MARKETING STRATEGY AND COMPETITIVE POSITIONING

SEVENTH EDITION

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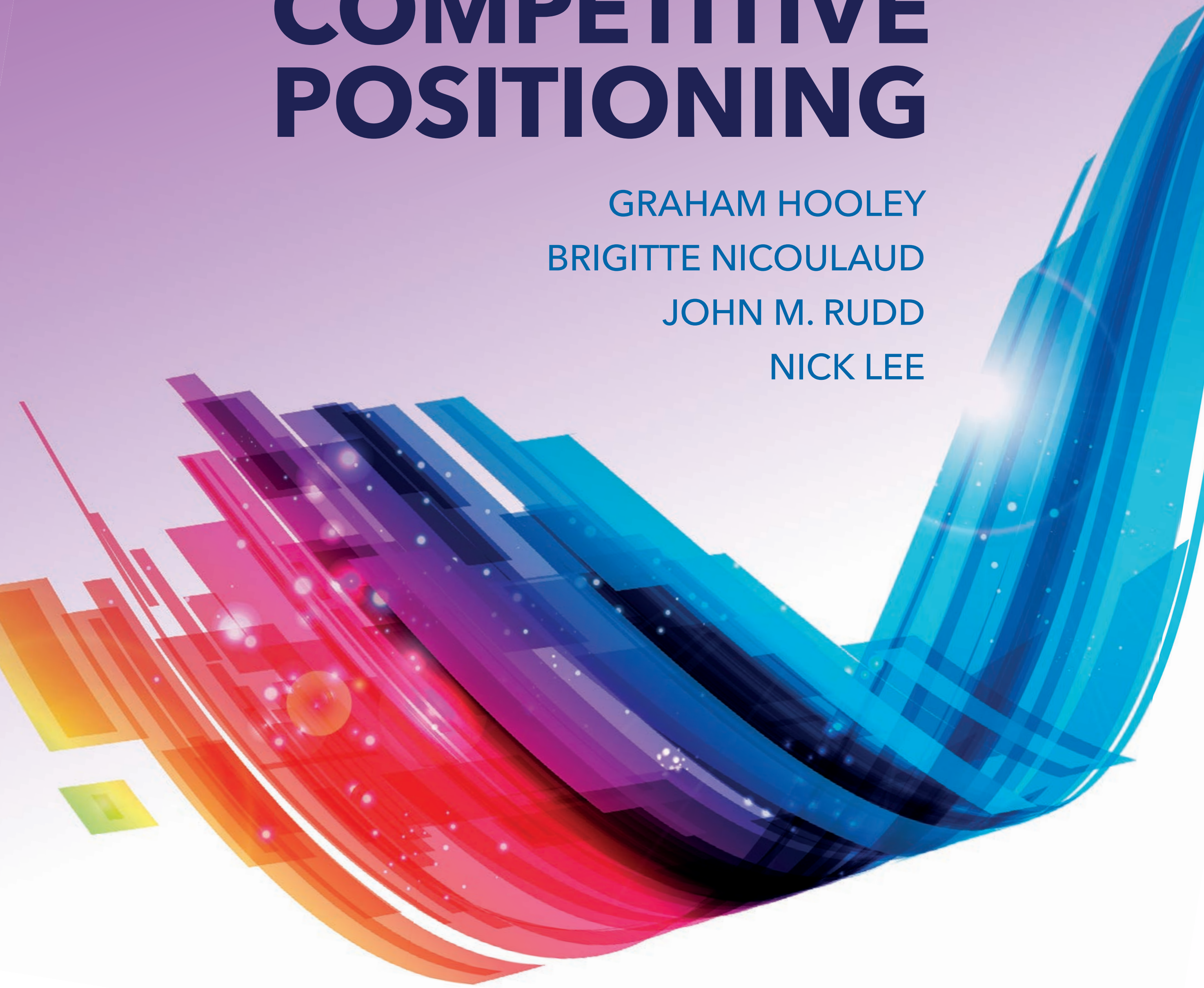

Pearson

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6.8 Developing and exploiting resources

While the emphasis so far has been on identifying existing resources, organisations also need to ensure they are developing and nurturing the resources that will be required in the future. This involves a degree of forecasting how markets and customers will change over time. Figure 6.9 shows four strategies for development.

The two dimensions shown in Figure 6.9 represent choices open to the organisation in developing and exploiting both the markets in which it operates and the resources it employs.

