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CAN MARKETING CAPABILITIES LEAD TO THE COMPETITIVE ADVANTAGE OF THE FIRM?

ABSTRACT

The research has encompassed the analysis of sources of competitive advantage in the sample of Slovenian companies. The paper presents evidence that the development of higher levels of five vital marketing capabilities (in the areas of product differentiation, market research, new product development, generating new business ideas and firm's ability to align the operations to rapid market changes) can lead to competitive advantage. Marketing capabilities like generating new business ideas and new product development can enhance the firm's sustained competitive advantage and thus should also be confirmed in the paper. The paper closes with the implications of the findings and highlights promising future research avenues.

Key words: *competitive advantage, marketing capability*

1. INTRODUCTION

In recent years the resource-based view of the firm has become a dominant paradigm in strategic management literature. The resource based view of the firm has an inward focus in that it considers a firm's resources as primary sources of competitive advantage. Providing these internal resources (products/services, capital, technology, specialised knowledge, human resources, contacts and networks) meet certain criteria (e.g., difficult to imitate and difficult to substitute), they can form the basis of creating a superior competitive advantage (Patterson, 2004, 20). Capability-based theory is the second theory which explains that the building blocks of strategy are business processes (Weerawardena, 2003, 16).

This paradigm has been extended to marketing and to studying the assets and capabilities underlying superior performance in the marketplace. Resources enable the firm to develop a sustainable competitive advantage, and create customer value in the marketplace (Fahy et al., 2000, 63). Although different types of resources can be identified (e.g. organisational culture, marketing assets), the discussion in this paper is focused on marketing capabilities.

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Having decided upon a target group of customers it is important to give them reasons for the choice of a specific company's product offering. If an offering is perceived as similar to competitive products then, logic suggests, people are likely to choose the cheapest. The company must exploit many differences in an offering, such as the addition of desirable service features, or the closeness of links between supplier and customer, or even the perception of quality with respect to customer expectations. The value of these is dependent upon the importance to the customer.

Effective sales management, products, pricing, advertising, and distribution in any business has always required that marketing managers found available marketing capabilities in the company and organized them to create competitive advantage (Marshall, 1996). It is the need of a business to focus on the areas of its core competencies, specifically those where it can deliver a real competitive advantage. It should be able to identify and accommodate other companies, which can contribute their capabilities to ensure value to customers (Adcock, 2001, 133).

The principal aim of the paper is to develop a conceptual framework for studying marketing capability and its effect to competitive advantage. This paper proceeds as follows. First, the theory of competitive advantage is explored, focusing on marketing sourcing for sustained competitive advantage. It would like to answer the following question: "What are the set of marketing capabilities that enhance competitive advantage of the firm? Second, the empirical results of the sample Slovenian companies were examined and the results were presented. The paper concludes by discussing implications for future directions and the conclusions of the study.

2. MARKETING CAPABILITY

The capability-based theory suggests that a firm can achieve competitive advantage through distinctive capabilities possessed by the firm and that the firm must constantly re-invest to maintain and expand existing capabilities in order to inhibit imitability. Marketing capability of a firm is reflected in its ability to differentiate products and services from competitors and building successful brands and firms with strong brand names can charge premium prices in foreign markets to enhance their profitability (Weerawardena, 2003, 16). Achievement of competitive advantage typically also requires the product to be available to the appropriate target customers. This requires marketing communication, new product development and other marketing capabilities. And thus is argued that marketing capability leads to sustained competitive advantage (Weerawardena, 2003, 22). Sustainable competitive advantages and differences in business performance result from firms having unique knowledge bases and their ability to manage these different knowledge areas (Tsai and Shih, 2004, 524).

The differentiation strategy requires producing and marketing a superior product appealing to relatively price-insensitive buyers. The value created by this strategy

stems from meeting customer needs better than non-differentiated rivals. Competitive advantage for the differentiator arises from positioning the differentiated product to select target markets that are willing to pay a premium for superior need satisfaction (Vorhies, 1998, 6).

