

Grażyna Śmigielska

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Problemy Zarządzania, Finansów i Marketingu 29, 99-109

2013

Artykuł został opracowany do udostępnienia w internecie przez Muzeum Historii Polski w ramach prac podejmowanych na rzecz zapewnienia otwartego, powszechnego i trwałego dostępu do polskiego dorobku naukowego i kulturalnego. Artykuł jest umieszczony w kolekcji cyfrowej bazhum.muzhp.pl, gromadzącej zawartość polskich czasopism humanistycznych i społecznych.

Tekst jest udostępniony do wykorzystania w ramach dozwolonego użytku.

*GRAŻYNA ŚMIGIELSKA**

Uniwersytet Ekonomiczny w Krakowie

MARKETING IN CREATING AND SUSTAINING COMPETITIVE ADVANTAGE OF RETAILERS

Summary

The paper aims at presenting relations between sustainable competitive advantage and marketing advantage. Elements of the marketing concept according to the first theoreticians of competitive advantage were showed, including W. Alderson and J. Barney, as well as M. Porter. The issue was presented in its practical aspect on the cases of the retail trade companies Wal-Mart, Benetton, and Ikea. The role played by marketing in their gaining of distinctive strategic positions, and then maintaining it via creating customer value and appropriate communication was identified.

Keywords: marketing, competitive advantage, retail enterprises,
strategic position.

Introduction

Problems of creating competitive advantage and marketing advantage are often analyzed separately, without disclosing the relationship between them. The

* smigielg@uek.krakow.pl

purpose of the paper is to show how the concept of marketing is part of creation and sustaining competitive advantage, based on examples of a few retail sale companies. In the theoretical part, the environmental view of building sustainable competitive advantage was called upon, as well as its representatives, e.g. M. Porter. The theory was illustrated by examples of three trade companies: Wal-Mart, Benetton and Ikea, representing different types of advantage, which started in mid-20th century and are now leaders in their respective branches in the global market.

The relation of competitive advantage to marketing advantage

The basic marketing principle that is market differentiation and the necessity to adjust the offer to buyer needs appeared at the wake of competitive advantage theory formulation. It happened in 1937 thanks to one of the first theorists of competitiveness – W. Alderson, who pointed out the specialization of suppliers to meet the diversified demand from buyers as the basic principle of competition. In 1965 he stated that companies should strive to differentiate their offer against their competitors, and most of the grounds he specified for differentiation, i.e. lower prices, the selectivity of advertising messages, or making changes to existing products, was of marketing character.

A close relationship between competitive advantage and marketing advantage can be seen in the definition, formulated in the early 1990s by J. Barney, of sustainable competitive advantage stating that “A firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitor, and when the other firms are unable to duplicate the benefits of this strategy”.¹

Achieving competitive advantage is therefore a close connection with the creation of customer value which could be defined as the sum of benefits received minus the costs incurred by the customer to purchase a product or service.² The advantages for customers regarding the product and service that positively influence the customer’s living or provide them with a feeling of satisfaction. The

¹ J.B. Barney, *Firm resources and sustained competitive advantage*, „Journal of Management” 1991, Vol. 17, No. 1, p. 103.

² A review of definitions of customer value can be found in e.g. D.J. Flint, R.B. Woodruff, S.F. Gardial, *Exploring the phenomenon of customers’ desired value change in a business-to-business context*, „Journal of Marketing”, 2002, p. 105–107; R.B. Woodruff, *Customer value: The next source for competitive advantage*, „Academy of Marketing Science Journal” 1997, Vol. 25, No. 2, pp. 143–152.

costs, however, include both cash expenditure necessary to purchase and the effort it entails, as well as loss of time, resulting from delays and errors in the decision to purchase.³ Strategies providing “value” to the customer, and therefore allowing companies that implement them to gain advantage include:⁴

- the best price can be achieved if a company has the lowest costs thanks to high efficiency of operations (operational excellence), while products must be characterized by relatively good quality and wide availability,
- the best product, the application of which requires continual supply of innovative and valuable products in the eyes of the consumers, visibly differentiated from competitor offers,
- the best solution – individual solutions of customer issues, where the leadership is implemented via complex solving of customer needs problems.

