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Flourishing during times of uncertainty and change is necessary for organisations. The speed and rate of change is such that organisations need to ensure that they are able to meet and react to the challenges in a rapidly changing and dynamic environment, both in South Africa and in the world.

Enabling the organisation to survive and thrive in this environment is the organisational strategy, which is used to guide decisions made at all levels in the organisation and within all organisational areas. Integral to this is an understanding of the organisation, its products and the environment in which it operates. Once these are clearly defined, strategic marketing can thrive in its role of assisting the organisation to create, develop and exploit competitive advantage while providing superior solutions to customers.

This fifth edition of Applied Strategic Marketing has been developed to enable the reader to not only understand the impact of the dynamic environment, but also follow the strategic marketing process in this context. It provides the reader not only with the theoretical perspectives on the various topics but also applies them to the South African context. The reader is given opportunities to reflect on the various topics of each chapter. The case study at the end of each chapter provides additional reflection and consideration opportunities regarding the strategy and its use in practice. This latest edition builds on the previous editions but has been redeveloped to provide relevant and recent examples. New chapters have been developed to enable organisations to consider other strategies, including a chapter on market sensing and insights (Chapter 6), international strategies (Chapter 10) and one on customer-based strategies (Chapter 13).

The book starts out by introducing the nature of strategic marketing and strategic marketing planning. New aspects in these chapters include the discussion of Service Dominant Logic and value as key drivers in marketing.

The remaining chapters are divided into three main parts. Strategic analysis (Chapters 3–6) examines the market in all its complexities, so that the organisation can gain a clear picture of the environment. This is done by analysing the environment (Chapter 3), market (Chapter 4) and resources (Chapter 5) available to the organisation. Understanding the changes in customers and their needs (Chapter 6) will provide important inputs for the subsequent strategy selection.

Market strategies (Chapters 7–14) discuss the various strategies that can be used by the organisation in developing competitive advantage. The section starts with the nature of positioning, sustainable competitive advantage and the various competitive strategies that can be considered (Chapters 7–9). Specific strategies such as international, brand, relationship and customer strategies are also examined (Chapters 10–13).

The Strategy implementation and metrics (Chapters 14–15) section concludes the text. These chapters examine not only the challenges of strategy implementation (Chapter 14) but also the evaluation of the success of these strategies (Chapter 15).

This edition (with all its updates) has been made possible due to the feedback from educators and readers of previous editions. We are grateful for the feedback received.

This edition has also been made possible through the hard work of a team of academic authors and editorial staff at Pearson. As editors, we would like to express our gratitude to all who have been involved in this process from conceptualisation to realisation.

The editors
Adele Berndt
Mercy Mpinganjira
Johan Strydom
The nature of strategic marketing

Learning outcomes

• Analyse the various levels of strategy in an organisation.
• Differentiate between strategic marketing and marketing management.
• Comment on the place of strategic marketing within the organisation.
• Contrast the three main components of strategic marketing.
• Motivate the importance of strategic marketing within organisations in South Africa.
• Illustrate how a specific technological development, namely the Fourth Industrial Revolution (4IR) or Digital Industrial Revolution impacts strategic marketing.
• Indicate the impact of Service Dominant Logic (SDL) on strategic marketing.
• Contrast the two ways of viewing value.
• Comment on what it means for an organisation to be regarded as market-orientated.

Strategy in action: The importance of strategy

Kodak, Nokia, Ericsson. These are names of famous companies who have made strategic decisions that didn’t turn out the way they thought they would. Kodak, for many people, was photography, film and memories. Kodak failed to see the impact that digital photography would have on camera film sales and now focuses on printing solutions for organisations.

For Nokia, their leadership in the mobile phone market in the early 2000s had provided profits and loyal customers. They made changes in the organisational structure to encourage innovation but problems in their strategic choices and an inability to adapt to changing circumstances changed all that. By 2010, the new management team made the decision to withdraw from the mobile phone market to focus on their other core business, specifically network infrastructure equipment (Doz, 2018).

In the case of Ericsson, the mobile phones they offered could not compete with those offered by other companies, including Apple. Their phones did not have a camera and their features included keypads, when Apple had introduced into the market the touch screen. This led the CEO at that time to acknowledge that they should have taken the iPhone more seriously (Trenholm, 2011). But how did these poor decisions happen? The answer lies in the strategic changes made by the organisation in response to external and internal environmental changes.

Trenholm, R. (2011) Sony Ericsson boss admits “we should have taken the iPhone more seriously”. 4 October. Available at: https://techcrunch.com/2011/10/03/sony-ericsson-ceo-we-should-have-taken-the-iphone-more-seriously/ (accessed 7 September 2018).

1.1 Introduction

Change is the one constant factor. It is not limited to any business sector or any area of the economy but rather can be viewed as pervasive, affecting all areas of business.

Change not only affects the way in which business is done but also how customers interact with an organisation and how the organisation interacts with the customer. Consequently, those involved in marketing have to adapt. Adapting means making changes in product offerings (products and services) offered in the marketplace, and also changing how customers are able to access the offering (the distribution channels, which need to be...
include an online option) as well as marketing communication. Adapting requires the development of a clear strategy for the organisation and specifically for its marketing activities. This strategy will serve as a reference point that can be used in decision-making at all levels in the organisation (Jooste et al., 2009).

This chapter presents the terms that are used in strategic marketing and the approach that will be used in this text. We compare strategic marketing with marketing management and contrast their roles in the organisation. The chapter also identifies the developments in marketing that have impacted not only the organisation (or firm, enterprise, business or company) but also the products and services offered and how these are viewed.

Note that throughout this book the term ‘organisation’ is used generically to encompass the terms ‘business’, ‘enterprise’, ‘firm’, ‘company’ and ‘establishment’.

