George S. Day & Robin Wensley

The traditional paradigms of marketing are expanding to incorporate negotiated exchanges with internal and external coalitions in the pursuit of competitive advantage. This paper explores the implications of a broader paradigm for setting priorities in research and theory development in strategic marketing. These priorities build on conceptual and methodological strengths within marketing. The perspective taken in this paper also contributes to the continuing dialogue about the appropriate role for the marketing function in addressing strategic issues.

Marketing Theory with a Strategic Orientation

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THE discipline of marketing is constantly being reshaped by internal and external forces. Seldom have the pressures for change been so compelling as in the present period of ferment. The most obvious forces stem from developments in strategic management and planning, plus substantial restructuring of many traditional markets into networks of long-term cooperation. These developments represent significant challenges to the accepted paradigms within the field of marketing. The effects are being magnified because they frequently have a counterpart in growing dissatisfaction with the restrictive view of marketing that characterizes much of the present theory and research in the field.

From this ferment productive new directions for theory development are emerging. However, because of the multifunctional nature of strategic concepts, much of the initiative behind these new directions is presently coming from the related fields of industrial organization economics and administrative behavior.

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This article identifies the pressures for change and their implications for theory development. From this analysis comes a number of specific research priorities to pursue. These priorities are based on judgments about the advantages that research in marketing has relative to other disciplines that also address strategic issues.

Trends in the Business Environment

During the 1970s the position of marketing within most firms was eroded or displaced by developments in strategic planning. In some cases the role was completely transformed by the emergence of domesticated markets in which competition was replaced by long-term cooperative agreements. Neither of these trends has been adequately captured within our existing body of theory.

Marketing's Influence on Strategy

In retrospect, the 1960s was the era of marketing's greatest influence and promise, when a marketing orientation was accepted as an essential element of profitable progress in growing markets. Because of the inadequacies of corporate long-range planning (Ansoff 1980), the marketing plan became an influential

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instrument for strategic change by guiding the product-market choices of the firm.

During the 1970s the influence of marketing noticeably waned, while strategic planning was in ascendance. First, the pressure of environmental changes forced many firms toward a financially driven portfolio logic, within the context of an organizational framework where the strategic business unit was the focal point of analysis and planning. Consequently the strategic emphasis shifted to consolidating strong competitive positions and conserving scarce resources. Increasingly the marketing plan was restricted to a tactical support role at the brand level (Hopkins 1981), and thereby lost its earlier strategic focus.

Also during this period, the marketing concept was being viewed with growing skepticism. Strong supporters among senior management were reporting frustration with getting the concept implemented (Webster 1981). Others were questioning the value of satisfied customers in the short run, at the expense of unnecessary product proliferation, inflated costs, unfocused diversification, and a weak commitment to R&D (Hayes and Abernathy 1980). Similar concerns have recently been voiced by marketers (Bennett and Cooper 1982), who argue that the marketing concept has shifted the emphasis from R&D and product innovation toward the supporting elements of the marketing mix, which do not offer a basis for long run competitive advantage.

Finally, the basic structure of world markets became increasingly distorted during the 1970s. As international trade was increasingly afflicted by protectionism, a growing proportion of market segments were closed to free competition. One recent estimate is that 25–30% of total world trade is subject to *countertrade* requirements (*Business Week* 1982). This refers to transactions in which sellers are forced to take goods they would not otherwise buy. While the arrangements are often incredibly complex, they are all variations on barter. For example:

- counterpurchases—a set of parallel cash sales agreements in which a supplier sells a plant or a product such as aircraft, and orders unrelated products to offset the cost to the buyer.
- buybacks—under a separate agreement to the sale of a plant, the supplier agrees to purchase part of the plant's output for up to 20 years.

Many of these agreements are negotiated with state-owned enterprises or governments to whom profitability may be a secondary objective. The resulting trading patterns continue to rearrange the landscape of marketing.

