Tilting of Marketing Locus: Product to Customer

Customer-related activities are more strategic than product-related activities in value chain

The locus of competitive advantage has moved from upstream activities to downstream activities. Upstream activities are product-related such as sourcing, production, logistics and product-related innovation. Downstream activities are customer-related such as shaping customer perception, reducing customer costs and customer networking.

Value-chain analysis looks at every step a business goes through, from raw materials to the eventual end-user. The goal is to deliver maximum value for the least possible total cost. The concept was first described and popularized by Michael Porter in 1985.

- "What else can we do for our customer?" has become the core of marketing strategy. Less successful companies are focusing more on "what else can we make and sell?
- Customers and the market –not the product and factory—have become the core of marketing strategy

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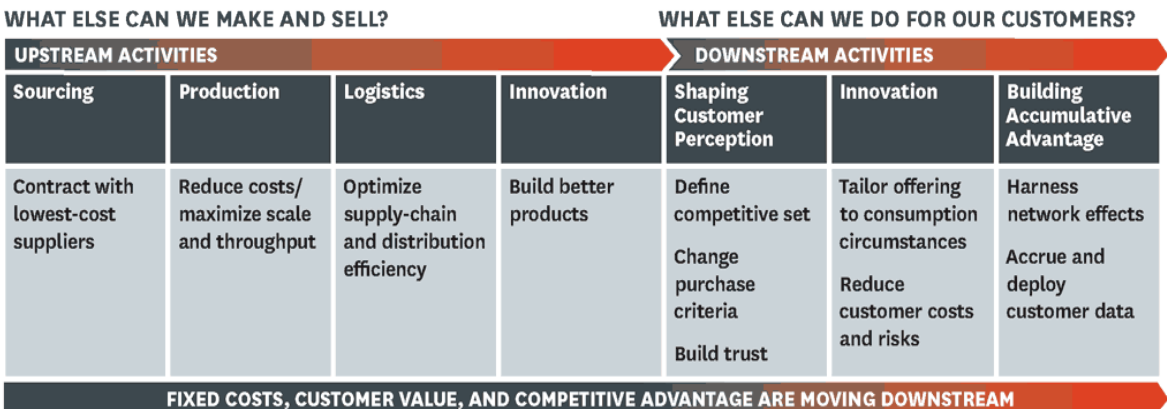

The shift of marketing thinking questions the assumptions of traditional marketing strategy as follows:

- **Does the competitive advantage lie within the Firm?** If the company considers its competitive advantage lies in its production processes or R&D, then company restricts plant visits and security around research labs.
  Successful companies' competitive advantage lies outside of the firm i.e. in customer networks, channel members and complementors. The advantage embedded in customer relationships, market knowledge and customer behavior.

For e.g Coca cola can raise finance very easily to start a fresh even if its physical assets go into ashes in one night because it is able to attract investors very easily.

- **Is listening to customers enough?** Companies are finding success not by listening to customers but by defining and shaping customer's *criteria of purchase*. For e.g. Zara, the fast-fashion retailer keeps only small number of products on the shelf for less time to define the fashion and shape customer expectations
- **Does competitive advantage get diluted over time?** Traditional thinking says as rivals' increase, competitive advantage erodes. In successful companies, the advantage grows with the time and number of customers i.e. competitive advantage actually accumulate with the time and the customers. For e.g. Facebook with its 1 billion accounts represents the most valuable networking effect, which is accumulative over time
- **Can we make a choice of competitors?** Traditional thinking tells that companies are stuck with the existing competitors or emerge independently. One can choose competitors if companies focus on Downstream activities. Three critical decisions decide your competitors such as positioning, placing yourself within the distribution channel and price. For e.g. Brita filters have different set of competitors when they are placed in the kitchen appliances section at big-box stores. When Bitra filters are placed in the bottled-water aisle at super market, the comparison set and consumer decision got replaced.
- **Is Innovation just for products or technology?** Successful firms fight not for superior products but for uniqueness. For e.g. Volvo doesn't fight with BMW on making a better car. Volvo's USP (Unique Selling Proposition) is safety where as BMW's USP is excitement. They focus on different target groups because customer criteria of purchase is different for different products
- **What are possible innovative areas?** Innovation is not just about products or better technology. Companies can better serve by reducing customer costs and risks over purchase, consumption and disposal cycle.

  For e.g. during the recession of 2008-09, consumers delayed purchases due to fluctuations in job market. Many automobile companies offered price reduction. Hundai, on the other hand, focused on customer risk-reducing guarantee and said, "If you lose your job within a year of purchasing a car, you can return it with no penalty to your credit rating". The Hyundai assurance doubled sales where as industry sales declined by 37%. It did not focus on making better cars but it innovated by selling cars better.
- **Is the innovation always in R&D Lab only?** Product innovation or technological innovations may not provide competitive advantage because customers need not accept product innovation. For e.g. Gillette owns the customers' criterion and trust. Additional blade (4 or 5) becomes credible only when Gillette says so. Technological developments cannot decide the success but the marketing power.

The locus of competitive advantage resides in the market place rather than with in a company or product. Downstream activities which reduce customer costs and risks provide the true differentiation. The downstream has its own rules hence marketers should uncover and set new rules to lead the market into future.

Topics	Course
Value chain: Delivering customer values and satisfaction: Unit 2.5	Marketing management

Source: *Niraj Davar, When Marketing is Strategy, Harvard Business Review, December 2013*