1.2 The nature and levels of strategy in the organisation

The importance of strategy within organisations is seen in the Strategy in action at the start of the chapter. In each of these cases, the strategic choices affected future operations, showing the importance of these decisions. But what is strategy?

A strategy is defined as a plan of action that aims to reach a goal or plan. The word is derived from the Greek word that was used to describe how an army was led into a war. It suggests the science of planning and using resources in a way that is the most efficient and effective (BusinessDictionary, 2018). It requires that the organisation manage its resources, through the selection of profitable markets in a dynamic and changing environment (Jooste et al., 2009).

Any organisation will need to determine what it aims to achieve in the future, and how the resources it has can be used to get there. This means it needs to think about what resources it has and how they can best be used to achieve its goals.

There are a number of levels of strategy within the organisation, but it can be difficult to identify them as, in many instances, they can overlap. For the purposes of this book, the following levels of strategy can be identified in large organisations:

- corporate strategy
- business strategy
- functional strategy.

Figure 1.1 reflects these levels of strategy.

1.2.1 Corporate strategy

Chief Executive Officers (CEOs) have a vision of what they want their organisation to achieve. Having a future orientation is important for any organisation. For this reason, organisations develop a mission and vision for the entire organisation, which presents their objectives and intended actions.

In a large organisation that has various business areas or operates with different products (or markets), the corporate strategy (actions) is used to link the purpose of the various parts of the organisation. It is concerned with the profitable management of the various divisions and strategic business units (SBUs) of the organisation and to unify these various SBUs towards the overall goal. Corporate strategy reflects the aim (purpose) of the organisation and how the organisation’s resources can be used to identify opportunities and threats, taking the environment in which they operate into account (Jooste et al., 2009). The strategy developed at this level impacts the other levels in the organisation. For example, a grocery chain may state that their strategy is to deliver low prices to their customers. This indicates the focus of the other functional areas of the organisation. It means not only that this is the focus of their selling prices (to customers), but that the price is an integral aspect in the supply chain decisions, in human resources (HR) and staff decisions, as well as how the stores are developed and where they are located.
Chapter 1: The nature of strategic marketing

Example 1.1

**Mission and vision**

If we think about an organisation such as a bank, the top management will develop the mission and vision for the organisation. An example could be:

‘Our vision is to be the preferred provider of financial services for our customers through meaningful relationships’. From this statement, we can see the importance of relationships and this would be used to guide their future marketing activities. This statement would also connect to the values that the bank has as its core values, such as honesty, integrity, communication, and respect. This bank has indicated that they want to be the preferred provider, which impacts how they go about developing the service, the touchpoints and technology, while providing financial service and advice. They would also focus on customers in their relationship-building activities.

1.2.2 Business strategy

At this level, the strategy is developed to focus on the specific business unit, such as a business unit that focuses on a specific product. The business unit need not be a specific product, it could also be geographical locations, divisions, product lines, single product or brands (Jain, 2000). The role of marketing is to contribute to the development of business strategy specifically by providing strategic perspective (Jooste et al., 2009).

Figure 1.1 represents a company that has business units that focus on products, specifically beverages, snacks and frozen foods. Each of these products presents different challenges and function in different environments, which is the reason for grouping them together in different **strategic business units (SBUs)**.

The manager of the SBU would report to the CEO (corporate level) but would have a measure of authority and responsibility to manage the SBU, including when developing functional strategies (such as finance, marketing and logistics). While each SBU can develop its own strategies, these would be coordinated at the corporate level. The products created by the SBUs make up the product portfolio of the organisation (Jooste et al., 2009). The corporate head office not only assists in integrating the strategies but might also provide centralised functions such as research and development (R&D) and legal services. For example, in the marketing of motor vehicles, the dealer is the franchise holder of the vehicle manufacturer (which grants the franchise) and thus is only partly independent. The dealer would have to comply with all the manufacturer’s prescriptions on product displays, corporate identity, such as advertising and logos, prices, including discounts and promotional prices, and service levels (Jooste et al., 2009). This means the dealer has to comply with a specific set of rules to keep the franchise.

The benefit of SBUs is that they are able to focus on their specific product and develop a strategy that is suited to their resources and market conditions. Because they have a clearly defined product that is being sold to a specific segment, they are able to clearly identify their competitors. They can also select the most appropriate strategy for their market, taking the environment into account (Dibb et al., 2006). This means that an SBU operates and appears like an individual organisation. There are also a number of strategic tools, such as the Ansoff and Boston Consulting Group matrices, which have been developed to assist SBUs determine their strategic direction (Lamb et al., 2019).

An SBU can be used to:
- serve key customer segments, getting close to them to satisfy their needs as they are able to focus on those segments
perform the key functions of the organisation, which will enable it to create a clear advantage for itself. By managing the functions areas that influence their product and market, the SBU is able to act more effectively as it has control over its own resources (Lamb et al., 2018).

establish an edge over competitors by exploiting possible opportunities (Jooste et al., 2009). The SBU has a number of key competencies, resources and capabilities that mean it can develop suitable strategies that will exploit the opportunities in the environment.

In examining the corporate entity presented in Figure 1.1, the corporate support given to the SBUs (Legal and R&D) can be seen and the products (snacks, beverages and frozen foods) can be viewed as sufficiently different from each product that is in a separate SBU.

The use of SBUs is not without its problems. Sometimes it can be difficult to decide what business (or part of the business) belongs in one SBU, and the identification of SBUs is not always simple. Other issues include the duplication of some functions, such as the Finance and Supply chain in Figure 1.1, which can add costs and complicate the management at the corporate level (Sammut-Bonnici & McGee, 2015).