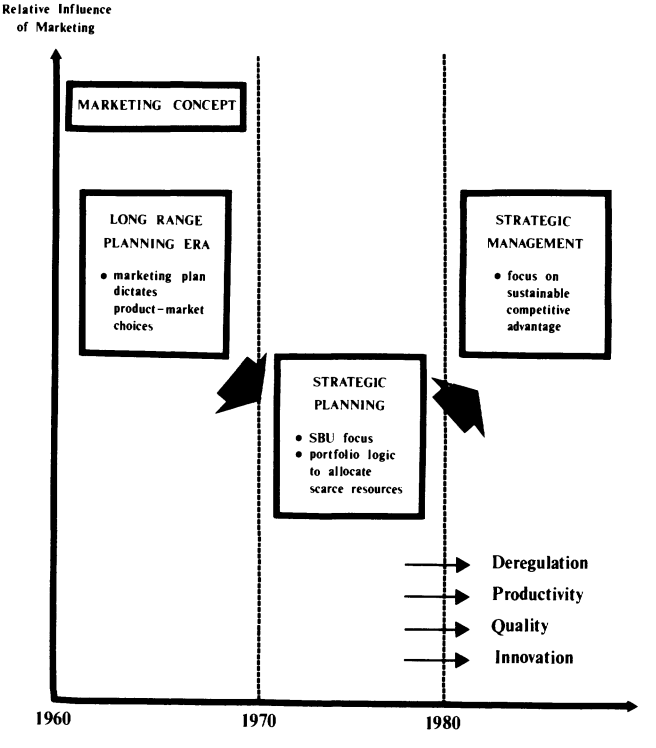
Toward Strategic Management

The advent of the eighties has required a significant evolution in planning practice (Gluck, Kaufman, and Walleck 1980) that presents an opportunity for marketing to reassert its traditional influence (see Figure 1).

The challenges of the eighties are different from those that earlier spawned corporate strategic planning. Most notably, competitive pressures have become even more acute as companies recognize that in a slower growth economy, they must actively seek new opportunities in order to grow or even hold their position. It is not enough to attempt merely to consolidate present positions. At the same time technological advances, deregulation, pressures for productivity, increased emphasis on quality, an aging population, and innumerable other factors are presenting new challenges and new sources of competition.

The essence of strategic management is an integrated organizational emphasis on securing and sustaining a competitive advantage within the markets served by individual business units. Two patterns of response to this competitive imperative have evolved. The first is to "domesticate" the market by suppressing or controlling competition. The second seeks spe-

FIGURE 1
The Changing Role of Marketing



cific market-based mechanisms for advantage in the face of direct competition.

Domesticated markets. Arndt (1979) has observed that many markets that once were competitive have now been restructured as a result of voluntary, long-term binding agreements among participating organizations. As a result of agreements such as joint ventures, franchises, subcontracts, vertical integration, and joint product development and marketing contracts, transactions are planned and administered on the basis of negotiated rules of exchange. Such arrangements offer participants the benefits of reduced uncertainty of operations, reduced transaction costs, and access to economies of scale by bypassing traditional market arrangements. These potential benefits were significant considerations in the recent decision by IBM to invest in Intel Corp., one of their primary microprocessor suppliers. A number of similar linkages have been arranged in the semiconductor industry to strengthen the ability of U.S. chip makers to meet Japanese competition (*Business Week* 1983). The networks of long-term cooperation resulting from such transactions have a degree of stability simply not envisioned in most theories of marketing as a boundary function managing a continuing series of impersonal, discrete exchanges. Indeed, when markets become domesticated, the boundary between the firm and its environment becomes blurred and perhaps meaningless.

Strategic segments. Within those markets where overt competition remains, there is growing recognition of the complexity of competitive interplay and the consequent fuzziness of market boundaries. Within this context most businesses make most of their profits from a very limited portion of their served market. These are the segments where their competitive advantages are most distinct (Henderson 1983). Segments are delineated by the boundary line along which two segments come into contact, and no competitor has an advantage. The challenge for marketing is to extend the present theories of segmentation and positioning to encompass this broader perspective.

The Paradigm Shift within Marketing

A paradigm is a loose consensus regarding the fundamental nature of a discipline. The scope of the paradigm dictates the important questions in the field and thereby guides research and theory development. By this definition the marketing concept, with the allied notions of consumer choice and consumer satisfaction and the four Ps are arguably the most accepted general paradigms for the field (Arndt 1979, Hunt 1979). Their acceptance is most evident in the marketing management literature, and especially in their dominant role in the majority of texts.

A strong case could be made for also considering the notion of *exchange,* and the related concepts of exchange rules, transaction costs, information alternatives, and power, as a general paradigm (Carman 1980). Other elements of the field of marketing that have been proposed as candidates for general paradigms include: the *systems* that relate marketing institutions, the *influence* approaches used to bring about desired responses (Kotler 1972), or the pattern and resolution of *conflicts* among buyers and sellers. Overall, these additional elements have not been the catalyst for the development of a sufficient body of theory and research to be considered as dominant features of the discipline. Clearly this is a matter of judgment, which is especially difficult during periods when the essential consensus on the nature of the field is changing.

