INTELLECTUAL CAPITAL AND MARKETING STRATEGY INTERSECT FOR INCREASED SUSTAINABLE COMPETITIVE ADVANTAGE

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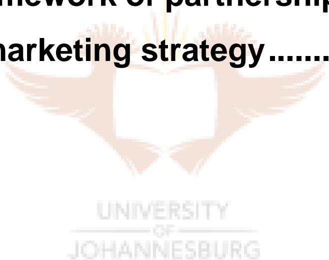

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CHAPTER 1

INTRODUCTION TO THE STUDY

1.1 INTRODUCTION

In this chapter the background to the study and its three core aspects, namely: sustainable competitive advantage; marketing strategy; and intellectual capital, is explored. This is followed by a delineation of the problem statement, study objectives and associated research design and methodology. The chapter concludes with an exposition of the importance, limitations and structure of the study.

1.2 BACKGROUND

The core concepts of sustainable competitive advantage, marketing strategy, and intellectual capital are examined below.

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1.2.1 Sustainable competitive advantage

The current conceptual definition of sustainable competitive advantage is as follows: *a sustainable competitive advantage is the prolonged benefit of implementing some unique value-creating strategy not simultaneously being implemented by any current or potential competitors, along with the inability to duplicate the benefits of this strategy* (Calcagno, 2000:Internet; Hoffman, 2000:Internet and Iverson, 2002:Internet).

Organisational strategic success is determined by the efficient and effective application of organisation-specific competitive resources, as well as the exploitation of the potential capabilities they provide. These resources include: financial; physical; legal; human; organisational; informational; and relational assets that must be rare, valuable, difficult to imitate and non-

substitutable in order to fuel strategic competitiveness (Chaharbaghi & Lynch, 1999:48 and Fahy, 2000:94).

Leavy (2003:29) maintains that an organisation may possess numerous resources and capabilities and still not achieve sustainable competitive advantage. This is primarily due to the fact that a sustainable competitive advantage must be created out of core capabilities and then subsequently be maintained. Over the past 20 years, two primary perspectives have arisen to explain how sustainable competitive advantage can be created and maintained. These include market position and core competence. Regarding the positioning perspective, strategic choice is primarily focused on the structure of an organisation's industry and how it may be shaped to the organisation's advantage, with the ultimate goal being to establish a privileged and difficult to imitate position.

With regards to the core competence perspective, sustainable advantage is rooted in the ability of organisations to decide which distinctive competencies they wish to build and then to consider the market opportunities that would best exploit them.

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According to CGI Group Inc. (2001:2), the very nature of competitive advantage is evolving. The advent of the information super-highway and the digital era has enabled organisations to easily match current differentiators whilst simultaneously creating new ones. Competitive advantage has thus evolved from price to quality to customer service to real-time performance to individualisation. The only way for organisations to develop a sustainable competitive advantage is to develop their organisation-specific resources and core competencies in a manner that will allow them to stay ahead of the trends. "The only sustainable competitive advantage is the commitment to keep evolving one's strategy to stay current with the times" (KLM Inc., 2002:Internet).

Sustainable competitive advantage is defined as above-average performance in the long-run. However, the amount of time defining the "long-run" is never

specified. If organisations can develop effective, dynamic, and evolving competencies and resources, the time element is no longer a factor (Beal, 2001:Internet).

Porter (1991:98) points out that, in the end, only strategy can create sustainable advantage, and such strategy must start with a different value proposition. A strategy delineates a territory in which an organisation strives to be unique. Strategy is also about making appropriate choices and trade-offs as an organisation cannot be all things to all people.

An organisation must exploit its core capabilities and resources to create core competencies (in the form of unique business activity systems) and favourable market positions through the formulation of dynamic strategies based on intangible assets: only then will the organisation be capable of obtaining sustainable competitive advantage (Beal, 2001:Internet).

1.2.2 Marketing strategy and the marketing mix

Foxall (1992:385) defines marketing strategy as being an indication of how each element of the marketing mix will be used to achieve the overall marketing objectives. According to Kotler and Armstrong (2001:66), the design of effective marketing strategies begins with a thorough competitor analysis, where the organisation consistently compares the value and resultant customer satisfaction delivered by its products, prices, channels, and promotional activities with those of its competitors.

According to Du Plessis, Jooste and Strydom (2001:331), in order to survive and to develop a sustainable competitive advantage, organisations should satisfy the needs of their customers by adding value, i.e. by providing more benefits to their customers than their competitors while simultaneously striving to reduce costs. This can only be achieved via the effective application of the marketing decision-making variables. These variables constitute the value mix due to the fact that an organisation can add significant value to their

product/service offerings through their effective and efficient management and application. The traditional marketing mix for physical products consists of the elements of product, price, promotion, and place (the 4Ps). In 1981, this value mix was expanded to reflect the shifts occurring in marketing thinking at the time to include elements that were traditionally thought to be in the remit of other departments, namely: people; process; and physical evidence of the service – creating the 7P marketing mix (Lings, 1999:Internet and Marshall, 2002:Internet).

Grönroos (1994:5) contends that the marketing mix consists of a list of elements that is not dynamic and therefore cannot fit every situation. The dominant marketing mix paradigm has become a kind of straight-jacket that restricts the dynamic evolution required for sustainable competitive advantage. The only way for organisations to overcome this stagnation and succeed in the long-term is to make relationship-building and long-term customer profitability and retention the cornerstone of marketing initiatives. The marketing mix should be extended to include the relationship imperative.

According to Goldsmith (1999:179), the techniques of mass production, ideals of standardisation, the absolute quest for operating efficiencies, and a business philosophy that stresses the selling of a standard product to as many consumers as possible, will fail to achieve sustainable competitive advantage. Consumers now bestow their favour and wallets on organisations that are capable of customising products and services according to their unique needs and preferences. Therefore, Goldsmith (1999:179) maintains that, in addition to the need for management to make decisions and formulate strategies pertaining to the 7Ps, they must also consider the extent to which they should personalise the product, thereby making it unique for each individual buyer.

There have been numerous proposals to extend the marketing mix to incorporate the need for better relationships and customisation as well as to make the mix more enabling of dynamic marketing strategies that create sustainable competitive advantage. Bennett (1997:151) advanced the case

for a new marketing paradigm that is driven by the needs of the market as opposed to those of the organisation. There was a need for targeting from the buyer's perspective. The disposition of a buyer towards a product, service, or supplier during the sourcing process can be represented by the 5 Vs of value, viability, volume, variety and virtue. Melawar and Saunders (2000:538) suggested a further expansion of the 7P framework to incorporate corporate visual identity as an 8th P of publications. The most recent extension to the traditional marketing mix has been proposed by Judd (2003:1301), who maintains that "people power" be added as a new and distinctive element of the marketing mix (the 5th P).

1.2.3 Intellectual capital

Wexler (2002:393) is of the opinion that organisations are facing new challenges posed by the information society that is transitioning into the relationship age. The source of value creation is increasingly found in the creation and manipulation of information, knowledge, ideas, expertise, and relationships; collectively known as intellectual capital.

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According to Maria and Marti (2001:150), researchers in the areas of sustainable competitive advantage have concluded that the only thing that provides an organisation with a sustainable competitive edge is what it knows, how it uses what it knows, and how fast it can know something new. Knowledge and intellectual capital are consequently the only sources of sustainable competitive advantage.

In addition, in today's knowledge-based turbo-charged economy, financial results constitute an ever-diminishing percentage of corporate performance. The importance of traditional physical or financial assets in the determination of an organisation's market value is rapidly decreasing, whilst it is simultaneously being recognised that intangible or intellectual assets are now the main drivers of performance and market value. Intellectual capital can thus be regarded as the cornerstone of success in the new economy as it has

the potential to become the primary wealth creator in most business organisations (Carroll & Tansey, 2000:296; Karp, 2003:20; Leliaert, Candries & Tilmans, 2003:202; Low, 2000:252 and Swanborg & Myers, 2003:Internet).

Rastogi (2003:236) maintains that it is thus essential that top management be dedicated to the efficient identification, monitoring, measurement, and control of intellectual capital, as the top management team is solely responsible for initiating, managing, and sustaining the overall process of an organisation's intellectual capital development and exploitation, and the subsequent support of these processes by employees and other stakeholders.

Intellectual capital provides a unique source of sustainable value for an organisation. According to Edvinsson (2000:13), industrial value chain processes no longer dominate value creation. The two strategic functions of value creation and extraction are now linked to the shaping of information, knowledge and innovations – namely an organisation's intellectual capital. Value creation encompasses the set of activities that create new knowledge through learning or knowledge acquisition from relationships (relationship capital) and employees (human capital). The knowledge acquired can subsequently be used to create valuable structural capital (e.g. the development of more effective business processes based on the innovative intellectual input from suppliers, customers and employees). Value extraction involves harvesting the level and degree of value required in order to achieve the strategic vision and long-term objectives of the organisation. The intellectual capital realisation process has been developed by authors to assist organisations in developing strategies to create and extract this value and thereby realise the potential of their intellectual capital. This process is consistent with the resource-based view of the organisation, which advocates looking inward to develop core competencies for building sustainable competitive advantage. Intellectual capital is therefore a valuable strategic tool (Herremans & Isaac, 2004:142; Roos, Bainbridge & Jacobsen, 2002:22 and Sullivan, 1999:134).

There is a great diversity in the kinds of value that organisations can obtain from their intellectual capital. The main areas include: profit generation (e.g. patent licensing royalties and strategic alliance income); strategic positioning (market share, name recognition through brands and trademarks, innovation and leadership); acquiring the innovations of others; customer loyalty (through enhanced customer service); cost reductions(e.g. through improved staff efficiency); better decision-making (through greater knowledge availability from multiple sources); increased creativity leading to new product and service creation; improved staff attitudes and external image; and improved productivity and subsequent increased revenue (Holden, Wilhelmij & Schmidt, 2000:367; Harrison & Sullivan, 2000:35; Klaila & Hall, 2000:49).

The three main categories of intellectual capital include: human capital; customer/relationship capital; and structural capital. Human capital includes the knowledge, skills, experiences, capabilities, and problem-solving abilities that reside in an organisation's workforce and is a source of innovation and strategic renewal. Customer/relationship capital is the knowledge embedded in marketing channels and customer and supplier relationships. Relationship capital encompasses an organisation's alliances with customers, suppliers, strategic partners, shareholders, and other organisational stakeholders. Structural capital includes all the non-human storehouses of knowledge and value in organisations and encompasses organisational capital (organisational charts, culture, managerial philosophies, information and communication technologies); process capital (process concepts, models and manuals); and innovation capital (patents, brands, copyrights, proprietary software and databases, and other codified knowledge). Structural capital is often referred to as "what is left after employees have gone for the night" (Beckwith & Herman, 2002:Internet; Bontis & Nikitopoulos, 2001:185; Engstrom, Westnes & Westnes, 2003:288; Hurwitz, Lings, Montgomery & Schmidt, 2002:56; Sanchez, Chaminade & Olea, 2000:320 and van Deventer, 2002:Internet).

1.3 PROBLEM STATEMENT

The achievement of sustainable competitive advantage lies in the exploitation of unique and difficult to imitate resources and capabilities. The three primary categories of intellectual capital fulfil these criteria. In addition, in order for an organisation's marketing strategy to be sustainable and competitive, an organisation must provide significant and unique value to customers. There have been numerous proposed additions and alterations to the marketing mix to enable an organisation to become more competitive and for this competitiveness to be sustainable in the long run. These propositions tend to be repetitive and confusing, however, they all exhibit a common theme: all of the proposals centre around the incorporation of intangibles, i.e. intellectual capital, in the marketing mix.

Nowhere in the literature are the concepts of sustainable competitive advantage, marketing strategy, and intellectual capital blended together in a comprehensive manner. Much of the literature eludes, in part, to their interaction, but this interaction is never clearly exposed.

The problem is therefore derived from a gap in the literature and this study seeks to explore this gap and propose a possible solution: that of adding two additional Ps to the marketing mix, namely property (intellectual) and partnerships. Property represents the non-human portion of intellectual capital (i.e. structural capital that has been generated by humans to create property such as brands and patents that can be owned by the organisation) and partnerships represent the human element (i.e. human and relationship capital).

The derived problem statement is as follows:

How do intellectual capital and marketing strategy intersect for increased sustainable competitive advantage in the current dynamic marketplace?

The investigation of the above-stated problem is executed through the exploration of the following sub-problems:

- What is sustainable competitive advantage and how is it achieved and maintained in the current dynamic marketplace?

- What does marketing strategy entail, by what means is it executed in the marketplace, and how has it evolved?

- What is intellectual capital and what are its constituent elements?

- How do marketing strategy and intellectual capital intersect to create two additional value mix elements?

- How does the creation and inclusion of the additional marketing mix elements enable an organisation to achieve a sustainable competitive position in the global marketplace?

These sub-problems give rise to the primary and secondary research objectives that are expressed in the succeeding section below.

1.4 OBJECTIVES OF THE STUDY

In this study, the following primary and associated secondary objectives will be explored.

1.4.1 Primary objective

The primary research objective is to **investigate** the above-explored problem (gap in the literature) as well as how the sustainable competitive advantage, marketing strategy and the marketing mix, and intellectual capital elements intersect to form two additional marketing mix elements to solve the problem and close the gap.

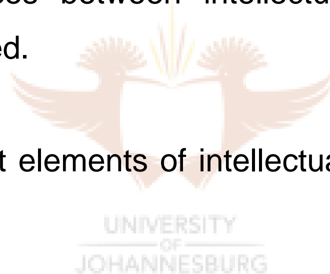
1.4.2 Secondary objectives

The primary research objective is supported by a number of secondary research objectives. These include:

- To **explore** the concept of sustainable competitive advantage and investigate the requirements of its successful and sustained achievement.

- To **assess** the manner in which marketing strategy is implemented through the value mix, including an exploration of the traditional and expanded marketing mix elements.

- To **fully investigate** the concept of intellectual capital and the necessity for its effective management (including identification, measurement, and control). The differences between intellectual and traditional tangible capital will be highlighted.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- To **assess** the different elements of intellectual capital and examine their potential value.

- To **examine** how marketing strategy and intellectual capital intersect to create the two new value mix elements of property (intellectual) and partnerships.

- To **assess** how the inclusion of the new property and partnership value mix elements ultimately provide the ability for an organisation to achieve sustainable competitive advantage.

- To **explore** the viability of this concept through the conduction of in-depth interviews among marketing and strategy professionals of the three main associations (i.e. Visa International, MasterCard International and American Express) in the credit card industry.

- To **develop a framework** (based on the key findings of the literature review and association interviews) of a proposed intellectual capital infused marketing strategy for the achievement of sustainable competitive advantage in the card industry.

- To **make recommendations** regarding the further testing of the concept/framework in the card and other industries.

1.5 RESEARCH DESIGN AND METHODOLOGY

According to Hair, Bush and Ortinau (2003:40), the research design serves as a master plan of the methods and procedures that should be used to collect and analyse the data needed by the decision maker. The master plan can be manifested in one of three main forms of research design, including: exploratory research (which focuses on the collection of secondary or primary data and the use of informal procedures to interpret them); descriptive research (which uses more scientific methods and procedures to collect and interpret raw data); and causal research (which is designed to collect raw data and create data structures and information that will enable the modelling of cause-and-effect relationships between two or more market/decision-making variables).

The purpose of this study is to examine the gap in marketing, competitive advantage, and intellectual capital literature, as well as to explore a possible means of closing this gap (namely through the addition of the intellectual property and partnership elements to the value mix). Due to the fact that the proposed solution is unique and as yet untested, this study will be of an exploratory nature. An exploratory research design revolves around research that is focused on the collection of secondary and/or primary data and the use of informal procedures or an unstructured format to interpret this data (Hair *et al.*, 2003: 41).

It is necessary to conduct both secondary (theoretical) and primary (empirical) research in order to shed some light on the research problem presented in this study. Regarding the secondary research component, a thorough literature review that in some instances will be augmented with mini case studies (examples of the practices of present-day organisations), will be conducted.

With regards to the primary research component, the card (credit) industry will be closely examined in the form of an in-depth case study. The nature and functioning of the industry will be explored followed by an exposition of the manner in which the traditional Ps of product, price, promotion and place are being applied. The key outcomes of the literature study and this industry background will be used to develop a discussion guide (see Annexure A) for the purpose of conducting unstructured depth interviews with marketing strategies in the three main card industry associations (i.e. MasterCard International, Visa International and American Express). These individuals have been purposefully selected due to their extensive knowledge of the card industry as the associations work across and provide support for multiple card issuers in the industry and can present a more independent and knowledgeable view of the industry. The interviews will be conducted in person and via e-mail by the researcher due to the relationships existing with the associations and the card issuer that the researcher is employed by. Content analysis, which Hair *et al.* (2004:234) state to be a technique that involves the systematic process of consolidating individual views and responses into larger categories or themes, will be used to consolidate the opinions of the association marketers. The literature review, card industry background exploration, and consolidated marketing strategist views of the associations will be used as inputs in the development of an intellectual capital infused marketing strategy framework for achieving sustainable competitive advantage in the card industry

1.6 DEMARCATION AND LIMITATIONS OF THE STUDY

The study will not provide a specific blueprint for the execution of the intellectual capital-marketing strategy relationship. The study will rather provide guidelines and explore the benefits of the relationship without prescribing a rigid formula on unique organisations, processes and markets.

1.7 IMPORTANCE AND VALUE OF THE STUDY

This study is concerned with the applicatory strategic business value of the inclusion of intellectual property and partnerships in the value mix. It will strive to prove that the inclusion of these elements will serve to differentially leverage an organisation's marketing strategy for increased responsiveness towards evolving stakeholder needs and preferences, which will consequently lead to increased loyalty and the achievement of sustainable competitive advantage

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This study is important for the following reasons:

- **Academic study**
  The symbiotic relationship between intellectual capital (and the effective management thereof), marketing strategy, and sustainable competitive advantage is a relatively new and unexplored concept. The academic world should definitely consider the enormous potential of this strategic intersection.

- **Management science**
  It is essential for managers to acknowledge, implement, and strategically manage the relationship mentioned above. Organisation's need to pursue and exploit every business opportunity that has the potential to improve profitability, customer satisfaction, and consequent sustainable strategic competitive position: the symbiotic relationship between intellectual capital,

marketing strategy, and sustainable competitive advantage presents just such an opportunity and managers cannot afford its non-pursuit.

1.8 CLARIFICATION OF KEY CONCEPTS

The key concepts of: sustainable competitive advantage; intangible assets; marketing strategy and the marketing mix; intellectual capital; human capital; relationship capital; structural capital; partnerships; and property (intellectual) are clarified below.

- **Sustainable competitive advantage** - a sustainable competitive advantage is the prolonged benefit of implementing some unique value-creating strategy that is not simultaneously being implemented by any current or potential competitors due to their inability to duplicate the benefits of this strategy, or to the experienced difficulty and cost associated with imitation (Hitt, Ireland & Hoskisson, 2003:6 and Hoffman, 2000:Internet).

- **Intangible assets** - intangible assets are not as easily accounted for as tangible assets and constitute know-how (knowledge-embedded expertise), brands, organisational reputation, relationships and patents. These assets are more difficult for competitors to imitate and substitute, and are more rare, valuable and difficult to quantify than tangible assets such as buildings and equipment (Fahy, 2000:98).

- **Marketing strategy and the marketing mix** - the marketing process is achieved through the formulation and execution of objectives, strategies and the operational marketing mix. Objectives correspond with where an organisation wishes to go; strategies with how the organisation intends to get there; with the marketing mix forming a transport function addressing the question of what an organisation has to do. The marketing mix is often referred to as the value mix when viewed from a customer-oriented perspective where the mix elements are deployed in a way that creates value for the final customer (Kotler, 2003:111-112).

- **Intellectual capital** - intellectual capital is the intangible material – knowledge, information, data, experiences, routines, structures, cultural apparatus, and relationships – that can be put to use by an organisation to create wealth. It is the collective term for intangible assets and consists of the three elements of human, relationship and structural capital (Wexler, 2002:393).

- **Relationship capital** - customer/relationship capital is the knowledge embedded in marketing channels and customer and supplier relationships. Relationship capital encompasses an organisation's alliances with customers, suppliers, strategic partners, shareholders, and other organisational stakeholders (Engstrom, Westnes & Westnes, 2003:288).

- **Human capital** - human capital includes the knowledge, skills, experiences, capabilities, and problem-solving abilities that reside in an organisation's workforce and is a source of innovation and strategic renewal (Engstrom, Westnes & Westnes, 2003:288).

- **Structural capital** - structural capital includes all the non-human storehouses of knowledge and value in organisations and encompasses organisational capital (organisational charts, culture, managerial philosophies, information and communication technologies); process capital (process concepts, models and manuals); and innovation capital (patents, brands, copyrights, proprietary software and databases, and other codified knowledge) (Engstrom, Westnes & Westnes, 2003:288).

- **Partnerships** - the 5th proposed P to be added to the marketing mix composed of an integration of the human and relationship intellectual capital elements.

- **Property (intellectual)** - the 6th proposed P to be added to the marketing mix composed of the intellectual capital element structural capital.

1.9 CHAPTER OUTLINE

Chapter one will serve as an introduction to the study to be undertaken. Critical issues such as: the background to and motivation for the study; the problem statement; objectives; research design and methodology; and study limitations, will be exhibited.

Chapter two will explore the evolution of sustainable competitive advantage and the strategic importance of the development, management and leveraging of intangible resources.

Chapter three will exhibit marketing strategy and the marketing mix and demonstrate how the mix has evolved over time in an attempt to achieve dynamism and sustainable competitiveness in marketing strategy.

Chapter four will outline and deeply explore the concept of intellectual capital and its place in ensuring dynamic and sustainable competitive marketing strategies. This chapter will propose the addition to the marketing mix of the elements of partnerships and property (intellectual) to achieve this.

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Chapter five will investigate human and relationship intellectual capital, the first proposed additional P of partnerships, and how this P can assist in achieving sustainable competitive advantage.

Chapter six will explore structural intellectual capital, the second proposed additional P of property (intellectual). This chapter will also demonstrate how the two new proposed Ps prolong and strengthen the traditional product life-cycle.

Chapter seven will exhibit the card industry case study including the development of the partnerships and property infused marketing strategy framework. The results of the industry (association) feedback will also be portrayed.

Chapter eight, the concluding chapter, will provide recommendations regarding the application and testing of the framework in the card industry. Recommendations of how the framework can be applied to other industries for broader study significance will also be explored.

1.10 CONCLUSION

Acquiring and maintaining a superior, sustainable competitive advantage is crucially important in the dynamic business and market environment of today. Long-term and sustainable differentiation of an organisation's products and services according to individual customers' changing needs and preferences has become the crucial element of survival as well as the key to success. The acknowledgement and pursuit of the symbiotic relationship between intellectual capital and marketing strategy will provide organisations with this key. In short, the inclusion of intellectual property and partnerships in the value mix will provide organisations' marketing strategies with the dynamism and strength needed to create a sustainable competitive advantage through the constant delight and loyalty of an organisation's customers.

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The three key elements of the study, namely: sustainable competitive advantage; marketing strategy and the marketing mix; and intellectual capital, have been explored in this chapter. A gap in the literature pertaining to these concepts has been identified and formulated in a problem statement with a proposed solution. The primary and secondary research objectives; research design and methodology; and limitations, importance and structure of the study, have been outlined. The next chapter begins the exploration of the key elements, namely sustainable competitive advantage.

CHAPTER 2

THE EVOLUTION OF SUSTAINABLE COMPETITIVE ADVANTAGE

2.1 INTRODUCTION

In this chapter, the concept of competitive advantage and the manner in which its foundations and analysis have evolved is explored. This is followed by an exposition of sustainable competitive advantage and the pre-requisites for its achievement in the current and pervasive, hypercompetitive networked/digital economy. It is demonstrated that the development of dynamic strategies (based on intangible assets and the core competencies they support) and alliances/partnerships are the key elements of success.

2.2 COMPETITIVE ADVANTAGE DEFINED

Competitive advantage is at the heart of an organisation's performance in competitive markets. After several decades of vigorous expansion and prosperity, however, many organisations lost sight of competitive advantage in their scramble for growth and pursuit of diversification. The importance of competitive advantage could hardly be greater. Organisations throughout the world face slower growth, as well as domestic and global competitors that are no longer acting as if the expanding pie were big enough for all (Porter, 1985:3).

Competitive advantage is the result of an organisation's planned strategy. The strategic direction is realised through the ability of the organisation to produce greater profits than competitors, with many factors playing an equally important role in the attainment of this position of success. These factors include industrial factors as well as the resources and competencies inherent in the single organisation, which come together to create and sustain a successful position (i.e. a competitive advantage) (Calcagno, 2000:Internet).

Competitive advantage is consequently a benefit that exists when an organisation possesses/provides a product and/or service that is regarded by its target market as superior to those offered by competitors, thereby promoting organisational profitability. Bases for this competitive advantage include, among others: unique service features; a superior price/value trade-off; customer convenience (comfortable locality and accessibility); superior customer experience; and notable product attributes. Competitive advantage ultimately translates into increased profits, market share, customer satisfaction, and survival for an organisation (De Bruyn & Kruger, 2001:96 and Cook, 2003:Internet).

However, the conditions for the attainment and basis of analysis of this competitive advantage have evolved over the years as different scholars, practitioners, and the evolving economy have impacted this ever elusive and sought-after concept. The remaining sections of this chapter explore the evolution of competitive advantage and the consequences of this impact.

2.3 THE EVOLUTION OF THE COMPETITIVE ADVANTAGE CONCEPT

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A variety of approaches for defining what constitutes competitive advantage have been developed and improved upon since the late 1950's. However, the concept only started to be systematically analysed at the beginning of the 1960's with the subsequent emergence of the Harvard School approach. This approach proposed that an organisation's success lies in its ability to respond to opportunities and threats that exist in the specific industrial environment in which the organisation operates. Learned, Christensen, Andrews and Guth (1965:15) contend that the relationship between the organisation and the industrial environment in which it operates is responsible for the attainment of a successful market position and develops along three dimensions, namely: the development of a consistent system of strategic objectives with the consequent adoption of complementary and coherent functional policies; the ability to constantly adjust these objectives and policies according to changing conditions in the external industry environment; and the skilful deployment of

strategy in a manner that is consistent with the development of distinctive competencies which, according to Hofer and Schendel (1978:25), refers to patterns of resource and skill deployments that will enable the organisation to achieve its goals and objectives.

Competitive advantage only really started to receive sufficient attention and analysis with the development of two contrasting schools of thought in the 1980's. The two contrasting *environmental* and *resource-based* views saw the development of numerous models and tools for the analysis, measurement, and attainment of competitive advantage. These models explored competitive advantage from both an extra-organisational (environmental/positioning model) and an intra-organisational (resource-based view) perspective, with each providing a significant contribution to the understanding and means of achievement of competitive advantage. However, these two opposing views represented two opposite sides of the entire "coin" of an organisation's environment (external and internal), and it is only when these two concepts started to be combined in the 1990's, that a significant contribution to the competitive advantage concept was made (Hofer & Schendel, 1978:25).

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These two opposing views are explored below.

2.3.1 Porter's environmental/positioning model

Porter's introduction of the "value chain" approach to analysing competitive advantage in the 1980's, represented the next evolutionary step in competitive advantage studies following the Harvard School approach. Porter (1985:8) maintained that the study of an organisation's competitive strategy revolves around the three elements of: the external environment (consisting of economic; political/legal; ecological; social/societal; technological; and globalisation factors); the organisation's behaviour; and the market results that the organisation achieves through the implementation of its developed strategy. From these elements, Porter (1985:9) then proposed that two

crucial factors influence an organisation's attainment of a successful market position, namely: the industrial environment; and the position assumed by the organisation inside the market (Beal, 2001:Internet; Calcagno, 2000:Internet; De Bruyn & Kruger, 2001:54 and Iversen, 2002:Internet).

With regards to the industrial environment, organisations must gauge the level of industry attraction by determining the strength of the five competitive forces that directly affect all organisations operating in a specific industry. These forces include: supplier bargaining power; the threat of substitute goods and/or services; the threat of new competitors; customer bargaining power; and the intensity of internal rivalry that exists among the existing organisations present in a given industry (Porter, 1985:6). The two-way interaction of these forces influences the profit leverage that is available to organisations operating within the same industry, with the attainment of competitive advantage being primarily determined by effective organisational response to industry-specific requirements. Competitive advantage is subsequently defined by Porter (1985:3) as a profitable and sustainable position against the forces that determine industry competition (Beal, 2001:Internet; De Bruyn & Kruger, 2001:58 and Hellriegel, Jackson & Slocum, 1999:94).

Findings from Porter (1985:11-16) clearly indicate that an organisation's profits are also influenced by the position that the organisation occupies within the industrial environment, with organisations operating in the same industry being able to choose between the three generic strategies of cost leadership, differentiation and focus. *Cost leadership* is where the organisation offers the same product at a lower price than competitors and consequently becomes the lowest-cost producer within the market. *Differentiation*, on the other hand, is where the organisation chooses to offer a different product that exhibits higher quality and more functions than those of competitors at a higher price. Finally, *focus* involves the organisation following one of the previous two strategies, but chooses to focus the chosen strategy on a restricted segment of the market – thereby practicing niche marketing by choosing market segments that are inadequately served by competitors. The more sources of cost or differentiation advantages that support each generic strategy, the

more sustainable competitive advantage is for the organisation over the long-term (Ghemawat, 1986:57; Cook, 2003:Internet and Porter, 1985:64).

Porter (1985:53) then proceeded to introduce the value chain concept, which evolved out of his explanation of the process of gaining a competitive advantage. According to Porter (1985:53), competitive advantage now results from an organisation's ability to perform the required industry activities at a collectively lower cost than competitors, or the ability to perform some activities in unique ways that create buyer value and consequently allow the organisation to command a premium price in the market. An organisation's strategy subsequently evolves from the way in which an organisation chooses to configure and combine the various activities in its value chain, relative to competitors. Competitive advantage consequently develops out of the value an organisation is able to create for its customers that exceeds the organisation's cost of creating it (Rumelt, 2003:Internet).

Porter (1985:64) then developed a set of frameworks and tools (encompassing the five-force competitive model for industry analysis, the three generic strategies, and the value-chain concept) that enabled one of the most effective analyses of competitive advantage along the two primary dimensions of competitive positioning, namely: industry analysis and competitive strength. Porter (1985:65) condensed all these tools into the following six principles of positioning: organisational/management setting of the right goals (with a focus on long-term profitability); the development of a clear value proposition (that is unique and meaningful to customers); creating a distinctive value chain (with the performance of different activities or the same activities differently); making effective trade-offs (e.g. between price and quality); ensuring activity-chain alignment (through the development of mutually consistent and reinforcing activities); and ensuring a continuity of direction (where the discipline of the strategy is consistently reinforced) (Leavy, 2003:30).

The Harvard School and Porter's related approach both maintained that the industrial environment defines the opportunities, risks, resources, and costs

that an organisation must consider in strategy development. Although the external environment plays a central role in both approaches, Porter's competitive analysis grants an organisation the opportunity to decide upon its desired strategy more freely through the selection of one or a combination of the three generic competitive strategies (Calcagno, 2000:Internet).

Although this approach made a significant contribution to the understanding of competitive advantage, it failed to take the influencing factors of an organisation's internal environment into consideration. Another school of thought, the resource-based view of competitive advantage, was consequently developed during the same decade to explore and advocate the intra-organisational perspective.

2.3.2 The resource-based view

During the 1980's, the resource-based view of competitive advantage was also developed, where emphasis was placed on the organisation and its associated strategies, resources, strengths, and weaknesses as the source of competitive advantage. Chamberlain, a prominent economist in the 1930's, had already proposed that the unique assets and capabilities of organisations were more important than market structures (as maintained by the traditional environmental view) in the attainment of imperfect competition and super-normal profits. This proposition was re-visited, further developed, and then promulgated in the 1980's (Fahy, 2000:95).

According to the resource-based view, an organisation's assets, resources, competencies, capabilities, and processes are the source of both competitive advantage and sustainable competitive advantage. An organisation possesses a competitive advantage if it possesses resources that are rare (i.e. not owned or easily acquired by other organisations) and valuable (i.e. they enable the organisation to respond effectively to environmental conditions). This advantage becomes sustainable when the resources are also non-imitable (i.e. are not easily identified or duplicated by competitors as

their ability to generate superior performance is unclear), non-substitutable (i.e. other resources cannot be used to perform the same function), and non-transferable (i.e. they cannot be bought/acquired through marketplace transactions) and are effectively deployed in product markets. Management strategists are then subsequently responsible for the effective identification, deployment, and development of these key resources to enable the maximisation of returns. The focus on external forces (the industry/external environment) is consequently shifted to internal factors (i.e. organisational resources). Under the resource-based view, an organisation possesses a competitive advantage when it engages in activities that increase its efficiency and/or effectiveness in ways that competing organisations are not, regardless of whether those other organisations are competing in a particular organisation's industry (Barney, 1991:113; Barney, 2001:48; Beal 2001:Internet; Fahy, 2000:96; Peteraf, 1993:181 and Rumelt, 2003:Internet).

Barney (1991:112-115) argues that the resource-based view opposes the two fundamental assumptions that formed the basis upon which the arguments of the previously exalted environmental models were based, namely: homogeneity of the resources and opportunities available to organisations operating within the same industry; and perfect resource mobility. According to the environmental models, the structural conditions of each industry market afforded each organisation within the same industry the opportunity to gain the same profit, with no consideration being given to the differential advantage of single organisational strategy. In contrast, the resource-based view promotes the individual choice of strategy by each individual organisation based on the specific resources and competencies that have been acquired and developed by that organisation in the execution of its activities over time: the organisation is consequently able to influence and alter the external environment through its decisions and the strategies it decides to adopt (Calcagno, 2000:Internet and Iversen, 2002:Internet).

In addition to the opposition of environmental model assumptions explored above, the resource-based view introduces and emphasises two important concepts, namely: resources and competencies. *Resources* include all the

physical, human, and financial assets that contribute to an organisation's production processes and are employed both individually and as an integrated whole to allow for the development of organisational knowledge and operating capabilities that result in organisation-specific competencies. *Competencies* consequently emerge as a result of the way in which organisations utilise their resources (that are freely acquired in the market) and internally develop them in their everyday activities to generate differentiating new knowledge and skills which, in turn, allows for the more efficient and effective utilisation of the resources (Calcagno, 2000:Internet).

Fahy (2000:98) reports that resources can be categorised into tangible assets and intangible assets. *Tangible assets* consist of all the fixed and current organisational assets that possess fixed long-term capacity (i.e. land, buildings, raw materials, facilities, capital goods and stocks, debtors and bank deposits). These assets are also capable of being quantified and represented in financial plans and balance sheets. However, tangible assets are transparent and often fall prey to competitor duplication. *Intangible assets*, on the other hand, are not as easily accounted for and constitute know-how (knowledge-embedded expertise), brands, organisational reputation, relationships and patents. Due to the level of difficulty involved in the creation and acquisition of knowledge, relationships, and reputation, intangible assets are especially crucial in the formulation and implementation of an organisation's specific strategy. Intangible assets have unlimited capacity, are relatively resistant to competitor duplication efforts, and the complexity and specificity involved in their accumulation and development, lends them immunity to imitation and substitutability (Calcagno, 2000:Internet).

