

UNIVERSITY OF STRATHCLYDE

DEPARTMENT OF MARKETING

MARKETING AND COMPETITIVENESS:
A SURVEY OF CURRENT PRACTICE AND PERFORMANCE IN THE
UK TEXTILE MACHINERY INDUSTRY

VOLUME ONE

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ABSTRACT

In common with many other branches of engineering in the UK, the textile engineering industry has lost its competitiveness in international markets. The aim of this study was to gain an understanding of the reasons underlying this decline. In particular, the research focused on understanding the role that marketing factors have played in the declining competitiveness of the industry and the means by which British management and the government may be able to overcome this problem and improve the competitive situation of the industry.

A thorough examination of the literature dealing with competitiveness was carried out and based upon this, specific hypotheses were formulated and tested.

The empirical investigation was carried out during the period between March and June 1986. A questionnaire was mailed to 128 firms in the British textile machinery industry. The subsequent analysis is based on a total sample of 31 companies which is considered to be reasonably representative of the industry as a whole.

The findings of the field work revealed that the steady decline of the UK textile machinery industry international competitiveness is linked to a lack of marketing orientation. Many British companies are production or sales-oriented rather than marketing oriented. By contrast, the in-roads being made into the UK market by foreign textile machinery manufacturers were largely based on a strategy aimed at satisfying customer needs and wants.

To improve the performance of this industry in the UK, it is recommended that a marketing oriented approach should be adopted by British management and the government should take steps to remove the obstacles which impede the performance of the industry, such as inadequate investment, lack of qualified R & D personnel and the proliferation of bureaucratic practices.

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Dedication

To my Mother and the memory of my Father.

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CHAPTER 1

General Introduction: The Purpose and Significance
of the Study

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Introduction

Britain is one of the world's largest industrial nations and depends on its industrial products as an essential element for economic growth. Despite the important role of these industries Britain has been suffering a continuous long term decline in international markets.

The analysis of import penetration and export sales ratios confirms the overall situation, and some industries such as mechanical engineering, cars, steel, and chemicals are clearly in a position where the increase in import penetration compared to export performance seems to illustrate the decline in competitiveness of these industries.

It has been suggested that this decline in competitiveness is due to the limited attention given to marketing. An examination of the literature dealing with competitiveness shows an almost complete neglect of the marketing function and its role in improving the competitive situation of British industries.

In fact lack of marketing as a reason behind the decline in competitiveness of UK industry was noticeable in even the early writings on competitiveness.

McGeehan⁽¹⁾, Ray⁽²⁾ and a NEDO⁽³⁾ study in 1977 indicated the importance of poor marketing as a contributory factor to the UK's disappointing industrial performance.

More recently, many other studies and surveys have seen this as the root of Britain's lack of competitiveness, e.g Baker⁽⁴⁾,

Rothwell⁽⁵⁾, King⁽⁶⁾, Turnbull⁽⁷⁾, Press and Coppack⁽⁸⁾, Thirlwall⁽⁹⁾, Abu-Zeid⁽¹⁰⁾ and Briggs⁽¹¹⁾. By contrast, foreign competitors from Japan and West Germany are more aware of the vital role of marketing.

Recent research by Doyle⁽¹²⁾ attributed the competitive success of Japanese firms in the UK market to this customer orientation. Connell⁽¹³⁾, Piercy⁽¹⁴⁾ and Limprecht and Hayes⁽¹⁵⁾ come to a similar conclusion about successful German companies.

The above argument must not be taken to say that lack of marketing is the only element behind the decline in competitiveness of the UK industry, several additional factors should not be ignored. This may include lack of support from government on such issues as, the National Insurance surcharge, exchange rate, credit guarantee facilities, inadequate control programme for imported products, energy cost and lack of financial support regarding the funding of R & D.

As far as the UK textile machinery industry is concerned, studies have demonstrated that for many years the industry has on balance been exporting products that are less sophisticated technologically than those it has been importing.

In fact, these observations formed the basis for the NEDO Textile Machinery Committee decision to concentrate on studying the competitive situation of the industry.

These studies conducted by NEDO are not indicative of an awareness of trends in the world of textile machinery. The relative importance of certain factors associated with competitive success of the industry are highlighted, but they give very little indication as to how these could be analysed to provide a useful basis for targeting their official resources to meet the needs of firms. No criteria are developed in these studies for identifying

the main causes behind the declining competitiveness of the industry and the means by which other countries have overcome similar circumstances. No indication exists in these studies or from discussions held with officials in the BTMA that attempts have been made in that direction.

The purpose of this research is therefore to develop the basis for evaluating the main factors underlying the declining competitiveness of the above industry in order to help British management and government to take the necessary action to enable companies in the industry to become more efficient and competitive and hence to increase their share of world and UK markets.

Significance and importance of the study

The present study is considered important for the following reasons:

Firstly: This study meets the demands of the National Economic Development Office and other organisations associated with industry whose primary objective is to help the companies operating within the industry to become more competitive.

Secondly: The increased importance of the industrial products for the growth of the British economy. The significance of this study stems from its concern with a sector which is showing a remarkable impact on the performance of the UK Mechanical Engineering industries, i.e textile machinery sector. The importance of the textile machinery industry can be seen not just in terms of export, profits and employment but also on its impact on other industries such as the textile industry.

Thirdly: An industrial historian may find this study of interest, but more important are the lessons to be learned by those who are fighting hard to keep their companies healthy and competitive, especially if they are in direct competition with

countries like Japan and West Germany who have proved themselves to be formidable opponents.

Fourthly: The present study constitutes further research into the contribution of marketing to competitive success.

Organisation of the Study

This study is organised in eight chapters, the first of which is the introduction.

Chapter Two is devoted to providing a theoretical and analytical framework which might be useful for understanding the nature of competitiveness of British industrial products. It begins by discussing international trade theories as a useful starting point for understanding trends in international competitiveness. This is followed by definition of the meaning of competitiveness and the causes behind the UK's lack of international competitiveness.

Chapter Three is an attempt to illustrate how and why marketing became essential for international competitiveness. In this area, it begins by discussing how a marketing orientation can be useful for competitive success. Next, a general review of pricing policy. This is followed by an examination of the relative importance of price and non-price competitiveness.

Part One in Chapter Four is devoted to a general review of competitive marketing strategies. It tried to answer the following question: Which strategy should be adopted by a firm operating within an industry in order to compete in the world market?

The second part of this chapter looks at the success of Japanese firms in searching for clues which might lead to the revitalisation of Britain's flagging competitive position.

Chapter Five describes the major characteristics of the UK textile machinery industry and its international rivals. It begins by discussing the nature of competition in the world of textile machinery. This is followed by a brief description of the UK textile engineering industry.

Chapter Six discusses the design of the field study and is a bridge between the theoretical framework and the empirical findings. It includes the identification of the problem areas and objectives, formulation of hypotheses, identification of the sample and the development of the questionnaire.

Chapter Seven is devoted to presenting a discussion of the study findings with the statistical methods used in the analysis of the data.

Chapter Eight presents the contribution of the study, discusses its limitations and, where possible, make recommendations and suggestions for further research to be undertaken.

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CHAPTER 2

International Competitiveness:
A Conceptual and Analytical Framework

CHAPTER 2International Competitiveness:
A Conceptual and Analytical FrameworkIntroduction

The purpose of this chapter is to develop a theoretical and analytical framework, which might be useful for understanding the nature of competitiveness of British industrial products.

Accordingly, one part of this chapter will discuss international trade theories as a useful starting point for understanding trends in international competitiveness. This will cover the traditional Ricardian view, the Heckscher-Ohlin theorem, the technology gap models and the product life cycle theory.

In another part of this chapter we will explore the meaning of competitiveness and the different ways in which it is conceived and measured. This will lead us to examine trends in UK competitiveness at the macro economic level, since it is part of the environment in which competitive firms decisions are made.

To complete the chapter we will examine the causes behind the lack of competitiveness in British manufacturing industries. This will involve a theoretical and empirical explanation to pave the way for discussion in detail price and non-price competitiveness as factors determining the competitive strategy of firms operating within an industry in the market place.

The above issues will be presented in three sections:

- First: International trade theories as a policy guide.
- Second: Competitiveness and the British position.
- Third: Reasons for the UK's lack of international competitiveness.

SECTION ONE: Trade Theories as a Policy Guide

The aim of this section is to review briefly what has been the main stream of thought regarding the determinants of comparative advantage*, in order to help policy planners to understand the underlying forces affecting international competitiveness.

Ricardian and Heckscher Ohlin Trade Models

From the late eighteenth century with the advent of Adam Smith's pioneering tract the Wealth of Nations, international trade theories have preoccupied the minds of economists.

Ricardo developed his theory of comparative advantage which assumes that "a country will produce and export products that use the lowest amount of labour time relative to foreign countries and import those products that have the highest amount of labour time in production relative to foreign countries. Furthermore, only relative amounts of labour time matter"⁽¹⁾.

Accordingly the relative prices of commodities varies from country to country due to differences in production costs, and production costs were in turn dominated by labour costs. Relative labour productivity thus becomes the principal determinant of comparative advantage. "Disparities in labour productivity were attributed by Ricardo to differences in production technology"⁽²⁾.

It is for this last reason that the Ricardian model has generally been rejected as scientifically unsatisfactory by contemporary trade theorists, even though a number of attempts have been made at testing the Ricardian theory of comparative advantage. Most notable is the work of MacDougall (1951) and Bhagwati (1964).

* It is important to note here that the researcher will use the terms comparative advantage and competitive advantage as descriptions of the same phenomenon which refer to the relative advantage of certain country's product in the market place.

MacDougall⁽³⁾ examined the patterns in growth of exports for the UK and US. He found that the labour theory was indeed confirmed, since there was a clear tendency for each country to get a larger and larger share of the market, the greater its comparative advantage.

In his (1964) survey of trade theory, Bhagwati⁽⁴⁾ examined the logic and underlying assumptions of the Ricardian model and the empirical procedure whereby the hypothesis was tested in successive steps. He argued that the procedure was defective insofar as relative export prices could not necessarily be approximated by labour productivities and other measures. He went on to demonstrate this point using correlation methods and concluded that "there is yet no evidence in four of the Ricardian hypothesis".

For a more complete understanding of the sources of comparative advantage in international trade the next major step was the so-called Heckscher-Ohlin theory. This theory states that a country will export those goods whose production intensively utilises the country's abundant resources and import those goods whose production intensively utilises the country's scarce resources⁽⁵⁾. For example, a country with a relative abundance of capital compared to the rest of the world will face a price for the use of capital relative to labour services, less than that faced by the rest of the world. Thus industries whose products employ more capital relative to labour in production can produce a unit of output of such goods at a lower cost than can the rest of the world. But by the same logic, the rest of the world can produce at lower cost a unit of output of labour-intensive goods. Consequently the capital abundant country will have a comparative advantage in capital-intensive goods and will export these in exchange for labour-intensive goods.

Grubel⁽⁶⁾, Magee⁽⁷⁾, Freeman⁽⁸⁾, and Scott⁽⁹⁾, among others indicated that this factor proportions explanation of comparative advantage is based on the following assumptions:

1. Technology is static, and countries have equal access to technical know-how.
2. Rankings of commodities according to factor intensities of production are identical across countries, irrespective of factor price variations.
3. Both types of countries are incompletely specialised and continue to produce both products in international equilibrium.
4. Industries operate in a climate of perfect competition and free trade.
5. Consumer preferences are identical across countries, and are determined solely by relative prices.
6. Governments do not interfere with free trade through tariffs, quotas, taxes or other regulations.

Given these assumptions, the Heckscher-Ohlin approach has been subjected to much general criticism. Kindleberger⁽¹⁰⁾, Johnson⁽¹¹⁾, Walker⁽¹²⁾, and Stein⁽¹³⁾, among others argued that:

1. The Ricardian and Heckscher-Ohlin models, involved reducing the world economy to distinct pairs of countries, exchanging distinct pairs of commodities.
2. Neoclassicists have usually chosen food and clothing as their typical commodities and have assumed that price alone determines consumer preference.
3. The Ohlin theory of international trade is essentially a static theory which concentrates on the determination of comparative advantage at a given point in time. It does not deal with the more dynamic issues concerning the determinants of change in comparative advantage over time.
4. The trade effects of changes in demand patterns associated with economic growth and development are not treated within the Heckscher-Ohlin theory, likewise, the impact of technological innovation on comparative advantage is ignored in the Heckscher-Ohlin theory, which specifically assumes identical production functions internationally.

5. Heckscher-Ohlin theory does not discuss the introduction of new products or change in production condition over time.

Consequently, the failure of Ohlin theory to provide an adequate explanation for the competitive advantage which industrialised nations appear to possess in different industries was dramatically illustrated by the so-called "Leontief paradox".

Leontief⁽¹⁴⁾ set out to test whether US comparative advantage in the international trade of manufactured goods was determined by the nation's relative abundance of capital over labour. He demonstrated that the Heckscher-Ohlin model's predictions of the factor intensities of US imports and exports were incorrect. Contrary to general expectations, US imports appeared to be more capital intensive than US exports.

In attempting to explain Leontief's results, a number of researchers have focussed on the non-homogeneity of labour. Leontief himself in a 1956 paper⁽¹⁵⁾ showed that production of US exports employed relatively more skilled labour than did production of import-competing goods. Karvi's⁽¹⁶⁾ study, at roughly the same time showed that US export industries possessed, on average, higher wages than import competing industries.

A study conducted by Japanese economists indicated that Leontief's paradox is not confined to the US. The study showed that exports from capital scarce Japan were on the average more capital intensive than products which had to compete with substantial imports in the local markets⁽¹⁷⁾.

Three other tests of the Heckscher-Ohlin hypothesis based on input studies give conflicting results. One by Stolper and Roskamp of East German trade supports the Heckscher-Ohlin hypothesis⁽¹⁸⁾. Two others, one of Canadian-United States trade⁽¹⁹⁾ and one of Indian-United States trade⁽²⁰⁾, also reveal a Leontief type paradox. In

both instances the imports of other countries from the United States tend to be labour intensive and the exports of other countries to the United States tend to be capital intensive.

In this regard Hirsch⁽²¹⁾ pointed out that Leontief's finding may be re-interpreted as follows: "The international competitiveness of US exports can be ascribed at least in part to the relative abundance of skills of labour". He concluded that "this interpretation of factor-proportion approach, does not affect the policy guidelines implicit in the Heckscher-Ohlin theorem, a country should give priority to the manufacture of products containing a high proportion of locally abundant factors. Factors, however, should be carefully defined in order to avoid possible confusion arising from erroneous classification".

The discussion so far has emphasised production factors and production costs as the elements which determine comparative advantage, other factors such as demand patterns should also be considered.

Linder⁽²²⁾ mentioned that the factor proportions analysis cannot possible explain intra-regional trade because, by definition, a region has homogeneous factor proportions. There are other variables, whatever they may be, which are more important than the factor proportions. In seeking an alternative hypothesis, Linder indicated that a country cannot achieve export competitiveness in any manufactured items which have not originally catered for local needs⁽²³⁾.

It seems clear that Linder's hypothesis is in complete opposition to a central prediction of the Heckscher-Ohlin model that the greater the disparities in capital and labour endowments between countries, the greater the opportunities for trade.

Having said that Linder's model contains certain guidelines of which policy planners and individual firms might take cognisance⁽²⁴⁾.

The first concerns the timing of international trade activities, the sooner firms raise their trade horizons across national boundaries, the more likely they are to benefit from economies of scale and from all the other benefits desired from higher sales volumes.

The second guideline concerns the directions of export endeavours. These should be concentrated on countries whose average income level is roughly equal to that of the exporting countries.

However Walker⁽²⁵⁾ claimed that Linder himself was unable to explain if countries with similar proportions of labour and capital produce similar commodities, where is the source of comparative advantage that generates trade? "If monopoly gained via specialisation is the source, does this not contradict the initial assumption that countries with similar income level have similar commodity compositions of production? Can product differentiation within a product group provide an explanation?"

Consequently an alternative approach which contains answers for these questions, while introducing a number of additional variables into the analysis of international competitiveness can be found in technology gap and product life cycle theories.

Technology Based Theories

Recent formulations of trade theory which attempt to explain patterns of trade in manufactured goods explicitly include the role of technological innovation in determining comparative advantage can be divided into technology gap theory and product life cycle theory.

The Technology Gap - Theory

In an attempt to explain certain types of trade which violate Heckscher-Ohlin's theory, Posner⁽²⁶⁾ developed the technological gap hypothesis. He pointed out that "by technical changes and developments that influence some industries and not others, because particular technical changes originate in one country, comparative cost differences may induce trade in particular goods during the lapse of time taken for the rest of the world to initiate one country's innovation".

Consequently according to Posner, there is a certain time lapse between the introduction of a particular innovation in one country and the successful adoption of that innovation by its trade partners. The length of this imitation lag depends on the length of time required for international transmission of this technical knowledge, (the foreign reaction lag) the speed with which each country's producers adopt the technique (the domestic reaction lag), and the length of time required to master the new technique (the Learning process). In the absence of a demand lag (i.e a slow consumer response to the new production or innovation) scale economies enjoyed by the innovator offers him a continued price advantage and overseas competitors may remain at price disadvantage despite lower labour cost. At the same time scale economies generally prolong the life and increase the volume of technology-gap exports⁽²⁷⁾.

Bearing in mind that Posner did not carry out any empirical test to verify the validity of his model, however, he opened the way to new empirical research.

Freeman⁽²⁸⁾, who looked at the plastics industry in advanced countries, showed that location of production and per capita reports were a function not of factor costs but of technical progress in the country measured by research expenditures, patents and innovation.

In 1966, Hufbauer⁽²⁹⁾ explicitly set out the basis of the technology gap trade theory. He indicated that "technological gap trade is the impermanent commerce which initially arises from the exporting nation's industrial breakthrough and which is prolonged by static and dynamic scale economies flowing from the breakthrough".

In his study of the synthetic fibre industry, Hufbauer found empirical support for the technology gap trade theory. However he failed in separating clearly trade generated by technological lead and trade induced by simple economies of scale.

Nelson⁽³⁰⁾ (1968) tested the proposition that differences in labour productivity in manufacturing sectors across countries are caused by differences in the level of technology employed in these sectors. His results in a comparison of US-Columbian labour productivity differentials suggest that these differentials can be explained by differences in the level of technology in each country's manufacturing sector.

A similar test by Ault⁽³¹⁾ (1972) indicated that lags in diffusion of technical knowledge are associated with differences in comparative costs of production across countries.

A number of other studies have tried with varying success to describe trade patterns and comparative advantage in terms of technology gap in this way. Among others Baldwin⁽³²⁾, Hirsch⁽³³⁾, Goodman and Ceylum⁽³⁴⁾ and Lowinger⁽³⁵⁾ who examined the technology factor, and the export performance of US manufacturing industry found that US competitive advantage is most pronounced in research intensive industries. His results showed that up to 73 percent of the variance of US industries reports is explained by differences in research intensity. He pointed out that US competitive performance in international markets is largely determined by the country's ability to invest a comparatively high proportion of its resources in the development of new products.

To this end Walker⁽³⁶⁾ declared that the technology gap theory failed in its prediction of the timing and direction of production transfer, and for these reasons Vernon addressed himself to a more detailed product life cycle approach.

Product Life Cycle Model

The product life cycle hypothesis expand the basic premises of the technological gap hypothesis into a detailed account of product development. The most complete account of the product life cycle hypothesis is found in Vernon (1966) and Hirsch (1967). While these accounts differ in some respects, their basic thesis remains the same.

Vernon proposed to reject traditional comparative advantage, explanation of trade structure, and instead focused on the timing of innovation and economies of scale as major determinants of the pattern trade flows.

In presenting his theory of the product cycle, Vernon proposed to offer an explanation of production and comparative advantage. He differentiated more clearly the product life cycle trade theory from technology gap trade theory by stressing the importance of internal demand on the introduction of new products. He argued that⁽³⁷⁾ "the United States market consists of consumers with an average income which is higher than that in any other national market - twice as high as that of Western Europe, for instance, wherever there was a chance to offer a new product responsive to wants at high levels of income, this chance would presumably first be apparent to someone in a position to observe the United States market".

Also Vernon's model stresses the degree of standardisation which take place when the demand for a product expands over the different cycles. Vernon introduced a clearer concept in the model, providing Hirsch's model, as set out in Table 2.1.

Table 2.1

Characteristics of the product cycle

Characteristics	Cycle Phase		
	Early	Growth	Mature
Technology	Short runs rapidly changing techniques dependence on external economies.	Mass production methods gradually introduced. Variations in techniques still frequent.	Long run and stable process Few innovations of importance.
Capital Intensity.	Low.	High, due to high obsolescence rate.	High, due to quantity of specialised equipment.
Industry structure	Entry is know-how determined. Numerous firms.	Growing number of firms. Many casualties and mergers. Growing integration.	Market position and financial resources affect entry. Number of firms declining.
Critical Human inputs.	Scientific and engineering.	Management.	Unskilled labour semi-skilled labour.
Demand structure.	Sellers market. Performance and price of substitutes determine buyers expectations.	Individual producers face growing price elasticity. Competition reducing prices. Product information spreading.	Buyers market. Information easily available.

Source: S Hirsch, Location of industry and international competitiveness, Oxford, Clarendon Press, 1967, p.23.

In the new product stage Hirsch maintains the product is characterised by a labour intensive production function⁽³⁸⁾. The technology is unstable and changing rapidly. The strength and nature of market demand is also very uncertain. In particular new products contain a high proportion of scientific and engineering input⁽³⁹⁾. The firm will tend to lean on other specialist firms to supply

components and materials, rather than tying up capital in production facilities, that may rapidly become outdated.

As pointed out by Parker⁽⁴⁰⁾ competition is likely to be of a non-price factor in this early period. There are a few rivals offering substitute product, under these conditions, the level of R&D may be a major indicator of the type of competition prevalent⁽⁴¹⁾.

After an initial period of time, and assuming that a demand exists, the product enters what Hirsch labels the growth stage. In this stage the volume of output is expanding rapidly and the production process becomes more physically capital intensive, although skilled labour also remains a significant input into the production process.

After an additional period of time the product enters what Vernon labels the maturing stage of the cycle. In this stage the product's specifications become set and the opportunity to produce on a larger scale requires a commitment to set methods of production and permanent facilities. Further, over this period demand for the product has been growing rapidly both domestically and abroad. According to Vernon the foreign demand is most likely to arise first in the developed countries (e.g Western Europe) since their income levels and tastes are most similar to those of the United States. Also, the decision to locate production facilities abroad will depend upon production cost differences primarily due to scale and labour cost.

In this regard Walker⁽⁴²⁾ cited that Vernon went to some lengths to emphasise the variety of forces that may influence the timing of the transfer of production from the parent country. Tariff barriers, transport, costs and the behaviour of competition may induce the manufacturer to invest abroad earlier or later than would otherwise be expected.

In the final stage of the product life cycle, the initiation of direct foreign investment by the original country is undertaken to reduce cost and enhance its competitive position. Production then becomes so cost dependent that such a country may exercise its global locational option and produce abroad. In this case foreign production in some countries reaches sufficient scale that costs are low enough to overcome the transportation tariff protection which the original manufacturer has. The innovating country becomes uncompetitive and a net importer of the product⁽⁴³⁾. Hence the product life cycle theory's explanation of the Leontief paradox⁽⁴⁴⁾.

Thus the product life model can help to predict which group of countries are likely to have strong competitive position at a particular stage of the life cycle of production. Figure 2.1 shows the path of movements of competitive advantage.

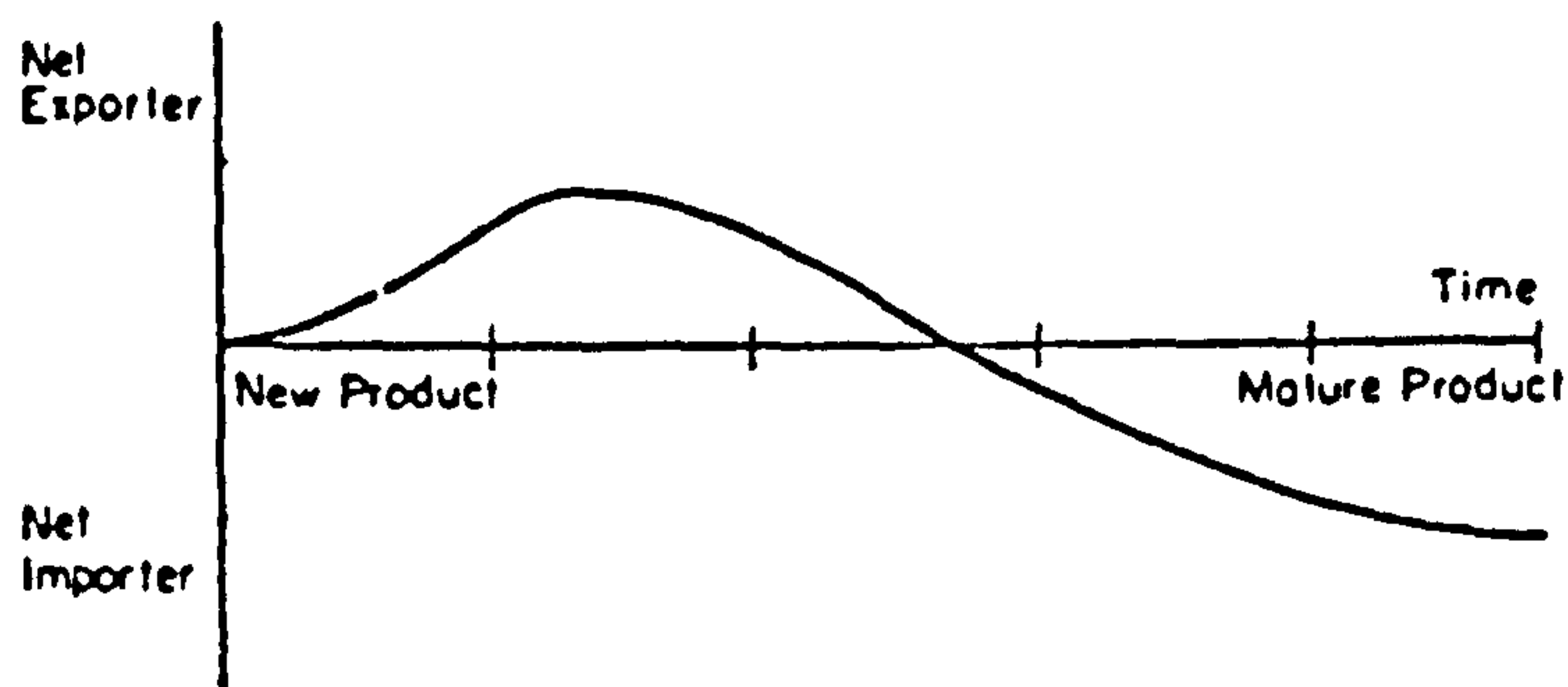
Subsequently, it was pointed out by Majumdar⁽⁴⁵⁾ that the product life cycle model in its basic premises deviates from the assumption of perfect competition and the identical production functions among nations, which are essential for the traditional dynamic theory. It also recognises the multiplicity of other institutional rigidities and the real world imperfections. As a result it accords more satisfactorily with prevailing ideas about, and observations of, the facts of competitiveness in and between industrial countries.

It is evident that this aspect of the product life cycle hypothesis as Wells⁽⁴⁶⁾ indicated in Table 2.2 contrasts sharply with the static nature of Heckscher-Ohlin theory, which does not discuss how comparative advantage may shift from one country to another over time as a result of changes in either supply or demand parameters as we have said earlier.

However, this contrast between the two theories should not be interpreted to mean that the two theories provide mutually exclusive explanations of comparative advantage.

Figure 2.1

"A schematic presentation of the US trade position in the product cycle



<u>Phase I</u>	<u>Phase II</u>	<u>Phase III</u>	<u>Phase IV</u>	<u>Phase V</u>
All production in U.S.	Production started in Europe	Europe exports to LDC's	Europe exports to U.S.	LDC's export to U.S.
U.S. exports to many countries	U.S. exports mostly to LDC's	U.S. exports to LDC's displaced		

Source: Louis T. Wells, Jr., "International Trade: The Product Cycle Approach," in Louis T. Wells, Jr. (ed.), The Product Life Cycle and International Trade, Graduate School of Business Administration, Harvard University, 1972, p. 15.

Table 2.2: Differences between Ohlin and the Product Life Cycle Theory

Heckscher-Ohlin	Product Life Cycle
1. Identical production functions in all countries for each commodity or differences due only to neutral efficiency differential.	1. Production function changes with time, early in the life of the product it is more labour and skill intensive than later.
2. Linear, homogeneous production functions with diminishing marginal productivity for each factor.	2. Increasing returns to scale.
3. Non-reversibility of factor intensities.	3. Reversibility not excluded. Some authors assume essentially identical production functions in all countries in the late phase.
4. Identical consumption patterns in all countries at any given set of international prices, i.e all commodities are consumed in same proportions regardless of income level.	4. Consumption patterns differ by income levels. Some goods account for a higher proportion of consumption for countries at higher level of income. Such products are called "high income" products.
5. Perfect market, free trade and no transportation costs.	5. The transmission of knowledge across international boundaries is assumed to have a cost. Inside a country, the transmission of knowledge between firm and market is assumed to have a cost. Trade barriers and transportation costs are allowed to exist.
6. International immobility of productive factors.	6. Capital is assumed by many authors to be at least partially mobile.
7. Qualitatively identical production factors.	7. No assumption.
8. Full employment, static.	8. No assumption on employment dynamic.

Source: L T Wells, Jr, "International trade, the product life cycle approach", in R Mayer (ed), International Business, John Wiley and Sons Inc, 1984, p.16.

Hirsch⁽⁴⁷⁾ (1967) suggested that the Heckscher-Ohlin and product life cycle approach to international trade should be regarded as complementary rather than as competing theories.

Hufbauer⁽⁴⁸⁾ took a similar view when he concluded that it must be conceded that many different characteristics express themselves in export theory monopolised the explanation of manufacturers trade.

Having said that, empirical studies relating to the product life cycle have been carried out by a great number of authors and researchers. However, we will refer only to a few of these studies.

To begin with Kesing⁽⁴⁹⁾, Gruber, Mehta and Vernon⁽⁵⁰⁾ examined the competitiveness of US export of new products. They found a positive relationship between the technological superiority of an industry and its performance in international markets.

Wells⁽⁵¹⁾ identified the stages of the product cycle in terms of the changes in US exports of high income products, with the timing of expansion of foreign production depending upon the significance of such economies and transport costs. He showed that US exports have grown more rapidly in consumer durables that had a high income elasticity of demand than in those which were less income elastic.

Hufbauer⁽⁵²⁾ found that the advanced nations specialised in the export of differentiated products, if differentiation can be measured by the coefficient of variation in unit export values at a given point in time.

Hirsch⁽⁵³⁾ showed that the competitive advantage of the United States was in the "growth" sector of the electronics industry. After accounting for the so called "balancing trade" which results from the lumpiness character of investment. Stobough⁽⁵⁴⁾ found similar results for the petrochemical industry.

Tsurumi⁽⁵⁵⁾ applied the product life cycle theory to examine the export of manufactures from less developed countries showed that these less developed countries did tend to export products which were late in the present product life cycle.

Baumann⁽⁵⁶⁾ examined the structural characteristics of Canada's trade with the United States. The results showed that the product life cycle model provides the best explanation of trade pattern in manufactured goods. The export and import propensity, as well as the net balance of trade of a sample of 67 Canadian manufacturing industries, were regressed against variables measuring human capital, physical, natural resources and technological intensity of these industries. Canadian imports are highest in respect of products with technologically unique characteristics of features. This indicates that Canada's role in the international product life cycle is primarily that of an imitator. Canada has relatively low levels of investment and depends heavily on America in this aspect.

Finally, Majumdar⁽⁵⁷⁾ has found a close relationship between technological superiority and international competitiveness in electronic calculators. Until 1970, the Japanese, following their initial imitation contributed all the important innovation in electronic calculators. In 1966 the Japanese were supplying an increasingly larger share of the total world market in electronic calculators. In 1971, however, the American companies developed the revolutionary technique, the "calculator on a chip" and became competitive in the world for electronic calculators. But the Japanese have begun to regain their position in recent years. Thus, the competitive advantage in electronic calculators followed the technological leadership, which ever country had the innovative leadership enjoyed the competitive advantage. Majumdar concluded that "the technology variable, by working through the availability factor and the cost factor affected the direction of trade in electronic calculators".

From what has been written on the technology gap and product life cycle theories one may argue the following points:

1. It is now widely recognised that technological superiority provides a country with competitive advantages in international trade and investment. But a given technological innovation diffuses abroad sooner or later, eliminating the advantage of the innovator. Thus, international migration of new technologies, along with their creation, forms the foundation of the dynamic theory of competitive advantage.
2. The dynamic process of the product life cycle suggests that policy planners and manufactures in the advanced countries might be able to anticipate the decline of their competitive strength in products or industries which are approaching the mature phase of the cycle.
3. Finally the effect of technology and product life cycle theories is to add a further dimension to the complexity of competitiveness. Emphasis is now given to variation in the quality of the saleable article. Commercial rivalry takes a non-price form. Competitiveness comes to mean products as well as price competitiveness. This type of competitiveness may be no less dynamic than the more conventional form of price rivalry ... non-price rivalry can be dynamic, dog-eat-dog affairs⁽⁵⁸⁾. Furthermore it is likely to have more relevance to the rate of technological progress than competitiveness based on price.

Conclusion

Taking stock of all the above reviewed work, a number of comments can be made. These are as follows:

First, it should be mentioned that neither the simple Ricardian nor the Heckscher-Ohlin model provides a satisfactory explanation of international competitiveness and direction of trade, since these models are characterisations of the world that seek to emphasise

particular forces to the exclusion of others. These characterisations have proved to be extremely useful for theoretical purposes. However, there are other policy issues, that the traditional theory is powerless to grapple with. These questions arise as soon as one moves away from the static orientation trade theory. Once dynamics and market imperfections are allowed to enter the picture, both the theoretical models and their implied policy prescriptions become confused.

Second: building on the above a complete understanding of competitiveness requires a framework of analysis, comprehensive enough to embrace all factors that determine this phenomenon. In other words competitiveness can no longer be confined to the Ohlin theory, which emphasises on price and cost, but must go beyond that to embrace all the elements that cause the dynamic process of competitive advantage.

Third: consequently, policy planner should be vitally concerned about the condition of competitiveness in their country and around the world. Better understanding is needed for the factors which affect the international competitiveness to ensure that these factors are developed at a rate and in direction that best support the goals of firms and nations. Policy planners can have profound effects on the competitive advantage. They can gradually turn a temporary competitive disadvantage in capital-intensive or education-intensive commodities into a competitive advantage. Seen in this light the growing competitive advantage of Japan and West Germany in many capital-intensive and education-intensive goods in the postwar period, and the decline competitiveness of UK producers in international markets for these products (as we will see in the next section) are the result of different national investment efforts influenced by different national policies.

Baker⁽⁵⁹⁾ indicated that "... while Germany, Japan and others may be approaching the end of their surplus resources of agricultural

labour, they would seem to have put the surpluses arising from past transfers to good use by ploughing much of it back in re-investment in technological innovation. By and large, UK industry is not doing this, and the competitiveness of her output is decline steadily".

Fourth: cheap labour or raw materials may give firms in a developing country a competitive advantage in the market place (Ricardian and Ohlin absolute advantage). However the competitive advantage of firms in advanced economies over their international competitors may not depend on cheap labour or raw materials but rather on the creation of these advantages through the accumulation of investment and carefully developed infrastructure (government policy). This message is quite clear from Scott's words⁽⁶⁰⁾ "... being endowed with natural resource, for example, does not necessarily benefit a country. The oil exporting countries, particularly those in which oil plays an important role in foreign exchange, have thus far been conspicuous failures as exporter of manufactured goods. Iran and Venezuela are striking examples of this, while the Japanese pattern reveals striking differences. Japan has shown not only that comparative advantage can be shifted but also that the shifts can be created and managed according to a pattern or plan".

Hence again Baker⁽⁶¹⁾ in his award winning article on the ills of British exporting argued that "... because of cost advantages the developing country can undercut the producer of basic products in the advanced economies, with the result that the latter must either get on or get out. In order 'to get on' it is generally accepted that one must innovate by developing a more efficient means of production or a substitute product with more desirable characteristics. In both instances, the capital investment required will usually place such innovation beyond the resources of developing countries and so enable the advanced country to maintain a competitive edge".

Having concluded that our research will turn attention to explore the meaning of competitiveness and how it measures in order to discuss, the competitive position of British industrial products.

SECTION TWO: Competitiveness and the British Position

While it is not intended here to study the trends in UK competitiveness at the macro economic level, there is some relevance in recognising this issue since it is part of the environment in which competitive firm's decisions are made.

Consequently the procedure in this section is to review the meaning of competitiveness and the different ways in which it is conceived and measured. This done it is possible to study the impact of competitiveness as it is measured in various ways in the UK market share.

The Meaning of Competitiveness

The term competitiveness has been defined in different ways, for example, a great number of authors used it as the ability of manufacturers to attract and retain customers.

Enock⁽⁶²⁾ to start with, suggested that "competitiveness may be defined as the advantage in price, speed of delivery, design, etc, which enables a company or country to secure sales at the expense of its competitors".

Osman⁽⁶³⁾ likewise viewed competitiveness as "the ability of a country, firm or individual to be successful in a market under conditions of rivalry". Accordingly the ability of a nation or company to compete in the market will depend on its relative advantage in factors such as price and quality, that will allow it to achieve sales at the expense of its competitors.

O'Cofaigh⁽⁶⁴⁾ referred to competitiveness as "the ability of the country to generate output and dispose of that output both internationally and domestically. It therefore encompasses every aspect of how the nation's businesses are run. At the most basic level it is important that the products we are producing be those that are demanded by consumer".

By the same token, Murray⁽⁶⁵⁾ demonstrated that "a good working definition might be that competitiveness consists of all those qualities and characteristics that enable one manufacturer to surpass his rivals in attracting, and retaining, consumers".

Recent Treasury analysis⁽⁶⁶⁾ (Economic Progress Report 1983) regarded competitiveness as "the ability of a country's producers to compete successfully in world markets and with imports in its own domestic market".

Husim⁽⁶⁷⁾ defined competitiveness as "the ability of the company or country to create, sustain and develop advantages for its product in domestic and international market".

European Management Forum⁽⁶⁸⁾ summarised industrial competitiveness in the following definition: "Industrial competitiveness is a measure of the immediate and future ability of industrialists to produce and market goods whose price and non-price qualities form a more attractive package than those of competition both abroad or in domestic markets".

Thus it seems from the above definitions that the final judge of competitiveness is the market place.

In turn some authors regard competitiveness as the ability to sustain market share. OECD's study⁽⁶⁹⁾, Okubo⁽⁷⁰⁾, Kelly⁽⁷¹⁾ and Ray⁽⁷²⁾, among others supported this approach. Ray, for example, stated that "the meaning of competitiveness for a nation is much the same as for a company, the degree of success or failure in the market measured by market share as a simple indicator".

On the other hand, some authors referred to competitiveness as the ability of countries or firms to manage technological change in a dynamic world economy.

Baranson⁽⁷³⁾ believes that "competitiveness is a dynamic process, based on mastering technology rather than being overtaken by it".

Graham⁽⁷⁴⁾ stated that competitiveness in international markets to a large extent determined by the state of innovation in the domestic economy. "The vitality of the economy is primarily determined by the state of domestic innovation and the nation's long run competitiveness in international trade of manufactured goods".

The Commission of European Communities⁽⁷⁵⁾ in this light identified that "competitiveness is a dynamic concept the relative position of companies and countries in the future is not only affected by parameters, determining present level and trends, but also by changes in ... technology and innovation among others".

This view has been confirmed by Rothwell⁽⁷⁶⁾, Aho⁽⁷⁷⁾, Abernathy⁽⁷⁸⁾, Zysman and Tyson⁽⁷⁹⁾, NEDO⁽⁸⁰⁾, Commission of European Communities⁽⁸¹⁾ and Charles Rivew Associates⁽⁸²⁾.

Thus there is no generally accepted definition of competitiveness. Consequently, in the light of the above, definitions it is convenient for the purpose of the study to develop our own definition as follows:

Competitiveness is the ability of a firm in any particular industry to maintain or improve its relative market share, which is the result of relative advantage in price and non-price factors.

Three main reasons underly this definition:

First: changes in market share are of course the product of changes in relative advantages in price and non-price factors*.

* The full range of price and non-price competitiveness provides the subject matter for Chapter 3.

Competitiveness in the sense of market share may rise or fall as the result of an increase in relative price, design, quality.

Second: changes in relative price and non-price factors from the buyer point of view are the most relevant criteria in assessing the competitive position of firms operating within an industry in the market place. "The buyer is often offered a wide choice of products of widely varying characteristics, from which he has to make the optimal choice or 'best buy' according to his particular set of requirements. He might opt for the cheapest model product or he might decide that performance factors outweigh considerations of price"⁽⁸³⁾.

Third: we do not regard price as a wholly adequate empirical tool that plays a prominent role in the explanation of competitiveness found in Ohlin theory but going beyond that to emphasise the role of other factors such as technology which causes the dynamic processes of competitiveness as we have found in the technology gap and the product life cycle theories.

In support of the first reason we cite Piercy⁽⁸⁴⁾, who stated that "... at the level of the country and the level of the individual company, there is some considerable interest in the impact of competitiveness - as it is measured in various ways on export results in sales volume and market share". The Bank of England⁽⁸⁵⁾, as another example, indicated that a firm might be able to increase the volume of its share by lowering the price of its products (thus increasing price competitiveness) or by improving its product and thereby increasing its non-price competitiveness. Recent Treasury work⁽⁸⁶⁾, as a third example, suggested that for the UK there is a broad association between competitiveness measured by relative prices and cost competitiveness and the share taken of world trade. NEDO⁽⁸⁷⁾, as a fourth example, mentioned that market share depends on a complete marketing strategy involving price and non-price factors.

In support of the second reason we cite Rothwell⁽⁸⁸⁾ who argued that in seeking reasons for the declining competitiveness of British industry, "it would seem sensible to seek the opinions of the purchaser. It is he after all who has to weigh all the factors (price, productivity, reliability, versatility, etc) one against the other, when making his decision to buy from a wide range of available models of varying price and performance". Piercy⁽⁸⁹⁾ as another example confirmed that "the criteria of choice used by the customer are those which are the most relevant to assessing a firm's real export competitiveness". Wilson⁽⁹⁰⁾ as a third example mentioned that we repeatedly tell clients who are faced by recessions and strong currency problems, "go back to your customers, find out when they buy from you and other suppliers, what do they think of you, and other suppliers?; get under their skins and find out what is really important to them; how could you make their business more successful?; identify areas of dissatisfaction niches and how to customise your product offering in the broadest sense.

In support of the third reason it is enough to cite Baker⁽⁹¹⁾ who indicated that "... price is but one dimension of the purchasing decision and is only relevant in the context of other parameters such as performance reliability, and after sales service".

Having defined competitiveness it is convenient to turn our attention to the measurement of competitiveness.

Measurements of Competitiveness

Since there are many factors that affect the ability of manufacturers in one country to compete in domestic and in world markets with manufacturers in other countries, a great deal of attention has been devoted to the measurement and analysis of international competitiveness.

Economic progress report 1978⁽⁹²⁾ suggested that there is no unique measurement to estimate the net effect of change in prices, exchange rates and productivity, but rather a number of complementary measures.

The OECD study⁽⁹³⁾ indicated that the ideal measure of competitiveness should:

- "1. Take into account developments in all sectors of actual or potential competition among different countries without, however, including in its coverage sectors of the economy which do not compete with those of other economies, i.e it should cover all traded or tradeable goods and services but nothing beyond that.
2. Be based on data which are rigorously comparable across countries".