Figure 1.1 An example of the structure of an organisation reflecting the levels of strategy

1.2.3 Functional strategy

This refers to the strategy that is implemented within the functional areas, such as finance, logistics or marketing. This level of strategy focuses on developing and carrying out the activities that are necessary to reach the long-term objectives that have been set (Jooste et al., 2009). Each functional area contains areas that assist in attaining the business strategy. In the case of the supply chain, activities associated with warehousing and inventory levels would be considered. In the case of marketing, it is the development of marketing programmes, including the identification of both the target market and the development...
Chapter 1: The nature of strategic marketing

of suitable tactics for the marketing instruments (4 or 7Ps). These marketing management activities enable the organisation to implement their strategy.

Example 1.2

In the case of the organisation illustrated in Figure 1.1, there would be a business strategy developed for each business unit, and there would be functional strategies for each of the areas identified. The functional strategies would be integrated to enable the organisation to attain their objectives.

It is entirely possible (and likely) that the situation is different in small and micro-organisations. As they are small, there are no clear differences between corporate, business and functional strategies, and employees could be involved at multiple levels. In fact, there may be little difference between the levels.

Case study 1.1

The Pepkor group

PEP stores is a well-known retail brand in South Africa, known for its affordable clothing, footwear and textiles. It is part of the Pepkor group, which operates in eleven countries, including Australia, the UK and South Africa. But the Pepkor group also has other brands, namely Ackermans and Shoprite (in South Africa) and Best & Less (Australia). All of these brands contribute to the development of the group and its objectives.

Part of the Pepkor group, PEP’s mission is stated as follows: ‘We are the friendliest and most trusted retailer, offering wanted products and services at the lowest prices.’ Their values are ‘honesty, passion and resourcefulness’. In recent years, PEP has expanded into offering mobile services, as well as financial services (such as loans and funeral services). They have also opened stores focusing on homeware (PEPhome) while also launching a chain of discount variety stores (Dealz), currently comprising 200 stores. All of these additional services are aimed at a clearly defined target market.

Another strategic development has been the introduction of a parcel service (PAXI). This allows customers, agents and suppliers to send parcels and documents from one PEP store to another, where the customer can collect the parcel that has been sent. This parcel service is possible due to the high number of PEP stores spread throughout South Africa (currently 2 200 retail stores).

Case study questions

1. How do you think the introduction of the parcel service (PAXI) contributes to the mission of PEP?
2. How do you think the functional marketing strategy differs between PEP and Ackermans?


1.3 What is marketing?

Clarifying what marketing is helps in understanding the perspective of this text. The American Marketing Association (AMA) defines marketing as ‘the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large’ (AMA, 2018). This definition identifies a number of key aspects. Marketing includes many activities, such as developing a marketing strategy and a marketing communication strategy for the offering. This is done with the purpose of providing value for stakeholders, of which the customer is one stakeholder group. These activities are focused on building and managing profitable relationships with stakeholders (Kotler et al., 2012). This definition of marketing also emphasises the importance of value to a range of stakeholders.
1.4 The nature of strategic marketing

Strategic marketing is an important and dynamic aspect of any marketing manager’s task. It enables the organisation to apply their competencies and resources to provide a specific customer segment with solutions (Jooste et al., 2009).

Strategic marketing has a number of characteristics that differentiate it. Firstly, it is focused on the long-term and the decisions made can have far-reaching implications (Jain, 2000). For example, introducing a new range of motor cars is a strategic decision as is the change in logo or product name. A second characteristic is that strategic marketing is done within an organisational context, impacted by the corporate culture and the available corporate resources. It is also done in cooperation with the other functions, as the decisions made impact the other functions. For example, if the strategic decision to launch a new car is made, there are significant effects on the finances, for which the financial function will need to account. A third characteristic of strategic marketing is that the product offerings (the product or service) that form part of the product portfolio play different roles over their life cycle (Jain, 2000). For example, products that are in the introductory phase may not contribute to high profits, which may be gained from a product in the maturity phase.

1.4.1 The components of strategic marketing

So, what does strategic marketing involve? There are three core components that make up strategic marketing.

Strategic analysis

This clarifies what business the organisation is in – who they are and what product offerings (need-satisfying benefits) are offered to consumers. This requires that the organisation knows what resources are at their disposal, as well as evaluating their strengths and weaknesses. This evaluation is done within the context of the environment in which the organisation functions and the opportunities and threats that are identified.

Market strategies

This suggests various strategies that the organisation can implement to reach their customers and markets and in so doing, develop a sustainable competitive advantage (SCA), perhaps by differentiating itself from the competitors. It is important to understand who the competitors are, in which markets the organisation should compete and how this should be done.

Strategy implementation and metrics

Once a marketing strategy has been selected, it is important that it be implemented for the benefit to accrue. However, before the implementation of a new marketing strategy, the organisation must consider the benefits it will provide indicated by using marketing metrics.

1.4.2 The importance of strategic marketing

Strategic marketing decisions are important for the organisation for a number of reasons, including:

- the need for the organisation to focus on providing value to a wide range of stakeholders, including customers, regulators, suppliers, intermediaries and investors. All these stakeholders require that the organisation provide value, which means that the organisation needs to carefully consider how this impacts strategic marketing.
• an increasingly competitive marketplace, where competitors are not only local, regional or national but are also international. For example, Amazon can serve as a supplier of a wide range of products to consumers, and an organisation needs to be aware of the effect that it (and similar organisations) is able to have so that it may develop strategic alternatives.

• an increasingly demanding customer, with specific needs for products and services, and requirements of how this interaction with the organisation should take place. There has thus been a power shift away from the organisation to the customer, who can decide and compare offerings at their convenience (Ferrel & Hartline, 2008). For some customers, the online space (facilitated by technology) is how they wish to interact with the organisation, but this may not be the case for all customers. Understanding the customer and their changing needs is necessary for this to be incorporated into the strategic choices.