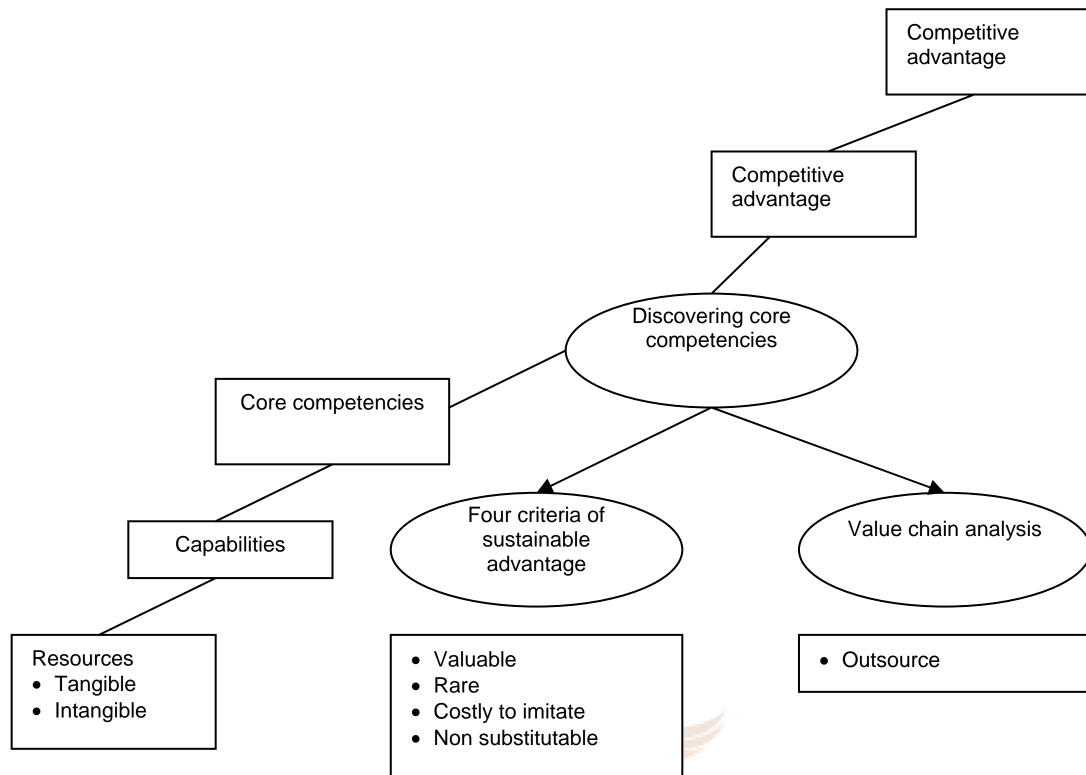
According to De Bruyn and Kruger, (2001:38), *capabilities* represent an organisation's capacity to deploy resources that have been integrated for the purpose of realising some desired process and/or result, and are developed as a result of a complex series of interactions between and among an organisation's tangible and intangible resources over time. An organisation's knowledge base is embedded in these capabilities that together constitute the skills of organisational employees and teams (human capital), as well as the

organisational routines and interactions through which an organisation's resources are co-ordinated and deployed. Teamwork, organisational culture, managerial philosophy, and the resultant trust between management and workers that develops out of this, are sources of important capabilities that are difficult to imitate and duplicate (Fahy, 2000:100).

The organisation's resources and capabilities together form its distinctive competencies. These core competencies serve to distinguish an organisation competitively, reflect its personality, and are developed through the organisational process of accumulating and learning how to utilise key resources and capabilities over time. These competencies in turn enable innovation, efficiency, quality, and customer responsiveness, which can all translate into superior competitive position (De Bruyn & Kruger, 2001:38 and Prahalad & Hamel, 1990:79-82).

The figure below graphically depicts the relationship between resources, capabilities and competencies.

Figure 2.1: Components of strategic competitiveness



Source: Adapted from De Bruyn and Kruger, (2001: 37).

Resources alone cannot create the competencies required to achieve a sustainable competitive advantage, they need to be intelligently applied to an industry or brought to a market by the intelligent formulation and implementation of strategy by management (Kay, 1993:28). According to Williams (1992:31-37), the role of management is to convert resources into something of value for customers, which involves identifying, developing, and deploying an organisation's resource base into positions of sustainable competitive advantage in the market.

One of the primary insights of the resource-based view is that not all organisational resources are equally important or possess the potential to be sustainable sources of competitive advantage. For a resource to be a

sustainable source of competitive advantage, it must be valuable, or enable the creation of value. The less observable the resource is and the less easy it is to understand (i.e. the more intangible it is), the greater the likelihood that it is also an important source of sustainable competitive advantage (Fahy, 2000:97-100).

2.3.3 An integrated approach to competitive advantage analysis

The resource-based view is, however, also flawed in its assumptions due to the fact that it is limited to the analysis of the organisation (and its associated distinctive resources and competencies) independent of its industry context; no causal relationship between the distinctive resources and competencies and competitive success is provided; the influence of past decisions on actual organisational behaviour is not afforded due consideration; and the sustainability of the competitive advantage in an evolving environment is not a core focus (Beal, 2001:Internet and Calcagno, 2000:Internet).

These flaws were dealt with via the integration of the environmental and resource-based views, as well as the integration with the evolving economy. These integrations are discussed below.

2.3.3.1 The integration of the two views

According to Amit and Schoemaker (1993:33), advantage over competitors is not achieved through the sole possession of rare and valuable resources, but through the effective and efficient deployment of these resources to respond to and manipulate environmental forces in order to realise above-average returns. The manner in which an organisation deploys its resources is embodied in its competitive strategy. Porter's traditional environmental view and the resource-based view should be combined to enable the more comprehensive understanding of competitive advantage and sustainable competitive advantage (Beal, 2001:Internet).

Iversen (2002:Internet) contends that the resource-based view and the traditional environmental models can be seen as complementary as they represent two different domains (i.e. internal and external factors respectively). The combination of these two domains results in a refined SWOT (strengths, weaknesses, opportunities, and threats) analysis, a model that is frequently used by most management teams today. Both industry and organisation-level indicators have a profound effect on organisational performance, which serves to further reinforce the fact that the two views are complementary and must be considered simultaneously as opposed to separately.

An example of why the two approaches must be combined is as follows: it is impossible to determine the imitability and substitutability of an organisation's resources without first determining and evaluating those possessed by competitors. Alternatively, the identification of attractive industries and optimal positions within those industries would be ineffective without the initial assessment of the resources and productive capabilities that an organisation possesses, as these resources and capabilities determine whether or not it is possible for an organisation to enter and compete within attractive industries (Chatterjee & Wernerfelt, 1991:46-48 and Iversen, 2002:Internet).

In order to solve the flaws of the resource-based view, Amit and Schoemaker (1993:33-36) have attempted to merge the two different approaches (i.e. the resource-based view and the tenets of the environmental models). Amit and Schoemaker (1993:33-36) propose that the following three tools be used to enable a more thorough understanding of competitive advantage. These include:

- *Industry analysis* – enabling a better understanding of the structure of the industry in which the organisation operates.

- *Resource evaluation* – to analyse the resources and competencies internal to the organisation.

- *Behavioural decision theory* – to allow for the investigation of the decisional and behavioural patterns employed by organisational managers.

The above-mentioned tools together enable a better understanding of the present environment (both internal and external) in which the organisation operates, which serves to assist management in its decision-making processes. In these processes, Amit and Schoemaker (1993:45-46) maintain that managers use the tools to construct possible future scenarios, which can then be used to assist management to develop the correct competitive market interaction for each possible future situation based on industry opportunities (industry analysis) and organisational capabilities (resource evaluation).

By analysing an organisation's situation from both the resource-based and environmental views, managers can consequently use the concepts of core competence and market position to analyse all the available strategic options that will produce a better competitive strategy than if either perspective were used in isolation (Leavy, 2003:29 and Oliver, 1997:712).

2.3.3.2 Integration with the evolving economy

The problem of the sustainability of the competitive advantage was then first addressed by D'Aveni in 1994. According to D'Aveni (1994:21), in the traditional competitive environment, organisations could develop their distinctive capabilities to develop a successful strategy that will afford that organisation a solid and durable competitive advantage. However, today's environment is one of hyper-competition, which represents a condition of rapidly escalating competition based on: price-quality positioning; the "race" to create new know-how; the ability to protect or invade established product or geographic markets; and the pursuit of mutually-beneficial strategic alliances. This new landscape is the result of: rapid technological changes and diffusions; the increasing importance of knowledge; and the advent of the global economy where people, goods, services, and ideas can move freely in

internationalised markets and industries. Organisations must consequently adopt different behavioural rules and respond to environmental and market changes with dynamic strategies (De Bruyn & Kruger, 2001:4).

The hypercompetitive environment has resulted in the rules of the "competitive" playing field being drastically altered. These changes are outlined below (Chaharbaghi & Lynch, 1999:45-48):

- In order to sustain competitive position in the long-run, organisations must continually alter and destroy their competitive advantages. An organisation must consequently gain a series of short-term advantages that are continuously destroyed and re-invented to prevent competitor imitation. Critical and differentiating capabilities must no longer be based on specific and static assets and resources, but on those intangible resources that enable an organisation to satisfy the market in ever-new ways.

- Entry barriers are only effective if competitors perceive the existence and effectiveness of these barriers correctly. As intangible resources are frequently rare and difficult to understand and subsequently imitate, they can be used, together with the capabilities and competencies they support, to create new and effective entry barriers.

- Organisations must be perceived as being irrational and unpredictable to prevent imitation. Dynamic and evolving strategies assist in achieving this.

- Organisations must improve their capabilities to detect competitor actions as well as their ability to compete in fast and unpredictable ways.

A truly dynamic strategy is the only formula for success in the race to secure a stable competitive position in a hypercompetitive market. The resource-based view maintains that organisations should focus on the identification and nurturing of those resources that allow for the development of competitive advantage. However, the primary focus of this resource evaluation is on the

existing resources of the organisation that are mostly regarded as being static and unchanging. Dynamic, hypercompetitive environments require a new generation of intangible resources to serve as the foundation of dynamic and ever-changing strategies (Chaharbaghi & Lynch, 1999:45 and D'Aveni, 1994:28).

Competitive advantage must consequently be evaluated according to the tenets, models, and frameworks of both the environmental and resource-based views presented in this section in combination with an acknowledgement and understanding of the new hypercompetitive environment that requires the development of dynamic strategies based on intangible resources.

2.4 SUSTAINABLE COMPETITIVE ADVANTAGE

In the preceding section, there was frequent mention of the need for the proposed competitive advantage to be sustainable. The primary goal of all organisations is to be profitable and to survive, and this can only be achieved through the development of competitive advantages that are sustainable. The concept of sustainable competitive advantage is consequently explored and examined more thoroughly in this section.

The concept of sustainable competitive advantage first emerged in the 1980's with Day's exploration of different types of strategies to assist in sustaining "competitive advantage". The actual term sustainable competitive advantage was first introduced by Porter in his exploration of the three generic strategies that an organisation can pursue (i.e. cost, differentiation, and focus). Barney (1991:115) provided another perspective in 1991 associated with the resource-based view of competitive advantage. From the work of all these scholars, the following definition of sustainable competitive advantage can be derived: *a sustainable competitive advantage is the prolonged benefit of implementing some unique value-creating strategy that is not simultaneously being implemented by any current or potential competitors due to their*

inability to duplicate the benefits of this strategy, or to the experienced difficulty and cost associated with imitation (Hitt, Ireland & Hoskisson, 2003:6; Hoffman, 2000:Internet and Cook, 2003:Internet).

According to Hoffman (2000:Internet), in 1988, Day and Wensley proposed that superior skills and superior resources are the main sources of competitive advantage. In 1991, Barney clarified this in the light of the need for sustainability, by stating that only rare, valuable, inimitable, and un-substitutable resources can be sources of sustainable competitive advantage.

Intangible resources tend to be better suited for the attainment of sustainable competitive advantage than tangible ones. Given that the achievement of sustainable competitive advantage also has an external focus (the environmental model), the development of intangible assets external to the organisation is also vital for success. Market-based intangible assets include relational and intellectual assets. Relational assets represent the bonds between the organisation and its customers and channel partners/members which culminate in a business-intimate relationship that enables an organisation to work with customers to develop products and/or services that are highly customised according to their needs. Intellectual market-based assets include the detailed knowledge that the organisation and its employees possess regarding the customers'/partners' needs, tastes, preferences, and histories. These intangible assets have an outward focus on organisational customers and channel partners, and the extent to which they are rare, inimitable, valuable and non-substitutable, enables the attainment of sustainable competitive advantage (Hoffman, 2000:Internet).

Hoffman (2000:Internet) contends that sustainable competitive advantage consequently requires an integration of the two models as well as an acknowledgment of the evolving economy and hypercompetitive environment. The outward focus on customers and competitors promulgated by the current hypercompetitive environment, has led to the development of four strategies linked to the attainment of sustainable competitive advantage, namely:

- *Market orientation* – where the focus is on customers and competitors and the gathering of knowledge and customer insights (intangible resources) to generate superior innovations.

- *Customer value* – where the focus is on the creation of a customer value hierarchy where organisations attempt to match their core competencies to the product/service values desired by customers, thereby forcing the organisation to learn more about customers.

- *Relationship marketing* – with the focus being on the role of relationship building as a means of obtaining valuable resources (i.e. trust, loyalty and reputation) to achieve sustainable competitive advantage.

- *Business networks* – where the focus is on the development of multiple relationships, with each participating organisation being granted access to the resources needed to build core competencies and attain sustainable competitive advantage.

All these competitive strategies are only made possible through sustainable marketing efforts. Marketing is the dynamic process of ensuring a close fit between the capabilities of an organisation and the demands of the external environment. Marketing strategy and the associated marketing mix by which it is operationalised/executed will consequently need to be based on intangible assets and associated competencies, as each one of the above-explored strategies requires intellectual capital (intangible assets), especially relationship capital (embedded in partnerships) in order to be in sync with the continuously evolving external environment and associated dynamic organisational strategy. It is no longer sufficient for an organisation to develop a marketing mix strategy that is effective in the short-term, but then fails to translate into sustainable competitive advantage and long-term profitability for the organisation (KLM Inc., 2002:Internet).

According to Porter (1991:96), strategic positioning enables stable competitive advantage. The performance of different activities, or the development of the ability to perform activities differently than competitors, enables an organisation to establish a difference in the market (relative to competitors) and gain a competitive advantage that it is capable of maintaining over time (i.e. a sustainable competitive advantage).

Iversen (2002:Internet) declares that strategy is something pervading the whole system of organisational activities and all activities must be reinforcing each other. The integration of activities makes it more difficult for competitors to imitate them and their associated strategy, thereby making competitive advantage sustainable and durable over time. Strategy represents the way in which all organisational activities are tied together and implemented. This integration is known as complementarity and is achieved through an organisation-specific combination of numerous activities, resources, and assets. Sustainable competitive advantage doesn't develop out of a single business activity, product or service. It is realised from a system of activities that are complementary where competitors have to match the entire system instead of just one activity. This system of activities forms intangible process capital (a subset of intellectual property), and this intangibility in turn protects an organisation from imitation by competitors and subsequent erosion of the competitive advantage. Intangible assets, adjusted to account for external environmental factors, once again serve to ensure sustainability (Porter, 1991:97-112).

According to Grant (1995:47), the sustainability of competitive advantage is reliant upon the strength of three dimensions, namely: *durability* (the duration that the competitive advantage can be sustained for in terms of the ability of the organisation to prevent competitors gaining access to the resources upon which the competitive advantage is built); *mobility* (the ability of the organisation to prevent the transfer of its differentiating resources in the market); and *replicability* (the ability of the organisation to prevent competitors from copying their key resources). Intangible resources and the competencies they support fulfil these requirements of sustainability.

Chaharbaghi and Lynch (1999:46) maintain that competitive sustainability must also be considered as a dynamic process, as an organisation needs to function in and adapt its competitive strategy to a constantly changing external environment. Sustainable competitive strategy subsequently involves the organisation's perception of the evolving external environment and of what resource configuration is best suited to responding to the evolution. To be sustainable, an organisation consequently has to positively embrace change and constantly adapt to new processes and demands through the development of new resource configurations, whilst simultaneously preserving and leveraging the best of its past.

The development of a competitive strategy is consequently a continuous process where management must constantly assess the situation (organisational and environmental), analyse it, and adjust its strategy accordingly. The only sustainable competitive advantage is the commitment to keep evolving one's strategy to stay current with changing conditions. The changing conditions indicate the need for the accumulation and development of intangible assets. This presents organisational CEO's and management teams with the new challenge of realising that patents, brands, copyrights, relationships and culture together represent the assets of enhanced corporate net worth and are the new foundations of strategic thinking and new (sustainable) competitive advantage. Learning to exploit these intellectual/intangible assets for strategic and financial gain is crucial in the current knowledge-driven economy (KLM Inc., 2002:Internet).

2.5 SUSTAINABLE COMPETITIVE ADVANTAGE IN THE CURRENT NETWORK ECONOMY

External economies and the development of inter-organisational relationships have become increasingly important in recent years, to the point of now being a crucial element of success in the new networked economy. The development of a common technological operating platform afforded by the network economy, has resulted in an increase in the number of interrelationships among organisations operating in different industries with an

associated increased tendency towards greater co-operation and a proliferation of new network-structure organisations. Networks consequently enable organisations to overcome the traditional separation between the market and each other, thereby allowing for the creation of new forms of organisations and alliances based on mutual collaboration and semi-hierarchical relationships. Strong partnerships need to be developed in order to gain access to and share crucial intangible resources for the increase in competitive sustainability of the entire network (Calcagno, 2000:Internet).

According to Hoffman (2000:Internet), these business networks consequently consist of multiple relationships, with each participating organisation being granted access to the intangible resources/intellectual capital and capabilities required to develop core competencies and achieve sustainable competitive advantage.

CGI Group Inc. (2001:Internet) report that over and above the new need to create strong alliances and networks for the development of competitively sustainable competencies, the emergence of the digital era has altered the very nature and basis of competitive advantage as it has enabled organisations to quickly and easily match the traditional sources of differentiation (i.e. price, quality, and customer service). The advanced use and integration of technologies throughout the value chain enables competitors to match the advantage of an organisation (e.g. price offered) whilst simultaneously creating their own "new" source of competitive advantage (e.g. the provision of customised products) (Klein, 2001:Internet).

According to Klein (2001:Internet), organisations are now capable of achieving price and quality (differentiation) advantage in the marketplace; however, the new network economy has nullified their competitiveness. Price and quality are now expected as the norm by consumers and have consequently become the cost of entry into the market. Fierce price competition has resulted in the emergence of acceptable price zones (a small range in acceptable price on a product or service) with consumer purchases being driven by other product/service features. Similarly, fierce quality

competition has resulted in a general increase in quality standards in all industries (the standards forming the cost of industry entry), with standard-exceeding quality requiring a disproportionate cost/price increase. Due to the rapid decrease in the competitiveness of price and quality differentiation, organisations turned to customer service in the 1990's. However, this advantage was soon eroded due to the easy imitation of customer service policies and practices by competitors, and customer service is now only a differentiator for high-end products and services where targeted consumer price zones can absorb the cost increase required by superior customer service provision. The next source of competitive advantage was to be found in real-time performance, with organisation's adopting a 24/7 ethos to customer need satisfaction and problem resolution. Dedicated customer call centres and online order tracking and status checks are general tools used to achieve this advantage. However, the ease of acquiring the technology required to create this advantage, soon levels the playing field once again and subsequent competitiveness is lost (CGI Group Inc., 2001:Internet and Klein, 2001:Internet).

Most organisations are currently in the customer service and real-time performance phases, or are in the process of transitioning between the two. However, the future source of sustainable competitive advantage is to be found in individualisation. Individualisation refers to the ability of an organisation to customise all its products, services, information, and interactions according to the needs, preferences and individual histories of each customer and channel partner/member (CGI Group Inc., 2001:Internet). Consequently, core competency and sustainable competitive advantage are no longer found in the product or service itself, but in an organisation's design and marketing capabilities, as well as their ability to create good relationships with their customers and channel partners (business networks) and leverage the intellectual capital gleaned from these relationships to better customise/individualise products and respond to changing needs and preferences through the creation of new services and products faster and more continuously than competitors (Erb, 2001:Internet).

Price, quality, customer service, and real-time performance are all transitory sources of competitive advantage, due to the fact that they are easily imitated and eroded by competitors. A sustainable source of competitive advantage is to be found in individualisation. The provision of individualised products and/or services requires the possession and development of several competencies by the organisation, namely: flexible manufacturing; efficient channels of communication with customers and partners; an integrated supply chain; the development of new innovations that are specifically tailored to unique needs; and detailed knowledge of individual customers and channel members. Detailed customer knowledge is particularly difficult to match, as an organisation develops this knowledge through its numerous interactions with customers and through an ongoing learning relationship. It is consequently very difficult for competitors to be as proficient at anticipating customer needs due to the very limited data they have as opposed to the detailed and intimate knowledge possessed by the organisation (CGI Group Inc., 2001:Internet and Sayan, 2001:Internet).

The development of business networks/alliances/partnerships and the adoption of an individualisation focus and strategy are consequently pre-requisites for sustainable competitive advantage in the current and pervading digital/networked economy; which is characterised by new and challenging conditions.

According to Conley (2000:Internet), competitive advantage is especially difficult to sustain in the network economy as this new economy has created the following conditions:

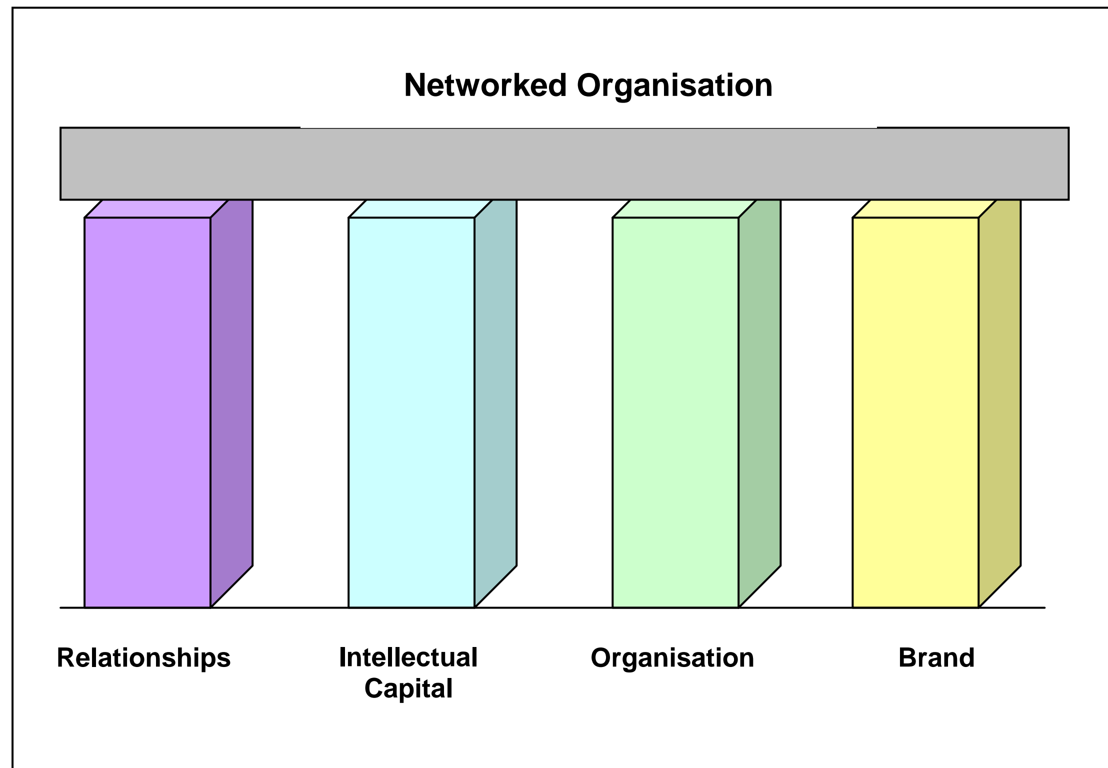
- *Lower entry barriers* – the global virtual world has opened the door to "smaller" competitors as traditional economies of scale are no longer a barrier to marketplace entry.
- *Tighter value chains* – this has lead to the nullification of production economies.

- *Greater market efficiency* – primarily due to the fact that technological advancements have resulted in information being relatively cheap and easy to rapidly transmit and process.

- *Globalisation* – resulting in the increased mobility of producers and consumers, with agility and adaptability becoming the prerequisites for survival.

These conditions require new sources of competitive advantage and Conley (2000:Internet) maintains that these include: timing; know-how; intangible-assets-based entry barriers; deep-pocketed alliances; and adaptability. In the industrial economy, sustainability was obtained through the creation of a competitive advantage that was capable of resisting erosion by competitor behaviour and industry evolution. However, sustainability in the network economy requires organisations to develop the skills and competencies to re-invent competitive advantage as the industry evolves. The new competencies that must be integrated with organisational strategy and that form the foundation of sustainable competitive advantage include: relationship management; intellectual capital management; strategic brand management; and organisational change capability.

Figure 2.2: The four pillars of sustainability



Source: Adapted from Conley (2000:Internet).

According to Conley (2000:Internet), relationship management is embodied in the partnerships that an organisation develops with its employees, customers, channel partners, shareholders, and other stakeholders. Strategic brand management is inherent in the management of an organisation's structural innovation capital (intellectual property); and the organisational and process capital of an organisation contains lessons learned and allows for effective and rapid organisational changes in response to the evolving network economy. All these elements, in turn, fall under the mantra of intellectual capital management, and together enable dynamic marketing and subsequently sustainable competitive strategies in the digital networked economy.

2.6 CONCLUSION

The business environment is a networked one that is characterised by hyper-competition. This environment is set to become even more competitive and technologically advanced in the future. The recipe for successfully creating a sustainable competitive advantage lies in the development of dynamic strategies that are based on core competencies that are, in turn, derived from rare, valuable, inimitable, and non-substitutable intangible assets. Business alliances must also be pursued in order to allow organisations to share and consequently gain access to valuable intangible assets for the development of stronger, dynamic, and more sustainable competencies.

In the next chapter, chapter three, the concepts of marketing strategy and the associated marketing mix are explored. This is followed by an examination of how scholars and practitioners have attempted to alter the mix over time in order to make marketing strategy more dynamic to evolve with the times and achieve sustainable competitive advantage. Lastly, a solution to the need for dynamism in marketing strategy is proposed, which takes the form of the recommended addition of two intangible asset based core mix elements: partnerships (external) and property (intellectual) (internal).

CHAPTER 3

MARKETING STRATEGY AND THE MARKETING MIX

3.1 INTRODUCTION

In the previous chapter it was determined that the recipe for successfully creating a sustainable competitive advantage lies in the development of dynamic strategies that are based on core competencies that are, in turn, derived from rare, valuable, inimitable and non-substitutable intangible assets. These dynamic strategies arising from intangible assets enable the attainment of a sustainable competitive advantage which is the prolonged benefit of implementing some unique value-creating strategy that is not simultaneously being implemented by any current or potential competitors due to their inability to duplicate the benefits of this strategy, or to the experienced difficulty and cost associated with imitation.

It has often been stated that marketing lies at the heart of an organisation's existence: without an intimate understanding of customer wants and needs and the subsequent design, delivery and promotion of products and services to meet those needs, an organisation's sole purpose ceases to exist (Kotler, 2003:9). An organisation's purpose, objectives and supporting functions consequently all revolve around marketing, and it is consequently most crucial and beneficial to develop and embed dynamic strategies based on rare and inimitable intangible assets at an organisation's core: marketing strategy.

In this chapter, the concepts of marketing strategy and the associated marketing mix are explored. This is followed by an examination of how scholars and practitioners have attempted to alter the mix over time in order to make marketing strategy more dynamic to achieve sustainable competitive advantage. Lastly, a solution to the need for dynamism in marketing strategy is proposed, which takes the form of the recommended addition of two

intangible asset based core mix elements: partnerships (external) and property (intellectual) (internal).

3.2 MARKETING STRATEGY AND SUSTAINABLE COMPETITIVE ADVANTAGE

The aim of marketing is to know and to understand the customer so well that the product or service fits him and sells itself. Ideally, marketing should result in a customer who is willing to buy. All that should be needed then is to make the product or service available (Kotler, 2003: 9).

According to the American Marketing Association (AMA) (2002), marketing is an organisational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organisation and its stakeholders.

The marketing process is achieved through the formulation and execution of objectives, strategies and the operational marketing mix. Objectives correspond with where an organisation wishes to go; strategies with how the organisation intends to get there; with the marketing mix forming a transport function addressing the question of what an organisation has to do (Kotler, 2003:111-112).

Kotler (2003:8-10) states that marketing is consequently a philosophy that results in the manner in which organisations and consumers obtain what they need and want through the initial identification of value and the subsequent provision, communication, and delivery of that value to consumers. Marketing's core concepts include: customers' needs, wants and values; products; exchanges; communications; and relationships. According to Hooley, Saunders and Piercy (2004:7), marketing is strategically concerned with the direction and scope of the long-term activities and tactics employed by an organisation in the pursuit of a sustainable competitive advantage. The organisation deploys its resources and capabilities in an ever-changing

environment in order to simultaneously satisfy customer needs and shareholder expectations. This view of strategic marketing (Hooley *et al.*, 2004:7) implies that an organisation needs to develop an effective marketing strategy to enable it to: cope with competitors; timeously identify lucrative market opportunities; develop and commercialise new products and services that accurately reflect the needs of the market; efficiently allocate resources among marketing activities; and design an appropriate organisational structure that is capable of ensuring that the desired performance is achieved (De Bruyn & Kruger, 2001:126-128).

Strategic marketing ultimately falls within the overall context of organisational/corporate planning. It is only in the context of corporate planning that the above-explored tasks (i.e. coping with competitors) can be effectively addressed and executed. Corporate planning represents the summation of the total planning to be carried out by an organisation. According to Greenley (2002:49), corporate planning is composed of strategic and operational planning. Strategic planning is the process which defines the overall objectives of the organisation and the means by which these objectives are to be achieved.

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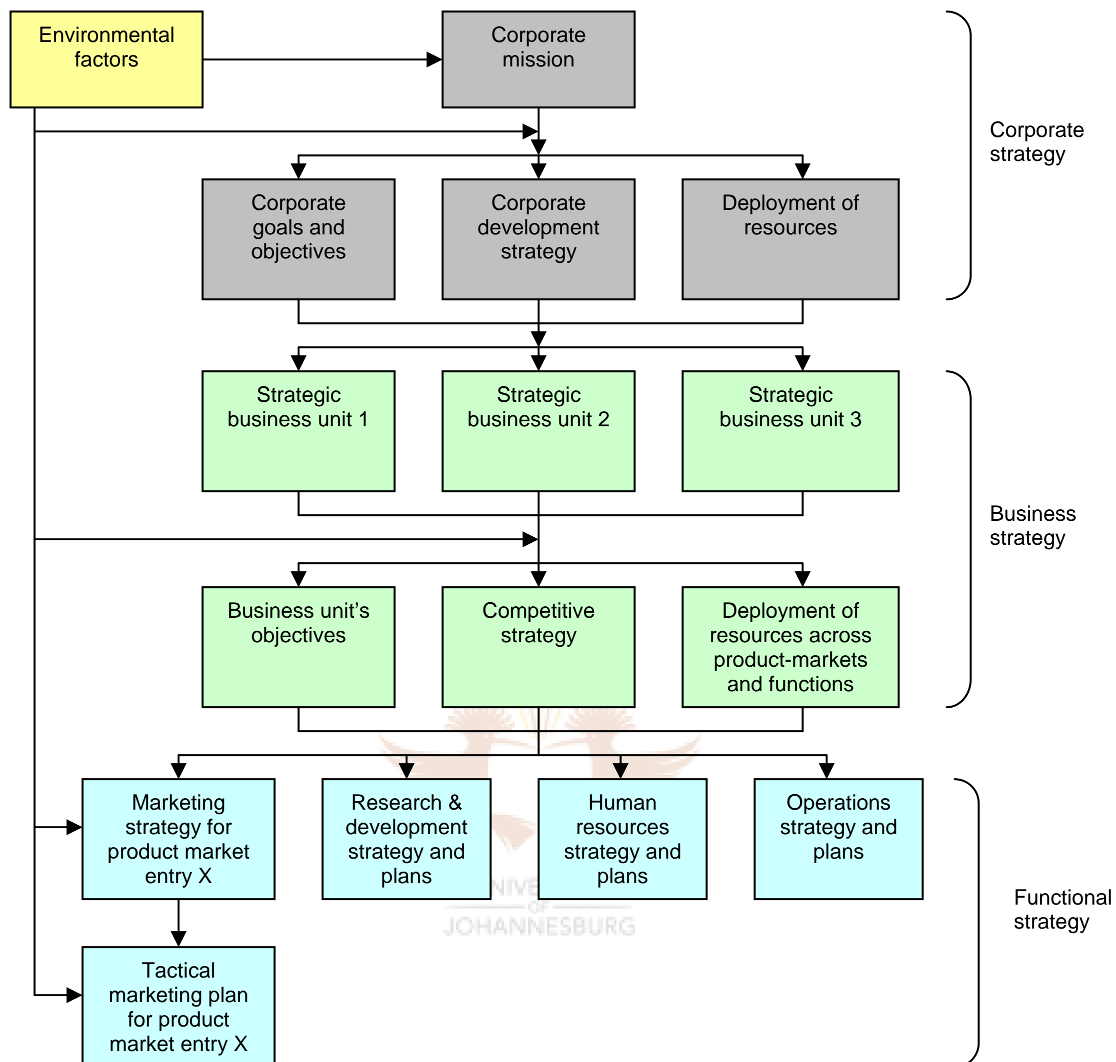
Strategic planning addresses long-term issues and is the responsibility of top management. Greenley (2002:50) maintains that operational planning is a projection into the future of plans that concern existing organisational operations. The marketing function is seen to predominate in this area of planning and marketing planning is consequently taken as being part of operational planning which is based on an organisation's present operational base of resources. Marketing strategy is seen as being part of the long-term operational planning of the marketing function (Hooley *et al.*, 2004:35-36; De Bruyn & Kruger, 2001:136-139).

The following figure, Figure 3.1, depicts how marketing strategy relates to overall corporate and strategic planning.

Figure 3.1: The relationship between marketing and corporate strategy



Source: Adapted from Walker, Boyd, Mullins & Larréché (2004:10).

Ultimately, it can be surmised that marketing is the management process that strives to maximise shareholder returns through the creation of a sustainable competitive advantage in the provision, communication and delivery of value to customers and the subsequent development of long-term relationships with them (Doyle, 2000:25). A marketing strategy in essence consists of an internally integrated but externally focused set of decisions about how an organisation addresses its customers in the context of a competitive

environment. A strategy consists of five elements: where the organisation plans to be active; how it will get there; how it will succeed in the market place; what the speed and sequence of moves will be; and how the organisation will obtain profits. These five elements must ultimately be executed in a manner that enables the creation of superior market positions.

Du Plessis, Jooste and Strydom (2001:38) argue that superior market positions are dependant upon the nature of an organisation's customer base, its relations with suppliers and partners, its relations with customers, it facilities and systems, and the organisation's own possession of superior technology and complementary property rights. These represent the organisation's assets and resource endowments that have been accumulated and strengthened over time. According to De Bruyn and Kruger (2001:96), organisations also possess certain capabilities that combine an organisation's assets in a manner that can be used toward gaining an advantage. These capabilities are so deeply embedded in the organisation's routines that they cannot be easily traded or imitated. An organisation's competitive advantage is consequently derived from the nature of its products, markets, technological orientation, resources and knowledge (Hooley *et al.*, 2004:48-50).

Thompson (2002:Internet) reports that the pace of change is accelerating with product life-cycles becoming shorter and competition becoming more global. In the future, marketing will bring more added value through brand service and better relationships with customers, employees and other partners. Today, business executives are investigating what each unit within an organisation is contributing to the value of that organisation. Intangibles like brands, patents, software, and research programs are an important and measured element of value. New research by PA Consulting Group demonstrates that marketing typically generates three times the shareholder value of other functions and marketers must consequently use and integrate customer relationships and other intangible assets into their marketing strategies to enable the creation of superior value for an organisation currently and in the future.

According to Hooley *et al.* (2004:22-27), this provision of customer value requires effective delivery on a range of promises made to consumers. Value is derived from the business system in which the organisation operates. Each organisation leverages other participants in the system (i.e. suppliers, customers, and other partners) in the creation of value.

Kotler (2003:111) declares that the value-added chain flows from suppliers through the organisation to the customer and is reinforced by partners in the context of a competitive environment influenced by economic, political, legal and cultural factors. Each stage of the value chain presents an opportunity for positive contribution to the organisation's competitive strategy, through the performance of some activity or process in a way that is better than one's competitors, consequently resulting in the provision of some kind of uniqueness or advantage. If an organisation attains such a competitive advantage that is sustainable, defensible, and valued by the market, it may earn high rates of return. A long-term marketing orientation brings suppliers, customers, competitors and partners together in the business system to create value in the marketing system. The marketing system consists of five major participant groups, namely: customers; competitors; partners; suppliers; and the organisation itself (De Bruyn & Kruger, 2001:44; 96).