Enock⁽⁹⁴⁾ also stated that "a measure should be sought which is appropriate under the different market structure; or that a combination of measures of competitiveness might best explain manufactured exports and imports as a whole."

Thirlwall⁽⁹⁵⁾ expressed a similar emphasis when he indicated that the appropriateness of the various measures will depend partly on the nature of the market being analysed. In very competitive markets, for instance, where virtually identical goods are being sold, relative prices can hardly change and an index of relative prices is unlikely, therefore to be a good predictor of sales. In this case some other measures would be more useful.

Given the above consideration two measures of competitiveness are commonly used:

First: Price competitiveness:

Three different measures of price competitiveness distinguished by the Treasury are as follows:⁽⁹⁶⁾

- relative export prices.
- import prices
- relative wholesale prices.

The first of these relative export prices can be defined as the ratio of export prices of UK manufacturers to the weighted average of export prices of the UK's main competitors. The second alternative to measuring the competitiveness of UK exports against those of other countries, is to measure the ratio of UK wholesale prices of goods to the price of imported goods - import price competitiveness. The third measure of price competitiveness which has some attractions is the comparison of prices in the UK domestic market with the prices against which UK exports will be competing in other domestic markets.

An extensive investigation at the commodity level by Parkinson⁽⁹⁷⁾ used price competitiveness as a criterion to measure the competitive position of the UK for twenty-four commodities exported by the UK between the year 1953-1963.

Another important and detailed study that used price competitiveness as a measure is a study by Kravis and Lipsey⁽⁹⁸⁾. This study was partly inspired by recent US balance of payments difficulties. One explanation of these problems has been that the competitiveness of the United States economy has declined. There has been a tendency for the United States to price itself out of world markets, the most striking result of this study is that there was little change in US price competitiveness relative to the European countries between 1953 and 1964 for American products as a group. Relative to each foreign country, the index of price competitiveness, that is the change in the ratio of foreign to US prices, stayed within a range of five percentage points. Within that narrow range US price competitiveness tended to decline between 1953 and 1961 or 1962, and

to recover afterward. The sharpest decline in the early period was relative to the EEC countries other than Germany, and this loss in position was not fully regained by 1964. The EEC countries also improved their position relative to the United Kingdom.

In this regard, according to Kravis and Lipsey⁽⁹⁹⁾, price has some decisive advantages over cost in empirical study. These are as follows:

1. The concept of price although not without its prickly aspects is generally more objective and less likely to vary from one exporter to another.
2. Cost data can be built up only for whole plants companies or group of commodities rather than for some or individual commodities, international cost comparison for individual products would be distorted by the diversity of methods of allocation of costs in different firms and countries.
3. Finally it is easier to obtain information about prices than about cost not only because many sellers are more willing to provide price than cost information, but also because price information can be supplied by buyers.

However, Economic Progress Report 1978⁽¹⁰⁰⁾, 1982⁽¹⁰¹⁾, 1983⁽¹⁰²⁾, McGeehan⁽¹⁰³⁾, Enock⁽¹⁰⁴⁾, and Thirlwall⁽¹⁰⁵⁾, among others, indicated that price competitiveness as a measure suffers from a number of limitations. These are as follows:

1. It is not appropriate as was mentioned before for use in a very competitive market.
2. The index of price is based on unit values which do not make allowance for changes in the composition of exports.
3. It measures competitiveness only in relation to the export of the UK competitors; it does not therefore take into account competitiveness in relation to domestic production in the various markets. This disadvantage could in principle be overcome by

calculating the ratio of export prices to some weighted combination of competitor's prices and domestic producer's wholesale price in the export market.

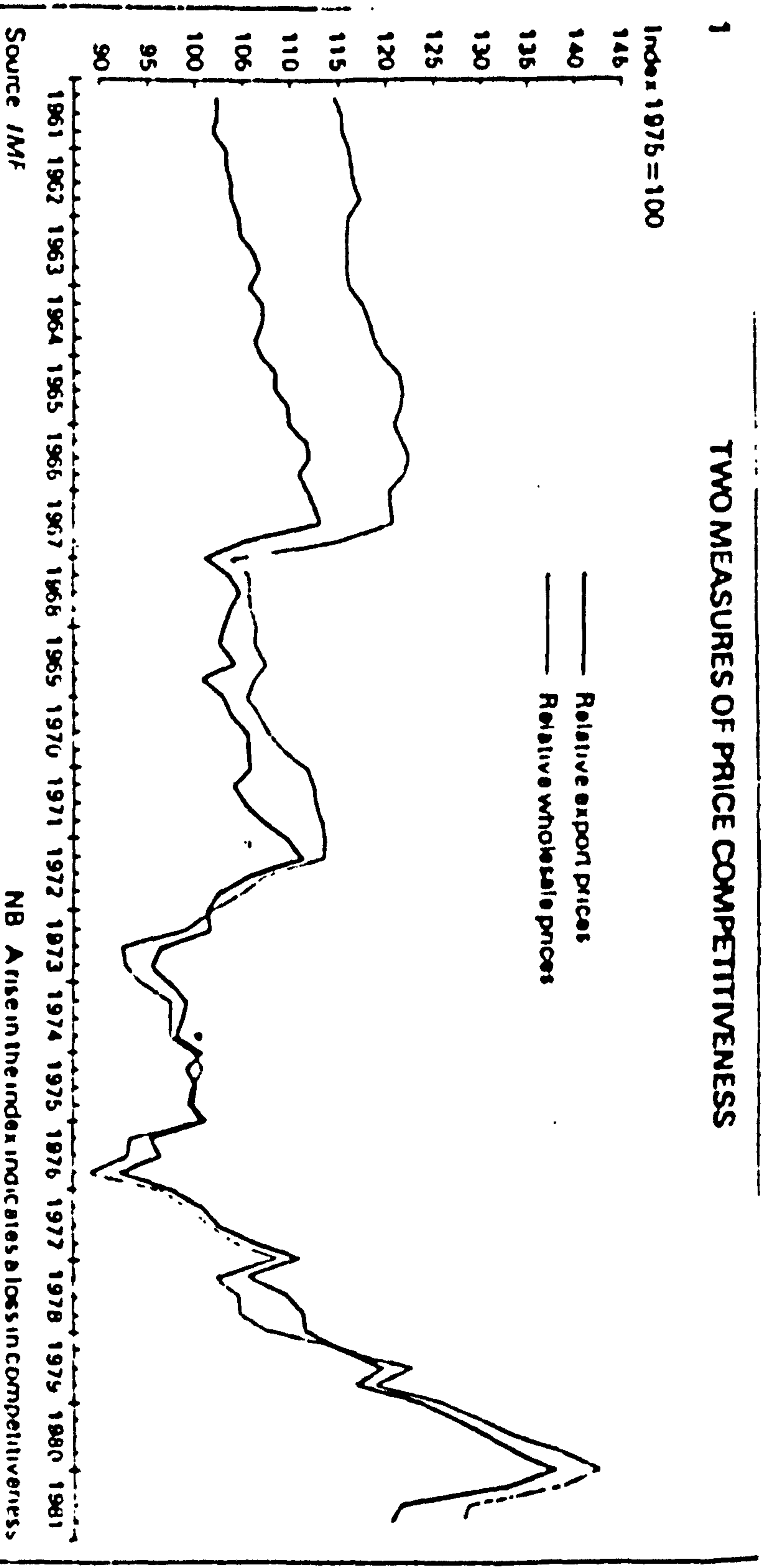
4. The index measures each country's delivery prices and not quotations and therefore only reflects trade that actually takes place rather than underlying competitive conditions.

Having indicated that Figure 2.2 shows two measures of price competitiveness for the UK over the period 1961-1981. A rise in the index shows a fall in competitiveness, while the different measures have in individual years moved by differing degrees, over the period as a whole. They tend to show a broadly similar picture. They show a somewhat erratic improvement in price competitiveness up to the mid 1970s followed by an unprecedented fall up to the beginning of 1981. This trend put British manufacturers in a situation of imbalance compared with other OECD countries as Table 2.3 illustrates.

Second: Cost competitiveness

Apart from price competitiveness it is likely that international competitiveness will depend on what is happening to profits and hence relative cost is important. Enock⁽¹⁰⁶⁾ for example has pointed out that, "Competition is not solely in terms of relative price, it is useful to examine profitability. A measure of relative profitability indicates the incentive to produce for export markets rather than for the domestic market. A measure of absolute profitability indicated to produce rather than to produce at all".

Figure 2.2



Source: Economic Progress Report, Measure of Competitiveness in British Manufacturing Industry: Economic Progress Report No.146, June 1982, p.7.

Table 2.3: Prices in OECD

Index numbers, 1980 = 100

	Producer prices of manufactures										Consumer prices ^(a)									
	US	Canada	Japan	France	Germany	Italy	UK	OECD total	US	Canada	Japan	France	Germany	Italy	UK	OECD total				
74	59.8	55.9	75.6	72.8	80.2	48.8	42.6	64.7	59.9	59.4	65.2	54.4	77.2	40.1	41.2	56.8				
75	66.2	62.2	77.3	68.6	82.8	58.2	52.4	68.5	65.3	65.8	72.9	60.8	81.8	46.9	51.1	63.2				
76	69.1	65.4	81.4	73.7	85.8	68.6	60.9	72.8	69.1	70.7	79.7	66.7	85.5	54.8	59.6	68.7				
77	73.6	70.6	83.7	77.8	88.2	75.8	72.0	77.5	73.5	76.4	86.1	72.9	88.6	64.1	69.0	74.8				
78	79.4	77.0	83.0	81.1	88.9	84.9	79.1	81.2	79.2	83.2	89.4	79.5	91.0	71.9	74.7	80.7				
79	88.2	88.2	87.2	92.0	93.4	84.9	87.7	88.8	88.1	90.8	92.6	88.1	94.8	82.5	84.8	88.6				
80	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0				
81	109.3	110.2	101.1	113.4	106.0	117.2	109.5	108.8	110.4	112.5	104.9	113.4	106.3	117.8	111.9	110.5				
82	113.7	116.9	101.6	123.4	111.1	134.6	118.0	115.1	117.1	124.6	107.7	126.8	111.9	137.3	121.5	119.1				
83	115.6	120.9	100.8	137.0	112.8	151.1	124.5	120.2	120.9	131.9	109.7	139.0	115.6	157.3	127.1	125.4				
83	115.0	118.9	101.4	129.3	111.8	145.7	121.7	117.8	118.8	129.2	108.6	133.6	114.4	150.9	124.0	122.7				
83	115.1	120.8	100.7	134.6	112.2	149.2	124.2	119.4	120.3	131.0	109.8	137.4	115.0	155.3	126.5	124.6				
83	115.7	121.8	100.4	139.6	113.1	152.5	125.1	120.9	121.7	133.1	109.5	140.3	116.2	158.8	128.2	126.2				
83	116.4	122.3	100.6	144.7	114.0	156.9	126.8	122.5	122.8	134.2	110.7	143.0	116.7	164.3	129.6	127.9				
84	117.7	124.3	100.8	149.6	115.1	161.7	129.0	124.8	124.1	135.8	111.2	145.4	117.7	169.1	130.4	129.6				
84	118.0	125.8	100.8	154.0	115.7	165.0	132.0	126.5	125.5	137.0	112.1	148.1	118.3	173.0	133.1	131.4				
84	118.2	126.5	100.8	154.9	116.0	166.0	132.5	127.2	126.3	138.2	112.0	149.8	118.4	174.4	133.3	132.3				
July	118.2	126.4	100.8	154.9	115.9	166.0	132.6	127.2	126.8	138.2	111.0	150.6	118.2	175.2	134.5	132.7				
Aug.	117.8	126.4	100.8	154.9	115.9	166.0	133.3	127.2	127.4	138.4	112.8	151.3	118.3	176.2	134.8	133.5				
Sept.	117.8	126.4	100.8	154.9	115.9	166.0	133.3	127.2	127.4	138.4	112.8	151.3	118.3	176.2	134.8	133.5				

Source: National Institute Economic Review, 1984, p.119.

Games⁽¹⁰⁷⁾ also indicated that "if one is interested not so much in the comparative advantage basis of a country's trade, but in the country's international competitiveness as understood by business and international money managers, then one must look at trends in the country's unit labour costs relative to labour costs trends in other countries. A comparison of unit labour costs offers the best available indicator of a country's performance in international trade manufactured goods".

This view has been confirmed by Economic Progress Report 1978⁽¹⁰⁸⁾, 1982⁽¹⁰⁹⁾, 1983⁽¹¹⁰⁾, the Bank of England⁽¹¹¹⁾, and the OECD⁽¹¹²⁾ study, the International Competitiveness of Selected OECD countries.

The competitiveness of the community industry survey⁽¹¹³⁾ used unit wage costs as the main indicator of competitiveness. Taking unit costs in national currency, between 1970 and 1980 there were such wide differences in the trends for manufacturing industry as a whole in those countries for which figures are available. The countries split into two distinct groups. On the one hand Italy and the United Kingdom recorded average annual increases of over 15%, which means that hourly wage costs there rose by 15% more than hourly productivity in volume terms. On the other hand, there were the countries where wage increases of 7.9%, Belgium with 6.8%, Japan with 6.6%, the Netherlands with 6.4%, the FR of Germany with 5.5%, the United States with 6.2% and France occupied the middle ground with increases of 9.9%. In the case of Belgium, the steady determination in the current account since 1976 appears difficult to reconcile with the encouraging wage trends in that country since 1975.

The Bureau of Economic Staff⁽¹¹⁴⁾ in the United States in November 1977 depended upon cost ratio to measure the competitive position of the US steel industry in international trade. The study indicated that during the 1950s and through most of the 1960s US relative costs were generally increasing. In 1968 the trend of

increasing the United States relative costs began to reverse. Sharp declines in its relative costs in 1973 and 1974 allowed the United States to regain the position it had held in the early 1960s relative to Japan and in the late 1950s relative to the EEC. In 1975 and 1976 US costs increased relative to Japan, causing US relative costs to return to near the 1972 level.

Other studies have also taken costs as the main indicator of competitiveness, for example, Report of the President's US Competitiveness Survey⁽¹¹⁵⁾; in the UK shipbuilding industry compared with Japan, Denmark, Finland, Sweden and Norway⁽¹¹⁶⁾; in the UK textile industry compared with France, Italy and Germany⁽¹¹⁷⁾; in the competitive status of the US auto industry⁽¹¹⁸⁾; in a range of industries in selected OECD⁽¹¹⁹⁾ countries.

Economic Progress Report 1982⁽¹²⁰⁾, 1983⁽¹²¹⁾, the OECD study⁽¹²²⁾, The Bank of England⁽¹²³⁾, and Enock⁽¹²⁴⁾, claimed that using this method as a measure of competitiveness has several advantages. These are as follows:

1. It covers all manufacturing industries - those which are exporting and those which are facing competition from imports.
2. It measures in effect a combination of both price competitiveness and profitability.
3. A cost indicator relates better to quotations for exports both in terms of timing of orders and of coverage of quotation accepted and rejected than the export price index.

However the Treasury has pointed out that⁽¹²⁵⁾ "... the main disadvantages of measures of cost competitiveness lie in fact in the problems of constructing a suitable index. Ideally, a measure of cost competitiveness should cover all costs but in practice comparisons are inevitably restricted to labour costs because of the lack of suitable data elsewhere". Also Junz and Rhombery⁽¹²⁶⁾, in their study found unit labour costs for manufacturing as a whole to be

unsatisfactory, because of technical difficulties in the collection of data, and because labour costs for manufacturing as a whole do not adequately reflect costs in export industries.

Regarding cost as a measure of competitiveness is shown in Table 2.4 for the UK over the period 1979-1983. The data in the table shows sharp deterioration in competitiveness between 1979-1980. However, the position over the past three years compared with other competitors in developed countries has been much better from the point of view of the UK as Table 2.5 illustrates.

Thus the two different measurements of competitiveness discussed above are related to price or cost competitiveness. However accepting that price competitiveness should never be ignored, it follows from our earlier definition made that competing in the market place involves far more than just being cheaper than competitors. If this is so, then measuring competitiveness only in terms of relative price is very limited and misleading. Hence the assessment of competitiveness for firms operating within an industry should be made in a way that includes relative price and non-price competitiveness.

Having made these general points we will turn now to examine the competitiveness position of British industrial products.

UK Competitiveness and Market Share

British manufacturing industry has tended to lose its competitive position in international trade. This can be deduced from the progressive decline of the UK's share of world exports of manufactures and by evidence of the increased import penetration of the UK market by foreign competitors.

On the export side between 1919 and 1939 the export markets for Britain's traditional basic industries declined but British exports were still largely made up of the old staple industries and almost 30% of British exports were still accounted for by textile and coal⁽¹²⁷⁾.

Table 2.4: UK Manufacturing Unit Labour Costs and Competitiveness 1979-83
(% Changes p.a).

	Manuf. output	Output Per man hour	Average Earnings	Unit Labour Costs	"Real" unit labour Costs*	Sterling (Effective Rate)	International** competitiveness (* = deterioration)
1979	- 0.1	+ 1.1	+ 15.5	+ 15.2	+ 3.9	+ 7.1	+ 15.6
1980	- 8.6	- 0.8	+ 17.9	+ 22.0	+ 7.0	+ 10.1	+ 23.7
1981	- 6.6	+ 3.2	+ 13.2	+ 9.8	+ 0.3	- 0.8	+ 7.8
1982	+ 0.1	+ 4.9	+ 11.1	+ 5.2	- 2.4	- 4.8	- 2.9
1983(e)	+ 1.0	+ 5.0	+ 9.0	+ 3.0	- 2.3	- 8.2	- 5.7*

(e) Estimated

* Q.2 Figures; and deflated by wholesale price index of manufacturing output.

** IMF "Normalised" index of Relative Unit labours costs.

Source: Barclays Review, Productivity Growth in UK Manufacturing Industry, February 1984, p.15.

Table 2.5: International Manufacturing Competitiveness (indices 1980 = 100)

	United Kingdom			West Germany			France			USA			Japan		
	OPM	ULC	Comp	OPM	ULC	Comp	OPM	ULC	Comp	OPM	ULC	Comp	OPM	ULC	Comp
1981	103	110	108	102	104	89	99	115	93	103	107	115	102	104	113
1982	109	116	105	104	108	89	100	130	89	104	113	128	101	109	104
1983	115	119	98*	109	106	90*	102	141	84*	113	106	135*	104	112	110*

* Q.2 1983 OPM - Output per man.

ULC - Unit Labour Costs.

Comp - "Competitiveness" IMF "Normalised" Relative Unit Labour Costs
(After allowing for exchange rates).

Source: Barclays Review, Productivity Growth in UK Manufacturing Industry, February 1984, p.15.

Britain's share of world export trade declined from 27.5% in 1911-1913 to 23.8% in 1921-1925 and 18.5% in 1931-38⁽¹²⁸⁾.

By the 1950s Britain had made many substantial changes to improve its position in world markets, but despite this the decline continued in the 1960s and 1970s. The UK export share fell from 20.5% in 1954 to 18% in 1959, 13.9% in 1955, 10.8% in 1970 and 9.7% in 1979⁽¹²⁹⁾.

The decline in the UK export share of world trade in manufacturing goods was greater in the period 1963-1970 than in 1899 where the volume of British exports accounted for 32.5% of world exports of manufacture⁽¹³⁰⁾. However since 1970 the British share has held up better. In value terms it was around 10% in 1980, and a little below its level in 1970. The essential point remains however, that even if British manufacturers exported a larger proportion of their output in 1970, they did not export enough to recover any of the world trade share they had lost in the previous two decades.

It should be pointed out that because of the slow down in world trade growth following the 1978-1979 oil price rise, the rate of increase in British exports in the 1970s was on average less than in the 1960s. It also still fell short of the rate of increase in other industrial countries as Table 2.6 illustrates.

Within this overall picture Begy and Rhodes⁽¹³¹⁾, indicated that much of the loss of market share has been in engineering products which account for almost half of UK exports of manufacture and in which the general rate of technological advance has been rapid. Between 1975-1980 the world market for these types of product fell from 45.3% to 37.5%. Other major changes are the sustained decline in the share of the textile market. Between 1955-1965 the world market for this type of product fell from 10.1% to 5.8% and since then it has declined further to 2.9% in 1980⁽¹³²⁾. Table 2.7 indicates the relative growth of exports for British industrial products.

Table 2.6: Exports of manufactures in World Market

		Value of exports of manufacture (a) (b) (Seasonally adjusted)							
		Total \$ billion	Shares, per cent of total						
			US (c)	Japan	France	Germany	Italy	UK (d)	Others (e)
1974		363	17.2	14.5	9.3	21.7	6.7	8.8	21.8
1975		392	17.7	13.6	10.2	20.3	7.5	9.3	21.4
1976		442	17.2	14.6	9.7	20.5	7.1	8.8	22.0
1977		504	15.5	15.4	9.9	20.7	7.6	9.4	21.4
1978		607	15.1	15.6	9.8	20.7	7.9	9.5	21.4
1979		726	15.9	13.6	10.4	20.7	8.4	9.7	21.3
1980		839	17.0	14.8	10.0	19.9	7.9	9.7	20.6
1981		814	18.7	18.0	9.3	18.3	7.8	8.6	19.3
1982		768	17.8	17.9	8.8	19.6	7.8	8.5	19.6
1983		759	17.2	19.0	8.8	19.1	7.8	8.0	20.1
1983	I	191	17.0	18.6	8.6	19.8	7.9	7.7	20.4
	II	190	16.7	18.6	9.2	19.3	8.1	8.0	20.1
	III	184	17.7	18.9	8.7	18.8	7.7	8.2	20.0
	IV	194	17.2	19.4	8.4	18.-	8.5	8.0	20.5
1984	I	203	16.9	20.1	8.3	19.0	7.7	7.8	20.2
	II	204	17.1	20.7	8.8	18.0	7.2	7.7	20.5
	III	207	17.5	20.3	8.6	18.8	7.7	7.2	19.9

(a) SITC 5 to 8: For unit value only. SITC Division 91 is included for France.

(b) The table covers only the countries listed in the headings and footnotes, except in the case of the UK and figures are seasonally adjusted by NIESR.

(c) Excluding special category exports.

(d) Including re-exports, and adjusted for under recording. Figures before 1981 are on the pre-1981 definition.

(e) Belgium, Luxembourg, Canada, Netherlands, Sweden and Switzerland.

Source: National Institute Economic Review Vol.110 November 1984, p.119.

Table 2.7

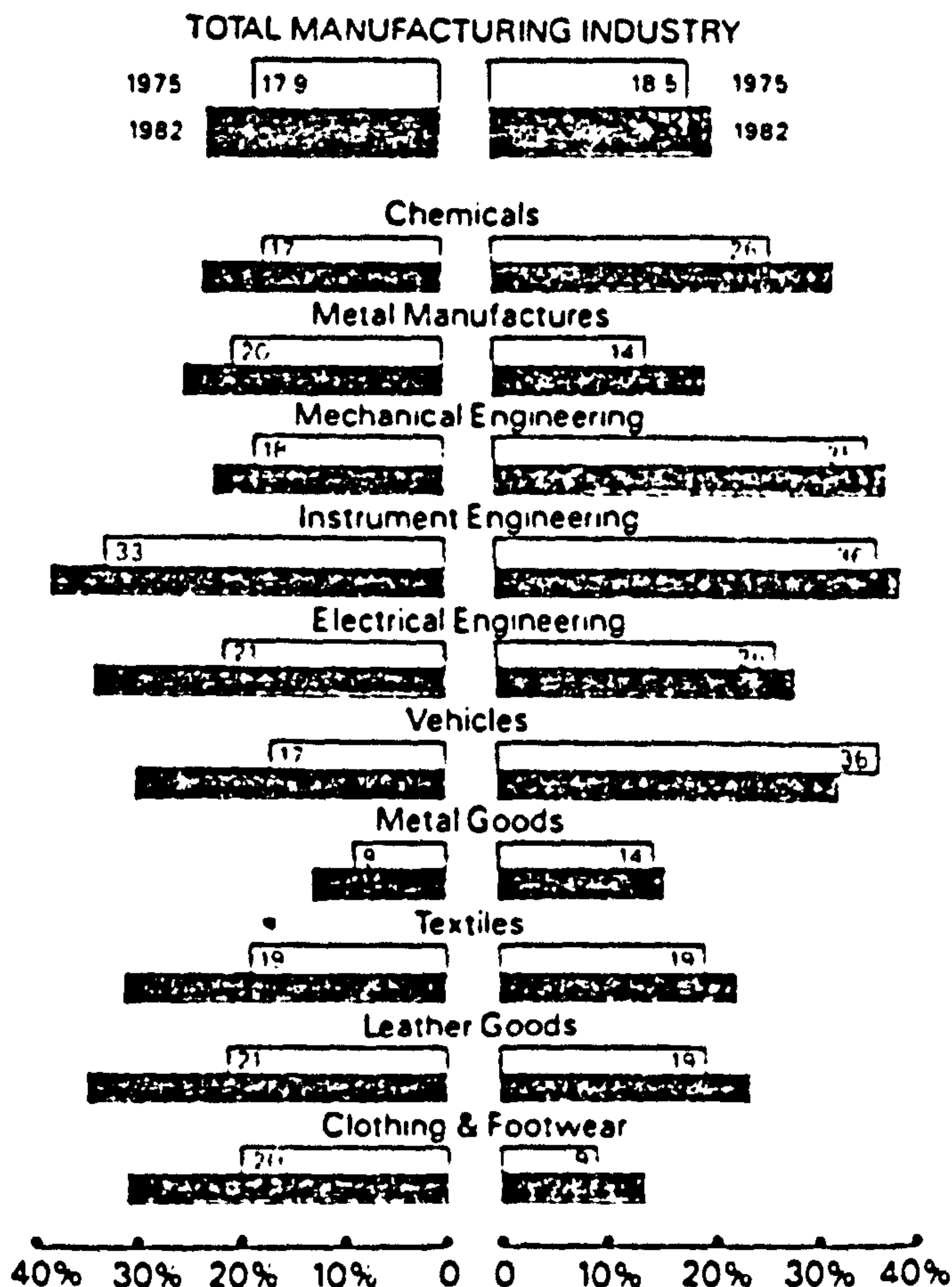
Import Penetration & Export Sales Ratios for UK Manufacturing Industry

IMPORT PENETRATION

EXPORT SALES

$$\frac{\text{Imports (c.i.f.)}}{\text{Home Demand} + \text{Exports}} \times 100$$

$$\frac{\text{Exports (f.o.b.)}}{\text{Manufacturers' Sales} + \text{Imports}} \times 100$$



These ratios, having the same denominator (home demand plus exports = Manufacturers' sales plus imports), indicate the relative growth of imports and exports of manufactured goods. There is little distortion from the re-export of goods because this component appears in both numerator and denominator of each ratio.

Source: Barclays Review November 1983.

Not only has the growth of UK manufactured exports slowed down, on the import side the evidence for loss of competitive edge is equally disturbing. Foreign producers have taken an even increasing share of the British market. In 1950 British manufacturers completely dominated their home market and imports were negligible, the import penetration ratio was low and did not increase from its level of 6 or 7 percent until the early 1960s. Recent calculations showed that over the period 1968-80 the ratio of imports of manufactures increased from 15% to 25%⁽¹³³⁾.

On imported manufacturing goods Britain's average indicated a more rapid increase than in Germany, France, Italy or in any other community market. Table 2.8 illustrates this fact. This trend appears widespread across industries such as engineering and vehicle products, textiles and chemicals. However most of this import penetration has not only been from Japan or industrialising countries in the Far East, but also from exporters in the rest of the EEC who now account for about half of all manufactured goods imported into the UK⁽¹³⁴⁾. Table 2.8 indicates the rapid increase in import penetration in British manufacturing industry.

Hence the main point is that, the latest data on import penetration and export sales shows a deterioration in the British competitive position. As Table 2.7 and Figure 2.3 indicate, despite the fact that manufacturers are increasing their proportion of export sales they are failing to maintain their share of the domestic market. It also appears that (the trend for) import penetration increased more rapidly than export for the recent years in different industries.

Building on the above, as space does not permit a detailed treatment of each of the manufacturing industries, we shall content ourselves with cursory accounts of some select examples of declining industries, representing new industries (motor, chemicals) mixed (steel) and stable (textile machinery and shipbuilding)*

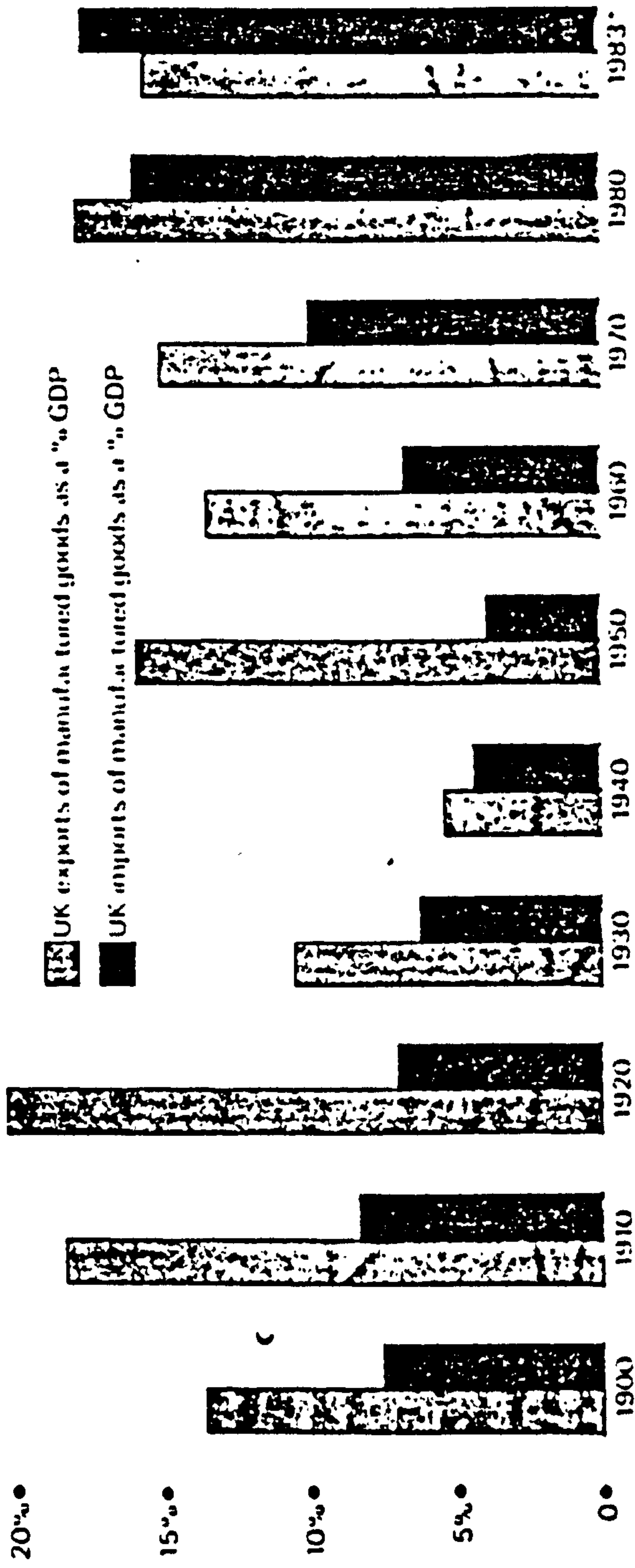
* This approach has been adopted from Professor Michael Baker's award article on the ills of British exporting, when he gave three case histories (Mechanical Engineering, Shipbuilding, Motor Cycles) to show how far British Industry has lost its competitive position in the marketplace.

**Table 2.8: Import penetration of manufactured goods in EEC Countries
(Ratio of manufactured imports to total domestic
expenditure)**

	1970	1975	1980
West Germany	10.0	10.8	13.3
France	8.6	9.3	12.0
Italy	8.0	8.9	12.4
Netherlands	27.9	27.4	27.1
Belgium	30.3	31.8	36.4
Ireland	27.0	29.8	39.3
Denmark	19.4	18.1	17.6
UK	9.2	12.5	15.4

Source: L Begy and J Rhodes, Will British Industry Recover?
Prospects for the UK in the 1980s, University of Cambridge,
Department of Applied Economics, Cambridge Economic Policy
Review, April 1982, Vol.8, No.1, p.20.

Figure 2.3: UK Trade in Manufactured Goods



Source: Barclays Review, November 1983.

To start with motor vehicles among declining industries offers an important example. Before 1914 exports of cars and commercial vehicles accounted for about a quarter of the total British production, but during the war the foreign markets were lost to the Americans and the British producers were able to obtain only a small share of the large foreign trade that developed during the twenties. In the early twenties the number of cars imported was in excess of the number exported but after the reimposition of protective duties in 1925 imports fell and by 1929 foreign manufactures supplied only about 5% of the British demand⁽¹³⁵⁾.

After the Second World War the British share in international market tended to increase. In 1938 the British share of that trade was 18%. It rose to 55% in 1950. Table 2.9 shows the greater part of the decline in the UK share of the world market in the motor car industry took place between 1953 and 1956. After 1956 the decline was much less pronounced. Moreover, up to 1950, most of the competition experienced by the UK came from West Germany, and there was a definite switch in demand from the UK to the Federal Republic. After 1956, however, the pattern of competition changed somewhat. During this period it was the turn of the United States to fall seriously behind in world trade. The fall in the share of the UK was much smaller. (The US share fell from 23.0% in 1956 to 10.0% in 1959, that of the UK fell from 28.5% to 26.0%).

Unlike many car industries overseas, which had enjoyed strongly growing domestic markets over most the the 1969-81 period, the UK market experienced much more erratic progress. In terms of production the situation was worse. Whereas foreign car industries showed almost continuous growth, the UK industry stagnated between 1964 and 1972, and then went into sharp decline⁽¹³⁶⁾. It can be seen from Table 2.10 that the UK car industry performance deteriorated from 1.7 million units in 1971 to 1.0 in 1981. During the same period Japanese output rose to 7.0 million as the world's largest motor manufacturing country.

Table 2.9: Exports of Cars and Commercial Vehicles from Leading Producing Countries, 1953-59
(Thousands of Cars)

Year	UK	USA	W.Ger.	France	Italy	Sweden
1953	38.7	27.1	16.7	9.8	3.0	0.4
1954	36.6	26.7	22.2	9.8	3.3	0.6
1955	33.3	24.5	25.4	10.2	4.7	0.7
1956	28.5	23.0	29.9	10.9	5.4	1.1
1957	29.0	17.8	31.0	13.4	6.3	1.5
1958	27.3	12.3	33.6	16.4	7.7	1.9
1959	26.0	10.0	32.5	20.9	8.2	2.0

Source: S J Wells, *British Export performance: A Comparative Study*, Cambridge University Press, 1964, p.137.

Table 2.10: Car Output 1971-1981 (Millions of Cars).

Year	USA	Japan	W.Ger.	France	Italy	UK
1971	8.6	3.7	3.7	2.7	1.7	1.7
1972	8.8	4.0	3.5	2.7	1.7	1.9
1973	9.7	4.5	3.6	2.9	1.8	1.7
1974	7.3	3.9	2.8	2.7	1.6	1.5
1975	6.7	4.6	2.9	2.5	1.3	1.3
1976	8.5	5.0	3.5	3.0	1.5	1.3
1977	9.2	5.4	3.8	3.1	1.4	1.3
1978	9.2	5.7	3.9	3.1	1.5	1.2
1979	8.4	6.2	3.9	3.2	1.5	1.0
1980	6.4	7.0	3.5	2.9	1.4	0.9
1981	6.3	7.0	3.6	2.6	1.3	1.0

Source: *Barclays Review Volume VII No.4 May 1982*, p.42.

This lack of growth in the British motor industry was filled by imports. The latter took 5% of the car market in 1965, 19% in 1970, 44% in 1978, and 58% in early 1982⁽¹³⁷⁾.

Thus the motor industry may, by its early post-war rise in a seller's market and its later failures be taken as symbolic for much of British Industry.

Chemicals is the second among our examples of new industries. Britain continued to dominate the world chemical industry and trade until 1880. In 1878, for example, this country accounted for 90.2 percent of world production compared with United States 13.8 percent and Germany 8.6 percent. By 1913, however, this relative position had dramatically altered, the United Kingdom having fallen to third place, with 11 percent of all chemical production behind the United States with 34 percent, Germany with 24 percent⁽¹³⁸⁾. Growth was rapid during the 1930s and again during the Second World War. Since then, a high rate of expansion has been maintained even during periods of general stagnation. From 1958-1968 output grew by 8.5 percent compared with 4.3 percent in manufacturing as a whole. In 1963 it accounted for about 9.5 percent of the net output of manufacturing industry compared with 2.2 percent in 1938⁽¹³⁹⁾.

However in recent years this industry faced keen competition not only from West Germany but also from the United States and Japan. In 1964 the share of imports due to the consumption of chemicals reached about 15 percent and only about one third of these consisted of raw materials not available in the United Kingdom⁽¹⁴⁰⁾. In 1970 imports rose from 18% to 23% in 1975 and again to 29% in 1980⁽¹⁴¹⁾. These trends continued until 1983 and the British chemical industry has lost its position in international competitiveness.

The Steel industry provides a third example among declining industries. Between 1953 and 1957 the UK exports of iron and steel did not quite hold their own in the world market, but on the whole the

industry maintained its competitive position better than most other manufactures⁽¹⁴²⁾. The annual growth rate in the British steel industry was 2.7% in 1950-69 compared with 6.9% in the Common Market and 34.0% in Japan (1952-1969), but at least there was still a net addition. In the following decade crude steel production actually fell from 27.9 tonnes in 1970 to a catastrophic 11.4 m.t in 1980 (imports then being 6.1 m.t and exports 3.4 m.t) to rise to 15.3 m.t in 1981. Within the general industrial decline, Britain had for the first time in modern times turned between 1979 and 1980 into a net importer of steel⁽¹⁴³⁾. Table 2.11 shows steel trade for the United Kingdom over the period 1970-1980.

Table 2.11: United Kingdom Steel Trade
(Over the period 1970-1980)

	Imports (M.T)	Exports (M.T)
1970	2.95	5.20
1971	2.63	6.29
1972	3.48	5.95
1973	3.65	5.43
1974	5.01	4.29
1975	4.90	4.10
1976	5.40	4.73
1977	4.91	5.69
1978	4.86	5.67
1979	5.02	5.86
1980	6.12	3.55

Source: The Steel Market in 1981 and the Outlook for 1982, p.64.

Thus until recently the United Kingdom steel industry has continued to lose its competitiveness in international markets.

Finally among declining manufacturing industries shipbuilding and textile machinery deserve a special mention.

Textile machinery, to start with, as a major and closely related branch of mechanical engineering has lost its competitive position in the marketplace. Detail on this industry will be given in the field study of this thesis*.

With regard to shipbuilding, the British proportion declined to 59 percent in 1900 "from then until the First World War Britain retained and even increased her relative importance, and in 1910-1914 she was building 61 percent of the total tonnage"⁽¹⁴⁴⁾. In 1919 the industry came under the influence of the post-war boom, and its total output declined sharply. The export trade in spite of an expansion after 1926 remained lower than before the War and the normal demand also was far less. Between 1939-1949 the trends of the two previous decades were reversed and the competitive position recovered substantially to the level of 1914⁽¹⁴⁵⁾.

By 1956, as can be inferred from Table 2.12, Britain became a poor third behind Japan and Germany launching 1,383,387 g.t as compared with the world total of 6,670,218 g.t. Similarly, total merchant tonnage launched in 1950 was 1,325,000 g.t and in 1966 1,084,299 g.t out of a world total of 14,307,202 g.t. In that year Britain slipped to fourth place among the world's producing nations. In 1977, launching 1,119,222 g.t, she produced 3.5% of the world's output, and by 1980 Britain had slipped to eighth place. By 1980, output had fallen dramatically once more to less than half, 431,000g.t, exports were falling also, while imports approached 50% of British home demand⁽¹⁴⁶⁾.

* The Textile machinery industry was selected as the field study of our thesis largely because of the scant attention accorded it by researchers in the past and because of the resultant lack of up-to-date, in-depth knowledge, about the industry, practically in the area of competitiveness. The industry occupies a significant position in British mechanical engineering industries and its output represents a potential growth area.

Table 2.12: UK and World output 1955-1977

Year	UK Launchings		World Launchings		UK as % of World Launchings	
	No of Ships	Tons gross	No of Ships	Tons gross	No of Ships	Tons gross
1955	276	1,473,937	1,437	5,314,850	19.2	27.7
1956	275	1,383,387	1,815	6,670,218	15.2	20.7
1957	260	1,413,701	1,950	8,501,404	13.3	16.6
1958	282	1,401,980	1,936	9,269,983	14.6	15.1
1959	274	1,372,595	1,808	8,745,704	15.2	15.7
1960	253	1,331,491	2,020	8,356,444	12.5	15.9
1961	247	1,191,758	1,990	7,940,005	12.4	15.0
1962	187	1,072,513	1,901	8,374,754	9.8	12.8
1963	160	927,649	2,001	8,538,513	8.0	10.9
1964	179	1,042,576	2,147	10,263,803	8.3	10.2
1965	158	1,073,074	2,280	12,215,817	6.9	8.8
1966	166	1,084,299	2,561	14,307,202	6.5	7.6
1967	149	1,297,678	2,778	15,780,111	5.4	8.2
1968	134	898,159	2,798	16,907,743	4.8	5.3
1969	136	1,039,516	2,819	19,315,290	4.8	5.4
1970	130	1,237,134	2,700	21,689,513	4.8	5.7
1971	126	1,238,692	2,645	24,859,701	4.8	5.0
1972	125	1,233,412	2,561	26,714,386	4.9	4.6
1973	125	1,017,665	2,884	31,520,373	4.3	3.2
1974	113	1,281,214	2,854	34,624,410	4.0	3.7
1975	128	1,304,097	2,632	35,897,515	4.9	3.6
1976	120	1,341,274	2,471	31,046,859	4.9	4.3
1977	89	1,119,222	2,549	24,167,025	3.5	4.6

Source: Lloyd's Register Annual Summary of Merchant Ships Launched.

In 1950 the chief competitors had been other European producers, such as Sweden, Holland, France, USA, Denmark and Norway; all more or less doubled their output. After that, Japan came to dominate the international market on cost grounds and technological ability.

In 1970 the developing countries emerged as main competitors in the market place. These countries increased their output between 1971-1976 from 2½ to 5 m gross tons and this accounted for 19 percent of world production⁽¹⁴⁷⁾. Hence no other major shipbuilding countries failed to increase its absolute output like Britain. In recent years as Baker⁽¹⁴⁸⁾ indicated British industry was unique in that. In his words "By 1960, our dominant position had been overtaken by the Japanese with a 40 percent market share and, by the 1970s, we had declined to fifth place in the league behind Germany (20 percent), Sweden (8 percent) and Holland (5 percent)."

Conclusion

From the above review of what has been said about the competitive position of British industrial products two main points can be extracted:

First: British industry does not manifest dynamic market leadership in any sector, despite the fact that Britain was once the master of the world in this aspect.

Second: The crisis has shown that British industry is faced with the same challenge as its trading partners, but has found it more difficult to adjust to the changes taking place in the world. In particular Britain's overall industrial performance is not as good as that of Japan, West Germany and other developed countries.

Thus it is convenient to turn our attention to explore the causes behind the lack of competitiveness in the British manufacturing industry.

SECTION THREE: Reasons for the UK's lack of international competitiveness

Various types of explanation have been put forward on the causes behind the lack of competitiveness in British manufacturing industry. These will be examined briefly in this section to see how far they succeed in providing a satisfactory explanation for this phenomenon. Accordingly, these explanations will be divided into theoretical and empirical explanations.