• rapidly changing technology and systems that affect how business is transacted. This renders certain organisations’ current product range less relevant and requires a shift in their thinking. For example, postal organisations have been impacted by a development in technology. Consumers have moved from letters to emails, which has necessitated postal service organisations to refocus their service offerings and innovate. This has the potential for the organisation in a number of dramatic ways, which will affect the strategic marketing task. Another effect of technology is the fragmentation of media audiences, as seen in the move away from TV to watching offerings on the internet (Ferrel & Hartline, 2008).

• the impact of social media, such as Twitter, Facebook, YouTube and Instagram, ubiquitous in modern society. These platforms enable consumers to interact directly with organisations, and actively engage with their brands. Simultaneously, organisations can use these platforms to reach out to consumers, using them as marketing tools. These platforms enable new ways for customers to identify, select and consume products (Alves, Fernandes & Raposo, 2016). These platforms differ from each other and have diverse characteristics. For example, Twitter has a limited number of characters that can be used to express an opinion, while Instagram is largely a visual medium. Social media can be used by organisations to communicate with customers, support the customer’s daily life, for promotion and selling, and social response and activity (Lee, 2017). In a study conducted among airline passengers, an organisation using social media was able to create brand awareness and brand equity and increase the commitment of customers and the word of mouth (WoM) that they shared (Seo & Park, 2018), highlighting the effect of social media to organisations.

1.4.3 Differentiating strategic marketing and marketing management

Another question that is raised relates to the difference between strategic marketing (the focus of this text) and marketing management (which you would have studied in other courses). This is a very important question, as there are some critical differences between the two.

With strategic marketing having a future focus (at the SBU level in the organisation), it is possible to differentiate it from the functional level, which comprises the daily marketing activities in the organisation. It is suggested that the difference between them is found in a number or areas, which are summarised in Table 1.1.

Due to the nature and importance of strategic marketing, it is undertaken at top management level. The outcome of strategic decisions has an effect on the entire organisation, not just a part of it (such as a department, functional area or group). Strategic marketing is analysis-oriented (versus action-oriented), proactive (versus reactive) and
concentrates on new environmental opportunities versus existing opportunities (Jooste et al., 2009). As strategic marketing is future-orientated, it assists in determining what the organisation needs to focus on in their activities. In strategic marketing, there is an attempt to overcome limitations that are identified (Lambin, 2000).

By contrast, marketing management is the most visible as it reflects the actions of the organisation and which directly impacts the financial performance in the short-term (Lambin, 2000). The task of marketing management is to determine the marketing mix and how best it should be implemented to reach a specific market segment (Jain, 2000). Marketing management takes marketing projections that have been previously developed, and a given competitive position, and works at optimising performance (and profit) within the specific situation. Marketing management is deductive and analytical, whereas strategic marketing is inductive and intuitive.

### Table 1.1 Differentiating strategic marketing and marketing management

<table>
<thead>
<tr>
<th>Strategic marketing</th>
<th>Marketing management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term, with decisions having an impact many years into the future</td>
<td>Short(er)-term, with decisions impacting within one year</td>
</tr>
<tr>
<td>Analytical in nature, thus seeking new opportunities</td>
<td>Action-orientated, exploiting existing opportunities</td>
</tr>
<tr>
<td>Dynamic, unstable environment</td>
<td>Stable, predictable environment</td>
</tr>
<tr>
<td>Proactive (due to its analytical focus)</td>
<td>Reactive (due to its action orientation)</td>
</tr>
<tr>
<td>Top or upper levels of the organisation</td>
<td>Middle or lower levels of the organisation</td>
</tr>
<tr>
<td>Affects the entire organisation, including other areas, functions or business units</td>
<td>Focused on the marketing department</td>
</tr>
<tr>
<td>Identifying new opportunities in an ever-changing, dynamic environment</td>
<td>Identifying existing opportunities in the current environment</td>
</tr>
<tr>
<td>Focuses on what the organisation needs to prioritise or emphasise</td>
<td>Focuses on managing the existing situation</td>
</tr>
<tr>
<td>Requires a high degree of creativity and originality</td>
<td>Requires experience, maturity and a control orientation</td>
</tr>
<tr>
<td>Inductive and intuitive</td>
<td>Deductive and analytical</td>
</tr>
</tbody>
</table>


Despite there being differences, it is important that both strategic and marketing management work together as they are complementary in their activities.

### 1.5 The changing role of strategic marketing in South African organisations

While change is seen in the global context, there are additional changes that have had an affect on the South African market and the task of strategic marketing. Some of these reported by Yellowwood (2014) include:

- **The changing South African consumer:** The nature of the market has changed in the last 20 years, with more consumers (57.3 million with an average age of 26.3 years) (www.worldometers.info), more consumers living in urban areas and increasing expenditure. One example is the rise of the so-called black middle class. As they have
an estimated spending power of R400 million, organisations are required to approach this segment in different ways from other segments (UCT Unilever Institute, 2018).

- **More connected consumers, open to engaging digitally with organisations and peers**: Consumers are more informed and access information in different ways from the past, including through the internet. The consequence of this is that the organisation is not in control of the message or their brands, which is very different from previous times. Social media is one way in which consumers share their organisational experiences (both good and bad), which reaches a global audience.