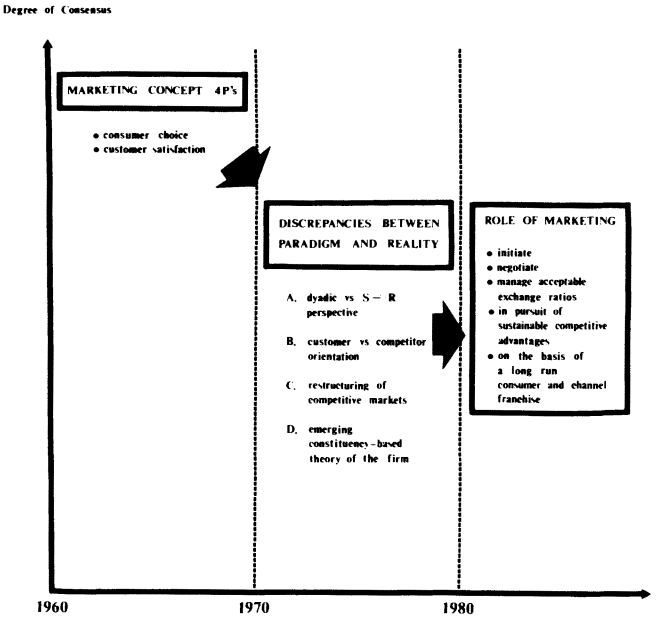
Disciplines evolve by progressively refining and articulating the accepted paradigms. This process continues until the discrepancies between the most widely accepted paradigms and reality become too large to be ignored (Kuhn 1962). This is the situation we are encountering within marketing. The manifestations are an absence of consensus as to the nature and boundaries of the field, and a relative neglect of significant issues in the field.

The present general paradigms are vulnerable to attack from several directions:

- the implicit one-way model of an exchange transaction is clearly at odds with contemporary exchange theory and research.
- the dominant orientation toward customers has deflected attention from the pursuit of competitive advantage.
- there is little recognition of the role of marketing as an innovating and adaptive force in the organization. The 4 Ps are misleading in the sense that they imply static distinctions.
- the marketing concept relies on inappropriate neoclassical economic premises and should be grounded in a more relevant constituency-based theory of the firm.

In short, the generally accepted paradigms for marketing are simplistic and incomplete in their consideration of major elements of both the practice and the discipline of marketing. However, the growing recognition of these shortcomings provides the groundwork for an integrative paradigm that can effectively guide future theory development. As Figure 2 implies, the eighties should see a broad consensus emerging regarding the role of marketing within the

FIGURE 2
The Paradigm Shift within Marketing



firm. One theme underlying this emerging consensus is the need to incorporate the relationships of the marketing function with constituencies both inside and outside the firm.

Each of the next four sections elaborates one of the major challenges to the traditional paradigms and contributes a specific element to an emerging integrative paradigm.

The Dyadic Exchange Paradigm

The traditional paradigm incorporates an implicit unidirectional stimulus → response mechanism to explain the reaction of customers and markets to management actions (Arndt 1979). By contrast, the dyadic exchange paradigm focuses on two-way or transactional relations between sellers and buyers. The outcome of this relationship depends on bargaining, negotiation, the balance of power, and the sources of conflict between the parties (Bagozzi 1978). This perspective has much greater potential to be congruent with the realities of domesticated markets. At the same time, it does not imply the abandonment of previous research in marketing, although it does force consideration of the limits to the situations in which this research is relevant.

Customer versus Competitor Orientation

Traditional paradigms in marketing give little explicit attention to competitive forces. Yet the benefits of a marketing exchange depend on the ability of each prospective supplier to create and sustain a competitive advantage over all other competitors. The argument for expanding the paradigm in this direction is persuasive.

> The reward potential for a successful strategy is only large where the size of the advantage that can be created is also large. The long term value of any business is determined by the size of its advantage versus the marginal, but viable competitor. When all or most competitors can achieve equal costs without price differentiation, then returns of the whole industry will be depressed to a level sufficient only to fund capacity additions to meet market growth requirements (Lochridge 1981).

The basic issue for marketers was posed by Oxenfeldt and Moore (1978). In their view, a customer orientation implies a battle for ultimate customers that is won by direct appeal to these customers. However, it is derived from premises they find questionable, including assumptions that (1) customers know what they want, (2) marketing research can ascertain what potential customers want, (3) satisfied customers will reward marketers with repeat purchases, and (4) competitive offering differences are great enough to be important to the customers. By contrast, a competitor orientation views customers as an ultimate "prize" gained at the expense of rivals in many ways other than by simply offering a better match of products to customer needs. Sources of advantage over rivals can also be found in strong distribution arrangements, preferential treatment by suppliers, and lower costs.

