muesli for breakfast), more convenience-oriented at noon (e.g. a sandwich for lunch) and pleasure-oriented in the evening (e.g. dining in a high-class restaurant).

Generally it can be said that:

- the higher the number of customers sharing a need,
- the more subjectively relevant this need
- and the greater the purchasing power of the respective customers,

the greater the customer potential.

Thus, the customer potential for automobiles could be regarded as extremely high in China if we just consider the size of the market and the wish for mobility. However, the overall low purchasing power reduces the customer potential somewhat. But due to the steadily increasing available income, the Chinese market is set to gain further in importance in the future.

Product Potential

To analyse the market potential it has to be determined which needs can be potentially satisfied with certain product offers or product properties. In this sense, products – usually combinations of goods, services and rights – can also be described as "need satisfiers". On the basis of their specific properties, they are potentially able to satisfy a more or less broad and deep spectrum of needs.

Generally, every product and every value (whether material or immaterial in nature) can be the object of a need. In reality, a need is never pure and simple, but is always a complex of needs (Lisowsky 1968, p. 7 and 79).

The *means–end chain approach* illustrates this phenomenon (e.g., Olson and Reynolds 1983; Kuß and Tomczak 2007) by illustrating that the properties of a product (e.g. a low-calorie soft drink) have various functional and psycho-social consequences (e. g., maintaining body weight, good appearance, health, enhanced self-confidence) that serve as tools (= means) to realise certain superordinate individual goals (= ends), such as self-assurance and self-esteem. Thus, these products have certain potentials that have to be utilised by the company through particular measures.

The product potential is the greater,

- the more diverse the spectrum of needs that can be satisfied with a product and
- the higher the subjective significance of the needs to be satisfied in comparison with other needs.

As the enormous sum of around € 50 bn. paid in 2000 for the UMTS (Universal Mobile Telecommunications System) licences in Germany demonstrates, the telecommunications companies regarded the product potential of this technology as extremely high. They assumed that with the aid of UMTS technology, an enormous bandwidth of different needs (information, entertainment, communication etc.) would be satisfied for a large number of customers.

Competencies and Core Tasks

In order to be able to utilise market potential, i.e. customer and product potential, companies need specific competencies. They have to be able to tap into new potential (innovation), and also to exploit potential to the maximum (persistence) (see Fig. 4.4). The following four types of competencies are therefore at the focus of market-oriented strategic management:

- *customer acquisition competence* (capability of developing customer potential),
- *customer retention competence* (capability of exploiting customer potential),
- *product innovation competence* (capability of developing product potential) and
- *product maintenance competence* (capability of exploiting product potential).

In the following section, the various core tasks and the associated activities will be described in detail.

4.2.3 Core Tasks in Marketing

Utilisation of Customer Potential: Customer Acquisition and Retention

The following section shows how customer potential can be systematically utilised, i.e. developed and exploited. First, customer potential analysis is used to identify, evaluate (customer value determination) and select (customer selection) the relevant customer potential. Based on this analysis, a company can choose between several directions of strategic thrust to sustainably utilise customer potential.

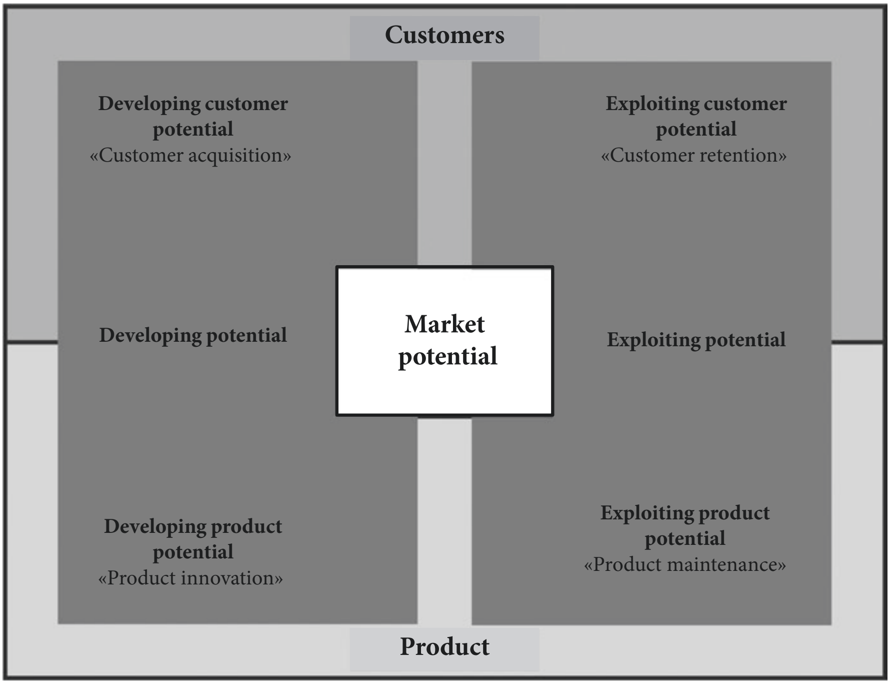


Fig. 4.4 Competencies and core tasks

First we will discuss customer potential analysis, before examining the key tasks of customer acquisition and retention.

Customer Potential Analysis: Identifying, Evaluating and Selecting Customer Potential

In the process of identifying customer potential, it has to be investigated whether potential is available in the form of customer acquisition and customer retention. In both cases, the overall customer potential has to be quantitatively identified. A comprehensive data basis is key for the identification of customer potential. For this purpose, both internal (e.g. field representatives) and external sources of information (e.g. lead users) have to be drawn upon, and different techniques for information acquisition (e.g. monitoring, observing, trend scouting, group discussions, in-depth interviews, customer satisfaction surveys) have to be used (for details see Sect. 4.6.4.2).

Evaluation of the Customer Group "Golf Lovers" by BMW AG

BMW AG views golfers and golf enthusiasts as an attractive customer group, both in terms of customer acquisition as well as customer retention measures. The target group is considered to be attractive and brand-appropriate. BMW expresses this on its own homepage as follows (BMW 2013): "BMW has long since become an integral part of international golf. Everywhere golfers strive for perfection, BMW is not far away: Whether at the BMW International Open, the only tournament on the European Tour staged in Germany that has existed for almost a quarter of a century; whether at the biggest international golf tournament series for amateurs, the BMW Golf Cup International; or at international major events like the BMW PGA Championship in England, the BMW Championship in the USA, the BMW Masters in China and the unique Ryder Cup. The message is: 'Driven by Passion'."

After customer identification, the customer potential has to be evaluated and the suitable customer potential selected. Customer evaluation and selection is possible both for potential as well as existing customers. Today, the evaluation of existing customers is still dominating. However, the market of potential customers is also increasingly pre-evaluated and selected.

Customer Value and Customer Evaluation Customer potential can be analysed with a large number of evaluation methods. The customer value represents the overall importance of a customer from the provider's perspective. Usually, the customer value can be divided into *monetary* and *non-monetary parameters* (Schulz 1995, p. 103 ff.; Cornelsen 2000, p. 38).

In the case of *monetary parameters* the annual sales or sales potential of the individual customer can be considered in a differentiated way using an ABC analysis (Köhler 2005, p. 397 ff.). ABC analyses divide customers into categories, such as A = key customers, B = "normal" customers and C = small customers. On the other hand, the customer value can be identified by calculating (potential) customer contribution margins (Köhler 2005, p. 409 ff.), allowing conclusions as to the profitability and the future potential of the customer. The potential contribution margin of a customer is the sum of the present contribution margin and the contribution margin predicted for the future. Additional pre and post costs should also be considered (e.g. costs of acquisition or costs incurred by ending the business relationship) (Link 1995, p. 109). Furthermore, there is the option of a customer lifetime evaluation. The concept of customer lifetime value transfers principles of investment appraisal to the customer relationship (Blattberg and Deighton 1996). In this context, obtaining or predicting future parameters, such as customer migration, and including these in the customer evaluation is particularly difficult.

Non-monetary parameters comprise the customer's reference potential (recommendations), cross-selling potential (sale of more than the original products), information potential (supply and usability of customer information), innovation potential (providing an impetus for new products), loyalty potential (affinity to provider) and cooperation potential (synergy and value enhancement potential through intensified collaboration and integration of the value creation chains) (for more details see Schleuning 1994, p. 161 ff.; Schulz 1995, p. 113 ff., Rudolf-Sipötz and Tomczak 2001, p. 15 ff.).

The monetary and non-monetary parameters can be analysed with different procedures. These include scoring and portfolio models.

Scoring models support the customer evaluation if a large number of features is to be included (Reinecke and Keller 2006, p. 267 f.). Besides monetary parameters and features that describe the reference potential, cross-selling potential or information potential, additional behaviour-relevant features (e.g. purchasing frequency) are also considered. Points are used to evaluate the customer; these are summed up to form a customer point value. The higher this value, the more valuable the customer is for the provider.

Customer portfolio analyses represent a special form of customer analysis based on combined criteria (Fink and Meyer 1995; Schulz 1995, 126 ff.; Reinecke and Tomczak 2006, p. 265 f.). They are analogous to the corporate portfolio, but customers and business relationships form the focus here. The selected dimensions either consist of one criterion each (e.g. sales volume) or several criteria are combined to form one dimension (e.g. customer attractiveness). The choice of indicators determines the predictive value of the models. Representation of the customer value in the form of a three-dimensional vector provides especially meaningful results (see also Huldi and Staub 1995, p. 27 ff.; Rudolf–Sipötz and Tomczak 2001, p. 80 ff.). A customer cube of this type comprises the present contribution to corporate success (e.g. contribution margin) and the future potential (e.g. potential sales or contribution margin) – both monetary parameters – as well as non-monetary factors such as the information and reference potential etc. (see Fig. 4.5).

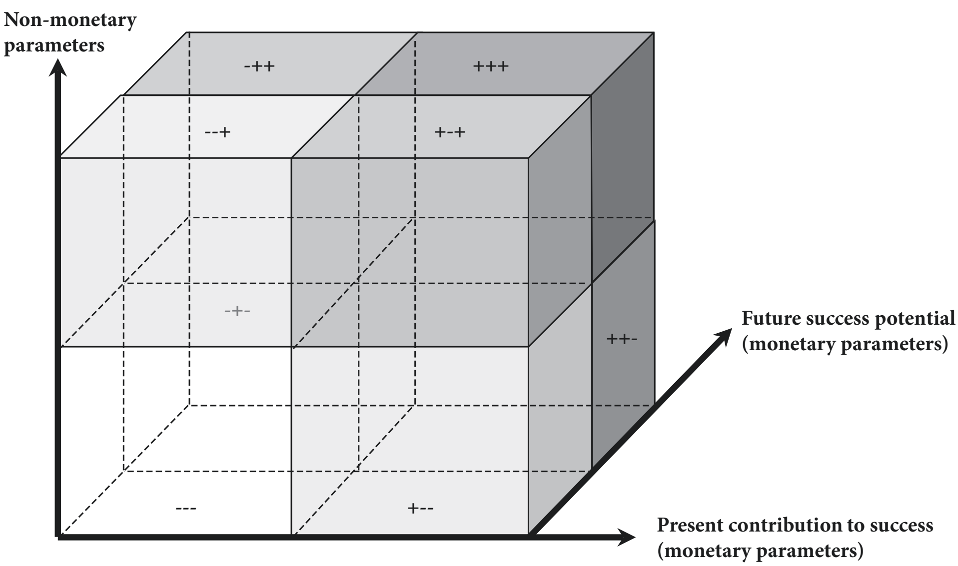


Fig. 4.5 Customer cube for evaluating and selecting customers (Huldi and Staub 1995, p. 27 ff.; Rudolf–Sipötz 2001, p. 193)

Customer Selection The customers are evaluated on the basis of the three dimensions of the customer cube (Fig. 4.5). The cube is used as a simple method for visualising customer value, which in turn serves as an important basis for customer selection. For example, the customers in the outer cuboid (marked with "+++" in the figure) have been identified as top customers due to their high profitability, strong development potential and an outstanding evaluation of their resource potential. These customers have to be retained (or acquired) by the company, and their potential expanded. Customers in the cuboid next to the origin (marked with "---") may be "waived" because there is no reason to keep them in the customer portfolio or to acquire them in the first place (Rudolf–Sipötz and Tomczak 2001, p. 83 ff.). If the company is in a business relationship with such customers, it should be terminated or its intensity decreased (Finsterwalder 2002). With the aid of modern IT-supported forecasting methods, expected customer values can be calculated quite effectively by profile matching with existing customers.

Once the potential and existing customers have been identified, evaluated and selected, the appropriate measures for customer acquisition and customer retention have to be determined.

Customer Acquisition: Developing Customer Potential

The term "customer acquisition" is understood as the task of developing new customer potential. This can be done, for example, by establishing a new distribution channel, running a sales promotion campaign, internationalising or boosting the field sales force. Two basic strategies for customer acquisition can be distinguished (Karg 2001):

- *addressing non-users or non-consumers* and
- *poaching customers from the competitors.*

Non-users are those customers who have not yet bought, or made use of, certain products or services. Non-users have either a latent or a non-satisfied current need with regard to a product. Generally, in addressing non-users, the provider tends to be in *substitution competition*, which is essentially about convincing the customer that a need that was previously latent is actually relevant and should be considered in their purchasing decision. To activate latent needs, the situation that awakens a customer's need has to be determined. The required measures depend, among other things, on the willingness of the non-users to adopt innovations and on the competitors' activation measures (Kroeber-Riel et al. 2009, p. 93 ff.; Kotler et al. 2007, p. 276 ff.). To attract potential customers with current needs that have not yet been satisfied, the provider has to attempt to remove the barriers (e.g. financial restrictions) that currently prevent the customers from making the purchase.

A different approach is required to win the *competitors' customers.* In saturated markets in which intense predatory competition usually prevails, customer retention strategies will have been implemented (Diller 1996, p. 81; Dittrich 2002; Bruhn and Homburg 2013). Thus, the task is essentially to convince potential customers of the relative advantages of one's own products so as to motivate them to switch providers. A detailed understanding of the determining factors of customer retention (also see the discussion on customer retention in the following section) and of the reasons for switching, as well as the choice of the right time, are critical aspects of successful customer acquisition.

The following box presents an example of a company pursuing the two customer acquisition strategies ("winning non-users" and "acquiring competitors' customers") at the same time – an extremely demanding strategy.

Winning Non-users and Customers from the Competition: Nivea DNAAge
(Source: http://www.gwa.de/images/effie_db/2009/NiveaDNAge.pdf) 2008 got off to a bad start for Nivea: L'Oréal Men Expert overtook NIVEA FOR MEN as the number 1 face cream for men. To win back the throne, NIVEA FOR MEN decided to enter the anti-aging segment. Two seemingly contrary target groups were both to be convinced with a single campaign: Firstly, men who had previously held a sceptical stance towards anti-aging products, viewing them as useless beauty products for women. These men, who considered wrinkles less as an imperfection to be battled, but rather as a manly sign of experience and maturity, were not to be won over with classical promises of product performance. Secondly, existing category users were to be addressed, who mainly used the competitor brand L'Oréal Men Expert – and they expected exactly what was irrelevant for non-users: convincing performance promises.

Customer Retention: Exploiting Customer Potential

The core task of "customer retention" focusses on how customer potential can be exploited in the long term (see in particular Dittrich 2002; Bruhn and Homburg 2013). For this purpose, companies should create psychological (customer satisfaction, trust) and factual, i.e. technological, legal and economical, switching barriers for selected customers. Regarding customer loyalty, two general sub-strategies can be distinguished (Tomczak et al. 2002):

- *retention* and
- *penetration*.

Customer potential can be exploited simply by assuring continual repeat purchases and either preventing them from switching to the competitors or winning them back (*retention*). Achieving this requires proactive measures, such as raising customer satisfaction (e.g. Dittrich 2002), as well as reactive measures, such as professional complaint management (e.g. Stauss and Seidel 2007) or systematic customer recovery management (e.g. Stauss 2000).

"Telekom-hilft" Feedback Community

Complaint and feedback management is extremely important for companies in the telecommunications industry. The Telekom Deutschland Customer Service strives for open, direct and personal communication in line with "Customer Service 2.0". Whether in the Feedback Community, on Twitter or Facebook, the employees attempt to respond to customer enquiries quickly and competently. The underlying idea is that customers can become active members who actively support Telekom. As a result, the company can utilise the customers' valuable knowledge. (Source: www.telekom-hilft.de)

Customer relationships can be developed more strongly (*penetration*) by better exploiting the customers' willingness to pay, by increasing purchase frequency and intensity (more repeat purchases or up-selling) and by promoting related purchases (follow-on purchases and cross-selling). In up-selling, the customer is induced to buy higher-value products (e.g. a car one level above the old model). Follow-on purchases can result from connections between the first product and another product or service (e.g. buying a Barbie doll and then buying further dolls and accessories). Cross-selling is understood as additional purchases of products and services from other business areas (e.g. sale of a life insurance to a customer who had previously only bought property insurance, such as household and car insurance policies).

The following two examples are meant to further illustrate the concept of customer penetration.

Customer Penetration through Up-selling, Cross-selling and Follow-on Purchases: Miele and Nespresso

Building upon customer satisfaction, a strong brand and the resulting reference potential, the former cleaning specialist *Miele* managed to establish itself as a kitchen expert as well. Thus, "vertical customer retention" (repeat purchases, e.g. purchase of another Miele washing machine) could be supplemented by "horizontal customer retention" (additional purchases, e.g. oven, microwave, coffee machine, vacuum cleaner). To facilitate this, the design and the basic functional configuration of all devices was aligned as far as possible (e.g. opening knob on the same side, same colour, same height of drier and washing machine etc.). The structure of the operating instructions is identical. Follow-on purchases are also offered, e.g. warranty and service contracts, as well as consumables (washing powder, filter bags) that are ideally oriented towards the functionality of the Miele devices.

Another example is provided by the premium provider *Nespresso*, a subsidiary of the *Nestlé Group*. The design- and lifestyle-oriented Nespresso concept consists of three elements: the sealed, portioned coffee capsules, the coffee machines and the "Nespresso Club". As coffee machines are normally only replaced when they are damaged or when an innovative product appears, there is a high up-selling potential for *Nespresso*, especially in conjunction with the launch of machines in innovative designs and with additional functionalities (such as milk frothers) or new coffee varieties. However, *Nespresso's* main source of income is represented by the capsules especially designed for its own machine that can be purchased either via the internet, by phone or in the "Nespresso Boutiques" (follow-on purchases). Additional purchases are stimulated by a wide range of accessories, such as cups or decorative capsule storage containers. (According to Dittrich 2002, p. 141)

Utilisation of Product Potential: Product Innovation and Maintenance

On the product side, just as on the customer side, a product potential analysis has to be conducted, which means identifying, evaluating and selecting product potential. This addresses the core tasks of product innovation and product maintenance.