Competitive advantage of the company is focusing on the inside elements of the company. For those inside elements the variety of terminology can be summarized. It includes “resources”, “invisible assets”, “strategic assets”, “firm resources”, “capabilities”, “competency” and “core competencies” (Juttner and Wehrli, 1994, 43). The capability-based theory claims that the competitive advantage of a firm derives from its capabilities. Different authors use different expressions to describe the sources of capability-based competitive advantage. The most common expressions found in the related scientific literature are the following: core skills, distinctive capabilities, organizational capabilities, organizational capital, dynamic capabilities and core competencies (Buble et al., 2003, 28).

While resources are defined as productive factors that a firm uses to achieve its business objective, capabilities refer to a firm’s ability to “deploy these resources...to affect the desired end”. Thus, it is argued that for a firm to enjoy competitive advantage it must possess superior capabilities (Dutta, Narasimhan and Rajiv, 1999, 550). Tsai and Shih (2004, 8) define capabilities as the “unique combination of the knowledge-based, tangible or intangible resources of the firm”, and indicate what a firm can achieve by having teams of resources working together.

In explicating the overall marketing capability of the firm it is important to examine the specific marketing processes that are adopted by the firm in its competitive strategy.

The first process is the firm’s market research efforts and the ability to satisfy customer’s needs. Market research is defined as a set of processes, needed to learn about customer needs, particularly latent needs and to monitor competitor product and service offering. These capabilities are built on the understanding of customer needs and the factors that influence these needs, and these capabilities include access to an understanding of distribution channels on information about current customers and competitors, as well as potential or emergent customers and competitors (Marsh and Stock, 2003, 137).

The second process is concerned with the ability of generating new business ideas. In many competitive environments speed to market is critical to success, so we must apply marketing capabilities to generate new business ideas in means of process, product, organizational or other important topics by which organizations succeed in changing environments (Marsh and Stock 2003, 145). Marketing capability is needed in assessing a company’s position within its environment, in evaluating customer and competitor behavior (Moller and Antilla, 1987, 188).

Exploring new business opportunities and generating new business ideas in the process of new product development leads to the development of superior products or services (Jerman and Završnik, 2005, 951).

Third is the process of new product introduction as another important factor of company's competitive advantage (Weerawardena, 2003, 19). New product development requires the combination of knowledge and skills required to perform useful actions to solve problems related to concept development, product planning, product and process engineering, pilot production and market orientation (Marsh and Stock 2003, 138). Rapid development of new products and services is an integral component of innovation-based competition.

The next area of importance is the product differentiation, as a means of achieving competitive advantage, and it could come from either the tangible or the intangible parts of an offering. While the merchandise (core offering) could be tangible or intangible, it is important to separate this core offering from the support (advice, instructions or assistance) given to augment the total product. It is possible to move away from a pure commodity - that is, the "expected" state, where both the product and the support are undifferentiated and no competitive advantage exists - and develop an offering that has real additional benefits for customers (Mathur, 1997, 206). A unique or superior product, new product development, and improved new product introduction efforts are critical to a company's success (Bingham, Gomes and Knowles 2001, 212).

Next is the company's ability to monitor micro and macro environment. Monitoring, analysing and understanding the principal macro and industrial environment characteristics form an essential part of the marketing capability of the company (Moller and Antilla, 1987, 189). When the environment is turbulent, managers need more information to be able to make decisions. An environment is considered turbulent when it produces many rapid changes (Vorhies, 1998, 5).

Product success is largely affected not only by external or environmental conditions but also by careful definition of customer needs, offering the customer a differential product advantage, and possessing a high level of synergistic fit between the new product and company competencies (Mahin, 1991, 322).

These processes are adopted in varying degrees by firms in their efforts to reach respective target markets. In this paper the overall marketing capability of the firm is operationalized using these marketing processes.

In this paper are examined interrelationships among marketing capability and sustained competitive advantage.

3. RESEARCH METHODOLOGY

3.1. Characteristics of the sample

The main research instrument for empirical investigation, e.g. a questionnaire, was developed on the derived theoretical basis. The covering letters with questionnaires were mailed to the corporate directors of 150 biggest Slovenian enterprises. We chose the strata based on the annual net profit. The survey was conducted in January, 2005. During the four-week period following the mailing, a total of 37 responses were received and that gave the response rate of 24,7%. The results present in this paper are related to the sample of 37 respondents. The collected empirical data were processed with SPSS 10.0, where the emphasis was given to descriptive statistical analysis. We intend to use the regression analysis and hypothesis testing. The regression analysis and hypothesis testing produced very modest research findings because of the too small number of the companies in the sample.