Marketing theory has not always been silent about the need to pursue competitive advantage. Alderson (1957, 1965) advanced a number of propositions that could serve as a useful theoretical foundation for a revised paradigm. The pertinent propositions have recently been formalized by Hunt, Muncy, and Ray (1981):

- competition consists of the constant struggle of firms to develop, maintain, or increase their differential advantages over other firms.
- competition for differential advantage is the primary force for innovation in marketing.
- the bases for differential advantage are: market segmentation, selection of appeals, product improvement, process improvement, and product innovation.
- through time competitors will attempt to neutralize the differential advantage of an entrant.
- the existence of a differential advantage gives the firm a position in the marketplace known as an "ecological niche."

Marketing as Innovation

Simmonds has also drawn from Alderson's early work to propose that innovation be recognized as one of the

core concepts on which marketing theory rests. Here again, a customer orientation leads to a potentially myopic focus on customer innovation in the adoption of products, while overlooking the functional role of marketing as ". . . organized, rational innovation. It is organized innovation because it is the marketer's function to identify the opportunity for change, initiate it, and monitor it. It is rational, in the sense of reasoned, because marketers must identify from the subset of innovations which are possible and innovations which are wanted" (Simmonds 1982).

A Constituency-Based Theory of the Firm

Implicit in the marketing concept is an acceptance of neoclassical economic theory that views firms solely as profit maximizing units. This acceptance can only be inferred from the normative decision rules incorporated in marketing models and theories, for there has been little or no questioning within the marketing literature as to whether it is an appropriate theory of the firm.

Recently Anderson (1982) has argued that behaviorally-oriented theories of the firm are superior in capturing the reality of marketing's internal and external relationships. The foundation of his constituency-based theory is the notion that the task of the organization is "to maintain itself by negotiating resource exchanges with external interests. Over time the internal coalitions within corporate organizations have adapted themselves to enhance the efficiency and effectiveness with which they perform these negotiating functions."

In general, functional areas that negotiate especially crucial resource exchanges will have greater power within the firm. This power will be manifested in many ways, including the ability to influence and to negotiate objectives. Indeed, from this perspective, the strategic thrust of the firm is also shaped by a bargaining process among functional areas. "Each area attempts to move the corporation toward what it views as the preferred position for long run survival, subject to the constraints imposed by the positioning strategies of the other functional units" (P. Anderson 1982). Direct support for this view of strategic decision making comes from Quinn's (1981) field research into the political processes by which top management negotiates to obtain the support of the firm's various coalitions and interest groups. While it is possible to argue that such behavior can be consistent with a neoclassical economic theory, it is also true that a behavioral perspective is much more useful for understanding most marketing practice.

Toward an Integrative Paradigm

Several themes are woven through the four preceding challenges to the traditional paradigm. The implications of these themes can be translated into an integrative paradigm for marketing that has growing theoretical support and also speaks directly to the role of marketing in the strategy formulation process. For these reasons we foresee a growing consensus around the notion that the marketing function

. . . initiates,

. . . negotiates, and

. . . manages acceptable exchange relationships with key interest groups, or constituencies,

. . . in the pursuit of sustainable competitive advantages,

. . . within specific markets, on the basis of long run consumer and channel franchises.

Responses to the Emerging Paradigm

The challenge to incorporate an orientation toward competitive advantage in both theory and research has not been widely accepted by marketing scholars. Indeed, many of the developments in strategic marketing analysis that strive to provide generalized diagnoses and prescriptions have deflected marketers' attention from the critical issue of the demand-based sources of competitive advantage (Wensley 1981, 1982). Consequently, the theoretical initiative has passed to economists by default. At the same time, many of the substantive issues of strategic marketing are also being addressed within the emerging field of strategic management. The purpose of this section is to clarify the nature of these related areas of theory and research as a prelude to specifying an appropriate role for marketing in addressing strategic issues.

Strategic Management and the Reinvention of Strategic Marketing

The traditional field of business policy or general management has recently been transformed and expanded into the field of strategic management. To a considerable extent the development of this field has occurred independently of work in related functional areas, notably marketing (see, for example, a study by Jauch 1981). One explanation was provided by Schendel (1983) who recently observed that:

> . . . What goes unrecognized in the literature of most functional areas, especially marketing . . . is that modern day, complex organizations have evolved well past the notion of the president with [functional] vice presidents . . . and have gone on to variations of a corporate/multiple business/functional area type . . . [S]uch parochialism is perhaps more true of academic people than of practitioners or consultants. . . . Increasingly we are seeing distinctions between how the matter of strategy making is approached (strategic management) and how strategy usage is conducted (operations management). . .