Again, we will first discuss the product potential analysis, before we will examine detailed measures for utilising product potential.

Product Potential Analysis: Identifying, Evaluating and Selecting Product Potential

Identification of Product Potential The use of a broad information basis is imperative in order to identify the potential of individual products and to decide which direction of strategic thrust is to be pursued for utilising product potential (Haedrich et al. 2003, p. 230 ff.). Relevant *trends and changes* need to be recognised in time. These changes may affect the product itself (or the entire product range), the technology, the customers (above all their needs), the competitors or the framework conditions (legal, social etc.). The procedures used for identifying customer potential may be modified and applied for identifying product potential as well (see Sect. 4.2.3.1).

Product Evaluation and Selection Here, new products (product innovations) as well as existing products (performance maintenance) have to be considered. It has to be investigated on an ongoing basis or at certain time intervals which potential the individual products (still) have, for example in which stage of the product lifecycle they are or which positioning they have (Tomczak et al. 2007). Also, it needs to be verified which (potential) sales quantities and which current and future product contribution margins may be achieved or have been achieved with which products, services and rights. Sales and contribution margin calculations provide important information that can be used for selecting the various product offers, e.g., within the scope of a *portfolio or ABC analysis*, in order to eliminate products with low (anticipated) contribution margins from the product range (Tomczak et al. 2007) or not to launch them on the market in the first place (e.g. after estimating the prospects of success for a product innovation with the help of test markets or market tests).

In contrast, the *turnover calculation* uses turnover as the key evaluation criterion (Nieschlag et al. 2002, p. 660 ff.). It is primarily meant to reflect the absolute and relative significance of a product/product group as a *source of revenue*, but also to show value deviations with regard to plan data or to reference parameters from the previous period. Turnover calculations can also help decide which products should be eliminated, e.g. via an ABC analysis which categorises the products into three classes according to their contribution to corporate success. Figure 4.6 shows such an evaluation.

In Fig. 4.6 the first four products make a high contribution to the total turnover, products 5–7 are mid-range and products 8–20 make a low contribution and should perhaps be removed from the performance portfolio. Frequently (but not always) it becomes evident that 20 % of all products achieve a turnover contribution and contribution margin of approx. 80 % ("Pareto principle").

The *contribution margin calculation* involves a product evaluation, for example according to the following formula (always in relation to a certain time period):

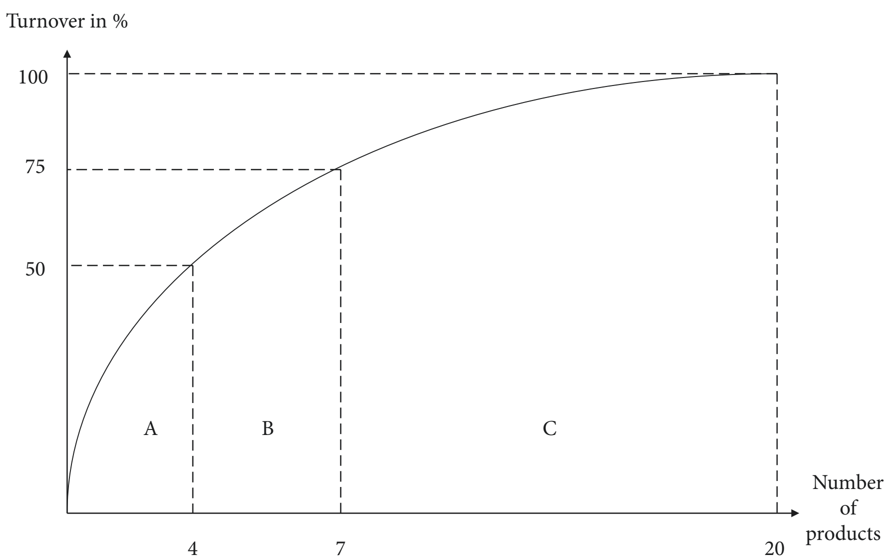


Fig. 4.6 ABC analysis according to turnover (Nieschlag et al. 2002, p. 662)

	Quantity sold × prices attained
Minus	Directly attributable sales costs (e.g. communication, distribution, sales)
<u>*Minus*</u>	<u>*Quantities sold*</u> × <u>*factoring unit costs of production/manufacture*</u>
=	Contribution margin per product or product group

So the contribution margin of a product is that part of the turnover that remains after subtracting the costs directly attributable to the product and contributes to covering other costs in the company and generating a profit. Thus, the contribution margin calculation using an ABC analysis may be used for selecting product offers.

With the *portfolio technique* (for details see Sect. 3.3), existing and new products can be classified in a grid that differentiates between the two dimensions of market attractiveness (i.e. future market potential) and market position (e.g. turnover, relative contribution margin, market share). This may also be used for product selection. Thus, products with a weak market position and a low level of market attractiveness are designated as "Poor dogs" which represent the candidates for elimination. Products with a strong market position and a high level of market attractiveness represent the "Stars", which should receive future investments.

Product Innovation: Developing Product Potential

The core task of "product innovation" is to develop the product potential (see Tomczak et al. 2002 for more details). This includes all measures that have to be adopted to create new problem solutions and to successfully establish them on the market. An innovation must be based on the company's unique resources and capabilities such as a brand (e.g. Marlboro, Nivea), high investment in research & development (such as at SAP), a specific corporate culture (as at 3 M) or a core product (e.g. the plastic PTFE [polytetrafluoroethylene] of the company Gore; see the case studies in Sect. 4.5.4.3). In this context, two directions of thrust may be distinguished (Verhage et al. 1981, p. 75):

- *create "new-to-the-world" offerings* or
- *imitate products.*

A company may truly *develop and launch a real market innovation* ("new-to-the-world" offering) or it can copy products already on the market using imitation. While truly new, innovative products are mainly based on internal factors and resources, such as expertise in a new technology, *imitation* focusses on the competitors' products and the capability of copying them. Here, it is helpful to distinguish between the degree of innovation from the perspective of the market and from the perspective of the company. Market innovations, i.e. "new-to-the-world" offerings, are, in principle, new solutions to problems; either an old challenge is mastered in a completely new way or a need is fulfilled for which previously there had been no concept. In contrast, corporate innovations, i.e. imitations, differ only in their design or in a somewhat modified, usually improved, function from similar products already on the market (Nieschlag et al. 2002, p. 692 f.), while the technical innovation was used by the company for the first time, irrespective of whether other companies had taken the step beforehand or not (Witte 1973, p. 3).

Product Innovation at Hero

A GfK study commissioned by Hero, which identified lack of time as the most important reason for the low fruit consumption in Switzerland, was the decisive factor for the development of the new product Fruit2day. This is a mixture of fruit juice, fruit pieces and fruit puree which, besides vitamins and minerals, also contains valuable dietary fibre from fresh fruits. With Fruit2day, fruit can be consumed fresh, not only without preparation and at any time, but thanks to the varied combination of tastes it also appeals to children more than pure fruit does. This not only makes it suitable as a snack for consumption on the move or between meals, but above all as a healthy alternative to sweets. With an uncomplicated, ready-to-eat and filling snack that helps to increase daily fruit consumption, Hero kept abreast of the latest consumption habits and picked up on both the convenience and the LOHAS trend (Lifestyles of Health and Sustainability), which means customers from several segments are addressed and various needs, such as time saving, fitness, health or better care for children, are satisfied. In May 2009, Fruit2day was also launched across the USA.

Product Maintenance: Exploiting Product Potential

Once a company has managed to tap into additional customer potential with successful new offerings, the core task of "product maintenance" is to exploit this potential (for more detail see Tomczak et al. 2007). The aim is to keep the solution of a problem as widely present on the market for as long as possible (keywords: prolongation and optimisation of the production lifecycle), thus sustainably generating value. Two approaches are suitable in this context (Kaetzke and Tomczak 2000, p. 19):

- *preserving product potential* and
- *expanding product potential*.

Preservation of Product Potential Variation and revitalisation are the two possibilities to preserve an existing product. *Variation* involves marginal adaptations and innovations, with the product offer remaining virtually unchanged (e.g., development of the VW Golf over the past 40 years). If already existing values are resurrected, the term *revitalisation* is used. Depending on the starting situation and the targets, revitalisation may not only preserve, but also expand the product potential (e.g. the Mini offered by BMW).

Expansion of Product Potential Differentiation, up-selling, bundling and multiplication are options for expanding the product potential. *Differentiation* is intended to generate or increase the sales of similar (additional) products. Besides the version of a product already on the market, further versions (varieties) of this product are launched (–e.g. light products or decaffeinated varieties of drinks). *Up-selling* attempts to increase value creation by offering more expensive variants in place of the previously sold basic version (e.g. replacement of the basic Nivea cream by the higher-quality Nivea face cream). In contrast, *bundling* is aimed at generating or increasing sales by combining products already launched with complementary products or (additional) services. This option is based on the performance system approach (Belz 1991; Belz and Bieger 2006). With *multiplication*, existing product offers are replicated and systematically offered in new markets (see von Krogh and Cusumano 2001, who characterise this strategy with the terms "scaling" and "duplicating") in order to generate or increase sales in additional markets (e.g. the propagation of the McDonald's fast food concept developed decades ago) (Tomczak et al. 2007).

Some of the Challenges and Solutions of Product Maintenance at Coca Cola

Hardly any other product shows such continuity in performance and packaging as *Coca Cola*. The secret recipe of the Coca Cola concentrate has remained unchanged since its invention in 1886. This unique product maintenance is based on various marketing measures. The results of intensive, ongoing market research proceed directly into planning and communication measures, thus regulating any deviations that may arise between the targeted and actual positioning among the respective target groups. Despite global marketing, the sub-markets and sub-target groups are served in a differentiated way. An effective and dense distribution system ensures maximum availability. A positioning model that combines the original brand values still communicated today serves as an orientation for all measures. For *Coca Cola* the question is what the company needs to do to maintain an unvarying product performance in a dynamic environment. The change in formulation in 1985 demonstrates a critical phase in product maintenance. *Coca Cola* changed the composition of classical Coke with a view to improving it. The new formulation under the name "*New Coke*" was to replace the classic beverage. The longstanding competitive battle with *Pepsi* and the Pepsi Test, in which *Pepsi* always comes off better among consumers, were crucial for this product maintenance measure. The extensive market tests prior to launching exposed a systematic error, however, as it was not made clear to the volunteers that "*New Coke*" was intended to replace and not supplement "*Classic Coke*".

The widespread outrage among customers and the slump in sales led to *Coca Cola* being reintroduced after just a few days. *New Coke* disappeared from the market. The Coca Cola managers became aware of the strong consumer commitment and the consistent value emanating from the brand. For *Coca Cola*, product preservation is above all about positioning and not about maintaining the product.

In 2005, the company launched "*Coca Cola Zero*". This brand was mainly aimed towards "non-users of light products" (men) since its taste is hardly distinguishable from that of classic *Coca Cola*. Not least as a result of its great success, the target group has since been expanded to women. (Based on Roosdorp 1998, p. 241 ff.)

In order to be able to systematically exploit market potential, all activities have to be oriented to the four core tasks. Figure 4.7 presents a general overview of the options generally available to achieve growth and profit.

Specific Competencies for Fulfilling the Core Tasks

The previous section demonstrated how market potential analysis and the core tasks of marketing may be used to derive the growth options of a company. To be able to utilise these growth options, companies need certain competencies (for customer acquisition, customer retention, product innovation and product maintenance).

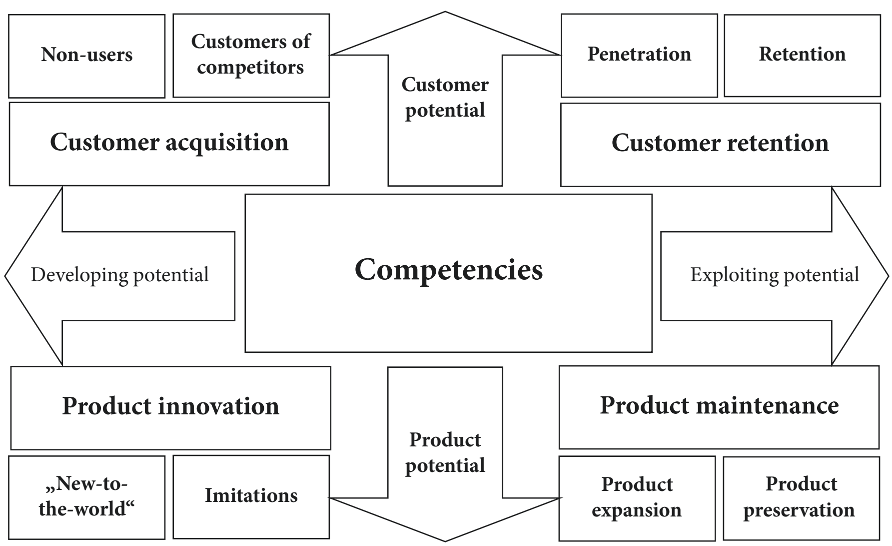


Fig. 4.7 Growth and profit options (Tomczak et al. 2002)

Core task	Philosophy	Required competencies (examples)	Companies (examples)
Customer acquisition	"Win the customer"	- Risk reduction capability - Powerful and focussed sales organisation, hunter mentality	Vorwerk, AWD
Customer retention	"Care for the customer"	- Capability to gather and process customer information - Service and consulting capabilities - Capability of customer integration - Capability of building relationships	IBM, MLP, Ritz Carlton, Amazon, Zalando
Product innovation	"Leave for new shores"	- Creativity and openness (thinking out of the box) - Readiness to accept risks - Speed (time-based competition)	Apple, 3M, Gore, Google
Product maintenance	"Optimise your solution"	- Capability of optimising - Striving for security - Capability of standardising (economies of scale)	Procter &Gamble, McDonald's

Fig. 4.8 Specific competencies for fulfilling the core tasks (according to of Tomczak et al. 2002)

The internally available competencies can be identified within the scope of a *competence analysis*. Various, often competing competencies are needed in order to be able to master a core task (see Fig. 4.8). According to definition, these competencies refer to the coordination and linking up of knowledge and certain tasks. For instance, the competence of "creativity" requires that an individual possesses the necessary knowledge to develop ideas, methods and products that are new for the company and provide benefit both for the customer and the company. Secondly, the individual has to possess additional knowledge about these ideas, methods and products in order to be able to decide which information or materials are to be deployed in which form. Furthermore, this knowledge has to be linked with complex tasks because only in this context can this knowledge unfold through higher motivation, satisfaction and productivity (von Krogh and Roos 1995; Cummings and Oldham 1997; Zimmer 2001).

However, these are only examples. Due to the complex structure of knowledge, it is difficult, at least with the methods currently available, to exactly define the capabilities which will lead to higher-than-average fulfilment of a core task (see von Krogh and Venzin 1995, p. 420 ff. and the literature cited therein). This is due to the fact that capabilities are often based on company-specific processes and are embedded in complex structures; specific cause–effect relationships between skills and competitive advantages are often not even known to the company itself. It is exactly this aspect which ensures that capabilities are hard to imitate and can therefore lead to competitive advantages (Barney 1991, p. 107 ff.). Generally, every company is faced with two challenges: On the one hand, it is a matter of *developing specific competencies* in order to best fulfil the individual core tasks (see Sect. 4.2.3.4). On the other hand, efforts have to focus on the *integration of the four core tasks*. So, overall, the aim is an *optimal core task profile* (see Sect. 4.3).

Coordination of Market Potential and Competencies

Whether, and if so, which, measures are adopted to acquire or retain certain customers, to launch new products in a market or to invest in relaunching existing products, depends on where a company's scarce resources can be deployed most effectively and efficiently. This requires an answer to the question which growth options and potentials are to be used in the future and are actually available.

In other words: market potential on the one hand, and competencies on the other hand, have to be matched and coordinated. The *market potential–competencies matrix* presented in Fig. 4.9 identifies the various options a company is faced with.

Generally, resources should be deployed where the existing competencies meet the greatest possible market potential (use of competencies). If a company already has some of the necessary competencies, but these are not yet sufficient for growth options with high market potential, the existing competence base should be used and expanded via (further) development of selected competencies (use and development of selected competencies). If confronted with areas with a high growth potential, but at the same time a lack of competencies, the management has to decide whether it will be possible to make use of this market potential after the relevant investments. To ensure an efficient deployment of

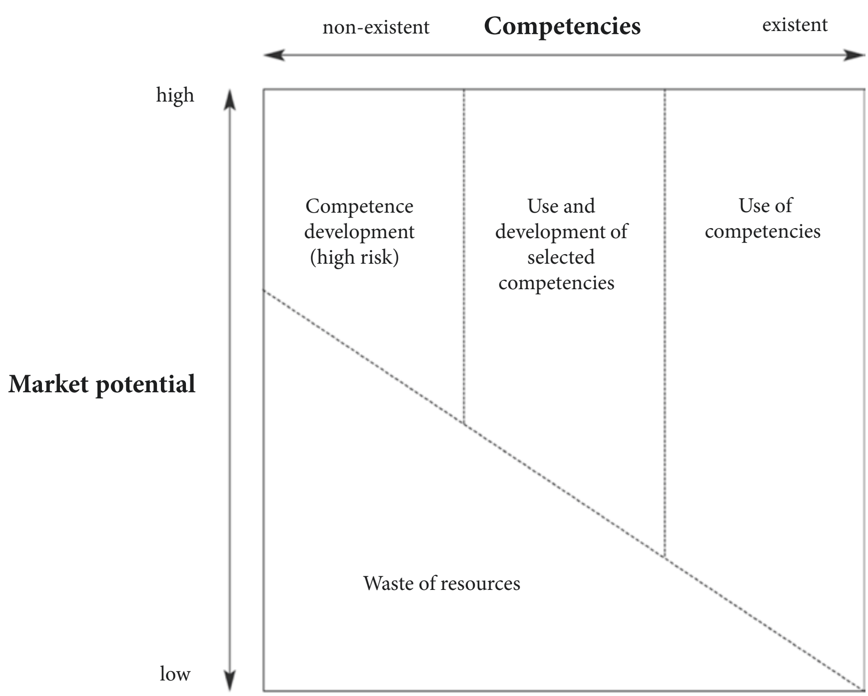


Fig. 4.9 Market potential–competencies matrix

resources, in some cases it may even make sense to cut down on competencies for which no market potential is available (or no longer available).

The following examples may serve to illustrate the use and development of competencies.

On the Use and Development of Competencies in Various Companies

Using competencies

- The leading European hotel group *Accor* used its customer acquisition competencies, especially those developed in France, to open up the international hospitality market (Sofitel, Novotel, Mercure, Ibis, Formule 1).
- *3M* is using its innovative competence in very diverse fields, such as health care, office materials, electronics and communication, as well as in transport.
- The variation of the Nivea product series and its expansion with the Nivea for Men series uses the product maintenance competence accumulated by *Beiersdorf* over decades (e.g. Nivea, Eucerin, Florena, 8x4, Labello).