Theoretical explanations

A great number of authors and researchers have demonstrated that much of the criticism of the UK competitive position is due to marketing factors and the low level of net investment in manufacturing industry.

Pope⁽¹⁴⁹⁾ argued that "whilst all Western nations have difficulty in maintaining planned growth, world surplus capacity in those industries, particularly metal manufacture, engineering and textiles, which form the case of Britain's manufacturing activity, makes our competitive position weaker than that of other industrial nations. Furthermore, in relation to our competitors, British industrial investment is low, both in absolute terms, and as a ratio of GDP." And this is the greatest cause of British industrial decline.

With regard to the practice of comparing the level of investment in Britain and other countries, Pollard⁽¹⁵⁰⁾ stated that Japan, the fastest grower, invested the highest proportion of her national income. Britain and the USA, the slowest, invested the least, and other countries ranged between these extremes.

Baker⁽¹⁵¹⁾, Hood and Young⁽¹⁵²⁾, Pickering⁽¹⁵³⁾, Forrest⁽¹⁵⁴⁾, Bank of England⁽¹⁵⁵⁾, and NEDO 1983⁽¹⁵⁶⁾ among others, expressed a similar emphasis when they indicated that low investment is both a cause and effect of Britain's poor manufacturing performance.

Emphasising the role of marketing, Turnbull⁽¹⁵⁷⁾ mentioned that "one reason for Britain's comparative industrial decline during the years since the war has been that many manufacturers in this country have not had their fingers on that pulse, that they have misjudged the consumer whilst other manufacturers in Europe or America or the Far East have more accurately assessed his buying intentions". The author put forward other commonly stated reasons when he said that marketing is not the only factor and poor productivity and poor labour relations are equal contributory influences. As he concluded "A dramatic change for the better in these two factors will make for improved industrial efficiency certainly. This, in turn, will improve the competitive cost base of our manufacturing industry. But no industry can survive, no matter how efficient or effective it is, if it does not offer the consumer what he or she wants."

Channon⁽¹⁵⁸⁾ observed that British industry had many deficiencies in its marketing and strategic thinking. In Britain there has been a tendency for management to produce products with advanced engineering or design for its own sake, rather than to cater for market needs and/or products which would show an adequate return on investment. British concerns were production or quality oriented without due regard to the needs of the market place.

The report on the motor cycle industry prepared for HMG by the Boston Consulting Group in 1975 indicated⁽¹⁵⁹⁾ that the loss of market share by the British motor cycle industry over the last 15 years resulted from a concern for short term profitability. During the 1960s in any model in which the industry was confronted with Japanese competition, the British manufacturers found it difficult to make profits at a competitive price. Their response was essentially to withdraw from the smaller bikes in which Japanese were competing so effectively. This led to a situation in which by the late 1960s the British industry was predominantly active only in large bikes where the Japanese were not yet represented.

When the Japanese attacked this segment in the 1970s further withdrawal was impossible without ceasing production "now, response in the superbike segment took the form of a failure to introduce new models."

A decade after the period researched by Channon, the Finniston Report⁽¹⁶⁰⁾ stated that sectoral studies, from shipbuilding to electronic components, have cited opportunities missed and markets lost due to non-price factors. These range from failure of British producers' to innovate or to match changed requirements, through specific shortcomings in the design or performance of products to a general reputation of British goods for inferior quality, late delivery and unreliability in service (e.g the provision of spares).

The above report quoted a British Institute of Marketing survey which found that marketing was perceived as synonymous with selling in most companies and that many managements did not stand back from their day to day activities to relate the directions that the technology of their products and the market demand for them were taking.

Osman⁽¹⁶¹⁾ in his assessment of the export competitiveness of British industry stated that, "the British tendency to react to the short-term and the failure to take a long-term view are partially to blame for the lack of productivity in Britain, the failure to develop new up-market products, the failure to develop marketing and sales organisations, etc. These in turn all contribute to the decline in competitiveness of British products. This then results in lower export volumes and increasing import substitution for domestic products."

Prest and Cappock⁽¹⁶²⁾ argued that, to explain the weakness of British industrial competitiveness in any precise sense is not easy, several inter-related factors are involved and the relative weight to be attached to each is difficult to establish and may vary over time. "At the most general level, and since it is trade in manufactures

which is crucial, there would seem to be two potential sources of the poor UK trade performance, an increasing lack of price competitiveness and a failure to produce and market commodities of the right quality in the face of rapidly changing technologies and world demand structure".

Pass and Sparkes⁽¹⁶³⁾ expressed a similar emphasis when they indicated that changes in competitiveness in different industries may result from changes in domestic or foreign prices, changes in non-price factors such as contract and delivery dates, after sales service, advertising, etc. NEDO⁽¹⁶⁴⁾ expressed a similar view in stating that the UK producer may be trying to produce the same products as other advanced countries but failing in certain respects for example, because of poor price, poor delivery dates, or, low quality, made it more difficult to be competitive.

In support of this view the writer of a letter to the Times (5 December 1977) who runs an importing business in France expressed his concern over one UK company who received his order in January, promised delivery in April and then decided in August that it was no longer interested in exporting. Another two companies increased price without notice. Another company promised delivery which did not arrive, and letters requesting an explanation produced no response.

Ball⁽¹⁶⁵⁾ et al in their own examination of the causes of Britain's lack of competitiveness pointed to the fact that in the long run the UK share of the world market has declined because of diminished price and non-price competitiveness.

Finally, Armington⁽¹⁶⁶⁾, Thirlwall⁽¹⁶⁷⁾, Hooley and Newcomb⁽¹⁶⁸⁾, Pollard⁽¹⁶⁹⁾ and Economic Progress Report (1979)⁽¹⁷⁰⁾, (1983)⁽¹⁷¹⁾, among others, have all argued that Britain's failure in international competitiveness is associated with poor price and non-price factors.

The above argument must not be taken to say that lack of investment and poor price and non-price factors are the only elements for lack of competitiveness of British industry, several additional factors should not be ignored.

Adams⁽¹⁷²⁾ indicated that the main cause of Britain's industrial decline is the fact that "the dominant social culture in this country places less worth on commerce and industry than is the case in other industrial countries. The four reasons for the existence of this attitude are discerned as widespread ignorance of how our community earns its living, an educational system which places greater esteem on intellectual pursuits than on "Technik" or the art of making things, disenchantment with some of the ways in which industry performs its function and disappointment with our industrial results."

On the ills of British competitiveness, Dean Henry Rosusky of Harvard⁽¹⁷³⁾, stated that "In my opinion the principal factors were internal and human, and therefore avoidable. British entrepreneurship had become flabby; growth industries and new technology were not pursued with sufficient vigour; technical education and science were lagging; the Government business relationship was not one of mutual support."

Another factor which may be important in explaining the decline of British industry and the rising share of imports into the UK is the substantial reduction in tariff and other import restrictions which occurred after 1945⁽¹⁷⁴⁾.

Further reasons for the UK's poor performance sometimes given is that⁽¹⁷⁵⁾⁽¹⁷⁶⁾:

1. The UK declining share of world trade is the concentration on commonwealth and other markets with which it has had traditional ties.

2. UK exporters have tended to spread exporting effort too evenly across a wide range of different markets, rather than concentrating on the major ones.
3. The UK exporter has been particularly poor at picking up new business in the more rapidly expanding markets.

Finally, Ray⁽¹⁷⁷⁾ mentioned that there is no end to possible explanation for the UK lack of competitiveness, however, we must look for more basic reasons, some of them cover questions such as the exchange rate, taxation or the "vicious circle" type development of our economy which are subject to national policy decisions. They include others which are not indifferent to measures which may be within the reach of progressive management, such as industrial efficiency, economies of scale, standardisation, the relation between money incomes and productivity, marketing, etc. Given all, the lack of any one of these may be the reason behind the poor competitiveness of British industrial products.

Thus the general agreement on the importance of international competitiveness for British industry has led researchers to seek other possible explanations through empirical studies.

Empirical studies

A number of surveys and studies have been conducted on the macro and micro level that have attempted to identify the reasons for the UK lack of competitiveness in manufacturing industry. Studies of Wells, Ray, NEDO 1965, NEDO 1980, NEDO 1981, ITI, CBI, Turnbull, Husim and the Department of Industry are always cited in this respect.

Wells⁽¹⁷⁸⁾ conducted a study in 1964, the objective of which was to analyse on a commodity and country market basis the decline in the United Kingdom's share of world trade in manufactures. Results of the study showed that, "The reason for the lack of British competitiveness was the inability or unwillingness of British producers to quote attractive prices, but quite often the failure of British

products was due to lack of appropriate styling, finish and salesmanship". The study concluded that as supplies became more plentiful, markets were increasingly competitive and overseas buyers turned to those suppliers who were prepared to pay very careful attention to the requirements of particular importers. Where careful attention was paid to these factors, UK competitiveness were well maintained in some sectors.

Ray⁽¹⁷⁹⁾ examined the competitiveness position of British exports in five Eastern European countries. The enquiry attempted to go behind the trade statistics to find out the main factors behind the lack of British competitiveness in these five countries. The results showed that there was a general feeling that the UK products were of good quality but that in a number of other respects they were less attractive than those available from other foreign suppliers. The main disadvantages were poor prices for UK products; design often not up to date; slowness in providing quotations; high credit charges; after-sales service often not very good; public relations work often poor; worse than other competitors in arranging counter-purchases and joint ventures.

An examination of the reasons for the growing volume of imported manufactures was made by NEDO in a study of seven industrial sectors⁽¹⁸⁰⁾. Four principal causes for the decline of British manufacturing industry and the rise in imports of manufactures were emphasised.

1. Prices and costs, the lower prices of foreign products compared with domestic products were found to be a major factor in explaining imports of products.
2. The decisive reason for the success of imports that competed with the mechanical engineering, electronic, and scientific instrument industries was considered to be their technical performance and design in relation to British users' requirements.

3. There was detected a tendency on the part of British manufacturers "to follow the market rather than to lead it", which reflected deficiencies in market research and aggressive marketing, as well as technical advance.
4. Shortage of capacity was found to be a major factor leading to higher imports in boom periods, reflecting the lower level of investment in the UK compared to its competitors.

The SWPs/EDCs⁽¹⁸¹⁾ have highlighted six factors which they believed have influenced their competitive position over recent years, these factors include:

1. Price competitiveness : A large majority of the surveyed sectors see price competitiveness as an element of the competitive pressure which they face from Japan and newly industrialising countries.
2. Non-price competitiveness: A number of sectors mentioned declining competitiveness due to non-price factors such as poor design and unreliable delivery of goods.
3. Supply constraints: The majority of SWPs reported physical supply constraints had an adverse effect on their ability to compete.
4. Weak demand: A number of SWPs have experienced problems due to weakening demand for their products compared with their competitors.
5. Trade barriers: Some SWPs/EDCs report that their trading performance has been inhibited by various institutional barriers to trade.
6. Political factors: A few SWPs mentioned that these factors have affected their performance.

In another study nearly 30 separate factors were cited by SWPs/EDCs⁽¹⁸²⁾ as constraints on export performance in their sectors. Table 2.13 lists these factors together with their frequency of citation. The list of factors indicated reveals an expected list of priorities with marketing performance, non tariff barriers,

Table 2.13: Some factors cited by SWPs/EDCs as affecting the ability of 30 sectors to compete in the market place

	Frequency of Citation
1. Marketing performance	19
2. Industrial structure	12
3. Non-tariff barriers	11
4. Productivity	9
5. R & D	9
6. Sterling's value	8
7. Unfair competition	8
8. Finance	6
9. Energy prices	6
10. Lack of co-ordinating export organisation	4
11. Competition from low wage economies	4
12. Emergence of new competitors	3
13. Poor quality	3
14. UK inflation	2
15. Too exacting UK health and safety standards	2
16. Poor UK industrial relations: effect on new technologies	2
17. Lack of product development	1
18. Too little UK Company ownership	1
19. Price competition	1
20. Loss of skilled manpower	1
21. High UK interest rates	1
22. Cyclical pattern hampers exporting	1
23. EEC administrative problems	1
24. Inequality in state aids	1
25. Under-utilisation of plant	1
26. High UK taxation (& Nat Ins surcharge)	1
27. Development too slow	1

Source: NEDO, Industrial Performance: Trade and Marketing SWP/IEDC, 1981, p.17.

industrial structure, sterling value, unfair competition heading the list. More surprising is low placing of items such as price and taxation.

An empirical survey by ITI Research⁽¹⁸³⁾, provides useful insights into the British competitiveness problem. The study pointed out a number of areas where to a greater or lesser extent UK companies were less competitive than competitors. The main reasons were as follows:

1. Where Japan and West Germany, for example, tend to concentrate on 'key' markets, many British companies sell to too many markets and in consequence are overextended and try to do too much in relation to the manpower available to them. A third of British companies were found to export to between thirty and sixty countries, and a further third to between sixty and a hundred and eighty countries. Yet 90 percent of their sales, on average, went to only ten markets.
2. Compared with other countries the UK has under-invested in export manpower. Moreover, in over half the companies covered by the survey there was either only one person or no one at all whose specialist function it was to promote the company's exports.
3. The report stressed the importance of adequate investment in productive capacity, a factor making for continuing export success, particularly in regard to reducing the length of delivery dates vis a vis competitors. UK investment in productive capacity compared to competitors was found to be inadequate.
4. Companies did not adequately take into account the opportunities offered by a rapidly expanding world market, either because they did not appreciate they existed or because exports were considered to be unprofitable.

The CBI⁽¹⁸⁴⁾ conducted a survey between September 1978 and January 1979 among 56 of CBI member companies having fewer than 1000 employees. One aim of the survey was to determine the factors which hindered the competitive ability of small companies. The results revealed that:

- "1. Of 11 companies that had recourse to assistance from the ECGD, three found them tardy in payment, although eight were well satisfied.
2. Two respondents considered that certain member countries of the EEC breached the terms of the Rome Treaty by imposing standards heavily biased in favour of their domestic manufacturers.
3. Several respondents reported that in their experience Embassy staffs of some other countries are still rather more helpful to their nationals in providing local commercial intelligence and contacts than the corresponding UK officials in certain important markets.
4. Strikes in the UK have lowered the confidence of overseas customers in obtaining goods on time, and markets have been lost because of late delivery. Domestic sales had also suffered since British customers having been forced to purchase abroad, when UK supplies were interrupted, had continued to do so.
5. The UK domestic market has been suffering more adverse influences than many foreign markets, due to fluctuation resulting from too frequent changes in Government policies."
6. Several firms were unable to enter the export market for reasons examined in Table 2.14.

Turnbull⁽¹⁸⁵⁾ and his colleagues investigated over 300 companies in France, Germany, Italy, Sweden, and Britain. The products and industries surveyed represent vital sectors of trade between the five countries and are drawn from a cross-section of industrial goods such as raw materials components and capital equipment. One of the main aims of this study was to examine the factors which hindered the

Table 2.14: Constraints to enter export markets

Constraint	Companies Affected
Financial	
Availability of capital	6
Company tax	5
Cash flow	9
High wage rates	4
Other	8
Legislation	
Production of employment	19
Health and safety at work, etc	7
Excessive volume	23
Excessive requirement for official returns	21

Source: CBI Innovation and competitiveness in smaller companies, 1979, p.35.

competitive position of British companies both in home markets and other European markets, the results revealed that, in comparison with other European suppliers, most British firms are found to be slow to offer new products and technical solutions to customers. Similarly, they are less likely to initiate joint product developments with their customers. Table 2.15 shows British suppliers to be considerably less willing to adapt their products to meet buyers' requirements and international standards compared to other competitors. It also appears from Table 2.16 that UK suppliers are very unreliable in delivery. UK suppliers are seen as the worst performers and are considerably worse than their German and Swedish competitors. It is for delivery speed and reliability that the UK reputation is poorest.

Table 2.15: Supplier willingness to adapt products

All buyers' views on the willingness of suppliers to adapt their product to meet buyers' requirements international standards		
	Score	Score
Supplier Country		
France	79	64
Germany	77	40
Italy	88	79
Sweden	63	102
UK	56	13

Source: P Turnbull and M Cunningham, *International Marketing and Purchasing*, London, 1981, p.32.

Table 2.16: Dissatisfaction with delivery service

Percentage of European buyers who indicated that the level of delivery service was inadequate in relation to				
Supplier Country	Delivery Speed %	Punctuality of delivery %	Integration with buyer plans %	Provision of delivery information %
France	47	27	22	29
Germany	31	16	28	15
Italy	63	56	29	37
Sweden	17	10	15	12
UK Average	74	64	31	53
All countries		34	26	29

Source: P Turnbull and M Cunningham, *International Marketing and Purchasing*, op cit, p.37.

Husim⁽¹⁸⁶⁾ in his study of factors affecting competitiveness in shipbuilding found that British shipyards have been criticised for poor labour productivity performance and late delivery time, heavy unionisation, poor industrial relations and bad management have been claimed to be the main causes of poor competitiveness. The amount of capital investment made during the early 70s is not as extensive as those of the Japanese. Hence lack of adequate capital investment may be one of the main reasons behind the lack of Britain's lack of competitiveness.

A recent Department of Industry survey⁽¹⁸⁷⁾, concluded that "The UK industry should be competitive because of the advantage which they enjoy in terms of lower wages and social charges, good labour relations and substantial re-equipment in productive capacity. In spite of this they have failed to be competitive with even the high cost countries". The study put the following reasons behind the poor competitiveness of the British textile industry.

1. The low level of investment in British textile industry compared with their competitors in France, Germany and Italy.
2. The EEC textile industry receives state assistance to reduce product cost.
3. Delivery times, design and product performance are other elements which played an important role in the poor competitiveness of the British textile industry.

Another empirical evidence for the reasons behind the British lack of competitiveness can be taken from Panic, Connell, Saunders and Rothwell.

Panic and his colleagues⁽¹⁸⁸⁾ carried out several studies to compare the performance of British industry and West Germany between 1954-1972. One notable fact which emerges from these studies is that the industrial structure is very similar in the two countries. Yet the difference in performance was considerable. There was not a

single major branch of industrial activity in which the UK performed better over the period 1954-1972. In other words, the relative failure of UK industry over this period was, broadly speaking, one of performance rather than structure. This conclusion is obviously important because it suggests that the factors responsible for the relatively poor performance of the UK industry are not confined to a few broad industrial groups.

Connell⁽¹⁸⁹⁾ has undertaken a comparison of the major industrial countries' exports of non-electrical machinery. Table 2.17 indicates that the UK had lower values per tonne than the majority of its competitors in both 1962-1975. More surprising, perhaps, than the

Table 2.17: Average value per tonne of non-electrical machinery
CITC 7.1 exports

	Average value per tonne of exports, \$ thousand/tonne			Shares of main industrial countries exports of SITC 7.1%	
	1962	1975	Change	1962	1975
UK	1.75	4.24	+ 142%	17.5	11.2
West Germany	1.99	5.94	+ 198%	23.8	24.1
France	2.00	5.11	+ 156%	5.9	8.8
Italy	2.30	4.74	+ 106%	5.5	7.1
Belgium-Luxembourg	n.a	4.04	n.a	2.2	2.6
Netherlands	2.08	5.77	+ 177%	2.2	2.7
Sweden	2.20	5.99	+ 172%	4.0	3.7
Switzerland	n.a	10.49	n.a	4.1	3.8
Japan	1.40	4.11	+ 193%	2.7	8.0

Source: Connell, D, The UK's performance in export markets, some evidence from international trade data NEDO Discussion Paper No.6, London, 1979, p.17.

lower absolute values per tonne, is that only Italy increased the value per tonne of her exports more slowly than the United Kingdom. It is also perhaps not insignificant that the UK's share of total exports of SITC 7.1 by the main industrial countries, fell from 17.5% in 1962 to 11.2% in 1975. In contrast Japan appears to have improved the "quality" of its products rapidly, at the same time as increasing its share in trade by almost 200 percent. This provides confirmation of the rapid development of this sector of Japanese manufacturing. Connell broadens the survey to other products. Comparing the UK and West German performance he found that in the majority of cases West German products had higher competitive advantage than those of the comparable UK products. He concluded that "the effect of North Sea oil on sterling has made it more difficult than it was just one or two years ago for UK firms to compete in the international market place. West Germany has suffered from a similar problem for many years, though the strength of the Deutchmark has arisen not from some particular endowment, but from the success of its manufacturing sector generally". The evidence in this study showed that improvements in non-price competitiveness have played an important part in West German approach to tackling this particular problem. The West German lesson may thus be a particularly appropriate one for the UK and other industrial countries.

Saunders⁽¹⁹⁰⁾ carried out a study to compare the competitive performance of engineering industry in Britain, West Germany and France. Results of this study showed that:

1. German superiority in competitive power and performance compared with Britain or France. The data suggested that the superior competitiveness of Germany compared with Britain and France does not spring from a difference in "structure".
2. Two important characteristics of the German engineering industry, arising from the statistical analysis, which put Germany in a strong competitive position. The first is the higher "quality" (as shown by unit values) of German export products almost

throughout the range of engineering goods. The second is the more modern age structure and higher productivity of German, as compared with British, capital equipment.

3. The low level of investment in British industry compared with its competitors was behind the lack of its competitiveness. The finding suggested that, the present pattern of comparative advantage in British engineering may rest more on skill than simply on the level of investment.
4. The variation in exchange rates, although probably averting a still more serious decline in British trade performance, did not prove an effective instrument for radically adjusting its competitive position.

Rothwell⁽¹⁹¹⁾ conducted a similar study to identify the reasons underlying the decline of the British agricultural engineering industry in international competitiveness. The data on which this study is based were obtained from a wide variety of sources, interviews with a dozen or so UK companies, interviews by the author and others with some number of continental European manufacturers and their UK agents, discussions with informed individuals at the Department of Industry, the Agricultural Engineers Association, the National Farmer's Union and NIAE, Silsoe, literature search, the patents office, questionnaires sent to members of the AEA (36 replies) and the NFU (150 replies). Where possible, the data were cross-checked. Accordingly a number of important points have arisen from this study. The more significant of these are:

1. The unit value and patent data suggest that the decline of the UK agricultural engineering industry is linked to a relative lack of product development.
2. Several medium sized UK firms have suffered because of the ability of their much larger foreign competitors to sell cut price machinery in the UK in order to gain rapid market penetration.

3. The inability of many small UK firms to finance a high level of stock to meet peak seasonal demand, places these firms in an uncompetitive position in the market place. Rothwell concluded that "there are probably two major factors that have contributed to the industry's decline, the first relates to the professionalism and attitude of management, the second and related factor is the predominance of very small firms in the industry."

Before closing this point, three studies are worth mentioning, and although the results relate to the US, Japan and the community industry in general, they are nevertheless interesting.

The first study concerns the competitive status of the US auto industry⁽¹⁹²⁾. This study reported the results of a survey conducted in 1982 by the Automobile Panel to identify the causes behind the decline of the US auto industry compared with Japan. The findings indicated that:

1. The Japanese advantage reflects differences in prices as well as productivity. Compared with the US firms, the major Japanese producers have significantly higher overall productivity; some estimates put the productivity difference as high as 40-50 percent. Employee cost per hour worked in Japan is about 50-60 percent of the US average.
2. Existing evidence suggests that in the late 1970s the Japanese achieved a noticeable edge in assembly quality; since 1980, US producers have made improvements in quality performance. Consumer ratings of vehicle condition at delivery and counts of defects per vehicle shipped in 1979, for example, show a significant import advantage, on a scale of 1-10, imports rated 7.9, while domestics averaged 6.4. When asked, "Would you buy the same make or model again?", 77.2 percent of domestic subcompact buyers answered Yes; among import buyers the comparable percentage was 91.6.

The second study: Report of the President on US Competitiveness⁽¹⁹³⁾. This study identified the main causes for the decline of US competitiveness as follows:

1. Investment: The US tends to invest little compared with their major foreign competitors. Through the 1960s and 1970s capital resources available per worker in the United States grew by less than 2 percent per year. In contrast, capital available per worker in Japan and Korea increased by more than 10 percent per year. In Europe and many developing countries the growth in capital per worker was more than 4 percent.
2. Technological development: The absolute size of expenditure on research and development in the United States still constitutes a majority of such expenditures of the developed countries. However, other countries, especially Japan and West Germany, have increased their R & D efforts substantially in proportion to their GNP, whereas US R & D expenditures as a percentage of GNP have declined in recent years.
3. US productivity growth in manufacturing has lagged behind that of all major foreign competitors, except the United Kingdom. Over the last decade, manufacturing productivity in the United States increased by an average of 2.5 percent per year. In Japan the average increase was 5 percent, in West Germany 5.5 percent, in France 4.5 percent and in Canada 4 percent.
4. Foreign trade barriers: Many US businessmen and labour leaders cite foreign tariff and non-tariff barriers to trade (NTBs) as serious impediments to increases in US exports.

The third study is the Competitiveness of the Community Industry⁽¹⁹⁴⁾. The purpose of this study was to carry out a preliminary appraisal of the competitiveness of community industry, on the basis of the main indicator vis-a-vis two of its principal industrialised trading partners, the USA and Japan. The major reasons for the lack of competitiveness of the community were stated to be lack of innovation, slow down of productivity, the reason being inadequate productive investment.

Conclusion

Thus in seeking an explanation for the reasons behind the UK's lack of international competitiveness, it is interesting to note that part of the answer seems to involve price and non-price competitiveness, which play a significant role in determining not only industry and company but also national competitiveness.

Consequently, it was decided at this point in the research to attempt to explore in detail the role of price and non-price competitiveness as main elements determining competitiveness in the market place, and this will be examined in the next chapter.

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CHAPTER 3

Price and Non-Price Competitiveness

A Marketing Approach

CHAPTER 3Price and Non-Price Competitiveness
A Marketing ApproachIntroduction

There is a growing body of research evidence that growth industries have been extensively built upon marketing techniques. The need for competitive marketing strategy, as a major source of corporate and economic growth has been increasing in importance in recent years, and will reach even greater importance in the future as competition continues to intensify.

According to Baker⁽¹⁾ "Marketing is only one factor, albeit a critical one, in ensuring commercial success ... true success can only occur where those responsible for the direction of the enterprise are marketing orientated, and ensure that the marketing function is fully integrated with the other key business functions - research and development, production, finance and control."

Also a NEDO⁽²⁾ report on mechanical engineering indicated that "the extent to which the industry is able to meet the customer's needs will go a long way to determine not only the future prosperity and competitiveness of the industry itself but also the future rate of growth of the economy."

Addressing the same issue the Wool Textile EDC's⁽³⁾ report mentioned that "marketing intelligence must be partnered by economic intelligence if disastrous decisions are to be avoided. Domestic inflation and interest rates as well as predicted consumption expenditure in the various markets and exchange rate variations can all damage otherwise sound marketing decisions."

Muir⁽⁴⁾ pointed out that the key thing to be competitive "is to know your market as well as you possibly can. You need to know

what the customer wants ... you have got to know as far as you can what competition is doing both in your own product and in similar products which might compete with it. The better that the supplier and customer understand each other the more likely it is that you will both get a good deal and be satisfied and keep the business long term."

Cannon⁽⁵⁾ emphasised a similar view about exporting when he stated that "success will go to the firm which opts to base its policies on an understanding of the market and its needs, drives and choice processes, rather than trying to impose home marketing overseas regardless of circumstances."

The continuing corporate need for competitive marketing strategy is further illustrated by Connell⁽⁶⁾ who indicated that "the expansion and increasing sophistication of Japanese industry, together with the development of the newly industrialising countries, seems likely to increase the pace of competition in world markets. To manufacture and sell the same products as those countries would require similar level of productivity and equivalent wage rates. Both of these conditions are probably irreconcilable with the UK's social objective." The only satisfactory way to meet this form of competition is to avoid it by superior marketing.

Marlow⁽⁷⁾ in his recent book "Success" said that "The period to the mid-80s has been one in which contraction rather than expansion has been the rule. Expansion has usually taken place at the expense of competitors. This one vital factor highlights the important role of marketing in recent years." Where a company has expanded its market share good marketing has without exception played a key role. Without dynamic marketing strategy no company will survive for a long time.

A sophisticated review of studies which advocated the dominant role of marketing in international competitiveness has been provided by PEP⁽⁸⁾ survey. According to this study "two-thirds of the firms that have increased exports attributed their success to fresh efforts of some kind on the sales side. . Only 19 percent attributed success to any kind of improvement on the production side, and only 15 percent to the attraction of overseas markets relative to the home market."

Similarly, the NEDO study⁽⁹⁾ "Printing in a Competitive World" reported that most of the overseas firms visited place great emphasis on marketing, and regarded it as an essential part of their corporate strategy. The decisions most crucial to the industry's future are the marketing ones; those which assess customer needs, product range and product mix and price, and those which bring about the most effective adaptation of company know-how and productive resources to market requirements.

The NEDO survey⁽¹⁰⁾ "Market the World" revealed that the most frequently quoted reasons for export competitiveness related to better marketing. The survey identified the principal aspects of firms' marketing efforts contributing to export competitiveness as:

1. Improvements in overseas sales organisation and calibre of export staff and agents;
2. More overseas visits by UK staff to customers and agents, and the reception of visitors from abroad;
3. Greater emphasis on advertising abroad, and participation in trade fairs and exhibitions and more generally a greater selling effort geared to the needs of the market.

It was found that "this emphasis on marketing improvements was greatest where export growth was highest."

In the same vein the Institute of Directors⁽¹¹⁾ indicated that the successful exporter in international markets was "highly active in marketing, sales promotion and selling or in investigating and developing new markets, or in the development of new or modified products suitable for export markets. On the other hand, among those firms whose volume of export was static, at a low level, or declining, or who had given up exporting altogether ... very few indeed had attempted to do anything very serious about it: they had been angry, despondent or resigned, according to their temperaments, but that was all."

Baker⁽¹²⁾ again in his award winning article on the ills of British exporting, examined the recent trends in the UK "Motor Cycle Industry" in the world market and pointed out the fact that in the long run the Japanese share of the British market has increased due to their ability to develop a marketing strategy, based on the satisfaction of consumers' needs.

Abu-Zeid⁽¹³⁾ in his study "Marketing and Export Success" indicated that the approach used by the successful firms in international markets was a marketing, rather than a selling approach. From this study all the successful firms who responded stated that innovation, adequate after-sales service, good promotional efforts and competitive price were the most important factors behind their competitive position.

Finally a study in the UK Clothing Industry⁽¹⁴⁾ revealed that marketing factors were the main variables behind successful firms operating within the industry. The companies whose practices were described in this study were gaining sales because of: (1) appreciation of and response to UK buyer or world market trends; (2) design creativity; (3) correct delivery by the agreed dates; (4) competitive price; (5) continued investment in manufacturing equipment; (6) consistent mark-up standards.

Taking account of the above facts, about the important role of marketing in achieving competitive advantages in the market place, the aim of this chapter is to examine price and non-price competition as major aspects of marketing which determine a firm's competitiveness, since it is these factors which ultimately provide the key to taking and holding market share.

Accordingly the first part of this chapter will be devoted to a general review of pricing. This will involve, pricing objective and pricing in micro economic theory to show why such approach has been rejected by marketers as universal solutions to pricing problems and finally pricing strategies.

In the next part of the chapter we will examine the relative importance of price and non-price competition to develop a fuller understanding of the ways in which competitiveness in a firm is achieved ... or simply why customers do or do not choose to buy from a particular supplier. This will be fundamental to the discussion of competitive strategy in the next chapter.

In the last part of this chapter we will examine the potential sources of non-price competition including the relative importance of product, service, promotion and distribution.

The above issues will be presented in three sections:

First: Pricing and price policy.

Second: Price versus non-price competition.

Third: Sources of non-price competition.

SECTION ONE: Pricing and Price Policy

A great number of authors and researchers have addressed the question of pricing, for example Wasson⁽¹⁵⁾ pointed out that "Price is the basic tool of day to day competitive tactics. Of all the tools in the marketing arsenal only price can be put into effect on a moment's notice to achieve surprise".

Gordon⁽¹⁶⁾ stated that "the way firms set price has been of interest to researchers for some time, due to the fact that pricing decisions are of crucial importance to a firm's survival. Setting a price too high can have the effect of indirectly reducing profits via a reduction in the firm's market share, while setting a price too low can directly reduce a firm's profits through a low profit margin."

As Ladd⁽¹⁷⁾ noted "it would probably overstate the case to say that pricing decisions are the most important ones the businessman has to make. However, the rapid rate of introduction of new products ..., the tremendous cost of automatic production equipment and other similar phenomena of contemporary business, make it apparent that careful pricing is of crucial importance to the firm if its commitments are to be met."

Also Senker⁽¹⁸⁾ pointed out that pricing is a central element in a firm's overall competitive strategy. It forms an integral part of the firm's attempts to achieve goals of profitability or market share. Profitability is directly affected by pricing, as profit margins are the differences between costs and prices. He added "market share is influenced by customer acceptance of a firm's products. The extent to which a firm's products are accepted by customers is influenced by prices relative to competition."

Stanton⁽¹⁹⁾ added strength to this assertion when he said that "the price of a product is a major determinant of the market demand for the item. Price affects the firm's competitive position and its share of the market. As a result, price has a considerable bearing on the company's revenue and net profit."

Corolyn⁽²⁰⁾ in his study concluded that pricing decisions should be sensitive to an enormous number of factors both at the industry and business level. The degree of competition in an industry directly impacts upon the pricing direction of individual sellers. The flexibility to set prices increases as we depart from pure competition. When competition is intense and goods are almost homogeneous, going rate or parity pricing is usually adopted. At the business level, price should correspond to the costs of producing these goods. It must be consistent with the objectives of the business.

Sampson⁽²¹⁾ in a HBR article, "Sense and Sensibility in Pricing" proposed specific conditions which enhance price insensitivity. These were:

- i. When personal selling was involved;
- ii. When promotion was local versus notional and standardised;
- iii. when after-sales service was important;
- iv. When customer loyalties were significant;
- v. When products were highly differentiated;
- vi. When quality was perceived in more than one dimension;
- vii. When unit price was low; and
- viii When the product was more sophisticated than customers.

Finally, Kotler⁽²²⁾ pointed out that "price is the only element in the marketing mix that creates sales revenues - the other elements are costs. In spite of the importance of setting

the right price most companies do not handle pricing well". Consequently this section will examine the following aspects of pricing:

- Pricing objectives
- Pricing in Micro-Economic Theory
- Pricing Strategies and Methods.

Pricing Objectives

Pricing policies are general principles which provide a guide or code for making pricing decisions. Pricing objectives are the goals that pricing policies are intended to accomplish. Therefore Livesey⁽²³⁾ emphasised that any discussion of pricing policies should be set within a framework of business objectives and of the constraints within which firms operate when trying to achieve these objectives.

Addressing the same issue Harper⁽²⁴⁾ said an intelligent approach to developing a price policy begins with a classification of the basic objectives of the firm - the overall objectives of the firm should be synonymous with its pricing objectives. "The simplest approach is to assume that the firm's basic objective is to maximise profits, as is done in price theory."

The economic assumption of a single corporate objective of short run, profit maximisation has been attacked on various bases. This is to be found in the pricing studies of Hall and Hitch⁽²⁵⁾ and the controversy has continued on both sides of the Atlantic⁽²⁶⁾.

Hall and Hitch looked at the pricing and output policies of 38 companies and found most did not aim to maximise profits by equating marginal cost with marginal revenues. Many of the firms were oligopolists with or without product differentiation. The explanation of their pricing policy appeared to be:

- they were thinking in terms of long run rather than immediate profits.
- their pricing policy was based on covering "full costs".

The criticisms of profit maximisation may be grouped into two categories, organisational objections and operational objections.

With regard to organisational objections, one interesting empirical study has shown that profit maximisation may be a less relevant assumption in manager controlled firms than on owner controlled organisations. Manson⁽²⁷⁾ and his colleagues took 36 owner controlled firms and 36 manager controlled firms in 12 American industries and compared the performance of two groups. They found that owner controlled firms had 75 percent higher performance than manager controlled organisations and concluded from this that the motivations were different in the two cases.

Turning to operational objections, Pickering⁽²⁸⁾ indicated that the concept of profit maximisation is too vague to be specified in operational terms. The emphasis on the short run rather than on the long run also makes it difficult to take into account differing rates of time preference and varying levels of risk aversion. It also makes it difficult to take into account the relation between today's and tomorrow's opportunities.

Hague⁽²⁹⁾ mentioned that the distinguishing characteristics of operational objectives are:

- "1. They set specific tasks for the firm or for particular individuals or groups.
2. They enable the firm to discover whether or not those tasks have been performed.
3. They state clearly the way the firm will judge whether or not the tasks have been achieved, both in terms of what will be judged and how.
4. They set a time limit for carrying out each task."

More precisely there are four main reasons why firms find it hard to maximise profit⁽³⁰⁾. First, in real-world industry the businessman does not know enough about the alternative course of action among which he is choosing to be able to say which of these alternatives would give him maximum profit. The result is ignorance about the present position of the firm. Especially if firms are large and complex, they will lack information about their major competitors are doing, even about what prices they are charging. Second, there is uncertainty about how the firm's position will change as a result of taking any given decision. Third, there are problems in organising complex organisations to take good decisions, even where decision takers have the necessary information. Fourth, most human beings find it difficult to understand problems which involve relationships among a number of variables.

Cyert and March⁽³¹⁾ concluded that the main objectives of the firm are a production goal, an inventory goal, a sales goal and profits goal. These are of course closely linked.

However, it has been argued that much of the attack on profit maximisation approach is inappropriate because its critics have failed to recognise that profit maximisation is not a hypothesis that can be tested, but a paradigm that is not itself testable but in which a set of possible hypotheses can be defined for subsequent validation⁽³²⁾.

The justification for a profit maximisation assumption has been defended in varying degrees by a number of authors and researchers. For example Baldwin⁽³³⁾ argued that there are many internal and external constraints influencing the operations of firms and limiting the freedom of managers to pursue their own personal objective. These are so strong that he considered profit

maximisation to be a fairly close approximation to the actual goals of large companies. Profits are certainly important as a means of financing growth as an indicator of management performance and a means of satisfying shareholders.

Hence Davies and Hughes⁽³⁴⁾ argued that "profit maximisation is of supreme importance because it enables the attainment of all other goals, i.e lower prices, higher wages, better quality, etc. A point worth noting is that profitability and rate of return on capital is becoming the nationalised industries' most useful working criterion."

Examples of company objectives that differ in important respects from the objective of profit maximisation include:

1. The firm wants to get its products to its customers at reasonable cost.
2. The firm wants to avoid charges of monopolising an industry and other legal prosecution.
3. The firm may be interested in increasing its market share or its rate of growth, even at the expense of immediate profits.
4. The firm may fear that it would incur adverse public relations as a consequence of attempting to maximise profits.
5. The firm may feel that ethical considerations prevent it from operating in such a way as to maximise profits.
6. The firm may be interested only in some fixed amount of profit as its goal, rather than "maximum" profits.
7. The firm may be interested only in immediate survival.
8. The firm may be particularly anxious to maintain good relations with labour.
9. The firm may be interested in maximising prestige, rather than profits.

Harper⁽³⁵⁾ mentioned that the above objectives may contribute to long run profit maximisation but in varying degrees they

represent qualifications to the assumption that in the short run the firm wants to maximise profits. Some of the other objectives listed indicate that, even in the long run, a firm could conceivably be satisfied with some level of profits that is less than maximum.

It follows that the pursuit of maximum profit can no longer be considered the major objective of business activity, in our view the other objectives cannot even be regarded as subsidiary. The importance of these objectives differs from case to case and general rules cannot be laid down.

As far as price objectives are concerned Table 3.1 provides a partial list of feasible pricing objectives. It is important to note that the objectives of profitability and growth constitute only a small part of this list.

From this list of objectives, some of the pricing problems that firms face can readily be inferred. Among the more important are⁽³⁶⁾:

1. A decline in sales.
2. Prices are too high - relative to those charged by rivals, relative to the benefits of the product.
3. Price is too low - again in certain markets and not in others.
4. The company is regarded as exploitive of customers and not to be trusted.
5. The firm places excessive financial burdens on its resellers.
6. The price differentials among items in the line are objectionable or unintelligible.
7. Its price changes are too frequent - or do not take account of major changes in market circumstances.
8. The firm's price reflects negatively on itself and on its products.

9. The price is destabilising the market which had finally become stabilised after great difficulty.
10. The firm is offering its customers too many price choices and confusing its customers and resellers.

Table 3.1: Potential Pricing Objectives

- | |
|---|
| <ol style="list-style-type: none"> 1. Maximum long-run profits. 2. Maximum short-run profits. 3. Growth. 4. Stabilise market. 5. Desensitise customers to price. 6. Maintain price leadership arrangement. 7. Discourage entrants. 8. Speed exit of marginal firms. 9. Avoid government investigation and control. 10. Maintain loyalty of middlemen and get their sales support. 11. Avoid demands for "more" suppliers - labour in particular. 12. Enhance image of firm and its offerings. 13. Be regarded as "fair" by customers (ultimate). 14. Create interest and excitement about the item. 15. Be considered trustworthy and reliable by rivals. 16. Help in the sale of weak items in the line. 17. Discourage others from cutting prices. 18. Make a product "visible". 19. "Spoil market" to obtain high price for sale of business. 20. Build traffic. |
|---|

Source: R Vernon and W Lamb, *The Pricing Function: A Pragmatic Approach*, D C Heath and Company, London, 1976, p.77.

11. The firm's prices seem higher to customers than they really are.
12. The firm's price policy attracts undesirable kinds of customers which have no loyalty to any seller.
13. The firm's pricing behaviour makes customers unduly price sensitive and unappreciative of quality differences.
14. The company has fostered a decline in market discipline among sellers in the industry.

The list of pricing objectives in Table 3. and the illustrative list of pricing difficulties above suggest that prices and price changes do not simply affect current sales, but have more far-reaching effects.

Hence Baker⁽³⁷⁾ argued that "The pricing decision cannot be made in vacuum, however it is important to take both internal and external variables into account in order to formulate a policy consistent with firm's overall objective".

Also O'Shaughnessy⁽³⁸⁾ stated that price objectives always act within constraints, such as:

1. Perceptions of product quality must remain constant;
2. Dealers must service their conventional markup;
3. All distributors must receive equal terms.

O'Shaughnessy concluded that "Although price-setting occasions are many and varied, they point to the adoption of one or more of the following competitive goals.

- Attracting new buyers via market penetration;
- Converting existing users via brand switching;
- Increasing purchase size via heavier individual usage;
- Retaining customers via ensuring repeat purchase.

Taking account of the above the following pages are devoted to a review of a number of empirical studies which relate to price objectives.

The Brookings Study reported by Lanzallotti⁽³⁹⁾ studied the pricing policies and practices of twenty large American firms. The main goals in pricing indicated may be classified as follows:

1. Achieve target return on investment or on net sales.
2. Stabilise prices.
3. Maintain or improve share of the market.
4. Meet or prevent competition.

The main conclusions drawn from this study are:

- "1. No single theory of the firm and certainly no single motivational hypothesis such as profit maximisation is likely to impose an unambiguous course of action for the firm for any given situation; nor will it provide a satisfactory basis for valid and useful predictions of price behaviour.
2. Pricing policies are in almost every case equivalent to a company policy that represents an order of priorities and choice among competing objectives rather than policies tested by any simple concept of profit maximisation.
3. Individual products, markets and pricing are not considered in isolation, the unit of decision-making is the enterprise, and pricing and marketing strategies are viewed in this global context."

From these conclusions Baker⁽⁴⁰⁾ indicated that firms do establish pricing objectives, even though they may not be stated explicitly. Frequently such objectives are implicit in the company's overall objectives, in other cases they may take the form of a generalised statement such as:

"All prices must cover fully allocated costs."

"Prices will be set which will discourage the entry of new firms into the market."

"All prices must yield a return of investment not less than X percent."