While the dichotomy between strategy and operations management has some utility, it is ultimately misleading, for it discounts the necessity for strategic thinking at the product-market level of the firm. An alternative perspective that accords a strategic role to marketing within product-markets and business units, holds that the primary concern of strategic management should be the formulation and implementation of corporate level strategy. Within diversified firms this encompasses:

- the *organizational context* of strategic decisions, and the relationship of strategy and organizational structure.
- the strategic *decision processes,* including formal systems for planning, implementing, and controlling.
- the specific *resource allocations* to existing businesses or major growth ventures.

Marketers can contribute to both theory and practice within each of these areas, and especially to decision process and resource allocation questions. The fundamental reason is that the appropriate level of analysis for addressing these two areas is more likely to be the individual product-market or business unit, and not the firm as a whole. Inevitably, a corporate or "top-down" perspective can only be partially informed about the threats and opportunities at this level of competitive interaction and the specific details of the company's franchise with their customers and distribution channels. The strategic decision process requires a dialogue between the corporate and business unit levels to develop individual strategies based on the specifics of market segments and competitive positions. Such a dialog can only be effective if marketing management reasserts its role in providing strategic direction at the product-market level.

There is also an analogous opportunity for marketing theory to make a contribution to the theoretical issues within the field of strategic management, while also expanding the understanding of the integrative paradigm. The clarification of this role will be complicated by the extent of shared interests between strategic marketing and strategic management. A further complication lies in the general difficulty of integrating distinct research streams employing different paradigms, units of analysis, causal presumptions, and researcher biases (Jemison 1981).

Advances in Industrial Organization Economics

The problem of integrating different research streams is especially evident when assessing recent research in economics that addresses the theoretical issues of industry structure and competitive advantage. The traditional industrial organization paradigm of structure → conduct → performance was of little interest to marketers or corporate strategists. Typically, the unit of analysis was the industry, with no recognition of strategic differences among firms. Further irrelevance was introduced by the assumption that because structure determined conduct (strategy), which in turn determined performance, it was possible to ignore strategy and explain performance solely in terms of the industry structure. More recent work has made progress in overcoming these limitations by broadening the research focus to include both the firm and the industry, the factors determining the nature of competition, and feedback effects of strategies on market structure (Porter 1981).

A major premise underlying economic theory is that competitive advantages are essentially temporary, but may be extended if the firm faces few direct competitors. Two developments in industrial organization economics that build on this premise are of particular interest to marketing theorists. The first is the generalization of the market entry barriers concept to embrace all *mobility barriers* that could deter a firm from shifting its strategic position by product or segment diversification, opening up new distribution channels, and so forth.

At first glance mobility barriers appear to be nothing more than fixed costs. Some of these costs are reasonably identifiable, such as capital requirements or access to channels with a new sales force. Other costs, including search and switching costs and reputation and brand image, are less readily determined. In fact, what is crucial is the proportion of any of these fixed costs that is irrevocably and exclusively committed to the particular opportunity—the sunk costs (Baumol and Willig 1981). The existence of substantial sunk costs in specific areas suggests strategic market segments in which certain firms, either by accident or design, find themselves with a pattern of sunk cost commitments very similar to some others and equally very different from others. We can also assume that for many firms, it will be more efficient to concentrate on developing the skills and assets required to compete within a restricted set of such segments, rather than broadly across a wide range.

The second development is the notion that industries can be broken into *strategic groups* of firms that all follow the same strategy, such as full line national brand versus narrow line specialist, and consequently have similar reactions to environmental changes (Caves and Porter 1977). Mobility barriers both define these strategic groups and are reinforced by the patterns of rivalry of group members. The persistence of these barriers determines the stability of competitive positions and the ability of the firm or firms within the

group to resist the downward pressure on profits from direct competition.