- **The importance of trust in brands and organisations**: Recent research suggests that trust in institutions such as businesses and media has declined. In the case of the media, 39% of South Africans trust it, which is down from 45% in 2016 (Miller, 2017). The recent food contamination outbreak and food labelling scandals have also undermined the trust in the brands associated with these events (Financial Mail, 2018; Davis, 2018). In interacting in the digital space, the issue of trust is also important as it may be clear which the organisation is or where it is based. This raises the possibility of fraud or data breaches of private information that has been used in accessing websites or purchasing from websites. This makes authenticity important for an organisation (Samuel, 2016).

- **The move from offline to online**: That is, digital has meant that competitors are not only located within the borders of the country but could be in another part of the world. It impacts the way in which the organisation defines and views its competitors as well as the competing offerings. For example, DStv (the satellite service owned by MultiChoice), is having to redefine its offering in an international digitised world with competitors, such as Netflix and Showmax and changing customer demands (Snyman, 2017). This change has not only affected large (or multinational) organisations but also small and micro-organisations. For example, Proudly South African has created an e-shopping website (https://www.rsamade.co.za/) for entrepreneurs to advertise their products and connect with international consumers and thereby increasing access to far-flung markets (Breitenbach, 2018).

### 1.6 The developments in marketing

As a developing field, marketing thought (including philosophies and perspectives) has changed to not only take a changing market into account, but also to integrate research findings. The purpose of the discussion that follows is to introduce these perspectives and indicate their importance for strategic marketing. It is beyond the scope of this text to provide an exhaustive discussion of these perspectives, thus consultation of other texts is recommended for those wanting a more in-depth discussion.

#### 1.6.1 From a product ... to customers ... and value and beyond

It is necessary to examine some previous perspectives of marketing as this is part of understanding its developments and current marketing practices. This section concludes with the most recent developments, namely Marketing 4.0 and Service Dominant Logic (SDL).

**Marketing 1.0 – product-driven**

Also known as the product orientation (product-centric) to marketing, this initial marketing thought centred around the product that was offered for sale. Linked to increased industrialisation, the focus of the product-centric perspective was the features and quality of the product that the organisation offered for sale. The underlying philosophy of this approach is that customers will purchase products that are available and affordable, thus as long as the organisation is able to improve its efficiency, success (profits) will result. The
danger of this way of thinking is the potential myopia that organisations develop, as they tend to focus on the products sold rather than on the problem that customers have and that they need solved (Kotler et al., 2012).

Marketing 2.0 – customer-centric
While Marketing 1.0 may still be relevant in some instances, most organisations have embraced customer-oriented marketing (also known by some as Marketing 2.0). Marketing 2.0 emphasises the importance of focusing on the needs and interests of the customer. The focus has thus changed to the customers. By understanding the customers, their behaviours and preferences, it is possible to offer them the best service possible (Skaf, 2015).

Marketing 3.0 – human-centric
Presenting customers with offerings that satisfy their needs is important, but Marketing 3.0 attempts to take this further, including the requirement that the organisation also needs to make the world a better place (Skaf, 2015). This is also known as the value-driven era, where the customer is not just seen as someone who will buy a product (or service), but someone who is also interested in the broader society. These consumers are thus not just buying the product but have a spirit, thus the organisation also needs to address human aspirations, desires and values (Kotler et al., 2010). This means that marketing is about not only providing the product (or service), but also providing value to customers (Skaf, 2015).

Marketing 4.0
Identified as the most recent move in marketing thought, Marketing 4.0 acknowledges the importance of the digital environment as part of marketing activities. While the focus on value remains important for the organisation, this view recognises that the merging of online and offline forms the basis of the updated marketing perspective, which includes multi-channel interactions (Salacka, 2017). Technology has resulted in the ability of consumers to access the organisation and its products through these diverse channels. Initially, organisations considered how they coordinated and managed the various channels they could use to ensure customer loyalty, a multi-channel strategy (Verhoef, Kannan & Inman, 2015). However, as technology and devices have developed, the borders between online and offline channels have become less obvious, resulting in an omni-channel strategy. This means that the organisation has to devise new ways in which the customer is able to transact seamlessly with the organisation, irrespective of the channel used (Verhoef, Kannan & Inman, 2015).

Many technologies have been used by organisations for a while, but these technologies are converging, which enables the organisation to do things differently (Kraus, 2017). The consequence is that customers decide how they will interact with the organisation, as well as what information they require and the most convenient source.

1.6.2 The Fourth Industrial Revolution (4IR)
In understanding how marketing has changed and the convergence between the online and offline, it is necessary to examine the Fourth Industrial Revolution (also known as the Digital Industrial Revolution) and its possible impacts for marketers.

The Fourth Industrial Revolution is not just about technology. While it is built on the digital revolution, that is, digital technologies, it is more than that. It is described by Schwab (2016) as ‘the fusion of technologies’ and their use in a wide range of areas, including business and production, science and the biological world (dti.gov). This means that it combines aspects, such as artificial intelligence, robotics, the Internet of Things (IoT), machine learning and various forms of technology to develop offerings through the integration of networks, computers and physical processes.
Data is a critical part of 4IR. As users of computers and mobile devices, our data is continually being collected, which can be used to provide better solutions or market offerings. 4IR is a key focus area for the South African government due to the potential effects it will have on the country and its competitiveness in the global economy. It also affects organisations, employees and customers.

Some specific technologies that are identified with this revolution include:

- **Artificial intelligence (AI):** This is when a machine is able to think like a human, and actually behave as if it were human. This would enable a robot to do certain routine tasks (rather than employing humans to do them). Examples of this include handwriting analysis and medical diagnoses (Copeland, 2018). Another form of AI is machine learning. This is the way that computers go about learning and acting like humans (Faggella, 2018). It is based on using algorithms (mathematical programs) to learn about what individuals do and how they do it.