In the lower-left quadrant, the focus is on utilising existing resources as effectively as possible in existing markets. The 'fill the gaps' strategy involves looking for better ways of serving existing customers, using the existing strengths of the organisation. In many ways this may be seen as a defensive strategy used to protect existing positions from competitor encroachment.

In the top-left quadrant, the organisation retains its focus on existing markets and customers but recognises that the resources it will need to serve them in the future will need to change. This requires the 'next generation' of resources to be built and nurtured. Many traditional bricks-and-mortar firms have found that to continue to serve their existing customers, they need to develop online services including mobile and tablet offerings (see Chapter 14). This often requires a new set of capabilities to be developed, not just those associated with web-based technology. These new resources do not necessarily enable the firm to reach new customers or markets, but they are required to enable it to continue to serve its existing client base. Under this strategy, the organisation stays with the markets that it knows and the customers it has built relationships with, but recognises that it must adapt to continue to serve them effectively.

In the bottom-right quadrant, the organisation seeks new markets and customers where it can 'exploit current skills' more effectively. However, this quest for new customers or new markets is guided by the existing capabilities of the organisation. The acquisition of the UK retailer Asda by the American firm Walmart is a case in point. This enabled Walmart to exploit its existing merchandising and purchasing capabilities in the new markets of the UK.

Finally, at top right, the organisation looks to serve new customers with new resources through 'diversified opportunities'. This option takes the organisation simultaneously away from its existing markets and its existing resources – a more risky strategy and one that should not be pursued lightly. Firms that take this route often do so through acquisition or merger.

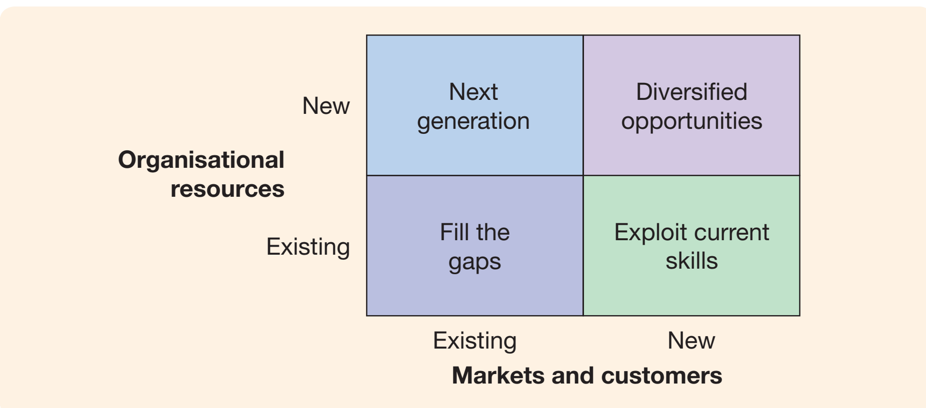


Figure 6.9 Developing and exploiting resources

Source: Adapted from Hamel and Prahalad, 1994.

Summary

We started this chapter with a summary of the resource-based view of the firm and the development of ideas surrounding dynamic capabilities. Our focus on competitive positioning (that is, the choice of target markets and the competitive advantage exploited) provides a mechanism for reconciling the *interna*l focus of the RBV with the *external* focus demanded in dynamic markets through the development of dynamic marketing capabilities.

The practical reality faced in building robust marketing strategies is that each company has its own unique strengths and weaknesses with respect to the competition, and its own distinctive capabilities. While the overarching imperative is customer focus, a key factor for competing successfully in ever-more competitive markets is to achieve an evolutionary fit between capabilities and the environment.

At a fundamental level, each organisation needs to understand its resource base. These are the skills and processes at which the company excels, and that can produce the next generation of products or services. At the next level, the organisation should be aware of its exploitable marketing assets. The resource-based marketing approach encourages organisations to examine systematically their current and potential assets in the marketplace and to select for emphasis those where they have a defensible uniqueness. Assets built up with customers in the marketplace are less prone to attack by competitors than low prices or easily imitated technologies.

Case study

Why Ford is stalling in China while Toyota succeeds

By Tom Hancock in Harbin

US car group suffered plummeting sales in 2018 as Japanese rival enjoyed bumper year

As Chinese workers returned to duty following a Lunar New Year break, the Changan Ford plant in the north-eastern city of Harbin remained empty, with staff on an extended vacation until March.