The appeal of these developments is diminished by the extent to which ad hoc approaches are used to identify mobility barriers. Given that firms within the same product-market are different in many respects, it is inevitably possible to define various discriminating dimensions. The question remains how far such dimensions reflect the underlying economic logic of sunk costs that was developed above. The most consistent and useful distinction would appear to be between manufacturers who brand their own products and those who provide for retailer branding, as in the consumer durables industry (Hunt 1972). In other instances, however, the strategic groups have not proved to be stable over time (a critical requirement if any strategic prescriptions are to be drawn from the analysis). For instance, Hatten and Schendel (1977) claimed to show that the U.S. brewery industry actually consisted of three specific groups: national, large regional, and small regional. In a recent paper, however, Hatten and Hatten (1983) show that both the membership and the classifications of the strategic groups do not appear to be stable over time. Hence, what are needed are sound theoretical and methodological grounds for identifying the few crucial barriers from among many candidates.

Implications for Theory and Research in Marketing

Productive research and theory development in strategic marketing will be characterized by sensitivity, both to significant issues in the environment and opportunities for cross-fertilization with other disciplines. Such research will also enhance theory development in marketing if it expands the traditional paradigm to incorporate negotiated exchanges with internal and external coalitions, in the pursuit of competitive advantage. Productivity will be further assured by building upon existing conceptual and methodological strengths within marketing, and focusing these strengths on the development of mid-range integrative theories. The remainder of this section will elaborate on these last two notions.

Building on Strengths

A recent analysis of the contributions of marketing to strategic management (Biggadike 1981) concluded that although marketers have the tools and concepts to tackle strategic management issues, they are unlikely to do so because their orientation is toward technological solutions to short-term problems at a brand or product level. Indeed, the question was posed whether "marketers are interested in raising their level of aggregation to the business unit or industry unit level, and their time horizon to the long run . . . [Consequently] it will be up to strategic management students to make the transfer of marketing concepts and methods to strategic issues."

In our view, marketing has a broader strategic capability than is suggested by this conclusion. Indeed, while many strategic analysts have attempted to translate marketing theory and practice into the strategic context, in areas such as product and market segmentation they have often failed to recognize the complexity of the underlying theory (Day, Shocker, and Srivastava 1979; Wind 1978). There are three aspects of the strategic context where a marketing perspective should offer a distinctive if not the dominant view. These include the analysis of competitive market behavior, the definition of viable organization boundaries, and the processes by which resources are allocated.

Competitive market behavior. Here we can identify a number of strategic themes: the behavior of existing markets, identifying and estimating new opportunities, and the specific assessment of resource allocation choices. In strategic terms the behavior of existing markets includes both the theory and application of segmentation and positioning approaches. The language of strategy encompasses such terminology as "niches" or "strategic segments." Such terms, as we suggested above, often mask a failure to look in detail at the marketing evidence. Indeed, the literature on marketing management (Kotler 1980) has emphasized that we need to consider four key factors in determining an appropriate basis for segmentation of any particular market:

- *measurability:* the degree to which the size and purchasing power of the resulting segments can be measured,
- *accessibility:* the degree to which the resulting segments can be effectively reached and served,
- *substantiality:* the degree to which the resulting segments are large and/or profitable enough to be worth considering for separate marketing attention, and
- *durability:* whether or not the distinctions between segments will diminish as the product category or industry matures.

Such factors are a valuable starting point for evaluating proposals for strategic segmentation (Garda 1981).

To understand the behavior of existing markets in strategic terms, we also need to look more closely at the analysis of market responses. We would expect the marketing function to be the area where information should reside about the responsiveness of the market under consideration and also in analogous ones. Since many strategic judgments are inevitably based

on similarities and distinctions between the assumed market responses in different product-markets, the lack of an appropriate marketing data base merely means that corporate management will tend to make "blind," and often implicit, assumptions which cannot be challenged against the evidence.

In strategic terms, the simplest portfolio model of the firm's product-market positions involves the balancing of existing operations against new opportunities. Here also marketing theory has a considerable contribution to make, including the identification of market opportunities, the analysis of new product demand, and the development of a sensible use of product life cycle analysis for forecasting. These are key methodological inputs into any attempt to achieve an effective commercial balance in the portfolio. But here again there have been problems from too rapid transfer of a complex and detailed marketing concept to the strategic arena. For instance, many of the strategic portfolio models rely on a misleading and simplified concept of the product life cycle (Wensley 1981).

Defining viable organization boundaries. These definitions (Wensley 1983) require specific choices about which activities should be retained within the organization as opposed to contracted from the external market. Choices cover a wide range of specific options, with the fully integrated organizations at one extreme and the totally independent external market at the other. One of the promising frameworks that can be used to assess the value of internal organizational mechanisms versus the external market is based on transaction cost analysis (Williamson 1979). Such a framework can also be useful in anticipating organizational changes necessitated by shifts in cost structures, due to changes in production technology or distribution channels (Rumelt 1981).