Willen van der Eyken wrote (in the Financial Times of 30 April 1968) about blindfold pricing. He reported on some research work which had been carried out at the Manchester Business School. The research had concentrated on examining fourteen pricing decisions in depth to see how they were taken, what are the obstacles to more effective pricing and how these obstacles may be overcome. The report showed that:

1. There were real problems of conflicting and multiple objectives.
2. Profit maximisation did not emerge as an objective in any case study.
3. Short-run market share was regarded as the best guarantee of long-run profit.

Hague⁽⁴¹⁾ in his study found that of thirteen cases, eight firms were satisficers and five were maximisers, although it was felt that maximisation was more likely with price than any other variable, because the impact of decisions was external to the organisation. Hague found that the behaviour of firms was generally compatible with the Cyert and March satisficing model, based on an aspiration level in a number of areas, attended to sequentially, made possible by the existence of organisational slack.

As Hague concluded a number of recommendations flow from this study.

First, since firms may well be forced to sub-optimize, pricing decisions may have to be taken with a limited number of objectives in view. Pricing decisions may well mean sub-optimisation. Not all the firm's objectives will be seen as relevant to a particular pricing decision.

Second, pricing objectives should be clearly stated, where it is sensible to do so, they should be stated in numerical or other precise terms. This makes both the pricing decisions and the later control of operations and analysis of results much easier. However it is important not to over-emphasise numerical objectives. Firms must not concentrate too much on numbers.

Third, contradictions between objectives which cannot be eliminated should be recognised and accepted. Some conflict among objectives is inevitable. There is no need for businessmen to be ashamed of these conflicts. They should bring them out into the open, acknowledge them and look carefully at their implications.

Fourth, it is not enough for top management alone to understand what the firm's objectives are and what is the relative importance of each of them. Continuing efforts should be made to ensure that all those at lower levels in the firm are fully informed about those objectives of the firm which are relevant to them in their own decisions.

Pass⁽⁴²⁾ has completed a postal questionnaire survey of the pricing objective of leading UK and UK based American subsidiaries; 150 companies were contacted and eighty-five agreed to co-operate. As with the Brooking survey mentioned above the majority of companies were interested in a certain return on capital employed, usually in range 10-20% over the long term and achieved this by using target pricing procedures. The study also showed that

seventeen firms have as their principal pricing goal meet or follow the competition. These are large dominant firms highly marketing oriented which operate in an oligopolistic situation and want to avoid ruinous price competition.

Fog⁽⁴³⁾ found that in Denmark small firms appear to aim at profit maximisation in the short run, while big business, though it does not neglect profit maximisation, pays more attention to long term considerations.

Saddick⁽⁴⁴⁾ in his study found that firms have clear objectives for their prices. A single objective pricing policy is non-existent; all firms indicated several objectives for their pricing policy. Profit was an objective in all firms either explicitly or implicitly. Profit in the short term is more adopted as an objective than profit in the long term. The study also revealed that most companies reported volume objectives and most of these regard volume as a vehicle to profits; only a few look upon volume as an end in itself. Of special significance is the objective of offsetting weakness in other elements of the competitive strategy, which was reported by some firms. The decision to choose pricing to play this role was found to be dependent on the attitude of management to other marketing elements and to price as an effective or ineffective tool. Several firms indicated the change or maintenance of image as the principal objective of their pricing.

H. Said⁽⁴⁵⁾ carried out a study in 1981. A questionnaire was mailed to 2,000 firms in Britain representing manufacturing and non-manufacturing industries of which 70% were large firms and 30% small and medium sized firms. One major aim of the study was to examine the influence of some objective and subjective factors on pricing behaviour and competitive behaviour. The results showed that profit is an important objective but not the only one. Firms seek to achieve many other objectives related to liquidity, sales,

market share, survival, as well as profit. Moreover profit is not the dominate goal. Survival is considered of most importance in the firms surveyed.

As shown in Table 3.2 Piercy⁽⁴⁶⁾ in his study found that both U.K and export objectives were primarily associated with profit and apparently in both cases with satisficing. It is true that a higher proportion of companies pursued volume as the major aim in exporting than was the case for the U.K. but the fact remains that two-thirds of the exporters associated international sales mainly with profit objectives. It was found that the vast majority of firms pursued the same goals in U.K. and export marketing, and very few of the responding companies reflected the traditional advanced, where domestic business involves the pursuit of profit and exporting the pursuit of volume. "Thus, under current conditions, it seems that firms emphasise profit in both U.K. and export markets". The implications of this lie mainly in challenging the traditional view of exporting as marginal business.

Finally Gordon⁽⁴⁷⁾ and his colleagues investigated how manufacturing firms in Canada and the United States formulate long run pricing objectives and policies. The respondents were asked to rate the importance of eight objectives on a 1 to 5 anchored scale, where 5 indicated that the objective did not play a role in pricing decisions. The results revealed that total profits ranked highest in terms of the pricing objectives. Market share, return on investment, and total sales were however close contenders. In contrast, the objective of price earnings ratio, liquidity, employee job security, and industrial relations were much less important in determining pricing decisions. Gordon stated that since several objectives were found to be of importance, it would appear that the strategy employed was one of pursuing multiple objectives. This multiple objective approach may in part be due to the interaction between policies concerning pricing decisions and policies impinging on other decisions.

The findings of the study concerning the importance attached to pricing objectives generally were true for both Canada and the United States, as well as across the four industries.

Table 3.2: Objectives in U.K. and export Markets

Major objectives	In the U.K.		In exports	
	%	%	%	%
To earn maximum short run profit	-	profit 79	2	profit 67
To earn maximum long run profit	26	profit 79	18	profit 67
To earn a satisfactory rate of profit	53		47	
To gain the highest possible market share	8			
To sell as much as possible	11	volume 19	19	volume 30
To sell surplus capacity not taken by the U.K.	N		4	
Others	² N = 223		³ N = 235	

Source: N Piercy, Export Marketing Management in medium-sized British firms, European Journal of Marketing, vol. 17, No. 1, 1983, p. 50.

Further analysis of the data in the above study revealed several other interesting facts concerning pricing objectives. One of these findings has to do with the relationship between pricing objectives and the target markets for a product line. Return on investment, industrial relation and job security objectives were highly correlated with the sales of custom-made product lines.

In contrast where product lines were being sold to markets requiring standard products, market share was the dominant objective of pricing policies. Apparently, for standardised products, the notion of market dominance is prevalent as it tends to lead to profits in the long term. Gordon and his colleague concluded that these findings support the PIMS studies which emphasise the importance of market share to profits. However the results of this study go beyond the PIMS studies in that they suggested that the importance of market share is contingent on the targeted market. Where the targeted market is for standard products market share plays an important role.

Thus the above discussion has clearly indicated that the assumption of profit maximisation as a single objective is not practical since companies tend to have multiple objectives.

Pricing in Micro Economic Theory

Simmonds⁽⁴⁸⁾ stated that economic theory is an unsound basis for pricing because it ignores differences in behaviour of potential customers, it makes no allowance for changes over time or rates of product diffusion, pricing most technological products is not akin to commodity marketing. "Marketing is about a mix of marketing variables against a non homogeneous market".

Gobor⁽⁴⁹⁾ pointed out that the businessman tends to say price is the cost of article plus his margin for profits. Such approach will not help the present-day pricing executive.

O'Shaughnessy⁽⁵⁰⁾ indicated that the economists pricing models are not designed to describe realistically the way people make pricing decisions or the way consumers respond to these decisions; nonetheless, they provide useful heuristics for understanding pricing consequences while explaining certain principles to which successful pricing strategies should conform.

In its basic form, the theory rests on four assumptions in respect of the supply side of the market⁽⁵¹⁾.

1. The supplier has only one aim, that is the maximisation of total profit, in the short and long run.
2. The firm produces only one product, or if it does produce several products, they are produced and sold in the same proportions.
3. The supplier knows exactly what each level of output will cost.
4. The supplier is also deemed to know how much could be sold at each possible price.

On the other hand there are three main assumptions on the demand side of the theory of price. They are:

1. In economic theory, consumers do not indulge in complex deliberation when buying, their preferences are known and ordered as if all choices were analogous to intrinsic preference, where people know immediately what they like best.
2. The theory only takes account of the present situation and therefore behaviour is not seen as being influenced by the past, or expectation of the future, and in calculations, current profits and costs are used.
3. Consumers will distribute their income to give maximum satisfaction, but a business person will buy with the maximum amount of profit in mind.

In addition to the argument that prices are cost-determined the supply and demand concept of price and other basic tenets of

classical economic theory have been subjected to much general criticism, these are as follows⁽⁵²⁾.

Marginal cost assumptions: the notion that firms price on marginal cost is widely challenged. Some authors claimed that the lack of marginal cost data and the fear of failing to cover all costs are the real reasons for business not adapting a marginal cost approach to price. This throws into doubt the whole profit-maximising notion of pricing at that point where marginal cost and marginal revenue are equal at least as a managerial decision making tool.

Marginal revenue assumptions: the economic model is weakened also because of the fact that few firms can know the value of MC, or particularly MR, as the latter depends on an awareness of the slope of the demand curve. **Adjustment costs:** price changes are naturally costless, but are associated with expenses in transmitting price information to buyers and in the company's decision process. It has been found that the fixed costs of a price change may be materially greater than those of a change in output, so that price stability may be highly desirable from the company's point of view.

Price interpretation: In practice, price is far from unambiguous in the way it is perceived by buyers, and has many dimensions, varying from the impact of the terms of trade and service content of products, to the difficulties of price acting as a guide to product quality.

Perfect buyer information: As mentioned above economic theory assumes that consumers know all about alternative products. Some argued that buyer knowledge of price is the result of search activities. Accordingly if the search for price and product information is recognised, then attention must be drawn to the differences in the motivation to search.

Present considerations. The economic theory assumption that the buyer makes decisions only on the basis of stimuli in the present is denied by behavioural studies of the influence of buyer expectations and their past experiences.

Rationality. This assumption has been challenged by Gabor: seemingly inconsistent behaviour may only mean that the observer is not aware of the criteria by which consumer forms his decisions. Further to this it has been found that much purchasing is repetitive and based on habit which does not fit the classical economic theory.

Product differentiation. For economic theory to hold true competing products must be substitutable, one for other, and yet a "good marketing practice calls for trying to endow the company's product with real or psychological differences. In short, one of the aims of marketing is to create product differentiation to reduce product substitutability and to desensitise the buyer to price differences". Hence Baker⁽⁵³⁾ argued that "under present conditions large numbers of products are competing for the privilege of supplying the consumer with their own output while trying to combat the claims of alternative or substitute goods. It is under these conditions that supply becomes directly controlled by demand, as opposed to demand accepting that which is supplied. Marketing must replace the narrower concept of selling into sense of merely distributing one's output".

Based on the above the pricing recommendations of economists, as O'Shaughnessy indicated, stem from the assumption of U-shaped average cost curve in relation to the demand curve, whose shape differs under the different market structures of pure competition, oligopoly, monopolistic competition and monopoly. Figure 3.1 illustrates.

Hence Bain⁽⁵⁴⁾ argued that "any investigation of pricing in the real world of course is guided by the fact that a number of market types are important, including monopoly, monopolistic competition and several sorts of oligopoly. Each significant market category must be investigated separately".

Perhaps at this stage we should define more explicitly the terms which economists use to describe different kinds of market situation.

Pure Competition

There is pure competition when the following condition prevails⁽⁵⁵⁾:

Homogeneity of product: One requisite for the existence of pure competition is that all sellers of a particular kind of product sell homogeneous units of the product, as perceived by the buyers of that product.

Smallness of Each Buyer or Seller Relative to the Market: Each buyer and each seller of the product under consideration must be too small in relation to the entire market for the product to influence significantly the price of the product that is being bought or sold. On the selling side the individual seller supplies such a small proportion of the total supply that if that particular seller drops out of market altogether, total supply will not be decreased enough to cause any rise in price. Or, if what is supplied is as much as an individual seller can produce, the total supply will not be increased enough to cause price to fall.

Absence of Artificial Restraints: Another requisite for the existence of pure competition is that no artificial restrictions be placed on the demand for the supplies of, and the prices of whatever is being exchanged.

Figure 3.1: Market Structure

		<u>Number of sellers</u>		
		One	A Few	Many
Product/ offering	Homogenous	Pure Monopoly	Homogenous Oligopoly	Pure Competition
	Differentiated		Differentiated Oligopoly	Monopolistic Competition

Source: J O'Shaughnessy, *Competitive Marketing A Strategic Approach*, Allen & Unwin Inc., London, 1984, p. 280.

Mobility: Finally in pure competition new firms must be free to enter any desired industry, and resources must be free to move among alternative uses to those where they desire employment.

The limiting case is perfect (as opposed to pure) competition, where a condition is added that all sellers and all buyers know all the prices in the system: that is, they have perfect knowledge.

Because neither buyers nor sellers are able to influence it, price is determined in the market by the impersonal meeting of the market forces: supply and demand.

Baker⁽⁵⁶⁾ stated that "under condition of perfect competition the producer must maximise his efficiency, for if he does not his costs will rise above those of his rivals, but he will be unable to recoup these higher costs through increased prices. In the long run, therefore, the inefficient producer under conditions of perfect competition will be forced out of business".

It is not really surprising then that the assumptions of the perfectly competitive model have been widely criticised as being unrealistic and therefore that the model is irrelevant.

However some economists argued that a theory should be judged by the conformity of its predictions to events rather than by the conformity of its assumptions to reality.

Friedman⁽⁵⁷⁾ argued that the more significant a theory the more unrealistic the assumptions are likely to be in that a hypothesis is important if it explains much but little if it abstracts the common and crucial elements and permits valid predictions on the basis of them alone. To be important, therefore a hypothesis must be descriptively false in its assumptions.

Monopoly

A monopolist as Baker⁽⁵⁸⁾ stated "is the sole supplier of a particular product or service, with the result that the firm and industry are synonymous. In economic theory a pure monopolist has no competition at all. Clearly such a position cannot exist, for it presumes that the monopolist commands all of a consumer's income".

Monopolistic Competition

"In monopolistic competition many firms sell differentiated versions of the same basic product. There are so many firms that no single firm has an appreciable effect on the decisions of other firms. The demand curve for the firm is more elastic than under monopoly: the monopolistic competitor can raise prices relative to competition without losing all his customers. This is because the offering contains elements critical to some consumers. On the other hand, because competitors have differentiated their products, the firm can lower prices without converting all the customers of competitors"⁽⁵⁹⁾.

Leftwich⁽⁶⁰⁾ claimed that monopolistic competition produces higher prices and a smaller output than competition, but since the product is not the same in each case, the argument is difficult to sustain in logic. He concluded that, monopolistic competition existing along with pure competition tends to reduce welfare through:

1. output restriction and price increase;
2. inefficient plant size, and
3. some advertising wastes.

Oligopoly

"Oligopoly is a situation in which there is a high level of firm concentration and where the distribution of the size of the firms concerned is such that several (two or more) firms each have significant market shares and in consequence their behaviour is likely to impinge directly on each other"⁽⁶¹⁾.

Thus oligopoly is a situation where the outcome depends not only on the actions of the firm itself, and of chance, but also on the actions of other firms. That is firms are not in control of all the variables on which the result of a particular decision depends.

Pickering⁽⁶²⁾ stated that, "the consequence of oligopoly is that firms respond not to impersonal market forces but personally and directly to their rivals. Consequently, since the quantity sold by each firm at a pre-determined price will depend on the price and other elements in the marketing mix of his competitors as well as his own decisions, it is not possible to define a single firm demand function from information on buyer preferences alone. Competition in this situation tends to take place not only between products, but also between producers and there is a considerable emphasis on entrepreneurial skills in identifying and devising new

and effective forms of competition. Product and marketing competition is therefore particularly important".

To summarise, firms which sell product lines in a purely competitive market are "price takers" with respect to that product. Firms which sell product line in either an oligopostic, monopolistic or monopolistically competitive market are in a restricted way "price makers".

Given the theoretical importance attached to the relationship between the economic market structure in which a product is sold and pricing decisions, Gordon in his study asked the executives to identify which of the following market structure came closest to describing the situation facing their product line under study:

- (1) pure competition
- (2) monopolistic competition
- (3) oligopoly and
- (4) monopoly.

As is illustrated in Table 3.3 most of the firms in the heavy equipment and chemical industries viewed the economic market in which their product lines were being sold as an oligopoly, while the food processing firms were evenly divided between oligopoly and monopolistic competition. However three chemical firms and one heavy equipment firm thought that their product lines were being sold in monopolistically competitive markets. Also, one chemical firm thought that pure competition best described the economic market in which its product line was sold. In the transportation industry, all of the firms thought their product lines were being sold in an oligopoly type market. None of the executives thought their firms were operating as a monopoly in terms of the product lines under study.

Table 3.3: Economic Market Structure

Industry Economic Market	Food Processing		Chemicals		Heavy Equipment		Transportation Equipment		Totals	
	US	Can	US	Can	US	Can	US	Can	US	Can
Pure Competition	0	0	1	0	0	0	0	0	1	0
Monopolistic Competition	5	1	1	2	0	1	0	0	6	4
Oligopoly	1	5	6	2	3	5	5	6	15	18
Monopoly	0	0	0	0	0	0	0	0	0	0
TOTALS	6	6	8	4	3	6	5	6	22	22

Source: L A Gordon et al, The Pricing Decision, National Association of Accountants, New York, 1981, p.41.

Pricing: Strategies and Methods

Kotler⁽⁶³⁾ referred to pricing strategy as "the task of defining the initial price range and planned price movement through time that the company will use to achieve its marketing objectives in the target market". He added "... in developing pricing strategy, the management must look ahead and anticipate the expected movements of cost, demand, and competition over time and how price should be adopted to them."

In this regard Baker⁽⁶⁴⁾ argued that "There are two alternatives open to the marketer a high price approach aimed at skimming the cream off the market, and a low price strategy aimed at pre-empting a significant share of the total market". Accordingly we will now explore briefly various pricing strategies and methods. These are as follows:

- Cost-oriented pricing strategies
- Demand oriented strategies
- Competition oriented strategies
- Market penetration strategy
- Market skimming strategy.

Cost-oriented pricing strategies

This method of pricing includes full cost pricing, target pricing and marginal cost pricing.

Full cost pricing

Many business firms practice cost plus or full-cost pricing which is defined as the estimated costs associated with each unit of product or service sold. By this method a price is arrived at mainly from the cost side of the equation by adding to variable cost a proportion of the firm's overheads and then adding to this a percentage mark up for profit.

Full-cost pricing has been criticised on the following grounds⁽⁶⁵⁾:

First: it ignores demand, it fails to take account of the buyer's needs and willingness to pay, which govern the sales volume obtainable at each of a series of prices. Second, it fails to reflect competition adequately. The effect of a price upon rivals' reactions and the effect upon the birth of potential competition is omitted from this simple method. Third, it overplays the position of allocated costs. Fourth, it is based upon a concept of cost that is frequently not relevant for the pricing decision. Fifth, this cost depends on the price charged, provided that demand has significant elasticity and fixed overhead cost is important.

Given these criticisms full cost pricing continues to be used by many firms for some reasons. Among these are⁽⁶⁶⁾: first, firms do not want to maximise profit, prices based on full costs are thought to be fair to consumers and competitors. Second, because short run profit maximisation is seldom consistent with long run wealth maximisation, firms do not typically attempt to maximise short run profits. Third, price changes are costly and inconvenient to salesmen. Fifth, the existence of uncertainty about the marginal relationships of the demand and cost functions make it too risky to move away from full cost pricing in practice.

The above reasons do not justify full cost as the logical approach to pricing. It provides no escape from the great disadvantages discussed above.

Rate-of-Return Pricing

Closely related to cost-plus formula is target pricing, where the process is essentially the same, but the mark-up is determined by the desired target rate of return.

Kotler⁽⁶⁷⁾ quotes that General Motors at some time publicly stated that it prices its vehicles so as to achieve a long run average rate of return 15-20% on its capital employed. The firm tries to determine the price that would give it a special target rate of return on its total costs at an estimated standard volume.

Lanzillotti⁽⁶⁸⁾ in his study in 1958 found that many of the firms studied priced their products so as to achieve a target rate of return on investment. The only significant procedural difference between this approach and the first method discussed above is that in this method the rate of return goal becomes the determinant of the mark-up to be added to costs.

In this method consideration should be given to competition and other market factors when setting the target rate of return. However, like the full cost pricing approach, the rate of return approach tends to ignore demand and other market factors it is not a market-oriented method of pricing. This, in turn, means that the prices that are selected will not necessarily be acceptable to buyers.

Again Lanzillotti in his study indicated that those firms that priced according to the rate of return approach often found that prices so determined had to be adjusted downward or upward in the marketplace because of competitive factors or changes in market conditions.

In addition, not only does target rate of return pricing tend to ignore market conditions, thereby acting as a damper on sales volume from time to time, but it also places a ceiling on profits in prosperous times by providing for a rigid markup over costs when a higher markup might be possible.

Harper⁽⁶⁹⁾ said "Because, in practice, a firm usually finds it impractical to use the prices selected by the target rate of return

method, the method often does little more than provide a starting point from which pricing adjustment can be made". Even though the target rate of return may never be achieved, the use of the method at least will give the firm an idea of where it stands relative to its goals.⁽⁷⁰⁾

Marginal and incremental costing

Gabor⁽⁷¹⁾ differentiates incremental and marginal costs: he indicated that "according to the economists' definition marginal cost is the difference in total cost occasioned by increasing output by one unit per period ... Incremental cost may refer to a batch of any size".

The shortcomings of full-cost pricing lead many to advocate the use of firms marginal, incremental and direct cost pricing. For example Oxenfeldt⁽⁷²⁾ argued that, "the correct reasoning is that cost results from a decision to produce an item under particular circumstances and does not adhere in the item itself".

Similarly Wentz⁽⁷³⁾ mentioned that the proper role of costs in pricing is to determine the profit consequences of alternative prices, and that it is only incremental costs which determine these profits' consequences.

However Davies and Hughes⁽⁷⁴⁾ argued that the statement that incremental analysis involves only those factors which are affected by a particular decision does not mean that the concept is easy to apply. The following points must be considered.

1. In evaluating the cost impact of the pricing decision, the stress should be on the changes in cost rather than on average cost. Overhead allocations are irrelevant and should be ignored.
2. The method requires attention to the long run as well as the short run impact of the decision. A decision to increase

prices now may increase immediate profit, but it may gradually undermine the firm's reputation for low prices and destroy customer goodwill, or it may attract new competition.

3. Consideration must be given to complementary relations in demand between one product and another.
4. A careful evaluation of opportunity cost is required. It may first appear that a reduction in price is justified by the fact that the incremental costs are below the added revenues, however it should be determined whether the incremental costs include a full measure of any sacrifices of profit required by the decision.
5. The incremental method means that attention must be given to demand elasticities or, more simply, price/volume relationships. The decision maker must develop some way of determining the impact of price changes on volume.
6. Attention must be given to market structure. No estimate of (5) is possible without attention to the nature of competition.
7. Finally, incremental reasoning requires attention to business conditions. Instead of a mechanical application of formulas through good times and bad, it suggests the possibility of flexibility of prices to meet changing markets.

In the part of marginal costing some argued that this method offers no systematic plan, but merely points the way to maximising contribution in the short run. It does not guarantee that all costs will be met and normal profits will be provided in the long run.

Baker⁽⁷⁵⁾ indicated that "contribution analysis does not simplify the problems inherent in forecasting demand and costs, but it does ensure that management does not reject projects which would improve overall profitability solely because they are not self-supporting on an average cost basis".

Thus the biggest drawback to using marginal costing is the problem of forecasting the demand curve. As a result of these conditions of uncertainty marginal cost pricing seems to be confined to secondary pricing decisions.

Hence Speight⁽⁷⁶⁾ argued that "Full cost pricing may save us from accepting orders which would lose money, but it will not save us from losing money through refusing or failing to obtain orders which would have earned a margin over their incremental cost".

However it has been claimed that marginal cost pricing has some advantages. These are as follows⁽⁷⁷⁾:

1. Because most firms today operate in a number of markets with multiple products produced by a variety of processes this makes the allocation of fixed costs impossible.
2. In many businesses as technology moves at faster rates, the dominant force is innovation and the long run situation is unpredictable. The situation can develop into a series of short runs and one must aim at maximising contribution in each short run.
3. It can provide better protection against potential competition than prices based on full cost, if other firms could move into our markets by switching plant and personnel from their current activities or from idleness and if they follow an incremental cost pricing policy, they may well be able to undercut our full cost prices.

Demand-oriented pricing

As pointed out earlier, customers sometimes use price as an indicator of quality. In other words, studies have shown that demand curves may not invariably be negatively shaped, that price itself may have more than one meaning to the customer, and that a higher price may sometimes increase, rather than decrease, readiness to buy.

Baker⁽⁷⁸⁾ pointed out that "elasticity of demand is conditioned by the importance of the product in the consumer's scale of preference, by the disposable income of existing and potential consumers, by the existence of substitutes and a number of other, lesser factors".

Accordingly, the goal of demand-oriented analysis is to determine the market's evaluation of product value, since such value can only be approximated, the result of such analysis is usually a range of acceptable prices.

In this case demand-oriented pricing requires an intimate knowledge of customers reactions to price changes. This has been researched in the consumer product area, but little or nothing has been done in the industrial product area. It also demands a sophisticated costing approach in the company, production and marketing costs must be fully understood and recorded.

Also, in order for price discrimination to be effective, two conditions must exist⁽⁷⁹⁾: (1) the various buyers must be fairly well insulated from each other, in the sense that information exchange must be difficult and (2) the buyers must not be able to resell their purchases to others who might have bought from the manufacturer in the first place. If the first condition does not hold, buyers will demand lower prices based on those prices received by others and insofar as their bargaining power commands it, they will be able to obtain those prices.

Perhaps at this stage the best pricing practice is a compromise between cost oriented and demand oriented. There is a need for a sequence of activities which to some extent is still trial and error to determine the most effective pricing policy⁽⁸⁰⁾.

1. Make several volume forecasts for different price levels.
2. Calculate production and marketing costs for the various volumes.

3. Add to this the expected contribution required to cover overheads and profits. This will then give a minimum price a company can offer at each volume.
4. Select the price which achieves the appropriate return. If no price will do this and the required contribution is the sale criterion then the product must be dropped or something done to change market demand or reduce costs.

Kniffin⁽⁸¹⁾ indicated seven ways to gain a competitive edge from pricing. These are as follows:

1. Improve the feedback of pricing information concerning the market.
2. Maintain intense involvement in pricing actions by members of the pricing team.
3. Re-examine pricing formulas for product line pricing.
4. Review price making responsibilities throughout the marketing.
5. Train the salesforce in how to implement price changes.
6. Arm salespeople with market offerings attuned to customer needs.
7. Plan the timing of pricing action.

Pricing to meet competition

Kotler⁽⁸²⁾ argued that when a company sets its prices chiefly on the basis of what its competitors are charging, its pricing strategy can be described as competition oriented.

As Table 3.5 illustrates firms may decide to price their products at a competition level in several situations. A firm may use this method when the market is highly competitive and its product is not differentiated significantly from competing products. Also the market based method of pricing is used when a traditional or customary price level exists.

In many markets, the reactions of competitors to price changes deter each firm from making price adjustments. Also when the industry is operating at a relatively low rate, each firm is faced with what economists refer to as a kinked demand curve; prices below the existing market price are met by competitors' downward price reaction with price increase resulting in substantial losses of markets for the firm rash enough to raise prices⁽⁸³⁾.

Hence some argued that the probable reactions of competitors to price changes are often quite uncertain. This is illustrated by the difficulties encountered in trying to construct normative pricing models. According to one writer⁽⁸⁴⁾ "pricing is more an art than a science, it is the result of an attempt to balance factors to which no precise weight can be attached. The problem is not mathematical, but rather one of estimating the effects of various marketing policies upon sales - both in the near and distant future. Because of variations in a thousand and one factors, what is good policy for one company may be unworkable for another".

To this end four questions should be asked about competition⁽⁸⁵⁾ :

1. How will competition react to your price? Is there a past pattern of reaction?
2. What is the basic price behaviour of competition?
3. What is the availability (actual or potential) of competing and substitute products? How similar? How quick to react to your actions?
4. Have your competitors pricing strategies significantly affected your sales volume?

Marketing-skimming Strategy

In the course of pricing a product, especially a new product, a firm should consider whether to enter the market with a high

price or a low price. These opposite alternatives are popularly referred to as skim - the cream pricing and penetration pricing⁽⁸⁶⁾.

The cream skimming strategy involves setting a price that is high in the range of expected prices. A market-skimming strategy is relevant to a firm operating within an industry in the world market that has selected a policy of undifferentiated marketing rather than concentration. Also for most industrial products, skinning strategy is one commonly selected. It has a number of advantages which are very attractive in industrial marketing.

Generally the rate of market expansion may not depend primarily on price. Prospective customers require time to evaluate the product, train the operatives and perhaps install ancillary equipment. Thus initial demand is often small, whatever the price within wide limits.

Baker⁽⁸⁷⁾, Dean⁽⁸⁸⁾, and Majaro⁽⁸⁹⁾ among others indicated that skimming pricing is found to be successful under the following conditions:

- (1) Where the life cycle of the product is expected to be short - a feature of markets with high rate of innovation incidence, e.g. fashion;
- (2) with new product concepts where the buyer has no measuring rod for comparisons of value and utility;
- (3) where sales seem relatively inelastic to prices but responsive to information promotion;
- (4) where one can take the cream of the market at high price before attempting to penetrate the more price-sensitive areas of the market;
- (5) it is frequently easier to start out with a high 'refusal' price and later reduce the price, when the facts relating to demand become known, than to set a lower price initially and then boost the price to cover unforeseen costs;

- (6) It provides a fund for financing the product through its costly initial phases of introduction;
- (7) Further product modifications and improvements to meet changing consumer concepts of utility can be incorporated without price changes;
- (8) The company may have limited manufacturing facilities to produce the product on a small salesforce to promote the product.

Market penetration strategy

A market penetration strategy implies the establishment of relative marketing growth, capturing a high market share, and discouraging competition. A firm operating in international markets in particular, will think carefully before adapting a market penetration strategy, it may find the market lost to it, e.g. by significant variations in exchange rate, or by import restrictions, before it has achieved a satisfactory profit position.

Also it has been claimed that penetration pricing is uncommon for a firm operating in industrial marketing. Fisher⁽⁹⁰⁾ stated that "it is not always an advantage to keep competition out, if the initial promotional work in expanding the market is heavy and expensive, then it may be a positive advantage for two or more firms to share the burden. Otherwise one firm may carry the cost of market development and others reap much of the benefit". For some products, customers may be reluctant to purchase the product unless there is more than one source of supply.

Kollat et al⁽⁹¹⁾, and Dean⁽⁹²⁾ among others indicated that penetration pricing is likely to be desirable under the following conditions:

- (1) where a high degree of price elasticity exists even in the early stages of introduction;

- (2) where high volume sales will tend to give economics of large scale production;
- (3) where the product is faced with threats of strong potential competition very soon after introduction;
- (4) where there is no elite market, that is a body of buyers who are willing to pay a much higher price in order to obtain the latest and best;
- (5) finally, in certain conditions a low price may penetrate an important section of the market not yet tapped by existing high priced products.

In this regard one important consideration in choice between skimming and penetration pricing at the time of introducing a new product is the ease and speed with which competitors can bring out substitute products. The speed with which the product loses its uniqueness and sinks from its sheltered status to the level of just another competitive product depends on several factors⁽⁹³⁾.

- "(1) Its total sales potential, a big potential market entices competitive imitation.
- (2) The investment required for rivals to manufacture and distribute the product.
- (3) The strength of patent and know-how protection.
- (4) The alertness and power of competitors.

Although competitive imitation is almost inevitable, the firm that introduce a new product can use price to discourage or delay the introduction of competitive products".

Finally, Winkler in his recent book "Pricing for Results" has analysed the procedure as well as the advantages and disadvantages of five pricing strategies. These strategies are summarised in Table 3.4.

Table 3.4: Five Pricing Strategies

Objectives	Strategy	When Generally Used	Procedure	Advantage	Disadvantage
<p>High short-term profit</p>	<p>Top of Market Skimming at high prices.</p>	<p>No comparable competitive products. New product innovation. Little danger of competitor entry due to patent control, high R & D costs, high promotion costs or raw material control. Uncertain costs, short life-cycle. Inelastic demand. High risk to buyer in the use of the product.</p>	<p>Determine preliminary customer reaction. Charge premium price for product distinctiveness in short-run. Early buyers will pay more because of higher present value to them. Then, gradually reduce price to tap successive market levels.</p>	<p>Protects against adverse cost variances. Requires smaller investment. Provides funds quickly to cover development costs. Limits demand until production is expanded. Suggests higher value in buyer's mind. Emphasises value rather than cost as a guide to pricing.</p>	<p>Assumes that a market exists at high price. May result in management complacency. Attracts competition. Likely to underestimate ability of competitors to copy product. Discourages some buyers from trying the product (connotes high profits).</p>
<p>To obtain a responsible volume at a higher than average price.</p>	<p>Upmarket slide-down demand curve (version of skimming without sacrificing long-term objectives).</p>	<p>By established companies launching innovation. Durable goods. Medium life span.</p>	<p>Taps successive layers of demand at highest prices possible. Then deliberately drops the price leading the market. Rate of price change is slow enough add significant volume at each successive price level but fast enough to prevent large competitor from becoming established in a low-cost volume basis.</p>	<p>Emphasises value rather than cost as a guide to pricing. Provides rapid return on investment provides slight cushion against adverse cost variances. Provides sound trading base. Basis for becoming price leader.</p>	<p>Requires broad knowledge of competitive product developments. Requires much documented experience. Discourages some buyers from buying at initial high price. Requires market experience.</p>

Table 3.4: Five Pricing Strategies (Cont'd)

Objectives	Strategy	When Generally Used	Procedure	Advantage	Disadvantage
<p>To tap primary demand.</p>		<p>Several comparable products. Growing market. Medium-to-long product life span. Known costs.</p>	<p>Start with final price and work back to cost. Use customer surveys and studies of competitors' prices to approximate final price: deduct selling margins: adjust product and production and selling methods to sell at this price and still make necessary profit margins.</p>	<p>Meets buyers' expectations of price. Known market situation.</p>	<p>Leads to a me-too product policy. Limited flexibility. Limited room for error. Slower recovery of investment. Must rely on product difference.</p>
<p>Stimulate market growth and capture and hold a satisfactory market share at a profit through low prices. Became strongly entrenched to generate profits over a long period.</p>	<p>Down-market market penetration.</p>	<p>Long product life span. Mass Market. Easy market entry. Demand is highly sensitive to price. Unit costs of production and distribution decrease rapidly as quantity of output increases. Product with no distinction. No specialist market willing to pay premium for newest and best. Customers taking quality for granted.</p>	<p>Charge low prices to create a mass market resulting in cost advantages derived from larger volume. Look at lower end of demand curve to set price low enough to attract a large customer base. Also review past and competitor prices.</p>	<p>Discourages actual and potential competitor in-roads because of apparent low profit margins. Emphasises cost more than value in pricing. Allows maximum exposure and penetration in minimum time. May maximise long-term profits if competition is minimised.</p>	<p>Assumes volume is always responsive to price reductions which isn't always true. Relies on low price to stimulate demand which doesn't always work. May create more business than production capacity available. Requires significant investment. Small errors often result in large losses.</p>

Table 3.4: Five Pricing Strategies (Cont'd)

Objectives	Strategy	When Generally Used	Procedure	Advantage	Disadvantage
Keep competitors out of market or eliminate existing ones.	Bottom end floor price.	Used more often in consumer markets or with low risk industrial materials for low cost producers. Manufacturers may use this approach on one or two products, with other prices meeting, or higher than, those of competitors. When overheads are thin and profit is obtained from selected big deals at razor thin margins.	Price at low levels so that market is unattractive to possible competitors. Set price as close as possible to total unit cost. An increased volume allows lower cost, pass advantage to buyers via lower prices. If costs decline rapidly with increases in volume, can start prices below cost.	Discourages potential competitors because of apparent low profit margins. Limits competitive activity and expensive requirements to meet them. May be useful for utilising spare capacity outside normal markets.	Must offer reduced services which permit lower price. Limited credit, delivery or promotions. Long-term payback period. Needs very tight cost control. Risk of substantial losses.

Source: John Winkler, Pricing for Results, William Heinemann Ltd, London, 1983, pp.22-26.

Having indicated that, in the following pages an attempt will be made to refer to a number of empirical studies which related to pricing, strategies and methods.

Baker⁽⁹⁴⁾, referred to a survey undertaken by the B.I.M. Respondents were asked the question On what basis do you generally fix your prices? and were offered four alternatives:

'Cost plus'

Cost plus modified by market conditions

Market conditions

Any other (please specify).

From the 553 usable replies the following picture emerged.

Basis	percent
Cost plus modified by market conditions	59
Market conditions	26
Cost plus	10
Others	3

H. Said⁽⁹⁵⁾ in her study found that firms do not determine their price strategies in the way stated in the traditional theory, i.e. they do not equate their marginal revenues and marginal cost. "Instead they follow a flexible approach which is mainly based on full cost in both the home and export markets, but costs are considered in almost all cases as reference points, and firms pay great attention to the consideration of demand and competition deciding their selling prices".

A Zeid⁽⁹⁶⁾ in his study of Queen's Award Winners for exporting examined the bases used by the successful firms in pricing their products to foreign markets, and showed to what extent these bases differed by both type of product and market. The study revealed

that full cost-plus and competitors price were the most frequently mentioned bases of export pricing. Also the study indicated that (1) Many firms were flexible in their pricing policies to overseas markets 30(50%) of the firms priced their products according to what the foreign market would bear, and 23(38%) of the firms took into account their competitors prices when they priced overseas. (2) Full cost plus price was used by considerable number of the successful firms. (3) There were no significant differences between industrial goods and consumer goods exporters in pricing their products to what foreign markets would bear or on the basis of full cost pricing.

Atkin and Skinner⁽⁹⁷⁾ in their study "How British Industry Prices" found that the basic method of determining price is to relate it to cost. This may be done either by adding a percentage to cost or by fixing the required gross profit margin on selling price. In the case of capital goods these methods were evenly balanced, but those selling material appeared to favour the more simple cost plus approach. Non-cost related methods were used more frequently by those selling via wholesalers and agents than by those selling direct. Even in instances where the basic method of determining prices is non-cost related a good deal of thought appear to be given to cost, although the final price set may depend on other considerations.

The study also revealed that firms used more than one method of calculating cost and there was some evidence in the replies received that this was particularly the case with larger companies, possibly because they may have more varied products and sell through more channels of distribution than smaller concerns. Marginal costing seems to be used more frequently where sales are through wholesalers or agents than when they are made direct. Whatever the method of costing used prices may be modified by non-cost related considerations. In about 40 percent of cases cost-based prices are modified either, usually or frequently and

only 14 percent of respondents would appear to adhere rigidly to cost in fixing the final selling price. This is broadly consistent regardless of type of product sold.

Another finding which emerged from the study is that by far the most favoured non-cost related method was reference to the general level of competitors price. In second place is prior investigation of customer reaction. Also it has been found that the effective price range for capital goods could be somewhat wider than that for components or material. This may be because of the higher degree of differentiation between competitive products in the capital goods field, allowing greater flexibility in pricing.

Finally respondents were asked to say how their prices compared in general with those charged by competitors. The results showed that for many firms a whole range of prices was involved, (89 percent) think their prices are either about average or above average, and only 7 percent think that their prices are lower than average. As a result the study concluded that firms might be advised to re-examine the information available to them since any changes to pricing strategy need a more accurate appreciation of the starting point vis-a-vis competition than seems currently to be enjoyed.

Gordon⁽⁹⁸⁾ and his colleague in their study asked interviewees to indicate whether prices for the product lines under study were determined on the basis of product costs and/or market factors. Where market conditions played a role in determining product line prices, the participants were asked to note whether the prices were set at a level equal to, above, or below the competition, or, more generally, at whatever the market will bear. Where costs played a role in pricing decisions, the participants were asked to note whether a markup percentage or a per unit dollar amount was applied to costs to determine a product line's selling price. The results revealed that 40 of 44 firms included in this study considered both

market conditions and costs in determining the prices of their product lines. In general, companies which claimed to be price followers, as compared to price leaders, considered market conditions more heavily than costs. Of the firm rating that market conditions were used in setting product line prices, 88.3% indicated that product line prices were set above competitive price levels, while 2.4% indicated that prices were set below competitive price level and 2.4% indicated that prices were set at what the market will bear.

The larger companies, in terms of sales and assets, tended to price above competitive level, while the smaller firms were inclined to price at competitive level. Pricing above competitive level also was related to environments characterised by rapid product obsolescence and technological change in production. In addition, companies which attempted market-skimming were usually pricing above competitive levels. Companies which thought they had a higher quality product line, relative to their competitors, also tended to price above the competitive level. Also the study indicated that, the majority of firms in this study were using product costs as well as market factors in making pricing decisions. The dominant method, in terms of using product costs to determine prices, was that of applying a percentage markup to costs.

Further analysis of the data provided some interesting findings in terms of cost-plus pricing. For instance, the study participants were asked to indicate whether the markup on costs was determined by corporate policy, through experience and historical precedent, or on an ad hoc or flexible basis depending on business conditions. Past experience seemed to be the most prevalent way of determining the markup, although the majority of the firms used more than one of these methods.

The study results also showed that pricing based on cost was positively correlated with two practices: skimming the market, and exceeding a breakeven point by some amount. Conversely, pricing based on cost was negatively correlated with predatory pricing (i.e. pricing to discourage the entry of competitors).

Another issue examined in this study was the relation between a firm's concern with anticipated reaction of government agencies to the firm's prices and its use of cost-plus pricing. The findings in this regard indicated that the greater the perceived importance of the reaction by government agencies to prices, the greater tendency to use cost-plus pricing. Corroborating these findings, the converse was also found to be true. A significant negative relationship was found between market conditions for pricing and the importance attached to the reaction by government agencies to product line prices.

Finally, the importance attached to the price of directly competing products and near substitutes, as well as the quality of competing products, were all significantly correlated with pricing based on market conditions. These results as the study concluded, were expected in that as the price and quality of competing products became more important to the survival of a firm's product line, it stands to reason that the dominant pricing method would have to be market conditions rather than costs.

Having indicated that it is convenient now to turn our attention to examine price versus non-price competition.

SECTION TWO: Price Versus Non-price Competition

The relative importance of the elements of the marketing mix in gaining and holding market share in domestic and export marketing, remains a controversial issue. On the one hand some argue that price is the most important element in competitiveness, while others assume and assert that non-price factors are potent weapons in competing successfully at home and abroad.

Accordingly the aim of this section is to make a basic distinction between price and non-price competition to review their relative power as competitive tools.

Price Competition

With regard to price competition a search of the relevant literature indicated that price has appeared to be an important factor determining the competitive position of any country, industry or company operating in the market place.

At the macro level Wells⁽⁹⁹⁾ for example considered that, part of the advantage which German and other trading competitors enjoyed over the United Kingdom exporters in the nineteen-fifties was due to their ability and willingness to quote prices which were more competitive than those of the United Kingdom.

Mikesell and Farah⁽¹⁰⁰⁾ in their analysis of U.S. competitiveness in less developed countries, seek to show the relationship between U.S. price competitiveness and the relative changes in U.S. shares in the "L.D.C." market, the empirical results of this study indicated that the decline of American market share is primarily related to price factors.

Mikesell and Farah conducted a similar analysis for the United Kingdom for the 1970-1978 period. The results showed that 24 percent of the year to year changes in the United Kingdom shares in the LDC model is due to price factors.

Junz and Rhombery⁽¹⁰¹⁾ were in the same vein when they found that for eleven countries over eight years, 33% of the variation in export market shares could be attributed to relative export prices.