'It's a much longer break than last year, which was about a week,' said a security guard at the joint-venture plant, which opened in 2017 after a $1.1bn investment and can produce up to 200,000 Focus models a year.

Ford is one of several car makers cutting production in China, the world's largest car market where passenger vehicle sales fell 4 per cent to 23m last year, their first annual decline in almost three decades.

A Chinese worker at a Ford plant: Ford was late to set up in China, which has hit performance and caused layoffs

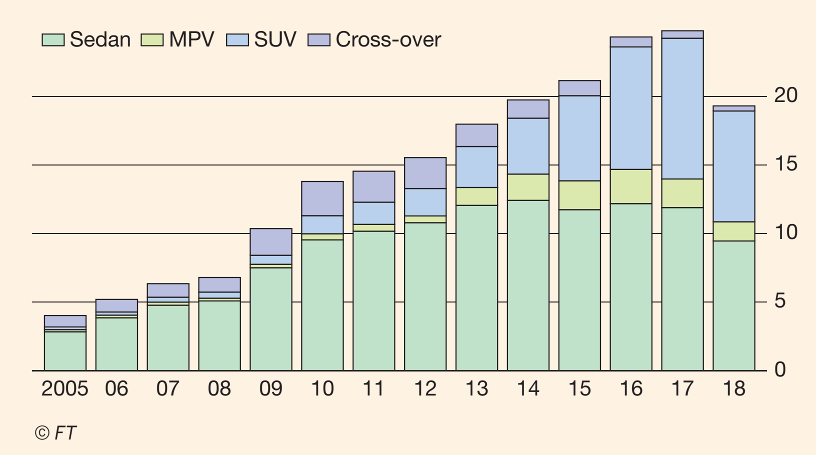
Source: Bloomberg / Contributor/Getty Images.

China accounts for 30 per cent of global car sales, and foreign brands make up two-thirds of the market. That means multinationals' joint ventures with Chinese car makers are heavily exposed to the downturn.

But not all have fared badly. Sales at Toyota's joint venture with Guangzhou Automobile surged nearly 35 per cent last year, while BMW's venture with Brilliance Auto saw a 20 per cent sales rise.

Their differing fates show a range of factors – from investment in new models, competitive exposure to local brands, dealer relations, after sales service, and quality perceptions – can determine a brand's success or failure in China.

With Beijing unwilling to offer large subsidies to car buyers and analysts forecasting a further decline in the market this year, it is crucial for investors to pay attention to factors behind the success and failure of different brands in the downturn.



China car sales fall

Source: Tom Hancock (2019), Why Ford is stalling in China while Toyota succeeds, Financial Times.

Ford: slow to bring new models to market

Ford had a late start in China, compared with rivals GM and Volkswagen. Slowed by years of corporate indecision and the impact of the 2008 financial crisis, it did not begin to make a mark on the market until 2012.

Its two joint ventures saw strong demand among consumers for the Escort, Focus and Edge brands. Ford's China sales in the four years to 2016 doubled to reach more than 1.2m. The Focus and Escort qualified for government subsidies on vehicles with engines of 1.6 litres or below introduced at the end of 2015.

But sales began to decline at its main joint venture, Changan, in 2017 as the subsidies began to be reduced, and plunged 54 per cent last year after they were eliminated. Analysts said the company was slow to bring new models to the market.

Two former workers told the *Financial Times* the tougher market conditions have led to hundreds of staff being laid off at the Changan Ford factory in Chongqing since December.

'Their problem is really the model cycle, the majority of their cars are in year five or six, that's when the sales drop rapidly,' said Jochen Siebert of consultancy JSC Automotive.

Ford remedied the problem last year, launching new saloon and hatchback versions of the redesigned Focus car, but by then the market was in a slump, making it harder to attract new buyers.

One consolation is that because of its late entry, China is a much smaller part of Ford's worldwide sales than for GM and Volkswagen, for which China is their biggest market. Ford's high-end Lincoln brand has fared less badly, reflecting stronger demand for premium vehicles.

PSA Group: mid-range brand suffers

The French owner of the Peugeot and Citroën brands saw sales at its joint venture with Dongfeng fall 44 per cent last year, with the fastest losses for its 408 and 308 brands.

Peugeot has also suffered from having older models but were also hit by their mid-range price position during last year's downturn, analysts said. Less well-off consumers refrained from buying cars or switched to second-hand models last year as subsidies were cut and economic growth slowed.