Marketing practitioners and researchers are well-placed to test and evaluate an approach based on transaction cost analysis because they have experienced such choices within the marketing function and have an understanding of how markets actually operate. For instance, the marketing function has frequently had to consider the "make or buy" choice with respect to both advertising and selling activities. The transaction cost approach provides an opportunity to reinterpret previous work and identify new areas for research (Anderson and Weitz 1982). In such an evaluation, it is important to recognize that actual markets do not operate solely as impersonal mechanisms between individuals with short time horizons. Much of the industrial marketing literature testifies to the existence of longer-term relationships, which may help in the development of a more general model of the practical choices between internal and external markets.

The process of allocating resources. Many of the models of strategic management, including that developed by Schendel (1983) discussed above, tend to assume too simple a link between the development of strategic direction and its actual implementation via the allocation of resources. In practice, as both Bower (1970) and Mintzberg, Raisinghani, and Theoret (1976) have observed, the actual process of resource allocation often incorporates a number of implicit but critical strategic moves. In the area of resource allocation and particularly the information systems to support such decisions, marketing theory and practice has a key role to play. This role involves not only the extension of previous work on decision support systems (Little 1979) but also more direct attempts to integrate such approaches with current work in finance. It is a major challenge to those designing marketing information systems to ensure that the systems developed also interact with financial and accounting data. This implies a definition of asset values that reflects competitive market economics as well as closer attention to the relationship between specific advantages in the product-markets and the nature of competitive forces. Until the advantages of both consumer and distribution channel franchises are reflected in asset valuations, it will be difficult to recognize the real strategic significance of many marketing actions.

Indeed, this concern for asset valuations can be expressed in a way that represents the real concerns of strategic marketing. Individual firms face choices based on both past and future investment in sunk costs. Such sunk costs not only restrict the areas in which a firm can effectively compete but also act to reduce the extent to which others can imitate and therefore compete effectively. Sunk costs, however, only have strategic value when they facilitate actions that consumers and distributors will value. Strategic marketing is, therefore, concerned with market-based valuations of sunk costs and the incorporation of such valuations into the decision process within the firm.

Priorities for Mid-Range Theory Development

The complexity of strategic environments has led theorists to converge on a middle ground between the view that there are universal principles and the view that each organizational situation is unique (Steiner 1978). This middle ground is similar to the concept of "middle range" theories developed by Merton (1968); the emphasis, in Cohen and Lindblom's (1979) terms, is on usable knowledge that is only applicable within a defined range. These mid-range theories include simple contingency theories in which the validity of the relationship is controlled by the presence or absence of a particular independent variable, as well as more complex models in which independent variables can have an interactive effect on the nature of the relationship. There are a number of potential research

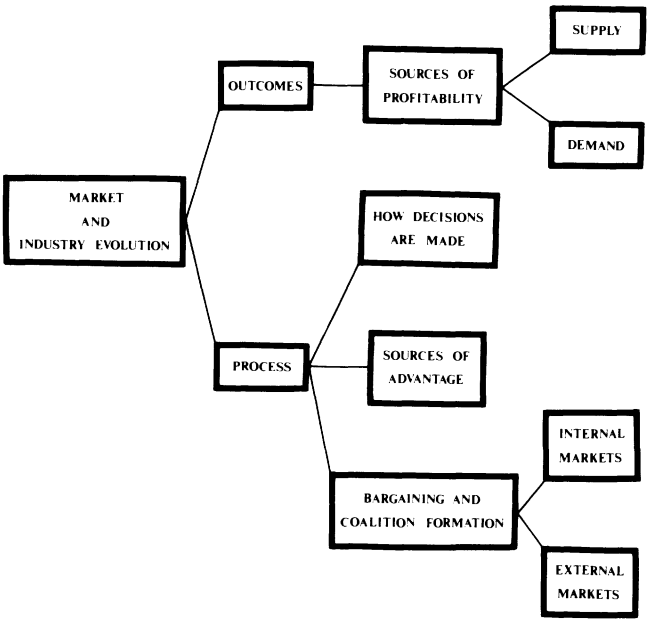
topics within this middle ground that would yield considerable dividends.

The proposed research and theory development priorities can be hierarchically ordered. As Figure 3 suggests, our theories about the *outcomes* of competitive market interactions and the *process* of designing strategies for a business must be based on an improved understanding of market and industry evolution.