Developing competencies

- *Hilti,* an international company in the field of construction and demolition technology, has a strong customer acquisition competence essentially based on direct distribution. With a new multi-channel strategy (central customer service, online website, Hilti Shops and sales representatives), Hilti continues to develop this competence.
- *IBM* rounds off its traditional customer loyalty competence by expanding relationship management: additionally to the traditional contact to all employees and managers responsible for hardware (IT managers, CIOs), it now concentrates on developing contacts with the specialist departments (e.g. Marketing) that often decide, or are involved in deciding, on software and service contracts.
- *Microsoft* put its innovation competence to the test by developing the Xbox. While its core competence had previously been in the field of software, Microsoft now used it to penetrate the game console market for the first time.
- With the opening of the first *Starbucks* coffee shop in Tokyo in 1996, the company embarked on its international expansion strategy. The catering concept – which had been very successful in the USA – was exported and adapted with the help of local distribution organisations; the skill of product maintenance was further developed.

(Tomczak et al. 2002)

In order to acquire missing competencies and to achieve the envisioned objectives (growth, profit, value enhancement), the following possibilities are available (Verdin and Williamson 1994, p. 84):

- *Internal development (asset accumulation)*: Internally existing competencies are defended and expanded.

Fig. 4.10 Financial target system

	Existing products	New products	
Existing customers	250	150	400
New customers	200	400	600
	450	550	1.000

- *Cooperative development (asset sharing)*: The basic idea is to concentrate on internal core competencies, but to secure access to third-party competencies (for example from highly specialised companies) via cooperations.
- *External development (asset acquisition)*: Missing competencies are procured through fusions and acquisitions.

The best path to be taken in order to gain new competencies is strongly dependent on industry specifics and the tradability of competencies. The relative costs accrued by the acquisition are decisive (Verdin and Williamson 1994, p. 84).

Overall it can be said that the coordination of market potential, on the one hand, and internal competencies, on the other hand, provide a basis for the effective allocation of resources (investments) and thus focal points for determining the basic strategic thrust. These focal points can be defined by a quantitative evaluation. Resources have to be distributed between developing and exploiting product potential, on the one hand, and between developing and exploiting customer potential, on the other hand. Figure 4.10 shows the *target system* resulting from this evaluation. Here the individual target parameters show the importance attributed to the individual growth options and the resulting growth strategy.

Apart from the growth strategy, the marketing strategy also has to be defined as part of market-oriented business unit planning. The marketing strategy encompasses the elements of core task profile, cooperation and positioning. These individual elements will be discussed in the following sections.

4.3 Core Task Profiles

Due to a lack of certain competencies, it is usually not possible for a company to take advantage of all options in every situation. The key challenge in this context is to identify the appropriate core task profile based on the defined growth strategy and to base the company's activity on the highest potential growth generation. In other words: Which competencies (for the core marketing tasks) have to be developed or maintained internally in order to be in a position to open up or exploit market potential?

4.3.1 Types of Core Task Profiles

In the following, some typical core task profiles will be explained on the basis of examples (see Fig. 4.11):

Profile of the Trendsetter

In new and innovative markets, the focus is especially on *customer acquisition and product innovation*; this results in the core task profile of a trendsetter tht tries to open up customer and product potential simultaneously. Thus, the marginal utility of the marketing budget is significantly higher for these two core tasks than it is for customer retention and product maintenance. For example, manufacturers of electric cars mainly invest their marketing resources in customer acquisition. Advertising, sponsoring and promotional activities are paramount. At the same time, the providers invest intensively in creating infrastructure for electromobility by means of marketing coalitions. Car sharing is offered in an attempt to acquire new customers. In contrast, these providers do not (yet) invest significantly in customer retention measures. Neither is there any relevant product maintenance in this young

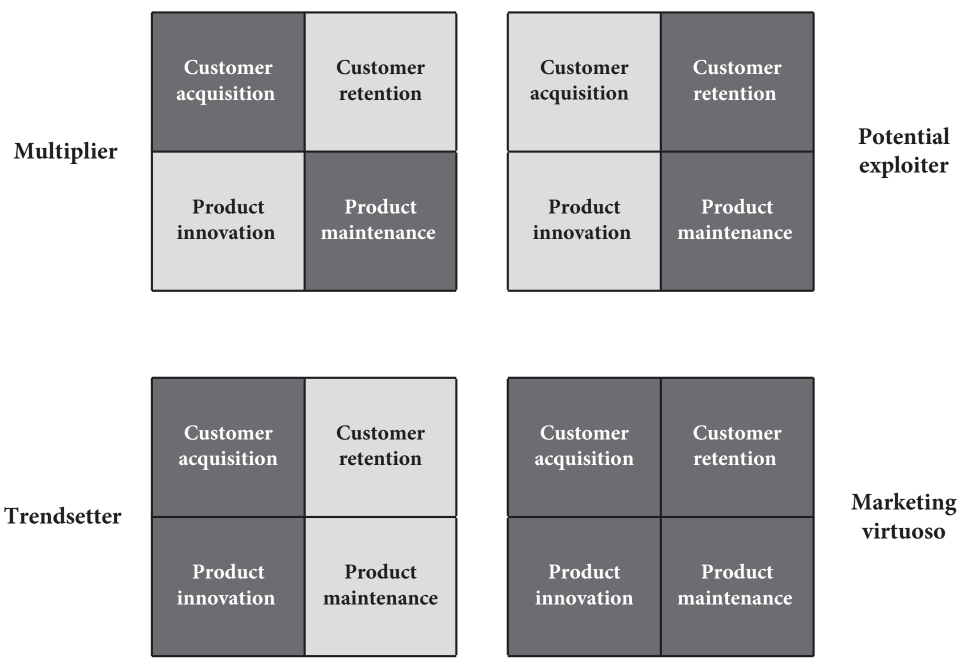


Fig. 4.11 Some examples of core task profiles (Tomczak et al. 2002)

market. For long-term success, it will be necessary to either remain a trendsetter and continuously offer new products or to gradually switch the focus from customer acquisition to customer retention.

Profile of the Potential Exploiter

Potential exploiters pursue a combination opposite to that of the trendsetter core task profile. They concentrate on existing customer and product potential and optimise their marketing measures, such that this potential is sustainably exploited. Here the core tasks of *customer retention* and *product maintenance* take centre stage. An example for a potential exploiter in the aviation industry is Lufthansa. This company has a large customer base and offers a broad performance spectrum. When the aviation markets were liberalised, Lufthansa had to prevent particularly attractive customers (business travellers, private frequent flyers) from switching to competitors (e.g. by offering the Miles & More frequent flyer programme, raising customer satisfaction etc.). Secondly, it had to adapt its existing product range and capacities to the changed market conditions, for example, by updating and improving services (e.g. optimised capacity management through membership in the Star Alliance, continuous improvement of in-flight and ground services in Business Class).

Profile of the Multiplier

The *multiplier* focuses on the instruments of *customer acquisition and product maintenance*. A typical example of this profile are international franchisors such as McDonald's that aim at exploiting a successful idea worldwide. New customer potential has to be opened up for this purpose, as demonstrated by the following statement from McDonald's CEO: "The 120 countries in which we operate represent 95 % of the world's purchasing power. Yet we feed less than 1 % of the world's population on any given day" (Greenberg 2001, p. 3). Up until 2013, McDonald's had opened over 34,000 branches worldwide. At times, McDonald's branch network was expanding at a rate of one branch every four hours. The franchisor is responsible for customer acquisition (advertising) and product maintenance (quality management, training courses, provision and development of expertise, positioning etc.). Customer retention is primarily the result of the operative business ("Marketing brings customers in, operations brings them back.").

Profile of the Marketing Virtuoso

Some companies do not emphasise individual tasks but strive to *pursue all four core tasks intensively*. An example of such a *marketing virtuoso* or marketing all-rounder is the company Swisscom. Swisscom developed from a traditional telecommunications provider into a TIME company (TIME = Telecommunications, IT, Media and Entertainment). The company permanently creates new product offers (such as digital television (Swisscom TV)), constantly opens up new customer potential with existing and new offerings, emphasises customer retention (offering accessories, raising the willingness to pay through high quality products with outstanding customer service) and maintains the Swisscom brand as well as the individual products and services through ongoing updating and improvement.

Empirical Evidence Regarding the Four Core Tasks

In 2006, the Institute for Marketing and Retailing of the University of St. Gallen conducted a cross-industry empirical study on "*Marketing in the 21st century*" in Switzerland. As part of this standardised written survey, the core task profiles, resources and capabilities, competitive advantages and success parameters were investigated on the business area level. In each case, the head of marketing and those members of the (business area) management responsible for corporate marketing and/or sales were surveyed. The target group of the survey was formed by a random selection from a total of 2500 Swiss companies. A total of 379 managers participated in this survey. 367 out of 377 interviewees specified the core task profile correctly. Theoretically, 16 (= 2^4) different core tasks profiles are conceivable. Figure 4.12 shows that there are real-life examples for each one of these possible core task profiles. However, it is also clear that some core task profiles appear far more often than others. For instance, 15 % of all companies have competence advantages in customer loyalty and product maintenance, 14 % act as "customer acquirers". It should also be pointed out that around 8 % of companies are demonstrating the core task profile of a "marketing virtuoso" (all-rounder). (Tomczak et al. 2007)

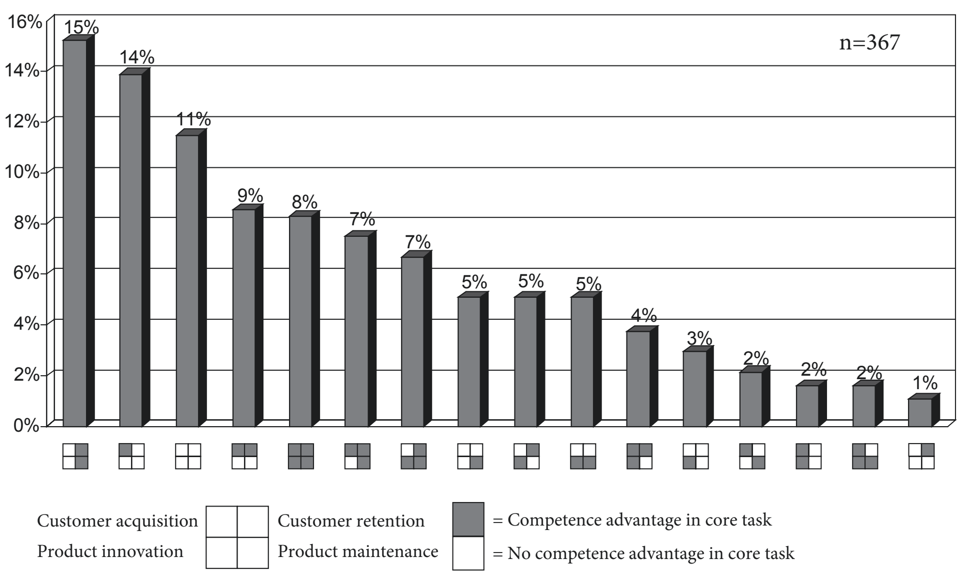


Fig. 4.12 Frequency of the core task profiles. (Tomczak et al. 2007)

4.3.2 Competition-Beating Core Task Profiles

When deciding on core task profiles, two fundamentally different perspectives are to be distinguished:

- **Concentration on core competencies**
  These companies focus on a core task and attempt to use and extend their superiority in this area. The disadvantage of this approach is that it is simply not possible to utilise all the theoretically available market potential. To realise the objective of "business excellence", the company should concentrate on the core competencies and outsource all value creation activities that ar not crucial for success (Töpfer 2006, p. 119).
- **Complete utilisation of the market potential**
  To be in a position to realise all conceivable growth and profit opportunities, companies have to master all core tasks as effectively as possible ("all-rounder"). Such an approach is prone to the risk of fragmentation. Lack of competencies may mean that no competition-beating core task profile can be developed. "No company can be good at everything. First, companies have limited funds and must decide where to concentrate them. Second, choosing to be good at one thing may reduce the possibility of being good at something else" (Kotler 1999, p. 55). Thus, companies run the risk of becoming a marketing amateur rather than a virtuoso.

In view of the conflict described above, the question has to be asked whether certain *general rules* for formulating core task profiles can be determined. In the literature, various authors discuss this question in the context of approaches that show a similar orientation as the task-oriented approach, providing some (initial) pointers for formulating competition-beating core task profiles, in particular the approaches by Miles and Snow (1978) and Treacy and Wiersema (1995) as well as further developments by Slater et al. (1997) and applications by Hagel and Singer (1999).

The individual approaches are based on various theories and theoretical concepts, particularly the generic competitive strategies according to Porter, the resource-based approach and network theory.

According to Treacy and Wiersema (1995), a company or a strategic business unit has to offer a unique value proposition, develop a new operative business model and consistently pursue its value disciplines, despite continuous changes and improvements, in order to operate successfully on the market. These considerations are based on the hypothesis that three customer types exist in every market: customers who prefer innovations, customers who prefer reliable products, and customers who expect their individual wishes and needs to be addressed as fully as possible. Three different strategies may be derived from this concept, which describe how a company can successfully combine its operative business model and value proposition: *operational excellence*, *product leadership* and *customer intimacy*. Each of these three strategies is based on its own business model with distinct features of the organisational structure, company processes, information system and corporate culture.

Treacy and Wiersema (1995) stress that a company has to strive for top performance in one of these three strategies, but also has to make sure it does not have any significant competitive disadvantages in the other two.

Slater et al. (1997) complemented the three strategy types according to Treacy and Wiersema with the strategy type of the *brand champion*. The brand champion, like the customer intimacy type, also stresses the customer perspective, but on a "mass market level". Key for this strategy type is the establishment and maintenance of brand value, including market segmentation and analysis, positioning and cultivation of good channel relationships.

Hagel and Singer (1999) distinguish between the three strategy types *customer relationship, product innovators* and *infrastructure management* which are, in principle, the same types as those of Treacy and Wiersema, but from an inside–out perspective, stressing that their strategy types place the emphasis on each one of the key core processes of a company: sales, product development and infrastructure management.

Summarising the approaches presented above and combining them with the task-oriented approach shows that different strategy types demonstrate different competence structures. To achieve competitive advantages it is necessary to concentrate on one strategy or one core process.

Similarly, qualitative and quantitative results regarding successful core task profiles within the scope of the task-oriented approach show that due to the high overall complexity and necessary investments only a few companies are able to utilise all market potential without any outside support.

Tomczak et al. (2007) identified three successful core task profiles: customer relationship, product leadership and focused market leadership.

Customer relationship companies continuously increase their share of wallet and improve the economies of scope. For this purpose, they need a relatively diverse and broad product range. They place the focus on the core tasks of customer acquisition and customer retention. So the key challenge is understanding the individual customer and controlling customer access. The latter is usually secured through direct distribution. Examples of customer relationship companies: Dell, Amazon or typical retailers like Rewe (Germany) or Coop (Switzerland).

Product leadership companies concentrate on the performance side of the task-oriented approach, i.e. on the core tasks of product innovation and product maintenance. They continuously create new products that define the state of the art. They are also always on the look-out for first mover advantages. Management is geared to economies of scale and takes a global perspective. This type of company strives for a broad and rapid expansion in the markets. To achieve this, it mainly relies on indirect distribution, key account management and a relatively narrow programme of standardised products with performance advantages (quality, brand). Successful examples of this type of core task profile include Procter & Gamble, Gore, Nike, SAP and Hilcona.

Focused market leadership companies focus simultaneously on customer relationship and product leadership, thus concentrating on all core tasks. However, this type of company focuses on limited, but attractive market segments. In the selected market segments they try to achieve price premiums for innovative products by means of customer knowledge and intensive customer relationship management. Characteristic of this core task profile is selective distribution with a strong direct lead channel. Examples of focused market leadership companies include Starbucks, Hilti and Nespresso.

Empirical Findings Regarding Successful Core Task Profiles

As part of the empirical study on "*Marketing in the 21st century*" presented in Sect. 4.3.1, the core task profiles and several success parameters were investigated on a business area level. One aim of the empirical study was to analyse the relationship between success and core task profiles. Success requires outperforming the competition (Ambler 1999, p. 706). Thus, this study operationalised success in comparison with the main competitor, with the development of the overall profit and the sales volume serving as the measures of success.

Figure 4.13 presents the success of the individual core task profiles indicating that the profiles of customer relationship, product leadership and focused market leadership are the most successful ones. In contrast, core task profiles with no competitive advantage in any core task or with competitive advantages in diametrically opposed core tasks (e.g. in customer retention and product innovation) are less successful. (Tomczak et al. 2007)

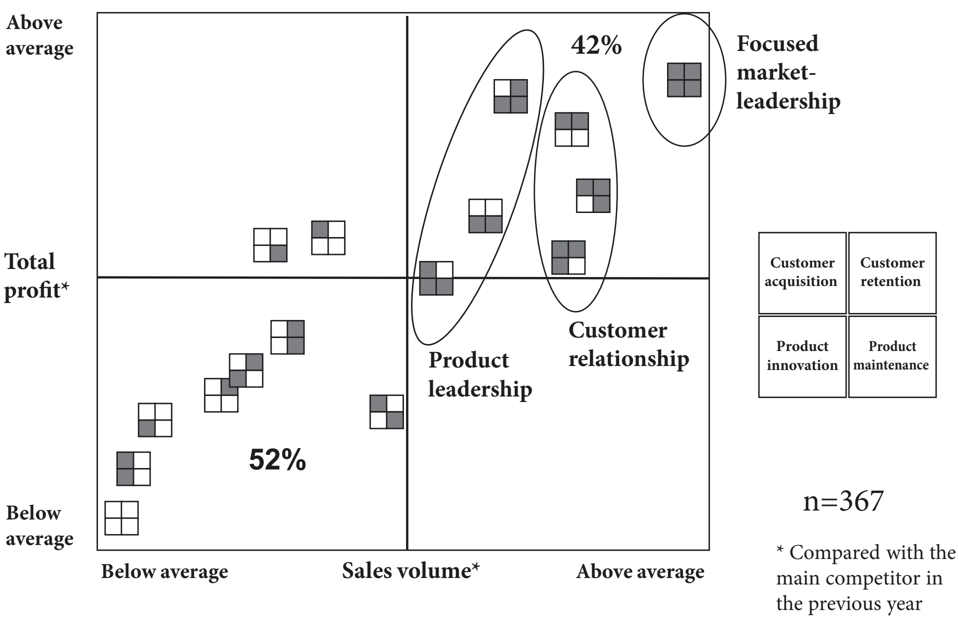


Fig. 4.13 Relationship between core task profile and success. (Tomczak et al. 2007)

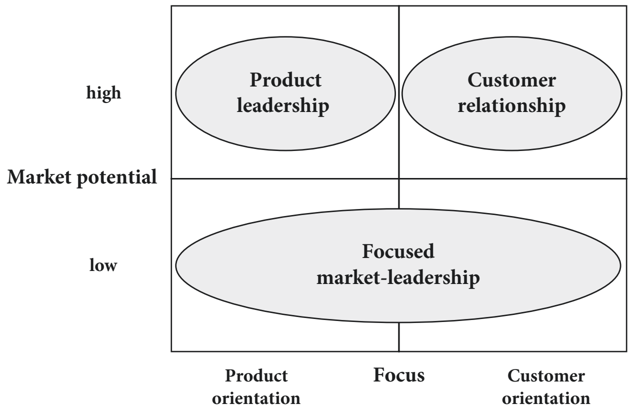


Fig. 4.14 Competition-beating core task profiles (Tomczak et al. 2007)

The matrix presented in Fig. 4.14, with the two dimensions "customer/product orientation" and "market potential" may be used for systematising the *competition-beating core task profiles*.