Recapitulating, the advantage over competitors cannot bring sustainable effect unless it is reflected in market advantage and the other way round. It should be noted that market advantage is not the result of manipulating the mix marketing instruments, which can result only in a short-term increase in sales, but is related to creation of long-term customer loyalty attitudes. Not incorporating such a perspective of action would lead to incurring expenses by the company that are not adequately reflected by long-term profitability and consequently result in the loss of competitive advantage. An unfavorable situation arises too, when lower operating costs than the competitors’ or higher quality offer are not adequately reflected in the implementation of competitive advantage due to errors in the selection of marketing tools, as it also implies loss, this time one of potential profits. Marketing advantage is therefore somewhat incorporated in competitive advantage, being its inseparable element.⁵

It must therefore be reiterated that market orientation is essential for formulating a strategy which is intended to utilize the organization’s resources for creating values desired by buyers. Taking into consideration Porter’s point of view on

³ M. Treacy, F. Wiersema, *The discipline of market leaders*, Addison-Wesley Publishing Company, Inc. 1997; M. Szymura-Tyc, *Wartość dla klienta jako źródło przewagi konkurencyjnej*, „Organizacja i Kierowanie” 2003, No. 4, p. 19.

⁴ They were prepared on the basis of economic practice observations, see: M. Treacy, F. Wiersema, *The discipline of market...*, p. 31.

⁵ Expansion of this issue can be found in B. Godziszewski, *Zasobowe uwarunkowania strategii przedsiębiorstwa*, Wydawnictwo Uniwersytetu Mikołaja Kopernika, Toruń 2001, p. 93–97.

competitive advantage building, it can be said that marketing has the function of coordinating the company chain value.⁶

Porter stresses that the source of advantage is the acquisition of a differentiating strategic position. It is possible to gain if it has been overlooked by competitors, or when it arises as a result of changes in the environment. Porter points out to three sources of strategic positioning, not mutually exclusive, but often overlapping.⁷ They are:

- diversity of product, where the source of positioning is the given combination of the mix of products and/or services,
- diversity of needs, requiring that the enterprise meets the demand from the given group of customers better than its competitors do,
- access, where directing the offer to customers in certain geographical regions, where their need had previously not been met by the existing market offer, becomes the basis for differentiation.

Finding a differentiating position is the result of comparison of offers and the needs of existing customers and finding a gap which can position one's own product, while the gap must be large enough to ensure business profitability. The process involves not only customer analyses, but above all, their changing preferences, which strictly connects competitive advantage with market advantage.

Sustaining differentiating requires an entry deterrence approach.⁸ Its creation requires making strategic investments, implementation of appropriate pricing strategies and carrying out promotional activities designed to inform buyers about the way of positioning the offer.

V.P. Rindova and C.J. Fombrun point out that strategic investments made by companies should be geared to offering the product that serves the needs of buyers better, and creating partnerships with other market participants, especially providers.⁹ Paradoxically, market competition could be won by a company which does not focus directly on the competitors (not trying to imitate them in terms of offer and not negotiating the most favorable current prices from suppliers).

⁶ M. Szymura-Tyc, *Strategia konkurencji przedsiębiorstwa oparta na kompetencjach marketingowych i wartości dla klienta. Identyfikacja problemu, dylematy modelowania*, in: *Modele strategii marketingowych, Wybrane ujęcia paradygmatyczne i sektorowe*, ed. L. Zabiński, Wydawnictwo Akademii Ekonomicznej, Katowice 2000, p. 110–111.

⁷ M.E. Porter, *Porter o konkurencji*, PWE, Warszawa 2001, p. 59–67.

⁸ P. Ghemawat, *Commitment: The dynamics of strategy*, New York Free Press, 1990.

⁹ V.P. Rindova, C.J. Fombrun, *Constructing competitive advantage: The role of firm-constituent interactions*, „Strategic Management Journal” 1999, No. 20, p. 691–710.