These intangible relationships and processes need to be integrated into and leveraged by marketing strategy to enable the ultimate attainment of a sustainable and defensible competitive advantage.

3.2.1 Internal marketing

In addition to coping with the external environment of customers and competitors, it is also necessary to train and motivate all staff within the organisation to provide the appropriate level of service to customers. According to Zeithmal and Bitner (2003:319), internal marketing is closely related to human resource management and the way in which the organisation develops its own distinctive corporate culture. Internal marketing

enables employees to make a strong connection to an organisation's products and services. In the absence of such a connection, employees may unwittingly undermine expectations that are set by an organisation's marketing efforts. When people believe in what an organisation does and stands for, they are motivated to work harder, and their loyalty towards an organisation increases. However, according to Marshall (2002:Internet), internal marketing is done poorly in most organisations and few organisations understand the need to convince employees of the organisation's mission, purpose and values.

An organisation's employees are consequently a crucial element in the value chain and their value needs to be recognised and leveraged by marketing strategy.

3.3 MARKETING STRATEGY AND THE MARKETING MIX

Greenley (2002:46) states that the detail of marketing strategy is composed of the marketing mix, the product life-cycle, market share and competition, and positioning. Special marketing strategies are also often needed for both international and industrial markets. This detail constitutes the operational arm of marketing strategy.

Strategic marketing has been defined (paragraph 3.2.4) as the management function responsible for the identification, anticipation, and profitable satisfaction of customer needs. This is achieved through the execution of efficient: research; product design and development; pricing; packaging; sales and sales promotion; advertising; public relations; distribution; and after sales service. These activities represent the broad scope of marketing and their balanced integration within a marketing plan forms the tactical marketing mix (Kotler, 2003:5-11).

Foxall (1992:385) defines marketing strategy as being an indication of how each element of the marketing mix will be used to achieve the marketing

objectives. Consequently, a range of marketing component strategies constitute the total marketing strategy, i.e. product strategy, distribution strategy, sales promotion strategy, and pricing strategy. This theme of the marketing mix is then extended to the concept of the product life-cycle. Kotler (2003:327) outlines that the marketing strategy for a particular product needs to be modified as the product moves through the various stages of its product life-cycle. A different mix and a different marketing strategy are required for each stage of the product life-cycle to achieve marketing objectives and optimise performance.

According to Kotler (2003:328), products pass through four stages of a life-cycle, including introduction, growth, maturity and decline. Stating that products have life-cycles, makes the following assumptions: products have a limited life; product sales pass through distinct stages with each presenting different challenges, opportunities and problems; profits rise and fall at different stages of the product life-cycle; and products require different marketing, financial, manufacturing, purchasing, and human resource strategies in each life-cycle stage. The introduction stage is typically (in competitive industries such as the card industry) characterised by a period of slow sales growth as the product is introduced in the market with profits being non-existent due to the heavy expenses incurred with product introduction. The growth stage is characterised by a period of rapid market acceptance and substantial profit improvement. The maturity stage represents a period of a slow-down in sales growth due to the fact that the product has achieved acceptance by most potential buyers, with profits stabilising or declining as a result of increased competition. The final decline stage is a period when sales show a downward drift with eroding profits (Walker *et al.*, 2003:118-123).

Marketing strategy is also linked to market share and competition. Greenley (2002:47) postulates that an organisation can identify its optimal market share given a particular set of conditions. Once this optimal share has been identified, the organisation needs to develop a marketing strategy to achieve this optimum. A strategy then needs to be selected from a range of strategies that is designed to build, maintain or even reduce market share. Within each

of these share-linked marketing strategies, a range of further strategies that are based upon the marketing mix elements can be developed and deployed. This approach of linking marketing strategy to market share is merely a utilisation of the marketing mix elements that is linked with an objective that is concerned with the predetermined level of achievement (i.e. market share).

According to Kotler (2003:308), the concept of positioning can be explained in terms of both market and product positions. In a positioning context, an organisation reviews the segmentation of a particular market and then decides which segment or segments to target. This selection process is consequently referred to as market positioning. For each segment, the organisation requires a product/products and the number and nature of products developed is referred to as product positioning. Marketing objectives in each segment are again achieved through the careful design and deployment of the marketing mix elements.

Regarding international and industrial markets, strategies are again based upon the elements of the marketing mix. The only difference can be found in the emphasis placed on the relative elements. Variations in culture and market conditions in multiple countries requires an emphasis on the promotions (especially advertising) element, with an emphasis on the product and price elements being necessary in industrial markets (Greenley, 2002:48).

The detail of marketing strategy consequently ultimately resides in the marketing mix and it is here that the greatest impact on sustainable competitive advantage can be achieved. The leveraging and integration of the previously mentioned relationships and intangible assets at the marketing mix level can potentially create a ripple effect of advantage throughout an organisation. On a strategic level, it must be decided to integrate these elements into the mix, and the subsequent integration will potentially reverberate sustainable strategic position for the entire organisation.

3.4 THE DEVELOPMENT OF THE MARKETING MIX CONCEPT

The term marketing mix represents the controllable elements of marketing which collectively form the basis for customers' perceptions of an organisation and which a marketer may combine to generate demand for an organisation's product/service offering. According to Hooley *et al.* (2004:52), the marketing mix enables an organisation to translate its strategy from a statement of intent to effort in the marketplace. The majority of the marketing effort is directed at encouraging consumers to react in a desired way and this is usually achieved through a combination of behavioural and mental effects. These desired responses may be instant or delayed, direct or indirect (Judd, 2003:1303 and Kotler, 2003:15).

The marketing mix concept is one of the core concepts of marketing theory. Borden has claimed to be the first to have used the term "marketing mix", the term being developed by him as a result of Culliton's description of a business executive as a "mixer of ingredients". In 1948, Culliton also developed the initial "P" philosophy of marketing and concurrently proposed a long list of Ps (especially that of profit, planning and production) which stood for the key activities involved in the operational activities of an organisation. Culliton was of the opinion that an organisation could be differentiated as being either sales-oriented or manufacturing-oriented through an examination of the amount of emphasis given to the different Ps. The idea and eventual practice of a marketing-oriented organisation consequently emerged from his works. Borden did not formally define the marketing mix, as he saw it as simply consisting of a number of important elements that constitute a marketing program (Borden, 1965:6). Borden believed the marketing mix to contain 12 elements, namely: product planning; pricing; branding; channels of distribution; personal selling; advertising; promotions; packaging; display; servicing; physical handling; and fact finding and analysis (Vignali & Davies, 1994:11).

McCarthy (1975:35) then combined Culliton's "P" philosophy and Borden's extensive list of marketing mix elements to develop four Ps that he believed to

define the marketing mix to be a combination of all the factors at a marketing manager's command to enable him/her to satisfy the needs of the target market. These Ps included: product; price; promotion; and place (distribution) (Vignali & Davies, 1994:11).

McCarthy and Perreault (1990:23) have defined the marketing mix as the controllable variables that an organisation can coordinate to satisfy its target market. This slightly altered definition is widely accepted and is evidenced in Kotler and Armstrong's (2001:45) definition of the marketing mix as: "the set of controllable marketing variables that an organisation blends to produce the response it wants in the target market" (Rafiq & Pervaiz, 1995:4).

Other suggested frameworks for the marketing mix have included Phrey's proposal, made in 1961, that marketing variables be divided into two categories, namely: the offering (product, packaging, brand, price, service); and the methods and tools used to market the offering (distribution channels, personal selling, advertising, sales promotion and publicity). Rafiq and Pervaiz (1995:5) have alternatively suggested that the marketing mix consist of three primary mix elements, namely: the goods and services mix; the distribution mix; and the communication mix. However, the most popular and enduring marketing mix framework has been that of McCarthy (1975:38) who regrouped and refined Borden's twelve elements to form the popular four Ps. Each of McCarthy's categories consist of a mix of elements in itself forming the "product mix", the "promotion mix", the "price mix" and the "place mix."

In spite of the popularity of McCarthy's four Ps framework, it has received much criticism over the years. According to Kent (1986:148), the four Ps framework is too simplistic and misleading, consequently leading Nickels and Jolson to suggest in 1976 that packaging be added as a fifth element to the marketing mix, and Mindak and Fine to suggest the inclusion of public relations as the fifth P in 1981. According to Judd (2003:1303), in 1996 Kotler also supported Mindak and Fine's suggestion, together with another suggestion that political power be included as an additional element of the marketing mix.

The concept of political power was then used as a basis to introduce policy as being one of the key issues in decision-making processes that connect organisations to customers in the market place. Booms and Bitner (1981:47) proposed the introduction of three additional marketing mix elements to address the importance of policy. These include people, processes and physical evidence. These elements address the problem proposed by the traditional four Ps that results in an organisation developing a too narrow focus on internal as opposed to external variables. Booms and Bitner's seven Ps framework has been the most influential and widely accepted alternative suggested framework to the four Ps mix. The seven P framework makes explicit the need for marketers to manage internal factors as well as the external forces represented by the traditional marketing mix. According to Booms and Bitner (1981:48), these new elements are essential to the definition and promotion of services in the consumer's eyes both prior to and during the service experience. These elements can also be controlled by the organisation and be used to effectively influence buyer behaviour (Lings, 1999:3).

Cowell (1994:36-40) declares that the Booms and Bitner framework addressed the widely contended weaknesses of the goods marketing approach to services marketing. Because of the inherent intangibility, perishability, heterogeneity and inseparability of services, they require a different type of marketing and a different marketing mix. Borden's original marketing mix did not incorporate the characteristics of services as it was derived from research on manufacturing organisations (Shostack, 1977:76-78).

It is necessary to expand on the importance of the proposed additional three elements. According to Zeithmal and Bitner (2003:24-25), *people* include both the customers who buy the service as well as other customers in the service environment requiring the management of both the service provider-customer interface as well as the actions of other customers. *Physical evidence* in the 1981 Booms and Bitner framework refers to the environment in which the service is delivered as well as any tangible goods that facilitate

the performance and communication of the service provided. *Processes* include the procedures, mechanisms and flow of activities by which the service is acquired. Bitner (1990:70) has also argued that product decisions should also involve these three new elements in their proposed mixes, but also argue that separating these elements out focuses attention on factors that are especially important for service-oriented organisations.

Despite the compelling arguments made by Booms and Bitner, most textbooks still propagate the notion that services marketing is different and consequently continue to use the four Ps framework for traditional product marketing. According to Levitt (1986:95), pure service industries do not exist. There are only industries whose service components are greater or lesser than those of other industries. Levitt (1986:96) also contends that all organisations sell intangibles in the market place no matter what is produced in the factory. Similarly, Foxall (1985:2) argues that what is exchanged in a marketing transaction is a service or a bundle of services which may or may not involve the transfer of a physical entity.

According to Shapiro (1985:30-32), the essence of the marketing mix concept is consequently the idea of a set of controllable variables or a "toolkit" that is at the disposal of marketing management to be utilised in the influencing of target consumers. The disagreement in the literature is over what these controllable variables or tools are.

Rafiq and Pervaiz (1995:6) report that a more recent reformulation of the marketing mix is that of Brunner's four Cs concept developed in 1989. This new mix comprises the: concept mix; costs mix; channels mix; and communications mix. The concept mix is very similar to the idea of the product mix although Brunner claims that it better incorporates the variety of offerings of various types of organisations. The cost concept includes monetary costs (i.e. the traditional price element) as well as those costs incurred by the customer (e.g. transportation, parking and information gathering). The channels concept is essentially the same as the traditional place element, with the communications element including information

gathering (i.e. marketing research) as an addition to the traditional promotions element. Brunner's attempt represents a change in nomenclature, the four Ps being replaced by the four Cs. His costs and communications concepts include variables that are outside the control of marketers and he does not show how the four Cs concept addresses the concerns of services marketing.

According to Bennett (1997:151), in 1991 Robins refined Brunner's four Cs into the following elements: customers (who buy the goods and/or services in the marketplace); competitors (who provide the choice of alternative sources of supply); capabilities; and company (both referring to the organisation which has the ability to satisfy customer needs). These elements embrace Kotler's classification in 1967 of a need to include customer, environmental, competitive, and marketing decision variables in the mix in order to marry both internal and external factors.

Grönroos (1994:16) then questioned the viability of the four Ps as an emerging paradigm shift towards relationship marketing, with relationships being an anchor point on the continuum of commitment (with transactional marketing being the other anchor point). The traditional mix needed a greater focus on relationship building and maintenance. An organisation's employees also constitute an additional resource which management can use to shift toward relationship marketing and/or to gain a competitive advantage (Judd, 2003:1304).

According to Taylor (1998:202-206), managers are now being forced to realise that the marketing and management of any product, regardless of its conceptualisation, contains at least some service elements (whether it be customer service or the service department). Overall customer service satisfaction within an organisation can be increased through the addition or improvement of the service elements inherent in the marketing and delivery of products (Goldsmith, 1999:179).

It is necessary at this stage to describe exactly what is inherent in each of the seven approved Ps. According to Kotler (2003:395-401) and Zeithmal and Bitner (2003:24-26), the seven Ps consist of the following:

- *Product* - this involves finding out how many people want to buy the product or service and the conduction of detailed market research can uncover what benefits potential customers want in an organisation's product or service, whether they like the proffered product or service, what they are prepared to pay, and what improvements they would suggest to an organisation's offer.

- *Price* - regarding price, an organisation must examine competitor's prices and uncover what potential customers are willing to pay. Ultimately, prices need to generate sales and a decent profit, whilst simultaneously not alienating customers and undermining relationships.

- *Place* - another vital consideration in the development of a successful marketing strategy is the manner in which a product or service is ultimately made available to and delivered to target customers. The most direct methods are through retail outlets, through one-to-one interactions between sales staff and customers, by mail order, and direct mail on the Internet. The options chosen will depend on the nature and price of the product and the number and profile of target customers. Direct methods tend to produce greater profits, but products can establish credibility more quickly by retailing through well-known outlets. The key to success is in the striking of an appropriate balance between the distribution method most suited to an organisation's product or service, the resources available, and competitor actions.

- *Promotion* – this element involves making potential customers aware of an organisation's product in the most cost effective and efficient manner possible. It is essential to blend advertising, direct marketing and public relations in a manner that ensures the best promotional mix possible.

- *People* - people are an organisation's biggest asset and employees' attitudes towards customers and the service they provide has a major impact on the way an organisation is perceived.

- *Process* - process refers to the way in which an organisation's products and services are delivered and can have a major impact on the way an organisation is ultimately perceived. Organisations should set out processes and set themselves targets to ensure an efficient and high quality of service delivery to customers. Processes should not only streamline internal operations, but must be developed to meet the needs of customers.

- *Physical evidence* - this is reflected in the appearance of a reception area, leaflet and letterhead, and can often be the first point of contact that a prospective customer has with an organisation. Physical evidence can help to develop the overall impression consumers have of an organisation and involves graphic design (e.g. branding and logos), product design and interior design (the development of the right kind of store or office can distinguish an organisation from competitors and assist employees in working more effectively).

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All of the concerns by the various scholars over the years can be addressed through the addition of an additional two Ps to the traditional marketing mix; namely that of partnerships and property (intellectual). The partnership element recognises the need for improved relationships with both customers and employees (employees represent the people dimension in services); and the property element recognises the value of processes, brands, patents and organisational capital (e.g. managerial philosophy) (the process element of services is also addressed here). Physical evidence of the service can be loosely classified as organisational capital (part of property (intellectual)). The external and internal environment are effectively recognised through the addition of partnerships and property and all the "services" concerns are met

without having to classify all products as services, as has been suggested by some scholars.

3.5 PROPOSED ALTERATIONS TO THE MARKETING MIX FOR INCREASED SUSTAINABILITY AND COMPETITIVENESS

The most significant proposed alterations to the marketing mix have taken the following form: the need to address relationship marketing and marketing-orientation; the need for increased recognition of the importance of brands; the need for personalisation; the need to recognise the importance/value of people; the need to understand and incorporate buyer disposition (reflected in the proposed five Vs); and the need to recognise the importance of publications.

3.5.1 Relationship marketing/marketing-orientation

According to Grönroos (1994:6), the four Ps of the marketing mix do not sufficiently fulfil the requirements of the marketing concept, as the views implicit in the four Ps approach do not include a customer focus (according to the four P approach, the customer is somebody to whom something is done and not for whom). The four Ps consequently generate a production-oriented definition of marketing rather than one of market-orientation or customer-orientation.

Marketing is often separated from other organisational activities and is contained within a marketing department creating an adverse separatist psychological effect on the rest of the organisation that is to the detriment of a customer-oriented or market-oriented ethos. The purpose of marketing is to establish, maintain and enhance relationships with both customers and other partners at a profit so that the objectives of the parties involved are met. This is achieved through a mutual exchange of promises. Such relationships are usually, but not necessarily long-term. The concept of relationship marketing is still in its infancy as a mainstream marketing concept, but has become a primary focus in the practice of both modern industrial and services

marketing. In 1992, Kotler already concluded that organisations must move from a short-term transaction-oriented goal to a long-term relationship-building goal. This presents two extremes along a marketing strategy continuum, with relationship marketing (the general focus falling on building relationships with customers and other parties) on one end, and transaction marketing (where marketing focus falls on one transaction at a time) occupying the other end (Grönroos, 1994:18-20).

According to Keller (2003:229-232), organisations that pursue a transaction type strategy (usually those focusing on mass markets) heavily rely on brand equity and reputation to generate demand. In transaction marketing, the image of the organisation or its brands keeps the customer attached to the seller. When a competitor introduces a similar product, advertising and image help to keep customers. This transaction type strategy benefits most from the traditional marketing mix approach. On the other hand, organisations pursuing a relationship strategy are restricted by the traditional marketing mix, as the most important customer contacts are beyond the reach of the marketing mix and the marketing specialists. Customer contacts with people, technology, systems of operations, and other non-marketing functions determines whether they will continue transacting with a given organisation. Kotler (2003:29;660) contends that organisations pursuing marketing relationship strategies must develop strong ties with customers over time. These ties may be technological, knowledge-related, information-related, or social in nature. If these connections are well-managed, they provide customers with added value over and above that provided by the core product itself. Customers are consequently more loyal and less price sensitive.

The addition of the partnership element will ensure that the traditional marketing mix is capable of supporting transactional-and-relationship-oriented strategies.

3.5.2 Brand recognition

Keller (2003:392) maintains that the brand is still one of the most valuable and singular assets that an organisation can possess and it is thus vital that it be managed wisely. Customers still fundamentally choose a brand because of what it stands for, and this image often overrides the proffered benefits of a specific product or service. Where the brand used to be a tool of marketing, marketing is now in service to the brand. However, the inclusion of this intangible concept/asset under the mantle of product in the marketing mix, leads to failure to recognise the intangible value and advantage inherent in brands. Brands are consequently not seen as the rare assets that they are and managed/leveraged accordingly, causing marketing to not fulfil the role of being in service to the brand (KLM Inc., 2002:2).

The inclusion of the property (intellectual) element highlights the intangible value of the brand and will ensure its appropriate management and enable marketing to be in service of the brand.

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3.5.3 Personalisation

Keller (2003:229) states that the old ideals of mass production, standardisation, operating efficiencies and one-size-fits-all production have led to a business philosophy that advocates the selling of a standard product to as many consumers as possible. Those organisations that wish to identify and reach customers more precisely have exhibited the evolution in marketing thought and practice through the stages of: mass marketing – to - market segmentation – to - niche marketing – to – micro-marketing – to - mass customisation – to - personalisation. Marketers need to make decisions and to create strategies regarding product, price, promotion and place, but should also routinely consider the personnel involved in the delivery of the product, the physical assets that accompany and surround the product, and the procedures by which buyers acquire and use the product. Finally, managers

must consider the extent to which they should personalise the product, thereby making it unique for each individual buyer.

Goldsmith (1999:179) is of the opinion that the personalisation decision is so vital that it must be among one of the primary decisions made by managers so that the degree and nature of product personalisation can then guide subsequent marketing decisions. The traditional marketing mix advocated that managers first had to decide on the product prior to selling it to consumers. These decisions primarily included: the features the product would have; the benefits provided to consumers; the level of quality offered; quantities; and package forms. These decisions were based on anything from expertise, intuition, and innovative insights to systematic market research. Once the product was developed, organisational managers would develop a marketing plan that detailed how the product would be priced, delivered, and promoted. It has already been stated that the marketing concept necessitates the integration of decisions in these four areas to form a unified strategy. As managers develop products, they should consider the degree of personalisation to offer the market, as many subsequent marketing decisions will be guided by this (Oleson, 1998:Internet).

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According to Hof (1998:168), to achieve personalisation, organisations should uncover individual consumer needs and wants and then consequently design, produce and deliver a customised product. Organisations must engage in a genuine dialogue with customers to secure their input before, during and after consumption. This personalisation approach advocates a genuine interest in and concern for consumers as individuals where a two-way flow of communication is solicited and acted upon. This represents a departure from the one-way flow of conventional marketing where consumers are required to provide loyalty, friendship and repeat purchases, together with repeat respect, that is not given in return (Taylor, 1998:211).

Goldsmith (1999:179) declares that personalisation assists in all forms of new product development, i.e. product improvements, line extensions, brand extensions, new brands, and new-to-the world innovations. The next new and

improved version of a product could be developed as a version with more personalised features. The product line could be extended to include a personalised version. An organisation could expand its expertise in a personalised product in one category to a new product category while maintaining the same brand name and simultaneously benefiting from the equity and superior reputation that it has in the original category. A totally new brand could also be developed that is completely oriented around personalisation while simultaneously being kept distinct from an organisation's original, less customised brands. Standard new product development techniques (i.e. focus groups, brainstorming, need analysis, and dimensional analysis) should be supplemented with personalisation (Goldsmith, 1999:183).

The way to achieve this personalisation is through intimate knowledge of customers and of their unique wants and needs. This knowledge will fuel the personalisation process and all the subsequent associated benefits. This knowledge can be unlocked and leveraged through the development and maintenance of mutually beneficial partnerships/relationships with customers. Hence, the partnership element can be used to ensure the benefits of personalisation.

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3.5.4 People

Levitt (1986:100) observed that people, except for those working in sales or marketing, seldom see beyond the walls of their organisation. This results in many employees not being aware of their organisation's strategies and plans, and they are consequently unable to clearly understand their role in the organisation. Some organisational employees are involved with the development or implementation of the marketing mix (i.e. involved with designing, producing, pricing, financing, distributing, installing, or servicing the product). These employees can contribute valuable knowledge and experience in these areas. Each employee involved with the marketing mix

can favourably reinforce or change the beliefs, attitudes, intentions, and behaviours of the target market.

According to Judd (2003:1306), the recognition of people power as a distinctive element of the marketing mix forces management to develop strategies that incorporate people as a differential element for the organisation; just as management would think and strategically plan the other elements of product, price, promotion and place. As with the traditional marketing mix elements, people can be managed in order to achieve the desired impact on customers.

In managing this people-power, an organisation has to adopt an internal marketing ethos. According to Rafiq and Ahmed (2000:457), this involves three stages: employee motivation and satisfaction (with a focus on employee satisfaction and the treatment of them as customers); customer orientation (with a focus on creating customer orientation in employees through identification and incorporation of their needs and ideas); and strategy implementation and change management (with a focus on overcoming resistance to change and the creation of an awareness of each employee's role in organisation objective and strategy achievement).

People/employees in all organisational categories need to be aware of what role they play in marketing strategy. People-power is an important strategic organisational asset that will enable the attainment of a customer orientation, and thereby increase the probability of survival of the organisation. In the value chain context, each employee is responsible for the creation of customer value either directly or through internal cross-functional relationships or co-operation. Employees also have valuable knowledge/experience pertaining to customers and processes that can be used to improve processes and products and consequently customer satisfaction. The institutionalisation and management of people-power will increase the probability of an organisation becoming and remaining customer-centred (Judd, 2003:1308).

The way to unlock people-power and all the knowledge and benefits associated with it, is to develop and maintain mutually beneficial partnerships with employees. The recognition and reward of employees' input, efforts and knowledge will encourage their participation for the benefit of the organisation and ultimately themselves. Partnerships is once again an essential element to the operational marketing mix for the tactical release of people-power.

3.5.5 The five Vs

Bennett (1997:152) argues that consumers do not generally adopt new products and services armed with a detailed knowledge of the marketing mix elements. Customers seek and gain satisfaction from the benefits inherent in product and service features. Buyer disposition can be considered as the process whereby the potential customer thinks through, evaluates, seeks counsel about, reflects on, and finally decides on a suitable source of supply for the particular product or service. The ultimate adoption of a particular product or service is directly dependent on buyer disposition, which is composed of the five dimensions of: value; viability; volume; variety; and virtue. In addition to the obvious functional attributes of *value* (i.e. quality, reliability, performance, price and supplier reputation) buyers also seek more symbolic attributes like uniqueness, irreplaceability and the brand status of the acquisition. These prerequisites can be found in intellectual property.

With regards to *viability*, the search for a legitimate or viable source of supply depends not only on the nearness of the consumer to the source of supply, but also on brand strength, awareness and retailer reputation. *Volume* includes elements such as quantity, whole or split parts, reproducibility, divisibility, and package size. Volume also includes support for the product or service, stock availability, and consistency of supply. This can be ensured through the development and maintenance of beneficial distributor partnerships. At the heart of customer empowerment is the freedom of choice and consumers constantly seek *variety* in the product range as well as alternate payment and delivery methods. Economies of scale on the supply

side can result in a restricted product range offered to consumers, however the maintenance of effective partnerships can overcome distributor drive for scale economies and ensure sufficient variety is offered to end consumers (Bennett, 1997:154).

Finally, according to Bennett (1997:155), customers regard *virtue* as an important prerequisite for the development of meaningful relationships with suppliers. Virtue can be found in integrity that is reinforced through the professionalism of trained sales staff who possess extensive product knowledge, handle customers with tact and diplomacy, and who deal with complaints carefully and with respect for customer feelings. It is therefore recommended that the four Ps be supplemented with the five Vs of buyer disposition so that organisational resources can be channelled into the provision of products and services and their associated marketing plans with buyer disposition achieving top priority.

It is not necessary to supplement the four Ps with the five Vs to incorporate buyer disposition in marketing strategy. The addition of the partnership and property (intellectual) elements ensure that supplier relationships are leveraged to provide the viability, volume, variety and virtue required by customers. Property serves to supplement partnerships to provide the sought after value - these two elements provide something that is intangible and rare.

3.5.6 Publications

Van Rekom (1997:421) reports that corporate identity refers to the set of meanings by which an object allows itself to be known and through which it allows people to describe, remember and relate to it. The corporate identity mix includes corporate culture, corporate behaviour, market conditions, strategy, products, services and communications. Corporate identity embraces all the facets of an organisation that influence the manner in which people see and think about the entity. If used effectively, corporate identity

can be used to project what the organisation is, what it stands for, and what it does.

An organisation's corporate visual identity is part of its deeper corporate identity (i.e. the outer sign of the inward commitment) and is reflected mainly in product environment and communications. Corporate visual identity is the domain of designers while corporate identity is the domain of organisational theorists. Melewar and Saunders (2000:538) maintain that the corporate visual identity system is the graphic design that lies at the core of an organisation's visual identity. Corporate name, symbol and/or logo type, typography, colour and slogan are all elements of the corporate visual identity system. The corporate visual identity system provides the graphic language and discipline for the clear and consistent projection of an organisation's visual identity (Melewar & Saunders, 2000:539).

A corporate visual identity system is inherent in the traditional four Ps (i.e. product and packaging under product; and advertising and promotions under promotion) as well as in service marketing's extra three Ps (i.e. clothing, buildings and vehicles under participants and physical evidence). Corporate visual identity's proposed eighth P of publications stresses the importance of standardised stationary, forms and general publications. Managerial literature suggests that organisations should standardise their corporate visual identity systems to enable them to reap communications benefits beyond the usual marketing mix (Melewar & Saunders, 2000:538).

Ultimately, the elements of a corporate visual identity system and corporate identity are composed of structural capital, and the element of property (intellectual) can consequently marry a corporate visual identity system and corporate identity for a unified and consistent image and identity both internal and external to the organisation.

3.6 CONCLUSION

The addition of the intangible two Ps of partnerships and property (intellectual) addresses all the proposed alterations on a more strategic level to make a powerful, dynamic and more sustainable marketing mix for the more sustainable competitive execution of marketing strategy – ultimately translating into a sustainable competitive advantage.

It is beyond the scope of this study to investigate how the two Ps strengthen the mix in relation to all the original elements. This study will consequently investigate how it strengthens the P of product throughout the strategic stages of the product life-cycle.

Before an investigation of the manner in which the two additional proposed Ps strengthen the marketing mix in the different stages of the product life-cycle can be embarked upon, it is first necessary to explore the nature and origin of the two elements of partnerships and property (intellectual). The next chapter, chapter four, consequently explores the elements of intellectual capital and how the two proposed additional Ps are derived from them.

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CHAPTER 4

INTELLECTUAL CAPITAL MANAGEMENT

4.1 INTRODUCTION

In chapter three it was established that the key to achieving a sustainable competitive advantage in the dynamic marketplace of today lies with the development of dynamic and sustainable marketing strategies that are supported by a marketing mix that derives unique and differentiating value and core competencies from intangible resources. These intangible resources take the form of two additional strengthening new proposed elements of the traditional marketing mix, namely partnerships and property (intellectual).

Partnerships, supported and enabled by key property (intellectual), enables an organisation to leverage the knowledge and insights of all players in the value chain to achieve market orientation and superior/differential customer value. The manner in which these two elements add significant value, enable core competencies that serve to strengthen and enhance each phase of the product life-cycle, and ultimately create sustainable competitive advantage, is explored in chapters five and six.

The purpose of this chapter is to explore the origin of these new proposed elements and the key requirements for their successful integration/implementation within an organisation and the subsequent management and control of these elements.

In this chapter, intellectual capital is first defined in the context of the current dynamic environment. This is followed by an exploration of how intellectual capital adds differential value to become a key enabler of sustainable competitive advantage. The constituent elements of intellectual capital are then explored in more detail where the need for their seamless symbiotic integration is emphasised. The chapter concludes with an examination of the

core indicators of intellectual capital and the subsequent processes required for its successful integration and management within an organisation.

4.2 INTELLECTUAL CAPITAL IN A DYNAMIC ENVIRONMENT

Organisations are facing new challenges posed by the information society that is transitioning into the relationship age. The source of value creation is increasingly found in the creation and manipulation of information, knowledge, ideas, expertise, and relationships; collectively known as intellectual capital. Intellectual capital is the intangible material – knowledge, information, data, experiences, routines, structures, cultural apparatus, and relationships – that can be put to use by an organisation to create wealth (Wexler, 2002:393).

Guthrie, Johanson, Bukh and Sanchez (2003:429) are of the opinion that, in this dawning relationship and knowledge era, the future performance of organisations will, in a large part, be determined by their intellectual capital. Business rules are being re-written and industrial era enterprise models can no longer meet the dynamic conditions of the global market. According to Skoog (2003:487), managers must realise that intellectual capital is a fundamental source of sustainable competitive advantage and is the foundation of successful new business generation (i.e. a main driver of growth). Traditional management control systems must consequently be adapted to enable the effective identification, measurement, and control of intellectual capital; which in turn requires a paradigmatic shift in managerial thinking and philosophies (Garcia-Ayuso, 2003:599 and Van Buren, 2002:Internet).

In addition to the adaptation of control systems to facilitate the incorporation of intellectual capital measures, performance measurement systems, which are instrumental in assisting managers in monitoring business performance to evaluate the degree to which strategic objectives have been achieved, must be also be re-designed to enable managers to capture the contributions of

intellectual capital (e.g. knowledge and customer and supplier relationships) (Usoff, Thibodeau & Burnaby, 2002:9).

It is thus essential that top management be dedicated to the efficient identification, monitoring, measurement, and control of intellectual capital, as the top management team is solely responsible for initiating, managing, and sustaining the overall process of an organisation's intellectual capital development and exploitation, and the subsequent support of these processes by employees and other stakeholders (Rastogi, 2003:236).

Top management must also be cognisant of the fact that the organisation's intellectual capital must be dynamic: dynamic intellectual capital refers to an organisation's capacity for self-renewal. The development of dynamic intellectual capital is strongly based on multi-way communication, including both top-down as well as cross-functional communication. According to Stahle and Hong (2002:177), this communication is facilitated by information communication technologies that are grounded in the Internet and networking technology. Three major emerging technological forces will evolve the Internet and the way that organisations communicate and share knowledge. These forces include: the increase in bandwidth; pervasive computing; and deep computing. These forces will allow for more effective communication and subsequent knowledge sharing for dynamic intellectual capital (Bontis & Nikitopoulos, 2001:183).

Organisations and their managers have begun to awaken to the value of intellectual capital and the need for a paradigmatic shift in control and measurement systems. It is this inherent value of intellectual capital that will continue to drive organisational thinking and associated change in the new dynamic environment. It is for this reason that the origin and evolution of this value realisation be examined in more depth. According to Petty and Guthrie (2000:161), academics first conceived of the value of intangibles in the early 1980's and labelled this value as organisational goodwill. In the late 1980's practitioner consultants attempted to construct statements/accounts to quantify and measure intellectual capital. However, intellectual capital only

started to receive significant academic and industry attention in 1997 when Edvinsson develop the Skandia model, representing the first step in categorising and highlighting the different and valuable elements of intellectual capital (Lovingsson, Dell'Orto & Baladi, 2000:147).

The unique value of intellectual capital, its ability to create sustainable competitive advantage, its constituent elements, as well as core organisational intellectual capital indicators and implementation/management processes, are explored below.

4.3 INTELLECTUAL CAPITAL CREATES DIFFERENTIAL ORGANISATIONAL VALUE

Leliaert, Candries and Tilmans (2003:202) contend that, in today's knowledge-based turbo-charged economy, financial results constitute an ever-diminishing percentage of corporate performance. The importance of traditional physical or financial assets in the determination of an organisation's market value is rapidly decreasing, whilst it is simultaneously being recognised that intangible or intellectual assets are now the main drivers of performance and market value. Intellectual capital can thus be regarded as the cornerstone of success in the new economy as it has the potential to become the primary wealth creator in most business organisations (Low, 2000:252 and Swanborg & Myers, 2003:4-6).

Intellectual capital provides a unique source of sustainable value for an organisation. Edvinsson (2000:13) maintains that industrial value chain processes no longer dominate value creation. The two strategic functions of value creation and extraction are now linked to the shaping of information, knowledge and innovations – namely an organisation's intellectual capital. Value creation encompasses the set of activities that create new knowledge through learning or knowledge acquisition from relationships (relationship capital) and employees (human capital). The knowledge acquired can subsequently be used to create valuable structural capital (e.g. the development of more effective business processes based on the innovative

intellectual input from suppliers, customers and employees). Value extraction involves harvesting the level and degree of value required in order to achieve the strategic vision and long-term objectives of the organisation. According to Herremans and Isaac (2004:142), the intellectual capital realisation process has been developed to assist organisations in developing strategies to create and extract this value and thereby realise the potential of their intellectual capital. This process is consistent with the resource-based view of the organisation, which advocates looking inward to develop core competencies for building sustainable competitive advantage. Intellectual capital is therefore a valuable strategic tool (Roos, Bainbridge & Jacobsen, 2001:22 and Sullivan, 1999:134).

According to Harrison and Sullivan (2000:35-36), the value that successful organisations have learned to extract from their intellectual capital includes:

- *Profit generation,* which includes income from the products or services through sale, licensing royalties, joint venture income, and strategic alliance income. Revenue can also be generated from the intellectual property itself through sale, licensing royalties, joint venture income (donations and tax write offs), price premiums, and increased sales through convoyed sales and repeat sales (Klaila & Hall, 2000:49).

- *Strategic positioning,* including market share, leadership (through innovation and unique technology), standard setting, and name recognition through branding, trade marking and organisational reputation.

- *Acquiring the innovations of others through strategic partnerships*.
- *Cost reductions*.
- *Customer loyalty*.
- *Improved productivity*.

O'Keeffe (2001:150) is of the opinion that intangible assets provide superior organisational value as they create options for an organisation. For example,

a strong relationship with a supplier is an intangible asset that facilitates the following growth options:

- The option to facilitate organisation entry into new markets.
- The option to develop and launch new products and/or services jointly.
- The option to implement improved promotions and pricing programs.