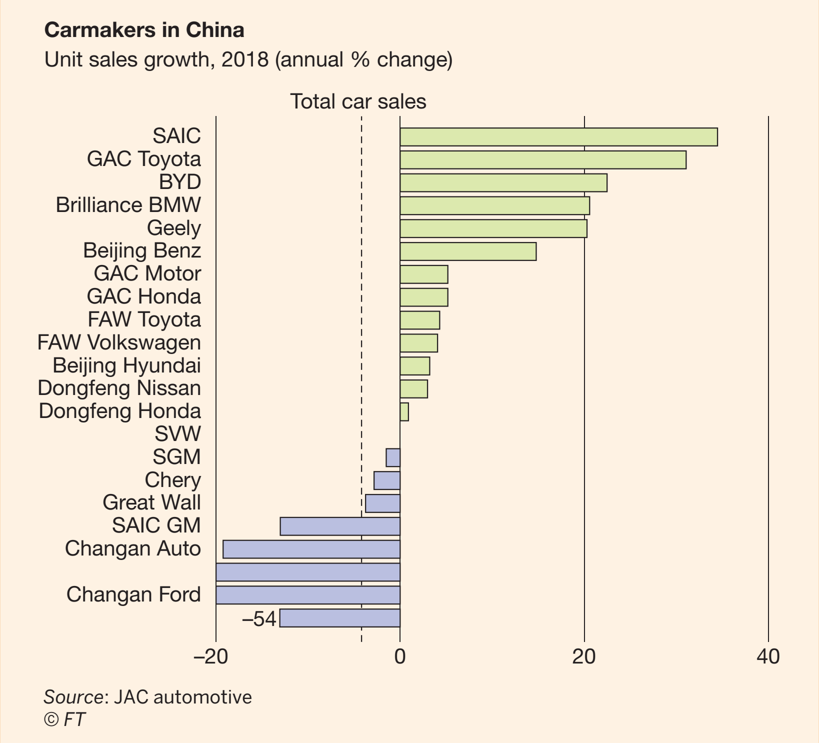
'Any car company that has many cars below Rmb150,000 suffered from the general market downturn,' said Mr Siebert. Because of an increasing supply of high-quality second-hand cars, 'in five years, almost no one will want to buy a new car for Rmb100,000 because they will realise they have a better option,' he added.

Analysts said PSA had been squeezed by increasing competition from local brands, such as Geely and BYD, which have moved up the value chain into mid-range cars, selling for about Rmb120,000 ($17,906), hiring teams of overseas designers to make their vehicles more attractive.

Chinese brands, particularly Geely, are taking market share from the less distinctively defined global brands. 'We can specifically point to Ford and Peugeot,' said Michael Dunne, an industry analyst and former GM executive. 'There's no doubt the Chinese brands are coming up so the global brands must move upscale or move out.'

Tougher local competition has also hit South Korea's Hyundai, whose sales last year barely grew from their six-year-low of 785,000 in 2017 when a diplomatic spat between Beijing and Seoul hit sales of South Korean consumer products.

'PSA is in the middle of the market and is squeezed by both ends as premium brands lower prices in the downturn,' said UBS analyst Paul Gong, a risk he added applies to other mass-market brands such as VW.



Carmakers in China

Source: Tom Hancock (2019), Why Ford is stalling in China while Toyota succeeds, Financial Times.

JLR: popularity hit by repeated safety recalls

Britain's Jaguar Land Rover should have been well placed in a market where sales of more expensive, larger-engine vehicles have been strongest. But its sales fell 23 per cent in China last year.

Also a latecomer to the market, locally assembled products such as the Land Rover Evoque and Discovery, and Jaguar models helped the company raise its Chinese sales to 150,000 in 2017. It modified interiors to meet local tastes.

Analysts said JLR's reputation had suffered from repeated safety recalls in China – reportedly covering more than 100,000 vehicles in 2017. In January it recalled 68,828 vehicles in China over an engine safety hazard.

The brand received a four-star rating in a 2018 survey of Chinese customer satisfaction with post-sales service by JD Power, but that compared with peers such as Audi who gained five stars.

When sales began to fall, JLR continued with ambitious production targets, pushing inventory on to dealers who had to make stiff price cuts.

'Some car companies choose to revise down annual targets to help dealers, while others continue to push inventory, which makes dealers suffer,' said Patrick Yuan, an analyst at investment bank Jefferies. 'The relationship should be a partnership. They cannot fight each other.'