Due to the high complexity, companies that combine all core tasks tend to focus on a relatively small market segment only. They are therefore called focused market leadership companies. In contrast, companies with a focus on performance concentrate on a broadly defined sales market with a relatively limited product range. Customer-oriented companies try to expand their competitive advantages in the core tasks of customer acquisition and customer retention. Typically, this type of company serves a relatively narrow target group with a relatively broad product range.

In the following, examples from the fastening industry will be used to illustrate the various competition-beating core task profiles.

Examples of Competition-beating Core Task Profiles in the Fastening Industry

Customer relationship companies

The assembly technology company *Würth* from Germany is a leading trading group characterized by distribution through sales representatives. Its customers include renowned companies from the construction, timber, automotive and metal industrie. An integral part of customer orientation at *Würth* is the high level of service. The consistent customer orientation allows *Würth* access to valuable customer information and leads to high customer retention and loyalty. *Würth* offers its customers a wide product assortment of fastening and assembly materials and tools with approx. 120,000 different products. The product range extends from simple mass-produced goods like screws to customer-specific individual solutions. The products are manufactured by sub-contractors, but are distributed under the *Würth* brand. *Würth* is one of Germany's biggest unlisted companies.

Product leadership companies:
The German *Fischer* group encompasses four business areas: fixing technology (dowels and building supplies), automotive systems (multifunctional components for car interiors), "fischertechnik" (construction toys) and process consulting. The fixing technology area is by far the biggest source of revenue. More than three quarters of sales are generated abroad. The global perspective is also reflected by the national subsidiaries now numbering 42. Klaus Fischer: "We are expanding very dynamically to be in a position to serve our customers even faster and better, to gain new market shares and to access new customer groups" (www.fischer.com). Following the principle of lean management the company strives for scaling effects.

Fischer develops and produces products for all relevant areas of fixing technology and sees itself as an innovation leader, true to the slogan: "Looking for innovations will take you to fischer". *Fischer* holds over 2,000 patents and comes up with around 40 new inventions per year. The products are mainly distributed via DIY stores and trading partners. The customers include craftsmen as well as do-it-yourselfers.

Over the past five decades, *fischer* has become the market leader in dowel technology and attained a consolidated turnover of € 633 mil in 2013.

Focused market leadership companies:
The *Hilti* group from Liechtenstein is a worldwide leading company in the development, manufacture and distribution of high quality product systems for construction. *Hilti* is in direct contact with commercial end consumers via its own distribution network. Depending on the customer needs, specialised sales advisers, the *Hilti Center*, the customer service hotline or the internet are available for customer support. Two thirds of all employees, now numbering over 21,000 worldwide, have direct contact with the customer. In their selected market segments, *Hilti* realises a price premium for its innovative products with strong value propositions, such as high quality and a strong brand. (The *Hilti* brand has coined the name for an entire class of tools. In the construction industry they don't say "Pass me the hammer drill!", but "Pass me the Hilti!"). Hilti generates over CHF 4.3 bn turnover and an operating result of CHF 304 mil.

4.4 Cooperations and Networks

As explained above, due to the overall high complexity and the required capital investment only a few companies are able to utilise all market opportunities without any outside support. An alternative approach is to enter into strategic partnerships. Thus, after defining the core task profile, the next step is to plan strategic cooperations and networks.

Strategic cooperations are understood as collaborations of two or more companies with the aim of combining and complementing the individual strengths (resources and capabilities) in the respective business units. Through strategic cooperations, companies can achieve competitive advantages which they would not be able to achieve alone. These advantages may be (Wrona and Schell 2005, p. 335 ff.):

- time advantages,
- achievement of cost advantages,
- access to, or the protection of, relevant resources,
- access to, or the protection of, relevant markets,
- knowledge acquisition and expansion of organisational learning,
- risk reduction,
- power gains.

Classification of Cooperations According to the Number of Participating Partners
In the classification of cooperations according to the number of cooperation partners, the resulting relationships can be distinguished (see Fig. 4.15) as

- bilateral links,
- trilateral links,
- simple networks and
- complex networks.

Cooperative collaboration of two partners is understood to be a *bilateral relationship*. If three partners cooperate with one another, this is described as a *trilateral relationship*. If a company cooperates with more than three partners, this collaboration is also known

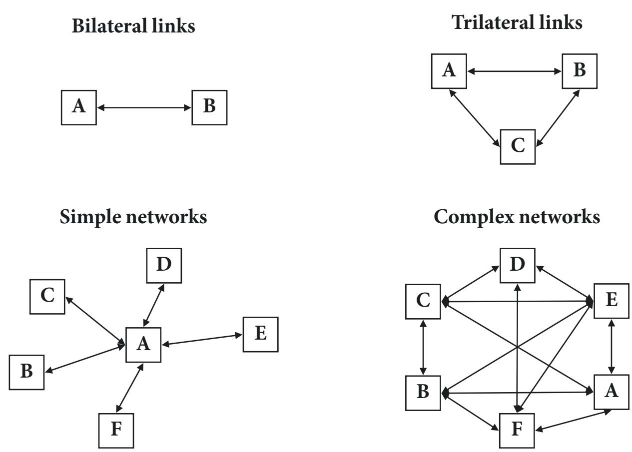


Fig. 4.15 Classification of different forms of cooperations according to the number of links. (according to Kutschker 1994, p. 126 and; Friese 1998, p. 147)

as a company network. *Simple networks* are usually structured in a star topology, with a central – or focal – company having a bilateral relationship with each of the other companies of the network. A typical example of a simple network is the franchising system (e.g. McDonald's restaurant chain). Here a franchisor interacts bilaterally with several franchisees. *Complex networks* consist of multilateral relationships between individual (non-focal) companies (Theling and Loos 2004, p. 10 f.).

Classification of Cooperations According to the Direction

Depending on the direction of cooperation, they can be classified into horizontal, vertical and diagonal (conglomerate) cooperations (Helma and Janzer 2000, p. 25; Sydow 2001, p. 248; Theling and Loos 2004, p. 8; Schögel 2006, p. 20):

- A *horizontal cooperation* is a partnership on the same level of the value chain. An example of a horizontal cooperation is the fitness tracker "Fuelband SE" from Nike, which – at least on launching in 2013 – could only be used with Apple iOS devices, such as the iPhone 5.
- *Vertical cooperations* are entered into by companies on different levels of the value chain. For example, the collaboration of automobile manufacturers with their suppliers is increasingly based on a cooperative inclusion of the suppliers in the value chain.
- In *diagonal cooperations* the cooperation partners have positions on different levels of the value chain (as in vertical cooperations), but, in addition, they also belong to different industries.

According to institutional economics, cooperations can be viewed as as a means of coordinating economic activities which is located somewhere between the market (purchase agreements, exchange transactions) and an internal hierarchy (100 % subsidiary, fusion) (see Fig. 4.16). Cooperations are therefore also regarded as "hybrid" organisational forms (Williamson 1985).

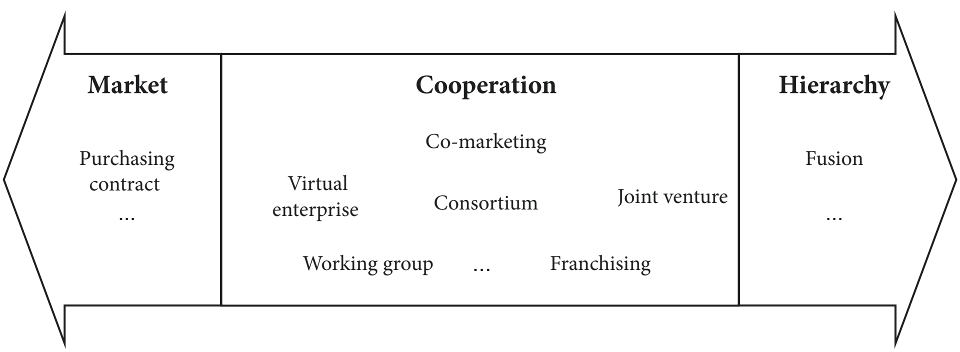


Fig. 4.16 Forms of cooperation and their placement between market and hierarchy (according to Siebert 1991, p. 294 and; Schögel 2006, p. 47)

Above, the various forms of cooperation were presented in isolation. In practice, they usually do not exist in a pure form, but as combinations of the various forms of cooperation (Morschett 2005, p. 388).

Despite the large number of advantages of cooperations, there are also disadvantages that have to be considered:

- Cooperations cause costs, e.g. increased communication, coordination and control costs.
- Cooperations can lead the partner companies into dependencies.
- Cooperation can result in a less favourable negotiating position.
- The joint use of core competencies causes the participating partners to obtain insights into operational secrets (e.g. technologies and expertise).

4.5 Positioning

Once the core task profile has been determined and potential strategic cooperations have been considered, the next planning step is to define the so-called positioning goal system. Essentially, it has to be decided which competitive advantage is to be established and expanded in the market.

The following section is based in large parts on Haedrich and Tomczak (1996, p. 136 ff.).

4.5.1 Overview

The growth strategy can usually only be realised once certain positioning goals have been achieved. Generally, above-average growth and/or profit targets can be realised if (also see Simon 1988)

1. the relevant needs and problems
2. of sufficiently large ("economically viable") customer groups
3. can be sustainably satisfied or resolved
4. with tailored, efficient offerings, based on solid competence,
5. which, from the customer's perspective,
6. are better than those of any other provider.

This means that, when formulating a positioning goal system, the company has to answer the following questions as precisely as possible:

1. *Which needs (relevant to purchasing decision-making) must and should be addressed?* It has to be defined which customer needs, problems, wishes, demands etc. are to be addressed and in which intensity. In this context, various types of needs may be

distinguished: basic, additional and ancillary needs, articulated and latent needs, minimum requirements, as well as needs before and after the purchase (striving for satisfaction, avoidance of dissatisfaction). Depending on the customer type (e.g. new versus regular customer, professional versus power promoters, buyers versus users), the buying and rebuying decisions are determined by differently structured bundles of needs. Specific preferences for the company's own offering have to be defined.

2. *Who must and should be assigned to the circle of customers served?*
   Here, the question has to be answered which circle of consumers or organisations should generally be addressed (macro-segmentation), which individuals or groups have an influence on the purchasing decision (micro-segmentation, reference groups, buying centres), and whether marketing should concentrate on core or peripheral target groups. In many markets, at least two types of customers have to be distinguished, i.e. end customers and intermediaries, and serving both requires closely linked marketing concepts.
3. *Which products must and should be offered?*
   Here it has to be determined with which core product or service components (minimal quality) and additional components (value-enhancing qualities) the needs of the various types of customers are to be satisfied. The *core product or service components* usually include the "generic product" or the "generic service" with its basic performance and the *minimal performance components* that the customer expects with regard to utility, price, information and availability (Grosse-Oetringhaus 1996, p. 62). *Additional performance components* are those that the customer does not generally expect (also see Stauss 1996, p. 243 f.); they can generally be provided in all areas of marketing (utility, financial incentives, image, relationships, availability). What constitutes the core or additional performance components in a specific market situation depends primarily on the customers' expectations, which depend on the maturity of the market, the competitive situation and the prevailing market norm.
4. *Which positions must and should be taken with regard to the competition?*
   Here it has to be defined which positions the solution components offered to the customers should assume with regard to the competition. According to Meffert and Burmann (1996), the five basic dimensions of quality, price (cost), image, innovation and flexibility orientation ("customer focus") are to be distinguished. Along these dimensions and with regard to the customers to be served and their needs, it has to be defined which competitive advantage(s) is (are) to be realised. Here the aim is to create a sustainable, i.e. non-imitable, lead in the customers' perception (also see Simon 1988). Thus, the key goal is not to maximise the benefit for the customer; rather, the emphasis is on the relative enhancement of customer benefit (Große-Oetringhaus 1996).

The key goal of all marketing efforts is to achieve competitive advantages. A *competitive advantage*, also called a "*unique selling proposition (USP)*" or "*unique marketing* *proposition (UMP)*", arises once the following requirements are satisfied (see Magyar 1987, p. 142 ff. and; Meffert 1988, p. 119 ff.):

1. A real customer need, i.e. one that is significant for the targeted customer group, has to be addressed. The performance components of one's own offering have to be translated into a product offer for the respective customer. The extent of the competitive advantage depends, among other things, on the significance of the problem to be solved for the customer. The more important the problem is for the customer, the bigger is the potential for achieving competitive advantages.
2. The benefit has to positively and permanently differentiate one's own product offer from those of the competitors. The key goal is not to maximise the customer benefit, but rather to provide a relative enhancement of the customer benefit (Große-Oetringhaus 1996).
3. The benefit should coincide with core competencies of the company. Lasting competitive advantages can only be created if real superior capabilities and resources exist (Day and Wensley 1988).
4. The customers have to be able to clearly perceive the benefit. As Trommsdorff (1992, p. 324 f.) explains: "As in other success factor analyses, PIMS also reached the conclusion that, besides the market share, the product quality perceived by the customers is the most important success factor; this does not refer to the objective quality, but to the customers' quality impression (…)." (cf. the discussion on PIMS in Sect. 2.1.4) The yardstick for successful positioning is therefore the customers' subjective perception (Tomczak and Müller 1992). This statement is not only valid for the consumer goods or service industry, but also for the investment goods industry. Here, too, it is not the objective quality, however defined, but the quality subjectively perceived by the customer that is relevant for marketing success.

The permanent anchoring of a brand, perceived in a differentiated way, in the consumers' heads is the necessary prerequisite for successful positioning. The brand is considered the "essence" of the value proposition for the customer (also see Sect. 3.7.1). However, this proposition can only be communicated successfully to external stakeholder groups once the organisation, i.e. all managers and employees of a company, have developed a joint understanding of the common values, competencies and personality of the brand (Burmann et al. 2003, p. 7; Tomczak et al. 2009).

4.5.2 Relationship Between Brand Identity and Brand Positioning

The *brand identity* is the sum of those features of a brand that remain identical over space and time and sustainably define the character of the brand from the perspective of the internal target groups (Meffert and Burmann 1996, p. 31). The brand identity is the starting point for positioning a brand in the competitive environment and serves to create a unique identifying image for the customers. The procedure follows an iterative process. Starting with the brand vision and the origin of an existing brand, the brand personality, the brand values and the brand leadership competencies are used to define the brand performance components (Burmann et al. 2003, p. 7 and; Esch 2012, p. 117 f.). The relevant value proposition for the customer, which may be of an emotional, functional or symbolic nature, manifests in the brand performance components (What does the brand accomplish?). This convention, which may also be used as a management instrument within the organisation, forms the basis for the subsequent strategic positioning of the brand with regard to the competitors. If this positioning is implemented by means of the marketing mix, over the course of time a brand image will form in the customer's mind, which has to be constantly monitored. If the actual performance measured (the brand image) deviates from the targeted performance (the brand's value proposition), the relevant counter-measures have to be adopted.

It is obvious that focussing on just a few features of a brand which are relevant to the purchasing decision (e.g. reliability and durability in the case of the *Miele* brand or lifestyle in the case of *Harley Davidson*) secures long-term competitive advantages (Esch 2012, p. 103 f.).

These features always have to be preserved when extending a brand. Otherwise, repositioning or new positioning measures have to be adopted for the brand. For example, the brand *Ricola* stands for competence in herbs and is a symbol for health. The brand transfer from the original Swiss herb drops to (feel-good) herbal teas has been very successful. However, the transfer of the brand to cough syrup, which is usually more associated with sickness than with well-being, proved to be a flop in the USA. The brand obviously lacked the necessary credibility in the medical field.

4.5.3 The Classical Positioning Model

Presentation of the Classical Positioning Model

A central and basic idea of marketing is: Customers choose those products or services whose perceived properties best meet their (benefit) expectations. It is important to take this central hypothesis into account if products or services are to be successfully positioned in the market.

This basic idea is the basis of the classical positioning model. Here, various competing products and services are positioned in a so-called positioning space. This *positioning space* is formed by axes that reflect the product properties relevant for purchasing decisions in a defined market (e.g. Freter 1983, p. 33 ff.; Brockhoff 2001).

In practice, the market reality perceived by the customers is mapped with as few dimensions as possible to be able to deal with a manageable and communicable decision-making problem. Thus, two- or three-dimensional positioning models are generally used. Of course, such an approach represents a considerable simplification of reality, as customers

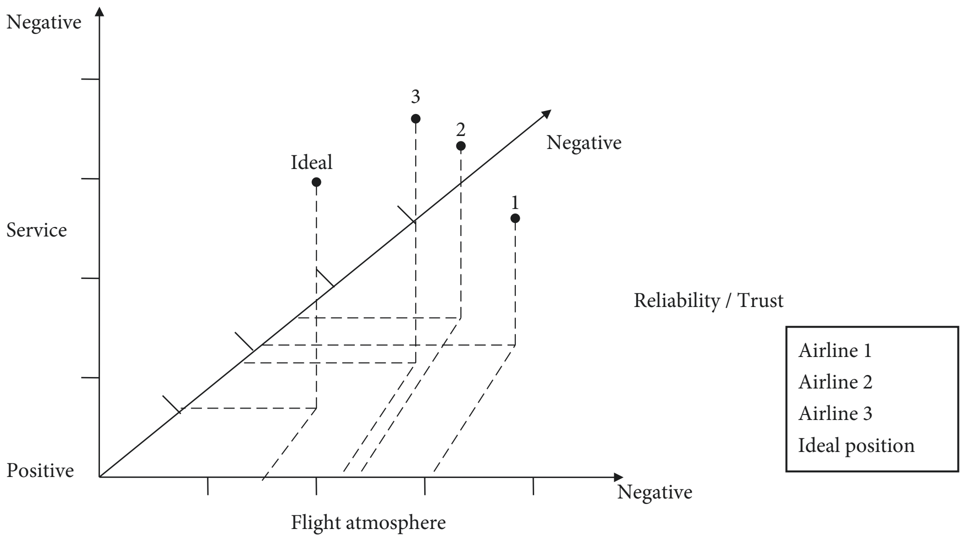


Fig. 4.17 Three-dimensional positioning model exemplified by the airline business- (Trommsdorff 1992, p. 330)

are usually influenced by more than two or three prouct properties or benefit expectations. On the other hand, such an approach is often objectively justified because this simplification creates the basis for a solid positioning that can be asserted in the market and with the customers (Kroeber-Riel and Esch 2004, p. 51 ff.). "Only those who concentrate their full power on just a few parameters are perceivable and achieve better performance in the long term" (Simon 1988, p. 471).