According to Harrison and Sullivan (2000:37), organisations assign a range of roles for the extraction of the above-explored value from their intellectual capital. These are classified as defensive or offensive roles. Defensive roles involve the protection of the products and services that arise from the innovations of an organisation's intellectual capital and include design freedom for employees and litigation avoidance. Offensive roles include revenue generation from the products and services resulting from an organisation's innovations as well as from the intellectual properties, intellectual assets and knowledge and know-how of the organisation. Here organisations use intellectual capital to: create standards in new markets or for new products or services; obtain access to the technology of other entities; obtain access to new markets; support the business activities of the organisation's strategic business units; create barriers to entry for new competitors; and create the basis of new business alliances (Swanborg & Myers, 2003:4-6 and Holden, Wilhelmij & Schmidt, 2000:367).

Carroll and Tansey (2000:294) point out that organisational success is driven by the ability to leverage the differential value (such as employee knowledge and innovative capacities) provided by intellectual capital to maintain and extend competitive advantage (i.e. sustainable competitive advantage) and create large shareholder returns. An example of an organisation that has used intellectual capital as a key ingredient of success is Intel. The organisation has over $10 Billion of annual sales through the Internet and has reduced data flow between trading partners from three weeks to forty-eight hours while reducing inventory by seventy percent. According to Beckwith and Herman (2002:Internet), intellectual capital and the innovation and creativity

stemming from it are critical components in the development of new products and services. For example, 3M's success can be attributed to the leveraging of innovations. The organisation began its operations by producing sandpaper in 1902, and currently manufactures over 50 000 products today. To stimulate innovation, 3M has an organisational culture that encourages technical employees to spend up to fifteen percent of their time on projects of their own selection.

Usoff *et al.* (2002:9) maintain that intellectual capital also represents a large percentage of the declared market value of many organisations. Taking market capitalisation as an indication of organisational value, General Electric and IBM have only fourteen percent and twenty-three percent of their respective capitalisation attributed to tangible assets, with this ratio reducing considerably to one percent when considering Microsoft. Knowledge and learning developed from customers, competitors, suppliers, and strategic partners of products, technologies and work processes, provide considerable input to the intangible assets of successful organisations. Up to seventy percent of an organisation's valuation can be attributed to intangible assets. In many instances, an organisation's intangible assets outweigh the tangible (Beckwith & Herman, 2002:Internet). For example, Coca-Cola's market capitalisation of US$112.5 billion is ninety-one percent intangible assets, which amounts to US$102 billion tied up in the brand and the strength and management of patents.

Regarding bottom-line value creation, according to O'Keeffe (2001:148), intangible assets enhance the ultimate cash flow of an organisation through the following mechanisms:

- *Increasing cash flows,* either through top line sales growth or increasing margins as a result of cost reduction. For example, a collaborative relationship creates the possibility for vendor managed inventory and increased operating margins.

- *Earlier cash flows*, such as the more rapid introduction of new products to the market enabled through collaborative relationships with suppliers.

- *Less volatile cash flows*, such as long-term, stable relationships with customers.

The intellectual capital-created superior value is ultimately used as a vital input in the development of core competencies that strengthen each stage of the product/service life-cycle. The typical slow sales growth and low profit of the introduction stage is mitigated by the value created by intellectual capital. The growth stage is shored up by channel relationships that bring valuable innovative knowledge and input into improvements and possible expansions. The intense competition of the maturity stage is reduced due to strong relationships and process knowledge that are difficult to imitate. Finally, knowledge and strong relationships enable better economies of scale and access to new opportunities to mitigate the decline stage. This all translates into the attainment of organisational sustainable competitive advantage.

4.4 INTELLECTUAL CAPITAL AS THE KEY ENABLER OF SUSTAINABLE COMPETITIVE ADVANTAGE

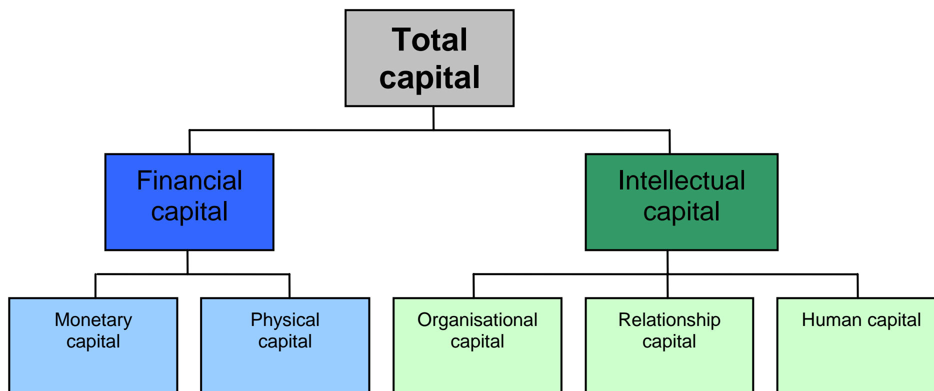
According to Holden *et al.* (2000:366), organisations have to recognise the importance of managing their intangible assets. The development of brands, stakeholder relationships, corporate reputation and organisational culture, have become sources of sustainable competitive advantage. The ability to build and leverage the value of these intangible assets constitutes a core organisational competency, as intellectual capital has become the primary wealth creator in most organisations. The current knowledge intensive economy has made it increasingly difficult for organisations to gain sustainable competitive advantage through traditional and tangible competitive weapons (Karp, 2003:20).

Garcia-Ayuso (2003:599) reports that intangible assets are fundamental sources of sustainable competitive advantage that must be identified,

measured, and controlled in order to ensure the effective and efficient management of organisations. There is a consistent relationship between most intangible investments and the subsequent earnings and value creation in organisations, and these assets are consequently the main drivers of growth and competitiveness in the current dynamic marketplace.

Roos, Bainbridge and Jacobsen (2002:5-6) maintain that the resource-based view of strategy indicates that differences in organisational performance arise through the possession of valuable resources that are not possessed by competing organisations. An example of such a resource is a patent that gives the patent holder the right to earn monopoly profits for a specified period. A powerful brand also confers a kind of monopoly, as well as special processes, access to certain customers, a monopoly of information, and status as a specified supplier are all examples of valuable intellectual capital that an organisation can exploit to create above average returns. These strategic resources must be employed to ultimately impact the end products and services that create value for customers (by lowering the customers' costs or increasing the customers' perceived value). They must also be rare and difficult to copy or substitute. Figure 4.1 below illustrates how these resources (categorised under intellectual capital) fall into an organisation's overall capital structure.

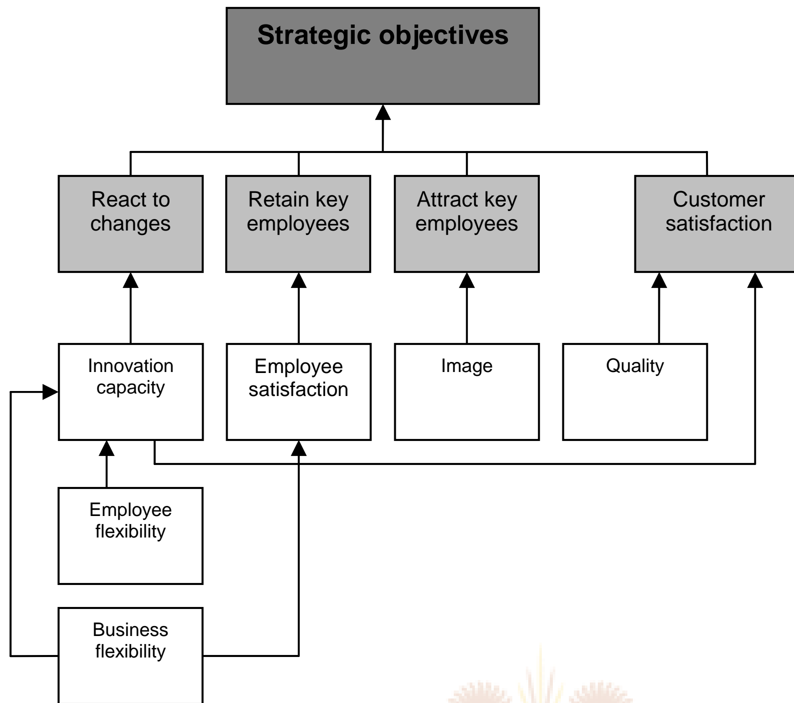
Figure 4.1: Organisational capital structure



Source: Adapted from Roos *et al.* (2002:6).

According to Sanchez, Shaminade and Olea (2000:322-323), an organisation possesses a network of intangible assets that must be identified, measured and monitored in order to facilitate the creation of sustainable competitive advantage. At the top of the organisation, the organisation needs to identify that in order to reach its strategic objectives, the organisation needs to be capable of reacting to change, be able to attract and retain key employees, and be able to fulfil customer requirements. These embracing categories are the consequence of intellectual capital. For example, the ability of an organisation to adapt to environmental changes relies on the innovative capacity of the organisation. Figure 4.2 below illustrates how this network of intellectual capital must be linked to an organisation's strategic objectives.

Figure 4.2: Linking of intangibles to strategic objectives



Source: Adapted from Sanchez *et al.* (2000:322).

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Once the identification phase has been completed and the network of intangibles has been related to each strategic objective, the organisation should develop indicators of intangibles. Most critical intangibles will be the result of activities developed under human capital, structural capital and relationship capital and the efficient interaction of these three categories is critical to success (Lev and Daum, 2004:8-9). Table 4.1 below illustrates examples of key intangible assets.

Table 4.1: Intangible resources and investments

	Human Capital	Structural Capital	Relational Capital
Intangible Resources	Experience	Innovations	Fidelity
	Education	Patents	Market share
	Flexibility	Flexibility	Image
Intangible Investments	Training	Quality	Marketing
	Reward system	Innovation expenditures	Customer satisfaction
		Processes	

Source: Adapted from Sanchez *et al.* (2000:232).

The three main categories of intellectual capital consequently include: human capital; customer/relationship capital; and structural capital. Engstrom, Westnes and Westnes (2003:288) state that human capital includes the knowledge, skills, experiences, capabilities, and problem-solving abilities that reside in an organisation's workforce and is a source of innovation and strategic renewal. Customer/relationship capital is the knowledge embedded in marketing channels and customer and supplier relationships. Relationship capital encompasses an organisation's alliances with customers, suppliers, strategic partners, shareholders, and other organisational stakeholders. Structural capital includes all the non-human storehouses of knowledge and value in organisations and encompasses organisational capital (organisational charts, culture, managerial philosophies, information and communication technologies); process capital (process concepts, models and manuals); and innovation capital (patents, brands, copyrights, proprietary software and databases, and other codified knowledge). Structural capital is often referred to as "what is left after employees have gone for the night" (Hurwitz, Lings, Montgomery & Schmidt, 2002:56 and Van Deventer, 2002:Internet).

According to Maria and Marti (2001:155), the only thing that gives an organisation a sustainable competitive edge is what it knows, how it uses what it knows, and how fast it can know something new. Ultimately, it is the organisation's core competencies or intellectual capital. In light of this, a

company excellence model can be constructed around the following eight factors:

- *Products* – products/services including their attributes, characteristics and functions.

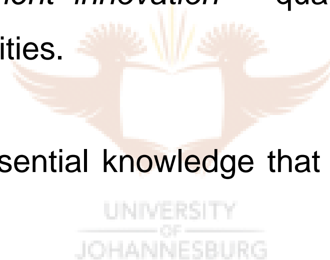
- *Architecture* – core business and outsourcing in an organisation's activities.

- *Alliances* – alliances, strategic networks, franchises, and co-operative agreements.

- *Competitive advantages* – advantages generated in the different core business activities in the value chain.

- *Research and development innovation* – quality and professionalism in innovative and R&D activities.

- *Core competencies* – essential knowledge that makes it possible to create competitive advantages.

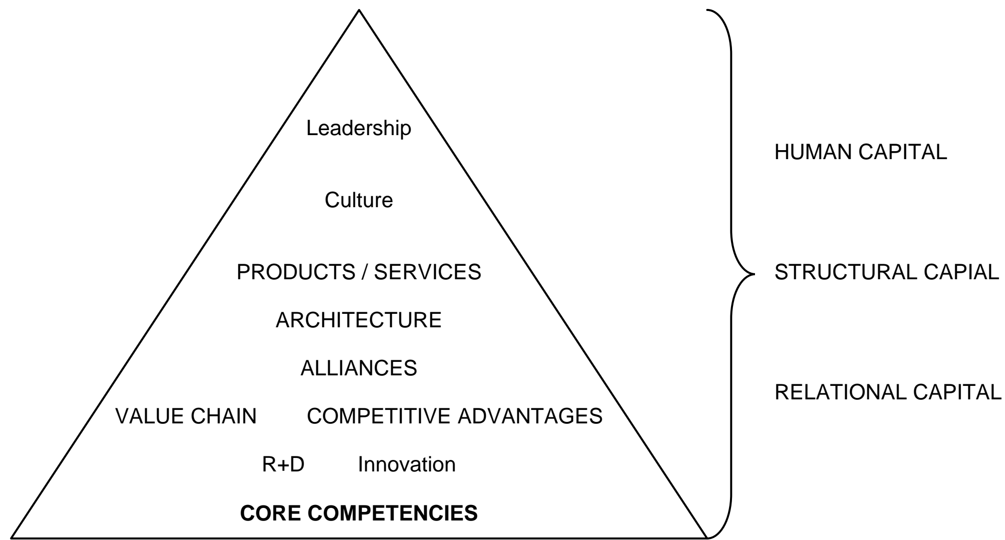


- *Culture* – cultural principles for success in a global context.

- *Leadership* – the human and professional features of successful leaders.

These factors are reflected in the pyramid in figure 4.3.

Figure 4.3: Excellence model factor pyramid



Source: Adapted from Maria *et al.* (2001:155).

The above-explored eight organisational competitiveness factors form the framework for the evaluation of the core competencies or intellectual capital found within each specific factor. These include human capital that allows all human ideas and innovation and is the force behind the human intellect of the organisation. Structural capital enables the creation of wealth through the transformation and support of the work of human capital. Finally, relationship capital gives the organisation the ability to interact positively with business community members to stimulate the potential for wealth creation through enhancing human and structural capital (Lev and Daum, 2004:6-7).

The valuable elements of human, structural and relationship capital are explored in more detail in paragraph 4.5.

4.5 INTELLECTUAL CAPITAL ELEMENTS

The three main categories of intellectual capital that are the building blocks of sustainable competitive advantage creating core competencies are explored more deeply in the sections below.

4.5.1 Human capital

Bennett and Gabriel (1999:212) report that interest in the systematic use of knowledge management as a means for gaining a competitive edge in dynamic business environments has grown considerably in recent years. Successful marketing requires knowledge pertaining to customers and their preferences, competitors, service providers, products, distribution channels, laws and regulations, and general management practices. This knowledge is found in an organisation's brainware and captured and supported by hardware technology. The brainware comprises human capital and their collective skills, capabilities, and experiences.

According to McGregor, Tweed and Pech (2004:153), human capital encompasses both the human resource considerations of the business workforce (the talent diversity of the labour market), as well as the more specific area of individual competence in the form of the knowledge, skills, experience, and attributes of managers and the people they manage. Regarding individual competence, human capital can be classified into three main categories according to value and uniqueness, namely: idiosyncratic (low value, high uniqueness); ancillary (low value, low uniqueness); core (high value, high uniqueness); and compulsory (high value, low uniqueness). Core human capital is particularly important in achieving sustainable competitive advantage and must consequently be carefully and efficiently managed (Perez & Ordonez de Pablos, 2003:86).

Organisations operate in all areas through people and it is their skills, experience, and knowledge (manifested as human capital) that, when effectively cultivated and leveraged, create sustainable competitive advantage

(Sharkie, 2003:20). Sustainability of this advantage is assured through the development of tightly co-ordinated and complimentary activities that create a unique value proposition for customers. "People (organisational employees) are the engine room of activity in the creation of knowledge" (Baker, Barker Thorne & Dutnell, 2000:72).

Knowledge (which is the sum of information, skills, experience, and personal capability – i.e. vested in human capital), particularly the context-specific tacit knowledge that is embedded in complex organisational routines and developed from experience that tends to be unique and difficult to imitate, is the most important organisational strategic resource and the ability to acquire, develop, share, and implement it can lead to sustainable competitive advantage. It is this superior knowledge that enables organisations to exploit and develop resources, enhance their fundamental ability to compete, and develop a sustainable competitive position regardless of whether its other resources are or are not unique (Baker *et al.*, 2000:65 and Sharkie, 2003:29).

According to Shani, Sena and Olin (2003:137), knowledge is a strategic resource that is invaluable to an organisation's ability to innovate and remain competitive in the current global competitive market place. It must subsequently be recognised as a valuable resource and organisations must develop effective procedures for tapping into the collective intelligence, skills, and experiences of employees in order to facilitate the creation of a greater organisational knowledge base. It is the skills and experience of employees upon which core competencies are based. Innovation, which is one of the key factors assuring sustainability, is also dependant on the creation, application, and exploitation of new knowledge (Bollinger and Smith, 2001:8).

Darroch and McNaughton (2002:211) declare that knowledge management, particularly the effective management of knowledge acquisition and responsiveness to knowledge, is emerging as an important concept and is often cited as an antecedent of innovation.

Organisations that strive to enable true knowledge sharing and the learning environments that fuel innovation, need to embrace the concept of reciprocity. Individual employees must be willing to acquire and share knowledge and the organisation must support and incentivise this process through the addressing of aspects such as learning seminars and workshops, as well as career development and guidance, and knowledge culture development and maintenance (Byrne, 2001:44). Organisations must nurture their human capital to ensure that the valuable knowledge required for sustainable advantage is developed, shared, and actively applied on a continual basis. However, in the management of this knowledge-generating human capital, organisations must not impose rigidity by attempting to structualise it, especially with regards to the highly tacit, experiential, and intuitive knowledge of employees. Some knowledge can indeed by captured and used continually as an almost tangible product (in the form of knowledge repositories and databases), however, other forms of knowledge, such as those that fuel innovation, must be managed more as an ongoing process (Johnson, 2002:415).

4.5.2 Relationship capital

The economy of today is poised at a rare inflection point where the industrial age has given way to the information age, which in turn is transitioning into the relationship age. According to Galbreath (2002a:8), relationship age economies are based on the intangible or intellectual assets of the organisation as opposed to raw materials or information. Intangible assets represent the majority of an organisation's market value and the majority of these intangibles constitute the value held within relationships with customers, partners, suppliers, shareholders and other stakeholders (collectively forming relationship capital). The ability to create and sustain market value now requires a set of 21st century management rules that are focussed on the effective growth and leveraging of intangible relationship capital (Galbreath, 2002b:116).

Gibbert, Leibold and Voelpel (2001:109) maintain that customers are fundamentally changing the dynamics of the marketplace due to the fact that they now play an active role in creating and competing for value. Customers have effectively moved out of the audience and onto the stage to become a new and valuable source of competence for the organisation which is manifested in customer capital. According to Duffy (2001:10), customer capital consists of the value of customer relationships and the subsequent contribution of this value to future growth and sustainability prospects. It comprises the processes, tools, and techniques used to encourage the growth of customer equity, particularly customer relationship management initiatives. Customer relationship management is a business philosophy in which the customer plays a central and critical role in all business activities and where all activities in the organisation are driven by the evolving needs of the customer (Osborne, 2003:10).

Customers, particularly business customers, also play a vital role in the service innovation process. The customer represents innovation capital, as he/she possesses vital knowledge pertaining to his/her specific and evolving needs and preferences and how the service can be adapted to meet them. The customer is, in essence, a co-producer of the service and his/her intellectual capital must be captured and leveraged through his/her optimum participation (Martin, Horne & Schultz, 1999:56). Similarly, all customers are a rich source of intellectual capital pertaining to the process of new product development.

There is no easy route to gaining sustainable advantage in highly competitive and dynamic markets. However, relationships with customers and suppliers, and the associated organisational culture, managerial philosophy, structure, and partnering capability to support these relationships, can enhance an organisation's competitive position. However, collaboration-based strategies must be embraced and implemented to develop these relationships and nurture trust, particularly with suppliers who may be unwilling to share information and their intellectual capital for fear of losing any kind of competitive edge. When well managed through supplier relationship

management initiatives (similar to customer relationship management initiatives), supplier relationships can also yield high levels of valuable innovation capital pertaining to the optimisation of supply chains (O'Keeffe, 2001:148).

An organisation's shareholders and board of directors also represent a valuable source of intellectual capital. They possess extensive industry knowledge and the development and maintenance of strong relationships with them will give an organisation access to this capital (Nicholson & Kiel, 2004:9). Customer relationship management initiatives must also be designed for, and actively applied to these entities.

According to Gummesson (2002:54), the efficient development and implementation of customer relationship management and supplier relationship management initiatives, requires the development, implementation, and incubation of a relationship-marketing paradigm. Relationship marketing is geared towards collaboration and co-production of value where: the individual customer is the focus as opposed to mass market segments; long-term relationships with individual customers are actively sought and cultivated as they are found to be more profitable than once-off transactions; all parties benefit from the relationship; and interaction is pursued instead of one-way persuasion. If marketing theory and practice had embraced this concept earlier, organisations would not have missed out on significant and sustainable value differentiating opportunities.

4.5.3 Structural capital

According to Smith and Hansen (2002:368), this form of intellectual capital is collectively referred to as intellectual property because it is slightly more tangible than the other forms of capital in that the organisation owns it: it is the property of the organisation. Intellectual property may form part of both the "know-what" and the "know-how" aspect of an organisation's core capabilities. As intellectual property represents an organisation's unique technical know-

how, it frequently manifests in the products and services developed and manufactured by an organisation. For example, the distinct features of Intel's processor chips are the result of Intel's unique understanding of microchip technology and its patents on the specific components that constitute the chip. Intellectual property thus presents unique technical know-what for strategic advantage. As an element of operational know-how, intellectual property also forms an integral part of the process by which products are created and delivered and usually manifests as a unique aspect of service quality. For example, GTE's one-touch service fulfilment technology that provides almost instant phone service. It is evident that intellectual property that is integrated into an organisation's know-how can be a source of sustained competitive advantage as it is difficult to imitate.

McConnachie (1997:56) is of the opinion that intellectual property has no real value until it is protected and put to some use. It is thus essential that organisations protect their valuable intellectual property as protection: prevents competitors from practicing an organisations' intellectual property; attracts funders, strategic partners, customers, and employees; enables the prolonged maintenance of product or service advantage; and enhances branding and subsequent market effectiveness (Brown, 2003:Internet).

Structural capital consists of three main forms: innovation; process; and organisational capital. The innovation form of structural capital consists primarily of brands and patents, but also includes trademarks, copyrights and related or neighbourhood rights, geographical indications, industrial designs, layout designs of integrated circuits, and valuable undisclosed information or trade secrets (Jaiya, 2000:Internet and Lang, 2001:9). However, brands and patents represent the largest source of value and possible sustainable competitive advantage and are the easiest to manage and protect. According to Brown (2003:Internet), patents represent contracts between society and inventors and protect the rights of various innovations. According to Williams and Bukowitz (2001:96), until fairly recently, patenting tended to be the domain of manufacturing and research and development intensive

organisations. However, this practice has shifted to incorporate the patenting of unique processes of doing things, i.e. specific business methods.

Brands, the other valuable component of innovation capital, are so fundamental to the survival and continued success of many organisations that all their complex dimensions must subsequently be understood to enable their correct and effective management (Richards, Foster & Morgan, 1998:47). The obvious value inherent in brands is their ability to capitalise on reputation and loyalty among users and translate this into long-term and reliable profit streams. This value is expressed in the form of brand equity, which is the differential effect of brand knowledge on customer response (Kohli & Leuthesser, 2001:Internet).

Organisational and process structural capital represent the business policies, procedures, and processes that enable organisations to effectively and efficiently use physical, human, relationship, and other intangible resources to generate growth. Unique structural and organisation-specific processes, technologies, and blueprints also generate sustainable competitive advantage and value (Lev & Radhakrishnan, 2002:Internet). For example, an organisation's specific sales processes and procedures have been developed over many years into a formula that is the most effective for an organisation's specific channels, customers, products, and services. These processes are subsequently an invaluable source of intellectual capital (Matsuo & Kusumi, 2002:841).

4.5.4 Element interconnectedness

Van Deventer (2002:Internet) maintains that there has to be a constant interplay among human, structural, and relationship capital to enable an organisation to successfully develop the core competencies that create sustainable competitive advantage. In achieving this interaction, an organisation must address the following strategic questions:

- How can we improve the transfer of competencies between all players, internal and external to the organisation?

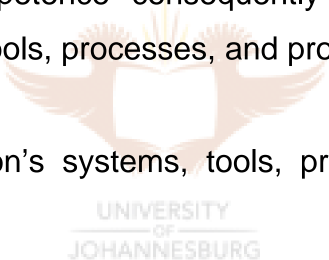
- How can the organisation's employees improve the competence of customers, suppliers, partners, and other stakeholders and vice versa?

- How can the organisation improve the conversion of individually held competence to systems, tools, and templates?

- How can the organisation improve individuals' competence by using systems, tools, and templates?

- How can the organisation improve the conversations among customers, suppliers, and other stakeholders so that they improve their competence, and how can this competence consequently be used to improve the organisation's systems, tools, processes, and products?

- How can the organisation's systems, tools, processes, and products be effectively integrated?



- What information should the organisation communicate to assist stakeholders in making decisions with regard to the continuous development of infrastructure and human capital development?

- What is the organisation's responsibility with regards to setting standards, participating in workgroups, and using infrastructure for the services' customers?

- How should the organisation measure success and invest strategically to ensure access to important information and knowledge?

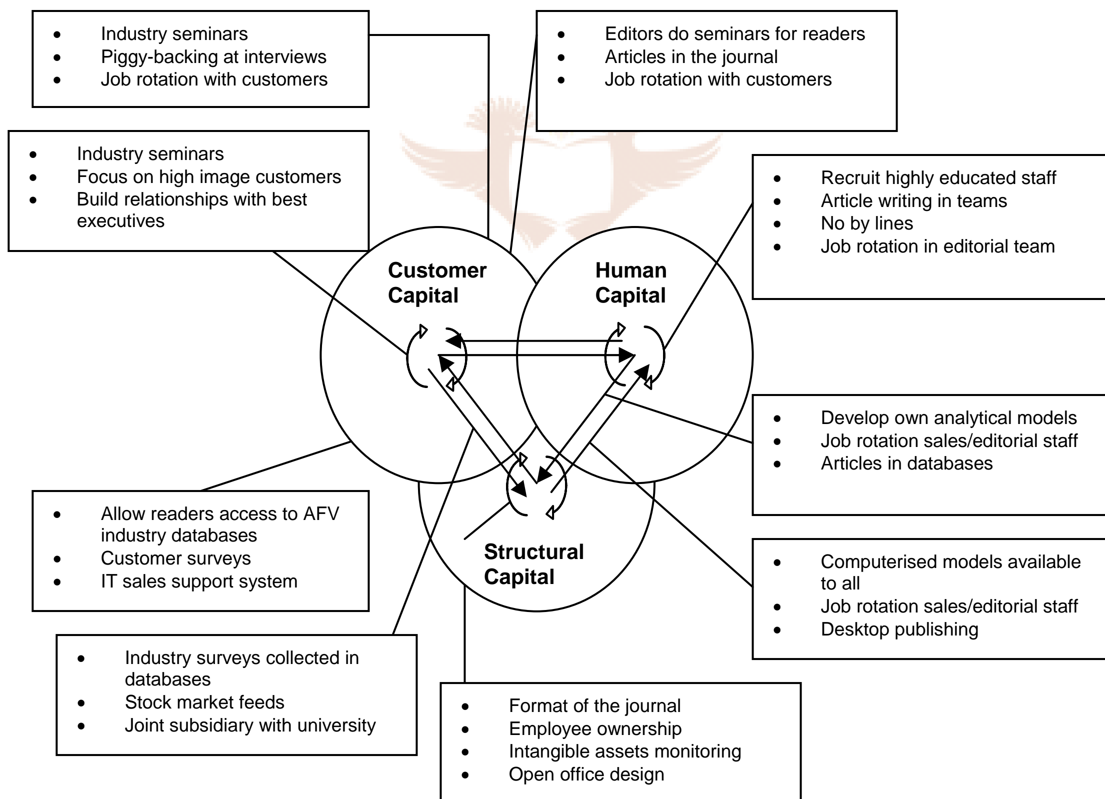
- What can the organisation do to ensure that human capital development is possible?

- What is the organisation's responsibility regarding the investigation of technology alternatives, financial support, and technical expertise to ensure the development of an effective infrastructure?

- How can the organisation assist all stakeholders to make the right decisions in terms of their need to have access to global organisational information?

Figure 4.4 below illustrates how an organisation can address these questions of interaction/integration.

Figure 4.4: Interaction between intellectual capital elements



Source: Adapted from Van Deventer (2002:Internet).

The elements of human and relationship capital can be integrated to form the partnership element of the marketing mix. Partnerships contain the key knowledge, innovation and insights that enable sustainable competitive advantage. Partnerships are supported by and give rise to structural capital (the new proposed property (intellectual) mix element). The integration and interaction of these two new proposed elements in an organisation's marketing mix will enable an organisation to bring rare and inimitable core competencies to the marketing strategy to ensure sustainable competitive advantage in a dynamic and hypercompetitive business environment.

4.6 CORE INTELLECTUAL CAPITAL INDICATORS

Van Buren (2002:Internet) reports that there are a number of key indicators of the presence and degree of importance afforded to intellectual capital within an organisation. Table 4.2 below reflects the core indicators for human, relationship, and structural capital (represented as innovation and process capital).

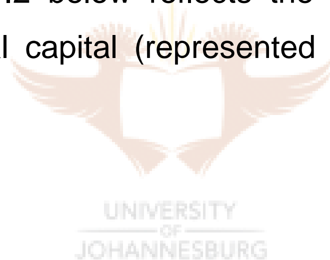

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Table 4.2: Core intellectual capital measures and indicators

Human Capital	
Indicator	**Measure**
Retention of Key Personnel	The percentage of employees most essential to the organisation retained during the previous year.
Ability to Attract Talented People	Percentage of openings requiring advanced degrees or substantial experience filled in the previous year.
IT Literacy	Percentage of employees with a basic level of proficiency in standard office computer applications.
Training Expenditures as a Percent of Payroll	Total expenditures on training in the previous year as a percent of the organisation's annual payroll.
Replacement Costs of Key Personnel	Average cost to recruit, hire and train someone to fill an essential job in the organisation.
Employee Satisfaction	Percentage of employees' highly satisfied with the organisation and their jobs.
Employee Commitment	Percentage of employees' highly dedicated and committed to the organisation.
Innovation Capital (structural)	
R&D Expenditures	Total expenditures on conceiving and designing new products and/or services in the previous year.
% of Workforce Involved in Innovation	Percentage of employees with responsibility for conception and design of new products and/or services.
Product Freshness	Percentage of all current products and/or services introduced in the last three years.
Process Capital	
Processes Documented and Mapped	Percentage of business-critical processes documented and analyzed.
Use of Documented Processes	Percentage of document processes being fully utilised.
Customer Capital	
Customer Satisfaction	Percentage of customers completely satisfied with products and/or services.
Customer Retention	Percentage of top customers ending sales contracts in the previous year.
Product/Service Quality	Percentage of customers reporting complaints about products and/or services.
Average Duration of Customer Relationship	Average number of years existing customers have been purchasing products and/or services.
Repeat Orders	Percentage of current customers that previously purchased products and/or services.

Source: Adapted from Van Buren (2002:Internet).

These indicators will gauge the state of and importance afforded to organisational intellectual capital as well as organisational readiness to effectively integrate intellectual capital elements into their organisational strategies and subsequently measure, manage, and control them effectively.

4.7 PROCESS OF INTELLECTUAL CAPITAL MANAGEMENT INTEGRATION AND IMPLEMENTATION

According Van Deventer (2002:Internet), there are three prerequisites that should be met before an organisation should begin developing an intellectual capital system:

- The organisation must be mature enough to have gone beyond the stage of viewing and measuring business performance solely in financial terms.
- The organisation must have a clearly defined business idea or direction.
- There must be a clear operational commitment to implementing the program and this must be visibly supported by top management. According to Rastogi (2003:236), top management is ultimately responsible for initiating, managing, and sustaining the overall process of an organisation's intellectual capital development.

Van Deventer (2002:Internet) further states that there is a six-step process that must be followed by an organisation that is ready to develop their intellectual capital. This process includes:

- Set the strategy and define the role of knowledge in the organisation. The importance of using intellectual capital investments to develop new products and services must be clearly defined.
- Assess competitor's intellectual capital strategies, knowledge assets, and intellectual capital stores.

- Classify the organisation's intellectual capital portfolio, i.e. what the organisation currently has and what it currently uses.

- Determine the worth of the intellectual assets, i.e. what do they collectively cost, what investment is needed to maximise their value, and whether an organisation should keep, sell, or abandon each of these assets.

- Based on the evaluation of an organisation's knowledge assets, the gaps that need to be filled in order to exploit knowledge must be identified and invested in.

- An organisation must assemble the intellectual asset portfolio and continually repeat this process.

Van Deventer (2002:Internet) is of the opinion that intellectual capital development must then be further expanded to a specific strategy that must be followed in the management of an organisation's intellectual capital. To implement this strategy an organisation must follow the following ten steps:

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- Conduct an initial intellectual capital audit. Klaila and Hall (2000:50) report that this audit may include: previous intellectual property reports; documents pertaining to the registration of patents; copyrights and trade secrets; license agreements; creative and/or productive processes; test results, blueprints, and drawings; employee and contractor CV's; market and/or customer surveys; the organisation's internal structure (the policies, processes and procedures used within the organisation); external structure (the organisation's reputation and image with customers and stakeholders); and employee competence.

- An organisation must make knowledge management a requirement in the evaluation of each employee.

- Formally define the role of knowledge in the organisation's activities and industry.

- Recruit and hire a leader responsible for the intellectual capital development of the organisation.

- Classify the intellectual portfolio by producing a knowledge map of the organisation.

- Utilise information systems and communication/collaboration tools that enable knowledge exchange and codification.

- Send employees to conferences and trade shows to gather competitive intelligence.

- Consistently conduct intellectual capital audits to re-evaluate the organisation's knowledge accumulation.

- Identify gaps to be filled or holes to be plugged based on weaknesses relative to competitors, customers, suppliers, and best practices.

- Assemble the organisation's new knowledge portfolio in an intellectual capital addendum to the annual report.

Rastogi (2003:239-241) maintains that the organisational process of developing and strategising its intellectual capital culminates in a new business system design. The business system design includes an organisation's customer-value proposition, scope, competitive logic, and an integrated activity system. The intellectual capital of an organisation is the holistic capability of its business system design. If an organisation's business system design is flawed or outdated, it cannot develop its intellectual capital effectively into the core competencies that create superior value and

ultimately sustainable competitive advantage. The critical criteria for business system design viability include:

- A clear market relevance or external demand for an organisation's products or services – without this, an organisation cannot survive and irrelevance of organisational outputs is a more critical threat than inefficient resource use.

- Developing and renewing competitive advantage over other organisations competing in the same markets and/or for the same customers – without this, an organisation cannot prosper or grow.

- Without establishing a mutually aligned set of efficient processes and a flexible organisational design, an organisation cannot continue to deliver its outputs in a competitively advantageous manner.

- Without the relentless development and use of knowledge, an organisation cannot create, sustain, or renew its competitive advantage in a changing business environment.

A viable business system design will enable an organisation to effectively integrate the two new proposed elements of partnerships and property into its marketing mix to enable a superior competitive position.

4.8 CONCLUSION

Intellectual capital is the key source of value and sustainable competitive advantage in the dynamic marketplace of today. Top management support of intellectual capital and the development of an effective and viable business system design to measure, manage and control intellectual capital, will enable the efficient integration of the intellectual capital elements of human, relationship, and structural capital into the two new proposed marketing mix elements of partnerships and property.

This chapter has touched on the significant value and sustainable competitive advantage that can be generated by intellectual capital. Chapters five and six will further explore this value within a deeper examination of partnerships and property. It will be demonstrated how these two elements add value to, prolong, and strengthen each stage of the product life-cycle to enable dynamic core marketing competencies that achieve sustainable competitive advantage in the customer-driven marketplace.

