CHAPTER 4

ON THE STRATEGIC ROLE OF MARKETING WITHIN THE FIRM

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ABSTRACT

Marketing and strategy form an important symbiosis. However, discussion about the role of marketing, actively stimulated by Peter Leeflang, shows that its strategic impact may be less than desirable. This paper argues that adopting a strategic perspective of marketing is important for organizations and society to effectively benefit from marketing’s contributions. Based on the concept of the business model, the paper argues that marketing should play an important strategic role in any organization. Such a strategic perspective may define the marketing function and marketing activities in a more productive way and help marketing to address major challenges that organizations face more effectively.

1 THE ROLE OF MARKETING DEBATED

Peter Leeflang has played a prominent role in the recent debate about the role of marketing in organizations and society. With respect to organizations, much of the discussion has centered around the observation that marketing has lost influence in the boardroom. Furthermore, some observe that marketers have lost the confidence of society. The 2010 GfK Trust Index shows that only 33% of citizens trust marketing specialists (down from 39% in 2009). Sheth and Sisodia (2005) suggest that such lack of trust is mainly caused by (marketing) managers

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having become more concerned with realizing financial objectives (both of the firm and their own), rather than putting the interest of the customer first.

The debate shows that the role of marketing and its (potential) contribution to organizations and society is unclear. Frambach and Leeftlang (2009) suggested several reasons for this, many of which are related to organizations' misunderstanding and underestimation of the strategic role that marketing can and should play to effectively realize stakeholder objectives. A strategic role of marketing implies that marketing is considered to be more than only a functional domain within the organization. It also goes beyond viewing marketing as set of activities to market products or services and manage customer relationships to the benefit of the organization. Marketing is a multidimensional concept that should be considered at different levels of abstraction. Consider the distinction between culture and behavior; Marketing is related to (organizational) culture, such that it can stimulate establishing values and norms that put the interest of the customer first (Hoekstra et al., 1999). Such a culture, in turn, is more likely to stimulate behaviors that relate to serving the customer’s interest, among others based on behaviors such as effective information processing and customer responsiveness. The customer oriented culture of Southwest Airlines, for example, directly affects the way in which front-line employees interact with customers in daily operations. Consider further the distinction between strategy and tactics; Marketing strategy relates to making explicit choices of whom to serve, which value to offer, and how. Marketing tactics involve different ways of executing and delivering that value. For example, Apple’s choice to serve design and technology conscious customers is consistently reflected in not only their products, but also in the way in which their products are exchanged (such as packaging, store design, etc.). Tactics that are not embedded within explicit strategic choices are less likely to achieve customer goal fulfillment and to contribute to establishing sustainable competitive advantage. Organizations in which marketing is characterized by tactical behavior, a focus on short term gains and competitive responsiveness (e.g., managers overreacting to competitors’ marketing activities, Leeftlang & Wittink, 1996), opportunistic behaviors that lead to a demise in trust of the marketer may be more likely to prevail over behaviors aimed at realizing sustained competitive advantage. The latter requires a culture that fosters the importance of providing customer value and stimulating behaviors that enable customer engagement. For this purpose, marketing and strategy should be co-aligned. This has not always been obvious in the literature, as the next section shows. Next, using the concept of the business model, I suggest that organizations, customers and other stakeholders can benefit from organizations adopting a strategic perspective on marketing. Finally, I discuss some areas of marketing strategy that may receive increased attention from both practitioners and academics as the strategic role of marketing is better understood and more broadly adopted.
2 A STRATEGIC PERSPECTIVE ON MARKETING: FROM DICHTOMY TO SYMBIOSIS