An example of a three-dimensional positioning model is presented in Fig. 4.17: the positions of airlines. Besides positioning actual products and services, so-called *real brands*, such positioning models can also be used to discover open market segments by defining so-called *ideal brands* that reflect the ideals or preferences of a certain customer group with regard to the market under consideration.

The *classical positioning model* has four core elements (see Wind 1982; Freter 1983, p. 34 f.):

- *Properties:* The customers' relevant product-specific expectations have to be determined. In this context it is important to note that different properties will not affect the customers' purchasing decisions to the same extent. For airline passengers, the properties "service", "flying atmosphere" and "reliability" are of particular importance for the purchasing decision and satisfaction.
- *Positions of products and services:* Each product and each service is characterised by its relevant properties according to the customers' perception. In our example, the airlines are individually positioned in the space relevant for the passengers.

- *Customer positions:* Each customer has their own requirement or preference profile for an ideal product or service. Customers with similar requirements and therefore homogeneous needs form a market segment. In the aviation example above, only the average ideal point of a segment (or the entire market) is reflected.
- *Distances between product and customer positions:* Distances exist between the position of a customer and the particular performance components offered. The central hypotheses of the classical positioning model are:
  (a) The lower the distance between the ideal positioning and the effective positioning, the higher the probability that the customer purchases the product.
  (b) The product with the lowest distance will be preferred (purchased).

When trying to position a product, two general directions of thrust may be distinguished (Esch 1992, p. 10 f.; Kroeber-Riel et al. 2009, p. 269 f.):

1. *Adaptation of the offered performance components to the benefit expectations (needs, wishes) of the customers.*
   In this approach, the expectations of the customers are assumed to exist as the so-called ideal brand. The goal is to make an offer that corresponds to this ideal brand as closely as possible.
2. *Adaptation of the benefit expectations of the customers to the performance offered.*
   Here, it is attempted to shift the benefit expectations of the customers in such a way that the performance components offered (by the real brand) appeal to them.

The aim of both approaches is therefore always to reduce the perceived distance between the ideal and the real brand. In practice, both approaches are usually used in combination.

Advantages and Limitations of the Classical Positioning Model

The classical positioning model undoubtedly provides the marketer with valuable and indispensable information for planning the future marketing mix. Based on the analysis of the status quo, insights can be gained whether the relevant needs of the target group are satisfied with the positioning strategy currently pursued or whether certain shifts in the perception of the image have taken place. Competition-oriented strategies can be derived – as described –, for example by striving to position one's own product offering as closely as possible to an ideal brand not served by the competition so far.

However, in view of the intense competition prevalent in many markets today, a positioning strategy simply geared to the classical positioning model will have some *serious shortcomings*. These include:

- *A trend towards conformity of the competitive offerings:* All competitors in a market have basically the same information at their disposal and therefore tend to draw similar conclusions with regard to their marketing and competitive strategies. Thus, the competitors in a certain market will follow increasingly similar strategies, thus making their offerings interchangeable, both in terms of their objective functionality as well as in their emotional quality.

- *Past-oriented marketing*: The model looks backward, into the past (Trommsdorff 1992, p. 332). However, competitors as well as customer expectations and needs are dynamic. The classical analysis can only identify image deficits that should be eliminated. This approach is certainly necessary in many cases, but is ultimately an expression of reactive marketing.
- *Lack of innovation orientation*: The preferences of customers (ideal brands) are determined by commonly used methods of market research, usually with representative, standardised surveys. However, in this way only those customer opinions can be surveyed which have been shaped by the marketing of the past. It does not allow a positioning oriented on future market potential.

Conclusion: The classical positioning model tries to help adapt either the performance components to the customer expectations, or the customer expectations to the performance components. This approach only takes those wishes into account, which customers have explicitly articulated in diverse forms. Therefore, the classical positioning model represents a reactive approach.

4.5.4 Active Positioning

Overview

Due to the limitations of the classical positioning model discussed above, a supplementary positioning approach is necessary (Tomczak and Reinecke 1995). It is not sufficient to align marketing to articulated customer wishes. Instead it is necessary to elicit latent customer wishes and to serve these with the appropriate marketing measures (see Fig. 4.18).

The following discussion on *active positioning* follows the work of Ries and Trout (Trout and Ries 1972; Ries and Trout 1986; 1993). Active positioning is about occupying a decision dimension hitherto unidentified by the customers, yet of (crucial) importance for their purchasing decision. According to Ries and Trout (1986) this represents a "real" competitive advantage. In other words: A product offer only has a competitive advantage if it addresses its own market Therefore, Ries and Trout (1986, p. 79 ff.) recommend that market challengers should not try to master the existing market rules more effectively than the market leader, but instead select a strategy which searches for new rules or a new market ("new game strategies").

Two approaches are available for developing an active positioning (see Sect. 3.1.2):

- *Outside–in orientation:* The first step is to identify the latent needs of certain customer groups in order to provide innovative solutions in a second step.

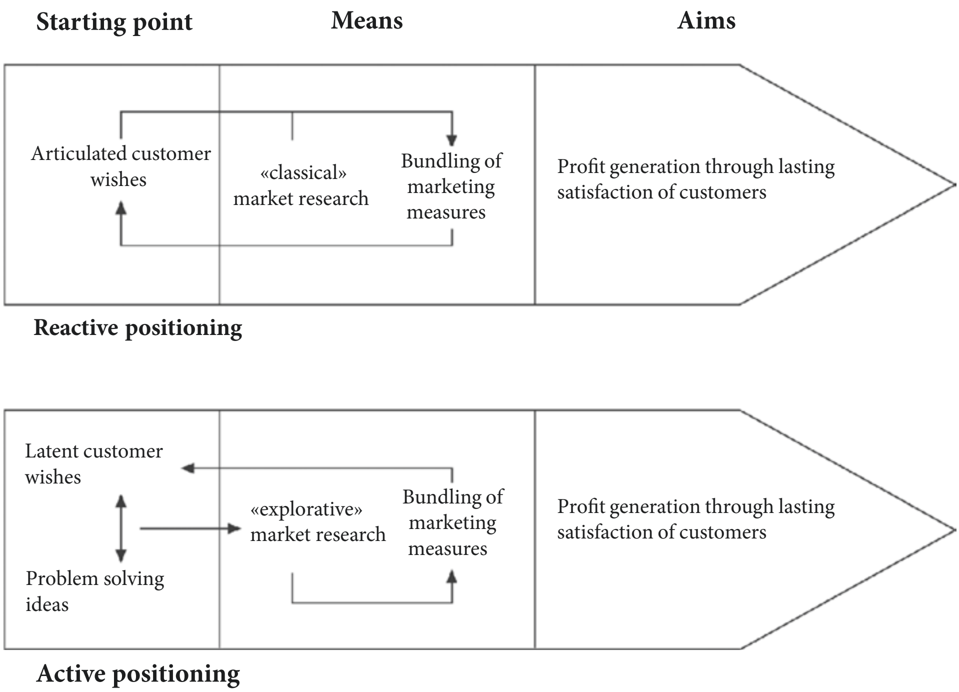


Fig. 4.18 Reactive and active positioning (Tomczak 1994)

- *Inside–out orientation:* The first step involves creating an innovative solution with a specific resource infrastructure (including core competencies) for which, in a second step, customers with (latent) needs are sought.

Outside–in Orientation: Identification of Latent Customer Needs

In contrast to classical positioning, active positioning attempts to develop new property and image dimensions thus redefining the rules of the market and the competition (Esch and Levermann 1995; Esch and Andresen 1996).

Hamel and Prahalad (1992, p. 46 f.) emphasise this shift from reactive to active marketing: “Naturally it is important to listen to customers, but those who do no more than that will hardly become market leaders.” *It is therefore necessary to liberate oneself from the tyranny of the markets served to date*, to develop innovative product concepts and to actively lead the customers, rather than running after them: “Market leaders […] know what their customers want, even before they are clear about it themselves (Hamel and Prahalad 1992, p. 47). It is therefore necessary to speculate on the customers’ problem solving expectations in order to be able to satisfy *future needs* better than the competition (Backhaus and Voeth 2007, p. 22).

Identification of Latent Customer Needs – Swatch

The marketing success of the watch brand *Swatch* and the fact that it became a marketing icon for decades did not come about by positioning the brand within a framework of known image dimensions in such a way that it better fulfilled the ideals of a certain customer group. Rather it was a case of discovering new dimensions such as "fashionable up-to-dateness" for the watch market and to uniquely occupy this position.

Latent or future needs, however, cannot be identified with the classical methods of market research. Rather, it is necessary to analyse all the internal and external information existing in a company and to generate new information by assessing the needs for innovation. The aim of this explorative approach is to better understand the customers' problems and, within the scope of one's own product offer, to address them faster than the competition. For this purpose, various approaches can be adopted (Geschka and Eggert-Kipfelstuhl 1994):

- *Acquisition of information through customer participation*: Via intensive cooperation with customers, the attempt is made to obtain information that will be relevant for designing one's own product in the future. Of particular relevance in this context is the lead user concept, whereby innovative and pioneering customers are involved in shaping the product offer (Von Hippel 1988; Herstatt 1991; Herstadt and Hippel 1992).
- *Acquisition of information through situation analysis*: Here, the aim is to identify the customers' problems in realistic usage situations via extensive observation and to develop potential solutions. Appropriate methods include the "critical incident technique" (Stauss 1996) or the analysis of customer wishes with means–end chains (Kuß and Tomczak 2007, p. 58).
- *Information acquisition through creativity or forecasting techniques:* By changing the situation and the perspective, creativity and scenario techniques are used to obtain information that indicates latent needs and possibly tentative approaches towards a solution.
- *Information acquisition through explorative expert interviews*: By carefully selecting various specialists and experts, all conceivable aspects of a particular topic are included, so as to recognise possible trends that may provide insights regarding potential latent needs. When selecting the experts, it is important to factor in different disciplines, as well as different and contradictory opinions (Weinhold-Stünzi 1994).

Inside–out Orientation: Exploiting Specific Resource Endowments

The resource-oriented approach is primarily based on an inside–out orientation that places top priority on the efficient exploitation of company-specific resources (see Sect. 3.1.2).

For the resource-oriented approach, the starting point for innovative positioning may be new technological possibilities (see especially Kliche 1991; Töpfer and Sommerlatte 1991). In the case of such *technology-driven innovations*, first there exists the technical concept, and then the potential user has the opportunity to develop an idea of the product use and benefit (Geschka and Eggert-Kipfelstuhl 1994, p. 127). If these innovations provide customer benefits and comply with the *specific resource potential* of the company, they form the basis for sustainable competitive advantages.

Examples of material resources include capital endowment, production systems, IT systems or a far-reaching distribution system. Immaterial resources include technical knowledge, the company's reputation, brand value, etc. (Wolfrum and Rasche 1993; von Krogh and Rogulic 1996).

Despite the primarily inside–out orientation, it still needs a strategically relevant resource base which will lead to a competitive advantage (see Sect. 3.1.1).

The use of company-specific resources is illustrated by the following example.

Exploiting a Specific Resource Endowment – Gore-Tex

The Gore-Tex membrane was originally developed for the aerospace industry. In 1957, Bill Gore, later on the co-founder of *W. L. Gore & Associates,* first suggested the material polytetrafluorethylene (PTFE) as a means of improved insulation against cold. In 1969, the astronauts Edwin Aldrin and Neil Armstrong used equipment components fabricated from this material. In 1972, the first Gore-Tex fibre was produced and subsequently continuously improved. On account of its special properties, such as impermeability to wind, water and cold and extreme durability, it could be used for various other applications. Today, Gore-Tex membranes are used for gloves, hats and caps, shoes, socks, gaiters and all kinds of other garments.

The military uses the membranes in clothing and shoes, as does the police, the fire service and other professional groups who work outdoors in wind and weather. In addition to the working world, the fibre is also used in the fields of fashion and leisure, as well as in sports, e.g. for trekking and ski equipment, in motor sport and cycling or in football. *Gore* used its specific resource endowment (polytetrafluorethylene and the technology behind it) to create a special customer benefit with its products. (Based on Gore 2007)

Synthesis of the Outside–in and Inside–out Orientation

As mentioned above, pursuing only one of these two approaches usually does not result in a sustainable competitive advantage.

Should a company succeed in identifying latent customer needs and serving them with an offering of interest to many customers, the competition will easily catch up and also take advantage of the profit opportunities presented by such an attractive market if there are no entry barriers in the form of a specific resource endowment.

Sustainable competitive advantages can only be achieved through a *synthesis of external needs and internal resource orientation*: "… it is the ability of the business to use these inside–out capabilities to exploit external possibilities that matters. Thus, there has to be a matching "outside–in" capability to sense these possibilities and decide how best to serve them" (Day 1994, p. 40 f.). Day speaks of "spanning capabilities" necessary to connect internal and external capabilities (Day 1994, p. 41).

Recognising and Utilising Needs – IBM

In many market segments, *IBM* waited for the competition to develop and try out new products. Once an innovation proved successful, *IBM* entered the business on a major scale.

The introduction of the personal computer (PC) was a case in point. While Apple launched the PC on the market as the innovator, *IBM,* as an imitator, established the industry standard. The situation has since changed dramatically so IBM decided to exit many sub-markets (e.g. by selling the PC business to Lenovo). *IBM* did not lose sight of the needs of the market, however, but entered lucrative new business fields, especially in consulting and in other business-to-business services.

Thus, considerations derived from the analysis of a "classical" positioning model (reactive positioning) have to be combined with approaches for active positioning. Depending on the situation, the focus has to be placed either on more reactive or on more active positioning. Especially in young markets, in which the competitive intensity is not yet very high, competitive advantages can be achieved with the help of reactive positioning. In saturated markets, however, usually innovative paths have to be taken using active positioning to define what essentially is a new market.

4.5.5 Positioning in the Markets of the End Customer and the Intermediary

Companies that distribute their products via indirect channels have to align their marketing efforts not just to the *end customer*, but to *intermediaries and sales agents* as well (in the food industry, e.g., to wholesalers and retailers; in the pharmaceutical industry to doctors, pharmacists and hospitals; in selling heating systems, e.g., to installers and architects). So, depending on the degree of differentiation of the distribution system, companies have to operate in two or more markets simultaneously, which differ as follows:

End Customers
These may be individuals or organisations (companies, public institutions, etc.) which utilise the industrial products, usually sourced via the intermediary, or convert them into fundamentally new products (industry and trade).

Intermediaries
These are companies that procure goods from other companies and sell them to the end customers without changing them in any way.

End customers and intermediaries have very different needs and requirements. For instance, when buying a premium beer, consumers want to quench their thirst and also maybe satisfy a certain prestige need. A food retail company, on the other hand, wants to achieve a certain sales volume by including this premium beer into its product range and generate a certain contribution margin. Therefore, *different positionings* are aimed for in the end customer and intermediary markets, which also lead to different competitive advantages. The success in both markets is often mutually dependent, however. A provider can usually only achieve competitive advantages in the intermediary market if it offers products that are demanded by the end customer (so-called pull effect). Conversely, a provider can only be successful in the end customer market if its products are distributed in a certain quantity (degree of distribution) and quality (e.g. by providing consulting services). Marketing planning therefore has to decide on specific marketing strategies (core tasks, positioning goals and strategies) and marketing measures for the end customers and the intermediary markets, and these marketing strategies and measures also have to be closely interlinked (see Fig. 4.19).

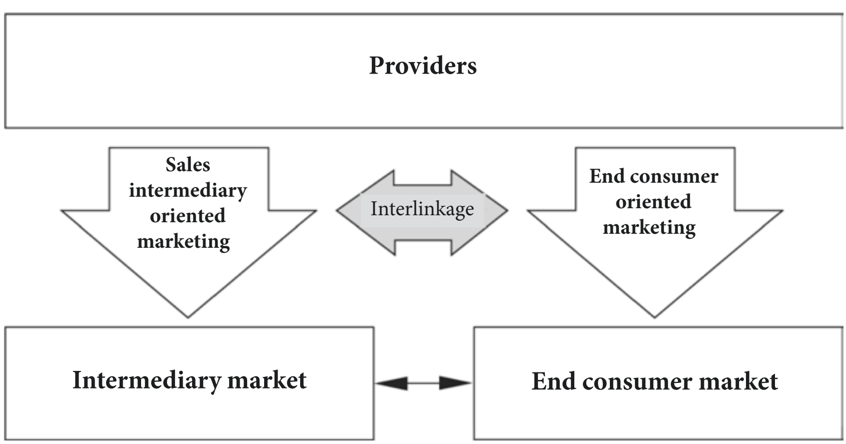


Fig. 4.19 Interlinkage of intermediary- and end customer-oriented marketing

4.5.6 Positioning Strategy on Business Unit Level

In accordance with the ideal course of the marketing planning process, we will now deal with questions of how to plan a positioning strategy.

Overview

Having discussed the theoretical principles of the positioning concept in the previous section, we will now deal with the key decision-making dimensions that have to be considered in formulating a positioning strategy, as derived from the core task profile and the positioning goals.

After an analysis of the status quo to determine the actual positioning of the respective offering, the positioning strategy has to be defined, with the aim of realising the target positioning in the market, which allows to achieve the marketing goals (contribution margin, turnover, market share etc.) and the desired core task profile. The positioning strategy defines the behaviour towards customers and competitors, or, in other words, it defines guidelines for the deployment of the marketing mix (Haedrich et al. 2003, p. 99 f.).

Numerous approaches for structuring positioning strategies according to different dimensions can be found in the literature (in particular see Becker 2013, p. 139 ff.); discussing them is beyond the scope of this book (for a summary overview see Tomczak 1989, p. 111 ff.; Meffert and Burmann 1996, p. 111 ff.). These approaches, which differ somewhat conceptionally but also complement each other to some extent, lead to the following four strategic dimensions with their various options:

- *Strategy variation* (To what degree does the positioning strategy pursued so far have to be changed?)
- *Strategy style* (What kind of competitive behaviour should be selected?)
- *Strategy substance* (What benefit(s) should be offered to the customers?)
- *Strategy field* (Which target groups should be prioritised?)