CHAPTER 5

PARTNERSHIPS – THE 5TH P

5.1 INTRODUCTION

In chapter four, intellectual capital management was explored and it was demonstrated that intellectual capital is the source of essential core competencies that enable sustainable competitive advantage. The three intellectual capital elements of human, relationship, and structural capital lie at the heart of this functionality. These elements come together to form the two new proposed marketing mix elements of partnerships (an integration of human and relationship capital) and property (intellectual) (structural capital).

In this chapter, the 5th new proposed marketing mix element of partnerships is explored. Partnerships unlock key transactional and innovative capital that enable an organisation to achieve dynamic and differential marketing strategies that satisfy customers' unique and evolving needs for the ultimate achievement of sustainable competitive advantage.

A core ingredient in the successful management and leveraging of this element is relationship marketing. Organisational adoption of relationship marketing principles and paradigms will enable the efficient unlocking and integration of this powerful 5th P. Relationship marketing is the glue that holds all the partnership elements together and is consequently explored first in this chapter.

Partnerships provide both innovative and transactional intellectual capital, and these are the ingredients for ultimate sustainable competitive advantage achievement. These two ingredients are consequently explored followed by a deeper examination of each of the different elements/types of partnerships namely: employee; customer, supplier, alliance, board; and investor/analyst

partnerships. The chapter concludes with some general principles to be adopted in the successful management of partnerships.

Partnerships is the more vital of the two new proposed additional Ps, with property (intellectual) playing more of a supporting/enhancement role. Much attention and detail is devoted to exploring partnerships in this chapter, with property (intellectual) explored in chapter 6. The manner in which these two Ps come together to re-enforce the stages of the product life-cycle for sustainable competitive advantage achievement is demonstrated at the end of the exploration of the two elements (end chapter 6).

5.2 INTRODUCTION TO PARTNERSHIPS AND RELATIONSHIP MARKETING

According to Galbreath (2002b:123), "*In an era of intense competition, price battles, daunting human resource issues, globalisation, product and service commoditisation, and near technology overkill; once the smoke has cleared, organisations are left with the relationships they acquire, build, and maintain.*"

The adoption of a relationship marketing orientation is a key requirement for the successful management and integration of the partnership element. Suresh (2002:6) states that relationship marketing encompasses six key market domains, these include:

- *Customer markets* – existing and prospective customers as well as intermediaries (represented by the customer and alliance partner elements).

- *Influence markets* – government, consumer groups, business press, and financial analysts (analyst relationships are the most important and are represented by the investor/analyst partner element).

- *Recruitment markets* – for attracting the right employees to the organisation (represented by the employee partner element).

- *Supplier markets* – suppliers of raw materials, components and services (represented by the supplier partner element).

- *Internal markets* – the organisation, including internal departments and staff (represented by the employee and board partner elements).

According to Gummesson (2002:39), total relationship marketing is marketing based on relationships, networks and interaction, and the concept recognises that marketing is embedded in the total management of the networks of the selling organisation, the market, and society. It is directed towards long-term win-win relationships with individual customers and value is jointly created between the parties involved. Total relationship marketing embraces all market relationships with particular importance being placed on organisational relationships with internal customers (employees), external customers (including alliance relationships), and suppliers.

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The development and careful management of an organisation's relationships (and in particular its external customer relationships) provides significant return. Gummesson (2002:50-54) further reports that return on relationships is the long-term net financial outcome caused by the establishment and maintenance of an organisation's network of relationships. Long-term relationships where each customer is regarded and treated as an individual by an organisation, significantly increases return on relationships. The longer the relationship that an organisation has with a customer, the higher the profit. This is primarily due to two effects of customer loyalty: reduced marketing costs when fewer customer defect; and increased customer share or share of wallet (a higher share of the customer's purchase of a product or service goes to a single supplier). Relationship marketing is aimed towards collaboration and co-production of value where the individual replaces the masses as

organisational focus. Traditional bureaucratic-legal values must be replaced by relationship values. These values are compared in table 5.1.

Table 5.1: Bureaucratic versus relationship values

Bureaucratic-legal values	Relationship and service values
1. Focus on an average customer to be treated with a mass approach.	1. Each customer to be treated as an individual with individual needs.
2. Routines, policies and regulations more important than the end result.	2. Only end results count.
3. The supplier is in focus.	3. The customer is in focus.
4. A professional jargon that does not communicate with the customer.	4. A language that communicates on customer conditions.
5. Important to win over the customer in an argument.	5. A win-win strategy.
6.The provider is the expert, the customer is the amateur.	6. The customer is also knowledgeable.
7. The customer is the "other party", even an adversary.	7. The customer is a partner and a co-producer.
8. The customer is a cost.	8. The customer is revenue.

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Source: Adapted from Gummesson (2002:54).

According to Galbreath (2002a:9), the current business environment has given way to the relationship age where organisations are leveraging the lower prices, higher quality and more specialised goods and services of the industrial and information ages to develop tailored products and services that fit individual customers' wants and needs. Leveraging information for mass customisation and personalisation has become an essential activity in production and marketing efforts. Relationship age organisations are capitalising on their knowledge about their network of relationships with customers, employees, channel and alliance partners, suppliers, and even investors, in order to convert their products and services into memorable customer experiences that create unique, differentiating and sustainable value. People, and the knowledge that they leverage across the extended enterprise (including all partners, alliances, and suppliers in the supply chain),

are the key drivers of organisational growth due to their ability to personalise the right experience to the right customer at the right time and at the right price. This knowledge contained in this intangible partnership capital represents an organisation's most strategic store of capital, as it is this knowledge extracted from partnerships that provides the ultimate differentiating value for the end customer with these satisfied and loyal customers consequently contributing significantly to an organisation's return on relationships.

Galbreath (2002b:117-118) maintains that employees, suppliers, and partners are the core sustainable business assets necessary to capture customers and their lifetime value. Suppliers are a necessary element of an organisation's value chain as they are required in the process of building a product and delivering a service. Employees are needed in terms of managing organisational efficiency, deploying and maintaining all types of information technology, providing research and development expertise, acting as marketing and selling agents, providing customer service, and providing general and administrative support. Alliance and channel partners are needed to supplement vital resources and distribute and sell an organisation's product or are needed to outsource and manage components of an organisation's business. Customers are required to purchase both initially and repeatedly the product or service offered by the organisation. These are the most important partnership elements and are consequently the most thoroughly explored in this chapter.

Nicholson and Kiel (2004:16) contend that another key player in an organisation's value chain and with whom a strong relationship needs to be cultivated and maintained is an organisation's board. The board is involved in strategy formulation, in advising the CEO, and in assessing resources. The board's objective in strategy formulation is to ensure that the organisation's strategy will result in the long-term creation of shareholder wealth and the attainment of major organisational goals. The board-CEO relationship is central to corporate governance and the board represents a key source of knowledge and experience for the organisation it governs. The board needs

to share this expertise with the CEO in order to further organisational interests. The board also assesses the information and physical resources of the organisation and develops business networks to promote the reputation of the organisation. Closely linked to this are investor/analyst relationships where the voice and opinions of external market analysts can severely affect an organisation's reputation and consequently its investment attractiveness and stock price potential.

All the partner elements have been introduced in this section and are explored in more detail after a closer examination of the powerful innovation and transactional capital that these elements contain.

5.3 TRANSACTIONAL AND INNOVATION PARTNER CAPITAL

The value-creating knowledge that is contained within partnerships can be split into the two forms of innovation and transactional capital.

5.3.1 Innovation capital

"When you think about it, the best source of knowledge to help an organisation develop its products and markets is its own customers and partners" (Skyrme, 2001:Internet).

Organisations need to adopt a value-system approach where partner insights form an integral part of their new research and development efforts. External customers, for example, know what they want and their perceptions of competitive products are a valuable source of innovation capital and this capital is integral to the development of new products and services to meet unarticulated needs and unserved markets. Through the capture and leveraging of this innovation capital, an organisation can unleash new business opportunities (Amidon, 2001:Internet).

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Progressive organisations are realising that learning partnerships is one of the most viable ways to build long-term relationships with internal and external customers and to manage the development of new products and services to fulfil unarticulated end-customer needs and unserved markets and, in so doing, ensure a sustainable competitive advantage. The gathering of partner insights allows for the better understanding of new markets, faster time-to-market for new products, the enhancement of the value of products and services, improved customer service tailored to customers' expressed needs, and higher quality processes. Relationship marketing must be employed to ensure happy, satisfied and loyal partners as they will be more willing to share their innovative capital and participate in new product development and existing product/system enhancement processes (Amidon, 2001:Internet and Skyrme, 2001:Internet).

Partners are an invaluable source of innovation capital during the new product development process. Their input at each stage ensures that ideas are feasible and properly targeted at real customer needs and that resources aren't wasted. New product development entails the development of original products, product improvements, product modifications, and new brands through the organisation's own research and development efforts. According to Kotler and Armstrong (2001:337-349), new product development follows the following cycle of development:

- *Idea generation* – this involves the systematic search for new product ideas through the use of multi-disciplinary, multi-functional teams. Customers must form part of these teams as they are the best authority on their needs and preferences as well as those of their friends and colleagues.

- *Idea screening* – this is the process of screening new product ideas in order to identify good ideas and cancel poor ones as soon as possible. All partners can inform organisational teams whether the generated ideas will meet their needs and capabilities and are therefore viable and worth further consideration.

- *Concept development and testing* – the product concept is a detailed version of the new product idea that is stated in meaningful consumer terms; and concept testing involves the testing of new product concepts with a group of target consumers to discover whether the concepts have strong consumer appeal – partners are a rich source of innovation capital to ensure concept viability and feasibility.

- *Marketing strategy development* – this involves the design of an initial marketing strategy for a new product based on the product concept. Partner input allows for the better targeting of the marketing mix elements – customers will express what sales channels and outlets they prefer as well as what price ranges are acceptable to them.

- *Business analysis* – this involves a review of the sales, costs and profit projections for a new product in order to discover whether these factors satisfy the organisation's objectives. Partner experience and innovative solutions are a key input at this stage.

- *Product development* – this entails the development of the product concept into a physical product in order to ensure that the product idea can be turned into a workable product. This process requires intense collaboration between research and development, the various functional areas, and partners to ensure the commercial viability of the product.

- *Test marketing and commercialisation* – this involves the testing of the product and marketing program in more realistic market settings and the introduction of the final product into the market. The use of partner innovation capital from the beginning of the new product development process will ensure better success for these phases and the more efficient identification and resolution of problems.

Galbreath (2002b:116) is of the opinion that partners are a valuable source of innovation capital and can be used to ensure the success of new product

development as well as to ensure that resources are not wasted. Their input can also be leveraged in a similar manner to enable more efficient and viable product and channel alterations and enhancements. Relationships with partners must be carefully managed in order to ensure their contribution to this process and that they are willing to share their ideas and innovation capital. Better-targeted and developed new products that are tailored to customer needs and preferences afford an organisation an edge over competitors and make that organisation more competitive in the marketplace.

5.3.2 Transactional capital

Customer knowledge is essential if an organisation wants to continually react to and satisfy customer needs and provide them with differential service. Customers cannot however always be expected or available to share their ideas and innovative capital to improve an organisation's products. Sometimes the organisation needs to extract this customer knowledge from another source.

This source is the transactional customer data that employees, suppliers, and alliance/channel partners possess. This data needs to be consolidated and carefully mined and managed for the extraction of valuable customer insights that can be used to improve an organisation's products and services for sustainable competitive advantage.

According to Osborne (2003:8), customer data is useless unless an organisation converts this into actionable knowledge. Customer information should be captured in a consistent format by all partners so that all information is accessible to all employees and can be searched on request. Technology assists this information-sharing requirement and should be heavily invested in. The information should be used to build a customer profile for each customer and this can be used by contact personnel to determine each customer's value and treat them accordingly. The information can also be used to describe an organisation's best customers and answer

questions such as: what do they look like; what are their characteristics in terms of demographics, lifestyle, age, education, type of organisation and size of organisation.

Suresh (2002:8) maintains that numerous tools are required to transform customer data into valuable customer knowledge. This includes sophisticated data warehousing facilities where an informational database is used to store shareable data that originates in operational databases and in external market data sources. It enables users to access an organisation's vast store of operational data in order to track and respond to business trends and this facilitates forecasting and planning efforts. Data mining is used to facilitate these efforts and this involves specialised software that uses well-established statistical and machine learning techniques to build models that predict customer behaviour. Within the broader supply chain, electronic point of sale devices and retail scanner systems gather vast amounts of timely and accurate information regarding products as they move through the supply chain. Through these tools, an organisation gains access to data on sales rate, stock levels, stock turn, price, and margin, as well as demographics, socioeconomic, and lifestyle characteristics of consumers.

According to Gibbert *et al.* (2001:119-120), transactional capital also arises from freely supplied customer information that is contributed in the transaction process (particularly Internet-based transactions). This information can be operationalised through categorisation, context, search, personalisation, and profiling. Categorisation provides context for the customers' opinions/information regarding: their preferences and suggestions; an organisation's products and services; current business practices; management initiatives; structure; and available professional resources. An organisation needs to establish standardised and easily identified categories that customers can use. Search provides a centralised facility that enables customers to gain access to specific information with minimal effort. This will require the building of a comprehensive Web site with sufficient indexing, meta-data access, full text access, and concept-based search. Personalisation allows customers to tailor the knowledge fed back to

organisations and provides clarity, focus and timeliness of knowledge. Profiling reinforces personalisation. An organisation in possession of a customer's interest profile can feed new items of interest back to that customer. In order for customers to freely share this knowledge, an organisation's communication media, and particularly their Web site, must be user-friendly, with fast access and download capabilities available as well as quickly processed customer requests and feedback (Osborne, 2003:9).

Gibbert *et al.* (2001:121) additionally report that organisations that incorporate the knowledge and competence of their customers gain access to valuable opportunities for creating innovative new products and improving existing processes. For example, Dell provides a virtual discussion forum for customers to exchange knowledge concerning computer problems as well as tips and tricks. At Dell, data mining techniques are used to identify areas of improvement, new services and ultimately new innovative products that are based on the customer discussions in the virtual forum. Customer information can also be used to validate the knowledge that has already been accumulated within the organisation. For example, Siemans Fujitsu has opened up an intra-organisational knowledge-sharing network to its customers. This network contains sales and marketing knowledge regarding telecommunications solutions (i.e. complex packages of products and services) that would have been of interest to their customers. The exposure of this sales and marketing knowledge to customers' scrutiny allows the organisation to validate their knowledge base and thereby determine whether customers perceive the accumulated sales and marketing knowledge in the same way as the organisation does.

An organisation must ultimately use all the gathered information from all its partners to extract valuable sustainable competitive advantage creating insights. This extraction process falls under the discipline of predictive customer relationship management.

5.3.2.1 Predictive customer relationship management

According to Crowder (2002:Internet), predictive customer relationship management is the discipline of getting to know your customers by performing complex analyses on data about them, and it is rapidly changing the way in which organisations make operational and strategic decisions about the procurement, production, marketing and sales of products and services. Harney (2003:Internet) contends that predictive analytics is a subset of data mining that enables you to derive new insights or new information from existing information.

The existing information that is used to predict future customer activities concerns the particular behaviour that can be associated with specific customer groups (Xu & Walton, 2005:965). The existing information is thus used to identify trends that can affect the organisation.

Crowder (2002:Internet) further reports that predictive analytics through the examination of current behaviour can indicate the following to the organisation:

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- Possible lucrative up-selling opportunities as an organisation is able to determine which consumers are candidates for additional products/services.

- Customer churn rates. A churn rate refers to the extent to which customers withdraw their patronage from an organisation. Through predictive customer relationship management, customer action can be tracked, making it possible to determine whether customers will withdraw their patronage.

- The best sales channel(s) to reach customers. According to Harney (2003:Internet), you want to know which channel is the best channel, which combination of channels is the best, and how much communication in each of those channels is optimal to the relationships.

- Identify their most profitable customers and then deliver differentiated levels of service to them.

- Better-targeted promotional materials to boost sales and improve customer service can be sent to them. The example of Fingerhut is cited where predictive customer relationship management was used to send promotional brochures to customers based on the nature of the customer behaviour and customer segmentation (rather than the nature of the promotion), resulting in the optimisation of customer value (Crowder, 2002:Internet and Bull, 2003:593).

Predictive customer relationship management ultimately enables the organisation to extract valuable knowledge/insights that can be used to determine future behaviour, which can increase the effectiveness of the marketing strategy. Predictive customer relationship management enabled a Japanese-based computer and software reseller to increase its profits by 200% (and attain an 18% growth in sales) as it made use of a recommendation engine based on their existing personal profiles (Shearer, 2004:Internet).

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Each of the partner elements that have a hand in the creation of this valuable knowledge/insights is explored in the sections below.

5.4 EMPLOYEE PARTNERSHIPS – LEVERAGING HUMAN CAPITAL

According to Perez *et al.* (2003:82), competitive advantage has come to depend on people embodied know-how. Accordingly, it is human capital that distinguishes the leaders in the market as employee knowledge, skills and abilities constitute one of the most significant and renewable resources that an organisation can take advantage of.

McGregor, Tweed and Pech (2004:153) maintain that human capital includes the broader human resource considerations of the business workforce (i.e. the

labour market) and individual competence in the form of knowledge, skills and the attributes of managers and the people they manage. There are a number of drivers that constitute and influence an organisation's stock of human capital. These factors have evolved over time and have different characteristics and requirements in the new knowledge economy. These factors include:

- *Attachment factors* – in the old economy, these factors focused on the organisational provision of long-term employee career paths and were characterised by dependence and dependability. Today, these factors represent short-term involvement and adaptation and adaptability.

- *Motivation factors* – the past emphasis on job security and regular salaries has been replaced by job stimulation and the need to provide increased monetary rewards to encourage an organisation's human capital to create the core competencies required for sustainable competitive advantage.

- *Work practice factors* – consecutive or sequential projects that work across disciplines and functional departments to fully capture and leverage the unique skills and expertise of all employees have replaced regular, continuing functions and processes.

- *Reward factors* – the stable reward structures and internal vertical promotion characteristics of the old economy have been replaced by volatile reward structures and cross-boundary advancement.

- *Development factors* – career related training to improve an employee's position in an organisation and improve organisation capacity has been replaced by the need for self-actualisation of employees through professional development internal and external to the organisation. Transferable knowledge now supersedes the need for organisation-specific skills.

- *Cultural factors* – an organisationally driven culture with the desire for greater control of individuals has given way to the need for greater autonomy of the individual in a team driven environment.

- *Organisational factors* – the new economy is characterised by employees having multiple employers as opposed to traditional single employer certainty.

McGregor *et al.* (2004:159-160) further report that employees now need to be capable of building relationships/partnerships and need to develop the ability to work on multiple projects at a time. Employees require client-focused skills and they need to develop a marketing consciousness about the products and processes of their organisation. The most valuable human capital in the new knowledge economy is that which possesses specific competencies in the form of knowledge, skills and attributes. These include:

- *Knowledge*
  - Specialised technical and professional knowledge
  - Technological literacy and competency
  - Broader industry and market relevant knowledge
  - Operational and process knowledge
  - An overall understanding of the changing business environment
- *Skills*
  - Multiple project capability
  - Team working skills
  - Relationship building skills
  - Client focus ability
  - Negotiation skills
  - The ability to recognise opportunities and threats
- *Attributes*
  - Flexibility
  - Adaptability
  - Self confidence
  - Resilience

- A learning orientation

According to Sharkie (2003:29), one of the key ingredients of human capital is knowledge and it is this knowledge that forms the basis of sustainable competitive advantage. As knowledge is such a critical factor in an organisation's ability to remain competitive in the new global marketplace, organisations need to develop a mechanism for managing and tapping into the collective intelligence and skills of employees in order to create a greater organisational knowledge base. The development of strong and enduring partnerships with employees will enable an organisation to tap into this knowledge.

Bollinger and Smith (2001:9) state that humans inherently possess knowledge that can be defined as the understanding, awareness or familiarity that is acquired through study, investigation, observation or experience over the course of time. It is an individual's interpretation of information based on their own personal experiences, skills and competencies. Knowledge is therefore more valuable, inimitable and unique than information, as information is merely processed data that resides within the global computer network and that is easily accessible to all. Within an organisational context, knowledge is defined as what employees know about customers, products, processes, mistakes and successes. This organisational knowledge is accumulated over time and enables an organisation to attain deeper levels of understanding and perception, which ultimately leads to business astuteness and acumen – which characterise organisational wisdom. This wisdom is acquired as organisations gain new knowledge through the transformation of collective experiences and expertise (Byrne, 2001:45).

According to Darroch and McNaughton (2002:211), core competencies are ultimately based on the skills and experiences of the employees that conduct all work required for organisational survival. Effective management of knowledge will enable an organisation to tap into this knowledge base and preserve and expand the core competencies for improved customer service. When organisational knowledge is shared, it becomes embedded within the

organisation's processes, products and services and thereby makes these unique and sustainable. Organisational structural capital is an essential ingredient in enabling this process, as a strong positive organisational culture is an essential element in promoting learning, development and sharing of skills, resources and knowledge. Extensive computer networks and communication tools are also essential tools in supporting collaboration and knowledge sharing (Bollinger and Smith, 2001:10).

Perez *et al.* (2003:84) maintain that the successful capturing of knowledge from an organisation's human capital requires the implementation of a strategic knowledge management process. This involves four stages which need to be enriched by structural organisational capital. These stages include:

- Generating or capturing knowledge – which requires efficient and effective computer networks and communication tools as well as reward systems and performance measures that are tied into effective knowledge sharing.

- Structuring and providing value to gathered knowledge – this again requires structured data storage warehouses with effective interfaces as well as integration with the prior organisational knowledge base.

- Transferring of knowledge – which again requires effective computer networks and communication tools.

- Establishing mechanisms for the use and re-use of this knowledge for individuals as well as for groups of individuals within the organisation.

According to Sharkie (2003:22), human capital can be enhanced and developed through organisational investment in areas such as superior employee selection, training and re-training, culture, networking, motivation, empowerment, incentives, flexibility, short deadlines and good databases. The building up of these internal human capital related capabilities will result

in competitive advantage which is sustainable due to the difficulty experienced in copying competencies that are based on knowledge, skills, and attitudes.

Carroll and Tansey (2000:300) declare that an organisation's employees add significant value through adaptive learning and the creative use of knowledge. The resource-based view of the organisation indicates that resources are valuable when they allow improving effectiveness, capitalisation on opportunities, and the neutralisation of threats. Value creation within a strategic organisational context focuses on increasing the ratio of customer profits to associated costs. An organisation's human capital can consequently add value as it enables the lowering of costs and the provision of increased service or product features to customers (Johnson, 2002:421).

Sibson and Company (2000:2) state that an organisation's employees constitute one of its most critical assets. Employees have a clear impact on all of an organisation's relationships with suppliers, customers, and partners, and consequently poorly managed employee relationships affect the quality and effectiveness of an organisation's customer relationships. For example, organisations with employee turnover rates of ten percent or less have as high as a ten percent customer retention rate over organisations with employee turnover of over fifteen percent (Galbreath, 2002b:120-121).

According to Galbreath (2002a:13), an organisation must value their employees for their knowledge and talent. Sustainable competitive advantage is reliant on attracting, developing and retaining talent, and human capital better than competitors. Organisations must give their employees opportunities to learn and grow in ways that are meaningful to them as individuals and also provide long-term value to the organisation. This will have a positive spill-over to the intangibles of job satisfaction, process and product quality, and innovation. Organisations must proactively define and subsequently manage the career development and growth goals of each employee and develop an organisational culture that fosters growth and Senge's (1990) learning organisation disciplines of systems thinking, team learning, and personal mastery. An effective knowledge management

strategy that encourages the capturing and sharing of knowledge and provides all the technological and communication tools to facilitate this, must be implemented and reinforced as an organisation's employees will collectively represent the primary source of learned knowledge that feeds the relationship asset building cycle.

5.5 CUSTOMER PARTNERSHIPS

Prahalad and Ramaswamy (2002:80) maintain that customers are fundamentally changing the dynamics of the marketplace, as the market has become a place where customers have begun to play an active role in creating and competing for value. Customers have become a new source of competence for the organisation. There are three main types of customers: *image-enhancing* customers; *organisation-enhancing* customers; and *competence-enhancing* customers. Image-enhancing customers are a source of reference and testimonial for an organisation and consequently assist in finding new customers and thereby reducing an organisation's marketing costs. Organisation-enhancing customers demand state-of-the-art solutions that are innovative and hence contribute to an organisation's internal capacity and research and development. Competence-enhancing customers improve the level of organisation competencies by challenging its employees with new and demanding projects that enable said employees to continuously learn (Gibbert *et al.*, 2001:113).

According to Duffy (2001:10-12), customers are the engines of organisational growth and establishing lifetime relationships/partnerships with them is key to long-term survival and success. Customer partner capital is the combined contribution of an organisation's customer base, customer relationships, customer potential and brand recognition. It ultimately represents the value that results from an organisation's relationships with its customers and it is these relationships that can ultimately provide sustainable competitive advantage.

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The term relationship implies that some form of mutual exchange occurs between an organisation and its customers. Organisations that continually deliver on their promises become closer to customers and these customers are more willing to share valuable information with the organisation. The organisation, in turn, should provide the customer with insights into its business, products and services to enhance the feedback from customers. The more that the organisation and its customers know about each other, the richer the relationship and the shared knowledge is. Suresh (2002:10) declares that business decisions based on complete and reliable information about customers are very difficult for competitors to replicate and are consequently a key source of sustainable competitive advantage.

Customer capital is supported by structural capital, particularly the innovation capital of brand equity, which is represented by customers' recognition of consistent quality and satisfactory product and service attributes. The brand ultimately delivers the promised value of an organisation and is essential to the development of customer attachment and loyalty and hence the nurturing of valuable customer capital (Duffy, 2001:10-12).

Satisfied customers that are invested in mutually beneficial relationships with an organisation provide valuable competitive and market-related knowledge. They provide insight on whether an organisation is truly keeping their customers satisfied, whether the organisation's competitive position is improving or declining, how the organisation compares to others in its industry, which customer-related investments are demonstrating a better return than others, and what types of customers are a best fit with the organisation. An organisation's ultimate goal is to determine how to fully leverage customer relationships and the associated in-depth customer knowledge to guide strategy. Customer value is not found in a single transaction, but is developed and nurtured over time (Duffy, 2001:10-12).

According to Galbreath (2002a:10-11), customer partnerships are crucial as they secure future value and revenue streams for an organisation. Customer relationship value is a representation of the future positive cash flows that can

be derived from an organisation's relationships with its customers. In order to maximise these cash flows, an organisation needs to increase the amount of revenue generated per customer whilst minimising the costs associated with developing and maintaining these relationships. The points below exhibit the costs associated with customer relationships:

- Acquiring new customers costs five to seven times more than retaining existing customers.

- Reducing customer attrition/defection by five percent can potentially increase an organisation's profits by between thirty and eighty-five percent.

- Increasing customer retention by two percent enables an organisation to reduce operational expenses by ten percent.

Galbreath (2002b:119-120) further contends that the ultimate goal of managing customer relationships is to achieve customer loyalty with a key value outcome of customer lifetime revenue and profit. The way to achieve this is to have intimate knowledge of the customer. *"The wealth embedded in customer relationships is now more important than the capital contained in land, factories, buildings and even bank accounts"* (Tapscott, 2000:192).

Reichald and Schefter (2000:22) are of the opinion that loyalty is a key outcome of customer relationships, however, customer satisfaction does not necessarily translate into loyal or profitable customers. Traditional customer satisfaction measures are not sufficient to measure and manage customer relationships or customer capital. The correlation between customer satisfaction and customer loyalty is very weak, with a high customer satisfaction rating being a poor predictor of customer loyalty. The points below exhibit some of the flaws with using satisfaction as in indicator of customer loyalty and a health check of customer relationships:

- Of customers who say they are "satisfied", fifteen to forty percent defect from an organisation each year.
- Ninety-eight percent of dissatisfied customers never complain; they simply switch to other competitors.
- "Totally satisfied" customers are six times more likely than satisfied customers to repurchase an organisation's products over a one to two year time span.

Galbreath (2002a:11-12) maintains that loyal customers tend to be high re-purchasers of an organisation's products or services and also tend to be less price sensitive. Loyal customers are also more willing to provide valuable feedback on the quality and effectiveness of an organisation's products and services and are willing to become actively involved in new product development processes. Organisations that know their customers will be able to better focus scarce resources on finding and acquiring the right customer base that has the highest value potential and the greatest probability of loyalty. Organisations that efficiently maintain their relationships over time can maximise customer lifetime value and reduce the likelihood of switching. Organisations must consequently shift their customer focus from merely satisfying customers to creating loyalty and trust via mutually beneficial long-term partnerships. Long-term customer relationships/partnerships can only be achieved when an organisation takes advantage of every opportunity to learn more about each customer as an individual. If such valuable knowledge is acquired, an organisation will be able to maximise the lifetime revenue and profitability of each customer.

According to Suresh (2002:3), the key to managing these valuable customer relationships lies in the management philosophy of customer relationship management. Customer relationship management is a business philosophy or strategy where all the activities of the organisation are driven by the needs of the customer in an attempt to maximise customer information in order to increase loyalty and retain customers' business over their lifetimes. The

primary goals of customer relationship management are to build long-term and profitable relationships with chosen customers where these customers can see mutual benefit and value in continuing to do business with the organisation and view switching to another organisation as an inconvenience. An organisation must strive to become closer to these chosen customers at every point of contact with the aim of maximising the organisation's share of the customer's wallet (Osborne, 2003:8).

Osborne (2003:10) is of the opinion that customer relationship management provides numerous customer and financial benefits. These include: enhanced understanding and forecasting of customer behaviour and needs; precise customer targeting; improved customer service; increased customer retention, recovery rate, acquisition, and cross-sell capabilities; decreased churn rate; reduced marketing and sales cost; better tracking and evaluation capabilities; lower communication cost; and increased efficiency through supply chain management.

The primary focus of any customer relationship management strategy is to enable the organisation to create and retain profitable customers (Ngai, 2005:583). Most strategies evolve around three aspects, namely customer profitability, customer acquisition and customer retention (due to the reduced costs associated with retaining customers rather than obtaining new customers) include (Peck, Payne, Christopher & Clark, 2004:47):

- *Customer profitability*

Customer profitability tracks the financial performance of customers with respect to all the costs associated with a transaction (Gordon, 1998:29). Profitability is determined in the light of the lifetime value of the customer to the organisation, taking into account the income and expenses associated with each customer over time (Gordon, 1998:146). The tracking of profitability is made more accurate through the use of technology.

- *Customer acquisition*

A great deal of time and money is spent on attracting new customers, but few resources are focused on retaining customers. The cost of attracting a new customer is often higher than the customer's lifetime value with the organisation (Kotler, 1997:47). It is clear from the above that an emphasis on customer acquisition without focusing on the resulting relationship with the customer is a waste of money for the organisation.

- *Customer retention*

Retention involves ensuring that the customer remains loyal to the organisation and, in so doing, both parties are able to receive substantial benefits (Zeithaml, Bitner & Gremler, 2006:185). Organisations can increase their profitability by between 20% and 125% if they boost their retention rate by five per cent (Peck *et al.*, 2004:47). Customers who receive excellent service remain loyal and provide free advertising by talking about the organisation's products and services (Reichheld & Sasser, 1990:107). An organisation with a primary focus on customer retention should have information about the customer retention rate and the aspects that affect possible customer defection and migration (Peck *et al.*, 2004:49).

5.5.1 Further benefits of customer partnerships

According to Acxiom Corporation (2003:Internet), customer partnerships enable the building of market insight and expertise within the organisation to facilitate: the maximising of marketing productivity; development of better customer contact strategies; and the aiding of strategic decisions.

5.5.1.1 Maximising marketing productivity

Intellectual capital extracted from customer partnerships can be used to increase and improve the decision-making process for marketing applications. These applications include activities designed to: acquire the best customers;

increase their value to the firm; retain the business of the most valued customers; or recover valued customers lost to competitors. Intellectual capital can be used to identify target markets, to figure out what products and services to offer each customer segment, to test different pricing strategies, and to manage multiple communication channels, including direct mail, telemarketing and the Web (Acxiom Corporation, 2003:Internet).

Customer acquisition used to rely on mass advertising in print and broadcast media. However, organisations can now extract customer information from their various operational systems and consolidate it in a marketing database or warehouse, enhance it with demographic information to create valuable intellectual capital, create response models, and use these to sell more to existing customers and to seek new individuals who resemble their best customers.

Customer intellectual capital also assists in customer development and retention, which is especially important in businesses where the perceived cost of switching suppliers is low. Intellectual capital can also be used to increase customer life-time value through cross-selling and up-selling and to retain the best customers and match them with new products (Acxiom Corporation, 2003:Internet).

5.5.1.2 Developing better customer contact strategies

According to Nykamp Consulting Group (2003:Internet), customer partnerships enable the better design and execution of customer-focused contact strategies. In order to be effective, the contact strategies should be segment-specific, multi-dimensional, actionable and measurable. These dimensions involve:

- Segment-specific – mass marketing is no longer profitable and marketing strategies must now be tailored to meet the needs, preferences and interests of multiple customer segments. The organisation must

understand the product, service, timing, pricing, channel, and media preferences of their customers within each segment. For this understanding, intellectual capital needs to be gathered from customer relationships and leveraged accordingly.

- Multi-dimensional – a customer contact strategy must consider all types of interactions with customers such as advertising, telephone via call centres, the Internet and direct mail. The customer must receive the same consistent message, and the provision of uniform access to captured customer intellectual capital will ensure this.

- Actionable – a contact strategy should be clearly documented for each customer segment and must take into consideration that customers will move between segments over time. The strategy will incorporate both contacts directed at the entire segment as well as more individualised contacts triggered by individual behaviours. Partnerships will ensure that there is sufficient knowledge on customer preferences and their behaviours to develop the appropriate and efficient, actionable strategies.

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- Measurable – an organisation must be capable of measuring the impact of their contact strategy on each customer segment. This can be achieved by gathering feedback from customers and this feedback is a valuable source of intellectual capital for ongoing improvement.

Organisations are able to have more meaningful interactions with customers when they implement a multi-dimensional segment-specific contact strategy. An actionable and measurable strategy will also result in increased customer value, and long-term loyalty (Acxiom Corporation, 2003:Internet).

5.5.1.3 Aiding strategic decisions

Galbreath (2002a:10-11) maintains that customer partnerships have become a key strategic lever for maximising the profitability of each customer, product,

and delivery channel. This capital can be used to aid and enhance strategic decisions such as:

- How to optimise the mix of direct, indirect, and online sales channels.
- What products to offer, in what combinations, and at what price, to particular customer segments.
- How to best allocate advertising resources for maximum media efficiency and impact.
- Minimising risk – as organisations become more adept at capturing and leveraging customer intellectual capital, they can make better informed strategic decisions and reduce resource wastage on unviable customers and products.

Acxiom Corporation (2003:Internet) further contend that customer intellectual capital also improves product allocation decisions. Not every customer is suited to every product and intellectual capital can help an organisation to determine customer propensities to buy certain types of products. This enables an organisation to develop appropriate pricing and merchandising strategies, including:

- What combinations (or bundles) of products to create in order to maximise profitability in important customer segments.
- How to create differentiated pricing strategies that incent customers to behave in a desired fashion. For example, can lower value customers be encouraged to do business via lower cost channels by giving them a differentiated product at a lower price?
- Which product lines should be procured and in what depth for each store location to meet the needs of customers in that store's trading area.

Customer intellectual capital is an invaluable resource for improving the accuracy, efficiency and viability of strategic decisions.

5.6 SUPPLIER PARTNERSHIPS

In the modern economy, many organisations derive a large majority of their product value from their supply base. Over the past century, outsourcing of services, materials, and manufacturing has grown tremendously as organisations have implemented more cost-effective and leaner operating models. Purchased items have come to represent approximately 60% of the total cost of goods sold as opposed to 20% a decade ago. This trend is expected to continue, as organisations have realised the necessity of focusing their resources on their core businesses and competencies and on outsourcing auxiliary functions in which they do not have a competitive advantage. This will allow organisations to reduce costs and enhance customer responsiveness as well as optimise resource utilisation. As a result of this, many organisations will come to rely heavily on, not only securing the correct supply base, but also on maintaining strategic relationships with suppliers. This is especially important in the procurement of direct, strategic materials that are procured from a small number of trusted vendors (Manugistics, 2003:Internet).