For long, marketing and strategy have developed as relatively separated fields. Strategy received increased attention since the 1960s. Firms increasingly realized that merely extrapolating past developments was not effective to formulate future oriented policies. At that time (1965), Igor Ansoff published his famous book ‘Corporate Strategy’. More and more firms created departments responsible for drafting corporate strategic plans. Such plans were developed separately from marketing plans, which were developed by marketing departments engaged in creating the right mix of instruments to target customer segments. Simultaneous to the development of the concept of corporate strategy in the strategy domain, the now famous concept of the ‘marketing mix’ was proposed in marketing. It reflected the idea of the marketer as the “mixer of ingredients” to best serve his target market. The 4 P’s were suggested as key instruments to be used by the marketer. These new concepts reflected the turn of the marketing field from a descriptive, economic perspective, to a more normative, managerial perspective (Wilkie & Moore, 2003). With his research on advertising and promotion effects, among others, Peter Leeeflang contributed extensively to the analytical development of marketing management and thus to more effective managerial decision making in marketing (e.g., Leeeflang and Wittink, 2000). Also strategy developed toward a managerial perspective, resulting in an increased focus on firm operational effectiveness in the 1980s. Porter (1996) made a strong case for not confusing operational effectiveness with strategic positioning. He suggested that “the essence of strategy is in the activities—choosing to perform activities differently or to perform different activities than rivals” (Porter, 1996, p. 64). The ‘Resource Based View’ of the firm suggested that the effectiveness of strategic choices in realizing competitive advantage depends on the degree to which the firm can access and mobilize unique resources. The alignment of resources and strategic positioning is proposed in marketing by Day and Wensley (1988), who posited that competitive advantage is the result of employing distinctive capabilities to achieve positional advantages that enable superior performance. Earlier, Day and Wensley (1983) argued that the boundary-spanning role of marketing had increased its relevance for strategic decision-making, thus making way for the emergence of a strategic marketing orientation within firms. Although the planning perspective of strategy had already found its way into the marketing domain as evidenced by the mainstream acceptance of the concept and practice of marketing planning (i.e., the analysis, planning, and control approach introduced by Philip Kotler in 1967; Wilkie & Moore, 2003), the strategic perspective on marketing propagated by Day and Wensley (1983) implied an important shift in marketing thinking as well as in the
relation between strategy and marketing. It contributed to a focus of marketing decisions on achieving and sustaining competitive advantage taking into account resources available to the firm. In combination with the core focus of marketing on creating value for customers, this enabled the emergence of strategic marketing as conceptual domain. Recently, Varadarajan (2010) made an effort to synthesize different views by defining the domain of strategic marketing as: "...the study of organizational, inter-organizational and environmental phenomena concerned with (1) the behavior of organizations in the marketplace in their interactions with consumers, customers, competitors and other external constituencies, in the context of the creation, communication and delivery of products that offer value to customers in exchanges with organizations, and (2) the general management responsibilities associated with the boundary spanning role of the marketing function in organizations" (p. 126). Importantly, this domain statement explicitly centers (inter-)organizational behavior around value creation for customers. Strategy does not focus on customer value per se, but considers the behavior of organizations in relation to its rivals. Marketing, on the other hand, is "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 official definition, 2008 in Marketing News, p. 28). A symbiosis of strategy and marketing thus focuses the organization's (or network of organizations') efforts on the creation of customer value that is superior to and distinctive from competing offerings such that value exchange is enabled with mutual benefit. The concept of the 'business model' enables a more profound understanding of the role of marketing in such a complex system and contributes to shape that role, both strategically and tactically, within the organization.

3 THE ROLE OF MARKETING IN THE BUSINESS MODEL

A business model can be defined as "a well-specified system of interdependent structures, activities, and processes that serves as a firm's organizing logic for value creation (for its customers) and value appropriation (for itself and its partners)" (Sorescu et al., 2011). Consistent with the suggestion by Lusch and Webster (2010, p. 22) that "Organization structure and functioning is obviously the central mechanism for implementing marketing and business strategy", the business model is the vehicle that can make clear how marketing contributes to realizing customer value such that organizational and stakeholder objectives are achieved. Figure 1 shows the business model. It represents a set of resources that are mobilized for creating customer value for a particular choice of customers using a customer interface. The processes of value creation and value appropriation are co-aligned and result in a revenue model (e.g., profits and cash flows) that maximizes value for stakeholders.
At the core of the business model is the customer value proposition. In essence, this represents the way in which an organization helps their customer to “get an important job done” (Johnson et al., 2008) in ways superior to competitors. As it involves how the supplier realizes customer goals in particular use situations by means of its offering, it is more related to desired customer outcomes (experiences) than to outputs (products) (Lusch & Webster, 2010). Marketing’s role in realizing the customer value proposition is a strategic one, as it aligns the organization’s resources (including those of its network partners) with the choice of customers such that effective customer value creation takes place. Consider, for example, US-based supermarket Trader Joe’s. Their customer value proposition of a superior gourmet experience at low cost by offering “innovative, hard-to-find, great tasting foods”, is well aligned with both Trader Joe’s resource base (such as a close network of selected suppliers and limited assortment) and their choice of price conscious customers that appreciate quality foods. Competitive advantage stems from the extent to which the organization successfully leverages its resource base such that it creates an effective and distinctive match with customers’ desired objectives. In this vein, Lusch and Webster (2010) suggest that rather than the concept of planning, the idea of ‘resourcing’ better captures the process of creating and integrating resources.