. At the business level Magaziner and Reich⁽¹⁰²⁾ claimed that price premiums can be a source of continuing competitive leadership - and therefore of wealth creation, however many U.S. companies accustomed to high profits often refused to cut their prices to meet the price of foreign competitors. Instead, they opted for advertising and promotion, stressing the quality, and reputation of their products. The results of this approach were high profits in the short run, but a serious deterioration of competitive position, followed by losses in the long run.

Steven C Wheelwright⁽¹⁰³⁾ pointed out that pricing along the learning curve to maximise market share has been a strategy of the Japanese firms for years in gaining a hold on U.S. markets. They have used it in everything from steel to textiles to electronics.

Husim⁽¹⁰⁴⁾ in his study "Factors Affecting Competitiveness in Shipbuilding" concluded that purchase prices are significant in international markets. A ship made in Western European yard would be as good as one made in Eastern European or Korean yard in terms of quality and performance. But it is cheaper to buy from the south Koreans at this time.

Rhys⁽¹⁰⁵⁾ suggested that on a broader plane if the British car industry wants to improve its international competitiveness and to exceed the market share achieved in 1972 and 1973, then it must increase efficiency and reduce unit costs sufficiently to reverse the recent trend of increased relative prices. He added "Although it could be argued that quality improvements of one sort or another may turn many an increase in list price into a price fall, after the value of quality change has been taken into account, the fact remains that the consumer still has to pay more. The Quality

factor does not reduce prices per se but, hopefully, it shifts the consumer's utility function upwards."

By the same token, The Central Policy Review Staff⁽¹⁰⁶⁾ reported that the British car industry must achieve a cost level equal to or lower than its competitors if it is to have a viable long-term future. "It is clear that however attractive the product range, superior the quality, or effective the distribution system, the central condition for success lies in keeping manufacturing costs at a competitive level".

In a collaborative effort between the Department of State, the Asia Pacific Council of American Chambers of Commerce, (Japan, Korea, Okinawa, Taiwan, Hong Kong, Singapore, Malaysia, Thailand, Philippines, Indonesia, and Australia) and the American Mission in these countries, a study was conducted in the region on the factors responsible for reduced U.S. competitiveness⁽¹⁰⁷⁾. Price and marketing skills were especially noted. Over half of the respondents identified better foreign company price, price negotiating flexibility, and greater ability to deliver promptly, as factors which win business away from U.S. suppliers.

Turnbull⁽¹⁰⁸⁾ in his study found that, U.K. companies tend to stress the role of price as a major factor for achieving competitive advantages in the world market. Table 3.5 lends support to the importance of price as ranked by major buyers in the different countries.

IMR⁽¹⁰⁹⁾ (1983) added support to the above findings. It has reported that price as a determinant of supplier choice was found to be the single most important factor for doors, kitchen units and ceramic tiles.

Among the firms studied in the NEDO⁽¹¹⁰⁾ Mechanical Engineering EDC, the most frequently mentioned hinderances in this

Table 3.5: Aspects of price Negotiation

Supplier Country	Percentage of all buyers who agree that suppliers in each country	
	Emphasise initial purchase price %	Emphasise other cost consequences %
France	53	56
Germany	45	57
Italy	75	53
Sweden	39	59
U.K.	65	53

NOTE: These figures are taken from two separate questions and do not therefore add up to 100 percent.

Source: P Turnbull and M Cunningham, *International Marketing and Purchasing*, Macmillan, London 1981, p. 32.

category were competition in prices (40%), competition in delivery dates (23%) and competition in credit terms, technical performance (7%) and after-sales service and repairs 3%).

The NEDO⁽¹¹¹⁾ study "Imported Manufacturers an Inquiry into Competitiveness", revealed that "price is an important, if not the only factor in competitiveness over a wide range of semi-manufacturers and consumer goods, although only a relatively minor factor in the capital goods field. About half of U.K. imports of semi-manufacture are probably related to price advantage".

Likewise a survey conducted by NEDO⁽¹¹²⁾ in the Hosiery and Knitwear Industry revealed that in competing with imports in the

U.K. market price was crucial. Imports are competing at the cheaper end of the market and by and large price was important in the buyer decisions.

The Automobile Panel survey⁽¹¹³⁾ found that low level of price for Japanese cars was one of the main factors behind their competitive position in the U.S. market. Also another study has confirmed these findings. It has been found that low prices especially from Japan, such as Hondas and Toyotas have been taking an increasing share of the American market⁽¹¹⁴⁾.

In a survey undertaken by Industrial Market Research⁽¹¹⁵⁾ respondents were asked to identify the most important factors for their success. The types of factors considered were price, product quality, delivery, reputation, after sales service, existing market knowledge or contacts, distribution network, credit, design and packaging, promotion language capability, guarantees offered. The list of factors indicated that price was the most important factor (72%).

Also the report⁽¹¹⁶⁾ "Changing needs and relationships in the U.K. apparel fabric market", cited the U.K. industry's inability to compete with import prices as further factor limiting competition, with the suggestion that lower import prices were based on higher volume sales, which in turn were generated by good range management and selling.

Gordon and his colleague in their study⁽¹¹⁷⁾ asked the executives to rate the intensity of various types of competition which faced their product lines. The type of competition considered were: quality, product innovation, price, advertising and promotion, obtaining the best channels of distribution and service. The respondents viewed the intensity of price competition as being quite high. Overall intensity of price competition scored approximately 4.0 out of 5.0. These findings

indicated that the firms included in this study did indeed view pricing decisions as a key item in their product lines survival.

Another survey conducted, The Industrial Market Research⁽¹¹⁸⁾ covered companies operating across a standard sample of industries, large companies and small. One basic question asked of all respondents was "How important to your company's marketing policy is your pricing strategy?" The results revealed that most companies in the industry regard their pricing policy as being either vital or most important to their results. This was marginally more true of those supplying components to industry than those selling capital goods. Almost no one regarded their pricing policy as being of no importance to them.

Slatter⁽¹¹⁹⁾ in his study "Competition and Marketing Strategies in the Pharmaceutical Industry", found that success of individual companies in increasing their market share depends to a large extent on price competition.

Also Saddick⁽¹²⁰⁾ in his study lends support to the above findings. He found that thirty one out of the thirty six companies visited reported that they regarded pricing as at least one of the major elements in their competitive strategies and some even regarded price as the most important tool in their marketing mixes. "It is all price" comment a few managing directors from a cross-section of industries and size groups. One managing director of a small textile machinery company indicated that from his experience he found that "customers look at the price first of all, then quality, then delivery". The study concluded that unlike promotion and product development, pricing is regarded as a major element in the strategy of most firms in the study.

H Said⁽¹²¹⁾ in her study asked the respondents "How important do you consider the actual selling price of your products to be in the overall marketing strategy?" The results came to support

Saddik's study, price was considered to be vital in more than half of the companies surveyed, either in domestic or export market. The mean values suggested that price to some extent was of a little more importance in export than domestic market.

Recently Greenley⁽¹²²⁾ in his study tested the relative degree of importance of the elements of the marketing mix. The results are shown in Table 3.6 which gives the percentage of firms which ranked each element, the percentage which ranked between one and three and the total percentage of firms ranking from one to three. In the case of the total number of firms having responded to each, the most common ranked element was that of selling, followed in an almost equal order by marketing research, product planning, pricing and advertising. However, when comparing the ranking of importance from one to three, selling is seen to be most important followed by pricing and then product planning, although the latter was ranked over this range by only 53 percent of respondents. As far as the other elements are concerned, the ranking of importance falls quite dramatically. As the study concluded, several explanations are possible to explain this high degree of importance of selling and pricing such as follows:

1. Firms exhibiting "marketing myopia" by adjusting their strategy to short-run gains in revenue.
2. The sample was weighted towards industrial firms who would tend to rely on these two elements heavily in their marketing mix anyway.
3. In the present economic recession strategies have been adjusted for survival or at least to maintain a reasonable level of sales and profit.

The fairly low ranking of importance given by the sample to product planning (53 percent) also reflects the low inclusion of a product improvement objective, which was only given by 60 percent of the sample.

Table 3.6: Ranking of the elements of the marketing mix (relative degree of importance of each element to their company).

Element	Total No (%)	1(%)	2(%)	3(%)	Total 1-3(%)
Marketing research	75	13	6	16	35
Product planning	76	16	19	18	53
Pricing	75	32	20	10	62
Selling	87	47	20	10	77
Distribution	64	10	18	13	41
Advertising	75	9	13	11	33
Sales promotion	56	4	8	10	22
Public relations	54	0	7	6	13

Source: G E Greenley, An overview of marketing planning in UK manufacturing companies, European Journal of Marketing, Vol. 161 No. 7, 1982, p 9.

Finally the work of Goldstein and Kham⁽¹²³⁾, Artus and Sosa⁽¹²⁴⁾, Bhagwat and Onidsuk⁽¹²⁵⁾ lend support for the dominant role of price as a tool for achieving competitive position in the marketplace.

Thus the above findings together form a reasonably consistent picture for the relationship between price and competitiveness.

However, price factor as we have established in the second chapter is not the only tool for achieving competitiveness in the world market. Therefore, a great number of authors and researchers addressed the question of non-price competition.

Non-price Competition

Stanton⁽¹²⁶⁾ to start with indicated that in non-price competition, sellers maintain a stable price. They attempt to improve their market share by emphasising other aspects of their

market programmes. He differentiated non-price competition from price competition. "In the case of price competition sellers attempt to move up or down their individual demand curves by changing prices. On the other hand in non-price competition, sellers attempt to shift their demand curves to the right by means of product differentiation, promotion activities, or some other device". Hence Naon⁽¹²⁷⁾ argued that firms who have by past decision attempted to enhance non-price competition as strategy will be in a strong competitive position than firms who have been lax and perceived their markets mainly in terms of price competitiveness.

The NEDO⁽¹²⁸⁾ report "International price competitiveness, non-price factors", addressed the same issue. It has suggested that pricing is one of several interlinked decisions which a firm has to make simultaneously concerning its level of output, stockholding, planned investment, advertising etc. "In manufacturing, oligopoly is the rule rather than the exception. As a result the firm has the option to alter the characteristics of the product, rather than price, that influence consumer decisions, and by means of which it can differentiate its product from those of its rivals. It can do this by advertising and creating brand loyalties, and thereby obtaining more freedom of action". Other factors, such as prompt delivery, and after-sales service, assist in the creation of customer goodwill and can generate new demand as surely as can a permanent price advantage.

In the same vein, Prest and Coppack⁽¹²⁹⁾ pointed out that "export performance is not simply a matter of relative costs and prices. At a general level, behaviour in this field may be usefully interpreted in terms of the theory of monopolistic competition which stresses the importance of non-price factors where products are not homogeneous". Accordingly one might expect to find the volume of sales to be sensitive to factors like quality and design of products, the size and the effectiveness of after-sales services.

Hence Needham⁽¹³⁰⁾ argued that, there is no reason for preferring price to non-price competition in a world of imperfect knowledge and changing tastes and technology.

Muir⁽¹³¹⁾ strengthened this view when he argued that "It is not just a question of what price you quote; the terms of payment, delivery, quality, everything else that goes to make the customer prefer you must be competitive".

Davis⁽¹³²⁾ confirmed that "non-price factors can be much more important than price factors in a country's export success and it is likely that the same will be true for individual manufacturers, while it is perhaps inevitable that management attention will increasingly focus on the costs of distribution, it is essential to realize that the cost is not necessarily the most important aspect of distribution".

Sir Frederick Catherwood, Chairman of the British Overseas Trade Board stressed in his Annual Report for 1977 the over-riding need for investment because it is now vital to sell exports on design, quality and reliability and not simply on price.

David Orr⁽¹³³⁾ added strength to this view when he argued that "the United Kingdom is obsessed with price, but that the price factor is not sufficient to offset bad design, poor quality, an inadequate range of models and unreliability".

O'Cofaigh⁽¹³⁴⁾ expressed a similar emphasis when he indicated that price and costs are only one element for improving market share. The other aspects of competitiveness, quality, prompt and reliable delivery and after-sales service can also make a significant contribution to our performance in the world market and against foreign competition on the British market.

In support of this view, Hurray⁽¹³⁵⁾ mentioned that it is worth remembering that this concentration on price or cost variables is not enough for better performance. "We must also match our competitors in non-price spheres such as design, quality and delivery time". These aspects of non-price competition demand constant contact with international markets shrewd sensitivity to changing taste and fashion, and on efficient means of communicating such information back to plant level.

Further support for the above view came from Possner and Steer⁽¹³⁶⁾ when they argued that "it is non-price factors which are a dominant influence in trade amongst advanced manufacturing countries". They concluded that "looking ahead over a ten year period, what happens to non-price factors must be more important than any gains that can be got from increases in price competitiveness".

Perhaps at this stage it is useful to examine the findings of Udell⁽¹³⁷⁾ and Pass⁽¹³⁸⁾. Udell's survey was carried out in 1963 and covered sixty-eight "excellently managed" American companies producing industrial goods. Pass' survey, like Udell's is based on a postal questionnaire, it covers forty companies in the U.K. producing industrial goods. In each survey respondents were given a number of key policy areas of marketing management and asked to select from these or nominate others which they regarded as being vital to the company's successful operation and in the case of Pass' survey to rank them. The main conclusion here is that 50% of the companies did not select pricing as one of the important policy areas, the emphasis was on the product areas.

In the same vein A Zeid⁽¹³⁹⁾ in his study of marketing and export success found that lower price is of secondary importance in achieving export competitiveness. This had led him to conclude that "... this does partially confirm our hypothesis that lower price is not the most important factor for success in exporting".

More recently Piercy conducted a similar study to assess the competitive base for the U.K. exporter. Respondents were asked to rate the importance in export and U.K. marketing of various elements of the marketing mix, for their companies. It can be seen from Table (3.7) that product quality was perceived as the most important marketing factor, price was rated far higher than advertising, personal selling and distribution but not the most important factor. This was the same for both U.K. and export marketing. Broadly these findings are compatible with Udell and Zeid's findings.

Table 3.7: Ranking of Marketing elements in U.K. and Export Marketing (Relative degree of importance of each element to their company).

Ranking	Marketing Mix Elements						
	Product Quality %	Product Design %	Price %	Personal Selling %	Advertising %	Distribution %	Others %
In UK Marketing							
1st	50	25	24	5	1	2	11
2nd	29	28	27	14	0	7	29
3rd or lower	21	47	49	81	99	91	60
	(N=212)	(N=187)	(N=191)	(N=193)	(N=165)	(N=170)	(N=35)
In Export Marketing							
1st	48	19	30	6	1	2	13
2nd	27	27	27	11	1	10	24
3rd or more	25	54	43	83	98	88	63
	(N=228)	(N=203)	(N=226)	(N=203)	(N=174)	(N=190)	(N= 37)

Source: N Piercy, Export Marketing Management in Medium-sized British Firms, European Journal of Marketing, Vol. 17, No. 1, 1983, p 56.

Also Apel⁽¹⁴⁰⁾ has indicated that German export success at a time of substantial Deutschmark appreciation was explained because

"the variety and quality of German goods fits almost exactly what the customer wants Customers can rely on the dates of delivery promised by German suppliers being met. These points apparently are so important that the high price of the German currency unit has not had much influence on our exports".

Shankleman⁽¹⁴¹⁾ in his study outlined that as internationally traded goods become increasingly differentiated, the demand for them became less responsive to price, and the role of non-price factors became increasingly important.

As far as non-price competition is concerned, the Confederation of British Industry survey in 1979 set out (in Table 3.8) the factors that seemed to be most frequently responsible for the competitive position of the companies in this survey. The figures detail the frequency with which they were seen to be applied and the main conclusion, immediately apparent is that non-price factors are more important than price.

Table 3.8: Factors in Sales Success

Factor	Number of Affirmative Responses
Good customer service	54
Specialisation	45
High standard of product	39
Innovation	29
Diversification a) Internal	11
b) External	7
Low price	7

Source: CBI Innovation and Competitiveness in Smaller Companies, 1979.

Surrey⁽¹⁴²⁾ in his study "World market for Electric Power Equipment" added strength to this finding when he emphasised that competitiveness in the world market for electric power equipment is not merely a matter of relative costs and prices. It became increasingly apparent that the true nature of the world market is that of a highly imperfect competitive situation in which, long-term competitiveness is influenced by several other factors such as export credit terms, product design, customer preferences and the policies of governments.

Patchford and Ford⁽¹⁴³⁾ found that IBM machines are priced substantially above competing machines of equal performance, and that this price differential appears to be independent of machine size. Since a substantial percentage of users are still willing to employ IBM machines even though their relative price is very high, the implication is that IBM offers customers something to induce them to pay a substantial premium for an IBM machine. Apparently, IBM offers substantially more (or higher quality) non-hardware services than do its competitors.

Again, there is much impressionistic evidence about the importance of non-price factors. For instance, Kravis and Lipsey⁽¹⁴⁴⁾ in their study "Price Competitiveness in World Trade" reported that only 28 percent of U.S. exporters attributed success to lower prices, while 37 percent suggested that the critical factor was product superiority, 12 percent gave weight to after-sales service and 10 percent to product uniqueness. Of German importers, only 7 percent went shopping in America because of lower prices and non-availability of products at home accounted for 63 percent of imports.

Also the National Economic Development Council survey⁽¹⁴⁵⁾ of "Investment in Machine Tools" (1975) asked UK machine-tool users why they bought foreign machines. Only 5 percent said price was the main factor. The more important factors were (percentage of

respondents listing the factor as the main one in parenthesis) technical superiority of the foreign product (30 percent); machine specifications not available in the United Kingdom (21 percent); quick and reliable delivery (20 percent); willingness of foreign producers to meet special requirements (8 percent); and better after-sales service (5 percent). Technical factors were cited by over one-half of the sample in the decisions to buy foreign goods.

Similar observations could be made of the United Kingdom tractor industry. The reasons why price competition is fairly muted as indicated by Heath⁽¹⁴⁶⁾ in this industry are:

1. It would be a shortsighted policy for a farmer to put price first as a criterion for buying equipment. In common with most purchasers of industrial equipment, a farmer considered that the reliability of his machines and the dealer's ability to support its operation through spares and services, are more important than price.
2. Marketing agricultural machinery is essentially to do with mobilising dealers. The relationship between good dealers and the farmer is very important, and if a farmer trusts his dealer he will often buy whatever equipment the latter recommends.
3. Dealers would misinterpret price cuts as a sign of weakness and would begin looking to rival manufacturers for a replacement as an insurance against the possible withdrawal of the price cutters product.

In the same vein Saunders⁽¹⁴⁷⁾ utilised unit value data to explain the competitive position of UK and West Germany in engineering products. The study indicated that despite a favourable movement in the value of sterling, the UK market share fell from 20.9% to 9.2% between 1971 and 1975. The West German market share, despite a marked appreciation in the DM, remained constant during this period at 22%. This indicates that price is

not the major determinant of international competitiveness in engineering products, non-price factors are more important where high unit value is associated with greater competitiveness.

Finally Isard⁽¹⁴⁸⁾, Cooding⁽¹⁴⁹⁾, Deppler⁽¹⁵⁰⁾, Collins and Owens⁽¹⁵¹⁾, Armington⁽¹⁵²⁾ and Tessler⁽¹⁵³⁾ among others, all have indicated that the industry, the firm or the country cannot compete on the basis of price alone. Non-price factors become more important.

Based on the above it has been argued that non-price competition has some advantages compared with price competition. This is perhaps due to the fact that some non-price competitive strategies are less easy to copy than a price reduction. It may also be preferred by manufacturers as substitute for, or in addition to, price reductions because more value can be given as a gift than as a price reduction. It may be effective as a publicity weapon, a lower price may not be significant or dramatic enough to be noticed, and it may help to secure more buyer loyalty. Accordingly, forms of non-price competition may be more effective in building sales than equivalent outlay on a price reduction. Also, it is possible that many of the effects, and possibly the benefits of the competition process may be obtained through non-price competition⁽¹⁵⁴⁾. With non-price competition rivals cannot retaliate directly and exactly, during this intervening period the imitator gains an advantage in the market at the expense of potential imitators.

In sum Piercy⁽¹⁵⁵⁾ summarised the advantages of non-price competition for a firm operating within an industry in the world market in the following points:

Brand loyalty: Again in simple terms the argument is that if buyers are attracted to a product by its price, then they may easily be attracted, again by competitors offering better prices.

At the same time, if a product is matched with the buyers needs - for objective product feature and services and for other incentives and value - then it should be more difficult for competitors to take action.

Thus, the notion of price competitiveness has little meaning, since any trader who reduces his price will find himself swamped by demand for his product. Price competitiveness will have meaning only when the goods of one competitor are sufficiently different from those offered by other competitors, by virtue of style, performance, quality or service, to enable him to raise his price appreciably above the prevailing price of somewhat similar goods without losing all his customers. "In these circumstances suppliers have some freedom in setting price and then satisfy whatever demand is generated at home and abroad at this price".⁽¹⁵⁶⁾

Market Segmentation: It has been suggested that competing on price leads to the bargain basement, while non-price competitiveness opens other segments in the world market.

Hence Baker⁽¹⁵⁷⁾ stated that Britain is rapidly becoming a country which exports cheap unsophisticated products to developing nations while depending on expensive sophisticated imports to maintain its competitive advantages.

Competitive Retaliation: In the case of non-price competition it is difficult for competitors to respond quickly or in ways that are obvious to buyers. While in the case of price competition as mentioned above, it is easy for competitors to react.

Profitability: It has been suggested that non-price competition allows a firm operating within an industry in the world market to earn higher margins, as there is not the same pressure to maintain low prices and to respond to price cuts by others.

However, it is our view that efficiency and importance of types of non-price competition increase and diminish according to how strongly manufacturers think they will appeal to buyers as a sales stimulant.

Conclusion

Taking stock of all the above reviewed work, a number of comments can be made. These are as follows:

First: the explanation of non-price competition is not simply that many sellers prefer to compete this way. The reasons for it lie, rather in some basic marketing factor explaining business and consumer behaviour. It has been suggested that competition is a resulting condition of an organisms and their environment.

Hence "Non-price competition does benefit the individual firm. Maintenance of market share and increase in share at the expense of competitors are every day occurrences. Increase in sales and company growth are the inevitable results of successful non-price competition". (158)

Second: the above emphasise on the role of non-price competition for achieving competitive advantage in the market-place has led many authors and researchers to argue that it is better for a firm operating within an industry in the world market to compete through non-price factors and to stop relying on price competition. Such approach is not completely right for many reasons:

1. There are many forms of non-price competitiveness and they are likely to differ in their effectiveness in different markets and different segments within that market if compared with price competition. For example a multinational company producing textile machines operating in a developing country may prefer to compete through the price factor since many buyers prefer to buy machines at low price. The same company

may compete through non-price factors in an advanced country, since the buyer may prefer more sophisticated machinery.

2. In some industries non-price competition may be the best tool for achieving a strong competitive position, whilst in others it may be difficult to apply this approach. For example, in basic steel probably the only competitive weapon is the price.

Hence D Connell⁽¹⁵⁹⁾, argued that the list of non-price characteristics involved will depend on the type of product. In the case of chemical compounds price and possibly delivery are as a rule the only criterion involved, whereas for a complex engineering product like textile machinery a whole range of factors might be taken into account. "This might include the suitability of the product for the job it has to perform, its design, reliability and after-sales service. The quality of the instructional material or training provided, delivery and overall marketing will also have an influence".

3. In addition to the above it may be not simple to assume that a firm operating within an industry in the world market must compete through non-price grounds since its competitors are stronger in this aspect.

On the other hand, some firms have the ability to compete through non-price competition in the marketplace. Even so such firms are hardly in a position to neglect the impact of price competition, for it is here that the difference between profit and loss may be decided.

In this regard as Piercy⁽¹⁶⁰⁾ indicated one economist had stated that "the present UK governments thesis that UK industry can regenerate itself by producing better products,

despite rising relative costs, and hold market share through non-price competitiveness. The issue is not whether non-price competitiveness is possible, but whether profitless exporting can continue".

4. Although we have found that much competition tends not to be based on price, there is other evidence which indicated that price flexibility is still an important aspect of competitiveness. A product that is priced markedly out of line from its rivals and without compensating non-price advantages will normally fail to sell and so price acts at least as a constraint. Firms often prefer to avoid price competition because of the fear that this will generate price wars, or that price changes are easy to copy, whereas competition using other marketing strategies is less easy to copy. However, there may be occasions where price reductions or the spreading of price constitute a very important form of competition.

Hence one writer⁽¹⁶¹⁾ concluded that "it is misleading to see price-based strategies as undesirable in all situations and non-price strategies as always the more effective. The evidence indicated that price and non-price opportunities both exist at different times, for different firms and with different customers".

In support for this view, Table 3.9 provides a summary of the key operating factors which generated above average performance in five companies operating in the UK clothing industry. It can be seen from this table that there is no magic formula for success. Each company studied has its own unique blend of ingredients.

Having indicated the relative importance of price and non-price factors, we will turn our attention to examine the main sources of non-price competition.

Table 3.9: Operating Factors Generating the Commercial Success of the Case Study Companies

	Company A	Company B	Company C	Company D	Company E
Key Reason	Retailer targeting	Design appeal	Production capability	Design appeal	Customer delivery and service.
Other Reasons	Customer targeting Production capability Management strength Delivery performance	Production standards Fashion flair Customer targeting	Production specialisation Competitive prices Customer support	Management strength Assortment planning Retail targeting Selling policy	Range coordination Customer targeting Design appeal Use of colour coordination

Source: NEDO, Increasing Your Sales in the UK Clothing Market, London, 1978, p.5.

SECTION THREE: Sources of Non-Price Competition

NEDO has argued for some time that improving the non-price characteristics of UK products, in terms of reliability, delivery, performance, design, technical sophistication, etc, is an essential element in improving the competitive position of the UK economy. Here we refer briefly to some representative work and statement of organisations and individuals under the general heading of product, service, promotion and distribution.

However, before proceeding to make such a review it will be useful to state some of the salient features which differentiate the marketing of industrial and consumer goods. In the case of industrial goods as Baker⁽¹⁶²⁾ indicated these differences may be summarised as:

1. Derived demand. "The demand for industrial goods, and raw materials, is derived from the demand for consumer goods in the sense that any expansion or contraction in the latter will be reflected by a corresponding shift in the former".
2. Rational buying motives dominate the industrial market.
3. Concentration of buyers.
4. The scale of industrial purchasing is greater.
5. Industrial products are technically more complex.
6. Industrial buying is a group process.
7. The sale of service is greater.
8. Leasing, renting, and the extension of credit are important. This is increasingly true of consumer goods.

From the above, Baker argued that "although industrial marketing may differ in degree, there are sufficient points of similarity to permit the transfer to principles and techniques from one to the other. As such, undue emphasis of differences may be

harmful if it induces practitioners in either field to neglect thought and practice in the other".

Competition through Product

According to Baker ⁽¹⁶³⁾ "the firm's ultimate success, whether measured by total profits, return on investment, market share or any other criterion, is largely dependent upon its product policy". Majaro ⁽¹⁶⁴⁾ also indicated that "the product is at the heart of the marketing mixes if the product fails to satisfy the consumer and his needs, no additional expenditure and effort or any of the other ingredients of the mix will improve the product performance in the market place".

Borden ⁽¹⁶⁵⁾ emphasised that "generally, no single functional area, has so much bearing on the sales and profit opportunities, present and future as that of having products that meet the desire of consumer groups and yield margins that permit a satisfactory profit".

Addressing the same issue, Buskirk ⁽¹⁶⁶⁾ stated that "all strategies and tactics in marketing revolve around the product because it is the basic tool with which the marketing manager bargains for revenue".

Terpstra ⁽¹⁶⁷⁾ emphasised a similar view when he mentioned that "international product policy is the cornerstone around which all other international marketing activities must be designed ... the primary reason a company is accepted abroad is the product or service it offers in the host country". He stressed that although the right product for international markets is probably not identical to the product sold domestically, the products are usually neither completely different nor unrelated. They might therefore require similar know-how both in production and marketing.

The major considerations determining international product policy as Majaro⁽¹⁶⁸⁾ indicated are:

1. Corporate objectives;
2. The markets and their needs;
3. Company resources - investment in production resources, inventory, etc, and
4. The nature of the product life cycle, appeal, service requirements, branding, case of production, etc.

It is for such reasons that Ansoff⁽¹⁶⁹⁾ (1965) makes product policy the major strategic focus for the firm, and regards finance, personnel and production strategies as emanating from basic product strategy.

A different version of the importance of the product variable is given by Chamberlin⁽¹⁷⁰⁾, who argued that "the admission of the product as a variable not only adds to the picture an alternative area in which competition may in fact be quite active; it does much more than this; it supplies a powerful new force working against price competition".

Thompson⁽¹⁷¹⁾ likewise concluded that "the most important controllable factor in marketing is the product. Intelligent planning and control of the product - which we call product strategy, is therefore the most important of all marketing actions. Product strategy really needs no definition, it is a definition".

Hence we can outline three product strategies: product improvement; line development; new products.

Product improvement involves changing the features, quality or style of a product to give a better fit to the demands of market.

Stewart⁽¹⁷²⁾ describes a feature as a physical and functional characteristic or component of the basic product that may be used to distinguish it from competing products of similar quality, including the company's other products. He found that of 175 features that had been added to various products, all but 12 were copied by competitors. Why then add features? Features can give a progressive image to the company; they are a flexible competitive tool, since they can be added, dropped or made optional. Features may also be used to attract distributors and provide the sales force with something to sell that might not be available to competition.

Turning to quality, it is an evaluative term⁽¹⁷³⁾: "to say something is a quality product is to rank it high in relation to similar product". Two criteria may be used to do the ranking:

1. Technical. A product made of more expensive materials than are typically used. Constructed with more attention to detail, is regarded as a quality product. "It is superior technically".
2. Commercial quality. "If a product is perceived and ranked as a quality product by the market and commands a premium price as a consequence, the product is a quality product commercially."

In formulating a product quality, the following questions must be considered⁽¹⁷⁴⁾:

1. What level of quality should the firm offer compared with what is offered by the competitors.
2. How wide a range of quality should be represented by the company's offerings?
3. How frequently and under what circumstances should the quality of a product be altered?

4. How much emphasis should the firm place on the quality in its sales promotion?
5. How much risk of product failure should the firm take in order to be first with some basic improvements in product quality?

Another way to change a product's physical configuration is through style changes, which may be essential to keep the product in line with current tastes. However changes usually require higher costs, as new investment is needed.

The basic product policy strategy issues at the product line level cluster around the following questions⁽¹⁷⁵⁾:

1. What are the boundaries beyond which no product should be added?
2. What is the number of different products to be offered in the line and to what extent should they be differentiated?
3. What is the number of different versions to be offered for each product in the line?
4. What are the business characteristics (criteria) such as minimum profitability, and market share that each product must meet in order to be included in the line?
5. In how many segments should we compete in order to maintain a secure overall cost and market position vis-a-vis competitors in world markets?

To this end product improvement and line development are product strategies associated with market penetration and market development. But high earnings or even survival may depend on introducing new products.

Hence Baker⁽¹⁷⁶⁾ "in his award winning article examined the British shipbuilding industry and pointed out that the association between the source of innovation and competitiveness is too strong to be ignored".

Consistent with Baker's view, President Carter⁽¹⁷⁷⁾ in his message to Congress (October 31, 1979) indicated that "industrial innovation ... the development and commercialisation of new products and processes ... is an essential element of a strong and growing American economy. It helps ensure economic vitality, improved productivity, international competitiveness, job creation, and improved quality of life for every American ... many of the world's leading industrial countries are now attempting to develop a competitive advantage through the use of industrial innovation. This is a challenge we cannot afford to ignore".

Thus, considerable emphasis has been placed at a macro-level on the importance of technical progress for economic growth. But the level of technical progress in an economy is a function of the innovation process of individual firms, possibly motivated by quite different considerations. By and large, firms will make a product innovation for two reasons⁽¹⁷⁸⁾:

First: New products tend to be growth points in companies turnover. Innovation induces changes in production methods and output mix, which may spread throughout the economy. Also pressure for change may come from enhanced competitive power of the innovating company and the superior commercial performance of firms which copy quickly. They may arise from the exacting demands on suppliers, from market opportunities.

In this regard Kotler⁽¹⁷⁹⁾ stated that "under modern conditions of competition, it is becoming increasingly risky not to innovate. Consumer and industrial customers want and expect a stream of new and improved products. Continuous innovation seems to be the only way to avert obsolescence of the company's product line".

Second, innovations usually produce sophisticated products. Their superior performance may have sufficient customer attraction to make the price of the product a subsidiary determinant of sales.

In these cases, there is a danger of entering a market without adequately exploring market wants and of underestimating the additional resources that will be needed.

Consequently various studies have addressed the question of whether particular types of firms are more or less likely to be successful innovators. The SAPPHO⁽¹⁸⁰⁾ project in the Science Policy Research Unit at the University of Sussex was based on a study of 29 paired successful and unsuccessful innovations in the chemical and scientific instrument industries. The results showed that there were five key considerations which distinguished between successful and unsuccessful innovators. These are as follows:

1. "Successful innovators were seen to have a much better understanding of user needs.
2. Successful innovators pay more attention to marketing and publicity.
3. Successful innovators perform their development work more efficiently than failures but not necessarily more quickly.
4. Successful innovators make more use of outside technology and scientific advice, not necessarily in general but in the specific area concerned.
5. The responsible individuals in the successful attempts are usually more senior and have greater authority than their counterparts who fail".

Baker⁽¹⁸¹⁾ referred to a survey undertaken by the National Industrial Conference Board, where eight major reasons of new product failure were identified in rank order of importance as follows:

1. "Inadequate market analysis;
2. Product defects;
3. Higher costs than anticipated;
4. Poor timing;

5. Competitive reaction;
6. Insufficient marketing effort;
7. Inadequate sales force;
8. Inadequate distribution."

Over 50% of all respondents cited the first three reasons.

The information from this and similar studies is important since it indicates that developments that might be profitable to the firm and beneficial to the customer may be wasted and lost if the firm fails to adopt appropriate strategies in its development and marketing of the innovation.

Having indicated that, in the following pages an attempt will be made to refer to a number of studies that emphasised the relative importance of the product variable as a form of non-price competition.

The clothing EDC commissioned report⁽¹⁸²⁾ into the industry's performance in the marketing of apparel fabrics published in 1982 as "Changing needs and relationships in the UK apparel fabric markets", pointed out that in 1980 73% of imports of finished cotton fabrics came from developed countries, as did 72% of all woven MMF fabric, while 78 percent of all woven apparel fabric of spun yarn was imported in 1979. The report mentioned that responsibility could not be laid at the door of low-cost countries. Other factors included superior product (according to some UK cloth buyers) and the superior ability of developed overseas countries in terms of design.

The NEDO report⁽¹⁸³⁾ "Standard Quality and Competitiveness" indicated that the most effective way of increasing market share is to give the customer the quality he demands at a price he is prepared to pay. "If the performance of our product falls short of the customer's expectations ... he will look elsewhere. Our

competitors, notably West Germany and Japan have followed a quality strategy for years".

The NEDO study⁽¹⁸⁴⁾ "Policy for UK Electronic Industry" concluded that if the UK electronics industry is to increase its share of the world market it will be necessary, first to identify those markets, products and technologies which are strategically important to the development of international competitiveness of the industry; secondly, to identify the critical competitive factors within those markets, product and technologies.

The Wool Textile EDC's⁽¹⁸⁵⁾ (1980) report, "Exporting successfully to Europe", emphasised "the product as the key for achieving competitive advantages. If the product is wrong, then correct sales, promotion, delivery, etc, will still not improve sales. Marketing products with customers is therefore the essence of marketing and this activity is all the more important in a fashion based industry".

In a survey⁽¹⁸⁶⁾ covering 17 firms in the fully-fashioned sectors results showed that US companies have achieved a higher level of competitive advantages than the British ones. The research attributed this difference to the ability of US companies to produce new product at higher quality.

The PEP⁽¹⁸⁷⁾ observed that only 19% of firms attributed export success to any kind of improvement on the production side. The most important reasons offered by 52 firms were better products, diversification of products, new or more competitive lines, (46%), followed by ability to lower costs and compared with competitors or the modernisation of production methods or greater efficiency (27%), adjustment of design to foreign markets (15%) and the availability of increased production capacity (12%).

Mikisell and Farah⁽¹⁸⁸⁾ found that US competitive advantage is greater in these products characterised by high technology intensity that are produced by industries with a high ratio of R&D expenditures to sales. They concluded that firms in different countries must innovate faster to maintain their market share in the world market.

The NEDO study⁽¹⁸⁹⁾ "Imported manufactures: an inquiry into Competitiveness" has demonstrated that the technical performance from the user view, was the main reason for most imports of mechanical engineering products, electronic capital goods and scientific instruments.

In the NEDO⁽¹⁹⁰⁾ Mechanical Engineering EDC study, improvement in design, or changes in production mix or introduction of new products, representing efforts on the production side, were the next most quoted reasons, after marketing efforts, accounting for changes in export growth. About three-fifths of all firms exported products identical to those sold in the UK, one-fifth exported standard products with major modifications, where the remainder exported specially designed products - this included firms whose products were custom-built irrespective of market destination. Large companies exporting over half their output were more inclined to design products or make minor modifications to products specifically for export than were large firms exporting less than half their output. Lack of flexibility in design was more common with poor exporters.

In 1977 British Printers⁽¹⁹¹⁾ reported that manufacturers of equipment as a whole have lost ground in their home market to foreign competition. It has been claimed that this decline is the result of a combination of the following reasons. First: failure to introduce new products which are technologically ahead of competitors. Second, effort has concentrated on engineering rather than design, with insufficient attention to details.

Third, slowness to adopt a market orientated approach. Fourth, insufficient contact maintained with past customers to ensure that repeat orders are placed with British manufacturers. In the view of printers these four shortcomings have had a particularly severe impact on British competitive position in the world market, because foreign competition has improved its performance in the same four areas.

Also the Machine Tool report⁽¹⁹²⁾ indicated that product performance was vital to be recognised as one of the leaders to gain an edge on the competition.

As far as product competition is concerned, Table 3.10 lists the reasons given by 107 UK textile companies for buying foreign machinery during the period 1970-1976. It is clear from the table that UK users buy foreign machinery primarily for reasons relating to the superior performance of foreign built machines (32 percent of total). A related reason (13 percent of total) was that foreign machinery is more advanced in design. Only a small number of respondents (4 percent) bought foreign machinery because its prices were cheaper. This indicates that the quality of the product is more important than price in international competitiveness⁽¹⁹³⁾.

In a more recent study Rothwell⁽¹⁹⁴⁾ again found that the reasons given by 150 UK farmers for buying foreign built machinery during the period 1972-1977 is related primarily to quality and performance. Quality related factors account for 55% of all reasons for buying foreign. Only a small minority of farmers, about 10%, bought foreign machinery because it offered a price advantage.

The "Competitive Status of the US Fibres and Textile" survey⁽¹⁹⁵⁾ concluded that the machinery and equipment industries played an important role in each of the major segments of the textile complex. Many of the manufacturing breakthrough in the

Table 3.10

Reasons for UK Textile Companies purchasing Foreign Built Machinery, 1970-1976*

Reasons for purchasing decision	Number**	Percentage
Not available in UK	39	27
No suitable UK alternatives	15	11
Superior overall performance and design of foreign machines (more reliable, more productive, greater operational efficiency)	45	32
Foreign machinery technically more advanced in design	19	13
Better service provided by foreign supplies (i.e spares and after-sales service)	8	5.5
Foreign firms offer more reliable delivery dates	6	4.0
Foreign built machinery cheaper	6	4.0
Foreign manufacturers more aware of specific user requirements	5	3.5
TOTAL	143	100

* 89 percent of 107 companies completing the questionnaire bought foreign machinery during the period 1970-1976.

** A number of respondents gave more than one reason for buying foreign.

Source: R Rothwell, The Rate of Technological Change in International Competitiveness: The Case of Textile Machinery Industry, Management Decision 15, 6, 1977, p.545.

textile complex have accrued from the utilisation of new equipment developed by equipment firms. "Most of the new equipment has been more labour-saving and efficient than its predecessors and, as a result, has increased the international competitiveness of higher labour cost countries".

Again the following Table 3.11 also lends support to the importance of technological leadership in international competitiveness.

Table 3.11

Relationships Between Technological Leadership and Competitive Advantage in Electronic Calculators.

Phases	Technological Leadership	Competitive Advantage
I (1962-66)	US (?)	?
II (1967-70)	Japan	Japan
III (1971-72)	US	US
IV (1973-76)	Japan	Japan

Source: B A Majumdar, Innovations Product Developments and Technology transfers, An Empirical Study of the Dynamic Competitive Advantage, The Case of Electronic Calculators, University Press of America, Inc, Washington, 1982, p.141.

The table indicates that, during Phase I the United States had the initial technological edge as it pioneered the product. However, the Japanese began producing electronic calculators employing the same technology within two years. During Phase II Japan firms introduced new products, competitive advantage belonged to them. However by developing new products the US firms gained technological leadership in the third phase. In Phase IV the Japanese firms began to be dominant in the world market for electronic calculators.

In support of the above Arnold⁽¹⁹⁶⁾ in his study on "The Role of price, quality and technical change in the UK Television industry" found that Japanese firms derived more of their market share in European markets by offering high quality and their pricing policies have not been of the penetration type. A high proportion of the public believe that reliable service is more important than a small price difference, when it comes to a choice between on rental and buying a set. Clearly, in this case an aspect of quality overrules price considerations for some consumers.

Similarly Sciberras⁽¹⁹⁷⁾ in his study of "International Competitiveness and Technical Change in the US Consumer Electronics Industry" found the difference in quality orientation between the Japanese firms and their competitors was reflected in product design. An analysis of the source of set failures indicated that between 20 and 40% of breakdowns are due to development and design weakness, a further 40-65% are due to quality of components and 15-20% is due to workmanship. The Japanese have been superior to the European and US firms in dealing with each of their sources of failure.

Also Baranson⁽¹⁹⁸⁾ in his study indicated that the international competitiveness of Japanese firms in the electronics industry has been greatly enhanced by their strong commitment in commercialising new products, coupled with sustained support of high-risk and delayed-return investments.

Again the Charles River Associates study⁽¹⁹⁹⁾ found that the major reason behind the competitive position of the Japanese in the US television market is due to the ability of the Japanese colour television industry to produce a superior product. "Sony and Matsushita contributed key innovations and the highest among Japanese firms on the list of US patents. Both firms increased their market share considerably through product strategies".

The picture in the car industry is not different from the previous one. Quality emerged as a significant factor in Japanese automobile competition⁽²⁰⁰⁾. When imported car buyers in the US market are asked why they purchased an imported car, the answer invariably involves the high quality of the product. "According to an annual survey conducted by Words Auto World, even automotive engineers from the five domestic automobile companies were of the opinion that the best quality cars in the world are produced in Japan".

In support of the above study Stewart⁽²⁰¹⁾ stated that "... producing products that are perceived as modern, value for money and reliable will be necessary if the UK producers wish to counter the increased pressure that must come now from Japanese firms".

Also Osman⁽²⁰²⁾ in his study "export competitiveness of British industry" confirmed the role of product technology as an aspect of non-price competitiveness. He argued that any manufacturer wishing to achieve competitive position in the motor car industry is now faced with the protection of local manufacturers and companies with local advantages. As the result the major international producer reaction to such competition is to attempt to differentiate its product in some way to make it different from its competitors and to make it more attractive to the purchaser.

Another evidence for the important role of the product as a main source of non-price competition can be found in the NEDO⁽²⁰³⁾ report "Change for the Better". The report indicated that eight companies in the electrical engineering industry have appeared to be successful because the management and employees have recognised the need for innovation and quality improvement. For example over 80 percent of Tannay's production is exported to Japan. The company's reputation for quality and the requirements of its customers, particularly in Japan, make the achievement of high and consistent quality a paramount objective.