Some of the possible limitations of the survey results should be noted. First, the low response rate might be considered a concern, but in fact, it is expected in organizational research as opposed to consumer research (Hansen et al. 1996, 85). When small sample sizes are being employed, when each subpopulation of interest has fewer than 30 respondents, we should be very careful to ensure that any inferences are appropriate given the data collection. But in this paper a small sample represents a high proportion of our population and such concerns are less relevant (Bock 2002, 240). This research concentrates solely on five key marketing capabilities identified important in the Slovenian market (See Table 6). This excluded any assessment of other marketing capabilities such as promotion, purchasing management, channels of distribution and customer relationship management that might usefully be examined by future researchers.

The relevant data of the companies were provided mainly by members of the managing boards (70,3% of cases). Other respondents appeared in not more than three companies.

Table 1.

Position of respondents in the companies

Position in the company	Frequency	Percent (%)
Members of the managing board	26	70,3
Head executive	4	10,8
Counselling specialist	2	5,4
Business consultant	2	5,4
Other	3	8,1
Total	37	100,0

The companies included in the sample are distributed according to industries (see Table 2).

Table 2.

Distribution of the companies in the sample according to industries

Industry	Frequency	Percent (%)
Production of industrial products	11	29,7
Trade	9	24,3
Production of consumer products	6	16,2
Business services	6	16,2
Services for final consumer	5	13,5
Total	37	100,0

The sample consists of one company (2,7%) with less than 100 employees, 35,1% of the companies with less than 500 employees but more than 100, 35,1% of the companies with the number of employees bigger than 500 but smaller than 1001, and 27,0% of the companies with more than 1000 employees.

Table 3.

Size of the respondents companies

Number of employees	Frequency	Percent (%)
51-100	1	2,7
101-500	13	35,1
501-1000	13	35,1
More than 1000	10	27,0
Total	37	100,0

Then respondents in the surveyed companies were asked about their largest sales geographic region. The respondents had the possibility to choose among different answers. The results show that the largest respondent sales market is Slovenia, followed by markets of former Yugoslavian countries. The next large sales market is the market of EU countries, followed by the market of East Europe.

Table 4.

Respondents largest sales geographic region

Geographic region	Frequency	Percent (%)
Slovenia	36	97,3
Former Yugoslavian countries	27	73,0
EU	25	67,6
East Europe	25	67,6
CEFTA	22	59,5
USA	12	32,4
Pacific - Asia	10	27,0
Australia and New Zealand	9	24,3
Japan	8	21,6
Africa	8	21,6
Latin and Middle America	6	16,2

The presented research findings in the continuation relate to the above-stated sample of companies.

3.2. Analysis and results

Marketing capability

The marketing capability scale captures the ability to differentiate products and services, market research ability and the ability to satisfy customer's needs, ability to new idea generation, the speed of new product introduction and the ability to align the firm's operations into rapid market changes. Scores on the marketing capability scale suggest that the firm possesses distinctive capabilities in the use of marketing tools and techniques. The question we would like to answer is: "Are these items consistent in defining the scale?" The reliability of construct was assessed by Cronbach alpha reliability coefficient. The measure had 5 items and reported an Alpha of 0,7490.

Competitive advantage

The competitive advantage scale captures the extent to which the firms can gain the advantages over competitors and resist erosion by competitors' efforts. The composite measure view that measures of competitive advantage should reflect more than simply financial performance. The competitive advantage scale is operationalized in terms of entering new markets, increasing market share, increasing customer satisfaction and gaining higher net sales revenues. The concept of competitive advantage had 4 items and the measure reported an Alpha of 0,6884.

Both the constructs, e.g. marketing capability and competitive advantage were measured on the Likert scale. The respondents had to indicate their agreement with the statements on a 5-point Likert (1 strongly disagree to 5 strongly agree) scales. Despite the fact that the Likert-type measure does not claim to be more than an ordinal scale, it has, nevertheless, been accepted as a means of achieving interval measurement quality, and there are several arguments favouring a variety of positions on this issue (Avlonitis, and Papastathopoulou, 2000, 39).