Also the choice of customers determines how successful the organization can create and appropriate value. The customer value that the organization, including its network partners, offers or is able to offer needs to be matched with the
(latent) needs of customers that appreciate this offer or offer potential. This requires ‘sensing’ on the part of the organization such that continuous interfacing with stakeholders in the environment can take place (Lusch & Webster, 2010). Only in case optimal matching between customers and value creation is realized, can customers be expected to show a willingness to pay that enables the (network of) organization(s) to appropriate sufficient value to guarantee continuity and sustained competitive advantage. Consider for example Best Buy, which has developed profiles of consumers in order to serve them more effectively. Their employees are trained to recognize customer profiles and adapt their behavior to them. The development of a customer-centric organization and the according strategic choices of which customers to serve and how (specified customer value propositions and design of the customer interface) has created strategic focus and provided guidance for organizational behavior. As a result, Best Buy has been able to strengthen its position at the cost of its major competitor Circuit City that filed for bankruptcy.

The above illustrates that effective ‘resourcing’ and ‘sensing’ enables organizations to design and manage the process of value creation and appropriation more effectively. In terms of Lusch and Webster’s (2010) framework, this reflects the processes of ‘realizing and ‘learning’. Value is appropriated in exchange processes in which customers, organizations, and other stakeholders work together to collaboratively create value. The system learns from the exchange and value appropriation process such that ideally ever more effective trade-offs between costs (or sacrifices) and revenues (or benefits) are made or even that trade-offs are broken such that simultaneously sacrifices are decreased and benefits are increased (also referred to as value or business model innovation). The business model thus optimizes value creation and appropriation processes to the benefit of customers, stakeholders, and the organization itself. In its strategic role, marketing fuels this process by facilitating resourcing, sensing, realizing and learning activities. Accordingly, organizations would be expected to have strong and influential marketing departments. However, paradoxically, the emergence and organizational adoption of a symbiotic relationship between marketing and strategy has not always been good news for the marketing department.

4 THE MARKETING INFLUENCE PARADOX

As discussed in the first section of this article, some observe that the influence of marketing in organizations has declined. Others have argued that as firms have become increasingly customer and market oriented, with marketing capabilities being adopted among different functional areas throughout the organization, marketing has made itself obsolete (interview with Stremersch in Tijdschrift voor Marketing, June 2008). Thus while the concept of (strategic)
marketing has been adopted more broadly in organizations, thus making marketing more “successful”, the department initially responsible for advocating the marketing concept increasingly seems to have lost ground. How serious do we need to take this paradox?

Lusch and Webster (2010) state that marketing has evolved from “a business function that produces utility or value through the performance of production, distribution, and selling functions, to defining marketing as a business function that is customer- and market-oriented in order to help the enterprise offer more competitively compelling value propositions and enhance firm value, to a realization that marketing is no longer simply a business function but also a general management responsibility within a broad network enterprise. In this new view, marketing helps the firm co-create value propositions with all stakeholders so as to integrate resources for customer need-fulfillment and need-satisfaction” (p. 4). The role of marketing is therefore a dual one in my opinion. On the one hand, organizations seeking to effectively realize customers’, stakeholders’ and management’s objectives need to adopt a strategic perspective on marketing focused on effective value creation and appropriation processes. This requires a customer focused business model and market orientation across all functional areas and organizational processes. On the other hand, organizations need to be continuously stimulated to think about the most effective ways to create and appropriate value. As I argued in the previous section, given its central focus on creating and sustaining mutually beneficial relationships with customers and other stakeholders, the marketing function is in the right position to stimulate the organization to successfully engage in specific value creation and appropriation processes and to cooperate with other functional areas in executing them. Research by Peter Leeflang and his colleagues confirm this. Verhoef and Leeflang (2009) and Verhoef et al. (2011) find that more influential marketing departments positively affect the extent to which the organization is market oriented, which enhances performance.