The Nature of Industry and Market Evolution

Present theories and research tend to focus either on the nature of the suppliers, as in industrial organization economics, or on the nature of the buyers, as in research on customer choice and diffusion processes. In fact, industry evolution is an adaptive process in which customers respond to the options that are available, and in so doing, generate signals that suppliers respond to by changing the options that they offer. A better understanding of this evolutionary process can be obtained from historical and longitudinal analyses of various industries. Such studies would provide a basis for the identification of common stages, and also help to address such issues as the extent to which a firm's choice of strategy can influence the evolution of the relevant market. This research approach would avoid the confusion that exists in some models of the product life cycle between competitive supplier effects and changing consumer tastes. However, such research would involve considerable effort. One has only to look at Chander's original work on the impact of organizational structure in strategy, or the work of others, such as Rumelt (1974) to appreciate the depth of analysis that is required.

FIGURE 3
A Hierarchy of Research and Theory Development Issues



Research on Outcomes

A more focused search for relationships between forms of sunk costs and their strategic value in terms of consumer and channel franchises, would be productive. The most obvious departure point for this search is the impact of various independent variables on the relationship between a specific strategy and a performance outcome. Even the formulation of testable theories is a challenge. A prerequisite is a robust taxonomy of strategies and an adequate measure of performance outcomes. A further complication is the variety of candidates for important independent variables, including:

- product life cycle parameters
- experience effects
- perceived relative product quality and customer satisfaction
- market position

Composite models of profitability determinants also need to be developed and tested. Three classes of determinants have been identified:

- industry forces and strategic group membership
- competitive advantage
- operating productivity

There is a need for a much better understanding of the relative contributions of these three sources and the extent to which their contributions are modified by the independent variables discussed above. Merely to formulate the problem in these terms raises substantial methodological problems: We need to define and measure the three classes of profitability determinants so they are conceptually distinct. Currently, competitive advantage seems to be assumed to be directly correlated with the other "independent" variables. As Day (1983) has suggested, we can more usefully group the independent variables into two sources of competitive advantage and distinguish demand factors, such as market position, from supply factors, such as scale economies and experience curve effects.

A further research priority derived from this perspective is the identification of strategic group structures and mobility barriers. The utility of these concepts is considerably diminished by problems in designing an appropriate and independent form of measurement. To the extent that strategic groups are manifested in differences in consumer perceptions and

behavior, existing methodologies can contribute to the resolution of this problem.

Research on the Firm's Strategic Market Planning Process

One of the major concerns for research in marketing strategy is the way in which consumer valuations are reflected in the strategic choice process within the firm. This also suggests a number of specific areas for research.

First, there is the relationship between the strategic decision-making process—in terms of the balance between top-down and bottom-up perspectives (Day 1981)—and the nature of the resultant strategic decisions. This is a particularly important question in regard to assumptions about market segmentation, positioning, and sales response to marketing decision variables. Work in this area should look closely at the role of middle managers, who were seen to be critical in Bower's work (1970), and also consider the relationship between tactical market planning and strategic decision making. We must be wary of two potential errors. First, we must not confuse more extensive and systematic procedures as evidence of better process. Although Wind and Robertson (1983) present a more comprehensive procedure to guide the process of marketing strategy development, there is little evidence that such procedures are sufficient in themselves to improve either the decision process or the quality of decisions. The second problem stems from the nature of process research. Within the broad field of organizational behavior, many research design, measurement, and interpretive problems have been recognized (see Van Mannen 1979). On the other hand, many marketing researchers have had experiences of analogous problems and solutions in the analysis of qualitative market research data.

Such research would necessarily focus on the factors that prove to be sources of competitive advantage at the time decisions are made. Such factors are more likely to include the availability of and ability to utilize market-based data and the particular skills of key managers, rather than measures such as market share and strategic group membership. As a related development, there are key areas for improvement in the models currently available for product and strategy evaluation. In particular, appropriate ways need to be found to incorporate assessments of market risk and competitive expectations.

Finally, the development of models of internal markets and bargaining and coalition formation within external markets would provide a means of assessing the viability of internal market mechanisms in vertically integrated firms, as well as the strategic significance of interorganizational marketing systems.

Summary

Marketing theory has tended to focus on operational problems relating to customer decision making within the confines of the marketing concept. In marketing practice another set of priorities has emerged, with the emphasis on the development of sustainable competitive positions in product-markets. Marketing theory has only tackled those issues indirectly, but can be redirected to explore a number of crucial consequences. On the basis of such an effort, it will be possible for marketing to reassert its role in the strategic dialog within the firm. Such a role would be based on clear functional responsibility for the maintenance and development of key commercial assets in terms of customer and distribution channel franchises.

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