- **Robotics:** A robot is a machine that has intelligence and has physical capabilities. This enables it to perform certain tasks unsupervised within an environment. They are able to do this as they are equipped with sensors to enable them to find their way around. Examples include drones, robots use on production lines and self-driving cars (Simon, 2018).

- **The Internet of Things (IoT):** This is the way any device can connect to another device through the internet. It is suggested that if a device has an on/off switch, it can be connected to another device (Morgan, 2014). The practical effect of this means for example, that you could start your washing machine by using your cellphone, or your refrigerator and could order more milk from the store. In cities, it could mean that devices could be connected to manage such problems as the traffic congestion, pollution and water leakages.

### Example 1.3

Agriculture is one area where data collected can be put to use. Drones can be used to collect data on the condition of the soil, as well as other agricultural conditions. This data can be used in the programming of the irrigation and fertilisation machinery to optimise the production of food.


For organisations and employees, it means that new product development can take place incorporating new materials and using new methods that don’t necessarily require the employment of people to carry out these activities. Not only would production of tangible products be done using machines, but the provision of services is also possible using artificial intelligence. For example, it is possible that through the use of service robots, the employment of people to interact with customers will not be necessary (Wirtz *et al*., 2018). Further specific effects of 4IR include (Schwab, 2016):

- **The effect on customer expectations:** These have changed as customers demand more from organisations in terms of quality and price. Customers do not necessarily want to own products, resulting in the increased popularity of sharing and collaborative consumption, such as Uber and Airbnb.

- **The development of products that incorporate data:** An example of this is the refrigerators that are able to determine which products are in short supply, and to order products such as milk and eggs directly from the supermarket.
• **Collaborative innovation:** This involves collaboration between organisations and all the members of their global supply chains. This means that innovation is not limited in space but that through online collaboration, it is possible to gather ideas from multiple sources, including suppliers.

• **A change in the way of doing business:** With an increased use of technology, the skills that the organisation requires are different, and the reliance on technology also creates risks, such as data security and data protection risks. The need and ability to interact with diverse groups of people who are not located in the same place, such as a head office, also affect the organisational and reporting structures within the organisation.

• **The identification of Generation Alpha:** This is the cohort after Generation Z (that is, children born between 2010 and 2024 (Bologna, 2019)). This generation has grown up immersed in technology, even more so than previous generations, such as Generation Z, (Tootell, Freeman & Freeman, 2014). They are also known as ‘Generation Glass’ due to their familiarity with screens in all their forms. This generation has some unique characteristics, including diverse family structures and exposure to greater levels of income inequality (Bologna, 2019). For a marketer, this group of consumers will have even higher levels of expectations regarding shopping using omni-channels, while also being open to experiment with technology products, such as self-driving cars (Bologna, 2019).

For customers, 4IR means that they can access a wide range of new products and services at much lower costs, or even for free. Examples of products include streaming music, rather than buying a CD, transport solutions, such as Uber or Lyft, or purchasing airline tickets online. All of these are done at the customer’s convenience and from the comfort of their homes or mobile device (Schwab, 2016).

4IR is anticipated to have a profound impact on society, and this is not anticipated to only be positive. Some jobs that are at risk from technology are those that are more routine in nature, such as cashiers and telemarketers, while others will require different skills from what are currently required (Mahdawi, 2017).

It is important to note that technology does not remove the need to interact with humans, for this is still regarded as important in many offerings. Thus organisations will need to determine the most effective platforms for interaction with the customer.

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**Case study 1.2**

**Grocery shopping in the future**

The way in which customers have shopped for groceries has changed over the years. With the movement of people to cities, it was not possible to be self-sustainable, which created a need for a store to sell groceries. Initially, the stores required the customer to state their needs to the employee behind the counter, who fetched the items requested. The introduction of self-service meant that customers could make their own choices of products they wished to purchase.

The internet has changed this, and IoT (Internet of Things) has the potential to change this even further. Due to technology, customers do not need to physically shop in the store but can place orders via the internet. The order can then be collected or delivered, depending on the preference of the customer. Technology has the potential to change this. The Samsung Family Hub™ fridge is ‘more than a fridge’. It focuses on four main areas including Food (ordering groceries, creating shopping lists), Family (sharing photos and sending messages to family members), Fun (music streaming or watching Samsung TV) and Connect (controlling other smart devices, such as light controls, baby monitors or any other technological device).

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continued
Case study questions

1. How would a fridge like the one described in the case study above affect organisations, such as supermarkets?
2. Are there more features that you would like the fridge to have?
3. Do you think South Africans would use the features contained in a fridge like this?

Source: Adapted from https://www.samsung.com/us/explore/family-hub-refrigerator/overview/

1.6.3 Service Dominant Logic (SDL)

One of the recent developments in marketing thought is Service Dominant Logic (SDL). SDL provides a perspective of the market and emphasises the need for organisations to think about the way marketing philosophy and practice is developing.

Proposed by Vargo and Lusch (2004; 2008; 2016; 2017), SDL changes the focus of marketing from an output or goods-dominant way of thinking (logic) to a focus on processes, such as service offerings and value co-creation for the customer (user).

SDL differentiates between service (a process) and services (which is a unit of output), indicating service as the basis for exchange between organisations and other actors such as customers, intermediaries and suppliers. Thus, it shifts the focus of the organisation from a product that is offered to customers to a value-offering, which includes more than just the product. SDL has also shifted attention from the production activities to value co-creation, which takes place as a joint activity between the organisation and the customer. SDL draws attention to value, now viewed as ‘value-in-use’, determined by the user, or beneficiary, such as the customer (Vargo & Lusch, 2004).

SDL proposes 11 foundational premises or principles (FPs) which includes five axioms, which have strategic implications for organisations (Vargo & Lusch, 2016). See Table 1.2. The five axioms are the basis of service and the underlying logic for the other foundational principles.