The solution to the paradox on the influence of marketing thus involves acknowledging the importance of the strategic marketing concept in order to focus the entire organization on customer value creation and appropriation while recognizing the need for an internal champion that is both able and motivated to successfully advocate for, design and execute value creation and appropriation processes geared at realizing customer, stakeholder and management objectives. The former requires adoption of the strategic marketing concept beyond the marketing department alone (thus reflecting its success in terms of the marketing department per se being “obsolete”), whilst the latter requires the presence of an influential marketing department that is able to ensure continued adoption and (tactical) execution of the strategic marketing concept (thus echoing the potentially negative effects of marketing departments losing influence in the organization and top management support).
5 GETTING MARKETING (BACK) ON THE RADAR

What does it take for marketing to both inspire strategically and execute tactically? Given its boundary-spanning role, marketing is in the best position to direct the entire organization and its network partners toward strategic opportunities for superior value creation. In doing so, it aims to create value not only for its customers and stakeholders, but also to design this process in alignment with an effective process of value appropriation such that growth and continuity for the organization and its network can be achieved. As such, the role of the marketing department is of importance to the executive board level responsible for strategic decisions as the value focus of marketing provides guidance for formulation and execution of strategies at the corporate and business level of the organization. Marketing as a functional domain is in the best position to help design, shape and execute organizational processes for superior value creation and appropriation. Consider for example GE. Recognizing that its products no longer sold themselves, they reinvented the role of marketing in the organization and created marketing positions at the business and corporate level and changed its “staff” role to a highly visible and influential “line” role (Comstock et al. 2010). GE thus secured the strategic role of marketing at the board level and effective execution at the tactical level.

For marketers, showing how (strategic) marketing choices contribute to effectively execute processes of value creation and appropriation is of paramount importance to be respected by top management. This influences whether marketing will be granted a seat at the boardroom table and thus be involved in strategic decisions (Verhoef & Leeflang 2009). Marketers that merely operate at the tactical level will not be able to gain such influence. Their activities will stay “below the radar” and their responsibilities are likely to remain limited. For organizations to be able to benefit from an effective input of the marketing function in value creation and appropriation processes, marketing has to be a function that is taken seriously at the strategic level. Therefore, marketing ‘needs’ strategy to prevent it from being short-term performance oriented and to enable a role that helps the organization identify opportunities for competitive advantage based on superior customer value creation. Only then will marketing be able to (re-)gain respect from top management, stakeholders and society. This calls for increased attention by both practitioners and academics of strategic marketing topics that relate to marketing’s role in the business model. Although this implies many issues to be addressed more elaborately, I highlight few here that seem in particular need of attention, also based on the research priorities formulated by the Marketing Science Institute (MSI).

Value appropriation: understanding the revenue model. To understand how marketing (can) affect(s) value appropriation, a more profound understanding
of (drivers of) the business model’s revenue model is needed. Here, value appropriation is made explicit based on value creation efforts. This requires networks involved in value creation processes to employ analytical tools that clarify the effectiveness of resource deployment for value creation. The rich body of research on both the short and long term effects of marketing, to which Peter Leeflang has contributed extensively, increasingly enables marketers to do so (e.g., Leeflang et al. 2009). Based on this research, marketers can develop dashboards with metrics that enable monitoring the effectiveness of marketing activities and assess their strategic impact. More recently, such efforts have also focused on topics of particular strategic importance, including customer engagement (Bijmolt et al., 2010). As value appropriation opportunities are directly linked to understanding what the value created is worth to the customer (Ingenbleek et al., 2010), organizations are likely to benefit from more research in this area.