The individual strategic dimensions and their significance for asserting the targeted positioning will be explained in the following sections. A preliminary remark is important at this point: In practice, of course, the individual decision-making areas of a positioning strategy cannot be isolated since they are closely linked with one another (see Fig. 4.20). Decisions in one dimension will influence the decisions in another dimension.

Although the following sections will explain the planning of a positioning strategy with a view to the end customer, the explanations are also valid for the intermediary level.

Strategy Variation: Changing the Positioning Strategy

The field of strategy variation mainly concerns the question whether the current position of the respective business unit in the market continues to be viable or *whether changes are necessary,* and if so, to what extent. The current situation of the market and the company

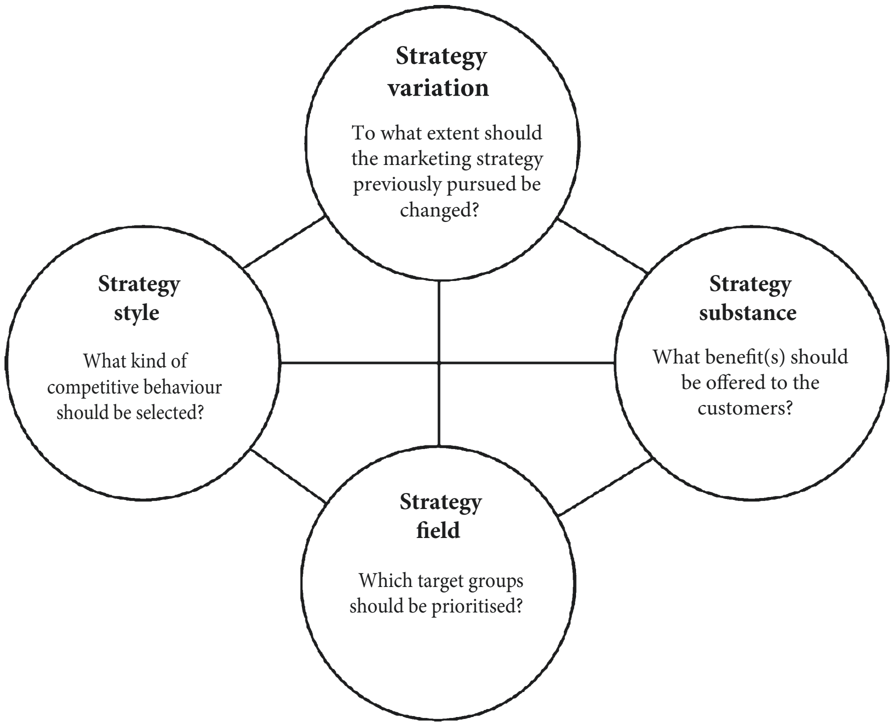


Fig. 4.20 Elements of a positioning strategy on the business unit level

are decisive factors for answering this question. Basically, technical advancement on the producer side and shifts in the needs on the demand side give rise to greater or lesser dynamics.

Undoubtedly, constantly changing positioning is one of the key problems in marketing. Numerous companies operate unsuccessfully in the markets because their position is changed arbitrarily (e.g. when a new marketing manager becomes responsible for the brand), randomly (e.g. due to a lack of coordination between Sales and Product Management) or oriented on momentary developments in the environment. Consequently, the (potential) customers have very little or no idea of the "unique" benefit that is offered to them. Therefore, a widespread and certainly valid basic principle in marketing calls for maintaining a successful market position once it has been achieved. In view of today's rapid changes regarding the market, competitors, society and technology, the weaknesses of such a static positioning are obvious. Consistency in positioning management is doubtlessly not an intrinsic value; rather, the guiding principle has to be: as much consistency as possible and as much flexibility as necessary. *Dynamic positioning* has to replace static positioning (Tomczak and Roosdorp 1996, p. 33 f.).

Three types of approaches can be distinguished in this respect: preservation, repositioning or new positioning (Haedrich et al. 2003, p. 102 ff.).

Preservation of the Market Position

Preservation of the market position essentially means that the market segment targeted to date continues to be served with the same positioning strategy. An approach of this nature should always be selected

- if there is currently a competitive advantage for this target group and it is assured that this will also be the case in the future (i.e. no serious changes in customer preferences or relevant competitor measures etc. are to be anticipated);
- and if this target group is estimated to be viable at present and in the future (this means, e.g., that the company's growth expectations do not exceed the respective market growth, otherwise new customer groups, for which no competitive advantage exists at the moment, have to be won).

If the position in the market is to be preserved, it is essentially a matter of consolidating it. In principle, the positioning strategy is not changed. This does not mean, however, that the marketing mix can remain unchanged. Certain *changes on the instrumental level* are usually necessary. In the product policy area, it is also necessary to adapt the packaging to new fashion trends. In terms of communication policy, the advertising campaign may under certain circumstances have to follow the shift in values.

Changes in Communication at Axe

The emotional component "success with women" has played a key role in the successful positioning of the *Axe* brand for over twenty years. Yet, over the course of time it has been necessary to make adjustments regarding the roles of men and women in the seduction of the opposite sex. In the early 1990s, advertising showed a "true gentleman" who hurried to assist a lady in distress, coming very close to her, whereupon she is beguiled by his "fragrance that provokes women". Nowadays, the campaigns are characterised by a youthful and ironic style of presentation. The ladies have become "girls" who are neither inept nor do they wait for the man to show initiative. They are well aware of their charms and simply take what they want. When the "boys" use the advertised body spray, "the Axe effect" takes over – men become the object of female desire.

Repositioning

Repositioning is characterised by the fact that the market segment previously served – the so-called *core target group* – remains largely unchanged, but an expansion of the market served is to be achieved by incorporating peripheral target groups. These groups can only be addressed if the positioning is at least marginally changed.

The reasons that necessitate repositioning of a product or a brand are essentially:

- *shrinkage of the market segment* (e.g. because target groups dwindledue to the age pyramid, or because the benefit expectations of parts of the target group have altered);
- the company's *growth targets* and/or *earnings targets* which can no longer be realised in the original market segment;
- *competitors' activities* that gradually erode the established competitive advantage (e.g. me-too strategies, substitution competition);
- demands from other *stakeholder groups* (e.g. of an ecological or social nature).

For repositioning, the previous positioning strategy has to be modified. Here it is necessary to take action on the basic strategic level, e.g. by varying the content of the preference strategy pursued so as to fulfil the benefit expectations (needs) of peripheral target groups as well. Changes on the instrumental level that affect both the qualitative (design) and quantitative (intensity) side of the marketing mix are inevitably derived from such a strategy.

The successful *realisation of repositioning* represents a very difficult and highly complex task, which in practice has to be tackled repeatedly for the reasons given above. The key problem of repositioning is that the core target group should remain largely unchanged. However, this group is perfectly addressed by the original positioning. The core target group is perceived as a competitive advantage, but now, for the reasons given, other target groups are also to be won. This is only possible with a modified competitive advantage which is relevant to the core target group as well as the new target groups that are not at all or only in part addressed by the old positioning.

The risks of repositioning are apparent. The marketing measures intended to bring about repositioning may be evaluated by the core target group as irrelevant or – even worse – as negative, with the result that the competitive advantage is reduced over time or is even lost. At the same time, the new target groups aimed for may not be won over, e.g. due to shortcomings in the strategy implementation. Both effects can often be observed in practice.

Repositioning at Porsche

A successful example for repositioning is presented by the launch of the Cayenne under the *Porsche* brand. Porsche was positioned as a sports car specialist. The 911 was and is the centrepiece of the brand, which, as a classical third or fourth car, does not have to fulfil any real transport needs. The typical 911 buyer is male, married, has a gross household income of over 300,000 euros and is 45 years old on average. As a means of utilising the potential of the Porsche brand and continuing growing as a company, the Porsche brand was repositioned in 2002. Based on the knowledge that the typical 911 customers have 3.2 vehicles in their households of which 36 % are sports utility vehicles (SUV), the Cayenne (with five seats and a spacious transportation volume) was launched as a Porsche for everyday use or as the "sports car among the off-road vehicles". By 2003, already half of the 77,000 Porsche cars sold per year were Cayenne. With the Cayenne, the Porsche brand could introduce new dimensions in versatility, practicability and driving characteristics. It is a classical first or second vehicle. (Source: Clef 2004).

New Positioning

In cases in which there are no longer any market opportunities on the basis of the previous positioning, there is the option of either eliminating the product from the company portfolio (disinvestment, sale) or of new positioning.

New positioning is equivalent to launching a new product or occupying a fundamentally new image dimension. For instance, new positioning is necessary

- if *attitudes* in the target group towards the offering have shifted into the negative domain,
- if *no competitive advantage* exists and there is also no chance of catching up with the competition,
- if the target group served is *no longer economically interesting* (e.g. because the volume has become too small).

New positioning demands a fundamentally new basic strategic orientation that starts with a greatly changed or new target group. In order to arrive at a competitive advantage, a new product benefit has to be found which has not been offered by competitors and meets the needs of the target group ("active positioning"). Similarly to a new product launch, new positioning entails considerable risks; the flop rate of new positioning is certainly comparable to that of new product launches.

New Positioning at Triumph Adler

Changing the business purpose is an extreme form of strategic realignment. For example, *Triumph Adler*, which became well known as a typewriter manufacturer, had originally manufactured bicycles and motorbikes, but no typewriters. After several changes of owner, the company, starting in 1994, pursued a completely different, service-oriented business purpose – it acted as a management holding company for SMEs. *Triumph Adler* has since sold off most of its holdings and has undertaken further restructuring. Since 2006 the company concentrates on a single business purpose. It uses the competence it has developed over recent years in the field of imaging and, as a consulting company, specialises in optimising workflow processes in the document business.

Continuum of Variation Strategies

The three types of variation strategies presented here provide rough orientation points along a continuum of possible strategies that extend from one extreme of "preserving the market position" to the other extreme of "new positioning". In practice, most strategies more or less represent a repositioning, with some emphasising the aspect of new positioning and others the preservation of the market position.

This *strategy typology* is illustrated by the matrix presented in Fig. 4.21 which comprises the dimensions "Degree of change in the positioning strategy" and "Change in the target segment". On the assumption of targeted and rational planning, only the diagonal represents useful combinations since the two dimensions, as elaborated in the above discussion, are independent of one another. The underlying thesis: Every change in positioning is reflected in a modified positioning strategy that in turn addresses other target groups.

Nevertheless, in reality not only the options lying on the diagonal are to be encountered, either because a repositioning did not have the intended effect or because new target groups could be won although no active repositioning had been undertaken. These constellations, however, are not the result of a rational and targeted planning process, but are consequences of unforeseeable circumstances (e.g. because a dietary trend was incorrectly assessed or not considered at all).

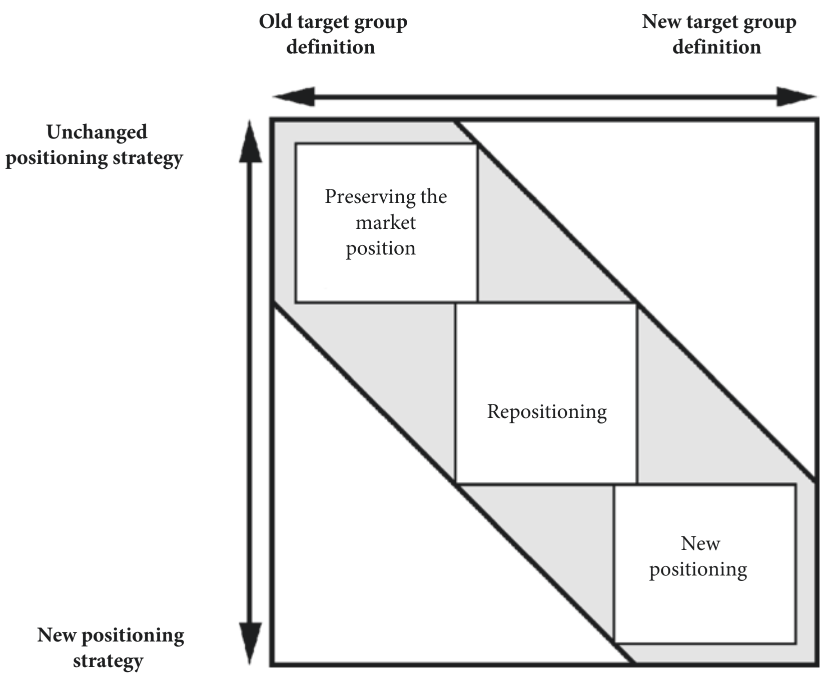


Fig. 4.21 Types of positioning strategies (Haedrich et al. 2003, p. 107)

For implementing repositioning and new positioning strategies, it is not sufficient to deploy isolated marketing instruments, e.g. advertising. Instead, *all areas of the marketing mix* have to be checked and possibly modified according to the changed or new positioning.

Dynamic Positioning

As mentioned above, reflecting on the positioning strategy – for whatever reasons – represents an ongoing task for marketing management. In this context, the question arises as to how a certain product offering is to be managed on the market throughout the product lifecycle (dynamic positioning). Clinging to a rigid positioning from the product launch through to elimination will usually have as little success as constant repositioning or new positioning without a concept. A middle way between these extremes has to be sought.

Dynamic Positioning as Exemplified by the VW Golf

The example of the *Golf* (a car model of Volkswagen AG) helps to understand how a strong and compelling position in the market can be maintained over a long period of time. Since the *Golf* went on the market in 1974 as a compact car, it has become today's bestselling car in Europe. In 2012, the seventh generation was introduced. The position of the "*Golf*" brand has always been characterised by just a few positioning statements throughout its entire historical development. In essence, the brand management consists of preserving what is good and improving what needed to be improved (Tomczak and Reinecke 1998, p. 260 ff.).

As the product was successful from the very beginning, there was no need to undertake major changes. The core position of "quality, purchase security, economic efficiency and classlessness" is continuously advanced and with each change of model additionally supported by further elements, such as safety, environmental friendliness, comfort and design. The seventh-generation *Golf* is intended to increase the variability of the model policy, among other things, by introducing a modular transverse matrix.

Positioning maintenance for the "VW Golf" by Volkswagen AG illustrates the essential *guidelines* that any dynamic positioning should follow (Tomczak and Roosdorp 1996, p. 33 f.):

- The *periodic reduction* of the positioning to one (or a few) core dimension(s) promotes the (strong) market position once it has been achieved. It supports the clear perception in the view of the customers and prevents dilution and weakening of the positioning statement.
- The *periodic emphasis* on a few additional positioning dimensions updates the offer over the course of time.

Strategy Style: Definition of the Competitive Behaviour

The second field of strategic decision-making involves defining the strategy style. Starting with the specific situation of the company and the market (including market share, special resources and competencies, market potential and growth), decisions have to be made as to which *behaviour towards current and potential competitors* has to be chosen in order to realise the positioning strived for. Kotler and Keller (2012) distinguish the four roles of market leader, market challenger, market follower and market niche provider.

The main aim of *market leaders* is to maintain the dominant position in the respective market (e.g. a market share of 40 %). Three sub-goals may be listed here: expansion of the overall market volume (with a disproportionally high share), preservation or increase of the market share. Market leaders master the rules applying in a market better than the competition and best exploit experience curve effects. Their interest usually lies in maintaining the status quo whenever possible. *Market challengers* strive to expand their market share (e.g. of 20 %) by attacking the market leader, providers of the same size or smaller competitors. They either intensify competition within the existing rules or they attempt to introduce new competitive rules into the market. In contrast, *market followers* endeavour to hold their market position (e.g. a market share of 10 %). They attempt to avoid direct competition by aligning their competitive behaviour to the rules set by the market leader. *Market niche providers* are active in a special sub-area of the market and strive to avoid confrontation with larger competitors. They have developed special capabilities for their specific market niche that enable them to serve this market profitably in the long term.

From this short discussion of the various roles available to the providers in a market, three dimensions emerge that have to be considered in the choice of strategy style (Timmermann 1982; Gussek 1992, p. 127 ff.; Becker 2013, S. 384 ff.):

Degree of Competitive Intensity

Should a more *aggressive* or more *defensive* competitive style be chosen?

Dealing with the Competitive Rules

Should the *established rules* of competition be followed or should the attempt be made to change the competitive rules *innovatively*?

Competitive Arena

Should the *overall market* be served or should the resource potential be concentrated on a *market niche*?

Considerations concerning the possible influence on competitive rules and the choice of the competitive arena always implicitly relate to aspects of timing. The question arises in each case whether certain strategies and/or measures in a certain market segment should be adopted earlier (“leader”, “innovator”, “market initiator”, “pioneer”) or later (“early follower” or “late follower”). Both approaches have advantages and disadvantages

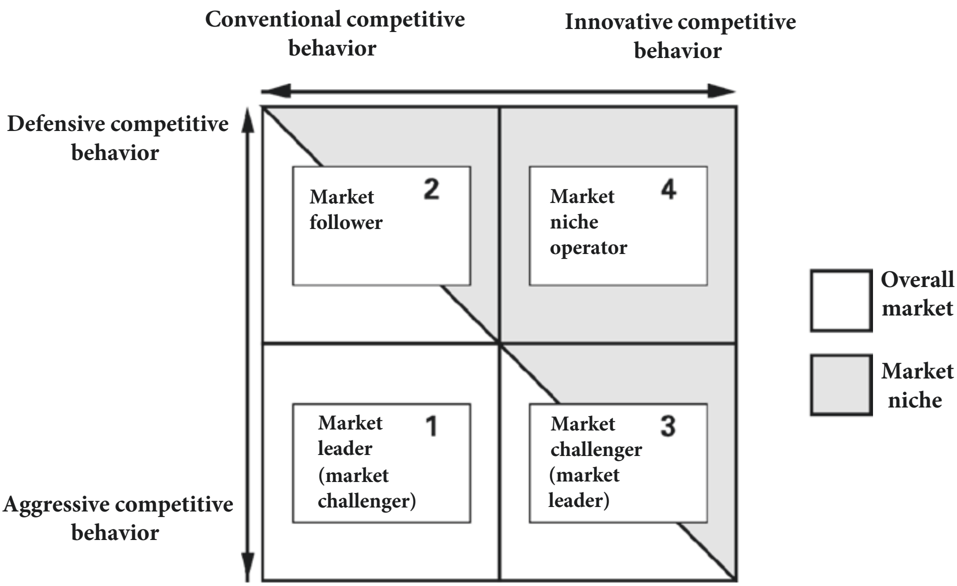


Fig. 4.22 Competitive strategy options (Haedrich et al. 2003, p. 115)

depending on the situation (see the detailed discussion in Sect. 3.6; on timing strategies on the business unit level see Wolfrum & Rasche 1993) (Fig. 4.22).