An important factor of success is reputation, which should be created through advertising and public relations.¹⁰

Positioning and creating customer value as sources by retailers

In companies being current leaders in their branches, certain customer value building strategies can be identified, implementation of which having ensured the leading position of these companies. And so:

- best price is the strategy adopted by Wal-Mart; it requires price leader position,
- best product is the strategy that brought success to Benetton; it requires creation of products differentiating the company from its competition,
- individual solving of customers' problems requires a wide range satisfying the purchasers' needs in a comprehensive way; as such e.g. Ikea is distinguished, by offering customers "everything for the home."

In the phase of entering the market, the companies positioned their offer in a differential manner: Wal-Mart, on the basis of access, Benetton on the basis of product diversity, and Ikea – on the basis of diversity of needs.

The American Wal-Mart, currently the largest trading company in the world, is a classic example of success via differentiation by low price in retail trade. The enterprise adapted the discount technology being developed in the 1960s, however, in order to differentiate itself from competitors, it chose smaller cities as localizations for its stores. It could be said that initially the reason for Wal-Mart's differentiating position was "access", i.e. the offer was targeted to customers in areas where their needs were not met well enough. From a marketing point of view, the localization policy decided on the success, assuming that a discount store can be successful if it is able to attract people from neighboring settlements within a radius of 10–15 km.

A basis for maintaining advantage and continued fast development was the significant reduction in costs, achieved by creating an effective system of inventory management and exercising full control over the goods flow from suppliers to final customers. This purpose was achieved e.g. by setting up automatized distribution centers digitally connected with the stores and suppliers alike. The investments were possible thanks to the progress made by modern communication and transport technologies.

¹⁰ The significance of reputation is discussed e.g. D.M. Kreps, R. Wilson, *Reputation and imperfect information*, „Journal of Economic Theory” 1982, Vol. 27, p. 253–279.

Simultaneously, Wal-Mart built relationships with suppliers without whom the effective use of cutting edge technologies would not be possible. Conditions were negotiated, the basis for negotiation being large quantities of goods purchased by the retailer. As a result, the costs of purchase were significantly lower than in the case of competition. Reducing the costs of operation and purchase of goods became the basis for implementing a cost-competitive strategy – *Every Day Low Cost* (EDLC), which allowed distinguishing low price positioning, and implementation of EDLP pricing strategy.¹¹ The strategy consisted in setting up low prices on all goods sold and resigning from periodical discounts in order to attract customers. It had several advantages, including:

- simplicity with regard to pricing, as the selling price resulted from combining the applied overhead and the price of purchase,
- eliminating the buyer's uncertainty regarding future pricing,
- increased credibility in the eyes of retail buyers; widespread use of price reductions always results in doubt about the validity of the original price and it can make buyers feel “cheated” in the situation when the same item reappears after some time at a much lower price,
- reduction of warehousing costs and managing reserves due to small fluctuations of demand.

Wal-Mart's consistent application of the EDLP strategy allowed the company to develop the image of the retailer having a “lowest price” offer, which in turn affected cost reduction of promotions, due to the acquisition of promotion functions by regular price (the so-called compensatory relation between the price and promotion as a marketing instrument).

The success of Wal-Mart meant that many companies have tried to imitate it, with the result that there changes in market structure took place – the centralized system of procurement and sales, coordinated and monitored by the latest technology, has become a kind of standard. The competitors, however, failed to threaten it and Wal-Mart is still undisputed leader in retail trade, as it could translate the internal competitiveness (significant cost savings) into customer value (lower price offer) and effectively communicate it.

The possibilities to differentiate the product by retailers (leader strategy regarding the product) began to rise as they began to outsource manufacturers to produce goods according to their designs and standards, and mark them as their

¹¹ *Handel detaliczny. Funkcjonowanie i kierunki rozwoju*, rd. J. Szumilak, Oficyna Wydawnicza, Kraków 2004, p. 230.

own brand. This way, the differentiation exceeded the current assortment composition, which could be imitated by competitors and acquired marks of sustainable differentiation, which would bring effect for as long as it constitutes a significant value for buyers. The chains which based their success on the differentiating product include primarily such retailers offering selectable items, e. g. Benetton and M&S. Goods in the range satisfy the needs of a select group of customers to a greater extent than the goods of competitors, not necessarily being innovative products: their uniqueness is above all a specific style.