Innovation: understanding new ways of value creation and appropriation. From a strategic perspective, the innovation challenge for marketing is to develop and engage in new ways of value creation for customers and value appropriation for stakeholders. Increasingly, this involves understanding innovation processes in which value is co-created (Lusch & Webster, 2010). Here, customers’ behavior extends beyond their role as consumer only. As engaged customers behave (pro)actively in relation to suppliers, their role in innovation processes need to be understood well for these processes to be effective. Further, as business model innovation is a primary vehicle to engage in new ways of value creation and appropriation, the role of marketing in enabling and executing business model innovations successfully needs to be understood better. Marketing also plays an important role in understanding how radical innovations can be developed and diffused more successfully as previous research found especially these to contribute to growth and firm value (Sorescu & Spanjol, 2008). Understanding how the innovativeness of the marketing function itself may be stimulated is an important area for future research in this respect as well, as it was found to affect its impact in the organization (Verhoef & Leeflang, 2009).

Understanding how networks change business models. Resource deployment for value creation increasingly occurs within networks. Marketing has an important role to play in understanding how the connected environment (C2C, B2C, C2B, and B2B relationships) affect opportunities for connecting resources and customers to customer value propositions (i.e., involving resourcing and sensing). Marketing may help organizations to deal with strategic issues related to how activities and processes can best be structured and governed such that value creation and appropriated are optimized. This requires insight into topics such as (not exhaustive) outsourcing, contracting, interfacing, customer experience, and customer engagement.
Understanding cross-cultural markets. Markets are increasingly becoming cross-cultural. This requires both insight into the heterogeneity of customer behavior and into how cross-cultural diversity affects methods of customer research. In order for marketing to play a role at the strategic level, enabling the firm to make better choices of whom to serve and how, organizations need to develop new ways for understanding the market and how to relate to them.

The changing role of marketing in society: sustainability and responsibility. As Sheth and Sisodia (2005) suggested, in order for marketing to regain influence and respect, it needs to put the interest of the customer first. This goes beyond offering value propositions for customers. It requires the marketing function to create and appropriate value for all stakeholders involved in a sustainable way. Increasingly, it is well understood that sustainability not only implies long-term organizational competitive advantage, but also involves developing the organization in relation to sustainability of the environment and of stakeholder relationships. In this respect, organizations need to understand the issues involved in effectively engaging in relationships with stakeholders, including social responsive and ethical behavior.

6 CONCLUSION

Marketing and strategy represent an important and exciting symbiosis. The lack of respect among top management and society that marketing suffers from may be countered by adopting a more strategic perspective of marketing. Understanding that marketing has an important strategic role to play in any organization’s business model is the starting point for a productive way of defining the marketing function and marketing activities. A customer focus is likely to provide guidance for the entire organization toward building relations with customers and other stakeholders such that value is created and appropriated more effectively for all actors involved, without “putting the marketing department’ in charge”. On the contrary, customer focus goes beyond any functional domain and is part of the culture of the organization and its network. Strategically choosing which customers best match the organization’s (potential) capabilities to serve them will help align resources to specific customers and to design the most effective interfaces to exchange value with them. Here, marketing and strategy go ‘hand-in-hand’ in making and executing choices. The marketing department may take a leading role in making customer value creation happen and realizing optimal value appropriation based on that. However, the marketing function is unlikely to be effective unless it does so in close cooperation and interaction with other functional areas and stakeholders, including customers. This not only may lead to marketing being more successful, it may also lead to the much needed change of the way in which marketing is perceived by top management and society.
7 PERSONAL NOTE

Peter, I am very honored to contribute to this Liber Amicorum in acknowledgement of your distinguished career. It has been a great pleasure working with you. I got to know you as an energetic and dedicated scholar with an endless commitment to advancing the field of marketing, while never losing sight of the ‘personal touch’. Your accomplishments in marketing science are truly exceptional. You have been and continue to be an important source of inspiration and motivation for students, scholars and practitioners in the area of marketing. Your extensive contribution to the development and dissemination of marketing science has changed the field and those working in it, as evidenced by the impressive number of awards and honors granted to you. I would like to congratulate you on these outstanding achievements and to thank you for being a wonderful colleague and dear friend. I look forward to continue working together with you.

REFERENCES