Finally, NEDO⁽²⁰⁴⁾ in Mechanical Engineering found that technological and design competitiveness appeared to have been a significant element in the success of West German, Swedish and Japanese industries in the world market. In the light of this NEDO concluded that "we need to develop policies designed to increase the UK industry's international competitiveness"

1. By action in the field of technology and design.
2. By raising the level of investment in the firms which operate within the industry.

Service

An intangible characteristic through which a firm may achieve competitive advantages is product services. Product service tends to expand a product's utility and the buyers associate them with the physical product when considering alternative offers. For many industrial products service policies are indispensable; for some consumer products, they are important elements in competitive strategy⁽²⁰⁵⁾.

The service factor as an important aspect of product quality has been investigated by a large number of authors and researchers.

Gordon⁽²⁰⁶⁾ in his study mentioned that most firms need to provide some form of after-sales service, and this is particularly important in the international market because customers buying an imported or foreign product naturally tend to believe that after-sales service may not be as good as with a product produced in their own country.

Senker⁽²⁰⁷⁾ and his colleague in their study in the "Trucks Sector" found that the close matching of spares and service provision to the 'park' of trucks in use is essential to success from two points of view:

1. The provision of service provides a significant source of potential profits to the established forklift truck manufacturer.
2. Failure to provide adequate spares and service to customers tends to cause customers to endure long and expensive downtime. This tends to lead to dissatisfaction with the forklift truck manufacturers and loss of repeat forklift truck business.

Baranson⁽²⁰⁸⁾ reported that another major strength of Japanese industry that contributes to its competitive position has been and continues to be is the ability of Japanese supplier firms to provide the financial support and after-sales service necessary to redesign parts and components and to upgrade or expand installed plant and equipment.

In support of the above Hadley⁽²⁰⁹⁾ in his study revealed that many respondents identified that the competitive power of Japanese firms is due to its ability to deliver quality products with short lead times, to train operators in their use, to service them, to maintain readily available spare parts suppliers, to provide uninterrupted supply, and to provide simple designs and/or to modify their products for the market. Also responses noted the advantage of Japanese ability, particularly by the large trading companies, to offer attractive financing, suppliers' credits, assistance in financing, and direct sale by manufacturers.

The IMR "Report⁽²¹⁰⁾ on Building products competing at home and abroad" revealed that technical pre/post sale support, after sales service and the provision of spares are viewed as being of the greatest importance for achieving competitive position in world markets.

The NEDO⁽²¹¹⁾ study "Market the World" showed that successful firms in world markets appeared generally aware of their customers'

desire to have a regularly available after sales service. Ninety percent of all companies in the sample reported that they regarded the provision of after sales service and spares as being important or very important to the competitive success of their export, and of the remaining few, half stated that their products were such as not to require these facilities while, the remainder were mainly small, less active exporters.

Khan⁽²¹²⁾ observed that pre-sales service was one of the significant variables which differentiated between successful and unsuccessful firms in his study. According to Khan "the firms which did not provide pre-sales service, or only provided it to a limited extent usually had a common product with practically no technical complexity".

Post sales service was provided by 41% of all firms - mostly large and medium firms who had their own service departments with travelling engineers. Also R&D units as well as salesmen visiting markets provided post sales service since most of them were technicians.

Rothwell's⁽²¹³⁾ work cited above revealed that after sales service has been one of the key factors behind the competitive position of West Germany in agricultural engineering industry compared with the British one. British users are undoubtedly capable of servicing their own spare parts and are thus dependent on the supplier in this respect.

Also Heath⁽²¹⁴⁾ in his study found that price in the engineering industry was relatively unimportant. Capacity to supply demands at short notice, for after sales service are more relevant than the price. Success in these aspects has more impact on market shares than price, despite the substantial divergence in prices in many cases.

Promotion

As we have mentioned before most firms today operate under condition of imperfect competition. That means there is a product differentiation, non-rational buyer behaviour, and less than complete market information. Under these conditions, promotional activities are essential. That is, a firm needs promotion to aid in differentiating its product, to persuade the buyers, and to bring more information into the buying decision process.

"In economic terms the main purpose of promotion is to change the location and shape of the demand curve for a company's product. Through the use of promotion a firm can be in a position to increase its sales volume at any given price"⁽²¹⁵⁾.

O'Shaughnessy⁽²¹⁶⁾ in his recent book "Competitive Marketing" argued that "although the old adage "good wine needs no bushel" suggests that word of mouth communication alone is all that will be needed to create customers if a product has a competitive edge, this is not generally so. Even where word of mouth communication is important, as in the case of movies, persuasive communications by the seller can both increase the level of business and accelerate the diffusion process. Where the firm neglects the problem of communications, late entrants are admirably positioned to capture the market with a me-too product backed by persuasive communications".

Addressing the same issue, Stanton⁽²¹⁷⁾ said "the intense competition between different industries, as well as between individual firms within an industry, has placed tremendous pressures on the promotional programmes of individual sellers. Today customers are more selective in their buying choices, and a good promotional programme is needed to reach them".

Baker⁽²¹⁸⁾ referred to Martin Bell who summarised the basic objectives of promotion strategy as follows:

- "1. Increase sales.
2. Maintain or improve market share.
3. Create or improve brand recognition, acceptance or insistence.
4. Create a favourable climate for future sales.
5. Inform and educate the market.
6. Create a competitive difference.
7. Improve promotional efficiency".

The distinction among the above objective as Baker indicated is important because emphasis upon any one will tend to lead to a different promotion mix being required. Hence the choice of promotional mix is a complex decision governed by many factors.

Kotler⁽²¹⁹⁾ proposed that the optimum promotional mix varies with the nature of the product, its stage in the life cycle, the nature of the buying process, the promotional strategy of competitors and a host of other factors. More specifically, Buzzell⁽²²⁰⁾ suggests that: (1) Promotion would be lower when the number of customers was small and concentrated on a fair market, e.g primary metals and textiles; (2) Promotion would be more costly when the purchase decision involved a number of individuals, e.g textile machinery; (3) Standardised products with single and uses would require less promotion; (4) There would be less of a need for promotion when the product was familiar and its use was thoroughly understood and tested; (5) Promotion would be grater when purchase frequency was high and purchase amount was low; (6) Promotion would also intensify when product line turnover was rapid.

At this stage some authors argued that advertising is widely felt to be the most important promotional tool in consumer marketing, and personal selling the most important promotional tool in industrial marketing. However, Levitt⁽²²¹⁾ in his study sought to determine the relative roles of the company's reputation (built mainly by advertising) and the company's sales presentation

(personal selling) in producing industrial sales. The results have shown that advertising can play an important role in industrial marketing. Conversely, personal selling can make a strong contribution in consumer goods marketing.

To this end the two most widely used methods of promotion are advertising and personal selling. Other forms of promotion are sales promotion and public relations. Consequently we will examine briefly advertising and personal selling as another form of non price competition.

Advertising

O'Shaughnessy⁽²²²⁾ defined advertising as "any paid form of non-personal public announcement by identifiable sponsor whose purpose is to influence behaviour". While Needman defined it as a strategy for influencing the shape and position of the demand curve without changing the physical characteristics of the product. Thus any firm's demand schedule refers necessarily to the relation of price to quantity of sales which corresponds to some given rate of sales promotion expenditures⁽²²³⁾. Hence effective advertising has both an informative and persuasive role. It is useful in informing potential consumers of the availability of a product and of changes in prices, qualities, etc. In this respect it heightens competition by making choice more informed. In its persuasive role, advertising restructures preferences encouraging consumers to accept as desirable the characteristics of the advertised brand. Several likely consequences of the persuasive role of advertising may be identified⁽²²⁴⁾. First, the elasticity of demand facing the individual firm is reduced as brand loyalty is strengthened. If this is accompanied by successful differentiation of the product and establishment of a distinctive brand image it may be possible for a manufacturer to establish a premium price for his brand. As Bain⁽²²⁵⁾ suggested advertising may also allow sellers to maintain different prices.

Secondly, the effect of advertising may be long lasting and is cumulative. In this way advertising acts as a capital or investment good, building up future sales through the continued response of the consumer to an advertising message.

Third, it is quite likely that the demand curve facing the production will be shifted outwards as more consumers are persuaded to commit some of their resources to this particular product. Also advertising may assist new entry, both of new brands by existing producers and also of new suppliers.

Porter⁽²²⁶⁾ in his recent book "Competitive Strategy" argued that "advertising may well expand demand or enhance the level of product in the industry for the benefits of all firms".

Porter⁽²²⁷⁾ indicated that advertising may increase entry barriers in three ways:

1. Advertising expenditures by existing firms create brand preferences which must be overcome by potential entrants. Advertising costs for entrants will be higher than for established firms since entrants must overcome the brand preferences developed by existing firms.
2. Economies of scale of two sorts occur in advertising. First a threshold effect exists which leads to increasing effectiveness of advertising messages per unit of output as output expands. The second economy of scale in advertising as Porter mentioned, results from a decline in the unit cost per advertising message as the amount of advertising used increases. This could occur for two reasons. First the unit cost of a given advertising medium might decline with volume purchased due to media pricing schedules. Second, some forms of advertising of equal quality have lower costs per message and size makes the use of these media possible.

3. The final mechanism through which advertising is considered to affect barriers to entry is through the mechanism of absolute capital requirements.

The above view has been given qualitative support by the Monopolies Commission in its report on detergents, where it decided that the advertising and promotional activities of the two leading firms constituted a barrier to entry⁽²²⁸⁾, and on cigarettes, where the Commission reported that advertising had helped to preserve the power of a few firms⁽²²⁹⁾.

Thus if we accept that competition has a meaning much more extensive than price competition and cover all forms of rivalry between producers, changing market share, etc, then advertising and competitive behaviour may be quite compatible. Indeed in certain circumstances established firms in the industry can not compete against each other on the basis of price for example if advertising can differentiate a brand from competitive offerings, the substitutability among established brands may be reduced in the consumer's minds, giving each firm some insulation from price competition.

Bain⁽²³⁰⁾ indicated that the rivalry effect of advertising on the performance of any firm follows from the observation that advertising can lead to product differentiation, which lowers cross price elasticities of demand for individual firms operating within an industry. Advertising, by reducing price elasticity, limits the effectiveness of price rivalry and thus reduces the incentive for firms to engage in it. If in addition there are fewer firms in the industry, existing firms may elect to compete on non price dimensions, such as advertising, product quality and the like. This form of competition allows each firm to maintain higher prices and profits.

In this regard various studies have investigated the relationship between advertising and profits or price cost margins and have found in varying degrees that high advertising intensity and high profits are correlated. In one study⁽²³¹⁾, it was found that heavy advertisers tended to have profit rates that were 50 percent above those in other industries and much of this was attributed to the effect of advertising in creating entry barriers.

Criticisms of this view focus mainly on whether or not there are economics of scale in advertising and whether or not advertising can change tastes. In many instances advertising cannot effectively differentiate a product without complementary activities in other marketing areas (product quality, after sales services, and pricing). Also advertising may only be effective in certain industries as Caves⁽²³²⁾ mentioned.

Baker⁽²³³⁾ summarised the case against advertising as follows: (1) advertising leads to higher prices; (2) advertising leads to non-price competition, e.g the use of promotions; (3) it is an unreliable guide as to value and satisfaction; (4) it leads to oligopoly and monopoly; (5) it is a waste of national resources. However, any improvement in non-price factors can increase price elasticity, lowering prices and reduce monopoly power.

It is stressed that because advertising serves to announce a product's existence, attributes, or both, the consumer's costs of search for information are reduced. As Ornstein⁽²³⁴⁾ mentioned, "the essence of this new view is that advertising provides information on brands, prices, and quality, thus increasing buyer knowledge, reducing consumer's search costs, and reducing total costs to society of transacting business".

Thus despite its apparent waste, advertising may be the most cost effective form of marketing. It has been argued that firms with higher advertising costs tend to have lower total marketing

costs which suggests that they are in fact achieving an efficient marketing mix.

Morrill⁽²³⁵⁾ has carried out some useful work into the sales pay off of industrial advertising. He has managed to relate changes in market share to level of advertising in a particular campaign and the prospective customers exposure to it. To find how a customer's exposure to a specific company's business paper advertising affects that company's sales, Morrill identified two large groups of customers who purchased from this company - one being exposed to the advertising and one not. Certain weighting techniques were employed to make the two groups the same except for the exposure factor. Any differing behaviour between the two groups would then be the result of advertising. The results led him to conclude that industrial advertising can significantly reduce selling costs as a percentage of sales.

To this end a more comprehensive review was conducted by Farris to identify those factors pertinent to the advertising decision. Five classes of factors were defined. These were product, market, customer, strategy and structure factors. Variables representing these factors include purchase frequently, concentration, market share position, price, quality, geographic scope and cost factors. Table 3.12 summarises the findings on each variable as reported by Farris.

Personal Selling

In the discussion above, we find that the use of advertising may not be appropriate under all circumstances. Sales can be stimulated by another element of the promotional mix, i.e personal selling.

As components of the promotional mix personal selling is increasingly regarded as a profession rather than a trade. As Baker⁽²³⁶⁾ indicated several factors may have contributed to this situation. Among these are (1) the pressures of international

Table 3.12

Determinants of Advertising Intensity (Reviewed by Farris 1977)

Variables	Discussion
<u>Product Factors</u> Frequency of purchase	<ol style="list-style-type: none"> i. More frequently a consumer purchases more opportunities for the marketer to influence his purchases decision. ii. Frequently purchased products allow for more user experience requiring less promotion. iii. Advertising is most intense for products which are purchased frequently for consumers to retain the message but not frequently enough for the decision to be habitual.
Perceived risk/ buyer involvement	As risk increases, purchasers rely less on advertising for information.
Durable versus non-durable.	Lower advertising for durable goods.
<u>Market Factors</u> Product life cycle.	Advertising increases during introductory stage, is less intense during growth stage, stabilises during the maturity stage and rises again during decline.
Demand elasticity	More intense advertising is practiced when demand is inelastic, allowing for higher prices and higher marginal revenue associated with each unit.
Concentration	<ol style="list-style-type: none"> i. Advertising leads to concentration. ii. Without advertising, few new products can be launched, therefore it promotes competition. iii. Advertising may be a sign of intense non-price competition. iv. Cause and effect between advertising and concentration is not clear.
Market share	<ol style="list-style-type: none"> i. Economies of scale and carry-over effects allow a high share holder to expend less per dollar of sales on advertising. ii. Decreasing returns to advertising and little carry over effects lead to a direct correlation between high market share and intensive advertising.

Table 3.12 (Cont'd)

Variables	Discussion
<u>Competition</u> <u>Consumer Factors</u>	Active competition leads to heavy use of advertising.
Consumer versus industrial users.	Advertising intensity is lower for industrial goods because choice is based on physical attributes, made by more than one individual in large quantity. Purchasers usually possess adequate knowledge.
Number of users.	More intensive advertising when target audience is large.
Concentration of users.	Advertising is less important when the target group is narrow.
<u>Strategy Factors</u> Relative price/ Relative quality.	Higher prices may have to be justified through advertising which communicates product superiority.
Distribution strategy	Heavier use of advertising by manufacturers further removed from consumers to generate "pull".
Brand life cycle.	New brand requires heavier advertising.
Geographic scope of market.	Lower use of advertising by regional marketers because of the lack of economies associated with advertising.
<u>Cost Factor</u>	As margins increase, producers will be more willing to increase advertising in the hope of drawing in additional sales.

Source: P W Farris, Determinants of advertising intensity: A Review of Marketing Literature, Mass: Marketing Science Institute, Report No.77.77-1.9, 1977.

competition have made it clear that the manufacturer can no longer leave his product to speak for itself, effective selling and promotion are essential; (2) Increased product complexity (like the case of textile machinery) and more sophisticated buyer demand - high calibre salesmen.

The balance between personal selling and advertising is, therefore also related to the product life cycle stage, and cost and risk associated with the product, its technical nature, characteristics of the purchasers, practices within the industry and distance between sellers and users. As Stanton⁽²³⁷⁾ mentioned personal selling should be the main ingredient (1) when the firm has insufficient funds with which to carry on an adequate advertising programme; (2) when the market is concentrated, or (3) when the personality of a sales person is needed to establish support. Personal selling also must be considered when the product (4) has a high unit value, (5) requires demonstration, (6) must be fitted to the individual customer's need.

Thus the mission of any field sales force is to dispose some target group of customers favourable toward taking action that leads to buying the firm's products. The target groups might include final customers like industrial buyers or channel intermediaries like retail store buyers. A major goal in most sales forces is to achieve some level of sales with some budget constraint.

Henery⁽²³⁸⁾ argued that the sales strategy must be linked to higher level planning. Thus the investment for any product group has a direct impact on the level of sales quotas, allocation of sales effort and so on.

To this end Porter⁽²³⁹⁾ stated that "establishing a sales force involves fixed costs, though they may not be high relative to variable costs. The number of salesmen and the associated

overhead costs can be related to the firm's volume of sales. There may be economics of scale in sales force selling; however, the cost of selling a product with low sales per outlet may be very sensitive to volume changes".

Personal selling, as a complement to advertising will be included in our analysis as an important element of competitive marketing strategy that affects buyers demand. This promotional mix will be evaluated in the context of the overall competitive posture and as a response to product and market characteristics.

As far as promotion as a form of non-price competition is concerned, the following pages are devoted to summarising a number of empirical studies that emphasised the role of promotion as a factor determining the competitive position of firms operating within different industries in the world market.

Hadly⁽²⁴⁰⁾ in his study confirmed the role of promotion as an important factor behind the success of Japanese firms in international competitiveness. He reported that local sales representation and support for agent training, knowledge of the market, commitment to long-term development, advertising, aggressive sales force, better attitudes toward marketing, close relationships with local officials, were most frequently cited.

The IMR⁽²⁴¹⁾ report found that foreign firms, notably Italian and German, used different methods of advertising that enabled them to achieve competitive position in the market place.

The results of the NEDO Mechanical Engineering⁽²⁴²⁾ survey revealed that visits of company staff to overseas customers and agents, the reception of more visitors from abroad; greater emphasis on advertising, participation in trade fairs and exhibitions, and greater selling effort geared to the needs of the

market were essential ingredients in company promotional policy which aided its ability to compete in world market.

Abu-Zeid⁽²⁴³⁾ in his study "Marketing and Export Success" found that promotion was an important factor emphasised by successful firms in different industries (over 90 percent of the respondents). Personal selling and advertising were the main forms of promotion used by firms. This tended to be used more by consumer exporters than did the industrial one.

L Kraar⁽²⁴⁴⁾ reported that the competitive position of the Canon Company in the world market is due to its ability to develop the latest market techniques, including massive television advertising campaigns.

In the PEP⁽²⁴⁵⁾ survey, the single most important reason offered for increased sales by firms was increased sales promotion, followed by aggressive selling, personal contacts with agents, increased publicity and change in advertising methods.

The NEDO⁽²⁴⁶⁾ report "Printing in a Competitive World" found that overseas firms tended to give special attention to the selection and training of export representatives, whether or not they are natives of the country in which they are selling. Not only can they speak the customer's language fluently, but are also given training in the traditions of the customer's country, so that they have real understanding of what is needed to inspire confidence. Several of these factors have contributed to the performance of these firms in world markets.

Again the NEDO Mechanical Engineering⁽²⁴⁷⁾ survey cited above stated that "rather more than half a percent of the total turnover of all companies was used for their combined home and export advertising programmes. An expected association between high export sales and the advertising budgets allocations to export

markets is strongly confirmed, for among both small and large firms, those exporting more than half their turnover devoted roughly twice as great a share of their total budgets specifically to export advertising as that of the lesser exporters, e.g 54 percent as against 26 percent respectively in the case of the larger companies".

The SWP⁽²⁴⁸⁾ study "Survey of Process Views on the Competitiveness of UK Plastics Materials" indicated that Processors regarded product data and literature as being of insignificant importance in taking their purchase decisions. That from West European Companies was, however, seen as being as good as that from UK based suppliers.

Finally S Latter⁽²⁴⁹⁾ in his study "Competition and marketing strategies in the Pharmaceutical Industry" found that promotion expenditure was a major reason behind increasing the market share of successful firms. Table 3.13 shows the relationship between average promotional expenditure (expressed as a percentage of total therapeutic class promotion expenditure) and market share of all products that achieved a market share of at least 15 percent during the first four years after market entry. Products that achieved market shares of between 5 and 15 percent did not promote as intensively as those achieving market shares of 15 percent or more.

Distribution Channels

Even if the company producer offering vis a vis competition is right for the segment in terms of products, proposed advertising and price, no sales occur unless arrangements are made that allow the customer to purchase and receive the product when needed and ordered. But insuring that a product is made conveniently available to the buyer is not enough if buyers are to be retained as future customers and sales are to be high, certain pre and post sales service as well as promotional activities may need to be provided by the channel.

Table 3.13: Relationship between market share and total therapeutic class promotion expenditure.

Product achieving Market Shares Greater than 15 percent ^a				
	Year 1	Year 2	Year 3	Year 4
Promotional Expenditure (%)	27	32	29	24
Market Share (%)	7	19	24	24
Product achieving Market Shares between 5 and 15 percent ^b				
	Year 1	Year 2	Year 3	Year 4
Promotional Expenditure (%)	12	14	11	9
Market Share (%)	3	6	10	8

a - All therapeutic classes.

b - 14 largest therapeutic classes only.

Source: Slatter, Competition and Marketing Strategies in the Pharmaceutical Industry, Groom Helm, London, 1977, p.22.

The Central Policy Review Staff⁽²⁵⁰⁾ stated that "given a competitive product range of high quality the third essential element in maintaining or improving market share is having a good distribution system, and a strong dealer network. Without a strong dealer network the manufacturer cannot cover the market geographically or be sufficiently aggressive in pricing and trade-ins to market his product against the competition".

Thus, "regardless of how well made a manufacturer's product is, or how effective its performance is, a sale will not occur unless the product is available (or can be made available) to the potential buyer when he wants it. From the point of view of the economist this means that time, place, and ownership utility must be provided. In marketing terms, time and place utility are provided through the establishment of channels of distribution while creation of ownership utility is facilitated"⁽²⁵¹⁾.

In this regard channel decisions are important because:

- (1) they influence the price which final consumers or users will pay, the availability of the product through retailers and other outlets may also enter into consumer's judgement of quality.
- (2) distribution and service are among the 'installation' selling costs regarded by Sylos⁽²⁵²⁾ as a fixed capital barrier to entry together with advertising and other marketing costs.
- (3) channel decisions are related to production in that a proper selection of channels can reduce fluctuations in production-reducing or eliminating problems of inventory control through greater production stability.
- (4) they form a vital part of the marketing mix; limiting the alternatives available to the manufacturer in the other marketing mix activities: product, price, and promotion.

As far as distribution is concerned, a number of empirical studies have emphasised its role as a form of non-price competition.

Husim⁽²⁵³⁾ in his research on "Factors affecting Competitiveness in Shipbuilding", stated that late delivery would impose severe losses on the ship-owner in terms of lost income which may be far greater than the cost penalty the shipyard has to pay to the ship-owner.

Consumer research⁽²⁵⁴⁾ among a sample of 16,000 buyers of new cars in 1974 showed that delivery performance was an important factor for achieving a strong competitive position in the market place. Delivery performance ranked second only to price as a reason for not buying a particular model.

Also a survey⁽²⁵⁵⁾ asked firms selling British products in Europe to rank a list of factors that could be limiting their

ability to sell British products. Within the EEC delivery was ranked first and in non-EEC countries it was ranked second to tariff barriers.

In 1974 a survey⁽²⁵⁶⁾ was conducted among successful companies within the Machine Tool Industry. The results revealed that considerable importance was placed on the need for keeping delivery promises, and the fact that delivery periods played an important role to gain an edge on the competition.

Muir⁽²⁵⁷⁾ strengthened this finding when he argued that "it is no good being competitive on an f.o.b basis if the customer can buy from other suppliers. So to be competitive you must know what delivery he is asking for the package he wants in, and the terms of payment that he is prepared to make".

Despite a 30 percent appreciation of the Deutschmark between 1973 and 1977, West German firms tended to continue their competitive advantages. The former German Minister of Finance explained thus⁽²⁵⁸⁾: "obviously the variety and the quality of German goods fits almost exactly what the customer wants. Also customers can rely on the dates of delivery promised by German suppliers being met".

Karvis and Lipsey's⁽²⁵⁹⁾ study showed that in many cases spread of delivery was an important advantage for American firms in international markets during the study years. US supplies were able to satisfy buyers' needs in this aspect. As the study indicated buyers were often willing to pay premiums for early shipment by purchasing the higher priced US products in preference to identical goods at lower prices from other competitors' countries such as Japanese or European.

There is some other evidence of the relative importance of the distribution factor as an aspect of non-price competition. The

Competitive Status of the US Fibres and Textile Report⁽²⁶⁰⁾ considered that "in highly competitive industry, timely and appropriate distribution of the product is a critical determinant of success. This applies for the apparel segment, given its more competitive nature with frequent changes in style and fashion". A larger role is being assumed by large retailers, whether these retailers buy domestically or abroad can clearly affect the domestic textile complex. The more they buy abroad, the greater is the competitive pressure placed on domestic producers and the greater is assistance given to foreign producers.

Baranson⁽²⁶¹⁾ claimed that Japanese industry has been highly successful in penetrating world marketing and distribution channels. They have successfully outflanked US firms with their own distribution channels or in collaboration with high volume retailers such as Sears. The preference of some US manufacturers have shown for exclusive franchises has proven to be another competitive disadvantage.

Majumdar⁽²⁶²⁾ in his study gave strength to the above claim. He found that the distribution channel was an important factor behind Japanese competitiveness in the electronic calculators industry. As a Japanese sales executive stated: "when we make an announcement, our product is ready to be sold. The distributors are supplied samples. It is not like the old days when Japanese companies merely introduced a product and then waited for orders to come in before going into production".

Heath⁽²⁶³⁾ in his study of the UK "Mechanical Engineering Industry" confirmed the role of distribution as an important factor for the industry to compete in domestic and international market. He indicated that "developing dealer networks is the key to success in this industry, whereas a strong network can outweigh price and design disadvantages the converse is not true".

Arnold⁽²⁶⁴⁾ found that the distribution and service networks played an important part in consumers' assessment of the TV quality. This was important for the competitive position of rental companies. Arguably, therefore these companies are able to offer a quality advantage (linked to their role in distribution) which offsets their price disadvantage in the eyes of the consumer.

The IMR⁽²⁶⁵⁾ report concluded that the extent to which UK Manufacturers will be successful at exporting to France and/or West Germany depends, to a large degree, on each company's choice of distribution method and facilities, and whether those are appropriate both in terms of the product exported and local market practices and circumstances.

Finally, Rothwell⁽²⁶⁶⁾ in his recent study "Non-Price Factors in Export Competitiveness" found that the foreign built machinery is often distributed, sold and maintained by a number of the biggest and best dealers networks in the UK market.

Thus distribution, and in particular delivery performance, is certainly a key factor in successful marketing strategy and, as a non-price factor, is one which is worthy of particular evaluation.

Conclusion

From the above review of what has been said in the previous sections about price and non-price competition as a main feature of competitive marketing, it is not adequate simply to argue that one way of competing is strong and another is weak. Competitive strategies have strength or weakness only in relation to particular firm needs and resources, and to a given market situation as will appear from our discussion in the next chapter.

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CHAPTER 4

Competitive Marketing Strategies
Lessons to be Learned from the Japanese

CHAPTER 4Competitive Marketing Strategies
Lessons to be Learned from the JapaneseIntroduction

In the second chapter of this thesis we demonstrated that the British are losing their competitive advantage. This does not mean that Britain has lost irretrievably, but it means that the British must do something or they will do so. They can retrieve ground by again recognising that a marketer's fundamental reason for existence is to produce a product that satisfies consumers' needs and wants. If he ignores this fundamental fact, competitive forces will ultimately foreclose on him. He must redirect his attention towards the broadly defined aspects of the marketing function and learn how to use it in a strategic way. The Japanese, as Baker indicated in an award winning article, have become competitive largely through their superior marketing strategy which enables them to produce a quality product that satisfies consumers' needs better than other competitive offerings.

Consequently part one of this chapter will be devoted to a general review of competitive marketing strategies. It will include strategy definition, analysis of industry structure and competitive strategies, and finally a review of marketing strategy itself. To complete this part, an attempt will be made by the researcher to suggest four strategic pathways through which a position of non-price strength can be achieved, since the marketing manager ordinarily has exclusive responsibility for the development of non-price competitive strategy.

The second part of this chapter will look at the success of Japanese firms in search for clues which might lead to the revitalisation of Britain's flagging competitive position.

The above issues will be organised into two sections:

- Section 1: Competitive Marketing Strategies
- Section 2: The Japanese Marketing Challenge.

SECTION ONE: Competitive Marketing Strategies

In the previous chapter we have discussed in some detail price and non-price factors as main aspects of competitive marketing. Here there is a need to pose the question: "Which strategy should be adopted by a firm operating within an industry in order to compete in the market place?" The main aim of this section is to provide an answer to this question. However, before proceeding to undertake such a review, it is necessary to define the concept of corporate strategy.

The Concept of Corporate Strategy

The literature reveals that there are numerous definitions of business strategy. Drucker⁽¹⁾, to start with, divided strategy into two components: what our business is and what it should be. Over the years, several authors have addressed the issue in more explicit terms.

Chandler⁽²⁾ defined strategy as "the determination of the basic long-term goals and objectives of an enterprise, and adoption of a course of action and the allocation of resources necessary for carrying out these goals."

Katz⁽³⁾ stated that corporate strategy refers to the relationships between an enterprise and its environment.

Andrews⁽⁴⁾ defines corporate strategy as "the pattern of objectives, purposes or goals and major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is to be."

Abell⁽⁵⁾ suggested that strategic planning involves the management of any business unit in the dual tasks of anticipating

and responding to changes which affect the market place for their products*.

Markin⁽⁶⁾ stated that "strategy indicates where emphasis is to be placed, what direction is to be taken, and what resources are to be used by the organisation in carrying out its basic mission. The essence of strategy is deciding what needs to be done in advance. It is therefore a comprehensive long-range plan".

Ansoff⁽⁷⁾ with specific focus on diversification and acquisition of business, also made a significant contribution to the definition of the Strategy Concept. He identified the Components of Strategy as:

1. Product-market scope - the industries, missions and customers served.
2. Growth vectors - the direction in which the firm is moving in its product market posture. The vectors, as illustrated in Table 4.1 are as follows:

Table 4.1: Growth Vector Components

Mission	Product	Present	New
Present		Market penetration	Product development
New		Market development	Diversification

Source: H I Ansoff, Corporate Strategy, McGraw Hill, 1965, p.109.

Market penetration - marketing present products to present markets, i.e growth through market share.

* Many authors assume that the terms corporate planning and strategic planning mean the same thing and use these words as if they were interchangeable. To a certain extent, this also applies in this thesis.

Market developments - taking existing products to new markets, e.g new countries new types of user.

Product development - providing new products for the existing market.

Diversification - the strategy of introducing new products in new markets, for example to exploit a particular technology or service expertise.

3. Competitive advantage - Having made decisions on product-market scope and growth direction, the third component, as Ansoff indicated, is concerned with how the firm will be able to achieve advantages over its competitors. Here Ansoff provides several alternatives for decision-making within this component. The first relates to a position of competitive dominance. Here there are several alternatives such as creating prohibitive costs of entry for potential competitors, or reducing unit costs of production relative to those of existing competitors. Another approach to competitive dominance is through patent protection of either products or production processes. The second alternative relates to the firm's expertise in forecasting and anticipating business opportunities and the scope for the product in various markets. The final alternative proposed by Ansoff is a classification of product market opportunities into three types, all of which orientate the opportunities towards a position of competitive advantage.
4. Synergy - This is described as using the combined capabilities of the company to enable it to tackle the other three components and is therefore run by Ansoff as being complementary to the decisions made concerning those three components.

Other authors and researchers such as Hussey⁽⁸⁾, Hovell⁽⁹⁾, Hirota⁽¹⁰⁾ and King⁽¹¹⁾ have discussed the concept of corporate

strategy but their views regarding the nature and scope of corporate strategy often vary considerably. Hirota, for example, indicated that these strategic components can also be divided into two strata, corporate strategy and competitive strategy. Corporate strategy includes the product-market domain setting and part of the generic strategy of the business. According to Hirota, in developing such a strategy a firm selects the industry concerned as its own product-market domain on the basis of expectations relating to the industry. On the other hand, competitive strategy refers to the method of competition used in the selected product-market domain; that is, the product-market domain setting alone is not enough to earn high profit rate in a particular field of business.

Consideration of the above view leads to discussion of Porter's approach to industry structural analysis.

Analysis of Industry Structure and Competitive Strategies

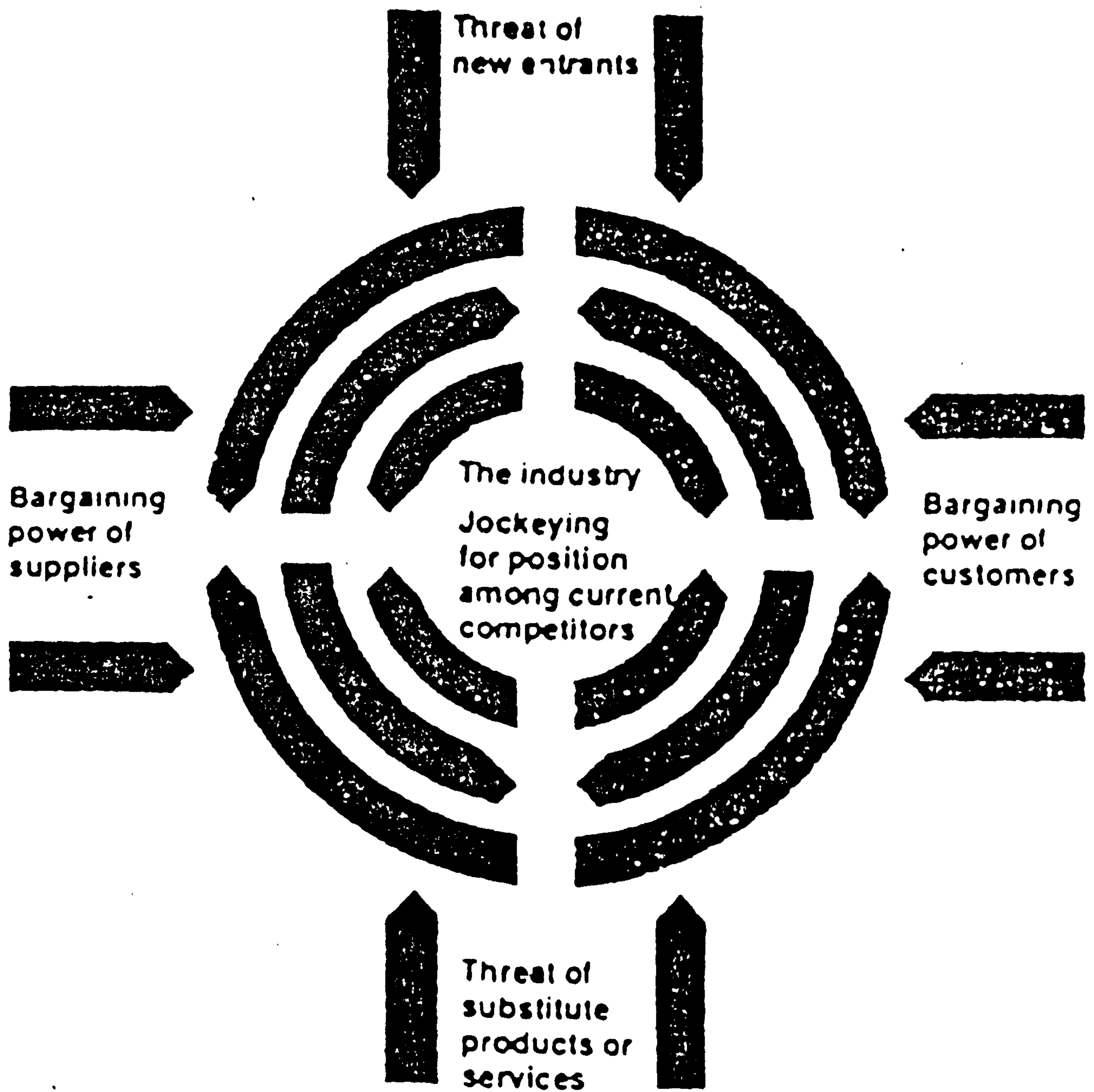
Recent research by Porter⁽¹²⁾ indicated that the nature and degree of competition within an industry hinges on a number of factors. Traditionally, competitive models have focused on the interaction between competing companies. Porter's research suggested that industry competition is more correctly viewed as an amalgam of that industry's economics and competitive forces that go beyond considering only the activities of the established competitive companies.

Porter argued that it is the industry structure as reflected in the strength of five forces that determines the state of competition and ultimately the profit potential of the industry. These five forces, as illustrated in Figure 4.1, are:

First: Threats posed by new entrants

The threat posed by new companies seeking to enter the market depends on the barriers to entry. Barriers to entry are strongly related to marketing activities, particularly those affecting

Figure 4.1: Forces governing competition in an industry



Source: M E Porter "How Competitive forces Shape Strategy",
Harvard Business Review, March-April 1979, p.141.

product differentiation and distribution channels. Among the barriers to entry are:

1. Economies of scale frequently deter entry by forcing newcomers to either accept a cost disadvantage or enter on a large scale in terms of production, marketing research and development, general administration, finance and service.
2. Product differentiation: this is essentially a method used to create a barrier around a product through branding to force new market entrants to promote heavily to overcome brand loyalty.
3. Capital requirements are frequently an entry barrier to new competitors particularly if expenditures are non-recoverable.
4. Switching costs: cost advantages independent of size may also be barriers to market entry if these advantages are not available to new entrants.
5. Access to distribution channels: this marketing factor under certain conditions provides effective barriers to entry by new companies, as mentioned above.
6. Government policy: this factor can also limit or open up entry to a market by new companies⁽¹³⁾.

Second: Rivalry

Concentration of firms within the industry is one measure of a high degree of rivalry in the industry. Others are price and quality, competition, advertising wars, new product introduction, a flexible stance with respect to customers concerning product design modifications and other forms of customer service.

Third: Pressure of substitutes from outside the industry.

Substitute products are sources of competition from outside industries which limit returns. Any attempt to raise prices is limited by the price of the substitute. An example would be the decline of the paper bag market as a consequence of cheap plastic films being made available⁽¹⁴⁾.

Fourth: Bargaining Power of Buyers or Customers

Buyers play suppliers off against one another in price and quality negotiations. A buyer is powerful given the following conditions⁽¹⁵⁾:

- Its purchases comprise a large portion of the seller's total sales.
- The buyer is price sensitive because its purchases from the industry represent a large portion of the buyer's costs.
- Because of low profitability, the buyer is extremely price sensitive.
- The products purchased from the industry are highly standardised or are commodities.
- The buyer faces small switching costs.
- There is a credible threat that the buyer could integrate backward into the seller's business.
- The industry's product does not affect the quality of the buyer's product.
- There is a well-defined market for the industry's product so that the buyer has full information regarding price and quality. "Marks & Spencer as a strong customer exerts a powerful influence on the clothing and food manufacturing industries into which, in theory, it could make a backward integration move".⁽¹⁶⁾

Fifth: Bargaining Power of Suppliers

The relative strength of suppliers versus firms in the industry will affect the extent to which the industry is forced to accept increased costs and the likelihood of the supplier making a move forward into the industry. For instance in the 1960s flour millers successfully moved into baking which resulted in the death of many local bakeries⁽¹⁷⁾.

A supplier is powerful given the following conditions⁽¹⁸⁾:

- The supplier group is dominated by a few companies and is more concentrated than the industry it supplies.

- There are no logical substitutes for the material supplied.
- The industry is not an important customer of the supplier group.
- The purchased product is an important component in the buyer's product.
- The supplier group's products are unique.
- There are switching costs if the industry tries to change sources.
- There is a credible threat that the supplier can integrate forward into the company's business, or the absence of a credible threat that the buyers can integrate backward into the supplier's business.

Generic Competitive Strategies

Porter⁽¹⁹⁾ argued that there are three generic strategies for coping with the five competitive forces mentioned above:

First: Overall cost leadership.

Second: Differentiated offering

Third: Focus (concentration on a particular market or product niche).

Overall cost leadership.

Overall cost leadership involves generation of higher margins relative to competitors by achieving lower relative direct manufacturing and distribution costs. Higher margins are in turn reinvested in new manufacturing equipment and facilities to maintain cost leadership⁽²⁰⁾.

The rudiments of leadership strategy can be found as early as the 1920s in Alfred P Sloan's statements regarding General Motors' selection of a cost-reduced strategy. "Management should now direct its energies toward increasing earning power through increased effectiveness and reduced expense efforts that have been so lavishly expended on expansion and development should now be directed at economy in operation this policy is valid if

our cars are at least equal to the best of our competitors in a grade, so that it is not necessary to lead in design"⁽²¹⁾.

According to Porter, the cost leadership strategy deals effectively with all five competitive forces. The low cost producer in an industry will earn higher than average returns giving it a defence against competitors.

However, the danger in following this strategy is that some technological innovation may wipe out the last advantage, while an obsessive fixation with costs may result in an insensitivity to changing market wants.

Differentiation Strategy.

This strategy is called product differentiation because a marketer tries to differentiate the product in consumers' minds from competitive brands⁽²²⁾. This could be effected through a policy of new product development, promotional activity, customer service, etc.

Kotler⁽²³⁾ argued that in following a differentiation strategy "a firm may hope to attain higher sales and a deeper position within each market segment. It hopes that a deep position in several segments will strengthen the customer's overall identification of the firm with the product field. Furthermore it hopes for greater loyalty and repeat purchasing because the firm's offerings have been bent to customer desire rather than the other way around".

Porter has also pointed out that the differentiation strategy deals effectively with the five forces in the industry's environment and is therefore capable of achieving high returns. In relation to its industry competitors, a firm with this strategy has less competition from its direct competitors and potential substitutes because of the uniqueness of its position. Its customers have greater brand loyalty and therefore less price

sensitivity, thereby providing higher margins for dealing with suppliers.

However, a differentiation strategy tends to increase the cost of doing business. The following costs are likely to be higher⁽²⁴⁾: (1) product modification costs, (2) production costs, (3) inventory costs, (4) promotion costs.

Focus: (Concentration on a particular market or product niche).

This strategy is based on overall cost leadership and/or a differentiated offering, but the advantages apply to a selected part or segment of the market.

As Brownlie⁽²⁵⁾ noted, "a focus strategy calls for concentrated effort aimed specifically at securing or sustainable comparative advantage in a particular market segment or niche".

Thus, as with overall cost leadership and differentiation, successful focussing will yield above average returns.

However, it has been claimed that while focus can emulate either of the first two strategies in a limited way, it is unlikely that it could ever achieve the competitive position reached by those in the industry who undertake industry-wide strategies.

Following the above discussion, a number of comments can be made concerning what Porter refers to as three business strategies:

1. Some authors and researchers have claimed that although Porter has attracted considerable attention to the competitive strategy area, he generally ignores marketing considerations. For example, Wind and Robertson⁽²⁶⁾ commented, "Consider Porter's three generic strategies, differentiation, cost leadership and focus. They are implicitly based on a two by two matrix of strategic advantage and strategic target. These dimensions and strategies ignore the

fact that all markets are heterogeneous and thus a non-segmented strategy is inevitably sub-optimal. In addition, a focus on generic strategies can serve as an obstacle to creativity and can obscure the subtlety of most successful strategies".

Wind and Robertson continued by pointing out that "in particular, competitive analysis should incorporate the market response functions for the marketing programmes under consideration (including positioning by segment) under a variety of environmental and competitive conditions".