Product differentiation was applied e.g. by Benetton. The chain appeared as a result of filling the market gap of unfulfilled demand for colorful jumpers.¹² The genesis of Benetton dates back to the 1960s, when young people dressed mostly in jeans and sweaters, while the latter offer was limited to a few traditional designs (based on the English fashion), available in six colors. However, what the young wanted was more modern design, lively colors and comfortable clothing. This observation laid at the core of the assortment strategy of the company, according to which it was limited to relatively few designs of comfortable apparel, which was primarily differentiated by its lively colors. Benetton's offer was generally targeted at young people, but the products were often purchased also by older customers, since it was relatively universal in terms of sizes offered.

Thus the company filled in a market gap with its assortment offer. Success, however, was dependent on providing the assortment to buyers. At the same time, retailers operating in the market failed to notice the originality of Benetton's idea and were not interested in cooperation. Therefore, Benetton opened its own, small stores. Their small size and the fact that the goods were not been exposed in respective assortment sections made the stores always seem to be crowded, fun, and "democratic", where everyone could view, sort and handle items without restrictions.

The conditions for sustaining the gained advantage lied in the organizational sphere of internal operations, as well as in effective communication of the differentiated position to customers. Internal factors include:

- creation of a supply system from producers in Italy,
- application of QR technologies allowing the company to quickly respond to signals from the market

¹² A. Palmeri, *Benetton: After internationalization we work for diversification*, in: *Retailers on retailing: lessons from the school of experience*, Arthur Andersen & Co. S.C., USA 1994, p. 97–103.

- the way of creating new products, participated by stylists from all over the world, who travelled, observed and interpreted customer needs
- designed with CAD-CAM instruments,
- creation of a distribution system based on franchising principles, which allowed Benetton's fast growth in new markets.

The aim was to provide customers with products they expected Benetton style and compatible with the latest fashion trends, and to minimize losses arising from the inadequacy of supply to current demand. The key market factor for Benetton's success was brand familiarity and brand image. The image was not one of modern, Italian style, but one of Benetton. It was created via innovative promotion of the company; advertisements expressed youthfulness, and aggressiveness, they were colorful and unified. The slogans "United Colours of Benetton" and "United Fashions of Benetton", expressing its differentiated positioning became known worldwide. The company had many imitators. In the 1990s these included the Italian Stefanel, the French Camaïeu created by the group Auchan, Etam and Celio; The Gap and Limited originated in the USA; Giordano from Hong-Kong and Mango from Spain. However, since Benetton was the first to implement this system to coordinate the supply and distribution chain, it won a distinctive position on the textiles market for young people, and having spread it on foreign markets Benetton was able to "capitalize on greater experience in managing logistics management, relationships with subcontractors, the network of agents, and the brand image. So far (until 1997) no imitators has been able to attain this level of knowledge".¹³

The retailer, to be able to keep ahead basing on their distinctive product, must have competence in the design, commercialization and sale in a relatively large market, which is a function normally performed by the manufacturer. They are indispensable in continuous introduction of new products to the market. Due to this, retailers offering own brand goods also have their own laboratories and designer teams.

Ikea on the other hand is an example of a company who succeeded due to the diversity of its customer needs. The strategy which decided on the company's success in Sweden was a response to the changes taking place in the market of home supplies after World War II. The main symptom of these changes was the increase of demand for furniture connected with the disappearing custom of using

¹³ F. Fréry, *The Benetton Nebula*, in: *European cases in Retailing*, eds. M. Dupuis, J. Dawson, Blackwell Business, Malden 1999, p. 175.

furniture that was passed from generation to generation in the family. Young people were looking for affordable furniture, while market prices were high and rising, with high margins shared by major producers and distributors associated by agreements strongly limiting entry into the sector.

This was the sort of market Ikea entered, addressing its offer predominantly to the young. It resigned from offering sets of furniture to customers, as well as from traditional servicing, assembly and transport, in favor of providing them with a possibility to buy single pieces without the need of waiting.¹⁴ The necessity to transport and assemble the furniture by the customer was compensated by lower prices than ones of traditional retailers providing a wide range of services. Ikea limited its assortment to simple furniture from pine wood, with regard to optimal meeting of their chosen market segment demand. Operations performed by Ikea brought forward the company's success, as its offer better met the demand in the target market than the offer of traditional retailers.