Table 1.2 The foundational principles of SDL

<table>
<thead>
<tr>
<th>FP1</th>
<th>Service is the fundamental basis of exchange</th>
<th>Axiom</th>
</tr>
</thead>
<tbody>
<tr>
<td>FP2</td>
<td>Indirect exchange masks the fundamental basis of exchange</td>
<td></td>
</tr>
<tr>
<td>FP3</td>
<td>Goods are distribution mechanisms for service provision</td>
<td></td>
</tr>
<tr>
<td>FP4</td>
<td>Operant resources are the source of strategic benefit</td>
<td></td>
</tr>
<tr>
<td>FP5</td>
<td>All economies are service economies</td>
<td></td>
</tr>
<tr>
<td>FP6</td>
<td>Value is co-created by multiple actors, always including the beneficiary</td>
<td>Axiom</td>
</tr>
<tr>
<td>FP7</td>
<td>Actors cannot deliver value but can participate in the creation and offering of value propositions</td>
<td></td>
</tr>
<tr>
<td>FP8</td>
<td>A service-centered view is inherently beneficiary orientated and relational</td>
<td></td>
</tr>
<tr>
<td>FP9</td>
<td>All social and economic actors are resource integrators</td>
<td></td>
</tr>
<tr>
<td>FP10</td>
<td>Value is always uniquely and phenomenologically determined by the beneficiary</td>
<td>Axiom</td>
</tr>
<tr>
<td>FP11</td>
<td>Value co-creation is coordinated through actor-generated institutions (practices) and institutional arrangements (routines)</td>
<td>Axiom</td>
</tr>
</tbody>
</table>

But how does SDL impact strategic marketing?

Having been introduced to SDL, the question needs to be posed as to how it affects strategic marketing. It is suggested that there are a number of ways, linked to the axioms.

1. SDL suggests a focus on service (that is, processes) and not on the output (such as a tangible product or a service). This suggests it is not as much about what is produced but rather how it is produced. This means that skills and knowledge within the organisation are used to co-produce a service (with the customer), placing the customer at the centre of the process and placing marketing at the core of strategic planning in the organisation (Vargo & Lusch, 2004). Marketing is thus about ‘doing things in interaction with the customer’ (Vargo & Lusch, 2004:7). For organisations, it means developing strategies that are customer-centric and which can include the actions of various actors to create value. Developing a strategy requires a clear identification of a customer group (or segment) and recognition that this group is the focus of the organisation’s marketing activities. Placing the customer at the centre of marketing activities is essential, and SDL reinforces this perspective.

2. A focus on how a wide range of actors (other parties), which includes customers, suppliers and external stakeholders can co-create value. Co-creation does not mean that the customer should be present during the production process, but rather that all actors are always involved in all aspects when value is created (Vargo & Lusch, 2016). Competitive advantage can be obtained by an organisation coordinating the actors associated with their offering more efficiently than those of their competitors. Modern organisations do not function in markets independently of other organisations, thus including other actors (or parties) is a key to strategic marketing.

3. A focus on value, that while the organisation can suggest what value might be, it is only the beneficiary (such as the customer) who determines what the value actually is, and whether it satisfies their needs. In the past, value has been described in many different ways, but in many instances, it is defined from the perspective of the organisation (Flint & Woodruff, 2006). This means that the organisation focuses on the value that it believes is offered to customers, such as a product feature. The focus in SDL is on the value as it is evaluated by the customer.

4. Focusing on the need for innovation within the organisation to develop new ways in which value can be co-created. Proactive innovation is motivated by the organisation searching for new ways to do things by, for example, redefining the way in which they view their opportunities and threats, which may not be due to competitive actions (Hunt & Madhavaran, 2006) while reactive innovation is as a result of a good idea being presented (Phillips, 2007). Technology that is integrated within the organisation becomes a part of the innovation activities of an organisation (Vargo & Lusch, 2016).

Example 1.4

If a motor vehicle manufacturer were to apply the principles of SDL, the focus of the organisation would not be on the cars made, but on the service (process) that it is able to give customers, and the value (including convenience, status and flexibility) which is inherent in the offering that the customer desires. The manufacturer would build in opportunities for all actors to co-create the new car, both during the planning, the development and the production stage. It would require co-creation with other parties, such as suppliers, investors and intermediaries to ensure that the greatest value can be offered to the customer. It would also require the manufacturer to be as
Innovative as possible. As part of this approach, the organisation would develop the interior of the car as part of its value offering to the customer, but the customer would evaluate the car and determine the value they believe they receive from driving it. The purchase and maintenance of vehicles require a number of routines, both on the part of the customer and of the dealer, and these need to be aligned in order to provide customer value. Part of this process would include the relationship-building activities with various actors (such as customers and suppliers). This would be necessary as part of the delivery of value.

Criticisms of SDL

What is important to note is that SDL is not without its critics who question aspects of the various principles. Criticism includes the conceptualisation of value and disagreement on whether SDL accurately captures the nature of value. For example, what about value-as-experience and the complexity of how value is determined, and the definition of what value is? Further, the processes associated with the co-creation of value are queried (Grönroos & Gummerus, 2014). How is value co-created and the abstract nature of the theory are both queried (Hietanen et al., 2018; Grönroos, 2011). As this is a theory of the market, this provides an approach or perspective but does not suggest specific actions.

1.7 Perspectives on value and strategies for organisations

Value is essential in marketing as it influences customer actions, such as loyalty and repurchase, which makes it important for the organisation. Despite its importance, it is a difficult term to define. What makes value so difficult to define is that it is determined by individuals, so what provides value for one person may not provide value for another. Different products and services, such as luxury products, can also vary in terms of the value they provide to customers. There are also products where mere ownership can provide value, as seen in consumers collecting cars or art work. So, what is meant by the term ‘value’ in the context of strategic marketing?