JLR began to cut production last year, and in January vowed to 'work closely with retailers in China to respond to the present market conditions'.

Toyota: reputation for quality boosts sales

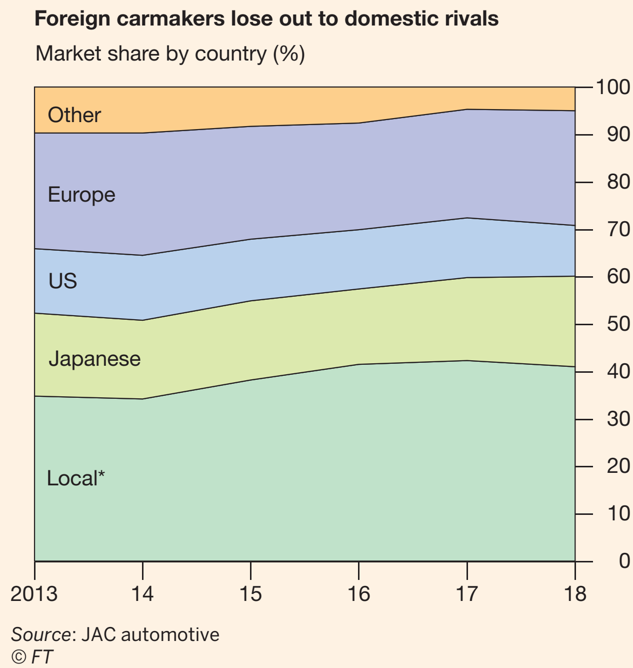
Selling a record 1.5m vehicles in China last year, Japan's Toyota has defied the downturn, and it is targeting 7 per cent growth this year. Its Corolla model, which sells for about Rmb150,000, accounts for the bulk of its sales.

The brand has a strong reputation for quality in China and has consistently brought new products to the market, analysts said.

'Toyota stands out as an exception,' said Mr Dunne. 'They consistently deliver high-quality products, good service, and high resell value. The fundamental things that make Toyota a strong company are standing out in a tough market.'

The overall decline in car sales last year was partly because of consistently rising petrol prices, a trend that has benefited Toyota because of its strong fuel-economy and as consumers become more canny.

'Once you start to replace your second or third car, you probably realise that quality and fuel consumption are very important. In this regard Japanese cars do very well,' said Yale Zhang, founder of consultancy AutoForesight.



Foreign carmakers lose out to domestic rivals

Source: Tom Hancock (2019), Why Ford is stalling in China while Toyota succeeds, Financial Times.

Mercedes, BMW and Audi: wealthy continue to buy premium brands

About 3m premium vehicles were sold last year, as wealthier consumers have been less affected by the economic slowdown. Beijing Benz, a joint-venture between Daimler, which owns Mercedes-Benz, and BAIC Motor, saw 15 per cent sales growth last year. Volkswagen-owned Audi saw 11 per cent growth to 661,000 vehicles. Top-range brands face almost no local competition.

The premium players have concentrated on China's wealthiest first-tier cities, where car sales rose last year, whereas mid-range brands may have opened too many dealerships in lower-tier cities, where the market shrank.

'The mass-market brands have tried to have dealerships everywhere and in the end that might be a mistake,' said Mr Siebert. While not all brands can switch to luxury, they can learn from premium brands' investment, after-sales service and spending on training for dealer staff, he added.

BMW in October said it would take advantage of Beijing's abolition of joint venture requirements in the car sector in 2021 by buying a majority stake in its partner Brilliance Automotive. Mid-range brands could attempt to follow suit as they try to repeat the success of the luxury groups.

'Staying in a joint-venture operating at 50 per cent capacity and losing money is no fun in China,' said Mr Dunne. But many are partnered with stronger companies than Brilliance, who are likely to resist, leaving companies looking for alternatives.

'You could see a world in which Ford says let's allow the joint-venture to sustain itself, but we will set our sights on going it alone, or getting new partners.'

FT *Source*: from 'Why Ford is stalling in China while Toyota succeeds', *Financial Times*, 04/03/19 (Hancock, T.).

Discussion questions

1 Why are foreign car manufacturers losing out to domestic rivals in China?

2 What are some of the resources required by foreign car manufacturers to succeed in China?

3 What resources have helped Ford succeed to start with in China and what new resources does the company need to develop/acquire to succeed in the future?