An important factor of Ikea's success was its relations with suppliers. It was also shaped by the competition who, feeling threatened by its fast development, took adverse actions¹⁵. As a result was Ikea banned from the final sale to customers at fairs, which forced the company to start distance selling, and then to launch the first large-object store, located outside the city, but having large parking lots. Further development of Ikea was also meant to stop forcing cartel associated furniture manufacturers from cooperating with it. To bypass this obstacle, the company started to outsource small, independent suppliers, also outside Sweden, to manufacture according to its own standards, which further lowered the costs. The company entered into long term agreements with these suppliers.

Promotional campaigning played an important role in sustaining the advantage via expansion to foreign markets. It was planned in order to succeed in the Swiss market, regarded as the first foreign one for the company. It stressed the advantages and originality of the product and its low price. The campaign was differentiated by style: it consisted of private letters from a conservative Swiss, where he commented on certain characteristics of Ikea claiming that the company was bound to fail. The campaign, addressed to young people who "want change" and act "against the current" of tradition, created a need to the company's offer

¹⁴ N. Kinch, *Strategy and structure of supplier relationship in Ikea. A case from the furniture and interior decoration industry*, in: *Understanding business markets: interaction, relationships and networks*, ed. D. Ford, Academic Press, Great Britain 1990, p. 334–339.

¹⁵ Ch.A. Bartlett, A. Nanda, *Ingvar Kamprad and Ikea, case study*, in: J.A. Quelch, Ch.A. Bartlett, *Global marketing management*, Addison-Wesley, Massachusetts 1998.

in the target segment of the market. Next, it was multiplied as Ikea entered other foreign markets.

Now, Ikea can be regarded as a company which has built its customer value by complex addressing of customer needs. Its large format stores offer assortment mix chosen according to complex needs of buyers furnishing their home. In order to increase the comfort of purchasing in young people, who are still its target customer segment, in Ikea playrooms for children, bars and restaurants can be found. Despite the emergence of several competitors, e.g. Jysk, it has remained the leader in its market.

Conclusion

The following companies presented in the article: Wal-Mart, Benetton and Ikea have gained long term advantage over competitors thanks to their marketing strategies being an integral part of their competitive strategies. In the phase of market entry they positioned the offer in the markets that were inadequately serviced by competitors; to differentiate the offer, both the effectiveness of internal operations (e.g. achieved through relationships with suppliers) and marketing operation (assortment policies, pricing, location policies, and most of all promotional ones) was necessary. These companies created obstacles against accessing the serviced markets in the form of a well-known brand or relations with suppliers, which were difficult to overcome by the competition.

In the case of dynamic changes in the market, the existence of these barriers is not enough; to maintain long-term success, it requires a dynamic adaptation to the requirements of the turbulent market, primarily to changes in the preferences of buyers. Commitment to certain ways of acting may limit growth, which was the case with Benetton. Creation and implementation of a competitive strategy requires competence in the form of marketing knowledge, which is stressed in the Resource Based Theory of sustainable competitive advantage building.

MARKETING W TWORZENIU I UTRWALANIU PRZEWAGI KONKURENCYJNEJ PRZEDSIĘBIORSTW DETALICZNYCH

Streszczenie

W artykule przedstawiono relacje między trwałą przewagą konkurencyjną a przewagą marketingową. Wskazano elementy koncepcji marketingowej u pierwszych teoretyków przewagi konkurencyjnej – m.in. W. Aldersona i J. Barney’a oraz M. Portera. Od strony praktycznej problem zobrazowano na przykładach firm handlu detalicznego, takich jak Wal-Mart, Benetton i Ikea. Ukazano rolę marketingu, jeśli chodzi o zajęcie przez nie wyróżniających strategicznych pozycji i ich utrzymanie przez kreowanie wartości dla nabywców i odpowiednie jej komunikowanie.

Słowa kluczowe: marketing, przewaga konkurencyjna, przedsiębiorstwa detaliczne, pozycja strategiczna.