Prahalad and Ramaswamy (2000:Internet) report that suppliers are playing an increasingly critical role in ensuring that organisations create mutually beneficial exchanges of value with their customers through the products and services that they produce. Suppliers also play a dynamic role in extracting value from key customer capital and are greatly contributing to the creation of overall growth, organisational performance, and ultimately market valuation.

Organisations, suppliers and other channel partners can no longer function in isolation. The creation of non-linear supply chains has become an essential ingredient in the achievement of process excellence and sustainable competitive advantage. It is within these supply chains that the true value of

supplier partnerships is realised. According to Galbreath (2002b:121), an organisation's supply chain consists of a network of facilities that aims to produce the right products and services in the right quantities at the right moment and at minimal cost. Many organisations that were not fortunate enough to be able to be part of electronic data interchange networks have had great difficulty in creating effective and efficient supply chains. Efficiency was undermined by manual processes (i.e. locating the appropriate suppliers through catalogues or extensive calling) that negatively impacted an organisation's time-to-market capabilities. Large inventory stores, significant capital outlays for numerous warehouses and ultimately mark-downs of unsold inventories, have greatly impacted the profitability of many organisations which is in sharp contrast to efficient supply chains where real-time or just-in-time information sharing and decision-making based on actual demand have been a key source of competitive advantage (Newton, 2000:6).

PeopleSoft Solutions (2003:Internet) maintain that supplier partnerships, with its intellectual capital capture and creation utility, allows organisations to: work with their supply base to introduce new customer-centric products and features; apply alternative technologies with lower risk; reduce inventory levels across the supply chain while minimising out of stock items and lowering "just-in-case" carrying costs; and enhance supply chain revenue and effectiveness through improved supply assurance. Information delays and distortions across all levels in the supply chain are minimised with dramatic reductions in material shortages, lead times, as well as improvements in on-time shipments. Better information and automation can also be used to discover and improve inefficiencies in order filling, shipping, invoicing, transactions, and other areas (Manugistics, 2003:Internet).

According to Galbreath (2002a:15), integration has become the key to information-based supply chains where the Internet is currently acting as a great aggregator as it provides the ability to create electronic supply chain processes and the real-time delivery of information. Ultimately, real-time demand forecasting, decreased product and inventory costs and mass customisation have been enabled. Organisations using the Internet (and

ultimately Web services that use the standardised platform of extensible mark-up language) have found a key source of competitive differentiation and are now competing based on supply chains as opposed to products alone (Roberts-Whitt, 2000:6).

Walmart became the world's largest retailer through the development of a unique and highly efficient inventory control and distribution system. The organisation then used its purchasing power to create efficiency-enhancing improvements in the operations of its suppliers. Effectively leveraging the organisation's supply chain becomes increasingly important to realising economic value in all of an organisation's constituent relationships (Galbreath, 2002a:13).

Teagarden (2000:14) is of the opinion that supply chains that are efficiently managed and automated have the following dramatic impact on organisational performance (Galbreath, 2002b:121):

- Inventory turnover doubles
- Inventory levels reduce by as much as fifty percent
- Stock-outs are reduced nine fold
- On time deliveries are increased by as much as forty percent
- Cycle times are decreased by as much as twenty-seven percent overall
- Supply chain costs are reduced by as much as twenty percent
- Revenue is increased by as much as seventeen percent

Supplier relationship management allows for the development and maintenance of these strategic relationships/partnerships with key suppliers and channel members and forces enterprises to adopt a new way of thinking about the supply chain and supply chain transparency. Rather than seeking the greatest short-term advantage in each transaction, suppliers and their customer organisations seek to work together in close collaboration for long-term mutual advantage. These relationships require a new level of trust and commitment that, in the past, was often absent in the traditional purely

transactional interactions (IDC Executive Brief, 2003:Internet and SAP E-Business Solutions, 2002:Internet).

According to Lambert and Stock (2001:511-520), there are a couple of steps that an organisation must undertake with supplier relationship management to ensure the effective leveraging of supplier partnerships. These include:

- **External and internal marketing** – supplier relationship management principles must be marketed both within the organisation and within the supplier's organisation. The core business values and objectives must be communicated and internalised by both enterprises. The opportunity that can be derived from increased supplier bonding, especially with the best or most strategic suppliers, must be clearly stated and communicated.

- **Shared information** – by working to the same data on demand, inventories, and marketplace trends, a more cost effective logistics process can be developed. When information is shared between the organisation and its suppliers, uncertainty is reduced and inventories can be drastically cut.

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- **Capabilities** – the capabilities of the organisation, including the technologies and processes of the organisation and its adaptability to relationship-focused cooperation, need to be carefully considered. The organisation must be capable of establishing a process to plan, implement, manage, measure, and share the creation of new value with its suppliers. The management of change between an organisation and its suppliers must also be carefully and competently executed.

- **Supplier assessment tools and practices** – an organisation must: build a good data warehouse describing the various important dimensions of suppliers and their performance; be capable of accurately assessing supplier contributions to organisation profitability and future profitability; and be proficient at selecting strategic suppliers that add the most relative

value. The organisation must also benchmark suppliers relevant to one another in terms of their importance to the organisation.

Badenhorst *et al.* (2001:168-170) contend that the following requirements for successful supplier relationships also bear consideration. These include:

- **A well-formulated supplier policy** – this policy should deal with how an organisation should receive and treat suppliers, accept invitations and gifts, delegate authority to finalise transactions, the confidentiality of information, and the criteria for supplier rating.

- **Regular contact** – the organisation must hold regular supplier meetings at which purchasing policy and problems are made clear, as well as undertake regular visits to suppliers to remain abreast of problems they may be experiencing and to offer help wherever possible.

- **Investment** – both parties must invest in technology and people and must share risks and reward. Both parties must also be committed to each other's success.

These supplier relationship management measures grant organisations access to supplier intellectual capital, which will enable the better design of products and implementation of leaner and more efficient manufacturing processes. Cost reductions can be passed onto consumers as decreased prices and this, together with increased speed to market, increases the organisation's profitability and strategic competitive position

5.6.1 Further benefits of supplier partnerships

According to Lambert and Stock (2001:510-512), the primary potential benefits that drive the desire to develop strong supplier partnerships include:

- **Asset/Cost efficiency** – the relationship can substantially reduce channel costs and improve asset utilisation, e.g. distribution costs savings, product and information handling cost savings, and increased pooled managerial efficiencies.

- **Customer service** – the customer service level as measured by the customer can be improved. This includes: improved on-time delivery; paperless order processing; accurate order deliveries; improved cycle times; improved fill rates; and process improvements.

- **Marketing advantage** – a successful relationship can lead to substantial marketing advantages including: promotion (joint advertising and sales promotion); reduced competitor price advantage (the relationship results in cost savings that can be passed on as price reductions to customers); jointly developed product innovation and co-branding opportunities; increased geographic coverage and market saturation; and access to the latest technology.

- **Profit stability/growth** – profit growth or reduced variability in profit, e.g. sustainable growth, market share stability and sales volume increases.

- **Product specification** – by working together, customer organisations and suppliers can ensure that a product is designed according to a supplier's manufacturing capabilities and the customers' needs. This avoids over specification; leads to greater standardisation and lower reject levels; and results in less rework by customer and supplier, higher delivery performance, lower costs, and greater supplier and customer satisfaction.

- **Quality** – in these relationships, quality is built in at the design stage and continuously improved through effective process control. Supplier and customer work together towards increasing the quality of the product and reducing inspection to a minimum.

- **Mix and volume flexibility** – this is achieved with the shortest possible lead-time. The supplier and customer work together so that the manufacturing and supply processes of both parties are synchronised.

Other benefits of supplier partnerships include: increased operating flexibility, which can develop into ultimate flexible manufacturing where suppliers can yield an economic lot size of one to satisfy the diverse end-customer preferences and needs; increased value for the customer's customers with faster and better responses to new needs and opportunities; enhanced leverage with technology is also possible with earlier access to new concepts and greater control over technological change; finally, strong supplier relationships enable more powerful competitive strategies which are achieved when a customer organisation adds its supplier's expertise to its own (Du Plessis *et al.*, 2001:284).

The same benefits and principles of supplier partnerships apply to alliance and channel partnerships which are explored below, as they all form part of the same value-creating supply chain.

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5.7 ALLIANCE AND CHANNEL PARTNERSHIPS

Harbison, Pekar, Moloney and Viscio (2000:3) state that, in most industries, the ability to create compelling and memorable experiences that meet and exceed customer expectations are becoming increasingly dependant on means other than what an organisation can provide on its own. Channel and alliance partners and suppliers are playing a greater role in an organisation's ability to generate revenue and profits, as they have become more closely integrated into an organisation's core processes and competencies– from product development, to generating and fulfilling demand, to planning and managing the organisation (Galbreath, 2002a:14).

According to Murphy and Kok (2000:4), an organisation's partners can be divided into the two distinct categories of alliance partners and

distribution/indirect channel partners. Alliance partners have become necessary due to significant time constraints and financial pressures faced by organisations seeking to maximise their competitiveness with limited resources. Alliance partnerships enable an organisation to generate growth at a fraction of the cost and typically constitute relationships between organisations focused on filling single and multiple gap deficiencies, creating integrated products and/or services, or forming an innovative/break-out offering. Joint partnerships may also be used to leverage research and development capabilities in order to share costs or create proprietary technology or standards. In the ever-increasing pace of today's competitive environment, the creation of alliance partnerships can serve as a means of getting to market faster, and ahead of competitors. As alliance partnerships are focused on the aggregation of multiple differentiated capabilities aimed at serving a broader market, integration is key to success (Galbreath, 2002b:122).

Distribution/indirect channel partners are relied heavily upon by organisations seeking to deliver the right product or service at the right time, right place and right cost. Some sectors of the economy (e.g. hi-tech electronics and pharmaceutical organisations) sell as much as sixty to seventy percent and sometimes even a hundred percent of their product through indirect channels. Channel partnerships focus on leveraging indirect channels to increase the reach and distribution of an organisation's products and services and are heavily dependant on supply chain integration (Galbreath, 2002b:122).

Harbison *et al.* (2000:3) further report that the following are financial implications of the creation and successful management of partnerships:

- Strategic partnerships have consistently produced a return on investment of around seventeen percent among the top 200 organisations in the world for nearly a decade. This is fifty percent more than the average return on investment the organisations produced overall.

- The twenty-five organisations most active in partnerships achieved a seventeen percent return on equity – which is forty percent more than the average return on equity of the Fortune 500 organisations. The twenty-five organisations that were least active in partnerships lagged the Fortune 500 with an average return on equity of only ten percent (Harbison *et al.*, 2000:3).

Successful partnerships realise a twenty percent profitability when compared to only eleven percent for the less successful organisations. Revenue generation from high success alliances equates to thirty-five percent of an organisation's overall sales, as compared to twenty-four percent of low success partnerships (Murphy & Kok, 2000:4).

5.8 BOARD PARTNERSHIPS

According to Nicholson and Kiel (2004:7-9), an organisation's board is a key link to the external environment and performs the following roles:

- The board serves as a co-optive mechanism to access resources vital to the organisation.

- The board serves as boundary spanners and enhances organisational legitimacy.

- The board links the organisation to the external environment and co-ordinates the interests of shareholders, stakeholders and the public.

- The board controls the behaviour of management to ensure that the organisation achieves its objectives.

- The board supports strategy formulation, assists in the maintenance of the status quo of the organisation, and supports management.

The assistance that the board provides to management is invaluable and the ability of the board to provide this advice to and monitor management depends heavily on their expertise and ability to fully comprehend an organisation's business situation. The intellectual resources such as knowledge, information, experience, relationships, routines, and procedures can be employed by the board to create value. Ultimately the human capital of the board (i.e. the board's knowledge, skills, and abilities) impacts the board's effectiveness in performing the roles exhibited above (Nicholson & Kiel, 2004:7-9).

5.9 INVESTOR/ANALYST PARTNERSHIPS

According to Lev (2001:134), the value of the relationship assets from all of an organisation's key relationships is ultimately acknowledged and rewarded by investors and analysts. These external parties are responsible for recognising the association between intangible assets and market value. They evaluate these assets through determining whether an organisation is in control of its relationships with all key players and whether that organisation is doing its utmost to manage expectations and maintain the financial stability necessary for the business to succeed in the long-term. The three key defining attributes for investor and analyst relationships include:

- The goal of full economic valuation.
- The key value outcome of share price and availability of investment capital – stock prices tend to reflect some assessment of the value of intangibles.
- The key ingredient for success of continuous measurement, education, and communication of relationship assets.

An organisation needs to communicate its strategic vision and future relationship opportunities to analysts and must build effective measurement and communication into all relationship asset processes so that this can be

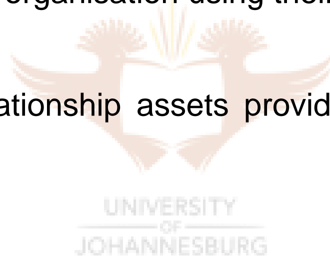
communicated to and used by analysts. The manner in which an organisation achieves this is explored in section 5.10 (Galbreath, 2002a:15).

5.10 MANAGING PARTNERSHIPS

Galbreath (2002a:18) maintains that an organisation must be able to answer the following questions in the process of identifying, classifying, and assessing the state of its relationship assets and subsequent partnerships. These include:

- How many relationship assets does an organisation possess? What kind of assets are they, and how much did the organisation pay for them? How much are these assets currently worth?

- How productively is the organisation using their relationship assets?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- On what basis are relationship assets provided, and how secure is the capital base?

- How much, and what kind of new relationship assets will be required? What will the organisation use them for? Where will they come from, and what returns can be expected?

- Does an organisation use their relationship assets more productively than its competitors use theirs?

- Does an organisation have repeatable, quality-driven processes and procedures that have been adequately developed to ensure that an organisation is maximising and efficiently leveraging their relationship assets?

- How much value is the organisation creating for shareholders with their current level of return on relationship assets?

According to Lev (2001:134), an organisation needs to maximise the quality of its relationship assets through the implementation of an overarching enterprise relationship management system whereby the following activities are undertaken on a cyclical basis:

- Identification, understanding, and management of partner knowledge created throughout the value chain.

- Translation of knowledge into distinct, memorable and repeatable customer experiences across multiple touch points.

- Conversion of repeatable experiences to earn trust and loyalty and to create more knowledge.

5.10 CONCLUSION

In this chapter, the 5th new proposed P of the marketing mix was explored. Partnerships are key stores of efficiency and value and provide a differentiating source of sustainable competitive advantage. When partnerships and their associated knowledge and innovation are added to the marketing mix, dynamism and differentiating power are lent to an organisation's marketing strategy for the superior satisfaction of customer needs.

Partnerships generate and must be supported by structural capital (i.e. property (intellectual)). This second proposed addition to the marketing mix is explored in the next chapter, chapter six.

CHAPTER 6

PROPERTY – THE 6TH P

6.1 INTRODUCTION

In chapter five, the new proposed marketing mix element of partnerships was explored. It was demonstrated how partnerships with employees, customers, suppliers, alliance/channel members, and to a lesser extent an organisation's board and market analysts, unleashes valuable and differentiating innovation and transactional capital. Taken together, this capital forms knowledge that enables an organisation to strengthen and prolong each stage of the product life-cycle to achieve a sustainable competitive advantage over its competitors.

Partnerships do however generate and need to be supported by structural capital. For example, partner knowledge can be used to create differentiating processes (property – structural process capital) that provide superior supply chain efficiency and a competitive edge. A strong brand (property – structural innovation capital) strengthens customer delight and loyalty to prompt them to be more open in their knowledge contributions. It is for this reason that the 6th P of property (intellectual) needs to be added to the marketing mix.

In this chapter, the second new proposed marketing mix element of property (intellectual) is explored. Property (intellectual) encompasses the structural element of intellectual capital and this concept is first explored. This is then followed by an examination of each of the components of property (intellectual), namely: innovation, process and organisational capital. The chapter then concludes with an examination of how the two new proposed marketing mix elements of partnership and property (intellectual) strengthen the stages and associated marketing strategies of the product life-cycle to provide organisations with sustainable competitive advantage.

6.2 PROPERTY (INTELLECTUAL) DEFINED

According to Gagne (2001:Internet), property (intellectual) represents the structural component of intellectual capital. Structural capital is the skeleton and glue of an organisation and has been described as what is left behind after employees have left the organisation. Structural capital is owned by an organisation (as opposed to human and relationship capital which is never the organisation's property) and comprises the infrastructure that supports partnerships. Structural capital includes information systems, proprietary databases, organisational charts, process manuals, laboratories, market intelligence, and intellectual property (e.g. brand names and patents). This capital is part of the intellectual capital that is owned by an organisation and its efficient and dedicated management is essential for the creation of shareholder value, prolonged first-mover advantage, and ultimately sustainable competitive advantage. The ultimate role of structural capital is to enable managers and employees to leverage their partner knowledge to ensure the efficient pursuit of organisational goals and, in so doing, the achievement of the above-mentioned benefits (Nastansky, 2000:Internet).

Brown (2003:Internet) contends that intellectual property adds market value to all organisations, but is particularly important for smaller organisations and start-up enterprises where intellectual property can represent over 50% of an organisation's value. Intellectual property can also provide an additional income stream through the licensing of patent rights. Intellectual property also prolongs first-mover and overall market advantage due to the fact that licensed or registered intellectual property can block competitors from copying innovations and/or processes for a period of time. Intellectual property therefore enables the maintenance of a product or service advantage and enhances branding and market effectiveness. Valuable and inimitable intellectual property also attracts venture capitalists (and other investors), strategic partners, customers and employees to an organisation (Nastansky, 2000:Internet).

Lev and Radhakrishnan (2002:1) are of the opinion that structural capital also includes business policies, processes and procedures that enable organisations to efficiently use partnerships and other intangible resources to generate growth. Structural capital can be divided into the three primary components of innovation, process, and organisation capital which are examined more closely in the following sections.

6.3 INNOVATION CAPITAL

According to Brown (2003: Internet), innovation capital is primarily composed of brands, patents, trademarks and trade secrets, and copyrights. Brands and patents are the most valuable forms of innovation capital and are consequently more deeply explored.

6.3.1 Brands

Abimbola (2003:Internet) reports that strong brands provide organisations with marketplace leverage. A strong brand enables an organisation to command premium pricing among customers and a premium stock price among investors, while increasing earnings and reducing the impact of cyclical downturns. Research indicates that organisations that consistently invest heavily in their brands have the benefit of a stock price that is fifteen percent higher than the market average. These organisations also enjoy brands with high market values. The Coca-Cola brand is worth more than half the market value and 10 times the book value of its parent organisation, while the value of the Microsoft brand is about one fifth of the organisation’s market value and over 150% of its book value (Beckwith & Herman, 2002:Internet).

Keller (2003:3) defines a brand as a name, term, sign, symbol, or design, or a combination of these, that identifies the maker or seller of a product or service. Consumers view a brand as an important part of a product, and branding can add value to a product. The process of branding involves knowing why people buy an organisation’s products and services and giving customers what they want during the selling-and-marketing process. Brands

are one of an organisation's most powerful tools and they add significant value to the bottom line. They also allow an organisation to have premium margins and premium profitability and consequently represent valuable intellectual property that needs to be efficiently leveraged by means of a branding strategy (Willins, 2000:Internet and Armstrong *et al.*, 2001:301).

Abimbola (2003:6) further states that branding strategy is a policy for creating and nurturing sustainable competitive advantage. It consists of the development and maintenance of sets of product attributes and values that are coherent, appropriate, distinctive, protectable and appealing to customers. Branding involves delivering on all the promises and perceptions that an organisation wants its customers and partners to hold. Branding becomes a strategic advantage when it identifies and exploits operational excellence, customer intimacy, or product leadership. The brand advantage differentiators of operational excellence include product and service attributes such as price, time, quality and selection. The successful exploitation of this brand advantage involves consumers viewing themselves as smart shoppers. Customer intimacy brand advantage differentiators include product and service attributes, as well as service and customer relations. The end result is the customer viewing the brand as a trusted brand. To attain branding sustainable competitive advantage in the product leadership category, differential advantage can be found in product functionality where the consumer views the brand as best in class (Gossen & Gresham, 2003:Internet).

Branding sustainable competitive advantage is primarily attained through the careful development and management of a brand's equity. According to Kohli and Leuthesser (2001:3-4), brand equity is defined as the differential effect of brand knowledge on customer response. The most critical element of this definition tying into sustainable competitive advantage is differentiation. Without differentiation, a brand cannot be a valuable source of intellectual property and can never attain a premium in the marketplace. In some instances, differentiation is relatively easy to create (e.g. clothing lines and cars), whereas in other instances, it can be far more difficult (e.g. commodities

like petrol). Brand knowledge is also crucial as customers must be aware of and appreciate the differentiation. Customers should also respond favourably to the differentiation and this response should manifest in the development of some loyalty towards the product and be reflected in their willingness to pay a premium for the product. Brand equity ultimately results in superior performance and an enhanced ability to earn long-term economic profits.

In order to achieve this differentiation and sustainable competitive advantage, brand equity needs to be carefully managed. The process of managing brand equity is reflected in figure 6.1 below.

Figure 6.1: Managing brand equity

Source: Adapted from Kohli and Leuthesser (2001:4).

Superior brands have a clear vision and stand for something important and relevant to their target audiences. The strongest brands are also innovative and capable of constant self-renewal, e.g. brands like Coca-Cola, Disney, McDonalds and Mercedes consistently meet customers' expectations at the highest level and are unmatched. Strong brands also exhibit clarity and consistency. The way in which the brand is communicated must be consistent and clarity involves the communication of what makes the brand values distinctive and relevant (Kohli & Leuthesser, 2001:5).

According to Keller (2003:75), brand identity includes all the elements through which the brand communicates with customers. Identity consists of the three integral components of brand name, logo and slogan. The brand name anchors the product's identity and must be capable of standing the test of time in the marketplace. Names should also be short, simple and distinctive. Logos support brand names and help to penetrate the increasing amount of market noise and clutter, as consumers tend to find it easier to process and remember visual information. Slogans capture the essence of a brand's positioning and tend to form the link between long-term brand identity and day-to-day marketing activities. The slogan must be consistent across communication media and must change to reflect strategy and positioning dynamics (Kohli & Leuthesser, 2001:6-8).

Keller (2003:654) further states that brand awareness involves the connection of a brand with its product category. If consumers are unable to position a brand in the correct purchasing context, the advantages of recognition and recall are greatly diluted. At its lowest level, brand awareness involves consumers being able to identify a brand as a member of a particular product category when presented with a list of categories (aided recall). Stronger brand awareness is present when a consumer can name a brand as a member of a product category without any assistance (unaided recall) (Kohli & Leuthesser, 2001:11).

Keller (2003:66) also maintains that brand image is a set of associations that is organised in such a way as to produce a global impression. These associations will be stronger when consumers have greater numbers of brand related experiences or exposure to brand communications. Images also tend to have more of an impact when they are consistent with and reinforce each other. The strength and uniqueness of the brand image gives organisations the ability to extend the brand to different product categories and thereby widen the brand's scope of influence and potentially enhance its equity. Powerful brands like Coca-Cola and Disney have capitalised on numerous opportunities to extend the brand into products and places that are consistent

with the family, fun, wholesome and nostalgic values that the brand symbolises (Kohli & Leuthesser, 2001:11).

Brand loyalty consists of three phases, namely: brand recognition; preference; and insistence. Brand recognition is an organisation's first objective for newly introduced products and involves an organisation's attempts to leverage their brand to top-of-mind awareness with their customers. Brand preference involves customers preferring the brand above all others, with brand insistence representing the ultimate stage of brand loyalty as it leads to consumers refusing alternative brands and searching extensively for their desired brands. A brand that has secured this level of loyalty represents a valuable structural intellectual asset for the organisation, as customers are immune to competitor actions and offerings, resulting in sustainable competitive advantage, profitability, and market share for the owner of this brand. In addition, subsequent innovative products released under this brand will enjoy prolonged first-mover advantage due to the competitor immunity of the brand's loyal customer base. Efficient management is required in order to determine what stage of loyalty is relevant to each of an organisation's brands, and strategies need to be accordingly developed and implemented to develop brands to the insistence stage and keep them there. This, however, requires a dedicated brand management team under a competent brand manager (Boone & Curtz, 2001:Internet).

According to Chanolmsted (2002:Internet), brands vary in the amount of power and value they have in the marketplace. A powerful brand has high brand equity, which translates into higher brand loyalty, name awareness, perceived quality, and stronger consumer brand associations than competing brands. Strong brand equity allows an organisation to realise the following benefits: stronger brand loyalty; larger margins with associated price inelasticity; reduce vulnerability to competitor actions; higher trade and channel support; increased marketing communication effectiveness; and greater opportunities for licensing and brand extensions. All these benefits ultimately translate into sustainable competitiveness (with associated high market share and profitability) (Armstrong *et al.*, 2001:302).

6.3.1.1 Brand management

Keller (2003:42) is of the opinion that efficient brand management is required in order to develop and maintain high equity brands with their associated brand loyal customer bases. Brand management involves consciously providing a product with an identity that is understood on all levels. Brand managers and their team must constantly ensure that brands are understood both internally and externally among customers, employees, suppliers and distributors. Brand management is the philosophy and core tenet behind all business development and it puts the big picture perspective into focus and determines where an organisation takes and makes its future (TechDivas, 2002:Internet).

Chanolmsted (2002:Internet) maintains that traditional brand management cannot ensure the effective development and maintenance of brand equity for sustainable competitive advantage, and brand managers now need to approach branding in a different way. Traditional mindsets involving brand management must be changed in order to continuously build and maintain innovative brands. The old and required new mindsets are explored in more detail below (Hodgins, 2002:Internet).

It was traditionally thought that a superior product resulted in sustainable organisational competitiveness. However, competitors can easily match product attributes, which results in an organisation no longer having a superior product and losing their competitive position. Organisations must elevate the purchase decision beyond an intellectual, rational or functional level to a brand level in order to achieve sustainable results. Managers must recognise that consumers connect with brands on two levels: on a functional level where superior functional or physical product attributes must be provided; and on an emotional level which involves a need for product security and personal relevance, which a well-built and managed brand personality can provide. Managers must position their brands to create emotional superiority and, in so doing, establish a long-term emotional bond between the brand and the customer. Leading brands transcend and outlive

products and are a valuable source of intellectual capital. The new mindset that must be adopted is that a superior brand results in sustainable business results (Hodgins, 2002:Internet).

According to Chanolmsted (2002:Internet), it was also traditionally believed that being the first to market with new products is the key to sustainability. However, in the current competitive and technologically enabled market place, competitors can easily imitate the latest products of an organisation and may even be capable of reaping greater profitability as they will have learned from an organisation's mistakes and benefit from the organisation's investment in building and educating a new market. Brand managers must realise that the only way to create a sustainable, prolonged first-mover advantage is to be the first brand to market. A strong brand will be protected from competitor actions and subsequent new products can be easily released under it (Hodgins, 2002:Internet).

Finally, Hodgins (2002:Internet) contends that many organisations believe that brand management builds great brands. However, the culture of traditional brand management is based upon managing the status quo and making incremental improvements on past efforts. Most brand managers work in a culture that is focused on analysts' expectations and do not have a long-term focus, managing their brands on a day-to-day basis. In this culture, short-term sales tactics erode the value of the brand. The most powerful brands in the world have been built by thought leaders who look for the opportunity of breaking set conventions. The new mindset that must be adopted is that it is thought leadership that builds great brands that are sources of sustainable competitive advantage and valuable intellectual capital for an organisation. Brand managers must be encouraged to think creatively and constantly challenge the status quo. A culture of innovation and internal "love of" and dedication towards building, developing and maintaining an organisation's brands must be instituted.

6.3.2 Patents

Brown (2003:Internet) defines a patent as a government issued document that provides its owner with the right to prevent competitors from profiting from the invention defined by the claims. According to the Japan Patent Office (2000:Internet), a patent is a license to run a limited monopoly, where others are excluded from making, selling or exploiting the patent for a period of time while the inventor develops, markets, and capitalises on his/her ingenuity. Licenses confer certain rights to organisations where the exclusive patent rights allow for the acquisition of a monopoly of a business and can be used as a weapon by organisations to have their products dominate the market or increase their share in the market.

In order for a patent to be granted, it must be novel (i.e. different from any existing invention) and it must not be obvious (commercial success can validate non obviousness). Patents usually expire 20 years after the filing date (Williams & Bukowitz, 2001:107).

According to Lang (2001:8-21), patents are a vital source of sustainable competitive advantage in the knowledge economy where value is generated from protected ideas, knowledge, skills and methods. Patents also provide the strongest form of intellectual property protection.

Lang (2001:18-19) further maintains that the strategic management of patents has the potential to increase an organisation's competitiveness in the marketplace. Valuable patents can arise through corporate employees designing a unique form of delivery of competitive customer services. These service-driven patents are a valuable and legitimate way to protect against competitors and to help sustain a proprietary market advantage. For example, Dell Computers achieves success in the personal computer business through its innovative, build-to-order, direct sales business model. Dell thereby creates superior customer value through the establishment of a unique system of marketing a "me-too" product in a non-traditional way. Dell sustains these sources of competitive advantage through the ownership of 40

patents that protect its online ordering system as well as the integration of the system with Dell's continuous flow manufacturing, inventory, distribution and customer service operations (Rivette & Kline, 2000:56).

According to Lang (2001:19), patents can become royalty generators through the practice of licensing. Patents can also be used to develop cross-licensing agreements with other partners that can reduce the cost of acquiring technology needed to improve an organisation's production processes. High quality patents can also attract risk/venture capital and financing for new business developments as they represent tangible evidence of earnings potential and competitive prospects to investors in the financial community.

In order to support the continuous development of this source of innovation capital, managers within the organisation must emphasise that innovation is the responsibility of all employees to support the creation of new business models. Employees must consequently be alert to the existence of opportunities for protecting valuable business ideas and must be focused on protecting strategies that add value to the customer (Lang, 2001:20).

Williams and Bukowitz (2001:107) are of the opinion that, in order to take advantage of patent benefits, it is essential for organisations to develop and manage strong patent portfolios, as these portfolios can be the foundation of a successful organisation. In order to develop and manage these portfolios, organisations must first acquire patent rights, maintain these rights and develop strategies for efficient portfolio management. Efficient patent portfolio management is essential, not only for controlling and reaping the benefits from these innovative intellectual assets, but also to serve as a foundation for the justification of investment in and efficient management of all other intellectual assets.

6.3.2.1 Acquiring patent rights

According to Lang (2001:22), organisations continue to pursue profits despite tough technical competition by meeting the needs of the market and contributing to society through technical developments. Organisations gain the upper hand over their competitors by converting the results of their technical developments into patent rights. In order to ensure that technical and research and development efforts are converted into and registered as patents, organisations must develop and manage a patent office that liaises with research and development personnel and ensures that new ideas and inventions that represent potential patents are thoroughly evaluated and accordingly registered with the appropriate authorities. The patent office must also constantly communicate with top management regarding the patents that are available for development and exploitation in the market.

The acquisition of patent rights provides three areas of potential exploitation: monopoly development, licensing income, and freedom of activities. Patents allow organisations to develop products that incorporate unique technology in their production and/or use, where the patent protects the organisation against competitor imitations and subsequently prolongs first-mover advantage through the protection of market share and profitability – patents enable the opportunity for the development of an initial monopoly with the subsequent development of a loyal customer base. As a result, when the patent expires, the loyal customer base will be more immune to competitor offerings, translating into sustainable competitiveness for an organisation (Japan Patent Office, 2000:Internet).

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Delphion Industry Insights (2002:Internet) report that licensing patents developed by an organisation to third parties enables an organisation to utilise the patent right as a means to increase its corporate profits by earning licensing fees. An organisation can increase its income by licensing to other firms that require the technology in situations where: a product based on a previously developed new technology has been fully developed, modified and

extended and has generated sufficient prior profits; subsequent competitors' products are under circumstances that do not threaten the organisation's strategies; or where patents are related to a non-core technology unrelated to the organisation's products. Patent royalty earnings are very profitable, there is almost no cost involved in licensing out existing patents, and the same patent can be licensed many times – all resulting in increased organisational profitability. Patent revenue also provides income stability (predictable stream of income from licensing contracts) and can be used to sustain operations during economic downturns and, in so doing, sustain competitiveness (Japan Patent Office, 2000:Internet).

6.3.2.2 Maintaining patent rights

According to the Japan Patent Office (2000:Internet), in order to maintain the registered patent rights, applicants must pay annual maintenance fees which, if unpaid, result in the revocation of patent rights. It is a waste of corporate resources to continuously pay the annual maintenance fees for patents that have lost their significance and it is necessary for organisations to regularly evaluate whether it is worth maintaining the registered patent rights or not. This should be the responsibility of a patent office that should regularly analyse the patent portfolio and communicate their results and recommendations to top management. Patent rights that should be maintained include: patents concerning an organisation's products, production processes and production facilities; patents licensed to other organisations; patents concerning products to be marketed in the future as well as those which can earn profits in the future through licensing to other organisations; patents which are basic and technically important; and patents which are important with respect to an organisation's sales policy.

Patent rights which should be disposed of include: patents which are not used and have no future prospects; patents which have lost their value due to the development of alternative technologies and would not bring any disadvantages to the enterprise if they were used by others; patents which are

deemed to have lost any prospects of earning profits through licensing (Japan Patent Office, 2000:Internet).

6.3.2.3 Efficient patent portfolio management

Zimmerman (2002:Internet) is of the opinion that the key to survival in the current dynamic marketplace involves the efficient management of ideas. Organisations need to know where ideas come from as well as how they can make the most of new innovations. However, it is very difficult for organisations to measure and account for the value of technological and intellectual assets. It is for this reason that businesses need new methods of accounting for technological and intellectual assets that will more accurately reflect their real value and earnings on corporate balance sheets, which will enable an organisation to demonstrate to investors the true value of their operations and to better direct an organisation's actions. As patents are the only corporate intellectual assets that earn obvious high margins, patents form the starting point for the development and implementation of thorough intellectual property asset management systems (Delphion Industry Insights, 2002:Internet).

Organisations with substantial patent portfolios can use them as a practical, high payoff starting point for intellectual property asset management, and from where intellectual property asset management can be spread throughout an organisation. Intellectual property asset management systems have become key in capturing and sharing knowledge about patents across many departments in an organisation. Intellectual property asset management systems also assist organisations in making decisions about which patents to pursue and about whether patents that the organisation holds are making money (Delphion Industry Insights, 2002:Internet and Zimmerman, 2002:Internet).

According to Rubenstein (1998:Internet), patent portfolio management begins with organising existing patents into related portfolios with the object being to

identify patents that are relevant to current technology and that organisations on the cutting edge of technology are using or are likely to have a need to use. Management responsibilities must then be allocated for each portfolio (including maintenance costs and licensing income) and each portfolio must then be allocated to an appropriate specific operating unit of the business and its managers (this division and allocation must be implemented and managed by a central organisational patent office – where the office also continuously monitors the status of all patents within all units). Following division and allocation, patents can then be reviewed by operating managers to establish their financial and strategic importance and the managers can then plan to create immediate, medium-term and long-term benefits, namely (Delphion Industry Insights, 2002:Internet):

- Immediate savings can occur from simply identifying patents that have little or no business value and subsequently cancelling them in order to save on their maintenance costs. These savings may be used to pay for the start-up cost of the intellectual property asset management program.

- Medium-term planning results in specific licensing benefits. The organisation can uncover which patents can be licensed to everybody including competitors in order to maximise revenue. Licensing to competitors also results in a cost structure advantage, as the competitor will be paying a license fee on every product sold. Tying a competitor to an organisation's technology also reduces the competitive incentive to find ways to work around the technology or even make the technology obsolete with an innovation of its own. Sustainable competitiveness can subsequently be realised.

- Long-term strategic patent portfolio planning involves business managers assuming "ownership" of patents and making quantifiable evaluations of the need to develop successive technologies to protect the firm's competitive position and profitability in the future, and optimise plans for ensuring this.