Hirota⁽²⁷⁾, as a second example, mentioned that Porter presented a theoretical framework which consists of variables about the industry's property and competition in it. A comprehensive list of several variables relating to particular elements of competitive strategy, has been provided. However, Porter does not offer a statistical test concerning the relationship between the elements of competitive strategy and performance. With reference to this gap, Hirota attempted to examine the relationship between competitive strategy and performance. In particular, he tries to elucidate the practical elements of competitive strategy. He predicts that a combination of elements of competitive strategy which attain a fit between management environment and management resources will bring higher performance. The results of this study indicated that the combination of low diversity in product prices and high-relative aggressiveness of product development yields the highest performance. This suggests that an aggressive attitude to selling new products becomes fruitful by concentrating on particular market segments. When relative aggressiveness of product development and diversity in product prices are both high, the strategy leads to a low increase in the rate of market shares. When diversity in product prices and relative aggressiveness of product development are low, such strategies produce the lowest performance. These findings suggested that if a firm experiences changes in its market share, requiring it to vary the

number of its products, it might be necessary for it to introduce a change in its competitive strategy. The study also suggested that an integrative analysis of the management strategy must be conducted by using other variables such as marketing and R & D strategies.

2. According to Strategic Planning Associates, two factors within an industry will have a significant effect on the choice of generic strategy⁽²⁸⁾.

First: "Customer price sensitivity, ranging from high, because the product is expensive or is a large element of their budget, to low.

Second: Customer-perceived differentiation among products in the market, the extent to which a significant difference is present between competitors' products, a difference they are willing to pay for".

3. The feasible combinations of price sensitivity and perceived differentiation shown in Table 4.2 indicate situations in which the generic cost leadership, differentiation, or focus strategies are likely to be most appropriate. The table also suggests situations in which it is desirable to pursue both differentiated and low cost positions at the same time. This approach has been emphasised by Hall⁽²⁹⁾ in his study, "Survival Strategies in a Hostile Environment". The study found that success came to those companies that achieve either the lowest cost or the most differentiated position. Simultaneously, survival is possible for those companies that have the foresight to down-size their asset commitments into niches in their basic industry and to use their incremental capital for meaningful diversification moves.

T Levitt⁽³⁰⁾ confirmed the above findings when he concluded that "there is no one reliably right answer, no one final formula

Table 4.2: Determinants of Generic Strategies

Customer Price Sensitivity	HIGH	Overall cost leadership Flat Steel Refined Sugar Cement Gasoline	Differentiation (Seek Major Quality or Structural Differences) Earth-moving machinery Mainframe Computers Major appliances.
	LOW	Hybrid (Low cost and computerised differences) Home Insulation Fine Abrasives Chewing Gum	Focus (Search for real or perceived differences) Credit services News Magazines Feed Additives.
		SMALL	LARGE
Real or perceived relative differences in product offerings.			

Source: G Day, Strategic Market Planning, The Pursuit of Competitive Advantage, West Publishing Company, New York, 1984, p.117.

by which to get it. There is not even a satisfactory contingent answer. What works well for one company or one place may fail for others in precisely the same place depending on the capabilities, histories, reputations, resources and even the cultures of both".

Marketing Strategy - A Review

Having considered industry analysis and strategies for the company as a whole, we shall now be concerned in this part with marketing strategy.

Definition of Marketing Strategy: Baker⁽³¹⁾ described marketing strategy as being a broad means of achieving given aims. Similarly, Kotler⁽³²⁾ referred to it as "the determination of a particular approach that the firm will take to winning a good return in the markets it is involved in". Chisnall⁽³³⁾ defined it as "the allocation of corporate resources to achieve customer satisfaction and attain corporate goals".

Given that basis, most writers and researchers then proceed to explain the detailed issues, means or schemes which they prescribe as constituting a marketing strategy. There are two major bases that are used in the literature to explain the details of marketing strategy⁽³⁴⁾. These are the marketing mix and the product life cycle. The marketing mix element will be dealt with in detail in a subsequent part of this section.

The Product Life Cycle and Marketing Strategy

Baker⁽³⁵⁾ and Kotler⁽³⁶⁾ stated that the marketing strategy for a particular product needs to be modified as the product moves through the various stages of its PLC. This is effected by a change in the mix at the different stages, so that a change is made in the relative degree of reliance on each element, within a different mix, and hence requires a different marketing strategy at each stage. This treatment is extended by other writers such as Doyle⁽³⁷⁾. Table 4.3 illustrates the patterns included in Doyle's analysis. It can be seen that "Competitive marketing strategy at any given stage must be shaped not only according to the underlying trends of the product's life cycle; similar trends in the market's life cycle, implied at higher level of aggregation, and the advanced recognition of the character of the next stage, are also shown to influence strategic response".

Table 4.3: Implications of Product Life Cycle

Stage	Growth			
	Introductory	Exponential	Maturity	Decline
<u>Characteristics</u>				
Sales	Low	Fast growth	Slow growth	Decline
Profits	Negligible	Peak levels	Declining	Low or zero
Cash flow	Negative	Moderate	High	Low
Customers	Innovative	Mass market	Mass market	Laggards
Competitors	Few	Growing	Many rivals	Declining number

<u>Responses</u>				
Strategic focus	Expand market	Market penetration	Defend share	Productivity

Marketing expenditures	High	High (declining %)	Falling	Low
Marketing emphasis	Product awareness	Brand preference	Brand loyalty	Selective
Distribution	Patchy	Intensive	Selective	Selective
Price	High	Lower	Lowest	Rising
Product	Basic	Improved	Differentiated	Rationalised

Source: Quoted from M J Baker et al, Marketing Theory and Practice, Macmillan Press Ltd, London 1983, p.322.

Hence, Baker⁽³⁸⁾ pointed out that although the concept is not without its critics, it enjoys a remarkable level of acceptance as a managerially useful representation of how sales for a successful new product introduction may be expected to develop.

The main criticisms of the product life cycle have been summarised by Baker⁽³⁹⁾ et al as follows:

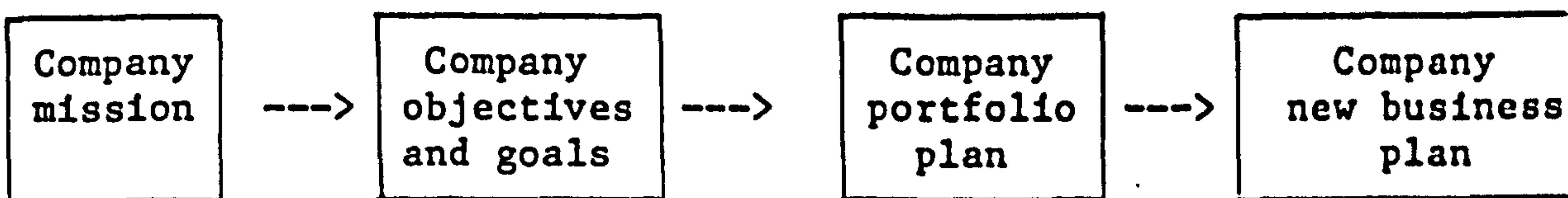
1. The product life-cycle cannot take explicit account of the influence of uncontrollable environmental elements on the evolution of products and markets.
2. The product life-cycle concept fails to accommodate the economic and competitive prospects for an industry as a whole, the match of capacity utilisation to demand within the industry; technological innovation and potential impact of new products;

3. A further criticism of the product life-cycle as a basis for formulating a marketing strategy is concerned with aggregation of product, market segments which must occur for the concept to be meaningful.

Having said that, we shall turn our attention now to exploring the content of a marketing strategy.

Strategy Content

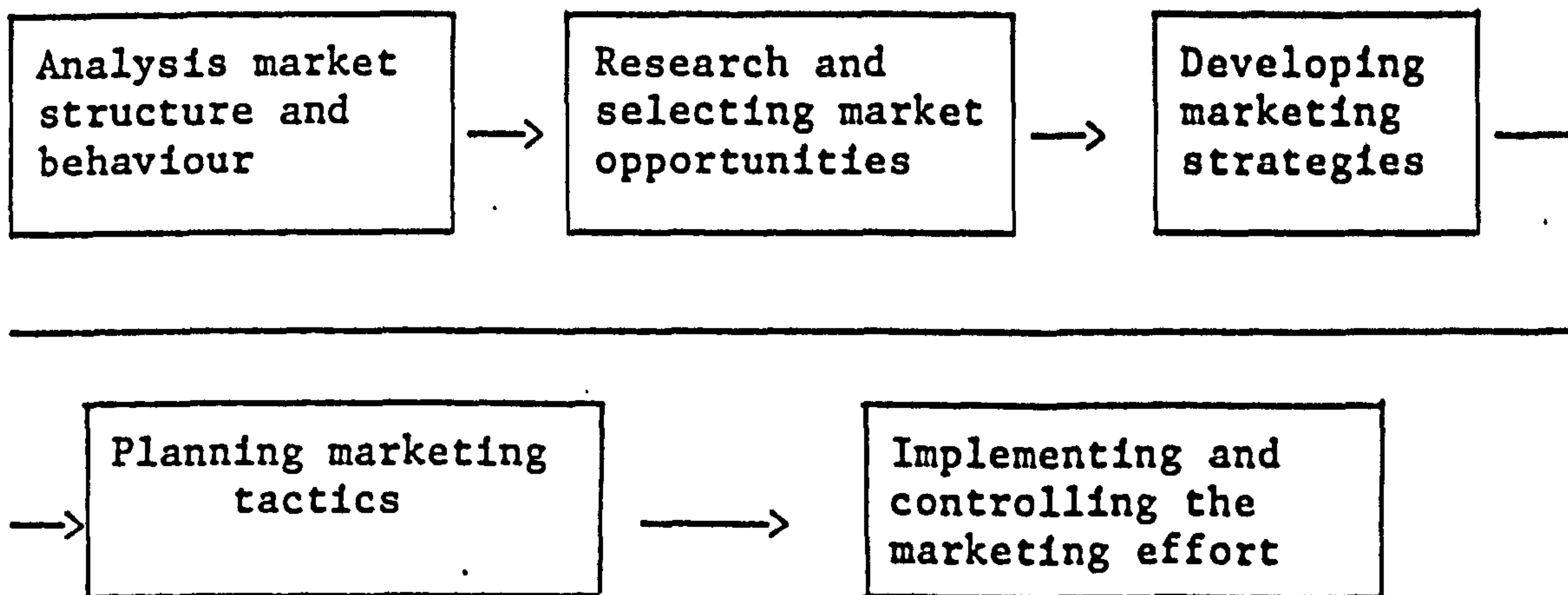
Kotler⁽⁴⁰⁾ has suggested the following representation of the strategic management process:



In this regard, systematic analysis of the wider environment can provide useful information at each stage of the above process. Corporate renewal can be one function of such analysis, keeping the firm's purposes, objectives and goals continuously clear and consistent with the conditions of the environment.

It has also been suggested that the firm must systematically identify growth opportunities and plan its business portfolio. Hence certain factors must be accepted more or less as given in that they are beyond the immediate and direct control of the marketing manager. Most of these are external, e.g demand, competition, marketing law, the wholesale and retail structure and the advertising media; others are internal, including resources, facilities, and policies, some of these really are profit inhibitors in that they restrict ability to gain competitive advantage. An example would be marketing myopia where management loses sight of its real business and fails to change its product offering, as the world around the firm changes⁽⁴¹⁾.

To avoid such myopia, marketers must be prepared to face every challenge in the business in which they operate. They must continue to generate and develop new ideas. This requires an effective strategic marketing process, which Kotler⁽⁴²⁾ suggested visualising as follows:



Kollat⁽⁴³⁾ likewise indicated that "the strategic market process usually includes marketing objectives the specification of specific market targets, a general marketing strategy and in some instances, marketing policies".

Pride and Ferrell⁽⁴⁴⁾ pointed out that the components of strategic market planning are based on (1) the establishment of an organisation's overall goals, and that must be carried out within the bounds of the organisation opportunities and resources (2) to achieve the firm's marketing objectives, a target must be selected and (3) market strategies must be formulated that when properly implemented and controlled, will contribute to achieving the organisation's overall goals.

More recently J O'Shaughnessy⁽⁴⁵⁾, in his recent book, "Competitive Marketing: A Strategic Approach", indicated that the steps that can be taken in formulating corporate strategy may also be used to formulate marketing strategy. A marketing strategy might consist of the following:

1. Statement of objectives;
2. Product market growth options or other investment objectives;
3. Core (segmentation strategy).
4. Competitive strategy.

Utilising O'Shaughnessy's approach, we shall consider the content of marketing strategy as follows:

1. Statement of objectives.
2. Target market.
3. Marketing mix strategy.

Statement of Objectives

Carroll⁽⁴⁶⁾ stated that "an objective is a long-range purpose or aim which is not quantified or limited to a time period, such as increasing the return on the stockholder's equity. A goal is a measurable objective of the business, judged by management to be attainable at some specific future date through planned actions". An example of a goal is to achieve ten percent growth within a period of two years.

Hence both objectives and goals provide specific guidance to the efforts of functions and individuals within the business. They provide motivation to individuals to perform at higher levels of efficiency and effectiveness. Objectives and goals also provide a basis for evaluating and controlling activities. Such purposes can be served only if the objectives and goals satisfy the following criteria⁽⁴⁷⁾: credibility, communicability, practicality, competitive advantage, and normality (i.e common business wisdom expressed in common business language).

Kotler⁽⁴⁸⁾ suggested that for objectives to be useful to an organisation, they should not only be realistic and consistent, but should also be hierarchical and quantitative.

Baker⁽⁴⁹⁾ et al referred to Hofer and Shendel, who have mentioned four components that should be common to all objectives: an indication of the goal or attribute sought; an index for measuring the firm's progress towards it; a target to be achieved; and an appropriate time frame within which the target is to be achieved.

On the other hand, the following are the frequently cited types of frustrations, disappointments, or unsettling uncertainties which should be avoided when dealing with goals⁽⁵⁰⁾:

1. Lack of credibility, motivation, and /or practicality.
2. Poor information inputs.
3. Defining objectives without considering different options.
4. Lack of consensus regarding corporate values.
5. Disappointing committee effort in defining objectives.
6. Sterility and lack of uniqueness and competitive advantage.

Hence a marketing objective should be expressed in clear, simple terms, so that all marketing personnel understand exactly what they are required to achieve. A marketing objective should also indicate when the objective should be accomplished.

Pride and Ferrell⁽⁵¹⁾ offered additional guides on establishing the nature of marketing objectives when they stated that "when creating a marketing objective managers must be sure that they are consistent with the organisation's overall objectives. A marketing manager who fails to establish marketing objectives that are consistent with the organisation's general objectives not only will be less likely to accomplish the marketing objectives but also may work against the achievement of the firm's overall objectives".

Briefly, if objectives are to serve their purpose well, they should represent a careful weighing of the balance between the performance desired and the probability of its being accomplished:

"strategic objectives which are too ambitious result in the dissipation of assets and the destruction of markets and create the risk of losing past gains as well as future opportunities. Strategic objectives which are not ambitious enough represent lost opportunity and open the door to complacency"⁽⁵²⁾.

In this regard, general formats are given in the literature of the type of marketing objectives that can be established.

Migliore and Stevens⁽⁵³⁾ indicated that marketing objectives should relate to sales, profits and specific consumer objectives.

Kollat et al⁽⁵⁴⁾ pointed out that "the conditions to be attained are usually a certain percentage of marketing share and various other commitments such as percentage of a given type of retail store stocking a product.

Lincoln⁽⁵⁵⁾ considered three types of marketing objective, based upon profit, market share, sales growth and unique objectives (such as technological leadership or social contribution).

Fisher⁽⁵⁶⁾ suggested that marketing objectives should relate to profit or contribution, sales costs and special objectives related to the marketing mix.

Blueell⁽⁵⁷⁾ listed sales, market share, costs and marketing mix objectives. Drucker⁽⁵⁸⁾ considered that marketing objectives can be formulated from consideration of the following areas:

- desired turnover and market share for existing markets.
- as above but for new markets.
- the phasing out of products.
- new products and modifications.
- research for new markets.

- pricing objectives.
- distributive organisation.
- a service objective aimed at customer satisfaction.

Webster⁽⁵⁹⁾ demonstrated that the most common and useful objectives are those relating to sales revenue, market share, profit margins, return on investment and production costs as a percentage of sales.

As far as marketing objectives are concerned, market share has always been an important marketing objective. Gaining market share is a key factor in reaching a leadership position in an industry. As Smith⁽⁶⁰⁾ noted, "the firm with a large market share in an industry will be in a position to initiate price changes without worrying about competitors' reactions. Presumably a competitor with a large market share will have the lowest cost. The company can therefore keep its prices low, thus discouraging other members of the industry from adding capacity and further improving its cost advantage in a growing market".

Drucker⁽⁶¹⁾ likewise stated that "a business that supplies less than a certain share of the market becomes a marginal supplier. Its pricing becomes dependent on the decisions of the larger suppliers. In any business setback - even a slight one, it stands in danger of being squeezed out altogether".

Studies by the Strategic Planning Institute have confirmed the importance of market share as a factor influencing the profitability of a business⁽⁶²⁾.

The conclusion to be drawn is quite clear. Market share is a crucial factor in assessing product/market options.

However, Bloom and Kotler⁽⁶³⁾ suggested that while market share should be pursued as a desirable goal, companies should opt

not for share maximisation, but for an optimal market share. They suggested the following procedure for figuring out the optimal point:

First: Estimate the relationships between market share and profitability.

Second: Estimate the amount of risk associated with each share level.

Third: Determine the point at which an increase in market share can no longer be expected to bring enough profit to compensate for the added risks to which the company would expose itself.

Target Market

Having identified marketing objectives the success of a company hinges on how well it can identify customer needs and organise resources to satisfy them profitably. Hence a critical element of a Marketing plan is the specific markets or groups or segments of customers that the company will serve. The markets or market segments that are selected are termed target markets.

Pergram and Bailey⁽⁶⁴⁾ stated that marketing managers must identify those specific industry groups that will offer the most profitable potential. "Saying it another way, we must direct our marketing efforts to selective selling".

Levitt⁽⁶⁵⁾ likewise argued that a business executive should stop thinking of his customers as part of some massively homogeneous market. He must start thinking of them as numerous small islands of distinctiveness, each of which requires its own unique strategies in relation to product policy, promotion, pricing, distribution methods, and direct selling techniques.

The importance of target market selection was also emphasised by Webster⁽⁶⁶⁾ when he said that "the most critical decision made by marketing management is the definition of market targets - the segmentation decision. This decision requires careful analysis and a high order of creativity".

However, various bases for segmenting markets have been adopted. In consumer markets these have included socio economic groupings, geographical location, personality characteristics, usage rate, brand loyalty and buying motives and attitudes. Strategies for industrial market segmentation may also be developed along lines similar to those used for consumer segmentation. In addition, they are often based on purchasing characteristics or variables such as type of industry, customer size and type of application.

Finally to be maximally useful, market segments must exhibit the following characteristics⁽⁶⁷⁾:

1. They should be as usable as to extent of present or potential volume requirements and rate of growth.
2. They should be accessible. The degree to which the segments can be effectively reached and served is important.
3. They should be substantial. The degree to which the segments are large and/or profitable enough must be considered.
4. They should possess actionability. The degree to which effective programmes can be formulated for attracting and serving the segments.

Marketing Mix Strategy

After corporate objectives and target markets have been identified, the marketing manager is responsible for developing the marketing mix.

As Baker⁽⁶⁸⁾ noted, "the marketing mix refers to the apportionment of effort, the combination of the designing and the integration of the elements of marketing into a programme or 'mix' which, on the basis of an appraisal of the market forces, will best achieve the objectives of an enterprise at a given time.

Kotler⁽⁶⁹⁾ likewise referred to the marketing mix "as the means by which the company defines and supports the competitive position it seeks to occupy in the target market".

Hence a firm's strategy is made up of many factors and all of its marketing decision making can be classified into four strategy elements (1) product, (2) pricing, (3) distribution and (4) promotion. The marketing strategist must blend these four decision elements to achieve balance and consistency.

In this regard, Baker⁽⁷⁰⁾ pointed out that "whatever our ambitions, or our present occupation, it is of paramount importance that one recognises that the mix variables are interdependent and interacting. To view them as if they existed in isolation and in separate water-tight compartments is to ignore the true importance of the marketing concept".

As Table 4.4 indicates, market share can be increased through a firm's marketing mix. Hence gaining a significant market share increase requires a carefully planned and well-executed market strategy together with specific tactical plans.

At this stage, given that the firm makes a total offering or package of value, it has been established in the third chapter that it is possible to distinguish between those selling primarily on price grounds and those selling primarily on non-price grounds.

Table 4.4: Marketing Strategies for Gaining Market Share

Strategy	When to Use	How to Apply in Market Place
1.Price	To gain a share in a product line (a) where there is room for growth or (b) by launching a new product, preferably in a growth market.	<p>A.Set general market price level below average.</p> <p>B.Lower prices at specific market targets where reduced prices will capture high volume accounts and where competition is vulnerable on a price basis; lower price enough to keep the business.</p> <p>C.Lower prices against specific competitors who will not or cannot react effectively.</p>
2.New Product	When a new product need (cost or performance) can be uncovered and a new product will (a) displace existing products on a cost or performance basis or (b) expand the market for a class of product by tapping previously unsatisfied demand.	<p>A.Develop and launch the new product, generally.</p> <p>B.Target specific customers and market segments where the need for the product is strongest and competition most vulnerable, and immediate large gains in share can be obtained.</p>
3.Service	To gain share for specific product lines when competitive service levels do not meet customer requirements.	<p>A.Improve service generally beyond competitive levels by increasing capacity for specified product lines.</p> <p>B.Target specific accounts where improved service will gain share and the need for superior service is high.</p> <p>C.Offer additional services required in general or by specific customers - information, engineering advice, etc.</p> <p>D.Expand distribution system by adding more distribution points.</p>

4. Quality/
Strength of
Marketing

When a market segment or specific customers are getting inadequate sales force coverage (too few calls/month) or inferior quality of coverage (poor salespeople or insufficient information conveyed by salespeople).

- A. Add salespeople or sales representatives to improve call frequency above competition's in target territories or at target accounts.
- B. Sales training programs to improve existing sales skills, product knowledge, and territorial and customer management abilities.
- C. Sales incentive program with rewards based on share increases at target customers or in target markets or products.

5. Advertising
and Sales
Promotion

(a) When a market segment or specific customers are getting inadequate exposure to product, service or price benefits compared to competition (b) A change in the benefits offered is made and needs to be communicated.

- A. Select appropriate media to reach target customer groups.
 - B. Set level and frequency of exposure of target customers high enough to create adequate awareness of benefits and counter competitive efforts.
-

Source: Adapted from C Davis Fogg "Planning Gains in Market Share", Journal of Marketing, July 1974, p.32.

Once again there are many reasons why each strategy is likely to differ in some important ways from all others.

First: the marketing strategy developed by a market planner is always relative to a set of particular conditions prevailing at the time the strategy is developed. In all likelihood, no other similar combination of circumstances has ever existed before or will ever exist again.

Second: each market planner usually selects for himself a somewhat special group of market targets. If the targets of one firm differ from those of another, the marketing strategy developed to reach them will be correspondingly different.

Third: each firm differs significantly from others in its ability to develop and implement a competitive marketing strategy. Differences in technical skills, marketing experience, production or financial capacity and the like are strong influences upon the choice and design of the company's competitive base for its market. As Woo and Cooper⁽⁷¹⁾ noted, "the specific strategy of any business must be tailored to its capabilities and the requirements of its competitive environment".

Managing Strategic Change and Sustaining a Competitive Advantage

Baker⁽⁷²⁾, in his award-winning article, referred to Levitt who pointed out that "every major industry was once a growth industry. But some that are now riding a wave of growth enthusiasm are very much in the shadow of decline. Others which are thought of as seasoned growth industries have actually stopped growing. In every case where the reasoned growth is threatened, slowed or stopped, it is not because the market is saturated. It is because there has been a failure of management. The failure is at the top. The executives responsible for it in the last analysis are those who deal with broad aims and policies".

Perhaps the above argument is especially important with businesses that have been successful in the past. Success tends to reinforce the belief of management in the essential correctness of past approaches and the present competitive posture.

Hence competitive market strategies must offer a scientific basis for gaining and sustaining a competitive advantage. The testing of strategies cannot stop here, however, since competitors' actions and changes in the market-place comprise to erode the basis for advantage.

Consequently, the question "How do firms operating within an industry compete?" can be interpreted in many ways. But to be meaningful any competitive analysis requires at least an answer to the question "In what way is the cluster of benefits that a firm operating within an industry can offer different from competitive offerings?" Further, such analysis would be the base against which the firm's future strategy would be planned.

In this regard, Mathur⁽⁷³⁾ pointed out that "the ways a firm chooses to differentiate its offerings in the eyes of its customers from those of competitors can be measured along non-price dimensions".

Also Hunt, Muncy and Ray⁽⁷⁴⁾ indicated that the bases for securing differential advantage are: market segmentation, selection and/or improvement of product, process improvement, and product innovation. These bases for differential advantage give the firm a position in the market-place known as an "ecological niche".

On this point, Bell⁽⁷⁵⁾ argued that "although pricing is a necessary element in a marketing programme, it is the non-price ingredients that are most characteristic of marketing. The marketing manager ordinarily has exclusive responsibility for

development of non-price competitive strategy. His responsibility over price, because of its necessary relations to cost and profit objectives, is not always so clear cut".

He then proceeds to state that "the nature of the operating system that engages in marketing competition also explains the importance of non-price strategies. Goals of most marketing firms are closely tied to survival and growth maintenance and increase in market share which are common measures of success. Business managers are motivated by desires to dominate the market, product, service or enterprise and differentiation provides the means by which monopoly is approached".

At this point in the research, the researcher will follow the Bill axiom and assume that the firm's analysis showed that the best way to improve its competitive position within the industry is to sell a more sophisticated or higher quality offering, with a greater variety of service, and more information and marketing efforts. "We shall assume that relying on price competitiveness is no longer effective, or effective enough, to meet volume targets. Then the question at firm level becomes: how are we to reach a position of non-price strength?" In particular, how is non-price competitiveness to be achieved if the product is not sophisticated and is not competitive on quality with other suppliers; or if the firm does not provide pre-sale information and advice or after-sales services, or if the company is unknown, unfamiliar, perhaps untrusted in the market place, who sells mainly by having a competitive price?"⁽⁷⁶⁾

To answer such questions, it is possible to identify four strategic pathways. These are discussed below.*

* This approach has been adopted from N Piercy's "Export Strategy, Market and Competition"

First: Product input to non-price strategy

In the third chapter of this thesis we have clearly indicated that the company product must be modified over time if it is to achieve competitive advantages in the market-place. Hence a number of comments require to be made in the context of the product range strategy to be used as the strategic pathway from competition on price towards competition on a non-price base.

First: There is some merit in returning to what was said in Chapter 3 about quality features and style modifications as main aspects of products that achieve competitive advantages in the market-place. These aspects must be considered as constituting a fundamental part of non-price strategy.

In their recent article, "Making Quality a Fundamental part of Strategy", Ross and Shelly⁽⁷⁷⁾ say that "this revision of competitive strategy is partly the result of new evidence that quality has a direct impact on both market share and profit".

Porter⁽⁷⁸⁾ argued that differentiation by quality insulates a business from competitive rivalry by creating customer loyalty, lowering customer sensitivity to price, and protecting the business from other competitive forces that reduce price-cost margins. Higher quality enables the business to charge a premium price, which generate superior margins but also hinders large scale market penetration.

In the same vein, T Gale and R Klavans⁽⁷⁹⁾ in their paper, "Formulating a Quality Improvement Strategy", stated that "for many manufacturers recovery means developing higher quality products that stay out front where they can command relatively higher prices improved quality is much more difficult to emulate, competitors lag behind. They need time, money and ingenuity to catch up. Thus, in the very short run, superior quality allows one to gain a high value position. But, in the long run, superior

quality allows one to hold onto the high-value position and reap permanent gains in market share".

A Young⁽⁸⁰⁾ was in agreement with the above view when he mentioned that "a corporate strategy that focuses on quality as a key element is the best way companies can respond to the pressure they face. It is a strategy that can be pursued now, without any governmental action. And it is a most appropriate strategy, because in essence the primary determinant of success in international markets is the customer. And customers base their buying decisions on the fundamentals of product cost and quality".

Thus quality became the competitive advantage of the 1980s and beyond. As Baker⁽⁸¹⁾ indicated several times in his award-winning article, British loss of competitiveness with Japan and other countries can, to a large extent, be attributed to high quality imports and the relative lack of emphasis on quality by the UK firms in planning their strategy.

Hence "concern with quality is not new but more and more firms have considered it an important element in their competitive strategy"⁽⁸²⁾.

However certain conditions increase the probability that this strategy will accelerate and extend a product's life cycle:

1. Quality modification must change the market and/or increase the firm's market share.
2. Quality improvement should be visible and easily promotable for maximum competitiveness.

Turning now to feature modification, this must be an important part of product strategy for good reasons:

1. New features are an effective method of developing an image of progressiveness.

2. They are a flexible competitive weapon as we have indicated in the third chapter because they can be adopted quickly, dropped quickly and made optional, often at very little expense.

Style modification has also been used in many firms to achieve competitive advantages in the market-place, perhaps the most conspicuous examples being clothing and automobile companies.

Hence style modification must be emphasised as a part of product strategy for the following reasons:

1. Most importantly, if successful, it dramatically accelerates sales opportunities.
2. Another advantage of styling emphasis is that a firm has the ability to create a unique image that helps in capturing an important segment of the market.

However, changes in the product's quality, functional features and style are guided by the company design policy.

Therefore it is essential to plan and control the development and design of products. The techniques of marketing research should be applied to testing new product designs. The investment costs of new products, as mentioned in Chapter 3, are heavy and it is vital for a firm operating within an industry to have objective information about their product range. This includes an assessment of design trends.

McKinsey⁽⁸³⁾ studied the manufacturing operations of UK firms and their foreign competitors. They found that overseas companies tend to spend a much greater proportion of overheads on engineering and marketing but considerably less on functions related to production.

Second: Products should be analysed and assessed in relation to competition and customer performances. Therefore innovations must be planned and introduced to occupy identified market positions. Hence management should devote some of their energies and time to new product development since it is an essential activity for companies seeking growth.

Again, by adopting an innovation strategy as their posture, companies are better able to sustain competitive advantages in the market-place.

Beresford⁽⁸⁴⁾ stated that "companies that come out on top in the 1980s will largely be those that resist the temptation to drain cash from existing, mature business in order to increase dividends, or to invest heavily in new, high-risk technologies; rather, they will concentrate on reinvestment to make their existing business steadily more competitive". "Failing to integrate technology with strategic plans could mean a substantial decline in business"⁽⁸⁵⁾.

In his recent article "Technology and Competitive Advantage", Porter⁽⁸⁶⁾ pointed out that technological innovation can have important strategic implications for individual companies. It plays a major role in structural change in industry as well as in creating new industries.

Parsons⁽⁸⁷⁾ was in agreement with Porter when he mentioned that "because the competitive forces exerted by buyers, suppliers and substitution, new entrants and rivalry can have a significant impact on a firm. Managing information technology is a vital element of a firm's strategy and part of its competitive domain. Although IT represents a challenge or threat to a firm's established ways of doing business, IT also represents opportunities for gaining new competitive advantages. IT resources can be used as competitive weapons to improve a firm's position in its competitive environment". Table 4.5 shows the range of technologies typically represented in a firm's value chain.

Table 4.5: Product Process Technology and the Generic Strategies

Illustrative Technological Policies

	<u>Cost Leadership</u>	<u>Differentiation</u>	<u>Cost Focus</u>	<u>Differentiation Focus</u>
Product Technological Change	Product development to reduce product cost by lowering material content, facilitate ease of manufacture, simplify logistical requirements, etc.	Product development to enhance product quality, features deliverability, or switching costs.	Product development to design in only enough performance for the target segment's needs.	Product design to meet the needs of a particular segment better than broadly targeted competitors.
Process Technological Change	Learning curve process improvement to reduce material usage or lower labour input. Process development to enhance economies of scale.	Process development to support high tolerances, greater quality control, more reliable scheduling, faster response time to orders, and other dimensions that raise buyer value.	Process development to tune the value chain to a segment's needs in order to lower the cost of serving the segment.	Process development to tune the value chain to segment needs in order to raise buyer value.

Source: M E Porter, "Technology and Competitive Advantage", The Journal of Business Strategy, Vol.5, N3, 1985, p.61.

In short product innovation or improvement in existing products can offer a firm operating within an industry a route to non-price strength in the market-place, drawing on quality, reliability, design, styling and other relatively objective factors.

Second: Service input to non-price strategy

As mentioned in the third chapter, the marketer of technical products needs services capability to establish a reputation with potential buyers. They will hesitate to purchase his product, however good, unless they are assured of service backup. Thus it may be that the greatest scope for achieving competitive advantages through non-price factors lies in changing the level of service associated with the product.

Consequently most companies in their competitive strategy must try to offer the best service possible in all markets because consumer satisfaction and repeat purchases will be related to the service received especially compared with the level of service offered by the competition.

Hence again Buffa⁽⁸⁸⁾ pointed out that "a firm can compete on the basis of the quality of its products and services. Customers and clients are often willing to pay more or wait for delivery of superior products".

James⁽⁸⁹⁾ emphasised a similar view when he said that "to obtain a more esoteric advantage may require a larger human element within it: the support services have this element of uncertainty within them - delivery reliability; after-sales service; reputation for meeting emergencies; pre-sales advice to customers; co-operation.

Addressing the same issue, Levitt⁽⁹⁰⁾ argued that "the seller may provide other unexpected but moderately helpful aids, such as

new delivery scheduling ideas, more 'interesting' terms, different ways of delivering batches, so as to reduce the buying, handling problems and costs".

Professor Nordhoff⁽⁹¹⁾, Chairman of Volkswagen brought this out very clearly when he laid down as one of the company's policies that he was not prepared to sell his cars anywhere in the world where he could not offer a proper after-sales service which entailed not only the maintenance service but also parts stocking and product knowledge for emergency repairs.

Terpstra⁽⁹²⁾, in his study of American marketing in Europe, found that many American firms claimed that their quality control and service programmes were important factors giving them a strong competitive position in Europe. For instance, when the French subsidiary of the Singer Company was considering adding extra consumer durables to its line, it first investigated consumer reaction. It found that most of the survey's respondents would be quite willing to buy an appliance from Singer, because the company's reputation for good service had given it an advantage very hard to duplicate.

Rose⁽⁹³⁾ also indicated that Texas Instruments established semi-conductor production facilities in Japan to prevent Japanese manufacturers from dominating their own market.

Smith⁽⁹⁴⁾ demonstrated that in response to increasing competition arising from changes in regulation technology and the market place, GTE Sprint has evolved over a very short period of time. One of the major thrusts of the company's strategy was to create a basis for competition on attribute other than price. Management took measures to differentiate its service from that of its competitors.

With reference to service, Hutchinson and Stalle⁽⁹⁵⁾, in their article "How to Manage Customer Service", indicated that all the companies quoted had applied different solutions to their problems. Each had evaluated the contribution of the service factor to marketing success, and had implemented a mix-step programme for customer service management, as follows:

First: Define the elements of service - this stage requires marketers to identify the precise nature of the service to be offered to their customers.

Second: Determine the customer's viewpoint. This stage should include consideration of three important aspects of the customer's view of service:

1. The additional elements of service perceived to be important by customers.
2. The economic significance of each element of service to the customer.
3. Rating of competitors' service levels by the customer.

Third: Design a competitive service package which follows the same principles as are used in the development of tangible products. Customers' service needs must be analysed and the effects, for example, of certain delivery periods should be assessed.

Fourth: Developing a programme to sell service is critical. An indigenously designed service is of no real value until it is used by those for whom it was planned.

Fifth: Market-test the programme. Pilot marketing schemes suitably controlled and researched may prove extremely useful in assessing total market demand and in amending certain elements of a service before it is launched nationally.

The final phase relates to the establishment of quantitative standards of performance for each service element.

Thus for present purposes, it can be seen that the creative use of service factors can provide a form of non-price strategy. This aspect of selling products has, therefore, become for more important in the strategies of organisations.

Third: Promotion Input to Non-Price Strategy

Two facets of non-price strategy, namely product planning and product service have been reviewed. The third input to non-price strategy relates to promotion. This includes the use of marketing communications to create awareness, favourable perceptions and behavioural changes among buyers.

James⁽⁹⁶⁾ argued that it must be remembered that "the adoption of a market orientation by a firm, as seen in its product or its associated services, is not automatically obvious to all potential customers; it has to be communicated".

Farris and Reibstein⁽⁹⁷⁾ stated that "higher advertising and promotion expenditures may be necessary to convey a quality position to customers and increased sales force spending may be needed to support the higher level of customer service that may accompany higher quality products, and heightened emphasis on product innovation".

Kohler and Kramer⁽⁹⁸⁾ stressed the importance of promotion as a part of non-price strategy when they indicated that "promotion strategy, the most effective blend of communications, lies at the very base of both domestic and foreign marketing. Advertising, sales promotion, personal selling and publicity are necessary for achieving competitive advantages in the market-place".

Hence advertising is a very important aspect of promotion. It must be used as a competitive tactic in non-price strategy to offset or combat the effects of competitors' advertising.

Foxall⁽⁹⁹⁾ pointed out that "within industries which are characterised by high levels of non-price competition, the task is mainly that of ensuring that customers move through the spectrum at a sufficiently fast pace to replace those who are lost to competition. In this case, advertising may have the objective of moving customers at all levels along the continuum".

Also, through the technique of good salesmanship, the supplier may be attempting to build up the buyers' switching cost by persuading the buyer to custom-design the suppliers' product into the buyers' product.

Finally: Publicity must supplement other promotional activities. Public relations have traditionally been concerned with the external image of the client company, its standing in the market-place and the way it is perceived by the customer.

Accordingly, a firm operating within an industry should be prepared to spend time and effort in planning promotional inputs that will reinforce the overall marketing strategy.

Fourth: Distribution Input to Non-Price Strategy

This fourth main input to non-price strategy is particularly important in organisational markets. A firm must be ready to make adjustments if the distribution system does not reach the desired target market.

Distribution networks have been used as a competitive tactic by IBM in different markets. Watson⁽¹⁰⁰⁾ stated that "in Japan and its other world markets, IBM has created such a vaunted place for its systems product that competition extends beyond mainframe hardware to software as well".

It would seem that it is not possible to say from this kind of analysis which non-price strategies are most important or to select those to which UK companies should particularly devote their attention. To reach such a conclusion carefully designed studies into specific industries would have to be undertaken.

Conclusion

A number of conclusions can be drawn based on the research studies presented in this part. These are as follows:

First: Marketing strategy must be a general management responsibility as well as the responsibility of the marketing manager.

Ames⁽¹⁰¹⁾ in his study of 50 industrial companies concerning the failure of marketing planning, found that this was often attributable to failure to fit the concept of strategic planning to the unique requirements of industrial markets. In Ames' words, the role of the marketing planner is as follows: "Rather than developing self-contained marketing plans, he analyses and interprets market requirements so that top and operating management can decide best how to respond".

Second: In order to formulate a successful marketing strategy, whether based on cost, technology, distribution, service or other competitive advantages, the firm must constantly consider consumer consistent needs, perceptions and preferences.

Levitt⁽¹⁰²⁾ argued that "a manufacturer's competitively priced machine tools might have the most sophisticated of numerical controls tucked tightly behind an impressive panel, but certain customers may refuse to buy because output tolerances are more precise than necessary or usable. The customer may actually expect and want less".

Levitt pointed out that "the way the company manages its marketing can become the most powerful form of achieving competitive advantages. Indeed that may be how some companies in the same industry differ most from one another".

To sum up, competitive marketing can be achieved through a number of different approaches⁽¹⁰³⁾

- By concentrating on particular market segments.
- By offering products which differ from rather than mirror, the competition.
- By using alternative distribution channels and manufacturing processes.
- By employing relative pricing and fundamentally different cost structures.

Finally: Competitive marketing strategy requires superior resources and superior skills. The art of strategy foundation lies in putting together the best arrangements of skills and resources to enhance their combined effectiveness.

Peters and Watermann⁽¹⁰⁴⁾ indicated that the real advantages of IBM and Procter and Gamble are the decades of investment in getting their people to bring assured service and quality to their customers.

As Kanter⁽¹⁰⁵⁾ puts it, "Innovations, whether in products, market strategies, technological processes or work practices are designed not by machines but by people".

Given that recent evaluation of international competitiveness has inevitably focused, perhaps excessively, on the Japanese 'miracle', "Japan as number 1" is the title of one recent book describing the Japanese economic miracle. Not all observers however, have this view, indeed a number of weaknesses in the

Japanese system. Nevertheless while there are no grounds for complacency about Japanese competitiveness, it would be dangerous to say that because the Japanese social system is different, British industry is unable to compete. Responsible marketers and managers in the UK should carefully consider the reasons for Japan's competitiveness and ask themselves what can be learned from its excellent example⁽¹⁰⁶⁾.

Consequently we shall now turn our attention to an examination in broader terms of the underlying reasons for Japanese marketing success.

SECTION TWO: The Japanese Marketing Challenge

The basic purpose of this section is to examine in broader terms the underlying reasons for Japanese marketing success, world wide, with particular reference to UK markets. It is hoped that analysing the strength of competitors will help to show the obvious weakness within the UK marketing system. The following aspects are examined: The uniqueness of the Japanese marketing system, integrated government business decision-making, the unique role of management style, the productivity system and finally the Japanese character.

Japanese Marketing System

The rapid and effective manner in which Japanese firms have incorporated marketing as a way of achieving competitive advantage is an amazing phenomenon. In a short period of about thirty years, they have embraced marketing, a totally foreign technology and approach to business, modified it, adapted it to their culture, and gained recognition as world class marketers⁽¹⁰⁷⁾.

Lazer, Murata and Kosaka⁽¹⁰⁸⁾ indicated that "Japan is one of the very few foreign countries where the marketing philosophy is well understood, widely accepted, and effectively applied. Japan's marketing management success has been described as a 'classic textbook case' of applying the marketing concept - carefully studying consumers' wants and needs in international markets, developing production, incorporating desired features and putting effective marketing programmes into place to support them".

McGraw⁽¹⁰⁹⁾ also stated that Japanese policies following World War II were based on the identification of some key marketing variables as part of what can be called a national market concept.

First: Europe and the US were identified as markets with high demand potential.

Second: Consumer preferences were identified as discretionary . income rose and finally, they identified their own ability to meet these demands.

In the same vein, Stone⁽¹¹⁰⁾ stated that "the marketing cycle of the Japanese is a combination of some or all of the following processes, product life cycles, recurring products component and production innovation, competitive entry, after market development, production or marketing and overseas assembly".

In his recent article "14 Questions from Japan", Hugh Corgtazzi⁽¹¹¹⁾ pointed out that "a key element in the competitiveness of many Japanese firms has been anticipating demand and elaborating careful marketing strategies. Japanese firms are meticulous in their analysis of new markets and in monitoring changes in demand. In order to win a new market or to retain a workforce in time of recession, they are prepared to adjust their pricing to undercut the competition".

Magaziner and Hout⁽¹¹²⁾ likewise mentioned that "the market and product entry strategies of Japanese companies have often targeted the weak spots of competitors. Japanese companies commonly beginning exporting to Third world markets which are peripheral to their large US or European competitors. These markets represent a small portion of Western sales but can add significantly to the Japanese companies volume base. When entering these markets Japanese companies generally cut prices".

Hence some authors and researchers have contrasted the Japanese marketing philosophy with that of other exporting nations. For instance, a PA management consultant has noted that⁽¹¹³⁾, "while European accountants tell their companies which markets to

abandon as unprofitable ... the Japanese would do exactly the opposite. They have a set of priorities, enshrined in their business philosophy, first to improve or maintain market share, second to do what is best for the company's people, third to do what is best for the company, and fourth, to make a profit".