One of the objectives of the paper is concerned about the correlation existing between different marketing capabilities and company's competitive advantage. Accordingly, we make the hypothesis as follows:

Null hypothesis H₀: There is no correlation between marketing capabilities and competitive advantage.

Alternative hypothesis H₁: There is a correlation between marketing capabilities and competitive advantage.

Table 5.

Correlation matrix between marketing capabilities and competitive advantage

Correlation	Competitive advantage	
Our company has the ability to align the firm's operations to rapid market changes	Pearson Correlation	0,397(*)
	Sig. (2-tailed)	0,015
We generate new business ideas	Pearson Correlation	0,447(**)
	Sig. (2-tailed)	0,006
Our products are different from competitor's products	Pearson Correlation	0,428(**)
	Sig. (2-tailed)	0,008
Our company has the market research ability and the ability to satisfy customer's needs	Pearson Correlation	0,329(*)
	Sig. (2-tailed)	0,047
Speed of new product introduction is high	Pearson Correlation	0,400(*)
	Sig. (2-tailed)	0,014
Competitive advantage	Pearson Correlation	1,000
	Sig. (2-tailed)	-
** Correlation is significant at the 0.01 level (2-tailed).		
* Correlation is significant at the 0.05 level (2-tailed).		

The correlation coefficients between 0,300 and 0,700 show that there is a moderate correlation between marketing capabilities and competitive advantage. The test statistic exceeds the critical value so we reject the null hypothesis and conclude that there is a significant correlation between all tested marketing capabilities and company's competitive advantage.

Because the pairwise correlation is found to be significant the relationship between the variables will be investigated by producing a multiple regression model in the form of a linear equation. The independent variables (marketing capabilities) have been constructed on the basis of questionnaire items, detecting the distinct potential sources of the competitive advantage in the company. It is important to note that all the variables have been measured on a five-point Likert scale. For each independent variable, the average value and the standard deviation have been calculated.

Table 6.

Marketing capabilities of the company

Marketing capability	Mean	St. deviation
Our company has the ability to align the firm's operations to rapid market changes	3,73	0,99
We generate new business ideas	3,73	0,90
Our products are different from competitor's products	3,46	0,93
Our company has the market research ability and the ability to satisfy customer's needs	4,27	0,73
Speed of new product introduction is high	3,62	0,98

We would like to test if the regression model with five predictors (e.g. the ability to align the firm's operations to rapid changing conditions in the market, generating new business ideas, ability to differentiate products, market research ability and speed of new product introduction) is significantly related to the criterion variable Y (e.g. firm's competitive advantage)? Non significant predictor variables were deleted from the initial regression model and the model re-run to give a parsimonious result. We test the equivalent null hypothesis that there is no relationship in the sample between dependent variable and independent variables, but we found significance level only at two specific marketing capabilities e.g. generating new business ideas and the ability to differentiate products. According to this, the null hypotheses, which we tried to reject by means of regression analysis, could be formulated as follows:

Null hypothesis H₀: There is no relationship between the dependent and independent variables, e.g. the correlation coefficient between the dependent and independent variables equals 0 (H₀: R_{xy} = 0).

Alternative hypothesis H₂: There is a positive relationship between the dependent and independent variables, e.g. the correlation coefficient between the dependent and independent variables is significantly higher than 0 (H₂: R_{xy} > 0).

For the tested relationship, the multiple regression model with the highest significance was selected, e.g. the model with the significance closest to the significance level of 5%. Multiple linear regression extends bivariate regression by incorporating multiple independent variables. To investigate the hypothesis, entering all variables in a single block, it was found that the proposed model explains a significant percentage of variance in the competitive advantage. There was a significant linear relationship between the criterion (dependent) variable and the entire set of predictor (independent) variables. Table 7 shows that 56,9 per cent of the observed variability in company's competitive advantage is explained by two independent variables e.g. generating new business ideas and the ability to differentiate products (R²=0,569; adjusted R²=0,569).

Table 7.