This planning also allows for improved competitive intelligence and strategic vision – long-term patent strategy involves reviewing the field of patents owned by competitors on computer generated "patent maps" that graphically display the distribution and ownership of patents regarding selected products and technologies. These maps uncover areas where research and patenting may be lucrative and areas to avoid due to strong competition, as well as the strengths and weaknesses of competitors and the new directions they may be taking. This information provides valuable input in the development of overall corporate strategy with regards to new product and market development and competitive positioning.

Williams and Bukowitz (2001:100) maintain that efficient patent portfolio management contributes to the achievement of increased profitability, sustainable competitiveness and prolonged first-mover advantage. Successful patent intellectual property asset management can also lead to the spread of intellectual property asset management throughout a business, enabling the efficient management of, and consequently increasing the value of, other organisational intellectual property.

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6.3.3 Trademarks and trade secrets

Williams and Bukowitz (2001:108) define a trademark as a word, name, symbol or device, which is used in trade with goods to indicate the source of the goods and to distinguish them from the goods of others. A servicemark is the same as a trademark, except that it identifies and distinguishes the source of a service rather than a product.

According to Brown (2003:Internet), the strength of a trademark depends on its nature. Types of trademarks include (in order of weakest to strongest):

- *Generic* – mostly unprotectable.
- *Descriptive* – "Brilliant" as a trademark for a lighting product.
- *Suggestive* – "Stronghold" as a trademark for nails.

- *Arbitrary* – “Apple” as a trademark for computers.
- *Fanciful* – “Exxon” as a trademark for gas.

Trade secrets represent marketplace and existing technological knowledge that is known to and actively utilised by an organisation. Trade secrets are usually unique to a particular organisation. Trademarks and trade secrets can be indefinitely protected with active use by the organisation (Brown, 2003:Internet).

Williams and Bukowitz (2001:107) further maintain that trade secret protection is fairly broad and can include recipes such as Coca-Cola, formulae for the creation of specific and unique materials, compilations of information and computer programmes, unique production processes and specific business, financial and market information. Trade secret protection only becomes a useful resource if secrecy can be maintained, which implies that the invention or process must be difficult to reverse engineer and the chances of someone else discovering or developing the trade secret must be minimal. This is where partner knowledge can play a primary role as it can ensure the strength and sustainability of trade secrets (Lang, 2001:9).

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6.3.4 Copyrights

According to Brown (2003:Internet), a copyright is an exclusive right to reproduce, distribute, practice or publicly display an original work. Copyrights are fairly weak as they do not protect an idea, procedure, process, system or method of operation (Lang, 2001:9).

6.4 PROCESS CAPITAL

Williams and Bukowitz (2001:99-102) contend that business methods and processes are a new form of intellectual property that are also capable of being patented. Business methods represent the know-how that is embedded within the processes that an organisation uses to deliver a service or create a

product. Business methods must be protected, particularly in the job-switching climate of the current employment market. Without some legal form of protection of these methods, they can easily be recreated by competitors that gain access to the human capital (i.e. employees) that created them. An additional advantage of patenting business methods, is that the patenting process requires the specific articulation and codification of an intangible asset. Valuable knowledge held within employees' heads is thereby made explicit.

According to Lev and Radhakrishnan (2002:3), there are some unique examples of business processes that have proved to be a source of sustainable competitive advantage for different organisations. These include:

- Wal-Mart's supply chain, where the reading of barcodes of purchased products at the checkout register is directly transmitted to suppliers who are in turn responsible for inventory management and product provision to Wal-Mart stores.

- Cisco's Internet-based product installation and maintenance system has saved the organisation an estimated $1.5 billion over 3 years.

- Dell's pioneering built-to-order sales system where customers design their own orders according to their unique needs.

- Merck's extensive network of hundreds of research and development and marketing alliances and joint ventures has significantly reduced costs and provided a source of differentiation in the marketplace.

Sharkie (2003:22) states that core competencies, which are the basic unit of competitive advantage, don't simply consist of the narrow skills or outputs of a single functional department. Sustainable competitive advantage comes from bundles of skill or know-how that are built by senior managers who have the necessary organisational influence and authority to enforce networking and

co-operation. Organisations gain their competitive advantage by linking the processes in their organisations, which give them strength in the delivery of products or services that are based on capabilities that come from the entire value chain.

Although not as valuable as innovation capital, process capital also contributes towards sustainable competitiveness and prolonged first-mover advantage. An organisation's unique business processes and project management methodologies cannot be easily imitated by competitors and result in sustainable and prolonged advantage. However, process capital is more difficult to identify, codify and analyse, and manage. Business process and project methodology management are explored in more detail in section 6.4.1 (Lev & Radhakrishnan, 2002:8).

6.4.1. Business process management

According to Chambers, Gautem and Turocy (2003:Internet), a process is any business function or set of functions that includes the interaction of large numbers of distributed people and disparate systems where management, co-ordination, and automation of tasks and decision-making would provide a business benefit. Business processes involve the specific way in which organisations develop, produce and sell their products and services and is at the core of long-term success. Business process management is required in order to maximise the efficiency of an organisation's unique set of systems, people and partners and to optimise the processes that define how work is achieved. Business process management offers organisations tangible opportunities to focus on core competencies and collaborate successfully with customers, partners and suppliers. By focusing on business processes, organisations can focus on and co-ordinate mission-critical activities within their organisation, while at the same time establishing strategic external partnerships with a network of experts for non-core processes. Business process management is particularly useful today, as organisations can now utilise advancements in technology to streamline the seven basic process

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capabilities, namely: discovery; design and redesign; deployment; execution; maintenance; optimisation; and analysis (TIBCO, 2002:Internet and Smith, 2001:Internet).

Business process management ensures a continuous focus on customer retention, cost control/reduction and performance and asset retention. It is also an effective way to ensure increased customer centric operations and reduced operational costs. Business process management builds on the foundation of imaging and document management, workflow, task management, and process automation. Workflow moves those images and documents to the appropriate processing areas and monitors the progress of that work while ensuring that the right people are processing the right items at the right time. Task management monitors individual processing steps and guides employees through pre-defined steps to ensure that each task is completed accurately (Welch, 2002:Internet).

Roberts (2002:Internet) reports that technology can now be leveraged to automate business processes and this process automation can be applied to work steps where human intervention is not required - resulting in additional process improvement. Process automation eliminates many traditional manual steps, resulting in significant productivity gains, customer retention, and increased overall operational efficiency by automating sequences of tasks and enabling detailed analysis and optimisation of process flows. The automation of business processes also enables greater business visibility and provides interactive reports that allow managers to monitor their processes in real time and make the required adjustments. Next generation process analysis tools will also incorporate simulation capabilities that will allow organisations to model business processes and then simulate them under real conditions. This will allow managers to detect potential bottlenecks and will enable processes to be tested and optimised before being implemented in a production environment (TIBCO, 2002:Internet).

According to Welch (2002:Internet), unique, efficient and well-managed business processes and the technology used to automate them, form an

important source of intellectual capital, as the specific way in which organisations organise work and perform operations to produce goods and services and deliver them to market cannot be easily imitated by competitors. For example, a unique and efficient production process for new product delivery provides sustainable competitive advantage for that product, as competitors may not be viably able to cost-effectively produce a competitive offering due to their inability to imitate the efficiency of the competing organisation's production process.

Frieswick (2001:Internet) maintains that some business processes are so unique and valuable that they are patented in order to protect a particular organisation's investments and intellectual capital against competitor imitations. The challenge for organisations that wish to mine their intellectual property for patent potential is to protect those processes that are differentiators and that make an organisation's business better than that of competitors. Efficient business process management can assist organisations in identifying and protecting those processes (e.g. ensuring that differentiator processes are registered and maintained as patents) (Japan Patent Office, 2002:Internet).

6.4.2 Methodology management

According to Welch (2002:Internet), methodology refers to the processes, procedures, templates, best practices, standards, guidelines and policies that an organisation uses to perform certain aspects of work. All of these methods are typically employed by organisations to manage projects and the methodologies provide the framework that project managers use to manage their work. The methodology must be adaptable in order to meet the changing needs of the organisation and must add value to the projects that utilise it. Such methodologies represent valuable sources of intellectual capital as they ensure the success of organisational projects. For example, efficient methodologies can enable faster speed to market for new product development projects as well as faster response by projects that monitor and

institute counter-actions regarding competitor actions – prolonged first-mover advantage and sustainable competitiveness are consequently realised (Smith, 2001:Internet).

Mochal (2002:Internet) is of the opinion that organisations must create a project management office and allocate responsibility for efficient project methodology management to its manager and staff. There are three areas of methodology management that the project management office should be responsible for, namely: methodology development, support, and enhancement.

- *Methodology development* – an organisation must choose whether to: build their own methodologies (building a custom methodology from scratch); buy methodologies that have been developed by other organisations; or purchase already developed methodologies and then customise them according to an organisation's unique standards, templates and processes. Methodologies that have been built or customised are valuable components of an organisation's intellectual capital as they enhance project performance in the marketplace.

- *Methodology support* – this involves answering questions about the methodology and how best to apply it to individual projects; and providing ongoing training classes for new and current employees. This ensures that the methodologies are efficiently applied to related projects for the attainment of ultimate project advantage.

- *Methodology enhancement* – this includes areas such as: expanding and extending the current processes; creating new training classes; and enhancing processes and templates to make them more valuable and easy to use – again ensuring optimal project performance.

Project management methodology is an intangible intellectual asset that must be developed, supported and enhanced. This valuable intellectual property must be leveraged as a long-term asset and must be strengthened over time

in order to provide the best support for organisational projects that ultimately secure sustainable competitive advantage.

6.5 ORGANISATIONAL CAPITAL

According to Lev and Radhakrishnan (2002:2), organisational capital represents technologies, managerial processes and philosophies, as well as organisational culture and designs that enable organisations to efficiently use both tangible and intangible inputs to create value and growth. Organisational capital has the capability to transform inactive assets into value creators. Organisational capital is created from many forms of intangibles such as:

- *Discovery/Learning intangibles* – technology, know-how, patents and other assets derived from the discovery (research and development) and learning (e.g. adaptive capacity and reverse engineering) processes of organisations.

- *Human resource intangibles* – specific human resource practices such as training and compensation systems, which enhance employee productivity and reduce turnover.

- *Organisational design intangibles* – unique structural and organisational-specific processes, technologies and blueprints that generate sustainable competitive advantage and value.

Van Buren (2002:Internet) declares that the main elements of organisational capital include:

- *Leadership* – this includes the actions and statements of an organisation's leaders that demonstrate a strong belief in, understanding of, and commitment to the values and business objectives of the organisation.

- *Structure* – this represents the efficient organisation of individuals, work groups, teams, and business units within and across an organisation.

- *Culture* (behaviour/communications) – this represents the widely shared beliefs, norms and values about appropriate ways of behaving and conducting work within an organisation.

  Baker *et al.* (2000:69) maintain that the most valuable organisational culture that unlocks partner knowledge is a collaborative co-creating one. Most organisations need to evolve through two additional cultural stages to reach this ideal. The different stages include:

  - *Mechanistic (controlling)* – in this form of culture, organisations match best current market practices consistently, reliably and routinely. The organisation is characterised by centralised power and knowledge and does not respond to changes in the environment. People are viewed solely as an economic resource.

  - *Participative (improving)* – the organisation is characterised by continuous improvement through systemic feedback and reflection. The climate is again one of centralised power, but also of distributed knowledge. The organisation responds to environmental changes through adaptation and people are viewed as an information resource.

  - *Collaborative (co-creating)* – here the organisation acknowledges multiple stakeholder interests and complexity through dialogue and collective interpretation. The climate is one of distributed knowledge and power and the culture supports virtual organising and just-in-time alliances. The organisation co-creates its environment and future and people are viewed as resourceful and knowledgeable.

- *Technology/Processes* – this represents the formal tools and methods that are employed by an organisation in the execution of its core business activities.

- *Rewards and recognition systems* – these are the methods of positive reinforcement used by an organisation to encourage desired behaviours.

- *Measurement* – these are the tools and methods used to monitor, record and track the performance of individuals, units and the organisation as a whole.

- *Knowledge, skills and abilities/competencies* – the existing capabilities of employees to carry out the work of an organisation.

  Shani, Sena and Olin (2003:137-138) contend that the organisation's knowledge base, the corporate database, computer network infrastructure, computer hardware and software, and office automation products that support and facilitate knowledge workers (i.e. human capital), play a key supporting role in the leveraging of knowledge, skills and competencies.

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- *Management* – these are the tasks associated with ensuring that the activities of an organisation are performed as planned.

According to Smith and Bollinger (2001:10), an organisation's knowledge is one of the most valuable and unique forms of organisational capital and deserves special attention. This organisational knowledge has all the characteristics of a strategic asset:

- *Inimitable* – each individual within an organisation's network (be it customer, supplier, employee or partner) contributes to an organisation's knowledge base through their personal interpretation of information and experiences. This knowledge is also built on the unique past history of the

organisation's own experiences and accumulated expertise. No two organisations will consequently think or function in the same way.

- *Rare* – organisational knowledge is the sum of employee know-how, know-what and know-why as it is built on the knowledge and experience of current and past employees as well as on specific organisational prior knowledge, it is rare.

- *Valuable* – new organisational knowledge results in improved products, processes, technologies and services and consequently enables organisations to remain competitive and viable.

- *Non-substitutable* – organisational group knowledge represents a synergistic relationship between various functional departments. The group as a whole therefore represents distinctive competence which is non- substitutable.

According to Smith and Hanson (2002:367-368), in the dynamic new economy, above average returns can only be derived from differentiation that is based on an offering of unique value to customers. In order to create this unique value, an organisation must possess unique capability. Focus has consequently shifted from operational effectiveness and efficiency to the need to develop and deploy unique core competencies. Above average returns are only guaranteed through the development of unique, hard to imitate operational capabilities that allow an organisation to create and deliver unique value to their customers. These core capabilities are made up of an organisation's unique technical knowledge and understanding as well as its unique operational proficiencies. Each core capability is consequently a specific bundle of technical know-what and operational know-how.

Core capabilities are generated by human and relationship capital (partnerships) and have become a valuable form of organisational capital that

can create and sustain competitive advantage in today's dynamic marketplace.

Ultimately, organisational capital enables the efficient creation and management of innovation and process capital and supports all partnership growth, interaction and management.

6.6 THE IMPACT OF PARTNERSHIP AND PROPERTY ON THE PRODUCT LIFE-CYCLE

The manner in which partnership and property (intellectual) strengthen each stage of the product life-cycle is explored below:

6.6.1 Introduction

According to Kotler and Armstrong (2001:361), the introduction stage is typically characterised by low sales, high costs per customer, negative profits, few competitors and mainly innovator customers trying the new product. The primary marketing objective for this stage is to create product awareness and trial.

The knowledge derived from partnerships can facilitate the development of new products and services that are a closer match to customer needs, thereby encouraging early trial and mitigating product failure. This knowledge can also be used to improve organisational processes and overall supply chain efficiency. Timely knowledge of experienced problems also lends an adaptive flexibility and the avoidance of escalating costs. Products and services released under a strong brand will also encourage earlier and easier adoption. Good analyst partnerships will ensure that the organisation receives positive feedback regarding the new product launch which will attract greater volumes of investor capital and help shore up the stock price. Ultimately, these and the many other benefits and differential value explored under partnerships and property, results in greater sales, lower costs per customer and consequently greater profits in the introduction stage. Greater

awareness and trial are also encouraged by good channel partnerships promoting and pushing the products, as well as a strong brand mantra.

6.6.2 Growth

Kotler and Armstrong (2001:361) maintain that the growth stage is characterised by rapidly increasing sales, average costs per customer, increasing profits, a growing number of competitors, and early adopter customers. The primary marketing objective of this stage is to maximise market share.

Partnerships and property (intellectual) continue to add the same value added in the introductory stage, but to a greater extent due to the experience and consequent knowledge and efficiency gained and shared by all in the introductory stage. A strong brand and the development of core competencies and processes/methodologies throughout the supply chain, lend an inimitable element to the organisation's product delivery for greater profits and fewer competitors being able to enter with a similar product and erode market share. The efficiency lent to the organisation's operations through its partner capital as well as the strength of the brand and potential patenting of the new product/service technology, mitigates increasing competition in this stage.

6.6.3 Maturity

Kotler and Armstrong (2001:361) state that the maturity stage is characterised by peak sales, low cost per customer, high profits, a stable number of competitors (also beginning to decline) and middle majority customers. The primary marketing objective of this stage is to maximise profits while defending market share.

Partnerships and property (intellectual) make market share easier to maintain due to: the cost efficiencies afforded by partner capital and knowledge; the

adaptability to evolving customer needs afforded by freely shared knowledge by customers and other channel partners; and the sustainable competitive advantage afforded by the partner knowledge and intellectual property to buffer competitor actions.

6.6.4 Decline

Kotler and Armstrong (2001:361) report that the maturity stage is characterised by declining sales, low cost per customer, declining profits and number of competitors and laggard customers. The primary marketing objective of this stage is to reduce expenditure and milk the brand.

Partners are a valuable source of innovation capital. They constantly produce new and innovative ideas that can be capitalised on when well monitored and managed. This knowledge and be used to add innovative new features to products and services to place them back in the growth and maturity phases. Revolutionary ideas can be used to generate spin-off products and services at lower research and development set up costs due to shared knowledge and efficiencies previously obtained. Revolutionary ideas place the products back in the introductory phase. If however, the product/service cannot be rejuvenated, the efficiencies afforded by the organisation and its supply chain's intellectual capital infused processes and operations, allows for lower costs with brand strength lending a hand to the earning of greater profits.

6.7 CONCLUSION

In this chapter, the elements of the second proposed P of property (intellectual) were explored. This element supports and is derived from partnerships. In as much as an organisation is able to own property, every effort must be taken to institute effective management systems to ensure that knowledge from partnerships in embedded in this property (intellectual). However, this is a reciprocal system, as efficiently developed and managed

property (intellectual) is required to capture and support these partnerships to extract the valuable sustainable competitive advantage creating knowledge.

This chapter also demonstrated the differential impact of the two new proposed elements on the product life-cycle. The two new elements ultimately make the introduction stage more efficient, prolong the growth stage, supplement the maturity stage, and add renewal and increased profitability to product decline.

In the next chapter, chapter seven, the credit card industry is explored. It is demonstrated how the addition of the two new elements to an organisation's marketing mix, provides that organisation with the sustainable competitive advantage needed to triumph in this highly competitive and dynamic industry.

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CHAPTER 7

CASE STUDY – THE CARD INDUSTRY

7.1. INTRODUCTION

Chapters five and six have explored how partnerships and property (intellectual) provide the knowledge, expertise and intangible functionality required to achieve dynamic and differentiating marketing strategies that enable sustainable competitive advantage in dynamic industries.

The card (credit) industry has grown to become one of the most dynamic and competitive in the world due to the advantages for consumers, merchants and issuers (primarily banks and other financial institutions) contained within this service-infused product.

This chapter provides an overview of this industry followed by an exploration of the advantages provided to the various participants. The critical functions performed by issuing organisations to support the card functionality provided to consumers is then examined followed by an exposition of the traditional card marketing function. The association-derived opinions on the industry and the manner in which intellectual capital is leveraged is then provided leading to the development of a new proposed partnership and property (intellectual) infused marketing framework that will enable issuers to move their customers to their desired state of experience for increased sustainable competitive advantage.

7.2 OVERVIEW OF THE CARD HISTORY

Bank credit cards are a form of consumer loan where a revolving credit account has a credit line of a specific amount that can be borrowed against in part or in full. As the outstanding balance is paid off by the consumer, the available credit line is restored for repeated use. Credit cards also offer a

variety of other services such as cash advances and different products offered by different institutions can have different services and levels of prestige attached. For example, charge card products offered by American Express have an exclusive concierge service attached that can be called upon to facilitate all the travel and entertainment requirements of card customers.

In addition to credit cards, issuing institutions (primarily banks and other financial institutions) also offer other types of plastic cards. Credit cards and these other types of plastics are explored in more detail below:

- Credit cards – all spend on these cards (purchases and cash withdrawals) is accumulated over a statement period which is usually 30 days. Clients need to only pay a minimum of 5% of the statement balance by the due date (usually 25 days after the statement is issued). Clients can however choose to pay the balance in full every month in order to avoid finance charges on purchases. Most cards offer up to 55 days interest free on all non cash spend provided clients pay their balance in full. No service fees are charges on purchases with the exception of cash and casino spend.

- Charge cards – these function the same as a credit card except that the balance must be paid in full each month (there is no revolving credit facility). American Express has pioneered these cards.

- ATM cards – an ATM card enables customers to access transaction and savings accounts 24 hours a day, 365 days a year through automated teller machines. ATM's allow customers to access their account balance, transfer funds, obtain cash and perform other financial transactions.

- Debit cards – a debit card directly accesses a customer's cheque of savings account. These cards function more like cheques than credit cards and can be swiped at various merchants provided that funds are available in the customer's account. These cards are online, which means

that each transaction is authorised, requires the input of a customer specific PIN, and these cards have no floor limit.

- Cheque cards – cheque cards function similarly to debit cards in that they have no credit line. However, cheque cards are offline and signature based with certain floor limits being applicable at specific merchants.

- Smart cards – the smart card is a plastic card into which a tiny computer is embedded. With some types of smart cards, the chip stores a monetary value and each time the card is used, the amount of the purchase is deducted from the chips memory. Consumers can either purchase a card that already contains a certain monetary value, or can periodically add this value through special ATM devices. Smart cards are also used to store data for information purposes, e.g. a card holder's frequent flyer miles, or a record of loan repayments.

These cards serve to facilitate the cash and transaction requirements of customers.

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In order to facilitate customer transactions at merchants around the world, an intermediary has developed in order to perform the vital function of facilitating the authorisation of transactions with the issuing institution when the card is swiped at merchant point of sale devices. These intermediaries are called associations and play a key role in facilitating all transactions. For example, a card is swiped at a merchant. The association provides the infrastructure and systems to route that transaction to the issuing institution where it is authorised or declined based on customers available account balance or credit line. Authorised transactions are then routed back to the merchant and the transaction is cleared with the merchant's bank. The association then ensures that the issuing bank (the bank that provided the consumer with the plastic (transactional tool)) receives their interchange (share of the profit – set at 1.71% for credit card transactions in South Africa) – i.e. settlement. The merchant bank (known as the acquiring bank) also receives a share of the

profits (known as discount revenue) due to the provision of the point of sale infrastructure and clearing functionality.

Associations therefore have a key involvement in the card industry and issuers rely heavily on them. The placement of association branding on their card products, provides issuers' customers with the functionality that they require in a card product i.e. to use it as a fast and convenient transactional tool wherever in the world they may travel. Associations are explored in more detail below.

7.2.1 Associations

The proliferation of bank credit cards in the USA in the mid 90's revealed a big drawback of this payment system in that card holders could only shop within their own geographic area, and only at merchants that their banks were able to sign up (i.e. the bank had to be both issuer and acquirer in order for the card transaction to be facilitated). In order to overcome this drawback, Bank of America began forming licensing agreements with a few banks outside of California to issue the BankAmericard, which changed its name to Visa in 1976. Many banks were left out of this arrangement, so in 1966, 16 banks came together in Buffalo, New York to form their own network. The resulting association called the Interbank Card Association became the grandfather of what is MasterCard International today.

As the Visa and MasterCard organisations gained prominence, banks agreed to issue cards displaying both the individual bank name as well as a symbol signifying that the bank was part of a larger network of banks agreeing to interchange transactions. By the early 1980's the Visa and MasterCard systems had expanded throughout the world, and today they dominate the bank credit card industry in many foreign countries as well. These associations perform the authorisations, clearing, and settlement that allow a bank credit card to be used at any merchant that is a member of the association. Due to Visa and MasterCard International, the same bank no

longer needs to be the consumer card issuer as well as the merchant acquirer for transactions to be facilitated.

The associations also provide members with marketing and advertising support and assist in security and fraud control. Visa and MasterCard are responsible for setting standards for card issuance and acceptance to ensure world wide compatibility among members and the associations are solely responsible for brand image awareness and advertising.

Both MasterCard and Visa own and operate international processing systems that provide the capabilities to authorise purchases and settle merchant and cardholder transactions in the United States and abroad. Processing millions of merchant and cardholder transactions daily from around the world has required standardisation in interchange, clearing, and settlement procedures. Visa and MasterCard serve this function through networks and automation, bringing together the collective resources of banks and other financial institutions, accomplishing what no member could have achieved independently.

A third association has also gained prominence, namely American Express. However, the American Express business model in slightly different in that the issuing business is franchised to different banks throughout the world with the association always retaining control of the card products. In the American express model, franchisees are both issuer and acquirer in that the loop between merchants and consumers is closed. It is for this reason that American express charges merchants a premium discount rate as well as applies premium pricing to their consumer card products. American Express has invested the most heavily in their brand and it is this support of an intangible asset that has given them a sustainable position of prestige in the travel and entertainment sector of the market for a prolonged period of time.

The associations work closely with the issuing and acquiring financial institutions throughout the world and are paid a premium for the use of their branding and the services that they provide. The associations have intimate

knowledge of the card industry and provide a global and independent viewpoint. It is for this reason that the input of their strategic marketers was sought as a key input into the development of an intellectual capital infused card marketing strategy that is explored later in this chapter.

Before this framework is provided, it is necessary to explore the reason for card existence – what key value do credit and other card products provide that has ultimately spawned such a complex and highly competitive industry?

7.3 VALUE INHERENT IN CREDIT CARDS

Credit cards provide numerous advantages and benefits to cardholders (consumers), merchants and issuing banks. These are explored further below.

7.3.1 Advantages to cardholders

Credit cards offer cardholders convenience, security and improved cash flow through credit availability. Credit cards offer customers the freedom to use credit without having to go to a bank in order to apply for a loan (personal) that would then have to be repaid via a monthly instalment. With a credit card, the amount of credit used can be paid in full by the payment due date, or the amount borrowed can be paid in flexible monthly instalments where the consumer can choose to repay the minimum due or a larger part of the outstanding balance. Credit cards also make credit readily available as those consumers who cannot afford or choose not to make a purchase with their own funds, can use the card with credit provided by the issuing institution. Payment for purchases can also be delayed for approximately one month so the card becomes a convenient transaction tool.

Credit cards also offer a comparative and safe means for conducting transactions. If currency is lost or stolen, the potential loss to the consumer is far greater than if a credit card is stolen. Credit cards free consumers from

carrying large amounts of cash and risking the possibility of having it stolen, which is a particularly attractive functionality in a high crime country like South Africa.

Credit cards have also facilitated another kind of shopping convenience for consumers, namely mail order, and Internet shopping. They have opened up a greater variety of choice for consumers that can now accumulate goods from around the world without having to leave the safety and comfort of their homes.

Credit cards also enable record-keeping and help consumers keep track of their spending habits for more responsible financial planning.

7.3.2 Advantages to merchants

From a merchant perspective, credit cards also have a number of attractive features. Firstly, credit cards make it easier for consumers to purchase goods over and above availability of immediate funds, thereby boosting sales as consumers are more likely to make larger purchases as well as impulse purchases when credit is used instead of cash. Banks and the national associations (i.e. MasterCard International and Visa International) spend large sums of money in order to promote brand identification and feature the MasterCard of Visa logo on display in the windows of merchants that accept the branded cards.

Sales transactions are also fairly easy to validate by the merchant. In order to authorise a sale, the merchant simply has to call the banks' authorisation centre or authorise the sale electronically via a point of sale swipe card device. When the card is swiped through the point of sale device, information on the card is transmitted to the authorisation network where the transaction is automatically authorised and the funds deposited in the merchant's account.

Credit cards also enable merchants to carry none of the risks inherent in extending credit or accepting cheques, as the following of the proper procedure enables the sale to be validated and the merchant receives payment from the bank.

7.3.3 Advantages to issuers/banks

Credit cards provide banks with an easy means to extend credit and a convenient way for customers to borrow funds. Due to the credit card's revolving line of credit, the customer can borrow money, repay the amount, and borrow again without having to go into the bank to apply for another loan. This functionality is facilitated as long as the total amount borrowed by the consumer does not exceed the credit limit.

Credit cards also enable banks to attract customers who do not live within close proximity. With a credit card, the bank's location is irrelevant and banks can use this remote feature to expand their market areas and offer their card products to consumers that live in remote locations.

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New cardholders also make good prospects for the cross-selling of additional bank products. Merchants also offer new sources of income to banks as they pay discounts to the banks for handling cardholder purchases. In addition to this discount income, merchants also bring additional deposits to the bank, thereby providing banks with new sources of funds for extending loans.

The combined attraction of new income and new sources of funds has created a highly competitive industry. As more merchants accept credit cards, the convenience to card holders is expanded.

7.4 CARD ISSUER STRUCTURE/FUNCTIONS

Issuers of credit cards provide the following back-end functions to enable customers to possess the safety and convenience of card transactional tools.

- Administration – responsibility for the overall management of the business is vested here.

- Marketing – this unit is responsible for developing and implementing cardholder solicitation and activation programs. Marketing is responsible for the overall value proposition and design contained within the product.

- Credit processing – this unit is responsible for the operational activities connected with the credit decision and set up of new accounts.

- Card issuance – this department embosses, encodes and issues plastic cards to new customers and re-issues lost and expiring cards to existing customers.

- Incoming interchange – this area processes incoming cardholder transactions and cardholder charge-backs.

- Cardholder billing – this department prepares and mails cardholder billing statements as well as other system-generated cardholder correspondence (e.g. late notices).

- Payment processing – this unit performs activities associated with processing and posting cardholder remittances.

- Customer services – the customer service department handles all cardholder enquiries, complaints, and requests except those concerned with credit, collections or fraud issues.

- Overlimit – this area's purpose is to monitor and resolve situations where a cardholder's balance exceeds the credit limit assigned.

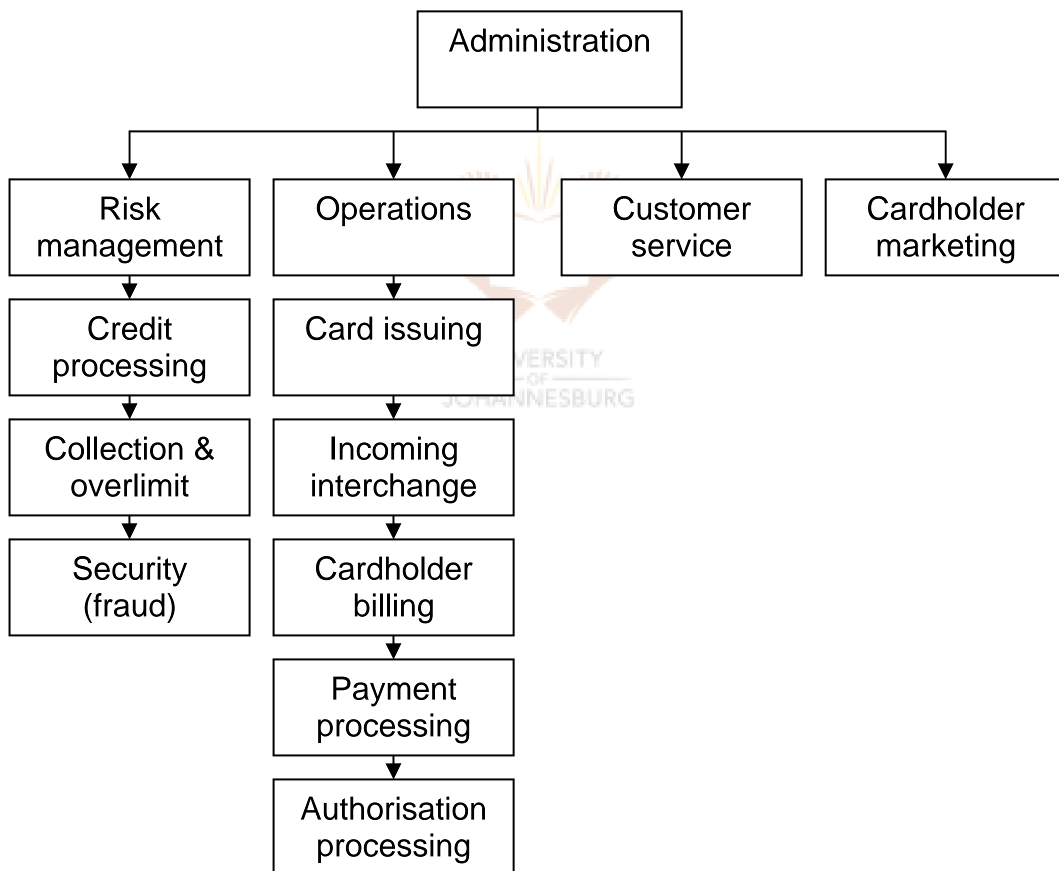
- Collections – this area is responsible for collecting outstanding balances from delinquent and charged-off accounts.

- Fraud control – this department is responsible for handling reports of lost or stolen cards, and reviewing activity on blocked accounts.

- Cardholder authorisation – this highly automated function is responsible for updating the cardholder master file with authorisation requests, and for liaison with the national associations that process the majority of authorisation requests.

This issuer functional structure is depicted graphically in Figure 7.1 below.

Figure 7.1: Card issuer structure



The development and leveraging of business process capital (property) out of these functions can create a valuable source of sustainable competitive advantage for issuing organisations. For example, the development and patenting of a quick and efficient credit processing system based on sound

risk scorecards will enable an issuer to quickly allocate a decent line of credit to new applicants. This process is usually a lengthy one in most issuing institutions. The issuer that is able to develop a quick and risk-balanced process that quickly and fairly scores new applicants for the allocation of decent credit lines to new cards will have an advantage over competitors. The development of quick and efficient processes for many of these functions that are continually monitored and streamlined, will together provide a valuable source of sustainable competitive advantage for the issuing institution.

The marketing function and how it is traditionally applied is explored in more detail below, as it is this function that forms a key input to the framework developed in paragraph 7.7.

7.5 CARD MARKETING

The card marketing process begins with the acquisition of new accounts. New accounts combat attrition and are the life-blood of any card marketing program. The traditional mix must be aimed at attracting as many new accounts as possible and at retaining key and valuable customers. Account acquisition and the traditional marketing mix applied by issuers are explored below.

7.5.1 Account acquisition

Bank credit card programmes rely heavily on the acquisition of new accounts, which has become very sophisticated. In the beginning, credit card marketing consisted of relatively indiscriminate mass mailings of unsolicited cards to existing customers and purchased external mailing lists. As the industry has matured, issuers have come to understand what constitutes a good customer and how to target that segment of the market. Controlling the costs of acquiring these new accounts is vital to the overall profitability of a bank credit card programme. The need to continue acquiring new accounts is basic to the business as annual attrition rates of between 9% and 15% have become the norm. The loss of accounts (attrition) may be involuntary due to bad debt,

death, etc., or voluntary at the option of the cardholder. In order to maintain the current base of cardholders, a bank needs to add new accounts at a rate of 12% to 15% annually.

The marketing strategy applied by these issuing institutions attempts to achieve this.

7.5.2 Marketing strategy

The development and execution of a sound marketing plan is essential in establishing a successful bank card marketing programme. To be effective, this marketing plan must address the four traditional P's, namely:

- Product – what product will be offered and what features will be attached to it.

- Place (population) – who are the best prospects for the product, and where are they located.

- Price – how much will the product cost.

- Promotion – how will the product be offered to the consumer.

7.5.2.1 Product

In terms of product strategy, the following must be addressed, namely: type; features; position; and design.

- Type – will the issuer offer Visa or MasterCard branded cards or both? Will both gold and standard (classic) cards be offered? Is there a demand for both commercial and consumer cards?

It is essential for issuers to provide different types of cards, particularly with regards to colour and the attached prestige. For example, customers with a change of income or longevity and displayed transactional loyalty to an issuer can be offered an upgrade to a gold card from a classic. The gold card will have higher pricing as well as additional services like free travel insurance and preference at call centres attached. This allows the issuer to evolve the customer to better products and also makes the customer "feel special". Customers also like the prestige of presenting a higher calibre of plastic in front of their peers when conducting transactions at merchants. Platinum and black cards can also be added as flagship products to an issuer's line to cater for higher income earners.

- Features – every issuer wants their card to be perceived by the market as being of high value with unique and proprietary benefits. As competition has increased, features that were once optional, such as 24-hour emergency card replacement, have become standard. There is a limited window of opportunity during which an issuer can gain market share at the expense of the competition. American Express was the first to offer emergency card replacement, which gave it a marketing advantage. Today this has become a standard feature of Visa and MasterCard gold cards.