Academic literature suggests there are two ways to approach value.

1. The first way focuses on how it is created (the value creation process).
2. The second way focuses on the value outcome received by a customer (or other party) (Gummerus, 2013).

The value creation process examines the way in which the organisation creates value, either independently or together with customers, such as in self-service activities, placing the focus on the activities of the organisation. Here the organisation has to develop strategies as to how they will increase value and this is done through various ways, including:

- management of resources
- business processes within the organisation.

Treacy and Wiersema (1995) suggest that there are three value dimensions (or disciplines) that an organisation can use to create value for their customers, namely:

- operational excellence
- product leadership
- customer intimacy.

Organisations can focus on one of these but cannot ignore the other two.

By contrast, the value outcome perspective suggests that the customer reactions and experiences inform value, specifically by viewing value as an evaluation of the sacrifice/
benefit relationship and/or as an experience. Using the outcome perspective, value is viewed as some sort of assessment that the customer does. As an assessment, it means that the customer views value as an evaluation of what they get, such as performance, benefits or quality, for what they put in, such as the price they pay, or the effort needed to get the product (Grönroos, 2011). Customers believe that one product, or service, is better able to provide this benefit than another, thus they develop a preference for one product, or service, over another.

Example 1.5

There are various airlines that fly between Johannesburg and Cape Town. Zoliswa buys tickets (financial sacrifice) to fly on Airline A as it has newer aircraft and better service (benefit), which Zoliswa believes is important. Of course, Zoliswa can change her preferences over time, depending on many external factors, such as economic conditions or if Airline A’s service deteriorates.

What do these perspectives mean for strategic marketing? It means that the strategy that is developed needs to be appropriate for the organisation (in terms of resources and capabilities) but that the focus also needs to be on the customer – that is, to have a customer-centric perspective as this is where value is finally determined. Thus, an organisation can be more successful if it provides better customer value than its competitors (Mooradian et al., 2012).

1.8 A market-orientated approach to strategic marketing

A market orientation was initially described by Kohli and Jaworski (1990) as requiring market intelligence throughout the organisation as it related to both current and future customer needs, sharing that intelligence across departments, and the organisation responding to it.

From this description and from other research, it is suggested that if an organisation follows a market-orientated approach, attention needs to be paid to the following various components (Hooley et al., 2012):

1. A customer orientation, which implies that the organisation not only is able to identify their customers, but also understands them and is able to anticipate their needs and provide value for them.
2. A competitor orientation, which suggests that the organisation is aware of its direct (and indirect) competitors and their abilities.
3. Integration within the organisation in order for the organisation (as a whole) to direct its resources towards providing value to customers.
4. Focus on the creation of shareholder value, as without this, the organisation cannot continue to operate.
5. An organisational culture that is focused on providing customer value. If the organisational culture does not support the provision of value to the customer, the efforts of the marketing team will not be enough. This can be linked to the view that all employees are involved in the marketing efforts of the organisation.
1.8.1 Checklist: Do we have a market orientation?

This checklist suggests a few questions that an organisation can use to evaluate the extent to which it is market orientated. There are three main areas that the organisation would need to investigate:

1. Customers:
   a) What do we know about the customers and their buying habits?
   b) How are their behaviours changing?

2. Competitors
   a) What do we know about our competitors?
   b) What is the basis for competition and how do we compare with our leading competitors?

3. Capabilities
   a) Do we have a clear mission and vision that has the customer at the centre?
   b) Does the customer play an important role in all areas of the organisation, that is in all functional areas?
   c) What are our main competencies, that is, what are we good at?
   d) How do our internal operations support our core business?

1.9 The perspective of this book

Marketing managers need to consider these issues, and this text considers how these aspects can be considered and how they impact on the various marketing decisions. This text is based on presenting a South African perspective on strategic marketing and providing examples that are relevant to a dynamic environment. We believe that the focus of organisational activities needs to be on customers, but that this needs to be done by organisations as efficiently and effectively as possible within a South African context. The importance of the digital environment is acknowledged, and examples and applications of this are continually presented as part of the strategic marketing task.

Further, the role of marketing managers has expanded to include an understanding and incorporation of customer insights, the management of technology within marketing processes, and how the organisation uses technology to connect with its customers. The increased importance of customer experiences also requires an understanding of how these experiences can be managed to the benefit of the organisation. All these different aspects increase the responsibility of marketing managers to ensure that they are part of the decision-making process and increase the need to cooperate within the broader organisation, including the management team.

1.10 Summary

In this chapter, we have presented the nature and importance of the future orientation of marketing known as strategic marketing. Its task was contrasted with marketing management. Strategic marketing is affected by various factors, including the changing nature of customers and the increased role of technology in the world and their impact on the way in which organisations and companies interact. The developments in marketing thought, including 4IR and SDL were presented, with suggestions on their potential impact on strategic marketing. The chapter concluded by presenting the perspective of the book and the layout of the chapters that follow.
Chapter 1: The nature of strategic marketing

Reflection

1. Strategy levels could differ depending on the size of the organisation. How would they differ in a small enterprise (with less than 50 people) when compared to a large multinational organisation?

2. The role of strategic marketing could also differ based on the size of the organisation. Comment on this statement. Do you believe it to be correct?

3. It could be said that marketing management of a large enterprise is more important than strategic marketing in a small enterprise. Do you agree with this view? Motivate your position.

4. What specific challenges does 4IR bring to marketing, specifically strategic marketing?

5. What are some of the challenges associated with the concept of value? How would these challenges affect the task of marketers?

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Chapter 1: The nature of strategic marketing


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