Relationship between marketing capabilities and competitive advantage

Independent variable (x)	Dependent variable (y)	R²	Adjusted R²	(Sign.) α
x ₁ = generating new business ideas x ₂ = the ability to differentiate products	Company's competitive advantage	0,569	0,569	0,001
Model	Lin: y = 2,060 + 0,249x ₁ + 0,273 x ₂			

Although the empirical results do not provide a high level of support to the conclusion, it is believed that the positive relationship between the competitive advantage in the company and its marketing capability (in this case “generating new business ideas” and “the ability to differentiate products”) can be still accepted on the basis of the available data. Such a result is in accordance to the findings of other authors (Spanos and Lioukas, 2001).

Table 8.

Results of regression coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	(Sign.) ^a
	B	Std. Error	Beta		
(Constant)	2,060	0,475		4,342	0,000
The ability to differentiate products	0,249	0,100	0,358	2,495	0,018
Generating new business ideas	0,273	0,103	0,381	2,655	0,012

^a Dependent Variable: Competitive advantage

Results from Table 8 indicate that we can reject the null hypotheses that the coefficients for “the ability to differentiate products” ($t = 2,495$, $p = 0,018$) and “the ability to generate new business ideas” ($t = 2,655$, $p = 0,012$) are 0. The beta weight (Beta = 2,060) shows that the ability to differentiate products from competitors and the ability to generate new business ideas have a significant influence on company's competitive advantage.

3.3. Implications

The findings discussed above have some managerial implications. The critical success marketing capabilities put forward in this paper serve as building blocks for the development and maintain sustained competitive advantage in the companies. It provides useful guidelines in the form of the critical marketing capabilities that can affect a company's competitive advantage. In was demonstrated how specific marketing capabilities are related to a company's competitive advantage. The marketing capabilities proposed in the study also enhance the current practice of a company's sustained competitive advantage.

4. CONCLUSION

To achieve a competitive advantage, companies are often advised to develop marketing capabilities in key functional areas. A firm with a strong marketing capability will enable the firm to achieve better targeting and positioning its brands relative to competing brands. The ability to align the firm's operations to changing conditions in the market and producing products or services of high quality will enable the firm to enjoy sustained competitive advantage. As sources

of competitive advantage, companies try to exploit different marketing capabilities in order to create competitive advantage. They attempt to introduce new products, by satisfying customer's needs, by developing higher product or service quality and by generating new business ideas. The ability to monitor customers' needs and environment require a market research capability.

Top managers assessed that the most important marketing capabilities of companies are those for creating a firm's competitive advantage. The study confirms that there is an association between all tested marketing capabilities and company's competitive advantage. A statistical test did not support the hypothesis that a positive relationship exists between all tested marketing capabilities and company's competitive advantage. But it confirmed a positive relationship between two specific marketing capabilities (e.g. the ability of generating new business ideas and ability to produce different products) and company's competitive advantage. Results suggest that marketing capability (the case of generating new business ideas and product differentiation) influences the company's competitive advantage. The research contributes to theory and practice of strategic marketing by developing measures and refining measures of marketing capabilities and company's competitive advantage. Further, the model captures the role of key decision-makers in the development of marketing capabilities.

Future research should examine relationship among organizational innovation, entrepreneurial activity, marketing capability and competitive advantage. Finally, future research could investigate the methods to successfully implement marketing capabilities that can lead to firm's competitive advantage.

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MOGU LI MARKETINŠKE SPOSOBNOSTI TVRTKE DOVESTI DO NJENE KONKURENTNE PREDNOSTI?

SAŽETAK

Ovaj rad obuhvaća analizu izvora konkurentne prednosti na uzorku slovenskih poduzeća. Rad dokazuje da razvoj i dostizanje više razine pet vitalnih marketinških sposobnosti (na području diferencijacije proizvoda, istraživanja tržišta, razvoja novih proizvoda, osmišljavanja novih poslovnih ideja i sposobnosti tvrtke da svoje poslovanje prilagodi brzim promjenama na tržištu) može dovesti do konkurentne prednosti. Marketinške sposobnosti kao što su osmišljavanje novih poslovnih ideja i razvoj novih proizvoda mogu poboljšati dugoročnu konkurentnu prednost tvrtke te bi stoga također trebale biti potvrđene ovim radom. Rad se zaključuje analizom implikacija rezultata te naglašava obećavajuća buduća istraživanja.

Ključne riječi: konkurentna prednost, marketinška sposobnost