  Sustainable advantage can therefore not be achieved on product features alone.

- Position – this is concerned with the appeal of the card to various market segments. For example, a marketer may design a standard MasterCard offering in the hope of attracting customers between 25 and 35 years of age in order to sell them additional services. That same issuer might also offer a Visa gold card with different features aimed at attracting affluent and high spending frequent travellers.

- Design – card design is an important element in programme development. The actual design is often contracted to outside agencies that specialise in this activity as the card is often referred to as “billboard in the wallet” and should be aesthetically pleasing.

7.5.2.2 Place (population)

Population consists of identifying the best prospects for the product, and market research must be conducted to determine which elements are most appealing to different segments of the population. A few of the elements evaluated by consumers include:

- Price (including interest rate and annual membership fee).
- Size of credit line.
- Length of time with the bank.
- Other services offered by the issuer.
- Convenience.
- Product enhancements (e.g. replacement of stolen property, concierge services, free travel insurance, etc.)
- Public image (e.g. some consumers will choose issuers who support ecological programmes).

Issuers need to have access to external databases in order to create a list of prospects. Issuers need to have correct data regarding the contact details of clients, their credit attributes (risk score), demographics, etc. This allows for the most efficient targeting and allocation of marketing resources.

7.5.2.3 Price

The price is a composite of four items:

- Annual membership fee – this is the annual charge imposed by the issuer on the cardholder for the privilege of holding the card. A common

marketing tactic is to waive this fee at acquisition stage for a period of one year, but it is increasingly becoming standard to offer credit cards with no annual fee.

- Interest on outstandings – the annual percentage rate, which is the interest rate charged to cardholders typically ranges between 17% and 23% and is something that consumers are becoming more and more sensitive to.

- Grace period – this refers to the time between the date of purchase and the date that the issuer begins to charge interest on that purchase. This is typically 55 days and is only applicable to purchases. If the purchase amount is not paid within the grace period, interest is typically calculated retro-actively from the time of purchase or posting to the cardholder account.

- Additional fees – with the exception of cash advance fees, these fees are typically punitive and are designed to cover additional issuer costs. These include:

  - Late fees imposed when the minimum payment is not received by the due date.

  - Overlimit fees imposed when the balance exceeds the cardholder's credit line.

  - Returned cheque fees imposed when a cardholder's payment bounces.

Issuers have played around with rates, fees and other pricing elements, offering "special pricing" attached to certain conditions and transactional behaviours. These pricing tactics are however quickly and easily copied by other issuers and are not sustainable.

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7.5.2.4 Promotion

This element concerns how the card offer will be made known to potential customers and how they will be solicited. The issuer typically desires creativity and imagination in packaging the product to appeal to the target market, which includes:

- Design of solicitation material
    - Application form
    - Introductory letter and brochure
    - Development of advertising copy
    - Pre-approval application
    - Terms and conditions

- Advertising
    - Selection of an agency
    - Type of advertising (print, radio, television, etc.)

- Solicitation
    - Current customers
    - Selected external lists
    - Take one displays in retail outlets
    - Telemarketing

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These promotional elements are also easily replicated by competitors and innovation in this area is not sustainable.

7.5.3 Usage stimulation and retention marketing

The marketing process does not end when a customer receives the solicitation. The majority of a credit card programme's profit depends on continued cardholder transactional activity. With attrition rates averaging between 9% and 15% annually, the importance of retaining card accounts is evident. Various techniques have proven to be effective, from courteous 24-

hour customer service accessibility to periodic added value enhancements. Extended warranty on purchases, loyalty programmes and frequent flyer programmes are examples of added value features designed to retain customers.

In order to effectively retain customers, customers have to like the issuer and experience some form of affinity towards the card programme. This affinity stems from some form of involvement where the customer frequently uses the card product to conduct transactions and utilises the services attached e.g. the free concierge service. If the customer experiences satisfaction in these engagements, for example a hassle-free transaction and a great entertainment experience arranged by the concierge desk, the customer will begin to develop some form of loyalty to the issuer and the product.

This process of customer loyalty as a desired output of retention marketing is demonstrated in Figure 7.2 below.

Figure 7.2: Customer loyalty as the key output of retention marketing

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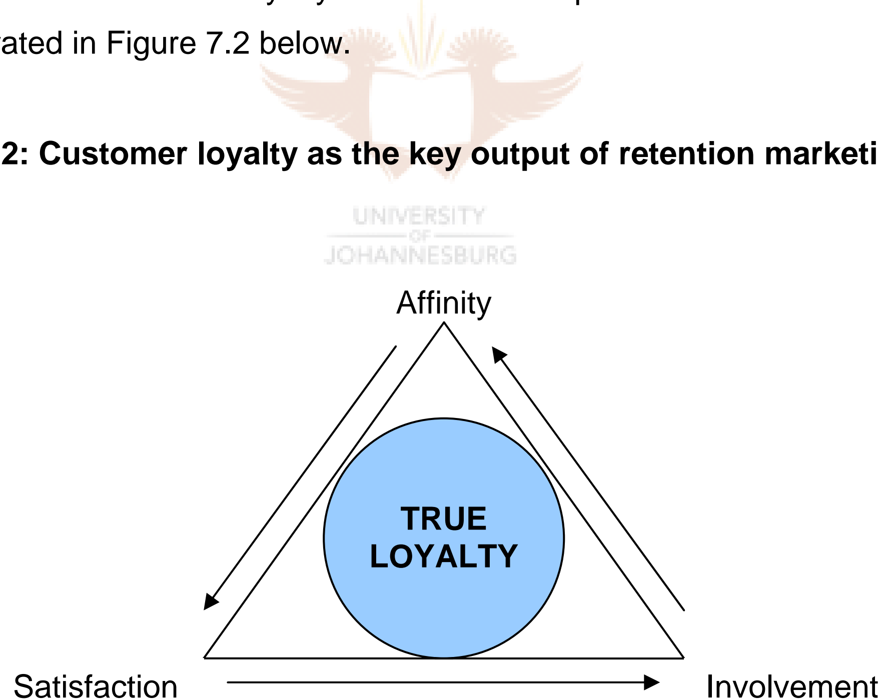

Source: Provided by American Express.

The traditional card marketing mix does not allow issuing organisations to sustainably attract or retain the best customers. The development and

maintenance of good partnerships with key players in the industry that are close to customers and their new and evolving needs and problems will enable issuers to change their value propositions according to what is most needed and desired by their key customers. For example, merchants and supplier call centre agents are right on the front-line facilitating customer transactions and queries and frequently possess valuable direct knowledge regarding customer needs. This feedback is invaluable in the development and altering of card value propositions. These players can also recommend partner issuers directly to customers.

The development of good partnerships with the credit bureaus will also provide issuers first and preferential access to good quality external mailing lists of new prospects to feed account acquisition.

Association opinion regarding how issuers are using partner relationships and other intangible assets to achieve advantage in the industry is explored in the section below.

7.6 CARD INDUSTRY ASSOCIATION INPUT

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The discussion guide used to collect the association input for content analysis is outlined in Annexure A, with the consolidated results of the feedback being presented below.

7.6.1 Study overview and discussion guide used to solicit input

In the dynamic and competitive landscape of today, the only way that organisations can achieve and sustain competitive advantage is to leverage rare, valuable, inimitable and non-substitutable intangible assets. These assets consist of: human capital (the knowledge and experience/expertise of employees); relationship capital (the knowledge, expertise and insight that is held by customers, suppliers and employees); and structural capital (brands, patents, trademarks, unique processes and organisational culture and philosophies that are difficult to imitate or duplicate). Organisations that are

able to effectively use these assets to fuel the development of core competencies upon which dynamic strategies are based, will be able to achieve sustainable competitive advantage. However, due to the nature of the highly competitive and networked economy, organisations must also develop key alliance partnerships to gain access to the value-creating intangible assets and core competencies of partners to further strengthen their advantage.

Organisations have had to develop a marketing orientation in order to survive and compete. This orientation enables an organisation to understand and place emphasis on the core needs and wants of consumers and consequently develop products and services that satisfy these needs. This orientation is embodied in the marketing strategy that is executed by means of the marketing mix. The traditional marketing mix revolves around decisions regarding product, price, promotion and place (as well as people, process & physical evidence in the services realm).

Marketing strategies need to be dynamic and competitive which cannot be enabled or achieved by the traditional mix. The infusion of intellectual capital (intangible assets) will provide the mix with the strength and dynamism required to bolster organisational marketing strategies for increased sustainable competitive advantage.

Organisations must identify, measure and manage their intellectual capital by means of a carefully designed and efficient business system design. This will enable the identification, tracking and leveraging of the intellectual capital within the marketing mix (embodied in the form of the two new proposed elements of partnership and property (intellectual).

Human capital and relationship capital can be combined to form the element of partnership. Gaining access to the unique and valuable knowledge contained within these partnerships is key, especially that of customers, suppliers, alliance/channel members and employees in the card industry. For example, customers are a source of both transactional and innovation capital.

Transactional capital can be data-mined to reveal specific behavioural indicators of customers (e.g. shopping habits can signal customer prevalence towards certain promotional offers so that marketing funding is most efficiently targeted and utilised). Customer relationships can also be leveraged in the development of new card products and can provide valuable insight in terms of the benefits and features that would be most needed and thus successful.

Structural capital forms the element of property (intellectual) where the strength of brand and the efficiency inherent in specific processes are leveraged to gain advantage over competitors. For example, a 24-hour application approval process will be a valuable source of competitive advantage for any issuer.

The addition of the two proposed Ps of partnership and property (intellectual) to the marketing mix ultimately enable an organisation to achieve a stronger marketing mix that supports dynamic marketing strategies that are more representative of customer needs and strengthen and prolong the product life-cycle for increased sustainable competitive advantage.

The **key findings** of the literature review are summarised below:

- The source of sustainable competitive advantage in the digital hypercompetitive environment is dynamic strategies based on core competencies that are derived from intangible assets that are rare, valuable, and difficult for competitors to imitate or substitute.

- Marketing lies at an organisation's core as it is here that customer wants and needs are understood, value created and satisfaction occurs. Marketing strategy is implemented by means of the marketing mix which must be infused with intangible assets to ensure differentiating competencies and dynamism at an organisation's core and resulting sustainable competitive advantage.

- Intangible assets form intellectual capital that consists of the three elements of human, relationship and structural capital. These elements need to be defined, integrated, measured, controlled and effectively leveraged by means of an effective business system design.

- There are been many proposed changes and additions to the marketing mix in an attempt to achieve the desired dynamism. By combining human and relationship capital to form partnerships, and classifying structural capital as property (intellectual), two new Ps are created that encompass all the proposed additions and more to ensure that intangible assets are integrated and leveraged at an organisation's marketing core to strengthen and prolong product life-cycles.

7.6.2 Consolidated association feedback

The opinions of strategic marketers at Visa International, MasterCard International and American Express were solicited (via the discussion guide outlined in Annexure A) as a key input variable in the development of the partnership and property (intellectual) infused card marketing framework explored in the succeeding section paragraph 7.7.

In order to ensure anonymity, the opinions have been summarised in the sub-sections below.

7.6.1 Summary of opinion

Most issuers have tangible assets as sources of competitive advantage (e.g. product and pricing). This is however not sustainable resulting in frequent customer switching and product re-design.

South Africa has the 2nd highest fees in the world and is able to get away with this due to customer-experienced hassle of switching banks (FICA verification, change of debit orders etc.) With the new credit bill together with

increased competition (i.e. the recent entry of Discovery, Woolworths and the looming penetration of Virgin Money), South African issuers will have to turn to new sources of differentiation to be found in intangible assets.

7.6.2 Sustainable competitive advantage

No card issuer is obtaining sustainable competitive advantage. Barclay's is close to this as they are leveraging off the powerful brand equity of the broader bank. Discovery Health is using innovation in terms of a telephonic application process as well as strong partnerships in customer relevant categories. The telephonic application requires no filling in or signing of forms and the cards are hand delivered to customers within three days. The category partnerships enable the organisation to provide consumers with the best cash-back value proposition in the market. This provides a sustainable competitive advantage, as these partnerships are difficult to maintain and build – which other issuers have experienced. The partnerships enable Discovery to offer value that cannot be duplicated by other issuers.

The association currently achieving advantage is American Express due to the prestige associated with the brand. The card is positioned for the aspirational, top-end segment. The power of the brand image and equity enables the association to offer comparable products at much higher prices. No other association can rival Amex in the top-end most profitable market segment due to the power of this intangible asset that American Express continues to invest heavily in. Premium pricing is enabled by the brand.

Virgin Money (cards) have not fared well in the UK due to the fact that the power of the Virgin brand has not been pulled through and leveraged correctly in the new card products. The card products have fallen down as they have been positioned around tangible elements.

Ultimately, too many issuers are focused on winning new customers at the expense of building deeper relationships with clients, this is because financial service organisations are unaware of how to connect with the needs of

customers. Their channel partners possess this knowledge and experience but are frequently not solicited for feedback or involved in the product/value proposition or marketing process. It would be interesting to know which organisations, if any, fully assess every marketing activity from a 3-5year PTI perspective. This is highly unlikely as most issuers simply "bang" campaigns and new products out of the door and hope for a 1-5% response rate. *"Is this sustainable behaviour – it may provide a short-term competitive advantage though?"*

7.6.3 Customer relationships

Issuers typically do not have relationships with their customers. They tend to abandon customers post-sale and only communicate to them for the purpose of usage campaigns and cross-sell objectives. These campaigns and initiatives are also typically unsuccessful due to the lack of adequate customer segmentation and profiling. Issuers tend not to use transactional customer data to their advantage to identify specific habits, lifestyles and buying patterns, resulting in customers being targeted with numerous communications and offers not relevant to them. This creates clutter that clients tend to automatically ignore issuer-generated material, regardless of content.

Innovation capital is not sought nor used, resulting in the frequent development and launch of new products and benefits that fail due to the fact that they are not designed according to experienced customer needs.

Customer data is collected but this is typically not turned into information or knowledge. Many issuers have a better reputation than they deserve on this criterion, as they appear to know more than they actually do. An exemplar would be Tesco (UK superstore) who have transformed their business through customer knowledge. They are making huge inroads into the UK financial services market.

Data is also not proactively nor strategically used to move customers through the product lines (i.e. classic to gold to platinum) based on behaviour and changes in life stage/lifestyle/status. Issuers do not effectively up-sell products to customers at the correct time in their lives.

In addition, with regard to business-to-consumer relationships, the majority of issuers have poor relationships and are ill-equipped to deal with customers. Outstanding examples of customer service can be seen with the UK online/telephone bank 'First Direct' that is owned by HSBC and is widely reported in academic circles as an exemplar of its kind.

7.6.4 Supplier relationships

In South Africa, the four main banks compete for supplier/vendor exclusivity. The banks seek to lock vendors into exclusive contracts (confidentiality is demanded to prevent information-sharing with competitors) and the relationship is typically an adversarial one. Vendors also tolerate ill treatment and unfair demands due to the nature of these agreements. The nature of these relations can also prompt the sharing of unique customer insight not covered by confidentiality agreements with competitors.

The lack of partnerships causes suppliers to not share valuable customer insight and knowledge with the issuers. For example, outsourced telemarketers have direct contact with customers and frequently gather valuable customer insight in terms of experienced problems and new needs that is beyond the scope of the call. They do not often share this insight with the issuer.

Card manufacturers also possess valuable insight regarding the type and design (branding) of plastic that will carry the most appeal for consumers. Again, this insight is not actively sought by the issuer or voluntarily shared by the vendor.

Partnerships that are built, maintained and mutually beneficial will encourage the constant sharing of working knowledge and customer insight for increased sustainable advantage over competitors.

7.6.5 Employee relationships

Issuers do not typically tap into the knowledge, expertise and insight of their employees. Employees also do not know how to share this knowledge upward in the organisation, neither formal nor informal channels or infrastructure is in place to facilitate this.

Employees are also not encouraged, rewarded or incentivised to share their opinions and knowledge on an ongoing basis. Branches in particular have no means to provide feedback or knowledge to higher management.

Employees are also fearful of freely providing their opinion. The customer-facing frontline staff are particularly important. They are the ones that are closest to clients and most aware of developing needs and problems. If these employees are also not completely bought into a new product or initiative, they can be detrimental to sales efforts – particularly if they strongly believe that the product has not been designed to address the latest needs that they know clients are experiencing.

Ultimately, it is believed that employees provide a huge amount of knowledge to decision-making. Unfortunately this is often subjective and biased, but where it isn't, it's a powerful source of information to a business.

7.6.6 Process capital

Processes are typically embedded in employee experience and knowledge. These processes are not captured or documented to identify problem areas and improve efficiency.

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The loss of key employees also typically results in lost and standstill processes.

Employees are also usually responsible for parts of a process and are not privy to a macro-view. They need to understand the entire process to enable efficiency and share and embed knowledge.

Constant re-engineering should be the norm in any issuer organisation and association. However, this is easier to achieve in large markets where the economics are viable. For example, the processes of many 'legacy based' organisations in the US are far superior to smaller markets. Alternatively, newer players that have no legacy background are able to implement superior processes immediately and this is beneficial to customers.

7.6.7 Brands

ABSA has proven to be very successful in terms of projecting a clear and consistent brand image. Much has been invested in building the equity of the brand and this has been carried over to umbrella the card products.

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Issuers do tend to patent and trademark new products and ideas, but these seem to fall by the way side due to the constant implementation of new "innovation" in order to stay ahead of competitors in an environment where advantage is based on tangible assets and differentiators.

"Brands are generally used to support premium pricing. Whether this is a source of competitive advantage is debatable. I believe that it isn't the brand that creates SCA but the actual deliverables that delight a customer, this is normally based on pricing, servicing or benefits."

7.6.8 Integration

Marketing is treated as a support function in most issuer organisations and the elements of the mix are not integrated under one umbrella – they are segmented across the product divisions resulting in inconsistency and lack of leveraging of key differentiators.

The consolidation of marketing strategy together with the leveraging of partnerships and intangible property will provide sustainable competitive advantage for an issuer in the industry.

"Marketing in issuer organisations is too focused on short-term results due to financial market requirements. Also, there is a general lack of marketing knowledge in issuer organisations. The capturing and leveraging of knowledge through partnerships, supported by innovative business processes, brands, products and pricing to create superior customer experiences, will create a real source of sustainable differentiation."

In terms of the product life-cycle, it is better to view the card industry in terms of the customer life-cycle. The customer typically moves through five stages, namely: learn (where the consumer learns about the issuer and its product offering); acquire (where the issuer solicits the consumer and the consumer becomes a customer); activate, use and manage (where the issuer motivates the customer to use the card and manages future customer interactions and communications); service (where the issuer provides support and makes promotions available to the customer); and change and connect (where the issuer changes the relationship with the customer and moves him/her to better products and upgrades). Across the customer life-cycle, the aim of the issuer is to provide the highest level of customer experience possible to move customers from their current state to their desired state of experience and involvement with the issuer. The levels of experience in order from worst to best include: damaging; lagging; meeting expectations; differentiating; and delighting.

The addition of partnerships and property (intellectual) to an issuer's card marketing mix will enable that issuer to better identify and implement the metrics and develop the needed competencies and procedures to move customers from their current to desired state of experience and involvement with the card issuer and its products.

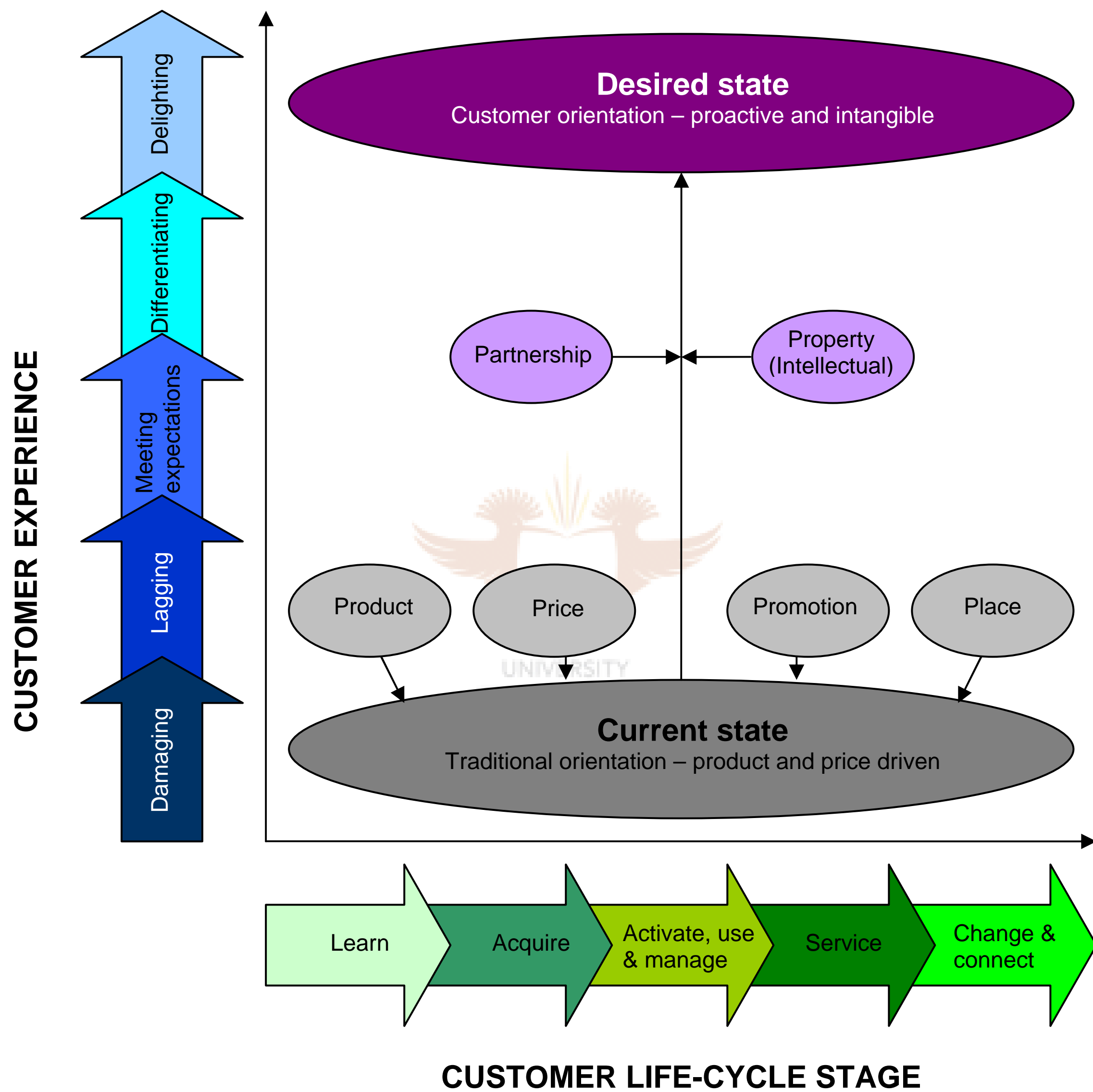
7.7 DEVELOPMENT OF A NEW CARD MARKETING FRAMEWORK

Card issuing organisations typically do not leverage intangible assets for sustainable competitive advantage. Marketing also is typically not given the prominence and integration into operations that it should. Organisations tend to concentrate mainly on brand and definitely do not leverage the differentiating value and power inherent in relationships/partnerships. Sustainable competitive advantage is consequently not being achieved by any one issuer in the industry.

In the card industry, the product life-cycle must be viewed in terms of a customer life-cycle, where different levels of experience are to be had at the various stages. The application of the traditional 4 Ps will not enable issuers to provide customers with the crucial desired level of experience. Partnerships and property (intellectual) have the potential to enable issuers to identify and implement the metrics and processes needed to move customers from their current to their desired level of experience at each life-cycle stage.

These key case study findings, combined with the key findings of the literature review, served as inputs into the development of the framework depicted in Figure 7.3.

Figure 7.3: Conceptual framework of partnership and property infused card marketing strategy



Customers evolve through different life stages and have different levels of experience with card products.

With regards to life stage, the issuing organisation first needs to *learn* about customer wants and needs in order to develop a card product and associated value proposition that will have maximum appeal and relevance. The knowledge and expertise of partners can facilitate this learning process. The issuer then needs to *acquire* customers through the effective communication of the value proposition. Partners can help spread the word about the product and enthusiastic employees that are bought into the product make the best sales agents. Good partner-supplied external mailing lists together with efficient application, credit approval and other back-end processes provide a valuable source of advantage at this stage. Once acquired, customers need to start using the card, i.e. be *activated*. A customer's initial experience with a product will determine satisfaction and continued use. Channel partners and employees fufill on this experience together with seamless and efficient back-end processes such as fast authorisation. *Service* is what retains the customer and ensures their continued patronage. Front-line staff that are rewarded, motivated and treated as partners together with efficient processes once again ensure a seamless and satisfying service experience. In the final life stage, where the issuer *connects* with and *changes* the customer experience according to evolving needs and changing behaviour, transactional customer data together with other partner knowledge will inform the best strategies and decisions to ensure that the customer experience and product composition is altered as required and desired.

The customer also has different levels of experience with the card product and the issuing organisation. The issuer must develop different metrics to enable the accurate measurement of the level of experience that the customer has at his/her different life stages. Partnerships can assist with the accurate development and implementation of these metrics, together with a supportive organisational culture and business processes (property). A *damaging* experience is one where organisational capabilities damage the customer experience. For example, a super-efficient customer service functionality can

damage customer relations due to experienced customer need of prolonged and special attention being required. *Lagging* experience is where the customer has better overall experience with other organisations, but their experience is not damaging. *Meeting expectations* is where the issuer provides the base level of experience and service expected by the customer. *Differentiating* experience serves to increase customer satisfaction and loyalty, with *delighting* experience creating evangelists and industry-leading loyalty.

In order for an issuing organisation to move towards delighting their customers at each customer life stage, the current state of traditional orientation needs to be altered to the desired state of customer orientation. The traditional state is characterised by the four Ps of the marketing mix where the differentiating emphasis is on tangible product and price attributes. The desired state is characterised by intangible assets where customers are the focus and value is proactively driven from a customer orientation. The infusion of partner knowledge and expertise (together with the intelligent data-mining of transactional customer data), together with the leveraging of intellectual property (especially efficient and patented business processes, a supportive customer-driven organisational culture, and leveraged brand equity), will enable an issuing organisation to proactively deliver customer required value to enable the desired customer state and sustainable competitive advantage at each stage of the customer life-cycle (which is very much like the traditional product life-cycle from a customer perspective).

7.8 CONCLUSION

In this chapter, the two additional proposed Ps of partnerships and property (intellectual) have been used to develop a new marketing framework for the achievement of sustainable competitive advantage in the card industry. The case study presented in this chapter demonstrates the tremendous value that these elements can create. This framework can be adapted for any

organisation in any industry for the ultimate achievement of increased and sustainable competitive advantage.

The next chapter, chapter eight, concludes this dissertation and provides some recommendations for further research in the development and integration of these two differentiating elements in the marketing strategies of all organisations.

CHAPTER 8

RECOMMENDATIONS FOR FUTURE RESEARCH

8.1 OVERVIEW

In this study, it has been demonstrated that rare, inimitable, non-substitutable and valuable intangible assets (and the core competencies that develop out of these) are the source of sustainable competitive advantage. In order to achieve this advantage, these dynamic strategies need to be based on these competencies in an organisational environment of marketing orientation where products and services are developed out of a deep understanding of the needs and wants of consumers. Marketing lies at the core of this orientation, and dynamism in these strategies is crucial. Marketing strategy is executed and supported by the marketing mix, which needs to be infused with the intangible elements of partnerships and property (intellectual) to truly leverage intangible assets and the core competencies borne out of them at an organisation's core.

The key outcomes of the literature review (summarised above) were applied to the card industry in the form of an in-depth case study where industry association opinion was combined with the key literature outcomes in an integrated framework. The framework exhibits how the addition of the two new proposed Ps enable customers to reach their desired state of experience with the card issuer and product throughout the stages of their life-cycle.

The framework developed is theoretical in nature and needs to be tested within the card environment in order to strengthen the core tenets. The framework can also be changed and adapted to fit other industries in order to give broader meaning, strength and relevance to the study.

The key findings of the literature review and the card industry case study, together with recommendations based on these findings and particularly

pertaining to the manner in which the framework can be implemented in the card industry as well as adapted to fit additional industry contexts, are reflected below.

8.2 Key findings

The key findings are as follows:

- The source of sustainable competitive advantage in the digital hypercompetitive environment is dynamic strategies based on core competencies that are derived from intangible assets that are rare, valuable, and difficult for competitors to imitate or substitute.

- Marketing lies at an organisation's core as it is here that customer wants and needs are understood, value created and satisfaction occurs. Marketing strategy is implemented by means of the marketing mix which must be infused with intangible assets to ensure differentiating competencies and dynamism at an organisation's core and resulting sustainable competitive advantage.

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- Intangible assets form intellectual capital that consists of the three elements of human, relationship and structural capital. These elements need to be defined, integrated, measured, controlled and effectively leveraged by means of an effective business system design.

- There are been many proposed changes and additions to the marketing mix in an attempt to achieve the desired dynamism. By combining human and relationship capital to form partnerships, and classifying structural capital as property (intellectual), two new Ps are created that encompass all the proposed additions and more to ensure that intangible assets are integrated and leveraged at an organisation's marketing core to strengthen and prolong product life-cycles.

- Card issuing organisations typically do not leverage intangible assets for sustainable competitive advantage. Marketing also is typically not given the prominence and integration into operations that it should. Organisations tend to concentrate mainly on brand and definitely do not leverage the differentiating value and power inherent in relationships/partnerships. Sustainable competitive advantage is consequently not being achieved by any one issuer in the industry.

- In the card industry, the product life-cycle must be viewed in terms of a customer life-cycle, where different levels of experience are to be had at the various stages. The application of the traditional 4 Ps will not enable issuers to provide customers with the crucial desired level of experience. Partnerships and property (intellectual) have the potential to enable issuers to identify and implement the metrics and processes needed to move customers from their current to their desired level of experience at each life-cycle stage.

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8.3 Application of key findings in the card industry

The framework can be tested/implemented in the card industry via the methodology outlined below. A single or multiple card issuers can be used as test subjects. Multiple issuers would be the preferred option due to the opportunity for comparing results, however confidentiality requirements may not allow for more than one issuer to be analysed.

- Gaps and weaknesses in an issuer’s card marketing strategy must be identified and quantified by predetermined measures tailored to the requirements of the card environment.

- Qualitative and quantitative research must be conducted in order to identify customer-desired level of experience on what product/service dimensions and what gaps are currently present.

- The different customer life-cycle stages must be identified and mapped against the level of actual experience perceived and actually realised at each stage.

- The intangible assets (intellectual capital stock) of the issuer must be identified and the health and effective utilisation of these assets assessed.

  - Asset health must be assessed by conducting qualitative and quantitative research with all partners (especially customers, suppliers, channel members and employees) in order to determine whether or not their knowledge and expertise is willingly shared and effectively leveraged.

  - Patents must be investigated to determine whether or not they are effectively managed. An internal audit process can achieve this.

  - The brand strategy must be reviewed internally and externally in terms of customer affinity to the brand to determine the presence and strength of equity.

  - Business processes must be investigated to determine whether they are documented, efficient, unique and leveraged to full advantage.

- A business system design must be developed and implemented in order to properly identify, categorise, manage, measure, control, develop and leverage the intellectual capital contained within the issuer's operation.

- The two additional Ps of partnership and property (intellectual) must be identified and developed out of the business system design. The elements must be formally defined and integrated within marketing with responsibility and managers assigned to oversee their effective implementation in the marketing mix.

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- The two elements must be used to develop the metrics and procedures required to deliver the desired state of experience to customers. Two metrics can be developed and tested initially. For example, if a key source of customer dissatisfaction is service, partners can be used to provide expertise regarding the source of bad service and the manner in which it can be resolved. A source may be customers having to converse with agents that are not fully knowledgeable of their history with the product. A metric developed could be call rating of the agents by customers on their knowledge. A new business process with systems that deliver this knowledge and make it available to agents when dealing with customers in a live environment will enable this.

- Qualitative and quantitative research must be conducted three-six months post implementation of the new metric and procedures to test for change in level of experience closer to the desired state. Customers must be sampled from each life-cycle stage in order to be representative.

- The issuer organisation must also be re-evaluated in terms of intellectual asset health. More efficient and well-documented business processes and better relationships with partners should have made a rather significant impact on productivity and culture.

Favourable post implementation results will lend strength to the framework. Increased retention and acquisition rates will show an advantage over competitors that must be sustained over a period of time by putting the correct measures in place to ensure a dynamic process.

8.4 Framework adaptation and application/testing in other industries

The framework should also be adapted and applied to other industries. Sources of competitive advantage as well as stages of the customer/product life-cycle and required level of experience will change according to the

industry, but the core structure and tenets of the framework are enduring and can be applied across industries.

A similar methodology to the one outlined above should be undertaken, with results across industries being compared. The results will indicate the relative strength of intellectual capital and the real sustainability of the competitive advantage created by partnership and property (intellectual) infused marketing strategies in the different industries.

The objective of the research in this context will be to prove that dynamic marketing strategies infused with intellectual capital create greater sustainable competitive advantage regardless of industry.

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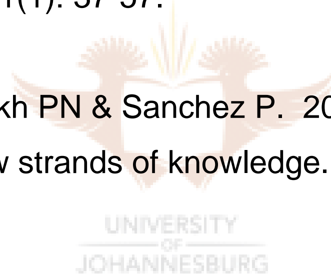

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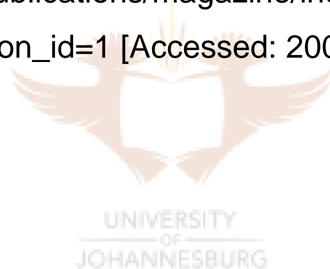
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ANNEXURE A

Discussion guide used in the interviewing of the association marketers.

Sustainable competitive advantage in the card industry

- Is sustainable competitive advantage currently being achieved by any organisation in the industry?

- If so, how is it being achieved?

- What, in your opinion, is required to remain competitive in the industry?

The use of intangible assets

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- Do any of the issuers in the industry currently manage and leverage their intangible assets?
- If so, what assets do they commonly leverage and in what ways?

Customer relationships

- How many of the issuers in the industry have good relationships with their customers?

- Please describe the nature of these relationships and the manner in which they are managed and leveraged.

- Are customers ever involved in new product development processes and in what ways?

- How effectively is customer knowledge mined from data in the industry?

- Is this knowledge used effectively in informing strategic decisions?

Supplier and channel/alliance member relationships

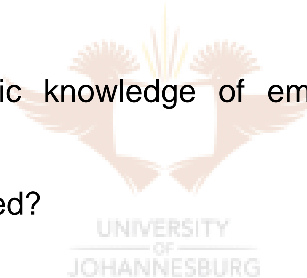
- What is the nature of issuer relationships with suppliers and channel members?

- Are suppliers solicited to provide insight regarding customer behaviour and what insight is typically provided?

- Is this insight effectively used to inform marketing decisions?

Employee knowledge

- Is the customer-specific knowledge of employees ever solicited and leveraged?
- If so, how is this achieved?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Processes

- Are specific processes (such as application processing) ever documented and managed to improve efficiency? How is this achieved?

- How are issuers leveraging their unique processes to achieve sustainable competitive advantage? Are these processes protected?

Brands

- Do organisations use their brands as a source of competitive advantage? If so, in what way?

- Are brands regarded as intangible assets that need to be protected and leveraged?

- To what extent do organisations use patenting and trade-marking to protect against the actions of competitors?

Integration

- Do organisations recognise the value of marketing strategy in achieving sustainable competitive advantage? Please elaborate.

- In your opinion, will the successful management and leveraging of partnerships with customers, suppliers, channel members and employees and the knowledge and expertise contained within these, enable a sustainable competitive advantage for an organisation in the industry?

- In your opinion, will the development, management, and patenting of critical business processes enable sustainable competitive advantage?

- In your opinion, will effective brand management and the maintenance of an innovative organisational culture provide sustainable competitive advantage?

- In your opinion, will the addition of partnerships and property (intellectual) to the card marketing mix of issuers enable them to extend and strengthen the product life-cycle for increased sustainable competitiveness?