In this context, the following competitive strategy options can be distinguished:

First Option: Aggressive and Conventional Competitive Behaviour The existing rules of competition are not essentially changed. The aggressive behaviour is expressed in an intensification of those activities (e.g., more intensive advertising, more aggressive selling, programme extensions, improvement of services, intensification of price competition) to which the previous market success is mainly attributable. This option is first and foremost suitable for *market leaders*, to some extent also for strong *market challengers*. Numerous business units provide examples of such a competitive behaviour (e.g., Procter & Gamble, Coca-Cola, McDonald's, VW, major German and Swiss banks such as Deutsche Bank, UBS, Credit Suisse and insurance companies such as Allianz, Zurich, AXA Winterthur).

Second Option: Defensive and Conventional Competitive Behaviour This option covers the role of a *market follower*. In order to successfully survive in the market, market followers attempt to deploy their capabilities such that they participate in market growth. They take a defensive role and follow the normal competitive rules. Market followers have only a slight competitive advantage and their strategic goal is to operate in the overall market, but, whether consciously or unconsciously, they often occupy regional sub-markets that are not of interest for larger competitors or can only be served with difficulty. Typical examples of such behaviour are regional furniture dealers with medium to large display areas that have a small competitive advantage on account of their location. A market follower strategy is doubtlessly an expression of reactive marketing, but, under certain circumstances, including the pursuit of a disinvestment strategy (e.g., VW allowed the "Beetle Convertible" to follow the market in Europe for years before taking it off the market) or a three-brand strategy, it may represent efficient competitive behaviour.

Third Option: Aggressive and Innovative Competitive Behaviour This option demands an active establishment and expansion of autonomous and lasting competitive advantages ("active positioning"). Such behaviour is characteristic of *market challengers*, but under certain circumstances also of market leaders that no longer see any growth opportunities within the bounds of the existing rules of competition. The aim is to find fundamentally new strategic options for the respective market, whose successful implementation reverses the rules previously applicable in this market ("new game strategies" or "anti-strategies"). Essentially, it is a matter of deploying a marketing mix that deviates from traditional market norms. Well-known examples for consistent implementation of an aggressive and innovative competitive behaviour that encompasses almost the entire range of marketing tools are IKEA (see Fig. 4.23; Becker 2013, p. 859 f.) and Swatch. These examples illustrate two further aspects:

- "*New game strategies*" may become *part of the market norm* over time. Thus, self-collection has become a matter of course in the furniture trade. Firstly, other furniture traders besides IKEA, such as Interio in Switzerland, have adopted a similar concept, and secondly, a department for self-assembly furniture can now be found in almost every traditional furniture store.
- A *switch of competitive arena* from the market niche to the overall market may accompany this kind of strategy. For example, IKEA and Swatch have now become market leaders in most countries.

Standard marketing mix in the furniture trade	IKEA marketing mix
Delivery by the furniture dealer Assembly by the furniture dealer	Self-collection Self-assembly
Coverage of the entire price spectrum (cheap to luxury)	Generally relatively inexpensive
Regional presence	International brand strategy
Campaign advertising	Image advertising
Personal customer advice	Self-service; catalogue; info desk

Fig. 4.23 Comparison of the standard marketing mix of a traditional furniture manufacturer and the IKEA marketing mix

On the other hand, it is often sufficient to pursue innovative paths in some selected instrumental areas only to achieve competitive advantage.

Fourth Option: Defensive and Innovative Competitive Behaviour This kind of behaviour is equivalent to actively searching for *market niches* in order to largely avoid the competition in the respective market. The following preconditions must exist so that market niches can be served profitably in the long term:

- sufficient size or growth potential,
- uninteresting market for larger competitors and
- existing or attainable competitive advantage.

Many companies can be found that have operated for many years very successfully in such market niches. Prominent examples are the retailer Body Shop, Ajona toothpaste and Seba-med soap products. Many successful market niche providers are typically found in the investment goods industry. This is mainly due to the fact that numerous (small) customer groups exist in these markets that have very special problems that can only be solved with a provider's special applications and technical specialisation (e.g., the specialist Mekra Lang that offers mirror systems for transporters, buses, caravans and lorries).

It has to be pointed out that a company with a large number of business units often plays all these roles from the market leader to the market challengers and the market niche player in the various areas.

Strategy Substance: Definition of the Customer Benefit

The third crucial aspect of a positioning strategy involves the *type of the targeted competive advantage*.

The two influencing parameters price and product are combined in the so-called *price/performance ratio* (value for money). The benefit of an offering comprises the performance perceived subjectively by the customer and the corresponding, also subjectively evaluated, price. Thus, a continuum of equivalent benefit combinations is conceivable (see Fig. 4.24). The offers at the one end of this continuum provide an improvement in performance. The offers at the other end provide cost savings for the customer (Kreilkamp 1987, p. 114 ff.).

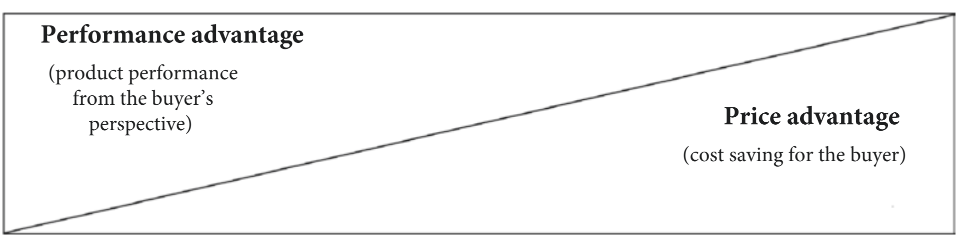


Fig. 4.24 Conceivable benefit combinations for the customer. (Kreilkamp 1987, p. 118)

As already presented in detail in Sect. 3.5, two possibilities are therefore available to achieve competitive advantage: either the aim is to generate a comprehensive cost advantage from which the customer benefits in the form of a price advantage or something unique is created from the customer's perspective in terms of quality or performance. Focussing on a certain customer group (overall market or segment), two aspects have to be considered for planning a positioning strategy on the business unit level:

Type of Customer Benefit

Should the customer be offered a *performance* or a *price advantage*?

Use of Marketing Instruments

Should the marketing mix be *performance-focussed or rather price-focussed*? Performance-focussed marketing demands the use of all non-price-based marketing instruments. In price-focussed marketing, however, all non-price-based marketing instruments follow the standard in the relevant market, differentiation from the competition is only achieved with the help of a low price level.

Becker (2013, p. 185 ff.) describes these two strategic orientations as *preference* and *price/quantity strategies* (see Fig. 4.25).

	Preference strategy	**Price/quantity strategy**
Type of customer benefit	Performance advantage based on product properties (USP) or image properties (e.g. UAP) leads to relatively improved (multidimensional=emotional and/or rational) satisfaction of needs	Price advantage leads to relative cost savings
Competitive advantage	«Better»: higher performance in relation to the competition for the same price (under certain circumstances exploitation of acquisitional potential). «Different»: differentiated image in relation to the competition for the same price	«Cheaper»: lower price in relation to competition at the same price
Use of marketing instruments	Combined and consistent use of all non-price marketing instruments to influence the customers	Price as key marketing instrument to influence the customers (standard marketing mix)
Examples Retail Automobiles Computer Banks Beverages	 Globus, Douglas BMW, Mercedes-Benz Apple Julius Bär Perrier	 Aldi, Denner Kia, Skoda Medion Bank Coop Oettinger (beer)

Fig. 4.25 Characteristics of the preference and price/quantity strategies

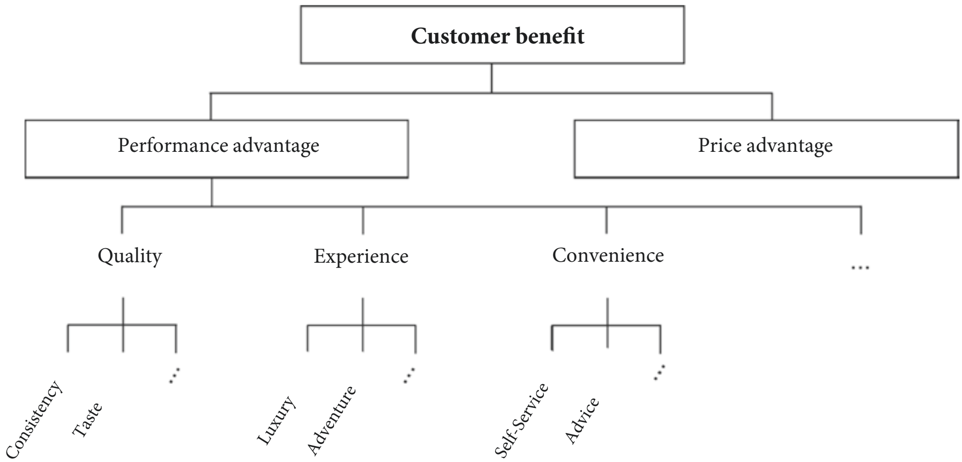


Fig. 4.26 Performance and price advantages

Fig. 4.27 Examples for preference and price/quantity strategies in the overall market or in sub-markets

	Preference strategy	***Price/quantity strategy***
Overall market	• *VW Golf* • *Nivea* • *Gillette*	• *Hyundai* • *Oettinger (beer)* • *ALDI*
Market segment	• *Porsche* • *Apple* • *Perrier*	• *InterSky* • *Otto* • *Lada*

It should be stressed again at this point that the key marketing objective is not to maximise the customer benefit per se, but to be in a position to satisfy a relevant customer need (according to the customer's assessment) better than other competitors. In other words, the focus is on the relative increase in customer benefit (Große-Oetringhaus 1996).

Both performance-oriented and price-sensitive groups of buyers can be identified in almost every market, so that, as a rule, competitive advantages can be consistently established with both a preference and a price/quantity strategy. It is interesting to note, however, that in each market typically only *one provider* can achieve a competitive advantage through the price/quantity strategy, because only one provider can be perceived as "cheaper" than the others. However, several possibilities exist in almost every market for reaching a competitive advantage through a preference strategy (Becker 2013, p. 446 f.; also see Fig. 4.26).

As illustrated by the examples in Fig. 4.27, preference and price/quantity strategies may both be successfully pursued in the overall market as well as in individual sub-markets.

As Porter (1999, p. 70 ff.) pointed out, a clear strategic orientation is an important precondition for marketing success; this means a clear "*either/or strategy*" (Backhaus 1995, p. 148) has to be pursued:

- *either* it is a matter of "satisfying multidimensional preference bundles with the help of a differentiated marketing mix better than the competition"
- *or* "of offering the customer relative cost savings through price advantage".

"Neither/nor" strategies that do not strive for unique profiling either with regard to price or performance are not considered promising, as they offer no clear advantage in the customer's assessment ("strategy caught between two chairs"). In the case of such offerings customers will ask themselves: "Why should I buy something that is neither particularly low-priced nor especially good?"

Fig. 4.28 presents the so-called *U curve* according to Porter (1999, p. 70 ff.) which describes the relationship between strategic orientation and market success (return, profit, cash flow). In contrast to Porter, however, the type of strategy, not the relative market share is plotted on the abscissa (x-axis), (Becker 2013, p. 179). This is for the following reasons:

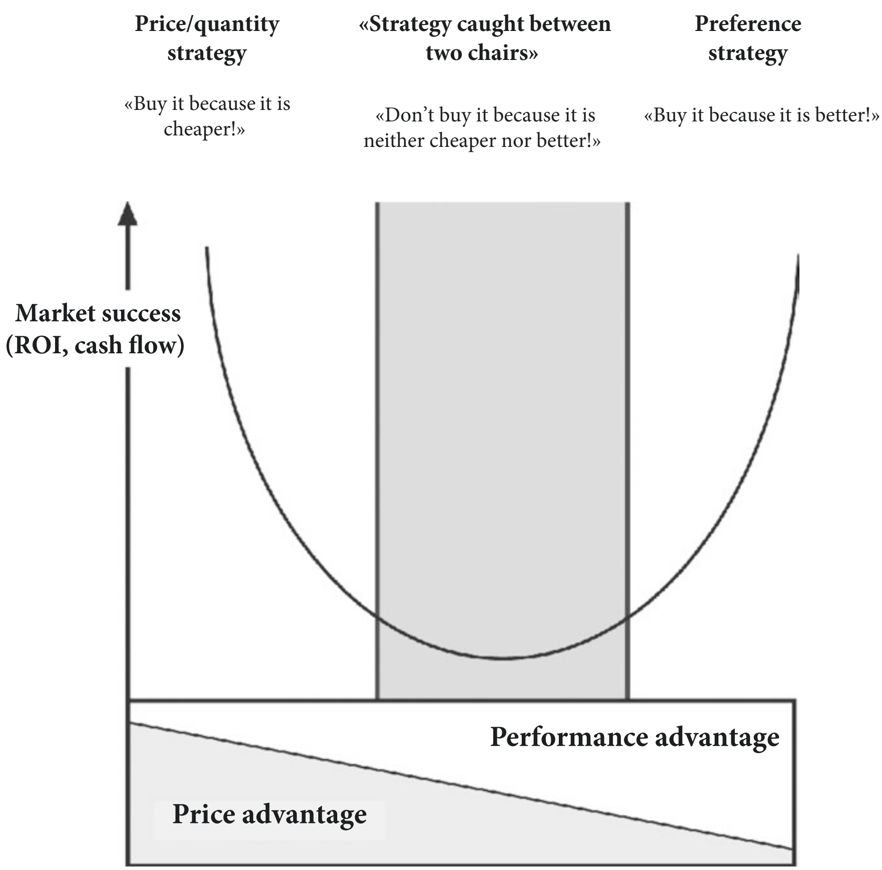


Fig. 4.28 U curve modified from Porter (Porter 1999, p. 70 ff.)

- The relative market share represents a target parameter that can be influenced through preference or price/quantity strategies.
- In practice, there are business units that successfully pursue price and cost leadership strategies, although they are no market leaders, and also business units that have achieved market leadership with differentiation or preference strategies.

Even with so-called *outpacing strategies* (see Sect. 3.5.5), which are characterised by offering a high performance level and low costs at the same time, customers usually perceive a distinct profiling (either "better" or "cheaper") and not a double profiling (both "better" and "cheaper"). Practical experience shows that offerings which are objectively better as well as cheaper than competitor offerings are still bought by customers either because they promise to save costs as compared with comparable competitor offerings or because they are classified as offering superior performance.

Thus, Japanese luxury class automobiles like the Lexus are purchased by certain customers because they are cheaper than the cars made by Mercedes and BMW while offering comparable performance. While in the performance domain they just offer the market standard, though this is at a relatively high level in the luxury segment, Japanese automobiles typically offer a competitive advantage in the price domain.

In many *mature markets* the problem faced by providers pursuing preference strategies is that the competitors have caught up in nearly all performance areas and the market standard has been established on a very high level. As the customers can hardly perceive any differentiation in these markets any more, the price becomes the decisive purchasing argument for increasingly large circles of buyers. In addition, there is the risk that although the customers do perceive quality advantages, these are over-compensated by price advantages of product offerings with comparable benefits. In other words, the performance-oriented customer groups are shrinking in those markets. Becker (2013, p. 731 ff.) accurately describes such effects as "downward price adjustments".

Value Positioning

These developments underline the necessity of dealing with the structure of the price/performance ratio offered to the customers. Kotler (1999, p. 59 ff.) speaks in this context of value positioning and distinguishes five relevant types:

More for More In many markets (including automobiles, watches, textiles, kitchen equipment) there are companies (such as Ferrari, Lange & Söhne, Gucci, Bulthaupt) that successfully offer so-called luxury products at extremely high prices. Customers in these markets are prepared to pay a correspondingly high price for a high level of perceived performance. The price represents an important quality indicator in such markets. However, the value positioning "performance advantages for an above-average price" is not only important in luxury markets, but may be observed in almost every market. The "more for more" approach represents the purest form of a preference strategy. The value positionings of "superior performance at a comparable price (more for the same)" and "comparable performance at a lower price (the same for less)" represent approaches that challenge the positioning of "more for more" offerings in an increasing number of markets.

Examples of "More for More" Positioning
Providers like *Mercedes, BMW, Audi* and *Jaguar* in the automobile market, insurance companies like *AXA Winterthur, Zürich* and *Allianz* or consumer goods providers like the Swiss pastry maker *Kambly,* the brewer *Beck's* or the company *Henkel* with its Persil brand have successfully followed this approach in their markets for decades.

More for the Same A "more for the same" positioning is essentially also based on a preference strategy. Yet, there is a crucial difference in that the customer receives more performance in relation to a certain reference price in the particular market.

"More for the Same" Positioning by Lidl
Lidl succeeded in establishing itself as a competitor in the German retail discount segment alongside *Aldi. Lidl* managed to almost catch up with *Aldi* in terms of price and in the customers' perception. At the same time, *Lidl* managed to obtain the backing of the powerful brand item industry in order to offer customers a broader and deeper, as well as more innovative product range than *Aldi*, which essentially concentrates on its own brands.

The Same for Less "The same for less" positioning is the most typical form of a price advantage or price/quantity strategy. Companies that follow this approach claim to offer comparable products at a more favourable price. Car producers like Hyundai orientate themselves towards providers like VW in their product and communication policy pointing out that they offer almost the same performance, but at a lower price. For example, Hyundai advertised in Switzerland with the slogan "The German among the Asians".

Less for Much Less A variant of the price advantage strategy that has gained in importance on various markets over recent years is the "less for much less" approach. Here companies offer products which are below the usual quality in the respective market, and below that expected by many customers, at an extremely low price. The reason why such an approach works in more and more markets is essentially attributable to the fact that products increasingly include components that offer no additional benefit to certain customers or customer groups, for which they would be prepared to pay a higher price.

Typical examples in retail are the hard discounters such as Aldi that have reduced their retail performance to a certain limited product range.

More for Less An offering that promises both high performance and price advantages would doubtlessly have a superior positioning. As discussed above, it is highly questionable whether a provider is in a position to assert such a positioning in the market, i.e. in the customers' perception. A more detailed analysis shows that even "category killer stores" like IKEA or Zara are positioned in the customers' perception as price advantage providers. However, by constantly raising the standard quality in its market, the provider ensures that the pressure on the competitors permanently increases. Jack Welch, former chairman of General Electric, ascertained around the turn of the millennium that: "If you can't sell a top-quality product at the world's lowest price, you're going to be out of the game […] the best way to hold your customers is to constantly figure out how to give them more for less" (as cited in Kotler 1999, p. 54). In other words: Irrespective of which value positioning a provider has chosen, improvements both on the performance aspect as well as on the price aspect will always be necessary due to the intensive and dynamic competition in the markets.

Strategy Field: Definition of the Market Segments to be Served

The fourth basic strategy decision involves the choice of the strategy field of a company. The *definition of the business activity* represents one of the key decision-making fields in strategic marketing planning on the corporate level and has already been covered in Sect. 3.3. Considerations on market segmentation, as discussed in the following, of course, play a key role in the "business unit definition" as part of the so-called bottom-up approach for defining markets.