As Manasian⁽¹¹⁴⁾ noted, Japanese executives seldom explain their interest in a business as being based on the opportunity it provides to make a log of money an explanation routinely given by British and American executives. They talk about growth markets, beating the competition ... and achieving sales targets. Lists of market shares are regularly published in the Japanese business press. Prestige in Japan is conferred on the company with the biggest chunk of a market, not on the company with the fattest bottom line. Of course, often the two are the same. Japanese companies are not uninterested in making money.

Also, Spurrell⁽¹¹⁵⁾ has pointed out that "the primary objectives of Japanese sales companies are set in terms of sales volume rather than short term profitability. The essence of this strategy is to increase sales at least as fast as or faster than any competitors. A number of more specific policies follow, products are updated or redesigned whenever a market threat or opportunity is perceived; prices set at a level designed to achieve market targets will be cut if necessary".

Spurrell indicated that UK business strategy has been less effective in general because:

1. it has focused almost entirely on short term profitability at the expense of long-term viability and growth.
2. the implications for product mix and volume and their interaction in the market have been largely ignored.
3. the importance of volume and its effect on cost structure - both actual and potential - have been ignored.

4. expenditures to protect and develop volumes of sales have been avoided or made on an inadequate scale, and have been among the final casualties in cost cutting campaigns in pursuit of short-term profitability.

Murata⁽¹¹⁶⁾, in a recent article, demonstrated that a unique characteristic of Japanese marketing strategy as compared with that of possible European counterpart is that

1. Strategy in Japan is not always explicitly stated in written form but is implicitly understood and firmly supported among the people concerned.
2. Japanese strategies are long-term oriented compared to the strategies of the average European firm, and at the same time exhibit flexibility towards changing local conditions.
3. Japanese companies can continue their efforts either in the entry to the new product markets or to the new geographical areas because the Japanese stockholders and financial institutions do not urge for short-term profitability.

Hence an international focus becomes one of the important factors shaping the marketing mix, particularly in 1970, as Japan increased its competitiveness in world markets. Research and development, new products, pricing, distribution, and advertising activities all had a definite international focus.

In contrast, British companies chose an internal domestic focus and exhibited very little interest in emerging international opportunities.

As Ken Simmonds⁽¹¹⁷⁾, Professor of Marketing at the London Business School, noted, British companies have been slow to adopt a global view of markets.

Also Simmonds⁽¹¹⁸⁾ in his recent article "How to compete", stated that "in the face of an obvious threat to the UK market, British firms often react simply by intensifying their domestic competition. Coalitions to hold local competition in abeyance while joining forces against the obvious external threat have been rare. The Americans have been concerned about how to collaborate to face successful Japanese collaboration, British firms should be worried about both".

Again, the Japanese have avoided going global all at once. Ohmae⁽¹¹⁹⁾ pointed out that "when they have an exportable product, they test it out in South East Asia and a few US cities in order to learn how to market it abroad. When the situation looks risky, they also ask trading companies to do the overseas marketing on their behalf, again to prevent their lack of critical resources from becoming a bottleneck to international growth".

It has also been suggested that in export markets the Japanese export premium, quality goods and consume relatively inferior quality goods in their home market. In contrast, most high quality US and the UK products are sold in home markets, while the inferior quality or "no frills" goods are exported to other nations⁽¹²⁰⁾. In addition, Japanese products introduced to home markets are carefully selected and designed with a view towards achieving rapid growth and large production volumes early in the product cycle⁽¹²¹⁾.

Furthermore, the Japanese are quick to respond to local performance and build these into their products. "Again and again one hears complaints that US manufacturers operate on that old dictum of Mr Ford, the customer can have any colour so long as it is black. To engage in competition with those who are highly conscious of designing products for the market in question when one is not so oriented makes for obvious competitive disadvantage"⁽¹²²⁾.

As far as the Japanese market strategy is concerned, Levitt⁽¹²³⁾ explained that significantly "Japanese companies operate almost entirely without marketing departments or market research or the kind so prevalent in US or Europe. Yet they have discovered the one great thing all markets have in common, an overwhelming desire for dependable, world standard modernity in all things at aggressively low price. In response, they deliver irresistible value everywhere, attracting people with products that market research technocrats described with superficial certainty as being unsuitable and uncompetitive".

Stone⁽¹²⁴⁾ was in agreement with Levitt when he said that "Japanese companies have the advantage of any new entrant in that they see the market with fresh eyes. Western companies may segment the market in one way - Japanese firms may try different methods of segmenting, different target customers, different distribution channels, different promotion strategies. This makes response more difficult for Western companies saddled with a particular interpretation of market and how to deal with it".

Thus Japanese companies have become attuned to the local requirements and the wants and needs of different market segments throughout the world.

Fahey and Randor⁽¹²⁵⁾ confirmed the above view in their study which revealed that the Japanese product market strategy was highly market-oriented and, unlike the US approach, world wide in scope. A significant reflection of this market orientation is the product market strategy adopted by the Japanese to enter and develop a strong position in the US market. This strategy can be summarised as follows - focusing upon market segments not being addressed. High volume products are then developed through aggressive pricing, private labelling, and using the distribution arm as a promotional tool. Once a significant market position is established, Japanese manufacturers move up the product line.

Also, Walsh⁽¹²⁶⁾ in his study "Winning the Export War", indicated that short-sightedness and inadequate marketing and research into just what the competition is doing were the main reasons behind the UK lack of export competitiveness.

Recently P Doyle⁽¹²⁷⁾ et al, in their study, "Why Japan Out-Markets Britain", indicated that

1. only one-third of the British (compared with two-thirds of the Japanese) even believed themselves to be good at sales and marketing. When entering a new market, the British usually arrived later, and few had strong commitment to it.
2. some 87% of the Japanese regarded aggressive growth or market domination as their goal, but only 20% of the British thought these targets applied to them. Maintenance of the status quo or the prevention of decline were the most typical British objectives. Short-term profit was also much more important to the UK companies (93%) than to the Japanese (40%).
3. It has been found that (47%) of British companies (13% of Japanese) were unclear about the principal categories of customers and their special needs. The following comment by the sales director of the British engineering company illustrates this: "We do not see the market as being made up of specific segments. Our market is made up of the whole industry".
4. The vast majority of Japanese companies (87%) believed their products to be superior in quality to the competition; only 34% of the British shared this conviction.
5. The two groups seemed to attach a similar degree of importance to advertising. However, the Japanese tended to spend more on promotions, and the British more on personal selling. No

significant differences emerged in distribution strategies but the Japanese gave a much higher rating to dealer support.

6. British companies did not possess budgeting or information systems which showed up performance at the market or product line level. Systems were often designed to show results by factory rather than by product or market. By contrast, organisation, responsibilities and systems in the Japanese subsidiaries generally centred around the product or market.

The study concluded that the differences in performance between the Japanese and British companies in the UK market could not normally, therefore, be attributed to national culture or other innate advantages. They were the result of professional skill. Overall, the results strongly support the initial hypotheses about Japan marketing strengths. The British companies by contrast, were too often finance or production oriented; and their strategies generally failed to reflect the dynamics of the market. Perhaps most importantly, many of them failed to recognise the dynamics of competition and to realise that in order to win today, companies need to be highly professional, committed and aggressive.

A further study in the UK machine tool industry⁽¹²⁸⁾ found that Japanese companies have been successful in developing products to meet international needs. By contrast, British machinery has too often earned a reputation at home and abroad for being unreliable of lower quality and offering inadequate service. "This has not only wiped out what should have been a cost advantage in the home market, but turned it into a cost disadvantage. For over a century the industry demonstrated a notable market lack of sensitivity to the needs and wants of its customers".

In this connection, a rare and fascinating insight into the Japanese approach to the dynamics of competition is provided by Ohmae⁽¹²⁹⁾, who described and illustrated four approaches used by

Japanese companies to achieve competitive advantage over their rivals. These are as follows:

First: focusing through market analysis on the key factors for success in the industry.

Second: pursuing aggressive initiatives to gain novel competitive advantages.

Third: exploiting corporate relative advantages.

Fourth: utilising available degrees of strategic freedom.

Again, an outstanding example of a competitive marketing strategy can be found in the Japanese shipbuilding industry. Japan's shipbuilding capability was essentially destroyed during World War II. However Japanese shipbuilders' export competitiveness was the result of pursuing the following conscious business strategy⁽¹³⁰⁾

- Continued reduction in cost per ton, supported by technological improvement.
- world market segmentation
- highly leveraged operations substantially financed by the Industrial Bank of Japan.

Another example of competitive marketing was the way in which the Japanese created dissatisfaction with Volkswagon's Beetle, the one time market leader. In respect of the motor industry, the Japanese used three key factors, namely, to equal or outstrip the competition in terms of design, quality, reliability and after sales service. The very success of the 'Beetle' in terms of its rugged design left it open and vulnerable to an up-market model produced at the same price, with the same reliability and

durability, but with the superior qualities of a more refined design⁽¹³¹⁾.

Also Hout, Porter and Eileen⁽¹³²⁾ explained that Honda became a global company through its marketing strategy. Three crucial steps were decisive in Honda's achievement.

First, "Honda turned market performance around the characteristics of its own products and away from those of American and European competitors. Honda targeted new customers and used advertising, promotion and trade shows to convince them that its motorbikes were inexpensive, reliable and easy to use. A large investment in the distribution network of 2,000 dealerships, retail missionaries, generous warranty and service support, and quick spare parts availability was backed up by the marketing message".

Second, Honda sustained growth by enticing customers with the upper level of its product line.

Finally, the third step taken by Honda was to exploit economics of scale through both centralised manufacturing and logistics.

As Murata⁽¹³³⁾ commented, "look at cars like Toyota, Datsun or Honda. I do not think they are Toyota cars, Datsun cars or Honda cars. They are all marketing cars because they fit the needs of American or European consumers".

In assessing the advantage of entering into a joint venture with Japanese automobile producers, one of the US "Big two" auto manufacturers pointed out⁽¹³⁴⁾, "they help to establish a US presence in other Far East markets with Japanese-made cars bearing US names with US models through Japanese outlets ...(and) they allow US manufacturers to take advantage of Japanese overseas

marketing, including language skills and knowledge of Asian cultures".

The PE Consulting Group Limited report⁽¹³⁵⁾, "Japan its motor industry and market", demonstrated that export marketing seems to be given second place in terms of priority by the manufacturers themselves. The President of Toyota said, "if we find that the domestic market is sufficiently covered and if we think it is possible, then we will direct our efforts to export. Our export ratio is 20 percent and we think that 25 percent is desirable".

In September/October, 1981, a team of four representatives of the SWP led by M Dan Gossop of the AUEW (Engineering), visited three Japanese producing packaging machinery companies, Osaka Machinery Company, Fuki Machinery Company, Nagoya Omori Machinery Company, Tokyo, and reported that⁽¹³⁶⁾

1. These companies put a high priority on maintaining a strong direct sales effort, principally in their home market but to some extent also in overseas markets.
2. All have first class sales promotion aids.
3. All provide extensive after-sales service support to customers but by employing varying methods.
4. Ensuring the availability and prompt despatch of spare parts to meet customer demands is given high priority in all these companies.

An insight⁽¹³⁷⁾ into the Japanese marketing system is obtained from a further study by Yoskino. The study concluded that, with Japan's entry into the mass consumption economy, the marketing system has been undergoing significant changes. These changes include the following:

1. The emergence of marketing-oriented large manufacturing firms, particularly those specialising in consumer products.

2. Greater importance is attached to marketing research and demand creation activities.
3. The rapid growth and diffusion of mass merchandising retail institutions.
4. Attempts by traditional wholesale and retail institutions to adopt a counter-strategy to regain their functional viability.
5. Dynamic and shifting power relationship among various elements of the distribution structure.
6. Significant growth of consumer financing, particularly instalment credit.

Accordingly, in the following pages each of the marketing variables in Japanese marketing strategies will be presented and discussed briefly. The variables typically include those over which the marketer has a measure of control such as price and non-price factors.

Price Competition in Japanese Strategy

With regard to price competition, Piercy⁽¹³⁸⁾ stated that "no analysis of Japanese strategy in doing business can fail to start from the point that Japanese firms have been aggressive users of price competition, where it gains volume and achieves market penetration".

The NEDO⁽¹³⁹⁾ report, "Japanese Competition", suggested that successful Japanese companies obtain competitive advantage by aggressive pricing and long term investment policies which result in a high growth of market share. "The Japanese fall back position is always 'price'".

Rose⁽¹⁴⁰⁾ concluded that "the typical Japanese manufacturing company makes dedicated efforts to increase its market share. If the company can only achieve this goal by cutting prices, it will normally do so, despite the possible short-term penalties".

Similarly, Nevin⁽¹⁴¹⁾ gave a number of examples of cases where Japanese export prices are low enough to undercut local producers, (i.e. lower than Japanese domestic prices), and, it is claimed, are in some cases less than the costs of production and delivery.

The American Iron and Steel Institute⁽¹⁴²⁾ demonstrated that the Japanese labour system, like that in Europe, has the effect of making a large part of labour costs fixed costs. In the past, this has resulted in continuing pressure on the Japanese steel industry to maintain operations by exporting at low prices during periods of weakening domestic steel consumption.

Moreover, the recently released study for the American Iron and Steel Institute by Pifer, Marshall and Merrill (PMM), claims to have found evidence that⁽¹⁴³⁾ "the Japanese have aggressively manipulated export prices in order to sell steel in the US market. In times of shortage, very sharp premiums have been extracted from US customers; in times of surplus capacity, prices have been reduced precipitously to increase export volume".

Summarised by officers in the Department of State, the overall conclusions submitted by American businessmen were as follows⁽¹⁴⁴⁾. Japan clearly sets the pace in the race for East Asian exports ... the single most effective factor in the Japanese market position throughout Asia is price and price flexibility in negotiating business transactions".

From the above it is clear that volume-oriented price has been highly effective in enabling Japanese firms to compete in the market place. However, the Japanese rarely refer to it as the determinant or dominant element in their strategy. At the heart of their planning is a single theme: Beat competitors in technology and service not just price.

Non-Price Factors in Japanese Marketing Strategy

In the last few years, the large initial price advantage has declined dramatically and is expected to disappear. Market share is maintained by the reputation for quality service and spare parts back-up. Hence we shall refer briefly to non-price aspects as major factors in Japanese marketing strategy.

The Product itself

Among various phases of marketing planning, the area of product planning has received most attention. This is consistent with the fact that the Japanese industries have vigorously pursued new product introduction and diversification strategies mainly through the importation of foreign technology.

As Vagel⁽¹⁴⁵⁾ noted, Japan is turning more to basic and innovative research, contrary to its past practice of concentrating only on adoptive research. Furthermore, it is devoting more effort to areas with a high potential economic pay-off. Japan now has as many people engaged in non-military research as the United Kingdom.

Murata⁽¹⁴⁶⁾ examined the marketing strategy of Japanese companies in 1983 and pointed out that "Japanese marketers believe that innovative product development is most essential for their growth and survival".

In their article, "Managing our Way to Economic Decline", Hayes and Abernathy⁽¹⁴⁷⁾ indicated that Japanese firms tended to emphasise the role of product innovation as a main aspect of their competitive strategy.

Again, Kotler and Fahey⁽¹⁴⁸⁾ stated that Japanese firms are committed to continuous product improvement - They tried hard to find ways to improve the product's performance, quality, features

and style - "they will survey users and collect their complaints and suggestions. They will test potential new product features on a sample of potential adopters".

Hence critical to Japanese product strategy has been a particularly heavy emphasis upon product quality, reliability, durability and product features.

As McKenna⁽¹⁴⁹⁾ noted, Japanese firms are aggressive in the development of new technology that delivers high quality products at low cost.

Edwards⁽¹⁵⁰⁾ has also stated that increasingly Japanese-American competition involves quality competition. A remarkable fact is that the Japanese focus on preventing defects in the first place rather than subsequently inspecting them out.

Time and again Komastu, Japan's leading construction machinery group, achieved and maintains its position by its ruthless commitment to quality standards together with the rule that customers' needs are a paramount consideration⁽¹⁵¹⁾.

John Naisbitt⁽¹⁵²⁾, in his popular book, "Megatrends", traces the downfall of American competitiveness with Japan and attributes it to high quality imports and the relative lack of emphasis on quality by US firms and managers.

Also, Richard W Anderson⁽¹⁵³⁾, General Manager of the Data System Division of Hewlett & Packard, which boasts of being "the world's largest manufacturer of electronic instruments" and one of the three largest manufacturers of mini-computers, explained: "we soon began to see that not only was the quality good, it was actually superior to what had been our experience with domestic suppliers in either 4K or 16K RAMS" [Random Access Memories].

Hence, Stone⁽¹⁵⁴⁾ draws attention to the fact that while Western producers opt for producing a basic model, with more features available only at a price, Japanese producers usually build as many features as commercially practicable into the basic product.

Finally, Wyller⁽¹⁵⁵⁾, in his study "Economic Effects of Cultural Differences: A study of the Japanese Success in US Auto market", has confirmed the above view. The study revealed that Japanese firms increased their competitiveness through product quality features and service facilities. One of the major criticisms of American companies was that products offered are not designed to meet the wants and needs of American consumers.

Service

Kotler and Fahey⁽¹⁵⁶⁾, to start with, asserted that Japanese companies place heavy emphasis on service. So their products can be quickly repaired.

Stone⁽¹⁵⁷⁾ likewise commended on the investments made by many Japanese companies in developing a reliable and efficient parts logistics system.

Some American machine tool users say⁽¹⁵⁸⁾ that Japanese products are better and that the Japanese market them more aggressively. Albert Lamm, an Allentown, Pennsylvania, machine shop owner, switched to a Japanese lathe and later bought a Japanese computerised milling machine centre after bad experiences with American products. Mr Lamm's US lathe caused "nothing but problems", he recalls, "and when Japanese machines do break down, the company provides faster, better service".

Advertising

It is estimated that Japanese companies spend 350 billion yen (£700 million) per year in overseas countries and 40 billion yen (£80 million) in Europe⁽¹⁵⁹⁾.

Hence Japanese companies place heavy emphasis on advertising, where appropriate, to create buyer brand awareness and sometimes to generate a high volume of customer enquiries⁽¹⁶⁰⁾.

Yoshino⁽¹⁶¹⁾ in his study, found that Japanese firms, and in particular large manufacturers of consumer goods, are now making intense efforts to create and stimulate both primary and selective demand for their products through direct appeal to consumers, using a variety of promotional methods.

Finally, Dentsu⁽¹⁶²⁾ has conducted an extensive study of Japanese advertising. The study concluded that while Western advertising tends to present a more verbal, logical and direct message, Japanese advertising is more emotional and stimulating.

Distribution

T Ozawa⁽¹⁶³⁾ draws attention to the fact that this newly evolving trade system (with Japan advanced industrialised countries and LDCs) enjoys not only the low cost production available in developing countries but, and more important, the marketing networks.

Hence Japanese companies place great emphasis on integrating distribution into the marketing mix. "The Japanese approach to distribution is significant in that it reveals their dedication to achieving market penetration. In many markets, they have devoted considerable resources to developing a distribution system more suited to their marketing strategy"⁽¹⁶⁴⁾.

As Fields⁽¹⁶⁵⁾ puts it, the uniqueness of the Japanese distribution system, with its attendant variety and layers of middlemen, over-supply of retailing and wholesaling personnel, and strong service emphasis, is the hallmark of Japanese competitive marketing.

McMillan⁽¹⁶⁶⁾ has also stated that "in foreign markets, Japanese business prowess appears the model of success: at home, Japanese distribution appears the model of byzantine inefficiency".

Levitt⁽¹⁶⁷⁾ likewise claimed that "Kamatsu, the Japanese manufacturer of lightweight form machinery, entered the US market through the global marketing channels that he established".

Finally, a great number of authors and researchers have indicated in their studies that Japanese firms have succeeded in making the transition from price to a non-price base in their competitive strategy⁽¹⁶⁸⁾.

However, the patterns described above do not hold for all Japanese companies, nor do they exclude Western companies.

In the United States, for example, the necessity for such an external orientation is further emphasised in the findings of Peters and Waterman⁽¹⁶⁹⁾, on the characteristics of excellent companies. In all these companies, closeness to the customer is sought and nurtured with unusual intensity. This orientation, however, does not start and stop at the point of contact with customers.

Customer orientation in Germany means something different. Emphasis is laid on "the delivery on schedule of finely engineered products that will not only sell well but sell well over time. Backed up by a reliable service network, such products generate a self-perpetuating reputation for quality which German firms regard as the best possible marketing tool"⁽¹⁷⁰⁾.

As mentioned in the third chapter, German firms increased their competitiveness by employing a non-price strategy.

Connell⁽¹⁷¹⁾ referred to the ability of West German manufacturers to maintain international competitiveness not merely by using productivity increases to hold price down but by improving the quality, reliability and marketing of their products.

Piercy⁽¹⁷²⁾ likewise draws attention to the fact that, "there is a certain amount of evidence that German firms benefit from the intangible strength of their international reputation for reliability, quality, dependability and so on, which is often denied to the British firms".

Hence, a NEDO⁽¹⁷³⁾ report indicated that Ortmann and Herbert GmbH, of Hamburg in West Germany, has strong world market orientation. Exports account for 65% of sales turnover. The company puts high priority on maintaining a top quality direct sales effort and is not content to delegate the selling entirely to agents except in the relatively less important parts of the world market. Also the company provides extensive after sales service support to customers.

In a school report type of survey, the Tiibinger Wickert Institute invited more than 20,000 of West Germany's leading managers to rank their own firms in respect of their performance. The results, as summarised by Capital magazine, ranked Miele's management in eleventh place. This high status was achieved through quality and technology⁽¹⁷⁴⁾.

Also, in a survey conducted by Industrial Market Research⁽¹⁷⁵⁾, the results showed that the factors most frequently mentioned by German companies as an advantage were product quality and expertise and delivery.*

* Extensive analysis is not offered here. The reader is referred to the source cited above for general conclusions.

Finally, in the United Kingdom, Caulkin⁽¹⁷⁶⁾ in his recent article, "Britain's Best Run Companies" indicated that the best British companies have also achieved their international competitiveness through competitive marketing.

In 1962, AGB Research was the 164th market research company in the UK. Today it is the largest such company in Europe, the fifth largest in the world and a market leader.

The main reason behind this success, as Audlay puts it, is better quality of market research and increased investment in advertising.

Also, David Fraser the new Managing Director of United Scientific Holdings, stated that the key to success for his company is the strength and capability of its management. "New products are vital at home and abroad. USH has stayed as close as possible to new research outside the company and has used its own research capabilities in developing products to gear them towards world markets of varying sophistication".

The main reasons for the good performance of the Japanese marketing system having been examined, several guidelines for improving performance in the UK become clear.

First: To be truly successful in world markets, UK companies must be market-oriented. Baker⁽¹⁷⁷⁾, in his award-winning article on the ills of British exporting, indicated that many UK firms simply fail to carry forward any marketing orientation they may have developed in their domestic market to overseas markets. While many companies have now adopted and embraced the marketing philosophy at home, they are still product oriented abroad.

As P Doyle⁽¹⁷⁸⁾ noted in his recent article, "Marketing and the Competitive Performance of British Industry: Areas for

Research", inadequate marketing has been an important factor in the decline of Britain's competitive market position. The author stated that British companies are production - or sales - rather than marketing-oriented. They view the product or service they offer as being determined by their production or technological capability rather than by the market. He offered evidence from studies overseas that successful companies and companies which are revitalised have many characteristics in common, including a strong marketing orientation. For example, Michell⁽¹⁷⁹⁾ in his study, found that UK Export Award Winners tended to market superior products/services in selected markets, to some extent adapting their offerings and implementing detailed marketing mixes to overcome infer-structure problems.

Second: "Marketing philosophy in the UK companies needs to be transmitted from the top of the organisation and carried out to functional areas. Full commitment must be given to the marketing function. As a consequence of adopting a marketing orientation, companies will have to develop more flexibility in their marketing strategy for competing in the market place".⁽¹⁸⁰⁾

Third: Central to the adoption of a new, true marketing orientation is the acceptance of the central role played by market research. As mentioned earlier, market research is a unique aspect of Japanese competitiveness.

Fourth: UK companies need to improve their skills in segmenting and selecting target markets as well as designing and producing products that satisfy the needs of these segments.

Hence Baker⁽¹⁸¹⁾ stated that "for certain basic products with very long life cycles like footwear and clothing, this implies improving product quality and manufacturing cost-effectiveness rather than attempting to come up with radical alternatives. The emphasis here should be on marketing and production efficiency for

such markets tend to be of the need pull type. By contrast, in areas of high technology capital equipment, it would be pointless to imitate current models which are being imported into Britain in preference to home produced alternatives. Here we must attempt to build upon the current state of the art and leap-frog it. In other words, the emphasis must be on R & D and technology push".

Fifth: As mentioned in the previous analysis, the past few years have seen a dramatic change in the orientation of marketing. Competitive marketing requires a continual review of which competitors to attack or defend against. To survive, UK companies must know their competitors and build competitive advantages over them.

However, most UK firms seem to lack the determination required to develop and sustain global marketing strategies on anything like the Japanese scale. This is occurring at a stage of world industrial development where UK industry must increase its rate of investment in automation if it is to meet the built-in advantages of the Japanese position.

Baker⁽¹⁸²⁾ has argued that "British companies lived for the present and then responded to increasing competition by trading down-market and keeping costs down through inadequate investment in R & D and new capital equipment. It is ironic now that in many instances when economists talk about the need for appropriate technology for developing economies, one of the few sources of supply in the UK, because the output of other major industrialised nations is too sophisticated and it is only our own obsolescent offerings which are "appropriate". However, as the experience of Japan, Hong Kong, Singapore, etc. indicates developing economies can leap-frog stages of technological development and our future as the source of industrial reproduction pieces looks decidedly gloomy."

Consequently, McKinsey and Co. the international management consultants, published their findings on ways to reach the Japanese consumer. The survey lists the following factors as important in achieving competitive advantages in the Japanese markets⁽¹⁸³⁾.

1. There must be long term commitment in order to achieve world market penetration.
2. Staying on top in R & D.
3. A creative and novel innovative approach.
4. Products and services must be tailored to meet the preferences and peculiarities of the Japanese market.

Finally, we suggest the following factors as important if success is to be achieved by UK firms entering Japanese markets.

1. UK firms must design and offer products specifically to meet the wants and needs of Japanese consumers.
2. UK firms must use Japanese distributors to help to reduce the cultural problems, rather than establishing their own distribution network.
3. Distributors must be selected who, for strategic reasons, are committed to the products.
4. Time and money should be invested in gaining an understanding of the market. Even if U.K.firms do not adopt the Japanese marketing style, UK manufacturers should be aware of them. By understanding Japanese strengths and weaknesses, UK companies can design competitive marketing strategies to compete with Japanese firms.

Generally speaking, UK firms competing against Japan, West Germany, the U.S. or any other country, must adopt and develop a competitive marketing strategy to improve their competitive situation.

Other Factors

Often, Japanese marketing success is attributed to factors other than those already mentioned. Studies by NEDO⁽¹⁸⁴⁾ have revealed further important contributory factors. These are discussed below.

The Role of Japanese Government:

Lazer⁽¹⁸⁵⁾ et al stated that "Japanese marketing success is attributed to such factors as high tariff and non-tariff barriers, intervention of government via subsidy and financial support, centralised planning by the Minister of International Trade and Industry (MITI)."

Baranson⁽¹⁸⁶⁾ likewise stated that "government - industry relations in Japan have contributed immeasurably to the international competitiveness of Japanese industry. The Japanese government has combined carrots of fiscal incentives and protection during the infant industry stage with sticks of continuing pressure on Japanese industry to rationalise production through mergers, technical upgrading of production methods, retraining of industrial workers and a variety of other policies."

Also, Roddy and Roa⁽¹⁸⁷⁾ have drawn attention to the fact that the Japanese government is single-minded in its efforts to make Japanese firms competitively strong. It provides the necessary infrastructure and a favourable climate for growth. It discourages imports and the formidable, multi-layered Japanese distribution system presents another barrier to imports.

In the automobile industry, the Japanese government began by providing foreign exchange to this industry more freely than for most other industries. Initially, the government provided some credit to automobile manufacturers through the Japan Development Bank at below market rates. Also the Japanese government provided the industry with watertight protection against imported cars and foreign companies establishing production facilities in Japan.⁽¹⁸⁸⁾

In addition, Japanese companies used to have a low equity ratio and high bank debts. This enabled the Japanese authorities, through control of the banking system, to direct funds into industries whose growth was favoured.

The NECD⁽¹⁸⁹⁾ report indicated that "in some other countries, links between government, financial institutions and companies are rather closer or more formalised than in the UK, and this may be associated with a freer or preferential flow of long-term risk capital for innovation. In Japan this occurs through the close involvement of group banks in the strategic decisions of their associated operating companies. The UK does not as yet have comparably strong institutional links for ensuring adequate long-term financing of commercially oriented innovative activities."

On the other hand, it has been claimed that in Britain, government and business are separate and independent entities. By comparison, the parties in Japan are dependent on each other, and in fact are two sides of the one coin.⁽¹⁹⁰⁾

Perhaps the above opinion has become personified in the expression "Japan Inc.". The various components of Japan Inc. be they the industrial sector or individual firms, operate closely with one another and seek to enhance their competitiveness both at home and abroad. For example, if the companies in advanced technology areas begin to get into trouble through duplication of effort, the government may encourage mergers or formal joint ventures.

Hence risk is reduced not only by the spread of lending, but also by the role of government. As Wallicks⁽¹⁹¹⁾ noted, "Japan is largely free from the belief that business failure constitutes a desirable process because they eliminate the inefficient, at least among large firms. In Japan, large firms are regarded as a

national asset. The government views itself as having something of a paternalistic responsibility. In an emergency, government will do what it can to help a large firm in difficulty and its instruments of action are many."

For example, in the case of computers, industrial policy consisted not only of tariff protection and quotas, but also of government financial assistance with R & D.

In this respect, the Japanese government's co-operation with Japanese firms can hardly be compared with the UK government's attitude towards UK business firms.

Measured as a proportion of G.D.P. per head of the population, spending classified as being for R & D purposes compares well with other countries. But in absolute terms, R & D spending in the UK is substantially lower than in Japan, West Germany and the US and roughly comparable with that of France. ⁽¹⁹²⁾

J. Prentice ⁽¹⁹³⁾, in his study, indicated that manufacturing industry in Japan regarded its R & D spending as being as vital to its competitiveness as it has been to its past successes. An interesting comparison revealed that Japan has 24 researchers per 100,000 of the population and the UK 14, while the total of number of its research workers is greater than those of the UK, France and Germany combined. The study also indicated that all of Japan's R & D referred to above is devoted to civil research, while some 50% of UK R & D is directed towards military research.

As a result, a number of Sector Committees in the UK report that present levels of R & D expenditure in their sector is not sufficient to achieve the required rate of innovation and point to the support given by a competitor country for the development of specific new technologies and for their diffusion and application throughout their industries. ⁽¹⁹⁴⁾

Also certain academics, such as Roy Rothwell⁽¹⁹⁵⁾ draw attention to the fact that the UK needs a policy along the lines of Japan's MITI, with a British MITI providing co-ordination and support right across the industrial spectrum, and putting its greatest weight behind evolving technologies and export-orientated business, instead of, as at present, behind the old and decaying sectors. Dr. Rothwell believes that the elements of some such policy may be appearing in, for example, the encouragement being given to information technology, but that the nature and scale of the stimulus are woefully inadequate.

Perhaps, behind the success of the Japanese lie high standards of general education and specialist training. "Well paid and highly respected Japanese engineers and technologists are emerging from the educational system in much larger numbers than in Britain. In 1982, '83 Japanese universities produced around 60,000 engineering graduates. Over one in three Japanese go on to higher education. Both of these figures are much higher than comparable UK figures."⁽¹⁹⁶⁾

Gregory⁽¹⁹⁷⁾ concluded that "all this educational emphasis goes some way to explain the success of Japanese workers and the rapidity with which Japanese firms have overtaken Western leaders in industry after industry."

Finally, based on economic analysis, the Japanese government introduced different methods and policies to attract private investment into lines of production perceived to provide prospects of G.N.P. growth. The Japanese list of tools has included policies affecting tax, credit trade, investment, foreign exchange and competition.

Thus, as the American economist, Terutoma Ozawa,⁽¹⁹⁸⁾ noted, "No other industrial country is so bent on transforming ... its, industrial structure as in Japan."

If this brief analysis is correct, the UK government must face the fact that fundamental structural changes will have to be made in the economy if Britain's industrial base is to regain its international competitiveness. And these changes will in turn, require a carefully formulated industrial policy to encourage the flow of capital to areas where it is needed. Without some form of assistance, UK industry, including both management and labour, may not be capable of making the necessary transition. The UK, as was demonstrated in the second chapter, is losing its edge in world markets. Different industries are no longer able to compete with their counterparts in other industrial countries, especially Japan and West Germany. This again indicates that there is an urgent need to improve the UK economic environment in respect of innovation and industrial management in order to meet the Japanese and West German competitive challenge. This may require in part that corporate tax incentives be more definitively linked to investments in the technological upgrading of UK based industry, in the related retraining of industrial labour and in other activities leading to an expansion of UK industrial exports.

As Baker⁽¹⁹⁹⁾ noted, "if we wish to retrieve the steadily declining competitiveness of our exports, we must offer special incentives to exporters, but on a selective basis."

However, although part of the UK problem may be related to government policy, the relationship between government and industry is only one dimension of this problem. As a society, Britain must respond to the crisis by mobilising the public will to make the necessary decisions and then take the required action.

Japanese Management Style

Interest in the Japanese style of management has spread world-wide as Japanese companies have continued to record impressive performance. "In the past, Japanese management methods tended to be regarded as unique, but now people see them as having universal elements and comparative strengths."⁽²⁰⁰⁾

As Marlow⁽²⁰¹⁾ noted, Japanese success is founded not only on high technology, strict quality control and efficient after sales service to customers, but, also on good management systems which reflect a total commitment from the shop floor upwards to the values, standards and objectives of the organisation.

Hence there are three characteristic features of the Japanese style of management.⁽²⁰²⁾

First: it is an innovative organisation. The goals of the organisation are clearly stated and growth and employee welfare are considered to be important. Top management acts as a team. They are imitative, but are sensitive to new opportunities.

Second: It is a "soft" organisation. Job specifications are not too rigid and employees are willing to undertake any related jobs.

Third: It is a community organisation in which employees are regarded as partners. "We Japanese managers consider our employees to be our greatest asset."⁽²⁰³⁾

In the light of the above points, it is clear that the Japanese management system tends to be oriented more towards human than a professional consideration. Their major duty is to maintain harmony in the group and facilitate decision making and implementation.

Murata⁽²⁰⁴⁾ pointed out that "the most prominent common factors affecting Japanese management systems can be the group orientation as compared with individual orientation in Western Society."

Takeuchi⁽²⁰⁵⁾ has also stated that Japanese workers are prone to working in groups and teams, with the emphasis placed on the

traditional value of co-operation, harmony and group consensus within Japanese culture. In the United Kingdom work teams are still a novelty. (206)

Yang (207) similarly indicated that Japanese management works very hard at encouraging this commitment to the group.

Peter Doyle (208) et al, in their study found that two thirds of the senior managers in the Japanese companies were consciously concerned about promoting group responsibility and team work, compared with only 27% of the British. The latter frequently appeared to have rigid and bureaucratic structures: 60% rated themselves as strongly hierarchical, while 18% of the Japanese shared this view. Of the Japanese managers, 75% regarded job specification as variable and ad hoc, compared with 27% of the British managers. Communication flows were also determined in a hierarchical fashion in the British organisations. Unlike the more informal, task-orientated patterns of the Japanese.

Also, an extreme case of reliance on group work can be found at the Toyota Motor Company. Toyota assigns production quotas to work teams. In any given shift, production lines do not stop until the day's quota has been filled, which occasionally entails overtime work without pay. Conversely, exceeding the quota brings extra compensation. Supervisors at Toyota have been known to assist on the assembly line to meet the production quota, thereafter completing their paperwork at home. (209)

The NEDO (210) report, "overseas visits programme to Japanese companies", indicated that "to a marked degree, people are self-managing members of a machinery assembly team or group in which the team or group leader has more of an advisory than a custodial role in relation to his team members".

As one Japanese company manager expressed it, "We see ourselves as the head and our subcontractors as our hands and feet. One of the results of this approach is that the purchasing function is assigned much higher importance than in the UK, where it typically occupies a low status position in the management heirarchy."

Hence, Turnbull⁽²¹¹⁾ in his study stressed the contribution which efficient purchasing can make to the marketing success of a business. The study showed that although suppliers like dealing with UK companies, they believe this technical competence in purchasing is not as high as in other countries. This gives rise to serious concern.

The research results illustrate the need for a recognition of the purchasing and supply management function within the corporate planning of the firm. There is an associated requirement for relevant educational and profession training programmes for British buyers. The study concluded that the acceptance of these points should enable the time potential of purchasing to be released. This would in turn facilitate improvements in marketing efficiency in the short term and ensure more successful achievement of longer term corporate objectives.

Finally, Nato⁽²¹²⁾ in his study, has presented an overview of the major contours of Japanese management principles and practices, together with selected comparisons with those considered typical of Western thinking. These are summarised in Table (4-6).

Table 4.6: Characteristics of Japanese and American Management Styles

JAPANESE	AMERICAN
<p>1. Emphasis on group Permanence of group Same fate shared by all employees Group incentives Group against outsiders</p> <p>Some results: Enterprise unions Monitoring of quality by workers Age and length of service as important promotion criteria Corporate strategy that favours longevity, market share, exports</p> <p>2. Emphasis on human relationships "lifetime" employment and recruiting Harmonious resolution of conflicts Wholistic concern for employees Desire for indirection, ambiguity No formal distinctions between managers and workers</p> <p>3. Managers as generalists Manager as social and symbolic leader Manager as facilitator Management by consensus Decisions that come from middle up Centralisation Wide dispersion of responsibility Non-specialised career paths</p>	<p>1. Emphasis on individual Transitory nature of group Own fate determined by each employee Individual incentives Individual against others</p> <p>Some results: Trade unions Monitoring of quality by inspectors Age and length of service only partly related to promotion Corporate strategy that favours short term rate of profit, known markets</p> <p>2. Emphasis on functional relationships Short-term employment and recruiting Adversarial resolution of conflicts Segmented concern for employees Desire for clarity, brute integrity Frequently sharp distinctions between managers and workers</p> <p>3. Managers as specialists Manager as professional Manager as decision maker Management by objectives Decisions that come from top down Decentralisation Narrow assignment of responsibility Specialised career paths</p>

Source: D.K. Nato,
Management

Japanese style,
In S.M. Lee and
Schwendiman (ed.)
Management by
Japanese systems,
Praeger Publishers
New York, 1982, p.21

Manufacturing Techniques

What is unique about the Japanese productivity system is not the ingredients or pieces that go into the system, but how the pieces are put together.

As Takeuchi⁽²¹³⁾ pointed out, Japanese firms seem to have mastered the art of putting together a workable productivity system.

Also a recent book, "Japanese Manufacturing Techniques", by Richard Schanberger⁽²¹⁴⁾, clearly shows that little mystery attaches to the Japanese success in manufacturing. Rather, they have created simple, effective operating systems that have strategic significance in reducing costs and controlling quality.

Abegglen⁽²¹⁵⁾ has also stated that Japanese manufacturers have significant advantages in the products selected in terms of factor costs such as wages or materials and in labour productivity. In addition, they have been moving from batch or semi-continuous to near continuous products with low in - process inventories through the Kanban System.

Baker⁽²¹⁶⁾ in his examination of the British motorcycle industry, indicated that "the cost advantage of the Japanese is securely based on higher productivity. It does not arise from lower labour costs. Japanese labour costs have been exceeding (Sic) those in British factories for a number of years and have consistently risen more rapidly on trend."

Perhaps the superior Japanese manufacturer strategy and techniques are shown most clearly in the U.S. steel industry which must be classified as a mature and even declining industry. The industry has announced that it will phase out its steel finishing and production operation by the end of 1983 or early 1984.⁽²¹⁷⁾

The NEDO⁽²¹⁸⁾ report, "overseas visits programmes to Japanese companies", indicated that one of the most striking features of these companies is their highly developed use of subcontractors whether for production and supply of standard components or for electrical wiring and sub-assembly work, or for machinery painting and factor clearing.

Also, a new report gave another number one rating to the Japanese. David Garvin studied room air conditioner manufacturers in the United States and Japan. The study revealed that:⁽²¹⁹⁾

1. Failure rates of air conditioners made by the worst producers, all of which were American, were between 500 and 1,000 times greater than those made by the best producers, which were all Japanese.
2. The average American manufacturer had 70 times as many defects on the assembly line as the average Japanese manufacturer and made 17 times as many service calls during the first year following the sale.
3. The defect percentages of air conditioners produced by the worst Japanese manufacturers were less than half of those produced by the best American manufacturers.
4. The extra cost of making higher quality Japanese goods was about half of the cost of fixing defective products by American manufacturers.

Finally, a further study⁽²²⁰⁾ conducted in Japanese automobile companies revealed that 70% of total productivity improvement comes from improving manufacturing on the factory floor, and the remaining 30% results from expenditure on capital equipment such as robots and numerically controlled machine tools. Even in high-growth business such as electric typewriters and printers, or

mature business such as refrigerators and room air-conditioners, about half of productivity improvement comes from improvement at the factory floor level.

The Japanese Character

The most important characteristic of all is the undivided loyalty of the Japanese to their country. As noted in a government communication to the people, "Loyalty to the state requires citizens to show love for it in the right way. Indifference to the existence of one's own nation, and disregard for its values, amounts to hatred of one's own nation."⁽²²¹⁾

This loyalty to the state is emphasised in the goals and songs of Japanese companies. The Matsushita company song begins, "In the building of a new Japan let's put our strength and minds together, doing our best to promote production, sending our goods to the people of the world."⁽²²²⁾

Leslie Fielding⁽²²³⁾, an official of the European Common Market, asserted that because of a "number of typical Japanese behaviouristic and cultural reasons", Japan's market is much more difficult to penetrate than those of the other advanced industrial democracies.

Other admirable characteristics of the Japanese are patience, persistence, an ability to work hard, and a thrifty nature, all of which have been particularly useful in improving the competitive position of Japanese industries.

In the United States, in a feature article entitled "How Japan Does It, the World's Toughest Customer", the editors of "Time" argued that much of (Japan's) success traces back to cultural traits as old as Japan itself, their cultural traits being emulation, consensus, futurism, quality, and competition.⁽²²⁴⁾

Finally, Stone's⁽²²⁵⁾ words may be appropriate to sum up the extraordinary accomplishment of Japan: "The Japanese as a nation are simply determined to be outstanding in the world and have chosen to achieve this position by economic development. After the Pacific War, the military lost face and business carries the flag."

Conclusion

Throughout this section we have examined Japan's remarkable successes in global competition in order to discover what the UK can learn in relation to its policies and business practices. The lessons extend far beyond the question of trade competitiveness, laying emphasis on the vital importance of long-range planning, technological vision and marketing in the Japanese system.

Reference was made to Professor Baker, who proposed in his award-winning article the best way to improve the competitive position of British industry, but it must also be added, however, that the professor concluded, "What next? There is nothing new in this prescription, and there are shelves full of excellent texts advising how best to effect the cure. What we really need is a detailed investigation at both the industry and individual firm level."⁽²²⁶⁾

Taking account of the above direction, it was decided at this point in the research to investigate the competitive position of the British textile machinery industry and this will be the subject matter of the next chapters.

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