Importance of Market Segmentation

Market segmentation is one of the most important concepts of modern marketing. It may be defined as follows:

- *Market segmentation* is the division of a heterogeneous overall market into relatively homogeneous buyer groups with the aim of addressing these groups in a differentiated way.

> **On the Relevance of Market Segmentation**
> "A company that wants to serve an extensive market – whether the consumer goods, industrial goods, reseller market or the procurement market of the public sector – often finds that it cannot serve all customers in this market to the same extent. They are too numerous, too broadly scattered and have too widely differing purchase requirements. […] Rather than trying to compete in all areas […] the company should determine the most attractive market segments that it can successfully serve." (Kotler et al. 2007, p. 356; source text in German)

Undifferentiated marketing	Differentiated marketing
Homogeneous needs in the overall market	Heterogeneous needs in the overall market, homogeneous needs within the segment
One product for a mass market	Specific products for defined segments
Competitive advantages due to a product with a clear price advantage, better properties or strong advertising	Competitive advantages due to unique products that meet the needs of certain segments
Special profit opportunities through economies of scale in production and marketing	Special profit opportunities through higher margins for specific products

Fig. 4.29 Undifferentiated and differentiated marketing

Several considerations associated with market segmentation become clearer if this differentiated kind of marketing is compared with the undifferentiated form (see Fig. 4.29 which follows Assael 1985, p. 225).

Since in highly developed industrialised societies all the basic needs are covered to an increasing extent, market segmentation has become a key for success in many markets. Integrating the basic principle of market segmentation into the relevant strategies offers the following advantages:

- higher customer satisfaction due to specific products,
- more efficient (because more precisely targeted) use of advertising, sales promotion and distribution measures,
- reduction of competitive pressure by reducing the number of competitors compared to the overall market,
- more precise target setting for marketing planning.

Meffert et al. (2012, p. 187) summarise the essential ideas of market segmentation in a single sentence: "The main aim of market segmentation is to achieve a strong fit between the product offer and the needs of the target groups."

There are, of course, drawbacks and limitations to a strategy of market segmentation. These occur especially if a company offers several products for different sub-markets rather than a unified product for a mass market. Higher costs for production, warehousing etc. will arise in such a case. Additionally, sometimes it can be observed (e.g. in the laundry detergent market) that large companies offer several products (brands) in the same market or in not clearly divided sub-markets. In this case there is frequently competition between these products for market shares. In marketing practice this effect is known as "cannibalisation".

How to go about Market Segmentation

Several preconditions must be met before it is possible to determine market segments. We will discuss the most important ones in the following. Subsequently, the standard criteria for market segmentation in consumer goods and investment goods markets will be presented.

The most elementary requirement for market segmentation is that *differences between the various products are relevant for the customers* and can be clearly perceived by them. The food industry offers numerous examples both for products that are not (yet) differentiated (flour, sugar etc.) as well as for a very widespread division of markets according to price level, tastes, customer age groups (e.g. coffee market) etc. There are also ample examples of how, through changes in customer behaviour and/or through targeted marketing measures, previously undifferentiated markets now offer segmentation opportunities. A typical example is the beer market; while in earlier times only a few brands were offered by regional breweries, today diverse types (pils, dark beer, export, wheat beer etc.) and even international brands are available, in different price categories.

A second prerequisite is that there have to be *pronounced similarities in needs among certain groups of customers*. Otherwise it is hardly possible to offer these groups an attractive product. Examples for very different needs are the markets for certain services (e.g. hairdressers, management consultants) that are highly individualised.

Serving a market segment can, of course, only be worthwhile if the size and potential is sufficient for a profitable strategy. In markets with a low number of customers and/or an infrequently occurring demand, the introduction of a large number of different products for each one of the very small market segments is usually not profitable.

The fourth prerequisite for market segmentation is the *identifiability and accessibility of customers*. If targeted marketing strategies are to be developed for a customer group, this is only worthwhile if this group can be defined by certain features and can be reached by suitable media, sales channels etc.

Finally, it should also be mentioned that for successful market segmentation the company needs to be able to develop and implement a suitable strategy for the respective segment. For example, serving the “high-performance computer” market segment requires a certain technical expertise. Also, a small car producer would probably have difficulties in obtaining sufficient acceptance for a new model in the “luxury limousine” market segment. In this context, a connection with the “resource-based approach” presented in Sect. 3.1.2 is apparent.

Most of the criteria applied for market segmentation can be combined into groups. The common criteria groups in the consumer goods sector are presented in Fig. 4.30 and illustrated on the basis of examples in the following:

- *demographic and geographic criteria* (age, gender, family status and family size, region of residence, urban or rural population);
- *economic and social status* (income, employment, social class, education);

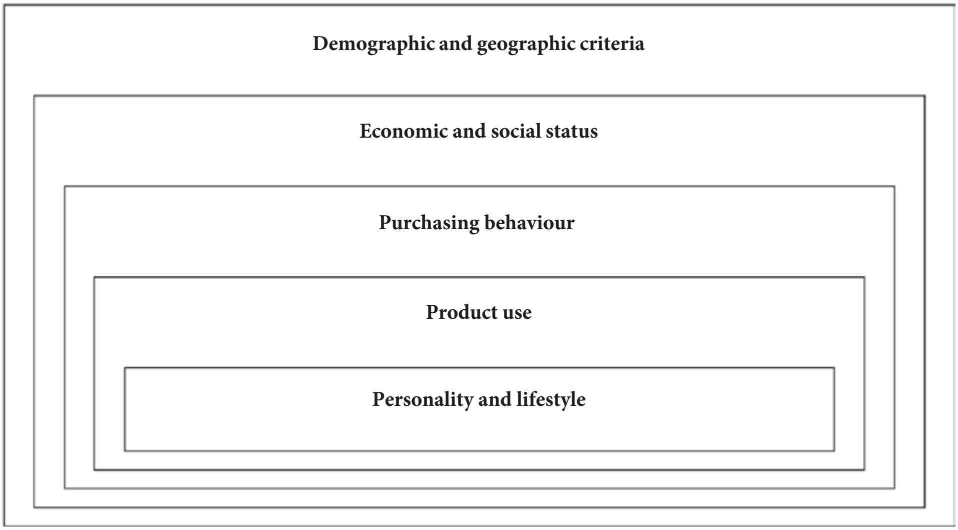


Fig. 4.30 Criteria for market segmentation in the consumer goods sector

- *purchasing behaviour (*buying frequency, choice of shopping location, brand loyalty, type of purchasing decision-making process);
- *product use* (intended purpose of the product, type of product properties considered, importance of the product properties considered);
- *personality and lifestyle (*enthusiasm for innovation, pleasure orientation, striving for security etc.).

The basic principles of market segmentation likewise apply to the consumer goods and investment goods sectors. However, other criteria are applied in segmenting investment goods markets. The most important criteria groups are compiled in Fig. 4.31 (according to Shapiro and Bonoma 1984) and illustrated by examples in the following:

- *external features* (industry, company size, region);
- *creation of goods and services by the customer* (applied technologies, previous suppliers, capabilities/expertise);
- *purchase decision-making process on the customer's side* (organisational integration of procurement, balance of power in the company, procurement policy, decision-making criteria);
- *situative factors* (urgency of need, order size);
- *personal features of those involved in the purchase decision-making process* (risk aversion/striving for security, cognitive style, commercial versus technical orientation).

The two diagrams in Figs. 4.30 and 4.31 have in common that the features are ordered according to their observability. The more observable a feature is and the easier it is to

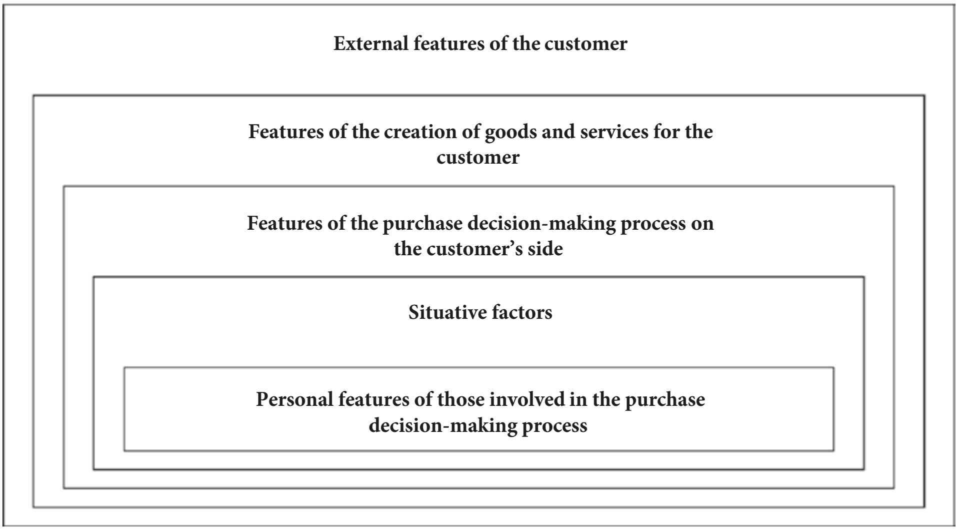


Fig. 4.31 Criteria for market segmentation in the investment goods sector

procure the relevant data, the further it is to the outside in the diagram. However, to avoid misinterpretations, two critical comments have to be made:

- The sequencing of the criteria groups as presented above does not mean that they are independent of each other.
- The diagrams say nothing about the importance of the individual criteria for a certain segmentation problem.

Differentiation between macro- and micro-segmentation is customary in investment goods marketing. *Macro-segmentation* refers to the features of the companies and organisations under consideration as customers (e.g. company size, location), whereas in *micro-segmentation* the persons involved with procurement are considered as individuals and as a group ("buying center") (e.g. their hierarchical position, personal characteristics) (Kleinaltenkamp 2002).

In most cases several criteria are used for defining market segments. For instance, to describe the eligible market segment for a sporty version of a mid-range car, the following criteria could be used: age (20–40 years), income (€ 40,000–60,000 per year), region (Europe) and lifestyle (leisure-oriented).

Market segmentation has already been touched upon in the explanation of the Abell scheme (Sect. 3.3.2). There, as in the present section, it also was a matter of identifying relatively homogeneous customer groups. In this context it has to be noted that segmentation can be undertaken at various degrees of differentiation on the different planning levels from market-oriented company planning through to planning the marketing mix. So it may well suffice for marketing planning on the company level, for example, to define the segment "forwarding companies in the European market". In contrast, deciding on a marketing mix of product, price, communication and distribution policy measures may require a more restricted orientation to the segment "mid-sized forwarding companies (15–50 employees) based in Germany and dedicated to the transport of fresh goods (refrigerated vehicles)".

A *strategic business unit* is, by definition, the combination of a certain product range with a certain market (product/market combination). Marketing planning on the business unit level is therefore not concerned with the fundamental decision as to which market is to be served. Instead, it is a question of deciding,

- against the background of changing market, competitive and environmental conditions (including customer needs, purchasing behaviour, values, substitution competition, development of media etc.),
- how the existing market and market segment definitions have to be modified (e.g. by accessing peripheral target groups, concentrating on major customers or lead users, intensified cultivation of core customers, focusing on power promoters in the buying centre)
- in order to achieve the marketing objectives(earnings, growth targets etc.).

The dividing line between segmentation decisions on the overall company level and the business unit level is often not clearly defined. Basically, these are closely interconnected areas in which the top-down and the bottom-up perspectives of marketing planning (in the sense of the approach by Day mentioned in Sect. 3.3.2) have to be iteratively linked.

It is also common in marketing practice to distinguish between market segments and target groups. In the insurance industry, for example, market segments are understood to be superordinate customer groups, e.g. "companies" and "private individuals". A specific market segment comprises several target groups; the market segment "companies", for example, encompasses the target groups "trade/professions", "companies" and the "public sector" (Fig. 4.32).

In order for a company to deploy the available resources in the most effective and efficient way, decisions affecting the basic market selection and segmentation have to be made "top-down", i.e. from the context of the overall company. Decisions that specifically affect a market segment and its target groups are better treated "bottom-up" from the business unit perspective.

Defining the Positioning Strategy on the Business Unit Level

In the previous sections, we presented the various areas which have to be considered in defining a positioning strategy on the business unit level. As mentioned above, these areas are closely related and have to be considered simultaneously in marketing planning. These four building blocks have to be joined together in such a way that a consistent positioning strategy results. Becker (2013, p. 352 ff.) refers to such a combination of strategic building blocks as "strategy chips".

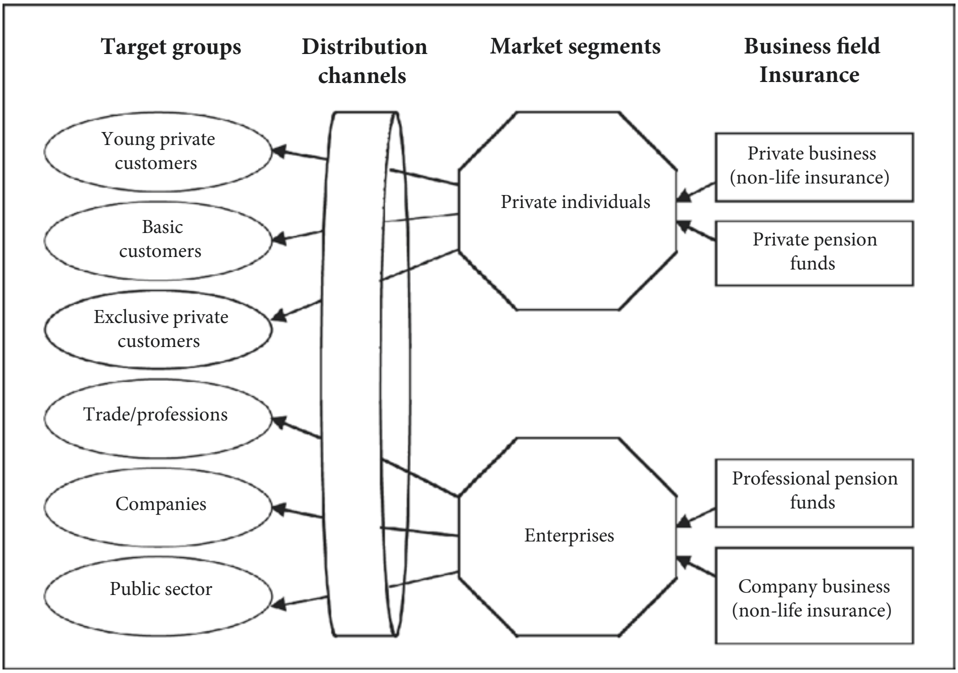


Fig. 4.32 Market segments and target groups in the insurance sector (Schogel and Finsterwalder 1999, p. 29)

First, the *strategy variation* has to be determined. It has to be decided whether the current position can be maintained in the competitive environment, whether repositioning is necessary or whether a new positioning has to be strived for. In relation to this, the *strategy field* and the *strategy style* have to be defined, i.e. decisions have to be made on serving the overall market or a market niche in an aggressive or defensive and in an innovative or conventional way. Finally, in the area of *strategy substance* it has to be decided how to establish a competitive advantage.

Figure 4.33 presents the decision-making areas which a positioning strategy on the business unit level has to take into account. Each area can also be understood as a continuum (Tomczak 1989, p. 141 ff.); in the case of strategy variation, for example, it extends from "maintaining the market position" on the one side to "new positioning" on the other side, with "repositioning" representing the midpoint of the continuum.

Each positioning strategy can therefore be seen as a combination of specific expressions of the four decision-making continuums (as exemplified by the lines in Fig. 66). Basically, there are numerous possible combinations for defining a positioning strategy. However, not all combinations are potentially successful options in all industries and for all companies.

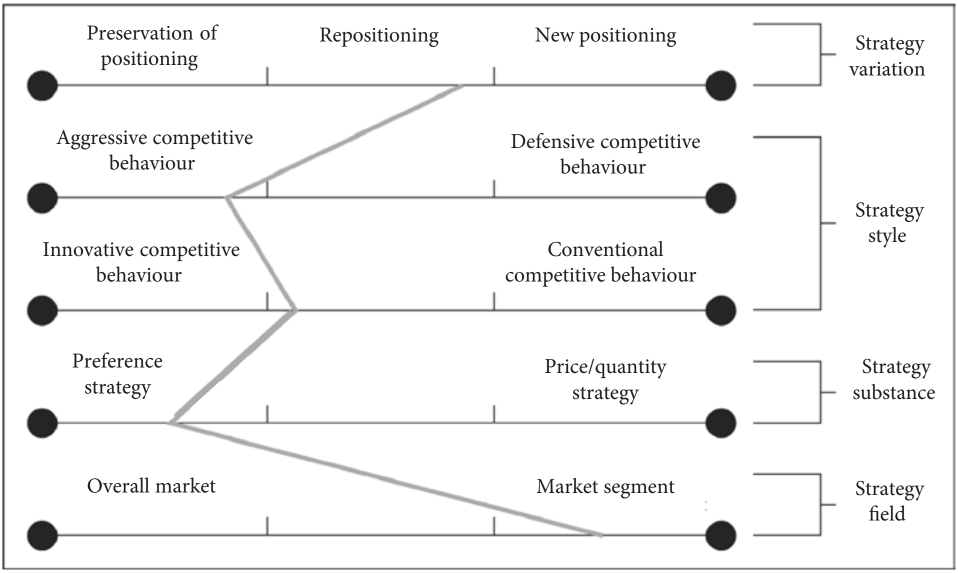


Fig. 4.33 Decision-making continuums of positioning on the business unit level

For instance, the results of an extensive empirical study conducted for 203 business units indicate that three types of positioning strategies are especially successful in the consumer goods market (Gussek 1992, p. 276):

- "*Preference-oriented market segmentation strategy*": preference strategy with an innovative and aggressive strategy style on a sub-market (e.g. Red Bull);
- "*Preference-oriented mass market strategy*": preference strategy with an innovative and aggressive strategy style and overall market coverage (e.g. Nivea, Knorr);
- "*Aggressive price/quantity strategy*": price/quantity strategy with an innovative and aggressive strategy style and overall market coverage (e.g. Aldi).

These results appear plausible and are largely consistent with the tenets of the strategic orientation of business units as presented in the previous sections. On the one hand, aggressive and innovative positioning strategies apparently offer the greatest potential for success. On the other hand, it is obvious that above-average success with a price/quantity strategy is only possible on a national market or a global sub-market, because a sufficiently large basis is necessary for exploiting experience curve and economy of scale effects. In contrast, preference strategies can be successful both in sub-markets as well as in the overall market.

Companies that rely on intermediaries for the distribution of their products and services have to develop two (or possibly several) closely interconnected positioning strategies:

one with end customer orientation and a second one with explicit intermediary orientation. In developing an intermediary-oriented positioning strategy, again decisions have to be made with regard to the strategy variation, the strategy style, the strategy substance and the strategy field.

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